

NIEMAN REPORTS

THE NIEMAN FOUNDATION FOR JOURNALISM AT HARVARD UNIVERSITY

SUMMER 1999 SPECIAL ISSUE

Five Dollars

A Special Issue Exploring the
Changing Economic Dynamics of
Newspaper and Broadcast Journalism

The

The Business of News

About

Business

A Joint Project of the Nieman Foundation and the Committee of Concerned Journalists

“...to promote and elevate the standards of journalism”

—Agnes Wahl Nieman, the benefactor of the Nieman Foundation.

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Nieman Reports (USPS #430-650) is published in March, June, September and December by the Nieman Foundation at Harvard University, One Francis Avenue, Cambridge, MA 02138-2098.

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<http://www.Nieman.Harvard.edu>

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Subscription \$20 a year, \$35 for two years;
add \$10 per year for foreign airmail. Single copies \$5.
Back copies are available from the Nieman office.

Please address all subscription correspondence to One Francis Avenue, Cambridge, MA 02138-2098 and change of address information to P.O. Box 4951, Manchester, NH 03108.
ISSN Number 0028-9817

Second-class postage paid at Boston, Massachusetts, and additional entries.

POSTMASTER:
Send address changes to
Nieman Reports,
P.O. Box 4951,
Manchester, NH 03108.

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This special issue of Nieman Reports has been created to report to the readers of Nieman Reports, to members of the Committee of Concerned Journalists, and to newspaper and broadcast communities on two recent reports, as well as to share relevant insights from other Committee members.

The record of the Committee's forums and much of the material produced by special studies and surveys are available on the Committee's Web site [<http://www.journalism.org/concern>]. In addition, results of three other targeted studies the Committee did to evaluate press performance during the Clinton-Lewinsky affair have been published by the Century Foundation in a book called "Warp Speed: America in the Age of Mixed Media," co-authored by Tom Rosenstiel, Vice Chairman of the Committee, and Bill Kovach.

Looking Inside the Business of Journalism

Economic Pressures Create New Challenges for Journalists

By BILL KOVACH

It has been two years now since 25 journalists gathered in the library room at the Faculty Club at Harvard University, brought together by their concerns about the impact on journalism of the twin pressures of a communications technology revolution and the economic organization of the news business it had spawned. "The problem is that journalists see journalism disappearing inside the larger world of communications," is how one member, Jim Carey of the Columbia University School of Journalism, summed up the meeting. "What they yearn to do is recover journalism from that larger world."

In the end the group decided to try to engage other journalists and the public in an extended and carefully plotted examination of what journalism was supposed to be. To begin that process they drafted a letter including their own statement of concern and signed it, "The Committee of Concerned Journalists." The letter and statement were distributed to friends in August 1997. Within two weeks, 500 journalists, including many Nieman Fellows, had signed the statement.

Since then the Committee has developed an extraordinary amount of original research on the culture of journalism. It has hosted an unprecedented series of 21 forums of print and broadcast journalists throughout the country. More than 300 journalists have discussed and debated the condition and standards of journalism. These forums are the most systematic, sustained and comprehensive examination ever conducted by journalists themselves about their profession and its responsibilities.

Other examinations conducted by the Committee include:

- A landmark survey of journalists

about their professional values.

- More than 100 three-and-one-half hour interviews with individual journalists exploring topics such as their goals and values. Sociologists working with the Committee did the interviews.
- A summit meeting of First Amendment and legal and journalism scholars to explore recent trends in First Amendment law.
- A major study examining where the journalistic line between fact and fiction is and should be.

The two major papers in this issue comprise the Committee's assessment of the impact of economic pressures on journalism and how they have affected and altered the practice of journalism. As with any change of the magnitude that has swept over journalism during the past two decades, there is no single cause and no individual to blame. A clear sense emerges, however, that the causes of much of the change and many of the consequences have been, as Shakespeare wrote, "not in our stars but in ourselves."

Choices were made and questions about them can be raised, as we did in commissioning these studies. Why, for example, when entirely new options were opening for traditional newspaper advertisers, did papers insist on ratcheting up ad rates in order to sustain specific profit margins even as a strategy of demographically selective circulation was pushing readership down? And why did newspapers choose to meet the competition of television by becoming more entertaining in the selection and presentation of news even when this new approach alienated their core readership? From the evidence in hand, it seems clear that these were carefully considered decisions, and they

helped to shrink the business.

More curious still is, why has television news done similar things to itself? By choosing to focus on generating large profits on low-cost production, the broadcast networks have substituted news features for news reports. They did so because of an economic need to compete with their own more costly entertainment divisions and, in the process, they sacrificed depth and quality in hard news for increasing hours of softer, more entertaining features. The result is newsmagazine shows that, like many front pages of newspapers today, avoid coverage of social or political policy, public or foreign affairs.

The patterns are eerily similar. Broadcast television reacted to the emergence of cable television in much the same way newspapers reacted to the arrival of broadcast television. They chose to make their news more entertaining, virtually inviting their audience to go elsewhere for more news and public affairs. Not very surprisingly, the results have been much the same: their audience shrinks.

Clearly one of the major challenges journalists confront is how to preserve the high standards they attach to their job of gathering and conveying the news while they work in environments in which economic pressures threaten to lessen the quality of what they are able to do. But as in any era of rapid change, the better the dynamics driving the changes are understood, the more effective those affected by them will be at responding. This is why we, as journalists, set out to examine this in depth and publish our findings. ■

Bill Kovach is Curator of the Nieman Foundation and Publisher of Nieman Reports.

Newspapers Arrive at Economic Crossroads

Which Way They Go Could Depend on What Journalists Know and How They React

By LOU URENECK

Greene is wrecking the newspaper business. Budgets are being squeezed to the point that some newspapers no longer adequately report news about their communities. Media conglomerates that increasingly control the press care more about keeping their shareholders content and less about the quality of the news they convey or their responsibilities as special members of larger communities.

So goes much of the conventional criticism of the press in the last decade of the century.

When economist Mark Willes, for instance, took over as Publisher of The Los Angeles Times and put business managers alongside editors in each section of the paper, long-time press observer Ben Bagdikian noted that “Willes has done more to increase cynicism about the news media than any other person in the industry.”

Perhaps the most dramatic example of the current criticism occurred in a July 1998 cover story of the Columbia Journalism Review. The article, entitled “Money Lust,” contended that U.S. media companies had decimated news budgets to increase their profits and were “perverting” American journalism. The result: a “deracinated journalism” that was heading toward “a fatal erosion of the ancient bond between journalists and the public.”

Now is a good time for journalists to take a deep breath and do what they do best: Ask questions and try to obtain objective answers. What is happening inside the newspaper industry today? Are owners demanding more profits and sacrificing quality to achieve them? How much, if at all, have companies squeezed news budgets? And if they have, why? To what extent are problems at newspapers the result of unsuccessful business strategies or news-

Now is a good time for journalists to take a deep breath and do what they do best: Ask questions and try to obtain objective answers.

room isolation from marketplace realities? Or are they a mixture of both?

Claims on all sides need to be approached with skepticism. Journalists need to examine the facts, moving beyond suspicion and perception to examine, as they would in any other story, why and how their professional environment is being altered. Indeed, a detailed review of financial data—some of them never before published, interviews with financial experts and news executives, and a review of studies and stories about trends in journalism during the last two decades reveal that a more complicated story is unfolding inside newspapers today.

The fact is that newspaper profits have not suddenly soared. But that doesn't mean that the fear among journalists is merely the knee-jerk response of a tradition-bound culture that is mindlessly resistant to change.

The Underlying Story

During the last decade, the business of newspapers has become significantly more difficult even as pressures to perform financially have grown more intense. It no longer is a business, as publishers once joked, in which even the brain dead could make money. The traditional advertising base has eroded as major department stores have consolidated, supermarkets have found new ways to distribute their price-and-product messages, and consumers have

flocked to discount retailers who eschew newspaper advertising. Billions of dollars that once lubricated American retailing through print advertising (and subsidized U.S. journalism) are not finding their way to newspapers.

The situation is made even more worrisome with the emergence of the Internet, which threatens the pot of gold at the back of newspapers—the classifieds. Set alongside these threats is an even more substantial problem—the continuing decline in circulation penetration, the proportion of Americans who read a newspaper. Young people are not maturing into newspaper readers at rates anywhere near their parents, and older readers are finding other sources of news.

Confronted by these trends and by steep advertising revenue declines in the early part of the decade, newspaper companies have had to make a choice: Either accept lower profits in the short term, while looking for new ways to grow, or cut costs, restructure and try to maintain historically high profit margins.

Most newspapers chose to maintain profits and cut costs. Data that have not been made public before document that recent newspaper profits have been fueled by a variety of cost-cutting measures. These include cutting distribution costs, slashing unprofitable circulation, and reducing the financial commitment to news coverage. At the same time, newspapers have tried to increase their profit margins by invest-

ing more in marketing. The result is that even in today's more demanding economic environment, generally speaking, newspapers are more profitable than 10 years ago, and a great deal more efficient.

These transformations amount to nothing less than a remaking of the culture inside newspaper organizations. The independence of the newsroom, once considered a market asset, is now considered by some to be a business impediment. At some newspapers, the diminished commitment to news coverage at a time of rising profits reflects a loss of confidence in the long-term prospects of the newspaper business. The question now is whether cuts in news budgets will threaten the long-term viability of newspapers by eroding quality which, in turn, will lead to more decline in readership. Do these cuts point to a slow, deliberate liquidation of the newspaper franchise? Is the newspaper industry, as Wall Street analyst John Morton has suggested, "eating its seed corn?"

Changes in how the newspaper industry operates are so vast that they might account, in part, for declining public confidence in the press. And diminishment of the long-held belief that quality leads to readership, which leads in turn to advertising, represents a fundamental shift in the way newspaper owners think about how their business functions.

Data suggest that the erosion in newspaper advertising and audience during the 1990's was at least exacerbated, in part, by the business strategies put in place at newspapers to emphasize profit over market share. Newspapers used their leverage over advertisers by raising rates without building circulation. In fact, at many newspapers, circulation was intention-

ally cut as the managers streamlined costs by eliminating those readers who were less attractive to advertisers. Now, as that strategy shows signs of backfiring, there is evidence that cost cutting, in place of product investment, may have weakened readers' connection to newspapers as an object of trust and authority. Perhaps sacrificed by these business decisions had been the maintenance of a public trust, both in terms of newspapers' quality of coverage and their reach into the community.

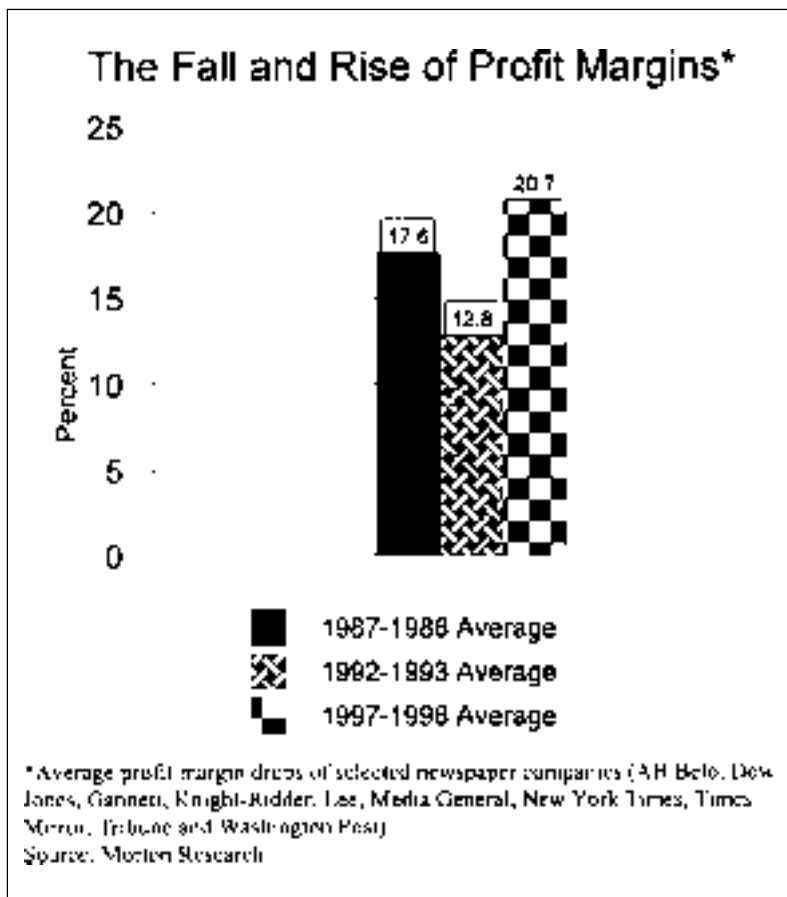
Exactly how profitable are newspapers? At least as measured by operating margins, the answer is very profitable. (Operating margin is profit divided by revenue, before taxes. It is a way to define a company's efficiency.) Using this measure, newspapers achieve profit margins about two to three times the average for U.S. manufacturing industries. (This is the category that newspapers are placed in by the Census Bureau.) The average operating margin for a U.S. manufacturing company in 1997 was 7.6 percent. The comparable average for publicly traded newspaper

companies in 1997, according to Veronis, Suhler & Associates, Inc., was 19.5 percent. Gannett, often cited as an industry benchmark for profitability, achieved 26.6 percent in 1997. Some newspaper companies, such as The Buffalo News, owned by investor Warren Buffett, had margins that were in the 30's. With the exception of television stations, which often enjoy operating margins of more than 45 percent, newspapers are hard to match for profitability among U.S. media investments. In the mid-1990's, newspapers outperformed consumer magazine and book publishers, direct mail and promotional services, radio broadcasters, cable and pay-per-view networks.

A broader measure of financial performance is return on stockholders' equity. By this yardstick, too, newspapers show strong results, though not as dramatic as when measured by their operating margins. According to the Census Bureau, the average after-tax return on equity for a U.S. manufacturing company was 12.9 percent in 1997. Public newspaper companies showed returns that range from 10 to 20 percent. Gannett is an industry leader, at 22.2 percent.

A collective income statement for the nation's newspapers would show that the industry is slightly more profitable now than it was a decade ago. A comparison of selected newspaper companies tracked by Morton Research shows operating margins in the mid-to-late 1990's climbing back to the historic highs of the 1980's and eventually surpassing them. The two-year average for 1997 and 1998 reached 20.7 percent, up from the '87-'88 average of 17.6 percent. [Please see chart above.]

But below these modest increases is the crash and bang, angst and change



that were triggered as newspaper companies tried to reconcile a more demanding business environment with continuing expectations of high profits.

One important set of empirical measures comes from the Inland Press Association. For 83 years, Inland, based in Des Plaines, Illinois, has gathered meticulous financial detail from its hundreds of member newspapers. In its last survey, Inland Press asked 425 questions about newspaper operations and turned the answers into comparative ratios, such as cost per copy, profit per ton of newsprint, and salary per full-time equivalent employee. Those ratios provide templates by which publishers can evaluate their operations. The analysis of the Inland numbers shows six clear trends occurring inside many of the nation's newspapers:

1. Investment in news coverage, as a percent of revenue, has declined.
2. Production expense, as a percent of revenue, has fallen.
3. Payroll, as a percent of revenue, has fallen.
4. Investment in marketing has increased.
5. Revenue is up.
6. Profit is up.

In short, the Inland numbers show

that newspapers have maintained profits by diminishing commitment to newsgathering, by spending less on employees, by cutting circulation and production costs, and by investing more in marketing efforts. And this has all been taking place as circulation penetration has continued to fall. The strategy represents a reversal of the approach that predominated among newspapers for most of this century. The formula had at its core the belief that newspapers had to construct their business strategies around stronger and more credible journalism which, in turn, would drive demand, sales and profits.

A look inside the Inland numbers reveals some worrisome patterns.

Newsroom and Production Investments

The percentage of revenue dedicated to news coverage has shown a slow decline. [Please see chart below.] At papers in the 50,000 circulation range, the percentage of newspaper revenue invested in news went from 12.6 percent, on average, for the five years ending in 1992, to 11.28 percent, on average, for the five years ending in 1997. This amounts to a decline of roughly 10.5 percent.

Lessened investment in news reporting was even greater at larger papers, those around 500,000 in circulation. There, the percentage of revenue invested fell from 9.92 percent to 8.5 percent for the same years, a decline of 14.3 percent or roughly \$8.5 million per newspaper each year. In practical terms, this means a loss of roughly 60 reporters and editors (based on an approximate annual cost of \$75,000 per position).

Inland's survey shows that newspapers also cut costs by operating more efficient production departments. The reductions came primarily as a result of the purchase of new equipment, such as better computers for composing type and more sophisticated inserting equipment for assembling the newspaper. These improvements in technology often led to employee buyouts and smaller production payrolls.

Marketing Strategies

After achieving savings in production and news, newspapers invested more in marketing. Though increases were small—less than one percent at small and large newspapers—they signaled a clue to the shifting operating priorities of managers. Money added to the marketing budgets went for in-

Changing Budget Priorities*

50,000 Circulation Papers				500,000 Circulation Papers			
Budget Category	1988-92	1993-97	Change	Budget Category	1988-92	1993-97	Change
News-Editorial	12.8%	11.28%	-10.5%	News-Editorial	9.92%	8.5%	-14.3%
Advertising	8.88	9.78	1.2	Advertising	6	6.84	14
Circulation/Direct	9.88	10.1	1.4	Circulation/Direct	12.88	14.0	15.1
Production	11.26	9.64	-20.6	Production	9.76	8.02	-19.7
Payroll	35.7	32.88	-7.6	Payroll	31.24	26.64	-16.7

*Budget allocation by category for newspapers in approximately 50,000 and 500,000 circulation ranges. The upper and lower limits of the ranges vary from year to year as the paper participating in the survey change.
Source: Inland Press Association.

creasing sales staff, more advertising presentations, and investments in technology to bolster sales and training for sales representatives.

This approach worked, on one level. As the Inland numbers show, profit margins for the two periods grew at small papers from 16.2 to 21.4 percent, a gain of 32.3 percent, and at large papers from 14.68 to 18.1 percent, a gain of 23.3 percent. (To some extent, these increases exaggerate trend lines because of the depth of the newspaper recession of the early 90's and the cyclical nature of spending for advertising.)

An overview of the recent economic history of newspapers puts the trends in perspective. During most of the 1980's newspapers performed extremely well. There were two major reasons for these good times. First, new technology made newspaper operations more efficient. In the composing room and plate-making areas, newspapers eliminated armies of workers who were replaced by machines, and these savings dropped to the bottom line. Second, revenue from advertising continued to grow steadily, even though circulation was mostly stagnant and market penetration was falling. Advertising expenditures in newspapers increased by more than 10 percent per year from 1980 to 1987. Advertisers' spending in newspapers rose from \$14.8 billion in 1980 to 29.4 billion in 1987. (That year total newspaper revenues reached \$37.8 billion.) Times were good, and a few newspapers had trouble printing all the classified advertising coming through the door.

The newspaper business for decades had been a bastion of stability and prosperity, protected against competition by high barriers of entry. It took millions of dollars to buy a press and many millions more of sustained losses to operate until an advertising franchise could be established. Newspapers were a community's principal source of news, and advertisers turned to print, as they had always done, to reach their local customers. Classified and display advertising kept the registers ringing, and fortunes, many asso-

ciated with families who had owned the papers for generations, were made and spent.

The biggest source of revenue was local retail advertising. As a 1993 report by Sanford C. Bernstein & Co. put it, "For as long as anyone can remember, retail has been the backbone of newspaper advertising. Stable and dependable, retailers advertised heavily, and nearly all of the spending went into newspapers. Year after year the rates went up (by and large retailers could pass on price increases to their own customers anyway), and who cared if lineage declined a bit—the net was rising revenue and golf partners for life." [Please see chart on next page.]

Amid the prosperity, however, forces were converging that would hit newspapers with hurricane force. The stock market crashed in the fall of 1987, and in 1989 the newspaper business fell into its worst recession since World War II. Revenues plummeted; profit margins at some companies dipped into the single digits. The reasons were numerous and related to complex economic and social trends.

Advertising Losses

As the 1990's opened, the glow between newspapers and retailers dimmed. For the first time in two decades, newspapers experienced a reduction in total advertising revenue. In 1991, revenue from retail advertising fell 4.9 percent, the steepest one-year drop in the industry's history. Many large retailers had ended the previous decade with a heavy load of debt. What followed was a period of consolidation, bankruptcy and falling advertising budgets. Newspapers felt the pain as American retailing restructured.

Huge discount stores such as Wal-Mart, which sold everything from drugs to dungarees, guns to groceries, and electronics to envelopes, sprouted around the nation. The discount retailers didn't advertise at anywhere close to the same volume of the older department stores, if they advertised at all. Sears, for example, in the early 1990's still put nearly four percent of

its revenues into advertising, a big chunk of it in newspapers, according to Bernstein. Its new competitor, Wal-Mart, dedicated less than one percent to advertising and very little went to local newspapers.

Discount stores such as Wal-Mart don't rely on newspaper advertising. Unlike more traditional retail stores, they don't need large display ads to draw attention to which products are going on sale because all their products are discounted all the time. Television advertising began to supplant newspapers as discount stores geared up for selling name recognition rather than particular products at particular prices. Publishers were familiar with the up-and-down ride of the economy, but now the talk at their conventions was of structural, not cyclical, change.

Advertisers were also bypassing newspapers by putting their money into a less expensive alternative, direct mail. It was a cheap, easy way to get printed messages to consumers, and the direct mailers were promising advertisers that they would deliver segmented audiences, the advertiser's targeted audience, instead of the entire circulation of a newspaper. The community could be sorted by income, so direct mailers could deliver advertising more efficiently. By 1990, direct mail had grown into a \$22.6 billion industry. In just eight years, direct mail revenues were at \$36.9 billion, representing nearly one-fifth of all advertising expenditures in this country.

All told, from 1980 to 1991, when newspapers were highly profitable, the industry actually suffered a decline of eight percent in advertising lineage in large metropolitan papers, according to Bernstein.

The newspaper industry was slow in reacting to the decline in advertising space, primarily because the reduction in lineage was masked by an increase in advertising rates. Even though advertising space was being reduced, revenues to newspapers were still increasing as the industry maintained its long-standing policy of each year bumping up rates, then plugging its ears to advertisers' yelps. If there ever was a good example of what would, in time,

affect the industry in harmful ways, this was it: Short-term profit making hid a long-term structural problem that needed a bold response. (This episode offered hints of the hubris that unfortunately would lead to big reductions in news staffs as readers fell away, citing lack of interest or no time to read.)

By the 1990's, with strong competition and a weakened national economy, newspapers found they had lost the ability to price their advertising almost at will. More bad news was arriving. Niche publications, for cars and real estate, proliferated, taking money away from newspaper classifieds, which had been increasing as a share of total newspaper revenues. Then came the Internet. With its low-cost, infinitely expandable and searchable databases, it seemed designed to take classified

out of print and put it on to computer screens.

Newsroom Cutbacks

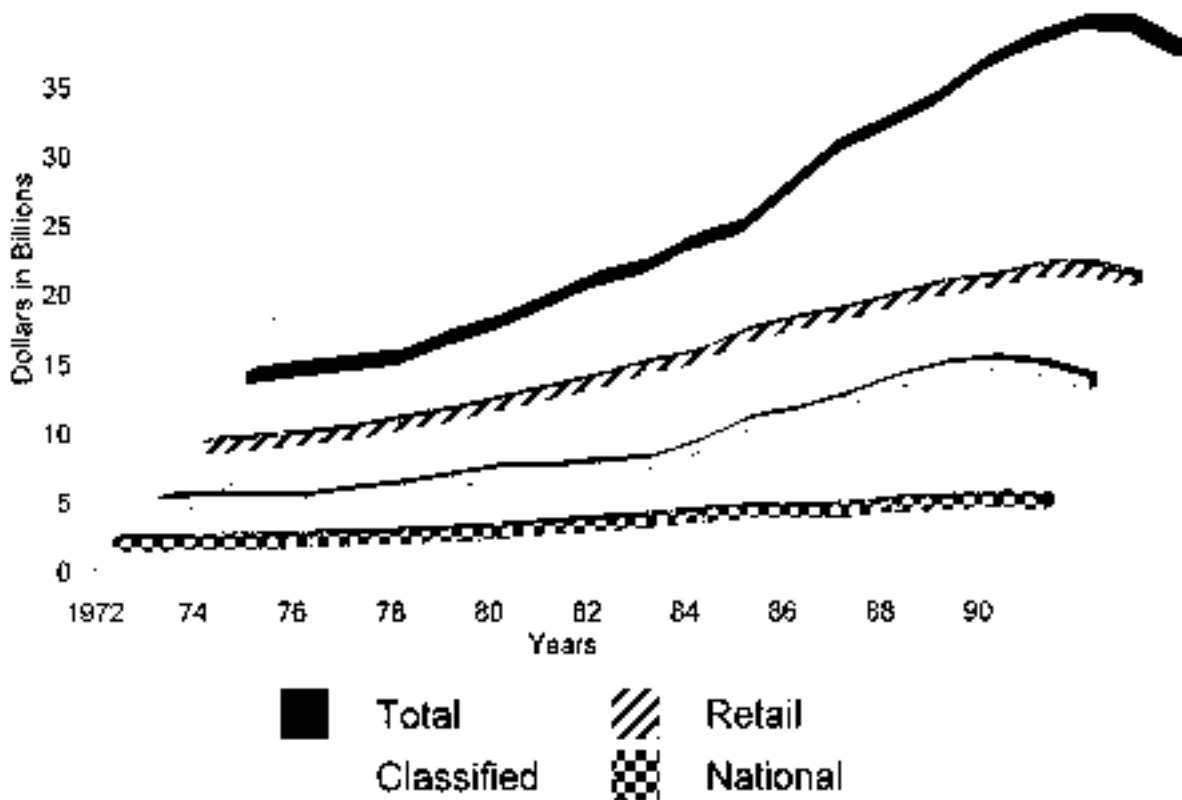
Newspaper managers manipulate two variables, revenue and expense. With declining revenue, publishers could move in one of two directions. They could accept lower margins, at least for the time being, while maintaining their level of investment in news to protect its quality and look for new ways to increase revenues during a period of transition to better times. Or they could cut expenses to maintain profits.

Some were willing to take the former course and maintain news investment. But, in general, the industry went to

work on trimming expenses. Managers argued the industry could afford cuts to news while holding on to sufficient quality. Some publishers, attempting to make a virtue out of necessity, adopted a strategy that would reduce news staffs, but seek to generate content that was more useful to readers.

The Inland numbers show newspapers whose circulation was in the range of 50,000 reduced the dollars they spent on news by about nine percent from 1990 to 1991. Publishers used hiring freezes, buyouts and layoffs. Editors received on-the-job training in the new economics. The dramatic reductions in news budgets made FTE counts and productivity levels bigger issues for them than rigorous editing and vivid storytelling. Staff cuts affected both large and small papers. At The Los

Ad Revenue Waves



Source: Smith Barney/Seicontin Brothers Inc

Angeles Times, with more than a million in circulation, nearly 700 employees took buyouts. About 90 of them were journalists, nearly 10 percent of the newsroom. The San Francisco Examiner, one-tenth The Times's size, made its second buyout offer in 212 years and trimmed its editorial staff by 15 percent in 1993. At The Altoona (PA) Mirror, seven newsroom employees, roughly 12 percent of the staff, were laid off in 1992. The Albany Times Union reduced its staff three times in three years, from 1991 to 1993. Other papers, including The New York Post and The Chicago Sun-Times, put employees on four-day work weeks.

Newspaper industry employment, after steadily climbing through the 1980's to reach a peak of 542,000 in 1989, declined to 478,000 in 1996. This downward trend appears to be reversing itself, perhaps as the industry faces up to its circulation problems. The most recent figures available, for 1997, put the number at 503,000.

Whether the decision to cut news staff and reduce resources allocated to news reporting will prove prudent in the long term is debatable, but extensive scholarly work has pointed to a connection between a strong investment in news and market success.

Among some media executives, the decision to cut news staff represented a collapse of confidence. Some felt that the industry's best years were in the past. There was concern that the fundamentals of the business had changed dramatically and irrevocably. Some of the companies felt an urgency to invest in other businesses. Thomson Newspapers, for example, after pushing its newspapers to produce astronomical profit margins with evidence of damage to some of their franchises, sold off many of its newspapers and aggressively entered electronic publishing. Other companies, E.W. Scripps and Tribune Company, for example, followed strategic plans that would retain newspapers as a base but would broaden the corporation into more

—continued on p. 9

STUART GARNER

... It is my utter conviction that newspapers are a business and, since their production is a team process, no department can be immune from the fact. They are expensive to equip and run, and the only way to ensure their future is to make a healthy profit. For us that means an overall 20 percent profit margin. Individual titles vary in performance and at The Globe and Mail in Canada, which is classified as a national paper with a more expensive editorial structure than our other papers, the margin is intentionally less than 15 percent. Shareholders have to get a good return on their investment, and we do not want them to feel they could do better putting their funds elsewhere.

The only alternative to a healthy profit margin is subsidies from the government or other agencies, and what would that do to our independence?

Newsrooms cannot hold themselves apart from these realities. Whether they like it or not they are not immune from the pressures of the business world. Our newspapers have to compete for their audience. That means our editorial approach has to be relevant, interesting and connective with readers.... Circulation trends are the only worthwhile yardstick of the collective effort of a newsroom in my view. The thoughts of journalist colleagues or some out-of-touch academic or self-styled pundit are of little relevance.

Thomson Newspapers has recognized the importance of growing circulation through a team approach by setting up the first corporate reader marketing department in the industry. In February, we held the first joint conference of editors and circulators (preceded by them swapping jobs for a while so each could understand the other's problems).... More recent efforts include Reader Inc., a major company-wide readership development program in which editorial, circulation and reader marketing staff work together to create ways of increasing and retaining our newspapers' audience. Team investigations examine specific issues such as how to attract women readers, how to make our readership more diverse, and how to en-

gage communities interactively. And our Readership Leadership program involves everyone on our staffs, from trainee reporters to publishers, to figure out new and better ways to produce our newspapers and market them. We also have our own editorial training center where entry-level reporters learn about both the business and editorial aspects of this profession.

We face many issues in the market. People have less time these days. The choice of media is growing all the time. Readers' definitions of news are broader than those of journalists....

In the face of these issues, what do we have? Many journalists don't see a need to connect to readers or don't want to connect. Some appear to have a bigger desire to save the world than report issues which really touch local people. There is a traditional arrogance in some newsrooms that journalists always know best. Training often seems to me to be an academic exercise conducted in ivory towers. Our company journalism training school in the United Kingdom included a significant marketing module in its syllabus. Does this always happen in the United States?

The ultimate scenario if we do not connect with readers is that they will turn their backs on us and turn instead to higher-utility, more entertaining and connecting media. We already see this with TV which has news of less quantity and quality yet satisfies many people.

We just have to be businesslike in our approach, i.e., market sensitive. No one is immune from this. To do anything else is to be like ostriches and stick our heads in the sand. ■

Stuart Garner is President and Chief Executive Officer of Thomson Newspapers. These remarks are excerpted from a letter he wrote for delivery at a public forum sponsored by the Committee of Concerned Journalists and Harvard University on May 22, 1998, and were updated in June of 1999.

diverse and profitable portfolios. Knight Ridder, on the other hand, reinvested heavily in its newspapers. For example, Knight Ridder paid \$1.65 billion for the Cap Cities/Disney newspapers and almost immediately invested \$30 million in one of them, The Fort Worth Star-Telegram, to purchase new press equipment. However, at the same time, Knight Ridder was sloughing off some of its less profitable newspaper properties.

For many papers, such as The Los Angeles Times, layoffs and buyouts represented an historic change. While owners tightened budgets during previous lean times—deferring new hires and cutting back on raises—The Times and many other papers had resisted large-scale layoffs. After the newspaper wars of the 1950's and 60's, it had become an article of faith that papers should invest during downturns as part of a wise long-term business strategy. Publishers still recall how The New York Times, during the paper rationing of World War II, cut back on advertising, not news, and continued to build its loyal readership. Their competitors chose the opposite strategy, and those different choices enabled The Times to emerge as the dominant paper in New York following the war. By the 1990's, however, the principle of basing present-day operating decisions on the goal of long-term market position all but disappeared at many companies.

Marketing Drive

The cutbacks in people and news were part of a larger revolution. Suddenly the survivors in the new newsrooms were being instructed in the mores and manners of business. Marketing, once the province of circulation and advertising, became a concern of editors. Even the language used to describe what goes on in newsrooms began changing. Executives talked about the development of a “news product” that appealed to “customers.” Readers, as a word, no longer sufficed to capture the commercial relationship that was being emphasized. Many companies introduced “team manage-

ment” training that stressed organizational objectives over conventional newsroom values.

Some of the oldest names in the newspaper business began employing management consultants such as McKinsey & Co. to redesign the news product and introduce efficiencies. Concepts that had come out of manufacturing's restructuring, such as “total quality management,” took hold in newsrooms. Advertising and marketing people became more involved in shaping what news sections would

a consumer-product sales orientation, were perceived as a serious challenge to decades-old newsroom attitudes about independent news judgment, editorial detachment and a give-them-what-they-need news report.

Even the kind of people who newspapers sought to become their leaders shifted. “Every job description that we developed for an [executive] search,” said Michael Walker of the firm Youngs Walker & Co., “talked about the need for marketing, and that included editors, advertising and circulation direc-

“The editor once had the standing—and the chutzpah—to calmly ignore wooly-headed ideas from management.”—Jim Naughton

look like. Some companies, such as Media General, even began calculating the number of stories produced per employee, per day. An April 1998 article in *Presstime* magazine found that at least 192 daily and weekly papers had formed marketing committees that included newsroom members.

In 1997, Edward W. Jones, Managing Editor of the Fredericksburg (VA) *Free Lance-Star*, described the new direction at a meeting of the American Society of Newspaper Editors. “Five or 10 years ago, your focus could be pretty much solely on content. And the question always [was], ‘Is this a good story?’” Jones said. “Now I have to think, ‘Is this a story that will connect with my readers’ particular lifestyles?’ That’s marketing. And it’s something I never had to think about before.”

Many editors, faced with declining news budgets and a shift in organizational authority toward marketing, sought to maintain influence in corporate councils by learning to speak the language of business. Around the country, they enrolled in accounting courses at local colleges, flew off to marketing seminars and earned MBA's. In some companies the changes created a cultural divide. The proliferation of marketing methods, including greater reliance on focus groups, reader polls and

tors, and publishers.” For managers in the advertising and circulation departments, marketing became the new tool they used to create a dialogue with the editors about the content of the newspaper. Customers’ “needs and wants” were to be considered first and foremost. The editor became one more member of the team responsible for managing the newspaper's assets. Meeting those “needs and wants” was the way editors helped to generate revenue.

The marketing message hit the newsroom hard. Given the stubborn declines in circulation, the newsroom, which defined and crafted the product, was not in a strong position to defend traditional practices when called to account for bottom-line results. Public distrust of journalists and a perception of elitism mirrored attitudes inside many newspaper companies. Business-side executives often resented editors, and such attitudes gained currency among some publishers. Editor-bashing turned into a diversion at publishers’ conventions. Over time, the editor's lofty seat inside the organizational hierarchy began to crumble. The job of editor was mutating into a seat on a company operating committee along with the heads of circulation, advertising and promotion,

and sometimes chaired by a new central power within the organization, the marketing director.

The days were dwindling when the publisher managed the newspaper's business affairs and the editor, as archbishop, was left alone to work out the ways in which news would be covered.

Jim Naughton, Director of the Poynter Institute and former Executive Editor of *The Philadelphia Inquirer*, explains it this way: The unique perspective of the news department has been subsumed into the cacophony of other departmental viewpoints, few of which are grounded in journalism. "If the

operating committee has 10 people, and one is the editor, then a publisher, who does not have news experience, is relying on eight others with non-news perspectives for advice," Naughton says. "Now this problem can be ameliorated if the publisher has newsroom values, but absent that, it is inevitable that the

JIM NAUGHTON

Once upon a time the editor of a daily newspaper edited.

There's little risk of that happening now. The top newsroom manager probably has a title like vice president and executive editor, spends most of the time in meetings with other vice presidents and the publisher, and reads news stories at the breakfast table just like any other vice president—or subscriber. The executive editor is increasingly an executive, seldom an editor.

This change confirms the transformation of the newspaper profession into the newspaper business. As recently as the 1970's, an editor was the content boss, sleeves rolled up and wielding a pencil on a page proof at deadline. In some newspaper corporations, the editor didn't even report to a publisher but was co-equal to the top local business executive. If the editor reported to a publisher, the two likely had a symbiotic relationship in which the editor counted on the publisher to manage marketing issues, and the publisher relied on the editor to determine what news was suited to the community. Many editors became publishers.

In the 1990's, an editor customarily is a member of the company operating committee—a senior member, perhaps even an executive vice president, but only one in a panel of peers, all of whom have more in common with each other than with the editor. The editor, like the others on the operating committee, is preoccupied with consultant reports and focus groups and the search for the latest theory or device to recapture lapsed customers or, failing that, the least injurious way to trim costs and maintain margin. Depending on the size of the community and the newspaper, the operating committee may have a dozen or more members. The editor's influence upon

the others may be less the consequence of rank than of relationships—with the publisher, with the vice president for advertising, with the general counsel, with the director of marketing, with the transportation director, with the human resources vice president. Some editors may still dominate corporate conversations about what constitutes news and how to deploy newsgatherers, but most no longer make such determinations singly or without elaborately justifying the effect on the bottom line.

Gone are the days when cantankerous editors in a media corporation asserted themselves at the annual editors' meeting by giving the dickens to the corporate hierarchy; if they speak back at all now it's in respectful tones—and probably in business terminology. Newspapers are products. Readers are customers. News sections are profit centers. Faddish management theories quickly animate strategic conversation as corporate newsrooms substitute "change agent" for "re-engineering" for "customer obsession" for "quality circle" as official jargon of the moment.

This moment's fixation is "local-local." Editors are under intense pressure to apportion resources not to where they believe the most important story lies but to where the companies think the most opportune advertising audience lives. This is not a new pressure, but editors no longer get away with paying it lip service. At some metropolitan newspapers editors are—or believe themselves to be—required to demonstrate such zeal for local-local coverage that every zoned suburban edition must display at least one local-local story above the fold on page one. This is absurd and probably self-defeating. Readers can distinguish judgment from pandering. They want, and deserve, strong community news coverage. They

don't need or expect the pretense that what happens in their neighborhood is more important than what happens in Kashmir or the state capital. Demography threatens to supplant news judgment.

We've been through this before at *The Philadelphia Bulletin*. On the day after Philadelphians reelected Frank Rizzo, a hugely contentious figure, as mayor in 1975, *The Bulletin's* only reference on page one of the zoned New Jersey edition was a small box referring to a story inside about the reelection of mayors in Philadelphia and Minneapolis. *The Bulletin* died in 1982.

More recent effects of such judgment are evident. When Pulitzer Prize jurors gathered this spring at Columbia University to appraise the best newspaper coverage of 1998, many secretly lusted to be assigned to the International or the National jury. It was easy work because there were so few entries. When NATO began bombing Serbia, many Americans were startled by the onset of hostilities; their newspapers (and, to be fair, TV news programs) had not prepared them adequately for the prospect of loved ones facing or inflicting mortal wounds.

The editor once had the standing—and the chutzpah—to calmly ignore woolly-headed ideas from management. In doing so, the editor often suffered and sometimes deserved an image as an arrogant outsider in the company. That was impolitic and foolhardy. But it may have been preferable to becoming just another corporate officer. ■

Jim Naughton, former reporter for The New York Times and Executive Editor of The Philadelphia Inquirer, is Director of the Poynter Institute.

newsroom point of view is going to be diminished.” Naughton also notes that fewer publishers are coming to their jobs from the ranks of journalism.

Once considered sacrosanct and impenetrable, the wall between news and business is viewed today, by many among the new breed of business managers, as a quaint impediment to fully developing the revenue potential of a modern media organization. For many, news is a digital commodity that can be packaged and sold in a variety of formats, with different degrees of editorial integrity.

After decades of assuming its value, the question is worth posing again—what is the purpose of the wall?

The wall was put there to reassure readers that news decisions were being made in their best interests as citizens who needed to receive information that was unaffected by the commercial interests of the newspaper or its advertisers. The point was credibility, an asset that doesn't leap off of the balance sheet, though some marketing executives are beginning to give it value under the rubric of the newspaper's “brand identity.”

One justification for removing the wall has been to bring into the newsroom from the marketing departments the techniques of consumer research. It was seen as a way to invigorate circulation and advertising. But important questions need to be asked about the market research on which newspapers are basing many of their decisions. How is the research framed? For example, are questions designed to elicit responses that would better inform an enterprise whose ultimate goal is consumption of products advertised on its pages or providing information as a basis for civic decision-making? In other words, is the reader thought of as a consumer or a citizen? There are no easy answers to this question, and at

different papers there will no doubt be different approaches. But within the culture of journalism, which for generations had avoided even a flirtation with commercialism, this movement to embrace marketing raises concerns about the mission of the organization.

There are some who argue that the credibility crisis with the public is fueled by the more market-oriented approach in many newsrooms. Bruce Sanford, an attorney who witnesses firsthand the erosion of public support for the press in his work as a lawyer for various news organizations, argues in his new book, “Don't Shoot the Messenger,” that much trust has been lost in the relationship between the press and the public. “The most compelling business reason for Time Warner and other communications companies to nurture their public service traditions

“If we must earn an adequate rate of return and be compelling to readers in order to attract the advertisers that basically pay the bills...then the choice is not, do we have high quality journalism or do we have a successful business. We must find a way to do both....”—Mark Willes

is that the public believes, quite firmly and not irrationally, that today's news media has abandoned that which it once held dear,” Sanford writes. “This is the most basic cause for the rising tide of anger rushing over the media's breakwalls. The public believes that too few owners of communication companies—be they public or private—are devoting enough time, talent, and money to the task of improving America.”

The emerging marketing ethos inside newspapers has evoked varying intellectual responses. Two books published in the 1990's, both by journalists who eventually left the newsroom, arrived at opposite conclusions. One contended that marketing would be the death of newspapers. The other said it was part of their salvation.

In “When MBAs Rule the Newsroom,” Doug Underwood, a former reporter and now professor at the University of Washington, argued that marketers ultimately would push readers from newspapers. Jack Fuller, former Editor of and now President and Publisher of The Chicago Tribune, offered a reasoned defense of marketing in “News Values.”

Underwood's telling of the marketing story begins in the late 1970's when, he says, newspapers tried to reverse the loss of circulation through a “reader-centered” approach to journalism. Stories were shortened. Heavy use of color and graphics was adopted and “light” stories about celebrities were encouraged. In fact, he traces the birth of contemporary newspaper marketing, as an industry phenomenon, directly to the hiring of Steve Sloan, of the

Massachusetts Institute of Technology, by the Newspaper Association of America to conduct seminars on marketing and strategic planning around the country. The marketing approach that eventually emerged out of the

seminar rooms of this publishers' association, he says, created product changes, but they have failed to reverse the circulation trends.

“Sadly, what the marketing movement has accomplished is to drive many committed and creative journalists out of the newspaper business and to leave many of those who remain lamenting what has happened to their craft,” Underwood writes. “At many of today's market-minded newspapers, good writing and reporting have been forgotten. Newspaper professionals who are not caught in the readership revolution complain that today's customer-obsessed editors devote too much energy to marketing and bottom-line concerns.

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MARK WILLES

There has been more than a little talk lately about how well the editorial and business sides of journalism work together. Since I am at least in part the cause of some of the ruckus, let me tell you my biases so that you don't have to worry about trying to figure them out. . . .

I would suggest the world is a little more complex than many people would like to believe. And in the process of trying to oversimplify things, I think we sometimes miss some of the central ideas that we must think about to deal with the issues that we face. . . .

Let me explain how. First, the newspaper business basically spends its time looking at and reporting on the world. It is important, therefore. . . that we also understand the world as it is. Most organizations, ours included, are publicly held, publicly traded corporations. That implies a fiduciary responsibility to our shareholders. We can say we don't like that, we can say we wish it were otherwise, but that is the fact. And unless newspapers are purchased by enormously wealthy people who don't care about the return on their money, that won't change. Therefore earning an adequate rate of return is not a "nice to do," it's a "must do."

A second part of the world that we face is that it's a very competitive world. We're long past the time, if it ever existed, which I doubt, when people read us because they must. They read us because they choose to. They read us because they find what we do is sufficiently important and compelling that they're willing and anxious to spend their time reading us, rather than doing all of the other things they have the option of doing. Therefore, it's not nice to find ways to be interesting and compelling to our readers, it is a must do. Otherwise we will cease to exist as an independent enterprise.

I mention those two things because therein lies the complexity and the challenge that we face. If we must earn an adequate rate of return and be compelling to readers in order to attract the advertisers that basically pay the bills of at least most newspapers in this country, then the choice is not, do we have high quality journalism or do we have a successful business. We must find a way to do both, because if we don't find a way to do both, we will cease to exist as

important and independent enterprises.

Therefore, what we're trying to do is not worry so much about the things we can't change. We can't change the fact that we're publicly traded. We can't change the fact that we have to earn a decent rate of return. Therefore, we're not worrying about that. Instead, what we're spending a lot of time worrying about is how can we balance all of those things.

I happen to be, I suppose, hopelessly naive or hopelessly optimistic. But I think you can do both. I don't think you have to make a tradeoff. I don't think it either is high quality independent journalism or a very successful business enterprise. In fact, I think just the opposite is true. I think the greater the journalism, the more compelling the journalism, the more successful we'll be as a business enterprise. And that's what we're trying to do. . . .

The answer we are trying to provide consists of several pieces. The first is what you do day in and day out in terms of honoring what I prefer to call the line rather than the wall between the business side and the editorial side. . . . I absolutely respect the line between the business side and the editorial side. It seems to me that the first way you demonstrate your commitment to high quality independent journalism is to make it absolutely clear that when there's a different point of view the editorial decision-maker wins every time, and that's what we do in our organization. There's never a matter, and there's never occasion, where editorial judgments are made by anybody other than the editors. . . .

But I think there are a lot of other things you can do. One of the first things I did when I got to Times Mirror was take down a lot of art work that we had around the place and put up a display of our Pulitzer Prize winners. A very small thing, but in my judgment a very important thing, to say what we stand for. We stand for high quality journalism. We have converted our annual meeting basically into a celebration of what great people in our organization do, including journalists. We give Journalist of the Year awards for all kinds of outstanding journalism, and we make that a part of everything we do. We don't hold a board meeting when we

don't have somebody talking about journalism. We don't have an annual meeting where we don't talk about journalism. We don't have a management meeting where we don't talk about journalism. . . .

If you really believe fundamentally in what you're doing, you will invest in it, no matter what the other circumstances are. . . . It's important to distinguish what's causing the bleeding and why. And the fact is, a lot of the things that were causing the bleeding at Times Mirror had to do with the fact that we were in businesses that we shouldn't have been in. We had a basic cost structure that was too high given the nature of the business we're in and so on. We fixed most of those things. Therefore, if newsprint goes up and our profits go down temporarily, that's going to be an unfortunate circumstance and fortunately a temporary circumstance. We will continue to invest in our newspapers.

In fact, it will be the classic example where you will have a divergence in the short run for the sake of the long-run vitality of the enterprise. Will our stock price go down when that happens? Yes, it will. Will it go back up again once we come out of it? Yes, it will. We're perfectly prepared to stay the course because we believe so deeply and passionately in the future of this business that we intend to get more and more vital, stronger and stronger, and the only way you can do that is to continue to invest in the business. ■

Remarks made at a public forum sponsored by the Committee of Concerned Journalists and Harvard University on May 22, 1998. Mark Willes was then Chairman, CEO and President of Times Mirror Company and Publisher of its newspaper, The Los Angeles Times. He has since resigned as Publisher.

Daily newspapers caught up in the reader-friendly journalism are in danger of losing the true spirit of the journalistic mission—the commitment to community service, the passion for probing injustice, the love of good writing, and devotion to enterprise reporting.”

Fuller defends the marketing efforts as a laudable attempt to better understand the needs and wants of readers and use those findings to improve what goes into the newspaper. He argues that marketing and the journalistic impulse for social improvement are both necessary in a successful newspaper organization. “The market provides some measure of whether a newspaper is successful in communicating,” he writes. “A newspaper that reaches people with information they want and need will attract advertising and, unless otherwise mismanaged, will turn a nice profit. A newspaper that pleases its writers and editors but is not a vital part of the community’s life will be a commercial failure because it is a rhetorical failure.” Yet he acknowledges the strains in the relationship that attention on marketing has created. “The hostility between journalists and marketers has increased with the growing pressure on newspapers to find ways to expand readership,” Fuller writes. “The conflict between the disciplines has helped sustain a wave of nostalgia about great newspapers of yesteryear,” a nostalgia that he challenges as being more mythical than real.

Circulation

The incentive behind the marketing push of the 1990’s was both the slow pain of declining market penetration and the sharp pain of advertising revenue losses. The circulation penetration decline began 50 years earlier, but now was bringing serious consequences. For decades, even as circulation penetration numbers tumbled, remaining readers tended to be the more affluent and educated Americans, so the demographic profile of newspapers’ core audience actually improved.

As seen by the advertising department, a somewhat smaller, more upscale audience wasn’t a bad thing—in fact, it was a strong sales message for upscale department stores. After The Minneapolis Star Tribune dropped in circulation by four percent in three years in the mid-1990’s, Publisher Joel Kramer told *The New York Times*, “We are a healthier business if we are charging readers more and accepting a somewhat smaller circulation.”

Circulation viewed selling papers to a subset of readers that appealed to advertisers as a welcomed efficiency. In most big cities, only about a quarter to a third of the households bought the major metro daily in town. In smaller towns, penetration, while falling, was much higher. But newspapers continued through the next few decades to do a tidy business in this way. Perhaps nothing illustrates this better than the often-told story of a Bloomingdale’s executive who told Rupert Murdoch that the store did not advertise in *The New York Post* because “your readers are our shoplifters.” This tale, though almost certainly apocryphal, became something of an urban legend within the newspaper industry during the 1980’s because of how succinctly and concisely it framed the industry’s perception of this issue.

Even recently, higher circulation numbers have not been viewed as entirely favorable. During the mid-1990’s, several papers cut costs by stopping delivery to remote, “out-of-market” areas that did not interest advertisers. The Rocky Mountain News in Denver and The Des Moines Register attracted attention when they deliberately reduced circulation. According to *American Journalism Review*, in the 12 years following Gannett’s purchase of The Des Moines Register in 1985, the paper’s daily circulation dropped either through cancellations or retrenchment by 70,000, and its Sunday circulation by 103,000, in the area outside the so-called “Golden Circle.” What difference did it make if some readers on the fringes of the circulation area canceled their subscriptions? It at least meant that fewer tons of increasingly expen-

sive newsprint had to be purchased and that meant cost cuts that improved the bottom line.

By the mid-1990’s, the concept of the regional and statewide paper, as epitomized by The Des Moines Register, was disappearing. Largely ignored as this trend toward consolidation accelerated was the role that newspapers are uniquely poised to play in bringing people from one region—people of all races, political persuasions, incomes and economic backgrounds—together in a single shared reading experience.

By the late 1970’s and early 1980’s, the circulation losses had stabilized. Since many afternoon dailies had gone out of business, the number of newspapers in the country held relatively steady. Those that were left could actually operate more efficiently and profitably with the cross-town competition diminished and consolidation of advertising into a single newspaper. In some cases, such as USA Today or The Los Angeles Daily News, a few newspapers were even being born.

By the middle of the 1990’s, however, the industry was awaking to the erosion of its foundation—its readers, the people who subscribe and shop with advertisers. The circulation losses that newspapers had weathered for years, and in some cases even regarded as a way to save money in the short term, began to loom as a principal threat to the health of the business. The reason was simple: Newspapers found that they needed to maintain a critical mass of readers within a specific market to be perceived as a desirable advertising vehicle.

The proliferation of alternative sources for news and information on such outlets as the Internet, the convenience and immediacy of television and radio, the expansion of what constitutes a broadening definition of “journalism” to include infotainment—from Oprah to Rush Limbaugh to “Hard Copy” to Matt Drudge—battered the newspaper industry.

Newspaper executives started thinking anew in terms of share of households in the market, but figuring out where to turn wasn’t easy. Richard

Picard, a leading scholar of newspaper economics, explains this reversal in terms of trends.

"In decades past, more young people began reading newspapers as they established families and became increasingly active in community and economic life. Today, however, young people are not acquiring the reading habit at the same rate as before, even when they enter family and community life. This generational difference is occurring because many are using other sources for their information and diversion needs. The result is that household penetration and audience reach are being lowered significantly. The population is growing and circulation declining. The changing audience is leading to change in advertiser choices." Picard asserts that newspapers are nearing the end of their natural life cycle—an eventuality that is pushing newspaper companies to hedge their bets with investments in the Internet.

For now, the new focus is building circulation. To do this, executives are searching for ways to draw in readers while keeping a lid on costs. Suggestions include focusing more on local news, highlighting celebrity news, generating "useful news" about planning vacations, buying cars and picking a breakfast cereal, and expanding coverage of hot topics such as health and technology.

Efforts to increase circulation through marketing a new news product are taking the form of collaborative initiatives that many editors would have scoffed at just a few years ago. At The Providence Journal, news and circulation are cooperating on a high-school marketing effort that asks high-school athletic directors to suggest the names of athletes to profile in the newspaper. Upcoming articles are then promoted at school assemblies. "Such blending of journalism and marketing," an article in The New York Times said, "has been taboo at many newspapers, but

the economic payoff was quick: the pilot program pushed single-copy sales up seven percent." At The Los Angeles Times, the news and advertising departments are cooperating on the development of business sections whose aim is to produce more advertising revenue. According to David Shaw, the Los Angeles Times media writer who has written about the collaborative marketing effort, the expansion of the business pages has come mostly through

"Drop the 'our-work-speaks-for-itself,' ivory-tower hauteur and come out fighting for your profession and its values."—Maxwell King

the addition of "soft" business features. Two days a week, he pointed out, The Times publishes a personal investing section. This appeals to the growing investor-advertising segment that, along with a personal-investing conference, produced a 40 percent increase in financial advertising. The editors' bonuses, Shaw reported, were also tied to increases in advertising revenues and readership.

Wall Street/Stockholder Influences

Changes going on inside newspapers reflect changes in other industries. The stockholder pressures being felt by public newspaper companies have been felt in other segments of the economy for more than a decade, says Robert Broadwater, an investment banker with Veronis Suhler in New York. Broadwater attributes the new weight of these market forces to changes that were triggered by events of the early 1980's, a time when many big companies were underperforming and their stockholders were frustrated. Investors, says Broadwater, looked inside corporate America and saw bloated staffs and unrealized profit potential.

"These companies were lousy to own, great to work for," Broadwater says. "Then [junk-bond financier]

Michael Milken came along and monetized the desire to take action...." Suddenly, companies were under the constant threat of takeovers. "This gave urgency to the people running companies, and it put pressure on management and boards of directors."

Takeover threats made it clear to management that their jobs were vulnerable, as were their companies, if they didn't improve the financial performance. A focus on shareholder value

swept American business. The restructuring of many businesses followed. Broadwater applauds the change and sees

it as good for investors, including those who put their money in newspaper companies. "There is no reason why it shouldn't be happening in the newspaper business," he says. "A newspaper is a collection of assets put together in a moment in time to earn a return. If you can't beat the cost of capital, then you are a charity."

The increase in profit margins in the newspaper industry not coincidentally overlaps a trend of longer duration, the continuing movement toward public ownership and aggregation of large media companies. The shift toward public ownership, which has occurred mostly during the past 40 years, began with Gannett going public. It has been a fundamental factor in transforming company cultures. Newspapers have become part of companies whose main product maybe entertainment and their operations linked to the demands of equity markets. This has created increased pressure for optimum financial performance at a time when results are increasingly difficult to achieve.

Public ownership has proven to be a mixed bag. On one hand, it provides the capital necessary for a company's expansion and diversification, and it offers owners liquidity. On the other hand, it cedes control to investors who are primarily interested in profit, not journalism. Stockholders in these com-

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MAXWELL KING

“The chief business of the American people is business.” So it was back in 1925 when President Calvin Coolidge offered that now famous aphorism about America’s fevered, overreaching economy in the roaring 1920’s. Coolidge didn’t foresee the coming crash and depression, nor could he possibly have foreseen the degree to which the American business acumen he so admired would come to dominate a global economy by the end of the century.

As we prepare to enter the 21st Century, we live in the age of “Transcendent Capitalism.” Competing systems of controlled economies are in disrepute and full flight, vanquished by that particularly American combination of capital investment, free markets and representative democracy. The United States is enjoying booming equity markets and a robust economy that—despite serious income and wealth inequities—have made fervent believers of a citizenry now invested as never before in stocks and bonds.

Earlier in this decade, there was even a burgeoning faith that capitalism alone could solve all ills: The free market system, left unfettered, could feed the poor, shelter the homeless, and provide cheap and easy health care for all. That radical notion is waning, though, and the pendulum is swinging back to a more moderate construct that views American market-based business as a partner with government and public trust institutions—universities, philanthropies, newspapers, etc.—in shaping a strong, equitable society.

From Calvin Coolidge’s time to today, newspapers have experienced the same kind of transforming journey that American society has. Beginning as family-owned, community-oriented enterprises in which the notion of journalism as public trust predominated over commercial concerns, newspapers have arrived at the end of this century in a very tough spot. Challenged by dramatic technological change that now threatens its readership and advertising markets, the newspaper business has also been transformed from its family- and community-oriented roots into a corporate-conglomerate environment. Today, most news-

papers are part of large, publicly traded companies that are paying more attention to profit margins and shareholder value than they do to the public trust responsibilities of journalism.

To be fair, many of these corporations have limited choices. They exist in a world in which large, institutional investors call the shots, driving companies to keep posting ever-higher quarterly returns in order to push share prices up. Executives of public companies cannot ignore these pressures. To make things even tougher, the Internet, electronic new media, and technological change threaten to wrench circulation and marketing dollars away from newspapers. At best, this is a besieged business; at worst, a declining industry on its way out.

So, what is to be done to protect journalism? After all, this is a public trust that is canonized in the First Amendment and, more than ever, underpins a functioning democracy.

The responsibility, I believe, lies with newspaper journalists themselves. If the newspaper business is to survive in a form that supports—perhaps even champions—public trust journalism, the newsroom must be willing to fight for its values. Here, on the cusp of the millennium, are two suggestions for the profession:

Understand the Business Side

For decades, newspaper journalists have foolishly scorned business and businessmen. They have, until recent years, grossly undervalued the importance of business news (and the degree to which newspapers can own the franchise on coverage of business). And they often have been scornful of the business side’s values and objectives. Such arrogant naiveté is unacceptable. Journalists must understand that business news is at least as important today as government news; and they must accept that—in this age of “Transcendent Capitalism”—the business goals of the company will be treated as seriously as the journalistic goals. Realism—not idealistic self-righteousness—is what the newsroom needs today.

Speak Up for Journalism

Drop the “our-work-speaks-for-itself,” ivory tower hauteur and come out fighting for your profession and its values. The public trust function of newspaper journalism is essential to democracy, but the newsroom is almost always too reticent to put that point forward. The public is willing and able to understand the special value of journalism. And business leaders can be made more responsive to the need for newspapers to fulfill their public trust. After all, they often have been in the past. But it won’t happen without a powerful rededication to those values and a strong public conversation—led by the newsroom—about their importance and their special standing in America under the First Amendment.

The business of America is business... and a lot more: It is justice, equality, freedom and democratic decision-making. And it is all completely dependent on the role of a free and independent press. Our work cannot speak for itself any longer; we must speak for it. The Committee of Concerned Journalists is proposing a declaration of shared purpose, including the principles of journalism and the responsibilities of the journalist. This declaration should catalyze a great debate in the newsrooms of America about how we will fight for our values. ■

Maxwell King was Editor of The Philadelphia Inquirer from 1990 until 1998. He is now Executive Director of the Heinz Endowments, a major charitable foundation.

panies—those who come to own a piece of Gannett or Knight Ridder or Times Mirror through their pension or mutual funds—have a single-focused interest: seeing a good return on their investment. Questions about journalism do not dominate stockholder meetings. When the subject gets addressed at all, conversation tends to be about business strategy and not whether the product is contributing to an improvement in civic health. Doing the right thing does not show up on the pie charts projected on screens at meetings with Wall Street analysts.

This is the system that has evolved: Ownership of newspapers is now divorced from service through journalism. There is accountability for profit, not for journalism, except as it effects the business plan.

It isn't coincidental that two of the nation's leading newspapers, The New York Times and The Washington Post, have structured their stock so that family members retain control. These families have maintained an interest in their companies that goes beyond making money. By itself, public ownership of a newspaper corporation does not destroy the civic mission of a newspaper. But it makes the act of balancing public service and profit more difficult. The fiduciary responsibility of the board of directors puts the law clearly on the side of profit, and this fact tends to create a short-term business orientation. At the very least, it requires managers to present a persuasive financial

tors who took the long-term view. Today long-term is three months." Says Diane Baker, former Chief Financial Officer of The New York Times Co., "On Wall Street, long-term is very short. Long-term is a quarter. Short-term is a minute."

Mark Willes, CEO of Times Mirror, says that he and his managers have "a fiduciary responsibility to our shareholders. We can say we don't like that, we can say we wish it were otherwise, but that is the fact.... Therefore earning an adequate rate of return is not a 'nice to do,' it's a 'must do.'"

Newspaper stocks, in general, have been good buys on Wall Street. The Standard & Poor's newspaper index shows that the industry, as measured by the recent five-year performance of six companies, has performed about even with the rest of the market. In a shareholder scoreboard of 1,000 companies in 94 industries, prepared for The Wall Street Journal by L.E.K. Consulting, publishing—which included a majority of newspaper companies—ranked newspapers in the middle of the pack of all stocks based on a five-year average of returns. Newspaper companies showed an average one-year return of 12.3 percent and an average five-year return of 19.6 percent. Among the high performers: Harte-Hanks, with an average five-year return of 34.7 percent, The New York Times (23.6 percent), Times Mirror Co. (21.3 percent), and Gannett (20.0 percent). These rankings were based

percent rise for the composite index of the New York Stock Exchange during that same time period.

At a conference about newspapers, Kevin Gruneich, an analyst for the brokerage firm Bear, Stearns & Co. Inc., said Wall Street investment managers are not just trying to make money for their clients, they are trying to beat the market. Those are the people who control nearly two-thirds of the trading in public newspaper companies. Their judgments determine the current value of company stock and, by extension, a large part of the compensation of the managers who run the companies, and in many cases this includes editors who receive stock options.

Profits and Perils in Journalism

Discussion about the impact of focusing single-mindedly on profitability in newspapers occurs because they are considered to be a different kind of business. Newspapers are essential in a democracy, and their missions extend beyond the financial interests of their owners. As was envisioned by our nation's founders, newspapers provide citizens with the information necessary for self-government.

Can newspapers continue to perform this mission in the current business environment?

The economist Jim Rosse, who now is President of Freedom Communications, which owns The Orange County Register and other newspapers, believes investors and readers are being well served in the current business climate. "Newspapers can't perform public service unless they generate a competitive return to shareholders that will induce them to continue supplying the capital they need," Rosse says. "The best newspapers find ways to serve their audiences with distinction and, simultaneously, be profitable. In fact, it may be that serving an audience with distinction and being profitable go hand in hand."

Burl Osborne, Editor and Publisher of The Dallas Morning News, offers a

“What is the shareholder value we’re getting?” [This] is the same question a widget company asks.”—Ken Auletta

case for long-term thinking and investment in intangibles such as trust and community-mindedness.

“The pressures to perform are greater now because Wall Street is more short-nosed,” says John Morton, a media analyst for Morton Research. “Back in the 70’s, there actually were inves-

on total return to shareholders.

During a 20-year period, the S&P index shows newspaper stocks outpacing the market. Media analyst John Morton prepared an index of newspaper stocks that illustrates an incredible rise of 5,813 percent since 1971; this compares very favorably with the 1,086

KEN AULETTA

Before you can discuss what might be done [with newspapers] you have to look at the business proposition that you're dealing with.... The people who own these journalistic institutions, by and large, are large companies... in which these journalistic institutions play a smaller and smaller role and don't contribute the same profit margins as, say, local TV stations do, which contribute roughly between 40 and 50 cents on every dollar they take in [as] pure profit. And they don't contribute what cable does or what some of the programming of software or other parts of the business do. So...increasingly these companies...look to their audience as being Wall Street. "What is the shareholder value we're getting?" [This] is the same question a widget company asks.

So if you're going to request of them or demand of them to change, you somehow have to deal with this equation. How do you get [these owners] to change their value system [when] basically...what matters [to them] is how do I maximize my profits to shareholders? That, they say, is their fiduciary responsibility. We come back and we say..."Look, that is not

your only responsibility. You have some public trust obligations. You have some responsibilities to your community, you have some responsibility to your employees. It's a multiple." But you have to first address that question of how do you, Mr. Shareholder or Mr. Owner or Mr. CEO, change your value system or at least alter it [in] some way. ■

These remarks are edited from a public forum sponsored by the Committee of Concerned Journalists and the University of Southern California's Annenberg School for Communication on March 4, 1998. Ken Auletta is the author of "The Highwaymen: Warriors of the Information Superhighway" (1997, Random House), and writes the "Annals of Communication" for The New Yorker magazine.

perspective that acknowledges the role of the market but also the connection between a newspaper's success and its service to its community. The Morning News is a regional newspaper (recognized for its high quality of journalism) and the flagship publication of Belo Corporation, a public company with \$1.2 billion in revenues and significant newspaper and television holdings. Osborne is a former working journalist and former President of the American Society of Newspaper Editors. "In the long run," he says, "a newspaper that serves its community will create value and it will be repaid in revenue increases and attractive financial returns. I'm not telling you [in an economic downturn] that we don't respond by controlling costs. But we try to do it by not damaging the franchise, which is a legacy in many ways. That's easy to say and hard to do. There is more art than

science in finding that balance."

In 1998, finding such a balance became very real for Osborne when Belo's stock lost value because of weakened advertising at The Morning News. The newspaper put into place cost-saving initiatives that included employee buyouts and a simplified edition structure. Analysts on Wall Street are watching closely to assess the impact on earnings of these changes, and their judgments will reverberate through the company.

Osborne is conscious of the scrutiny. "There is a natural tension be-

tween the [Wall Street] analysts who want you to achieve consistent growth in profits without any breaks and our desire to run the company both efficiently and for growth," Osborne says. "To be fair, they are never going to be as patient as we would like and we are never going to increase the earnings curve as steeply as they would like. They have objectives for their clients, and they may not even be concerned with the longevity of the company. There isn't always a congruence of objectives. We try to resolve the tension in our conversations with Wall Street. We look for investors with a certain interest [in a longer-term investment], where there is a congruence of interest."

Leo Bogart, a sociologist who was Vice President for Marketing, Planning and Research for the Newspaper Advertising Bureau and then its General Manager, has written several books on mass media, including "Commercial Culture: The Media System and the Public Interest." He chastises the newspaper industry for failing to invest more in gaining readers, yet stops short of blaming the profit orientation on public companies. "For a long time, editors were disdainful of the business side of the organization and egocentric in pursuit of their own interests to the exclusion [of the public's] and disrespectful of readers," Bogart says. "What has happened in the last generation is an understanding by editors that they are part of an enterprise that has to make a profit."

While Bogart approves of editors assuming global views of their tasks and responsibilities in the company's business, he is also troubled by the increasing reliance on market research. He regards much of it as shallow, espe-

—continued on p. 19

"The issue today is whether the values of the First Amendment generate political liberty that news organizations have an obligation to sustain...."—Jim Carey

JIM CAREY

The separation of business and news is only about 100 years old. In 1800 the most common name for an American newspaper was The Advertiser. Take that literally. Not advertising in the sense of the purchase of space, but the purpose of the newspaper was to advertise, to spread the wares and interests of commerce and industry; that is, to publish prices, quantities, availability, to bring news about the structures of markets. Every paper was, in a way, The Wall Street Journal. And the relationship between business and journalism was an intimate one.

Later, when we entered the day of partisan journalism, there was no conflict between the business office and the news operation. They were joined. Crudely put, newspapers sold ideology; business success and political success were linked through patronage and subsidy. The access to a market and the source of one's subsidy defined the nature of news and reporting. But once the press in the late 19th Century declared its independence from political parties and other institutions, it also had to declare independence from its own business office and from the institutions of commerce. As a result, we have been peculiarly blessed in the United States: Organs of journalism have generally been owned by journalistic companies that honored the divorce of commerce and journalism. . . .

The independence of news from business which has persisted in significant ways up to now was reflected in an iron wall of separation in the newsroom. One of the peculiar facts about the charter of the Columbia School of Journalism is that Joseph Pulitzer, a businessman if there ever was one, wrote into the charter that we could not teach the business side of journalism for he thought it would corrupt us to do so. . . .

If the separation of news from business is a relatively recent development that today is passing away, why should we mourn the passing any more than we mourn the passing of the partisan press which independent journalism replaced? Why does it matter?

The problem is that there is a new and ominous element in what is replacing it. Our understanding of journalism, both the partisan press and the independent press, has proceeded from the Enlightenment idea that the press is a basic institution of political liberty. Today the First Amendment is ceasing in the eyes of many to have the implication of a public trust held in the name of a wider community for the purpose of guaranteeing liberty. Increasingly, the First Amendment seems to refer simply to a property right, establishing ground rules for economic competition. And lest you think this hyperbolic, listen to the thoughts on this of Rupert Murdoch, one of the new barons of the conglomerates. He says, in referring to Asia, "Singapore is not liberal, but it's clean and free of drug addicts. Not so long ago it was an impoverished, exploited colony with famines, diseases and other problems. Now people find themselves in three-room apartments with jobs and clean streets. Countries like Singapore are going the right way. Material incentives create business and the free market economy. If politicians try it the other way around, with democracy, the Russian model is the result. Ninety percent of the Chinese are interested more in a better material life than in the right to vote."

That is a new voice in American journalism, one that inverts the historic relationship of economic and political democracy. Political democracy does not follow axiomatically from the presence of an effective market economy. And a politically free press does not follow from an economically free one. Indeed, when economic values come to dominate politics, liberty is often at risk.

A society solely dominated by markets can be quite illiberal. As Murdoch attests, modern economic developments seem to favor authoritarian rather than democratic regimes. As Ralf Dahrendorf, former Director of the London School of Economics, reminds us, authoritarian does not mean totalitarian. For such regimes do not "require a Great Leader and a pervasive ideology," nor a permanent mobili-

zation. These are countries that can be quite nice for the visitor, predictable and undemanding for the natives, but for poets and journalists, "they are unbearable."

What has been added to the mix is a new experiment, particularly in those great Asian markets relatively untapped by the West, which can be put as a question: Can you have free markets without political democracy? The concern that follows the erasure of the walls between journalism and business is this question precisely. Can the historic meetings of political liberty and a free press be preserved once that wall is effectively breached?

In the late 1930's, Harvard economist Joseph Schumpeter, an ardent lover of capitalism, wrote that he feared for capitalism's future because of what he called its process of creative destruction. Capitalism was such an innovative economic system, he thought, that it tended to destroy all things, including the social and political bases that guarantee it, foremost among which are the institutions of democracy.

As the age of modern, independent journalism comes to an end, the new relation between news and business will establish a model for how political and economic liberty are combined in the culture at large. This is crucial not only for a free press but for democracy and social justice. For freedom must mean something more than freedom from government. The issue today is whether the values of the First Amendment generate political liberty that news organizations have an obligation to sustain or merely protect the rights of corporate organizations to sustain themselves. ■

Jim Carey is a professor at the Columbia University Graduate School of Journalism. This essay is based on remarks made at a forum held at Harvard University and sponsored by the Committee of Concerned Journalists and Harvard on May 22, 1998.

cially if it is meant to serve as a basis for editing a newspaper. "To what degree, when you study readers' tastes and interests, do you modify the product?" he asks. "To what extent do you create an editorial product to serve interests of advertisers by running 'advertorial' content and selling the newspaper's soul to the highest bidder? There is an increasing amount of the latter.... It is very easy to ask the public hypothetical questions [about their tastes] and then pursue an editorial policy that is presumably the outcome of the answers. It is easy to misjudge how people respond to real changes as opposed to hypothetical changes."

Bogart's tone sounds surprisingly similar to Underwood's, in his book, "When MBAs Rule the Newsroom." "What determines success with readers is the fire, passion, restlessness, intelligence and persistence of the writer, not the ability of the writer to produce a product that fits a formula," Bogart says. "The problem with introducing marketing [into newspapers] is not a problem of a search for coordination among the departments to serve the reader. It is an understanding of the limitations of research and its application to a creative product."

On the subject of profit-making, Bogart is concerned about conflicting demands that arise from the pressure to produce financial results and the need to retain a longer-term view that acknowledges the need for investment in product strength. "The industry is under investing in its future," he says. "The hard thing is how do you balance the need to stay afloat in financial markets with the need to survive in the long run in the marketplace of mass communication? There is no easy answer. Every newspaper manager is grappling with it. But they must put more of their resources into the product in their search for the future."

Over the last century newspaper operations followed a business model created by 19th Century entrepreneurs and editors who responded with combinations of genius and opportunism to the information economy of their times. Today newspapers are being

reshaped by executives and editors in response to the information economy of our era. Michael Sandel, professor of government at Harvard University and author of "Democracy's Discontent," a book that traces the erosion of civic ideals, contends that today's corrosive trends in journalism are at work similarly in other professions. "We're seeing market values and norms eroding public purposes," says Sandel, who is writing a book about markets and morals. "There is a tendency when news becomes a profit center for ratings and advertising to dominate the traditional considerations of quality and public service. Journalism is not the only place where this is happening. If you look at the medical profession, you see medical considerations and doctors' judgments increasingly taking a back seat to market considerations and profit."

Sandel suggests that television might be a model for what is happening to newspapers. "The trend hit television earlier," Sandel says. "It became a consumer-driven source of health news and human-interest stories rather than a public source of education. Markets and commercial considerations dumbed down TV news [and they are having] a similar effect on newspapers." It is a false assumption, Sandel says, to regard the marketplace as demanding the best from newspapers. "The purpose of the market is to cater to consumers. The purpose of newspapers is to inform citizens," he says. "Markets are good at giving consumers what they want. They aren't so good at providing citizens what they need to be citizens in a democracy. [The assumption] forgets distinctions between consumers and citizens, markets and a democracy."

Ironically, the long-term financial health of newspapers might have more to do with citizenship than consumerism. Newspapers, more than any other medium, depend on their audiences being interested in the details of their local communities, government and civic life. Providing this kind of information thus becomes their competitive advantage because they can do it

more effectively than any of their competitors can. To survive in this competitive marketplace, the best strategy for newspapers may be to serve readers by helping them comprehend the world in which they live and inform them as citizens.

The uncoupling of newspaper ownership from accountability for community service that goes beyond simple economic success is a relatively recent development. Perhaps it is no coincidence that the change coincides both with high profits and declining market penetration. As this examination of the changing economic circumstances of newspapers illustrates, it was a short-term perspective that at least in part created the problems of the late 1980's and encouraged the cutbacks that could be endangering the quality of newspaper coverage today.

It is essential that journalists know the economic dynamics of their profession, understand the implications of change, and participate in finding paths that achieve both journalistic and business goals. Yet it is also important for top executives to focus as much attention on the potential long-term consequences of their actions as they do on the daily up-and-down fluctuations of the stock price. Those who hold the reins of the nation's newspapers should exercise civic responsibility and demonstrate to citizens their commitment to furthering the public good. This is, after all, the source of newspaper credibility and the primary asset that will ensure, as it has in the past, a prosperous future for newspapers. ■

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The Transformation of Network News

How Profitability Has Moved Networks Out of Hard News

By MARC GUNTHER

Twenty years ago, there was no network news “business.” The Big Three broadcast television networks—ABC, CBS and NBC—all covered news, but none generally made money doing so. Nor did they expect to turn a profit from news programming. They presented news programming for the prestige it would bring to their network, to satisfy the public-service requirements of Congress and the Federal Communications Commission, and more broadly so that they would be seen as good corporate citizens.

Back then, the networks earned enough money from entertainment programming that they could afford to run their news operations at a loss. And so they did. Former CBS correspondent Marvin Kalb recalls Owner and Chairman William Paley instructing news reporters at a meeting in the early 1960’s that they shouldn’t be concerned about costs. “I have Jack Benny to make money,” he told them.

It is no exaggeration to say that just about everything has changed since then. Today, ABC, CBS and NBC operate in a competitive environment in which most viewers have dozens of channels from which to choose. That has transformed not just TV news but the entire television industry. Those most severely threatened by the way the broadcast business operates are the Big Three. The ABC and CBS networks (now subsumed into larger corporate structures) are losing money, according to Wall Street analysts. NBC’s network profits are also falling sharply. Those who own these networks—Disney (ABC), CBS Inc. with its major stockholder, Mel Karmazin, and General Electric (NBC)—all demand that their news operations make money.

...given the current economic climate, how best can journalists respond to these corporate, societal and technological changes and preserve the quality and integrity of news?

This demand for profit arises not because these owners are greedier than their predecessors were, but because the financial challenges they face are tougher. The TV entertainment business, in particular, has deteriorated because programming costs are rising while, due to more competition, ratings are falling and hit shows are harder to find. All of this leaves the TV entertainment business struggling to find its way. The networks’ entertainment and sports operations are so troubled that news, particularly in prime time, is becoming one of the networks’ most consistently profitable businesses. To some extent, news programs are now looked to as ways to subsidize entertainment and sports offerings—just the reverse of the way things used to be.

What do such changes mean for the practice of journalism at the Big Three? Is this possibly the best of times for network news, since as the news becomes more profitable, its status will rise within the corporation, and with increased status will come a finer product? Or is this a troubled time for network news, as old-fashioned values of public service that once guided news judgment cede ground to business-driven imperatives? Most importantly, given the current economic climate, how best can journalists respond to these corporate, societal and technological changes and preserve the quality and integrity of news?

Network News Still Matters

Because so much has been written recently about the decline of the Big Three and the rise of cable and the Internet, it is worth observing that network news still matters. In turn, what stories the Big Three choose to broadcast and how they tell them also still matters.

During 1998, the three evening newscasts reached a combined average of about 30.4 million viewers in 22 million homes. This represents a reach that is greater than the total circulation of the nation’s 10 largest newspapers. Prime-time news programs connect with even larger audiences. CBS’s “60 Minutes” (Sunday), the industry leader, has attracted an average of 13.4 million homes so far during the 1998-99 TV season. And “60 Minutes” is only one of 14 prime-time, hour-long news shows appearing on the Big Three. No cable program or newspaper has anything approaching that kind of reach. The most popular cable news program, CNN’s “Larry King Live,” is seen by fewer than one million homes on a typical night. The Big Three networks are still, by far, the most commanding voices in American journalism and therefore one of the most important forces in our democracy.

Finding the Formula for Profits

The evolution of network news into a profit-making business unfolded gradually, driven by a series of events dating back more than two decades. The success of “60 Minutes,” which became a Nielsen top 10 program in the 1977-78 season, 10 years after its debut, was an enormously influential factor. To compete against entertainment shows in prime time, Don Hewitt, the show’s creator, knew that he had to produce something that wasn’t a traditional news program. It would not be built around the important news of the day (or the week), but would be a weekly series that emphasized storytelling, introduced journalists as

package news, including serious news, to appeal to a mass audience. By the late 1980’s, ABC News—still under Arledge’s leadership—had become the industry leader in profits and prestige. Soon the other networks were trying to catch up by adopting a similar game plan, producing more news and doing so in ways that appealed to non-news audiences.

Most important in this chain of transformation, all three networks changed hands in the 1980’s. General Electric bought NBC. Capital Cities Communications bought ABC. And Laurence Tisch, a hotel and theater magnate, assumed control at CBS. These new owners stepped up the pressure on the news divisions to become more efficient businesses, particularly as the

the latter half of the 1980’s, certainly at this place, there was a new emphasis on the cost of producing the news.”

The formula for making network news into a profitable business was thus established:

- Make the product more entertaining. As Hewitt proved with “60 Minutes,” when you tell stories in ways that engage the audience, often by touching their emotions, news programming can generate high ratings and revenues.
- Produce more programming. As Arledge established, in business terms a network news operation can be seen as a factory with a lot of fixed costs: bureaus, studios, equipment, correspondents, producers, editors, executives and network overhead. The more programs that the factory can churn out, the more revenues can be generated to recoup these set costs. Once those fixed costs have been paid for, the marginal costs of producing more hours become relatively low.
- Control spending. Wright, Tisch and Capital Cities did this, and today’s owners are continuing to do it. The networks have, among other things, closed foreign and domestic bureaus, laid off staff, eliminated some money-losing documentary units, and curbed convention and election coverage.

“It is not death or torture or imprisonment that threatens us as American journalists, it is the trivialization of our industry....”—Ted Koppel

protagonists, and created drama around their exposing bad guys or tangling with the powerful and famous. “There are TV shows about doctors, cowboys, cops,” Hewitt once said. “This is a show about four journalists. But instead of actors playing these four guys, they are themselves.” With this formula, “60 Minutes” became the first successful prime-time newsmagazine. As such, it was also the first news program to generate big profits for a network. Given this combination, it became a harbinger of things to come.

Roone Arledge’s arrival as President of ABC News in 1977 created even more momentum for industry-wide change. Arledge, an ingenious and innovative executive who had made his mark in sports, had become a power at ABC because of the profits he’d made as the head of ABC Sports. He saw no reason why news couldn’t make a profit, too. So Arledge set out to get more programs onto the air, creating “20/20,” “Nightline” and “This Week with David Brinkley.” He also used his talents as a producer and promoter to

increase presence of cable networks eroded the networks’ overall profit margins.

“When I came here, we were losing money in news and that was thought of as an acceptable situation,” recalls Bob Wright, who has been NBC’s Chief Executive Officer since GE bought the network in 1986. The losses at NBC News were substantial, as much as \$100 million a year. “That was unique, to my experience,” Wright says. “I had been in businesses where we didn’t make any money, but that was never the goal.” Wright’s first instinct was to ask his news division to break even. Soon, however, he and the other network owners decided they could do better. They focused sustained attention for the first time in the news divisions on controlling spending. They hired management consultants to analyze costs and look for cuts. Andrew Heyward, now President of CBS News, says: “There had been a long period during which the news budgets were very generous, and there was not a lot of attention paid. There’s no question that in

The Prime-Time Strategy

If, to become profitable, network news divisions had to become more entertainment-oriented, produce more hours of programming, and control their costs, there was only one place to turn: prime time. Prime-time newsmagazines can tell compelling stories, attract bigger audiences, fill more hours, and operate more efficiently than unpredictable hard-news programming.

This explains a profound shift in emphasis in the news divisions at the Big Three. Each has moved away from hard-news reporting and the evening newscasts, which were once their sig-

TED KOPPEL

We celebrate tonight the men and women whose dedication to the collection and distribution of facts threatens their very existence. When they antagonize those with money, political power and guns, they risk their lives. We, on the other hand, tremble at nothing quite so much as the thought of boring our audiences. The preferred weapons of the rich and powerful here in America are the pollster and the public relations council, but they are no threat to the physical safety of journalists. Our enemies are more insidious than they are. Our enemies are declining advertising revenues, the rising costs of newsprint, lower ratings, diversification, the vertical integration of com-

munications empires, and the breezier, chattier styles [that] are insinuating themselves onto the front pages of our more distinguished newspapers. They are the fading lines between television news and entertainment. It is not death or torture or imprisonment that threatens us as American journalists, it is the trivialization of our industry.... ■

Ted Koppel is Anchor and Managing Editor of ABC News's "Nightline." These remarks are from an October 23, 1998 speech to the Committee to Protect Journalists, delivered in New York City.

nature programs, and towards prime time. This is not to suggest that event-driven, daily news programs are no longer valuable to the networks. They are, especially those shows that make money, such NBC's "Today" and ABC's "Nightline." But prime-time programs command center stage. It's no accident that two of the three network news presidents—NBC's Andrew Lack and CBS's Andrew Heyward—made their reputations as producers for prime time. "The magazines have clearly become the tail that wags the dog," says Tom Bettag, the Executive Producer of ABC's "Nightline." "They generate far more profit than anything else we do."

At the networks, hard news has become an unappealing business. Ratings and revenues for most hard-news programs are declining, and reporting breaking news is expensive. Ratings for hard news have slid, in part, because of the explosion in alternative news sources. Consumers can pick up stories from all-news cable, Internet news sites (including those operated by the networks), local stations (which broadcast up to six hours of news a day in major markets), business cable news outlets, the Weather Channel, sports news channels, all-news radio and National Public Radio. As one Wall Street analyst, James M. Marsh, Jr., of Prudential Securities, puts it: "There is currently an overabundance of news pro-

gramming, with supply easily outstripping demand."

In response, the newscasts anchored by ABC's Peter Jennings, NBC's Tom Brokaw, and CBS's Dan Rather are reporting fewer "headline" stories, preferring to highlight in-depth stories, live interviews and news-you-can-use. Even so, their combined audience share has declined from a peak of 75 percent in 1980 to 47 percent in 1998. (These percentages represent the share of audience that is watching TV during the dinner hour.) Of all TV homes, less than 24 percent watch an evening newscast on any given night, down from 37 percent in 1980. The trends seem irreversible.

These declining ratings exert downward pressure on advertising revenues. However, at the networks, advertising

ABC, CBS and NBC still reach mass audiences, unlike the cable news networks, sponsors are willing to pay a premium to reach their viewers. Newer advertisers, particularly pharmaceutical companies, also help keep the demand strong. Demographic research tells advertisers that more than half of the viewers of the evening newscasts are 55 and older. This is great if you're a sponsor who wants to sell arthritis medication, but not so good if you're a network news executive with eyes focused on the future.

Even though the rates advertisers pay have held up well, one sign of the pressures network executives are working under is the fact that more time is being devoted to selling products and less to broadcasting news. ABC now sells seven minutes of national spots during each nightly newscast, up from six in 1993. Take away the time devoted to local commercials and promotions, and there are only 20 minutes and 45 seconds left for news. On CBS, there are 21 minutes. And at NBC, the viewers get 15 seconds more, according to the American Association of Advertising Agencies.

Cutting Costs

With their newscasts' ratings slipping and revenues flat, news divisions, looking to increase profits, feel they have had little choice but to control the costs of gathering news. Layoffs have become periodic occurrences during the past decade. During the fall of 1998, all the networks reduced staff.

"Television is an entertainment medium, and it's always been shaky and unsure about how to present news...."—Richard Reeves

revenue from news has not declined substantially, at least not yet. (Precise numbers are hard to come by, but media buyers say that all three newscasts collect between \$40,000 and \$50,000 per 30-second spot, roughly the same as in recent years.) Because

CBS was hardest hit, eliminating about 120 positions from its 1,600-person news staff; most were technical, office and managerial people, not correspondents and producers. ABC thinned its executive ranks, and some high-paid correspondents and producers were

RICHARD REEVES

In 1978, ABC started a program called "20/20," as a kind of a standard newsmagazine program. They were trying to see what they could do in the "60 Minutes" business. The first show was an absolute disaster. The hosts were the former editor of Esquire magazine and the art critic of Time magazine who both turned out to be absolute disasters on camera.

They had made plans to fold the show, but they went to a vice president of ABC News named Av Weston and said, "Can you do anything with this?" Weston then went to the research department at ABC and said... "I would like you to do a great deal of research for me on what people want in prime time." They said, "We don't have to do any studies. We know what people want in prime time." Weston said, "What?" They gave him a one-word answer: "Entertainment."

Weston then went back and decided that they would continue exactly what they were doing, which was trying to do person-oriented stories of the tragedy and triumph of the human condition. What they did change, however, was [now] the only humans they were interested in were rock stars and movie stars. So they did what they had been doing, but now the people suffering, as it were, on the air, were... the "rock star of the week" as they called it.

That probably was inevitable. Television is an entertainment medium, and it's always been shaky and unsure about how to present news;

and newspapers are the news medium, and... they have always been extremely clunky about entertaining....

Last year Lewis Lapham, the Editor of Harper's, wrote the introduction for a new MIT edition of Marshall McLuhan's "Understanding Media." This is part of what he said: "The world that McLuhan describes has taken shape during my lifetime and within the span of my own experience. I can remember that as recently as 1960 it was possible to make distinctions between the several forums of what were then known as the lively arts. The audiences recognized differences among journalism, literature, politics and the movies. But then the lines between fact and fiction blurred.... The lively arts fused into the amalgam of forms known as 'the media.' News was entertainment, and entertainment was news."

In an effort to combine the new and the old, Av Weston [hired] Jim Bellows, who had been the Editor of The New York Herald Tribune and later The Los Angeles Herald-Examiner, as a consultant to "Entertainment Tonight," which did not do well early on. What Jim taught them was if you make it look like news, people will think it's news, even if it is only publicity. So expanding on stories of celebrities, now you had interviews with celebrities that looked like news. Disney even went so far as to put a program like that on the air which only dealt with their own movies and didn't have a hell of

a lot of bad things to say about them.

With that knowledge, the new generation packaged news as a mix of entertainment and old journalism elements. It's blood, fire, sports, sex, feel good about yourself, and bad about your government.... When [British newspaper editor] Harry Evans came to America he said, "The challenge of the American newspaper is not to stay in business, it's to stay in journalism."

I agree that that is the challenge. [But] I think we still have many resources. I think that we work much better as outsiders than we do as insiders. Being liked is not part of the job description of a journalist. After all, our job at its most [significant] is being the first one to yell that "The Emperor has no clothes."

[Journalism] must still have a bit of cachet left with the public, because [the networks] haven't had the guts yet to rename [their newscasts] "The Westinghouse Evening News," "The GE Nightly News," or "Disneyworld News." Not yet. ■

These remarks are edited from a public forum sponsored by the Committee of Concerned Journalists and the University of Southern California's Annenberg School for Communication on March 4, 1998. Richard Reeves is a journalist and a professor at Annenberg.

also let go. NBC imposed a hiring freeze in news, as well as in the rest of the company, after the network lost its biggest moneymaker, "Seinfeld," and negotiated a contract with its leading prime-time drama, "ER," that required huge per-episode fees.

"If I told you that there was a date certain when we were going to stop cutting costs, you shouldn't believe me," says David Westin, the President of ABC News. "It's an ongoing process." Ongoing, indeed. Several experienced, hard-news correspondents, people such as medical specialist George Strait, legal correspondent Tim O'Brien, and former Hong Kong Bureau Chief Jim Laurie have left or are

about to leave ABC News.

One problem the networks face as they cut back is that breaking news is unpredictable. Like firehouses, news bureaus need to be staffed for emergencies, but often the correspondents and producers are idle. Stationing people in distant locales is inherently inefficient. Even when big stories erupt, some inefficiency is inevitable. As CBS's Heyward explains: "If you're going to gather news around the world, that's not inherently profitable the way creating a newsmagazine is. When you create a newsmagazine, most everything you produce gets on the screen—you can choose what to cover, and that's very efficient. But if you're running a

London bureau, even if you run it lean and mean, when there's a threat of war in Iraq, you're going there. You put somebody on the cruiser or on the battleship without knowing how many pieces he or she is going to generate."

Each network defines what it calls a "bureau" differently, and staffers are shifted with some regularity. This makes it hard to obtain comparable data on how many bureaus have been closed and how many remain. In October 1998, ABC News had five foreign bureaus staffed with correspondents. CBS News had four. And NBC News had seven, according to The New York Times. By comparison, CNN had 23. What is clear is that the Big Three have

retrenched. None still has a full-time correspondent stationed in southeast Asia, Central or South America, or sub-Saharan Africa, except for staffers shared by CBS's Spanish-language arm, CBS Telenoticias. Domestic bureaus have also been closed. Rather than maintain full-time staff in far-flung outposts, the networks have found ways to obtain what they call "generic" coverage—images that are widely available—from outside sources. They use footage from foreign networks, from their own affiliates, even from independent suppliers such as NewsTV, a company that provides coverage to the networks from its headquarters in Lawrence, Kansas.

"We're building an empire on being the Kelly Girls of network news," says Russ Ptacek, a former local TV reporter who is President of NewsTV. Even programs that don't rely to-

tally on hard news, such as "20/20" and "Today," use his 26-person operation, he says, because "the only time the networks are paying for our services is when we're on location, working for them."

Last year, ABC, NBC and CBS each had discussions with CNN about sharing staff and bureaus outside of the United States. While a full-fledged merger between a broadcast network and CNN, now part of Time Warner, appears unlikely, increased cooperation of some kind seems inevitable. The technique of "pooling," in which news operations share footage from a single camera as they do in Congress and at the White House, has already begun to spread overseas. "Internationally, you will probably see some consolidation of resources," says Pat Fili-Krushel, the President of ABC, who oversees ABC News.

The networks argue that they don't need as many bureaus and reporters now because their role has changed. Rather than trying to be first on the air with a headline or a picture, the mission at ABC, CBS and NBC is defined as

providing so-called value-added programming—in-depth analysis and original reporting that 24-hour cable services and local TV can't duplicate. This makes sense, but it's difficult to provide thoughtful reporting of stories around the nation and the world without reporters on the ground who are given the resources to develop expertise. Paul Friedman, Executive Producer of ABC's "World News Tonight," says, "Journalism is about going out and looking at things, and you can't do that by buying video from APTV.... You wind up doing a lot more of what we did before the news budgets expanded and that was parachute in. If you have good people who have a lot of experience,

"...the fact of the matter is the audience did not show any true interest in the Bosnia story.... they're giving us a message that this story is not all that important to them...."—David Corvo

you can generally parachute in and do a good job. But it is not the same as having somebody on the ground who calls you and says, you know, you really ought to come and look at this developing story." The same goes for coverage in Washington, where specialized beats have been gradually eliminated or several assignments have been combined.

The war in Yugoslavia in the spring of 1999 exemplifies some of the problems that accompany these new approaches to network news coverage. No network had been covering the emerging crisis in Kosovo on an ongoing basis. Few reporters knew Serbian President Slobodan Milosevic, knew much about the tensions fueling the crisis, or had established sources in the region. Even the best correspondents covering the NATO bombing and the mass eviction of Albanians were new to this story. When the Pentagon and the Serbs both clamped down on information, many in the press were largely unprepared to cover aspects of this story and, as a consequence, many critics felt the public was ill served.

The Emergence of Newsmagazines

Compared with hard news—expensive to cover and limited in the return it can deliver—the economics of prime-time newsmagazines are very attractive. They don't require bureaus with people stationed around the world. Typically, they rely on their own staffs of producers and correspondents to cover stories that they decide when, where and how to do. Controlling costs becomes easier. Executives in charge of newsmagazines can opt not to cover a complicated high-cost story, or they

can decide to keep staff closer to home rather than pay for expensive travel. Unlike the daily news programs, newsmagazines do joint ventures and piggyback

onto coverage generated by others. For example, NBC's "Dateline" does projects with People and In Style magazines, Court TV and the Discovery Channel, among others, all of which save money.

As a result, newsmagazines are also a low-cost alternative to dramas or sitcoms in prime time. To produce an original hour of a newsmagazine typically costs between \$500,000 to \$700,000. An hour of entertainment costs the network at least \$1.2 million. This cost advantage for news isn't quite as great as it seems; sitcoms and dramas can be repeated while most news programming is original. Still, newsmagazines have started to do more repeats and "updates" of stories that have previously aired. So they don't have to produce original episodes year round, and this drives costs even lower.

Producing more news programming brings other long-term advantages to networks. Unlike most sitcoms or dramas, the network owns its news programs. While the costs of on-air talent rise over time, it's easier for CBS to control the overall costs of "60 Min-

utes,” for example, than it is to hold down costs of a popular entertainment show that is owned by a studio. (The most dramatic recent example is “ER.” Warner Bros. now charges NBC \$13 million an hour. Top-rated, half-hour sitcoms cost \$1 million or more per half-hour.) Owning news programs also means that they have residual value to the networks. Libraries of news footage can be recycled into programs such as Arts & Entertainment’s “Biography” series or MSNBC’s “Time & Again.” These shows pay the broadcast networks for old footage.

Newsmagazines, as a genre, perform nearly as well as entertainment on a year-round basis. In the summer, these programs perform better than dramas or sitcoms, since they still feature new programs while entertainment shows are repeats. NBC President and CEO Bob Wright observes that it’s become a “tossup” as to whether another hour of “Dateline” will do better or worse than whatever new drama or sitcom his Hollywood executives want him to put on the air. “It didn’t used to be that way,” Wright says. “The feeling was that a decent entertainment show is going to do twice the audience of a news show. In the hands of these producers, that isn’t true.”

During the 1998-99 TV season, the average price for a 30-second commercial on “Dateline” ranged from \$90,000 to \$130,000, depending on the night of the week it aired. Advertising rates for “20/20” averaged \$135,000 to \$160,000. On CBS’s “48 Hours,” the cost was \$80,000. And spots on “60 Minutes” (Sunday) average an impressive \$240,000. All of these rates are much higher than those generated by an evening newscast, though, except for the “60 Minutes” rates, they are still below the network averages for prime-time entertainment. Still, given their lower costs, news shows right now are a better business for the networks than entertainment programming.

Not surprisingly, the number of prime-time magazines has grown over the years. As recently as the mid-1980’s, there were only two—“60 Minutes” and “20/20”—each airing once a week. The networks were reluctant to turn

DAVID CORVO

Big companies are like battleships going down the middle of a gulf. When we fire our guns they’re pretty loud, but we don’t change direction very well.

It’s the size of our dissemination, probably, that gives us power. But we need everybody else around bumping into us on the sides, shooting their guns at us, pushing us left, pushing us right, and I don’t mean in a political way. I mean trying to give us the right direction, trying to point us in the right direction so we cover stories that we do miss, and we miss a lot of them. But it’s [having a broad] landscape of journalists that seems to me very important and to some degree under threat.

I would say the other...concern, and my colleague Jonathan Alter has written about this...is that like entertainment, news is being covered in a greater degree these days as blockbusters.... Movies come out and they have one big weekend and they’re in 500 million theaters and you’d better go see it and then it’s gone. The same thing is happening with news. You see several stories covered in massive amounts by everybody and a lot of little stories that used to sneak in there on network broadcasts and elsewhere, and in the newspapers, getting pushed out. It’s a desire to capture the audience and the audience’s attention with these blockbuster stories, and there certainly is an audience for them. But I think some of the smaller, some of the more difficult stories are being pushed out for that. That’s why, again, we need as broad a landscape of journalists as

possible....

I don’t think we have to necessarily feel guilty about the fact that we want an audience and we want to serve the audience....

There was lots of coverage of Bosnia...and the fact of the matter is the audience did not show any true interest in the Bosnia story. They were force-fed that story. There were specials. We did a series on the nightly news, for instance, and lots of guys did lots more than we did. I don’t think that it’s stupid to take notice of that fact that if we’re trying to serve our audience, the people who are loyal to us, the people who turn to us, and they’re giving us a message that this story is not all that important to them, to pay some attention to that. I don’t think we should be embarrassed by that. That isn’t to say that we don’t over-cover certain stories...because it’s easier to do it and it’s safer to do it. But I don’t want to practice journalism in an empty church. I don’t think that’s the idea of journalism. The idea of journalism is to circulate stories and ideas. We’re not writing history. That’s a different assignment. Our assignment is to talk to people. ■

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over valuable prime-time real estate to their news divisions. In the early 1980’s, CBS canceled prime-time programs hosted by Charles Kuralt and Bill Moyers that, if judged by today’s standards, would be ratings hits. However, by 1990, CBS’s “48 Hours” and ABC’s “Prime Time Live” had been added to the mix. “Dateline” provided NBC with its first successful magazine show in 1992. The network then pioneered the idea of broadcasting multiple editions of the same magazine, a cost-effective approach that allows the network to focus its resources and promotion on a single prime-time news brand. Last year,

ABC copied that idea by folding “Prime Time Live” into “20/20.” In January, CBS introduced a second edition of “60 Minutes,” launched at the behest of CBS corporate executives Mel Karmazin and Leslie Moonves over the initial resistance of Hewitt and news executives. That decision, by itself, was evidence of how important prime-time news now is to the networks.

There is recent evidence that a saturation point has been reached. Ratings were down substantially for “20/20” and “Dateline” during the 1998-99 TV season. It’s too soon to say whether the declines, ranging from seven percent

to 16 percent depending on the night of the week, reflect overall network erosion or viewer dissatisfaction with the magazine genre. David Westin, President of ABC News, says: "As there is failure on the entertainment schedule, there's a tendency to say, 'let's put another newsmagazine on.' And we have to be concerned about the quality of those newsmagazines. There has to be a point where the quality of the stories we are putting on is not what our viewers have come to expect. We have to be very concerned about that."

Some critics of the television magazine shows say the networks have already passed that point. In a speech at the Media Studies Center last year, Don Hewitt, of "60 Minutes," said: "The sad fact of life today is that the economics of television have, in no small measure, driven the networks out of the entertainment business, which they used to be very serious about and did very well, and into the news business, which they're not very serious about and don't do very well." Hewitt made clear in his speech that he wasn't talking about the evening newscasts or his beloved "60 Minutes." He was referring to "all those so-called newsmagazines that followed in the wake of '60 Minutes,' newsmagazines the networks use as filler because they've got no alternative." Filler or not, the magazine programs now reach more viewers than any other news programming on television—or, for that matter, any journalism of any kind in America. It's worth taking a closer look at what they have to say.

Prime-Time "News"

Whatever one thinks of the network prime-time magazines, even a casual viewer can see that they are not governed by news values in the traditional sense. Executive producers of these magazines don't see themselves as under any obligation to cover the most important stories of the moment. Nor do they act like the kind of journalist whose job it is to provide citizens with information they need to participate in a democracy.

Arandomlyselected night—Wednes-

day, June 2, 1999—of magazine viewing provides an anecdotal sense of what these programs are offering viewers. NBC's "Dateline" presented "stories of survivors," an entire program devoted to sagas of natural and man-made disasters. There was a story about an Arizona desert thunderstorm that caused a severe wreck of an Amtrak train. Another was about a sinking oil tanker in the Indian Ocean. A fire aboard a chartered fishing boat in Hawaii that left five people briefly stranded was also featured, as was an update on an American Airlines plane crash in Little Rock that had happened the night before.

These stories were produced and broadcast for their entertainment value, not to illuminate any significant broader issue. As the announcer at the top of the hour said: "In the blink of an eye, hope turns to heartbreak, triumph to terror. And a single second can mean life or death. These are the incredible stories..." Most of the pieces relied upon home video supplied by eyewitnesses, and in many ways the NBC News broadcast was indistinguishable from the reality special, "World's Most Amazing Videos," that followed it.

CBS's "60 Minutes II" was meatier. A story by Dan Rather examined lax swimming pool standards which, according to lawyers for the victims, contributed to severe, heartbreaking head and spinal injuries to young divers. Charlie Rose profiled New York Yankees owner George Steinbrenner. And Lesley Stahl updated a superb story on institutional racism in the Marine Corps, reporting on substantial improvements in the racial climate since the original "60 Minutes" story ran.

ABC's "20/20" presented a report from Chris Wallace on a man who made hundreds of harassing phone calls to his neighbors in Virginia Beach, Virginia, after eavesdropping on their cordless phone calls. The broadcast then repeated, with no new information, a story by Cynthia McFadden on Russian women being sold into slavery to work in brothels. Like NBC, "20/20" also did an update on the Little Rock plane crash, and John Stossel complained about a poor rural county in

Mississippi that was forced to spend well over \$250,000 to defend two indigent men convicted of murder and sentenced to die.

What was notable about all three programs was not what they put into their broadcasts, but what they left out. There was no news from Washington, none of the war in Kosovo (which, in fairness, "Dateline" covered extensively during the spring), nothing about the upcoming election in South Africa, the economy, education or any societal institution, other than the military. What's more, while some of the prime-time stories were well told and touched on important topics, others had a tabloid feel. On "20/20," in particular, stories were given movie-like names ("Someone May Be Listening," "Girls for Sale") and sold with overheated language ("a story right out of a horror movie...a neighborhood terrified by a mysterious, menacing killer...sex slaves...thousands of women sold to brothels"). The sex story, of course, featured footage of scantily clad women.

Does this snapshot offer enough evidence for a fair assessment? Other examinations of the newsmagazines suggest that it does.

The Project for Excellence in Journalism conducted a content study of "60 Minutes," "20/20," "Dateline" and "48 Hours" during a two-month period in the fall of 1997. Its findings confirm what similar studies have found. These newsmagazines provide extensive coverage of crime and justice and human-interest stories, news-you-can-use about health and consumer problems, and scandals and celebrities. I also looked at videotapes or transcripts of these newsmagazines from October and November 1998 and found story selection to be much the same.

Each program, of course, has its own niches. [Please see chart on page 28.] On "20/20," for example, more health stories appear than on its rivals. In one month, "20/20" did two segments about diets, as well as other stories warning viewers that bickering is bad for their health, that paper money is contaminated with germs that can make them sick, and that uncontrol-

lable sweating can be a serious medical problem. "Dateline" is heavier on crime. It headlined segments about a boy who killed his best friend's mother, another boy shot outside a hospital emergency room, a notorious fugitive from justice now living in Europe, and a political candidate in the midst of a campaign. "Dateline" also does more hard news than its rivals, providing extensive coverage recently of the Littleton school shootings as well as reporting from Yugoslavia.

Magazine stories, in general, have a common thread. They are driven more by emotion than by ideas. This helps explain why the magazine stories pay far less attention to the traditional news topics of government, politics, education, economics, business, the environment and foreign affairs. Again, however, the shows can't all be lumped together. "60 Minutes," for example, is

more willing than the others to venture overseas. During November, "60 Minutes" did stories about slave labor performed by Jews during the Holocaust, about the defection of an aide to Saddam Hussein's son, about British Prime Minister Tony Blair, about the aftermath of genocide in Rwanda, and about the civil war in Kosovo. By contrast, "20/20" and "Dateline" rarely do foreign news unless it is about Americans abroad. In all of 1998, neither "Dateline" nor "20/20" devoted a single story, out of more than 1,500 that were broadcast, to the civil war in Kosovo, one of the most important foreign news stories of the year, as Americans would later learn.

None of this is to say that these magazines don't provide valuable public service programming or investigative journalism; all of them do, at least occasionally. And they fill the evening

television hours that were once occupied by sitcoms or dramas. (The elimination of the networks' documentary units is another matter, but that wasn't caused by the increase in these magazine shows.) Still, it is clear that the task of programming a prime-time magazine bears little or no resemblance to the job of assembling a nightly evening newscast, a morning news show, or a good newspaper. Regular viewers of the "CBS Evening News," NBC's "Today" or ABC's "Nightline" will, over the course of time, become reasonably well-informed about important domestic and international issues; the same can't be said for viewers of magazines. As Victor Neufeld, Executive Producer of "20/20," has said: "Our obligation is not to deliver the news. Our obligation is to do good programming." Put another way, these programs are market-driven, shaped more by entertainment

RESPONSE

NEAL SHAPIRO

There is no question that there is a new economic reality in television news, but my bottom line is that there are real reasons for optimism.

I don't know if the standards of television journalism were higher years ago, but I do know the hours of television journalism were many fewer. When I was growing up, prime-time television meant comedy, variety and drama. Not news. Today, in prime time, there is more coverage of current events, newsmaking interviews and important investigations than ever before.

Should we in the newsmagazine world try to broadcast more stories about public policy and news of the day? Of course we should, but the way I see it we're moving in the right direction. At "Dateline NBC" our goal has been to put the "news" into "newsmagazines" and, as Gunther points out, we've led the way with quick and complete coverage of major news events like Littleton and Kosovo. But we've done much more. Look at the biggest political story of the year—the impeachment of the President. Years ago, it would have been covered only by the evening news or late night

news programs and ignored in prime time. Yet "Dateline" did story after story on complicated legal and political issues surrounding the impeachment, more than 50 of them in all.

In fact, being on the air so often has given "Dateline" the flexibility and freedom to do the kind of quality reporting that was once done by network documentary units. At NBC, serious documentaries haven't died, they've just found a new home at "Dateline." Every six weeks or so, we broadcast serious, one-hour programs on important topics such as migrant farm workers, inner-city education or welfare reform—a report which just won a George Foster Peabody award.

Gunther worries that many of the newsmagazines are "driven more by emotions than ideas." It is certainly true that all newsmagazines tell emotional stories; indeed, part of Don Hewitt's genius is knowing that good storytelling depends on emotional, compelling characters with whom viewers can connect. But are emotions and ideas mutually exclusive? Gunther cites a "Dateline" story about a boy who died on the doorstep of a Chicago hospital because of a policy that for-

bids emergency room personnel from leaving the building; it was emotional but also a vitally important story that was front-page news and caused many hospitals to reexamine their emergency room procedures.

Gunther concentrates on one night of viewing. If he had watched for a few more nights, he would not have written that "Dateline" covers foreign stories only when Americans are involved, because he would have seen our stories on starvation in the Sudan, terrorism in South Africa, and oppression in Pakistan. And he might have noted that some of the "60 Minutes" stories he praised, such as slave labor performed by Jews during the Holocaust, were done by "Dateline" first.

Gunther suggests that if history holds true, then in the long run audiences will gravitate toward quality. I agree. Perhaps that explains why "Dateline" wins the most awards and why "Dateline" is on more nights than any other newsmagazine—not because it panders, but simply because it's good. ■

Neal Shapiro is Executive Producer of "Dateline NBC."

values than by the traditional ideas about news. Yet without the success of the prime-time magazines, the networks would find it difficult, if not impossible, to present traditional news programming during other parts of the day. Because the magazines are where the news divisions now make their money, these profits subsidize traditional news coverage.

Economics of Network News

Of the Big Three, NBC News is the best-positioned from a business standpoint, for now and in the immediate future. NBC News earned more than \$200 million in 1998, according to network executives, and its profits have been growing steadily during the decade. NBC CEO Bob Wright expects its profits to continue to grow. News, Wright said, needs to contribute to the

bottom line, just as other divisions do, and NBC News President Andrew Lack says he will be able to deliver. "This news organization has become an attractive business, long-term," says Lack. "We see huge opportunities to grow on the broadcast platform, to grow in cable, to grow in global markets, and, of course, on the Internet."

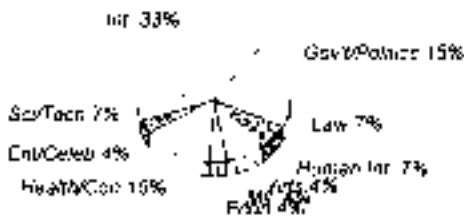
NBC's financial success is partly ratings-driven. The "NBC Nightly News" is the top-rated evening newscast, albeit by a slim margin, and the "Today" show dominates its competitors in the morning. More significant for the long term, however, is the model for television news that Wright and Lack have developed. With the expansion of "Dateline" and the 1996 launch of MSNBC, NBC's cable and Internet joint venture with Microsoft, the news division's profits have increased. "What's really allowed us to become

profitable is that we have significantly expanded the number of hours of programming," Wright says. Eventually, Lack says, "MSNBC will be seen as the most important thing that has happened to NBC News, bar none."

Here is why this model works so well. ABC and CBS generate nearly all of their income from broadcasting. NBC takes in additional revenues from cable (MSNBC, CNBC), NBC's Internet sites, and NBC News channels distributed outside of the United States. Fast-growing CNBC alone will bring in revenues of nearly \$400 million in 1999, up 30 percent over last year, and earn pretax profits of \$200 million, up 42 percent. Therefore NBC is better able to shoulder the overall costs involved with newsgathering, since its bureaus and correspondents provide newsgathering not just for the "Nightly News" and "Today," but for its 24-hour cable net-

What Network News Magazines Cover*

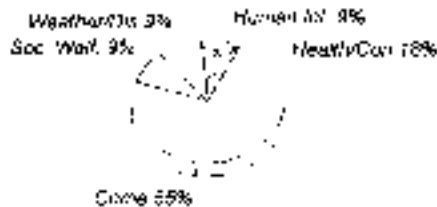
60 Minutes



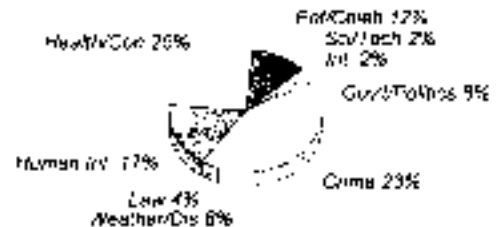
20/20



48 Hours



Dateline



- Gov't/Politics
- Entertainment/Celebrity
- Military
- Law
- Crime
- International
- Health/Consumer
- Arts
- Weather/Disaster
- Science/Technology
- Economy
- Human Interest
- Social Welfare

*60 Minutes: October-November 1998, 77 stories; 20/20: November 1998, 70 stories; 48 Hours: October-November 1998, 11 stories; Dateline: November 1998, 42 stories.

works and Internet sites as well.

For example, when Federal Reserve Board Chairman Alan Greenspan testifies before Congress, NBC can send a correspondent and crew to gather footage for all its outlets—broadcast, cable and Internet. This is a major competitive advantage. It means that NBC can afford to pay higher salaries to anchors such as Brian Williams and Jane Pauley, as well as for producers and correspondents. Better yet, MSNBC and CNBC aren't as ratings-dependent as the network broadcasters are because they collect fees from cable subscribers in addition to advertising dollars. Cable fee revenues are more predictable than advertising, and they are growing. By programming more than 6,000 hours of news a year across its broadcast and cable platforms, the average cost per hour of news at NBC has fallen from about \$250,000 to \$50,000 during the

past five years. The NBC news factory is running efficiently and its future seems secure, as it remains the only news provider with a strong presence on broadcast TV with its mass audiences, on cable TV where news is available around the clock, and on the Internet, where news is interactive.

The same can't be said of the other broadcasters. ABC and CBS must maintain their newsgathering forces to stay competitive, but they are only able to recoup their costs from the few hours of network news they broadcast each day. Currently, ABC News remains profitable—it earned about \$55 million last year—but that's down from a peak of more than \$110 million a few years ago. That kind of slippage is serious enough that its owner, the Walt Disney Co., whose earnings declined sharply in the last quarter of 1998 and the first quarter of 1999 and whose recent stock

price has lagged behind other media companies, cited the decline in ABC News ratings as one factor. Disney expects all its divisions to increase their profits each year, and Pat Fili-Krushel, the ABC Network President, says improving the news division's economics is one of her top priorities.

What's not clear is how ABC News will manage a turnaround. Profits have fallen because of the steep ratings decline at "Good Morning America" and because "World News Tonight," once the most-watched evening newscast, has fallen behind NBC. In response, ABC News President David Westin brought veteran executive producer Paul Friedman back to "World News Tonight" and temporarily installed stars Diane Sawyer and Charles Gibson as the anchors of GMA. The ratings perked up momentarily in the morning, but permanent new hosts still have to be

RESPONSE

DAVID WESTIN

Some of the impressions that Gunther leaves about ABC News—where we are and where we are going—are wrong. But the particulars are not as important as two more general issues on which he has missed the point: the balance of stories presented in network television news today, and the role of profits in what we do.

There are inherent weaknesses in generalizing based on a particular episode of a particular program. (Gunther missed, for example, the special "20/20" broadcast from the refugee camps in Albania and Macedonia, as well as the one from Littleton, Colorado, and our exclusive interview with Osama bin Laden.) But the central fallacy is to look for complete balance in any one of our programs alone. We gather, analyze and present the news on many different programs each week airing at all times of day and night. The proper question to ask is whether we present an appropriate balance of all news and information across the entire range of our programs. No one would look at a particular section or page of *The New York Times* or *The Washington Post* and expect to find a balance—in that section or that page—of breaking news and features, of international

and domestic news, or of political and medical coverage. No one would criticize the *Style* section or *Arts & Leisure* for not covering Kosovo when the front page did. There is no good reason why television news should be viewed any differently.

With respect to profits, Gunther leaves out one critical fact: In the days when, as he puts it, ABC and others "presented news programming for the prestige it would bring to their network, to satisfy the public-service requirements of Congress and the [FCC]," ABC News programmed exactly one-half hour each day of evening news and one-half hour of Washington interview and analysis on Sunday. Today, we broadcast some 30 hours of news and information each week on the ABC television network alone.

The nation—and the profession of journalism—would hardly be better served by our returning to the way it used to be. With the ascendancy of network television news have inevitably come profits and greater accountability to the corporations that own the news divisions. In our society, corporations are designed to earn money for their shareholders.

Corporations that own respected news organizations seek to earn money by doing good journalism, at least in part because good journalism brings an audience. This is equally true for the Walt Disney Co. (which owns ABC News), The New York Times Company, and Time Warner (which owns CNN, *Time* and *Fortune*).

As for ABC News, we would not have had the resources necessary to send Peter Jennings, Ted Koppel and Charlie Gibson to the Balkans during the last two months if we did not occupy the prominent place we do in the financial firmament of ABC. Far from threatening good journalism, the profit-making role of network news organizations makes good journalism possible. Those of us charged with leading ABC News are committed to using the resources we have been given to do the good journalism that made ABC News the news organization it is today. ■

David Westin is the President of ABC News.

found. "I can spend all my time trying to close a bureau or consolidate a crew, but it is really small potatoes compared with improving 'Good Morning America,'" Westin says. "You can cover an awful lot of problems very quickly with a successful program."

Meanwhile, Westin has begun to outline an intriguing strategy for ABC News. He says he would like to make "Nightline" the network's signature program and make ABC the news network of choice for intelligent viewers. As it happens, "Nightline" delivers both healthy profits, thanks to its upscale audience, and journalistic excellence. The five-nights-per-week broadcast is put together by a relatively small staff of about 40 people, a well-regarded Executive Producer, Tom Bettag, and, of course, the respected Anchor Ted Koppel. It is a model for network news in a slimmed-down era, delivering not familiar headlines or coverage but fresh analysis, context and explanation.

Westin argues that the cable news networks have won the battle to be first with news when viewers want it. No longer, he says, can a broadcast network make its reputation by breaking in with the big story, as ABC did in the Arledge era. Instead, Westin argues, "We have to pursue a different strategy, bringing you distinctive, high-quality, in-depth coverage, from people who know what they're talking about and have something to say."

This strategy happens to be compatible with cutting costs, another priority at ABC. Westin compared the network news divisions to the U.S. steel industry of the 1950's, saying they are locked into outdated processes and bloated labor costs. They need restructuring, he said: "We have to prune and grow at the same time. The test of our success will be, are we pruning in the right places and growing in the right places?"

Westin's plan is to determine what ABC News does best and spend there—on high-quality anchors, correspondents and producers, in particular—and then cut back on generic coverage. "People don't pick a newscast anymore based on who has the picture of the plane crash," he says. They pick it, he says, based on who has the smartest

and most knowledgeable people. Westin says he will try to save money by forming newsgathering partnerships and spending less money for correspondents and producers who do not add value to the product. These employees will have to take salary cuts or be let go. "You have to be ruthless, and it's not fun," Westin says. Senior executives at the ABC network insist ABC News has room for cost cutting because it remains the highest-cost provider among the networks, spending far more on news than, say, CBS.

The problem is that management of a news organization is more art than science, and the task before Westin leaves little margin for error. How, for instance, do you increase quality and shrink resources? Less can be more but it usually isn't. To add to the difficulty, Westin, a lawyer by trade, has limited experience as a TV producer, and many inside the network harbor real doubts about whether he can execute his strategy. Which correspondents and producers will he decide, for example, add value to the product, and which do not? The tendency in network news today is to answer that question by paying ever more for celebrity anchors while shrinking the ranks of correspondents and producers who actually report the news. This appears to be happening at ABC as well. While jettisoning O'Brien at the Supreme Court and legal affairs and Strait, who covered medicine, the network renegotiated a new contract with celebrity pundit George Stephanopoulos who, according to Westin, was now "recasting" himself from liberal commentator to TV journalist, reporting and anchoring. While Stephanopoulos is popular for the moment, will his presence enhance viewers' trust in ABC News over the long run? Westin and others may be walking a knife edge here.

Once-proud CBS, the network where broadcast news was invented, is now struggling to make even a modest profit. It earned only about \$15 million in 1998, according to industry insiders. The network won't confirm that figure. "CBS Evening News" remains the number three evening newscast, lagging by a substantial margin during the first

half of 1999. The same goes for CBS's morning program, although the addition of star Anchor Bryant Gumbel and a new studio on Fifth Avenue should deliver a ratings boost. Another problem is that the CBS audience tends to have a greater percentage of older viewers than the other two networks, and these older viewers are worth less to advertisers. And CBS schedules fewer hours of news each week than either NBC or ABC.

Despite all that, CBS News' earnings are growing. Cost reductions have helped, as did the January 1999 launch of "60 Minutes II," which gives the network another hour of revenue-generating prime-time programming. The program is off to a promising start, critically and commercially. CBS also struck a deal that bodes well for the future: It will become the exclusive broadcast news provider to America Online, which should give it not only a new source of revenues but access to millions of Internet users. CBS's Heyward contends his news division's worst problems are behind it. "After some challenging years in the mid-1990's, we are rapidly moving in the right direction," he says. "We're having substantial financial success."

Heyward's strategy for CBS is similar to Westin's at ABC. He intends to cut costs, but aims to provide unique programming. "We're looking to be more efficient in gathering what I would call the raw material or generic news, so we can devote our resources primarily to added value," Heyward says. "You don't want to have your camera in the Knesset with five others. If Reuters or someone else can get the Knesset shot, then your crew can go out to the West Bank and get the exclusive interview that will make your piece special."

While rivals at ABC question whether CBS News still has the resources to deliver a quality product, CBS has one big advantage in the competition to be the best: "60 Minutes." Unlike ABC, which is identified with the softer, more tabloid "20/20" (whose trademark is news-you-can-use) or NBC (whose signature program is "Dateline"), CBS has "60 Minutes" as its prime-time standard bearer which, in the public's mind,

stands for high impact, quality journalism. Although it's been on the air for just a few months, "60 Minutes II" also seems to be aiming higher than the magazines at the other networks.

Still, without dramatic cost cutting or cost sharing or an equally dramatic expansion of programming hours—such as an hour-long prime-time daily news program—the economics for ABC and CBS are going to be difficult in the years ahead. As "CBS Evening News" Anchor Dan Rather said recently: "It's entirely possible that one of the Big Three television organizations will cease to exist in five or seven years."

The Quality Solution

On one theme, the three network news presidents agree. No matter how the television landscape changes, they insist, viewers will continue to be attracted to high-quality news programming. This may sound like wishful thinking, but it is borne out by history. Programs like CBS's "60 Minutes" and ABC's "Nightline," which are admired for their consistent quality, are also among the most profitable and long-lasting franchises in television. The same is true for NBC's "Today," which earns about \$50 million a year in profits for the network. Its first half-hour is filled with hard news, including overseas and Washington coverage, that is

well-produced and timely.

"Good journalism is good business," says NBC's Lack. "'60 Minutes,' 'Nightline' and the 'Today' show are these unique programs that go back for...years, that are just embedded in the national consciousness as very reliable, quality programs. Each of us is fortunate to have one of those franchises. They're pillars." In fact, unlike dramas and sitcoms, which run out of steam and leave the air, established news programs seem able to go on for decades. CBS's Heyward says news programs offer "a wonderful combination of the familiar and the new," familiar faces and formats, renewed daily or weekly with new headlines and fresh stories. Says Westin: "They go on for-

RESPONSE

ANDREW HEYWARD

One of my predecessors as president of CBS News, when confronted with the cliché that network news divisions are "dinosaurs," tartly reminded his critic that the dinosaurs ruled the earth for millions of years. In fact, we are in the midst of an information revolution that will not drive the network news divisions into extinction, but will certainly change their role in American society—perhaps even for the better.

The revolution is powered by money and by technology. And it's only somewhat facetious to argue that the technological advance that has changed television news more than any other is not videotape, or cable TV, or satellites, but the remote control.

If you think about it, thanks to the remote control, television is "interactive" already and has been for quite some time. Imagine how your job would change if the second you faltered in trying to hold someone's attention—the second you failed to be utterly fascinating—the person you were trying to engage could click you into oblivion.

In the early days of television news, there were not only few remotes, but not much choice about where to get your news, either.

There were the three networks, and that's about it.

But in today's world of multiple choice, what was once a comfortable oligopoly of news and information has splintered into a competitive cacophony that no one voice can dominate.

Today's young viewers have grown up in a world where the once almighty networks are just digital read-outs on the cable box, no more prominent or dominant than MTV or Comedy Central or Nickelodeon. To the extent that they seek out news at all, chances are it's "news on demand" from the Internet. There is a world where the common experience of news and information that their parents shared is disappearing, morphing into hundreds and thousands of individual experiences. And America will be a very different place when every person gets only the news he or she wants.

Despite these challenges to network news as we knew it, I'm very optimistic about the future.

In a universe where the remote control or the mouse will offer instant "interactivity"—instant access to hundreds of information and entertainment choices—journalism of the highest quality will occupy an important and lucrative niche. Even after the revolution, content will still be king.

Confronted with an overwhelming array of choices, people will gravitate to the "brands" they trust, such as CBS, ABC and NBC. It's the fragmentation paradox: As more voices clamor for the public's attention, those that can still attract large groups of consumers are becoming even *more* valuable to advertisers and Wall Street, even as their traditional audiences diminish.

On January 15th, CBS used the still-awesome promotional reach of its television network to launch an outstanding financial Web site, CBS MarketWatch, and helped propel MarketWatch to an IPO [Initial Public Offering] that was spectacular, even by Internet standards. That same day, "60 Minutes II," a traditional network news program dedicated to the same high journalistic standards as the Sunday original, made its debut to critical and audience acclaim. Frankly, my network news colleagues and I are not quite ready to gurggle into the La Brea tar pit with the dinosaurs. We don't want to miss what happens next. ■

Andrew Heyward is President of CBS News.

ever, you don't have to reinvent them, and they draw an audience, week after week, month after month." In an industry in which four out of five new entertainment programs fail, a successful news program becomes a jewel worth protecting.

The trouble is that creating a franchise like "Today" or "60 Minutes" or "Nightline" is no easy feat, especially now. Network presidents say they want quality, but will they be able to deliver? Consider some obstacles they face:

- The pool of talent is thin. Anchors such as Mike Wallace and Ted Koppel don't come along every day. Nor do executive producers like Don Hewitt and Tom Bettag. It's interesting to note that today's network "stars"—Wallace, Koppel, Rather, Jennings and Brokaw, or Hewitt and Bettag behind the scenes—came of age during the era when TV news was hard-news oriented and shaped by the old values of public service. Each served long apprenticeships covering breaking news: Jennings and Koppel spent years overseas, Rather and Brokaw covered Washington when government and politics were more important to the networks, and Hewitt and Bettag polished their craft producing CBS's flagship evening newscast. Such training is now largely a thing of the past. Many young producers and correspondents are rushed into prime time where the values are market-driven. It is telling that when ABC decided it had to try and save "Good Morning America" it turned to familiar faces, Charles Gibson and Diane Sawyer, who were trained in the old school.
- New programs need time to develop. From network executives, new programs require patience, a faith in the eventual audience and, often, a willingness to experiment. "60 Minutes" took nearly a decade to ripen into a hit show; the show was tolerated for years because CBS was so profitable that it didn't need to maximize revenues during every hour of the broadcast day. "Nightline" arose out of the Iranian hostage crisis, when ABC was willing to commit to

late night coverage in order to grab attention and enhance its news image; such a scenario would be highly unlikely today, with networks having all but ceded extensive special-events coverage to the all-news cable networks.

- Quality programs depend on a special bond between the networks and their viewers. In essence, viewers need to believe that the networks are the place to turn for intelligent, thoughtful television journalism. This is the notion behind "branding," which is so valued in business today and has been an important part of the tradition of network news. For all their flaws, the network news divisions for years differentiated themselves from local TV news or syndicated programs because they promised and delivered a product that was perceived as having integrity and quality. The success of magazines such as "20/20" and "Dateline" stems partly from the power of their network brands; viewers who trust NBC News or ABC News, after years of watching Brokaw, Jennings and Koppel, believe that they can expect the same quality in prime time. The danger, of course, is that the prime-time feature and infotainment programs will fail to meet those expectations, and the value of the network brands could erode.

The question now is, given all the changes and pressures occurring in the news broadcast industry, whether a culture of journalism still exists at the networks to surmount these obstacles and achieve real "brand" quality. Can a new generation of stars with journalistic experience, authority and skill emerge from the plethora of feature prime-time magazine programming to match the quality of the now-aging cohort of network stars? Do the networks still have the patience to support a high quality news program such as "Nightline" or "60 Minutes" through years—not to mention a decade—of losing money until it builds a loyal audience base? And, more importantly, will any of the networks invest what it takes to fulfill their commitment to

comprehensively informing the public about the major issues and events of our time once they have established new bonds with viewers?

The networks probably have a greater stake now in developing the highest quality talent, in demonstrating patience, and in protecting their brands if they want to maintain a loyal cadre of viewers from among the splintering audience. With the proliferation of channel choices, no news division can afford to settle for second-rate programming. The best programs and brands will survive and even thrive in this cluttered environment. It's a good bet that viewers will continue to seek out "60 Minutes," but it's not clear whether they'll hunt for "Dateline" or "20/20," which are more dependent on hype, gimmicks and stories that pander to their audiences. If news becomes available on demand and for a fee (as it might), some people will probably pay to watch "Nightline," as long as it retains its excellence.

The economic forces now buffeting the business of network news are unlikely to abate. Viewers and advertisers will continue to have more, not fewer, choices in where to turn for their news and marketing. Profit pressures at network news divisions will intensify, not diminish. In this unforgiving environment, the question is whether the core requirements necessary to provide solid journalism—time to pursue stories and develop sources, a recognition that not all coverage is going to produce immediate profit, an ability to focus on important topics that won't bring high ratings but can build viewer trust—can be sustained. If history holds true that audiences in the long run gravitate to quality, network aspirations will not be enough. The networks will need to take the risk and time to invest in quality. ■

Marc Gunther is a senior writer at Fortune magazine. He has covered network television since 1983 and is the author of "The House That Roone Built: The Inside Story of ABC News," published in 1994.

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Summer 1999 NIEMAN REPORTS
Special Issue THE NIEMAN FOUNDATION FOR JOURNALISM AT HARVARD UNIVERSITY

Publisher Bill Kovach
Editor Melissa Ludtke
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Nieman Reports (USPS #430-650) is published
in March, June, September and December
by the Nieman Foundation at Harvard University,
One Francis Avenue, Cambridge, MA 02138-2098.

Telephone: (617) 495-2237
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nreports@fas.harvard.edu

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<http://www.Nieman.Harvard.edu>

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Back copies are available from the Nieman office.

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ISSN Number 0028-9817

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