

Planning

Watching the Horizon

**A thought-provoking
initiative makes publishers
grapple with market trends**

It took even Microsoft founder Bill Gates a long time to see the future of the Internet. To avoid similar blind spots, in November 1998, the NAA Board Committee on Industry Development created a Horizon Watching Task Force of "stakeholders with active minds and active tongues," according to Chairman Gregg K. Jones, co-publisher of The Greeneville (Tenn.) Sun.

Task-force participants, including newspaper executives and NAA associate members, set out to help publishers understand the external strategic forces that will shape the future of their industry.

The task force, now chaired by Alan M. Horton, selected Kannon Consulting Inc., a Chicago firm with previous newspaper clients, to gather and synthesize baseline data on consumer, advertiser and competitor trends (see story, p. 46). Those findings were reviewed by the task force and the NAA Board Executive Committee during

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August and September. That information will be made available for downloading on the NAA Internet site, www.naa.org/marketscope.

As a next step, the task force invited two dozen executives to a Nov. 16-17 scenario-planning exercise exploring three possible "future states." So it was that one chilly fall morning, five veteran managers sat in a Washington, D.C., hotel room to ponder what it would be like to lead a newspaper in a nation that had experienced five years with no economic growth, with an inflation rate approaching double-digits, consumer spending and confidence at 10-year lows, rock-bottom manufacturer inventories and investment levels, and a stock market hovering near 10,000 on the Dow Jones Index.

Their mythical world also faced some trends that don't register in typical strategic planning: projected increases in government regulation of media, a slow-down in technological innovation and accessibility, media consolidation, and a shrinking mass audience.

After leafing through Kannon's statistics and charts, the group plunged in. Miles E. Groves, chief economist of The Barry Group in Bethesda, Md., announced, "This is an economic environment we have already lived in." Recalling strategies that had allowed them to weather conditions in 1991-92, he and others assembled a game plan that used selective cutbacks to position a daily newspaper as the strongest local medium in a bleak universe.

A second gathering in a separate room was finding a similar exercise more challenging. Those executives examined a five-year-long boom scenario: sustained growth of Gross Domestic Product at 4 percent annually, high levels of consumer spending and confidence, unemployment and inflation at low levels, and a stock market that rises 1,000 points a year. In this universe, government continues to deregulate, technological innovation and accessibility are swift and pervasive, consumers control the global linking of information, niche markets dominate, and retail consolidation moves forward.

Their full-throttle marketplace offers competition and challenges. When those managers later presented tactics to give advertisers high-quality service at low prices, Kannon President Barbara Cohen asked if they had devised a viable business model. Bernard A. Niemeier Jr., director of planning and development for the publishing division of Media General in Richmond, Va., replied, "We're still working on that."

What's Next for the Competition

For NAA's Horizon Watching Initiative, Kannon Consulting Inc. of Chicago summarized data from a variety of sources and presented findings and projections on newspaper competitors. Some samples:

Internet

- The Internet economy will continue to support an advertising business model, but online firms also will draw on multiple revenue streams.
- Online advertising will grow rapidly as Internet penetration increases and more refined consumer data are captured, leading to more effective targeting and higher rates.
- Content, commerce and community will be key to repeat traffic upon which robust databases can be built. The ability to predict consumer responses and measure the impact of online advertising with such databases will lead to greater accountability and better decision-making by marketers.

Direct Marketing

- The share of expenditures for direct marketing will continue to grow at a faster rate than the rate of growth for most other measured media.
- As with other businesses, the direct-mail industry has experienced significant recent consolidation.
- Mailers increasingly use electronic media for marketing, especially the Internet. It brings greater visibility and new opportunities.

Cable Television

- The cable-TV revenue model continues to be anchored on subscriptions and fees. Together, they provide about 80 percent of revenues. Advertising revenue grows faster than subscription fees.
- Revenue from other sources open to cable following deregulation and technical advancement, such as telephony and high-speed Internet access, are expected to grow at a faster rate than subscriptions.
- Cable-TV firms make investments in infrastructure and programming for their revenue-generating potential; few expect to reap near-term profits.

Broadcast Television

- Broadcast's share of total TV advertising spending will drop to about 71 percent by 2003, from about 89 percent in 1990.
- Cable TV will gain most of the share lost by broadcast TV.
- While ABC, CBS, and NBC will continue to lose audience share to cable TV and other media, they will still dominate television advertising for the foreseeable future.

Radio

- Radio's share of total broadcast-media spending will remain roughly the same, about 16 percent.
- Internet radio will open additional advertising possibilities for radio clients in terms of products and e-commerce.
- As Internet radio further expands broadcasters' reach, it will allow them to learn more about their audience through interactive databases, thereby increasing advertising effectiveness.

Yellow Pages

- Regional Bell operating companies will continue to dominate the industry, although their share of total Yellow Pages spending will decline somewhat in favor of independent books that target smaller, niche markets.
- Competition among online directory publishers will heighten, with more offline publishers venturing online, the continued entry of Internet start-ups, and transformation of some content sites with highly local offerings into sites that incorporate directory services.
- The format of online directory advertising and publishing will continue to evolve as providers seek ways to make advertising more responsive.

A third cluster of executives dove into a scenario with economic conditions between the first two: GDP growing at an annual rate of 2 percent, fast-rising wages driving inflation up and productivity gains down, a falling U.S. dollar, and a stock market stalled at 12,000 on the Dow. Their world faced gradual industry restructuring and government deregulation, steady technological innovation with accessibility confined to the high-end market, two or three consolidated players dominating every category of retailing, and a mass audience fragmenting into ever-smaller niches.

Yet after presenting their plans, participants in all three groups voiced deep uneasiness about the uncertainties that the exercise revealed. "Going through the pain of creating these scenarios made it scarier," said Horton, senior vice president for newspapers at The E.W. Scripps Co. in Cincinnati.

WHY A FIVE-YEAR VIEW?

Most newspaper managers regularly initiate budget processes and many participate in strategic planning, but task-force members worry that in today's rapidly developing media world, threats can emerge from places publishers never visit. One stumbling block: No one can predict the future with any confidence.

With Kannon's assistance, the groups operated under common and factual demographic projections: an aging population with greater ethnic and racial diversity and increasing diversity among household types. In two scenarios, income levels and access to technology further split society into haves and have-nots.

Based on these scenarios, the groups said publishers must continue attending to existing circulation and readership measures, ad revenue and lineage, and national yardsticks such as GDP, interest and inflation rates, and job creation. Additional "guideposts" to monitor include:

- Commercial rent rates and vacancies
- Consumer confidence and attitudes about the economy
- Deregulation and its effect on media ownership
- Economic disparities between haves and have-nots, and whether the gap is growing
- Household penetration and use of personal computers, broadband services and high-speed Internet access
- Household penetration and use of wireless communication devices
- Number and percentage of houses

passed by cable TV

- Personalization of Internet services
- Potential for taxes on Internet services
- Rate of telecommuting
- Share of retail sales captured by electronic commerce
- Shifts in ad spending
- Shifts in media shares of advertising
- Stock-market indexes
- Traditional circulation and readership measures.

Changing indicators mean different things in different markets. "There is no right answer," said Howard Finberg, director of technology and information strategies at Central Newspapers Inc. in Phoenix. The important point, from the task-force perspective, is to grapple with the indicators and create a process for dealing with their business consequences.

NEXT STEPS

Reaction to shifts varies, depending on market size and location. Publishers noted that while large newspapers have a high level of resources to meet a perceived threat, smaller operations are nim-

Sources

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bler and can change direction quickly.

In addition to making baseline data available on the NAA Internet site, the task force plans to provide publishers with some guideposts and instructions on how to conduct similar scenario-planning. For more information, contact Randy Bennett, NAA vice president for electronic media and industry development. E-mail, bennr@naa.org; phone, (703) 902-1770.

The U.S. economy may remain unpredictable, task-force members say, but a database that tracks indices could help managers forecast changes in their markets and anticipate threats to advertising and audience.

"We're trying to challenge the industry to think differently," Finberg explained, adding, "We have no right to survive." ■

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