The New York Times ON THE WEB

An Industry Imperiled by Falling Profits and Shrinking Ads

By Richard Perez-Pena

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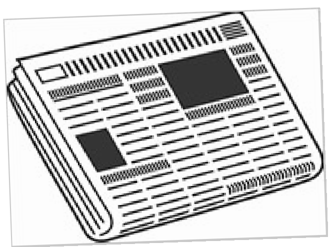
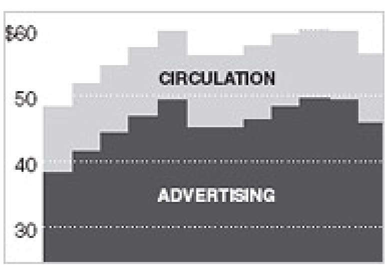
In just the last few weeks, The San Diego Union-Tribune eliminated more than 100 jobs, one-tenth of its work force. The Chicago Sun-Times began a major round of newsroom layoffs, then put itself up for sale, and publishers in Minneapolis and Philadelphia warned that tough economics could force cuts there.

Not long ago, news like that would have drawn much commentary and hand-wringing in the newspaper business, but in the last few months, reductions have become so routine that they barely make a ripple outside each paper's hometown. Since mid-2007, major downsizing — often coupled with grim financial reports — has been imposed at The San Francisco Chronicle, The Seattle Times, The San Jose Mercury News, USA Today and many others.



The talk of newspapers' demise is older than some of the reporters who write about it, but what is happening now is something new, something more serious than anyone has experienced in generations. Last year started badly and ended worse, with shrinking profits and tumbling stock prices, and 2008 is shaping up as more of the same, prompting louder talk about a dark turning point.



Where Are All the Ads?

Josh Haner/The New York Times

"I'm an optimist, but it is very hard to be positive about what's going on," said Brian P. Tierney, publisher of The Philadelphia Inquirer and The Philadelphia Daily News. "The next few years are transitional, and I think some papers aren't going to make it."

Advertising, the source of more than 80 percent of newspaper revenue, traditionally rose and fell with the overall economy. But in the last 12 to 18 months, that link has been broken, and executives do not expect to be able to repair it completely anytime soon

In 2007, combined print and online ad revenue fell about 7 percent. In the last six decades, only one other year — 2001, when there was a recession — had a steeper decline, according to the Newspaper Association of America. Adjusted for inflation, 2007 ad revenue was more than 20 percent below its peak in 2000.

Circulation revenue has declined steadily since 2003, and the number of copies sold has been slipping about 2 percent a year. Some of the largest papers — including The San Francisco

A newsstand in New York. Some major newpapers have several times as many readers online as in print, but grim financial reports have forced the papers to downsize.

Chronicle, The Boston Globe and The Los Angeles Times — have lost 30 to 40 percent of their circulation in just a few years.

The long-term shift of advertising to the Internet — especially classified ads for things like jobs, cars and houses — accelerated last year. The real estate downturn hit the newspaper business hard, especially in California and Florida, where real estate ads fell more than 20 percent at some newspapers.

Over all, local advertising has fallen, while "the national ad market is still strong," said Alexia Quadrani, an analyst at Bear Stearns & Company. "Local advertisers have been swallowed up, and there are just fewer. Your local pharmacy becomes CVS; your local hardware store becomes Home Depot."

In the last few days, several newspaper companies have reported weak December results, and they warned that January looked similarly bad and that the situation would worsen in a recession. "The traditional cyclical factors are turning south at the same time as the structural factors," said Ken Doctor, an industry analyst with the research firm Outsell. "It's a very sobering time."
Newspaper executives and analysts say that it could take five to 10 years for the industry's finances to stabilize and that many of the papers that survive will be smaller and will practice less ambitious journalism.

Some companies may look for buyers, but it is not clear how much of a market for newspapers remains. The first test will come from the Sun-Times Media Group, which announced Monday that after suffering deep losses and closing several small weekly papers, it would try to sell any assets it could, including its flagship paper, The Sun-Times.

Others may seek shelter from market pressures by becoming nonprofit or going private; the Tribune Company recently did both. Other publishers, like the Washington Post Company and the E. W. Scripps Company, are shielded somewhat by having highly profitable non-newspaper holdings, but even they have made cuts.

Critics of the industry — including many executives within it — say that newspapers have done a poor job adapting to the Internet and working creatively and aggressively to sell ads.
Mr. Tierney agrees, "but you could change that and still be sliding," he said. "When everyone's taking on water, you can't expect to stay dry — only less wet."

That is in sharp contrast to his tone in 2006, when he led a group of investors who paid $515 million for the two Philadelphia papers. Back then, Mr. Tierney dismissed the industry's gloomy talk, expressing confidence that it could win back paying readers and advertisers.
With some clever and assertive marketing, Mr. Tierney's papers have bucked the trend and kept their circulation steady, but their advertising has declined along with that in the rest of the industry.

Newspaper profits remain healthy, but they are dropping fast. For example, the newspapers of Media General, a large Southern chain, had a 17 percent operating profit margin last year, but the dollar amount fell 23 percent from the year before. The Gannett Company's newspaper division, the nation's largest chain, had a 21 percent margin, but a 10 percent decline.

The downturn has coincided with a series of newspaper takeovers, leaving some companies — notably the McClatchy Company and the Tribune Company — with much bigger debt payments and less cash to cover them.

Falling stock prices made newspapers look like tempting targets to some buyers in 2006 and early 2007, but even then, the prices of the transactions that did take place were seen as inflated, and there was little interest from other potential bidders. McClatchy bought the Knight Ridder chain, and the News Corporation bought Dow Jones & Company, publisher of The Wall Street Journal. Many papers were sold in smaller deals, including the Philadelphia dailies, The San Jose Mercury News and The Star Tribune of Minneapolis.

Share prices have continued to fall since then, and analysts think they will go lower still. But since last spring, the supply of buyers seems to have dried up.

The industry has made cost reductions that include using smaller page sizes, consolidating operations among papers and eliminating delivery routes. Job cuts have become all but universal; The New York Times Company revealed last week that its head count had dropped 3.8 percent in a year. At many papers, the usual way to reduce — the buyout — has been supplemented or even replaced by layoffs.

Most papers have cut their newsrooms and simply done less reporting, especially overseas (in one recent example, The Baltimore Sun closed its last remaining foreign bureaus). The industry consumes about three-quarters as much newsprint as it did four years ago, a result of lower circulation and fewer ads, but also of fewer articles.

Some companies have tried hard to shield their newsrooms from reductions, while others have cut them aggressively. The Mercury News, for instance, has about 200 newsroom employees, barely half as many as in 2000. The downsizing began under Knight Ridder, and accelerated after the MediaNews Group bought the paper in 2006.

The paradox is that more people than ever read newspapers, now that some major papers have several times as many readers online as in print. And papers sell more ads than ever, when online ads are included.

But for every dollar advertisers pay to reach a print reader, they pay about 5 cents, on average, to reach an Internet reader. Newspapers need to narrow that gap, but the rise in Internet revenue slowed sharply last year.

“That’s another thing that made 2007 a watershed, the dawning realization that you can’t expect 25 percent annual growth in digital revenue,” Mr. Doctor said. “Nobody knows just when this thing bottoms out, or how far down.”