A Vision for Local Ownership of the Boulder Daily Camera

- In 1993, near the top of the newspaper market, *The New York Times* bought the *Boston Globe,* one of the best newspapers in America, for $1.1 billion. Twenty years later, as the newspaper market continued a generation-long decline, the Times sold the Globe for $70 million to John Henry, owner of the Boston Red Sox, who made his fortune in investment banking. "The *Boston Globe*'s award-winning journalism as well as its rich history and tradition of excellence have established it as one of the most well-respected media companies in the country," Henry said in a statement while acknowledging the "essential role that its journalists and employees play in Boston, throughout New England, and beyond." The Globe announced immediately that its coverage of the Red Sox would not change.

- In 1998, McClatchy Co. bought the *Minneapolis Star Tribune* from its Minnesota-based family ownership, the Cowles family, for $1.2 billion. Eight years later, when Avista Capital Partners bought the company from McClatchy, the price had been cut by more than half, to $530 million. Avista's purchase saddled it with debt to achieve its private equity returns. In 2009, the debt load forced the paper to reorganize in bankruptcy court. In June 2014, Glen Taylor, a Mankato, Minn., billionaire and owner of the NBA's Minnesota Timberwolves, bought the *Star Tribune* for a sum he described as near $100 million. "The *Star Tribune* is not only a good business, it's an important institution for all Minnesotans," Taylor said. "Our state and the region benefit from the presence here of a strong journalistic enterprise."

- In September 2013, Jeff Bezos, founder of Amazon and one of the richest men in the world, bought the *Washington Post* for $250 million. "I went through a few gates before deciding to buy the *Post,*" Bezos told *The New York Times* the following year. "Is it hopeless? I didn't want to do it if it was. The internet has radically disrupted traditional newspapers. The world is completely changed, and advertisers have tons of options on how to reach people in local areas. I didn't know anything about the newspaper business, but I did know something about the internet. That, combined with the financial runway that I can provide, is the reason why I bought the *Post.*"

The business trajectory of newspapers over the past century is pretty easy to trace. From family ownership, some of them led by larger-than-life figures who tried to magnify their notoriety and power through their papers, to chains that learned how to maximize profitability and returns to shareholders at the height of the pre-internet newspaper monopoly, to private equity making Ben Graham's famous cigar-butt investments, selling off the physical assets and demanding increasing profits while revenues declined, it has been a classic rise and fall.

For twenty years or more, the market has awaited the disruptive business model that would replace it. On the advertising side, which provided most of newspapers' revenues, it arrived like dual steamrollers in the forms of Google and Facebook. On the journalism side, it still hasn't. The internet, which disrupted the old newspaper monopolies, has provided an infinite number of experiments, new sites and opinions, but still few reliable sources of local information, of facts, of reporting. Who will pay the young reporter to sit through the city council meeting, the county commissioners' meeting, the soporific zoning board of adjustment, to let citizens know what their government is up to? Who will provide editorial analysis of local government, local business, local nonprofits? Who will call out public officials for malfeasance or misfeasance?

In his annual report to shareholders in the spring of 2012, Warren Buffett, chairman of Berkshire Hathaway, disclosed he'd been buying a few small and medium-sized newspapers. Below is Mr.

Buffett's rationale, included in his letter to shareholders that year. Everything in italics is written by Mr. Buffett:

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We Buy Some Newspapers . . . Newspapers?

During the past fifteen months, we acquired 28 daily newspapers at a cost of $344 million. This may puzzle you for two reasons. First, I have long told you in these letters and at our annual meetings that the circulation, advertising and profits of the newspaper industry overall are certain to decline. That prediction still holds. Second, the properties we purchased fell far short of meeting our oft-stated size requirements for acquisitions.

We can address the second point easily. [Berkshire Vice Chairman] Charlie [Munger] and I love newspapers and, if their economics make sense, will buy them even when they fall far short of the size threshold we would require for the purchase of, say, a widget company. Addressing the first point requires me to provide a more elaborate explanation, including some history.

News, to put it simply, is what people don't know that they want to know. And people will seek their news – what's important to them – from whatever sources provide the best combination of immediacy, ease of access, reliability, comprehensiveness and low cost. The relative importance of these factors varies with the nature of the news and the person wanting it.

Before television and the Internet, newspapers were the primary source for an incredible variety of news, a fact that made them indispensable to a very high percentage of the population. Whether your interests were international, national, local, sports or financial quotations, your newspaper usually was first to tell you the latest information. Indeed, your paper contained so much you wanted to learn that you received your money's worth, even if only a small number of its pages spoke to your specific interests. Better yet, advertisers typically paid almost all of the product's cost, and readers rode their coattails.

Additionally, the ads themselves delivered information of vital interest to hordes of readers, in effect providing even more "news." Editors would cringe at the thought, but for many readers learning what jobs or apartments were available, what supermarkets were carrying which weekend specials, or what movies were showing where and when was far more important than the views expressed on the editorial page.

In turn, the local paper was indispensable to advertisers. If Sears or Safeway built stores in Omaha, they required a "megaphone" to tell the city's residents why their stores should be visited today. Indeed, big department stores and grocers vied to outshout their competition with multi-page spreads, knowing that the goods they advertised would fly off the shelves. With no other megaphone remotely comparable to that of the newspaper, ads sold themselves.

As long as a newspaper was the only one in its community, its profits were certain to be extraordinary; whether it was managed well or poorly made little difference. (As one Southern publisher famously confessed, "I owe my exalted position in life to two great American institutions – nepotism and monopoly.")

Over the years, almost all cities became one-newspaper towns (or harbored two competing papers that joined forces to operate as a single economic unit). This contraction was inevitable because most people wished to read and pay for only one paper. When competition existed, the paper that gained a significant lead in circulation almost automatically received the most ads.

That left ads drawing readers and readers drawing ads. This symbiotic process spelled doom for the weaker paper and became known as "survival of the fattest."

Now the world has changed. Stock market quotes and the details of national sports events are old news long before the presses begin to roll. The Internet offers extensive information about both available jobs and homes. Television bombards viewers with political, national and international news. In one area of interest after another, newspapers have therefore lost their "primacy." And, as their audiences have fallen, so has advertising. (Revenues from "help wanted" classified ads – long a huge source of income for newspapers – have plunged more than 90% in the past 12 years.)

Newspapers continue to reign supreme, however, in the delivery of local news. If you want to know what's going on in your town – whether the news is about the mayor or taxes or high school football – there is no substitute for a local newspaper that is doing its job. A reader's eyes may glaze over after they take in a couple of paragraphs about Canadian tariffs or political developments in Pakistan; a story about the reader himself or his neighbors will be read to the end. Wherever there is a pervasive sense of community, a paper that serves the special informational needs of that community will remain indispensable to a significant portion of its residents.

Even a valuable product, however, can self-destruct from a faulty business strategy. And that process has been underway during the past decade at almost all papers of size. Publishers – including Berkshire in Buffalo – have offered their paper free on the Internet while charging meaningful sums for the physical specimen. How could this lead to anything other than a sharp and steady drop in sales of the printed product? Falling circulation, moreover, makes a paper less essential to advertisers. Under these conditions, the "virtuous circle" of the past reverses.

The Wall Street Journal went to a pay model early. But the main exemplar for local newspapers is the Arkansas Democrat-Gazette, published by Walter Hussman, Jr. Walter also adopted a pay format early, and over the past decade his paper has retained its circulation far better than any other large paper in the country. Despite Walter's powerful example, it's only been in the last year or so that other papers, including Berkshire's, have explored pay arrangements. Whatever works best – and the answer is not yet clear – will be copied widely.

Charlie and I believe that papers delivering comprehensive and reliable information to tightly-bound communities and having a sensible Internet strategy will remain viable for a long time. We do not believe that success will come from cutting either the news content or frequency of publication. Indeed, skimpy news coverage will almost certainly lead to skimpy readership. And the less-than-daily publication that is now being tried in some large towns or cities – while it may improve profits in the short term – seems certain to diminish the papers' relevance over time. Our goal is to keep our papers loaded with content of interest to our readers and to be paid appropriately by those who find us useful, whether the product they view is in their hands or on the Internet.

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The private equity model of newspaper ownership has been very different from Buffett's. It has stripped these properties of their assets (the sale of the *Daily Camera's* downtown building was typical) and demanded escalating profits as revenues have declined. The only way to meet these demands from ownership has been to cut resources and staff. This has accelerated the decline of the *Daily Camera*, its sister papers within Prairie Mountain Media, as well as the *Denver Post* and the many other properties nationwide owned by Digital First Media, the company established by Alden Global Capital Partners of New York City to hold its media properties.

Until recently, Alden was not willing to sell these properties piecemeal. But the cigar butt is down to its last few puffs as these properties decline and newspaper analyst Ken Doctor recently reported that Alden has now asked newspaper brokers to bring it offers for its properties.
Here is an unflattering look from The Nation at what Alden has done to these properties:

How Many Palm Beach Mansions Does a Wall Street Tycoon Need?

https://www.thenation.com/article/how-many-palm-beach-mansions-does-a-wall-street-tycoon-need/

Here is another, from the American Prospect, that distinguishes between what is happening to newspapers generally and what is happening to those owned by private equity:

Saving the Free Press From Private Equity

Navigating the digital transition is a huge challenge for newspapers. Absentee ownership by private equity predators makes it all but impossible.

http://prospect.org/article/saving-free-press-private-equity

The city of Boulder is an affluent, highly-educated community that could and very likely would celebrate a great local paper and support adequately a decent one. The continued existence of the *Daily Camera,* which recently celebrated its 125th birthday, is now in doubt. The proposal here is that if there are people of means in Boulder who consider local journalism important, that they consider, either individually or banding together, making an offer for Prairie Mountain Media. A wild guess as to the price tag would be somewhere between $25 million and $40 million. If the buyer(s)' interest was only in the *Camera,* they might investigate whether there are interested local parties to which they could sell off some or all of the other PMM nameplates: *Akron News-Reporter, Broomfield Enterprise, Brush News-Tribune, Burlington Record, Canon City Daily Record, Canon City Shopper, Colorado Daily, Colorado Hometown Weekly, Estes Park Trail-Gazette, Fort Morgan Times, Fort Morgan Weekly, Julesburg Advocate, Lamar Ledger, Longmont Times-Call, Loveland Reporter-Herald, Loveland Weekly, South Platte Sentinel, Sterling Journal-Advocate.*

Any prospective buyer should go into such a transaction with eyes wide open. These properties have been starved by their owner for years. From a journalistic standpoint, a new owner would need not only the capital to buy the *Daily Camera*, but also the patience to forego profits for a time in order to reinvest in and reinvigorate the business.

This is the model being advanced by John Henry, Glen Taylor and Jeff Bezos. The press is the only private sector industry mentioned in the Bill of Rights. It was considered a crucial element to the democratic experiment our nation's founders implemented. Owners of newspapers these days must hear a calling higher than normal business imperatives.

Miraculously, the *Daily Camera* remains profitable today. Its leaders have shrunk and consolidated operations, laid off personnel and surrendered community offices while growing a design center that now builds pages for the *St. Paul (Minn.) Pioneer Press* and *Denver Post* as well as the PMM publications. But it does not have adequate staff to perform its watchdog function effectively. Because all clerical positions have been eliminated, many clerical functions are performed by reporters and editors whose time could be better allocated.

Boulder would be well-served by benefactors who rescued a local paper being slowly strangled by its private equity owners for the purpose of guaranteeing the community a robust free press. These prospective owners should know not to expect favorable coverage for their personal business endeavors. If they tried to use their acquisition to advance their personal or business interests, they would be remembered as dishonorable propagandists (see Sheldon Adelson in Las Vegas). The only way to do this with integrity is to provide financial stability and resources, hire and support great people in the editorial operation, and get out of the way. The only way to do this with integrity is to do it as a contribution to the free marketplace of ideas in your community.

Boulder has an opportunity to take back ownership of its local newspaper. On the current trajectory, this opportunity will not last long.