Declines in Trust, Revenues Force Sales and Spinoffs of Newspapers

The back-to-back announcements of the sale of the *Boston Globe* to Boston billionaire John Henry and the sale of the *Washington Post* to Amazon founder Jeff Bezos earlier this week continue to track the shrinkage of the newspaper business that has been going on for more than a decade. Henry bought the *Globe* from the *New York Times* for just $70 million, a fraction of the $1.7 billion (inflation-adjusted) the *Times* paid for it 20 years ago, while Bezos paid $250 million for a franchise that just a few years ago was worth billions.

The value of a newspaper is its ability to generate revenues through advertising and subscriptions. Both have been in horrendous decline, especially since 2000 when newspaper revenues hit an all-time high but have since collapsed to levels not seen since 1950. Said journalism professor Lou Ureneck from Boston University: "Classified advertising is a distant memory, ancient history. Maintaining newspapers … is going to be a long and difficult slog."

The *Post's* CEO Donald Graham put the best face possible on the sale in an interview on Monday:

> The *Post* could have survived under the company's ownership and been profitable for the foreseeable future. But we wanted to do more than survive. I'm not saying this [sale to Bezos] guarantees success, but it gives us a much greater chance of success.

For his part, Bezos, who is buying the *Post* with his own money, has zero experience in running a newspaper despite his success in founding Amazon. In expressing his hope for the future, Bezos said:

> I understand the critical role the *Post* plays in Washington, DC and our nation, and the *Post's* values will not change.
>
> There will of course be changes at the *Post* over the coming years. That's essential and would have happened with or without new ownership. We will need to invent, which means we will need to experiment.

This could be the death knell: a liberal paper that keeps losing its audience and revenues, to be run by a neophyte. At the end of June, the *Post* reported a loss of $49 million for the six months ending in June, half again greater than the $33 million loss it reported for the same period a year earlier.

Henry and Bezos will have lots of company in trying to turn their ships around. Back in February Time Warner sold off most of its print magazines to a small Midwest publishing company, while in April the *Philadelphia Inquirer*, *The Daily News*, and Philly.com were sold to private investors for $55 million. The papers had just cut 45 jobs in March and 35 more cuts are scheduled before the end of the year.

In June Rupert Murdock's News Corp spun off its 130 newspapers when it couldn't find a buyer. And in July the Los Angeles-based Tribune Company announced that it is spinning off the *Los Angeles Times* and the *Chicago Tribune*, along with six other daily papers for the same reason: no buyers.

An in-depth report on the impact of the Internet was published in October 2011 entitled "The Internet: the Gutenberg Press of the 21st Century," which noted its impact on the departure of Dan Rather from the national scene, President Clinton's philandering, the rise of WikiLeaks, the development of YouTube, and the explosion of The Drudge Report from obscurity to prominence.

The Drudge Report, reportedly run by just two or three people, may be worth at least as much as what Bezos just paid for the *Post*. Henry Blodget, writing for the *Business Insider*, did the math: The Drudge Report gets more than one billion page views per month — about as many as the *New York Times* used to get just a couple of years ago. It has more than 14 million readers, just slightly less than the *Times* gets now. Said Blodget: "Assuming The Drudge Report gets $1.50 per 1000 pages and has 1 billion page views per month, the DR should be generating revenues of $15-$20 million a year…. The Drudge Report, therefore, would [be worth] an estimated value of $150 million to $375 million…. Drudge has created one of the most innovative, successful and profitable digital media businesses on the planet."

Part of the problem facing Bezos, Henry, and the others holding a shrinking asset is that its traditional readers are disappearing. As Tea Party economist Gary North cryptically noted, "One by one, newspapers are disappearing. Young adults do not read them. There is no future to them. Funeral by funeral their doom is sealed."

And those left who do read them increasingly don't trust them. In a recent poll by Gallup this question was asked of its audience: "In general, how much trust and confidence do you have in the mass media — such as newspapers, TV and radio — when it comes to reporting the news fully, accurately and fairly — a great deal, a fair amount, not very much, or none at all?" Said Gallup:

> Americans' distrust in the media hit a new high this year, with 60% saying they have little or no trust in the mass media to report the news fully, accurately or fairly….
>
> The current gap between negative and positive views — 20 percentage points — is by far the highest Gallup has recorded since it began regularly asking the question….
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> There is an opportunity for others outside the "mass media" to serve as information sources that Americans do trust.

That's the big hill Bezos and Henry and the others have to climb. If current trends continue, it may well turn out that they have vastly overpaid for their opportunity to invest in an industry that is in danger of disappearing altogether.

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