



REUTERS  
INSTITUTE for the  
STUDY of  
JOURNALISM

Reuters Institute Fellowship  
University of Oxford

# FROM A PRINT HOUSE TO A TECHNOLOGY COMPANY

*How to reinvent a regional newspaper  
in the digital age?*

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**MICHAELMAS, HILARY AND TRINITY 2013–2014**  
**SPONSOR: HELSINGIN SANOMAT FOUNDATION, FINLAND**

## Acknowledgements

*First and foremost, I would like to thank The Helsingin Sanomat Foundation for the opportunity to study this year in Oxford. I feel privileged to have had this sabbatical to deepen my expertise.*

*My most sincere thanks go to my supervisor, Juan Sénor, for pushing me to argue strongly and for sharing his invaluable knowledge about the digital transition. His advice about writing for two hours every day has given me good time to process my thoughts.*

*Warmest thanks to James Painter at the Reuters Institute for always having time to give advice.*

*Special thanks to the people who helped me with their contacts and sources: Penelope Muse Abernathy, Neil Fowler, Dr. Rasmus Kleis Nielsen and Oscar Westlund.*

*Also a big thank you to all the staff at the Reuters Institute: Dr David Levy, Professor Robert G. Picard, John Lloyd, Tim Suter, Alex Reid, Kate Hanneford-Smith, Monique Ricketts, Tanya Vale and Rebecca Edwards.*

*I also wish to acknowledge all the people interviewed for this paper for generously giving their time and sharing their knowledge.*

*All my dear journalist fellows – you were the best part of my year in the Institute.*

*My most deepest thanks go to our au pair Ida. Without your excellent work with the children this would have not been possible at all.*

*Finally, I would like to thank my family, Jonas, Aili and Olavi for sharing this adventure in Oxford with me.*

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# 1. Introduction

*“What if we could start all over again? How should we do it? What kind of people and tools would we have? What about the readers and customers – content and products?”*

These are the questions that many legacy newspaper companies ponder today, when the circulation of European and American newspapers has been in decline for almost twenty years. Digital technology is changing the previously highly profitable business at an ever-increasing speed. People are spending more and more time with their smart phones and getting their news through social media networks as their media usage habits change. There are more ways of getting information than before – the same applies to advertisers, who have more and cheaper ways of marketing themselves and who want to be where the audiences spend their time. The economic recession and the new marketing tools for advertisers, like Google and Facebook ads, are both eating away the newspaper industry’s advertising revenues. Several media companies have announced redundancies due to inevitable cutbacks pushing them into a downward spiral. It is inevitable that in these circumstances journalism and newspaper companies desperately need innovations and a new business model.

Many newspaper companies are still trying to maintain the old margins however they can, but these days being a media company with very high margins is not something to brag about. Instead it is a clear sign of milking the cash cow rather than trying to adapt to the future. In many cases the only way to keep profits and maintain shareholder value has been to cut costs, laying off staff and bringing down quality, in other words managing decline. A newspaper company is expected to produce a newspaper with an ever-decreasing number of staff, while at the same time discovering and trying out new revenue models in the digital field. Is it possible at all?

I have worked at a Finnish regional newspaper for ten years, trying to make the digital transition. We have updated the website many times, changed the web publishing system, hired our own developers, tripled the amount of unique visitors, built up an online news desk and arranged training for the whole newspaper staff. The research and development of digital products has been in the hands of a very small circle struggling under the pressure of paper-centric workflows, management and organisation. Many ideas have been tried, and small steps made, but no bold move, which would have led to a change in the whole organisation’s tasks, and ultimately the organisational culture, to better handle the digital challenges lying ahead. Perhaps the business has continued to do so well, perhaps there hasn’t been any genuine need for change? But wouldn’t it be better to change ahead of time rather than in a situation of panic?

The main constraint for change in a legacy newspaper company is that the whole

organisation has been built up for the purpose of producing and delivering tomorrow's newspaper. From the managerial point of view, allocating almost all the resources and tasks to newspaper production is an easy decision, because compared to digital products, newspapers are still bringing in 60-90% of the company's revenue, and digital editions are just bringing in pennies compared to the newspaper pounds. At the same time digital technology has brought us more and more ways of producing better journalism as we have more resources at our disposal and technology to support us.

But can mature media companies take advantage of these new journalistic methods and make digital profits, or is the future of journalism totally left to the new incumbents, who are coming to the media market from outside the traditional industry without the legacy burden on their shoulders? The concentrated and innovative business models of the so-called digital "pure players" will disrupt the newspapers' "everything to everybody" business, if the legacy industry does not start making big changes. The situation is not helped by the media industry's earlier mistake of making all content available online and free of charge. In theory we recognize the need for change and innovation, but in practice end up being too protective of the paper platform, which has previously brought us very high margins in selling content and ads. It seems that many companies don't have a clear vision about what to do and how to transfer the whole organisation into the digital era.

That is why the first question to be answered is: how can the established media companies redesign themselves to fit into the digital era, without being stuck to the paper-centric way of doing things and to the paper-centric business model? As David Skok <sup>1</sup>, the Boston Globe's digital advisor to the editor in his Nieman Fellow 2012 report says: "Instead of weeping after the old days, blaming the disruptive forces coming from outside the media industry and all the structural changes the industry is facing, we must look to ourselves and recognize also our own flaws and mistakes made in the past. Newspaper organisations have failed to foster a newsroom culture that rewards innovation and empowers the younger generation, that can readily adapt to the new media world around us, and that is willing to experiment with the diversified revenue streams right in front of us."

In this research paper I will try to answer the question of how a regional newspaper company in particular can make the digital transition and reinvent itself. I will also analyse the risks and pitfalls rising along the way. I want to draw the big picture of how a mature regional newspaper company could and should make the change. I have chosen to study regional newspaper companies, because there is less research

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<sup>1</sup> Skok David, "Finding a Way Forward", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

about the local media, even though most journalism is practiced and based at the local level. The local media companies also have an important mission, which no other business has, when giving first hand reporting and analysis of local events for the local people and for their community and serving democracy. Until now the local press have almost had a monopoly status in their regions, but as Tait <sup>2</sup> says, “the flawed business strategies and public policy failures as well as the changes in technology and in society have made their status vulnerable”.

I will concentrate on finding answers on how to sustain growth and manage disruptive innovation in a mature newspaper company. Or is it even possible? I argue that to change working habits and foster innovative organisational culture in the media business, the three core functions of the modern media company - journalism, business and technology - must start working closely together and new technological and innovative skills must be embraced as much as traditional journalistic values. I will look at the digital transition in three different media companies from Sweden, the United Kingdom and the United States, which still have several regional newspapers.

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<sup>2</sup> Tait Richard, “Self-Inflicted Wounds: The Decline of Local News in the UK”, *What Do We Mean by Local? : Rise, Fall – and Possible Rise Again – of Local Journalism*, Mair John, Keeble Richard Lance and Fowler Neil, Bury St Edmunds, Arima Publishing, 2013, p. 5.

## 2. The innovator's dilemma

As a framework for my research I'm using the Harvard Business School professor, Clayton M. Christensen's theory about disruptive innovation<sup>3</sup>. In his research Christensen exposes why good companies fail when they are faced with disruptive technology, like the rise of the Internet, mobile technology or social media, even though the managers have an understanding of their main customers' future needs and invest to develop the company's business. The theory attempts to answer the question how businesses grow, become successful and eventually fail, when small businesses and online-only "pure players" take over the customers and markets – the situation that seems to be happening now in the media industry.

Why then is it so hard to sustain success, even though the company is very well managed? According to Christensen, the big legacy companies can almost never adapt to the new disruptive technology, because good management itself, and concentration on the most profitable customers, are the root problems, which obscure an appreciation of the impact of the rising disruptive technologies. Decision-making and resource-allocation processes, which are crucial to the success of the company, are also the same processes, which reject disruptive technologies. As Christensen argues, "nurturing disruptive technologies means focusing resources on proposals that the company's big customers reject and which offer lower profit, underperform existing technologies and can only be sold to insignificant markets"<sup>4</sup>. In other words, concentrating always on the best customers and focusing investments in places where profitability is the most attractive is the wrong way to manage disruption<sup>5</sup>.

### 2.1 Sustaining vs. disruptive innovations

Not all technological innovations are totally disruptive and work the same way, which means that different types of innovations require different responses from the organisations, as Professor Küng reminds us<sup>6</sup>. She describes *incremental* innovations as small changes, which improve the existing products and processes. They usually require an organisation's existing capabilities to be expanded and adapted. A new version of mobile software is an example of incremental change. Here the disruption

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<sup>3</sup> Christensen Clayton M., *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, HarperBusiness, 2000.

<sup>4</sup> Christensen Clayton M., *ibid.*, p. 98.

<sup>5</sup> Christensen Clayton M. and Raynor Michael E., *Innovator's Solution: Creating and Sustaining Successful Growth*, Boston, Harvard Business School Press, 2003, p. vii.

<sup>6</sup> Küng Lucy, "Innovation, Technology and Organisational Change: Legacy Media's Big Challenges", *Introduction to Media Innovations: A Multidisciplinary Study of Change*. Göteborg, Nordicom, 2013.



is manageable. In contrast, *architectural* innovations are often modest in technological change, but cause a fundamental shift in the industry. The impact of on-demand television services, e.g. Netflix, on scheduling, audience behaviour and advertising revenues is an example of architectural innovation. The technological change is easy to understand, but the potential ramifications are more complex.

“*Discontinuous* innovations present the biggest challenge because they involve a break with the existing systems, processes, skills and products”<sup>7</sup>. These innovations bring new factors into play, and they can destroy the legacy company’s “existing competencies and turn strategic assets into liabilities”<sup>8</sup>. The change in the music industry is an example of a succession of discontinuous innovations. First vinyl disks were replaced by cassette tapes, then by CD’s and after that by MP3 files and other ways of listening to music such as iTunes and Spotify. “Disruptive innovations are a subset of discontinuous innovations, which disrupt market structures rather than technologies”<sup>9</sup>.

Christensen<sup>10</sup> divides the different innovation types into two main categories: sustaining and disruptive. *Sustaining* innovation’s purpose is to keep the business going and to improve the current customer experience by implementing new features to the products. These innovations can be sold to the company’s customers for more money. In *sustaining* circumstances legacy companies tend to win the competition with newcomers.

In *disruptive* circumstances the opposite happens. The innovation may be technically simple, but it disrupts, because it creates a new product category, which the legacy players disregard, because it underperforms the established products on the market<sup>11</sup>. In these circumstances new entrants are likely to beat the incumbent players and challenge the legacy companies<sup>12</sup>. The disruptive innovation changes something that used to be expensive and complicated into something that is simple and accessible to all – what used to give high added value to the product becomes so cheap and easy, that almost anybody can do it. Think of traditional newspaper production that for centuries has made technical leaps in printing and in graphical layout, so that readers

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<sup>7</sup> Küng Lucy, “Innovation, Technology and Organisational Change: Legacy Media’s Big Challenges”, *Introduction to Media Innovations: A Multidisciplinary Study of Change*. Göteborg, Nordicom, 2013, p. 11.

<sup>8</sup> *ibid.*

<sup>9</sup> *ibid.*

<sup>10</sup> Christensen Clayton M., *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, HarperBusiness, 2000.

<sup>11</sup> Küng Lucy, “Innovation, Technology and Organisational Change: Legacy Media’s Big Challenges”, *Introduction to Media Innovations: A Multidisciplinary Study of Change*. Göteborg, Nordicom, 2013.

<sup>12</sup> Christensen Clayton M. and Raynor Michael E., *Innovator’s Solution: Creating and Sustaining Successful Growth*, Boston, Harvard Business School Press, 2003.

and advertisers have gained better quality over and over again. Printing presses have been heavy investments which new entrants haven't been able to afford. This has protected the legacy companies and given them a monopoly status. But with new technologies, like the Internet, mobile technology, social media and open source technologies, the newcomers have disrupted sustaining businesses and started to attack established companies. There are already many digital-only news publications, which concentrate on publishing sharable content, like BuzzFeed, or news sites, which use Twitter as their only publishing platform.

The disruptive innovations may not even be as good as the currently available products, but they have other benefits, like simplicity, that appeal to the new less-demanding customers<sup>13</sup>. So the disruptive technologies challenge the traditional metrics of quality and eventually change the field of competition as they bring new values, like speed, low cost and efficiency into play. After a while the smaller companies using the disruptive technology start making money and moving upmarket and suddenly they are important players<sup>14</sup>. For example there are already many digital-only news publications, which started by producing low-cost but high-quality investigative journalism. Then they attracted more and more readers and eventually started to win journalism prizes, like LongPlay in Finland or ProPublica in the US.

**Table 1.** Some factors distinguishing sustaining and disruptive innovations.

<b>FACTORS &amp; OUTCOME</b>	<b>SUSTAINING INNOVATION</b>	<b>DISRUPTIVE INNOVATION</b>
<b>Characteristics</b>	Better than the previous products More expensive	Simpler Convenient Cheaper
<b>Target groups / Consumers of the product</b>	Traditional High-end Demanding	New Low-end Less-demanding
<b>Competition</b>	Traditional metrics of quality	Speed Low cost Efficiency
<b>Winner</b>	Established competitor	Newcomer

<sup>13</sup> Christensen Clayton M. and Raynor Michael E., *Innovator's Solution: Creating and Sustaining Successful Growth*, Boston, Harvard Business School Press, 2003.

<sup>14</sup> Christensen Clayton M., *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, HarperBusiness, 2000.

Christensen's theory <sup>15</sup> gives quite a gloomy picture of the legacy media industry's future in the struggle against digital disruption. Is there any chance of succeeding and what are the factors which would help the established media companies to transport themselves into the digital era? How can the signs of important disruptive innovations be recognised and how should the legacy companies change in a world where there is still no business model ready for the media industry?

Christensen <sup>16</sup> refers to the problem as the "Innovator's Dilemma". "The innovator's task is to ensure that the innovation – the disruptive technology that doesn't make sense at the moment – is taken seriously within the company without putting at risk the needs of present customers who provide profit and growth" <sup>17</sup>. Or as Christensen, Skok and Allworth put it in their Nieman Lab report, the "Innovator's Dilemma" is a "false choice between today's revenues and tomorrow's digital promise" <sup>18</sup>. That is also the biggest difficulty facing the newspapers today – how to make the digital transition without losing the benefits and revenues from the newspaper business, which is still bringing in 90% of the revenue? It is often the case that we are afraid that if we change something, we will end up losing more than we gain.

The first thing for a legacy media company to do is to give up trusting only the balance sheet, margins and numbers – something that has always been done and that has traditionally been a practice of good management<sup>19</sup>. Secondly, media houses have to create a separate business unit within the company focusing on the disruptive technology that is challenging the legacy business <sup>20</sup>. This separate business unit must have permission to compete with and outperform the parent business – in other words the legacy business should not be protected from the inside competition, because it is better to disrupt your own business before somebody else does <sup>21</sup>.

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<sup>15</sup> Christensen Clayton M., *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, HarperBusiness, 2000.

<sup>16</sup> *ibid.*

<sup>17</sup> *ibid.*, p. xxvi.

<sup>18</sup> Christensen et al., "Breaking News: Mastering the Art of Disruptive Innovation in Journalism", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012, p. 6.

<sup>19</sup> Ellis Justin and O'Donovan Caroline, "Clay Christensen and David Skok: A Not-Quite-Live Blog of a Conversation about Disruption", *Niemanlab.org*, 2013.

<sup>20</sup> Christensen et al., "Breaking News: Mastering the Art of Disruptive Innovation in Journalism", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>21</sup> Ellis Justin and O'Donovan Caroline, "Clay Christensen and David Skok: A Not-Quite-Live Blog of a Conversation about Disruption", *Niemanlab.org*, 2013.

## 2.2 Starting from the basics – Understanding the audience

How to disrupt your own business from within and where to start? Christensen, Skok and Allworth have applied Christensen's theory to the news industry in their Nieman Lab report <sup>22</sup> that draws a useful framework for the legacy media companies to analyse and transfer their business to the digital age. Before the established media companies can start the change, they need to understand what business they are in. In other words they need to understand their audience and customers and why they want to use a specific medium in their lives. Christensen, Skok and Allworth <sup>23</sup> present a theory about *jobs-to-be-done* as a framework for understanding audiences. They argue that researching the customer segments is the wrong way of doing things, because the customers don't go around looking for and buying products, just because they happen to be e.g. 50-year-old men with good incomes, but instead people have problems in their lives, for which they need solutions. The customers neither know what they will need in the future nor what can be done with different current and future technologies.

Too many media strategies are based around the assumption that businesses can be best explained through customer demographics, price points or distribution models <sup>24</sup>. Instead of looking at just the segments and statistics, the media companies and editorial departments must understand the job of journalism. That is what jobs the media industry is hired to do in their audience's and customers' lives. The working methods in the newsrooms change all the time, but the jobs they are doing for their customers do not change, which the media organisations need to realise. By understanding the job the organisation is doing, the company understands what business it is in.

The legacy media companies are not like Google, Facebook or Twitter, which have concentrated on distributing content through search engines and social media – and the media companies don't even have to become like them. The only way for a legacy media company to succeed in the future media markets is to focus on doing its own unique job, newsgathering, better than the other players in the competition. We must remember, that newspaper companies are not in a news "paper" business, but in the information business <sup>25</sup>. That is why newspaper companies must break away from

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<sup>22</sup> Christensen et al., "*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>23</sup> *ibid.*

<sup>24</sup> *ibid.*, p. 8.

<sup>25</sup> Picard Robert, "*The Business Model Crisis of News Organisations*", *Lecture for the Journalist Fellows*, RISJ, 23.10.2013.

paper-centric thinking and from trying to copy the old mass-media business model to the new platforms. As mobile, social and visual trends are now changing the whole media industry, in future we will not be working for a newspaper, but for a news provider <sup>26</sup>.

## 2.3 Building a new business model

Today's news practices and the mass-media model were created to meet 20th century needs<sup>27</sup>, but this doesn't work anymore. The legacy business model has been unchangeable for ages, but now the Internet and digitalization are creating a constant need for transformation, innovation and investment in the news business<sup>28</sup>. The world changes and you can't keep providing the same content in the same way and expect it to work for the audience and customers. Instead business models require regular attention and review. You can't directly copy a business model from another company, but instead you have to create your own unique way to succeed in your own market <sup>29</sup>.

To build a new business plan, the media companies need to find new ways of creating value. Christensen, Skok and Allworth <sup>30</sup> have identified three steps for value creation in the news business.

These are:

1. **Newsgathering**
2. **Distribution**
3. **Sales and Marketing**

**Newsgathering** comprises all the resources and processes required to collect, write, shoot, edit, produce and package news and information. Today's wealth of information flooding in from everywhere has lowered the value of a basic news story, so that the legacy media donot have the news monopoly anymore. Think of a GPS

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<sup>26</sup> Newman Nic, "Future media trends and changing audience behaviour", *Reuters Institute Seminar*, RISJ, 6.11.2013.

<sup>27</sup> Picard Robert, "The Business Model Crisis of News Organisations", *Lecture for the Journalist Fellows*, RISJ, 23.10.2013.

<sup>28</sup> Grueskin & al., *The Story So Far: What We Know About the Business of Digital Journalism*, Columbia Journalism School, Tow Center for Digital Journalism, 2011.

<sup>29</sup> Picard Robert, "The Business Model Crisis of News Organisations", *Lecture for the Journalist Fellows*, RISJ, 23.10.2013.

<sup>30</sup> Christensen et al., "*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

device, which can tell you when there is a road accident on your route. Actually the problem is no longer finding news and information, but escaping it <sup>31</sup>. When the basic news is being commoditized, deepening the story – providing perspective, interpretation, context and analysis create new value in the media business. Curating – discovering relevant news, fact checking and aggregating is also one way of doing a new kind of news work at low cost. Also focusing on niche subjects or using digital tools for creating richer stories can create value <sup>32</sup>. Recycled news, cheap uninformed opinion, analysis without reporting and charlatanism are all bad habits of today's media industry. To build new value in newsgathering it is essential to be better and relevant and move from volume to quality. The basic news questions – who?, what?, where? and when? - are abundant and free commodities, but answers to the questions how?, why? and what's next? are scarce and costly content<sup>33</sup>.

**Distribution** of the product means all the ways that news organisations get their content into the hands of the audience <sup>34</sup>. There are two areas to look at when analysing distribution: scale and equipment. For media companies it is still essential to “leverage the scale of its audience, before they lose their competitive advantage” <sup>35</sup>. But instead of trying to get the audience to read the whole newspaper from cover to cover or making them watch the whole news program, companies need to enable audiences to consume individual articles or news stories. There is also a need for new kinds of subscription models or packages even through syndication or partnerships.

Many legacy media companies have excellent production capabilities and equipment, such as printing presses or photo studios, which are not used to their full potential. Instead of selling them or keeping them unoccupied, it is essential to look outside the company for ways to generate revenue from them. Another way of creating value is to make full use of the distribution channels and start delivering other products at the same time as the newspaper <sup>36</sup>.

**Sales and Marketing** includes selling the news and subscriptions, but also advertising and marketing. When finding new value for selling and marketing,

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<sup>31</sup> Picard Robert, “The Business Model Crisis of News Organisations”, *Lecture for the Journalist Fellows*, RISJ, 23.10.2013.

<sup>32</sup> Christensen et al., “*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*”, *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>33</sup> Sénor Juan, “Turning the page: The reinvention of the newspaper”, *Lecture for the Journalist Fellows*, Reuters Institute, University of Oxford, 12.11.2013.

<sup>34</sup> Christensen et al., “*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*”, *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>35</sup> *ibid.*, p.15.

<sup>36</sup> Christensen et al., “*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*”, *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

Christensen, Skok and Allworth <sup>37</sup> emphasize changing the perspective, when thinking about the media company's role in the community. They find three possibilities for creating additional value, which are consulting services, event marketing and long-tail repurposing. Consulting means creating a digital agency concept for local businesses, which can vary from copyediting to social media training. Hosting events can bring revenue from sponsorships and admission fees. Long-tail repurposing means creating value from the content beyond the daily or weekly news cycle, for example as e-books.

The weakness of the Christensen, Skok and Allworth three step model is that it doesn't truly take into account the newspaper's advertising customer, but is built mainly from the reader and audience point of view. Of course you can always argue that the media's main duty is to deliver content to its audience, but until now the traditional media has been an important carrier of commercial messages, the ads, too. It is also important to remember that the media business is crumbling from both sides: the consumer/audience side and the business-to-business side.

## 2.4 Changing tasks and eventually the culture

"Culture eats strategy for breakfast" is a well-worn saying, but very true, when changing the company's business plan. However visionary and brilliant the company's strategy might be, it doesn't work if the staff and the organisation's culture don't support it – because an organisation's culture defines how the people work within a company, not the strategy. That is why after the media company has defined its new value creation process and found out how it can outperform its competitors, the company needs to change the organisation to better produce the value in the different steps of the processes <sup>38</sup>. This may be the hardest part of the transition process. How to change the media company's organisation and culture to embrace and initiate disruptive change?

There are three factors affecting what an organization can and cannot do: its *resources*, its *processes* and its *priorities* <sup>39</sup>. When thinking about becoming more innovative, the company needs to assess these factors and their effect on the organisation's capacity to change. *Resources* are tangibles, like people and equipment, and less-tangibles like relationships with the company's business partners. But new resource allocation is not enough for understanding and making the change. We also need to analyse the processes and priorities. *Processes* are the ways of

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<sup>37</sup> Christensen et al., "Breaking News: Mastering the Art of Disruptive Innovation in Journalism", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>38</sup> *ibid.*

<sup>39</sup> *ibid.*

interacting, coordinating, communicating and decision-making to transform resources into products and services with higher value. Processes are set up for employees to perform tasks in a consistent way time after time and they are not meant to change. And when the process, like creating newspaper stories, is used for performing a different task, like publishing instant reporting through digital channels, it fails. *Priorities* are the standards by which an organisation's employees decide whether an activity is attractive or unattractive. All employees prioritise, consciously or unconsciously, at every level.

As companies become mature, employees start assuming that the processes and priorities, which made the business successful in the past, are also the right ones for the future. That is how the processes and priorities end up building and shaping the organisational culture. But changing an organisation's culture and making the digital transition is difficult. That is why Christensen, Skok and Allworth<sup>40</sup> recommend starting the change from the concrete tasks that the news organisation is trying to do, not from the processes or the culture, because processes and priorities, and eventually the organisation's culture, are born from the tasks.

## **1.Tasks → 2. Processes → 3. Priorities → 4. Resources → 5. CULTURE**

**Figure 1.** Steps for changing an organisation's culture.

### 2.5 Creating new capabilities

How to change the tasks and processes in a legacy organisation if there is no prior knowledge of how to perform the new tasks? Christensen, Skok and Allworth<sup>41</sup> define three ways to do it: creating new capabilities internally, spinning out an independent organisation from the existing organisation or acquiring a different organisation, the capabilities of which match the new tasks and processes.

When you create new capabilities *internally*, managers need to pull the relevant people out of the existing organisation and draw boundaries around the team<sup>42</sup>. The team should be totally dedicated to the new tasks assigned to them. Ultimately the new team boundaries facilitate new ways of working together, which can merge to become new processes.

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<sup>40</sup> Christensen et al., "Breaking News: Mastering the Art of Disruptive Innovation in Journalism", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>41</sup> *ibid.*

<sup>42</sup> *ibid.*



It is very difficult for a legacy company with a heavy cost structure competing in the high-end markets to be profitable in low-end markets as well. When it's hard to allocate resources for projects with unattractive margins, the company should spin the innovation project out as a new organisation. In that situation the company needs to be "patient for growth, but impatient with profits" <sup>43</sup>. In this case it is essential, that the new *spin-out* organisation has high-level support and stays out of the normal decision-making process, because it may even compete and cannibalize the company's traditional business. Often projects that don't match the company's existing business model will be given lowest priority or even face hostility from the legacy organisation. One way to solve this problem is to have a separate working space, but most crucial is that the disruptive project is not left at the mercy of the old organisation, which can see the new organisation as a threat and try to cause it to fail. This does not mean that the old business model and tasks should be entirely abandoned when confronted with disruptive change, but the managers need to run two businesses side by side, with some processes focusing on the present and others on the future. <sup>44</sup>

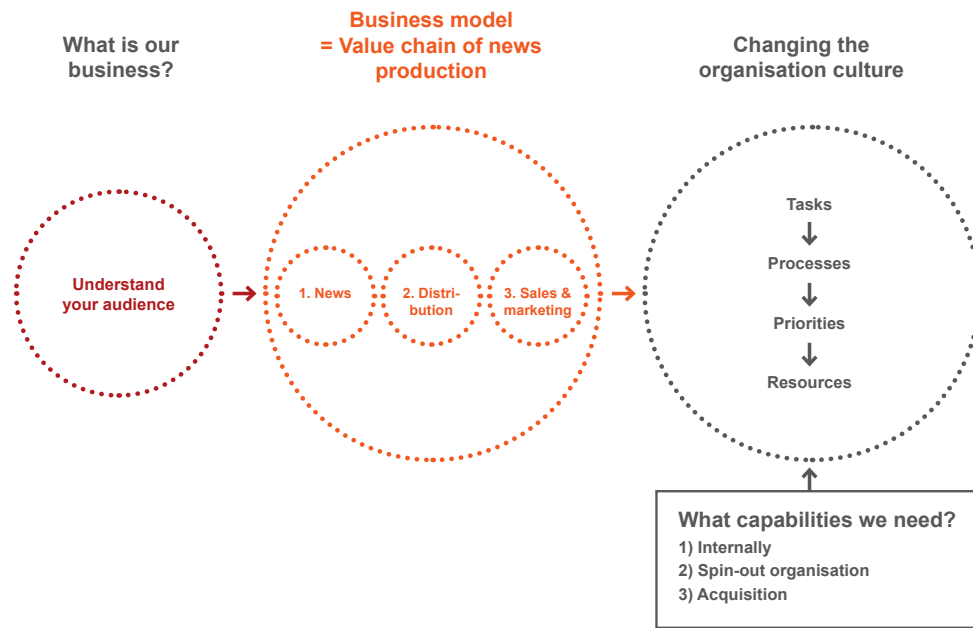
The organisation may also conclude that the innovation project cannot be created in-house or by creating a spin-out organisation. In that case the company should look for *acquisitions*. When buying outside firms, it is essential to understand what capabilities the company is acquiring and where the capabilities exist in the new unit. Is the company buying resources or processes and priorities? <sup>45</sup>

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<sup>43</sup> Christensen et al., "*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012, p. 18.

<sup>44</sup> Christensen et al., "*Breaking News: Mastering the Art of Disruptive Innovation in Journalism*", *Nieman Reports*, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>45</sup> *ibid.*



**Figure 2.** Model for making the digital transition and fostering disruptive innovation in the media business (based on Christensen et al., 2012).

Organisational change is seen nowadays as a swearword for many people working in big organisations. When there have been many successive organisational changes, the employees start to have a negative attitude to change. But as Christensen, Skok and Allworth <sup>46</sup> explain, organisational change in a legacy media company is not the solution, when you are faced with disruptive innovation. First you have to have the business model in shape as a starting point, and after that you can start changing the tasks, processes and priorities and ultimately the organisational culture, which harnesses the disruptive innovation.

Charles Warner <sup>47</sup> says that the main reason change and innovation is so hard in a legacy media company, is that the media organisations and the work processes within the companies are built for avoiding mistakes, and that journalists crave individual credit. Warner's solution for the problem is to start making mistakes and to introduce more and more teamwork. He also suggests that the incentives, culture and even the people in the media companies should be changed to make innovation possible. Bureaucracy and the legacy costs are also seen as the biggest reasons why legacy media companies don't succeed against the digital-only media <sup>48</sup>.

<sup>46</sup> Christensen et al., "Breaking News: Mastering the Art of Disruptive Innovation in Journalism", Nieman Reports, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>47</sup> Warner Charles, "Innovation In Legacy Media Companies: Not", Forbes.com, 2014.

<sup>48</sup> Carr David, "Ezra Klein is Joining Vox Media as Web Journalism Asserts Itself", Nytimes.com, 2014.

## 2.6 A recipe for regional newspapers

Christensen's original theory of disruptive innovation <sup>49</sup> has often been criticized as it is based only on research and changes to hardware businesses and doesn't take into account all the aspects of the more creative industries, like the media. The theory also disregards the power of the brand, which is crucial in the audience's engagement with the media.

Penelope Muse Abernathy <sup>50</sup> gives another perspective to the digital transition in legacy media companies and especially among the regional and community newspapers, which have "a unique mission and business model, distinct from the other industries". Abernathy, a Knight Foundation Chair of Journalism and Digital Media Economics from University of North Carolina, has conducted five years of research among small and mid-sized newspapers in the US. Instead of using Christensen's theory, she frames the digital disruption within the newspaper business with the economist Joseph Schumpeter's <sup>51</sup> term "creative destruction", which describes "how a new and disruptive technology makes one industry obsolete while creating the opportunity for another to subsume or replace it" <sup>52</sup>. In other words, "resources flow away from the aging industry, e.g. newspapers to a vibrant successor e.g. search engines, social media and blogs" <sup>53</sup>. That is why legacy media companies need to reinvent themselves for the new era and develop a whole new business plan to survive and accommodate the technological change – or risk being lost. Small adjustments aren't enough anymore.

Abernathy has worked together with Richard Foster, Senior Fellow from Yale and a management consultant, who argues that new technologies attack existing firms in three potentially lethal ways: cost structure, customer base and revenues<sup>54</sup>. Think of a traditional newspaper company, whose printing and distribution costs are huge compared to the online-only players' cost structure. Secondly readers' habits and expectations are changing quickly, which is why print circulation and reach has been

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<sup>49</sup> Christensen Clayton M., *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, HarperBusiness, 2000.

<sup>50</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

<sup>51</sup> Schumpeter, Joseph A. *Capitalism, Socialism, and Democracy*, New York, harper & Row, 1950.

<sup>52</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014, p. 1.

<sup>53</sup> *ibid.*

<sup>54</sup> Abernathy Penelope Muse, *Re-Inventing Community Journalism: New Business Strategies for the Digital Age*, presented at the RISJ conference "Local Journalism Around the World: Professional Practices, Economic Foundations and Political Implications", February 2014.

declining for twenty years. Finally, a large amount of newspaper advertising has been lost to other platforms and services, where the advertisers get more value for their money.

That is why Abernathy <sup>55</sup> suggests a simultaneous and aggressive three-pronged strategy for the regional newspapers to survive in the 21<sup>st</sup> century's tough competition:

1. The newspapers must shed out-dated legacy costs associated with the print-only era, e.g. distribution, publication dates, staffing, which don't provide value compared to the costs.
2. The local media houses have to build vibrant reader communities on multiple platforms, including print, website, mobile, social media and live events to grow their customer base.
3. They need to aggressively pursue new revenue opportunities made possible by the digital and interactive nature of the Internet.

How fast is the market then changing and how fast do the legacy companies need to change their business model? Foster <sup>56</sup> has researched other industries and concludes that "there is a very small window of opportunity for a company to respond to a disruptive change". To stay competitive and survive, the companies must seek "transformative change" of their business models to "keep pace with the change in the market". There is a 6% annual turnover in the world's 500 largest companies in terms of market value, which suggests, that the market is changing by 6% annually <sup>57</sup>. So in order to "keep pace with the market", a newspaper company should transform its business model at the same rate. In Abernathy's <sup>58</sup> view this means that newspaper companies should have "a strategy that aims for an average annual 6% decrease in costs, coupled with a matching increase in new revenues". So after five years, the legacy newspaper companies should have changed 30% of both its costs and revenues.

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<sup>55</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

<sup>56</sup> Foster Richard N. and Kaplan Sarah, *Creative Destruction: Why Companies That Are Built to Last Underperform the Market – And How to Successfully Transform Them*, New York, Doubleday, 2001.

<sup>57</sup> Abernathy Penelope Muse, *Re-Inventing Community Journalism: New Business Strategies for the Digital Age*, presented at the RISJ conference "Local Journalism Around the World: Professional Practices, Economic Foundations and Political Implications", February 2014.

<sup>58</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

## 2.7 Methodology

In my research paper I will analyse three regional newspaper companies, which have started the digital transition and begun changing their business models. I have chosen one regional newspaper company from Scandinavia, the Swedish Stampen Media Group, because the media landscape there is similar to that in Finland, but the regional newspapers tend to be a couple of years ahead of their Finnish counterparts. The second regional newspaper company comes from Northern California, US. The Press Democrat newspaper started to alter its business plan a couple of years ago and gives an interesting perspective on how to start searching for new revenues and changing the culture inside a media house. The third case is Johnston Press from the UK, which is struggling with a huge debt problem and cutting costs, but at the same time investing in the digital platforms and aiming to pass through the 'valley of death' with a rigorous strategy.

I will try to answer the question: how can we reinvent a regional newspaper company and change its organisational culture to better respond to the changes in the media business?, by following a comparative study. I'm going to look into what factors made the digital transition in these three cases a success and what failed. Is there a chance for a legacy media company to succeed against the digital-only media outlets? Christensen & al.<sup>59</sup> suggest that to adapt to the digital world and to perform in the new value creation process, the legacy media companies should have an organisational culture which harnesses innovation and tries to disrupt the legacy business. Meanwhile Abernathy's<sup>60</sup> response to the challenge is to build a new digital business plan to quickly replace the old revenue models and to cut the valueless print-era costs, while simultaneously building the regional and local community in different platforms.

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<sup>59</sup> Christensen Clayton M. et al., *Breaking News: Mastering the Art of Disruptive Innovation in Journalism*, Nieman Reports, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>60</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

### 3. Stampen Media Group – A case study on building new capabilities through acquisitions

*Founded:* 1813

*Number of titles (2013):* 29 newspapers and several niche sites (6 daily, 11 weekly & 12 free weekly)

*Circulation:* Göteborgs-Posten 191,000, (gp.se 500 000 unique visitors / week)

*Total readership:* 4 million weekly readers

*Annual revenues:* £431.8 million

*Revenue from digital:* 5-10%

*Total decline of revenues:* 9%

*Cost cuts:* £40.7 million

*Operating margin:* 1%

*Employees:* 5,000

*Presses:* 10 (2 shutting down in 2014 and 2015)

*Market:* West part of Sweden, Malärdalen, Bergslagen and Stockholm area + national websites

*Head office:* Göteborg, Sweden

*CEO:* Martin Alsander

Family-owned Stampen Media Group is one of the biggest newspaper owners in Sweden. The company's roots are in Sweden's second largest newspaper called Göteborgs-Posten, which has 600,000 daily readers in total.<sup>61</sup> I have chosen Sweden as one of my case study countries because the media landscape there is similar to other Scandinavian countries. Like Finland, Sweden has a strong newspaper readership and public broadcasting audience. The daily newspapers have a subscription-based revenue model and almost all the copies are delivered straight to the readers' homes early in the morning. The local and regional newspapers are spread throughout the country, and the Internet and mobile penetration is also strong.

Since 2005 Stampen Media Group has grown steadily through acquisitions, including some outside Sweden, but the growth and internationalisation strategy combined with the structural change in the media business and the economic recession has left the company in an economic crisis with a big debt – last year it made a loss of £78 million. At the same time the company has laid off 500 employees and made other structural changes to cut costs. Now the company consists of three divisions: *Local Media* for 29 local paid and free titles and their digital platforms (including the daily morning paper *Göteborgs-Posten* and *Mitt i*, a local newspaper for Stockholm's 31 neighbourhoods), *V-TAB*, the Nordic region's largest printing company and *Stampen Media Partner* for

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<sup>61</sup> Stampen.com, 2014.

digital media, communication services and outdoor advertising <sup>62</sup>. Stampen also runs a network company, Mkt Media, for digital development work together with several other Swedish newspaper houses <sup>63</sup>.

Stampen has expanded its business beyond the purely regional and local media brands and services – the company now has a wide range of digital services and niche sites from family life and weddings to sports and fashion blogs, which target the national market <sup>64</sup>. That is why in 2013 the media house changed its name to Stampen Media Group to highlight the company's broad offering in the media market <sup>65</sup>. At the end of March 2014 Stampen Media Group's CEO *Pelle Mattisson* resigned after just one year in the job and the company now has a new deputy CEO, *Martin Alsander* from Stampen Media Partner <sup>66</sup>.

I interviewed *Martin Holmberg*, who works as a head of editorial development in the Stampen Local Media's new development and sales team.

### 3.1 Making the digital transition

Stampen Media Group started its digital transition nearly 20 years ago from Göteborgs-Posten. The website gp.se was launched in summer 1995, when the World Athletics Championships were held in Göteborg. Since then the importance of the company's digital channels has grown steadily. In recent years especially, the explosion in mobile phone use has accelerated the company's transition to digital and now the company's vision is to be Sweden's market leader in mobility <sup>67</sup>. In particular Göteborgs-Posten has been an early adapter in mobile technology and has been providing different mobile services for 15 years, including award-winning apps <sup>68</sup>.

Like the traditional media industry all over the globe, Stampen Media Group has tested different kinds of business models for the digital platforms, but hasn't yet found a sustainable solution for the new revenue streams. For example Göteborgs-Posten has tried a paywall, in-app purchases, sponsorships, digital photo books and native advertising. At the same time readers are rapidly making the transition from printed newspapers to the digital versions. Two smaller daily newspapers – Hallands Nyheter and Hallandsposten – tested premium content, mainly local news, on their

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<sup>62</sup> "Året i korthet 1 Januari – 31 December 2013", *Stampen.com*, 2013.

<sup>63</sup> *Stampen.com*, 2014.

<sup>64</sup> "Annual Report 2012", *Stampen.com*, 2014.

<sup>65</sup> "Året i korthet 1 Januari – 31 December 2013", *Stampen.com*, 2013.

<sup>66</sup> *Stampen.com*, 2014.

<sup>67</sup> "Annual Report 2012", *Stampen.com*, 2014.

<sup>68</sup> "Göteborgs-Posten Takes Its Mobile Focus to the Next Step: Revenue", *Inma.org*, 2012.

websites and launched a payment solution in 2013, where readers could select whether they wanted the paper in printed or digital format or as a combination <sup>69</sup>.

***“The aim was for 50% to activate the digital newspaper in 2013; after just one month, we had 30% on board.”<sup>70</sup>***

Even though the readers want to use digital platforms, the amount of digital revenue is still very low. In Stampen Media Group digital revenue differs among different titles, but on average a traditional morning paper gets 5-10% of its revenue from the digital platforms. That is why the company still wants to protect the “valuable” paper format and doesn’t want to shift the readers too quickly to the digital channels, which the readers see as “less valuable”.

***“In our audience’s mind the print paper has value meanwhile online channels are supposed to be free. Therefore we still have an e-paper that looks exactly the same as the print version. We can develop more interesting digital products, but not before our readers appreciate it in real value, which means that they are willing to pay for the new possibilities.”***

Although Stampen’s newsrooms now focus on the “digital first” way of doing things, the printed paper is still important in many ways in the media company’s total business. The printed paper is strong, because its circulation in the local markets is still high and the paper generates the main part of the media company’s revenue. The printed edition of the morning paper is also the base for all the local e-papers.

Holmberg thinks that the most important thing when making the digital transformation is to keep pace with the audience, which is often difficult. In launching new products, the company has had experience of sometimes being too early, but also too late, when clinging on to the print channels instead of seriously starting the digital transformation.

***“An example of when we were too early: GP launched two great mobile apps several years before Apple introduced the iPhone. It was a commercial failure of course. And an example of being too late: we, as did the newspaper business in general, focused too much on the printed channel for too long before we seriously started to move people to the digital channels.”***

## 3.2 Changing the tasks

The rise of mobile phones and tablets has in particular affected the newsroom working processes. For example, since so many readers have started to consume news via their mobile devices, Göteborgs-Posten has extended the editorial department’s working hours by one hour in the morning and one hour in the evening, because people check their mobiles even before they get out of bed, and end the

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<sup>69</sup> “Annual Report 2012”, Stampen.com, 2012.

<sup>70</sup> Marie Erlansson in “Annual Report 2012”, Stampen.com, 2012, p. 13.



day with a few minutes of news before they go to sleep. The digital transition has also brought new tasks for the newsrooms, e.g. web-TV and social media editors among others. Overall the company believes that it is important to offer content and to reach its target groups in whatever platforms they prefer to use, which evidently also causes changes to the tasks within the media house. As Stampen's former CEO Pelle Mattisson says in the company's annual review 2013:

*"Stampen now reaches some 4 million people, more than ever before, in a broad spectrum of channels: from girls and young women via the digital site Devote (a fashion blog site), to our faithful local printed newspaper readers. The fundamental idea is to be available in all channels used by our target groups."*<sup>71</sup>

Still there is no clear vision as to what is the best option for carrying out paper and digital functions in editorial and sales and marketing departments. The company has tried using the same or separate organisations for the different platforms and is still in the process of figuring out the best way of doing things. But for example, most of the members of the sales department sell both print and digital.

Over the years, the media company has tried different versions of research and development work, but just recently it formed a new R&D unit within Stampen Local Media. The new development and sales group works for several titles in the division and its main mission is to develop products and services to sharply increase the company's digital revenue. The team members come from a mixture of different backgrounds with editorial, sales and technical experience. The company sees in-house co-operation as essential, when developing new digital products and revenues.

### 3.3 People, capabilities and culture

Almost all the departments in the media house have seen a decline in staff in recent years. As in many other media companies, the increase in automation, structural change in the media industry and economic recession have reduced the number of employees. There have also been cut backs among the management staff – in 2013 the number of company leaders shrank from 18 to 7 people, who now have broader responsibilities<sup>72</sup>. Digital has been the only growing field, when looking at the number of staff. The vast majority of staff are still working in the traditional newspaper professions, although there is a rising need for analysts, technical developers and system managers for the different digital platforms.

At the same time (2009–2010) across the border in Norway, the regional media company A-Media conducted a study, where they wanted to measure how much

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<sup>71</sup> Pelle Mattisson in "Annual Report 2012", *Stampen.com*, 2012, p. 8.

<sup>72</sup> "Året i korthet 1 Januari – 31 December 2013", *Stampen.com*, 2013.

work is done on the traditional print side and how much on the digital side <sup>73</sup>. They found out that 90% of the media company's resources were used on print and only 10% on digital, even though 66% of the readers were using the different digital platforms. After that A-Media decided to start a 50–50 project to dedicate equal resources to print and digital – now for example all the journalists in the Norwegian company are delivering content fully to all platforms.

To gain new capabilities and revenues, Stampen has formed a separate division called Stampen Media Partner, whose task is to reduce the company's dependency on print and its traditional revenue streams. The new and growing digital business areas, especially mobile, video and "content marketing" are part of this separate unit, which has grown fast during recent years. Stampen Media Partner's strategy has been to "buy companies that have already made some market headway – not to invest in start-ups" <sup>74</sup>. That is why the company is now strong especially in the field of digital media for women, communication services, mobile, TV-production and outdoor advertising <sup>75</sup>.

*Oscar Westlund*, a Swedish new media researcher, conducted a longitudinal study <sup>76</sup> in Göteborgs-Posten during the years 2008-2010, when the newspaper started to innovate its mobile media. Westlund shows in his research how the culture of the media house has changed over the years, when developing and innovating the new digital platform. Göteborgs-Posten moved to the mobile as an early adapter. In the early years of the millennium, the mobile was a personal passion of a few people working in the editorial and technical departments – the same people, who had been working with the newspaper's website in its early stages. The sales people, the "suits" came along later, when the platform was more developed. In 2007 the mobile was seen as so important, that the newspaper had its own mobile editor, who manually edited the content to be published there. The mobile development project was lead by a "techie", which was a new concept for a traditional newspaper house, where the platform development had previously been done by the editorial department, the so called "creatives". That is why the technical approach characterized the digital development work in the early days. In 2008 the mobile editing was supposed to be integrated into the existing editorial organisation, but as the recession came, print and web were prioritised over mobile, as they had more users and revenues: the mobile content was no-one's responsibility and the publishing was done automatically through CMS. The development work for mobile was carried out in the background, e.g. personalisation and positioning functions were created, plus an iPhone app and

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<sup>73</sup> Interview with Stig Finslo, A-Media, Norway.

<sup>74</sup> "Annual Report 2012", *Stampen.com*, 2012.

<sup>75</sup> "Året i korthet 1 Januari – 31 December 2013", *Stampen.com*, 2013.

<sup>76</sup> Westlund Oscar, *Cross-Media News Work: Sensemaking of the Mobile Media (R)evolution*. JMG Book Series no. 64, Gothenburg, University of Gothenburg, 2013.

HTML5 version for the iPad. Along with the mobile development project, a new organisation culture had been born. The practical work showed that new, more open boundaries between the “creatives, techies and suits” were essential, when transferring the media house to the digital era. Trying new things, speed and making mistakes were a new way of innovating and transforming the company. Intra-organisational co-operation and being physically together were proved to be important in the innovation of a new kind of digital business.

### 3.4 Risks and challenges

Stampen Media Group hasn't achieved high digital revenues as soon as it hoped. According to Holmberg, this is because the company started the transition to the Internet too late and was afraid to cannibalize the core newspaper business. Holmberg sees that Stampen has succeeded better in the field of mobile platforms, because the company started to build mobile services early and had a strong strategy, which was based on analysis.

***“Timing the change is important, when doing the digital transition. Partly the media companies need good analyses and partly profound experience to recognize the right time to launch new products. Sometimes you must be brave and sometimes you need patience.”***

In Holmberg's view the biggest risk in the digital transition for a legacy newspaper company is trying to copy the concept of print and its business model to the new digital channels. There are also arguments, that the legacy media can't change and innovate, but Holmberg sees the opposite.

***“Traditional media innovates all the time. The question is, do we manage the transition fast enough? But I can promise you: there is and have been a lot of innovation and radical change in how to work. Don't forget we are experiencing a historical journey and a revolution.”***

### 3.5 The future of local media

Holmberg believes that journalism and local journalism will still have an important role in the future, but the difference in today's media ecosystem comes from how the news is produced and distributed and also how the audiences consume the journalistic content. Still the biggest question remains without a clear answer – how will high quality journalism be financed?

***“The biggest challenge for a legacy newspaper company is how to adapt its costs to maybe permanently lower revenues.”***

Stampen has great trust in its local brands and local audiences, when building the future. As Bosse Svensson, Business Development Manager at Stampen says <sup>77</sup>:

***“What we do know is that people are willing to pay for local news, that our reach is expanding and that we have strong local brands.”***

To find viable commercial solutions, the company believes that the local newspapers must “achieve a position as a digital media agency for small and medium-sized companies in need of geographically-defined communication” <sup>78</sup>. Or as Per Holmqvist, founder of Mobiento (mobile company acquired by Stampen) and a member of Stampen’s mobility team, says:

***“The strong customer relationships we have established on local markets open up major opportunities. It’s partly about identity, about making the move from being a local newspaper to becoming a local media company.”*** <sup>79</sup>

The future is still obscure and there are no straight answers as to what an optimal kind of modern media company is, but Stampen Media Group believes that the key thing for a local media outlet to survive is, in Pelle Mattisson’s words, to “encourage participation in society” and to “commit to making things better” <sup>80</sup>.

***“Stampen maintains a focus on issues that bring people together and combine journalism with interactivity. While the company’s objective remains the same, our conviction to it is stronger than ever: to create a close community based on everyday life that advances our society today and in the future.”*** <sup>81</sup>

### 3.6 Conclusion

I couldn’t get all the answers I wanted from my email interview with Martin Holmberg, and he and the other staffers in Stampen were too busy to answer my further questions, so I had to build this case study by using other sources, which has left me reluctant to draw out too many conclusions about the company’s situation. Nonetheless, Stampen Media Group has done the right thing in building new capabilities for digital transition and broadening its revenue streams through acquisitions, but the effort has left it with a debt problem. The strategy of buying companies which have already built some market share and not to invest in pure start-ups, is a good one, but costly. The start of the digital transition hasn’t been easy and the media house has had a few tough years as both sales and profit have dropped dramatically. It hasn’t been easy for the management either – Stampen’s former CEO resigned in spring 2014 after working for just over one year in the position.

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<sup>77</sup> Bosse Svensson in “Annual Report 2012”, *Stampen.com*, 2012, p. 13.

<sup>78</sup> *ibid.*

<sup>79</sup> Per Holmqvist in “Annual Report 2012”, *Stampen.com*, 2012, p. 13.

<sup>80</sup> Pelle Mattisson in “Annual Report 2012”, *Stampen.com*, 2012, p. 8.

<sup>81</sup> Pelle Mattisson in “Annual Report 2012”, *Stampen.com*, 2012, p. 6.

The company has tried a number of ways of gaining new revenues, but there hasn't been any ultimate solution for replacing the loss from print. Concentrating on mobiles has been visionary and the company is also preparing itself for the other future technologies by having created a separate unit for developing new digital business: video, national niche sites and native advertising among others. Also the local media division has recently formed a development unit, which includes a variety of expertise, to pursue digital growth among the regional and local titles. The idea of a separate development unit away from the legacy media's work processes is totally in line with Christensen's theory of adapting to the disruptive environment.

Stampen Media Group is investing heavily in digital, but still clinging strongly to the print format, which brings in most of the revenues. In the regional titles, most of the staff are still doing the traditional newspaper tasks and the company is balancing between maximising print revenues and investing in the future. Now that Stampen's revenue margin has dropped to as low as 1%, in my opinion the company has to start dramatically changing the legacy tasks to tackle digital in the other parts of the company as well. The smaller regional titles have to transform themselves from local newspaper companies to local media companies, which support and connect with the local community and businesses. As part of that phase, Stampen's managers need to make a critical evaluation: can they train the legacy staff, especially editorial and sales, to the new tasks or do they have to recruit new people to make the change?

The digital projects have created new boundaries within Stampen Media Group and formed a culture of intra-organisational co-operation in some parts of the company, but it seems that the company as a whole hasn't been brave enough to take the big step of striving for a new way of doing things. Until now Stampen Media Group's overall strategy seems to have consisted of many individual digital projects and try-outs, but the next phase for the company is to start spreading the knowledge down from the separate units and forming a whole strategy instead of many separate ones.

## 4. Johnston Press – A case study on how to change the culture despite a huge debt problem

*Founded:* 1767

*Number of titles (2013):* 263 newspapers (13 paid dailies and 209 weeklies, 41 free weeklies), 209 websites (inc. 13 e-commerce sites) and 10 lifestyle magazines

*Circulation:* The Yorkshire Post 31,442 (daily)

*Total readership:* 21.2 million / monthly

*Total revenues:* £ 291.9 million

*Revenue from digital:* 8%

*Total decline of revenues:* 5.5%

*Cost cuts:* 338 million GBP

*Operating margin:* 18.6%

*Employees:* 4,188, digital team quite small

*Presses:* 3

*Market:* Western UK and Northern Ireland

*Head office:* Edinburgh

*CEO:* Ashley Highfield

Johnston Press is an interesting case, because it's the UK's only newspaper and media group concentrated purely on the regional and local news business<sup>82</sup>. The company started from a small beginning in Scotland, but after listing on the London Stock Exchange in 1988 it grew through acquisitions, maybe even too much, during the 1990's and the early 21st century. In recent years Johnston Press has had to make massive cuts to pay off its huge 400M£ debts – a consequence of its rapid growth. During 2012 – after turbulence in the management – the company hired a new digital-minded CEO, *Ashley Highfield*, who had previously worked for Microsoft and the BBC, but had no prior newspaper experience. That same year Highfield made immense cuts and over 1,300 people, almost quarter of the company's staff, had to leave their jobs<sup>83</sup>. In April 2014 the company made big losses selling off all its Irish titles and concentrating the business on the UK and Northern Ireland. At the same time the company is striving for a new digital strategy and aims to earn equal amounts from digital and print by the year 2020<sup>84</sup>.

As in Finland the UK's public broadcasting company, the BBC, is a strong player, but the newspaper business differs, as "the media environment is characterised by a vigorous and highly competitive national press – including a strong tabloid sector

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<sup>82</sup> *Johnstonpress.co.uk*, 2014.

<sup>83</sup> Sweeney Mark, "Johnston Press's Ashley Highfield inflicts 'maximum pain' on staff", *Guardian.com*, 2013.

<sup>84</sup> "Towards 2020: Transforming Local Media Across the United Kingdom & Republic of Ireland. Vision, Strategy and Execution Plan, April 2012", *Johnstonpress.co.uk*, 2012.

accounting for the majority of newspapers sold daily <sup>85</sup>". Also the English language creates global competition, especially among the national and international media players, and the readers have a huge variety of different media sources compared to a small number in the Finnish language. The UK's regional and local press is concentrated around a few big companies operating in a tough market. During the second half of 2013 the UK's regional daily newspapers lost sales at their fastest rate ever, falling by an average of 14% year on year <sup>86</sup>. During the media business decline more dailies have become weeklies supported by their digital platforms, but there haven't been many closures, like the case of the 158 year-old Liverpool Daily Post, which closed at the end of 2013 <sup>87</sup>.

I chose Johnston Press as a case study because it is a company in trouble, which is striving to find a rigorous new strategy. I interviewed *David Rowell*, who is the head of editorial development at Johnston Press. Rowell's job is to help the staff at Johnston Press to develop new skills to take the company into the digital age. He has a team of 5 people, who travel around the UK and Northern Ireland to train the staff.

## 4.1 Making the digital transition

During the past two years Johnston Press has focused seriously on the digital transition and today they have a strong "digital first" strategy, which means that online is always considered first, when publishing and planning content. But the beginning of the transition was difficult and before the new strategy became clear, there was a period of three years, when the management didn't know where the company was heading and couldn't decide whether they should go for digital transformation or not.

***"We have been going down the digital transition road on and off for about 5 years, but really seriously for about 2 years now. We went through a process where we weren't really sure, whether readers wanted digital or print or the company didn't know, but I think we have now made our minds up, that print can't survive without digital and digital can't go forward without some print."***

Even though the company's strategy is "digital first" there are still people who are resistant and who don't believe in digital. The job of Rowell and his team is to educate the staff to get on board with the company's strategy. In editorial work this means that all breaking news goes to the digital platforms first, and the editors need to think 24/7. Every journalist is trained to work with digital content as well as print, because there are no "digital-only" journalists, and only the bigger newsrooms have a

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<sup>85</sup> Reuters Institute's Digital News Report, 2014.

<sup>86</sup> Ponsford Dominic, "UK regional dailies lose print sales by an average of 14 per cent year on year", *Pressgazette.co.uk*, 2014.

<sup>87</sup> Bounds Andrew, "Liverpool Post to close after 158 years", *FT.com*, 2013.

digital editor. The editors still have a choice about which content goes exclusively to print. According to Rowell, teaching people is a very slow and tough process and the company is still in the process of making the digital transition.

Marketing and sales has become involved slightly later than the editorial department, because for sales it was essential to have the digital platform ready first. The ad representatives are supposed to sell integrated solutions to their customers, but in reality this is not always the case. In building a new business model, Johnston Press (JP) has created different kinds of verticals for the key business areas e.g. properties, jobs, cars, deals and entertainment, in partnerships, to get national coverage, which are supported by the local feeds. JP also arranges shows and exhibitions around the UK.

Johnston Press' audience has moved rapidly to the digital platforms, especially in the field of mobile. The declining print circulation figures are compensated for by the increasing digital audience, but the process of transferring ad revenues from print to digital is slower. Print is still a major revenue source (70% of total revenues) for the company and despite the new strategy print can't be dropped from the portfolio. In order to gain the highest possible revenues from print sales, JP has applied a higher cover price strategy. In Rowell's words the company "wants print to continue and digital to beat it".

After introducing the new business strategy, the company moved towards one brand, "Johnston Press", instead of just selling the local newspaper brands. In local market places the local brands are still very important for display advertising and readers, but when it comes to the national verticals, e.g. promoting the jobs and property markets, the company now has managers who run the verticals right across the business under the name of Johnston Press. Also Rowell's role has moved into putting forward the "Johnston Press message" as opposed to dealing with what local editors want. The company has built up a central business, which does development work for everybody, but still relies heavily on the local community's support.

One of the most difficult things in the transformation has been the inflexible and complicated technology, which doesn't fit easily into digital first thinking.

***"We don't have a digital system, which is digital first. We still have a print system. It's too many clicks to get a story online. We almost want to be where Facebook is, where you write a story and click on it and the story goes online. Now you have to put metadata etc. Actually getting the story to print and online is quite a clicky business."***



## 4.2 Changing the tasks

Along the road of digital transformation JP has gone from being very local to having central functions. The new organisation structure has also been a consequence of having to cut costs after a huge debt problem, but as Rowell puts it, “the tough economic situation may even have forced the company to move faster towards digital”. The public-facing people, journalists and ad reps for display ads, are local, but all the backend functions and specialisation areas have been centralised, e.g. design and production. Also subscription sales and classifieds are dealt with in two big call centres. Even though the company has lost some local expertise, Rowell sees that they still have a unique local presence compared to national players like the BBC, and a system which is much more efficient than before. The customer service desks for taking in death notices or birthday greetings were, from the company’s point of view, an expensive way of getting “a tiny little bit of business”.

***“We have lost some local knowledge, people who would know if something was wrong and would have spotted it and been able to put it right. They are no longer with us. But the benefits outweigh that as we now have a much more efficient system centrally.”***

The incentives have also changed following the digital transition. Editors’ incentives and bonuses are linked to the total audience from both the print and digital platforms, and the ad reps’ bonus salaries are linked to the digital sales results.

Also the physical spaces have changed and JP is in the process of moving staff from large, old industry offices downtown to small, modern, centrally located buildings. Now the company has a policy of selling off the big industry buildings, which 30 years ago housed printing presses and editorial offices. The number of presses has gone down from 7 to 3 and today the main press is a modern robot run facility. The new offices are built as open spaces to enable better networking inside the media house, even the editors and the CEO don’t have their own offices, but work in the open plan area. In smaller towns JP is closing down offices and people are working from home or from community halls.

Although JP has a big debt problem, it has been willing to invest in technology, which helps people and the company to move forward into digital. Every reporter is carrying “MoJo” (mobile journalist) equipment: a laptop and a smart mobile phone which creates a wifi hotspot to send content back to the newsroom. The journalists can work wherever they want and multitask by taking pictures and videos with their equipment. JP uses different Google applications e.g. Gmail, Google drive and Google calendar for communicating within the team and sending content. The reason for using

Google's tools is their cheapness and flexibility compared to the traditional content management systems. Online meetings are also used a lot. For example one editor is having weekly meetings in the town's community centre and daily meetings through Google hangout wherever the reporter might be at the time. In the sales and marketing department all the advertising reps have an iPad for presenting ad designs and other detailed information to customers.

### 4.3 People, capabilities and culture

JP constantly has a small turnover of staff. The new people recruited have to be "digitally minded" and "switched on to technology". JP sees itself as a training body for young journalists graduating from colleges, where the youngsters stay for 3-4 years before taking on new challenges. Most of the journalism trainees come with clear ideas about where the media house should go in the future.

The new capabilities are developed in-house and in co-operation with other news groups. JP has also recruited digital-minded managers from outside the company. For example a new digital chief, *Jeff Moriarty* from Boston Globe, started his job in April 2014. Some of the functions, like the advertising design and web development work have been outsourced. A couple of years ago Johnston Press had some in-house developers, but outsourced them after realising that the company didn't have enough skills for the demands of the digital development.

The in-house training team consists of 6 editorial instructors and 10 advertising instructors, who travel all over the country. The company has centrally driven courses and it has also invested in a learning management system, so that more journalists and sales staff can educate themselves.

JP is also in the process of setting out new values that fit the new "digital first" business model. They have an annual staff survey which measures staff engagement in the business. The management has an important role when pursuing the digital future. The company's senior management team has totally changed after starting the digital transition, because the previous leadership team "lost their way with the banks and the transformation process". Now Johnston Press has a totally new and younger team, which is striving determinedly for the new strategy.

### 4.4 Risks and challenges

Rowell believes that one of the biggest failures of the company has been the

hesitation in starting the digital transition.

***"There was a period of time, when there was no clear message and strategy from the management in the company where we were heading, but during the last years there has been a strong and clear digital strategy."***

From Rowell's point of view the biggest risk is that digital fails, although the company still has a strong foothold in the print camp, which is absolutely necessary for the future. Another risk is that print will totally disappear, which Rowell doesn't believe. "But what isn't a risk anyway?"

The biggest obstacle in changing the business model has been getting people on board, and bringing change into the big organisation, when everybody is afraid that they may lose their jobs. At the same time they have had the huge debt problem and the company has had to cut jobs.

***"If you were starting again, you would look at it in a totally different way, so you would not have the print legacy that you have got, you would not have an editorial system, that is print focused, you wouldn't have presses that just produced what they do, but we have and that's the way where the industry has gone. You would probably have more technology capable people that could do television and video and all that sort kind of stuff."***

Rowell argues that if the newspaper industry could start again from nothing, it would not have the print and other legacy costs, but instead it would have technology which would support multiplatform publishing, and the knowledge and capabilities to publish and do business in digital too. In Rowell's view, the whole industry is all a bit late, because "we all thought that it will go away, but we should have done the transition a bit earlier".

## 4.5 The future of local media

Rowell believes, that there is always a need for local news and local media, but on the other hand people's lifestyles and communities are changing and at the same time the need for knowledge about the community is changing.

***"Before you knew everybody in the community, not anymore, even the neighbours don't know each other. We don't become part of the community anymore. The world is globalising and people travel and move a lot. Children and school is almost the only thing to attach people to the community."***

Rowell believes that to survive the local media has to become big in numbers and strong in digital. In the future there will be only a couple of major media outlets in the UK.

## 4.6 Conclusion

Johnston Press' response to the digital transition and the company's debt problem has been to cut costs sharply by centralising as many functions as possible, laying off staff, letting go of the legacy facilities and using cheap software. At the same time the company has invested in digital technology and equipped all its journalists with a mobile phone and a laptop. The cost cutting has been successful, as in 2013 the company's operating profit grew by 2.5% for the first time in seven years <sup>88</sup>.

The company serves as an example of how a large legacy newspaper company can cut costs, and how to centralise different functions, but for a regional media house, a delicate balance must be found between centralising and being deeply involved in the community. Johnston Press has received a lot of criticism for lowering the editorial quality of its regional titles while chasing profits, as in the case of The Scotsman, which the company bought in 2005. The circulation of Scotland's national paper went down from 100,000 copies (2000) to under 30, 000 (2013) in just 13 years <sup>89</sup>. Shortly after the acquisition Johnston Press also centralised the newspaper's own web development team, and after that what was once one of the UK's best website visitor rates started to fall dramatically <sup>90</sup>.

The media house has outsourced all its development work, as experience has shown that the company doesn't have the proper skills in-house to keep up with the technological changes. But to thrive in the future, Johnston Press has to ensure that it also has innovative and technological skills within the organisation – people who understand journalism, but who know how to take advantage of the digital opportunities. Johnston Press has already started to strengthen the management team's capabilities, but recruitment of new, digital-minded staff must also be implemented in the other parts of the organisation.

Johnston Press has taken many steps towards adapting to the future, but there is also a lot of spin around the fact that the company is struggling under huge debt and trying to find a new path for growth. Also the new CEO, Ashley Highfield, coming from outside the traditional media industry, is under pressure to prove himself at the new job. The company has a brave vision in aiming to have equal amounts of revenues from digital and print by the year 2020 <sup>91</sup>, but the new digital revenues have

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<sup>88</sup> "Transforming Local Media. Johnston Press plc. Annual Report and Accounts 2013", *Johnstonpress.co.uk*, 2014.

<sup>89</sup> Fraser Douglas, "Scotsman in trouble", *Bbc.co.uk*, 2013

<sup>90</sup> MacMillan Arthur, "The sad decline of The Scotsman", *British Journalism Review*, Vol. 23, No. 4, 2012, pages 64-69.

<sup>91</sup> "Towards 2020: Transforming Local Media Across the United Kingdom & Republic of Ireland. Vision, Strategy and Execution Plan, April 2012", *Johnstonpress.co.uk*, 2012.

to grow sharply during the next six years to replace the print losses, and the company must start innovating new marketing solutions for the businesses at local level.

The “digital first” strategy has been in place for the past two years, but the company still has a huge amount of work to do in changing the culture and equipping all of its staff with new tools and skills for digital. In a large and very traditional newspaper company like Johnston Press, with hundreds of different local titles, changing the culture and spreading knowledge is an extremely difficult task, but it’s the next core thing to do, if it wants to change the business model and succeed in the future media market. At the same time the media house has to make sure that the cost cuts don’t alienate it from the local communities and it doesn’t lose the unique feel of its local titles.

## 5. The Press Democrat – A case study on how to disrupt your own business plan

**Founded:** 1857

*Number of titles (2013):* 1 paid daily + 2 paid weeklies + business journal & several niche sites

*Circulation:* The Press Democrat 54,500 (Sunday), 52,000 (daily)

*Total readership:* 190,000 print readers / week, 55 000 website unique visitors / day

*Annual advertising sales:* £15.9, million (60-65% from total revenues)

*Revenue from digital:* 25%

*Total decline of advertising revenues:* 5%

*Cost cuts:* 4% (approx.)

*Operating margin:* Not public

*Employees:* 235, digital 22

*Presses:* 1

*Market:* Sonoma County, Mendocino County, Lake County (North San Francisco Bay Area)

*Head office:* Santa Rosa, California

*Publisher:* Steve Falk

I chose to study The Press Democrat, because it gives an example of how to change the legacy business plan and how to start changing the media organisation to meet new goals. The Press Democrat is the largest daily newspaper in the San Francisco Bay area <sup>92</sup>. During its history, the newspaper has gone through several ownership changes from local to national and back to local again. Originally the 160 year old newspaper was family-owned, but it was sold in the middle of the 80's to the New York Times Company. In January 2012 the New York Times Company sold almost all of its regional newspapers and Press Democrat Media briefly joined a Florida-based start-up company before it was sold again in November 2012 to a local investor group along with the North Bay Business Journal and the Petaluma Argus Courier (the newspaper of the county's second largest city) and all their affiliated websites.

Journalistically The Press Democrat has a good reputation – the newspaper won a Pulitzer prize in 1997 for its local journalism. Along with the newspaper's main website, the company publishes several niche and community sites for smaller towns in the area, a political site called Watch Sonoma County and other sites and blogs covering business, baseball, college series, family life and dining. Sonoma County is a traditional wine producing area, where people love to go out and dine. Also the proximity of the Silicon Valley gives the media company an advantage – everybody carries an iPad and the media company has the possibility of recruiting digital-minded people.

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<sup>92</sup> Pressdemocrat.com, 2014.

The US media business has changed dramatically during the last two decades: newsroom staffing levels have decreased by one-third since the year 2000, the amount of local government news has fallen by half and the consolidation of small and medium sized newspapers by investment firms has put them into a one-sided cost cutting spin without any reinvestments<sup>93</sup>. But the year 2013 and early 2014 gave positive signals and new energy to the industry as the amount of digital news sites exploded, bringing technological knowhow and new money, especially from the tech industry and philanthropic sources, and attracting top talent. Still the majority of original news reporting comes from legacy newspapers, and local television is the primacy place to get the news.<sup>94</sup> The US media environment is also an interesting market to study, because all the major global competitors and disruptive technologies for the legacy media, like Google, Twitter, Facebook, Huffington Post, BuzzFeed and ProPublica among others come from there.

I interviewed *Bruce Kyse*, former editor and publisher of The Press Democrat as part of my research. Kyse led the company's digital transition, but stepped down and left the newspaper in October 2013, a year after the last ownership change.

## 5.1 Making the digital transition

The Press Democrat was among the earliest companies to start the digital transition, when in 1995 they hired the newspaper's first digital employees and launched its website. After that they launched a website called WineToday, which was built around the county's famous wine industry. The site grew so popular that the parent company New York Times bought it. In 2005, when Kyse came back to The Press Democrat from being a corporate leader in the New York Times Company, he realised that the newspaper was lagging behind on the digital platforms and started to aggressively strengthen its position by hiring a digital director for the media house. The editorial department started to publish 'digital first' and the ad department went through big changes in their work.

Three years ago The Press Democrat re-wrote its business plan, and the company set goals for the next 5 years to accelerate the digital transition and the aim of moving closer to 50% of revenues from print and 50% from digital. The parent company New York Times invested several million dollars in the new plan. As a result the PD Media Lab was developed: a consultancy agency, which provides SEO, social media, web development and mobile services to the newspaper's advertising clients.

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<sup>93</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

<sup>94</sup> Mitchell Amy, "State of News Media 2014: Overview", *Journalism.org*, 2014.

***“The business plan affected every aspect of the business: from printing, production and distribution to labour contracts, advertising and commission plans. It was an effort to accelerate the move to digital for the company’s consumers as well as for the advertisers.”***

Kyse emphasizes three things when thinking about the digital transition in a traditional newspaper company: firstly changing the culture in every part of the organisation, secondly having the right knowledge on the digital technology and its rapid changes and thirdly coming up with the right strategy.

***“The most important thing is getting the culture to change in the newsroom, the ad department, even the business department and H&R department, where they are hiring the people. The other thing is knowledge. To understand all the details and how it is changing. And it is changing really quickly, so you constantly have to see what’s happening in SEO, what Google is doing for your site and for your client sites, all the aspects of the technology. It’s hard to keep up with that, when people you have previously hired are focused on news, advertising, the traditional aspects. Third: everything to be understood about the strategy. Coming up with the right strategy, right balance, what is going to sell, where to get revenues, how to engage consumers, what kind of sites and content and how to deliver.”***

After creating the new business plan, The Press Democrat decided to invest in staff and hired 20 new people, who “understood digital”. At the same time they made cut backs in other places and let go some of the old positions, which wasn’t an easy thing to do. Earlier they had done just gradual cuts, but now they decided to make the big change at once.

***“It was a difficult thing to do, especially when your gut tells you it is very important to always have journalists and sales people. We had hit that stuff gradually, but you could not do that anymore, you had to make a big bold step. We did that by hiring 20 people who understood digital.”***

Even though the newspaper’s website attracts 75,000 unique users every day, the paper version is still more widely read, with 150,000 daily readers and has a big influence in the community. So despite the new digital strategy, print hasn’t been, and can’t be abandoned. To protect the content the company has set up a flexible paywall to the website, where 15 stories are free per month and every story is freely accessible through social media and search engines. The digital subscriptions cost 10 dollars a month, but the print subscribers get the digital access for free. Also the e-paper, the replication of the daily newspaper, is growing in popularity as most of the people living in the county have tablets.

In addition to the usual news content, the website has fifty community blogs which are part of the website, or published on their own. Some of the bloggers are paid a small amount of money and some are writing for free. Many of the news editors and managers have also started their own blogs on the company’s websites. So the websites also have a lot of original content that is not published in the paper.



So how to avoid throwing away all the good in the legacy business, and where to invest in digital? Kyse thinks that there is no easy answer to that, because the media markets are not the same in different places around the world. But once the legacy media's decline starts, there is "no way to stop it". So the media companies need to figure out how to cross the bridge from a declining business to growth, which is a challenge. Kyse says that the newspaper companies have to sacrifice some of the print business, for example stop delivering to certain distant areas because it costs too much, or increase the delivery prices. The companies need to "take one expense from the legacy paper and put that back into the investments into digital".

***"We needed to have enough expertise in-house to approve the website, provide client services and to help the ad department to sell. At the end of the day, that needs to happen. I decided that now is the time, the potential is there, we are going to take from this and put it into this. It's a combination, take some people and products out from the legacy."***

## 5.2 Changing the tasks

Over the past 2 years The Press Democrat's ad department has seen the toughest and most difficult changes, as 50% of its staff has changed. The sales reps had to learn how to sell digital on a 4-level course in 15 months. Everybody had to get a certification, and to achieve this they had to take the sales course, pass the test and go out to sell with revenue based goals, then come back to take the next level of the course. If the sales reps didn't pass the course in 15 months, they were given a further 3 months to figure out how to sell digital. Some people left at that point, because they didn't know how to sell digital and some people were asked to leave.

Another big change occurred on the customer service side. Previously the customer service staff had worked part-time taking calls from subscribers, but during the cost cuts the functions were outsourced to the Philippines. Kyse did not like the idea that people calling from next door were answered on the other side of the world, and he brought the customer services back in-house, because "every call is a marketing call and every person who comes in contact with your client services, needs to be taken care of". The company hired 10 full-time people, who had to understand digital, because their job was also to answer questions about the different digital products and platforms. The customer service staff was also trained to market subscriptions and perform other telemarketing functions. In the end, the company saved money in doing this.

The consumer marketing side also changed a lot, and went from being solely a circulation department to being a consumer and audience engagement department, where they cover a range of things from pricing and circulation to connecting with

people on Facebook, Twitter and other social media tools. In Kyse's words, consumer marketing has "become a powerful message about region engagement and the community".

As for the editorial department, it took a while to get into the "digital first" publishing rhythm, and multitasking, but now they are doing better with the "instant deadlines, using social media and shooting videos". About half of the reporters have a blog and they tweet from press meetings, and about what is going on in the community. Reporters have also become constant communicators with the readers. The newsroom works from 5 am to midnight and the next day's newspaper stories are published on the web in the evening at 10 pm.

There is a 6 person digital team in the newsroom, which includes 3 developers, who help with the news projects e.g. with interactive graphics, making new features and products for the website and upgrading the systems. In addition the news development team has one designer, who also blogs about dining and 2 editors, who make teasers for the web news stories. The company's digital director leads the news developers' work in the right direction. In turn the Media Lab's task is to help the ad department to develop its digital products.

The commission plan for advertising was changed alongside the business plan. The problem with the traditional commission plan was that it was based on revenue, and the revenues of previous years. With the digital revenue being just cents compared to the print dollars, the sales reps would not "care about selling the digital and would not waste their time on it".

***"People sell what you commission them to sell, you give them an incentive to sell by giving them money."***

So the company created a commission plan that had total revenue as a goal, where the digital revenue component was included. The sales people were forced to sell integrated solutions and digital and in the end it worked.

***"You had to hit the total goal to get the digital and the digital to get the total. We forced digital into the mix, so you had to sell digital. Changing the compensation plan made a huge difference."***

Also the physical spaces were changed. For example the digital department with its 6 employees moved to the newsroom 5 years ago. A bigger change was made, when the Media Lab was created. The company invested 100,000 dollars and built a modern space for the agency with its own parking spaces and "a feel like an Apple store". The new office space was also a message to the customers, that the media company was changing its culture.

*“For years newspapers had got away with bringing clients to the newspapers. I wanted to create a destination. We had to convince our clients, that we had changed our culture and we were hiring 20 people, which were all our experts. Customers would say wow. We don’t want to look like a newspaper, we want to look like a media company, more like Apple than New York Times.”*

## 5.3 People, capabilities and culture

The Press Democrat’s management has changed during the digital transition. When the new strategy outlined that the company was going to move quickly on the digital side, some of the previous managers left and some started to educate themselves on the digital business. Kyse emphasizes the need for common understanding and knowledge among the management team, when changing the business. For example he read a lot of books on business, advertising and digital and also gave reading assignments to his team of 15 managers, which had off-site meetings 4 times a year, where they talked about the direction of the business and prioritized the tasks.

Kyse points out, that the culture within the media company has been engaged and excited since moving towards the digital transition. The organisation’s culture changed during the hardest years (2009–2011) in the key departments: news, advertising and marketing. Kyse thinks that the key thing in changing the culture to an innovative one is to start with the management – spending time with them, feeding information and getting them to understand the direction. After that comes the need for communicating constantly with the employees.

From Kyse’s point of view The Press Democrat was on the path to succeeding well, but still in the early stages, when the New York Times Company sold it.

*“The Press Democrat had 4 years to go on the new business plan after the owner changed, but we had hit all the benchmarks during the first 9 months.”*

## 5.4 Risks and challenges

Kyse says that the biggest failures on his part in the digital transition, were hiring the wrong kind of people a couple of times, and sometimes pushing too hard when trying to change the organisation culture. He also remembers insisting on issues, which eventually weren’t that important. Ultimately Kyse thinks that the main thing in making the transition is to try a lot of different things and not to fear failure.

*“The key is that you try things. You try 10 things and if 5 things work, you are doing great. Move on, move forward and start doing something else. The failures didn’t advance us, but did not bring us down either.”*

Moving too quickly in taking from print and from traditional journalism, and on the other hand moving too slowly on the digital side are big risks. But according to Kyse the biggest risk is to not do anything at all and then “sink so low on the traditional print side, that you are not able to get out of the fort”. That is why Kyse recommends putting all potential risks on the board, so they can be seen everyday.

***“In the end you don’t want to damage the newspaper.”***

Kyse thinks, that the legacy media organisations need strong leadership to change and to survive in the digital age. He emphasizes the importance of having the right people and a management team, which knows where they are heading.

***“It takes leadership of a whole group of people. I had great directors and managers. Once they got on board they were unbelievable. And having a whole group of people who knew how to change the direction of the ship was really important.”***

At The Press Democrat the biggest obstacles moving towards digital were people’s attitudes and not being on top of what was happening around them in technology and consumer behaviour – a lot of the people working in the company had started their career on the print side. But as Kyse puts it, “on the other hand you don’t want to break the trust with the consumers, readers and advertisers that the media has built around the brand, but to move that trust from the print to the other digital platforms”.

In 2005, when the newspapers were losing all their classifieds, Kyse came back to The Press Democrat after ten years in The New York Times Company. During the first three years in the newspaper his job was to cut costs and to manage the declining business. During 2010 the economic situation calmed down a bit, but in 2011 a new decline started. When thinking of those years, Kyse has realised, that The Press Democrat should have started to disrupt its own business plan and make the digital transition as early as 2009 – so the company would have had more time to change.

***“It just hit us like a ton of bricks. The years 2006-2008 we were just limiting people, but I never could get us grounded enough so that we could look forward. I was always reacting to what was happening on the budget side. And the parent company was looking and saying you are losing all this profit, we used to have all this money and we cannot afford to do that. So we kept cutting and cutting and cutting. I waited too long. 2009 I should have gone back and said, this is hopeless, we need to change now. But 2009 things started to come back a little, 2010 was sort of a levelling year. So I thought ok, maybe we are on the track and things are starting to level. But January 2011 it fell apart again and all the experts talk about this, how 2010 was the year when everybody caught their breath. I probably should have started in 2009. I would have had 2 more years under my belt on the transition, but I was hopeful and got lost in the same sort of enthusiasm about 2010 being a good year.”***

## 5.5 The future of local media

Kyse defines the local media's task as telling people about the most important things happening in the area and their impact on their lives – to help the readers to interpret the events. But at some point in the future the business will be digital and the revenues and costs will drop. Kyse predicts that there will be smaller, but profitable companies, which will be based on "all the digital financials". The readers will pay for the local content, but not huge sums of money, e.g. 10 dollars a month, because the local media brands are trusted sources and the readers can find all the important information from the community in one place. The businesses will be small, with half the revenues coming from ads and half from consumer subscriptions.

*"When the people have one source to go to, a trusted source, editors, they trust the brand and it gives them information about their community. That is what local journalism is all about. It's telling people what is going on in their community that is important. What's going on behind the scenes. In whatever platforms, it has value."*

## 5.6 Conclusion

The Press Democrat is my favourite case study as it gives really practical, but tough examples of how to disrupt your own business and change the organisation culture in a legacy newspaper company, through task changes and the recruitment of new digital-minded staff. As with all of my case studies, The Press Democrat has not completed the transformation process, but is still in the process of doing it. The case study gives a publisher's point of view – the view of the master who created the new strategy – so it gives quite a rosy and American-style transparent picture of the situation inside the media house. It is also a study of a smaller unit compared to Stampen Media Group or Johnston Press and shows how much easier a smaller unit is to handle even though it doesn't have the benefit of scale to save money and cut costs.

After many years of cost cutting and gradual changes, The Press Democrat's publisher made a decision to start building a new foundation for the newspaper business and investing aggressively in digital – to make a big change at once, because there were practically no other options left. The five-year business plan was to pursue 50% of revenues from digital. The company built PD Media Lab, a separate digital consultancy agency for newspaper advertising clients (small and medium sized local businesses) and hired 20 new digital-minded people to build new revenues. At the same time the media house made cuts in the traditional positions and trained the

legacy staff for the new tasks. In particular the sales people had to pass a tough 4-level course – you were out of a job, if you couldn't get a certification. Also the incentives were changed to promote total revenues from both print and digital, forcing everybody to sell integrated solutions.

In creating a separate unit, the digital consultancy agency for local businesses, recruiting experts in various technological fields and serving the customers locally, The Press Democrat has swum against the tide in not outsourcing the digital development work. The company can do that as it is situated close to the Silicon Valley and has the ability to recruit the best technological talent in the country, but this is not the case in every regional newspaper. Also the readers are more tech savvy than average, which makes the market more digital oriented.

The case study of The Press Democrat points out all the major changes a legacy media house has to make, when making the digital transition: from changing the business plan and strategy to having the right knowledge of digital technology and changing the culture in every part of the organisation. It also outlines the crucial role of the management, when transforming the newspaper business to digital, because it's the management which needs to change first to understand the fast changing technological environment and to build a vision for the multiplatform future.

## 6. Discussion – Steps for redesigning a regional newspaper

None of my case study companies have finished the digital transition, but their experiences give an insight into the actions to be taken, when starting the transformation in a regional newspaper company. The major challenge is to make the change in a world where there is no digital business model ready for the media, but the worst mistake would be to long for the golden days and keep protecting the print platform. Many newspaper companies are still making huge profits compared to other industries, which gives them a good head start compared to small start-ups, if they are brave and wise enough to take the crucial steps.

### 6.1 Disrupt your own business

The digital transition starts when the newspaper company rewrites its business model to be based on new revenue streams and creates a solid digital strategy, which includes all the levels of the organisation. It is better to disrupt your own business, than let somebody from outside do it <sup>95</sup>. The regional newspaper's task for its readers and local community doesn't change, even though the technology changes – the same job has to be done, just in new ways.

At the same time it is necessary to cut all the inefficient legacy costs e.g. printing, distribution and customer service, which don't bring high value for the money and invest the same amount into the new media platforms and technological knowledge. Centralising all the backend functions, closing the small editorial offices, using cheap and flexible technology like Google apps and equipping all the journalists as Mojo's (mobile journalists) have been a solution in Johnston Press, when trying to adapt to a debt problem and at the same time transforming to the digital era. But is the company going too far when physically leaving the smaller communities?

Newspapers' traditional advertising and subscription revenues have been declining for many years, and it has not been possible to replace them with the digital equivalents <sup>96</sup>. The mass media model is based on attracting and engaging a large audience with quality content, and selling this relationship for the local businesses, but instead of just sticking with the traditional revenue model, the media companies also need to find other forms of creating value in their work. None of my case study companies have resolved the digital revenue problem, but they give examples of the

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<sup>95</sup> Christensen & al., *Breaking News: Mastering the Art of Disruptive Innovation in Journalism*, Nieman Reports, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>96</sup> Doctor Ken, "The Newsconomics of Newspapers' Slipping Digital Performance", *Niemanlab.org*, 2014.

possible new revenue streams, e.g. digital subscriptions and bundling (all the case study companies), a digital consultation service for the local small and medium size businesses (The Press Democrat), national verticals to attract larger audiences (Johnston Press), niche communities (Stampen Media Group, The Press Democrat) and native advertising (Stampen Media Group) among others. But because every market is different, the newspapers need to build their own unique business models to succeed.

Many newspapers including Johnston Press <sup>97</sup> have announced their aim to have 50% of the company's total revenues from digital by the year 2020. Abernathy <sup>98</sup> suggests that a legacy media company should change its business plan by 6% a year to keep up with the changing business environment. But if the starting point is 5-10% of total revenues coming from digital, as most of the regional titles have, they have to change even faster, 8% a year, to reach the 50% by 2020. And the newspaper company needs to make the change by finding the balance between two aims: protecting the more valuable print format and slowing its decline, and at the same time investing in the new digital platforms and finding new revenue streams to compensate for the print loss, and ultimately cross the valley of death lying ahead.

## 6.2 When leaders don't match the organisation's needs

A fresh strategy and a new business plan are essential to begin with, but they are only the first steps when making the transition. Putting the strategy into practice is much more difficult and the biggest responsibility falls to the company's leaders.

All of my case study companies have seen dramatic changes among the high-level management team after the companies have announced their new digital strategy. Many of the old managers have left their positions, but some have stayed and started to study hard to keep up with the change. However, recruitment of new staff with profound technological and digital experience is crucial at management level, because traditional knowledge doesn't apply anymore. Actually no manager can work nowadays in a media house without any digital knowledge. And if the management isn't digital-minded, how can it know what kind of new knowledge the company needs and what kind of new people it should recruit?

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<sup>97</sup> "Towards 2020: Transforming Local Media Across the United Kingdom & Republic of Ireland. Vision, Strategy and Execution Plan, April 2012", *Johnstonpress.co.uk*, 2012.

<sup>98</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.



My research cases show that the leader's duty is to stand strongly behind the new "digital first" strategy, which all the members of the management team must believe in. The leader's role is to set clear goals for the organisation and follow them through, even though revenues may be minor during the first phase. If the management doesn't outline the media company's future, or is afraid to disrupt its own business plan, then the grass root level employees don't have any opportunity to succeed in the transformation, and the transformation becomes undistinguished "tinkering" and just a struggle between the old and new. The beginning of the digital transition is often dependent on people's personal passion, as seen in the case of Stampen Media Group, but for changing the whole organisation, the management's role is crucial. The leader's task is to protect the new digital business from the legacy organisation, and to allocate the needed resources for digital, because in most cases the company's culture will prioritize the "old" tasks and the new digital functions may even face hostility from the legacy organisation <sup>99</sup>.

Lucy Küng's <sup>100</sup> findings also support the management's crucial role in the digital transition. The core challenges inside a legacy media company are the inadequate experience at senior level of mastering the digital world, and accepting the scale of the transformation. The other challenge comes from outside the company, which is the speed and complexity of the environmental change, which undermines the conventional strategy processes which the leaders use to decide on the media organisation's goals and ways to achieve them.

### 6.3 Changing tasks will change the culture

Even though the company's strategy may be 'digital first', the organisation structure is often still built for producing print and performing other legacy media tasks. So eventually the organisation culture (resources, processes and priorities) will prevent the new strategy from working. That is why it is essential to change the tasks and technology, when transforming the organisation's culture into something new.

The Press Democrat case study gives good examples of changing tasks in different departments in the media house. Changing the editorial work to multitask every media platform at the same time has been an issue for a long time, but the same applies for all the other departments as well, like customer service, subscription marketing and sales. The role of sales in particular is essential when chasing after new revenue sources, but engaging customers through social media and serving them in

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<sup>99</sup> Christensen & al., *Breaking News: Mastering the Art of Disruptive Innovation in Journalism*, Nieman Reports, Cambridge, Nieman Foundation at Harvard University, Fall 2012.

<sup>100</sup> Interview with Lucy Küng, RISJ, 2014.

all platforms is also crucial. A-Media's project "50-50"<sup>101</sup> is an excellent example of how to start the change within the organisation. As 66% of A-Media's readers use the digital platforms, but only 10% of the work was done on the digital side, the company decided to enhance the amount of digital work to 50%, because with behavioural change there comes a cultural change.

One of the major obstacles when changing the tasks are legacy media's complicated content management systems, which are not purposed for multiplatform and 'digital first' publishing. That is one reason why Johnston Press has started to use Google's cheap and flexible apps, like Gmail, calendar, drive and hangouts for communicating within the teams.

## 6.4 It's all about the people – Building new capabilities

Incentives, new rate cards and training are the most essential parts when changing the legacy media's working methods. For example if you are forced to sell digital to achieve the total goal, you will sell digital. The Press Democrat's 4-level digital training course for the legacy sales people is a tough, but interesting example: if the course levels were not passed, the sales representatives had to leave. Johnston Press for its part works to update the organisation's capabilities by having a training unit, which travels around the country teaching the staff new skills. Johnston Press also equips every reporter with a smartphone and a laptop, so they can learn on the job.

Shifting the legacy company's capabilities to another level is not an easy job, because in disruptive technological changes, the old assets and existing capabilities become liabilities<sup>102</sup>, and eventually recruitment of new digital-minded staff is essential to succeed. To make the digital transition, the legacy media house needs to change its staff and hire new talent - people who have grown up with the digital technology and who see the changing media environment as an opportunity rather than a threat. The Press Democrat's solution for the problem has been cutting legacy tasks and positions at the same time as recruiting 20 new digital-minded people. The companies need to embrace an innovative organisation culture, which is based on continuous trying, learning and speed, where the fear of failure is not an option.

The theory of disruptive innovation<sup>103</sup> recommends creating a separate and independent organisation for the digital market, which has permission to outperform

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<sup>101</sup> Interview with Stig Finslo, A-Media, Norway, 2014.

<sup>102</sup> Küng Lucy, "Innovation, Technology and Organisational Change: Legacy Media's Big Challenges", *Introduction to Media Innovations: A Multidisciplinary Study of Change*. Göteborg, Nordicom, 2013.

<sup>103</sup> Christensen Clayton M. and Raynor Michael E., *Innovator's Solution: Creating and Sustaining Successful Growth*, Boston, Harvard Business School Press, 2003.

the legacy business – there are no success stories about companies trying to change the legacy organisation. All of my case study companies are still trying to change the old organisation: they are using a mixture of multitasking and separate organisations, and nobody seems to know exactly what the best solution is. The tendency is however, that the sales team has to stress combo-buying for print and digital in every interaction with their clients, and the editorial staff have to multitask for all the media platforms. But the new digital revenues and platforms are innovated in small separate organisations, which consist of people with diverse backgrounds.

The benefits of separate digital organisations are that they bring media houses, like Stampen Media Group, a culture of new intra-organisational co-operation, where the editorial, technical and sales people work closely together innovating new kinds of solutions for the audience and local businesses – where technological and innovative skills are considered as important as the traditional editorial skills. New boundaries are also drawn, when for example developers come to work in the newsrooms, or native ads are supervised by the editors. The co-operation is seen as most fertile when all the people, even the CEO, work in the same open space, like at the Johnston Press headquarters in Edinburgh.

Digital technology is constantly changing and it has brought growth in many business areas, but the legacy media hasn't known how to exploit it. In my view, the main constraint from the point of view of the media house has been being too protective of the print format, and not having the right digital skills. First there was the website, then the mobile and tablets, now social media and video. The quick changes and turbulence outside the media companies require media houses to have people who can keep up with the technological disruption – who are willing to extend their knowledge all the time and who have the project management skills to accomplish the different projects. A modern newspaper isn't a print house anymore, but a technology company, which evolves as the media ecosystem around it evolves and is an active player instead of just observing the change from the outside.

## 6.5 Building community in every platform

The previous conclusions would fit any legacy media company, national or global, which has to work through the digital transition. But what makes a regional and local newspaper company special? It has its roots in the local community: its geographical task to tell stories about the place where the readers physically live, agenda setting, the important duty of nurturing the grass root democracy and supporting local

businesses<sup>104</sup>. This gives the regional and local media companies their competitive advantage, which is hard to copy. That is why regional newspaper companies need to always remember the job which the local community and readers have hired them to do – the ways of use are just changing.

Regional newspaper companies can succeed in the digital transition, if they stop fearing and start delivering quality content and building the local community into all the platforms the readers want, at the right time. Transformation for a regional newspaper means becoming a modern media house which can also help local businesses in new and innovative ways. The print format has traditionally been good at helping local businesses to reach their customers, but now the same function has to be transferred to the digital platforms too.

The transition process is difficult, as most of it is cultural change. But hopefully my paper will give some confidence to other newspaper companies still hesitating to take the brave step and adapt to a new way of doing things. This year in Oxford and my research work has strengthened my earlier beliefs. What was previously an intuitive feeling is now a strongly held view. The theory has given me a framework for analysing my own newspaper's market, and the case studies have given me examples of how to start transferring the organisation into the digital era. For me it has always been the people who can make the change and this I believe more strongly than ever. "We should have started to disrupt our own business earlier", is a phrase repeated in my case study interviews. The time to change is now – or never.

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<sup>104</sup> Abernathy Penelope Muse, *Saving Community Journalism: The Path to Profitability*, Chapel Hill, The University of North Carolina Press, 2014.

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