

Executive Summary

It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.

Charles Darwin

The newspaper industry is not alone in its quest to transform itself in order to meet the challenges of new audiences and new competitors. A long list of industries have undergone wholesale reorganisations to traverse into the next generation. Industries that have successfully navigated change have learned and accepted that change is constant with the response to change as much a variable as a key to survival.

Most reorganisation strategies are linked directly to the bottom line. IBM launched a vast transformation of its US\$13 billion software business around 12 vertical industries, including insurance, banking, automotive, and telecommunications in early 2004. Since then, “Big Blue” has laid off thousands of workers worldwide and has achieved vastly higher profitability.

As of January 2007, IBM stock surpassed its pre-restructuring price of US\$100 with profits in the multi-billion dollar level.

“Any company not willing to take the risk of reinventing itself is doomed,” said former president of Toyota Motor Corp. in 2002. “The world today is changing much too fast.”

Leadership is a key ingredient of every successful reorganisation. Jack Welch, the longtime CEO of General Electric, one of the largest companies in the world, adopted the Six Sigma quality strategy, which was credited with the huge gains in revenues starting in 1995. Revenues rose from US\$26.8 billion in 1980 – the year before Welch became CEO – to almost US\$130 billion in 2000, the year before he retired.

Some reorganisations reflect shifts in the economy or shifts in individual industries. In 1960, business theorist Theodore Levitt wrote an article for *Harvard Business Review* called, “Marketing Myopia,” in which he advocated that businesses focus on their customers’ needs. Levitt asked the flagging railroad industry if they were in the train business or

the transportant business. If the railroad industry was in the broader transportation business, the industry needed to rethink the focus of its business: from running trains from Point A to Point B to the notion of catering services to those who ride the train, and those who ship goods on the train.

Levitt’s fundamental question is as relevant today for the newspaper industry as it was 50 years ago for the railroad industry. What business are you really in: the newspaper business or the information business? If the answer is information targeted to those who consume the information from any platform, then the product never becomes obsolete. The product is delivered at the right time and the right place to the right consumer.

Common characteristics of companies that have successfully transformed themselves in the context of the “information business” include the vital attitude that they are in control of their own destinies. The best time to optimize these companies is when they can transform on the offensive rather than wait to respond to failing advertising and circulation.

Indeed, newspaper companies and companies in other industries are motivated to reorganise for a variety of reasons. According to a McKinsey & Company survey in 2006 of 1,536 companies worldwide representing a variety of industries, 56 percent reported that reducing costs is the No. 1 reason a company transforms its.

Cost-cutting was followed by moving from good to great performance (50 percent). Almost half (43 percent) of the respondents reported they transformed because of a divestiture, merging or splitting of the company, while turning around a crisis situation (27 percent) was followed by catching up to rival companies (25 percent) and preparing for privatization (6 percent).

Anecdotally, newspapers transform themselves for the same reasons:

- When JoongAng Ilbo in South Korea purchased the majority share of Ilgan Sports newspaper, they stipulated a reduction in staff and wages before finalising the deal. A year after the purchase and reorganisation, JoongAng Ilbo saved US\$2.1 million, while sales revenues increased from US\$27.7 million to US\$31.5 million from 2005 to 2006.

- Schibsted, the Oslo-based international publisher, has reorganized four times since 1995, each time led by CEO Kjell Aamot. Schibsted’s reason for constant change has been to make a good company great. Their strategic roadmap is the “Innovation Pyramid.”

- O Estado de Sao Paulo in Brazil revamped its governance structure and redesigned their newspaper in the past five years. The changes resulted in increased circulation and a more professionalized operation.

- In order to strengthen its leading position in the Canadian newspaper market, the Globe and Mail newspaper in Toronto embarked on a reorganisation by involving employees from all departments to contribute ideas for improvements and then participate in implementing these changes.

- NordJyske Medier in Denmark was moving dangerously into red-ink territory with sharply dropping circulation and advertising numbers in 2001. A whole-company reorganisation meant cutting staff, integrating processes and diversifying revenue sources. From 2001 to 2007, reliance on newspaper revenues have dropped from 70 percent to 30 percent of the Company’s overall revenues.

Reorganisation is a multifaceted process that can take from one to ten year depending on its complexity. A typical reorganisation might include these stages:

1. Identification of transformation needs
2. Research on change agents and processes to meet reorganisation requirements
3. Decision on roadmap and change agents to implement the plan

Schibsted's Innovation Pyramid



4. Collection of input from consultants, management and employees
5. Aggregation and prioritisation of project items
6. Deciding timeline for implementation
7. Implementation in phases
8. Evaluation of implementation

The McKinsey study confirmed what we already knew about change management: leading the organisation through the transformation by communicating the vision effectively improves success.

The survey found that some of the key drivers of success include:

- Raising expectations of employee job performance
- Actively changing employees' behaviour, from management to front line
- Change needs to take place in the organizational structure, operating systems and culture

Most newspaper companies under reorganisation are seeking financial gains and greater audience reach. The most popular news website in Norway, VG.no, owned by Schibsted, pins their success on the constant improvement of their website, which draws more readers, which in turn attracts more advertisers and revenue. Many newspapers and their newspapers website around the world have experienced the same phenomenon. It is this focus on improvement and growth that will sustain and expand the newspaper industry in the 21st Century.

