Newspaper industry

"THE RISING COST SPIRAL AND THE NEED TO COMBAT IT"

An address before the Mechanical Conference of the American Newspaper Publishers Association, Palmer House, Chicago, Illinois, 2:00 P.M. June 6, 1949 by William F. Lucey, Business Manager of the Lawrence, Mass. Eagle-Tribune

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We are engaged in a hazardous business -- the publishing of daily newspapers. If you doubt that investment in newspaper publishing is risky -- if you wonder why it is difficult to attract capital to this type of venture, consider this fact -- since 1929 at least 706 daily newspapers have suspended publication -- that, gentlemen, is one for each two-and-a-half daily newspapers presently publishing (there were 1781 on January 1st). Perhaps you remember some of these once-great newspapers -..... New York Graphic, New York World, Philadelphia Ledger, Philadelphia Record, Chicago Post, Brooklyn Times-Union, Los Angeles Post-Record, Minneapolis Journal, Minneapolis Times, Omaha Bee-News, Syracuse Journal, Louisville Herald-Post, Toledo News-Bee, Milwaukee News, Spokane Press, St. Paul News. Perhaps also, you remember some of the more than 200,000 former employees of the suspended newspapers.

With a 40% mortality in this period, the daily newspaper business is a hazardous one. In a hazardous business, you cannot take things for granted -- you cannot rest on your past accomplishments.-- you must constantly plan your course -- you must know what you are doing and where you are heading.

We have just passed through a lush period of easy business -- a seller's market -- a period which has covered up much of our inefficiency and our indifference to costs -- a period during which some part of our increased costs have been absorbed by higher subscription and advertising rates.

This year of 1949 has already spelled the end of at least 8 daily newspapers including the Dayton, Ohio Herald, an evening paper with a circulation in excess of 60,000. In announcing the sale leading to the paper's suspension, Publisher Lew Rock stated, "Production costs since V-J Day have mounted to a point that they have created conditions overly hazardous now and for the future of this property. The degree of severity of cost increases to newspapers is without precedent. These conditions, in the main, have convinced management that consolidation is the solution for stable press conditions in this community. Newspaper managements throughout the country are gravely concerned over the unprecedented economic pressures applied against the security of their properties." It was made known that mechanical labor costs for all the Dayton newspapers had advanced from $682,000 in 1941 to $1,615,000 in 1948. That, gentlemen, was an increase in seven years of $953,000, nearly a million dollars -- 140%. During that same period the newsprint bill tripled.

On March 31st the Tacoma, Washington Times, circulation 40,000, gave up the ghost. This action occurred as the result of a continuously increasing cost of newspaper publication which had resulted in heavy operating losses. And we wonder why newspapers suspend publication! This is a hazardous business. The announcements and statements made by the publishers of other suspended newspapers reflect comparable facts. My selections for quotation were made not only because they involve publishers and newspapers of prominence but primarily because they are typical. It is the same old story with practically every publication that writes a final "30" -- costs, costs, costs.

The same pressing factors are general and newspapers as a whole are under terrific economic pressure. The San Francisco Chronicle revealed early this year that if its costs continued to rise as they had in the preceding 15 months, the Chronicle would be below the break-even point by July of this year.

The Chicago Daily News on February 26th reported that net profit for last year was off more than $600,000 from the 1947 figure even though gross revenue exceeded that of 1947 by $600,000. The Daily News financial report for last year showed a drop in net income from newspaper operation of more than 37% from 1947. Publisher John S. Knight, in making his report to the stock-holders stated that the high price of newsprint and the constantly rising cost of labor were responsible for the reduction of net earnings.

The Boston Herald-Traveler revealed on March 5th that, in spite of record revenue last year, its profits were off substantially from the previous year. This is again attributed to high costs.

The 1948 report of Hearst Consolidated Publications disclosed that despite an all-time high in revenue, net profit was about one-half of 1947's and 56% below 1946. There again the same reason — increased costs.

You may have read of the experience of a "typical" newspaper of 50,000 circulation which, last year, had an increase in revenue of $260,000 of which all but $1,000 was eaten up by higher costs. You think that is bad? Certainly it is, but consider the newspaper of 100,000 circulation which, last year, had gross revenues 15% greater than 1946, but 30% less profit due to increased costs. Think of it -- 15% more business, 30% less profit. This latter case is more representative of the newspaper business generally. While business has gone up, profits have gone down. What do you suppose is going to happen when business turns downward? Profits will disappear and, brother, the honeymoon will be over.

A survey recently made by Editor & Publisher reported an increase in costs of 20% last year on the average newspaper while revenue went up only 15%. In 1947, these same newspapers had an average increase in expenses of 28% while revenues rose only 24%. So there you have it -- In one year costs up 20%, revenue 15 — the previous year, costs up 28%, revenue 24. For two consecutive years expenses moved upward faster than revenue. This is true in all circulation groups with greater spread between rising costs and income on the newspapers over 50,000 than on those below 50,000.

Going back to that "typical" newspaper of 50,000 circulation -- we find that last year's costs were 82% above 1945 — almost doubled in 3 years. In terms of dollars it was $763,000 — a large sum of money to a Publisher meeting payrolls regularly. Composing Room costs nearly doubled -- 99%; Stereotype up 89%; Press 68%; Photo Engraving 88%.

Cautious investors avoid a business with rigid, inflexible expenses. To them an investment in such a business is unduly hazardous. We have seen from the facts presented that expenses of newspapers have been increasing faster than revenue and have, in fact, gone up during periods of declining income. In our business, so-called temporary items of cost have a habit of becoming permanent. We don't seem capable of maintaining a course for our costs reasonably parallel to that of our revenue. That is not to our credit. It suggests indifference, inefficiency and borders on incompetency. We do too much impulse spending and therefore too little planning. We need to do less shrugging and more pushing with these shoulders of ours.

You know -- as well as I do -- that we work for pretty decent employers -- who pay the highest wages of any business or industry, 43% higher than the average rate in all American industries --along with excellent working conditions. The Economic Research Department of the Chamber of Commerce of the United States recently made a survey of the benefits received by the average American worker over and above his wages in 1947. The benefits included payment for time not worked -- (vacations, holidays, and the like) -- pension premiums, life insurance, old age and survivors insurance, workmen's compensation, profit sharing and non-production bonuses. The costs of these benefits averaged 15.4% of wages paid. Applied to the newspaper business it meant that the typical newspaper employe received approximately $616.00 in benefits over and above his wages. This hidden payroll represented an average cost to the Publishers and payment to newspaper workers of 29½ cents per hour.

One problem we face which is peculiar to our business is the fact that a sizeable part of our overhead is rigid. I refer to the production of the news content of our papers. Regardless of the advertising volume, we must publish a minimum number of columns of news which I look upon as part of our overhead since advertising is the main source of our income. Take a paper with a yearly average of 50% advertising, 50% news. Advertising declines 20% -- news is set at a stated minimum number of columns and it is the policy to maintain it there -- obviously, under such an arrangement, a 20% loss in advertising space reduces the columns of type to be produced by only 10%. Therefore, it is not possible to completely offset any stated ratio of advertising loss with a corresponding decline in production costs without reducing the quantity of news and the quality of the product.

Cautious investors also avoid a business with a high labor factor. Newspaper payrolls represent 50 to 60% of our costs -- 50% on the larger papers, 60% on the smaller papers. That is a high labor factor.

Now what does all this add up to? Just this. The upward spiral of costs must be arrested -- it must be done now and then turned downward before any fall-off in advertising occurs. In a crisis -- and we face one now -- it just will not do to await further developments. It may be too late then and the cure, if any, will be painful.

Some newspapers are already in the red. To these publications a decline in advertising or a further increase in costs would be most assuredly fatal. Some papers would drop out of the profit column with a 5% loss in linage -- some with 10% -- the more fortunate ones, a 15 to 20% drop. The situation on all papers would be made more serious if advertising losses were accompanied by further increases in costs.

If you think a drop of 20% in advertising is fantastic, let me remind you that the linage of newspapers in the 52 major cities decreased 44% -- nearly one-half from 1929 to 1933. In 1930 and 1931, despite rapidly falling advertising volume (19%), costs rose nearly 10%, showing no downward course until the dismal days of 1932 and 1933. As a result, 183 daily newspapers suspended publication during this four year period and the death blow was struck to hundreds of others which staggered on for a few more years before finally succumbing. The costs of government bureaus can go up and up and up -- increased taxes provide for them, but we are not government bureaus. The newspaper must live within its income even as you and I as individuals, the alternative being bankruptcy.

What can we in production do? What should we do? There are just two items in production departments that amount to much, representing almost the entire cost -- newsprint and payroll. Frankly, if we are to do our part in arresting costs we must work on payrolls. We must increase the production per man-day. We've got to arouse every man, from apprentice up, to a realization of what this task means to him. It means his job because, sure as shooting, if he fails, new techniques, new crafts, will take over.

We need to revive pride in production, in one's craft, in accomplishment. Old-timers have not lost it, but many younger men who have entered the crafts in recent years, have unfortunately been indoctrinated with the philosophy of doing as little as possible for as much as possible. This is wrong -- you and I know it is wrong. We've got to do something about it.

If it is old-fashioned to feel that the Publisher is entitled to the full use of the time he pays for, then let's become old-fashioned. We too often forget that when we approve overtime work we are upping our costs 50%. We are too complacent about such costs just as we are about increases in the force, either temporary or permanent. Let us realize that we are buying labor and that time is the period of labor. There used to be a phrase in many labor contracts -- "All time belongs to the office." We seldom see the words now. More important is the decline in the practice of the principle. Instead, we have too much peacetime soldiering, featherbedding, premium payments, indifference. Whom are we kidding? The Publisher? Not forever, we're not -- we're kidding ourselves. This sort of thing has gone on far too long -- so long that we just take these things for granted and have the confidence of continuance that comes from habit. Some people just will not learn.

It is, of course, true that some, perhaps much, of the responsibility for these conditions lies at the door of top management. Some Publishers apparently have never heard the wisely spoken words, "Give the other fellow that which is his; take that which is yours. If today you needlessly give away your necktie, tomorrow someone will ask for your shirt." In many instances the Publisher has given away or allowed to be taken from him, his shirt of authority and control.

Many suggestions could be, and have been, offered relative to editorial and advertising copy, the time and number of editions, correction of ads, etc. The best place for discussion of editorial copy and related subjects is at a meeting of managing editors. Let us leave for the Newspaper Advertising Executives Association the savings accruing from changes in handling advertising copy.

Let us today consider action that we should take as production men under the copy and edition conditions now existing and which have in fact existed for years. We can increase production per man with the equipment we are now using if each and every one of us, from apprentice to top man, will work just a little harder -- produce just a little more. A little more effort -- a little more work -- will not hurt any of us. It will, in fact, benefit many, physically and mentally. We are not being asked to over-exert. How many of us give our best, 'though we are paid to do so? The way to hold off new techniques -- to postpone new and unfamiliar devices, is to produce more with our present equipment and machinery. We can do it if we are determined to do so.

Frankly, men, there is a crying need today for more lead in the melting pot and less in our pants. If we want to be partners in payroll -- we should be partners in production. Elbert Hubbard once wrote: "If you work for a man, in Heaven's name work for him! If he pays you wages that supply you your bread and butter, work for him -- speak well of him, think well of him, stand by him and stand by the institution he represents." Those words of Mr. Hubbard's speak sense.

To be brutally frank about it -- we must produce more or others will take over, for this upward spiral of costs is cancerous and you and I know the only cure for cancer is to remove it. The alternative is the death of another newspaper, our newspaper. And, if we think for one moment that a Publisher will choose suspension in preference to the adoption of new techniques that will revitalize his operation, then we have indeed fallen to new depths of complacency.

These conditions we have discussed present a challenge to every employe of a newspaper production department. Let us do the job we are capable of doing -- let us produce more if for no other reason than the selfish one that it will insure our jobs.

To those of us who are production executives -- this job has been intrusted to us by our Publishers, who have moved us up out of the ranks and given us real opportunities. What special training and education have they demanded? Very little comparable to that required of similar executives in industry. Have they not shown great patience? I think they have. I don't for a moment believe that other types of business or industry would have tolerated this situation. Some large city Publishers have turned to graduates of engineering schools. Even Publishers of smaller papers are now showing an interest in young men trained in industrial engineering. Technical colleges are being asked to include special courses in Printing Engineering. Why? Men so trained are cost-conscious; have the know-how and are not fettered by damnable customs and indifference.

I have talked plainly and frankly to you men. I knew when I accepted this assignment that my talk would not register high in popularity. I have mentioned "un-mentionables" -- "sacred" things. I believe these meetings can be productive only if we put our cards face up on the table -- seeing things as they are, not colored to suit our fancies. After all, we don't come to these conferences each year merely to tell each other how good we are. So there it is, men, right on the line. I hope I have impressed upon you the fact that we do face a crisis -- a crisis requiring action on the part of each and every one of us -- NOW.

Let us get busy -- let us pass the word along -- get production per man moving upward.

If we fail -- there'll be fewer faces at next year's conference -- some because of newspaper suspensions, some because of employment suspensions. But let us end this discourse on a note of confidence in success -- we must, and we will, stop this upward spiral of costs.