

## **14<sup>th</sup> Annual International Symposium on Online Journalism**

### **Day 1, April 19, 2013: Morning Session - 8:40-9:45 a.m. Strengthening Journalism in an Era of Digital Disruption**

**Chair: Tom Rosenstiel**, Executive Director, **American Press Institute**

**Keynote Speaker: Clark Gilbert**, President and CEO, **Deseret News Publishing Company**, former professor at **Harvard Business School**

#### **Q & A: Tom Rosenstiel and Clark Gilbert**

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**Tom Rosenstiel:** People like to use the word 'disruption.' I actually think it's the wrong word now. This is opportunity. The technology provides those who want to produce journalism with so many more tools, it's as if we were building houses with a saw, a hammer, screwdriver, and now we have all the tools that you could get at Home Depot to do that job better. People who felt disrupted need to feel as if there's enormous potential and opportunity. The future of journalism—as it does for anything else—belongs to people who believe in the future. And optimism is extremely important to this.

And in this first session, you're going to hear from somebody who is really doing it on the ground. If you don't Clark Gilbert, you are in for a really significant treat. Clark is the CEO of Deseret News Publishing Company and Deseret Digital Media. And he will explain to you why those are two different companies. He was Professor of Entrepreneurial Management at Harvard Business School. He worked closely with Clayton Christensen, who if you don't know, is the author of *Innovator's Dilemma*. Clark was involved in trying to innovate the university when he was Associate Academic Dean and Vice President of Brigham Young University in Idaho, in charge of online learning and distance education. He helped develop the Newspaper Next idea when newspapers in 2008—was it?—were trying to figure out how they needed to begin to reinvent themselves. Let's say that was a false start perhaps.

Clark's doing things in Salt Lake and worldwide that some people say cannot be adapted because it's a unique situation with a unique potential market worldwide from Church of Latter Day Saints members—that is not true. There is so much that can be adapted from the things that Clark is doing. He's going to talk a little bit about it, then he and I will talk a bit, and then you will talk to him. It's my pleasure to introduce Clark Gilbert.

[Applause.]

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**Clark Gilbert:** Thank you. Thank you, Tom. It's great to be with you. I remember about 15 years I was working with Clay Christenson studying the Innovator's Dilemma. And the question was, what industry should we look at? And someone said, "You ought to look at the newspaper industry, because there's a large sample and lots of variation." And thus launched a 15-year career looking at the newspaper industry and how the Internet would affect its business, the way it does journalism, and the very value proposition to society. What I'd like to do today is walk you through a little bit of the high-level strategic view of disruptive innovation, how it's impacting our industry, and then start to go a little bit deeper into online — into journalism itself and what the changes in the business model and technology might mean for the future of our industry.

As was mentioned, Deseret News and Deseret Digital Media are part of a family of companies owned by Deseret Management Corporation. And our mission is to be trusted voices of light and knowledge reaching hundreds of millions of people worldwide. Several years ago, I gave this presentation at a conference in New York and I left the word 'millions' out, so it said "...reaching hundreds of people worldwide." [laughter] It's a very ambitious mission statement.

I want to give a little bit of a primer on disruptive innovation itself. And there's a couple of themes that will run throughout the rest of my remarks that come out of this. May I first just ask by show of hands, how many of you are familiar with Clay Christensen's model on Disruptive Innovation? So, about a third of the room. What I'd like to do is just go through some of the basics of the model, which is a general innovation model, not something specific to our industry, and then slowly layer in what it means for the newspaper industry and journalism in general.

On the vertical axis, you see 'Product Performance.' On the horizontal axis is 'Time.' The dotted line is the amount of innovation that customers can absorb. Now, there might be some distribution in that, but this is on average where most of the market is. Early in our industry's history, industries often underperformed vis-à-vis what most of the market wants. So if you look at the blue line, early on, an industry underperforms what most of the market wants. So, think about — now some of the younger students won't recall this, but some of us who are a little older will remember when you were first typing on your computer, you had to pull your hands off the keyboard about every three minutes, because the microprocessor couldn't keep up with 60 words a minute, right? And at that point, the industry underperformed what most of us wanted. We actually wanted to have faster than 60 words a minute. But over time, innovations improved that. And that upward march along the blue line, whether it was an incremental or breakthrough, or an incremental innovation or a breakthrough innovation, industries move up along that line. Over time, they often overshoot what most of the industry needs and they start innovating in ways that are only important to the firms and really not so much to the market. So while you had to pull your hands

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off and wait for it to catch up to 60 words a minute, by the mid-to-late-nineties, most Pentium processors did more than any of us needed. Intel launches the Pentium processor. It's such a big to-do, but over time, we don't even really know what's inside the computer, because it's plenty fast.

It's in that era of overshooting what most of us need where disruption reeks havoc on established industries, but the seeds of the disruption often start long before that. If you look at it, the blue line, great firms, turns out they're really good at innovating incremental or breakthrough innovations. But the innovations that ended up destroying incumbent industries were these down-market shifts that actually looked inferior. As the incumbents looked at them, they often even looked down their noses at them. But then the innovation caught hold in a new market. It innovated. As it moved up market, it became, quote, "good enough." And one day it started displacing incumbent industries, but this time with a much lower cost structure and much more efficient promise to the market.

Now you can already start to see applications for this where online journalism and online-only websites come out. They are bloggers or they are UGC models that are just distained or looked down at by traditional journalism. As they move up, they get better. They start actually hiring journalists. And one day, they just seem to work faster and better and more efficient, repeatedly displacing established firms that once were the paragons of industry.

This is some data from Gordon Borrell. Gordon Borrell does market research on local markets around the country. And if you look in this data, the vertical axis is the percent of Internet advertising in a local market. The horizontal axis is just market size. You can see there's no relationship between market size and market penetration for online advertising. But if you cut the data and just look at the people who had more than 40% market share, 100% of those firms had the following characteristics:

- Separate physical location for the online business
- Separate P&L, Profit and loss Statement, so separate financials
- Separate direct sales team
- Separate content, product, and technology teams
- Separate management structure

In fact, stepping back from the newspaper industry, in the research we had done at the Harvard Business School, if you look at industries that faced disruptive innovation, there was about a 9% survival rate. So think about this, industries that are being disrupted, about 9% make it. Does that sound like a good or a bad survival rate? But 100% of the 9% had set up the disruptive business as a separate division of the parent company. No exceptions in the data. In fact, in most of academic research, you look for correlations and predictive variables. This has 100% predict of power. In fact, I remember... Tom mentioned the Newspaper Next Project where we shared some of this early data. And just repeatedly people would say, "Well,

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we can do it. We've got people who sell in the market. We know Cincinnati or Miami or Salt Lake City. We can just do it with our existing sales teams. And we have a newsroom. They can do all of this. Journalists are really smart. Let's just let them do it. And my management, they're brilliant. Just let them run it from inside the existing business with the existing financial processes." The only problem with that is it's like arguing against gravity. You can make the arguments, but I'm not going to run to the edge of the cliff and jump off with you. I'll let you test that and see if your experience is different than the last thousand who jumped off the cliff.

So, this is the data both in the industry and outside of the industry. And yet surprisingly, very few firms follow that counsel. Now by the way, having a separate unit does not guarantee you make it successfully through the disruption. It's a necessary but not sufficient condition to the innovation required.

Part of the problem for the incumbent firm is that they see the world through the model of their existing business. And they can't see the new, unique value contribution that the disruption is playing all across society even though that may be obvious to everyone else.

So if you look at the established firm, the disruptive business starts outside of the core business. If you remember those two lines, by its very definition of being under that dotted line where most of the market can consume, the early disruptions [are] all outside of the core business. Let me give you a couple of examples outside of the newspaper industry. Silver halide chemical film. It's early 90's, mid-90's. Kodak's panicking it's going to be disrupted, but their response is to cram everything into the traditional film and camera market. Meanwhile, the early applications of film are outside of the traditional consumption patterns. They are in toy applications. They are in file sharing. They are in emails. They get sent and deleted. It's a completely different use case.

And if you look at most disruptions, they start outside of the core business. And part of what makes them so hard for the traditional firms is that what makes you good there isn't always the same dimensions or performance of what makes you good in the traditional business. So either you ignore it or you put it down. But in both scenarios the incumbent firms usually lose out unless they have a separate group built around that green space. Now as time goes on, the disruption moves up market and it does displace major portions of the incumbent business. But the whole time, the incumbent can only see that area of overlap. They are looking at that aqua space. They can't see the green space. And everything they see is colored through that lens. In fact, the disruption can be almost all the way played through and the incumbents will still see it through the lens of the new business.

Today, in Salt Lake City, we own multiple incumbent media companies: a TV station, a radio station, a newspaper business, and our digital business.

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Which our digital business is completely set up around this green space—a completely separate organization. But I have people in the legacy businesses who still think that the digital business is just a rounding error. Two years ago, we passed radio. Last year, we passed TV. Somewhere late this year or early next year, we'll pass newspaper in total revenue. But we still have people who think it's a little add-on to what they do in their traditional business, because they see that lens — see that world through that lens of the traditional business. But most disruptions create new net growth, but the incumbent firms are blinded from that and all they can see is the area of displacement.

This is a quote from an online newspaper manager. He said, "Overall, the newspaper industry's involvement with the Internet has been one where it had a lot to lose, and it's been trying not to lose it as opposed to starting from scratch and having a lot to win." Think about Tom's opening remarks. We're posed on the brink of a growth opportunity—things we could never do before—and yet so many of us frame what's happening through the lens of the blue circle rather than seeing the growth that's happening all around us.

Now I'm not going to talk about.... Business model is the core focus of my presentation, but I'm going to walk you just through two slides that should be relevant to our conversations through the rest of the morning around content and journalism.

By the way, blue and green.... I'm very simple, and you'll hear me refer to the blue space, which is the legacy model, and the green space, which is the new model. Here's a different industry. And I'm going to ask some questions here. And I don't have name cards for everyone, so bear with me. I might just cold call you as we go through this. But I want you to look at the evolution of this industry. The newspaper industry is mapping to this almost perfectly and we'll look at that in just a second. Mainframe computers in blue. 1965, it's a \$2-billion market. The minicomputer launches. It's the first venture-backed business in the history of the U.S. economy funded by First Venture Company in Boston. Digital Equipment Corporation launched. As it launches, by the early seventies, Forbes, Fortune, the Wall Street Journal are just giving this company tons of praise. "These guys are so smart." IBM's looking at it saying, "Why is everyone making such a big deal about this little company? We are a multi-billion-dollar company. These guys are just a little upstart. In fact, we've gone out and talked to our customers—our very best customers. They don't want the minicomputer." They spend millions of dollars in research trying to see why there is so much excitement about Digital Equipment Corporation, and they conclude there is no opportunity in the minicomputer space.

So, the two industries actually progress and parallel for a season. That's in Phase I. In Phase II, the disruption is starting to show up. Switching behavior is happening. There is a huge reinvestment into the mainframe business by IBM. In fact, if you look at the blue line, there's actually a surge right

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towards the end of Phase II. Don Sole, my former colleague at the Harvard Business School, calls this 'the last gasp theory.' That right before the rapid decline of an industry, there's often a run up and then a decline. You'll see that again when I show you the newspaper data in just a second. Then there's the third period where there is rapid decline of the incumbent business, but it still is around. Today, the mainframe computer industry is still a multi-billion-dollar industry. A lot of people say, "Well, newspapers are going away." No, they are still around. It's just that the disruption took all the growth into a new platform. OK?

So now, I'm going to ask you, what do you see in each of these phases? What's going on in Phase I? What's important for that in Phase I? What stands out to you? I'll cold call if I don't get any help here in a second.

**Man:** Both are growing.

**Clark Gilbert:** Both are growing. Right? By its very definition, the disruption is competing against non-consumption. New consumers. New growth. So, it's actually not competitive for a season. OK? Then what happens in Phase II? What stands out to you in Phase II?

**Woman:** The gasp, the gasp of the blue line.

**Clark Gilbert:** OK, the last gasp. What else?

**Man:** They both leveled out.

**Clark Gilbert:** They both kind of level out for a season.

**Man:** But the green line goes up.

**Clark Gilbert:** The green line. But the green line keeps going up, right? But there's lots of ambiguity in this period. In fact, there are people on the blue line who are so convinced they are right. And in fact, if they get the right data and they sample out of the world, out of truth, that which confirms the blue line, they actually sound really compelling. And for a season, they sound really right. Some of them make it to retirement and sound right all the way to retirement. [laughter] But they are wrong. But there's lots of ambiguity in that season. And then what stands out to you in the third period?

**Man:** Death.

**Clark Gilbert:** Death? [laughter] Well, not quite, right? Because if you look at that blue line, I mean, how many of you would like to own a \$7-billion business? It's still a big business, right? It's just that the disruption took all the growth out of it. OK?

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Now, this is all theoretical. Let's look at some data from the newspaper industry. The blue line here is print advertising revenue from 1950 to 2012. In 1950—this was adjusted for inflation—a \$20-billion advertising business. That rises and peaks in '99-2000 at over \$60-billion. By the way, what do you remember happens in Phase II of disruption?

**Woman:** This will happen.

**Clark Gilbert:** Last gasp, right? What took 40 years to develop, going from 20 to 65, takes ten years to go back to 1950 levels—in ten years. OK? So, that's the start of what I want to show you on this slide. But tell me what's going on with the red line. What does that tell you? And how should that make you concerned as people worried about the future of this industry? What's happening on the red line?

**Woman:** No money.

**Man:** Pretty much tracking that blue line.

**Clark Gilbert:** OK. It's pretty much tracking the blue line. So, this is online only revenue. How much separation is there between the red line and the blue line?

**Woman:** Not very much.

**Man:** Very little.

**Clark Gilbert:** Not much. Is that going to change the future of this industry?

**Man:** Yep.

**Clark Gilbert:** OK. Now, let me ask you, during that period.... So if you look at '99-2000, you see a run up, a collapse, and then a little separation. It's hard to see because the whole industry is coming down. But the space between the blue line and the red line is the total online revenue for newspapers. Let me ask you, do you think online advertising more generally grew faster or slower than that during this period?

**Man:** Faster.

**Woman:** Faster.

**Clark Gilbert:** Much faster. This is the online advertising during that period. So while one of the fast — the biggest growth industry in our economy is exploding, newspapers are trapped in the blue circle looking at the world through aqua lenses. Some of them looking at the world just through blue

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lenses. Meanwhile, a green growth market is taking off all around them, but they can't see it because of the way they framed their future.

Now, this is not true for all newspapers, and we are hardly the only newspaper that's growing. For the past four years—I'm going to put up—this is the revenue growth at Deseret Digital Media. By the way, it's a separate company with a separate P&L, a separate management structure, a separate sales team, a separate content team, which we're going to spend most of our time talking about. And our revenue has grown at 40% per year four years in a row. 40% growth is easy when you're small. This year it's not so easy. I remember looking at our first quarter revenue growth targets thinking, how in the world are we going to do that? And why in the world did I submit that as a budget? But we just closed Q-1 and we beat plan by about 10%. That plan is the purple line. This is month over month revenue. Every month, our year over year growth right now is about the size of our company four years ago. We are not smarter than other people. We just have the conditions where people who are working hard and focused on the green space can actually win. And I've seen really smart people.... One of the powers of thinking like a disruptive innovator is if you get the structure right, you suddenly look really, really smart ... even if you're pretty average. That's kind of the story of my career. [laughter] Whereas, people who are brilliant, but who are stuck in a mode where every lens they have has a blue tint to it, they almost look incapable.

If you go back to another industry, you know, I use mainframes and minicomputers. And the Digital Equipment Corporation, which was disrupting IBM, looked so smart in the early parts of its history, but Digital Equipment Corporation actually got disrupted later in its history. By what? What came after the minicomputer?

**Woman:** Personal.

**Clark Gilbert:** The personal computer. And Ken Olson, who looked so smart and so brilliant—probably packed ballrooms bigger than this as he rode deck up its surge to prominence—looked at the personal computer and said, "Who would ever want a computer in their home?" [laughter] That's a literal quote. Right? We have a quote from Western Union, looking at Alexander Graham Bell's patents for the telephone, saying, "The telephone is inherently of no value to us," even though they were the largest communications company in the world. One of the problematic things with disruption is it renders really, really smart people completely incapable. And people outside of that situation can't see — can see it so obviously even though they may not have the same level of intelligence and sophistication.

I remember years ago working with Boston Globe's [Boston.com](http://Boston.com). Teresa Hannifin was the metro editor of the Globe. She came from the blue space. [Boston.com](http://Boston.com) at the time had a green space separate business. And when she came over, it drove her nuts. She said, "I can't stand it over here. These

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people, they don't get [that] we work for the newspaper!" And she says, "And everyone calls these people who read our website, they call them users." [some laughter] And she said [that] it took her a year of being in that new culture to finally realize people use the Internet, they read a newspaper. The job to be done was different.

And people who had built their organization around that green space understood that almost intuitively. And people who came from the blue space fought it. You're not talking about boundary and at-the-edge insights. You're talking about foundational intuition that's not only just off a little, it's almost in opposition to each other, unless you get the organization right.

I think this is the last slide on business model. But I want to just underscore that point and then I'm going to apply it to content in journalism. This is our legacy sales channel—traditional sales reps selling digital advertising. And you look on the left chart, and from 2009 to 2011 we doubled the online revenue that was coming from our legacy media sales teams—doubled. But during that same period, the percentage of our business that came from legacy channels fell in half. In fact, this year it's less than a third. We wouldn't be having this growth if we were using our legacy sales channels. In fact, more than 60% of our business model has come from the fact that we created a separate unit for the new business.

Now, I want to introduce the idea of dual transformation. Rosental, did they distribute the Harvard Business Review piece on this?

**Rosental Calmon Alves:** Yes, I sent an email.

**Clark Gilbert:** OK. Great. The article is really simple. And it reflects a change in my own thinking that only came — that's come after 10-12 years of research on this topic. And when you look at what it takes to overcome a disruptive innovation, most senior executives look at it and organizations generally look at it as if it's this big, gut-wrenching, monolithic transformation process. And what's come out in my own research, but also in the experience of running two different disruptions—one in higher ed, now one in media—is that transformation in the face of a disruption really is made up of two separate and distinct transformation processes. Transformation A, which is the transformation of the legacy organization so that it can thrive and work and even survive in a post-disruption world. But that's a different transformation than Transformation B, which is in the green space, which is completely built around the disruption itself. For Transformation A there's really two core activities: dramatically lower the cost to get the cost in line with what it will take to survive in a post-disruption world, and the second is reposition your core business around a post-disruption job-to-be-done. In a world where....

I mean, I'm sure most of you didn't stay at the AT&T hosting center last night, but those of you who did would look down the row at dozens of USA

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Today's with a day-old newspaper sitting on their door. Why was it a day old? Well, what do you think the cover story had on it?

**Woman:** It had the Texas explosion that we had already read all day long about.

**Clark Gilbert:** That's true. But even worse....

**Woman:** A picture of the gun.

**Clark Gilbert:** They had just found the pictures of the suspects in Boston. Meanwhile, as I got in at two in the morning last night from a very late arrival, [I] flipped on CNN and watched that case evolving all night long. Right? That paper is obsolete and its cover story is a day old. Right? How am I going to build that paper so it's not obsolete today? And that is—and I'm going to talk about this in a minute—but that's fundamentally asking yourself, in a post-disruptive world, why will people pick up a paper at all? If you're in broadcast journalism, why will someone turn on the ten o'clock news? And if you aren't asking that fundamental question.... By the way, there are answers to that fortunately. But if you aren't asking that fundamental question, there is not a future for the legacy organization. The second part though is, how do I be part of this all through the day? And what are people using that they never did with the newspaper? What new forms and new medium are part of that? That's going to require this separate organization with separate management structure and people who come from the green space. They aren't learning this. It's intuitive to them. This isn't discovery. This is just how they think.

In between, there is an opportunity. And let me back up here. A lot of the data, by the way, is, "Don't worry about the incumbent organization. It's over. It will die." Like if I was just literally looking at this from an evolutionary perspective, it's over, just let it die, and set up a separate group and focus everything and all you have just on that. The problem is, we believe in the traditional organization, and we want it thrive, and we want it to be successful in the new world, and this can be done. By the way, this is a general principle. It's not just true for us. A lot of newspaper people.... Look, I've been in the industry for 15 years, and almost everyone I've ever talked to thinks journalism and newspaper is different than everyone else. That, hey, when we run to the edge of that cliff, we're going to float. We're not going to fall. [laughter] Right? That's not how it works. Right? There's fundamental underlying physics going on in our industry. But the good news is, there is a path to survival. And I believe in that. I have a separate organization for the disruptive business, but I sit in the legacy business, because I believe in that and I need to have it survive and be strong.

So, the question becomes, should these things work together at all? And that happens through what we call an Exchange Team, which sits in between but have lots of risks. The biggest risk is that the blue part of the organization

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sucks the green part in and takes over. Another metaphor is that the blue organization injects its DNA into the green organization. It starts to self-replicate and just takes over the organism.

I'm going to give you one example of an exchange team and then I want to move on from dual transformation. Exchange teams are wrought with problems and risks, but when they are run well, they can leverage the best of both organizations. One of the places we've done that is with our homepage rubric. Rubric is a guide or a rule that helps guide judgment in an organization. For us, the question is, what goes on the rotator? I'm going to just focus on one part of this. It's actually much more complex. Just the rotator on the homepage. What goes in there? Well, if you're in the traditional newsroom, you have one set of things. And if you're in sports, you have one set of things. And if you're on the web team, you have one set of things. So, what goes in there? And the traditional organization is trained in our editorial voice. They know how to do customer research, cultivate a beat. They know how to do great journalism. And they want that featured more prominently than anything else anywhere on the homepage. The web team is more geared to content optimization. They use things like Chartbeat or visual revenue that's very data driven to drive decisions about what goes on homepage. "And guess what, Mr. Journalist from the News Division? Your story is underperforming three to one from ten other options I have. Really? You want me to put *your* story in the rotator?" "Yeah." "Well, why? It underperforms. It doesn't underperform a little. It's terrible!" And the journalist says, "Well, because it's journalism." And that argument is going on inside of newsrooms all across the country.

Well, for us, it had to be a nuance response. And I couldn't ignore our editorial voice and our brand distinction and our journalism, but I couldn't ignore performance and web content. And what we ended up doing is forming an exchange team which was made of the editor and the publisher, but it also had the digital general manager, the online editor, and the social editor. And they went at it. I mean, this was like high-stakes, fisticuffs brawling going on in these conference rooms as they worked through this. But no one else was allowed to be in that. Everyone else who had an opinion, "Look, your editor and your publisher are going to work through that. If you've got input, give it to them. But I'm not going to slow down the whole organization. And I'm not going to have this conversation in 50 different levels in the organization ... paralyzing both Transformation A and Transformation B. We're going to put it on an exchange team and we're going to work through that." For us at the Deseret News, given our brand, we came up with a rule that said, Position 1 and Position 2 in the rotator—we have 7 positions—is always from the News Division or the Enterprise Team. No negotiation on that. It's always from those teams. And if the story is not performing, the web team can swap those out, but it's always going to be hard news or in-depth rigorous analysis from our News Division in those first two positions. We're a news brand and we're going to maintain that.

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But Positions 3, 4, and 5 can come from anywhere—web, sports, or anywhere—and it's based on performance. And Position 6 is a list. A what? A list. Well, what's a list? Well, for us, a list is something with lots of page views and preferably really long. So, one of the best performing lists we've ever done was the top 50 most religious states in the United States, from 50 to number 1. Click, click, click. The web team is loving this. And the journalists are like, "Why don't I take every paragraph and put it in a list so you guys will put it up in the rotator." [laughter]

But that's the conversation [that] goes on. That gets settled. It gets decided. It fits our brand. It supports our journalism. It supports our web team. And at the end of that, we will not have this conversation every day. We are all going back to work. Now periodically, that needs to get revisited. I remember we had it set and a couple of years ago a young man playing basketball for BYU named Jimmer Fredette wins Player of the Year, and the joke was, "If you put the word 'Jimmer' in any headline, it's going to jump to the top of the list. And we had to have specific rules to make sure one topic didn't overwhelm every story in the rotator. Right? And at that point, the News Division and the enterprise team were so mad at sports and the web team [that] we had to revisit it. Ironically, when we had a devastating murder trial going on of a crisis where a father had blown up his children.... I don't know if you remember this Powell trial. It was devastating and terrible. Well, during that period, anything that you put the word Powell in the headline jumped to number one. And suddenly, the newsroom wasn't so worried about it. They wanted all their stories up there. And the thing is, you have to have this conversation on an exchange team that's temporary, is formed, built, and closes. Now, there's a lot more we could talk about exchange teams, but I want to get to two or three insights on what this means for news itself.

Transformation A. Transformation B. In Transformation A there needs to be a step-change reduction in cost, and you have to know what you're going to be good at. OK? And I'll come to Transformation B if we have time.

This is a slide, it's two years old now, but the data has only gotten worse in the case of the Huffington Post. The first slide looks at unique users—Huffington Post and New York Times. Here's a startup that didn't exist several years ago and it's caught, and actually in the real data today, it's passed the New York Times in monthly unique users. OK? But this is the head count of the New York Times compared to Huffington Post. Now, don't think right now about quality of journalism, or these are just a bunch of bloggers, or they're taking advantage of everyone who contributes. Just hold that for a second. That's an issue. But just put yourself in the shoes of an advertiser who's trying to reach an audience. Is it their job to pay for our newsrooms? Is it the job of the advertiser to subsidize a profession? The job of the advertiser is to reach their audience for their product. And if one competitor in the market can do that at an order of magnitude lower cost; therefore, it can have an order of magnitude lower price, the advertiser

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might like to come hear about your great journalism, but they've got to run their business. Right? If you don't have an answer for this slide as a news organization, and I don't care what you say about the quality out of the Huffington Post, just the economics of funding this industry, that slide should be staring the face of every manager in the country. And if you're a journalist, you need to understand what's happened to the cost structure of content.

This is a quote from Lisa Williams, the founder of PlaceBlogger. By the way, part of the story here is, in the face of disruption, you have to get your cost down, but you also at the same time—and for sake of time, I'm not going to go through it today—but our goal is to get our cost down in everything that was a commodity. Anything that was a commodity, we better not have a high cost structure for [it]. But if it wasn't a commodity, if we truly were differentiated, we actually chose to invest. Here's the quote from Lisa: "The web favors things that are narrowly comprehensive. That is everything about something. Newspapers, by contrast, are variety shows; something about everything."

What are you going to be great at? That is what the web has forced us to answer. And newspapers never had to do that before, because they were oligopolies ... with low competition and high cost structures and high profit margins.

For us at the Deseret News—and Tom, I'm just going to go through these next three slides to set this up—we identified six areas that we would be the best at. Not the best in our market. Not the best versus other newspapers locally or other TV stations. The best in the world. Because in the world of the web, if you aren't the best at what you do, switching costs are all but a click. The price of switching is literally the cost of lifting your finger. And if I've got money tied into covering major league baseball out of Salt Lake City, no one is going to come to the Deseret News online. They might read it in print, because that's what showed up at their door. But online, they are going to go to [RedSox.com](http://RedSox.com) or [MLB.com](http://MLB.com) or [ESPN.com](http://ESPN.com), because they are the best in the world at covering baseball. For us, six areas were the family, faith in the community, care for the poor, values in the media, excellence in education, and financial responsibility.

Now, what I want you to think about as I walk through this is not, "Oh, those are things journalists should be covering." That's not what this is saying. It's newsrooms need to ask what can they be uniquely good at? For us, it was these six areas. We then outlined a bunch of market research, which I won't go through, looking at the nation's consumption of media. We identified that over half of America was really frustrated with their news. In fact, these three groups of like-minded believers read the New York Times, and they watched Sean Hannity, and they hated both. [laughter] They valued the rigor of the New York Times, but found it fundamentally disconnected from their core values. And they listened to Sean Hannity and somehow they heard

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some of what they felt in there, but it was polemic and angry and poorly researched. [some laughter] And so, they cobbled together a news consumption pattern that's extremely frustrating. So into that gap, we started doing stories like—and I'll just show you these as examples—"Where have all the PG movies gone?" This is the slide. The top chart shows that rated R movies are created at a three-to-one ratio over PG movies. Well, I get it. Sex sells. Hollywood wants to make money, so they make more rated R movies. Well, actually sex doesn't sell. If you look at the bottom chart, the gross profit [is] less than half. Hollywood is not motivated by money. They are motivated by their own agenda.

This is a series we did called "The War on Boys: young men losing ground in education, emotional health and jobs." The chart here shows that by 2020 over 60% of American college graduates will be girls. One of the greatest things that's happened in this country is access to education for women. But something is happening to the boys of this country. Truancy rates, drop-out rates, addiction rates are soaring. As a father of six girls, I'm a little concerned about this. [laughter]

I'm going to skip this one. Last one is "Fatherless America." Today, a third of American children grow up without a father in the home. If you're African-American, that number is over half. If you are born to a mother who's age 30 or younger this year, that number is over half. It's the biggest demographic shift in the history of this country, and it's received almost no attention from traditional media. Now these are award-winning journalistic pieces that we're doing in the face of the most intense cost pressure in the history of our company. But by focusing on what we can do well and getting commodity cost out — commodity news out to a lower-cost structure, we freed up this kind of journalism.

So, I'm out of time. I'm not going to go through Transformation B and digital content and hiring digital DNA other than to suggest there's a whole new category of content that's growing up from my web teams that would never be done by my newsroom. And if I care about those stories that I just did, I first have to have the rigor to decide what I'm going to be good at. Then I have to have the discipline to set up a separate group to do the web-only content, because it actually makes the core journalism more relevant. Because people come in and engage in my site at a much higher incidence than they would if all I did was put these heavy stories up all day every day. And we've created web-only mechanisms that pull them in. And if you love traditional journalism, the rigor and discipline on both sides of this, choosing what you'll be good at and innovating in the digital space, allow that actually to have a greater impact than it could if we just lock down and pretended the green space was not being affected.

Why don't we stop there?

**Tom Rosenstiel:** Yes.

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### Q&A Session

**Tom Rosenstiel:** So, when you talk about dual transformation and two companies and separation in the way they operate with the interaction team.... I'm using the wrong wording.

**Clark Gilbert:** Exchange team, yeah.

**Tom Rosenstiel:** It does occur to me that there is — that part of the bridge is a conceptual bridge, that they have the same conceptual mission.

**Clark Gilbert:** Absolutely.

**Tom Rosenstiel:** Which is sort of the existential question, if you're not a railroad company or a transportation company, what's the existential mission? We've heard different terms of it at the newspaper convention. You know, *it's improve the lives of people in your community*.

**Clark Gilbert:** Yeah.

**Tom Rosenstiel:** Do you agree that while there's a dual transformation, there is a unified mission?

**Clark Gilbert:** Absolutely. And you can see that. Take an organization by the Atlantic. By the way, you know, Tom said sometimes people look at what we're doing and say, "Oh, well, it's really unique. They have a faith-based mission. But there's not generalizable." Everything we talked about today that is in the article, you could build a case study at the Atlantic and its transformation, and the case study of Forbes and its transformation. There are other newspapers I'd point to, but if you want to look at two other great case studies, I would study everything Lewis DVorkin is saying at Forbes, and I would look really closely at the Atlantic. At the Atlantic, they've managed to build that brand architecture across the magazine, [Atlantic.com](http://Atlantic.com), and the Atlantic Wire. They are all unified by an organizing mission, brand, and some common architecture, brand architecture, but each one of them is freed up to do things that really distinct to its business model and medium.

**Tom Rosenstiel:** Serving a community of users at a deeper level than they once did.

**Clark Gilbert:** Yes.

**Tom Rosenstiel:** So, any local news organization could, if they understood their community and ascertained what people cared about, build off this plan.

**Clark Gilbert:** Absolutely.

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**Tom Rosenstiel:** So, let's get questions. We have microphones on both corners here. And I'd be very disappointed if you guys were shy and don't have some questions. But I can't throw you the mike, so speak loudly and identify yourself.

**Rosental Calmon Alves:** Yeah, you'll have to go to the mike, because we have TV. We have millions of people watching us.

**Tom Rosenstiel:** Millions. [laughter] Millions, hundreds, billions.

**Kevin Anderson:** Right. For the benefits of the millions that are watching us, my name is Kevin Anderson. I'm with the Media Development Investment Fund. And I was just struck by the talk, Clark, in that the dominant model has been integration.

**Clark Gilbert:** Yeah.

**Kevin Anderson:** I'd just like to ask, why do you think that is the dominant model? And how would you respond to media managers who believe that that's the model? Because that's the model that's being carried out over and over and over again.

**Clark Gilbert:** Yeah. Yeah.

**Kevin Anderson:** I'm quite skeptical of it, but I'd love to hear your thoughts.

**Clark Gilbert:** Great. Well, it depends if you're a friend or someone I don't know well. If you're a friend, I'd be really blunt and say it's wrong and just fundamentally flawed to its core. [some laughter] And the reason I would say that so bluntly is, I've spent ten years having this conversation. The data is so overwhelming. Now, it doesn't mean.... Some people will hear what I've said or what we're doing even in Salt Lake and think, "Oh, it means they have nothing to do with each other." You know, that's not true. There's exchange teams up and down the organization, but they are separate. The other thing would be, "Oh, you don't do anything digital. So if you're in the print organization, then you don't do anything digital." No, absolutely not. We run exchange teams the other way, where I have... We run a thing.... If you go to, I think it's [DeseretAcademy.com](http://DeseretAcademy.com), where the web team has built curriculum to train the newsroom on SEO-friendly headlines, how to tweet, social media, how to do web-based research, how to create a web-only chart. So, there's lots of things they do, but that's in that aqua space. So, but I'm going to do that. That's part.... To me, today, you can't be a good journalist if you don't do those things. If you don't know how to tweet out, you don't have a social presence, you aren't following the social dialogue, you don't know how to research on the web, you don't do any curation or roundups, link-offs from the web, you're—[snaps his fingers]—you're a bad journalist. Sorry.

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But that is not Transformation B. And, you know, we ran out of time for me to walk through content strategies in Transformation B, but it's different. So, the integration, if it does happen, is (a) on an exchange team, and (b) it doesn't mean the legacy organization doesn't do anything. No, it has to. You can't be a good journalist anymore without some of those skills. But lists, UGC model, curation, all of this, optimization, Chartbeat, visual revenue. My news team, there's no way they're going to be as good at that as these guys are and still be great at their journalism.

**Chris Anderson:** Hi. Chris Anderson, City University of New York. Thanks for a great, really great talk. So, I guess one way of asking this question is to say, you know, I'm curious what you see about the relationship between the cultural aspects of disruption theory and the economic aspects.

**Clark Gilbert:** Yeah.

**Chris Anderson:** And so, what I mean by that is, you know, if you take the first two slides, right?

**Clark Gilbert:** Yeah.

**Chris Anderson:** The first slide is an economic slide. It's about sort of massive economic changes.

**Clark Gilbert:** Yeah.

**Chris Anderson:** The second slide is a culture slide, right?

**Clark Gilbert:** Yeah.

**Chris Anderson:** It's how people in an industry see the world.

**Clark Gilbert:** Yeah.

**Chris Anderson:** And what's the relationship between those? And I guess the way of asking that that's maybe more interesting to the journalists in the room is, you know, can we really do anything? You know, if this is an economic story, we're doomed. And if it's a cultural story—right?—there are things we can do to figure it out.

**Clark Gilbert:** Great. No. Fantastic question. First of all, you can't ignore the economics, but you don't have to master them or understand them. You better be in an organization who does. And because right now the way much of the industry is going is, the only path forward is subsidization either by a tangential business or by community donations. And that may be part of our model going forward, right? There is some journalism that just can't be funded and is a public good. The cultural side of this though is true on both

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the economics and on the general culture. And some of the research I had done looking not just in the newspaper industry [but] what's called from resource allocation to strategy. So if you want to understand an organization's strategy, look at how they allocate resources. Not just money, but time and attention.

And, you know, here's a great story from Lewis D'Vorkin at Forbes. They have a thousand contributors who don't work in their newsroom, who contribute content to Forbes, right? Now, wouldn't you think at this time in our history if there was something we needed to do to survive every journalist would be committed to it and willing to do it? But at Forbes, they've armed both teams with all of these things I talked about in Deseret Academy: SEO training, tweeting, social search, all these different skills. The contributors had an 85% compliance rate on that. The newsroom was about 20%. Right? So when we talk about culture, you can't pay them more to get this done. It's, why are we being so resistant to this? And it's so often because we are saying, "I only see that world through that blue lens."

And so, the cultural things are just as deeply tied to the economics as they are to the way we think. And boy, you know, if I have a journalist on my team who fights that, you know, I don't really know that they can stay in our organization. You know, I love our journalists. They are amazing. They are award-winning journalists doing work that, you know, I could spend the whole day talking about. But if they aren't aware that the world is changing and they need to be part of that transformation, then we are never going to make it.

**Tom Rosenstiel:** Let's get a couple more if we can.

**Alan:** Hi. I'm Alan. I'm a student here at the University of Texas. I was wondering how you thought social media and Twitter in the expediency and spread of news fits in this model, if it's actually helping the industry or hurting it.

**Clark Gilbert:** Yeah. I'm not an expert on the speed of information flow and social media, so I don't want to venture into a place where I'm not an expert. I do think social media is fundamentally changing our relationship with our communities. And so, we use Twitter to tweet out breaking news, to follow things that are happening as an investigative tool, but the more fundamental part of our social strategy is connecting with our audience and things they care about. So, you saw one of our areas of emphasis is the family. We have 30-million social followers who say, "I love my family. I love my mum. I love my children." And rather than having them become followers of the Deseret News, they are followers of a community who loves their children. And lo and behold, we can draw content from the community and it can drive massive amounts of traffic. So, we look at social as a way of audience connection. I'm probably not the best person to talk about the speed of breaking news and social media.

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**Tom Rosenstiel:** Let me just take a moment to translate what Clark just said, because if we'd given him more time, he would have gotten to the social strategy and it would have blown your mind. They take... And he learned some of this from hiring somebody who had worked for an airline. And they built this infrastructure to promote the airline and then they also built, with very little effort and expense, something about it was a Brazilian airline. I love Brazil. I love to fly around Brazil. And what they disc--.... [laughter; he looks off camera] Don't interrupt. [laughter] What they discovered—I shouldn't speak for you—

**Clark Gilbert:** No, it's fine.

**Tom Rosenstiel:** —was that people were pa- — you needed to put your content into what people were passionate about. So, they've created these six content categories, but in social, they built it into the things that people are passionate [about]. So, it's not content about education. "I love my school. I love my mother. I love my father." A smaller demand for "I love my husband." [Clark laughs.] I'm using Clark's jokes.

**Clark Gilbert:** That's why they go over so well.

[Laughter.]

**Tom Rosenstiel:** And they went from 100,000 followers in social to 24-million in a year—by finding the conversation that people were already having and putting their content into that flow. Suddenly, this is a megaforce that they can begin to monetize. Because the conversation in your community was always vastly more robust than what journalism was touching. It was providing a little input into it. And now you can be engaged in all of it in a much more powerful way.

**Clark Gilbert:** Well said.

**Tom Rosenstiel:** More questions.

**Woman:** How can you find it? How did you find the conversations as a subject?

**Tom Rosenstiel:** The question was, how did you find these conversations?

**Clark Gilbert:** You know, we track in each of our editorial beats, so six areas of emphasis to family. We track a social stream in Twitter. We tracked it in Pinterest. We've tracked it in Facebook. And you build up communities. You look for traffic. You know, there's a whole bunch of social strategies around that. But the key is, if you don't know what you're going to be good at, you don't know what the conversation is, so how do you wade into a conversation when you don't know what you're trying to be good at? So, you

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don't now where to go to look. If you want to wade into the conversation of news, good luck. You know, you've got to know what you are good at within news.

**Mark:** Mark, University of Amsterdam. Thanks for a great presentation. I wonder if you can speak as a manager. One thing that we know from labor is that newsrooms are emptying out.

**Clark Gilbert:** Mm-hmm.

**Mark:** Like, there's no more new hiring and less people have to do more and some of what you're saying speaks to that. But at the same time, we need to innovate and sort of embrace that disruptive model and that kind of stuff. So, we are working more and more with a larger and larger army of people, sort of, you know, loosely tied to our organizations. And our first gut instinct is that's sort of a new form of expectation perhaps, but how do we draw those people into our innovation models? So, how do you as a manager both manage stuff happening in your own newsroom and setting up those exchange teams, but also drawing in those people outside of the organization? And second, what is a journalist to do who wants to make a living, but she also wants to be part of like coming up with the future of news?

**Clark Gilbert:** Yeah. Well, both questions are well framed. On contributions from the community, part of it is, is valuing it. I think one of the things that is problematic for our industry is newsrooms and many journalists think they know better than the community. And opening up and connecting to and valuing and being part of [the community], whether it's in the social stream as Tom talked about or with community contributors, is a way of expanding and opening up a newsroom to ideas, insights, and information, and accountability. The question is, well, how do I be part of this and still provide a living? You know, a lot of it is, do you have an organization that is committed to this? And I hear a lot of journalists say, "Well, I want to work in a place that's committed to journalism." Great. But I hope one of the messages you just took out of the first part of this presentation is, if they aren't committed to choosing what they're going to be good at and they aren't committed to the green space, then they are not actually committed to journalism, or their commitment is very naïve. Because the only way I can promenade that work that my enterprise news team is doing is to make those decisions on either side. And, you know, if you work at the Deseret News or Deseret Digital Media, you know you have a future, because we've gone through and wrestled those really hard questions.

Otherwise, you know, when I said, "Transformation isn't one big monolithic thing, it's two very distinct processes," all of that effort gets muddled together and the organization is really ineffective at both. So, part of it is, if you want to be committed to journalism and its future, [you have to ask],

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am I in an organization that's made those hard choices? And am I doing the work in this organization that's it has decided to be distinctive at?

**Rosental Calmon Alves:** OK. Thank you very, very much. [applause] This was really amazing. Thank you. This was great.