

Incidental Paper

**Changes in the Information  
Industries — Their Strategic  
Implications For Newspapers**

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A presentation to the Board of Directors of the  
American Newspaper Publishers Association

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CHANGES IN THE INFORMATION INDUSTRIES -- THEIR STRATEGIC IMPLICATIONS  
FOR NEWSPAPERS.

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United States Postal Service  
United Telecommunications, Inc.  
Voice of America  
Warner Amex Cable Communications Inc.  
The Washington Post Company  
Western Union

### Summary

In Spring 1980, the American Newspaper Publishers Association (ANPA) undertook an active lobbying effort in Congress, aimed not at a bill focussed on the newspaper industry, but on one whose intended thrust was telephone industry deregulation. We see this as but the first in a series of interactions and confrontations with industries traditionally outside the previous business horizon of newspaper business. Telephone companies, cable operators, bank networks, computer data base services and others may soon compete in the provision of information to the home, together threatening the traditional revenue stream of the newspaper industry. Various levels of governments, confronting the questions of "protection" which are raised, must strike a balance between protection and efficiency. It is suggested that newspapers can capitalize on their real strengths as providers of content, while contracting out their relative weaknesses in delivery.

Ladies and gentlemen, we are pleased to have this opportunity to be with you. In the last few months ANPA has chosen to intervene in the legislative process, not on a bill focused on the newspaper industry, but on one whose intended thrust was telephone de-regulation. It is our view that this was but one of a string of interactions and confrontations with parts of the information industry you have never had to worry about before. My presentation today will try to provide some early warning of what is to come, and to present some perspectives on the information world different from your own.

WHY IS THE BOSTON WEATHER FORECAST NOW ANNOUNCED BY NEW ENGLAND TELEPHONE AND NOT THE NATIONAL WEATHER SERVICE?

Being a New Englander by birth and upbringing, I would like to start by talking about the weather. We Bostonians are famous for talking about the weather. From my earliest childhood, therefore, I can remember dialing WE - 6-1234 to get another forecast, usually erroneous, from the National Weather Service. This would provide grist for the discussion mill until the next weather change.

Imagine my surprise, one day this spring, when I dialed 936-1234. Instead of getting the national weather service forecast, I got this:

.....will be sunny and humid, with temperatures in the mid eighties. The eight A.M. temperature was 71, the relative humidity sixty six, and the winds from the southwest at eleven miles per hour. This is Steve Thompson for New England Telephone. The next weather update will be before noon. Thank you for calling.

Why would New England Telephone, a Bell System Company, want to be in the business of announcing the weather? To begin answering this question, we should inquire how many people use services of this type.

The Time and Temperature number (formerly the Time number) is the most popular. In 1976, Atlanta got calls at the rate of 106,000 a day. In Dallas, where callers were charged a dime, there were 108,000 calls a day, generating gross revenues of \$6,132,000. In Great Britain, all announcement services combined got 600 million calls in 1977. In New York, in 1979, the seven counties around Manhattan generated 271 million announcement service calls, producing a reported revenue of \$16 million. Part of the secret now unfolds. Providers of information services can charge for them. This is not news to newspapers.

If we look at what is being announced, the picture becomes a bit more interesting. The top 10 announcements worldwide include the weather forecast, Time and Temperature, and also the following:

- Tourist information (ski conditions, etc.)
- Motoring
- Recipes
- Sports results
- Sports schedules
- Gardening tips
- Racing
- Exchange rates

No one would buy a newspaper to find out the time or temperature, but the others have a different flavor. They are all items which one finds in



newspapers. Indeed many of them are the names of major sections in newspapers, and newspapers are the traditional source of this information. This looks like competition for the time, attention, and purse of the information consumer.

There is another wrinkle to announcement services: they can be sponsored.

The format might go like this:

Hi, this is Big Name Sports Star. I have a question for you. Where does an 800 pound gorilla sleep? While you're thinking about that, let me remind you that if you can't sleep at night ACME SLEEPING PILLS are the very best. Now about that gorilla, he sleeps any place he wants. Get it?

The call would be free, or cheap.

Here we have a product that supplies news or entertainment to the individual, is priced less than it costs, and is paid for by the sponsor as a way to get his message to his potential customer. Those words also describe a newspaper.

Why is AT&T getting involved in 936-1234? It looks to us as though individual pieces of news or entertainment can be unbundled and delivered for a price, or sold as an advertising medium. AT&T could use some of these pieces to get its nose under the tent of information services generally, and begin to condition people to use the telephone when they want to know something. As the average residential phone is used only 20 minutes a day, this is good marginal revenue along the way.

WHY MIGHT AMERICAN EXPRESS HAVE ACQUIRED AN INTEREST IN WARNER CABLE?

Just because the action this year involved AT&T and the House Subcommittee on Communications, don't be distracted from the other players. Not only are there some very disparate organizations getting into the provision of information, but they have some very disparate ways of funding their services, with important implications for the price at which they might someday compete. Here's a whirlwind tour of a few possibilities.

- Huch has appeared in the trade press about American Express, and its growing share of the market for international monetary transactions. Beginning with the market in individual rather than corporate accounts, it has moved in the direction of becoming the major transfer agent for funds across borders.

- With the AMEX position in Warner Cable, and with Warner's experiments in electronic banking and GIRO\* systems in Columbus, there is a new opportunity for vertical integration. AMEX could offer, as a competitive edge, complete electronic services, both corporate and consumer, around the world. It might turn out, that by realizing the profit from replacing the cost of paper banking with electronic banking, even without conventional cable revenues, the system could be paid for. If so, AMEX would have a two-way video and data system in many households, onto which the provision of news and entertainment could be added at incremental prices. These would be much cheaper than if they had to pay for the installation of the system.

- France has spent 200 billion francs over the last five years to upgrade the telephone system. In doing so, they have created a cadre of 150,000 skilled

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\* A procedure that directly debits an individual's checking account at the time of a purchase while simultaneously crediting the merchant's bank account. It is widely used in Europe today.

workers and a vested budget item looking for the next thing to upgrade. The government has already announced part of what this will be. Each household will have a video terminal and a keyboard instead of the telephone book. This capital investment will be paid for from two sources: displacement of the cost of the telephone book, and a charge of about 50 centimes per search. A representative of the PTT<sup>\*</sup> assures us that there are no plans to hook a printer onto this terminal, but that it would be cheap and easy to do. If completed, this program will install a two-way video and data system in most households, onto which the provision of news and entertainment could be added at incremental prices. The French newspaper industry is struggling both to kill the project, and to gain access to it.

- In several countries, videotext services, such as Prestel (Great Britain), Antiope (France), Bildschirmtext (Germany), and Telidon (Canada) are being developed and market-tested by the national telephone companies or government communication departments. If successful they will provide a two-way video and data system into many households onto which news and entertainment could be added at incremental prices.

- Source Telecomputing Co. (a household computerized information service) has just been acquired by Reader's Digest, giving "The Source" new cash and a parent in the business of providing information on an international scale.

- Cable TV systems are now available to 50% of American households and nearly 24% already subscribe.

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\*PTT - postal, telephone and telegraph agencies that are government-owned or controlled in most Western European countries.

There are approximately 3 million personal computers in homes and offices, and another million are added each year. Many of these are being used to communicate with each other or with remote data bases.

- The LEXIS system paid for its development costs largely by displacing the budgets spent on researchers in law firms. That meant that the NEXIS system didn't have to pay those development costs.

What do all these add up to? It's much too early to call the race, but by now we can identify some of the horses. There are several organizations already at work with the following attributes:

- They are large and/or well heeled;
- They have an existing business that gives them serious credentials as providers of information;
- They aspire to place video/data systems in households or select businesses;
- They can pay for part or all of this by charging for services related to their customary business;
- If they succeed, they will have installed a system capable of providing news and entertainment, and pricing it on the margin.

The companies that make up the list come from a wide variety of traditional lines of business with differing internal structures, regulatory environments, and corporate personalities. In confronting one another, they can be expected to pose more complex problems, not only for themselves, but for governments, than the confrontations among traditional competitors.

Because of these unfamiliar shadows looming on the horizon we suggest that your interaction with AT&T, via the House Subcommittee on Communications, was the beginning in a long series of new and diverse interactions.

#### WHAT PROTECTION IS ENOUGH?

The issues raised in this case, therefore, may indicate the issues coming up in future cases. I'd like to discuss these, not from your own perspective, with which you're already familiar, but from the perspective of the Congressional committees which felt called upon to settle or resolve them.

As you know, there are two watchwords in Washington these days. One is competition, with the presumption that more competition is somehow better for the economy; the other is deregulation, with the presumption that less regulation, or, conversely, more deregulation, is also better for the economy. The Congress has approached the so-called "rewrite of the Communications Act of 1934" with intention to see how much of these two virtues it could impart to the communications industry.

In our own testimony before the Congress we pointed out that the two concepts, competition and deregulation, did not necessarily equate with one another. In response to the prospects of deregulation of the telephone company, the largest company in the world in terms of installed plant and one of the largest in terms of gross revenues, a number of other companies intervened. They claimed that deregulation wouldn't foster competition. It would stifle it by imposing an undue threat to themselves. Arguments, by and large, were not made against competition per se. Instead it was argued that competition against American

American Telephone and Telegraph would be unfair, and in that sense, not properly competition. It would be unfair because AT&T's enormous size would provide an unfair advantage, allowing predatory pricing. Furthermore, AT&T would retain a hand in a monopolistic market, and could subsidize its offerings in unregulated markets with the profits. Competition, they said, should be allowed, but only with adequate protection in order to make it work. The committee was therefore compelled to wrestle with concepts of protection.

Protection comes in different levels. The simplest level is separation of accounting systems--requiring a different set of books to be kept for different product lines. This, however, has a severe problem in the case of AT&T. Over 50% of the telephone company's costs are joint and common costs. Since these cannot be allocated on any universally accepted economic principle, it remains for them to be allocated some other way. This is done today by negotiation among a variety of corporations and governmental entities. It is political accommodation. Competitors fear that joint and common costs will be loaded excessively onto some other product, allowing an artificially low cost for the one with which they compete. As there is no satisfactory economic criterion for the word excessive, this problem can be intractable in the absence of political agreement.

An apparent solution would be the next level of protection--separation of corporate entity. Separate offerings have to be provided by separate corporate entities; each with its own executive structure, accounting system, and so forth. Different length's-of-arm may be specified between the subsidiary and the parent. The difficulty with this solution is that many of the services provided by different corporate entities must still be provided by the same physical plant at least into the foreseeable future. For example, long distance and local services still require

the same switch; corporate services and private services still require the same lines. As long as the same plant is providing services to two separate corporations, the entity which owns the plant, or its regulator, retains the discretion of assigning its joint and common costs among those offerings. We find ourselves with the same problem in different clothing. This we call: "The myth of separate subsidiaries."

Two other forms of protection seem to solve the protection problem. One is prohibition of a company from entering a particular line of business. This certainly prevents unfair competition by that company in that business. It also eliminates competition altogether.

The other is complete separation of plant. In other words, companies offering local service must use completely different plant from those offering long-distance service. Those offering private line, WATS, corporate, and other forms of service must use completely separate plant from each other. This will provide adequate protection. However, it also requires duplication of plant. In many cases the cost would escalate to the point where the service is no longer viable. In most cases costs for the totality of the services would equal or exceed costs with joint plant. This solution creates economic inefficiencies. Elimination of economic inefficiencies was the goal of competition in the first place and therefore this option can defeat the goal.

Congress does not have a clean solution to the problem of competition with adequate protection. Instead it must do a balancing act between the horns of the dilemma of protection versus efficiency. Accommodation rather than solution will be the outcome.

ET TU, BRUTE?

By the time ANPA entered the discussions in the Committee, these issues had been heard many times. Your own position was supported by two major arguments. One was that AT&T's size perhaps including its monopoly power in other markets, distorted the market in such a way as to provide unfair competition with newspapers. This could damage the diversity of the press and therefore the freedom of the press. Your other argument was that vertical integration, provision of both the content of an information service and the conduit over which it is conveyed to its recipient, is a form of control regardless of the size of the provider. The first of these arguments had been used by a variety of interveners to support separation of AT&T as a form of protection for themselves. The vertical integration argument had been used by companies who wished to prohibit AT&T from getting into their business. Your solution was the prohibition of AT&T from a market--namely provision of content in any form over the network which it controlled. Your own success with the Wirth Amendment may well have depended upon your ability to invoke the First Amendment, an option not available to most of the others, rather than on the use of the economic arguments. Even so, critics of the Wirth Amendment have referred to it as pure and blatant protectionism.

Although these arguments may have worked before the House Subcommittee on Communications, they may be considerably more ambiguous in other forums in the future. For example, the size argument can work for you or against you, depending on whether your competitor is bigger or smaller. The control argument works for you when you control the content and do not wish the



conduit company to get into that business. It may work against you if you control the content, and are trying to acquire a different kind of conduit, such as a cable company. It is worth noting that the Times Mirror Co. was ruled ineligible to own cable companies in the Hartford area by arguments very similar to these. Times Mirror were viewed as too dominating to foster diversity of sources within that market. It was also seen as threatening to own multiple conduits of information as well as the sources of that information.

An important element in whether these precedents help you or harm you may be the size of the competition. The list of unfamiliar competitors, cited earlier in this discussion, had mostly large organizations. There are also products supplied (or potentially supplied) by small organizations: for example, cable TV, data base services, cassettes and discs, direct broadcast satellite receivers, shoppers, libraries, and so forth. Each is coming at the market from a different angle, and each is competing for the time, attention, and pocketbook of the individual who wishes information.

#### WHAT'S GOING ON HERE ANYWAY?

Let us step back and look at what is happening from the perspective of the customer. We think that the very nature of the consumer is changing. We are constantly being told of the declining literacy of the American public. On the other hand, there are new capabilities that the public never had before. Almost every student graduating from high school has seen and used a hand-held calculator. Almost every child has played with an interactive electronic game. Many private motorists and almost every professional trucker uses a citizen's band radio. Many employees of airlines, insurance companies, banks,

and, as you well know, newspapers, spend several hours a day in front of a video terminal interacting with a computer. These people will behave like a new and different kind of media customer. No longer satisfied with media that do not interact or with plain old telephone service, the new consumers can handle a more sophisticated kind of medium. They can interact with it and demand the information they want. Responding to (and partly causing) this change in the nature of the consumer are changes in all of the information industries. The nature of the products and services available is evolving, the nature of the corporations providing them is changing, new and uncertain government actions may appear, and the pie is being resliced.

#### WHAT CAN NEWSPAPERS DO?

What could or should newspapers do about it? We propose that a new way of thinking about yourselves is required. We have some ideas about how that thinking should go. For the next few minutes I will present you a framework and also try it out on the present situation. You can see for yourselves whether it helps.

We suggest that the word "newspaper" covers a variety of different--indeed very disparate--items. A newspaper shares with any other medium, three common building blocks. These are:

- Content, by which we mean the material you work with: news, editorials, advertisements, features, etc.
- Process, which is the gathering, storing, preparation, printing, and delivery of those content items,
- Format, which is the way in which your material is displayed to its ultimate consumer, in your case, print on paper.

Other media, such as television, differ in the nature of these three elements, but they all have them. Rather than thinking of yourself as a newspaper, think of yourself as a corporation possessing strengths and weaknesses in content, process and format.

The word "process" is vague. Let me describe how we came to use it. An earlier version used the words "content, conduit and format." Conduit meant the way in which the information or content got to the consumer. It included printing, trucks, newsboys and the like. What this word failed to note was a very important change that had already taken place. There is a phase, invisible to the consumer, in which the content goes from the form in which it arrived into a fully composed page. This was once done manually. It is now done electronically. During this phase a machine-readable version of the newspaper is produced although it is not seen by the customer. In order to incorporate this change we replaced the word "conduit" with "process".

Individually, the content, the process and the format of the newspaper business are undergoing changes, are subject to new threats and opportunities, or both. Here are a few examples, with no pretenses of being exhaustive.

Concerning content, newspapers were once the standard source for information about exchange rates and stockmarket prices. Both of these, so far as the professional users are concerned, have been taken away from the newspaper by electronic services. On the other hand, newspapers have been steadily increasing the number of pages devoted to so-called "features." Many of these in turn, are on the list of telephone announcement services.

As to process, the electronic composition of the newspaper is one very dramatic change. It may position the newspaper for subsequent electronic delivery over wires. At the same time the traditional conduit for newspapers, namely transportation and newsboys, is becoming increasingly expensive and difficult to manage. Independent delivery services, including some owned and operated by your own members, have appeared as a new form both of profitable subsidiary and of ways to deliver the newspaper.

On the format side, very little is new in the newspaper industry, but there is new competition, such as cable TV, video discs, video cassettes and the telephone.

Newspaper companies appear to be strong on content and format relative to other companies. They are, however, possibly very weak on process. Let us look at each of these in a little more detail.

Content is a diverse bundle of types of information which are held together by the (now shifting) economics and technology of the process and format. Some kinds of content are under more direct threat than others. Many are amenable to quite different treatments than the others. Here are some instances:

Part of your content is numerical data such as stockmarket reports and exchange rates. These have long since gone to the electronic competitors for use by the professionals. The question is, "Is the householder next?" These data are very easily carried on telephone call or announcement services, or put in readable format over cable television.

Classified advertising is one of the mainstays of your income stream. It is for all practical purposes a data base service, albeit one that you offer on paper. Other companies could easily offer it by computer. The advantages of computer readable classified advertising are quite convincing. It could be up-to-the-minute and contain no obsolete entries. Readers could search for the exact product they want, the location they want, the price they want or other indexible properties. Certain big ticket items, such as real estate, are already listed on nationwide data bases. Obvious questions arise as to who will provide the data for these data bases, who will own the data bases, who will operate them, and who will provide access to them. Ask yourselves which of these roles you would like to play rather than leave them for some other type of industry to take over.

Display advertising is another major portion of your income stream. It was the combination of display and classified advertising that appeared to be threatened by AT&T's electronic yellow pages. There may be a less direct but equally significant threat. I have suggested that consumers are able to get the information they want in new and different ways and more and more under his own direction. Consumers use pay TV and cable TV in order to get the programming they want without the advertisements--and they pay for it. With increasing control of content by the user, services will appear in which the information is available without the advertising. One of the major challenges facing newspapers in the coming years will be to preserve the income stream from advertising or to replace it with income derived from selling the information (content) itself.

News, graphics, and opinion are the information associated with your greatest traditional strength, but are there new competitors? The TV networks are all upgrading the news at the moment. Wire services could offer competition at least in theory. In practice, wire services are available over household data base services such as The Source and Compuserve working with Warner AMEX in Columbus. Nonetheless, the overwhelming advantage in reputation, expertise and investment in the preparation of news, graphics and opinion rests with your own industry.

Finally, it is clear that magazines can compete and have been competing with features, in fact increasingly so. It may also be that data base services can compete as can announcement services via telephone. The timeliness and referencibility of the specific feature may determine how well it can be conveyed by a newspaper relative to some other medium.

Content appears to be a strong area for newspapers. Process, however, is a different story. If you look at the raw ingredients of the business, paper, ink and labor rates are among the largest and the fastest growing budget items. If you look at functions, delivery appears to be growing more rapidly than content gathering or preparation. More than one newspaper publisher has told us that delivery is his biggest headache.

By contrast there are dramatic cost declines for computers and electronic switching and transmission equipment. They go down by a factor of 10 every two to six years depending upon whom you ask and which part of the business they are measuring. If we compare the two cost trends, we see printing and delivery of newspapers increasing by at least double every decade and electronic delivery and preparation declining by at least a factor of 10 every six years.

We are more or less forced to a conclusion: electronic delivery of information will eventually become very appealing economically.

Once the question has been phrased in this manner some interesting possibilities emerge. In your dealings with AT&T and the House Subcommittee you appear to have perceived electronic communication as a threat to your business, used against you by a competitor. There is another possibility. Electronic communication may be your alternative to the increasing costs of printing and delivering the news on paper. As such it would not be a threat but an opportunity. Your organization can be seen as weak in the area of conduit and open to opportunities for change.

Change, however, may not be forced upon you too quickly because of your strengths in format. Imagine yourselves in a room full of technicians. I come in and announce that I have a new technology. It will carry 30 million bits of information, weigh less than three pounds, handle both text and graphics, be completely portable, be accessible in any order, operate 24 hours a day, cost less than 25 cents a connect hour and be mostly paid for by someone else. I can assure you that the room full of technicians would be amazed by this advanced capability. It is far ahead of anything currently available. The technology which I have described, as you recognize, is the daily newspaper. It continues to be the most advanced format for the information you wish to display. You have something very strong going for you. The daily newspaper will retain its technological lead for the next several years. It is generations, not just minutes, ahead of the technological competition.

What, if any, messages can be distilled from the content, process, format scheme? It suggests that you should stop thinking of yourselves as companies in the newspaper business, but rather as companies which possess strengths and weaknesses in content, process and format. See if you can contract out your weaknesses and leverage your strengths into the best position in the coming information order.

As an example consider the complexity of your relationship with the telephone companies. This relationship has more than one aspect. You are a present customer--in fact a heavy user. You have historically taken very good advantage of certain practices called discriminatory by their critics, such as Hi-Lo Tariffs, TELPAK-end-links and WATS lines. In addition to being a customer, you are a possible competitor, hence your lobbying effort this year. You are also a potential customer of a very different kind. Can you use the telephone companies as the alternative to newsboys--can you capitalize on their installed billing plant for tailored services--can you establish joint ventures to take advantage of their triple-A rating for cheaper capital?

But remember that the world of the telephone companies is changing at least as fast as, perhaps even faster and more fundamentally than your own. There are alternatives which have them worried, and you may be able to use them. Consider using cable, videotex, information sources, and other ways to distribute your content to segments of your audience.



AND IN FURTHER CONCLUSION

To finish up, let me offer three thoughts.

The chairman of the board of an independent telephone company once took us aside and explained: "This used to be such a nice quiet business. We had our feuds, but we were able to keep them in the family. Now everything is changing and I don't like it." He retired the next year, and the year after that, his company began a diversified acquisitions' program. They have done well. The newspaper world has also been a nice quiet business. It has had its feuds, but they have been within the family. I suggest to you that you will soon find yourself in a world with very unfamiliar kinds of companies and governmental bodies. It will no longer be a nice quiet business, and it will no longer concern only the family. We hope you enjoy challenges.

Second, the newspaper business has enjoyed a kind of moral aloofness from lobbying or pressuring the government on its own behalf. We see this era drawing to a close. Editorials supported the lobbying efforts against the Communications Act rewrite or favored the Wirth Amendment. Some of them admitted their paper's financial stake. It will become harder to stay detached.

Finally, the role of ANPA itself will become less easy to identify. As other information businesses are drawn into your orbit or you into theirs, your members will respond differently. Some will perceive threats and others opportunities. The luxury of identifying a common enemy or a common friend, will become scarcer. ANPA itself will begin an ongoing task of trying to identify the common interests of its members.

We appreciate having had the opportunity to present you with our view of the world and we look forward to more opportunities to meet with you, together or individually. Thank you.