WIRED FOR THE FUTURE?:
Creative Destruction and Continual Renewal of the Associated Press

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ABSTRACT

JOSEPH E. WILLIAMS (JED): Wired for the Future?:
Creative Destruction and Continual Renewal of the Associated Press
(Under the direction of Penny Muse Abernathy, Leroy Towns, and Heidi Hennink-Kaminski)

For 164 years, the Associated Press has been a cornerstone of traditional news organizations, producing and distributing original and re-purposed reports from around the globe to thousands of subscribers. Today, as “creative destruction” and secular change batter the media industry, forcing newspapers to re-evaluate their identity, AP’s once-timeless role as “the essential global news network” is now uncertain. Using a case study approach, this paper examines historical usage trends of AP content in two North Carolina daily newspapers from 1985 through 2008, explores state news-sharing arrangements that have sprung forward as alternatives to AP, and subsequently maps attempts by the cooperative to reinvent itself as a sustainable enterprise. Beholden to its longtime members yet aggressively re-imagining its business model, AP finds itself in a dilemma: can it innovate quickly enough and deliver a value proposition substantial enough to maintain an “essential” place in the rapidly-changing marketplace?
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CHAPTER 1

Introduction

Mark Twain once proclaimed: “there are only two forces that can carry light to all corners of the globe, only two – the sun in the heavens and the Associated Press down here.”\(^1\) Mahatma Gandhi declared: “I suppose when I go to the Hereafter and stand at the Golden Gate, the first person I shall meet will be a correspondent of the Associated Press.”\(^2\)

Such has been the scope and influence of America’s foremost news wire, which for 164 years has pioneered news coverage, aggregation and distribution from coast to coast and beyond. Before *The New York Times* and *The Wall Street Journal* filled newsstands, there was the Associated Press. Long before radio and television signals first flickered, the AP stood supreme. Light years ahead of the advent of *USA Today*, Politico.com or The Huffington Post, the AP set the standard. Spanning three centuries as an agenda setter for national and international discourse, it is an institution. Its towering reign, however, is in peril. The reasons are both secular and cyclical.

The AP’s long, winding history of combating competitors and defending its market position falls into two distinct categories: stable business strategy and radical reform that embraces “creative destruction”\(^3\) - the process of transformation that accompanies radical

innovation. Both are backed by economists and scholars who defend their merits. Today, the AP must fend off a wave of attackers, from Internet search portals to local blogs, which are vast in number and continually evolving. It must choose the prudent course for its own survival, while convincing its partners and the 19 members of its executive board (composed principally of newspaper executives) to adopt the new technology and business model that it has embraced. Emboldened by lowered barriers to entry, unencumbered by legacy costs and buoyed by their own technological breakthroughs – namely the dissolution of geographic monopolies through digital distribution platforms – new players threaten to undercut the AP’s differentiated advantage: global coverage that only its reporters can provide and re-purposed local content that only its members will share, all distributed across a cooperative wire that only it can operate.

The AP also sees its market position jeopardized as disruptive change batters the media at large, crippling once-dominant industry leaders. Formerly monopolistic newspapers are scaling back. Some are shuttering entirely. Local radio and television stations confront a similar fate. What many pegged as just another transient trend appears to be a revolution: media is digitizing, becoming increasingly user-interactive and user-generated, and going both social and viral. As it does, it disintermediates the resource and platform advantages that long allowed the old guard to stand apart. Secular changes in the industry are compounded by a severe cyclical downturn, which has shrunk profitable advertising streams that paid for the AP membership freight for mid-sized and large metro papers.

As a member-owned cooperative, the AP draws heavily from its constituents – these same struggling media companies – as its lifeblood, namely to fund the $500 million required

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4 “AP Board of Directors.” See [http://www.ap.org/pages/about/board.html](http://www.ap.org/pages/about/board.html).
to sustain its global news fleet of 3,000 journalists and editors. As they hemorrhage, the AP bleeds, too. And as they struggle to survive, these local outlets are forced to consider alternative news suppliers. Digital aggregators, supplemental wires and multimedia platforms are all jousting to wrest away the AP’s clientele. In some cases, spurred by philosophical disagreements and cost concerns with the cooperative, existing members have created their own substitutes.

Judith Matloff, quoting a member of the wire, writes that the AP is “like a mother. She’s reliable. She’s always there for you. She’s easy to take for granted. But you need her.” Do its constituents agree? This paper analyzes the evolving relevance and value of the AP to its members and to the global media industry, as well as its response to the “gales of destruction,” an expression first coined by Austrian economist Joseph Schumpeter to describe seismic business and structural industry change. It employs a case study method to examine three fundamental business principles at play in the AP during an era of disruptive change: defining and developing the core business, identifying core threats from peripheral challengers, and re-inventing the core – both competencies and constituents – to combat competitors and ensure sustainability. The first case samples two North Carolina daily newspapers – the Charlotte Observer and The Fayetteville Observer. As larger circulation dailies paying a higher annual membership than the average news organization, they represent the company’s “bread and butter.” The second case explores statewide and regional news-sharing alliances, notably the Ohio News Organization, formed to diminish local newspapers’ dependence on AP. The final case studies how the AP is attempting to re-

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6 Foster and Kaplan, supra note 3, at 17.
imagine its business model to counteract threats and survive in the rapidly-changing marketplace.

Ultimately, the company must confront a more prevailing question: in a disintermediated, digital age, rife with competition from both aggregators and disaggregators, is there a need for a global news wire? How the AP frames its response will go a long way in providing the answer.

I. Introductory Case Study

To contextualize the challenges facing the AP, review the multimedia case study linked below, including a video interview with CEO Tom Curley:

http://www.unc.edu/~jedw/ap/

II. History/Literature Review

Part I – Building the Core Business

The advent of the telegraph fueled the explosive growth of nineteenth century American newspapers, and subsequently, the emergence of wire services such as the Associated Press. Dating back to colonial America, newspapers held considerable local clout but were encumbered by geographical limitations on their circulation. In one technological boom, however, the telegraph changed that, giving editors “the opportunity to bring news into the community ahead of transportation systems.”

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Teeter and Ed Caudill note that “the telegraph accelerated press cooperation.” In 1846, New York Sun proprietor Moses Yale Beach coalesced six New York newspapers to share reports. Soon after, The New York Times joined. The AP was born.

The initial arrangement was newspaper-exclusive. Radio and television were still decades from invention, while magazines were not mainstream until the early twentieth century. The new initiative galvanized contentious rivals around the idea of sharing, rather than outdueling, to augment their newsgathering and thus extend both their reach and influence. Walter Mears contextualizes this as a radical departure for “the belligerent New York press. Newspapers competed aggressively, sometimes violently, to be the first with news. The telegraph revolutionized the race.” These northeastern metro dailies soon agreed to “broaden their cooperation to include the gathering of news from all over the United States,” but they consolidated all power among the original core. Not until Daniel Craig took the reins in 1851 did the AP implement the business model that guides the cooperative even today. The AP’s pioneers originally crafted it for newsgathering purposes. Craig boldly redefined the service as a “news vendor. The AP would sell its news to out-of-town newspapers to defray costs and ask those papers to contribute news to the association.” The modern blueprint took shape.

The AP’s fundamental business architecture – born of a clear mission and a concentrated constituent base – mirrored business strategist Chris Zook’s insistence on “the

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10 Mears, supra note 1, at 403-404.
12 Mears, supra note 1, at 403.
13 Id. at 404.
14 Id. at 405.
extraordinary importance of creating a strong core business as a foundation for driving company growth.”

This “profitable core” should gather around well-defined audience segments and delineate clear “business boundaries,” allowing the business to emerge as an industry leader in those focused areas rather than chase wild growth across multiple fronts.

At the heart of this decision, a company must adopt a “clear point of view.” Absent that clarity of purpose, “it is difficult to determine the competitive position, the relative importance of differently positioned competitors, or the relative strategic importance of different growth opportunities.”

Craig’s bold direction for the nascent cooperative resembled the guide for building a strategic roadmap that Robert Kaplan and David Norton sketch in “The Balanced Scorecard.” Their process for “translating a mission into desired outcomes” begins with a precise mission – “why we exist” – and vision – “what we want to be” – before tactics are ever implemented. This is akin to Jim Collins’ “Hedgehog Principle” – the “crystalline concept” that drives the essence of the business.

Craig left no room for doubt: the AP existed for its newspaper owners not only to amass the news, but to sell it. It would scale this idea to newspapers beyond the northeast to assemble a wire cooperative of unmatched reach and influence. Its “strategy map” quickly

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16 Id. at 35.
17 Id.
18 Id.
20 Id. at 73.
21 Collins, Jim. Good to Great: Why Some Companies Make the Leap...and Others Don’t. New York, NY: HarperCollins, 2001: 96. “The ‘Hedgehog Principle’...flows from the from deep understanding about the intersection of the following three [concentric circles]: 1) What you can be the best in the world at; 2) What drives your economic engine; and 3) What you are deeply passionate about.”
jumped from the “back of a napkin” to the heart of newsrooms across the country.\textsuperscript{22} Regional alliances soon formed in New England and to the south and west. All decision-making and pricing power remained bundled in New York, though, prompting outside publishers to bemoan lean news rations and exorbitant costs.\textsuperscript{23} The New York nucleus was highly protective of its members and restrictive of who could join.\textsuperscript{24} As Mears highlights, “the issues of exclusive services, franchises, restrictive rules on newspaper membership and conduct…led to the creation of the AP’s 20\textsuperscript{th} century wire service competitors (see Part II: 15-16).”\textsuperscript{25} The AP’s weighty membership restrictions were finally struck down by the Supreme Court in 1945.\textsuperscript{26} The edict shook the company’s traditional core, but as Mears argues, for the better. “It was a defeat the Associated Press sorely needed. Bound by the strictures on serving rival newspapers, the service could not have expanded.”\textsuperscript{27}

Just over a half-century old by the early twentieth century, the AP already operated its core business under the “assumption of continuity” that economists Richard Foster and Sarah Kaplan caution against.\textsuperscript{28} Exclusive service agreements and stringent membership rules reinforced the company’s “mental model,” composed of those principles that fostered its success to that point. Rooted in member loyalty, and in return, fierce defense of core

\textsuperscript{22} Kaplan and Norton, \textit{supra} note 19, at 97.  
\textsuperscript{23} Folkerts, Caudill and Teeter, \textit{supra} note 9, at 138.  
\textsuperscript{24} Mears, \textit{supra} note 1, at 406. Once enrolled, newspapers were prohibited from publicly criticizing the AP.  
\textsuperscript{25} \textit{Id.} at 408.  
\textsuperscript{26} \textit{Associated Press v. United States}. 326 U.S. 1 (1945). Justice Black delivered the Court’s opinion that the “inability to buy news from the largest news agency or any one of its multitude of members can have most serious effects on the publication of competitive newspapers, both those presently published and those which, but for these restrictions, might be published in the future” (13). As a result, the Court “adjudged the bylaws imposing restrictions on applications for membership to be illegal [and] enjoined the defendants from observing them, or agreeing to observe any new or amended bylaw having a like purpose or effect” (21).  
\textsuperscript{27} Mears, \textit{supra} note 1, at 411.  
\textsuperscript{28} Foster and Kaplan, \textit{supra} note 3, at 10.
constituents, the model was designed “to ensure predictable goal achievement.” When these authors suggest that the derivative of this assumption is “cultural lock-in – a state in which the corporation is effectively frozen in place.” When this occurs, managers can struggle to identify the challenges endemic to their life cycle stage and the strategies that befit it. Above, Mears states that the AP’s rigid mental model thwarted growth. Clayton Christensen pegs this as a malady afflicting many maturing businesses as “large companies adopt a strategy of waiting until new markets are ‘large enough to be interesting’ before entering. By doing so, they miss out on the opportunity to tap into soaring ventures at the pinnacle of their growth. Applying Foster and Kaplan, the sprawling behemoth lumbered behind a shield of operational continuity that undermined its ability to “innovate at the pace and scale of the market.” Focused on the need “to control existing operations,” such “companies resist doing anything to jeopardize their relationships with customers.”

Even in the face of its own rigidity, the AP confronted little adversity until radio and television debuted. From 1914 to 1940, the cooperative blossomed, expanding its newspaper clientele by 1300 percent, from 100 to 1400 members. For hometown publishers, it offered unprecedented advantages, “making it possible for a small-town paper to publish a story from

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29 Id. at 18.
30 Id. at 79.
32 Mears, supra note 1, at 411.
34 Kaplan and Norton, supra note 19, at 15.
35 Foster and Kaplan, supra note 3, at 85. The authors call on corporations to “recognize and embrace the prospect of discontinuity.” Capital markets that by their very nature are discontinuous cannot be matched or outperformed by companies until they relinquish their operational habits. The authors suggest that this requires a willingness to destroy in order to create that spawns only from “divergent thinking” (22).
Europe or Asia as quickly as *The New York Times* or the *Chicago Tribune.*”  As such, it became “indispensable…for a local editor striving to produce a complete and credible newspaper.”

The value proposition that AP delivered to its newspaper core was robust enough to allow it to regularly increase member assessments because “publishers would rather pay for AP than switch.” However, these member assessment hikes were actually a form of price setting, not strategic pricing, as distinguished by Thomas Nagle. While the vast value that the AP bundled to subscribers enabled it to increase prices as it deemed necessary, market changes often forced the company’s hand because it could not escape “cost[s] of new technology” necessary to stay current. This follows Foster and Kaplan’s aforementioned principle requiring firms to keep pace with the movement of the macro market or tumble into an “inevitable slide into mediocrity.” Ironically, Christensen suggests that the very entity – customers – that first powers a company later weakens it. He terms this “resource dependence,” arguing that companies’ “freedom of action is limited to satisfying the needs of those entities outside the firm that give it the resources it needs to survive.” In the AP’s case, those outside entities were its longstanding newspaper partners, who mutually owned the cooperative and authored its initiatives to reflect their needs and values.

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37 *Id.*
38 Cook, Gomery and Lichty, *supra* note 8, at 148.
39 *Id.* at 152.
41 Cook, Gomery and Lichty, *supra* note 8, at 151.
42 Foster and Kaplan, *supra* note 3, at 60.
43 Christensen, *supra* note 33, at 117.
44 *Id.*
45 *Id.*
By the 1920s, the AP began exploring adjacencies to its core business, but never at the risk of weakening its bond with newspapers. AP Radio launched in 1920, yet no wire service copy was offered to emerging radio networks (see Part II: 19-20).\textsuperscript{46} Meanwhile, local broadcasters were not granted membership status in the cooperative until 1947, more than a quarter-century after the AP first entered the radio market.\textsuperscript{47} Even then, as “radio news over the wire became an integral part of every AP bureau,”\textsuperscript{48} broadcast outlets were considered “associate members” as opposed to “regular members” – a badge reserved for daily newspapers. This membership structure holds true today, with non-daily newspapers also considered “associate members.”\textsuperscript{49} The AP finally expanded into television in 1994, more than three decades after the medium achieved mainstream saturation, with the launch of its international television division, AP Television News (APTN).

The AP’s gradual move into surrounding mediums equates with Zook’s evaluation of adjacency expansion opportunities. In marketing parlance, these adjacencies represent brand extensions, which transpose “a current brand name to new or modified products in a new category.”\textsuperscript{50} He encourages businesses to consider adjacency expansions only if the moves are into related segments “that utilize and…reinforce the strength of the profitable core.”\textsuperscript{51} Collins calls this the “single denominator” concept: that maximizing the growth and

\begin{footnotesize}
\textsuperscript{46} Folkerts, Caudill and Teeter, \textit{supra} note 9, at 368. Tension between the cooperative and the networks manifested itself in a full-fledged “press-radio war by the early 1930s.”

\textsuperscript{47} Mears, \textit{supra} note 1, at 411.

\textsuperscript{48} \textit{Id.} at 412.


\textsuperscript{50} Armstrong, and Kotler, \textit{supra} note 31, at 218. “A brand extension gives a new product instant recognition and faster acceptance.”

\textsuperscript{51} Zook, \textit{supra} note 15, at 62. Adjacencies can be promising drivers of growth, but only in so far as they draw on “the core business to build competitive advantage in a new, adjacent competitive arena.” Zook also argues that businesses must ask two principle questions when considering adjacency expansion: “how much does this strengthen our core business franchise?” and “does this investment position our core business strategically for an even stronger future adjacency?” (92).
\end{footnotesize}
profitability of a solitary business unit “tends to produce better insight than letting yourself off the hook with three or four denominators.”\(^{52}\) Kaplan and Norton, citing economist Michael Porter, see this as a systematic process in which each activity “reinforces the others.”\(^{53}\) Here, those activities stem from and then solidify the defined business core, which fosters the value proposition and thus the strategy map.\(^{54}\)

Whereas the aforementioned scholars see Zook’s adjacency expansion as measured growth, others argue that it has a stunting effect. The commitment to a concentrated core that Collins and Zook defend, Foster and Kaplan caution against, stressing that “loyalty to a flawed model can be costly.”\(^{55}\) A guarded approach to growth enfranchises new entrants, who can quickly overtake the incumbent’s position in the market.\(^{56}\) According to Christensen, “established firms tend to be good at improving what they have long been good at doing.”\(^{57}\) In doing so, they ignore or fail to even identify emerging markets, where he suggests the greatest future windfall lies.\(^{58}\)

The AP has long chased the proper balance between core innovation and diversification that economists have debated for seemingly just as long. True to his core commitment, Zook forecasts the dangers of overdiversification in what he calls “the Alexander problem,” named for Alexander the Great’s insatiable hunger to conquer territories.\(^{59}\) Consequently, his conquests lacked “lasting value.”\(^{60}\) Corporations suffer a

\(^{52}\) Collins, \textit{supra} note 21, at 104-105.  
\(^{53}\) Kaplan & Norton, \textit{supra} note 19, at 75.  
\(^{54}\) Id. at 97.  
\(^{55}\) Foster & Kaplan, \textit{supra} note 3, at 69.  
\(^{56}\) Id. at 47.  
\(^{57}\) Christensen, \textit{supra} note 33, at 35.  
\(^{58}\) Id. at 146. “Firms that sought growth by entering small, emerging markets logged 20 times the revenues of the firms pursuing growth in larger markets.”  
\(^{59}\) Zook, \textit{supra} note 15, at 61.
similar fate when adjacency expansion fails to “anchor in the core business.”  

Marketing scholars Gary Armstrong and Philip Kotler point out that such adjacencies, or extensions, “may confuse the image of the main brand.” Collins proposes that this inability to stick to a firm strategy often means making too many choices, consistent with his aforementioned “single denominator” theory. By contrast, Colin Hoskins, Stuart McFadyen and Adam Finn promote the advantages of diversification through “the portfolio effect.” They predict reduced risk for those businesses benefiting from “the diversifying effect associated with increased numbers of firms, stocks, or whatever the asset is.” Christensen implies that this means having the verve to venture into new markets, even when success is not guaranteed and short-term struggle is likely.

Now, 164 years after acting as the first mover into the wire industry, the AP finds itself as the disintermediated rather than the disintermediator. This shift signifies a sharp turn in the wheel of retailing, which explains that “eventually, the new retailers become like the conventional retailers they replaced.” The rotations of the wheel are part of a retailer’s, or

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60 Id.
61 Id. Strong cores are diluted “by virtue of premature abandonment, miscalculation, or overreaching in search of new growth.”
62 Armstrong and Kotler, supra note 31, at 218. “If a brand extension fails, it may harm consumer attitudes toward the other products carrying the same brand name.”
63 Collins, supra note 21, at 104-105.
65 Christensen, supra, at xviii.
66 Armstrong and Kotler, supra note 31, at 336. According to the wheel-of-retailing concept, “many new types of retailing forms begin as low-margin, low-price, low-status operations. They challenge established retailers that have become ‘fat’ by letting their costs and margins increase….The new retailers’ success leads them to upgrade their facilities and offer more services. In turn, their costs increase, forcing them to increase their prices….The cycle begins again when still newer types of retailers evolve with lower costs and prices.” See also McNair, Malcolm P. and Eleanor G. May, “The Next Revolution of the Retailing Wheel,” Harvard Business Review, September-October 1978, 81-91.
product’s, life cycle, spanning four stages: introduction, growth, maturity and decline. With the AP descending toward decline, afflicted by lowering profits and lagging customers, an array of emerging competitors nip at the heels of the cooperative in hopes of displacing it. These forces challenge the AP’s long-held monopoly as “the essential global news network,” requiring it to consider radical changes to its core business blueprint in order to generate substantial value for its sputtering partners to bump it out of “decline” and back into “maturity.”

Its response, true to its history of counteracting secular destruction of its own business and that of its members, has been mixed. On the one hand, it continues to move into new adjacencies and diversify into completely new realms. Whereas historically the AP only shared content with its traditional members, in 1998 it struck a paid-content sharing partnership with Internet portal Yahoo!. In 2006, current CEO Tom Curley inked an agreement with Google that licensed the leading line online search provider to carry wire stories and pictures within its Google News service (see Part II: 25). The AP has opened new regional bureaus while shuttering others in an effort to streamline workflow. It has also released new products and services to better compete in the digital marketplace (see Part III: 31-32). The effects of this discontinuous line of thinking are more diverse constituents and

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67 Id. at 246. Each stage in the “PLC” is marked by different characteristics and strategies across many variables, from sales to costs, customers to competitors, and distribution to advertising. See also Foster and Kaplan, supra note 3. The authors identify four stages in an industry life cycle: foundation (attack), growth, domination, and cultural lock-in. See also the BCG Matrix based on the product life cycle theory at <http://www.valuebasedmanagement.net/methods_bcgmatrix.html>.

68 “Consolidated Financial Statements,” supra note 46. According to the AP’s year-end consolidated statement of income, from 2007 to 2008, a 5.2 percent revenue increase was offset by a 7.2 percent increase in operating expenses. This prompted a 32.3 percent decrease in operating income. Meanwhile, cash and cash equivalents fell 26.4 percent year-over-year.


70 Id.
new revenue streams. Associate members now outnumber daily newspapers by a multiple exceeding three.\textsuperscript{71} Profits from newspapers, representing more than half of the revenue pie in the mid-1980s, now carve just a 27 percent sliver – still the largest sector, but dramatically declining.\textsuperscript{72}

Even as the cooperative re-imagines its core competencies and constituents, though, it continues to vigorously protect its legacy assets – the newspaper members whose relationships with the cooperative span generations. Newspapers retain full ownership of the cooperative, which has never been publicly traded or beholden to creditors, shareholders or private equity. Its Board mirrors this power construct. Of the 19 seats, 18 are filled by newspaper executives,\textsuperscript{73} highlighted by the Board’s Director – MediaNews Group, Inc. Chairman William Dean Singleton.\textsuperscript{74} Curley stresses that “the most important thing is to understand the core cultural success foundation and not only preserve it, but worship it to make sure that the Holy Grail is not messed with by anybody.”\textsuperscript{75}

What the AP must avoid, says Porter, is an uneven strategy that gets “stuck in the middle (see also Part II: 22).”\textsuperscript{76} This turbulence, reflected by either an inability to launch necessary adjacency expansions or an over-exuberance to diversify, comes to roost in a firm’s “unwillingness to make choices about how to compete.”\textsuperscript{77} Rather than sustain institutional momentum by cultivating enduring value from a well-delineated mission, these

\textsuperscript{71} “Consolidated Financial Statements,” \textit{supra} note 46, at 15.
\textsuperscript{73} AP.org. “AP Board of Directors.” <http://www.ap.org/pages/about/board>.
\textsuperscript{75} Curley, Tom. CEO, Associated Press. Personal Interview. 9 March 2009.
\textsuperscript{77} Id.
firms instead slip into Collins’ “doom loop.”\textsuperscript{78} They lack the balanced strategy map that Kaplan and Norton stress as essential to any business.\textsuperscript{79} Christensen, however, distinguishes doomed thinking from divergent thinking. Just because a new invention or business sector fails to offer instant rewards does not necessarily condemn it as desultory. The challenge lies in ensuring that the “innovation - the disruptive technology that doesn’t make sense – is taken seriously within the company.”\textsuperscript{80}

Moving forward, the AP confronts hard questions about its ideas of core and constituents, about its definition of what it is and what it aspires to be. Matloff worries about the agility of the sprawling cooperative to re-position itself with the necessary efficiency to remain viable in the marketplace and valuable to its clientele.\textsuperscript{81} While its newspaper partners are shackled with cumbersome legacy costs such as printing presses and door-to-door distribution, the AP is constrained by a different, more intangible legacy effect: it “finds change difficult, in part because it can never be free of the needs of its members.”\textsuperscript{82} This weighty responsibility has affected how the AP identifies and responds to competitive threats as well as how it approaches technological and business innovation. It has rendered the once-impregnable industry giant introspective of what exactly the proper response is…and if that response can ever again deliver value substantial enough to protect the stakeholders that have depended on it.

\textsuperscript{78} Collins, supra note 21, at 178. The “doom loop” is marked by “reaction without understanding” that nets “no buildup; no accumulated momentum.” Companies in this loop stumble into a vicious cycle of “lurching back and forth,” grasping for new opportunities that they hope will energize them.

\textsuperscript{79} Kaplan and Norton, supra note 19, at 97.

\textsuperscript{80} Christensen, supra note 33, at xxx.

\textsuperscript{81} Matloff, supra note 2, at 16.

\textsuperscript{82} Id.
Part II: Protecting the Core from Competitive Threats

Formerly, in a media marketplace less stratified than present, the AP did not confront its first substantial competitive conflict until its twentieth year in existence. That threat bubbled up from within its own ranks. Regional AP alliances quickly grew agitated with cooperative’s power structure, decrying that the New York papers “overcharged local papers and dictated what news would be in the daily reports.” By 1866, irritation fomented into a full-fledged uprising over what *Chicago Tribune* Publisher Joseph Medill bemoaned as the AP’s “monopoly in the worst sense of the word.” Mears describes the Illinois-based Western AP bureau as being “in open rebellion.” The two factions ended the quarrel the next year by striking an agreement that respected each service’s territorial rights. It was more compromise than full resolution, though, as the two bureaus continued to operate separately until their merger in 1892. This marked one of the few instances that the AP, often noted for its territoriality, responded quickly and effectively to subdue a conflict.

The first signs of the AP’s inaction in combating competitors surfaced in 1882. In response to the AP’s hierarchical structure, the United Press formed to serve those newspapers that were barred from receiving AP reports. This marked the first external threat from a rival news agency of any kind. The budding AP monopoly, largely unchallenged since its inception in 1848, reacted with a “complacency that could lead to stodginess.” Though the AP succeeded in “pushing UP toward failure” (it declared

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83 Folkerts, Caudill and Teeter, *supra* note 9, at 176.
84 Mears, *supra* note 1, at 405.
85 Id.
86 Id. *supra* note 9, at 209.
87 Mears, *supra* note 1, at 406.
88 Id. at 409-410.
bankruptcy in 1897),\textsuperscript{89} it failed to address its infrastructure or heavy-handedness. Rather, the local publishers of the AP of Illinois (the post-merger name adopted by the cooperative) simply pooled their money together in an aggressive campaign to outspend the UP for new contracts. The restrictive rules that angered current members and excluded potential new ones remained untouched, leaving an opening for future competitors to step through.

Collins would attribute the AP’s sluggish, stubborn response to its publishers’ inability to complete both ends of the “Stockdale paradox.”\textsuperscript{90} This principle argues that sound business managers in the throes of conflict must “maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, and at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be.”\textsuperscript{91} It must not hesitate, as Zook articulates, to ask defining business questions.\textsuperscript{92} Kaplan and Norton stress that Stockdale-esque conviction emanates not only from confidence in the overarching strategy, but also intricate knowledge of the strategy itself and how it may be challenged.\textsuperscript{93} While the AP embodied the first ideal Stockdale tenet with unfaltering resolve, it suffered from a skewed view of the second that enabled new wire services to serve the unmet needs of newspapers that the AP never embraced. Collins believes that firms must be “relentlessly disciplined” in objectively sizing up the internal and external challenges they

\textsuperscript{89} Id. at 407.
\textsuperscript{90} Collins, supra note 21, at 13.
\textsuperscript{91} Id.
\textsuperscript{92} Zook, supra note 15, at 32. These include, among others, “Which areas must be defended at all costs?, From which areas will future profits likely spring? From which areas will current profits likely diminish? [and] What is the true source of differentiation against competitors?”
\textsuperscript{93} Kaplan and Norton, supra note 19, at 215.
face.\textsuperscript{94} Instead, through its domineering leadership and foundational arrogance, the AP fell into operational contentment.

Foster and Kaplan take a different slant. They would assert that the company engaged in “incremental” innovation, or change, rather than “substantial” or “transformative.”\textsuperscript{95} Even though the AP ultimately survived its attacker, it underwent only incremental advancement by holding to its hard-and-fast rules. As a result, it sacrificed the potentially prodigious rewards that come with embarking on a more ambitious change initiative.\textsuperscript{96} Christensen again blames customers – in this case the newspapers comprising the cooperative – for wielding negative influence over the larger company by leading “their suppliers toward sustaining innovations and… provid[ing] no leadership in instances of disruptive change.”\textsuperscript{97}

New instances of disruptive change arose in 1907 and 1909, when newspaper moguls E.W. Scripps and William Randolph Hearst assembled their own wires to vie with the AP. Scripps reincarnated the UP, while Hearst branded his service the International News Service (INS).\textsuperscript{98} Rather than acknowledge the danger presented by these threats, the AP instead initially reacted with “annoyance.”\textsuperscript{99} Peter Marzio notes that the AP’s attitude allowed the UP in particular, and later the UPI (a merger of the UP and INS), to “blossom.”\textsuperscript{100} Two cardinal events triggered the AP’s awakening from its malaise and more apt response to these legitimate competitors. First, under the leadership of Kent Cooper, who succeeded Melville

\begin{footnotes}
\item[94] Collins, supra note 21, at 87.
\item[95] Foster and Kaplan, supra note 3, at 106. “Incremental innovation is characterized more by what has not changed than what has changed.”
\item[96] Id. at 108.
\item[97] Christensen, supra note 33, at 53. See “resource dependence” in Part I: 9.
\item[98] Mears, supra note 1, at 409.
\item[99] Id. at 409-410.
\item[100] Marzio, supra note 36, at 115.
\end{footnotes}
Stone as General Manager in 1925, the cooperative commenced a series of technological advances that strengthened its differentiation advantage by revolutionizing existing systems and pioneering new markets (see Part III: 29). Second, the 1945 Supreme Court decision that forced the AP to drop its inflexible membership requirements breathed new energy into the cooperative (see Part I: page 7/footnote 26). These pivot points steered the AP toward renewed dominance, and by the 1970s sent UPI “sinking toward feared extinction.”

While Christensen would define new entrants such as the UP, INS and later the UPI as attackers, and thus threats to the AP’s heretofore unimpeded monopoly, Porter suggests that they may have in fact been “good competitors.” He elaborates by defining a good competitor as “one that challenges the firm not to be complacent but is a competitor with which the firm can achieve a stable and profitable industry equilibrium.” While competing wires waged legitimate battle with the AP, the incumbent never relinquished its squeeze on the newspaper market. Cooper approached their presence opportunistically by using them to “enhance [the] firm’s ability to differentiate itself by serving as a standard of comparison.”

Though the AP frustrated current and prospective members alike with its rigid practices, its “reputation as a…reliable wire” – a key differentiation advantage – helped to overcome this hindrance. This netted early-mover advantages. These included buyer

101 See Associated Press v. United States, supra note 23.
103 Porter, supra note 76, at 201.
104 Id. at 212. “Bad competitors,” by contrast, interrupt industry balance, defeat competitive advantage and encourager attacker entry.
105 Id. at 203.
106 Sessions, supra note 102, at 15.
switching costs, defined as the costs consumers incur when they change suppliers. If competing products fail to deliver a greater value proposition for buyers, then odds are they will stick with the original. UPI never escaped its perception as “a number two service to AP.” The AP’s rebuff of competing wire services in the late nineteenth and early twentieth century also coincided with a period of press dominance and limited technological disruption in the media industry. That would soon change.

The first challenge from one of Porter’s “bad competitors” (see footnote 94) arrived with the explosive growth of radio as a “worldwide force” by 1930. While the AP first introduced its own radio services in 1920, it blackballed emerging radio news networks such as CBS and NBC by “prohibiting networks from obtaining wire service copy.” This decision held many deleterious effects for the wire and its members. Rather than shrink from the resistance, news departments at CBS and NBC instead expanded. Meanwhile, the AP swung the door wide for domestic and international competitors to enter. The UP and INS both sold news reports to broadcasters. Transradio Press offered news to networks from Havas wire agency in France and Reuters in England. Faced with the prospect of relenting, the AP instead bowed its neck. It passed a formal resolution in 1933 that specifically forbade its members from selling news to the networks and even encouraged UP and INS members to follow its lead. Only when the force of the combined competition threatened AP’s market

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108 Id. at 416.
109 Sessions, supra note 102, at 16.
110 Folkerts, Caudill and Teeter, supra note 9, at 368.
111 Id.
112 Id.
113 Id.
position did it finally back off and agree to provide radio service, “despite publishers’ opposition.”

The AP’s publishers presided over this conflict with an intransigence that underscored Christensen’s theory of resource dependence. The demands of its newspaper base rendered it incapable of entering emerging markets…or even spotting them. Its immobility sprung from the initial mental model that it still clung to (see Part I: 7). By this point, the early-mover advantages that once buoyed the cooperative were all but negated. According to Christensen, “when the same analytical and decision-making processes learned in the school of sustaining innovation are applied to enabling or disruptive technologies, the effect on the company can be paralyzing.” In this case, a once-disruptive strategy grown static became prohibitive.

The likely motive explaining the AP’s refusal to confer legitimacy upon emerging radio news networks, as Porter argues, is that “it is very common for firms to view the competitor that is closest to them in market share and has the most similar strategy as the greatest enemy.” The AP fixated on UP and INS, competitors of familiar complexion. In the process, it overlooked a new attacker “at the periphery,” as Foster and Kaplan illustrate. Because strategic planning is often consumed by existing mental models, it glosses over outside threats that may be plotting to “capitalize on new capabilities, new

114 Id. at 369.
115 Christensen, supra note 33, at 186.
116 Id. at 166.
117 Porter, supra note 76, at 226.
118 Foster and Kaplan, supra note 3, at 216. “The periphery can be visualized as the edge of the vortex of creative destruction….In this vortex, attacking companies…occupy the periphery, while the defenders occupy the core of the vortex, focusing on the evolutionary improvement of the existing business.”
technologies, and new ways of doing business” to better satisfy consumer needs. Even if
the AP wanted to jump into radio at that stage, Christensen contends that it would have
struggled due to its “delay in making the strategic commitment to enter” during the medium’s
early, meteoric growth phrase.

Radio’s rise signaled ominous times ahead for the AP in the defense of territory it had
long-controlled. The emerging medium possessed many characteristics that undermined the
cooperative’s credibility and undercut its differentiation advantage. In his recent book,
Columbia University economist Eli Noam characterizes radio’s arrival from the periphery as
an early glimpse into “one of the fundamental trends of the digital environment.” In this new
sphere, “entrants are attracted by the growth characteristics and the lower entry barriers
relative to the past (see Part II: 23).” Monopolies and duopolies are replaced by a
perfectly competitive environment in which advantages are leveraged from businesses to
consumers. This occurs as lowered entry walls, chiseled down by the technological
advantages of new firms, broaden the boundaries of substitutability. In the 1930s and 1940s
as radio networks grew, they induced local broadcasters to switch over from wire service by
giving them a dynamic, timely format by which to present news to consumers. Even though
radio bore no physical resemblance to the newspapers of yesteryear, it became a “functional
substitute” for the news wire by providing buyers with “more value relative to its price
than the product currently being used.

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119 Id.
120 Christensen, supra note 33, at 19.
122 Id. at 43. “The major question is whether different media are in the same market, that is, substitutes for
each other.”
123 Id. at 278.
When the moat dries up and functional substitutes storm the gates, Nagle forecasts a shift in consumer psychology that hones in on price as a primary variable by which to distinguish among the growing field of competitors (see Part III: 35). The AP’s waning “differentiation value” lowers its overall “economic value.” Its status in the minds of potential consumers changes as the “fairness effect” comes into play. Buyers become increasingly sensitive to a product’s price if they believe it is outside the range that they perceive as reasonable when compared to the alternatives. Radio ushered in powerful change across three of Porter’s “Five Competitive Forces that Determine Industry Profitability”: the entry of new competitors, the threat of substitutes and the bargaining power of buyers. In the process, it compromised the many of the AP’s advantages, turning the focus to price.

Television’s rapid saturation into the American home in the late 1950s and early 1960s also interrupted traditional wire service. Although the two platforms never clashed as directly as the AP did with radio in the first half of the century, they did jockey for consumers and relevance…and still do. TV networks’ ability to feed video news to local affiliates, and much later to Internet websites, originated another channel that the AP was slow to tap. TV’s rise also impaired newspapers’ position in the marketplace. The total number of daily newspapers stagnated throughout the 1960s and began a nosedive from that

124 Nagle, supra note 40, at 75-77. “Differentiation value is the value to the customer (both positive and negative) of any differences between your offering and the reference product.” Economic value is the price of the best alternative plus the differentiation value of the original product.
125 Id. at 100.
126 Porter, supra note 76, at 4-5.
point forward. With the growth of its partners stunted, the AP saw its growth plateau. Phillip Cook, Douglas Gomery and Lawrence Lichty found that between 1960 and 1985, “the total contracts for major wire services fell by 12.3 percent,” while the number of newspapers buying multiple wire services declined by 15.6 percent.

Seeing newspapers’ struggles, new competitors, emboldened by lowered entry barriers and heartened by a widening definition of substitutability, now attack the AP from every angle, even from within. In “Share and Share Alike,” Sherry Ricciardi cites several examples of daily newspapers that have created their own state news-sharing arrangements to lessen dependence on the AP. The most prominent is in Ohio, where, in April 2008, eight of the state’s largest newspapers “agreed to share content on a private Web site after publicly opposing a new AP rate structure.” The Ohio Newspaper Organization (OHNO) will be explored as part of one of the paper’s three case studies in which the origins of the news exchange, its long-range viability, its effect on AP’s value proposition, and the cooperative’s response will all be examined. Ohio is not alone, though. Florida, Maine, Montana New Hampshire and New York have all launched similar initiatives to act as AP substitutes. These syndicates are formed around common criticisms of the AP. First, according to Nashua Telegraph (NH) Vice President for News David Solomon, the AP’s price “does not correlate with the amount of syndicated material we actually use.” As its value proposition wanes, there are fewer costs in switching than staying. Solomon continues, “life

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130 Cook, Gomery and Lichty, supra note 8, at 155.
132 Id. at 5.
133 Id.
is possible without the Associated Press.” Meanwhile, rival newspapers in North Carolina and Texas have entered into modified sharing arrangements designed to minimize costs without wiping out entire reporting beats. The Charlotte Observer and Raleigh News & Observer, for instance, combined their feature and sports sections and statehouse coverage. These agreements have not entirely replace the AP, but they signal local outlets’ willingness to ask candid questions of value and look beyond full-service wires to fill their news holes.

Outside of the membership cooperative, supplemental wires began to consume a more prominent place in newspapers as dailies refused to pay for a second wire service and searched for ways to bolster coverage without cutting too many corners. During the same twenty-five year window – 1960 to 1985 – that total newspapers and paid circulation stalled and then descended, directly undercutting wire service growth, supplemental wire contracts boomed by 196.9 percent. Services such as The New York Times News Service, The Los Angeles Times/Washington Post News Service and more recently McClatchy-Tribune Information Services provided cheaper alternatives; a newspaper could print stories by “dozens of dailies without paying for a full-service wire.” Often the difference in price is stark. This allows supplementals to wrest away wire business by “tailor[ing] a package that meets the editorial requirements of the smaller papers at a price they can afford.”

Fused together, these advantages make “supplemental” a misnomer. NYTNS editor John

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134 Id. at 8.
135 Id. at 4.
137 Cook, Gomery and Lichty, supra note 8, at 155.
138 Mears, supra note 1, at 412.
139 Cook, Gomery and Lichty, supra note 8, at 180. “According to the ANPA survey in 1989, the Eugene (Oregon) Register-Guard paid $7,800 to NYTNS and $12,700 to LAT/WP annually, in contrast to the $197,000 it paid annually for AP’s full news, sports, photo, and graphic services.”
140 Id. at 183. For clients, “the prestigious association with newspaper industry leaders” is a calling card for supplementals, bolstering their brand above simple price considerations.
Brewer restates the role of the supplemental wire as an “alternative to the AP,” not a sidekick.\textsuperscript{141}

The greatest modern threat to the AP’s relevance and long-term survival may arise, ironically, from those who profit by amassing the AP and its members’ original work and then selling advertising against it. These digital aggregators are too profuse to list in full, though prominent names include Google, Yahoo!, The Huffington Post, and The Drudge Report. At the AP’s annual meeting in April 2009, Singleton, incensed by these aggregators’ perceived misappropriation of the AP’s highly-expensed work, lashed out: “We’re mad as hell, and we’re not going to take it anymore.”\textsuperscript{142}

Yet for all its bluster, the AP previously brokered deals with certain online providers, Yahoo! and Google News among them, licensing its content for carry by these search portals (see Part I: 13).\textsuperscript{143} The Google News deal involved only AP-generated content. Local members were not included, albeit a small percentage of their material was re-purposed by the cooperative in the agreement. Certain subscribers protested. Curley defended it as digital survival: “If you don’t fill the void in the market, someone else will. Your competitor is enfranchised.”\textsuperscript{144} The fallout has been a fractured relationship between the AP and many of its longtime members, who fail to see eye-to-eye on the cooperative’s future strategy for defining its core business and defending its constituents.

The turbulence rocking the digital world resembles a technophile’s Wild West. New attackers spring forward in droves, defenders fight back, and law struggles to keep pace

\textsuperscript{141} Id.
\textsuperscript{143} Fahri, supra note 69.
\textsuperscript{144} Id.
with the seismic shifts in the new-media landscape. Many traditional conglomerates, too preoccupied with “pursuing expensive acquisition and globalization strategies,”\textsuperscript{145} ignore what should be their most pressing concern – “barriers to entry [that] are the source of value creation for shareholders (see Part II: 21).”\textsuperscript{146} As a result, attackers are enabled, and their sustainability is bolstered.

Maxwell McCombs approaches sustainability differently through his amended study of “the relative constancy approach to consumer spending for media.”\textsuperscript{147} Upon conclusion of his original research in 1972, McCombs declared that “no new funds will be attracted to the mass communication marketplace by new products and services because the total mass media pie always is a constant proportion of the general economy.”\textsuperscript{148} This would have been damning for entrants, who would not enjoy much chance of survival if their only option is to steal existing advertising revenue from well-established firms. By 1988, noting the spike in spending on cable TV and VCRs, McCombs acknowledged that the increase “came largely from new money attracted to the marketplace by these innovations.” Accordingly, digital attackers such as the aforementioned aggregators can take heart in the larger pie that potentially awaits them. Or, perhaps their competitive advantages enable them to steal slivers from existing media. Either way, the onus falls on the AP to reinvent to re-

\textsuperscript{148} Id. at 44. The initial theory of relative constancy states that advertising spending stays at roughly two percent of the gross domestic product.
build its differentiation barriers and re-imagine to reinstate its intrinsic value. The seminal question is, “can it?”

Part III: Reinventing the Core to Sustain and Survive

The Associated Press has an uneven track record with regard to reform. At times, it pioneered new paths in wire delivery and news gathering, leading the crusade for journalism at large. At others, it lagged behind, stubbornly opposing industry changes that challenged its core or barely recognizing them at all.\(^{149}\) More than just a series of random advances or roadblocks, the AP’s bumpy history of progress is inexorably tied to leadership. The culture of innovation, or lack thereof, perpetuated by particular leaders, laid the groundwork for the technology and journalism that followed.

As previously noted, when Craig became general manager in 1851, he moved quickly to re-define the purpose of the company from “news gatherer” to “news vendor” (see Part I: 5-6).\(^{150}\) He backed his soaring mission with measures that solidified the AP’s ability to deliver on this strategy.\(^{151}\) Folkerts, Teeter and Caudill quote an 1854 memo that Craig circulated throughout the organization calling on improved news reporting through a singular focus only on the “material facts,” not “expressions of opinions.”\(^{152}\) The result was a more stringent demand for accuracy that raised the standard of the telegraphic reports.\(^{153}\)

\(^{149}\) Porter, supra note 76, at 313.

\(^{150}\) Mears, supra note 1, at 405. (see note 11)

\(^{151}\) Schwarzlose, Richard. The Nation’s Newsbrokers: The Rush to institution, from 1865 to 1920. Evanston, IL: Northwestern University Press, 1989: 158. Realizing the proliferation of telegraph companies jostling for market share, Craig negotiated an arrangement with F.O. Smith’s telegraph line to establish a “permanent scheme of rates, line priorities, and rights to the news dispatches as property.” This agreement positioned Craig’s AP to “secure...news before anyone else.” When challenged by competitors who felt jilted by the AP’s exclusive arrangement, Craig shielded his organization by directly leasing telegraph lines.

\(^{152}\) Id.

\(^{153}\) Mears, supra note 1, at 405.
Craig saw the potential for what Harvard leadership scholar Ron Heifetz calls “adaptive work” — that there are a whole host of issues “that are not amenable to…standard operating procedures.” Adaptive change contradicts “technical” work, which Foster and Kaplan find many convergent-thinking managers obsessing over in an effort to control instead of innovate. They also stress that Heifetz’s adaptive process begins with mindset, and that innovation is the residue of this liberated mental model (see Part I: 7). The process of innovation is values-driven. Christensen insists that leaders “need to do more than assign the right resources to the problem.” They must “scrutinize whether the organization’s processes and values fit the problem.” This relates to one of Collins’ chief theses: that technology is only as effective as the leadership strategy for its application. He hypothesizes that companies that make the leap to greatness “think differently about the role of technology. They never use technology as the primary means of igniting a transformation.” Craig’s “Hedgehog” (see Part I: 6) was that the AP blossom into a national news vendor. He used technology, primarily through the exclusive use of telegraphic lines, as a driver to execute this divergent business model.

Melville Stone was arguably the AP’s most prominent general manager, serving in that capacity for 29 years. Stone chased off the UP, aggressively recruited new publishers and articulated the AP’s guiding standard for who and how it would serve. To this day, a

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155 Foster and Kaplan, *supra* note 3, at 238.
156 Id. at 186.
157 Christensen, *supra* note 33, at 192.
159 Mears, *supra* note 1, at 407-408.
quote from Stone remains in the AP’s “Statement of News Values and Principles.” Stone, however, maintained the domineering strictures that would stunt the AP’s growth and allow formidable competitors to enter. Granted, he did galvanize the cooperative’s beliefs, but by catering so singularly to the needs of newspapers, he may have closed an ear to the call of new markets.

His successor, Kent Cooper, proved superior in understanding how the proper application of technology could change the scale and scope of the wire business. These innovations enabled him to revolutionize the brand of journalism that the AP produced. To push transformation through the company, Cooper launched two paramount technological initiatives. First, in 1933, he fully converted the national news wire to Teletypes, which allowed transmission at a then-buzzing 60 words-per-minute. Then in 1935, “he took the AP into the picture business” through the wire delivery of news photos. The AP operated the first commercially successful system of photo distribution.

When leadership was not as progressive, the AP failed to initiate change. Instead, it reacted to it. The cooperative’s frostiness toward new members has been widely blamed for limiting its formative growth. It similarly cut off potential new business lines in its slow, stubborn response to radio news networks (see Part II: 19-20). As television entered the mainstream in the 1960s, it not only weakened newspapers by offering services that the

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161 Christensen, supra note 33, at 146-148.
162 Mears, supra note 1, at 410. Cooper “broadened the news report, added human interest stories, expanded sports reporting, interviews, and entertainment coverage.”
163 Id. at 411.
164 Marzio, supra note 36, at 114.
printed page could not, but in the process harmed the AP and spurred major technological changes to maintain the wire’s value proposition to its members. These included “massive expenditures for terminals, computers, and satellite stations” that would “centralize and speed up the handling of copy and reduce the cost of leasing landlines.” Television also had profound journalistic effects on the AP. Because television signals were immediate, and dynamic, they forced wire services to “reassess their devotion to spot-news coverage” and instead commit more heavily to enterprise reporting (see Part II: 22-23). This was both a concession and a survival tactic.

Curley, the AP’s current CEO since 2003, now finds himself wrestling with many of these quandaries: fending off a swarm of new attackers, battening down during economic and industry distress, reinventing his firm’s differentiated advantages while preserving its core mission to its traditional members, re-defining its future strategy map and communicating this value system throughout every hallway and every bureau of the sprawling company. Many of the issues are technological, as the wire struggles to counteract digital aggregators who face few barriers to entry and are saddled by no legacy costs or constituent demands. Upon arrival as CEO, however, Curley first focused on clearly understanding the essence of the cooperative so that all technological innovations he unveiled would align with the central mission of the AP. He acknowledges that one of his early shortcomings as CEO was “failing to understand the core cultural success foundations.” He has since made significant efforts to better understand the journalistic passions of his staff and directly support their efforts.

165 Cook, Gomery and Lichty, supra note 8, at 149.
166 Id. at 150.
167 Id. at 149.
168 Curley In-Depth Interview, supra note 75.
“I wish I’d been smart enough to figure this out, but when you come in from the outside, people check you out here. I was checked out thoroughly. You get branded, and so I was the business guy brought in to shore up the finances. But when I came out and said that the First Amendment was in peril and we need to fight for it, it really connected with the frontline journalists. That’s an important leadership point – how do you connect?”  

Such leadership initiatives gave him a measure of credibility within the organization to introduce major technological changes that affect both the cooperative itself and the members it touches. The changes have taken two forms. The first are facilitators that enhance the speed, efficiency and usefulness of existing content. The second are new products and services offered to members that strive to increase the AP’s value proposition by either providing them with new revenue streams or protective barriers around their original work.

In April 2007, the cooperative rolled out the first of four regional editing desks in Atlanta, with future hubs planned for Chicago, Philadelphia and Phoenix. The chief goal was to streamline workflow. This would enable faster and more efficient story editing, improving the quality of the product that local members pulled. Recently, the AP updated its storytelling protocol from “1-2-3” to “0-1-2-3-4” to allow for greater customization across every conceivable platform, thus boosting the usage value of content to members. These

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169 *Id.*
170 Kennedy, Jim. “Presentation.” Message to Penny Abernathy. 18 Nov 2009. E-mail. Previously, “1” was the headline, “2” was the lead paragraph, or abstract, that summarized the story and “3” represented the manner in which the AP chose to tell the story (article, column, photo spread, multimedia, etc.). Now, “0 adds a promotional alert, in today’s world a [Twitter] tweet or a mobile alert.” Additionally, “4 imagines being able to capture some user preferences so that continuing developments on a story can follow the user, even across platforms.”


\footnote{\textit{Id}. at 4.

\footnote{\textit{Id}. at 3.}}

The AP is currently sampling two new products for members, one established to provide a new delivery platform that opens potential revenue streams, the other developed to ward off digital vultures from scavenging the original work that members spend time, money and human resources to produce. In April 2008, Curley unveiled AP Mobile News Network, a multimedia application for wireless devices. Mobile News Network marked the first product released as part of the AP’s Digital Cooperative, “a program designed to find new digital outlets for the news and information produced by AP members.”\footnote{\textit{Id}. at 4.} The new mobile platform launched as a brand extension that afforded local members opportunities to both showcase their content and sell local advertising against it. More than 1,000 sources currently subscribe, though the actual revenue generated from it remains spotty. While the AP authored its Mobile News Network to create advertising opportunities, it recently unfurled its pilot for a News Registry, or as Curley described, “a news map or guide to the authoritative source of news, which is to say, who breaks the news?”\footnote{\textit{Id}. at 3.} Over 1,400 members have agreed to participate in this “self-referring network,”\footnote{\textit{Id}. at 4.} which aims to “take back the night”\footnote{\textit{Id}. at 3.} and regain control of content from the aggregators – both search portals and
crowdsourcers – who have taken the audience away from the content producers themselves. More initiatives are under construction, including the recently-announced Gateway, which aspires to create digital platforms and products that AP and its members can collectively take to market.\(^\text{176}\) These extensions and enhancements symbolize the AP’s exigent interest in maneuvering out of decline and back into maturity by re-positioning itself for the long-term rather than harvesting profits in the short run.\(^\text{177}\)

For each of these innovations – both new products and services and existing product augmentations – the AP faces dual challenges. It must not only create the technology that furthers its differentiation advantage as the “essential global news network,” but it must crystallize its value proposition to constituents so that perceptions of value match advances in technology and overcome concerns over price. Armstrong and Kotler advocate that the most successful brands supersede selling product attributes and customer benefits and are instead “positioned on strong beliefs and values” that engage customers “on a deep, emotional level.”\(^\text{178}\) The “attribute theory” holds that “consumers derive utility not from the products themselves but from the characteristics or attributes provided by the products.”\(^\text{179}\) Thus, business success is not simply a byproduct of technological advancement and new product development, but of truly “understanding what is desirable performance from the


\(^{177}\) Armstrong and Kotler, \textit{supra} note 31, at 250-51. Rather than acting like a company in decline, where weak items are typically phased out, expenditures are cut, and the brands are “milked,” the AP instead has assumed the mantra of a mature firm. It is diversifying and extending brands, intensifying distribution, and feverishly defending market share.

\(^{178}\) Armstrong and Kotler, \textit{supra} note 31, 214.

\(^{179}\) Hoskins, McFadyen and Finn, \textit{supra} note 64, at 74.
buyer’s viewpoint.” As Hoskins, McFadyen and Finn ask, “How easy is it for consumers to discern the attributes provided by a given product?”

The offerings of the firm and the needs of the customer are often conjoined powerfully through marketing. Theodore Levitt argues that “the way a company manages its marketing can become the most powerful form of differentiation.” According to Porter, a chief means of marketing value occurs through signaling. Differentiation, he contends, results not only from creating buyer value – in the AP’s case, through enhanced product and service offerings – but “from the ability to signal that value so that buyers perceive it.”

Signaling must position a brand squarely “within target customers’ minds.” Advertising often receives the lion’s share of the attention as the pivotal signaling criteria, but the marketing chain also includes reputation/image, history, properties of learning, current market share, price and other dynamics…all of which fuse together to create “the brand experience.”

In certain areas, James T. Hamilton contends, reputed media franchises like the AP enjoy inherent strengths. He thinks they may have an advantage “in brand name recognition: faced with limited time, viewers may forgo the costs of searching out new sites and rely on the reputation of established companies as a short cut to finding reliable news.”

Furthermore, whereas many feel that traditional media is shifting entirely online, he takes a

180 Id. at 76.
182 Porter, supra note 76, at 142. “Signaling criteria are measures of how buyers perceive the presence of value.”
183 Id. at 27.
184 Armstrong and Kotler, supra note 31, at 212.
185 Porter, supra note 76, at 144.
different tack, arguing that the “the variety of choices on the Internet enhances the advantages of brands established in the physical world.”\textsuperscript{188} Christensen, Foster, Kaplan and Noam, among others, would find fault in this logic, contending that enhanced digital choice promotes encourages substitutability.

Either way, it begs this question: is the AP’s marketing strategy sufficiently streamlined to send out the proper signaling criteria to its customers? If so, then these messages should reinforce its renewed differentiation advantage. The residue of well-articulated differentiation is consumer demand. Demand is embodied in “switching costs.”\textsuperscript{189} If those switching costs are high, then constituents are less likely to consider a leap elsewhere. Further, if the AP can prop up differentiation as its chief advantage, then it can minimize price as the primary variable by which members measure its value and ultimately decide whether or not to stay (see Part II: 22).\textsuperscript{190} Firms can only re-direct the focus from price in so far as their product differentiation – whether through quality or competitive scope – outweighs the leveraging position of substitutes. Clearly the AP is in the midst of this battle, with many of its constituents pondering if life is indeed possible without the wire.\textsuperscript{191} To win it, the cooperative must answer multiple defining questions. What is the AP’s value proposition to its constituents? Is it adequately signaling its vision and value to members through marketing? How can it improve? Speaking of constituents, how will the AP define its future clientele, and how will those stakeholders evolve? Finally, and perhaps most

\textsuperscript{188} Id. at 198.
\textsuperscript{189} Besanko, Dranove, Shanley and Shaefer, supra note 107, at 416 (see note 101).
\textsuperscript{190} Nagle, supra note 40, at 91. “Buyers are less sensitive to a product’s price to the extent that a higher price signals better quality.”
\textsuperscript{191} Ricciardi, supra note 131, at 5 (see note 130).
critically, how strong is the AP’s differentiation advantage compared to substitutes? And did it wait too long to innovate, thereby endangering its long-term viability?¹⁹²

III. Research Questions

1. Building the Core Business: Historically, how has the AP served its newspaper constituents, in this case two North Carolina dailies? How has their wire usage differed based on community needs, reader demographics, and other factors? During a time of “creative destruction,” how are these papers re-imagining their core purpose? As a result, how is AP’s presence in Section A trending? What changes could this transition portend for the future role that AP plays in these broadsheets?

2. Protecting the Core from Internal Threats: How have state wire exchanges established by AP members increased their own efficiencies while reducing their reliance on AP? In turn, what effect have these organization had on APs value proposition? Where do local affiliates still see the greatest value in the AP wire? Have they scaled back their service, or canceled entirely? How sustainable, and potentially profitable, are these arrangements?

3. Reinventing the Core: How is AP re-imagining its business model in order to sustain itself and bolster its value proposition to members during a period disruptive change? How is it re-conceptualizing itself as a revenue partner for the industry? What initiatives is it introducing to execute this strategy, and how are these efforts being received in the marketplace by members who are struggling to survive? How could AP’s vision for the future alter the fundamental business-to-business architecture that girds the cooperative? If dramatic changes occur, can AP press on as “the essential global news network?”

¹⁹² Christensen, supra note 33, at 143. “There is strong evidence that leadership in disruptive technology has been very important.”
IV. Methods

This paper employs a case study method, using both quantitative and qualitative analysis to explore historical trending of AP story usage by member newspapers and AP’s subsequent attempt to re-position its business value proposition to members during a period of “creative destruction.”

Case Study #1: Building the Core – Charting AP Usage by North Carolina Newspapers

The first case uses content analysis to track AP story usage and reliance patterns of two North Carolina newspapers – the Charlotte Observer and The Fayetteville Observer – from 1985 through 2008. The two publications were selected for sampling based on their distinctiveness in several areas: circulation, community demographics, and ownership structure. Charlotte, corporately owned by The McClatchy Company, touts the largest daily circulation in North Carolina – nearly 252,000 – and serves a top-25 designated market area (DMA). As the leading metropolis in the state, Charlotte features diverse demography, with minorities comprising 44 percent of its population. Fayetteville, by contrast, is family-owned-and-operated and services the 128th DMA, with a daily circulation of just over 63,000. The city is regarded as a military community because of nearby Fort Bragg, home to the 82nd Airborne Division. Its presence ensures that much of Fayetteville’s

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citizenry originates from diverse backgrounds, with many residents claiming no historical community connection because of the transience of military life. Based on these unique profiles, the two dailies are assumed to have different needs from wire services.

The study surveys usage in five-year increments, starting in 1985. Six issues, one every-other-month, are coded for each newspaper in each year. The exact same days in each year are analyzed across both papers to ensure a random yet consistent sample. The sample rotates by year to broaden the cross-section. The study specifically targets news dependence. As a result, Section A – the primary news hub – is coded in its entirety, with emphasis also placed on front-page story selection.

The coding protocol is subdivided into multiple sections. All Section A stories are marked as “AP,” “other wire” (supplementals), or “locally-reported.” AP and locally-produced content are then tagged by category – “local” (community, city, county), “state,” “national,” and “international” – to chart the specific needs that the AP serves for these dailies, as well as how the newspapers are deploying their local resources.

Findings were then shared with the executive teams in Charlotte and Fayetteville to verify that the trending was representative and to elicit their own reaction to the results of the sampling.

Case Study #2: Protecting the Core – The Ohio News Organization

The second case explores a particular type of threat challenging AP’s sustainability: competition from within. In-depth interviews were conducted with editors and publishers who question the AP’s value proposition to their newspapers and have created their own localized facsimile to lessen dependence on the cooperative. The case originates with the Ohio News Organization (OHNO), a pioneering statewide news-sharing arrangement that AP
members in other states are now replicating. Executives at several Ohio dailies were asked to trace the origins of their state wire, discuss the successes and struggles of the arrangement, opine on the AP’s value proposition, project OHNO’s long-term viability, and share how their concept has been modeled by others. A similar cooperative in Maine, as well as McClatchy’s burgeoning Regional News service, are explored as competitive alternatives, their leaders interviewed at length.

AP’s executive team, led by Vice President and Director of Strategic Planning Jim Kennedy, was then interviewed to respond to these organically-grown internal threats, from how the organization is addressing potential defectors to how it is bolstering its value proposition to those who may be seeking substitutes.

**Case Study #3: Reinventing the Core – Gateway and Other AP Initiatives**

The final case examines the recent evolution of the AP as it seeks to re-imagine its business model to ensure sustainability. This was a three-step iterative process. The first step involved in-depth interviews with 18 editors and publishers at selected member newspapers (see Sources/Interviews: 123-125). The second involved in-depth interviews with AP’s executive team, including Kennedy and CEO Tom Curley. AP also provided extensive documents about its business during these interviews. In the third, I re-interviewed the members to ascertain how well AP’s articulation of its goals and business-model strategy was being communicated back to them. This cross-section represents twelve different publications, ranging from small-circulation dailies (Maine’s *Lewiston Sun Journal*, 34,000 daily circulation) to major metros (Florida’s *St. Petersburg Times*, 422,000 daily circulation) and encompassing seven states.
V. Limitations

Inherent limitations exist in quantitative research of this kind. The coding protocol was carefully prepared. However, constructing a sample that is large enough to be representative was challenging considering the time constraints on the project. Future research could design a more thorough content analysis to ensure greater reliability of results. Also, a small daily newspaper could be added to the sample to improve balance, with *Fayetteville* as a mid-sized paper and *Charlotte* as a large metro.

The selection of issue dates was completely random and followed the same pattern for both dailies to ensure continuity. By happenstance, two of the six periods of analysis (2000 and 2008) were Presidential election years, increasing the probability of anomaly because of expanded overall coverage, especially nationally. In certain years, Sunday issues were not coded, also a byproduct of the random sample.

Both *Charlotte* and *Fayetteville* regularly combine AP and local content together under the header “from staff and wire reports.” These hybrids are often wire stories with local angles written into them. These Section A stories were coded as local articles, although at least a portion of their content emanated from wire sources, including the AP.

The protocol called for coding Section A content only. While Section A performs vital news-sharing and audience-inviting roles, the sample does neglect local and wire material in other sections. Notably, Section B in both papers focuses on local and state content. Many staff resources are dedicated to these areas, potentially skewing the local results in the sample. Some AP reporting landed in this section as well and was unaccounted for.
Qualitative interviews also carry inherent limitations, notably the potential bias of the interviewer and the subjectivity of the interviewees. For that reason, a broad range of targets were interviewed to offer diverse perspectives. These interviews were exhaustively researched and then written according to a standardized template to promote consistency.

Also, while the AP and its members shared much of their information, certain data were proprietary or unavailable. As such, they were either unwilling or unable to supply it, which limited the study.
“You’d pick up the A Section back in the eighties, and there would be one local story and the rest would be wire. Over time, I do think there has been a move to put more local there…probably even more so in recent years.”

- Charles Broadwell, President and Publisher of The Fayetteville Observer

“We get readers who say, ‘we want more local news from you; we can get other news from the Internet and TV,’ When you start pulling away that stuff, [then] they start saying, ‘why don’t we have a regional-worthy newspaper?’ You get this real split, and you can’t appease everyone.”

- Rich Mathieson, Charlotte Observer National Editor

Charles Broadwell remembers a time when the Associated Press felt as much like a family member as it did a news partner. Broadwell and his management team at The Fayetteville Observer, a mid-sized eastern North Carolina daily that he serves as President and Publisher of, would meet every month with AP’s North Carolina bureau chief Ambrose Dudley, stationed just up the road in Raleigh. “He’d come down and go out to lunch with us,” Broadwell recalled.

For decades, this nuclear bond was shared between the AP and the now-1,332 daily newspapers that own it. AP’s dual role as a content producer and vendor of both original and re-purposed material from around the state, the country, and the world was an enduring cornerstone of the American news organization. Its breaking news reports were essential, delivered with unrivaled speed and told with authoritative accuracy and voice. Sports and
business wires, primarily agate services, were trademarks. And the state wire exhaustively covered what local outlets could not. Fundamental to its cooperative structure, AP leaned on these partner papers – regional and local dailies like The Observer – to pay the freight and supply the stories\(^1\) for re-distribution that sustained its global news services. Members paid handsomely to participate, with annual assessments averaging $143,000 per paper, but exceeding $1 million in major metros.\(^2\)

However, as the print industry – and traditional journalism across every medium – is jarred by secular change, newspapers must exigently re-assess what they stand for, who they serve, and how they can reinvent themselves to survive. As they morph into increasingly locally-centered news franchises, longstanding AP constituents are weighing the costs and benefits of their wire use.

Meanwhile, born of necessity, the AP re-shuffled its deck, too. The Ambrose Dudley’s of a bygone news era are have retired; now the bureau chief is headquartered in Atlanta and canvasses four states. Long gone are monthly lunches with members and the familial bond they symbolized, replaced by a series of core-altering decisions about how to create essential, enduring value and whom to deliver it to.\(^3\)

To postulate what the AP’s future role in traditional broadsheets may become, one must understand how members have historically accessed the wire service, and how usage is

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\(^1\) Kennedy, Jim. “Question from UNC Master’s Student.” Message to Jed Williams. 24 Sept. 2009. E-mail. “The vast majority of that output is originated by AP journalists. We do obtain some stories and photos from member newspapers that are used on the state level. The amount varies by state, but averages about 20 percent of the output. At the national and international level, the output is almost exclusively AP-originated.”


\(^3\) Kennedy, Jim. “Follow-Ups.” Message to Jed Williams. E-mail. 25 Feb. 2010. AP’s business partners now include diverse sources beyond newspapers. According to Vice President and Director of Strategic Planning, domestic print revenue accounts for 26 percent of AP’s total income, down from 50 percent in the mid-1980s. International subscriptions total 21 percent of revenue, domestic broadcast 19, and digital licensing 17.
trending today. This case study samples Section A content over a 23-year period (1985-2008) from two North Carolina AP member dailies, the *Charlotte Observer* and *The Fayetteville Observer*, to examine their use of the cooperative (see Thesis Proposal/Methodology: 38-39). The results reveal shifting fault lines in the relationship and presage what the future could hold.

The two publications were selected for sampling based on their distinctiveness in several areas: circulation, community demographics, and ownership structure. *Charlotte*, corporately owned by The McClatchy Company, touts the largest daily circulation in North Carolina – nearly 252,000⁴ – and serves a top-25 designated market area (DMA).⁵ As the leading metropolis in the state, Charlotte features diverse demography, with minorities comprising 44 percent of its population. *Fayetteville*, by contrast, is family-owned-and-operated and services the 128th DMA with a daily circulation of just over 63,000.⁶ The city is regarded as a military community because of nearby Fort Bragg, home to the 82nd Airborne Division. Its presence ensures that much of Fayetteville’s citizenry originates from diverse backgrounds, with many residents claiming no historical community connection because of the transience of military life.

Content was coded by source: AP wire, supplemental wire, and locally-reported (see Thesis Proposal/Methodology: 38-39). Subsequently, AP and locally-produced stories were

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subdivided and analyzed by category. Any article with AP attribution, even a brief, was marked as such. Stories tagged as “from staff and wire reports” were recorded as local stories, even though they can feature a medley of sources (see Thesis Proposal/Limitations to Methodology: 41).

Charlotte and Fayetteville: Wired Differently

Content analysis of Section A of the Charlotte Observer and The Fayetteville Observer highlight distinct differences and shifting trends in Associated Press usage. These results reflect notable contrasts in the way the two dailies look to the AP to service their reader communities, while foreshadowing future shifts in the fundamental role of the wire in a newspaper.

The Fayetteville Observer, a mid-sized daily without the financial resources or depth of staff of Charlotte, depended heavily on the AP to fill out its A Section over the course of the sample (see Appendix A: “Fayetteville’s Associated Press Usage Patterns, 1985-2008,” for a full report). AP pieces outnumbered stories from other wire services and locally-reported material by a nearly-five-to-one margin. “The AP is a foundation,” Broadwell said. Fayetteville leaned on the AP chiefly for national, then international news. Broadwell is quick to point out that with Fort Bragg in its backyard, and its soldiers deployed across the globe, Fayetteville has a military presence that gives its community unique international needs. “Haiti is a local story for us,” he said. “Iraq, Afghanistan – we’ve paid a lot of attention to it on the front page. Right now we probably have 10,000 soldiers in those areas.”

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7 AP categories included national, international, and state stories. Locally-produced content was tagged as local, state, or national.
8 Arbitron.com and NCPress.com, supra note 6.
In recent periods, however, AP trends evinced signs of change. Even as AP remained a staple of Fayetteville’s Section A, its relative use retreated. From 1990 through 2008, AP story volume waned by 34 percent.

The Charlotte Observer, the largest daily newspaper serving the biggest metro area in North Carolina, also utilized the AP prevalently, but never as singularly as Fayetteville (see Appendix B: “Charlotte’s Associated Press Usage Patterns, 1985-2008,” for a full report). Overall, Section A wire inventory flattened out across the sample – with the exception of Presidential elections in 2000 and 2008 – and AP presence fell relative to local reports. Content choices were more balanced across the AP, supplemental wires, and local reports. This contrasted with Fayetteville’s intense dependence on the AP and near non-existent usage of other wires. The disparity underscores two economically-driven dynamics that differentiate the two dailies: Charlotte’s deeper editorial budget supported a larger local reporting staff, enabling more in-house content, and also afforded it access to a wider array of outside news services. Supplementals were both prominent and diverse. While Fayetteville drew almost exclusively from the Los Angeles Times-Washington Post News Service as a secondary wire source, Charlotte pulled from The New York Times News Service, Bloomberg, and Knight Ridder Wire Service, and later, McClatchy-Tribune Information Services, co-owned by its parent company.

“The Vanishing Newspaper”

At a macro level, a critical similarity leaps out immediately: the total story volume and aggregate news inches comprising Section A declined precipitously across the sample, according to the executive teams at both papers. As news hole shrunk, Charlotte and

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9 NCPress.com, supra note 4, and Arbitron.com, supra note 5.
Fayetteville’s AP dependence withered— or, at minimum, stalled – as did their supplemental wire reliance. Retrenching nationally, these papers began to unite their focus around protecting and bolstering the local content franchises that differentiated them from the field.

Charlotte’s aggregate Section A story count in 1985 was 126 news stories coded over the six-issue sample. By 2005, that number dwindled to 110, a 13 percent slide (see Table C: “Charlotte Observer Coding/Content Analysis Results Table”). Apparent aberrations surfaced during high-profile election years. Otherwise, Section A inventory consistently declined. As a function of news hole reduction, related cost cutting, and increased local franchising, Charlotte scaled back its AP membership to the Limited tier of Member Choice as of January 2010, thereby reducing the volume of wire content it can access on a daily basis.

Fayetteville sustained an even more pronounced dip in overall Section A news content (see Table A: “The Fayetteville Observer Coding/Content Analysis Results Table”). From 1985 to 2005, total story count fell by 31 percent, from 134 to 93. As it consolidated

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10 After back-to-back slippages in Section A content in 1990 and 1995, Charlotte increased its sampled story count to 118 in 2000, the year of the controversial George W. Bush/Al Gore Presidential contest marked by the Florida vote re-count. In 2008, with high-profile gubernatorial and senatorial elections in North Carolina and Barack Obama’s historic ascendance to President, Charlotte published 133 stories in the sample, a 20.1 percent jump from 2005. In both cases, the swell in coverage did not come from within, but was almost wholly driven by AP inventory increases of 29.5 percent and 35.2 percent respectively. Not coincidentally, Charlotte’s greatest reliance on the AP for Section A coverage occurred in 2000 and 2008.


12 AP.org. “New AP pricing and packaging plan to take effect in 2009; AP Board approves ‘Member Choice,’ making more content available and easier to find.” 25 Oct. 2007 <http://www.ap.org/pages/about/pressreleases/pr_102507a.html> "With Member Choice, members will pay a basic assessment that gives them access to all AP state, national and international breaking news....For additional fees, members will be able to buy premium services featuring in-depth content in news analysis, business, sports, entertainment and lifestyles. In addition, for the first time, members will be able to buy these stories on an a la carte basis.”
news operations, *The Observer* accordingly weaned subsistence from AP, even as it remained a Complete subscriber to Member Choice.\(^{13}\)

These numbers reinforce ominous national trends: newspaper circulation is plummeting, and as it does, the premium advertising and paid subscription revenue streams that fund the news ecosystem follow in turn, thereby shrinking the news hole and peeling off layers of content.\(^{14}\) Many of those layers are wire services, both AP and supplemental, that no longer have a home in dailies’ now locally-directed pages. While circulation remained relatively constant from 2000 through 2007, paid circulation withered by 11.5 million since 1985.\(^{15}\) “It’s a share of a smaller pie,” Broadwell said. “That’s the big driver.”

**Going Local**

The number of newspapers subscribing to multiple full-service news wires has dropped off significantly since 1960.\(^{16}\) Furthermore, many journalism scholars suggest that as economic peril strikes local newsrooms, these organizations would be wise to reinvent their brands as locally-targeted community news services rather than all-encompassing aggregators. A re-conception of this kind would seemingly negate the need for the majority


of the products that full-service wires provide, instead advocating only occasional, a la carte
tional and international news to augment a community-centered core.\footnote{Meyer, Phillip. “The Elite Newspaper of the Future.” American Journalism Review. Oct.-Nov. 2008.<http://www.ajr.org/Article.asp?id=4605>. “I still believe that a newspaper’s most important product, the product lease vulnerable to substitution, is community influence. It gains this influence by being the trusted source for locally-produced news, analysis and investigative reporting about public affairs....Newspapers might have a chance if they can meet that need by holding on to the kind of content that gives them their natural community influence. To keep the resources for doing that, they will have to jettison the frivolous items in the content buffet.”}

Returns from the sample indicate that this idea is still gestating, though efforts at
increased localism are being made in both newsrooms. Even as overall local reporting failed
to displace wire dependence, locally-generated material grew as a relative percentage of
overall Section A news hole. From 2000 to 2008, \textit{Fayetteville’s} local Section A story
volume grew from 12 percent to 19 percent. “Over the past five to ten years, we’ve made a
definite editorial move towards making \textit{The Observer} more of a local newspaper,” Mike
Arnholt, Executive Editor of \textit{The Fayetteville Observer}, said. Meanwhile, \textit{Charlotte’s} local
growth was more deliberate, climbed from 14.5 percent to 15.8 percent of Section A from
2005 to 2008.

Ownership structures and available resources may begin to explain the disparity in the
relative growth of local reporting between the two papers. The Broadwell-owned-and-
operated Fayetteville Publishing Company supplies a rare, direct relationship between local
family ownership and local coverage in a smaller market, as compared to the corporately-
owned \textit{Charlotte Observer}.\footnote{The \textit{Fayetteville Observer} is one of four remaining locally-owned daily newspapers in North Carolina. The other three are the \textit{Dunn Daily Record}, the \textit{Goldsboro News-Argus}, and the \textit{Washington Daily News}.} “\textit{Charlotte} would often do its own statewide stories, whereas
we have much more of a southeastern regional focus to our newspaper and have devoted
most of our staff accordingly,” Broadwell said. \textit{Charlotte} enjoys instant access to
McClatchy-Tribune Information Services. Furthermore, in a larger metro area, \textit{Charlotte} still
sees aggregation as a central part of its mission. “We still have to be an aggregator of sorts because the bulk of our core readers are not as Internet savvy as you might think,” Charlotte Observer National Editor Rich Mathieson said. “A lot of them do still rely on us to be the paper of record.”

In both dailies, however, local story volume still lagged well behind the AP. Although the papers belonged to only one full-service news provider – the AP – and retreated in their use of supplementals, local reporting did not threaten to displace wire content. This is partially resource-driven, but also a byproduct of traditional print philosophy, espousing that Section A is like a storefront inviting customers inside to shop its many departments, all the while offering them a gateway to the nation and the world. Charlotte and Fayetteville, while deliberating over a move to a more locally-intensive Section A, are yet to make that conversion, consistent with their tried-and-tested beliefs about the purpose of the section and their interpretations of what their individual markets demand. “Some papers have made that change, where they’ve said, ‘Our front porch is now going to be all local because that’s the only thing that distinguishes us,’” Broadwell said. “I think, given our crazy market (a military community drawn up around Fort Bragg), it makes sense to carry the international wires that we do because it reflects part of who we are.” “There’s still a core mission to be done, and I think you saw that with the [Presidential] election of 2008,” Mathieson said. “People couldn’t get enough of that and were very engaged and letting us know that they wanted to read this.”

Results suggest that those resources funneled into staff reporting at both dailies directly targeted community matters over state and regional news, underscoring a focus on

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19 In Fayetteville, the 2008 sample still revealed an AP-local story ratio of 71 to 18. In Charlotte, the AP-local split was 73 to 21.
bolstering “community influence” at the hyper-local level.\textsuperscript{20} The coding protocol performed a surface-level content analysis of locally-staffed stories, partitioning them geographically. Any articles on events, issues or people in the city, surrounding towns and suburbs or the county at-large were classified as “local.”\textsuperscript{21} Categories for “state” and “national” stories were also created. In \textit{Fayetteville}, “local” stories comprised the bulk of locally-reported content. Of the 102 locally-staffed stories in the \textit{Fayetteville} sample, 87 were “local” – an 85 percent clip. “Local” coverage increased by 36 percent from 2000 to 2008. \textit{Charlotte} also went “local,” but not to the same extent as \textit{Fayetteville}. Of the 126 locally-reported stories coded, 66 were “local.” That 53 percent clip easily outpaced all other local categories but was well below \textit{Fayetteville}’s total. “Local” coverage increased by 62 percent from 1995 to 2008.

Again, \textit{Charlotte}, with its bigger staff and commitment to more general aggregation, covered a greater expanse of North Carolina. This largely explains why \textit{Fayetteville} leaned on the AP for a portion of its Section A state coverage, while \textit{Charlotte} depended exclusively on its own staff to cover the state for the front section. “With \textit{Charlotte} and \textit{Raleigh}, it’s more of a prestige thing traditionally, that ‘we’re a statewide newspaper, we look out for everybody,’” Broadwell said. As such, resources were drawn out over a wider coverage area, though they still centered on Charlotte and Mecklenburg County first and foremost.

\textit{Charlotte} and \textit{Fayetteville} also mirrored each other in how they pushed locally-reported content to the front page in order to usher readers into Section A, and then the rest of the newspaper.

\textsuperscript{20} Meyer, \textit{supra} note 17.
\textsuperscript{21} For \textit{Fayetteville}, all Fort Bragg-related stories were deemed “local.”
• *Charlotte* published 76 percent of its locally-reported content on page one. Those stories constituted 51 percent of cumulative front page material.

• *Fayetteville* went even further, with 80 percent of its locally-staffed articles reaching the front. Staff stories constituted the greatest percentage of front-page material, 48 percent, though that ratio finished behind *Charlotte*.

The utilization of locally-generated reporting on the front page strengthened throughout the sample as both made strong efforts to create a “front-porch effect” through their local content, positioning it prominently to entice readers to come inside, even if the rest of Section A did not necessarily carry out the pattern.\(^\text{22}\) Even though both dailies relied heavily on wires for national and international news, they predominantly used these services “after the jump” to fill in substantial gaps around staff coverage that consistently headlined the front.\(^\text{23}\) “Readers can get national and world anywhere they want it, anytime they want it,” Broadwell said. “You get the local only here. It’s our franchise. So that’s why the move in that direction.”

**Analysis/Speculation/Conclusions**

This study, focusing on Associated Press usage patterns by two North Carolina dailies, underscores the ills afflicting the print industry. With rare exceptions, newspapers are shrinking – both in their overall numbers and their news hole. In *Charlotte* and

\(^\text{22}\) *Fayetteville* grew the percentage of locally-staffed content on its front page in each coded year, hitting 62 percent in 2005 and then 64 percent in 2008. *Charlotte* followed the trend, with locally-produced content reaching 56 percent in 1990, then gradually rising to 58 percent in 2005. It leveled off at a strong 57 percent clip in 2008. Also, in both markets the overall front page story count steadily declined over the sample. Not only did more local reports get pushed to center stage, but their presence on the front incurred less wire dilution.

\(^\text{23}\) In *Charlotte*, only six percent of all AP stories appeared on page one. That represented just 10 percent of total front-page coverage. *Fayetteville* gave 11 percent of its AP articles front-page treatment, constituting 41 percent of total front-page coverage.
Fayetteville, Section A coverage is not as robust as it once was. Consequently, AP usage is stalled or falling. “Papers are smaller, even than they were in 2008,” Charlotte Observer Editor Rick Thames said. “As a result, we’re using less wire generally.” Charlotte and Fayetteville find themselves hastily re-imagining their vision for serving their communities’ needs more pointedly, but limited resources curtail the ability to fully deliver on that vision at the pace and scale that the market demands. As a result, to borrow a phrase from economist Michael Porter, they find themselves “stuck in the middle.”24 “We get readers who say, ‘we want more local news from you; we can get other news from the Internet and TV,’” Mathieson said. “When you start pulling away that stuff, [then] they start saying, ‘why don’t we have a regional-worthy newspaper?’ You get this real split.” Generally, newspapers have tightened Section A and incrementally moved toward localization while holding out hope that economic and industry forces will turn.

The prospect of an industry-wide migration to localism portends a murky future for the AP. For those whose primary purpose becomes to talk to every resident, cover every town-hall meeting and turn over every stone in the local community, then sweeping news wires like AP fail to offer value that meets that mission. This identity shift necessitates that newspapers re-consider the essentialness of AP’s value pledge.

As this analysis suggests, AP currently maintains a prominent, albeit waning, presence in the front news section of mid-to-large-circulation papers. Extensive interviews with editors and publishers at 12 news organizations also indicate that sports and business agate remain essential, too. Even in states such as Ohio and Maine, where robust regional news-sharing arrangements have sprouted (see Chapter 2: “Sharing to Survive: OHNO and

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Emerging Internal Threats to AP’s Core Foundations”),\textsuperscript{25} these daily newspapers continue to subscribe to AP to receive what they consider the essential feeds – breaking news, as well as agate and the news digest. However, as budgets erode, local franchising gathers momentum, and competitive alternatives proliferate, newspapers are performing cost-versus-use comparisons to reevaluate their financial relationship with AP.\textsuperscript{26}

Among the questions front-and-center: How truly unique and indispensable is the value that AP’s products and services provide? How does this deduction reconcile with the costs of participation in the cooperative? And finally, how do AP’s mission and business goals line up with the changing mission and goals of its members? Across the country, editors and publishers are taking steps to address these questions, with substitutes being sought that minimize, or nullify entirely, the need for the cooperative. Several have banded together and looked to each other for answers.


\textsuperscript{26} Hau, supra note 2.
### Table A: The Fayetteville Observer Coding/Content Analysis Results Table

<table>
<thead>
<tr>
<th>Year Coded</th>
<th>AP Front-Page Stories</th>
<th>Wire Front-Page Stories</th>
<th>Locally-Reported Front-Page Stories</th>
<th>AP Section A Total Stories</th>
<th>Wire Section A Total Stories</th>
<th>Locally-Reported Section A Stories</th>
<th>AP Story Content Analysis</th>
<th>Locally-Reported Story Content Analysis</th>
<th>Total Section A Story Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>15</td>
<td>10</td>
<td>6</td>
<td>79 (13.2 per coded issue)</td>
<td>41 (6.8 per coded issue)</td>
<td>14 (2.3 per coded issue)</td>
<td>30 Natl/ 28 State/ 21 Intl</td>
<td>10 Local/ 3 State/ 1 Natl</td>
<td>134</td>
</tr>
<tr>
<td>1990</td>
<td>16</td>
<td>0</td>
<td>18</td>
<td>107 (17.8 per coded issue)</td>
<td>3 (0.5 per coded issue)</td>
<td>24 (4.0 per coded issue)</td>
<td>65 Natl/ 39 Intl/ 3 State</td>
<td>21 Local/ 3 State</td>
<td>134</td>
</tr>
<tr>
<td>1995</td>
<td>10</td>
<td>5</td>
<td>15</td>
<td>80 (13.3 per coded issue)</td>
<td>12 (2.0 per coded issue)</td>
<td>16 (2.7 per coded issue)</td>
<td>54 Natl/ 24 Intl/ 2 State</td>
<td>14 Local/ 1 State/ 1 Natl</td>
<td>108</td>
</tr>
<tr>
<td>2000</td>
<td>13</td>
<td>0</td>
<td>13</td>
<td>87 (14.5 per coded issue)</td>
<td>7 (1.2 per coded issue)</td>
<td>13 (2.2 per coded issue)</td>
<td>50 Natl/ 35 Intl/ 2 State</td>
<td>11 Local/ 1 State/ 1 Natl</td>
<td>107</td>
</tr>
<tr>
<td>2005</td>
<td>9</td>
<td>1</td>
<td>16</td>
<td>71 (11.8 per coded issue)</td>
<td>4 (0.7 per coded issue)</td>
<td>17 (2.8 per coded issue)</td>
<td>37 Natl/ 32 Intl/ 2 State</td>
<td>15 Local/ 2 State</td>
<td>92</td>
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<tr>
<td>2008</td>
<td>7</td>
<td>1</td>
<td>14</td>
<td>71 (11.8 per coded issue)</td>
<td>4 (0.7 per coded issue)</td>
<td>18 (3.0 per coded issue)</td>
<td>43 Natl/ 28 Intl</td>
<td>16 Local/ 2 State</td>
<td>93</td>
</tr>
</tbody>
</table>
Table B: The Fayetteville Observer Data Synthesis

Coding Sample Totals:

- AP Front-Page Stories: 70 Stories/11.7 per coded year

- “Other Wire” Front-Page Stories: 17 Stories/2.8 per coded year

- Locally-Reported Front-Page Stories: 82 Stories/13.7 per coded year

- AP Section A Total Stories: 495 Stories/82.5 per coded year

- “Other Wire” Section A Total Stories: 71 Stories/11.8 per coded year

- Locally-Reported Section A Total Stories: 102 Stories/17.0 per coded year

- AP Story Content Analysis: 279 National Stories/46.5 per coded year…179 International Stories/29.8 per coded year…37 State Stories/6.2 per coded year (28 of 37, or 75%, in 1985)

- Locally-Reported Story Content Analysis: 87 Local Stories/14.5 per coded year…12 State Stories/2.0 per coded year…3 National Stories/0.5 per coded year
### Table C: *Charlotte Observer* Coding/Content Analysis Results Table

<table>
<thead>
<tr>
<th>Year Coded</th>
<th>AP Front-Page Stories</th>
<th>Wire Front-Page Stories</th>
<th>Locally-Reported Front-Page Stories</th>
<th>AP Section A Total Stories</th>
<th>Wire Section A Total Stories</th>
<th>Locally-Reported Section A Total Stories</th>
<th>AP Story Content Analysis</th>
<th>Locally-Reported Story Content Analysis</th>
<th>Total Section A Story Count</th>
</tr>
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<tr>
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<td>7</td>
<td>20</td>
<td>13</td>
<td>43 (7.2 per coded issue)</td>
<td>65 (10.8 per coded issue)</td>
<td>18 (2.9 per coded issue)</td>
<td>27 Natl/ 16 Intl</td>
<td>12 Local/ 3 State/ 3 Natl</td>
<td>126</td>
</tr>
<tr>
<td>1990</td>
<td>2</td>
<td>14</td>
<td>20</td>
<td>44 (7.3 per coded issue)</td>
<td>48 (8.0 per coded issue)</td>
<td>23 (3.8 per coded issue)</td>
<td>28 Natl/ 16 Intl</td>
<td>12 Local/ 6 State/ 5 Natl</td>
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<tr>
<td>1995</td>
<td>3</td>
<td>12</td>
<td>19</td>
<td>44 (7.3 per coded issue)</td>
<td>35 (5.8 per coded issue)</td>
<td>26 (4.3 per coded issue)</td>
<td>28 Natl/ 16 Intl</td>
<td>12 Natl/ 9 State/ 5 Local</td>
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<td>2000</td>
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<td>39 (6.5 per coded issue)</td>
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<tr>
<td>2005</td>
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<td>8</td>
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<td>40 (6.7 per coded issue)</td>
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<td>28 Natl/ 26 Intl</td>
<td>12 Local/ 2 State/ 2 Natl</td>
<td>110</td>
</tr>
<tr>
<td>2008</td>
<td>3</td>
<td>7</td>
<td>13</td>
<td>73 (12.2 per coded issue)</td>
<td>39 (6.5 per coded issue)</td>
<td>21 (3.5 per coded issue)</td>
<td>39 Natl/ 34 Intl</td>
<td>13 Local/ 4 State/ 4 Natl</td>
<td>133</td>
</tr>
</tbody>
</table>
Table D: Charlotte Observer Data Synthesis

Coding Sample Totals:

- AP Front-Page Stories: 19 Stories/3.2 per coded year/0.53 per coded issue

- “Other Wire” Front-Page Stories: 72 Stories/12.0 per coded year/2.0 per coded issue

- Locally-Reported Front-Page Stories: 96 Stories/6.0 per coded year/2.67 per coded issue

- AP Section A Total Stories: 315 Stories/52.5 per coded year/8.75 per coded issue

- “Other Wire” Section A Total Stories: 266 Stories/44.3 per coded year/7.4 per coded issue

- Locally-Reported Section A Total Stories: 126 Stories/21.0 per coded year/3.5 per coded issue

- AP Story Content Analysis: 180 National Stories/30.0 per coded year/5.0 per coded issue…135 International Stories/22.5 per coded year/3.75 per coded issue…0 State Stories

- Locally-Reported Story Content Analysis: 66 Local Stories/11.0 per coded year/1.83 per coded issue…33 National Stories/5.5 per coded year/0.92 per coded issue…27 State Stories/4.5 per coded year/0.75 per coded issue
CHAPTER 3
Sharing to Survive: OHNO and Emerging Internal Threats to AP’s Core Foundations

“In my opinion, AP ‘Lite’ is too ‘lite,’ and AP Complete is too complete. The choice came down to the lesser of two undesirable deals. They have a take it or leave it attitude. Unfortunately, most newspapers have no choice but to take it – as is.”

- Ron Royhab, retired Toledo Blade Editor

Part I: OHNO Sets the Precedent

On November 29, 2007, editing teams representing the largest daily newspapers in Ohio converged on the Columbus Dispatch’s downtown news headquarters, the clicking of keyboards and whir of printing presses providing the soundtrack to their assembly. Soon, another sound – one of change – would hum unmistakably.

At the suggestion of Dispatch Publisher John Wolf, they gathered to mull an idea that heretofore ran afoul of the prideful independence and competitive zeal that formed their essence – sharing.

“Everybody was laying off people, cutting news hole, these sorts of things,” Ron Royhab, then-Toledo Blade Editor, said. “Bean counters were in control. So we asked, ‘How can we help each other?’”

Several hours later, they adjourned with a fresh outlook on their editorial responsibility and a framework for a new way of conducting operations – the Ohio News Organization.
At the heart of this motion for change was the Associated Press, their time-honored news partner. For Ohio editors, the cooperative had become a lightning rod that many harbored grievances against, principally the concern that a longtime comrade may be turning competitor. In turn, with their news holes retracting and a renewing focus on local content franchises, they must weigh the robustness of AP’s value proposition against the prudence of retrenching from the wire.

**Biting the Hand That Always Fed**

Ohio’s misgivings with the AP assumed three primary forms: cost, credit, and, specific to the state news wire, timeliness.

Subscribers to the full AP report invest handsomely for the brand’s reputation and global reach. Royhab’s *Toledo Blade*, a mid-sized daily of 104,000 circulation, paid $538,000 in 2008. Rates increase as a function of circulation and total usage.

“As we were trying to hang onto our staff, when we saw the rates for AP being as high as they were, we found that untenable, even though AP had some things to keep costs relatively flat,” *Columbus Dispatch* Editor Benjamin Marrison said.

Meanwhile, AP bylaws mandate that, as part of the unique cooperative structure, members must furnish “all news that is spontaneous in its origin,” for the cooperative to

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collect and re-purpose.³ AP’s mode of attribution for these scraped-and-distributed stories failed to satisfy Ohio editors.

“We were very frustrated that it doesn’t cost AP a penny to say ‘this story was reported by the Plain Dealer or the Blade or insert newspaper,’” Marrison said. “But they routinely, as a matter of policy, would not. They would put a tag line at the bottom that ‘this story came from paper x.’ That was inadequate to us.”

Another hang-up was the timeline on which these stories appeared, a difference from the speed and efficiency of AP’s larger wires. With AP state wires, “if we ran a story on Monday in print, the AP would pick it up Monday afternoon and make it available to other papers for Tuesday,” Marrison explained. In industry parlance, state distribution was not “on cycle.”

Spats over cost, credit, and convenience necessitated “a very vocal, animated discussion on the Associated Press” that directly conjoined to conversations of statewide sharing. Though defection from AP was neither the stated mission nor the primary talking point, Marrison and his editing faction emerged from their initial session allured by the “thought that if we can somehow share content, maybe at some point down the road we wouldn’t need AP.”

The Mechanics of Sharing

Once consensus was established, the Ohio News Organization – or OHNO as it is commonly known – launched quickly. A gentlemen’s agreement to share content was struck among Ohio’s eight largest dailies, each geographically dispersed across the state to

minimize head-to-head friction. Within six to eight weeks, the daily news exchange took shape.

Susan Goldberg, Editor of Cleveland’s *Plain Dealer*, the largest daily in Ohio, volunteered her own technologists to construct the Web site platform and database that would house content and enable story transfer. By March 2008, OHNO was in full swing.

Contrary to what many newspaper editors suspected, OHNO’s suffered few hitches as a result of the fierce competitiveness that had demarcated them for decades. “There is a very high level of trust,” Marrison said. Trust anchored in a pragmatism that grew out of the very first meeting: that sharing was good for business.

“We just talked about how illogical it was for six of us to send reporters to cover the Cleveland Indians-Seattle Mariners game and all write essentially similar stories,” Marrison said. “Wouldn’t it make more sense if one or two of us went, and then the other papers could use the time of those reporters to write enterprise and share that? We found that it made great sense.”

The greater challenge was ingraining OHNO as a fixture within the working core of each news organization – not just in the executive suite.

“It wasn’t a priority,” Marrison conceded. “It wasn’t part of the normal process, and so sometimes it was forgotten. But the editors were all very committed to making sure this thing worked, and we worked through it.”

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4 Marrison, Benjamin. Editor, *Columbus Dispatch*. Personal Interview. 3 Feb. 2010. “We tried to represent the various regions of the state. So if you were to take a map, Cleveland is northeast, Toledo is northwest, Cincinnati is the farthest southwest, Dayton is southern and west, we’re central but cover all of southeast Ohio, Youngstown is almost in Pennsylvania, and Akron and Canton are two major news centers and are good newspapers.”

5 The service was a basic login-secured file-transfer-protocol (FTP) site marked by its simplicity in uploading and accessing content.
While the organization was not bound by formal strictures – no contracts and no buyouts - its sharing protocol was clear-cut.

“We agreed that you can hold back anything you want,” Marrison said. “If a story was highly competitive, if it was something that another paper could match, you could hold it back. If a story is up on the site, you can’t match it. You either take it, or you wait a day. But it can’t be a tip sheet.”

**OHNO Challenges, AP Responds**

As OHNO gathered momentum, expanding its ambitions and reach, the tension between its members and the AP intensified.

Shortly after the Ohio syndicate launched, the editors drafted a letter to corporate headquarters in New York voicing concern over the cooperative’s initial Member Choice rate structure, notably its bundling of products and services that the constituents denied needing. Its contents gave voice to a host of newspaper executives around the country, who insisted upon “a cafeteria type of menu where we could pick what was important to us, what was not…and we wanted the rates to reflect that.”

In response, AP deployed then-Senior Vice President and Chief Revenue Officer Tom Brettingen to Ohio to meet with OHNO’s core leaders.

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6 AP.org. “New AP pricing and packaging plan to take effect in 2009; AP Board approves ‘Member Choice,’ making more content available and easier to find.” 25 Oct. 2007 <http://www.ap.org/pages/about/pressreleases/pr_102507a.html>. “With Member Choice, members will pay a basic assessment that gives them access to all AP state, national and international breaking news….For additional fees, members will be able to buy premium services featuring in-depth content in news analysis, business, sports, entertainment and lifestyles.”


8 Marrison, Personal Interview, *supra* note 4.
“We thought at least we could break the ice,” Royhab said. “We had all sorts of concerns – rates, the way they handled our copy. And what was shocking to us was that they blew us off. They absolutely did. My blood pressure goes up when I think of that meeting. It became an AP issue.”

Enough so that Marrison openly expressed that the fissure “made us more resolved to make sure that OHNO succeeded.”

Jim Kennedy, AP’s Vice President and Director of Strategic Planning, admitted the cooperative paid a price for its stubbornness. “Even if we want to discount them (OHNO), you have to understand that it happened,” he said. “We didn’t handle it all that well. We had a marketing idea that said we’re going to give people more access and could price it differently. That’s what we believed we could do, and we stuck with it.”

Several months into a deep economic recession and imperiled by industry upheaval, most traditional media companies were unable to subscribe to the “more for more” business strategy that Kennedy described, a philosophy that first congealed when Tom Curley took the reins as CEO in March 2003.9 Under his leadership, the cooperative pushed to streamline workflow, increase member touch points, and create new revenue streams through diverse products and platforms.10

“When we did all this, we didn’t figure on the industry collapsing,” Kennedy said. “Our business justification was that this would give us the opportunity to give multiple layers of access to the customer. Then we had to finesse through two or three iterations until we

10 See http://www.unc.edu/~jedw/ap/. Chief early initiatives included opening the first of four regional editing hubs in Atlanta, developing 1-2-3 filing protocol (now 0-1-2-3-4) that enabled more customized storytelling across an array of channels, and reaching an agreement with Google News for the leading search portal to carry AP stories and pictures.
finally got to ‘more for less’ and ‘less for less.’ We should have appreciated it when we first saw it and not fought it. We learned a tough marketplace lesson there.”

Realizing the error of its ways, AP reacted quickly, a move that even the inflamed OHNO members credit them for. By April 2008, just three months after approval of the original Member Choice, Dean Singleton, Chairman of the AP’s Board of Directors, announced additional member savings.11 Even further rate reductions, plus a moratorium on increases for any member, were passed that October. At that time, it also promised “a complete review of its pricing and governance structure,” including an examination of the two-year cancelation notice that had long been a staple of membership.12 Ultimately, it was scaled back to one year. The amended Member Choice platform offered constituents tiered subscription options at Complete and Limited levels. It also afforded them greater levels of customization and flexibility in their wire service, as they could buy into content verticals that served specific needs, albeit not the pure a la carte buffet many yearned for.13

“My sense is that AP nationally gets it,” Marrison said.14 “They lowered the rates. They did go around and interview newspaper editors all across the country, and asked them

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13 AP.org. “Remarks by Dean Singleton.” 6 April 2009. <http://www.ap.org/pages/about/pressreleases/pr_040609c.html>. “Once you’ve chosen one of these two services, you can tailor Member Choice to suit your needs. For example, Complete customers can opt out of certain text news categories — and further reduce their rates. Limited customers can upgrade their service by adding one or more of the categories, which include Sports, Money & Markets and Lifestyles.”
what they wanted, then altered their Member Choice program. It didn’t go as far as we wanted, but it was huge in terms of the change for AP.”\textsuperscript{15}

Kennedy and his cohort acknowledged their failure to recognize the destructive market and industry forces that undermined their business advancement initiatives. However, he also cautioned against those who continue to use price structure as the vehicle to define their relationship with – and vent their frustration towards – the AP.

“The whole deal about the price war has sort of settled out because we reduced the price,” Kennedy said. “We gave them ‘more for less,’ and we gave them ‘less for less,’ and that pretty much solved the problem. Ohio’s still out there holding the banner because they brought it out in the first place, so they’re continuing to be the standard bearer for a movement that really isn’t there anymore.”

“Some of that is posturing on the part of these newspapers,” Charles Broadwell, President and Publisher of The Fayetteville Observer, said. “I think there’s some of that. ‘Well, we’ve got to be mad at somebody, but we don’t know what to do without ‘em.’ It’s like a family squabble.”

\textbf{Shared Success}

Now more than two years old, OHNO has flourished on many fronts.

For one, the competitive instinct that pitted newspapers against each other for generations has been balanced by the transparency and trust that must exist for a news-sharing platform to function. In fact, the majority of the eight participating dailies have

\textsuperscript{15} The latest iteration of Member Choice saved Cleveland over $300,000 off of its previous bill.\textsuperscript{15} Toledo preserved $153,000,\textsuperscript{15} while Columbus pocketed $150,000.
expanded the number of stories they avail to the point of essentially posting their entire “news budget” for that day.\textsuperscript{16}

The most dramatic breakthrough occurred when multiple OHNO partners began collaborating on enterprise projects that historically had been the tightly-fortressed franchise of each independent paper and the fuel igniting their competitive zeal.

During the 2008 Presidential election, in which Ohio was a prominent swing state, OHNO embarked on collective statewide polling, splitting costs among the members based on circulation. The polls reached millions across the state and earned high marks. The newspapers then partnered on a series of analysis pieces about the polls, with a different daily writing the lead and the other members contributing sidebars. OHNO recently signed up to conduct four new polls for the 2010 state elections.

Marrison cited another example of how mutualism has enabled the Ohio dailies to creatively bolster their news-gathering operations and agenda-setting ability.

“When the swine flu was running rampant, [Plain Dealer Editor] Susan Goldberg talked to the head of the Cleveland Clinic, and he was genuinely concerned about people not taking this seriously. So we (OHNO) met as a group, and it was suggested, ‘why don’t we, on one day, do “flu Sunday?”’ We each took different pieces of it. We put together a plan for how to cover this, and then we all shared the content. And on that day, all across the state, people fully understood how H1N1 works and how it gets stopped. It was hugely successful.”

\textbf{The Bottom Line for OHNO}

\textsuperscript{16} According to Marrison, if an editor is looking for a story in another market that is not tagged to the OHNO database, “you just call that paper and say, ‘hey, I saw in your budget that you have this story. Could you post it?’ And we will.”
OHNO was formed expressly as a costless cooperative that relies on the labor, loyalty, and empathy of fellow members to run smoothly. Though the organization adheres to firm sharing rules, its loose association of partners, fluidly linked through the free flow of information, still has a “handshake feel” to it…and purposely so.

“We’ve tried not to become AP,” Marrison said. “We’re trying to do the best we can to serve our readers. We believe in the call of journalism. I don’t think [sales] is what this is about.”

With newspapers battered by the secular displacement of the premium print advertising and geographically-and-financially-protected barriers that long sustained their competitive advantage, OHNO executives yield that a ubiquitous question must be asked: can they afford not to consider the revenue-generating possibilities of their creation, as improbable as some may seem?

Marrison recalled one Ohio newspaper outside of OHNO, as well as a single radio station, contacting the organization to inquire about buying the service. The eight editors convened and decided that “we don’t want to go there now. We just want to focus on doing a good job with what we have.”

A second conceivable revenue producer would involve the Plain Dealer, which built the FTP site on which OHNO operates, selling the platform as a proprietary system for other organizations to use.

“I haven’t been involved in any serious conversations like that,” Goldberg wrote in an e-mail. “I have trouble imagining that working for general news content about Ohio. It is
possible that it could work for very specific content niches, perhaps for politics or sports, but I'm not really sure.”

Again, Marrison insists that “our mission is as simple as doing right by our readers.” But can Ohio’s leading newspapers, or broadsheets across the country for that matter, deliver on that core democratic promise as the income supporting it recedes?

Royhab, a quintessential newsman by training, accepts that without requisite revenue feeding back into and funding the news process, newspapers will struggle to maintain their signature community influence. To paraphrase his earlier analogy, only when the cycle turns will the bean counters loosen their grip and the journalists take hold.

“It was brought up, if we could sell OHNO and make some money,” he said. “I don’t think that was completely taken off the table, never to be brought up again. I hope it does come up again. But [with OHNO] I think there could be contractual issues.”

Financial quandaries and contractual snafus aside, Marrison remains bullish on the long-term growth trajectory of statewide sharing.

“Long term, this is the future,” Marrison said, extolling OHNO’s influence. And I think this is the future elsewhere in the nation.”

**Part II: Sharing Becomes a Maine Priority**

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18 Royhab, E-mail, *supra* note 1. Royhab was a 44-year journalist who held a variety of reporting and editing positions. He retired at the end of 2009.
19 See Meyer, Phil. *The Vanishing Newspaper: Saving Journalism in the Information Age.* Second Edition. University of Missouri Press, 2009: 11. Quoting former Knight Ridder vice president Hal Jurgensmeyer, Meyer writes that “we were...not in the news business, or even in the information business. We were 'in the influence business’.”
20 Associated Press Charter and Bylaws, *supra* note 4, Article VII, Section 6: 23. “No member shall furnish, or permit anyone to furnish, to nonmembers of the Corporation the news, which it is required by the bylaws to furnish to the Corporation.”
A full decade before OHNO, Rex Rhoades and Mark Woodward were already sharing.

The editors of Maine’s *Lewiston Sun Journal* and *Bangor Daily News* respectively, Rhoades and Woodward had begun to forecast the radical repercussions that mainstream Internet saturation could wreak on their industry. So, as early as 1998, while most newspapers were lapping up hefty profits and investing little in online strategy to equip themselves for the swirling digital revolution, two small northeastern dailies were battening down to protect their assets.21

“We all want to break that big story, but for the most part, day-to-day, we don’t compete with each other,” Woodward, who retired in December 2009, said. “Here’s a way to share some resources.”

“Bangor and Lewiston went ahead, but only with a verbal agreement to share content,” Rhoades said. “If we thought they were covering something interesting, or we saw something on their Web site, we would call and request it for our paper. They did the same. This probably happened a handful of times each week.”

The loftier ambitions of statewide sharing, however, were shelved when the three southernmost dailies – the *Augusta Kennebec Journal*, the *Portland Press Herald/Maine Sunday Telegram*, and the *Waterville Morning Sentinel* – rebuffed the idea out of fear of encroaching upon the AP.

“Fast forward ten years, and this thing in Ohio (OHNO) pops up,” Rhoades recalled. “Lo and behold, the chain of newspapers to the south had changed hands. I get a call from

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21 *Meyer, supra* note 18, at 39. “Before technology began to create alternate toll routes, a monopoly newspaper in a medium-sized market could command a margin of 20 to 40 percent.”
one of their editors, who says, ‘I always thought this was a pretty good idea. Why don’t we get together and talk about it again?’”

The meeting was set, and within weeks, a sharing agreement between five of the seven dailies in Maine was struck.22

On September 20, 2008, the quintet published a story headlined “Five Maine Daily Newspapers Announce Sharing Agreement” to promote the forthcoming news exchange.23 Within the article, important tenets of the state cooperative were highlighted. Initially, only three to four stories each day would be shared by the partners, with the hope that it would grow organically over time. Editors emphasized that sharing would not extend into enterprise domains, “particularly investigative pieces and other articles from the few regions where the newspapers compete.”24 Finally, Kennebec Journal executive editor Eric Conrad foreshadowed a future in which “Maine AP news will be less valuable as we grow.”25

**Maine and OHNO: Similar, but Not the Same**

Whereas in Ohio issues of attribution and timeliness were seminal sources of unrest with AP, in Maine, competitive concerns with local radio and TV wire subscribers were paramount.

“What always galled me was that I would get up early in the morning and listen to Maine Public Radio, and this guy would have re-writes of all the stories out of all the newspapers in the state,” Rhoades described. “He would read them on the air, and everybody

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22 “Shortly after we decided to go forward with our sharing group, Ben Marrison in Columbus was independently invited by the Maine Press Association to speak here,” Rhoades said. “In a way, he did offer us advice on what they were doing, which was helpful.”
24 Id.
25 Id.
would think he was absolutely the hardest-working newsman today. When, in effect, newspapers were collecting all these stories for him, and those stories weren’t even in my newspaper.”

Maine and Ohio also differed on matters of scope. While not at “OHNO level,” where entire daily news budgets are posted, cooperative efforts in Maine have more than doubled to eight to ten stories per day per paper. “Almost without exception, I think the newspapers share their best stuff,” Rhoades said. “Honestly, we try to look at it and say, ‘what would be of the most use to the other newspapers?’”

However, still true to the original mission statement, collective enterprise reporting of the ilk of OHNO’s H1N1 expose remains largely unchartered territory. And with only five newspapers partaking, most of them diminutive compared to Ohio’s major metros, summoning the wherewithal to execute such initiatives is more difficult. Above all else, though, the flames of competition still burn brightly.

“I can tell you I’ve been a little more reticent to do it with some of our more involved, enterprise work,” Bangor Daily News editor Michael Dowd, who replaced Woodward effective January 1, 2010, said. “We’ve certainly done everything breaking on cycle. It’s when you get into investigative and other efforts that we might block.”

Money to Be Made?

As for the omnipresent revenue question, the irksome “one-way street” perception of local radio and TV stations’ greedily grabbing whatever they choose from AP without reciprocating original content is central to why the Maine cooperative is not exploring ways to sell it.
“I think it’s more valuable from a competitive standpoint for the newspapers to have the content rather than sell it to TV or radio stations, which would just expose it to readers before they can get the newspaper. Maybe we should think about that, but it doesn’t seem lucrative to me right off the bat.”

Perhaps it never will be. But Dowd, who has entertained ideas internally about the exchange’s profit potential, believes they can’t afford not to probe every imaginable monetary channel.

“We’re not sure if it’s going to have legs or not,” he said. “But in this time for our industry, every paper is looking at how they might monetize content and exploring everything they possibly think of. We’re certainly doing that.”

**Part III: Coast to Coast Collaboration: The Emergence of McClatchy Regional News**

Ohio set the trend, and Maine was a close disciple. Over the past two years, similar state news exchanges have popped up from the tip of Florida to the top of Texas, from New Hampshire through Maryland and into the Carolinas, reinforcing Marrison’s confidence in the concept’s scalability.

On January 1, 2010, the Los Angeles Times-Washington Post News Service dissolved. The *Post* joined forces with Bloomberg to create a new wire, while the *Times*—owned by the Tribune Company—paired up with The McClatchy Company to form McClatchy-Tribune Information Services, or MCT. McClatchy Regional News grew out of the newly-merged national service, providing a direct, real-time feed of state newspaper

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27 The rapid adoption of the concept validates Royhab’s prophesy that it is “something you could start in every state; I even think that if you have the infrastructure, you could do this nationally.”
content across several categories, including news, business, and sports. Recent Web site searches revealed multiple story postings from dailies as large as Charlotte, Greensboro and Fayetteville to those as small as Burlington and Hickory. Mike Arnholt, Executive Editor of The Fayetteville Observer, described this unedited, non-boiled down platform as being locked at the hip with the MCT’s national wire. “Subscribing to the McClatchy Tribune wire brings that directly into our front-end system,” Arnholt explained. “We’re a subscriber to one, and [automatically] a member of the other.”

**AP & McClatchy Regional News: Value Comparisons**

Feedback to McClatchy Regional News has been mixed, hinging largely on how AP members evaluate the kind and quality of the content that AP delivers as compared to the new alternative.

“AP takes our stuff, re-writes it, and boils it down to a news story,” Arnholt said. “But with McClatchy, the whole story is from everyone. So you get a nice feature story about a barbeque restaurant in Wilson that’s the whole thing. “You probably wouldn’t see that on AP. With McClatchy, it’s whatever they had in their paper.”

Then again, as Kennedy defends, running stories in full from member outlets is not the declared purpose of the cooperative, nor does it necessarily serve the needs of members far removed, yet within the same state.

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28 “Welcome to McClatchy Regional News.” <http://www.mctdirect.com/regional/index.php>. The McClatchy Regional News Web site promotes that free access is offered to site contributors while advertising that providers will “earn royalties for the content they contribute.”
“One of the values that we’ve always produced is that we turn local contributions into the homogenized milk of the AP,” he said. “So a statewide story is not going to be written as if it were angled toward a certain parochial readership.”

Broadwell affirmed the value that Kennedy described as a principal motive why the AP – even in its most embattled moments – presents a value proposition that, for most members, is irresistible.

“You go back to the AP’s strengths, and one of those is consistency of style and format,” he said. “The AP is that Bible, versus with McClatchy Regional, we get 37 members with different styles and formats.”

McClatchy Regional News’ usage varies from market to market. Fayetteville is active in both feeding and pulling from the state service. “With McClatchy’s footprint in the Carolinas, that’s been a huge development,” Broadwell said. “Suddenly we’re seeing more state stories there than from AP,” Arnholt interjected.

Meanwhile, for the Charlotte Observer, a McClatchy-owned paper no less, the need is minimal. “We haven’t used the separate tier of MCT for North Carolina so much because we have North Carolina AP, and more importantly, we use a lot of material from the Raleigh News & Observer,” Charlotte Observer Front Page Editor John Arwood said.

**Part IV: Breaking Free or Holding On?**

29 Dowd commended AP content for being produced “at a length that’s very useable in our rather limited news hole. We know what we’re getting.”

30 The McClatchy Company owns two daily newspapers in North Carolina – the Charlotte Observer and Raleigh News & Observer – and five in South Carolina – The Beaufort Gazette, The Herald (Rock Hill), The Island Packet (Bluffton), The State (Columbia), and The Sun News (Myrtle Beach).

31 See Ricchiardi, supra note 25. “In 2006, the state’s two largest and most competitive dailies (both McClatchy-owned papers) merged their capital bureaus and sports staffs and began running each other’s top investigative reports.”
The ultimate analysis of state news exchanges’ effects on the need for the AP in newspaper members’ pages harkens back to a fundamental value equation: investment versus return.

These organic arrangements have re-ordered the value paradigm in one central area: state news. Delivering real-time breaking news on cycle to only those within the protected organization, and thus shielded from external competition, the partnerships offer a service that the AP state wire is yet to match. The result is a dramatic decline in AP state reports in the newspaper.

“We don’t use very much Ohio AP anymore,” Marrison said. “They still have good reporters who still churn out good enterprise pieces that we will use. But, day-to-day, we don’t use as much AP on our state news pages because we’re getting it directly from the originating source.”

“The greatest success (of the state news exchange) I think is that what used to be filled with wire is now high-quality, in-state content that hopefully makes us a more attractive product,” Dowd said.

Now, members of such organizations must reconcile these benefits against a pervasive question: are they sufficient to sever ties with AP entirely?

AP’s Irresistible Value

For all the bluster about AP’s burdensome rates and declining value, few legacy members have filed for cancelation\(^3\)…and fewer still have actually gone through it. None of

\(^3\) The *Chicago Tribune* and the *New York Daily News* announced that they plan to cancel their AP membership in 2010. See [http://www.unc.edu/~jedw/ap/](http://www.unc.edu/~jedw/ap/).
the 12 newspapers profiled in this study canceled, and only one – Maine’s *Lewiston Sun Journal* – filed the papers, only to later retract.33

“There are some that filed cancelations to signal their displeasure with AP, I think,” *Charlotte Observer* editor Rick Thames said. “We didn’t think that was a step we had to take. There are things we want from AP.”

When asked why they haven’t yet signed off the service, editors and publishers, seemingly in concert, highlight the same unique content verticals and unmatched news-gathering-and-delivery practices. Content falls into three distinct buckets: breaking news, sports and sports agate, and business agate. Quality of the overall report centers on speed and strength of voice.

With over 3,000 journalists employed in 243 bureaus worldwide,34 requiring a $500 million budget to sustain at current operating levels,35 the AP enjoys a time-honored reputation as the signature wire service for breaking news. This brand is further fortified as struggling metro dailies shutter international bureaus and consolidate national desks in order to cut costs.36

“I believe that their breaking news performance and their international performance are still their champions in lots of ways,” *Charlotte Observer* Managing Editor Cheryl Carpenter said.

33 “Twice we’ve had cancelation notices into them,” Rhoades said. “We were looking, as other newspapers were, for alternatives to the AP. But we’re in good graces now.”
AP’s hallmark is breaking news, but the category that the greatest number of local editors said they could not function without was sports, primarily the agate page – scores and standings for professional sports and major colleges. This has been an AP specialty for decades, and to hear local editors and publishers tell it, no competitor is even in the same ballpark.

“It’s the most comprehensive, timely, dependable source of everything sports-related for newspapers,” Rhoades said. “AP just has the national network to do it. Maybe ESPN will start a service someday, but there is no substitute if a newspaper our size feels like they need it for their readership.”

As OHNO editors pondered a future without AP, they could not escape the fact that they did not have an adequate answer for sports, especially agate. But they are on the market for one.

“They have a lot of sports content that would be very hard to replicate because they’ve had this system for many, many years,” Marrison said. “There’s a national sports content-sharing arrangement (National Sports Content Sharing Network) that we’re going to be joining soon that’s modeled after OHNO. It’s OHNO nationally on sports. The agate part of it we still don’t have a solution for.”

Business agate – formerly stock listings, now re-packaged as a “money and markets” paginated spread – similarly safeguards AP against competition and defection. Even with a well-etched footprint in the Carolinas, most major McClatchy dailies in the region – Charlotte, Columbia, Myrtle Beach, and Rock Hill – bundle the “money and markets” report with their tiered subscription.

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37 Subscribers receive a prescribed level of sports as part of their tiered service, but can opt into a full sports report that includes additional stories and agate.
AP’s broader brand advantages lie not only in what it delivers, but how it delivers it. The service is built for speed, but couples being first with a zealous commitment to being right. That combination is difficult to match. “When something is developing rapidly, no one can touch AP with the speed of their updates,” Arwood said. Meanwhile, its ferocious dedication to accuracy is stated unequivocally in the bylaws, which assure that “the news gathered and distributed by the Associated Press shall be as objective and complete as human endeavor can make it.”

AP Reports, Members Decide

A popular reaction by those within state news cooperatives, in conjunction with AP’s speedy restructuring of its Member Choice platform, has been to drop down a tier from AP Complete to Limited. Often members will scale back to Limited, then bundle in several category-specific supplementals.

The Charlotte Observer, for instance, recently opted for Limited but paired it with News Analysis, Money and Markets, and Sports. The Columbus Dispatch also selected Limited. With the number of supplementary services his newspaper was compelled to purchase, however, Marrison said the Dispatch essentially still feels like the Complete member it was for decades.

“How they grouped the content made it difficult to go to AP Limited,” he said. “We just keep adding these things back, and you get to the point where you might as well just buy...

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39 “One of the things that AP says, which makes sense from a marketing perspective, is that you can take AP Limited as you’re figuring out your budgets and upsell by buying into the Complete package at any time during the year,” Charlotte Observer National Editor Rich Mathieson said. “But you cannot, however, start with the full package and then downgrade.”
the whole thing. We went with ‘AP Lite’ and added Sports and Lifestyles. They are very smart with how they put it together.”

The fruits of this creative bundling were that “they had a higher proportion of the membership sign up for Complete than they were anticipating when they went to the tiered selections,” Paul Tash, an AP Board member and Chairman of Times Publishing Company in St. Petersburg, Florida, said. 40

For those who chose Limited, the move has not only elicited frustration from editors like Marrison, but has induced anxiety in the newsroom over what might be sacrificed. First and foremost, they circle AP’s full news digest and newsroom alerts as crucial. As Limited members, news organizations not only receive far fewer breaking news stories, but they also lose access to the newsroom bulletins that can motivate and organize coverage.

“They’re crucial, especially on deadline,” Carpenter said. “We are really concerned about not getting the news alerts,” Arwood conceded.

Kennedy accentuated the foundational importance of the AP’s newsroom report as a compass that guides the daily news cycle.

“When you look at print, you only see part of what the value proposition is,” he said. “If you back off from the ‘product level’ to the ‘radar level,’ the newsroom value of the AP report is hugely important…more important than ever. It becomes even more important because how are you going to reconstruct that? Are you going to look at a bunch of

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40 As an example, the Blade renewed at the Complete tier. “In my opinion, ‘AP Lite’ is too lite, and AP Complete is too complete,” Royhab said. “In this case, the choice came down to the lesser of two undesirable deals. They have a take it or leave it attitude. Unfortunately, most newspapers have no choice but to take it – as is.”
bloggers? Are you going to pull up Global Voices\(^{41}\) and see what’s going around? I don’t think so.”

Thames was incensed by the AP’s decision to eliminate newsroom alerts for Limited partners and suggested that the move could backfire if the Charlotte Observer can identify substitute services.

“Their not sending us news alerts as part of the Limited package is, in my opinion, almost anti-journalism,” he said. “With a Limited model, I’m seeing attributes that will lead us to be actually less dependent on them. We’re finding other ways to get alerts.\(^{42}\) We’ll find another source for that story because we don’t know that other story’s coming. They’re actually shoving us farther away.”

Kennedy’s defense: AP gave members what they clamored for.

“Give the customer choice,” he said. Let them feel like they’re saving a buck somewhere along the line instead of making them do it. There’s still complete fairness across the board on pricing, so if you buy this one thing, it’s going to be based on your size, but you’re going to have more things to pick.”

Furthermore, the cooperative can no longer afford to shoot its products down generic pipes, accessible in mass to members, subscribers, licensees, and the Internet at large (see Chapter 3: “Mobile, Gateway, and the Reimagining of the AP Business Model”). The net effect is the devaluation of the products that the AP is working to differentiate in order to imbue them with more value for users, and in turn, create more profitable demand.

\(^{41}\) GlobalVoicesOnline.org describes itself as “a community of more than 200 bloggers around the world who work together to bring you translations and reports from blogs and citizen media everywhere.”

\(^{42}\) “We’ll have to start relying on more things like Twitter,” Charlotte Observer National Editor Rich Mathieson said. “I can’t tell you the number of stories that have broken first on Twitter before AP even came close.”
Walter Hussman, CEO of Wehco Media, Inc. and Publisher of the *Arkansas Democrat-Gazette*, *Chattanooga Times Free Press*, and *Texarkana Gazette*, has long bemoaned what he perceives as the commoditizing effect AP has on its own products and brand.

“In our market (Little Rock), for instance, AP will sell their content to the local business weekly. That’s 6,000 circulation. Our daily circulation is 170,000. They take the Arkansas wire and put it up on their Web site for free. Well, if you sell it to a weekly, and they turn around and put it up there for free, it’s been commoditized…so it’s not as valuable to newspapers at it used to be.”

AP Limited is one such attempt at value preservation.

“We do thousands of stories in the course of a day,” Kennedy said. “We take thousands of pictures, and we do hundreds of video clips, and we’re going to have to now package those into discrete products to create the new value we’re talking about. That’s going to be a big change, both for our customers and the consumer.”

What the AP strives to deliver in return is a multi-layered value proposition. Kennedy trumpeted that this pledge extends well beyond the printed product.43 It begins with the real-time newsroom compass, includes print, and extends online as well. Opinions on the import of AP’s Internet value proposition diverge in some cases, depending on how sacred the organization deems its local content franchise to be online.

“The AP contributes a great deal to our Web site, getting its own module near the top of dispatch.com,” Marrison said. “The AP has always been good at breaking news, and the

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43 Kennedy, Jim. Vice President and Director of Strategic Planning, Associated Press. Personal Interview. 15 Feb. 2010. “Because AP used to play so prevalently in the paper, and members used so much of it in print, the value of AP over the decades was associated with how much play is out instead of what the newsroom is actually looking at. We didn’t ever really push that as a part of the value proposition. It was always an assumed part.”
Internet allows this strength to shine. AP’s web value is high, and a major reason we have continued with AP.”

“For the most part, we downplay national news,” Mathieson said. “In terms of the front page of the website, our news producers don’t do a whole lot with AP except when it’s a major story. People just don’t turn to Charlotte.com to read about news in Istanbul.”

Part V: Conclusion

In the ongoing tug-of-war over value – as affiliates in Ohio, Maine and beyond desperately seek to foster their own and minimize their financial reliance on others – AP is attempting to re-conceptualize its core to deliver members timely content and timeless value. The fourth, and newest, prong of AP’s value pledge encompasses an integrated new-platform strategy that symbolizes a new mode of doing business – partnering with members as a revenue creator.

“It’s really an all-purpose business partner that provides you with everything from the eyes and ears and global news report all the way out to new business opportunities that you can choose to participate in,” Kennedy said. “That’s the new AP value proposition that’s going to start resonating.”

For the business plan to resonate, the cooperative must answer several vital marketplace questions. What can AP do to facilitate acceptance by beleaguered members, many of whom still feel an underlying tension with their national partner? Will the new model generate tangible revenue for participating partners? Most saliently, to borrow Kennedy’s words, will it be enough “to get everybody over the mountain” while also sustaining the cooperative itself?

—- Marrison, E-mail, supra note 13.
CHAPTER 4

The Gateway to AP’s Re-Imagined Business Model

“The biggest hurdle we have to overcome is getting people comfortable with the idea of an aggregated product sell, and pushing that as a primary source of revenue. The industry has cooperated on things, but most have been around cost containment or shared coverage. There has never been a large-scale shared business initiative that’s really taken shape.”

- Jim Kennedy, Vice President & Director of Strategic Planning, AP

“I very much admire and appreciate the ambition and the thoughtfulness behind [AP’s] initiatives. I’m just not sure if news organizations with so many other initiatives will have the time or energy to really focus on these things. That doesn’t necessarily speak to their value, but it does speak to the challenges AP faces around getting people to pay attention at a time when their attention is already very, very scattered.”

- Stephen Buckley, Managing Editor, St. Petersburg Times

Seeing the Future

In his 16th floor office at corporate headquarters on West 33rd Street in New York, Jim Kennedy, AP’s Vice President and Director of Strategic Planning, points to his window sill and declares, “this is the new model.”

There sits a piece of cardstock, about 2x3 feet in size, entitled “Web 3.0 Business Model.” On this simple four-quadrant matrix, the horizontal axis scrolls from “Packaged” to “Atomized,” while the vertical axis climbs from “Free” to “Paid.” It represents past and present iterations of the online business model, with a hypothetical design for the future. And it is the future – in the upper right Atomized/Paid square – where Kennedy fixes his gaze (see Appendix D: “Web 2.0 Business Model”).

“As you look at this, it revives the business,” he proclaims.
“It” symbolizes a digital movement that transcends traditional web search – the instrument that has dominated the digital domain for almost a decade – into a new frontier shaped by portability that portends new user experiences through heightened convenience and customization.

Kennedy recognizes the necessity of a transformation. Not only could it trigger a renaissance for beleaguered traditional media, specifically newspapers, battered by the gales of “creative destruction,” but it could offer the AP a renewed industry stronghold by empowering a more dynamic and irresistible value proposition to its members.\(^1\) To capitalize, the cooperative must map a new way of doing business, both among its constituents and in the general marketplace. This enterprise will require AP to metamorphose from a pure content creator and vendor into a revenue-producing partner, even as digital news operations fight more competitors for fewer dollars and are forced to re-deploy resources accordingly.

“The digital space is a much smaller cost and revenue environment than the old environment was,” Kennedy said. “You’ll see the news business change to one that, I hope, is driven by innovation, but one that acknowledges the fact that revenue will build slowly from a much smaller base, and that costs will have to be reduced to compensate for that.”

Sizeable impediments stand between AP and its ability to stimulate such change. Can member tension be sufficiently suppressed to engage an active constituent audience? Assuming they listen, will they actually comprehend? Even if the answers are “yes,” can these organizations, with their squeezed newsrooms and pinched budgets, plausibly entertain

participation in an unproven platform? Will the new opportunities introduced by portability prompt AP to provide the a la carte services that members clamor for in order to boost its value proposition? How would this influence AP’s bottom line, and thus its ability to generate the $500 million required annually to sustain the international workforce that has made it “the essential global news network?” Finally, rather than merely telling them, how can AP show members the indispensable value in its new model – driven by revenue creation – that would invigorate their businesses?

**From Surfing to Searching to the “Splinternet”**

To appreciate how the AP came to embrace its vision for rebirth, Kennedy stressed that one must understand how legacy media burrowed the hole in the first place. All that is required is scanning the lines on the matrix: first a period of paid, packaged content pushed by creators onto consumers, then an explosion of online options that largely defeated the ability to charge by skewing the supply-and-demand curve, and finally the ubiquitous emergence of web search. Colloquially, this is called “the Google era.”

With paid search advertising driving 99 percent of Google’s total revenue – $23.6 billion in 2009 alone – the California colossus eclipsed $180 billion in market capitalization, captured over 63 percent of market share in search (85 billion U.S. searches last year), and even became a popular verb (“googled”).

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Traditional news operations were left stammering in its wake, a byproduct of the “cultural lock-in”\(^5\) afflicting their mental models\(^6\) and the technological advances undercutting their market advantages.\(^7\) Many pegged Google’s disruption and reinvention of the Internet as so traumatic that longstanding news gatekeepers – their budgets burdened by fixed costs and their geographic monopolies shattered – would never win significant market share or tap healthy revenue from their online content. Meanwhile, their heritage print franchises were fading.

For that reason, the upper right corner of Kennedy’s matrix – the future – remained blank for many years. His “moment of ah-ha” arrived after reading a 2009 report from Forrester Research that forecast the digital fragmentation of information beyond the confines of the conventional web and into a new, portable realm termed the “Splinternet.”\(^8\) (see Appendix C: “Internet/Splinternet’ Platform Characteristics Chart”).

“It really set up the ‘post-search era,’” Kennedy said. “It basically said that we’re going into an era that is not totally visible to search, and so therefore will not be contained by that opportunity. And yet it’s still universal, democratic, open, and personal.”

The portability revolution that Forrester articulated germinated with the rapid adoption of smartphones, beginning in 2007 and accelerating annually.\(^9\) It broadened to

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\(^5\) Foster and Kaplan, supra note 1, at 16.
\(^6\) Id. at 18.
\(^7\) Kennedy, Jim. Vice President and Director of Strategic Planning, Associated Press. Personal Interview. 15 Feb. 2010. “The news companies struggled because the economy went into the tank, and news companies decided to stick to their knitting and didn’t invest in innovation, particularly on the Web because the Web was over with at that point. It came storming back three or four years later with ad support, and by that time they basically had to get on the bandwagon. They didn’t really do anything with their websites. They just got back in the ballgame.”


encompass a host of electronic readers. Now, the movement has again morphed into a domain of all-purpose consumption devices, headlined by Apple’s recently-released iPad. The rise of mobility has Kennedy dreaming of new horizons for the AP, ones in which it leads the charge to resuscitate the media’s hope for a vibrant future by innovating its way back into consumers’ consciences.

“It’s like a gift from heaven,” he said.

**Planting the Seeds of Change**

Long before “portability” and “Splinternet” became popular currency, AP had already re-imagined itself as a more nimble cooperative. Upon his installation as CEO in March 2003, Tom Curley quickly embraced “the change demon.” His diagnosis: AP must re-organize its own processes to better serve the specific needs of its stakeholders and must ready itself to buffet the waves of destruction crashing down upon the industry. Innovation would be paramount, namely creating a business infrastructure that enabled AP to go directly to market with products that meet the rapidly-changing needs of members and consumers alike.

This multi-planked, integrated strategy – “tag, track, and package” – sought to synergize business and technology while re-conceptualizing AP’s value proposition to

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10 Amazon’s Kindle has gained the most acclaim among e-readers, with Barnes and Noble, Sony, The Hearst Corporation and others debuting their own models. Most offer books, magazines, newspapers and other forms of content on demand, as well as basic web browsing capability.


members as not solely a content provider, but a revenue partner – a stark change in business philosophy.

“The biggest hurdle we have to overcome going forward is getting people comfortable with the idea of an aggregated product sell, and really pushing that as a primary source of revenue,” Kennedy said. “The industry has cooperated in things, but most of those have been around cost containment or shared coverage. There has never been a large-scale shared business initiative that’s really taken shape.”

Before the first plank – tagging content with rich metadata to be tracked and later packaged – could be laid, AP executives saw a desperate need to build a multimedia database, an initiative termed EAP.14 “Up to that point in 2003, all of our content was created and sent out in separate systems,” Kennedy explained. “So text in one, photos in another, audio in another, video in another. They all went into different black boxes in the customer shop.”

These ponderous processes impaired AP journalists’ ability to streamline storytelling and created prohibitive inefficiencies for members. EAP provided new sightlines for reporters. It also shifted the cooperative away from “pushing” content through isolated pipes, instead enabling members to “pull” exactly what they need as they need it.15

By late 2007, with the multimedia database fully functional, AP prepared to set the first plank in its integrated campaign. Ultimately, the Digital Cooperative sought “to find

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14 See http://www.ap.org/apexchange/. EAP was later renamed AP Exchange, “a powerful online tool” allowing “speedy, precise and targeted retrieval of the information that matters most so you can get the news to your audiences on thousands of different topics.” AP initially incurred a write-down with its multimedia database. It renewed the initiative in 2005 and launched EAP in full in 2006.

15 “Every person in our core membership – every single editor, writer, and photographer – has a user name and password,” Kennedy said. “So they can each set up the view of the database according to what they want to see.”
new digital outlets and revenue streams” for AP’s partners.\textsuperscript{16} Initially, it called for amassing all content, both AP and member, into a common hub to be marked with granular, standardized metadata, commonly referred to as “data about data.”\textsuperscript{17} The effort, which would lay the groundwork for newspapers to track the usage of their material and more easily link to related content, was greeted with indifference.

“We came to them with a proposition that we would do this, and we would do it for free,” Kennedy said. “And we got no takers. Free wasn’t good enough.” So we said, ‘let’s give them a cost incentive.’ We agreed to give them a five percent discount in their overall assessment for the AP if they got in the program. And abracadabra, they all signed up.”

Member content is ingested into AP’s database, tagged, and indexed by geography, source, author, category, and famous names. Metadata mark-up allows for local outlets utilizing the service to automate links to related material, facilitating fuller, more focused use of the AP’s content trove.\textsuperscript{18}

\textbf{Tracking Use and Cracking Down on Misuse: Building a News Registry}

With standardized tagging in place, the AP readied the second plank in its integrated strategy: a News Registry that would use the universal metadata applied in the Digital Cooperative to follow content through its entire online consumption cycle.

\textsuperscript{16} See \url{http://www.ap.org/digitalcoop/index.html}.
\textsuperscript{17} See \url{http://www.niso.org/publications/press/UnderstandingMetadata.pdf}. Metadata is structured information that describes, explains, locates, or otherwise makes it easier to retrieve, use, or manage an information resource.
\textsuperscript{18} Jon Rust, an AP Board member and Publisher of the \textit{Southeast Missourian}, illustrates how this process works for one local newspaper. “As our stories are finalized and going online, they’re automatically sent through AP,” Rust said. “It goes through a black box that reads the content and identifies what it is according to what they’ve set up. Then it comes back to us as metadata that we append to the online story. Meanwhile, our ‘other related stories’ link works in that it’s using that metadata that comes through from AP to create those related topics for us automatically throughout our Web site. It drives about 80 percent of our related topic story views.”
The Registry, announced in July 2009, is currently being beta tested by more than 200 newspapers in hopes of opening it up to the membership at large by third quarter 2010.\(^\text{19}\) Ideally, it would furnish two services. First, the platform would provide a real-time content-tracking mechanism, showcasing the who, what, where, and how of consumption. This data can then be leveraged to build out content that is more precisely targeted to user preferences, thereby delivering valuable consumer metrics to advertisers.

“We’re tagging individual assets – sub-page levels, down to the headline level – and we can follow usage of and clicks on each distinct asset, instead of just the overall page,” Kennedy explained. “So if somebody clicks on a page and consumes different parts of the content and uses it differently, we can follow that. It’s a real-time dashboard, and you can see what’s happening to your content,” Kennedy said. “I think people will really embrace that.”

Second, it would cede a measure of control back to original content creators in their fight to identify and punish misappropriators…previously a blind and often futile game of chase. The Registry would chart licensed content usage while also conceivably creating a chilling effect on potential violators.

As has been the case historically, AP’s stiffest challenge may not be sculpting the technological infrastructure, but communicating a cogent message that constituents can understand and are motivated to implement.

The News Registry’s principal purpose has already been oft misconstrued. While Kennedy champions the dashboard that will allow AP to follow the flow of members’ content, providing them data services around usage trends, public discussion harp on

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\(^{19}\) See [http://www.apiowa.org/2010/03/more-than-200-papers-signed-up-to-beta-test-ap%e2%80%99s-news-registry/](http://www.apiowa.org/2010/03/more-than-200-papers-signed-up-to-beta-test-ap%e2%80%99s-news-registry/)
The maelstrom of attention around “cops and robbers” deflects focus away from how the Registry purports to offer a fundamental online business infrastructure for news organizations – particularly smaller, regional outlets – that has been conspicuously absent for years. Paul Tash, an AP Board member and Chairman of the Times Publishing Company in St. Petersburg, Fla., reflects common industry sentiment in his interpretation of how the Registry could bolster his enterprise.

“I think it’s potentially very important in terms of realizing the value of our work, not so much from individual users, but restricting the channels about how individual users can get to that work and therefore participate in any revenue that lies along those channels,” he said. “It means that other people can’t steal your stuff and steal advertising against it.”

“We’re not getting the message across,” Kennedy conceded. “People understand the registry to be all about chasing the bad guys. That’s the way we allowed that message to be framed because it was the obvious point of argument.”

If told correctly, the story heralds promise for both the cooperative and its members. For local affiliates, Kennedy promotes that the Registry could offer “the real basis for…[setting] up the wherewithal to do business [online], instead of just shooting out the content and hoping for the best.” Concurrently, according to Jon Rust, an AP Board member and Publisher of the Southeast Missourian, “from the view of the AP, there is huge value to be able to do data analysis of how people are using content…if it can work at partnership level on helping [members] become smarter on how people are using it.”

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“Going Mobile”

The architecture that the Digital Cooperative erected and the subsequent tracking mechanism that the News Registry provided paved the way for the culminating initiative – AP Gateway, a catch-all platform created to guide AP and its members collectively into the redefined digital marketplace.

In May 2008, before AP formally unveiled Gateway (see “Opening a Gateway to the Portable, Digital Frontier”: 98), it launched its first initiative in multimedia product development within the Cooperative with the release of Mobile News Network, an application for wireless devices that offered an aggregated hub for smart phone owners to access content from local news brands as well as AP’s trusted reports.

“Members can participate by providing local news that will appear alongside their logos, [and] importantly, the network also offers a new outlet for members to sell local advertising to a mobile audience,” Curley said in the official release.21

Business rules for advertising were drawn such that local members would receive commission based on sales. They would then reap supplemental revenue shares tied to usage and impressions – how many people accessed the stories and/or the ads on their pages.

Currently, the Mobile News Network enlists over 1,000 contributing news organizations, predominantly local newspapers, but also radio and TV stations. Most

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21 “AP announces formation of the Mobile News Network and further cost reductions for member newspapers.” AP.org. 14 April 2008. <http://www.ap.org/pages/about/pressreleases/pr_041408a.html>. End-users insert zip codes to stream local content from that specific geographic area directly to their Blackberry, iPhone, or Palm Pre. As an example, a Charlotte resident can input the zip code 28202 and see a constantly-updated news feed from the Charlotte Observer and other outlets within the area. Nationally, consumers specify which feeds, by category, they wish to receive and can update preferences at any time. AP offers 16 different content categories on its Mobile News application.
signature media brands participate, with a few notable outliers. One of those, The New York Times, has carried the flag for outlets who agonize over the competitive ramifications of sharing their local reporting with a mobile aggregator.

Kennedy recalled some asking, “Do I really want to be on the Mobile News Network? I already have a mobile site. Do I really want to subvert my brand to the AP?” We tried to say, ‘look, you can still have your own mobile website for deeper dives, but this is the single-touch application, so you ought to be on that one.’”

At first blush, participation statistics are robust. Members’ level of actual engagement with the platform, though, suggests that understanding and connection are only marginal. Several sampled news organizations are enrolled and funnel content to the mobile hub, yet interviews with their executive teams showed little comprehension of Mobile News’ stated purposes and potential deliverables. Overheard in newsrooms across the country: “I draw a blank; I’ve heard of it.” “Honestly, we have never seen that as anything but their vehicle, not ours.” “That’s the problem – we’re already giving it away on our website as it is.”

Local advertising is yet to take hold. Not a single news organization surveyed sells significantly against the content it streams through Mobile News. Furthermore, none have teams dedicated to selling it, and few earmark any marketing resources whatsoever, a symptom of several colliding forces.

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22 See [http://www.ap.org/mobile/contributors.html](http://www.ap.org/mobile/contributors.html). In North Carolina, 36 different news organizations are listed as Mobile News contributors. Among daily newspapers, the only exception is the Greensboro News Record. No radio or TV stations are listed.

23 Charlotte Observer Editor Rick Thames, Columbus Dispatch Editor Benjamin Marrison, and retired Toledo Blade Editor Ron Royhab were quoted.
Foremost among them, newsrooms are sapped of the wherewithal required to engage in new research and development, their staffs too taxed to shoulder another commitment.24 “We’re scrambling so much,” Charles Broadwell, President and Publisher of The Fayetteville Observer, said, making it implausible to fully consider the merits and potential rewards of Mobile News.

In Charlotte, Observer Editor Rick Thames lamented that his sales force is wholly unable to market Mobile News, even if it wanted to. “I’ve heard it passed around as jargon, but no one came here and gave a demonstration and said, ‘this is something you’ve got.’”

Stephen Buckley, Managing Editor at the St. Petersburg Times, recalled that there was “a broad-brush presentation that included bits and pieces about Mobile News, AP Exchange initiatives, and a couple of other things. There was no talk that I remember about selling ads. And if there was, it was very perfunctory.”

Then there is the macro matter of the mobile market itself, where consumption is skyrocketing but advertising struggles to keep pace.25 “It’s really hard to sell ads on iPhone applications right now,” Walter Hussman, CEO of Wehco Media, Inc. and Publisher of the Arkansas Democrat-Gazette, Chattanooga Times Free Press, and Texarkana Gazette, said. “Maybe someday there will be more advertising, and I hope there is. But right now there isn’t much.”26

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24 In Bangor, Maine, the Daily News has not yet organized a mobile approach. In Fayetteville, The Observer’s mobile strategy consists of a one-man army designing the site – m.fayobserver.com – in his basement, literally.

25 See http://blogs.forrester.com/shar_vanboskirk/10-03-03-mobile_really_big_deal. See also http://online.wsj.com/article/SB10001424052702303338304575156073394630854.html. “The mobile-ad market, despite much hype, has been slow to live up to expectations. Spending on mobile ads in the U.S. reached just $416 million in 2009—up from $320 million in 2008—according to market-research firm eMarketer.”

26 Hussman’s doubts about the mobile market echo concerns he has about advertising across the entire digital space. “Take ads on the Internet. You go out and sell them at six dollars a thousand (CPM rate). You take a
“It really surprised me,” Kennedy admitted. “I thought that two years into it, we’d be into that stage. But the local market for mobile isn’t there….The locals have to become better equipped to sell local ads, period. And then they have to make that mindset adjustment to be selling it to an aggregated product.”

In the interim, as local members endure a quarter-to-quarter fight for air and the mobile market waits to fully boom, the AP has had no choice but to retrench and wait for the climate to warm. “We’ve settled on trying to do the national ads as best we can for now,” Kennedy said. “We have three people on a team dedicated to selling Mobile News. We’re probably going to have a pretty healthy advertising group within a year or two based on this product.”

Hussman’s confusion lies not with what the application is, but with the worrisome precedent AP sets for the members of the cooperative who have grown accustomed to buying into an exclusive business-to-business arrangement.

“I thought that actually put the AP in the unusual position of being a retailer of news, whereas they’ve always maintained that they’re a wholesaler of news,” Hussman said. “My question at the time was, ‘does this change the relationship? Are you going to start being a retailer of news?’ And the answer was N-O. No. So I don’t know what that means.”

For AP, the challenge is establishing a new framework that engenders a more direct connection with the changing news audience by collaborating with constituents on products that can be commercialized, then monetized. It vehemently defends that this does not entail an overhaul of the cooperative system. “The idea of going forward with our affiliates is the business model moving forward,” Kennedy said.

high school football game that you shoot video on, and you get 3,000 people to watch it. That sounds like a lot of people to watch a high school football video. Well, you get 18 dollars of revenue.”
Mobile News allowed AP to wade into the waters of change, or as Kennedy put it, “to get out there on a new platform.” Now, Gateway takes a bolder plunge...and carries with it incumbent pressure to advance AP’s digital strategy beyond an experimental laboratory and across a threshold of demonstrated, substantial revenue production.

**Opening up a Gateway to the Portable, Digital Frontier**

On February 26, 2010 in Denver, Curley stood before the Colorado Press Association and introduced Gateway, the platform through which AP aspires to lead both the cooperative and members into the new digital space by empowering them to “deliver the right content to the right people at the right time.”

Or, as Kennedy put it, “Gateway is going to be the mechanism for us to provide our content and member content to people who want to exploit it.”

Ideally, Gateway fills out the remaining quadrant of Kennedy’s “Web 3.0 Business Model” matrix, offering AP and the industry as a whole a rare opportunity to redeem their past mistakes by delighting customers with convenience and customization far surpassing search.

“Now we’re going into a different stage with different platforms and different ways to reach the consumers,” Kennedy said. “There will be less need to search than there is to make a smart choice about what you want to get.”

The disintermediation of search as the primary vehicle for news consumption is predicated on a fundamental assumption: that content, if dynamically packaged to capture user preferences, will command a price tag. AP envisions the Registry providing detailed

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usage metrics, with Gateway then delivering sharp, customized products built around that data and tailored to particular devices. The result, completing the matrix, would be atomized content’s migration from free to paid.

This runs contrary to PEW’s 2010 State of the News Media report, which indicates that 82 percent of online readers would abandon their favorite news site if it began charging. However, Kennedy is quick to distinguish simply charging for online content from creating a set of experiences so targeted, so convenient, and thus so desirable, that they inspire consumer demand supported by revenue.

“The technology isn’t in control,” he said. “People are making smart choices about what they want to get, and the content providers are responding to those choices with real product development that has real money behind it. We’re probably going to charge less for those services than what it costs for a newspaper subscription today. But we’re going to charge for it. And we’re going to hope that people will find value in it. I’m convinced they will.”

Before it is bundled for consumers, content freely dispersed across the Internet must first be lassoed, tucked behind pay walls or otherwise shielded from search crawlers. Both the AP and its members have witnessed the commoditization of their content and dilution of their brands by impulsively feeding the web without protecting the inherent value in their

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28 See [http://www.pewinternet.org/Reports/2010/The-economics-of-online-news.aspx?r=1>]. See also Kramer, Staci D. “Pew: Online News Users Don’t Want To Pay – Or Look At Ads.” PaidContent.org. 15 March 2010 <http://paidcontent.org/article/419-pew-online-news-users-dont-want-to-pay-or-look-at-ads/>. 29 See also Mutter, Alan. “Only 2.4% subscribe at newspaper pay sites.” Reflections of a Newsosaur. 11 Jan. 2010 <http://newsosaur.blogspot.com/2010/01/only-24-subscribe-at-newspaper-pay.html>. According to a ITZ/Belden study, “a puny 2.4% of print subscribers is the average number of people paying for online content at the handful of daily newspapers that have been bold enough to erect pay walls.” 30 See also Saba, Jennifer. “Journalism Online: The Answer to the Paid-Content Question?” EditorandPublisher.com. 24 June 2009. “According to an All Things Digital Conference survey conducted by Penn, Schoen & Berland Associates, 92% of respondents said they would be willing to pay something for online news.”
trademarks. AP currently shoots out 500 to 600 stories online each day, with only limited remuneration from distribution deals with online search portals to show for it.

Some newspapers have begun the transition to online pay models, first *The Wall Street Journal*, and now *The New York Times*, which will introduce a metered system by 2011. If others join the movement en masse, with the AP sending a strong national message by dramatically reducing the volume of content it shovels to the Internet, then Kennedy can envision a time in which the content creators regain control from search engines and lift the curtain on a new act for journalism.

AP’s first such effort within Gateway targets the construction of digital applications “for several new devices that have been introduced or announced in recent weeks, including the Apple iPad.” The ultimate goal: to create platforms and products that the cooperative and its members can package to end users, often collectively, in a bundle surprising and delightful enough to induce payment. The application becomes a revenue center to be split between the two parties. AP harvests multiple streams: money from members who enlist AP to customize applications for them, as well as users who pay for AP platforms and content and advertisers who link their brands with them. Constituents can then charge consumers

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32 Kennedy offers the following example of how the online search experience could change. “Somebody who’s in the oil and gas industry and is a subscriber to the *Houston Chronicle* signs up for an AP feed on the oil and gas industry...can’t find it, can’t put ‘oil and gas’ into a search box and get anything close to what it is,” he explained. “It can give you ‘the oil rig blew up’ story. But it can’t give you the other 50 stories that were on the oil and gas feed this morning because there were behind a pay wall or they’re on another product that’s not exposed to web search. Then there’s a whole body of content, hundreds of stories by category and by entity, that is differentiated to different products. That’s where we’re headed.”
33 “AP CEO Tom Curley remarks to the Colorado Press Association,” *supra* note 27.
directly and/or sell advertising as part of a revenue share against the content they offer through their platform.\textsuperscript{34}

As with the News Registry and Mobile News, AP’s most formidable challenge likely will not lay in the technology itself – iPad application development is well underway – but in enticing its members to take the journey with it.

“You start at speech level with Curley,” Kennedy said. “Then, as we go through 2010 and begin to implement this stuff, we get out into the field and we start going back to the constituents, basically door-to-door, and selling the story. The bureau chiefs will go back out and have state meetings. They’ll have individual meetings. Then at the macro level, we’ll be out there talking about the same stuff and telling the business story.”

The pitch must address several vital issues. Principally, for news organizations already “stretched to the gills”\textsuperscript{35}, why should Gateway products arrest their attention from the daily challenges of survival?

“I very much admire and appreciate the ambition and the thoughtfulness behind [AP’s] initiatives,” Buckley said. “I’m just not sure if news organizations with so many other initiatives will have the time or energy to really focus on these things. That doesn’t necessarily speak to their value, but it does speak to the challenges AP faces around getting people to pay attention at a time when their attention is already very, very scattered.”

Persuading members to lend their ears only scratches the surface. Deeper connection hinges on selling members on, as Kennedy harps, “the ultimate shift in the business model from a cooperative that was built around cost containment to a cooperative that’s built around

\textsuperscript{34}“We’ll have different ways of charging for things,” Kennedy said. “We may take a chunk out [from members] to provide the Gateway. Or we might produce an iPad application and [ask them] to pay to be a part of it as an advertising revenue share. I think the iPad application is going to be a subscription for the user to pay.”

Not an easy sale, considering AP’s limited pedigree as a revenue engine. “I don’t think it’s going to be a significant revenue partner for us,” Hussman said. “They can be some supplemental revenue, but we look at it as really minor.”

“From what I know, it’s a major challenge for them to come up with a model that they can take to us and say, ‘we can almost guarantee that this will be a revenue stream for you guys,’” Bangor (ME) Daily News Editor Dowd said.

Others share a more hopeful, even optimistic outlook on AP’s prospective growth into a legitimate new revenue channel.

“We do see opportunity,” Rust said. “Working across the industry, there is a lot of potential in digital products, and the more we can work together, they more value we can extract for originators of content. In this path, we think that AP is the key entity that can tie together the industry.”

No one is building their business model around the AP just yet, though, as returning revenue to members has never been an integral part of AP’s value proposition. “I never thought about them that way,” Broadwell said.

Then, there are smoldering competitive tensions that must be allayed. Harkening back to concerns voiced by state news-sharing organizations (see Chapter 2: “Sharing to Survive: OHNO and Emerging Internal Threats to AP’s Core Foundations”), there exists an underlying suspicion that AP is marketing new products to cater them to other buyers in order to build additional moneymaking pipelines for itself.36

36 Kennedy, Jim. “Follow-Ups.” Message to Jed Williams. E-mail. 25 Feb. 2010. AP’s business partners now include diverse sources beyond newspapers. According to its Vice President and Director of Strategic Planning, domestic print revenue accounts for 26 percent of AP’s total income, down from 50 percent in the mid-1980s. International subscriptions total 21 percent of revenue, domestic broadcast 19, and digital licensing 17.
“Very often, it feels like I’m meeting a competitor,” Thames said. “Some of these things that AP is building don’t feel like they’re actually helping me as much as they may be providing AP with a new revenue stream.”

“They often remind me that most of their revenue doesn’t come from newspapers anymore; it comes from [other] businesses,” Charlotte Observer Managing Editor Cheryl Carpenter said. “So I’m always reminded of where we are on their pecking order.”

In some corners, Gateway has been greeted with the same competitive consternation conferred on Mobile News – that if members permit AP to engineer the portable platforms for their content to be aggregated, then willingly funnel that content through its central hub, might they be cannibalizing their own brands? Rather than positioning themselves to capitalize on new consumption trends, could they instead be undercutting their ability to build their own distinct platforms, thereby pushing away the customers they covet? Then again, Hussman hypothesizes that major metros with the greatest competitive anxiety may not be AP’s target audience anyway.

“I think the AP looked at this and said, ‘if the iPad really gets to be popular, how many of the newspapers – especially the smaller newspapers – are going to have a specific application written for the iPad and spend thousands of dollars to do that? Maybe we can write an application and go to these papers and say, ‘here’s an application that AP has written for you where you can put your news on there, we’ll put AP’s news on there, and we’ll give you a share of the revenue.’’”

For many, the thought of consolidating their mobile strategy through a platform hosted by a single entity could be attractive if it increases efficiencies within their news operations.
“It’s a leverage game on the technology side, Christian Hendricks, Vice President of Interactive Media at The McClatchy Company, said. “Anyone who can provide tools that eliminate the redundancy of building it over and over and over again – that’s a win.”

Finally, beyond questions of cannibalization and competition, Hussman again invokes the larger issue of the impact of AP taking its own content directly to end-users, as it has through Mobile News, on the cooperative’s fundamental business-to-business template. Tash, installed as a Board member in 2009, confirms that the AP’s standard b-to-b model could evolve, but not into the direct b-to-c retailer that Hussman suspects. Instead, it could transition from “vendor” to “agent,” serving as an “umbrella for the members in developing a news website…where we all aggregate our work to achieve a scale in news that would be in the interest of both the AP and the individual members.”

Building a model of such scale necessary to generate substantial income continues to inhibit the portable realm.

“We know that the mobile space is going to take a while to develop at the national and at the local level,” Hendricks said. “Last year you had a lot of funny money in there with people experimenting with it. This year they’re saying, ‘wait a minute, what do we get for that?’”

Putting It All Together

Kennedy knows that to complete the matrix, and for the opportunities of the “Splinternet” to be seized, AP must offer a compelling answer to the “what do we get for that?” question that members will certainly ask about Gateway.
The challenges are multiple and complex: commanding their attention long enough to share AP’s vision for salvation, telling a captivating innovation story that animates member embrace, and then reimagining itself as an essential revenue partner.

“Demonstrating it is the key,” Kennedy said. “We have to demonstrate that these things have value. We’re going to have to demonstrate that this stuff works and that it’s generating new revenue and a new connection to the audience. 2010 needs to be the business story.”

As Dowd said, “It really has to be a ‘show me’ kind of conversation.”
CHAPTER 5

Conclusion

AP’s enduring mission as “the essential global news network” has been to bring news from around the nation and the world to local news organizations’ front doorsteps, a fulcrum of its cooperative structure in which it serves as a content creator, distributor, and vendor of original and re-purposed member content. As newspapers, and traditional media organizations across every medium, such as the two news organizations sampled here, are ravaged by the gales of “creative destruction,” they must make hard decisions about who they are and how they re-position to survive. Almost all have tightened budgets, shedding costs and shrinking news hole to preserve resources. Concurrently, many have begun an aggressive migration to a more localized brand that differentiates them from current and potential competition. As this transformation occurs, the AP’s role grows increasingly murky. With its presence in dailies on the decline, AP must ask itself, “what is the essential value it can still provide that satisfies the needs of its transitioning core”?, and “how can it re-conceptualize its identity to connect to the new news mission of its longtime members?”

Gateway aims to re-imagine AP’s business model, providing its members access to local content applications while also platforming AP’s original content by its global network of more than 3,000 reporters and editors in 243 bureaus. At a time of disruptive change, it positions the company as a direct revenue producer for its members, a departure from its heritage. Enacting this change requires the evolution of its traditional cooperative structure
into an arrangement that still serves its members, but seeks to reinvent the wire for a digital age.

The very essence of the economic principle of “creative destruction” articulates that existing businesses must reinvent themselves in order to survive in the new environment.1 AP feels it has taken a major step in doing so with Gateway. However, its ability to blaze new trails, both for its own vitality and the welfare of its industry, is challenged by the unique dynamics of the cooperative structure and the fixed mentality of those who comprise it. Owned by newspapers, with 18 of its 19 Board seats occupied by print executives, the AP answers to a core that – shaken by industry-wide “creative destruction” – labors to envision its own future. As the AP attempts to innovate, undoing long-held precepts of how a newspaper cooperative should function as it does, its initiative is greeted by confusion, dissonance…even fear.

Notions of AP re-shuffling the Board, or more radically, striking out on its own as an independent enterprise, must be reconciled against the critical role that newspapers still play in funding its $500 million worldwide journalistic operation2 – more than twice the newsroom budget of The New York Times.3 This financial backbone, coupled with the content contributions of partners across the globe, enables the AP to offer a value proposition

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as “the essential global news network.” Should that newspaper nourishment dissipate, could AP find the revenue to sustain such a vast a news-gathering force?⁴

The AP finds itself ensnared in a “can’t live with them, can’t live without them” dilemma. Its ambitions stretch beyond the boundaries of its traditional partners, yet its business and content engines are still largely driven by the cooperative model. AP is trying to solve this puzzle by re-imagining its market position as an innovator and revenue creator. However, it is too early to determine if its members, whose financial support is crucial to sustaining AP, see this reinvention as a salvation for them. If the answer is “no,” then AP must return to the drawing board yet again, with no guarantees that it can invent itself quickly enough and substantially enough to thrive – or even survive – long term in the 21st century.

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⁴ Kennedy, Jim. Vice President and Director of Strategic Planning, Associated Press. Personal Interview. 15 Feb. 2010. Kennedy states that if the AP were to scrap its business-to-business framework and look to compete “in the digital space as a [retail] brand by itself, you’d be lucky to have a $200 million business.” See “Consolidated Financial Statements: The Associated Press and Subsidiaries, Years ended December 31, 2008 and 2007.” <http://www.ap.org/annual09/media/APFinancials08.pdf>. By comparison, in 2008, AP produced $748 million in revenue. Kennedy estimates that the number will fall to around $650 million in 2009 and 2010, though that financial information is yet to be released.
APPENDICES

Appendix A: Fayetteville’s Associated Press Usage Patterns, 1985-2008

The Fayetteville Observer, a mid-sized daily without the financial resources or local staff breadth of a larger metro like Charlotte, depended heavily on the AP to fill out its A Section over the course of the sample.306 In recent periods, however, the trend has evinced signs of change. Though the AP remains a staple of The Observer’s A Section, it is less omnipresent as in the past. Still, the wire comprised the lion’s share of section content. AP pieces outnumbered stories from other wire services and locally-reported material by a wide margin in all six sample periods. Of the 665 coded stories, 495 – or 74 percent – were accessed from the AP.307 The next closest category was locally-reported material, with a total of 102, or 15 percent.308 “You go back to the AP’s strengths, which are speed, general tone of the news, voice, and also consistency of style and format,” Broadwell said. “The AP is still a foundation.”

Meanwhile, supplemental wire services were largely absent in Fayetteville. Other than 1985, when Fayetteville still subscribed to United Press International (UPI) as a second full-service wire provider, the paper made minimal use of any wire content outside of AP.309 Over the remaining five non-UPI periods, only 30 total non-AP wire stories appeared in

308 This breaks down to 13.8 AP stories per coded issue, compared to 2.8 local articles.
309 57.7 percent of Fayetteville’s supplemental wire usage, or 41 of 71 total stories, appeared in 1985.
Section A, primarily from the Los Angeles Times-Washington Post News Service. Supplementals such as The New York Times News Service and Knight Ridder barely registered. “It was probably a richer mix [of wire content] in Charlotte,” Broadwell said. “Ours was maybe more meat and potatoes. Sometimes it was as if our Los Angeles Times-Washington Post News Service was an afterthought that would only get used for features or perspective-type pullout pieces.”

*Fayetteville* leaned on the AP chiefly for national, then international news. Output in these two categories fluctuated more year-by-year than in *Charlotte* but remained Section A hallmarks. AP national news was the most prevalent story type in every single coded year, exceeding even the highest locally-generated story count by itself. International content finished second in every sample save one. Broadwell is quick to point out that with Fort Bragg, home to the 82nd Airborne Division, in its backyard, and its soldiers deployed across the globe, Fayetteville is a military community with different local and international needs. “Haiti is a local story for us,” he said. “Iraq, Afghanistan – we’ve paid a lot of attention to it on the front page. Right now we probably have 10,000 soldiers in those areas.” State news came in third, as *The Observer* looked to the North Carolina wire for a healthy percentage of its reports. Overall, *Fayetteville’s* AP usage pie segmented off as follows: 56 percent national, 36 percent international and 7 percent state.

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310 In 1990, for example, the sample turned up 107 AP stories to just 3 “other wire” entries.
311 Total national news stories varied widely from 30 to 65 annually. International wire news was slightly more consistent, with a yearly range of 21 to 39.
312 AP international stories placed third in 1985, when all AP state content was lumped into Section A instead of partitioned off into the “Local & State” section, which would be formed later.
313 This diverged from *Charlotte*, where almost all state news emanated from local reporters and bureaus, especially Section A state reports.
Even as AP maintained dominant presence within *Fayetteville’s* Section A, its relative use retreated. AP story volume peaked in 1990, dipped in 1995, stabilized until 2005 and then receded again. The 107 AP stories that *Fayetteville* printed in the 1990 sample distanced all other years by a minimum of 20 and topped *Charlotte’s* highest output by 34. By 2005, AP coverage slumped by 34 percent. The 71 AP stories published in both 2005 and 2008 were 34 percent lower than its 107-story peak in 1990. Those two periods, unsurprisingly, coincided with the two thinnest Section A’s as turbulent economic forces and limited content capabilities interlocked. *Fayetteville’s* declining Section A AP reliance breaks down as follows:

- AP use peaked at 107 stories (17.8) per issue in 1990.
- By 1990, total usage was off 25 percent, from 107 to 80 stories.
- AP volume then flatlined at 71 stories in 2005 and 2008, down 11 percent from 1990 and 34 percent from 1990.
Appendix B: Charlotte’s Associated Press Usage Patterns, 1985-2008

The Charlotte Observer, the largest daily newspaper delivering to the largest metro area in North Carolina, also utilized the AP prevalently throughout the sample, but never as singularly as Fayetteville. Content was more balanced across the AP, supplemental wires, and local reports. Of the 707 total stories coded, 45 percent were AP, 38 supplemental, and 18 percent locally-reported. Charlotte’s more even balance lay in stark contrast to Fayetteville’s intense dependence on the AP and near non-existent usage of other wires. This disparity underscores two economically-driven dynamics that differentiate the two dailies: Charlotte’s deeper editorial budget supported a larger local reporting staff, enabling more in-house content, and also afforded it access to a wider array of outside news services.

Evident in content breakdown, AP was the popular news source, but supplemental wires were both prominent and diverse. Unlike Fayetteville, which drew almost exclusively from the Los Angeles Times-Washington Post News Service, Charlotte pulled from The New York Times News Service, Bloomberg, and Knight Ridder Wire Service, and later, McClatchy-Tribune Information Services, co-owned by its parent company. Supplementals actually exceeded AP content in the first two sample periods, 1985 and 1990. By 1995, AP overtook secondary wires as the principal Section A news provider. They did not evaporate, however, maintaining a consistent 35-40 story range throughout the duration of the sample.

Because Charlotte’s Section A state news was generated exclusively in-house, the front section included only AP national and international news, at a 57 percent/43 percent

\[314\] NCPress.com, supra note 4, and Arbitron.com, supra note 5.

\[315\] This averaged out at 8.8 AP stories per coded issue, 7.4 supplemental stories, and 3.5 locally-produced stories.
split. The yearly story range in these sectors was less volatile than Fayetteville.\textsuperscript{316} This is understandable on two levels. First, the overall size of Fayetteville’s Section A showed more extreme oscillations across the coding timeline than Charlotte’s did.\textsuperscript{317} Second, Charlotte leaned less on the AP, allowing it to safely allot a designated amount of space to the cooperative while supplementing it with a balanced ration of news from other wires and local reports. Fayetteville, by contrast, tapped the AP to fill more news holes. Fluctuation could occur as a symptom of both the quantity and nature of the content that the wire sent out at any particular moment, as well as the newspaper’s time-sensitive needs.

While Charlotte historically relied far less on the AP wire for Section A news content than Fayetteville, its usage patterns demonstrated two notable, perhaps anomalous, jumps over the past decade.

- In 2000, AP inventory spiked by 30 percent to 57 stories. This increase coincided with a Presidential election year, as did a second leap in 2008, when AP presence surged by 35 percent from 54 to 73 stories, the highest tally of the sample. 2008 marked the only year in the sample that Charlotte’s AP story usage topped Fayetteville’s, 73 to 71.

\textsuperscript{316} National stories varied from 27 to 39, while international news fell on a 16-34 story continuum. These 12-and-18-story ranges paled in comparison to Fayetteville’s 35-and-18-story ranges.


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Even in election years with AP densely populating its pages, *Charlotte* continued to outdistance *Fayetteville* in supplemental use by a wide margin.\(^{318}\)

\(^{318}\) In 2000, *Charlotte’s* Section A printed 39 supplemental stories to *Fayetteville’s* 7. In 2008, the ratio was 39-to-4.
### Appendix C: Internet/”Splinternet” Platform Characteristics Chart

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<td>Screen format</td>
<td>PC-screen sized</td>
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<td>Interactive applications</td>
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<td>Measurement</td>
<td>Multiple analytics vendors</td>
<td>Still in development</td>
</tr>
<tr>
<td>Marketing process</td>
<td>Channel-centric; campaigns created start to finish</td>
<td>Relationship-centric; assets created in modules and assembled upon delivery</td>
</tr>
<tr>
<td>Required staff</td>
<td>Media buyers, data analysts</td>
<td>Engineers, developers</td>
</tr>
</tbody>
</table>

Source: Forrester Research, Inc.
Web 2.0 Business Model

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