Kellogg School of Management

KEL536

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Northlands Ledger (A):
Management Style, Strategy, and Performance

In January 2008 when Vincent Potter arrived to take over the publisher's job at the *Northlands Ledger*, he felt that employees treated him with subservient deference. His office was palatial, complete with conference room, bathroom, a small kitchen, a bar, and a private study. His company car was a Mercedes. While his parking place was well lit, well labeled, and one of two in the heated garage adjacent to the front door, some employees had to walk as far as 400 yards to this door. In his first meeting with his direct reports he felt as if vassals were paying liege to their new lord. He came to learn that this hierarchical style was prevalent throughout the paper. While Potter was none too comfortable with this, he was less comfortable with the paper's strategy and performance.

The previous publisher, John Allison, insisted the paper make very few promises to advertisers and readers, but these promises had to be strictly kept. Advertisers should expect quality in their print or electronic ads (correct dates, phone numbers, addresses, art, and coloration) and accurate billing. It was up to the advertiser to specify these things. Allison insisted the paper was not an advertising agency—it aimed for excellent execution, and did not give advice to advertisers. The same standards were held for classified ads. The *Ledger*'s mission was to educate local readers with full, accurate coverage of national and international news. Allison's managing editor willingly complied with this policy. Local news was treated as page-two material and a good training ground for junior and mediocre reporters. Customer service for readers consisted of delivery of the paper before 6:30 a.m. (7:30 a.m. on Sundays) on the front sidewalk. Billing was performed monthly through the carrier.

During the past two years, home-delivered circulation had declined 1.5 to 2 percent a year for both the daily and Sunday paper. Newsstand sales had remained constant. Classified advertising had declined about 7 percent a year over the past two years. Commercial advertising exhibited an overall decline of 3 percent a year—but when looked at by account there was a high degree of variance (see **Exhibits 1** and **2**). Strangely enough, the population of the *Ledger*'s market was growing. This population resided in one central city of 180,000 and a surrounding suburban and rural area of 80,000. The central city of Northlands housed the state university, some manufacturing, and substantial white-collar industry—insurance, research, and technology. The university was undergoing a major expansion, a large insurer was half way through relocating its headquarters to Northlands, and several new research and development firms were growing rapidly. The original manufacturing base, however, gave greater Northlands a disjointed quality—blue-collar workers on the older, east side of town and white-collar professionals everywhere else, topped off by farming communities in the surrounding country side. Northlands was also a destination city. Faculty at the university quipped that part of their salary was paid in

Northlands lake water. Many graduates attempted to establish careers there rather than leave. In short, despite its climate, Northlands and its surrounding area were growing at about 2 percent a year. The paper's decline in a growing market prompted senior executives at Paulus Press, the chain that owned the paper, to insist that Allison retire at the customary age of sixty-five, even though he had wanted to continue working.

Organization of the *Ledger*

In his first two weeks as publisher, Potter conducted a number of interviews with key advertisers, managers, and other personnel throughout the paper. He discovered the paper was organized by function. First was the newsroom, presided over by the managing editor. People in the newsroom felt that preserving their journalistic integrity demanded that they isolate themselves from the rest of the paper. Next was operations. This area, presided over by the vice president of operations, included the printing press and mailroom, where papers were assembled. Next was circulation. Under the vice president of circulation were managers of Sunday, daily, and retail delivery; subscription sales and retail sales; and classified sales and the complaint department. Next there was the advertising sales department. The vice president of advertising sales had four direct reports. Two managed different areas of the city, one the suburbs and the other rural accounts. The controller (who also had dotted-line responsibilities to the CFO of the Paulus chain) also managed the IT department, which was responsible for the paper's website. This department had an adequate staff to keep the computers running, maintained the website, and supplied the controller with all of the cost data he needed, but not much else. Finally there were the personnel and public relations directors. Each of these had small staffs.

"Problem Solving" at the *Ledger*

On his third day on the job Potter visited the supervisor of the complaint department who was openly shocked to see him. Allison had never visited this department. Potter discovered that complaints (e.g., for missing, late, soaked, or frozen papers) were received, transferred to the proper district manager, and then purged from the information system in the same day. Complaints for inaccurate classified ads were transferred to the press supervisor in charge of that section of the paper. There were twenty-seven codes for subscription cancellations, (e.g., moved, no time to read, and deceased). He noticed one code occurred more often than all others—"did not order in the first place." This reason accounted for 32 percent of all cancellations. When he asked why this code was used so frequently, he was told that punching this code allowed the customer service rep to forgive disputed billing amounts. The complaint department manager (who was backed up on this by the circulation vice president) said the "real" reason for most complaints was the press. When it ran late, papers were delivered late. The press was also responsible for errors and spoiled papers.

On his visit to the press Potter discovered the "real" problem was the newsroom, delivery in the circulation department, and classified ad sales. Press workers told him that the newsroom was chronically late and often tried to insert late-breaking stories that ruined the press schedule. Carriers were unreliable, lazy, and their district managers unionized. Order takers for classified ads were notorious for inaccuracy. As if all of this were not enough, the advertising department also held up the press and wreaked havoc on its schedule with late ads and changes in ads.

On his visit to the advertising sales department, Potter was told that the "real" problem was the inflexibility and "frankly the laziness" of some of the people in the press. Anything that caused extra work was resisted. The advertising sales vice president also partially blamed the mailroom and circulation. Key advertising customers often did not receive the paper (circulation's fault) or received it without their particular special insert because of sloppiness in the mailroom. Advertisers drew the conclusion that no one else had received their insert. Finally, the vice president thought the newsroom could cooperate a lot better with him by stopping its practice of running investigative pieces on unethical car dealers and other important advertisers.

Next Potter visited the managing editor, who did not see that the paper had any real problems. If there was a late-breaking national or international story, it was the "duty" of the press to revise its schedule. When Potter asked whether or not the decline in circulation was due to lack of local news coverage, the editor lectured him on the importance of educating the community. If people did not want to be educated, it was better they dropped the paper and entertain themselves watching Jerry Springer. One paper simply could not meet all of the community's diverse needs. The editor felt the mission of the newsroom was to print all the news that was fit to print whether or not readers wanted it—and "real" news was national and international. Covering local news was for junior reporters and local news belonged on page two. Belatedly the editor did comment that the paper's one "real" problem was the advertising sales department. These "salesmen" had so little integrity that they complained when his reporters wrote exposés of some of the unethical business practices of big advertisers. The managing editor did not think the paper should do business with such types in the first place (see **Exhibit 3** for an explanation of some of these tensions.)

Potter's last stop was the controller's office, who told Potter he was getting the appropriate amount of cost and revenue data he needed to report to headquarters, although he noticed headquarters was not too happy with some of these numbers. The numbers, of course, were not his problem. His job was to make sure headquarters got accurate numbers, and headquarters certainly thought the numbers were accurate. Potter did not visit the personnel or public relations directors because both were on vacation when he arrived. No one he interviewed mentioned them.

The *Ledger*'s Prior Leader and Culture

Potter had met Allison, the previous publisher, only a few times before, primarily at meetings of the Paulus chain's newspaper group. He remembered him as polite, but condescending. After all, Allison had been the publisher of a major paper for twenty years while Potter had been at the *Star* for only four years. It was Potter's first publishing job. Allison told a number of other Paulus editors and publishers that the *Star*'s success was due to Burton Jones, the prior publisher and protégé of Allison. Allison's official retirement occurred the day Potter arrived. Allison escorted Potter to his former office and then went down the hall to the "Publisher Emeritus" suite of offices (somewhat bigger than Potter's) that Allison had prepared for himself in anticipation of his retirement.

Allison had been named publisher of the *Ledger* in 1988. Allison had come up through the ranks after starting as a newsboy. He had worked as a reporter, sports and local news editor, and had sold classified and local business ads before becoming the sales director. Despite his time in the newsroom, Allison was clearly at home in the sales side of the newspaper business. He often traveled to accounts with his sales people to help close a sale to a major advertiser. Even at the time of his retirement, he was the key account manager of thirteen of the largest local advertisers—these accounted for 9 percent of the advertising revenue. His relationships with these advertisers were excellent and these advertisers received stellar service from the paper.

Allison's management philosophy was "winner takes all." He indulged his "stars and friends," of whom the managing editor was one, but was extremely cheap with everyone else. He liked to been seen as a beneficent father figure. Those who got along with him, either because of outstanding performance or personal chemistry, saw him as such. Others had different perceptions.

Rewards and Incentives

Allison was obsessed with costs. He grilled his vice presidents and directors constantly about their expenses. When revenues began to decline two years ago, he managed to return to Paulus a positive cash flow through cost-cutting initiatives. One incident became legend. Allison stormed into the employee cafeteria and asked which bakery made the donuts. Upon discovering it was one of the best bakeries in town, he demanded a cheaper supplier be found. One was, but the price charged to employees for donuts did not change. Functional bosses were paid a base salary. About 33 percent of raises were based on "intangibles" that Allison judged and 66 percent on meeting functional cost and efficiency goals. Managers were free to hold their subordinates responsible for other performance criteria, (e.g., quality reporting), but their own incentive system did not acknowledge any performance other than financial. The advertising sales department was the exception. Besides base pay, incentive pay (commissions that could reach 50 percent of base pay) was given for selling new business. Repeat business was expected and Allison told sales people that that was what he paid them their base salary for. The controller, under Allison's close supervision, administered financial measurements and raises.

Allison evaluated his department heads almost entirely with financial measures. But department heads had to do more than meet their financial targets to keep Allison happy. Allison was the epitome of the "micro manager." The burden of oversight and second guessing was especially painful in the advertising sales department, because Allison had been promoted from department head of this group. Any expenses over $500 had to be cleared with him. When the paper made a mistake with an advertiser, (e.g., printing the wrong phone number or wrong date for a sale), advertisers commented it was like pulling teeth to receive a refund of the cost of the ad. Allison's policy was to run another ad with a 10 percent discount. Finally, Allison strongly believed in the principle of "need to know" when it came to the dissemination of information. Information was closely guarded and released primarily through the hierarchy of command.

Personnel Policies and Practices

The *Ledger* suffered from high turnover. The worst occurred in the complaint department and the carriers. While it had a core of six customer service reps that had been there as long as anyone could remember, the other ten positions showed 180 percent turnover a year. Carriers came and went so fast no one bothered to count them; the personnel director estimated their turnover as more than 270 percent a year. The next worst was the newsroom, with 100 percent turnover of new reporters in the first two years. The managing editor thought this quite natural because many journalism graduates from the state university used the paper as a career first step. Advertising sales exhibited a similar turnover pattern to the complaint department. Half of the sales people had been there many years, while the newer hires came and went. People in the press tended to stay, as did the district managers (who were unionized) in circulation. Personnel, public relations, and the controller's departments had almost no turnover. All of the senior level managers (Allison's direct reports) had been at the paper for more than fifteen years.

Upon returning from vacation, the personnel director told Potter that he conducted a monthly employee orientation session for that month's new hires. It lasted a half day. Training took place on the job and was the responsibility of the manager or first-line supervisor. Salaries were at market for the area. The personnel director remarked that much of his job involved maintaining morale. To do this he consistently published notifications of birthdays and promotions. Union grievances were a rarity because the circulation vice president and his managers put very little pressure on the district managers.

Potter clearly had a problem paper on his hands. The day before Thanksgiving he watched from his window the season's first snow fall and wondered why he had accepted the transfer from the *Star*. He remembered some of the customer-focused practices at the *Star* that he used to take for granted. The problem was that, even though he could order his *Ledger* managers to duplicate them, he felt half would be inappropriate and all would be carried out halfheartedly. Still, what had happened at the *Star* was a nice memory.

Potter's Dream: The *Sun Belt City Star's* Performance

Customers of the *Star* recognized the paper's constant efforts to improve its quality. First the paper came up with numerous ways to listen to its readers, such as paper and online surveys on features, comics, and the news. Respondents received an analysis of the results and what the paper planned to change. The paper also paid panels of readers for suggestions on content and the paper's service, and for keeping a journal of what they read. Each month the paper called a sample of people who had been written about to check on the accuracy of what was published. The paper also paid for annual surveys on reader interests and information relevant to advertisers, such as readers' intent to purchase and what they thought of various malls in the area. The paper also conducted frequent sessions with advertisers on what they thought of the paper's performance.

The *Star* was rated as one of the best customer-service businesses in Sun Belt City. Service surveys (conducted by an external survey research firm) monitored reader satisfaction with the arrival time of the paper, its condition (dry, not torn, in the bag), and its placement (not on the roof). Surveys also tracked the appearance, ease of use, and information value of the paper's website. Readers could communicate with the paper any way they chose—mail, telephone, or online. Starting and stopping subscription service was done the same day and was virtually error free. Even place of delivery could be specified. Because many readers resided in Sun Belt City only in the cold months, the *Star* provided them with a "sun package" that started the paper the day they arrived and stopped it the day they returned north. These "snow birds" could also receive the *Star* in print or on line while up north. Complaints for late or no delivery were resolved by a visit from the district manager to the home. The *Star* felt that because many readers were elderly, it was better to have the circulation district managers personally deliver the paper—and ring the doorbell—rather than simply toss a replacement in the driveway. People received nice gifts of coupons (for businesses close to their home) on the anniversary of their subscription. A history of three or four complaints also resulted in 50 percent discounts for classified ads or a 10 percent discount on the subscription, if no ads were placed.

Advertisers liked the *Star*. It was a source for all kinds of printed products: brochures, banners, point-of-sale material. The sales representatives advised advertisers where and when to place their ad, whether it was in the paper, in one of its zoned editions, on television, on the paper's website, through a customer flyer delivered to homes with the paper, or some combination of these options. The paper was also equipped to build websites for advertisers, a service valued by many small businesses in the area. The paper provided advertisers data from its customer market surveys as well as data from national data sources to help them make decisions such as when to conduct a sale, or in the case of several national retail chains, where to locate a new store. The *Star* had no qualms about being a market research/advertising agency for its clients.

The *Star* was more than a paper. It provided an online auto and real estate listing service. Local auto dealers heavily supported the first because it resulted in quicker sales and attracted many sales that otherwise would have been done privately. Local real estate agents used the *Star* rather than their national listing because the *Star* contained useful local information, such as the school district's standardized performance scores, tax rates, and actual distance with maps to churches, schools, shopping, and the central city. The *Star* collected information from the community and readers and published books featuring local recipes, the exploits of World War II veterans, and crochet patterns. The last publication started with a contest: retirees sent in their favorite pattern and the paper published them along with a personal profile of the creator. The book was so successful that it was eventually sold nationally and ran four editions.

Finally, the *Star* maintained a high profile in the community. It sponsored and promoted tourism, local sports, community development, education, and local charities. It was in the forefront of historic preservation efforts and environmental quality. *Star* executives sat on local community boards and could be counted on to assist community groups in promoting their efforts.

Potter was awakened by the thud of the plow in the parking lot.

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Exhibit 1A: *Northlands Ledger*, Key Account Revenues—Automobile Dealers

In 2008 (pre-recession) the auto dealer segment contributed 4.8 percent of the paper's advertising revenue.

Customer Acquisition Costs

The cost was $2,000 in salaries for sales and sales support time, and $8,000 in discounting for an average total of $10,000 per account.

Revenue

Annual average revenue of 11 accounts was $113,600 (excluding 2009).

Classification of Accounts

- Large Accounts—over $100,000 for five years (n=4)
- Medium Accounts—from 40,000 to 100,000 for five years (n=6)
- Small Accounts—less than 40,000 for five years (n=6)

One account produced $245,155 in five years.

Exhibit 1B: Revenue of Five Accounts (in U.S. dollars)

	2005	2006	2007	2008	2009
Red's	174,027	99,005	38,100	144,700	94,000
Alex's	59,670	71,391	53,600	58,500	15,000
Cox's	108,966	105,779	16,600	29,400	24,000
Conley's	102,832	46,201	31,800	64,100	15,100
Tod's	108,662	77,109	48,600	73,000	110,200

Exhibit 2A: *Northlands Ledger*, Key Account Revenues—Retail Furniture Stores

In 2008 (pre-recession) the retail furniture segment contributed 10 percent of the revenue of the total retail sector and 4 percent of the paper's total advertising revenue.

Customer Acquisition Cost:

The cost was $2,000 in salaries for sales and sales support time, and $8,000 in discounting for an average total of $10,000 per account.

Revenue

Annual average revenue per account was $85,000 (excluding 2009).

Classification of Accounts

- Large Accounts—over $1,000,000 for five years (n=16)
- Medium Accounts—from $500,000 to 1,000,000 for five years (n= 2)
- Small Accounts—from $100,000 to 500,000 for five years (n=10)

One account produced $2,958,900 in five years.

Reasons for Keeping Customers Happy

Average profit per account was $15,000 in the first year and $25,000 in subsequent years.

Exhibit 2B: Revenue of Five Accounts (in U.S. dollars)

	2004	2005	2006	2007	2008	2009
Patio	0	32,000	4,700	101,000	47,000	22,000
Roberts	308,900	587,900	669,600	215,100	553,400	0
Stephens	94,700	105,200	80,000	37,200	73,600	11,700
Car's Sofa	0	79,900	145,000	92,800	10,000	0
Chair House	147,900	161,700	183,000	189,700	192,700	29,500

Exhibit 3: The Triple Tension of Business, Creative, and Journalistic Aspects of a Media Company

A media company mediates between those wishing to spread a message (the advertiser) for purposes of making a sale and readers/viewers wishing to receive "content" (raw data—C-SPAN; organized data—CNN; synthesized knowledge—McNeil Lehrer; or unique and valuable insight—Burns's *The Civil War*) for purposes of education, entertainment, self-improvement, or information. A media company stays in business only in so far as it is able to create value for its readers/viewers and advertisers. It participates simultaneously in the business-to-business and consumer sectors. Its challenge is to provide content to consumers who in many cases could care less about the advertisers' selling message, while serving and being paid by advertisers who are interested in selling and only interested secondarily, if at all, in consumers' interest in the content. Media companies walk this tight rope. They are strongly influenced because of the journalistic background of their creative employees to be socially responsible and to "print all the news that's fit to print." What is "fit to print" may not sell to consumers, may find no advertising sponsor, and may infuriate the advertiser, the consumer, or both. The organizational structure of a typical newspaper reflects this tension. The publisher of a newspaper is oriented to the advertising side of the business while the editor advocates for the reader/viewer. The tension may be destructive or creative, depending on how well the unit is led and how well the two sides realize they are in an essentially interdependent situation. Both constituencies have legitimate needs.

There is a natural tension between the content or creative and business aspects of a paper. The publisher is responsible for revenue and profit and usually has a selling background, having started in subscription or advertising sales. In contrast, most editors have a journalistic background and began their careers as reporters and/or writers. Editors always want more writers, reporters, and equipment (e.g., sky-cam cameras), but they worry that publishers will see the editorial department as a cost center and forget that it is content that brings readers to see the advertisers message. Publishers sometimes argue that consumers buy the paper primarily to read the ads and look for coupons. Lastly, publishers—wanting to increase circulation and make the space more valuable to advertisers—realize that sex, crime, and disasters do sell. Occasionally they put some pressure on editors to ease up on "truthful" coverage of less than ethical business customers (such as used-car dealers) and to add content that editors deem inappropriate.

Source: Robert Dewar