

# Jeff Bezos could be Wrong

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Amazon founder and Chief Executive, Jeff Bezos, has given America's ailing newspaper industry cause for cheer. In a move that still baffles most market watchers, [Bezos as Bezos, and not through Amazon, has bought The Washington Post](#) for \$250 million, or 17 times its earnings before interest, taxes, depreciation and amortization (EBITDA) according to market estimates. That kind of premium makes little sense even for a profitable venture, which The Post is not. The newspaper division of The Washington Post Co., which notched up losses of \$21 million in 2010 and \$54 million in 2012, has reportedly already lost \$49 million in the first six months of this year. The question, therefore, on everybody's keyboard is "Why did he do it?" Many words have been typed, but little that is convincing or persuasive has emerged in answer to that question.

[Bezos](#) is a rich man, and the Post purchase possibly takes a very small fraction of his net worth. So one explanation that can never perhaps be proved is that he did it to satisfy a whim. What better toy than a newspaper located in the capital city of the world's most powerful nation, which even if in terminal business decline can boast many Pulitzers besides great reporting breaks like the Watergate scandal. Even if such considerations influenced the buy, Bezos is unlikely to want to keep funding a bleeding paper to satisfy his whim. He must believe that he can turn the paper around and stop losses even if not generate large surpluses. The question is, how?

The Washington Post epitomises what is wrong with the newspaper industry across the developed world, but especially in the United States. Its [revenues have been falling](#) as advertisers who partly took to television are now migrating rapidly to the Internet. The Post's effort to establish an independent online presence, which began in the 1990s under managing editor Robert Kaiser, was not vigorous and sustained enough till quite recently, when dwindling revenues were resulting in a cut in newsroom strength and the exit of some of the best writers precisely when the paper had to reinvent itself. Instead of finding a new image, The Washington Post, which was never as national as the New York Times, chose to trim its national and international coverage and focus on Washington, which though the capital city made the newspaper a metropolitan one. This indifference was compounded by the availability of large profits from Kaplan, the company's for-profit education arm engaged initially in the training-for-tests business and then in providing full-fledged vocational courses to low income students who could not get into or afford college.

These difficulties were exacerbated by scandals at the Post, involving allegations that Katherine Weymouth, who took over as CEO in early 2008, and Marcus Brauchli, whom she hired as editor soon thereafter, ran "salons" where for a sponsorship price reportedly varying from \$25,000 to \$250,000 those interested could buy access to politicians and influential journalists. Then came the revelation that Kaplan was pushing students into taking government loans to fund their tuition, even though it was clear that they are unlikely to be able to clear those debts when due. Soon the Kaplan surplus that fed the Post also shrank.

It is this company that Bezos has acquired. Bezos is, of course, a successful Internet billionaire who, through retailing site [Amazon](#), put to work an idea whose time had come, but to many seemed extremely difficult to operationalize. Tech savvy, managerially astute and with the required killer instinct, Bezos has made Amazon more than an Internet retailer,

having now entered areas such as digital distribution of books, music and movies, with specialist devices like the Kindle and innovative streaming technologies, and a major outsourced web services company. In this process Bezos has adopted a strategy that is more open, with the Kindle platform, for example, made available for personal computers and other devices such as the iPad. The result has been devastation in sections of the brick-and-mortar based distribution industry and an ability to fend off competitive challenges from the likes of Apple in Amazon's areas of interest. He is now trying to challenge conventional publishing by creating an imprint that would allow authors to directly publish and connect with readers.

This track record and the evidence that Bezos believes in investing for the long haul, without looking for profits in the short run, has made many suggest that he would bring to The Washington Post what it needs most: a turnaround strategy that involves embracing the Internet. Bezos himself has been vague: "There is no map, and charting a path ahead will not be easy," he wrote in the newspaper he now owns. "We will need to invent, which means we will need to experiment." More comforting for the Post's staff must have been his statement that, "The paper's duty will remain to its readers and not to the private interests of its owners." Bezos seems to be intent on restoring glory to The Washington Post and doing it in a way that recognises that the news business is not just business.

The task is not easy. There are three challenges that The Post and its management need to tackle. One, in which Jeff Bezos may possibly excel, is to proactively adjust to the digital era by strengthening and innovatively advancing distribution of news through the digital and social media. This is an area in which Bezos through Amazon has much technological advantage, experience and market power. But exploiting that may require a close relationship between Amazon and The Post, making the formal separation of Bezos-owned Amazon and the Bezos-owned Post less relevant. However held, the two are likely to function as sister companies. That may not be good for editorial.

The second is to reverse the decline in editorial quality seen at The Washington Post and find ways of remaining socially relevant while catering to the news needs and reading habits of a new, digitally savvy generation. The problem here is that neither Bezos nor Amazon has been in the news and editorial content generation business. Bezos can in this area only count on his demonstrated skill to identify the best talent and back them with adequate resources. But finding, hiring and keeping such talent, and providing them with the appropriate environment, is not easy, and it is not clear whether he will be successful.

Finally, the third challenge is to return The Post to profit. That would require finding an adequately large and sustainable stream of revenues for The Post, so that it does not feed off the income that Amazon delivers to Bezos. There are two obvious revenue streams The Post could look to: advertising and a paying readership. Being an online retailer adept at finding better and cost effective ways to reach consumers the products they want and are willing to pay for, Bezos would be more comfortable exploiting the willingness of readers to pay for the news they 'consume'. Unfortunately, the way the news business has evolved, this is not the way the business functions. In the news business the consumer is the 'product', attracted to the reading medium and then sold as a group to advertisers who pay to access them. Advertisers deliver the revenues that more than cover the shortfall in newspaper price relative to newspaper editorial and production costs. The crisis in the news business has been the result of a decline in print readership, which is shifting to online sources, and a resulting, even sharper, decline in advertising revenues.

Efforts have been underway to change the economics of the news business by getting readers to pay for online access with paywalls in place, but thus far success has been limited.

All is not lost, however. Advertisers still need access to potential consumers and according to Price Waterhouse Cooper's Internet Advertising Revenue Report online advertising spending has risen from \$7.3 billion in 2003 to \$36.6 billion in 2012 at a compound annual rate of close to 20 per cent per annum. Bezos must be thinking of ways of tapping into this growing Internet advertising pie by attracting readers to The Post's online edition and then delivering them to interested advertisers.

There are, however, some disadvantages he faces here. The Internet Advertising market is extremely concentrated with Google alone accounting for 41 per cent of revenues according to eMarketer and Google, Yahoo, Microsoft, Facebook and AOL accounting for nearly two-thirds. The demands made by advertisers in terms of the ability of the medium to filter targets to suit advertiser needs are substantial. The result is that Search sites like Google, which can match revealed search interests with advertising interest and even charge only if the match is successful, take a large share of the pie. Bezos can, indeed, use the technology similarly, but just news interest may not be as good a filter and competition is bound to be intense.

It is here that the Bezos reputation for being a patient investor is of relevance. If shrinking revenues result, as has happened in The Post and elsewhere in the newspaper industry in the past, in cost cutting to reduce losses, the axe may fall on editorial expenses weakening the very content that must attract a large readership. It is necessary to retain and expand that readership, find ways to collate and analyse information on its news interest, and use that information to deliver a filtered audience to advertisers. This would help migrate the current print business model (in which advertising and not subscription provides the revenues) to the Internet, exploit the cost advantages (no newsprint) of digital delivery, and return The Post to profit. If Bezos can swing that, there will be many more who will be thankful than merely the staff and readers of The Post. He would be doing democracy a service. But even assuming that would happen, it would take time and cost money. Bezos has the money, so the hope is that his inclination to look for returns in the long run would show in his practice and he would succeed. If he does not, The Post may turn out to be just a bad buy. Or he may in fact do what seems needed, but realise that, despite being Bezos, his bet was wrong after all.

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