

Chain Building: The Consolidation of the American Newspaper Industry, 1955-1980

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Before 1955, small, family-owned dailies dominated the American newspaper industry. Publishers saw themselves as guardians of age-old editorial traditions and viewed their papers as local institutions, not as commercial enterprises. But by 1980, large, publicly traded media conglomerates dominated the industry, and chief executives replaced family patriarchs as the arbiters of newspapers' content and editorial focus. What happened during this twenty-five year period to cause such a fundamental shift in ownership structure, and why did the change happen when it did?

Scholars, including business historians, have tended to overlook the industry. In their view newspapers are idiosyncratic. The industry defies broad generalization and, therefore, does not contribute to our larger understanding of either organizational development or the rise of managerial capitalism. Instead, they have focused on weightier manufacturing industries--such as steel and automobiles--which represent, they believe, the bedrock of our economy.

Because many scholars consider the newspaper industry atypical, few have examined its evolution, particularly during the postwar period. This is a mistake. For nearly three centuries newspapers have provided a vital public service, interpreting, synthesizing, and packaging affordable information. But the industry's consolidation has attenuated newspapers' important role, leaving readers and employees increasingly vulnerable to the vicissitudes of absentee ownership. Thus, the central question remains, how and why did this immense change take place in such a short period of time?

The consolidation of the American newspaper industry occurred in three stages, each marked by a different external change. Analysis of these three changes represents the core of my argument. They are: the introduction of electronic typesetting; the application of new labor negotiating techniques; and a shift in the Internal Revenue Service's estate tax appraisal practices.

To underscore the central role that enterprising individuals played in the industry's development, each stage also profiles the career of a representative entrepreneur who capitalized on one of the three external changes. The individuals

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are: Prescott Low of the Quincy *Patriot Ledger*, Lloyd Schermer of Lee Enterprises, Inc., and Paul Miller of Gannett Company, Inc.

What follows is an examination of the interrelationship between the enterprising individual and the larger competitive environment within which he or she operates. It is arranged in three parts: technology, labor, and chain building.

Technology

The origins of the newspaper industry's rapid transformation can be traced to 1945. Before that time, the industry had enjoyed nearly seventy years of relative stability. There were no significant technological innovations, few new competitive threats, and only minor cost increases. In the words of one publisher, "The whole industry simply coasted through the first half of the twentieth century."

But, in 1945, after the government had lifted wartime wage freezes, production workers began demanding substantial salary increases. Production costs--made worse by postwar inflation--soared [9, p. 275]. But most publishers were ill-equipped to cope with these sudden cost increases. According to a 1953 Harvard Business School study, publishers of the period had little knowledge of, and considerable contempt for, the skills normally associated with running a business [2, p. 36].

But that study also maintained that all publishers were not alike. The authors described "a progressive paper in Quincy, Massachusetts," the 30,000-circulation, *Patriot Ledger*, whose owner, Prescott Low, differed markedly from his colleagues. Low had stumbled upon and had begun promoting a new production technology that he believed would revolutionize the newspaper industry. This new technology was photocomposition.

Prior to the invention of photocomposition nearly all newspaper type was set on a massive, noisy mechanical contraption called a Linotype machine. The Linotype was invented in 1886 by a German watchmaker, who had designed his device with precision, not simplicity in mind. The machine, which set type in molten lead, had over 10,000 moving parts, and took more than four years to learn how to operate.

In 1944, a French inventor and amateur photographer witnessed a Linotype in use. Instantly, he decided to that there had to be of a faster, more efficient way to compose type. With a partner, he designed a machine that would set characters on film not in lead. But, in war-torn France, the inventors could not get the financing they needed to complete their prototype. They therefore sailed to America where they sought investment partners. Among those they approached was Vannevar Bush, one of the key scientists behind development of the atomic bomb. With a handful of other investors, Bush organized a non-profit foundation to fund the promotion of the new French typesetter [7, p. 141].

After finishing their machine, which they called the Photon, the Frenchmen moved to Boston and arranged a series of demonstrations for local publishers. It was at one of these gatherings that Prescott Low first saw the Photon in operation. He was astonished. The machine set type at a pace six times faster than the Linotype, and it did so neatly and quietly. Low submitted an immediate order and the first commercial Photon was installed in Quincy in 1953. For two years Low and his staff worked on integrating photocomposition into the newspaper's production process, and, after resolving countless complications, production costs at the

Patriot Ledger plummeted. Low no longer needed a large team of skilled \$4.00-an-hour printers; instead, he found he could hire a handful of inexpensive, off-the-street clerical workers to compose the same amount of type. Low channelled the resulting savings into the paper's editorial department, and, before long, the *Patriot Ledger* had established itself as one of New England's most widely respected newspapers [6].

Unions

Due largely to Low's endorsement, other publishers began making the conversion from mechanical Linotypes to electronic Photon machines. According to one study, some papers were realizing immense savings, as much as \$250,000 a year [1, p. 215]. Yet, in spite of the widespread publicity and the considerable savings available, the number of publishers who actually invested in photocomposition remained small. Many feared that, if they installed new Photon machines, the International Typographical Union (ITU) would strike, and without skilled printers, dailies were paralyzed. For example, during the famous city-wide strike in 1963, production unions forced every Manhattan newspaper to shut down for over four months.

But strong unions were not publishers' only concern in the early 1960s. Television and magazines had begun penetrating markets that newspapers long had monopolized. Between 1955 and 1965, advertising lineage at the New York *Herald*, for example, fell by nearly 2 million lines [3, p. 57]. Sandwiched between rising production costs and falling revenues, a handful of frustrated publishers sought ways to sidestep the powerful union printers.

Among those publishers was Lloyd Schermer of the *Missoula, Missoulian*. In the early 1960s, The *Missoulian* was on the brink of bankruptcy, and Schermer realized that the paper would never regain its financial footing unless it converted to photocomposition. But, Schermer was aware that leaders from the ITU's national headquarters had instructed every local union to strike if a publisher tried to install Photon machines. Unsure how to proceed, Schermer turned to a labor lawyer who specialized in helping publishers negotiate more effectively with production unions [8].

In 1966, the two developed a complex plan for peacefully converting the *Missoulian* to photocomposition. Although their strategy involved an intricate series of negotiations with each of the paper's six unions, the cornerstone of their plan was a simple deal with the ITU. If the printers would agree to give up their union affiliation and would allow Schermer to install Photon machines, he promised to give them a generous pension and benefits package in exchange. Just a few years earlier, such an offer would have been unthinkable. No right-minded union member ever would have considered decertification. But, as photocomposition became increasingly prevalent, and as the demand for skilled printers fell, fewer new members joined the ITU. As their numbers declined, so too did their pension funds, and members of all ages began worrying about their financial futures. The union ultimately decided that Schermer's attractive offer far surpassed the haphazard benefits their representatives had negotiated for them. In 1974, local ITU leaders accepted Schermer's offer and renounced their national affiliation [10]. Within ten years, executives at nearly every major newspaper were relying on lawyers to assist

them during bargaining sessions, and by 1982, the ITU--the nation's oldest union--ceased to exist as an independent organization.

The Internal Revenue Service

As the ITU's power dissipated, and as more papers converted to photocomposition, newspaper profits skyrocketed. But these rapid revenue increases did not go unnoticed. In the 1960s, appraisers from the Internal Revenue Service began studying all family-owned businesses, including newspapers. As the IRS learned more about photocomposition and newspapers' windfall profits, it began appraising papers according to their market values (or what a potential buyer might pay), not according to their book values (or the sum total of their assets) [4].

After the IRS began changing its appraisal practices, the heirs of deceased publishers found it increasingly difficult to meet their estate tax obligations. Since many papers simply did not generate enough cash to pay the government what it demanded, families had no choice but to sell. Between 1960 and 1980, 57 different newspaper owners all sold their properties to the same person: Paul Miller of Gannett.

Throughout his fifty-year career Paul Miller was a newspapering legend. As a bureau chief with the Associated Press through the 1930s and 40s, Miller earned a reputation as both an exceptional feature writer and a skilled manager. His talents were so well-known that the owner of the nation's largest regional chain, Frank Gannett, chose Miller to succeed him as president of the Gannett Newspaper Group. Once promoted, Miller began transforming the sleepy chain of 25 upstate New York papers into a nationwide publishing empire. Nothing would assist him more in his efforts than the IRS' new appraisal practices.

Beginning in the early 1960s, Miller, began criss-crossing the country courting publishers who owned monopoly papers in growing markets. To finance his frequent purchases, Miller became one of the very first newspaper executives to take his company public. He then traded the public shares of Gannett for the privately held stock of the papers he purchased. In 1971, Miller acquired one newspaper every three weeks, and by the time he retired in 1979, the Gannett chain had expanded to 79 papers.

The firm's competitors were soon aware of Gannett's rapid growth and immense profits, and many began imitating Miller's strategy. Between 1969 and 1973, ten newspaper companies also went public, among them *The New York Times*, *Washington Post*, and *Times Mirror*. But, once public, Wall Street's security analysts began exerting considerable pressure on these firms to grow. Executives at these firms therefore spawned what would become an all-out acquisitions frenzy. By 1977, the nation's 170 newspaper groups owned two-thirds of the nation's 1,700 dailies [5].

But by the end of the 1970s, the pool of available independent newspapers had all but dried up. This posed an immense problem for the nation's publicly traded papers. Because of security analysts' incessant demand for growth, these companies needed to continue expanding, but there was nothing to buy. Many therefore began exploring other news-related ventures. Gannett unveiled the first national newspaper, *USA Today*, in 1982, and other firms diversified into cable television. As many chains began to channel ever-increasing portions of their profit into these new businesses, the quality of their newspaper properties declined. By

coddling readers with homogenized, technicolor journalism, chain papers slowly carved the souls out of the local papers that long had bound communities together.

So, what are the larger implications of the newspaper industry's consolidation, and what does it contribute to our larger understanding of the process of organizational development? From this research it is evident that the forces that triggered the rapid transformation of the American newspaper industry were not self-serving publishing moguls nor a cluster of irresponsible media executives, but the invention and popularization of a relatively simple new technology, photo-composition. This machine prompted a sequence of cumulative changes, each of which was recognized and exploited by one or more savvy entrepreneurs. Yet, while it is useful to understand how and why the newspaper industry consolidated, the real contribution of this research is much broader. This work offers a systematic model of industrial development that demonstrates not only that change occurs in cumulative *and* sequential stages, but also that individuals do matter in the process of industrial change.

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