

Chasing paper profits

Tycoons with a keen eye for a bargain are buying up print newspapers

MAYBE Jeff Bezos believes in karma. Bibliophiles and authors have cursed Amazon, the online retailer he founded, for undermining the books business. On August 5th, however, Mr Bezos recast himself as old media's saviour, dipping into his own pockets to buy the Washington Post and the other local papers in its stable, for \$250m.

The Graham family has controlled the Post since 1933, when Eugene Meyer, a Wall Street financier, bought it out of bankruptcy for \$825,000 (about \$15m in today's money). But in recent years Donald Graham, a grandson of Meyer, and Katharine Weymouth, Mr Graham's niece, have struggled to halt falls in revenues and print circulation. Last year the Post and the group's other papers lost \$54m. When the family discussed selling them their first call was to Warren Buffett, whose Berkshire Hathaway conglomerate is a long-term shareholder in the Washington Post Company. "You can intuit he didn't think it was a wretched idea," says Mr Graham.

The company will keep its other businesses, including Kaplan, an education firm: these will no longer have the newspapers soaking up their profits. As well as safeguarding their family fortune and protecting the interests of the outsiders who own 15% of their firm, the Grahams may also have given the Post a decent shot at long-term survival by selling it to Mr Bezos. He is one of Silicon Valley's most admired entrepreneurs and a man with deep enough pockets to bear continued losses while the Post experiments with new features and business models.

Mr Bezos's reputation should help the Post attract the managers and technology specialists it will need to help turn it around, and to retain its star journalists. His own expertise will also be handy. Clearly, he takes a strong interest in how and what people read. Amazon popularised e-books with its Kindle, an electronic reading device, and Mr Bezos himself has already pumped money into Business Insider, a news website.

It is fitting that Mr Bezos, who has made a fortune by catering to consumers, is buying into the newspaper business now. Papers are becoming more focused on their readers rather than advertisers, which have historically accounted for around 80% of their revenue. Last year American newspapers got around 27% of their sales on average from readers; some, like the New York Times, now make the majority of their money from them. In pursuit of this trend, Mr Bezos may push the Post to have more of a direct relationship with readers, through personalised content and cleverly targeted special offers (think of Amazon's "recommended purchases").

The sale of the Post is the latest in a string of recent deals in which businessmen from non-media industries have snapped up print newspapers. Two days before the Post announcement, the New York Times Company said it would sell the Boston Globe to John Henry, the owner of the Boston Red Sox baseball team and Liverpool Football Club. Mr Henry is paying \$70m, leaving the New York Times Company with a huge loss on the \$1.1 billion it paid for the Boston paper in 1993.

Mr Buffett's company has recently bought dozens of American local newspapers. Charles Koch, one of two billionaire brothers who own Koch Industries, a sprawling industrial group, has also expressed an interest in buying a paper as long as it could "stand on its own and have good economics". There has been speculation that he may buy the Los Angeles Times and Chicago Tribune, whose parent company was recently spun off from the larger media group that owned it.

Broadsheets will always attract those thirsting for political influence, or the prestige of owning their hometown paper. But some buyers may reckon they have now become so cheap that they are once again worthwhile investments. Ken Doctor, an analyst, estimates

that newspapers are worth a tenth of what they were ten years ago. If bought along with the property they occupy (as was the case with Mr Buffett's papers but not with Mr Bezos's purchase of the Post), that provides some degree of hedge against a further decline in the newspaper business itself.

Newspapers' economics are also looking less dire. Last year their circulation revenue in America was up by 5%. It was the first time this had grown since 2003. Overall revenues fell but by just 2%; they may soon level out. "It is a better environment for buyers than it was even a year ago," says Gordon Crovitz of Press+, a company that erects paywalls for newspapers. After years of selling cheap goods to others Mr Bezos may have found his own bargain.

Fonte: The Economist, London, v. 408, n. 8848, p. 55, August 10th – 16th 2013.

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