THE JOURNALIST AS ENTREPRENEUR
Eight Take-Home Lessons
By David Pellegrin

Ever since high school I knew I wanted to be a journalist, but the college I went to didn't have a journalism program. My game plan was liberal arts and Chinese Mandarin, because someday I wanted to be a foreign correspondent in China. At that time, China was closed to all American journalists. I thought a working knowledge of the language would push me toward the front of the line when it did open up.

I figured I'd get the nuts and bolts of the journalism craft through OJT (on-the-job training).

In 1969, I came to Hawaii for graduate school in Asian studies on a grant from the East-West Center. After a year and a half, I left to take my first journalism job: writing editorials and, later, reporting for *The Honolulu Advertiser*.

I'd always been drawn to narrative, long-form magazine journalism. I saw that *Honolulu* magazine was not very good — and thought there was a place for a competitor.

While at *The Advertiser*, I got together with a good friend who was the art director at one of Honolulu's larger advertising agencies. We spent countless hours developing a plan and mockups for a new magazine to compete with *Honolulu*. We envisioned a general-interest publication with an emphasis on the arts.

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A publication is like a three-legged stool: If one leg is wobbly, it eventually collapses. The three legs:

- <u>Product</u>: This is the content — the writing, photography, design, layout, paper stock.

- <u>Revenue</u>: The money needed to keep going. In a small, regional market like this one, revenue is almost always through the sale of advertising.

- <u>Distribution</u>: How many get the publication, who are they, how do they get it?

Now back to my friend and me and our big magazine plan. As a journalist and an art director, we were two sides of the same coin. We put 95 percent of our focus on the product leg — the creative leg — and 5 percent on the two business legs — revenue and distribution.

There's a movie that captures the nature of our entrepreneurial planning. It's *Field of Dreams*, a baseball movie with the famous line, "If you build it, he will come" (widely misquoted as "*they* will come"). Well, that was the two of us. We'd build a beautiful, compelling editorial product, and the advertiser and the reader would come.

Here's my first take-home lesson for budding journalist entrepreneurs: **Partner with someone with complementary talents — not the same talents you have.** Don't find another creative person, find someone with a business and sales bent.

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Our careers interrupted our magazine dream. My friend joined a major advertising agency in Chicago, and I went to Hong Kong to write for the Associated Press.

I later served as UNESCO adviser to the newly formed Caribbean News Agency and, while in Barbados, I learned that *Honolulu* magazine's parent company, Hawaii's largest printer, wanted to sell. That was because *its* parent company, an Australian conglomerate, had filed for Chapter 11 bankruptcy. Instinctively I knew that acquiring *Honolulu* made a lot more sense than trying to launch a competitor.

Honolulu had a wonderful history. Founded in 1888 as *Paradise of the Pacific* by King David Kalakaua, it's the oldest continuously published magazine west of the Mississippi. Over the decades, it had several publishers who floundered financially. In fact, the printer had inherited the magazine from a publisher who defaulted on printing bills.

Printers don't like to be publishers. What they want are paying jobs on their presses. When a paying job would come along, the printer would yank *Honolulu* off the press, causing it to come out late and anger readers and, especially, advertisers — making ad sales even harder.

Bottom line: *Honolulu* could be acquired for $150,000 and a five-year printing contract.

I approached my father for advice and help. Although he was not independently wealthy and couldn't personally invest, he was president of a Wisconsin publishing company, Johnson Hill Press, and a minority owner.

He was approaching retirement, and the thought of working with me in beautiful Hawaii had appeal. He persuaded the other owners they would love trips to Hawaii to inspect their new property in paradise.

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The purchase of *Honolulu* by Johnson Hill Press was completed in mid-1977. The subsidiary, Honolulu Publishing Company (HonPub), was launched with six employees.

My job was to revamp the editorial product: Make the magazine more engaging, recruit the best writers, designers and photographers, and start including four-color photos and illustrations. If you didn't try to be the best, what was the point?

My dad, whose background was in sales, set up our sales and collections departments. (To show you how naive I was, I didn't think we'd need a collections department. We'd just send out invoices, and advertisers would promptly send in their checks, right?)

Meantime, we both brainstormed a circulation strategy for *Honolulu*. At the time, the magazine was being mailed free to 12,000 Hawaii residences in high-income zip codes, with a few thousand paid subscribers on the Mainland.

There are three types of distribution models — each valid, depending on the publisher's objectives:

- <u>Paid</u>: In a small market, this is *not* about more revenue, because the costs of getting paid subscribers will exceed the revenue obtained. Paid circulation's big strength is that it creates a powerful story to tell prospective advertisers: If the readers like the magazine enough to pay for it, it can be a great environment for an ad message.

- <u>Controlled</u>: Examples of this are our in-flight magazines and drive guides. They're technically free, but you have to rent a car or buy an airline ticket to get a copy. Our business magazine, *Island Business*, was also controlled, mailed free to a select list of business executives and community leaders.

- <u>Free</u>: Examples are Waikiki tourist guides — available in racks for anyone to pick up.

My dad originally favored keeping *Honolulu's* controlled circulation. Johnson Hill Press published primarily agricultural trade magazines that were controlled, mailed to select lists of farmers, suppliers and bank executives. To this idealistic 34-year-old, giving *Honolulu* free only to the rich seemed elitist — if they wanted it, they should pay for it. My dad did come around because he also liked the idea of people paying to validate the new editorial quality.

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Here was our challenge: How do you get people to pay for something they've been getting for free?

Some recipients thought their free subscription validated their status. A University of Hawaii professor living in Manoa even wrote in to tell us his annual income and net worth, to justify why he should keep getting *Honolulu* for free. (I don't think I've looked at university professors the same since getting that letter.)

We settled on this strategy: Offer a classy, hardcover book as a premium for the first year's paid subscription. We settled on *Voyage*, a book by Herb Kane that retailed for $25. Keep in mind, the price of the magazine subscription — with the book premium — was only $15. We got the books at a low wholesale price from the publisher, Island Heritage.

What made this strategy risky was the Audit Bureau of Circulations (ABC). A little background: ABC was established in 1914 to verify the circulation claims of publishers, who typically lied about their real numbers to sell ads. It's a nonprofit made up of major advertisers, advertising agencies and publishers. Once a year, a green-eyeshade auditor goes to a publisher's office, gets an empty desk and pours through circulation records for a few days. Then ABC issues printed copies of the results, which the publisher uses to sell advertising — if the numbers held up.

Now, we knew that ABC would conclude that the new *Honolulu* subscribers were really buying the $25 book for a discounted $15, and not so much the magazine, which meant that *none* of the paid subscribers would be counted as paid the first year.

Our huge bet was that the new editorial quality would pay off with heavy renewals the second year, which *would* count as paid. Meanwhile, even in the first year, the perception of the magazine's worth would be established.

The result? After less than three years we had hit our target of 25,000 paid subscribers.

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Here's one reason I was fortunate my dad was here in those early years: Despite careful budgeting, we seriously underestimated our startup losses and need for working capital. He would have to call up the other Wisconsin owners and cajole them out of more cash. If he had stayed in Wisconsin, he and the other owners might not have been as acquiescent when I — out in Hawaii alone — requested similar unplanned but needed cash transfusions.

Take-home lesson No. 2: **Carefully calculate every penny of your projected costs — then double the total to determine your real startup needs.**

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By mid-1980, a profitable HonPub was on the horizon. I knew I had to acquire the company from Johnson Hill Press soon, or I'd never be able to afford it.

I pressed my case. By the fall of that year, I had bought HonPub, basically by taking over from Johnson Hill Press more than $600,000 in debt the Honolulu operation had incurred.

Meanwhile, with the split from Johnson Hill Press, my dad acquired Island Heritage, which we'd taken over shortly after our Herb Kane book deal. He soon merged it with a souvenir company, but sold everything in 1984 and, with my mom, moved back to the Mainland.

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As the new owner of HonPub, I started out by making a big mistake: I took the titles of both editor and publisher, trying to manage both the creative and business sides of the company. It didn't take long to realize I wasn't doing an adequate job at either.

Here's the third take-home lesson for journalists as entrepreneurs: **Be either the creative leader or the business leader — you can't be both.**

I chose business. I focused completely on increasing revenue and growing the business with new publications. A bigger company would increase profitability through economies of scale. It would add clout in negotiating better printing prices. And it would support a full-time staff of talented writers, editors and art directors.

I gave full editorial control to a new editorial director. I felt it would have diminished his authority if I kept the top title while he did all the work. Some publishers, Hugh Hefner, for example, did keep both titles, even though Hefner's only role as editor was to pick the centerfold and cover models. But his name was a brand, so it kind of made sense.

I soon recognized another advantage in separating the roles of publisher and editor: It made it easier to maintain editorial integrity and resist advertiser pressure.

I would tell advertisers that our editorial independence gave us the credibility to sell paid subscriptions, giving them a valuable audience for their ad messages. But if I were editor while our restaurant critic was on the verge of costing us restaurant advertisers with negative reviews, it would be harder for me to say our editorial side was independent from our advertising side if I were both editor and publisher.

We did develop a reputation for integrity. I once received an angry letter from the media director of one of the state's largest advertising agencies, upset over a pricing confusion that was soon cleared up. It read in part, "Yours is the most respected publishing company in Hawaii, and I've never known of these types of practices to occur before."

If you're going to get a scolding, that's a nice way to get it.

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The distribution leg of the publication stool tends to wobble the most. Here are two examples, one national and one my own:

In 1982, *The New Yorker* was modestly profitable. Then its owner brought in Tina Brown as its new editor. Her spending on writers and expenses accounts was extravagant, and the magazine began to lose a lot of money.

But publisher Steve Florio was the real culprit. He thought their hot new editor could bring in a lot more subscribers, and then he could raise his ad rates, where the real money was. He offered cheap deals, like subscriptions for 85 cents a month — and that was for a weekly! He included toasters and other gadgets as incentives.

But these new subscribers weren't real readers and they didn't renew. Advertisers lost confidence. Florio was forced to bring his subscriber number back down and lower his ad rates, after the magazine had lost millions.

Here's my own costly distribution blunder:

We were publishing a paid-circulation, glossy listings guide for Time-Warner's Oceanic Cable. I became seduced by the vision of packaging *Honolulu* with the Oceanic magazine, selling them together in a discounted combination buy, and mailing them together in a single plastic bag.

Almost overnight, we took the *Honolulu* paid subscriber number from 25,000 to 60,000. Good news, right? No, two problems:

- The advertiser perception was that the new subscribers were really buying the listings guide and not the magazine.
- The resulting ad rate for too many of *Honolulu*'s loyal clients was too high in absolute dollars, even though the CPM (advertising cost per thousand subscribers) had dropped.

When my blunder became apparent, it took us more than a year to honor our obligations, get out of the deal and reduce *Honolulu*'s circulation to 25,000, with lower ad rates.

Your fourth take-home lesson: **Never forget what kind of reader you want.**

As we pushed *Honolulu*'s subscriber base to 60,000, its reader profile became more like the newspapers', meaning the average education and income levels of our readers dropped. If advertisers could reach the same readers with a newspaper as with a magazine, why would they pay much higher magazine rates just to be on coated stock?

Maintaining a circulation niche is essential: You want to deliver the kind of readers the advertiser wants, at an affordable rate.

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Over my first 12 years as owner, HonPub steadily grew. We reached our peak in the early '90s with more than 20 publications, 90 employees and $10 million annual revenue. I had fully paid off the purchase debt of $600,000 by 1987.

But the lowest point in my life came in 1992, both professionally and personally. Three things hit our business that year:

- The Hawaii Newspaper Agency installed a new press that could print on quality stock, enabling the joint-operating *Advertiser* and *Star-Bulletin* to take away our burgeoning shopping-center newspaper inserts.
- We unexpectedly lost the contract for our Japanese-language visitor magazine.
- Hurricane Iniki hit. Out of our four Kauai-based publications, only one survived.

The company lost 35 percent of its revenue base, forcing layoffs and pay cuts. It was a terrible time.

Worse, while I was trying to manage all this, I was coping with a personal loss. My 18-year-old son George was killed in a traffic accident just before leaving to start college at the University of Oregon. I operated in a fog for most of a year. I don't have a lot of memories from that time.

Ultimately, it took us more than two years to restore employee pay levels.

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By the turn of the new century, the company was healthy and I was interested in expansion again.

Hawaii Business magazine was losing money under its new owner. I wanted to buy it and merge it with our own *Island Business*. Two glossy business magazines in this small market were one too many.

But a funny thing happened. It turned out the *Hawaii Business* owner strongly wanted to buy *Honolulu*.

Well, he was 45 and I was almost 60; the pursued turned into the pursuer.

The fifth take-home lesson for the journalist as entrepreneur: **You can't pick the time to sell — there must be a buyer willing to pay the right price. Always be sufficiently organ-**

ized and emotionally prepared to entertain an offer.

In my case the buyer was eager. He had an emotional incentive: He felt owning *Honolulu* would give him a megaphone to push causes that would make Hawaii a better place for his grandchildren. That's the best kind of buyer to have, one not fixated on your financial statements.

Also, the timing was right for me. I was heavily involved with a Chicago-based nonprofit and traveling constantly.

In late 2001, I sold all of our resident-based publications, including *Honolulu*, *Island Business* and our shopping center catalogs. I kept our very profitable visitor magazines.

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The sixth take-home lesson: **Be generous to those who contributed to your success.**

I didn't forget the loyalty of employees who took pay cuts in the early '90s, yet stuck around and worked as hard as ever. Upon the sale I set aside $1.1 million as bonuses going to all employees — those who joined the new owner, those who lost their jobs and those who remained at HonPub.

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The next six years were extremely profitable. Then, on March 31, 2008, Aloha Airlines suddenly shut down, taking with it our largest magazine, *Spirit of Aloha*, a gorgeous publication filled with ads. Then, a few months later, the Superferry shut down. We had been publishing its magazine as well. When the national economic crisis hit in September '08, we were forced to shut down two recent startups. Basically, advertising sales hit the wall.

Today, we're smaller but profitable, and debt free. In other words, well positioned to take advantage of future opportunities. Meantime, I'm now semiretired, and have named a longtime colleague as president and CEO.

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Here are a couple of observations on two local media companies: the *Star-Advertiser* and *Civil Beat*.

First, the *Star-Advertiser*, our monopoly daily:

The *Daily Oklahoman*, the monopoly paper of Oklahoma City, once received the dubious honor of being named the "single worst newspaper in America" by the *Columbia Journalism Review*. Its owner featured his friends and their business deals on the front page. And — get this — the paper's cost-per-thousand ad rates were twice as high as *The New York Times*!

The community here needs to keep a close eye on *Star-Advertiser* business practices, to make sure it doesn't head off in that direction.

Second, a quick look at *Civil Beat*. Its backer, Pierre Omidyar, has just been listed No. 50 on the Forbes list of the 400 richest Americans. His net worth was pegged at $6.2 billion — he's the founder of eBay — so his pockets are very deep. But he said he wants *Civil Beat* to be profitable, and he's known for having a short attention span.

He adopted the wrong business model for *Civil Beat*: subscription revenue only, no advertising. With the arrogance of an extremely successful entrepreneur who once made the right call — no advertising on eBay — he has banned advertising from *Civil Beat* as well.

But this market is way too small to find enough paid subscribers to prop up a narrow-niche, online publication filled with earnest but frequently dull local public-service content.

Omidyar's best move may simply be to convert *Civil Beat* to a non-profit charitable organization. He would no longer need to conceal obviously poor paid-subscriber numbers and could instead ask for donations from readers.

Meantime, the hope is that Omidyar, with minuscule revenue coming through the door, will not lose interest and pull the plug.

Take-home lesson No. 7: **Relying on a single angel investor is not a viable business model.**

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Nationally, for traditional media, it's not all doom and gloom.

- *The New York Times* paywall has exceeded expectations. Readers *will* pay for online content.

- Newspaper websites in general have shown healthy growth in readership numbers.

- *ProPublica*, the online site for investigative reporting, has had great success. It won the first Pulitzer ever given to an online news source. It has successfully sold stories to a wide range of traditional media, both print and broadcast. Benefactors have pledged $10 million a year in support.

Just think, if online media can generate only modest circulation and advertising revenue, it can still pay for good journalism by eliminating all those 20th-century costs: paper, printing presses, ink, delivery trucks, etc.

Samir Husni is director of the magazine innovation center at the University of Mississippi. He's known in the industry as "Mr. Magazine," and he's optimistic. In a talk at a City and Regional Magazine Association conference, he said there are still hundreds of magazine launches annually. He also noted that Walmart has stopped giving a 10 percent discount on magazine sales, and sales haven't been hurt. He said, "If readers want your magazine, they're not going to haggle over nickels and dimes."

Husni's essential advice – and this is your take-home lesson No. 8: "**Fall in love with your customers – not the technology.**" Know their visions and values. Creating an experience readers want is more important than the technology used to reach them.

I'll close with a portion of an introduction I wrote to *Hawaii Chronicles II*, an anthology of *Honolulu* articles published by University of Hawaii Press in 1998. I think it holds up today:

And the long-term future? What will *Honolulu* magazine be like 100 years from now? Will we carry it around on a disk the size of a quarter and project it, page by page, onto a blank slate or into midair, like holography?

We know this: Whatever the technology in vogue at the time, it will *still* be the eye of the art director, the ear of the writer — and the judgment of the editor — that will determine how good a magazine *Honolulu* is.

Honolulu's Centennial Issue featured a laser-produced cover hologram of King David Kalakaua, who had commissioned the launch of the magazine a century earlier.

In that issue, editor Brian Nicol wrote, "One hundred years from now, someone will surely want to put Kalakaua on the cover of the Bicentennial Issue of *Honolulu*. Lasers will be horse and buggy by then. In fact, magazines will probably be like nothing we can imagine. Yet through it all the king and his legacy will have endured."