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Arkansas Democrat Project

Interview with

Paul Smith
9 December 2008
Little Rock, Arkansas

Interviewer: Jerry McConnell

Jerry McConnell: This is December the ninth, 2008, and I'm sitting in the office of Paul Smith at the *Arkansas Democrat-Gazette* in Little Rock preparing to do an interview for the Pryor archives' oral history project for the University of Arkansas [Fayetteville]. [Editor's Note: The interview was done for Pryor Center for Arkansas Oral and Visual History at the University of Arkansas, Fayetteville, on the history of the *Arkansas Democrat.*] And the first thing I need to do, Paul, is ask you if we have your permission to make this tape recording and turn it over to the—the oral history department.

Paul Smith: Yes, you do, Jerry.

JM: Okay, Paul, I think that you've had a job change—changed your title, at least, since I interviewed you the last time, which was probably almost two years or was—was about two years ago. You have received a promotion since that time. Is that correct?

PS: That's correct.

JM: What is your—what is your title now?

PS: I'm president of the *Arkansas Democrat-Gazette*, and I'm president of WEHCO Newspapers, the company that publishes all of our newspapers.

JM: All—all Camden, El Dorado . . .

PS: Yes, all of the company's newspapers.

JM: . . . Hot Springs—all—all those that—you're president both of WEHCO and the *Democrat-Gazette*.

PS: Right.

JM: And—Walter Hussman [Jr.] . . .

PS: Now, not WEHCO Media, just WEHCO Newspapers.

JM: Okay, WEHCO Newspapers.

PS: Walter is president and CEO [chief executive officer] of the parent company WEHCO Media, which includes the newspaper company and the cable TV company.

JM: Okay. And the one TV station. Is that right? No?

PS: We no longer have the TV station.

JM: You don't have it anymore. Okay. And then Walter is CEO of the *Arkansas Democrat-Gazette*. Okay.

PS: Right, publisher and CEO. That's correct.

JM: Okay. Paul, the last time that I interviewed you we covered some of the history—probably a lot more out there that we need to explore, too. But of the—your time here at the *Democrat* leading up to the suit filed by the [*Arkansas*] *Gazette* against the *Democrat* and then—and then just about—we concluded with about the time Gannett took over and bought out the *Gazette*. One thing I want to ask you: What was your reaction when you found out that Gannett had bought the *Gazette*? [Editor's Note: The Gannett Company, Inc., purchased the *Gazette* in December 1986.]

PS: Well, disappointment, obviously, and concern. To review a little of what had happened since this company bought the *Democrat* in 1974, we had tried to compete with the *Gazette* by showing advertisers that, while the *Gazette* was the primary advertising buy, they also needed us to complete the buy. That didn't work, due largely to the fact that the *Gazette* had several large rate increases and had escalated the cost of advertising in the *Gazette* to the point where many advertisers couldn't really afford to buy [advertising in] two papers. That forced us in 1978 to change our strategy and try to take on the *Gazette* head-to-head. For example, we switched to a morning paper, we started free want ads, and we beefed up our news staff and news volume, and so forth. It was apparent by then to Walter that we needed to be more aggressive on a direct competition basis than we had been in the past. At the time when we switched to a morning newspaper, we had 18 percent of the newspaper revenue. The *Gazette* had 82 percent of it. By the time the *Gazette* sued us, we were up to 38 percent. And when the lawsuit was resolved, we were up to 42 percent. And so we were encouraged that we had increased our market share to the point that we thought we could survive in this market with the *Gazette*. In fact, Walter commented after the lawsuit—he said he thought both newspapers could survive and possibly thrive in this market. And about six months later, when the *Gazette* was sold to Gannett, that changed everything, because we knew they didn't buy the *Gazette* to publish in this market with another newspaper. They planned to recoup their investment by having the only newspaper in the market. So that put us into a situation again where only one newspaper was likely to survive. That was frightening.

JM: And you had, I guess, considerable concerns about how much it was gonna cost you to compete with Gannett.

PS: Well, the [*Gazette*]—Gannett knew everything about our financial state, because we went through the trial with the *Gazette*. We turned over all of our records to the *Gazette* during that trial. So they knew how much money we had. They knew what our limitations were. I recall Walter saying that for roughly every dollar we had, The Gannett Company had forty dollars.

JM: Yeah.

PS: And with forty times what we had financially, we realized that we were in a precarious position.

JM: Did you at one time—before Gannett bought the *Gazette* and after the lawsuit—did you all make some decision that you were gonna ease off a little bit on your competition with the *Gazette*?

PS: Well, we still competed vigorously, but we competed with the assumption that we both could survive. We continued to put out as good a news product as we could. But the circulation discounting and some of the other more costly things were tempered somewhat.

JM: Okay. You anticipated when Gannett bought them out that—and by some of the statements that they'd make—I'm sure that—"We have deep pockets," etc.—that they were gonna try to put you out of business. Is that correct?

PS: I heard from some employees at the *Gazette* that when the CEO of Gannett came to Little Rock he told the *Gazette*'s employees that they had deep pockets and they would win the battle here. I understand that he suggested that management at the *Gazette* be preparing a wish list of [the] things that [they] would like to have when there was only one newspaper in the market.

JM: What do you remember, as time went on, as the major developments in the competition between the *Democrat* and Gannett—and the *Gazette*.

PS: Well, I think there were several. The first thing they did was try to negate our advantage from free want ads. The Pattersons [previous owners of the *Gazette*] would never go to free want ads, I think, primarily because they thought that it was an admission that it was a good idea—something that we had done. But after Gannett had owned the *Gazette* for less than a month, we heard from a telephone employee who was working in our building that there was some big hush-hush project at the *Gazette*. He said they were installing a lot of phones in a big room and that it was a big secret. When [then-*Democrat* Vice President for Operations], Lynn Hamilton, relayed the information to me I assumed they were getting ready to introduce free want ads, which they did. That was the first thing they did, and that concerned us, because that had been an advantage of ours for a long time. We knew that we had to do something to make our free-want-ad program better than theirs.

JM: So what did you do and what—how did their free-want-ad program work?

PS: They copied ours exactly. We did a couple of things initially. The first probably didn't have much effect, but we did it to try to send a message in the marketplace. I told Walter what my assumptions were, that I thought they were getting ready to start a free want ad program, and I told him that I thought we should announce the program for them. We checked with the TV stations and asked if anyone had reserved a large TV buy. We learned that Cranford Johnson [Little Rock advertising firm] had, and we assumed it was for the *Gazette*. The ad agency had not announced who their client was, but it tied in perfectly with the assumption that they were getting ready to start free want ads. So I wrote a couple of TV commercials and proposed to Walter that we produce the commercials at some location away from Arkansas, so that no one would know what we were planning. The TV buy scheduled by the Cranford Johnson Agency was to start on a Saturday, and I proposed that we break a TV commercial in the market on Friday night that would announce the *Gazette*'s free want ad program one day before their ad was scheduled to start. We brought two actors from Kansas City to Dallas, where we shot the commercials. We produced two commercials. In the first commercial we had two businessmen types walk onto a set that was designed to resemble the old Bard's Restaurant here in Little Rock, with the checkered tablecloths. They sat down at a table and one of them had a *Democrat*, and the one with the *Democrat* said, "What do you think about the latest rumor about the *Gazette*?" The other fellow said, "What rumor?" And the first man said, "I hear they're getting ready to start free want ads." The other man said, "Oh, I can't believe that." He said, "They sued the *Democrat* over free want ads. They said they were illegal. Surely they wouldn't do something that they thought was illegal." And the other fellow said, "Well, I don't know, they've copied just about everything else the *Democrat* has done."

JM: [Laughs]

PS: That was the first commercial. And they did announce their free want ads with a massive TV campaign starting the day after our commercial was first aired. Two days after they first aired their commercial we came out with the second commercial with the same two guys who went into the same restaurant set and one of them said, "Well, you were right. They did start free want ads," and the other one made a couple of comments. And then the first one said, "I wonder what's next, Orville Henry T-shirts?" [Editor's Note: Henry was a longtime sports editor for the *Gazette* at the time of the commercial.]

JM: [Laughs] Okay.

PS: So, you know, that was done, I would say partly in fun, but we were so concerned—nothing we were doing was totally in fun. We wanted to make a statement in the marketplace that we weren't going to roll over and die.

JM: Yeah. Was that the start of your in-house advertising agency or had you already started it?

PS: No, we started our in-house agency in the early 1980s.

JM: Uh-huh. That was what—Dave Redding came up to help . . .

PS: No. Estel Jeffery was our promotion manager and the in-house agency was his idea and responsibility.

JM: Was it to help on that?

PS: No, Dave was the classified advertising manager.

JM: Oh, but—no, what . . .

PS: We created our own TV commercials, really, to save money—plus, we knew what we wanted to accomplish, and we felt that we would lose some of that in transition if we were working with another company. We placed those commercials ourselves and we got a 15 percent agency commission, so we saved that way. The second thing that we did to try to compete against their free want ads was the thing that really helped us the most. We talked to our people about the fact that when we were offering the only free ads in Arkansas, people would wait on the phone for several minutes to get an operator on the line. We had eight people taking free ads. And so we concluded that free want ads had suddenly become a commodity. They could get them at either newspaper. We decided that we had to give better service when giving away free ads. So we expanded our phone room from eight ad-takers to sixteen. I had my secretary call the free want ad numbers every day at both newspapers. She did that every hour each day from 8 a.m. until 5 p.m. She recorded how many seconds it took to get an operator on the phone to take her ad. And we paid a bonus every day to our supervisor in that department and to those sixteen operators if our response time was quicker than the *Gazette*'s. It usually took no more than three or four rings before we would have an operator on the phone. Sometimes the delay at the *Gazette* would run three or four minutes. I suppose they thought at the *Gazette* that if they were giving away ads it was not important how long people had to wait. But we felt that if they could get on the phone in a few seconds at the *Democrat*, they probably wouldn't wait several minutes on hold to get their ad in the *Gazette*.

JM: Did they ever match you in amount of free want ads that ran in the paper?

PS: No, they never got close to the volume we had.

JM: Yeah. Okay.

PS: I think partly because people wouldn't wait a long time to try to get their ad in the *Gazette*. Plus, they were accustomed to running them with us. And they knew they produced good results in the *Democrat*.

JM: Okay. How long did they keep up their free want ads?

PS: That continued until the *Gazette* closed.

JM: Did they? Okay. All right. So what was the next major development that you remember?

PS: Gannett took control of the *Gazette* in early December . . .

JM: 1986.

PS: . . . of 1986.

JM: Yeah.

PS: Okay, that's correct. And each year in March, we typically had a moderate rate increase. The next March, about three months after they took over the operation of the *Gazette*, we had a 6 percent increase in classified advertising rates. Classified had been our strength for some time. That was on March 1, 1987. On March 2, 1987, the *Gazette* announced a 50 percent advertising rate decrease for large classified advertisers. That was a big one. Their strategy was obvious. Classified was our strength. They thought their rate reduction would take most of our advertising if we didn't match their rates. I believe they assumed that if we did match their rates we would bleed to death. They probably thought they would win either way.

JM: Uh-huh. So what happened?

PS: We had really good relationships with most advertisers. That had been one of our strategies when the *Gazette* had a lot more circulation and we realized that we had to have some advantages, and that was one of the things that we concentrated on. We went to great extremes to try to help our advertisers and develop good relationships. That was an advantage. When the *Gazette* reduced their classified rates, we showed our advertisers rate cards from Gannett's other newspapers, such as Shreveport [Louisiana], and Jackson, Mississippi; and Springfield, Missouri; and others. And we calculated the advertising cost-per-thousand at those newspapers, and compared them to the advertising cost-per-thousand at the *Gazette*, and we just reasoned with them. We asked why they thought the advertising cost-per-thousand was so much less in Little Rock than it was at their other papers and tried to help them to understand that this was a strategy to try to eliminate competition. We were frank with them and said, "If we match these rates we'll bleed to death, and if that happens you will likely have rates in Little Rock that are similar to those in Gannett's other markets." Most advertisers understood and continued advertising with us.

JM: Okay. So you did not lose an appreciable amount of classified advertising.

PS: We lost some, but not a significant amount.

JM: How long did Gannett stay with their decreased rates?

PS: Oh, they stayed with them until they closed.

JM: Oh, did they really? Okay. So your strategy was just to rely on your relationships with the [advertisers]. And as I remember, your experience had been beforehand that the *Gazette* itself had never had a very good relationship with most of their advertisers—that they had been pretty [laughs] persnickety with 'em.

PS: That's correct. They had not enjoyed good relationships.

JM: Yeah, okay. All right. So that didn't make a—that didn't make a significant dent in your income then, I assume.

PS: No, in fact our advertising revenue increased significantly during the five years Gannett owned the *Gazette*. The *Gazette*'s ad revenue was less when they closed than when they bought the *Gazette* five years earlier. The *Gazette*'s advertising revenue decreased 16.7 percent from their first full year of Gannett ownership to their last full year. During this period, the *Democrat*'s advertising revenue increased 26 percent. We were gaining market share in circulation and advertising, even though Gannett was a lot bigger company with more resources. In fact, they outspent us by $50 million during the five years they operated the *Gazette*.

JM: Yeah, okay.

PS: We had to increase our spending in order to compete but we didn't have the resources to spend what they spent.

JM: Yeah, okay. Then what happened after that? What other moves did they make?

PS: At about the same time that they implemented their rate decrease, they started a horse-racing contest. The racing season [at Oaklawn Park Race Track in Hot

Springs] started in the latter part of February, and just before they announced the classified rate decrease—they announced a contest where they offered readers $350,000 in prize money during about a two-and-a-half-month period, the length of the Oaklawn racing season. They gave away that much money to their readers who played their racing game. We talked about trying to react to that, but we couldn't spend that amount of money on a contest, especially considering our other increased costs. Walter and I discussed and came up with a contest that we called "The $2 million Arkansas Sweepstakes." When I talked to Walter about my idea he said, "Well, we can't give away $2 million," and I said, "I don't think we'll have to give away $2 million." And the way that we designed it, every day we'd run a reproduction of about a dozen dollar bills in the *Democrat* and readers could win money or merchandise if they had a dollar bill with the serial number shown on one of the bills in the paper. And every day for fourteen weeks we had a full-page ad from some auto advertiser in the newspaper. Each of these auto ads contained a reproduction of a dollar bill and anyone who had the dollar bill shown in the ad would win a new car. We sold the program to seven car dealerships, with each car dealer buying one full-page ad each week. The duration of the contest was fourteen weeks. So each of the seven car dealerships ran fourteen full-page ads and they paid for all those ads. And we gave away two or three cars during that period and gave away considerable cash and other prizes. But the money that we gave away didn't exceed the amount of advertising revenue that we took in from those full-page ads. All dollar bills were spent in Arkansas the day before their facsimiles appeared in the *Democrat-Gazette*. We traveled all over Arkansas to circulate these dollars. We ran an ad each day in the *Democrat* revealing the cities and towns where dollar bills had been spent. We got a call from Kroger [grocery store chain], asking us to stop the contest. They said, "We can hardly get our bank deposits done each day. People in our office are checking every dollar bill to see if they have a winning number." It worked really well for us, and the *Gazette* never had another contest. I think the readers really thought that we one-upped the *Gazette*.

JM: [Laughs]

PS: But, you know, the only way we would have given that [amount] away would've been if every one of those dollar bills had been brought in by readers, and that obviously wouldn't happen. But every one of those dollar bills was put in circulation, so . . .

JM: Yeah.

PS: . . . you know, readers had a chance to win on any one of them, but that ended the contests.

JM: Whose—let me ask you —whose idea was that for the contest?

PS: Well, Walter and I had talked about needing to come up with a contest. The $2 million sweepstakes was my idea.

JM: Okay.

PS: We needed a contest that would get the attention of readers but something that we could afford to do. The next thing they did is funny now but it wasn't as funny then. We heard about a radio disc jockey contest, which they conducted at the *Denver* [Colorado] *Post*. So [*Democrat* Advertising Director] John

Mobbs, [*Democrat* Circulation Director] Larry Graham, and I went to Denver and spent a day at the newspapers there. John and I went to the *Denver Post* and Larry went to the *Rocky Mountain News* to see what ideas he could get from them. During that trip we got the details of a radio disc jockey contest. The way it worked was the *Denver Post* announced the contest and they encouraged all radio disc jockeys to participate and ask their listeners to vote for them as the best disc jockey in the market. The winning disc jockey chose a charity and that charitable organization got $10,000, given by the newspaper. The strategy was to get the disc jockeys competing with one another over the air, encouraging people to vote for them. And the way they voted was to clip a coupon out of the newspaper and mail it to the newspaper's office. So we came back and quickly started making plans to do the contest in Little Rock. We had a full-page ad prepared to run the following Sunday, and on Thursday, the *Gazette* came out with a double-truck ad announcing a radio disc jockey contest. We assumed they had heard about this from somebody here or from one of the disc jockeys, even though we had tried to limit the number of people who knew about our plan. We were convinced they had stolen our idea. I remember the morning their ad broke. Walter asked to meet with Estel Jeffrey, our director of promotions, and with me. I've worked with Walter for close to forty years, and only two or three times have I seen Walter really, really angry, and this was one of those times. The *Gazette*—in their contest, had added a couple of features that wasn't in the Denver contest. They announced that the disc jockey that got the most votes would get a Pontiac Fiero [car], and from the coupons that were sent in by readers, they would draw one of them and the reader that sent that coupon in would win a Pontiac Fiero. And they planned to draw three more coupons and the three readers who sent those coupons in would win a trip to [Walt] Disney World. Walter was furious, and he took the *Gazette*'s ad, wadded it up and threw it against the wall and said, "They might think because they've got more money than we have, that we're going to roll over and play dead, but they're wrong." He said, "We're going ahead with our contest, but we're not giving the winning disc jockey a Pontiac Fiero. We're giving a Porsche. And we're not giving a Pontiac Fiero to the winning reader, we're giving him a Mercedes. And the three readers who win a vacation aren't going to Disney World, they're going to Hawaii." It was interesting how this played out. Back at that time, the single-copy price of both papers was twenty-five cents, and I heard of disc jockeys saying on air things such as, "Vote in both contests, but if you've only got one quarter, buy the *Democrat.* I would much rather have a Porsche than a Pontiac Fiero."

JM: [Laughs]

PS: And we had a really successful contest, probably better than we would have had without the *Gazette*'s entry, which caused us to raise the ante.

JM: [Laughs] So—well, now, let me go back—clarify for our readers—a double-truck—you mean a two-page ad.

PS: Two-page ad.

JM: Two full-page ads.

PS: That's correct.

JM: But you did implement—you'd go ahead and implement your contest giving away the Porsche and the Mercedes and the trips to Hawaii and [everything]. So how long did those contests keep up?

PS: I think about a month.

JM: Okay. So did the *Gazette* back—or Gannett—did they . . .

PS: I think after we came out with our promotion they lost a lot of enthusiasm for it, perhaps they weren't getting enough votes to satisfy them, and so they printed a lot of little pads of coupons which they left in stores. We couldn't understand that strategy, because we wanted people to buy our newspaper to get the coupon. Since they printed coupons and left them in stores, the people didn't need to buy the paper in order to participate.

JM: Yeah. Hmm, hmm, okay. Do you remember how many cars you gave away?

PS: Just one to the winning disc jockey and one to the reader who sent in the coupon that we drew. So we gave away one Porsche and one Mercedes.

JM: And then some trips to Hawaii.

PS: Three trips to Hawaii. We also gave $10,000 to the charity designated by the winning disc jockey.

JM: Yeah, okay. All right, so was there anything paying for that? Did all of the . .

.PS: No.

JM: . . . all you could get out of that would've been additional newspaper sales.

PS: That's correct.

JM: Do you know how you were . . .

PS: We sold additional copies. There was no way to know how many, Jerry.

JM: Okay. All right, now, what's next on [laughs] the list of developments?

PS: Well, they continued to discount advertising, and they took an interesting approach. They seemed to target *Democrat* key advertisers that either used us exclusively or advertisers that ran the majority of their budget with us. They would often offer a rate that was less than what was shown on their rate card, a really low discounted rate if they would switch *Democrat* advertising to the *Gazette*. We talked about matching those rates on an individual basis. We obviously couldn't match every discount that they offered, because they were doing it selectively, and we had already concluded that we wouldn't match their deep classified discounts. But in retail, their strategy was different. They didn't reduce their retail rates to everyone as they had done for large classified advertisers. For retail they reduced rates on a selective basis, targeted primarily to our best customers.

JM: So they would give this one particular advertiser a big cut but not the others, who might even be similar.

PS: Right. For example, they had rates as low as $6 per inch, and Dillard's [Little Rock-based department store chain], was their largest advertiser and was paying about $22 an inch. I sent a letter to all advertisers in the market, to people who ran either with us or the *Gazette,* and told them that the *Gazette* was going off the rate card in some instances to try to get advertisers to switch business from the *Democrat* to the *Gazette.* I stated that if an advertiser would share with us an offer from the *Gazette* that we would discuss it, and in some cases, might be able to match it. I also was clear that in most cases we couldn't match it. In a few cases we were able to match those rates, but in most instances we couldn't. We accumulated a large file of special offers from the *Gazette* . . .

JM: Hmm.

PS: . . . as well as copies of ads and invoices from the *Gazette*. Their ad price reductions caused us problems. And then later they reduced their subscription prices drastically.

JM: Did you lose many advertisers to them?

PS: We lost some.

JM: Did you?

PS: Yes, we lost some. Some advertisers said, "They've got more circulation than you've got and now lower rates. We can't pass this up." We tried to monitor the advertisers who had lower rates as an inducement to get them to switch business from the *Democrat*. One day we opened the *Gazette* and saw a full-page ad from True Value Hardware, previously an advertiser that had placed most of their advertising in the *Democrat*. We called the advertiser and they said, "We couldn't turn it down for $6 an inch!" We were charging them close to three times as much, and the *Gazette*, at that time, still had more circulation than the *Democrat*. I certainly could understand why they took the $6 rate. So we lost some business like that. True Value's newspaper advertising budget was probably no more than $50,000 per year. Dillard's was spending, at that time, $2.2 million in the *Gazette*, and Dillard's rate at the *Gazette* was $22 per inch, compared to $6 for True Value. The *Gazette*'s strategy seemed to be to try to get advertisers from the *Democrat* at any rate or cost. They made the mistake made at many businesses where much of the effort is directed to trying to get new customers, while they tend to overlook their current customers. They didn't want to reduce the rate for advertising, which they already had. That would have drastically reduced their revenue. For example, if Dillard's' rate went from $22 per inch to $6 per inch, Dillard's' spending with the *Gazette* would likely have decreased from $2.2 million to $600,000. These strategies helped the *Gazette* on a short-term basis, but the long-term results were devastating to them.

JM: This is not when Dillard's got mad at 'em and quit advertising, though.

PS: No, it was later. We initially talked to Dillard's about it. I told the Dillard's advertising manager they were giving lower rates to some advertisers who spent much less than Dillard's. He didn't seem to believe they would risk doing that. We even encouraged them to ask the *Gazette* for a letter guaranteeing that the *Gazette* wouldn't give an advertiser a better rate than Dillard's rate, unless that advertiser spent more with them than Dillard's did. We knew the *Gazette* likely wouldn't do that if Dillard's asked. I doubt they ever asked, because I don't think they believed the *Gazette* would jeopardize their relationship in that way.

JM: Yeah.

PS: It was considerably later that Walter went to see Mr. [William T.] Dillard and took a couple of examples of special deals for advertisers at rates much less than Dillard's. Walter was able to convince Mr. Dillard that the *Gazette* in fact had advertisers with much lower ad rates than Dillard's rate.

JM: Yeah, okay. But this was some months later or you—you . . .

PS: No, this was probably . . .

JM: . . . years . . .

PS: . . . a couple of years later.

JM: Three years later, okay.

PS: They were here five years, and they started doing this within the first couple of years.

JM: Oh, okay.

PS: But, as I recall, the *Gazette* lost the Dillard's account about a year before they closed.

JM: Yeah, okay. Then you said that the next thing they did was starting discounting circulations then?

PS: Right. Jerry, I believe that when they came into the market they thought it would be a short battle. I think they didn't believe we had the financial resources to continue for long. And I think they thought they had smarter people than we had, and people with more experience coming from bigger markets. As a result, I think they really thought it would be a short battle. I heard from a *Gazette* employee that Al Neuharth, the Gannett CEO, predicted that the battle would be over in a year. I don't know if that's accurate and I don't even remember who I heard it from.

JM: Okay, so then—what did they do on the circulation?

PS: After Gannett owned the *Gazette* twenty months they reduced their subscription rates by 57 percent for a daily and Sunday subscription. And they offered a

Friday, Saturday, and Sunday subscription price of $10 for a year, and then they sold that at half price, for $5. So a reader anywhere in Arkansas could get the *Gazette* Friday, Saturday, and Sunday for 52 weeks for $5.

JM: Hmm. That's a [laughs]—so what did you do to respond to that?

PS: Well, we really couldn't match it. Walter calculated that in order for us to respond to those rates it would cost us an additional $7 million a year in losses.

JM: Hmm.

PS: And so we just couldn't do it. I remember, after the *Gazette* rolled back their prices, I had a meeting with Larry Graham, the Democrat's circulation director, and Dave Enoch, the assistant circulation director. They contended that we had to match these rates or they would overpower us. I argued that there were things they could do that would hurt us more. I asked, "What if they were to hire one-hundred door-to-door salespeople to sell subscriptions. Would that scare you more?" And they thought about it and said, "Yeah, that'd scare us more." And I said, "They could do that for less than what this will cost them." And then I asked, "What if they offered our carriers twice the profit to deliver a route for them, twice what they earn from delivering the *Democrat*?" And they said, "Well, we'd lose all of our best carriers." I asked, "Would that hurt us more?" And they said, "Yeah, that'd hurt us more." The point I was trying to make is that reducing your price often doesn't enable you to beat your competitor. But if they got all of the best carriers, that would sure help them and hurt us, or if they had more feet on the street selling subscriptions that would certainly help. I remember telling Larry that we could come up with another $1 million, and for

$1 million we could put tubes [similar to mailboxes] up at every subscriber's house in rural areas in the remainder of the retail trade zone [thirty-six counties]. We had tubes up in the four most populated counties but we had not put them in the other twenty-two counties, which were much more rural. We did that and it added value to a subscription because our readers in these rural areas didn't have to go out and look in the ditch for their paper. They knew it would be in the tube and it would be dry. They also could get the paper from their vehicle as they were going in or out of their driveway.

JM: So did you—did you do anything about—about hiring additional . . .

PS: We already had about fifty door-to-door salespeople, which was probably three times as many as the *Gazette*. They seemed to think they didn't need as many salespeople since they had lower subscription prices.

JM: Oh, okay.

PS: One thing that I didn't mention was that just after the *Gazette* was purchased by Gannett, we visited eight or nine newspapers that either were in competitive markets or had been in competitive markets. Larry Graham, the circulation director, John Mobbs, the ad director, and I made these visits. Sometime we'd go together. Sometime we would split up. But we visited both papers in Dallas [Texas], Tampa [Florida] . . .

[Tape Stopped]

JM: This is Jerry McConnell sitting here with Paul Smith. Paul, this is side two of this tape, and it ended when you were talking of the places that you had visited where it had competitive markets. So go—you want to go over that list again?

PS: Sure. We visited papers such as *The Dallas Morning News* and the *Dallas Times Herald in* Dallas; *The Tampa Tribune;* the newspapers in Font Lauderdale [Florida], Detroit [Michigan]—the *Detroit Free Press;* both papers in Denver [Colorado]; both papers in Houston [Texas]; *The Orange County Register*. I think that's most of the list. But we went to those papers and we gathered as much information as we could about how they competed in their markets. We talked to them about things that had worked for them against their competition, and we adopted some of these practices. Some we changed somewhat and some we didn't use. Every market is different. We decided that some things that perhaps would work in another market wouldn't work as well here. But we got a lot of good ideas and we used many of those ideas.

JM: Do you remember any specifically that . . .

PS: Well, yes. When we were at *The Houston Post*, I talked with the circulation director there, and he told me that they averaged selling 2,200 subscriptions per week, but they were only collecting for a third of them. Telemarketers would call and sell a subscription and the subscriber would promise to send the payment in. They would start the newspaper immediately. And he said two-thirds of these people who promised to pay, never did. Basically, they were really selling about seven hundred subscriptions per week that they collected for. Shortly after the *Gazette* was sold to Gannett, we copied a program that had been in effect for several years in Chattanooga [Tennessee], where they gave subscribers a modest discount if a subscriber paid at least three months in advance. At that time, very few of our subscribers paid in advance. They paid the carrier each month. We really pushed to get people to pay in advance through the office. We gave them about a 10 percent discount if they'd pay three months in advance, and it wasn't long until we had over 50 percent of our subscribers paying in advance through the office. That gave us an advantage, because the *Gazette* at the time was collecting monthly and their carriers were doing most of the collecting. If the *Gazette* telemarketing department called one of our subscribers, they weren't likely to catch them right at the end of their subscription period, which made it more difficult to get one of our subscribers to switch. We finally got it up to where nearly everyone paid in advance. Currently, 99 percent of our subscribers statewide pay at least three months in advance through the office. Carriers now only need to collect from 1 percent of their subscribers.

JM: Well, I—that—let me go ahead and ask you a—a question on . . .

PS: I'm sorry for interrupting. We were talking about the newspapers in Houston. So they said they sold 2,200 subscriptions a week, but they only collected for a third of them. And by then we were collecting in advance for our [subscriptions]. And the reason we did that was because when a telemarketing department is selling subscriptions with a promise to pay, they are likely to try to sell in the lower income areas because it is easier to get an agreement to subscribe, but it was usually much more difficult to get payment. Before we started selling only prepaid orders, carriers would often not start these telemarketing subscriptions because they knew there was a chance the subscriber was not going to pay. We gave them a credit if the subscriber didn't pay, but they had to prove to us that they hadn't collected, and that was sometimes a hassle for them. In a lot of instances carriers would discard the subscription and never start orders that came from our sales department because they knew there was a good chance the subscriber wouldn't pay. So we decided, even though we couldn't sell as many subscriptions, it would be better to collect in advance and that way the carriers would know that the subscriptions were prepaid. After going to Houston we learned some techniques they used for selling subscriptions, but all of our orders were prepaid. And for a couple of years we averaged selling more than 3,000 prepaid subscriptions per week.

JM: Uh-huh.

PS: And that really was driving our circulation up so rapidly that after about a year and a half after Gannett bought the *Gazette,* we had the largest circulation increase of any metro newspaper in the country, based on percent of growth. And that's when the *Gazette* cut their subscription prices. I think that after a year and a half they saw their strategy was not working, and that's why they drastically cut their subscription prices.

JM: Okay, Paul, what impact did the *Gazette* cutting their subscription price by 57 percent or it made—it made significant cuts—what—what impact did that have on your—your circulation?

PS: Jerry, it really frightened us, but it really didn't have as much impact as we feared, and I think I can tell you why. Shortly after Gannett started operating the *Gazette*, they started making a lot of changes in their news product. They shortened stories and added a lot of graphics, and in some cases they probably improved the paper. I'm not saying they didn't but it made readers nervous because it was such a drastic change from the *Gazette* that they had read for many years. And they really upset their readers when they started to have "soft" features on the front page that did not have much news value. For example, they had on the front page of the *Gazette* a picture of UALR [University of Arkansas at Little Rock] cheerleaders in Spandex costumes, and there was really no reason for the picture to be on the front page, other than to feature some racy art that I suppose they thought might sell some papers. I think their readers thought they were trivializing the news coverage. And when they cut their subscription price about a year and a half after they came into the market, I think that was confirmation to a lot of their readers that they had damaged their news product and now were having to cut their subscription prices in order to compete. Walter came up with an idea that people at the *Gazette* laughed at, and one that concerned me initially. Shortly after they reduced their subscription prices he and I had gone to lunch and as we were driving back to the *Democrat,* we looked over at two racks—a *Gazette* and a *Democrat* rack, side by side, and the *Democrat* rack had a card on it promoting the *Democrat* as "America's fastest-growing newspaper." And on the *Gazette* rack next to it was a card with the promotion message, "Subscription prices reduced 57 percent." Walter said, "The *Democrat* is America's fastest growing newspaper and the *Gazette* is America's cheapest." We shot a picture of the two racks side by side, the *Gazette* rack with the message, "Subscription prices reduced 57 percent" and next to the *Democrat* rack with the message, "America's fastest-growing newspaper." We started running in the

Democrat a full-page ad with that picture of those two racks under the headline, "A tale of two newspapers: America's fastest-growing and America's cheapest."

JM: [Laughs]

PS: That's all it said. And the people at the *Gazette* laughed and said, "Those fools are advertising for us the fact that we've got a cheaper rate." That really wasn't what we were promoting and I don't think their readers perceived that to be our message.

JM: Yeah.

PS: That was a really smart move, and I think it confirmed what many *Gazette* readers already thought, that Gannett was ruining the *Gazette*.

JM: Yeah. Okay.

PS: Again, I want to say that a lot of the things they did to the news product were good.

JM: Uh-huh.

PS: But they probably made too many changes too fast, and replaced too much serious news with soft features.

JM: Yeah. Obviously, though, through all of this and all these changes and their moves, it had to be costing you a lot of money.

PS: It was costing us a lot of money but it ultimately didn't cost us as much as it cost the *Gazette*.

JM: Yeah. [Laughs]

PS: They lost more than $30 million during the last year they operated the *Gazette*.

JM: Hmm. Hmm. Do you know how much you lost or have you ever seen?

PS: I know how much we lost. I won't say how much it was but it was significantly less than that. It was considerable.

JM: Okay.

PS: We were losing about all we could afford to lose.

JM: Yeah, you—things were pretty tight.

PS: Things were pretty tight. We couldn't lose as much [laughs] as they could.

JM: You didn't have as much.

PS: We didn't have it.

JM: Uh-huh.

PS: Many people now look at the competition between the *Democrat* and *Gazette* and say, "You guys were really smart not to do those things." We couldn't afford to do some of what they did.

JM: Yeah. Was there ever any thought that you might not make it, that . . .

PS: Absolutely. Just about every day.

JM: Yeah, okay. [Laughs] Yeah, so did you ever make any alternative plans or . . .

PS: No.

JM: Yeah.

PS: No, we didn't.

JM: Yeah, okay.

PS: And there were advantages we had. They obviously had more money and they had a lot of talent. They sent some talented people into this market. But generally, a lot of the people they sent in here were very arrogant.

JM: Yeah.

PS: I think they wanted to come in and quickly show that they could be successful in this competitive market and then be rewarded by being sent to a larger market. I think the key executives thought they were not going to look good at Gannett unless they could eliminate us from the market. I believe the leaders at Gannett considered any thing short of that to be failure.

JM: Yeah. Some of 'em apparently had the idea that they were going—they were coming in here and showing these Arkansas hicks how to run a newspaper.

PS: I think that's probably right. And they were experienced, at least in traditional markets.

JM: Hmm. So what other—what other after the circulation cuts—any more big changes that they implemented to try to . . .

PS: They came out with many different advertising programs, but they usually wouldn't continue them for very long. One of the advantages we had was that the key people who worked here had been here a long time. We didn't have a lot of employee turnover and still don't have a lot of turnover. The *Gazette* changed key people quickly. In the five years Gannett operated the *Gazette* they had three editors, three publishers, two ad directors, and three circulation directors. We didn't have any changes in any of those positions during that period. Our people had been in this market for a long time, and they were committed to the *Democrat*. I believe a large company such as Gannett rewards their key employees who do well by promoting them to a larger market. It is likely that most managers go into a market with the intention of performing well and being moved to a larger market. I believe that focus causes them to have short-term strategies. Our strategies were based on long-term objectives. We were accustomed to competing with less resources than the *Gazette*. Our people were accustomed to getting knocked down but getting back up and staying the course. It was interesting at the *Gazette,* with the Patterson ownership and with Gannett, that when they started a new advertising program, if it wasn't successful quickly, they would abandon it and try something else. I think they just hadn't been in a tough situation often enough or long enough to realize that it takes a while to make some programs work.

JM: During this time, did they also try to compete with you on space devoted to news and . . .

PS: Yes.

JM: . . . and stories and everything?

PS: They increased their news space considerably.

JM: Did they? Okay. Did they start using to have more space than the *Democrat* or do you remember?

PS: In some cases they did. I don't remember some of the details, but they either matched us or exceeded us in some instances. When we heard that the *Gazette* was being sold to Gannett, I had a meeting with Walter and all of our department heads, and we talked about the statement that we ran each day on the front page of the *Democrat*. We had for several years promoted on the front page that the *Democrat* was "Arkansas's largest newspaper." We discussed this and decided that we probably shouldn't flaunt the fact that we had a bigger newspaper than the *Gazette*. We thought that if we promoted that fact they would likely take that advantage from us. We talked about what we could replace it with and I don't remember who came up with this idea, but it may have been Estel Jeffery who said, "Well, one thing we can promote that they can't take away from us is the fact that we're Arkansas's newspaper." We all quickly agreed that this should be our new statement. We went from promoting that we were 'Arkansas's largest newspaper' to promoting that we were 'Arkansas's newspaper'. The hometown advantage. And I think it worked for us.

JM: Did it get—I've heard tales about this that they—do you recall that it got down to the point that the newspapers were saying, "Well, we had seven people cover this story," and the other paper say, "Well, we had eight," or did it ever . . .

PS: No, I don't think so.

JM: You . . .

PS: I don't think it was so much that we promoted how many we had covering the news, but rather that we tried to cover everything that happened. We had a strategy that I don't believe the *Gazette,* under the Patterson ownership or under Gannett ownership, ever really got a grasp of. We felt that there would be perhaps six or eight times a year when there would be a major news event that would be of so much interest to people in Arkansas that they would read both the *Democrat* and *Gazette* for maximum coverage. At those times, if they regularly read the *Democrat,* they would probably buy the *Gazette* for a day or two, or if they subscribed to the *Gazette* they'd probably buy a *Democrat* to supplement the *Gazette* coverage. Oftentimes the *Gazette* subscriber wouldn't see the *Democrat* regularly and the *Democrat* subscriber wouldn't see the

Gazette regularly. But on those days the readers would read both newspapers and they would compare the coverage. So our strategy was on those days to go all out on coverage to always beat the competition, and I think we did. We made sure we did, because we wanted those *Gazette* readers when they took the *Democrat* into their home to say, "Wow, look at the coverage in the *Democrat*. They beat the *Gazette*."

JM: Did you have—do you recall any specific news events that you did that on?

PS: Sure. Like when the man near Russellville, I can't remember the name of the guy, but he killed his whole family, and . . .

JM: Oh, I think I might remember that. Was that Gene Simmons of Dover? Was that . . .

PS: Yeah, at Dover.

JM: . . . was that it?

PS: That's it.

JM: Yeah. [Editor's Note: In the space of one week in December 1987, R. Gene Simmons killed sixteen people, including all the members of his immediate family. He was sentenced to die for the slayings and executed in 1990.]

PS: And at other times when the interest in some news event was so significant that subscribers wanted maximum news information.

JM: Uh-huh, uh-huh. Okay. Well, you've done—continued to—to do that on really big events—we'd cover the heck out of some of 'em, and—when did—at what point in time did you realize that maybe Gannett was struggling a little or—or they were not—did you ever feel that you'd kinda turned a corner or anything?

PS: Jerry, we passed the *Gazette* in Sunday circulation back in the late 1980s, and at that time we had an advertiser party on the lawn at the Old State House. Walter is a big fan of the Four Tops, and he brought in the Four Tops and the Temptations for a concert. We had a big party to celebrate the fact that we passed the *Gazette* in Sunday circulation and the fact that we had more circulation than any newspaper in Arkansas. Sunday circulation was the largest for both newspapers, so when we passed them on Sunday, we had the largest circulation of any one issue. And later we had more circulation daily in nearly all of the central Arkansas counties. When the *Gazette* closed and we [went] into their building, one thing that we immediately noticed in the circulation department was a large state map showing all seventy-five Arkansas counties, and it illustrated for a ten-year period the counties in which the *Gazette* had the circulation lead. During this period, the *Democrat* went from having the lead in only four or five counties in the twenty-six county retail trade zone to having the lead in about 70 percent of these counties, by the end of the competition. I think they were very discouraged when we passed them on Sunday circulation. By then Gannett had been competing here for about three years and they had lost a lot of money, and they were losing market share in both circulation and advertising. Their first publisher was Bill Malone and he was a good one. After about three years, they transferred Bill to Monroe, Louisiana; and they transferred Ed Major, their ad director, who also had done a good job, to Muskogee, Oklahoma. By this time, they had turned over their circulation director, their ad director, their publisher and their editor, an indication they were getting alarmed.

JM: Who replaced Malone as the publisher? Do you remember?

PS: Craig Moon, who's now the publisher of *USA Today*. [Editor's Note: Moon retired in April 2009.]

JM: Okay. And then who replaced him? Did he . . .

PS: They moved him out about three months before they closed the *Gazette*—moved him to . . .

JM: Nashville.

PS: Nashville, Tennessee; and they brought in someone who had worked for Gannett and had retired. Moe Hickey.

JM: He was the guy that they really brought in to close the place, wasn't he?

PS: They brought him in to close the newspaper, and I think maybe—well, I . . .

JM: Yeah.

PS: . . . I'll not speculate any more than that.

JM: Oh, okay.

PS: But anyway, they obviously brought him in to close the newspaper.

JM: Now—now, let's talk a little bit about the Dillard's situation. What happened on that when Walter went over to talk to Mr. Dillard, and he stopped advertising in the *Gazette?*

PS: Well, I wasn't in that discussion, it was just Walter and Mr. Dillard in the meeting. Walter showed Mr. Dillard some examples where advertisers had rates that were a lot less than Dillard's. Walter said that Mr. Dillard didn't comment. He just looked at the invoices. And it was difficult to gauge his reaction.

JM: Now, what happened—he was showing him that they were charging other department stores lower rates,

PS: Even advertisers that didn't spend 5 percent as much as Dillard's sometimes had a rate half what Dillard's' was. But these were not department stores.

JM: Yeah. So Dillard's was by far their biggest advertiser.

PS: Their second-biggest advertiser didn't spend a third of what Dillard's spent.

JM: Is that right? Okay. And how long was it after Walter met with Bill Dillard that they took their advertising out of the *Gazette*?

PS: Well, actually, they had stopped advertising for a while with the *Gazette,* because they'd gotten upset with them about something. I don't remember exactly what it was. I think they were upset with the *Gazette* because of an article about Dillard's tearing down some old dilapidated houses in order to build their new corporate headquarters.

JM: Oh, okay.

PS: I think Mr. Dillard got upset because they were making a major investment in putting their corporate headquarters here, and the *Gazette* was complaining because they destroyed a slum neighborhood. I think that article upset Mr. Dillard. Dillard's would probably have eventually resumed advertising in the *Gazette* if Mr. Dillard had not learned that some other advertisers had lower ad rates than his company. I think that gave Mr. Dillard the resolve to continue holding out.

JM: Yeah.

PS: If being out of the *Gazette* had hurt Dillard's significantly, I think they probably would have gone back. I think what happened, Jerry, was that when people realized that Dillard's ads were not in the *Gazette,* they knew they could find them in the *Democrat.*

JM: Yeah, okay. So that probably had some impact on circulation, didn't it?

PS: It helped us somewhat.

JM: Yeah, okay. And obviously—probably—did they start advertising more in the *Democrat* or were they . . .

PS: No.

JM: . . . or just the—they just cut out what the . . .

PS: Dillard's at that time had the same ad schedule in both newspapers. The *Democrat*'s schedule didn't change, but we benefited from having them exclusively.

JM: And I understand that from maybe reading some of the *Gazette* interviews that Gannett did fly some people in here to try to talk Dillard's into coming back with 'em, but did not have much success.

PS: Well, how would you have felt if you had been Mr. Dillard when they brought the big guns in from corporate and said, "You're really important to us. We need to have your advertising." Would you have felt that you had not been important enough before to be treated fairly?

JM: [Laughs] I would've been upset, I think, yeah. So when did you get an inkling that Gannett might be wanting to get out of the market?

PS: Walter was contacted from Gannett and much of the discussion was between attorneys. I wasn't in those conversations. I think there was some interest in an offer expressed from Gannett. It eventually became obvious that they were interested in exiting the market.

JM: Were you aware of this?

PS: I was after the initial contact, yes.

JM: Yeah. How many months did that happen before the sale was actually before you bought their assets? Do you remember?

PS: They had to make an application to the [United States] Justice Department for approval, and the Justice Department required that Gannett try to find a buyer, someone who would at least pay the asset value. They couldn't find anybody that would make any significant offer.

JM: By this time, had you caught them in daily circulation?

PS: We had passed them in daily circulation in the retail trade zone.

JM: Retail trade zone. Okay.

PS: That is where it mattered the most. They still had more daily circulation way out in the state than we had. We had more total circulation Sunday than they did. They still had more circulation in places like northwest Arkansas, Jonesboro, Lake Village, El Dorado, etc.

JM: So how widely was it known that there was—around here that—that it might be something brewing there or . . .

PS: Well, when the Justice Department indicated that they might not object to the sale if Gannett couldn't find a buyer, Gannett hired two brokers to try to find a buyer. They tried for six months and during that time it became apparent that they were not likely to find a buyer. Gannett's contention was that they had lost so much money they eventually would close the *Gazette,* and then we should be able to buy their assets. Basically, buy their equipment and buildings . . .

JM: Uh-huh.

PS: . . . and property and so forth. We realized that if they at the Justice Department decided to not object to the sale, we wouldn't have any idea when they would tell us that they weren't going to object. So we had to be prepared. We met with our department heads and worked out a plan as to how we would roll these two papers together if the Justice Department told us that they wouldn't object. And we planned for several months how to do that.

JM: Okay.

PS: And that did happen. Walter received a call from an attorney who said the Justice Department had notified him that they would not object to the sale, and Gannett shut the *Gazette* down that day, which was a Friday.

JM: Yeah.

PS: We asked Gannett to wait until the following Monday to close the newspaper. We didn't want to combine the two newspapers for the weekend editions. They wouldn't agree to delay because they would lose too much money publishing the Sunday edition. They said they had published their last newspaper.

JM: That's what Gannett said?

PS: Yes.

JM: So they said they would've lost a lot of money if they'd had to publish the Sunday paper.

PS: Right.

JM: Yeah, okay. And I think if I remember, Walter had asked the Justice Department [laughs] to let him know earlier in the week or something, hadn't he, that . . .

PS: Well, we knew we couldn't depend on them to work on our timetable.

JM: Yeah, I understand that. But you had met with your department heads, but it wasn't general knowledge, though, around the paper, though, that there would-that—that . . .

PS: No, it wasn't general knowledge around the paper, but something interesting happened. One of the most difficult jobs involved in combining operations was in the circulation department. And two of our circulation district managers who were involved in the planning were having a cell phone conversation about some aspect of the newspapers being merged and someone at Channel 11 picked up that conversation on a scanner. They learned from that phone conversation about a possible sale. They put it on their newscast that evening.

JM: Yeah. Yeah, I think I remember hearing about that. It may have been [TV news reporter] Joe Quinn. I'm not sure of that, but . . .

PS: Yeah, that might be right. I can't remember.

JM: But the—their—Channel 11. I understand that around the *Gazette,* you know, there were—there were mixed opinions. And I'm talking about reporters and editors, and that some people thought, "Well, it's gonna happen. We're going out of business." And some of 'em just said, "No, no, it's not gonna happen—" [Laughter] 'Til—'til right almost up to the last minute.

PS: You know, by that time Orville Henry had gone to work for us. And that was a big move. Orville was well-read and well-respected. But more than anything, it was a statement that it must be bad at the *Gazette* if Orville Henry leaves to go to work for the *Democrat.*

JM: Uh-huh, uh-huh. Do you remember whether that had much of an impact on your circulation when he switched?

PS: Jerry, there were so many things going on, it's hard to pinpoint what affect that had. I'm sure it affected it some. I'm sure it probably affected advertising, too.

JM: Hmm.

PS: There were probably some advertisers who had been on the fence wondering if we would be able to win. But I think when Orville came over here it probably gave some people more confidence that we were likely to win.

JM: Yeah, I've told this story elsewhere, but I knew it was—something major was going on because Orville—when I was working for Orville, Orville called me in one day and he said, "Jerry," he said, "if you ever want to be sports editor of a big newspaper," he said, "you're gonna have to go somewhere else." He said, "I wouldn't leave." He said, "I wouldn't leave the *Gazette*." He said, "I love the *Gazette,* but I wouldn't leave it to go to *Sports Illustrated*." He said, "I'm not ever gonna leave the *Gazette*, so if you want—you know, you want to ever have a job like this, then you need to go someplace else. "Well, then when he did leave the *Gazette*—course that was with the old *Gazette*. But when he did leave, then I knew something—and I was in Oklahoma City [Oklahoma] at the time, but I knew something was happening. Tell me a little bit about the difficulties you all had in making the transition and switching over and what kind of planning had you done to . . .

PS: We had to merge our subscriber lists and our advertising lists with the *Gazette*'s. We had done preparation work in case the sale was approved, but no one at the *Gazette* could see our competitive information and we couldn't see theirs. So we turned our circulation and advertising databases over to a third-party contractor and they merged them and had everything ready in case the transaction was approved. We had done some work like that and we had requested rate cards from other newspapers in similar-sized markets to try to come up with a reasonable rate for the merged newspaper that would survive the competition. We got advertising rates from about fifty different newspapers and did cost-per-thousand comparisons on each paper and came up with an average. That helped us set our advertising rates. We did other similar things prior to the merger.

JM: Was it and you had to—for a period you delivered papers to everybody on both circulation lists, right?

PS: We did for probably ten days.

JM: Did you? Okay.

PS: And I'm sure some readers thought we were not very efficient, because for a period of about ten days everyone who had previously subscribed to both newspapers got two copies of the *Democrat-Gazette*. By that time some routes were merged and those subscribers got only one *Democrat-Gazette*. As I recall, it took about two months to combine all routes. Those out in the state were the most difficult.

JM: Uh-huh.

PS: Initially the *Gazette* carriers delivered the merged newspaper to their former subscriber list and the *Democrat* carriers delivered to their former subscribers, until we got to the point that we were confident that we could merge the two subscriber lists. As we merged the carrier lists, the number of subscribers per block increased so much that we often had to redefine the boundaries on each route. It took awhile to go through that transition.

JM: Okay. I know that some people at the *Gazette* were very unhappy because they never got a chance to publish another paper and they felt they should've had a chance to publish that paper.

PS: We wanted them to publish another paper.

JM: Did you?

PS: We would have preferred a Monday issue to be the first combined issue. Combining the Saturday and Sunday newspaper was much more difficult because they were larger with a lot of advertising that was in varying stages of being created. After the announcement, their composing and advertising employees just walked out, and we had no idea what advertising had been scheduled. If it had been scheduled we didn't know where the ads were in the process of it being typeset and composed. A Monday or Tuesday paper that didn't have much advertising would have been much easier.

JM: Publish Saturday and Sunday, but they just said no, that they didn't want to spend that money. Okay. What was the—I think it's probably a pretty simple answer, but what was the reaction around here when the news became . . .

PS: Jubilation.

JM: Yeah, yeah, I bet. So a lot of people had been here and . . .

PS: Jubilation and relief.

JM: Yeah.

PS: Because, Jerry, everybody here knew that it could have been us.

JM: Yeah, okay. So . . .

PS: I think I remember that shortly after Gannett bought the *Gazette,* either the *Arkansas Times* [an alternative newspaper] or *Arkansas Business* had a picture of Walter on the cover of their publications with the headline, "Goodbye, Walter Hussman."

JM: Hmm. [Laughs] So . . .

PS: So during the competition we realized that we might not survive. I think most people in the newspaper business thought we wouldn't survive. And they told us often that we couldn't win.

JM: Yeah. Yeah, I don't—I don't know of anybody in the early years that really thought that if one paper survived that it would be the *Democrat*. They—everybody would've, I think, guessed that it would've been the *Gazette* at that time.

PS: Well, obviously, Hugh Patterson felt that way or he wouldn't have reacted the way he did to Walter's offer of a JOA [joint operating agreement].

JM: Yeah, that's some interesting developments on that, and I've heard their arguments about why it [the Patterson-owned *Gazette*] didn't take the [*Democrat*'s] offer on the JOA, but there are a lot of people that questioned, though, why they didn't move more aggressively, you know, in meeting the competition, but . . .

PS: I really think it was pride. I think it was pride that kept them from matching our free want ads, because they felt not responding showed strength on their part.

JM: And they—there were other developments, though, the things that you did, that they didn't—did they ever meet your space—the amount of space that you had?

PS: Not prior to Gannett.

JM: Yeah, okay. The *Gazette* itself never did go out. And I think maybe that was—as I understand—I've been told that that was one reason that Orville, before he switched over here—but he left there and moved to Fayetteville and—and my understanding is that was one reason that he did that was that he had been asking them to give him more space and more people in [the] sports [department] so he could compete with what you all were doing, and they wouldn't do it. So that was sort of their typical attitude it seems to be. But that—do you think they thought that you were gonna spend yourself out of business, that—or was it just [laughs] that they didn't want to admit that . . .

PS: Jerry, I believe that after you've been number one in a competitive situation for a long time, you tend to not look at things realistically. You tend to think you're too strong to be seriously challenged.

JM: Hmm.

PS: I mentioned in your first interview that several advertisers commented to me within the first six months after I came to Little Rock that they thought there were three institutions in Arkansas that would never be challenged: the *Arkansas Gazette*, the Arkansas Razorbacks, and Worthen Bank.

JM: Yeah. [Laughs]

PS: And look at [Bentonville, Arkansas-based] Wal-Mart [Stores, Inc.] Wal-Mart was our largest advertiser in the late 1970s, and just after we converted to a morning paper in January of 1979 we heard a rumor that Wal-Mart might be considering switching their advertising from the *Democrat* to the *Gazette*, and that really alarmed us. Walter and I went to Bentonville in the spring of 1979 and met with Tom McCoy, Wal-Mart's advertising director. Wal-Mart was preparing for their annual convention, and they were excited because they thought they had a good chance in 1979 to reach a billon dollars in sales. The excitement in the retail business at that time was that K-Mart was about to pass Sears [Roebuck and Company] and become the largest U. S. retailer.

[Tape Stopped]

JM: This is Jerry McConnell again here with Paul Smith, and this is tape two of this interview on December the ninth, 2008. Paul, as the other tape ended you were talking about the situation with Wal-Mart. Do you want to go into that again and . . .

PS: Sure. When Walter and I went up and met with Wal-Mart in—I think it was April of 1979—they were excited about the fact that they thought they had a good chance that year to do a billion dollars in sales. They'd never had sales of a billion dollars. Sears at that time was the largest U. S. retailer. They were doing almost $19 billion, but K-Mart was about to pass Sears and become the largest retailer. They were doing about $18.5 billion. Looking at today in 2008, neither K-Mart nor Sears is doing twice what their sales volume was in 1979. Wal-Mart's retail sales has increased during this time from $1 billion to more than $300 billion.

JM: Yeah.

PS: And I remember hearing people say that they thought Sears at some point might take over the retailing world because they were much bigger than anybody else, and they had a real estate company and an insurance company. But it shows that you're never in a position where you don't need to be concerned about your competition. And that's what I think happened at the *Gazette*. I believe they got to the point where they thought they couldn't be challenged, and when you get to that point you usually are in danger.

JM: That [laughs]—I've discovered over the years that's usually when a football team gets beat is when they think they're not gonna get beat, that this other team can't possibly beat 'em—then they beat 'em. So what happened on that trip to Bentonville, though, to talk with Wal-Mart?

PS: Well, we didn't lose the business. In fact, when we talked to Tom he seemed surprised that we had heard that they were thinking about switching their advertising to the *Gazette*. They said they were not considering it, but we were certainly concerned.

JM: Hmm, so that was probably your biggest advertiser at the time, weren't they?

PS: They were. Wal-Mart at that time was our biggest advertiser.

JM: Okay. Okay, now, we've discussed Gannett giving up the ghost and everything. And let's go on—what have been some of the—and since this is a history of the *Democrat* and the *Democrat-Gazette*, let's go on. Since those years, Paul, what have been in your view some of the major developments that have happened with the newspaper?

PS: Well, I think the major thing has happened is due to Walter Hussman's commitment. Most people expected, I think, that when the *Gazette* closed Walter wouldn't continue to invest as much as he had in the news product and in circulation service and in a lot of other things. For example, when we competed with Gannett we realized that we had to do everything we could to try to give us an advantage. And one thing that we thought would give us an advantage would be to put our newspapers on our subscribers' porches. The *Gazette* threw them in the yard, often out by the curb, and we felt that if we put the *Democrat* on the porch, in those instances where the subscriber took both the *Gazette* and the *Democrat,* they would read us first because it would be easier to get the *Democrat.* They could go in their pajamas and get their *Democrat*. And we felt that the newspaper that was read first would eventually become the preferred newspaper. The second newspaper would not be read as thoroughly as the first, and that had been an important part of our circulation strategy. Most people thought, I'm sure, that when the *Gazette* closed we wouldn't continue to do that. Most people certainly thought we wouldn't continue to offer free want ads. But we felt that if free want ads worked well in a two-newspaper market, they would work if we had the only newspaper in town. And I think they have continued to be effective. Today the *Democrat-Gazette* has the highest penetration, the largest percentage of people in the Little Rock-North Little Rock city zone that take our Sunday paper, of any metro newspaper in the country. And we've got more circulation today than newspapers in Raleigh and Charlotte, North Carolina; Austin, Texas; Las Vegas [Nevada]; Nashville, Tennessee; and in many other newspapers in much larger markets than Little Rock. And that's because of the commitment that Walter has made financially and otherwise to produce the best newspaper possible. And I think that's one major development, the fact that we have not operated like most newspapers in single-newspaper markets. We continued to operate to a degree like we had operated when the *Gazette* was still operating. I think another significant factor was that when the *Gazette* closed, Walter made the decision to have both conservative and liberal columnists on our op-ed [opinions/editorials] page. Obviously, our editorials reflect the views of the owner, but on the opposite page you'll find liberal columnists as well as conservative columnists. I had numerous people who had subscribed to the *Democrat* before it became the *Democrat-Gazette* call and complain about the fact that we had picked up liberal columnists. I heard comments such as, "I thought you won the newspaper war. You act like the *Gazette* won. Why are you carrying these liberal columnists?" I tried to help the reader understand that Walter feels that we should objectively provide all the news to our readers and have conservative and liberal columnists express their opinions on various issues, so the readers are better prepared to form their own opinions. I think the people at the *Gazette* would not have carried conservative columnists if they had won. They seemed to think they should tell the people what was best and not provide information that disagreed with what they thought was best. But Walter welcomes all viewpoints. While our editorials reflect his opinions, columnists such as Gene Lyons certainly don't reflect his opinions, but he welcomes Gene's opinions in our newspaper.

JM: What now, a lot of people—and you sort of touched on this, but a lot of people really thought, "Well, he'll really cut back on the space. He's gonna try to make up some of that money he lost—obviously lost a lot of money over the years." But there hasn't been a big reduction in space, has there?

PS: No, there has not, Jerry. And let me tell you something that I've heard Walter say a couple of times that I think will help you understand why he hasn't cut back on the space. Before Gannett bought the *Gazette,* the American Press Institute did a case study on the newspaper competition in Little Rock and the American Press Institute each year conducted a marketing seminar where they had Harvard [University] professors teach marketing principles to newspaper executives. And they had written a case study on the *Gazette* and the *Democrat* prior to Gannett buying the *Gazette.* And when they were having their 1979 marketing conference they asked Walter and me if we would like to be present when they discussed the *Democrat* and *Gazette* case. We did that. There were about sixty newspaper executives there and as they started the conversation, we went in and sat in the back of the room, and, as I recall, there was not a single newspaper executive in that room who thought the *Democrat* had a chance of surviving against Gannett. After the discussion, Steve Starr, the moderator, asked Walter and me to come to the front. One of the *Gannett* executives who later became the publisher in Detroit [Michigan] asked Walter, "Why are you risking so much in Little Rock?" He said, "You could've taken the money that you've spent in Little Rock and bought several profitable newspapers. And now you're going up against the biggest newspaper company in the country. Why are you doing this?" I'm sure to him it seemed totally irrational. Walter's answer was, "I've got enough money that I can drive any kind of car I want, I can eat in any restaurant I want, or I can take a trip anywhere in the world I want to go. It excites me more to try to keep this newspaper alive for people in Arkansas so they have a choice and not have just the *Gazette.*" He said, "It excites me more to spend my money doing that than it does to stack it up in a bank somewhere." I think that explains why Walter is willing to make less profit at the *Democrat-Gazette* than most companies would want. We still do fine. During this economic downturn it's tough on us like it is everybody else, but we have done better than most newspapers and we've been able to produce a really good newspaper for our readers and advertisers. I believe that gives Walter more pleasure than he would get out of earning more money.

JM: Paul, this might be a good time to go ahead and discuss this. Obviously, a lot of newspapers have been struggling the last few years, and some of them are going out of business now. They say that the Tribune Media Group has filed bankruptcy—for bankruptcy. [Editor's Note: The Tribune Company filed for bankruptcy protection on December 8, 2008] What is the situation at the *Democrat-Gazette* or how—how are you faring through both the downturn and the dire financial situation of the newspaper business?

PS: Jerry, our revenue is off. It's not off as much as it is at most newspapers, but it's off significantly. It's off because retailers are struggling. Consumers are spending less money and that affects companies' advertising. Auto dealers are really hurting, as you know. Real estate companies are hurting. That's impacted every newspaper's advertising. It has also impacted every TV stations' and every radio stations' advertising. We have nearly 1,300 employees statewide, and it is very costly to publish a newspaper the size of the *Democrat-Gazette*. We're still making a profit, but we're making significantly less than we were before the economy fell off a cliff. Our best year ever was 2006. In 2007 we took a dip and we took a bigger dip in 2008. Most newspaper companies have had several rounds of layoffs in the last three years. We've not. I hope we don't get to the point where that's necessary, but it might.

JM: Okay. Now, this situation has come up really since the economy as a whole had taken a nosedive. Let's go back a little bit before that. How are you—how are you handling the situation where a lot of newspapers were really struggling and for various reasons. I guess, a lot of people think its competition with the Internet and all the blogs [Web logs], but you apparently were holding your own or doing better through that period of time.

PS: Well, I think we were doing better for several reasons, Jerry. One, we don't give away our news content. Only our subscribers, either print subscribers or online subscribers, can read our news on the Internet. Now, we put up national news online from AP [Associated Press] and other news that is not unique to our market. And we put up a lot of additional information that is not in the newspaper, like advertising-related information and other information. But we feel that the local news we produce is the only unique thing that we have to offer. Walter feels that if we give that away we don't really have any unique content that readers need to come to us for. The fact that we charge for news online has helped us, but I think it goes beyond that. Most major newspapers are owned by publicly traded companies. They can't have a long-term strategy. They have to worry about the next report to Wall Street. They have to worry about what the stockholders' reaction will be when the next report comes out.

JM: Uh-huh.

PS: And fortunately for us, we can take a long-term strategy. In he past, when newsprint prices got really high, most newspapers would cut news space. We never did. Never one time has Walter Hussman asked me to cut news space because the price of newsprint has increased. Up until now, we have been willing to suffer short-term decreases in profit in order to sustain the long-term health of the newspaper. The current economic situation has created a different much more precarious environment in which to operate, but I think we will get through this period. Our company doesn't have any significant debt while many newspaper companies have significant debt. Walter's risk-taker. Our competition with the *Gazette* was certainly a risk, so was building a printing plant in northwest Arkansas and starting a Northwest Arkansas edition of the *Democrat-Gazette*. We went from five employees to more than three hundred employees in northwest Arkansas. That was obviously a risk. But while Walter is a risk-taker, he is not reckless. He has not accumulated a lot of debt in order to buy more newspapers. Our company bought the newspapers in Chattanooga in 1998 and later bought the newspapers in Fayetteville and Bentonville. We bought the newspapers in Jefferson City this year and paid cash for them. But . . .

JM: Jefferson City, Missouri?

PS: Yes. A newspaper in the capitol of Missouri with about 20,000 circulation. We also acquired the daily newspaper in Fulton, Missouri. But while Walter is aggressive, he uses good judgment, and we're extremely blessed today that we don't have the debt that most newspaper companies have.

JM: What was the thinking about going into northwest Arkansas?

PS: It had been one of the ten fastest-growing markets in the U. S. for a long period of time, and there are research projections that predict that the northwest Arkansas metro within twenty years will have more population than the Little Rock metro. We felt that if we were going to be a statewide newspaper we needed more of a presence in Northwest Arkansas. And it is a competitive market. Stephens [Media LLC] newspapers produce really good newspapers in northwest Arkansas. We produce a really good newspaper up there. All losing money, I am sure.

JM: Are you?

PS: Yes.

JM: Both you and them?

PS: We had gotten to the point where we were profitable and then we got into the economic downturn, and we're back to losing money up there. I believe they're losing money. But the readers in northwest Arkansas have really good papers up there.

JM: Yeah.

PS: It's somewhat similar to the competitive situation we had here in Little Rock, except that in Northwest Arkansas you have two locally owned companies. You've got two Arkansas companies competing up there, where in Little Rock you had an Arkansas newspaper company competing with Gannett, a national company and . . .

JM: Uh-huh.

PS: . . . so I think in northwest Arkansas the people that own the newspapers up there have more than just financial interests. Their situation is similar to ours in that they care about Arkansas and they want to produce a good newspaper. I think from Gannett's standpoint their interest was just financial. [Editor's Note: In late 2009, Arkansas Democrat-Gazette, Inc., publisher of the northwest Arkansas edition of the *Democrat-Gazette* and smaller weekly and daily newspapers in the region, and Stephens Media LLC, publisher of *The Morning News of Northwest Arkansas*, merged operations in northwest Arkansas to form Northwest Arkansas Newspapers LLC]

JM: I've noted and it looks to me now, I assume you all know this, that the Stephens newspapers do a few—it seems to me—unusual things, which I'm sure is in the interest of saving money, is that looks to me like that their layout is all done from one site, that . . .

PS: A lot of papers do that. In fact, due to trying to reduce costs because of the economic downturn, there are many major newspapers now that have a competing newspaper print them. For example, the *Palm Beach* [Florida] *Post* has just announced that their daily newspaper will be printed by their competitor in Fort Lauderdale.

JM: Hmm. Hmm.

PS: So there are a lot of companies that are doing things a lot more extreme than just composing several newspapers at one location.

JM: Yeah, I think that say, their Pine Bluff, Fort Smith, and northwest Arkansas newspapers—they don't look to me like-when I do see both of 'em that they're made up identically inside and they leave the front page for the local newspaper to [ ]. So do you think newspapers will survive?

PS: I think newspapers will survive, but I think that at some point people running newspaper companies will have to recognize that if they give their local content away they may not be able to survive. Look at what people pay for cable TV.

JM: Uh-huh.

PS: The average person with cable pays from $40 to $100 per month for that service. It doesn't seem reasonable to think that people would pay as much as $100 a month for cable service, but wouldn't pay a few dollars a month for a newspaper.

JM: For information.

PS: They wouldn't pay for cable service if it is available for free. I wouldn't pay for my cable service if I could get it somewhere at no cost.

JM: Yes, I can remember that—actually, I subscribe to the *Democrat-Gazette* online now and pay for it, but I see *The Washington Post* and *The New York Times*, and there are a few others I don't go to very often anymore, but I see them and it doesn't cost me anything.

PS: I read an article yesterday about *The Washington Post* losing money. I would never have thought *The Washington Post* would not be profitable, because they're one of the strongest papers in the country and they've invested hundreds of millions of dollars in their online operation. I think at some point people in the newspaper business will recognize they will have to charge for online news. Magazines don't give their news away.

JM: Well, being a purist, I always thought that not having [laughs] my money at stake, that a lot of these newspapers were making a mistake when they started cutting back on their space and their reporters and editors—and it seems to me like in tough times that's when you should be trying to give your readers more rather than less.

PS: That's correct. They say, "Well, our business is falling. We must cut expenses." That's kind of a self-fulfilling prophecy. You anticipate that your revenue will continue to decline, so you cut reporting staff and cut news volume and cut circulation services, and that results in more losses. So I think you're absolutely right. I think that's caused to a large degree by the fact that these publicly traded companies are really owned by tens of thousands of stockholders who don't know anything about the dynamics of the newspaper business.

JM: Uh-huh.

PS: All they know is that they bought McClatchy [Company] stock for $70 and now it is selling for under $20. They are unhappy and probably think the company is not being managed well. A newspaper is different than almost any other business. Jerry, you spent your entire career in the newspaper business and I know you understand. You can't run a newspaper the way that you run other businesses.

JM: Yeah.

PS: Walter Hussman has always said that his first priority is to readers, and then next to advertisers, and then next to employees, and next to creditors, and last to stockholders. Well, most publicly traded newspaper companies put the stockholders first. And if you do that, it throws everything out of balance. If you put the readers first and the advertisers next and put the stockholders last the stockholders do well.

JM: Hmm.

PS: And that's contrary to how most newspaper companies are managed.

JM: Uh-huh.

PS: But that's the way it is. And if you cut value to your readers it will affect you all the way down the line.

JM: Hmm. Now, I noticed that—and this is just sort of casual observation, but a lot of newspapers seem to feel like—and these are probably publicly owned newspapers—a lot of 'em seem to feel like, "Well, we need to be making 20 percent profit or something like that." And if they're not, then they start getting worried and cutting and everything. Well, what's wrong with making 5, 6, or 7 percent, as long as you keep making it?

PS: Jerry, I've heard that some of the large newspaper companies sometimes pay publishers and other top executives based on how high their profit margin is. I've heard that in some cases publishers at these newspapers won't make changes that could generate additional profit because the change, which would increase the operating profit, would also decrease the overall margin.

JM: Yeah.

PS: The *Democrat-Gazette* has not achieved the profit margin some of the publicly traded companies have. But we have more circulation than newspaper in much larger markets, and as a result we often sell more advertising. So perhaps our margins were less, but perhaps our profit was not much less.

JM: What is your situation in Chattanooga now?

PS: We've got one newspaper there. We bought the morning and afternoon newspaper and merged them into one newspaper. We still have two editorial pages. The *Free Press,* the first paper we bought, had a conservative editorial page. The second paper [the *Chattanooga Times*], which was owned by the family that owns all the voting stock in The New York Times Company, had a liberal editorial page. So when we merged the papers, we retained the editorial page editors from both papers. I believe the *Chattanooga Times-Free Press* is the only newspaper in the country that has two editorial pages—one conservative and one liberal.

JM: Hmm. Okay. But you are making it over there.

PS: Yes.

JM: Yeah.

PS: Our profits are off, but so is probably every newspaper in America, due to the economy.

JM: Yeah.

PS: In fact, a year ago we hired Gannett's 2006 executive of the year, selected from their ninety-six newspapers. He is now the president of the *Chattanooga Times-Free Press*. I had several people tell me they were surprised that we were able to hire him away from Gannett. He is only thirty-three and he told me that for a long time he had thought that someday he would like to work for our company.

JM: Hmm. What's his name?

PS: Jason Taylor.

JM: Jason Taylor. Okay. Before we started taping this interview, you mentioned that you'd just discovered or heard that the *Daily Oklahoman,* which I had also worked for at one time, was cutting back on its statewide circulation—that it was not going to try to penetrate all the counties in Oklahoma anymore as it has for years and years. Is that a possibility here that you will have to . . . ?

PS: Well, we hope that it won't be something that we have to do. We don't plan to. At some point we will probably have to charge more for circulation in towns far away from Little Rock. For example, our carriers who deliver the *Democrat-Gazette* to subscribers, and the drivers that take the papers to carriers, drive more than 1.6 million miles per month delivering these newspapers. That's a big cost. But, at this time, we don't have any plans to pull out of any areas. However, we have considered charging a little more, maybe two or three dollars a month more, just because it costs so much to get the paper to those areas and for the carriers to deliver it.

JM: I know this is twenty years ago and all—maybe longer ago than that [laughs]—that newspapers were investigating the possibility of delivering the newspaper some other way—you know, on microfiche and they'd [laughs]—and then you'd take it to somebody the little microfiche—and they'd have a microfiche player or something like that. Is there anything significant that developing in that . . . ?

PS: Well, you know, the Internet came along after that and I think they dropped those ideas.

JM: Yeah.

PS: They discovered they had a better option.

JM: I guess. I hadn't thought about that. But this was before the Internet when they were discussing that. But it always struck me as somehow sort of nice to sit there and hold that paper, but—okay, Paul, anything else that you can think of that we haven't covered that you might like to touch on?

PS: Jerry, I can't think of anything.

JM: Okay. Well, this has been a really interesting and enjoyable experience for me, having worked at this newspaper and the *Gazette* over the years, to get to find out what happened, because when a lot of this was going on I was in Oklahoma City working for the paper in Oklahoma City. So I was—from afar I was hearing it, but it is interesting to find out how all this was played out. And if you can't think of anything else, well, I'll just say again, thank you very much, and I appreciate your time and help.

PS: Thank you, Jerry.

[End of interview]

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[Edited by Pryor Center staff]