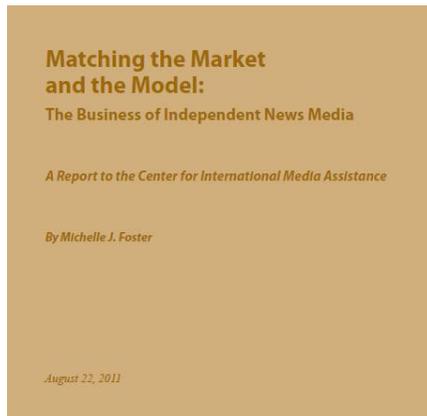


Matching the Market and the Model: The Business of Independent News Media



An Interview with Harlan Mandel, the Media Development Loan Fund’s Chief Executive Officer.

Interviewer: Michelle Foster

Environment for Independent Media

*Michelle Foster: In your experience, what are some of the most
common—and deadly—commercial constraints on news media businesses?*

Harlan Mandel: At the base level of existence—regimes use licensing requirements and frequency restrictions. One of the most egregious cases was in Armenia. When the leading independent TV station’s broadcasting frequency came up for renewal, the license was awarded to another company. Licensing is just so restrictive—even at the baseline of starting up a media company, it can be used to prevent them from operating. Once running, the ad market can be governed by state entities, para-state entities, that direct ad spending away from independent media and enrich pro-party or state-owned media, while atrophying the independent operations.

I’d say that is the biggest constraint in many ways.

Going beyond state controls, there are many ways to constrain independent media. You can have boycotts by commercial entities. There can be pressure from libel suits or tax audits. One of our clients in Russia was just closed down based on fire code violations that were resolved in one hour, and yet they were ordered closed for 90 days and their web site was mysteriously shut down. Clearly, there were no substantial fire code violations.

Similarly, in Burma, small businesses are reluctant to place ads in local publications since doing so would make them visible, and being visible makes them targets of the tax officials. In reality, those “taxes” seldom make it to the tax office—they are bribes and don’t ever contribute to developing social infrastructure. That, too, is then an indirect but strongly negative influence on whether independent media can develop a base of local advertisers.

Burma currently censors the content of advertising—not only what can be advertised, but also how it can be presented—for example, the laws state that Burmese may only be presented in traditional dress, women must be modest, and there can be no alcohol advertising. And this can be by law, or by rule. For example, a general might look at a newspaper and see that there are numerous ads for schools, tutors, and supplementary education—then conclude that those ads are an indictment of the education system and declare a ban on education-related advertising. Have your customers run into these types of advertising censorship?

Yes, there are countries that constrain or censor advertising, or at least put restraints on it. Even in the U.S., we have laws regarding advertising cigarettes and alcohol. Certainly, in more constrained societies that goes even deeper.

The other major commercial constraint is lack of access to capital. It is pervasive. A Latin American partner had a bank loan lined up but the bank was pressured to reverse its approval. And that was even in an example where they were able to get a bank to approve it in the first place. In many places it is a purely commercial constraint in the sense that it’s often not government blocking the banks from making the loans. Banks just will not loan money to media. In many developing countries the banking system is not designed to support small or medium-sized businesses. Rather, most of the money is going to provide government and large enterprise financing. If it is available to small and midsize businesses, it is very short term; it is very high interest.

For media companies, especially small and mid-size ones, this is especially hard. There was a study a few years ago that even in the U.S. it has been difficult for small and medium sized media companies to get bank financing. The media business is so unique compared to a normal business. There is a lack of assets, often unpredictable revenue streams, and inconsistent seasonal revenue. And at this point, it’s hard to make the argument to a banker that the market is going to expand by

x% a year. It takes a sophisticated banking organization to understand the argument and agree to take a risk against an uncertain future of advertising revenue streams—which is one of the few assets that a media company would offer as security.

The lack of access to capital is thus an important constraint. And there's a political dimension to that in many countries because the financial industry is closely linked to the political powers—that is, or at least as a banker you don't want to be seen as bothering them. Then again, sometimes when there's no political dimension to it, it's just a fact of life that the level of financial services and infrastructure hasn't evolved to the point where it can support media.

In which types of markets, and which types of media organizations, are you most likely to invest? In Cambodia, Laos, Burma and East Timor—those are economies where many people exist outside the cash economy, there is almost no brand-building, and discretionary consumer spending is extremely limited. Thus it is very difficult to build a strong base of advertising revenue for media. On the other side of the continuum is the go-go economy of China, where there are also speech constraints. How do you pick?

There are places we cannot work. One baseline is that there has to be a minimum rule of law. There has to exist a legal system such that we have a reasonable belief we can enforce a loan. We've pushed that out a little bit. We set up what we call our “high risk country fund,” which is a pot of funds we feel comfortable using in places where there is arguably a question about our ability to be repaid. For example, we funded something in Zimbabwe last year, which is about as far in that direction as we can go. Zimbabwe is probably a unique case in that it was formerly a relatively advanced economy which is now distorted by the current situation.

Another baseline: there has to be independent media. In China, ultimately everything is state owned.

In other countries, there is just no room for independent media to exist.

So the places that have some level of rule of law, some level of a consumer economy, moderate economic development and financial infrastructure, are where you can invest?

Yes.

In that type of environment, what types media partners are you looking for?

The key is organizations with capacity for producing original news reporting. We want organizations that hire journalists –that have people on staff who produce original content - not just those who repurpose other content.

This gets particularly tricky when you think about radio, particularly when there is talk radio that discusses social issues and where they are using reporting from other sources. While I would not exclude this, we have not yet supported this. It would require real examination on our part. However, as Ross was saying, the trends in technology might throw that into discussion.

But today, when you look at all of our clients, they each have their own news reporting departments. Going further, they tend to be the most respected news source in the countries where they operate.

Do you go to them? Do they come to you? How does that work?

People find us in different ways. Most of our clients come to us through partner relationships or other media organizations. At a certain level, this world of independent media is a small world and they might be referred by other clients. Others come over the transom; some find us online.

And the truth is, when one is operating in one of these countries, it is a very short list of highly-regarded and well-respected news organizations.

Do you favor one region or another? I note that you are in 26 countries; are they fairly equally weighted?

Historically, we worked in Eastern Europe and some of the former Yugoslavia, and then we spread to the former Soviet Union, SE Asia, Africa and Latin America. We work with projects for a long term, typically 5 to 10 years. Where our portfolio is still roughly weighted towards the former Soviet Union and former Yugoslavia – we have expanded into Asia, Africa and Latin America. Thus

our portfolio has a lot of legacy in the earlier countries. However, the growth is mostly in the latter three regions.

Access to Capital

A recent WAN report discusses the “capitalization gap” for media in developing and emerging countries. They lack the financial support to achieve scale or overcome the unfair advantages of state-owned media. And they discuss the consequences of not having access to bank financing or loans against accounts receivables to cover cash flow gaps. Can you discuss this in light of the MDLF experiences and mission?

When we’re analyzing a project we look closely at accounts payable, at the collection rate and the collection period. When we set up a loan schedule it’s driven by projected cash flows. We want to establish a loan schedule that tracks with the anticipated collections of our clients so that they are not under pressure from our loan. We pay a lot of attention to it.

We spoke earlier about business skills. We work a lot on how to improve our clients’ collection rate because it is often not very well managed. It’s particularly hard for media companies because you have to balance the risk of alienating a customer and the company’s need for money.

During the financial crisis it really became an issue. Ideally your receivable lags line up with your own payables lag. In the crisis those two lines separated. It’s a vicious cycle – and it’s particularly bad for media companies since they derive many of their revenues from advertising by companies that are themselves being severely challenged.

There are cases where we will provide bridge loans. The problem is when the build-up in receivables extends out over a long period of time. It’s not unique to the media business—but in any economic downturn a company will lose clients who go out-of-business and then have to write off the receivable. Finance is helpful during this period.

For many reasons, our clients are better positioned during economic downturns than their competitors, who may be overextended.

During tough times, people depend on quality information. When people feel under threat, information becomes more valuable. So during the financial crisis, most of our clients tended to increase their circulation, especially in Russia and Ukraine.

The other unique thing during the crisis was that our clients had access to credit during this time, which allowed them to stay the course and make the investments they needed to make. Many of them came out of the crisis in a pretty good position.

When you first work with you clients, do you typically find a well-functioning accounting infrastructure? Or is that something you help them establish?

It really varies company to company and place to place, and time to time, for that matter. When we started in Eastern Europe in the mid-1990s, the market economy was still a relatively new concept. There was no history of having those systems in place in the way that is required in a market economy. We worked with clients there to understand what their level was, help them develop business plans and in some cases even teach them how to use Excel.

On the other hand, if you go to Latin America, there are generations of newspaper business owners. Many of them have quite sophisticated financial systems in place. Many of these families have the current generation getting their MBAs in the United States.

There is a huge range in sophistication.

I think we've been good at meeting people where we find them, and working with them to bring them to another level. Even for our most sophisticated clients we're able to bring something to the table. For us, one of our strongest centers of competency is financial management, financial planning and financial structuring.

And your low 2 percent write-off rate would be a proof point for that?

I think it is definitely part of it. However, I think client selection is most important.

We look for people who are passionate about the journalism mission, but also passionate about the business. It is a relatively unique combination to find a journalist who also has the entrepreneurial bug. Almost all of our clients are journalist-owned and journalist-managed. That drives a lot of the mission in ways that a company that is owned by a business person is unlikely to pursue. Those who come to the journalism first and business second seem to make the most reliable partners for us and have the best sense of how to balance the two sides in a way that is effective for both.

There are people who are so devoted to the journalism mission that they can't even look at the business side. In my experience, these tend to be the organizations that get hooked on donor aid. They will never develop a business model and, thus, never achieve sustainability.

I couldn't say it better. And this is what we are always trying to assess when we are assisting clients for the first time. How do we do that? In our application process. The point at which we're most closely assessing the client's mindset is when we are looking at the business plan. It's a useful tool to see how people view their business, how deep they go, and what is their capacity for learning. A lot of the process is us digging down into the business in ways they're unlikely to have gone to yet. People's interest in doing that, and willingness to do that, we find very telling.

We have a lot of people who drop out of the application process. It's a level of work, effort and stretching that many people are just unwilling to do. If they are not willing to do that upfront, it is unlikely that they will be willing to do so over a long stretch of time ... and yet we find that is critical to the success of the project.

Also, when we are selecting clients, certainly disclosure is a big piece. The relationship we're forming with the client is critical, and a long-term one: typically we will be together for 5-10 years. It's a long-term relationship and like all such relationships we know there will be ups and downs that we have to go through together. Thus we need a very strong basis of trust to do that. So we require an exhaustive level of disclosure of information.

And you can tell when people are being open with you or not. It's not just me, for any project you need a number of different eyes that look at it.

The application is quite rigorous. It's not just one person with a client. There is a team that works on any given project.

There is a two-step application process.

The first step is a decision by our board of directors with a focus on what we call programmatic criteria. Do they qualify based on the quality of their independent journalism for support from MDLF? Do they qualify mission-wise? We also seek confirmation of their independence. We conduct very deep legal due diligence of ultimate ownership to establish the independence of the organization.

Once the board approves a candidate on that basis, then we start working with them on their business plan, leading up to the second level of approval, which is done with our investment committee.

This is purely an assessment of the quality of the management and the potential viability of the financial investment.

What is your application to approval conversion rate?

We've never calculated it. There's a large number of applications that come through the door; it's a much smaller number that reaches the board; and an even smaller number that goes to the investment committee. There are some that just don't make it through the investment committee. There is no "appeal" process— however, the investment committee might tell an applicant to go back and do more work, then come back to the committee and resolve our outstanding questions.

The Impact of Digital Media

- *How has the emergence of digital and mobile media affected where you offer equity or debt financing?*
- *Media development expert Ross Settles talks about the inevitability of digital and mobile media. Do you agree—and in your mind is there a timeline at which point investments in traditional media no longer make sense?*

There is a point at which traditional media will no longer make sense as it does today.

So the question is how to transition existing news organizations, if possible, to a digital future. There is a big continuum there.

In the countries where we're working, the point where legacy media isn't viable has not become visible yet.

Looking into the future, you can't see yet how much time is left. It varies in terms of the country and the economy, and the market niche within that country, and even by the type of media. It's quite possible radio and TV will have a future. Radio as a medium works fine for digital and so does TV. The advertising base for those two media could still work.

For print though, the question is different. There is definitely a migration to digital. It will vary country by country based on a lot of things, including literacy rates, demographics by age, and economic development, which will all have an effect on extending the life of newspapers.

It also is a function of transportation infrastructure. In countries like Cambodia and East Timor, where you have extremely poor roads and a dense rainy season, newspaper distribution is impossible.

Many newspapers have an urban base, so whether they can be distributed outside the core market may not be relevant.

So it's a question, nobody really knows how much longer newspapers have a viable life. And of course, the adoption of broadband is another factor that drives that equation.

I was discussing with someone else what role that digital editions of newspapers play in expanding a newspaper's total audience, and whether that can be monetized. The specific example was a newspaper that uses its digital platform and citizen journalists to report on the least advantaged and semi-rural residents living outside the urban area. The argument was made that this additional reach is monetized because it increases the overall audience and page views, and rates are tied to a cost-per-thousand calculation. Yet, in the past, advertisers have been leery of paying to reach audiences that have little commercial value to them. Do you believe that the digital expansion of audience is necessarily going to lead to an unrestricted ability to pass those impressions through to an advertiser, regardless of who is looking at the news?

There's no question that going online increases your audience. Virtually everyone has a much larger online audience than is reached by their print product.

I think it's an interesting question—in any given market how sophisticated are advertisers? In many places the level of sophistication isn't that high. For example, in Serbia - until recently - advertisers weren't segmenting the audience. The advertising market hadn't advanced to any level of sophistication other than counting eyeballs. Then, at a certain point, the market started to evolve. And you could track it at a more sophisticated level.

But the more fundamental question for online media—if it is an advertising-based medium—is whether online revenues can support a meaningful online news organization?

Is there enough money out there?

Yes, and one of the side effects of the infinite expansion of audience has been the tendency for this to commoditize advertising pricing. At the same time, just as online reporting and journalism is different from print journalism, digital advertising is completely different from print advertising. There is currently less experience among print media in knowing how to produce ads that are effective in this new medium.

To me this is the immediate issue. The world of online advertising is hitting the places where we work now. Up to now, our focus has been on helping our clients get online and develop multi-platform newsrooms, and developing online publishing strategies. Now that very different

business of online advertising is becoming a factor. It's a whole different business, requiring a whole different set of knowledge and skills. This will be a big area of focus going forward as we help our clients operate online effectively.

It's a work in progress. We are shifting capacity to meet that need. As in other areas, we will build more in-house expertise. If you look at our work for printing houses, we can service them holistically top to bottom. For example, we can recommend what kind of press configuration they need based on market opportunity, help them select the right ones to buy (including evaluation of used presses), advise them on installation and train them to use them. So we have strong in-house capacity—as well as a network of external consultants - around printing operations. And having helped past clients develop their printing competency, we can bring new clients to them to learn.

We need to have the same in-house capacity for online. It will require us to enhance our existing in-house capacity, as well as strengthening our circle of consultants in those critical areas. For example, we can build strength in SEO, use of online advertising networks, how to market on-line advertising, and how to co-sell your legacy media with your online media. It's not hard. The experience is out there—it's just not deployed.

The real challenge is that in the midst of all this, a lot of the business models are changing, and changing so fast.

It's very easy to get caught up in the fear of the future. But the future is here. There is digital media. There are digital competitors. We have to acknowledge that and deal with it now.

Sustainability of Various Business Models

In a situation like Malaysia, where there are state-owned media that also control ad agencies (and thus, ad spend)—and there is not and will not be a level playing field - what other options are available to Malaysiakini for achieving financial sustainability? Where do you go from this point? Do they need to diversify into other aligned businesses? Or unaligned businesses? Do you try to develop pay models that reach beyond the country's borders?

And if ad revenue will be the primary source of income ... does this, in effect, mean that such publications may never be free of grants, donors and outside funding?

It's all of those. Accessing the equivalent of circulation revenue is critical if you are online. Is it possible?

We are seeing the move to paywalls in various parts of the world. Do they work? Malaysiakini has survived that way. When the dot.com bubble burst and the online ad market collapsed, they shifted to a paywall, and it is one of the reasons they have survived. Over time, advertising has built back up and now they are still about 50-50. It may be that it's a unique circumstance in that there was no other independent media in Malaysia. It's also like the situation of National Public Radio in the U.S., where there are people who are deeply loyal to that particular news source. The audience understands that contributing to their financial well-being is part of the game.

It's questionable whether that can work in other environments. Malaysia is a perfect environment. You have a sophisticated audience technologically and politically, but also a politically constrained environment which creates demand for credible content.

Advertising by small businesses is one way around this. In many countries, the big advertising is state controlled. If you can get to the level of smaller businesses, and local advertising, that can be a different source of revenue.

For newspapers, third-party printing is a great source of revenue. Once you have a press, you can go outside the range of news media and into packaging and other lines. Even in a digital world, there is a wide range of things that will be printed. People will still be buying food wrapped in paper.

There are also ancillary services that media companies can supply. Whether or not that is in the digital field is uncertain. For example, a digital news organization can market their online expertise, their training services.

A trend that is happening here in the U.S. is media playing the role of conference convener – for example, look at *the New Yorker* Conference. Companies can put together all these multiple sources of revenue. It's leveraging all the assets you have as a media company and refining your business base around knowledge, which is somewhat different than news.

In South Africa the *Mail and Guardian* is doing it. Like many of our clients, they are positioned as a market leader and they are at the center of a lot of the conversations taking place in their country; there's a way to take advantage of that. But not every company can do this.

Doesn't it come down to whether the company has internal management strength? Without solid management, if you put this much stuff on the table, things start falling through the cracks. When you evaluate media businesses in developing and emerging countries, in general, what is your assessment of the level of management skills that you find? I imagine it, too, exists on a continuum. How do you help them improve—or do you leave that to organizations like IREX, ICFJ and Internews?

For the most part, those organizations' priorities are focused on journalism rather than the business of news. Many of our clients are helped by those organizations.

Where are they skill wise? There's a huge range. The key thing is identifying the basic instinct of people that the business matters, that they want to improve that side of things, and that they are open to new ideas.

It's not just one person, it's a whole company.

How do we help them? With the business planning process. It's a heavy piece of analysis. It includes about 30 Excel worksheets, and lots of analysis. The process is extremely granular; we break out the business in very fine detail and ask people questions that haven't been asked before. It is very much learning by doing.

Then when we identify specific needs they have we either service them in-house or find someone in our network of relationships. MDLF has good in-house resources on business structuring. For

example, many of our clients have broken out publishing from printing to legally protect assets. That way if they come under attack on the publishing side their assets are protected.

We look at their accounting systems. We have our own accounting staff go in when it makes sense and review their charts of account, systems, and whether things are being accounted for properly.

Our investment team helps develop management systems around different processes, like how you track distribution, how you track advertising sales and printing efficiencies. We teach them how to look at their business more deeply and systematically.

I just have to say, our clients are incredibly good learners. For example, when we've sent printers to other countries for training, I can't tell you how often we are told these are the most incredible learners people have ever met. They are so open to the learning. It's inspiring. When people really want to get better, and yet they've never had access to the expertise, when they do finally have a chance they really seize it.

When you partner with an organization, you find people who are eager to learn, and they want to do it, and they have a clear editorial mission. With a lot of work they can come up to speed on the business side fairly quickly. What implications does all of this have for media support organizations: trainers, donors, investors and others? Is there enough focus on the business side?

From my perspective, MDLF is clearly focused on it. The key is "invest."

There are really two different approaches. One is short-term where there is a focus on an immediate result or on the number of people trained.

The other involves putting up a significant amount of resources upfront. It is a long-term approach and we find that by maintaining this focus on a smaller number of businesses, but with a more intensive approach, that we have substantive results in the long-term.

Should be sending some of these media managers to get a real business education in media management?

The problem with sending someone to a school program is it takes too much time. You can't take someone who is running the company out of the country for three years. You can't even take someone running a department out for three years. Executive education programs are a better model, especially for resource-constrained companies.

A model we think is good is the WAN seminars, which are aimed at media professionals who are already working at high levels. The WAN sessions don't pander at all. They are aimed at western media professionals. We've brought clients to those trainings along with a consultant; they attend the main training. The consultant then takes those lessons and works with our clients to adapt them to their own unique situations. That's a way to get top quality training.

One-on-one consulting is also very powerful if the intention is leaving behind knowledge.

People on the ground know a lot. Building any kind of assistance needs to be driven by what they really need rather than a pre-conceived idea of what they need.

But most effective is peer learning from people who are working in similar environments. We do a lot of it with our clients.

Would you broaden your experiences with peer learning to make them available to non-client organizations?

Our model is to concentrate a lot of support on a select number of projects. It starts to lose its power if it gets too broad.

That said, in the past we've done business planning training for larger groups that aren't our clients, but the tricky point is you can't have competitors in the same room. It's an intense, practical kind of training and you come out with a first draft of a business plan. We can't do this with more than about eight people at a time so we found that it was difficult to arrange enough non-competing companies at the same session if we tried to attract them from a local market. If we had opportunities to do that again, we would look at them, but we haven't done this for a number of years.

*Final thoughts? Looking forward, in your new role as CEO, any other key thoughts you would like to share?
Any new directions you seek to head?*

The thing we haven't focused on yet in this interview is how do we mobilize capital? One of the things we're very interested in doing is supporting the establishment of other loan funds. We operate on the global level; there is room for other funds to operate on a local level.

There is scale of media businesses that is not really large enough to work with us. We have worked with pretty small media businesses and have provided small loans, but that is not our typical approach because it is not efficient.

Local loan funds can operate on a smaller scale—and they can make a difference. For example KBR68H is an amazing radio network in Indonesia.

[http://www.mdlf.org/en/main/client_stories/17/KBR68H-Indonesia.htm]

It is a radio operation that serves a network of about 700 stations throughout Indonesia. For parts of Indonesia, they are the only news source. Their impact is huge and they reach about 25 million people.

They are very high quality and recently won the King Baudouin International Development Prize. They are the only news organization that has won this award.

[<http://www.kbprize.org/index.html?current=9&page=2&page2=9&lang=en>]

We helped them set up their own small loan program that has already helped about 40 news organizations. Although the amounts they give out are small – perhaps \$3-4000 - they make a dramatic difference. To buy a transmitter or a computer for a small station on an island is life-changing. MDLF would never be able to do something at this level directly.

Similarly in Russia there is a network of regional newspapers; some of our clients are in the core of it, but we helped them set up a small loan fund that reaches its entire membership. Those loans are in the \$50,000 range.

We've played with a couple of models to do this. MDLF can give them a loan ... but someone else needs to give them a grant so they can take risks. We make these loans to the smaller funds at about 1 percent interest because we believe it is something that is very important to do.

Why do you say they need enough money, specifically grant money, in order to take risks?

If you are lending money and know that you have to repay every dollar of it to someone else – you become very conservative about who you will lend to. And actually it is a recipe for disaster because at some point, no matter how conservative you are, someone will default. And that would put you at risk of default.

We have the same mix of funding for our loan pool—grants and loans—that we are recommending for smaller development funds. MDLF got significant grants from OSI and SIDA and others in our early days and now we have a strong capital base. That allows us to take some risks on who we loan to.

It is a very exciting prospect to help fund these smaller scale media loan funds and keep them going. The local impact is tremendous. When Radio KBR68H announced at a reception the businesses that were going to get the loans, people broke down in tears. It really means something when someone trusts you with a loan.