Batten down the hatches: SA media heads for cost-cutting

By Gill Moodie: @grubstreetSA

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Oh Lordy, we live in cheerless times. Once again we're staring economic downturn in the face and there are already signs that South Africa's media houses will be cutting costs and retrenching staff over the next four or five months, before financial year-end. But the news is not all bad.

About a month ago, *Business Day* reported that staff at Avusa's flagship paper, the *Sunday Times*, as well as *The Times*, *Sowetan*, *Sunday World*, *Daily Dispatch* and *The Herald* had been asked to look into cutting costs by about 20% although BDFM - which is half owned by Avusa and includes *Business Day*, the *Financial Mail* and Summit TV - were as yet not affected.

"Initiated a number of cost-cutting measures"

This week Mike Robertson, the acting CEO of Avusa, told Bizcommunity.com: "As trading is difficult, we have initiated a number of cost-cutting measures but we try as far as is possible to avoid retrenchments."

Two weeks ago, the Twitterverse started bubbling with the news that 24.com - the digital arm of Media 24 that runs News24, the biggest news portal in the country - were cutting staff.

Last week Geoff Cohen, GM of 24.com, confirmed that there was restructuring afoot but that it was too early to say how many staff members would be affected. 24.com had done the first round consultations with staff two weeks ago, he said, and the process would probably involve a mix of voluntary and involuntary retrenchments.

Looking at non-essential areas of the business

Essentially what's happening at 24.com is that it is looking at the non-essential areas of the business - and is deciding whether to pull back from them, depending on whether they have the potential to bring revenue or audience growth.

"There are a number of affected individual across 24.com," Cohen said, "and we're busy consulting with the staff."

"The issue is to accelerate our pace of growth as a digital business so there's going to be an opportunity for voluntaries but what we also have to look at is the areas across the business that are not kicking as hard as we wanted them to. The hard truth of it is that we have to narrow our focus. And the horrible thing about it - especially in the Internet where the feel for your business is your people - that's where the pain comes in.

"We run on people"

"It's not like we are a print business, which can cut back on a print run or not distribute in a particular area. We run on people, skills, creativity and ideas and, if we have to narrow our focus, then that's the place you have to look at."

So what does significant move mean? That investment in digital is on the wane or that this is an economic contagion that will affect us all? Media24, after all, tends to be more prescient than most SA media houses when it comes to reading the future.

Cohen says: "Certainly within 24.com and I think as a part of the broader media environment, we are incredibly sensitive to economic trends that are currently playing out in South Africa. And looking forward, the view is that it's going to get worse before it gets better. So practically and pragmatically, we've got to start bracing ourselves for two things: 1) A potential squeeze on total economic activity that will play out into all of those businesses that are advertising-funded and 2) our shareholders [Media24] are saying that we've got to up our pace of profitability because, remember, our investors are also media owners so they're affected by exactly the same issues we are.

'Plan is not to lose any channels'

"Throughout this process, our plan is not to lose any of the channels we have within 24.com. We won't be closing down any of the destinations that we have. It will seem that, in some cases, some of the channels might be slightly smaller and the same pace of innovation within those channels might not be at the same pace that it was in the past 12-18 months...

"So what you're probably going to see is more of a common thread across 24.com in terms of applications, products and services that are released whereas, in the past, there was a lot more individuality in the channels."

There's no denying that - with the woes of the eurozone - the international economy is looking precarious. And in SA there are key fundamentals that look set to plague our economic growth for some time to come.

Government forecast for economic growth

In his mid-term budget statement last month, finance minister Pravin Gordhan reduced next year's government forecast for economic growth to less than half the pace the government needs to meet its jobs target and he warned that the public-sector wage bill is unacceptably high (42% of revenue).

Our government debt (moving towards 40% of gross domestic product) is good in comparison with the eurozone but it is, according to *Mail & Guardian* editor Nic Dawes, "about as high as a developing country wants to go". Added to this, growth in mining production is being constrained by our chronic energy problem and the fact that Transnet's rail network has actually shrunk.

The biggest fear is that President Jacob Zuma does not have the political will to take decisive action to combat these important problems as he appears to be putting protecting his own position within the ANC ahead of the interests of the country.

Digital activity and growth in SA

Cohen doesn't get the sense that there is a general pulling back from digital. There is activity and growth in SA, he says, but 24.com is unique in that it has invested more than most in digital and, therefore, it will inevitably be affected if there is a downswing.

So the news is not all bad. On the other side of the industry - in digital marketing - it seems that companies such as Quirk and Gloo are growing.

Rob Stokes, group CEO of Quirk, told Bizcommunity: "My economic outlook for South Africa is that I think we've got some tough years ahead but I think growth will continue. With the digital marketing industry, we've got three years of strong, strong growth ahead."

Plenty of room for digital marketing growth

Because SA is still catching on to digital marketing compared with Europe and the US, for instance, Stokes sees room for plenty of natural growth without anyone taking market share from each other.

While you would do well to batten down the hatches if you're in media, all is not lost. Those with tech skills will always be in demand and there is also plenty of room for writers to "re-purpose their careers" - as Stokes puts it.

"The reality is that most consumption of content online is text-based and so agencies need people who can write well," he says. "It is also worth noting that more and more brands are becoming publishers. For instance, at Quirk we've published a book [on digital marketing] and we have another book or two in the pipeline. We publish daily on the blog and on Twitter. We write a fortnightly newsletter.

"Economics of creating content"

Stokes continues, "At the other end of the scale, if you look at brands like Nike, they're producing amazing content. Twenty to thirty years ago, brands like that would have placed their adverts around someone else's content because the economics of creating content was too far from their core business, especially around distribution [for example, of magazines]...

"These days, the distribution problem doesn't exist and the content that comes from the heart of the organisation is so much easier to create, so the economics have shifted.

"Advertising spend is slowly moving from paid media - adverts, etc - to owned and earned media that speak to things like a blog and a Twitter feed and so on," says Stokes.

May the gods of journalism protect us all.

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