

# Newspapers: Time for a New Operating Model



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Scott Stawski, Senior Principal



i n v e n t



**RIGHT. FROM THE START.** Better information, smarter business decisions.

# TODAY'S OBJECTIVE

- Newspaper companies whether the largest chain or an individual community owned paper are at risk of survival.
- Circulation and advertising revenue pressure will not only increase, but the rate of deterioration will increase.
- Dramatic actions must be taken immediately.

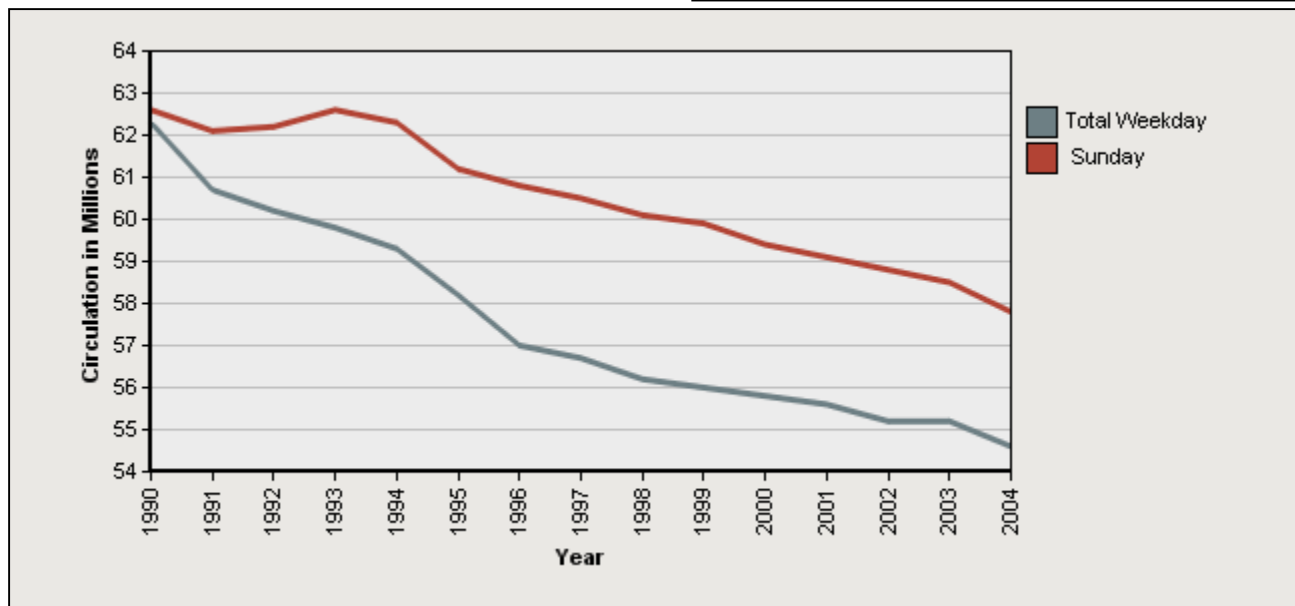
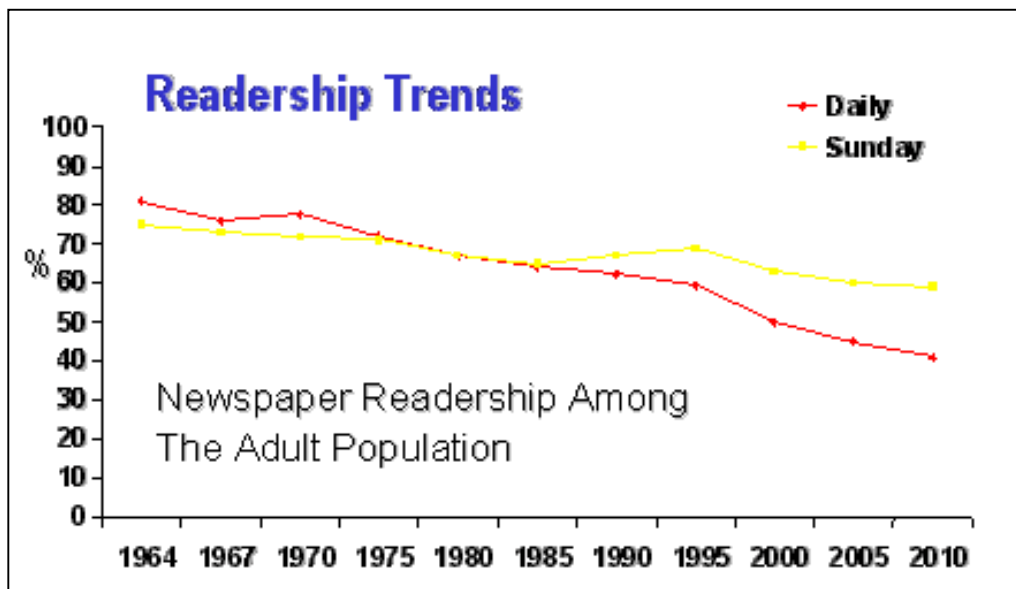
**The New Operating Model : Channel Independent Content Creator and Aggregator with Few Fixed Expenses or Owned Business Functions Outside of Content.**

## IS THE RISK OVERSTATED?

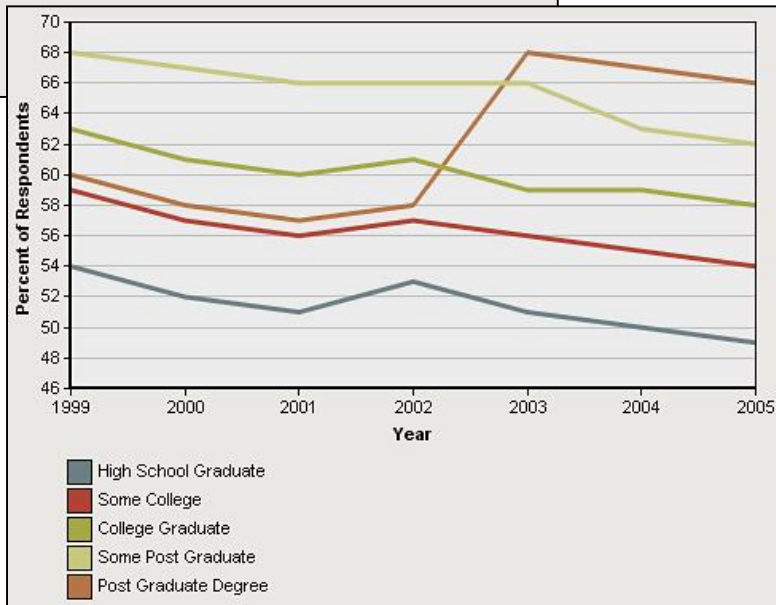
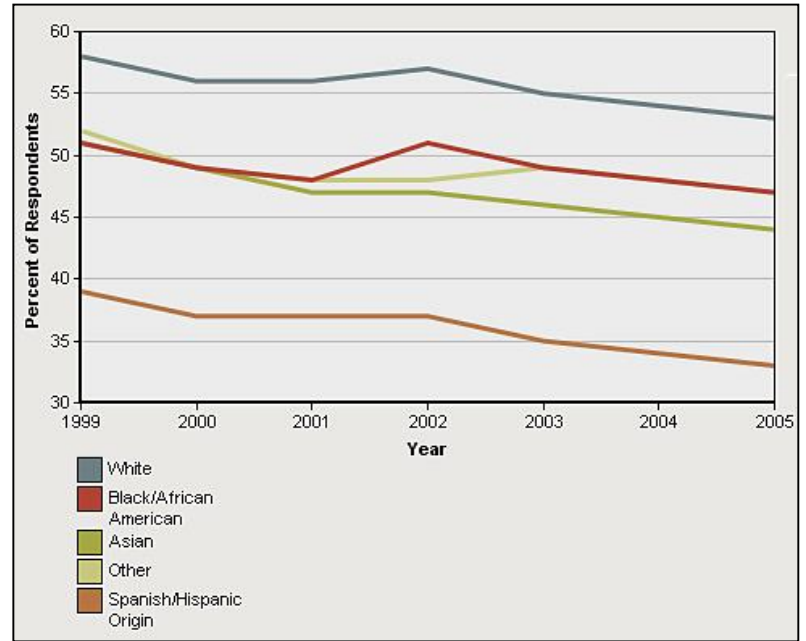
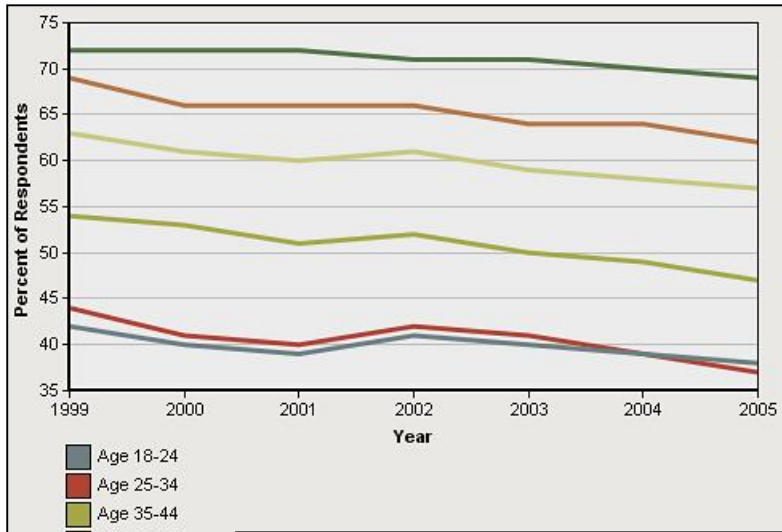
- 1980, 1750 newspapers in the U.S.
- 2006, 1,457 newspapers in the U.S. 17 percent decline.
- JOA's
- Consolidation i.e. Knight Ridder
- Shareholder pressure i.e. Tribune Company

# NEWSPAPER PENETRATION (PRINT) WILL CONTINUE TO DECLINE

1. Fragmentation
2. Commoditization
3. Mobilization and Instant Gratification
4. Disintermediation
5. Yield Perception



# DECLINE IS SEEN IN VIRTUALLY EVERY DEMOGRAPHIC



Source: State of the News Media, 2006

# REACH OF NEWSPAPER PRODUCT PORTFOLIO INCREASING

- Audience of overall publishing portfolio increasing
  - Newspaper
  - E-Newspaper
  - Website
  - Blogs
  - Podcasts / VOD
- However
  - Non print revenue per impression is a fraction of print product
- Meanwhile Print product asset/capital intensive
  - Print product operating cost per impression high
  - Print product fixed cost intensive

**For these reasons, the traditional newspaper business model is no longer sustainable.**

# OPERATING MODEL OF THE FUTURE - PRECEPTS

1. **Content is King.** Must become a multi-media/platform publishing company that is not limited by the fixed expenses typical of the current business model.
2. Publishing company is channel independent. We create and aggregate information – regardless of the delivery channel.
3. Most non-content business functions should be centralized and outsourced, thereby, converting them from fixed to variable expense.
4. Must have flexible, variable expense driven operating model with decreased financial exposure resulting from shifting consumer media behavior.
5. Past asset/capital intensive model becomes nimble to invest in value creation.
6. Change must be drastic and driven from the top. This is not the time to build consensus. With change will be some pain.

# NEW MODEL: EDITORIAL

- Theme: Protect the **local** editorial function. This is the core asset of the newspaper, but make it channel independent.
- People and Process
  - Concentrate on local/community news. National content has been commoditized and is too readily available real-time.
  - Provide the tools, budget and personnel to create and aggregate information in **channel independent** format; textual or a/v – but all digital.
  - The day has arrived where a publishing company does not necessarily need to own a television license to provide a/v content (podcasts, on-demand, youtube.com)
- Technology
  - Digital asset management. Centralize the technology platform used by editorial through one **enterprise platform**, web enabled and hosted by a third party provider.



# NEW MODEL: A/R AND A/P

- Theme: Centralize and outsource all accounting functions across the enterprise.
- People and Process
  - Many functions such as payroll (which should be outsourced), purchasing, and accounts payable have been centralized.
  - Now, the last remaining functions – advertising billing and subscription billing – must be centralized and outsourced.
- Technology
  - Application Service Provider (ASP) model.
  - The technology platform for all accounting functions should be a central, enterprise-wide, web enabled platform hosted by a third-party and supported by enterprise business intelligence architecture.

**Deloitte.**



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# NEW MODEL: CIRCULATION

- Theme: Centralize circulation customer service and subscription marketing across the enterprise than phased outsourcing.
- People and Process
  - Outsource customer service. Options include off-shore, near-shore and home-shore.
  - Centralize the circulation subscription marketing function across the enterprise.
  - Once centralized, most of the marketing science process can be outsourced to a direct marketing agency with experience in acquisition and retention marketing.
- Technology
  - Application Service Provider (ASP) model.
  - Customer service supported by enterprise-wide CRM platform, web enabled, hosted by a third party.
  - Subscription marketing supported with enterprise-wide marketing technology platform, web-enabled, hosted by a third-party.

The logo for INDAS, featuring the word "INDAS" in a stylized, blue, sans-serif font with horizontal lines through the letters.The logo for Communications Data Services, Inc. (CDS), featuring the text "Communications Data Services, Inc." above "CDS" in a large, blue, stylized font with wings, and "A Unit Of The Hearst Corporation" below it.The logo for argi, featuring the word "argi" in a black, lowercase, serif font with a blue arrow pointing to the right above the letters.The logo for KNIGHTSBRIDGE, featuring a blue icon of three curved lines to the left of the word "KNIGHTSBRIDGE" in a blue, sans-serif font.

# NEW MODEL: ADVERTISING

- Theme: Sell reach via local and national sales representation. Outsource private party classified and national Internet.
- People and Process
  - Publishing companies must base their advertising sales process on overall reach, not print circulation. ROP becomes Run of Product (newspaper, e-paper, web, video).
  - ABC change to reach or divert to other audit mechanisms.
  - Advertising sales remain a local function, with a strong national sales force representing the entire chain.
  - Internet advertising sales **should not** be sold by a separate sales force. Again, the local advertising sales representatives are selling reach, which is a combination of products throughout the chain.
  - Publishing company must open themselves up to the advertising sales and delivery mechanisms of some of the larger Internet players like Google and Yahoo.
  - Private party classified advertising should be centralized enterprise-wide and probably outsourced – most likely to the same third-party provider used for circulation customer service.
- Technology
  - Application Service Provider (ASP) model.
  - Classified platform should be centralized, web enabled and outsourced to a third party
  - Sales should be supported by an enterprise-wide sales force automation platform, web enabled and hosted by a third party.

# NEW MODEL: PRODUCTION

- Theme: Must become 100% fully digitized/paginated. Centralize and outsource advertising production.
- People and Process
  - As newspaper chains become fully paginated, outsourcing production becomes less of an issue.
  - Local advertisers still have a demand for advertising production, whether print or website.
  - Several newspapers have shown successfully that this business process can and should be outsourced to a third party.

# NEW MODEL: PRINTING

- Theme: Outsource manufacturing/printing
- People and Process
  - Outsource the printing business function.
  - Yes, divest your printing facilities. Firms that specialize in printing are better suited to optimize other potential revenue from these fixed assets while, on a contract basis, providing the day-to-day printing needed for the daily newspaper.
  - Smaller newspapers should outsource to larger metro's (who in turn should outsource to a third party).
  - Newspapers will be surprised at the interest level shown in the RFP process.

# OUTSOURCE PRINTING NOT UNPRECEDENTED

- 3<sup>rd</sup> party contract printing common in Europe
- Centralized, outsource printing growing in Canada
- International firms such as Transcon are expanding in the US (SF Chronicle)
- Smaller newspapers should outsource to metro's



## Transcon to print S.F. Chronicle

*By Chuck Moozakis  
Editor-In-Chief*

Canadian newspaper and publications printer Transcontinental Inc. last month said it will begin printing the San Francisco Chronicle in a new Bay Area plant to be in operation in spring 2009.



*At Transcontinental Metropolitan, a Goss Mainstream 80 was erected in a new plant built to produce the French-language*

# NEW MODEL: DISTRIBUTION

- Theme: Outsource the print distribution business function
- People and Process
  - Outsource the distribution business function.
  - Yes, divest your distribution facilities.
  - As with printing, firms that specialize in distribution are better suited to optimize an ROI on these assets. Meanwhile, these firms can provide a newspapers print distribution on a contract basis.



# NEW MODEL: TECHNOLOGY

- Theme: Publishing companies should own the data not the application. Let others run the technology infrastructure.
- Where business functions have been outsourced, most associated applications will be owned by the BPO. Applications must be web-enabled. Data feeds back to the publishing company.
- Application Service Provider (ASP) model : no license fee / yearly maintenance. Pay per use.
- Owned by the publishing company:
  - Editorial application / Digital asset management
  - Enterprise data warehouse and business intelligence platform
    - Information feeds from every outsourced business function/technical application
  - However, even these are still hosted and managed by a third party



# TECHNOLOGY OUTSOURCE/ASP NOT UNPRECEDENTED

- Technology outsource/application service provider common in other industries.
- Major horizontal applications now entirely web-enabled - SAP, Siebel.
- Publishing platforms now/soon 100% web-enabled.



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## Aligning print media processes with commercial imperatives

Nothing is as old as yesterday's newspaper. And in the print media industry, schedules are invariably tight. A minor delay here, a slip-up there: seconds add up to minutes, minutes add up to hours. The press production process is business critical to the success of any print media company. A number of key disciplines are involved in the media production process: editing, filming & pre-press, printing. Discussions about where bottlenecks, delays, wastage and rework arise tend to waste even more precious time.

Real-time process visibility into workflows and staff activity indicates the impending delays as well as spare capacity that can be deployed to keep the workflow balanced along the entire process chain. The ability to drill down to any required level of detail implies that root cause analysis is only a few mouse-clicks away. Instead of finger-pointing, all parties involved will be able to effectively contribute to business process optimization.

Aligning IT with the print media business

## AdStar to Provide Web-based Classified Ad Transaction Services to Pacific Newspapers Inc., Publishers of The Vancouver Sun and The Province

*British Columbia's Two Largest Daily Newspapers First in Canada to Implement AdStar's Web-based Ad Sales Solution*

MARINA DEL REY, Calif., Jan. 4, 2007 -- AdStar, Inc. (Nasdaq: ADST), the leading provider of e-commerce transaction software and services for the advertising and publishing industries, today announced that Pacific Newspaper Group Inc., publishers of The Vancouver Sun and The Province, will integrate AdStar's Web-based ad transaction technology for the enhancement of the publications' print and

Korean national newspaper enhances customer service with efficient CRM built on HP OpenView platform



# NEXT STEPS



- Executive Level : Change Steering Group
  - Set expectation and timeframe
  - Marching orders
- Working groups formed by business function
- Business Requirements Documentation (BRD) by business function
- Formal vendor selection process

# Thank You



**Scott Stawski**

Senior Principal

Marketing Solutions Group

Knightsbridge Solutions LLC

(646) 261-0022

[sstawski@knightsbridge.com](mailto:sslawski@knightsbridge.com)

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