



EVALUATING YOUR EXPENSE MODEL

Bob Terzotis, Executive Vice President – Mather Economics

A Big Win for Your Bottom Line

Publishers are constantly trying to identify ways to improve profitability. The shift from print to digital content is happening, and the transition to a hybrid print-digital business model requires changes to the operations and cost structure. For most newspaper executives, keeping up with the rapidly changing publishing industry has required them to “up their game” and rethink their approach to not only managing revenues, but also the evolution of their distribution model, audience acquisition strategies and the metrics they use to make decisions.

To compensate for shrinking print advertising revenues, publishers often focus on their expense line during budget season or when revenues aren't meeting expectations. Strategic operational expense adjustments are necessary to maintain profitability and warrant the same level of focus as revenue—especially for departments that require a significant portion of your operating budget.



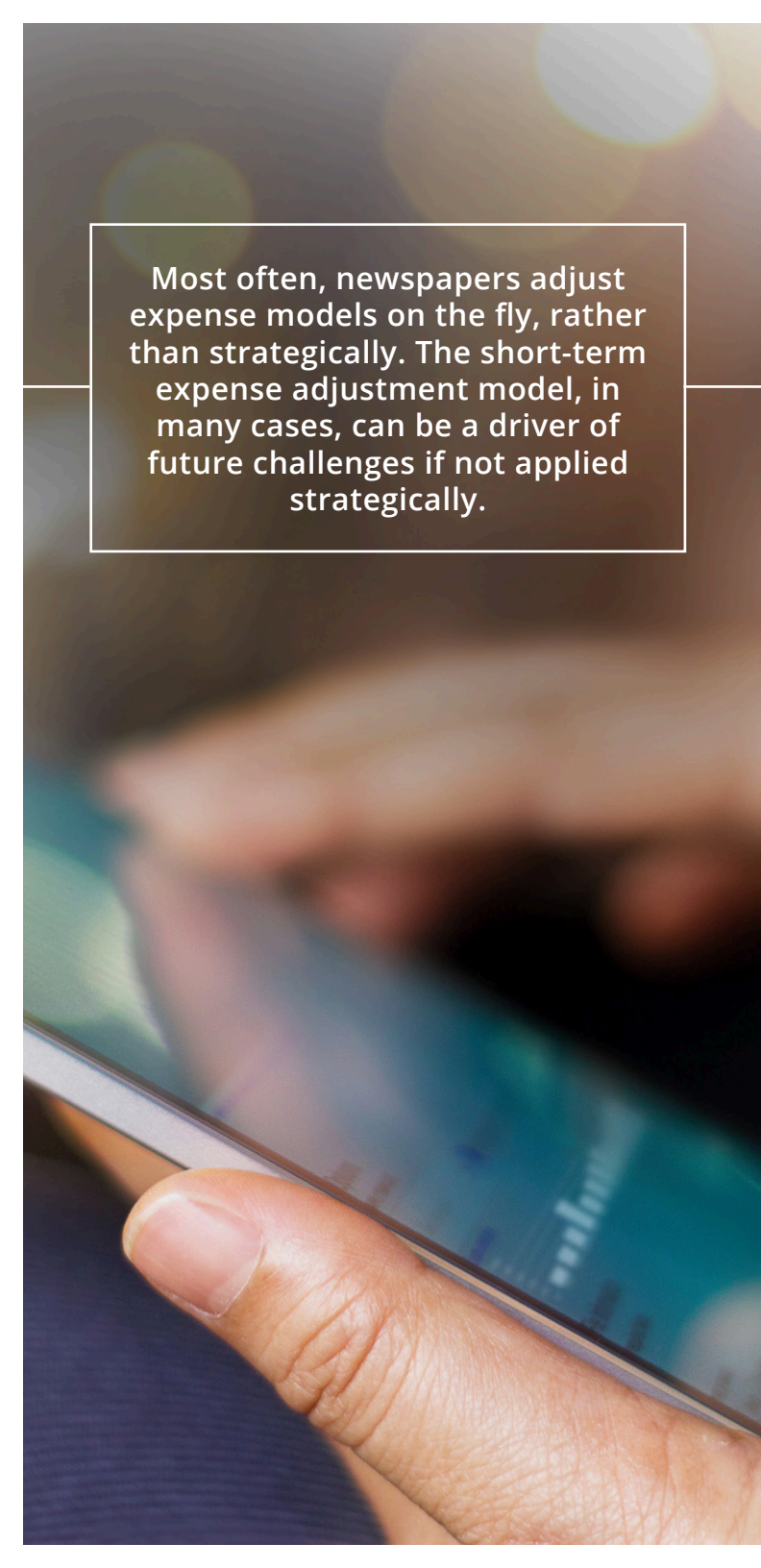
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Circulation Department Key Metrics Tell a Great Story

Typically, newspapers measure a set of key metrics for each department. Knowing which metrics to monitor and how they compare across the industry is critical for success. And by 'success,' I mean 'profit.' Publishers and industry leaders talk often about changing revenue models, however, it is just as important to periodically examine and benchmark key expense metrics to make sure that each dollar spent in major categories is spent effectively! Operating resources should be evaluated and compared to your peer newspaper groups.

This process can be very easy for newspapers in a large group with multiple newspapers and a large corporate staff to compile and share these key metrics. Calculating and comparing performance metrics can be much more challenging for smaller groups or independent newspapers lacking resources with experience and expertise in each specific discipline. Still, it is critically important to benchmark expense line items in a way that helps identify areas for potential efficiencies and cost savings. When evaluating key metrics and identifying effective ways to adjust business practices and reduce your cost model, it may be necessary to engage an outside resource with the level of expertise to get the job done right.

Where should you start? Schedule periodic 'health assessments' for each department as a means of diving deeper into your own spending trends and gaining insight into how others have adapted to the changing business environment. There are many tools and resources available to undertake this voyage of discovery including organizational membership, participating in benchmarking studies, reaching out to peers or engaging with companies specializing in this type of evaluation. The key is to understand the drivers of expense, ask the right questions in determining where opportunities might exist, and be open to changing with the industry to maintain or improve profits.



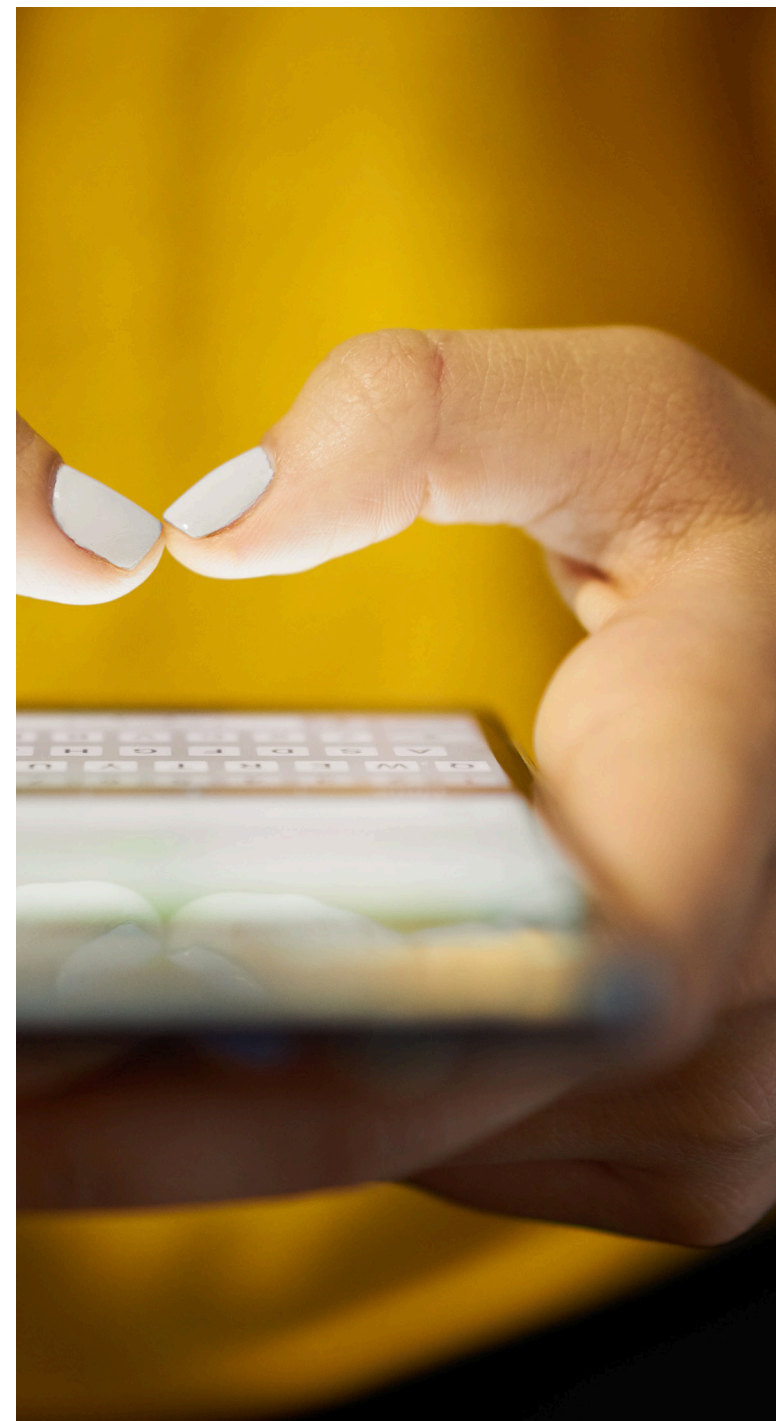
Most often, newspapers adjust expense models on the fly, rather than strategically. The short-term expense adjustment model, in many cases, can be a driver of future challenges if not applied strategically.

The Changing Expense Model: Getting Started

Have you actively examined current operations, measured the need to change against other successful peers and developed a roadmap of expense change for the future? Most often, newspapers adjust expense models on the fly, rather than strategically. The short-term expense adjustment model, in many cases, can be a driver of future challenges if not applied strategically. Fortunately, there are a few simple benchmarks to examine in evaluating the health of your circulation department. Asking these questions can lead to opportunities for improving the expense line and ultimately, profitability.

- 1. The revenue paradigm is shifting.** *What percent of my total newspaper revenue comes from the circulation department and how does that compare with my peers? In international markets, how does this compare to countries your audience and revenue trends most emulate?*
- 2. The relationship between revenue and expense should be similar.** *How have circulation department expenses been trending in comparison to circulation volume? Are these trends balanced across print and digital given the much reduced cost of digital content delivery? Are ratios in line with reasonable expectations and my peers in the industry? Am I adjusting to the new print-digital business model?*
- 3. Ratios are important.** *What is the ratio of expense to revenue for my newspaper? How much opportunity for improvement exists on each side of this equation? How do I approach evaluating potential opportunities and make sure that I've considered all the options?*
- 4. Delivery is generally the most expensive cost center of the circulation department.** *How do these costs compare to peers? Am I spending too much in some areas but not enough in others? Is my route turnover running ahead of or behind the industry norm and are we diligent in examining route profitability as it relates to route turnover? Are others managing differently or more effectively?*

5. **Subscribers drive revenue.** *Are my starts and stops balanced? Am I investing appropriately in this area since circulation revenues now mean more to my success? With the increased importance in digital audiences, am I investing enough to grow this segment of my market? Since success rates for digital acquisition are different than print, do I fully understand which are the key drivers to success?*
6. **Staff for the future.** *Is my staffing or compensation structure in line with like-sized newspapers or those with similar market challenges?*
7. **Invest where needed; save where you can.** *If I'm going to invest more, where do I find resources and is it possible to redirect current resources within the organization?*
8. **You need the right skills for the future but you don't have to own them!** *Do I have the right tools, or level of expertise to determine where to invest or reduce spending to maximize the effectiveness of my operation? If not, where do I get them?*
9. **Building the right roadmap to transition is very important.** *What is the most effective rollout timeline for any changes to my operation so that we experience little or no disruption?*
10. **Keep your eye on the ball going forward.** *What are the key metrics I need to monitor in the future to ensure I'm maximizing the return from changes?*



And finally...

The newspaper industry has evolved over the past 5 to 10 years. Publishers have a strategic plan for the revenue side of their operation and should be just as strategic about the investments being made on the expense side. Do the analysis, build a plan, and execute. If you don't have the skills in-house to evaluate your expense line items, go find them. A fresh perspective on your operations spending model can be the biggest opportunity for your bottom line in 2018 and beyond!

The Mather Economics Difference

Mather offers many tools to help publishers identify expense and profit opportunities for their circulation divisions, advertising divisions, and for overall newspaper profitability. Additionally, we have strategic partners offering services in Digital Advertising Revenue auditing that has assisted clients in identifying significant cyber revenue losses and threats. Please let us know if you have questions on how we can help you reduce your annual departmental expenses by \$150K to \$500K like a few of these publishers listed below.

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