WHAT IS YOUR LONG-RUN LEVEL OF PRINT CIRCULATION?

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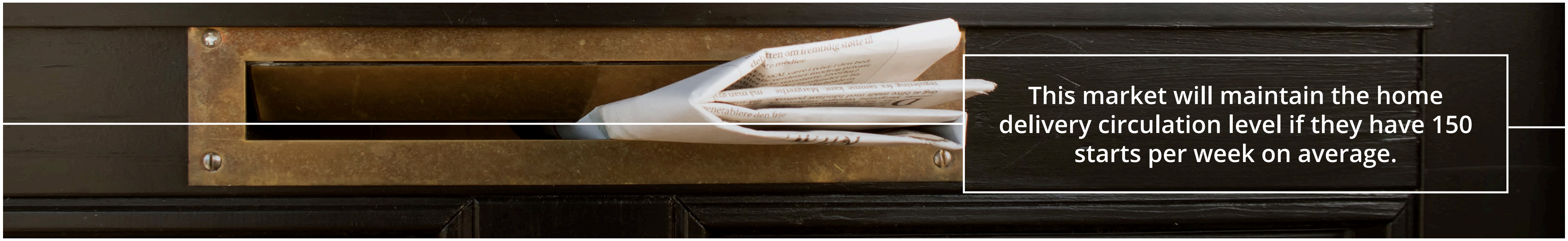
The eventual discontinuation of printed newspapers is considered inevitable, but is that the case? Recently, we have observed a steady-state level of new starts at newspapers despite radically lower acquisition budgets. Using this steady-state number of starts, we can estimate the equilibrium print circulation for newspapers: the point at which starts, and stops are equal. In addition, we can measure the ROI from increasing acquisition budgets by showing the difference in business profitability at the new level of circulation sustained by the higher level of starts.

Our conclusion is that there will be demand for printed newspapers for a long time. Is the demand sufficient to support the business? It is likely there is enough demand to keep the printed product as part of a multi-platform strategy, particularly given the effectiveness of printed advertisements and inserts.



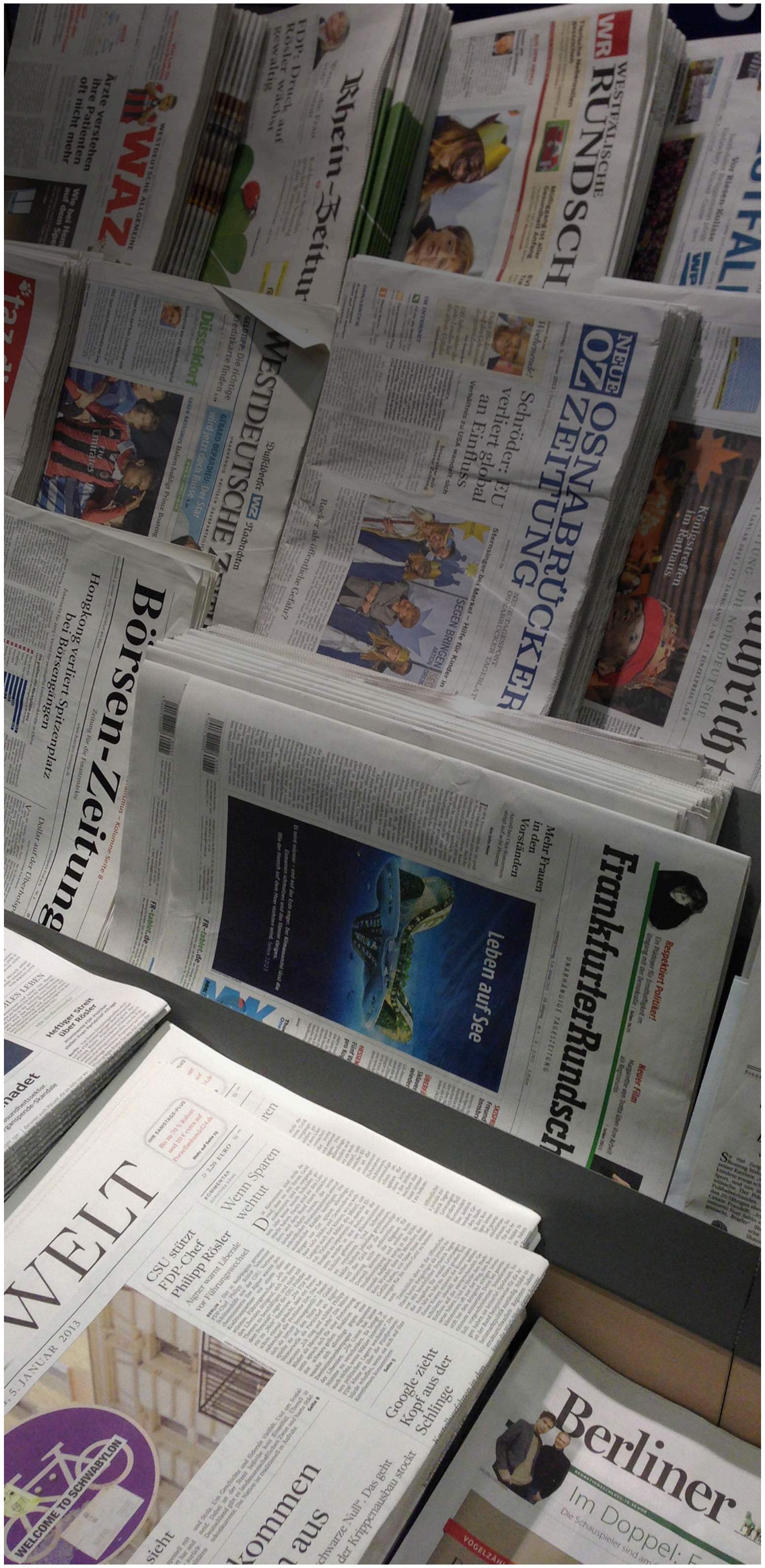
To determine the equilibrium level of home delivery circulation for a newspaper, we look at the drivers of starts and stops. Stops are a function of the number and types of home delivery customers. For example, a newspaper with 30,000 subscribers has a mix of tenured customers. 50% of them have been active for more than five years with annual retention of 90%. 35% of the subscribers have between two and five years of tenure with annual retention of 70%, and 15% are in their first year with annual retention of 30%. This newspaper will have 150 stops per week on average.

Home Delivery Subscribers	Annual Retention	Annual Stops	Weekly Stops
15,000	90%	1,500	29
10,500	70%	3,150	61
4,500	30%	3,150	61
30,000	74%	7,800	150

This market will maintain the home delivery circulation level if they have 150 starts per week on average. If they only have 125 starts, their circulation will gradually decline until the annual retention rate (in this example a weighted-average of 74%) applied to their home delivery customers produces 125 stops per week, which is 25,000 active subscribers. This newspapers' circulation will decline by 25 active subscribers per week for 200 weeks, or about 3.85 years.

Weekly Starts	125
Annual Starts	6,500
Weighted Average Retention	74%
Home Delivery Accounts	25,000
Weeks to Adjust	200
Years to Adjust	3.85

Starts are a function of the size of the market, the number of voluntary orders, the number of sales attempts across all channels, and the success rate of those sales attempts. As "start pressure" has been reduced through lower acquisition budgets, the number



of sales attempts and new starts has declined. *How much of the decline is due to the lower demand for printed products?* Some insight into the changing demand can be observed through the level of voluntary starts and the effectiveness of sales channels. Indeed, there is less demand for print than in prior years, but the biggest reduction in start volume is due to lower acquisition spending.

Using these before and after home delivery circulation figures, combined with information regarding customer lifetime value, the ROI on additional acquisition spending can be calculated. ROI on retention initiatives can be determined as well as the ROI on efforts to increase the operating margin, such as increasing average subscription rates or lowering operating costs.

A high-level example of the operating margin opportunity is below. In this example, keeping the circulation at 30,000 active home delivery subscribers by keeping weekly starts at 150 instead of 125, creates an annual operating margin difference is $650,000 with incremental acquisition costs of $195,000.

Weekly op margin per active subscriber	$2.50
Total home delivery op margin per week ORIGINAL	$75,000
Total home delivery op margin per week NEW	$62,500
Difference in weekly op margin	$12,500
Annual difference in operating margin	$650,000

Cost per Order	$150
Weekly acquisition costs ORIGINAL	$22,500
Weekly acquisition costs NEW	$18,750
Difference in weekly acquisition costs	$3,750
Annual difference in acquisition costs	$195,000

Doing this type of analysis for our newspaper clients, we have observed that newspapers have taken great strides in lowering operating costs and increasing average home delivery rates. Several newspapers have very compelling case studies in retention campaigns using churn risk modeling. A remaining opportunity for newspapers is improving the acquisition process of new home delivery subscribers.

One example of a successful innovation with acquisition offers is at NRC in Amsterdam, where they sell one, two, or three-year subscriptions with monthly billing and constant prices throughout the duration of the term. These offers dramatically lower churn among new customers, which has led to growth in print circulation in that market.

Certainly, the use of database marketing to target new customers is an effective tactic that has been used by newspapers for many years, and that activity will remain imperative in the future. It appears that changing the nature of the new-customer value proposition is where innovation in customer acquisition can occur, and we look forward to working with newspapers on that challenge.