



K a n n o n C o n s u l t i n g

An *Outside-In* Approach to Cost Restructuring

What to Sell, to Whom and How in Today's Market

**Focus Limited Resources on
Highest Return Initiatives**

An Outside-In Approach to Cost Restructuring

Overview

“We are pulling back on our circulation. Which geographies should be eliminated? Should we raise our price?”

“We are rethinking our product design and local coverage. How do we know where to focus?”

“We all have too much to do and insufficient time, energy and resources. How should we work together to lower costs while continuing to get the newspapers out the door?”

Kannon is helping clients to accomplish these very goals by identifying where Circulation, Ad Sales and Product Development resources will obtain the best return, even in these difficult times.

Want to know more? Read on to learn:

- Which consumers are worth trying to keep? Grow?
- Who are high priority advertisers?
- Which geographic areas are worth serving?

An Outside-In Approach to Cost Restructuring

Overview

In today's demanding business environment, resources are limited and the composition of markets is rapidly changing. Local media company executives need to make well-informed decisions when evaluating how to reduce costs, align resources and identify potential revenue streams.

This means new tools and approaches are essential to identify priority customers and to tailor what to say and how to sell to customers.

These tough economic times also indicate a need for the highest return on limited sales and product development resources.



Therefore, we recommend targeting resources where the advertising demand and the likelihood of consumer acceptance are the highest. Products and competencies can then be better aligned with advertisers seeking similar high-priority local audiences.

Clients are asking for our help with their restructuring efforts by providing the market view or, as we call it, **Outside-In** perspective.

To address this need, we developed the **Outside-In Resource Allocation Approach** summarized in the graphic below.

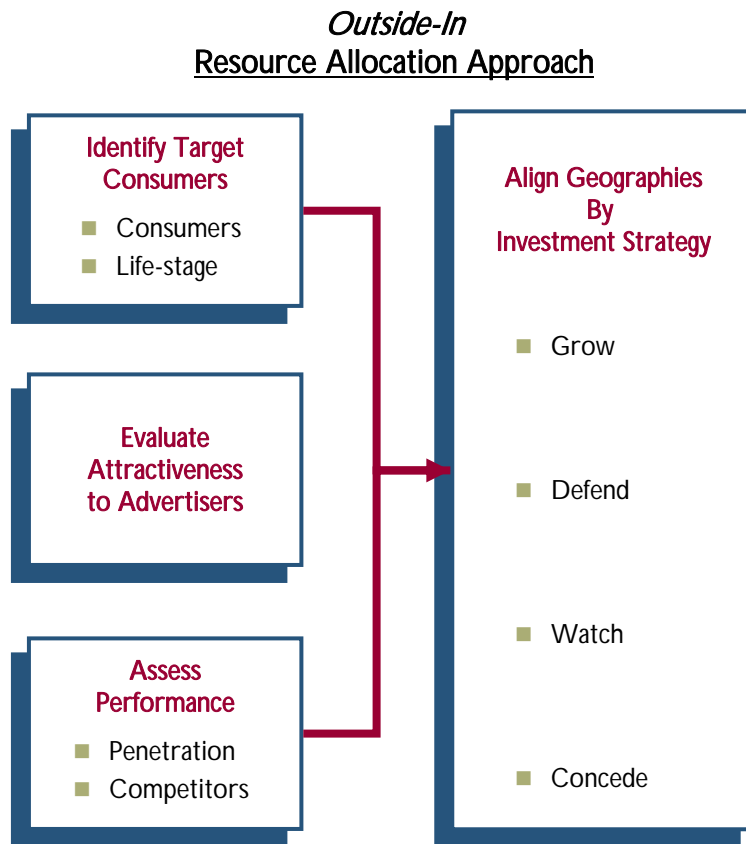


Figure 1: Overview of Cost Restructuring Approach

This document walks you through the philosophy, the approach and the outcome of this work.

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Identify Target Consumers

There are multiple ways to segment consumers—by behaviors, beliefs, demographics, attitudes or lifestyles. However, segmentation by life-stage serves as a good model because it provides intuitive segments that are easy to understand and requires low investment of time and resources. In most cases, the company’s own data can be tapped and augmented with publicly-available sources.




| Developing | | | Family | | | Mature | | |
|--|------|----|--|------|-----|---|------|-----|
|  | | |  | | |  | | |
| \$\$\$ | \$\$ | \$ | \$\$\$ | \$\$ | \$ | \$\$\$ | \$\$ | \$ |
| 5% | 6% | 5% | 14% | 18% | 12% | 13% | 16% | 11% |
| 16% | | | 44% | | | 40% | | |

Figure 2: Life-stage Demographic Definitions

As a starting point, we typically divide consumers into three major categories: those who have not yet had children; those who have children under the age of 18 living at home; and those whose children have grown and left the home.

Next, within each group, consumers can be sorted into smaller, and more easily targeted, segments based on their household-income levels: upper, middle and lower. The number of life-stage segments can be adjusted based upon marketplace demographics.

When high-priority target segments are identified and clearly understood, the organization can make better resource allocation decisions and become more consumer-centric across all functions and at all levels.

A prioritization framework generally has two dimensions. The vertical axis of the framework is **Segment Attractiveness**. Here, each life-stage segment is evaluated on its attractiveness to any media or advertising organization. The horizontal axis of the framework, **Competitive Position**, is based on the local media company's current ability to meet the segment's needs relative to competition.

Illustrative Strategic Prioritization Framework

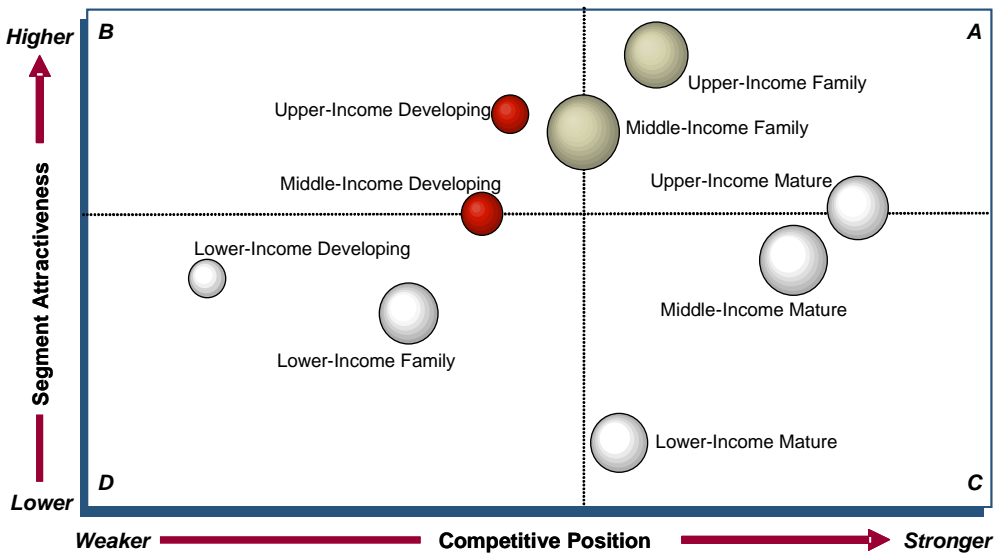


Figure 3: Illustrative Life-stage Prioritization

Once priority segments have been identified, each geography or ZIP code can be assessed by the amount of target consumers within that area.

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Identify the Attractiveness of Specific Geography to Advertisers

The attractiveness of a geography to advertisers can be assessed in several ways.

- Number of retail establishments
- Sales (including automotive, real estate, services)
- Preprint distribution

Retail advertiser potential is captured by factoring both the number of retail establishments and retail sales. For example, a suburban ZIP code encompassing a mall may have fewer retailers than an urban area with many shops, but may still be an attractive market because retail sales are high.

Market research could be fielded to understand advertiser priorities better, if resources were available. In a recent Kannon initiative, a web survey was conducted that asked advertisers to rate geographies on their importance to their business.

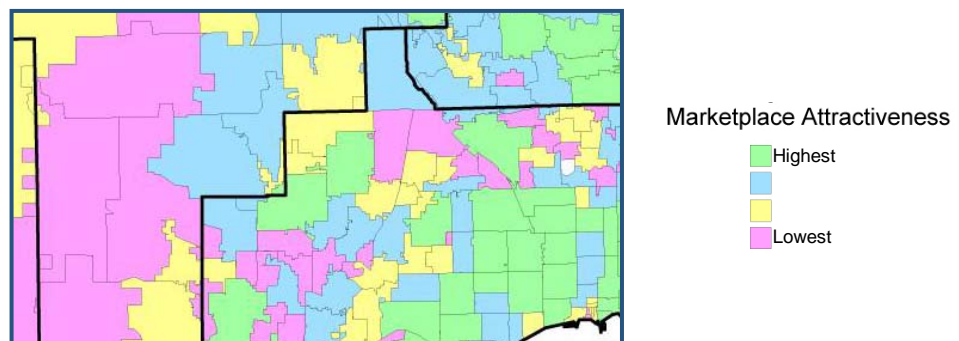


Figure 4: Marketplace Attractiveness Map Illustration

Once the criteria are established, geographies or ZIP codes can be objectively assessed.

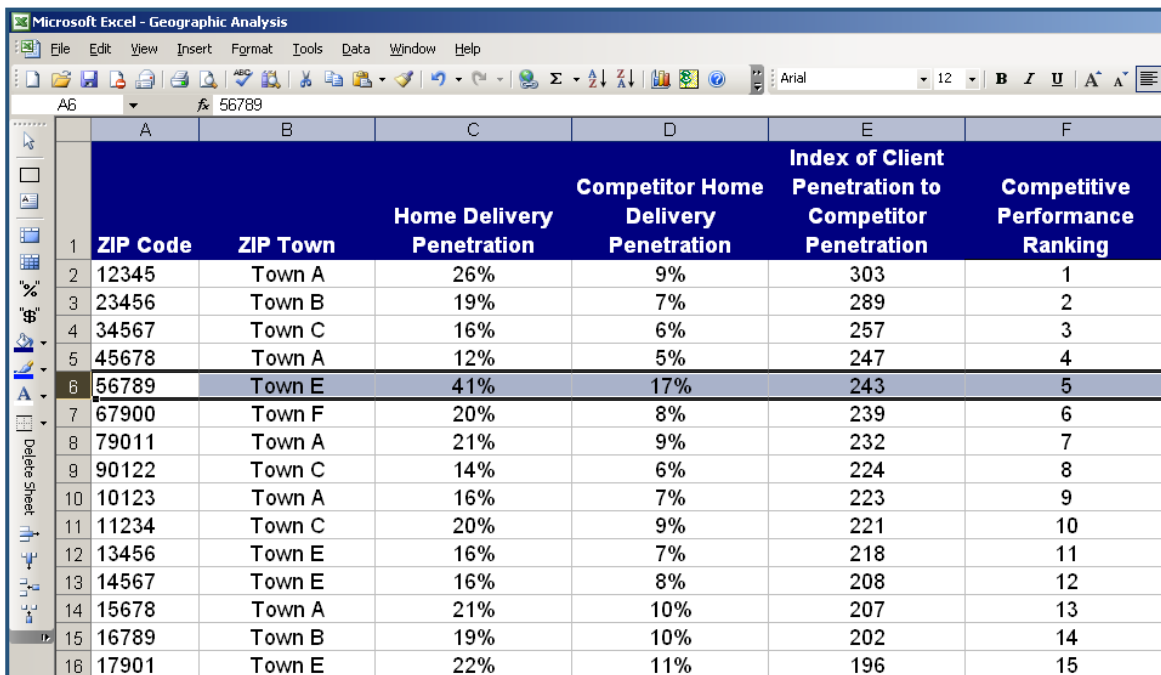
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Assess Performance Relative to Competition

Local media performance needs to be evaluated objectively, both in the absolute and versus competitors. Possible metrics include:

- Penetration
- Audience reach
- Circulation, sales and churn
- Penetration as compared to local competitors
- Market share

For example, penetration or readership could be used as an absolute measure of media performance. This measure can then be assessed relative to local competitors, including dailies, weeklies, and others.



| | A | B | C | D | E | F |
|----|----------|----------|---------------------------|--------------------------------------|---|---------------------------------|
| | ZIP Code | ZIP Town | Home Delivery Penetration | Competitor Home Delivery Penetration | Index of Client Penetration to Competitor Penetration | Competitive Performance Ranking |
| 1 | 12345 | Town A | 26% | 9% | 303 | 1 |
| 2 | 23456 | Town B | 19% | 7% | 289 | 2 |
| 3 | 34567 | Town C | 16% | 6% | 257 | 3 |
| 4 | 45678 | Town A | 12% | 5% | 247 | 4 |
| 5 | 56789 | Town E | 41% | 17% | 243 | 5 |
| 6 | 67900 | Town F | 20% | 8% | 239 | 6 |
| 7 | 79011 | Town A | 21% | 9% | 232 | 7 |
| 8 | 90122 | Town C | 14% | 6% | 224 | 8 |
| 9 | 10123 | Town A | 16% | 7% | 223 | 9 |
| 10 | 11234 | Town C | 20% | 9% | 221 | 10 |
| 11 | 13456 | Town E | 16% | 7% | 218 | 11 |
| 12 | 14567 | Town E | 16% | 8% | 208 | 12 |
| 13 | 15678 | Town A | 21% | 10% | 207 | 13 |
| 14 | 16789 | Town B | 19% | 10% | 202 | 14 |
| 15 | 17901 | Town E | 22% | 11% | 196 | 15 |

Figure 5: Geographic Analysis Illustration

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Align Geographies by Investment Strategy

Once ZIP codes or geographic units are profiled, each should be assessed on which resource allocation and strategy are most appropriate.

Potential Strategies - Illustrations

| Strategy | Definition | Resource Allocation |
|-----------------------|---|---------------------|
| “Our Best ZIPS” | <ul style="list-style-type: none"> ■ High market attractiveness ■ Strong presence ■ High penetration vs. competitors | Invest |
| “Fight for the ZIP” | <ul style="list-style-type: none"> ■ High market attractiveness ■ Penetration vs. competitor is close | Invest |
| “Protect the ZIP” | <ul style="list-style-type: none"> ■ High market attractiveness ■ Significant circulation but not advantaged | Limit Investment |
| “Deemphasize the ZIP” | <ul style="list-style-type: none"> ■ Low market attractiveness ■ Low penetration ■ High competitive presence | Divest/ Concede |

Figure 6: Potential Strategies Illustrations

For example, the geographies which are fundamentally attractive (e.g., size, growth, advertiser spending) and where the local media company is well positioned are candidates for resource investment in circulation marketing, early distribution delivery, Ad Sales attention and local coverage.

Conversely, geographies which are less attractive and where there is high competitive presence and weak positioning are candidates for less investment.



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Conclusion

This *Outside-In* Approach to cost restructuring does work.

For several local media companies, Kannon identified the highest priority ZIP codes based on rigorous analyses of demographics, attractiveness to advertisers, newspaper performance and competitive intensity. The strategy that emerged cut costs, focused circulation/consumer marketing, and reallocated newsroom resources. Perhaps most importantly longer-term, the process helped bring the senior team together to align priorities across the organization.

The effort leverages information already available.

Kannon has provided business frameworks to make smarter, more informed decisions on difficult and important product questions. Importantly, we are doing this work by taking a fresh look at data already available within the client's research portfolio and tapping Kannon's non-proprietary sources.

Similar initiatives on true reach of the Print and Web products focuses product innovation resources.

An objective review of Print and Web reach identified high-priority customer segments. These deserved the focus of the limited product development resources available for both consumer and advertising strategies. Objective analysis of local advertising potential has led to reconfiguring Sales efforts to categories where there may be upside for Print and Web products.



Kannon helps media companies to allocate resources smarter.

That is, to focus upon key areas that are most likely to provide an ROI.

Kannon has applied this approach and clients have found it powerful.

Kannon applies this framework to allow for a new level of accountability, actionability, and urgency.

Kannon has been at the forefront of turning consumer and advertising insight into successful actions.

Kannon has extensive experience collecting and analyzing market and performance data for over 50 newspaper website/markets. With this experience, Kannon is able to provide relevant benchmarks and valuable perspective.

Over 85% of Kannon's business comes directly from clients/referrals.

Our team has a history of building actionable strategies and tactics reflecting advertiser, consumer, technology and competitive trends. Kannon has a broad, multi-functional relationship with media companies that allows for more strategic insight and actionable outcomes.

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