
NAA Distribution and Logistics Task Force Report

Meeting Customer Needs:
The Challenge of Distribution,
Today and Tomorrow

May 2000

Perspective

Newspapers are facing challenges never seen before. Advertising revenues are growing at a steady pace, but share of market is slipping both locally and nationally. Advertisers have an ever-broadening array of choices for their marketing investments, from traditional players like mass mailers and broadcast television to the new alternatives of the Internet and digital cable. Success at increasing readership is stymied by consumers who choose to divide their time among an increasing number of options for content. All the while, the double-edged sword of a healthy economy is heightening the competition for readers' time. These pressures have limited subscriber price increases at the very same time investments are needed in local content and earlier home delivery deadlines.

To combat these threats, newspapers are broadening product lines, re-evaluating the content and balance of the newspaper, and marketing its brand and benefits. These and others are the right steps to win in the market. However, none of these will be effective unless the platform for delivery is in place to meet customer (readers' and advertisers') needs. What are those customer needs? What distribution and operational systems will be needed to form the foundation on which strategic imperatives can be implemented? What is the new economic model that will justify the new products necessary to protect and grow advertising market share, and the investments in technology necessary to refine the distribution system?

The NAA Distribution and Logistics Task Force is charged with addressing these questions. This White Paper is one of the initial results of that process.

Introduction

The Distribution and Logistics Task Force of the NAA Circulation Federation was formed in 1999. Its objective was to examine the needs and expectations of readers and advertisers and identify what will be required to seize the opportunities of the future. There were two goals for this process. The first was to prepare newspapers to build upon and protect the local franchise. The second was to assert the newspaper's role as the premier distribution system. It is a system with a distribution framework increasingly capable of delivering an array of products to every household and business in the market in a timely, accurate manner when and where the customer wants it.

The Task Force met several times to discuss issues and the process to address them from an industrywide perspective. One step in the process was to sponsor a Distribution Strategy Development session with representatives from each newspaper function. The goal was to develop a better understanding of the current and emerging wants and needs of customers and the critical external issues confronting the industry now and over the next five years. The session also identified the groundwork needed to provide the industry with a distribution system capable of responding to changing customer needs.

- What distribution capacity and services will be required to meet the needs of readers over the next five years?
- What capacity and services will be necessary to meet the distribution needs of advertisers over the next five years?
- What are the marketing needs of advertisers that can be served by development of new products?
- Can critical gaps be isolated between the demands of readers and advertisers and most newspapers' ability to respond to requests?
- What capability will newspapers need to maintain dominance in the local marketplace?
- What solutions are currently working, or need to be further developed to deliver a compelling relevant newspaper product to consumers?
- What is the emerging economic model to justify investments in distribution to protect and grow revenues?

A group of editorial, circulation, production, and advertising newspaper executives gathered to dedicate a day and a half to address these issues. The Distribution Strategy Development sessions were led by Bob Eickhoff, vice president/director of operations at *The Orlando Sentinel* and chairman of the Task Force; John Murray, vice president of circulation and marketing at NAA; and the Task Force members present (Al Smith, Rick Epstein and Peter Savoie).

Barbara Cohen, president of Kannon Consulting, was invited to share the relevant findings from the industrywide NAA Horizon Watching Initiative, to participate in the meeting, and to draft this White Paper summarizing the results. Doug Griffen of D.S. Griffen & Associates facilitated the session via the interactive laptop computer system his firm is noted for.

This document integrates the key findings and recommendations that emerged from all of the Task Force's meetings, NAA circulation research, and the NAA Horizon Watching Initiative. The White Paper clearly outlines the challenges ahead and what newspapers need to do to be certain that the distribution capability is in place to ensure the long-term success of the business.

Horizon Watching

The NAA Horizon Watching Initiative, launched in 1999 by NAA's Board Committee on Industry Development, is intended to help newspapers better understand the strategic forces shaping our industry. As part of the effort, NAA has built a baseline study of major advertising, consumer, competitor, technological, economic and regulatory trends; identified "guideposts" to monitor; and recommended six "strategic imperatives" for newspapers to compete effectively into the future.

Environment

From an external view, NAA, the NAA Board Committee on Industry Development and its Horizon Watching Task Force, and Kannon Consulting identified the major trends that are driving change in the media environment. These trends were confirmed in the front line feedback collected from the Distribution and Logistics Task Force's special session. The major themes include:

Advertiser Consolidation: Shift in Buying Power

Important retail and service sectors are consolidating into fewer but bigger regional and national players. This is increasing pricing pressures on newspapers and decreasing personal influence with out-of-region decision makers. One way major advertisers have sought to cut costs and gain leverage is through the use of intermediaries (e.g., the Newspapers Services of America and The Newspaper Network) who further remove the newspaper from a direct link with advertisers.

Multichannel Advertisers: Clicks and Mortar Plus

Due to technological advancements and the increasing time constraints of readers, advertisers are currently, and increasingly, utilizing multiple channels – bricks and mortar stores, catalogs, Web sites, kiosks, for example. Readers are able to choose where and when they want to shop across a range of categories, from food to funds, toasters to travel. This shift to multichannels reinforces the need for retailers and service providers to invest in brand equity, as well as traffic generation.

Opportunities: Emerging Players with Unique Needs

Several nontraditional categories of advertisers are emerging, such as deregulating industries, business-to-business advertisers, local service providers, and dot-com companies. For perspective, recently deregulated businesses such as telecommunications and financial services have grown their investment in advertising and marketing at rates many times the growth in spending of traditional retail newspaper advertisers. Newspapers need to be ever alert and proactive as new advertising customers emerge.

Advertising Shifts: More Choices, More Focus

Advertisers are managing increasingly complicated media mixes. Even those who still seek the “mass-like” discounters need to tap several vehicles to achieve the coverage they desire. Targeting has spread as a way for advertisers to focus their resources in those tools which provide the highest return. Measurement is emerging as a requirement to allow advertisers to fine-tune their programs.

Competitors: Traditional and New

Radio, direct marketing and cable operators are consolidating to capitalize on economies of scale and mirror the structure of advertisers. Furthermore, high-speed digital cable is poised to become an even greater threat to mass market media, as technological innovations allow for household-specific marketing. Online is becoming a viable marketing alternative to traditional media for many industry sectors, such as travel, consumer electronics and employment.

Population Changes: Diversified Readers in Fragmented Markets

The U.S. population is becoming increasingly more racially and ethnically diverse. When marketers talk about wanting to reach two-parent families with children, they will increasingly come to mean ethnic households. An increasingly diverse and aging reader population utilizes a broad information portfolio and does not rely on one or two media sources for their needs.

Readers perceive themselves as time-pressed. They are looking for ways to save time in every aspect of their lives. Competition for share-of-day is as intense as share-of-wallet.

The economic and population centers are expected to continue moving south and west. Metropolitan areas will continue to spread out into regions with less and less linkage to city centers. As Internet penetration increases and creates more globally linked communities, the concept of “local,” city-centric information is being redefined.

Population Changes: Workforce in Transition

The combination of the ease with which jobs can be changed via the Internet, the low unemployment rate, and other societal shifts has devalued loyalty. The management of retention has become even more important. The education system has left many young people unfit for jobs and employers are forced to invest in training.

The new multicultural society also represents a workforce made up of individuals from an array of cultures who speak a plethora of languages. Management must provide direction and training in many languages while being respectful of different cultures and norms.

Virtually all of the Horizon Watching findings summarized above were reiterated by the participants at the Distribution Strategy Development session. Several issues were discussed in light of their impact on distribution in addition to the overall importance in the newspaper. The following chart summarizes all distribution strategy issues resulting from the environmental themes discussed in this section.

Distribution Issues

Distribution Strategy Issues Facing Newspapers	
<ul style="list-style-type: none"> ▪ Matching reader interests with overall distribution capability ▪ General technology issues (insert capacity, bundling, product handling) ▪ Ability to provide address-specific delivery ▪ Increasing cost pressures ▪ A single focus on customer by different functional areas ▪ The challenge of increasing advertising revenues ▪ Lack of new business models and ROI approaches that would allow us to invest in infrastructure 	<ul style="list-style-type: none"> ▪ Our ability to take advantage of Internet/e-commerce, especially in fulfillment ▪ Ability to keep routes contracted with high-quality labor ▪ High employee turnover ▪ Time frame issues – customer expectations for delivery windows ▪ Lack of multiple delivery modes ▪ Limited willingness to invest in research and development by vendors

Source: March 23, 2000 Distribution Strategy Development Session.

Readers' Needs to Be Addressed

Several readers' requirements have been identified. While all are important for the industry to address, many go beyond the scope of distribution. The following chart highlights these needs.

Readers' Requirements		
Top Readers' Requirements	Newspaperwide Issue	Distribution/Service Issue
More utility value, personal relevance, value to my life	X	
Strong, consistent local content	X	
Easier to read/more relevant package for younger readers	X	
Increase level of interaction with the paper (reader involvement with the paper)	X	
Better overall indexing, color, graphics, to aid readers in navigation	X	
Ability to access more content on demand	X	
Increase delivery options and availability		X
Superior customer service and responsiveness		X
Earlier delivery for morning papers (late news, early delivery)		X
More consistent overall packaging		X
Better quality product presentation		X
Pricing options based on the content and standard delivery		X
Closer link for demand and fulfillment (advertising and purchase)		X

Source: March 23, 2000 Distribution Strategy Development Session.

Let's look closer at some of the reader-driven distribution issues.

Increase Options and Availability

Readers have come to expect options in most products and services they buy. Whether it is the different types of laundry detergents, variety of checking accounts, or their selection of doctors, flexibility has become an added requirement to compete. Clearly, the popularity of "my" sites on the Internet is the electronic manifestation of the same phenomenon.

It is therefore not surprising that readers would like more delivery options. This could include:

- Location-based alternatives: home, vacation, business
- Time of day: earlier, later, when I want it
- Home-based options: on the porch, in the driveway, in the building lobby
- Day-of-week options

By providing the newspaper when and where readers want it, we would expect their perception of value would increase, even if the content of the newspaper itself did not change.

Superior Customer Service and Responsiveness

Readers will notice and act based upon differential service. For example, readers do not expect to receive the same level of service at an off-price discounter as at a high-end designer boutique. The off-price discounter is not judged harshly if the personal attention is not at the same level as at the boutique.

However, there is a minimal level of service that is deemed appropriate almost anywhere – knowledgeable answers to questions, courtesy, polite responsiveness to problems, being treated with respect and honesty. The bar for this minimal level has continued to rise. Companies have often found that one way to maintain and grow the required level of service is with technology. For newspapers, this will mean better-trained customer service representatives supported by real-time screens with access to billing and delivery systems. It should also include the use of the Internet and Web sites for 24/7 help with opt-outs for live operators.

Consistent Packaging

Readers with busy lives need to be able to forecast each day. They know which aisle in the supermarket has soup, which in the home improvement store has nails, and in the furniture store, which has bedding. Predictability has become increasingly important since society reflects instant TV and real-time interactivity.

Searching through the newspaper for the weather map or business news, which are not anchored, or sections inserted (or missing), is viewed with less and less tolerance. Newspapers will be judged increasingly harshly for what is perceived as disrespect to the reader. The challenge is to make using the newspaper easier for a time-pressed reader, not harder.

Fulfillment

In a clicks-and-mortar-plus world, reliable, low-cost delivery services will increasingly become important. We have already seen the success United Parcel Service has had in filling this void.

Newspapers would be remiss not to re-evaluate their delivery capabilities to assess local delivery systems. Creativity may identify new opportunities. For example, local services are less likely to be addressed by national players. Should a newspaper consider delivering dry cleaning? Repaired shoes? Groceries?

Home food delivery per WebVan and Peapod are high profile, but neither has found ways to penetrate a significant part of the market. Perhaps having goods delivered to a common pick-up location would be more attractive. Could a newspaper manage such a warehouse?

None of these may make sense. But the future is beckoning the newspaper business to think differently about how to do traditional business in a new way, as well as look at new businesses.

Advertisers' Needs to Be Addressed

In the future, advertisers will have increasingly complex needs and requirements.

Advertisers' Requirements	
<ul style="list-style-type: none">▪ Higher return to marketing investments▪ Ability to target and reach best customers▪ Environment which builds brand equity▪ Accurate and timely information about quantities of pre-printed inserts to be delivered to the paper▪ Address-specific delivery of ad content▪ Increased readership▪ Ability to deliver all or selective households▪ Granular zoning, including microzoning	<ul style="list-style-type: none">▪ Improved customer responsiveness▪ Better ability to reach younger consumers, ethnic groups▪ Increased ability to modify ad until press time▪ Expanded measurability of ad effectiveness▪ Single source of contact for multiple media buys▪ Quality reproduction▪ Increased use of color and graphics

Source: March 23, 2000 Distribution Strategy Development Session.

The market forces will shape advertiser needs for marketing and advertising services. While needs will vary by advertiser category, let's look at a couple of these more closely.

Delivering the Targets

Many advertisers, whether through statistical modeling or gut reactions, are seeking to reach their best customers. The definition of "best" customer can be geographical, behavioral or even attitudinal. The challenge for the newspaper business is to deliver those audiences whether through the core, paid-for newspaper or via other vehicles – at an individual or household level.

While research has confirmed the power of newspaper advertising versus mail, after years of effort and millions of dollars in investment, newspapers may need to pursue additional channels to deliver the audiences advertisers want. The goal is to reach every and any household, regardless of subscription status. These could include free newspaper products that have real editorial content in them, as well as new print initiatives. Of course, the Internet is also expected to be a channel.

At some point, the return to the investment in phone banks of people, promoting the newspaper on price has to be re-evaluated. If examined, the true cost of subscriber churn will likely drive newspapers to rethink the current model.

Ad Production

Advertisers continue to demand higher quality reproduction and color. They see other media, such as high-definition television, Internet graphics and magazines, improve their quality while many newspapers remain limited in their printing reproduction and color capabilities. Advertisers are also looking for more flexibility in deadlines and lead times. This is especially true for inserts.

The only way newspapers can provide the flexibility advertisers want at a price that they are willing to pay is to re-evaluate the entire system from the newsroom through delivery. This includes reducing repetitive or unnecessary steps, fostering technical expertise and investing in new technology.

Customer Service and Responsiveness

Newspapers are often criticized for inflexibility and arrogance by advertisers. Two areas worth particular note here are the buying of pre-prints and billing.

The process to buy and execute a pre-print at most newspapers is often a nightmare to advertisers. The number of pre-prints needed is often an ever-changing number, depending on how it is calculated by which internal department is doing the calculation. The very

credibility of the newspaper is often questioned as the number of pre-prints required continues to rise despite declines in circulation.

Newspapers need to re-engineer the entire pre-print process, which includes the advertiser contact, database, distribution and delivery, to become more customer friendly and cost-efficient.

Criticisms are also often heard from advertisers related to the complicated structure of newspaper pricing and the problems in customer service that result. Many billing mistakes are often due to pricing mechanisms that are not in alignment with the billing systems. Pricing strategies and promotions should not be fielded unless the systems are in place to service them.

Evolving Competitive Capabilities

While newspapers are changing to respond to developing trends, so are competitors.

Online is becoming a viable alternative to traditional media for many industry sectors, such as travel, consumer electronics and employment. This is not just as carriers of messages, but the actual site of the transaction.

Broadcast television's larger reach in contrast to cable helps it retain advertising despite the erosion of prime-time audiences. The convergence of the Internet with television may not be far off, once limited bandwidth issues are fixed. Furthermore, other emerging technologies threaten to change the entire television business. By letting consumers record TV content easily, these new technologies give consumers the power to choose what to watch and when, and the ability to skip advertising interruptions entirely. Digital cable will clearly allow household – even TV set-based – messaging.

Consolidation between radio and outdoor advertising companies has provided the combined entities with efficiencies in selling “out-of-home” advertising. In addition, individual radio stations continue to target specific demographic niches, a characteristic valued by many advertisers. By selling advertising across an array of stations, owners can also provide advertisers, in a single buy, with a market reach that would have been difficult to assemble prior to consolidation.

The direct marketing trend nationally is the increased use of household specificity. Direct mail is still growing. Looking ahead, direct marketers are expected to increasingly shift budgets toward e-mail campaigns and away from postal initiatives, due to cost savings and higher returns on investment with online marketing programs.

The Postal Service, mass mailers, and alternative delivery providers are not sitting still, either. Subsidization of third-class rates continues to be a threat to home delivery. ADVO and Cox Direct continue to invest in upgraded services, including the joint sale of online and print coupons. Federal Express, traditionally focused on business-to-business, just introduced delivery services aimed at local retailers and manufacturers for home delivery to consumers.

Looking Forward

The market has changed and continues to change increasingly at Internet speed. Competitors are evolving, new ones emerging. Newspapers can not simply let their distribution capabilities make small incremental improvements at the traditional pace.

While the specifics will vary by market, it is clear that newspapers need to protect their strong local position in distribution, not just to deliver newspapers, but to deliver revenues and profits. With declining penetration, distribution-based products and services will stand shoulder-to-shoulder with the core product to provide avenues for advertisers to reach their markets and consumers to enjoy information and goods.

Newspapers need to build core competencies and capabilities across the entire chain of their activities. These challenges facing newspaper management are clearly linked to the Six Strategic Imperatives, outlined by NAA's Horizon Watching Initiative. The following are the imperatives and the Implications for newspaper distribution systems.

Strategic Imperatives

1) Invest in Technology for Market Success

Technological advancements are altering the media landscape. To remain competitive, newspapers need to make investments in technology to meet the needs of the market. Marketing services such as direct marketing, online advertising and e-commerce must be integrated into a portfolio of products and services.

➔ In the distribution arena, this imperative may translate into new opportunities. As e-commerce grows -- in some cases encouraged by the newspapers' own electronic businesses -- local providers will need the ability to deliver products and services.

2) Instill Cost Effectiveness and Restructure How Work Is Done

Newspapers must ensure that they work cost-effectively to maintain profitability while facing stronger, consolidated advertisers and more competition. Current ways of doing

business will need to be re-engineered and streamlined to reflect new technologies and approaches.

→ For distribution, re-engineering the entire process – packaging, loading, distributing, and delivering – can bring huge efficiencies, as well as better customer service. New technology, which allows wireless and Internet communications, can streamline costs.

3) Install Marketing Capabilities Both for Advertisers and Readers

In a media landscape of multiple choices, newspapers will need to invest in marketing strategies and expertise to reach readers and meet marketers' needs. The advertising sales process and capabilities will need to be re-evaluated to make certain it is customer-oriented and cost-efficient. Difficult circulation issues, such as the future of seven-day subscriptions and the role of single copy will need to be addressed. Telemarketing approaches will need to be used as a true direct marketing channel and not just a phone bank. Newspaper marketing must go beyond so-called "branding" campaigns to a positioning strategy within which the entire offering can be aligned.

→ The impact of this imperative on distribution is significant. Newspapers will need the distribution flexibility to offer unique subscription packages to multiple locations. Household-specific delivery will probably be a requirement for success driven by the newspaper itself as it moves to more tailored products or by advertisers seeking distinct customers. Single-copy distribution may be redefined to include newspapers on demand. Clearly, distribution is a critical enabler of this important newspaperwide imperative.

4) Identify Content to Own and Mechanisms to Deliver It

As readers redefine "community" and information becomes increasingly free, newspapers need to identify and own content areas worth readers' time and resources. Newspapers also need to recognize and define their role in readers' entire news, information, entertainment and communication portfolio.

→ Distribution plays an important part in the "mechanism to deliver it." Newspapers need to have the ability to deliver content, which includes advertising, to every household, whether as an insert or via another vehicle.

5) Inspire a Technology-Savvy, Diverse Workforce

The challenge for media companies is to find, recruit and retain technology-savvy personnel. These are people who are not wedded to one medium and are comfortable working with technology. The work environment will also need to support an ethnically diverse workforce and recognize a broad range of issues little dealt with in the past –

older employees with elder care concerns, individuals of varying faiths, labor shortages and applicants with limited education and training.

→ The management challenge of the distribution workforce, from the highly educated executives to the unskilled worker, can be daunting. Old techniques may need to give way to new ones. Managers will need to speak multiple languages and be comfortable with different cultural norms in many markets. Labor shortages and the limited availability for the required talent may also drive greater use of technology.

6) Integrate Short-Term Goals within a Long-Term Vision

As newspapers are challenged to maintain advertising and readership share in an increasingly complex environment, they need to take a long-term view of their strategies, redefining the very product they provide. True strategic planning needs to complement annual budgets and quarterly earnings reports.

→ Perhaps the most important issue discussed at the Distribution Strategy Development session was the need for an integrated vision of the newspaper. Once that vision is articulated and the functional areas can move in lockstep toward that goal, the probability of success increases. It would then become clear where, how and how much to invest in distribution and throughout the newspaper.

Next Actions

Several next steps were outlined by the Distribution and Logistics Task Force.

First, the Task Force will identify a process to build an economic model of the likely revenues and costs of building enhanced distribution systems.

Second, the Task Force will establish a mechanism to collect and share “Innovative Practices” inside and outside of the newspaper business. These will include:

- World-class customer service
- Reliable/extensive consumer database(s) by ZIP/Zone
- Ongoing process improvement and optimal cycle times (i.e., cost efficiency, end-to-end production time)
- Post-press technology that allows for address-specific packaging and delivery sequence
- Higher speed insert capacity (matches time and demand requirements)
- Capital investment for capacity increases
- Targeted delivery at household level

- Workforce stability; right mix of employee/contract types
- Delivery where and when the customer wants it
- Real-time field communications of transactions
- Delivery integrity of inserts
- An examination of new business models to justify research and development and capital investment

Most importantly, the Task Force is committed to raising these strategic issues fundamental to the long-term success of the newspaper. The Distribution and Logistics functions form the very foundation for subscription acquisition, single-copy growth, strong brand equity and advertising revenue enhancement.

Distribution and Logistics Task Force

Robert Eickhoff, Task Force Chair
Vice President/Director of Operations
Orlando Sentinel Communications

Robert Bolone
Director/Distribution
The Orange County (Calif.) Register

Richard Epstein
Circulation Director
The Plain Dealer
Cleveland

Tommie A. McLeod
Circulation Director
St. Petersburg Times

Peter Savoie
Circulation Operations Manager
San Francisco Newspaper Agency

Austin Smith
Vice President/Circulation
Dayton (Ohio) News

John Murray
Vice President/Circulation Marketing
Newspaper Association of America

March 2000 Distribution Strategy Development Session Attendees

Donald Bailey
Advertising Director
Savannah Morning News

Edward Graves
Vice President/
Director of Circulation
The Greenville News

Frank Paiva
Vice President/Operations
The Seattle Times

Jeffrey Beckley
Vice President/Circulation
The Dallas Morning News

Doug Griffen
President
D.S. Griffen & Associates

Michael Proebstle
Circulation Director
The San Diego Union-Tribune

Jay Campbell
Vice President/Circulation
Cox Newspapers Inc.

William Harke
Editor and Publisher
Post-Crescent
Appleton, WI

Terry Quinn
Senior Vice President/
Reader & Product Development
Thomson Newspapers

Mei-Mei Chan
Vice President/Circulation
The Seattle Times

Ronald Hasse
Circulation Director
Daily News
Los Angeles

Peter Savoie*
Circulation Operations Manager
San Francisco Newspaper Agency

Christopher Christian
Circulation Director
The Arizona Republic

Jack Klunder
Vice President/Circulation
SGV Newspaper Group

Austin Smith*
Vice President/Circulation
Dayton (Ohio) Daily News

Barbara Cohen
President
Kannon Consulting In.

Michael Kment
Vice President/Sales
Lee Enterprises Inc.

Douglas Sumrell
Corporate Circulation Director
Morris Communications Corp.

David Dadisman
Circulation Director
Houston Chronicle

Robert Kotwasinski
Vice President/Production
The Arizona Republic

Mark Weakley
Manager, Distribution Improvement
The Arizona Republic

Robert Eickhoff*
Vice President/
Director of Operations
Orlando Sentinel Communications

Michael Lemke
Vice President/Advertising
The Seattle Times

Mort Goldstrom
Vice President/Display Advertising
Newspaper Association of America

Richard Epstein*
Circulation Director
The Plain Dealer
Cleveland

Marcia McQuern
Publisher
The Press-Enterprise
Riverside, CA

John Murray
Vice President/Circulation Marketing
Newspaper Association of America

Scott Frantzen
Vice President/Circulation
Saint Paul Pioneer Press

William Nagel
Marketing Manager/Transportation
Chicago Tribune

Robert Scaife
Vice President/
Small Market Newspapers
Newspaper Association of America

*Task Force Members