Whoever Stays Closest to the Customer Will Win

Originally published in *Editor & Publisher*
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The challenge facing newspapers is to become market-driven. While this is a overused phrase, it is not an overused strategy, and it is the lack of marketing perspective that is responsible, at least in part, for the current dilemma facing newspapers.

What does it mean to be market driven? It means thinking of the business through the eyes of the customer. While newspapers have a special challenge because they have two customers—advertisers and readers—the two segments are linked. The attractiveness of the newspaper to an advertiser is directly linked to how well the newspaper can deliver the consumers that advertiser is looking to reach.

Nonetheless, for too many years, the newspaper has not fully reflected the demands, requests, desires, needs, fears and wishes of its readers, and the newspaper has often abused and even overcharged its other customer, the advertiser.

This lack of a customer focus has simply caught up with the newspaper industry. It is easy to see how some newspapers lost touch with their customers and their customers' needs, which opened the door to competitors, including electronic media and direct marketing. To regain ground, newspapers need to look at their two customers—the consumer and the advertiser—as one market whose changing needs must be met.

Let us start with the changes in the consumer. Significant demographic shifts, including a sharp rise in the number of dual-income households and a significant decline in the number of leisure hours (from 26 hours per week in 1973 to 14 in 1986, according to data from the Rand Corporation and Louis Harris & Associates), mean that more consumers are seeking convenience in much of what they want in products and services.

Clearly, consumers' shopping behaviors have really changed also. There was a day when one-stop shopping was truly important and thought of as convenient. Department stores and supermarkets with their broad selection but narrow depth of assortment were preferred. Today, however, many consumers have redefined convenience as getting what they want the first time, more depth than breadth.

We have also seen the increasing importance of "value" and a consumer who is willing to "unbundle" purchases, buying at the stores with the best prices on branded goods. As products mature and achieve wider and wider distribution, their easier availability makes specific branded items less a factor in store loyalty.

Although branded products still predominate as an assurance of quality, specific brand names in some categories have become less potent since customers have learned from experience that real differences in brands within a relevant set are not substantial. For example, today's consumers may be more concerned about the form (e.g., powder vs. liquid laundry detergent) than the brand with in a set of acceptable brands.

As a result, consumers are able to find branded products at almost any store and are willing to forgo buying their usual brand for the opportunity to save on price. Consumers now buy paper towels, detergent, disposable diapers and baby food from a discounter; health and beauty-aids from a discount drug store; and fresh produce and meat from the supermarket. Shopping trips are now defined weekly shopping, fill-in shopping, and value driven shopping.

In response, the retail environment has changed dramatically over the last ten years. Many local and regional retailers have all but disappeared through acquisitions. Manufactures have bypassed traditional retail outlets, selling their goods directly to consumers, as evidenced in the surge in retail outlet malls.

Most retail formats have found it difficult to adapt to this environment. Many have matured, some are extinct. Today's successful survivors exploit tightly focused formats. These include:

- The specialty mall shop: Narrow and deep merchandisers—the most prominent example is The Limited
- The power merchants: Broader in category, including Toys R Us, Kuppenheimer
- The value discounter: Wal-Mart now virtually defines this format

The traditional everything-under-one-roof giants, Sears and Montgomery Ward, have responded to these demands by creating the store within a store concept. Industry observers remain uncertain weather or not it will lure enough shoppers back.

Department stores, meanwhile, also are scurrying to reposition themselves. One symptom of their troubled positioning is the high level of goods sold on promotion, over 40%. Customers will no longer buy an "all-things-to-all-people" image.

Even the ever-expanding discount department stores appear to have peaked. A shakedown between K-mart from the East colliding with Wal-Mart from the West promised to crush the smaller regional players. Newspapers may find themselves in the middle, too.

Heavy advertisers who have traditionally invested as much as 80% of their advertising dollars in newspapers, these discounters have transferred more of their dollars to television. Perhaps worse yet, the surviving discounters will look to lower their advertising budget in total after the wars are over.

Technology has been playing an increasing role as the retailers in this environment seek new ways to reach their customers. The department stores have led the retail industry's move to direct marketing. Their credit card databases give them proprietary access to their customers' buying histories and demographics, and their employee ranks now include technology people to assigned to extend their credit card databases to include other lists.

Direct marketing is now common with other retailers, the power merchants, Sears, Montgomery Ward and the smaller specialty stores. Supermarkets now claim the leading edge when it comes to applying the new technology via scanners for merchandise and inventory management. Long users of mass mailings, even the supermarkets are becoming more targeted—loyalty frequent-shoppers programs, direct marketing, and point-of-sale couponing.

Where were the newspapers when retailers began competing for customers differently? Many were still to sell ROP, still trying to sell inserts, still trying to tell advertisers they do not have ZIP-code based information about their readers.

The move toward focused retailing has made target marketing a necessity and sparked an increasing impatience with traditional media in the part of the advertiser. Newspapers and network TV now deliver less than 65% of households and these are not always the “right” 65%.

New media technologies are clamoring to replace established vehicles. Retailers are now enthusiastic about applying technology to marketing, not only for its ability to target but to evaluate effectiveness. They want the computer not just managing inventory or production but customers as well. UPC scanners, database technology, new audience measures, selective delivery, addressability and telecommunications are being sold aggressively. All of them are after the newspapers industry’s share of the pie.

The newspaper industry must understand the forces that are driving retailers to evaluate their media today—a return on the investment to reach the desired consumer; the use of new technologies, and the ability to evaluate success and failure.

Clearly, the message to the newspapers is to become more market-driven, across all the organizational functions, toward a common vision of the two important customers the newspaper serves.

What should newspapers do? Clearly, there are five imperatives:

1. Understand the consumer. Not Just the “Whats,” But the “Whys”

Many newspapers have invested more in research on shopping malls for use with advertisers than on understanding their own readers. Even those newspapers which do readership surveys rarely know more than the demographics of readership, but few newspapers understand “why.” Why do certain consumers read what they read? Why do they choose to get information the way they do? What “needs drive readership? Is it occasion-based? With the understanding of the “whys” the newspaper can much better understand how and why consumers substitute certain media for others, why certain sections are more attractive than others, and which new products truly meet the consumer’s needs.

2. Build New Product Capabilities

Newspapers have not had to introduce new products the way a traditional consumer goods or service company has. Therefore, most do not have well developed processes in place to develop new products. Identifying, testing, setting criteria on how and when to expand are critical capabilities. They are not capabilities that are developed “on the fly” nor can they simply be imported from other industries. It included the building of the idea or concept. Let us emphasize that new product development is very difficult for any company. Even the consumer goods firms which have been at this for a long time have batting averages of only .100 to .300.

3. Build An Understanding Of The Advertisers In Your Market

It is surprising how little the newspaper in fact know about their advertisers. Several advertising directors have confessed not to know:

- What share of the advertiser's media budget do they get?
- Whom is the advertiser targeting, and how well does the newspaper reach the customer group?
- How is the decision about alternative media, direct marketing in particular, being made?

It is easy to appreciate the advertisers' frustration when they face regular price increase from a service provider who does not really understand their business.

4. Identify how Technology Can Be Used - Do Not Just Follow the Herd

Many newspaper groups are jumping into direct marketing. This is scary. Direct marketing be carefully studied as a revenue-generating business and/or a way to build a database on readers. It is not clear that the newspapers have truly sorted out what value-added they bring to direct marketing as a revenue-generating activity that would make them better at it than others in the business. The capabilities to be a good newspaper are not necessarily the same ones to be successful as a direct marketer. The building of databases on readers is proceeding at some media companies on a grand scale without first piloting to learn what information about readers is worth knowing, that is meaningful and actionable.

5. Break Down Functional Walls

Few businesses are as balkanized as the newspaper. Editorial ignores Advertisers, who do not talk to Circulation or Production. To become more market-oriented, organizations must find ways to address the cross-functional frictions. The actions required to become more market-driven will cross traditional lines, particularly when developing new editorial products, new distribution channels and potentially brand-new businesses. This is not impossible to do with the proper reward structures and cross-functional task forces/teams with the right commitment from the top.

In conclusion, advertisers are demanding more impact from their media. Competition for consumer dollars is painfully keen. Consumers are more selective. They read less, watch tv less, zap commercials more. New technologies are proliferating to help advertisers better target and deliver interactive communication. Whoever gets and stays closest to the customer will win. The return on the investment of the time and effort to become market-driven will be a newspapers and media business that is less vulnerable to extend shocks because it sits on a solid understanding of what both of its customers want.