
ATKEARNEY

Newspaper Endgame

Evolution Scenarios for the European Newspaper Publishing Industry

Amsterdam / Berlin / London / Paris, July 2005

Key headlines

■ ***Tough news***

In 20 years time, newspaper circulation will be down by $\approx 25\%$ from what it is today – ad revenues might face a less dramatic development.

■ ***Editorial deadline approaching***

Revenue decline will lead to heavy consolidation through company “attrition” and M&A activities – the newspaper industry will follow a typical endgame scenario.

■ ***How to hold the front page?***

A.T. Kearney has identified five potential strategies to respond to this scenario:

- Consolidation
 - Scale Builder
 - Segment Leader
 - Local Hero
 - Clever Leverager
- Milk and exit
 - Brutal Squeezer

■ ***Lead headline decisions***

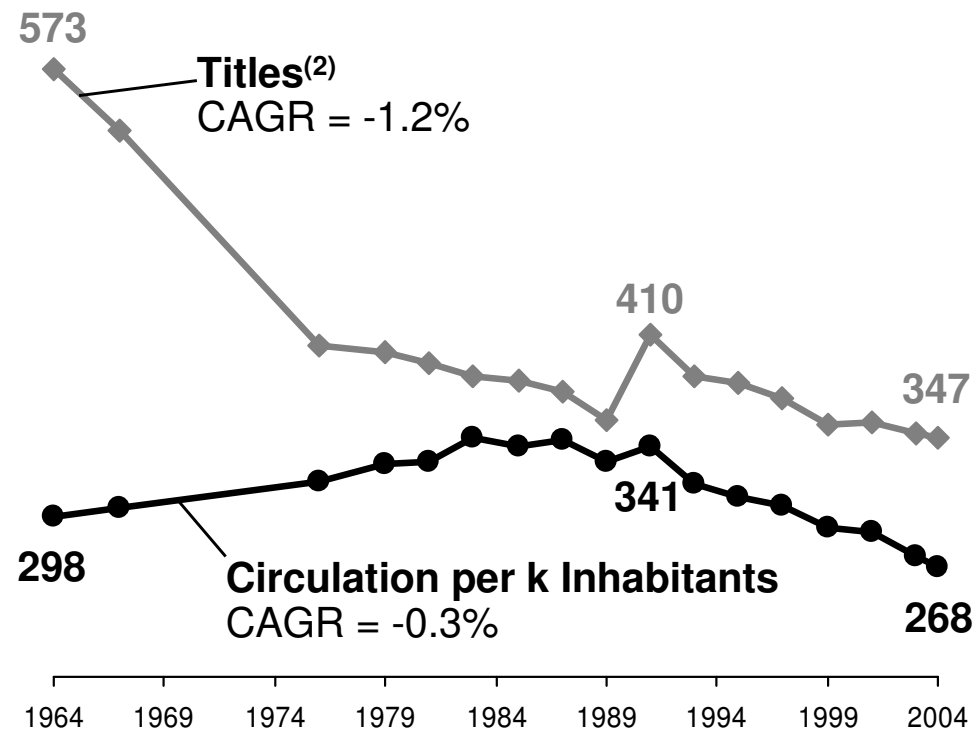
The A.T. Kearney newspaper endgame framework can help publishers answer the “Grow or Go” question by determining their optimum strategic direction.

Tough news

In 20 years time, newspaper circulation will be down by $\approx 25\%$ from what it is today – ad revenues might face a less dramatic development.

In recent years, the decline of the European newspaper market accelerated dramatically.

Historic development: Example Germany⁽¹⁾



Recent development: Key European markets⁽³⁾

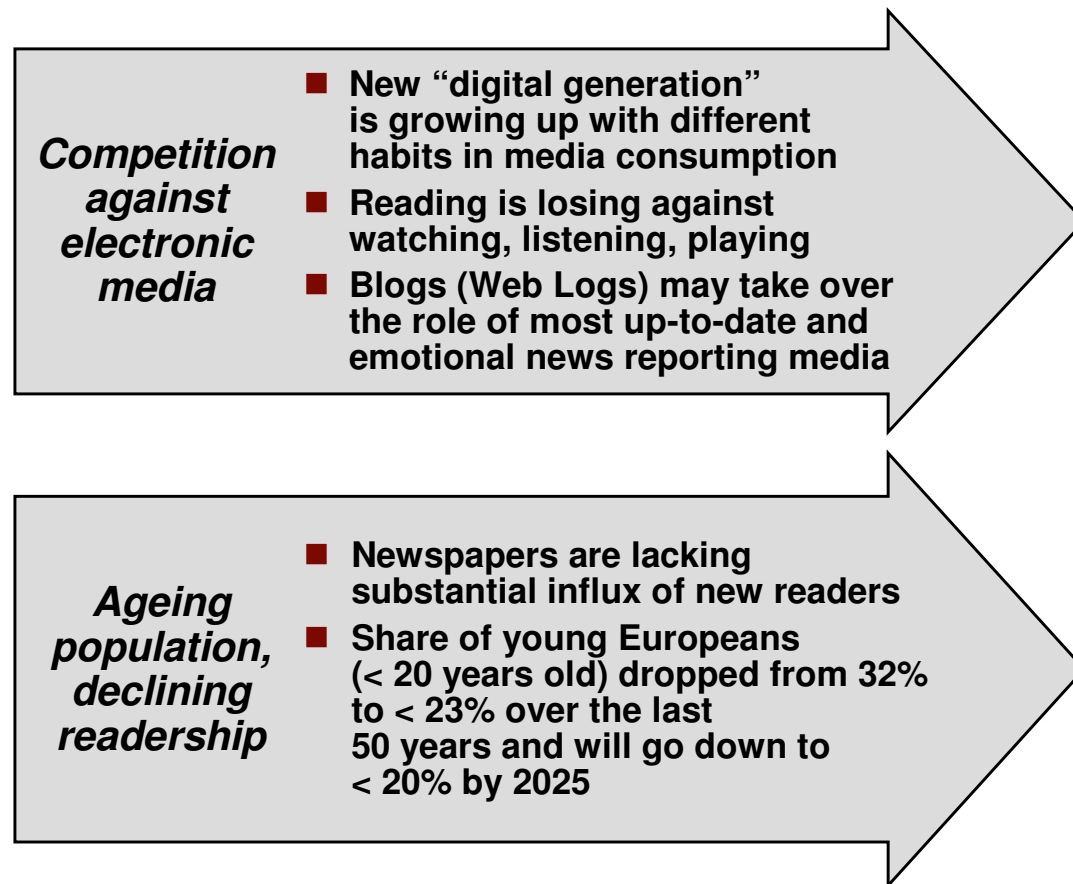
	Dailies' Circulation per k Inhabitants			Dailies' Titles per k Inhabitants		
	1995	2003	CAGR	1995	2003	CAGR
UK	337	314	-0.9%	1.71	1.76	+0.4%
NL	307	262	-2.0%	2.52	2.10	-2.3%
GER	312	274	-1.6%	4.97	4.41	-1.5%
F	161	134	-2.2%	1.50	1.41	-0.8%
Total	277	245	-1.5%	2.96	2.69	-1.2%

Notes: (1) German daily newspapers
 (2) Publications independent from number of different local editions and ownership consolidation
 (3) Including free press

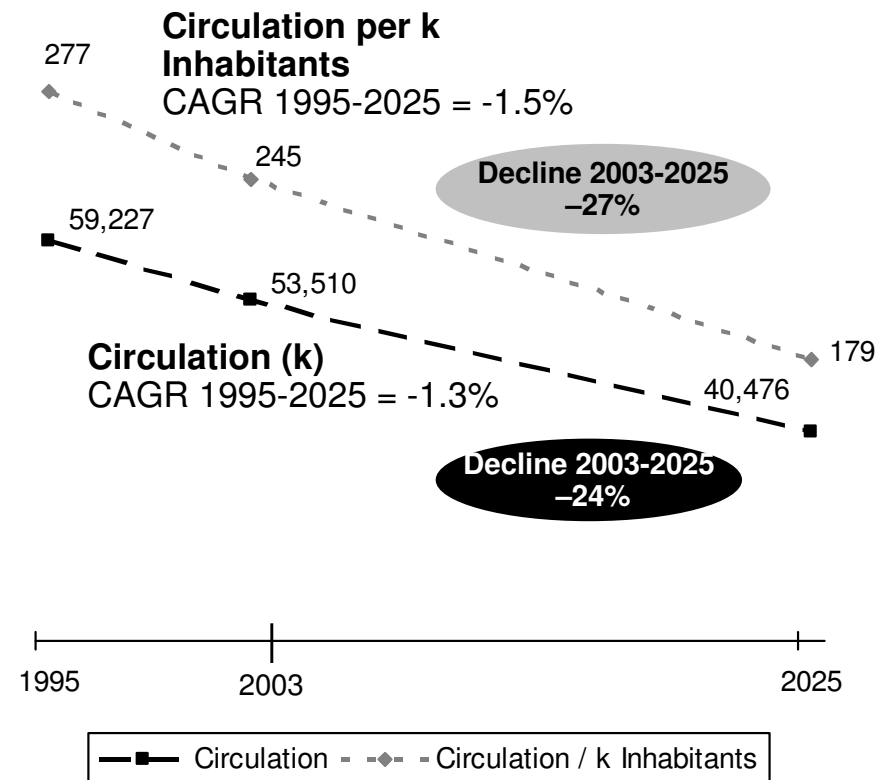
Source: World Press Trends; BDZV; A.T. Kearney analysis

Due to fundamental structural changes in the newspaper market, A.T. Kearney expects a circulation decline of $\approx 25\%$ within 20 years.

Fundamental structural changes



Daily newspaper circulation: Projection for selected European markets⁽¹⁾



Notes: (1) Daily newspapers in France, Germany, The Netherlands, and UK (including free press)
Source: World Press Trends; EuroStat; A.T. Kearney analysis

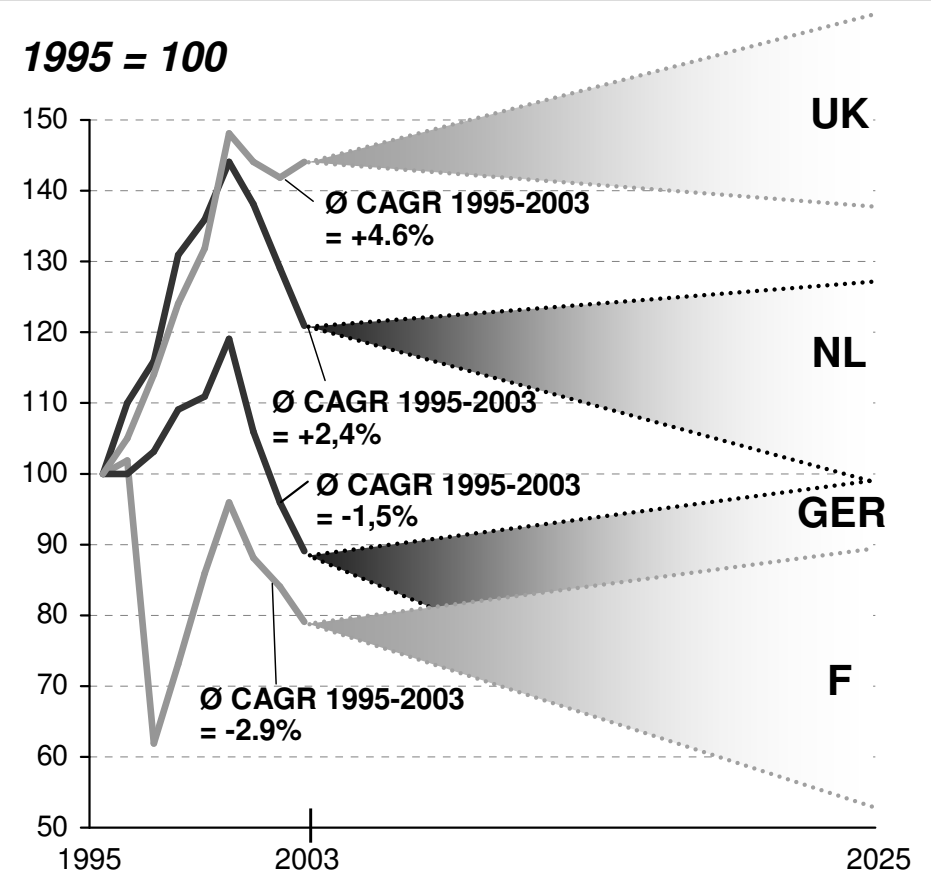
Newspapers should capitalize on their closeness to local markets to ensure that ad revenue is more stable than circulation.

Ad revenue development

- **Classified ads:** Radical decline!
 - The Internet was disruptive to classified ads (jobs, cars, housing/apartments, personals, financial)
 - National newspapers with strong classified market share suffered most
 - Newspaper publishers' attempts to launch own online classified portals so far not very successful, although online classified ads have been booming!
- **National ads:** Though TV and radio suffer(ed) more strongly than newspapers, dialogue, outdoor and esp. online media only seem to benefit from structural changes of the media mix
- **Local ads:** Last competitive advantage of newspaper advertising; however, a relatively small market with only moderate growth and in future under attack by localized online advertising (esp. from Search Engines)
- **Free newspapers** cannibalize existing market shares

Rationalization of media buying strategies and processes as well as further consolidation of media buying agencies will increase pressure!

Daily newspaper ad revenues: Scenarios for selected European markets⁽¹⁾



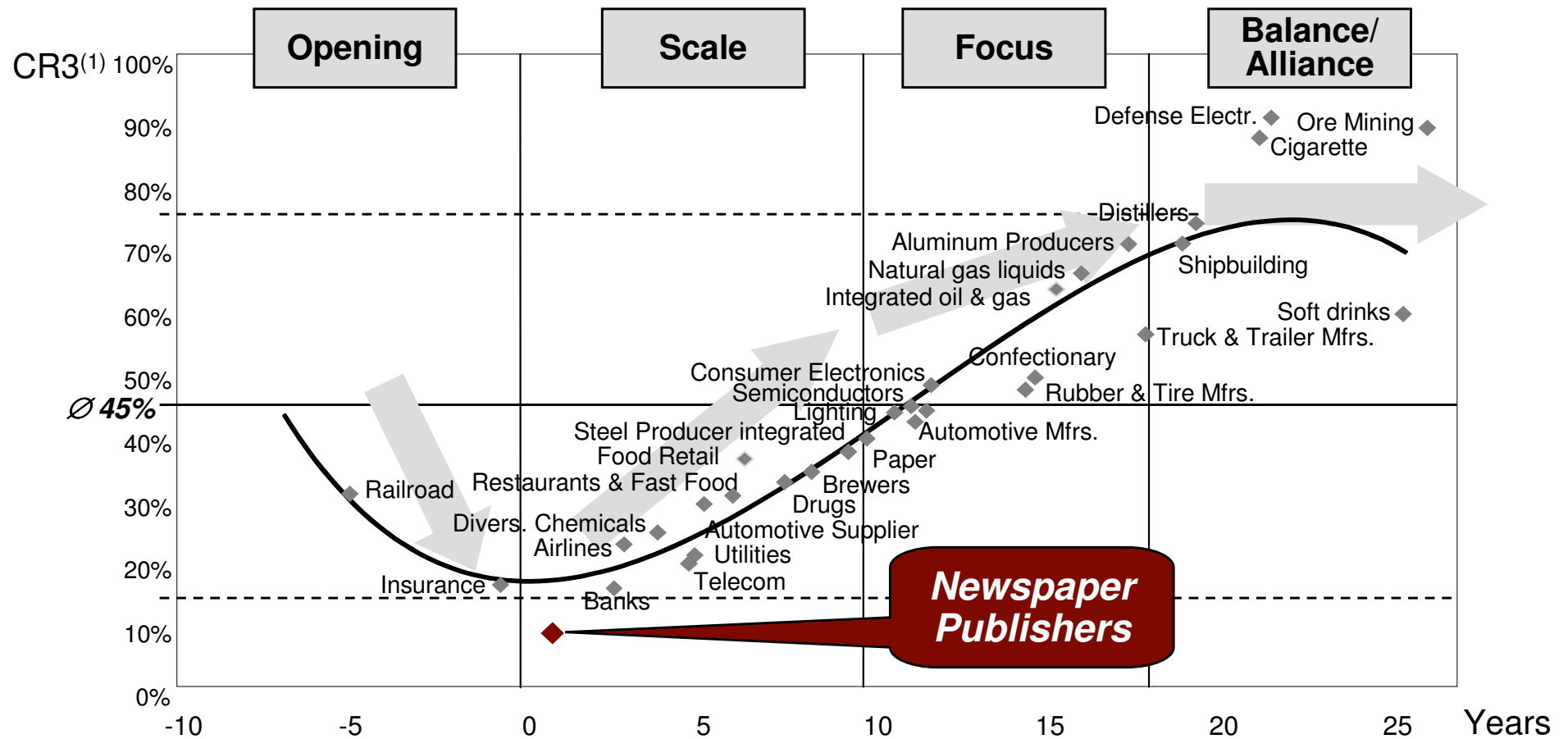
Notes: (1) Daily newspapers in France, Germany, The Netherlands, and UK (free press)
 Source: Zenith Optimedia; World Press Trends; A.T. Kearney analysis

Editorial deadline approaching

Revenue decline will lead to heavy consolidation through company “attrition” and M&A activities – the newspaper industry will follow a typical endgame scenario.

The newspaper publishing industry is in a process of consolidation that is likely to accelerate.

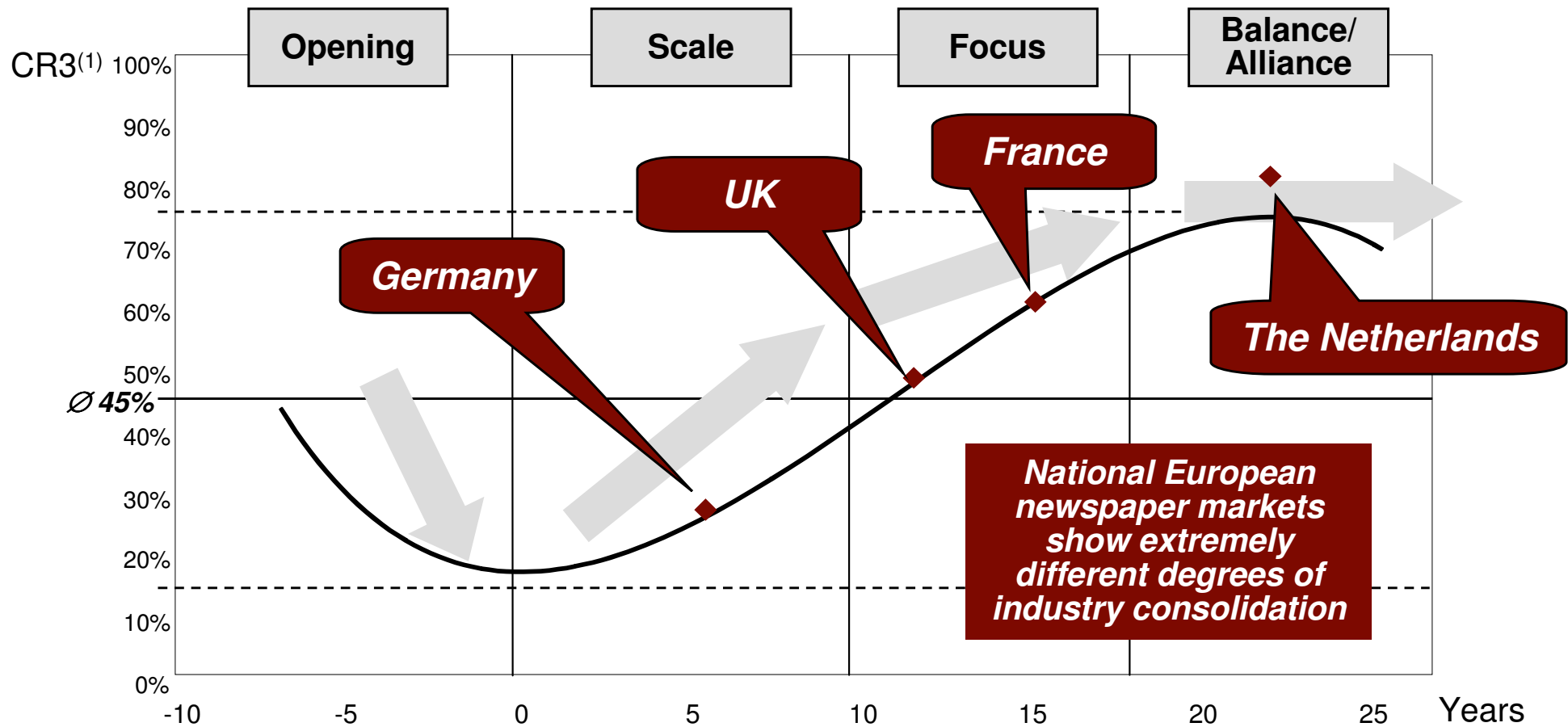
A.T. Kearney's Merger Endgame Theory – World Market Concentration



Notes: (1) CR3: Market share of the three largest companies of the total market based on Value Building Growth database (29,000 companies)
 Source: Value Building Growth database; A.T. Kearney analysis

Major driver of past newspaper industry structure was media regulation – in future, it will rather be economic imperatives.

A.T. Kearney’s Merger Endgame Theory – National Market Concentration



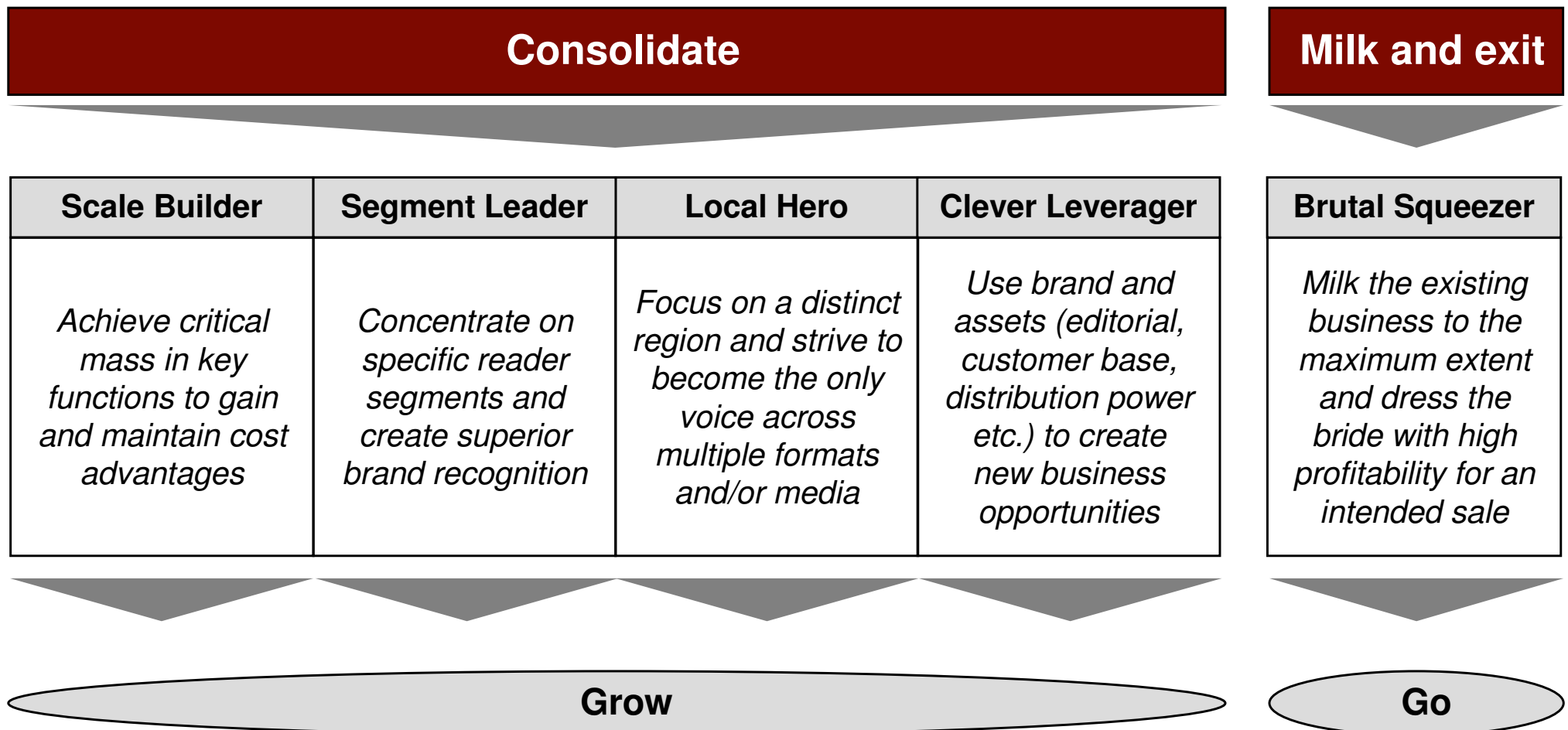
Notes: (1) CR3: Market share of the three largest companies of the total market based on Value Building Growth database (29,000 companies)
 Source: Value Building Growth database; A.T. Kearney analysis

In essence, we see consolidation trends in every European country – but with very different characteristics.

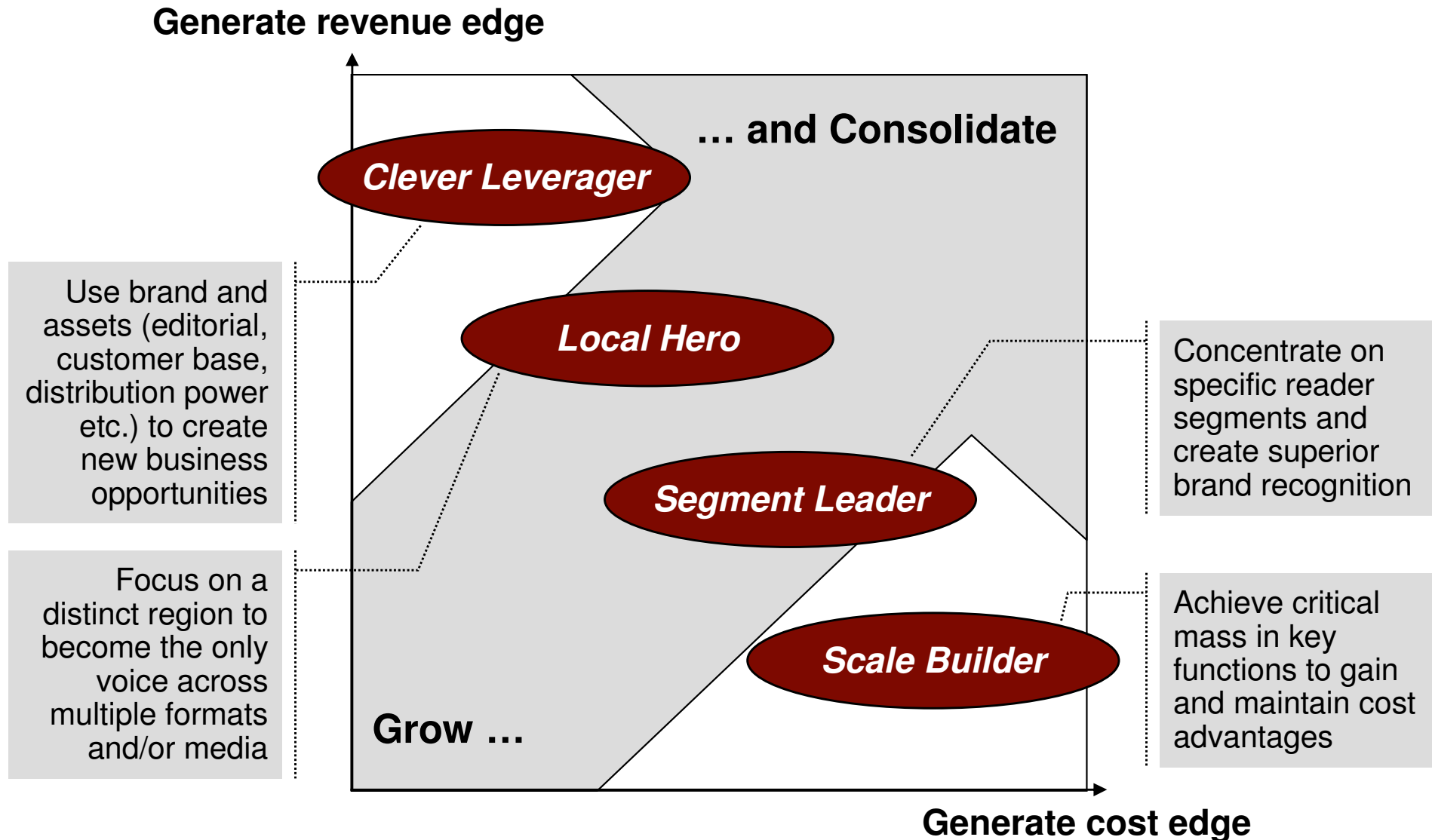
France	Germany	The Netherlands	UK
<ul style="list-style-type: none"> ■ M&A transactions from major Groups (e.g. Socpresse, Lagardère – HFM, Le Monde) were already performed before 2001 ■ French regulation limits cumulated market share to maximum 30% ■ Two contrasting trends can currently be observed: <ul style="list-style-type: none"> • Divesture of publishers toward financial investors • Some consolidation at regional level (e.g. Ouest France) 	<ul style="list-style-type: none"> ■ New media concentration law will not be major driver of newspaper industry structural changes ■ However, succession issues at many family owned local newspaper publishers will fuel M&A transaction pipeline – financial investors are on the lurk ■ Of today's ≈350 newspaper publishers, ≈80 to 100 will go out of business over the next 20 years – either by being taken over or by filing for insolvency 	<ul style="list-style-type: none"> ■ PCM and Wegener consolidate 6 newspapers into one with ≈650 k circulation ■ Newspaper title consolidation is driven by clear economic expectations: <ul style="list-style-type: none"> • ≈30% headcount reduction, esp. through centralization of editorial departments (with only small local hubs) and back-office shared services • Improved geographic reach for advertisers 	<ul style="list-style-type: none"> ■ UK newspaper market is already highly concentrated and traditionally dominated by few national and regional newspaper publishers and <ul style="list-style-type: none"> • 7 publishers cover the national newspaper market of which the 4 largest publishers account for 90% of national newspaper sales • 4 regional/local publishers have consolidated their regional market position, spreading into local radio too

How to hold the front page?
A.T. Kearney has identified five strategies to respond to this scenario.

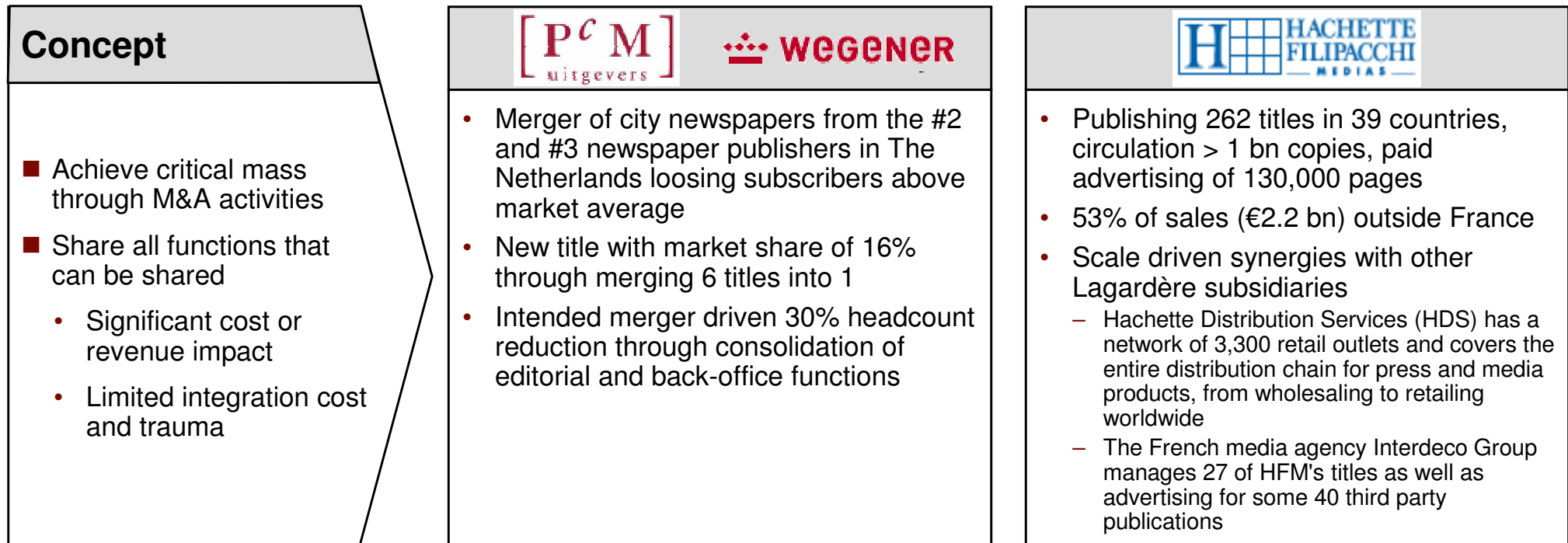
While newspaper publishers can choose from multiple business strategies to prepare for the endgame, there are only two corporate strategic options: grow or go!



If a publisher decides to grow and become a consolidator of the industry, the business strategy focus must be clearly set.

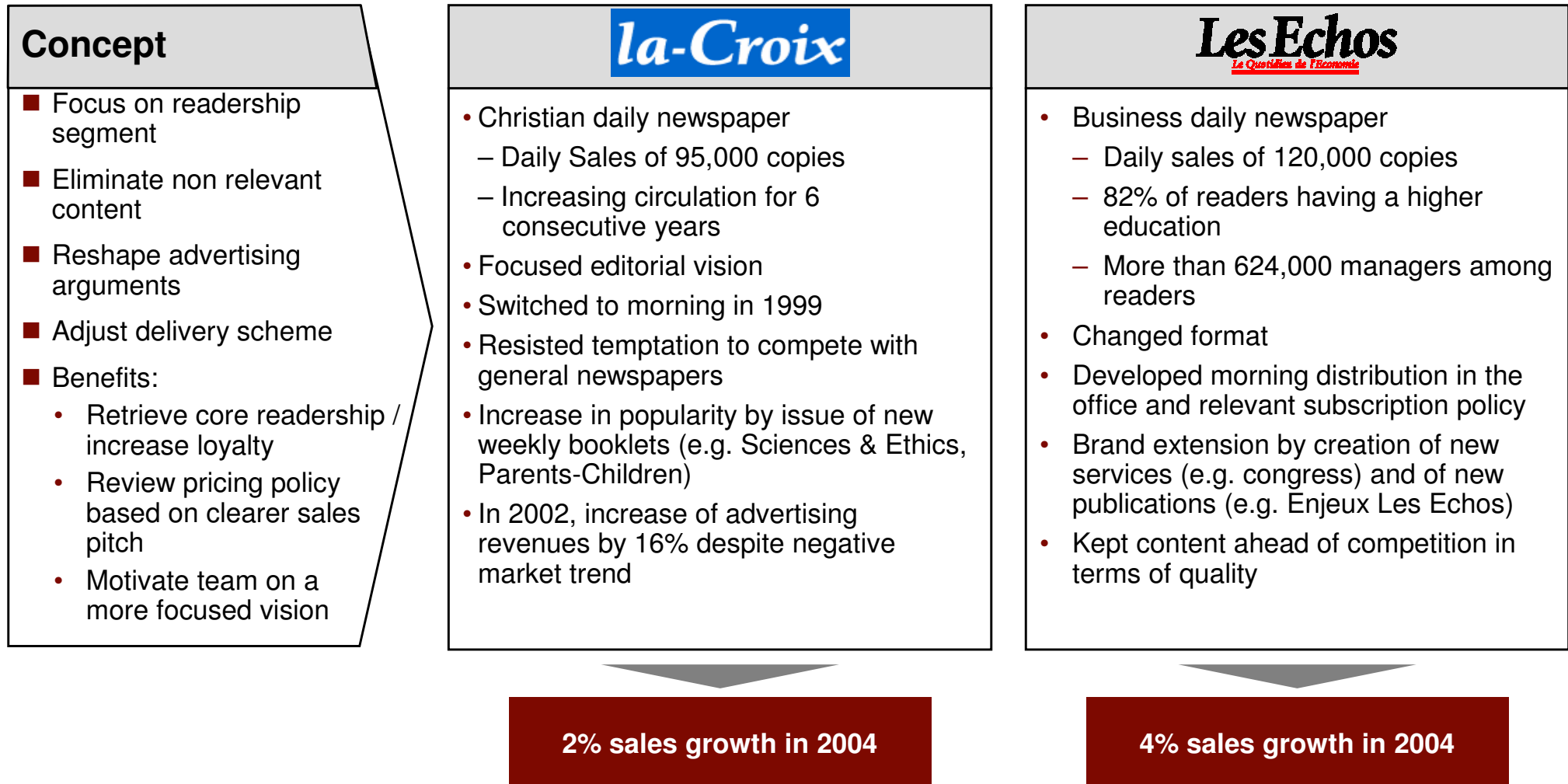


A *Scale Builder* tries to achieve critical mass in key functions to gain and maintain cost advantages.



- **Common advertising sales structure: most titles outperform competitors in market share and trends**
- **Common Purchasing: significant savings**
- **Shared services: Finance, HR, IT, ...**

A *Segment Leader* concentrates on reader segments and creates superior brand recognition in its niche.



The *Local Hero* focuses on a distinct region where he strives to become the only voice across multiple formats and/or media.

Concept

- Concentrate on a region, with homogeneous identity and culture
- Develop different titles (free or paid circulation) for specific readership targets (segmented by age, behaviour, etc.)
- Diversify into other local media (web, TV, radio, ...)
- Leverage manufacturing, editorial, circulation and advertising
- Develop a strong local leadership on advertising market and create barriers to entry

Trinity Mirror plc

- Regional Branch: 240 titles
- Example of Birmingham area:
 - Birmingham Post (local economy)
 - Birmingham News (mass market)
 - Birmingham Evening mail
 - Sunday Mercury
 - Metro (free newspaper developed with Associated Newspaper Ltd)
- Strong advertising performance due to benefits of tighter yield management and group-advertising deals
- Increase of group operating profits by 16.6% in 2004

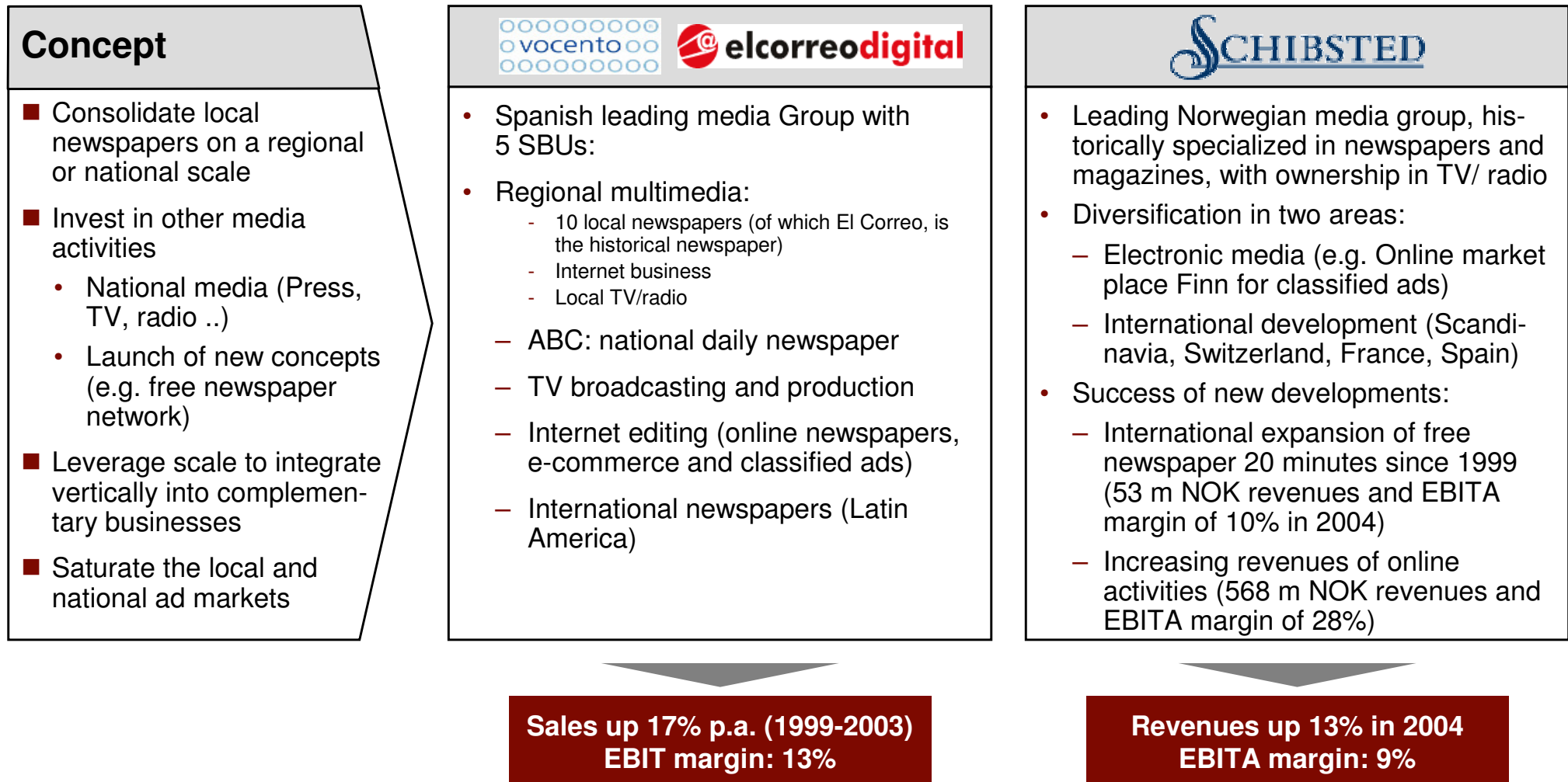
2% turnover growth in 2003 for the whole Regional Branch



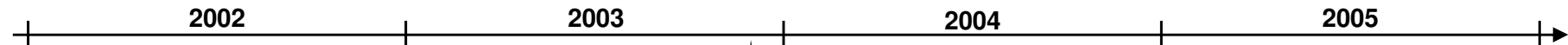
- Paid and free newspapers in the Washington area:
 - Washington Post (730,000 home delivery)
 - Washington Post National Weekly Edition (tabloid)
 - Community Newspapers (the Gazette Newspapers + Southern Maryland Newspapers – 680,000)
 - Express (free tabloid)
 - El-tiempo Latino (free, Spanish language)
 - Free periodicals (classifieds)

**7% sales growth in 2004
15% EBIT margin in 2004**

The *Clever Leverager* uses its brand and assets (editorial, customer base, distribution power ec.) to create new business opportunities.



Since not every player can become a consolidator, all other publishers have to find the right timing to exit and become a *Brutal Squeezer* which maximizes cash flow.



- Steady sales decline for years
- Increase in costs in spite of continuous cost-fighting actions
- Unsuccessful search for additional revenues

Year	RoS (%)
1994	2.5
1995	4.1
1996	4.2
1997	4.1
1998	2.1
1999	0.1
2000	0.4
2001	-0.5
2002	-1.2

- Shareholder realizes market is mature and gives up hope of boosting revenues

- Ambitious cost-cutting plan
 - Fewer pages
 - Fewer quantities printed
 - High staff decrease

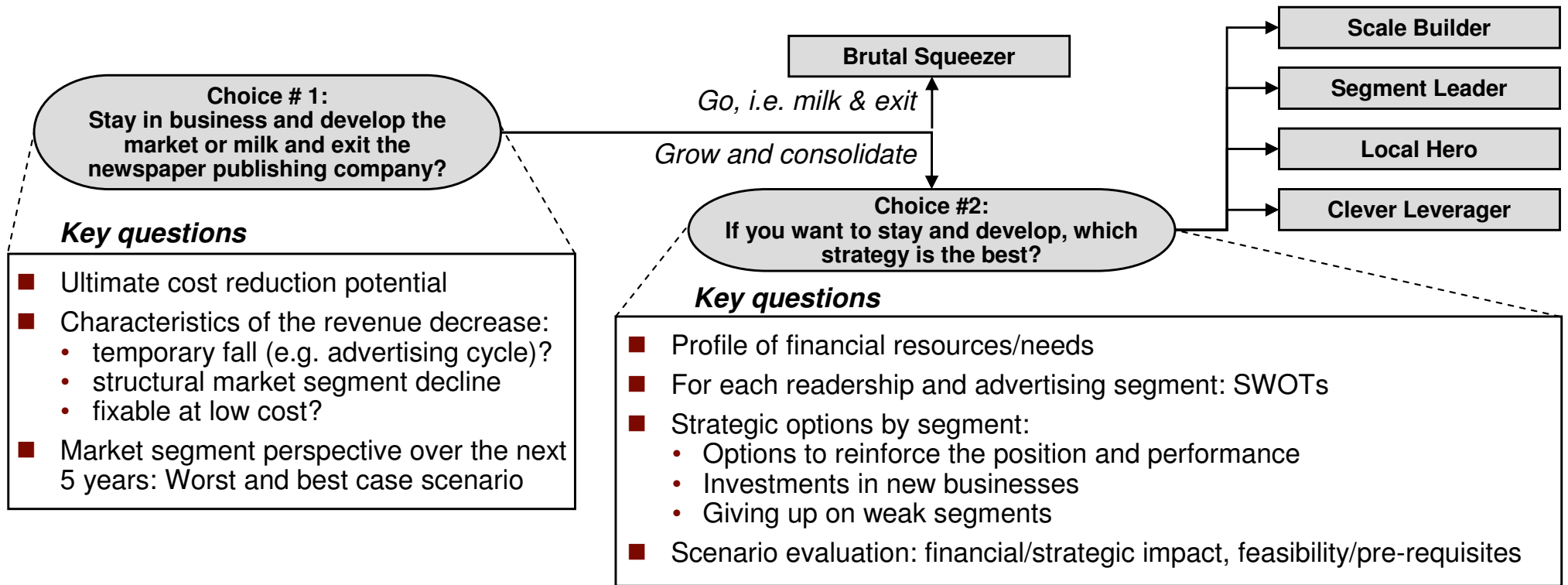
- Sales keep decreasing, hit the bottom
- Costs were tremendously reduced

Sold to investment fund for very attractive price

Lead headline decisions

The A.T. Kearney newspaper endgame framework can help publishers answer the “Grow or Go” question by determining their optimum strategic direction.

In order to select the right option, some key strategic questions need to be answered.



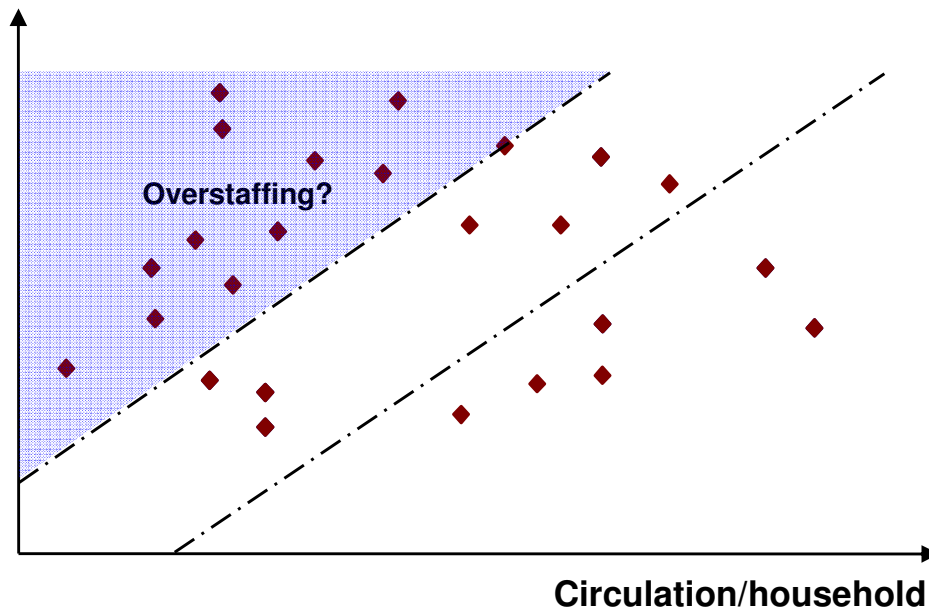
Pay attention to wrong assumptions!

- *“We have been turning negative profits for 3 years; the only way out is to invest”*
- *“The only part of the cost structure we can’t afford to review is the editorial staff – too critical”*
- *“A newspaper is a mass media by definition; that means segmenting readership does not apply”*
- *“We can’t afford to give up any segment of our advertising revenues”*
- *“It takes years before any investment in new readership gets noticed and bears fruit”*

Slaughter sacred cows to identify the real cost reduction potential...

Circulation vs. direct HR cost (local editions of a regional newspaper)

Internal editorial costs

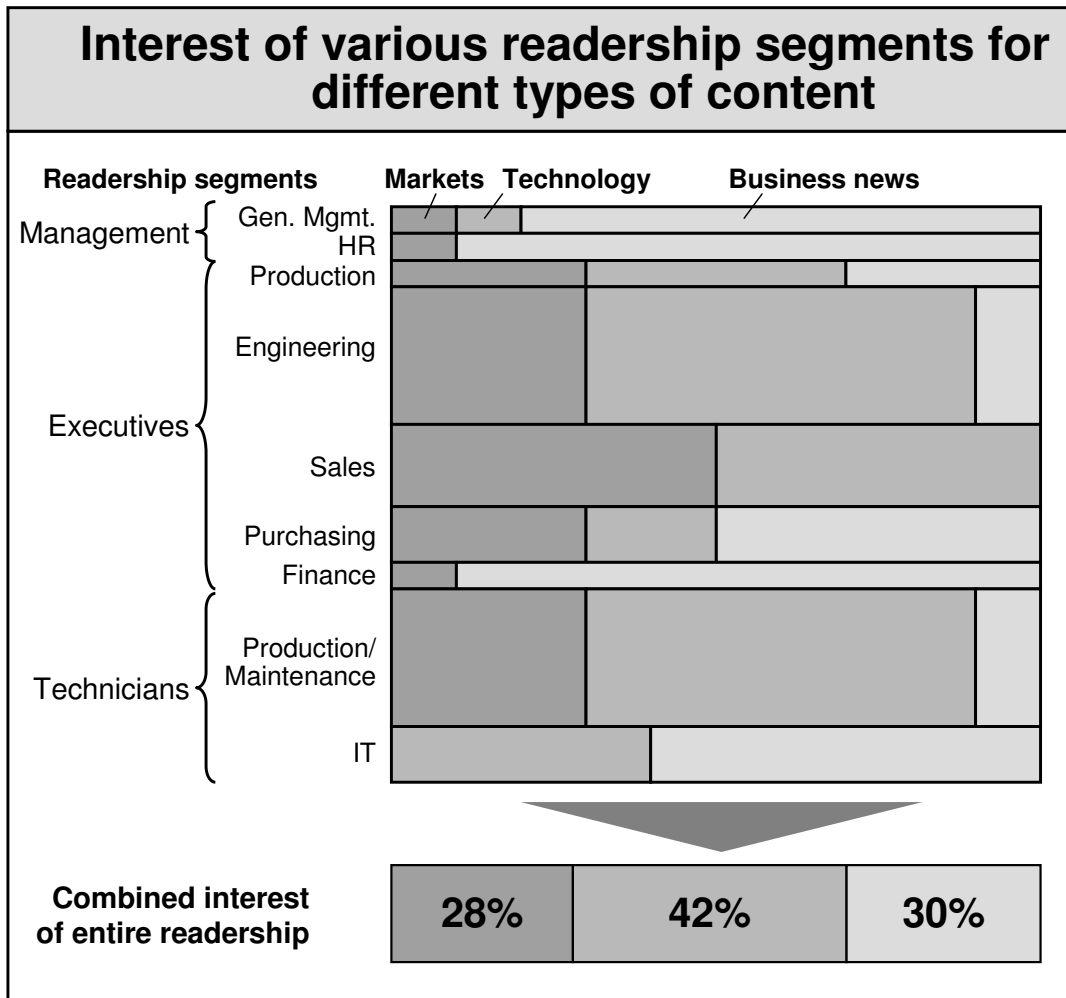


Case study: Regional newspaper

- The content of the newspaper drifted away from its original positioning (technical/industrial) and alienated the key readership and a significant part of advertisers. But being orientated more towards business issues did not lead to the expected benefits
- Readership segments and expectations were analyzed and the advertisers' strategies and needs were screened to realign content and ad sales policy.

In this case, cutting editorial costs did not at all affect sales

... and align investments in context with the readers's interests



Case study: Business newspaper

- Extensive coverage of business news was the traditional strength of the newspaper according to self-assessment of editorial department and publisher
- Readership surveys were conducted regularly but usually without factoring in segment relevance and any immediate impact on content mix
- Comparison of content investments and actual interests of readership segments revealed huge gap

The newspaper was overrating the importance of business news for its readership and therefore allocating resources inadequately

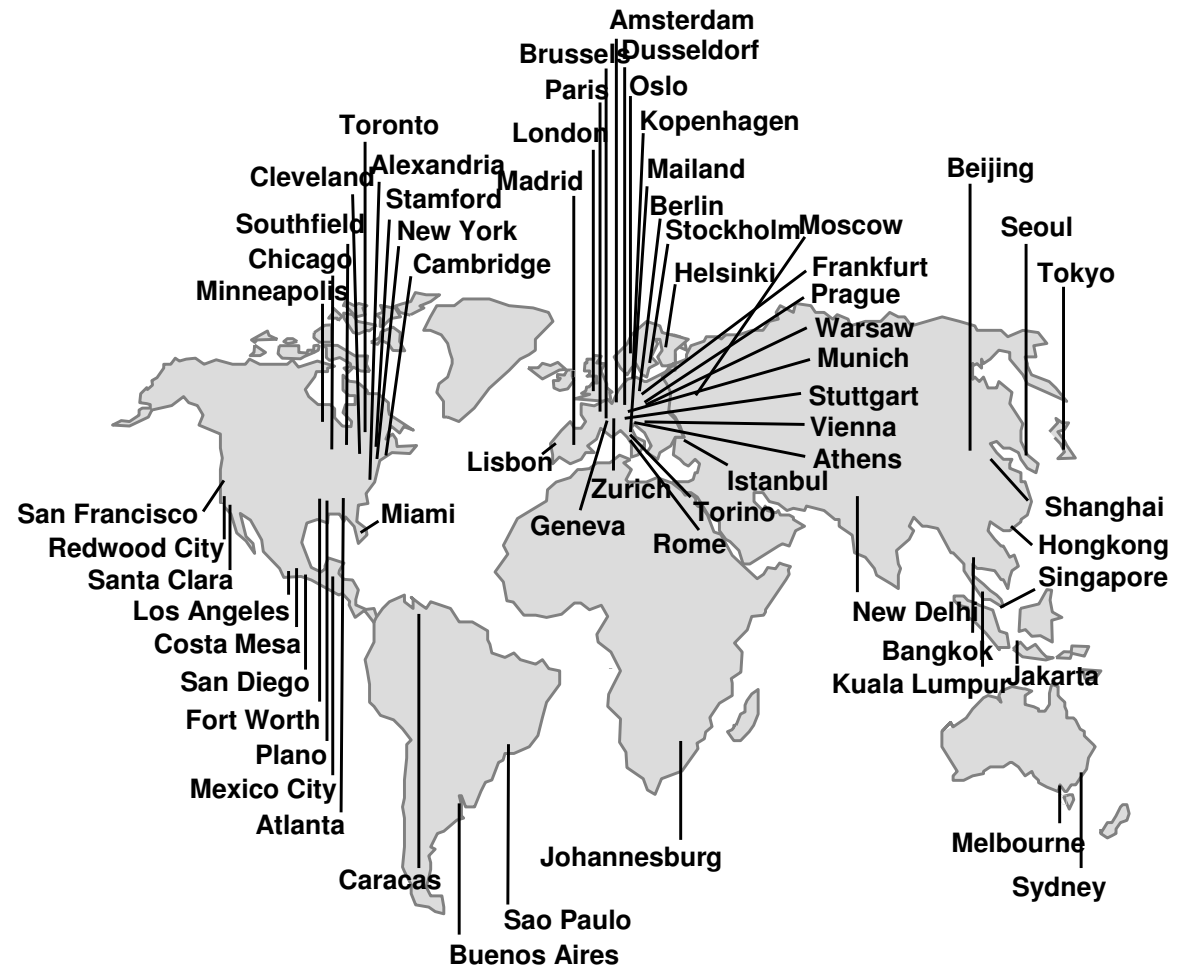
Introduction to A.T. Kearney

A.T. Kearney is a leading consultancy supporting the media industry in strategic and operational issues.

With offices in 34 countries around the world, A.T. Kearney is ideally positioned to help clients think global and act local.

A.T. Kearney company profile

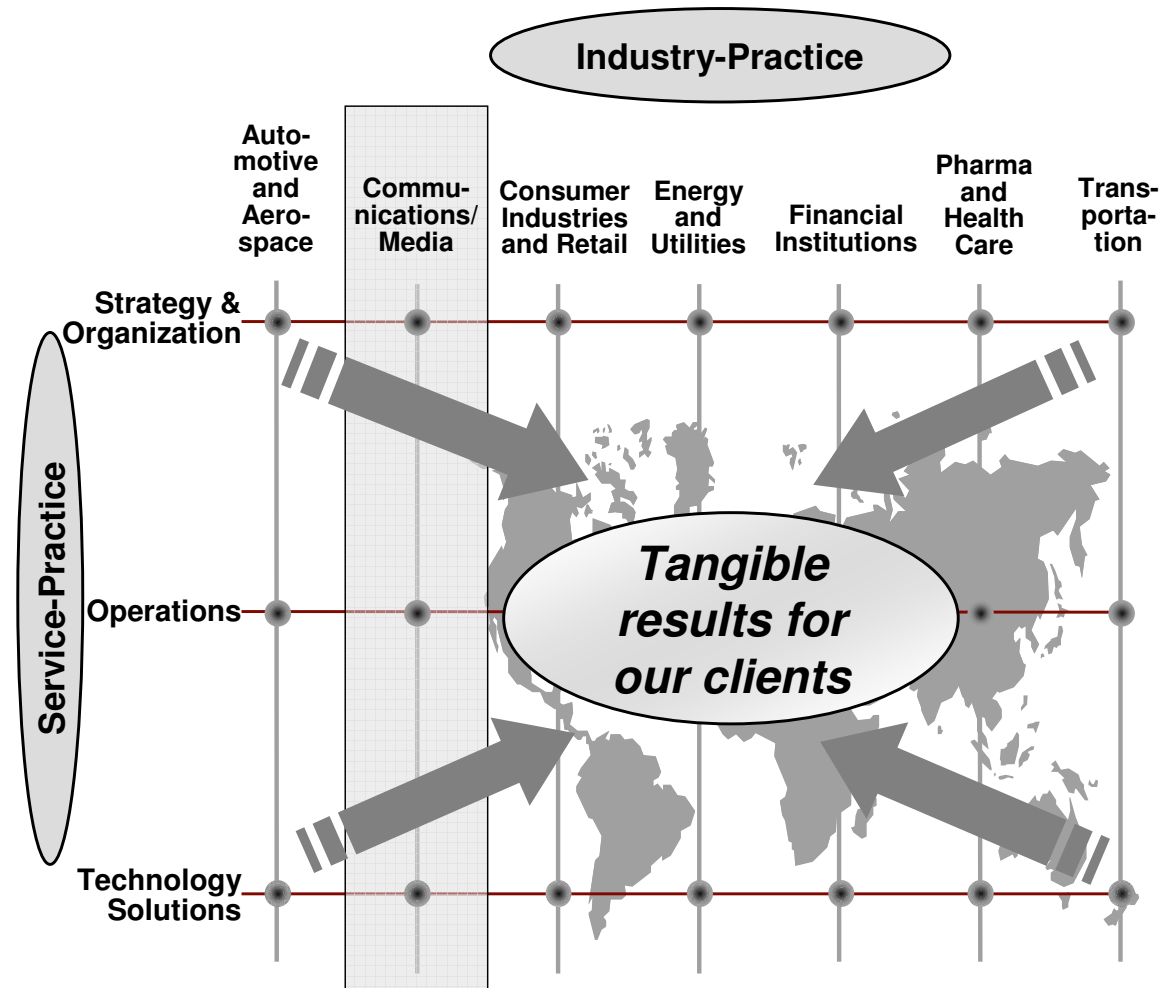
- Founded in Chicago in 1926
- 50 offices in 30 countries
- More than 2,600 consultants globally, thereof around 300 in Germany, Austria and Switzerland
- About US\$ 0.9 bn revenues in 2004
- Over 90% of projects with long-term clients



Over the past years, A.T. Kearney has developed a leading Communications/Media practice.

Communications/Media practice profile

- More than 600 dedicated consultants world wide
- Deep industry insights, documented in numerous studies, books and articles, e.g. Media Management, Value Building Growth, Merger Endgames etc.
- Major recent media industry projects with Press (newspapers and magazines), Television (public and private broadcasters, CATV , DVB-T), ISP/Internet, and media services (esp. Supply Chain)




A.T. Kearney has successfully established relationships with many of the most highly regarded media companies.

Newspapers/ Magazines Publishers	TV/Cable Operators and Regulators
<ul style="list-style-type: none"> • Australian Consolidated Press (AUS) • APROVIA (F) • Axel Springer, Lübecker Nachrichten (GER) • Daily News (USA) • Daily Telegraph (UK) • De Agostini (I) • Dow Jones (USA) • Hachette (F) • La Dépêche du Midi (F) • Le Monde (F) • Los Angeles Times (USA) • Medimedia (F) • New York Times (USA) • Ouest France (F) • Pearson (UK), Financial Times (UK), Les Echos (F) • RCS MediaGroup (I) • Reader's Digest (USA) • Reed Elsevier (NL) • Socpresse (F), Le Figaro (F) • Spir Communications (F) • Time-Life (UK) • Tribune Media (USA), Chicago Tribune (USA), Times-Mirror (USA) • Wegener (NL) 	<ul style="list-style-type: none"> • Anacom (P) • Asahi National Broadcasting (J) • Australian Broadcasting Corp. (AUS) • BBC (UK) • Continental Cablevision (USA) • COX Communications (USA) • Fininvest (I) • France Televisions (F) • Lyonnaise Cable (F) • Medienanstalt Berlin-Brandenbg. (GER) • Metropole Television (F) • Nippon Television Network (J) • National Assoc. of Broadcasters (USA) • News Corp (UK), BSkyB (UK) • NOOS (F) • PBL (AUS) • PBS (USA) • RAI (I) • RTL (GER) • RTV (Slovenia) • Sony Broadcasting (J) • SFB (GER) • Telediffusion de France (F) • Telepiú (I) • Telstra Multimedia (AUS) • Turner Broadcasting (USA) • TV Globo (BRA) • VIACOM (USA) • Walt Disney (USA)

Media Conglomerates	Book Publishers	Entertainment	Online Media	Advertising
<ul style="list-style-type: none"> • Bertelsmann (GER), Arvato AG (GER) • Lusomundo (P) • Nikkei (J) • Pearson (UK) • Reuters Group (UK) • Thomson (F) • Time-Warner (USA) • Vivendi (F) • VNU (NL) 	<ul style="list-style-type: none"> • Abril, SA (BRA) • Editis (F) • John Wiley & Sons (USA) • Masson (F) • McGraw-Hill (USA) • Oxford University Press (UK) • Random House (USA) • WoltersKluwer (NL) 	<ul style="list-style-type: none"> • 20th Century Fox (USA) • BMG Entertainmt. (GER) • Buena Vista (USA) • Columbia Music (J) • Euro Disney (F) • Société du Louvre (F) • Space Center Bremen (GER) • Thorn-EMI (UK) • Virgin (UK) 	<ul style="list-style-type: none"> • 1800-Flowers.com • AOL • EBAY • E-Trade • Wanadoo • Yahoo! 	<ul style="list-style-type: none"> • BCom3 Group (USA) • Carat (F) • Clear Channel (F) • JCDecaux (F) • Pages Jaunes (F) • SIPRA (I)

Recent projects in the publishing industry cover most functional and economic areas.

Selected press industry clients

Sample Clients	Assignments
	<ul style="list-style-type: none"> • Corporate and business unit strategy • CRM • IT strategy • Operations cost benchmarking • Organizational re-design (editorial and administrative functions) • Overhead cost reduction • Post merger integration • Pricing • Process re-engineering (editorial and distribution processes) • Restructuring • Sales and distribution tuning • Strategic sourcing (gen. expenses, marketing spend, editorial services, photo rights, paper, printing)