WHAT IF?

See things differently and change your company's future

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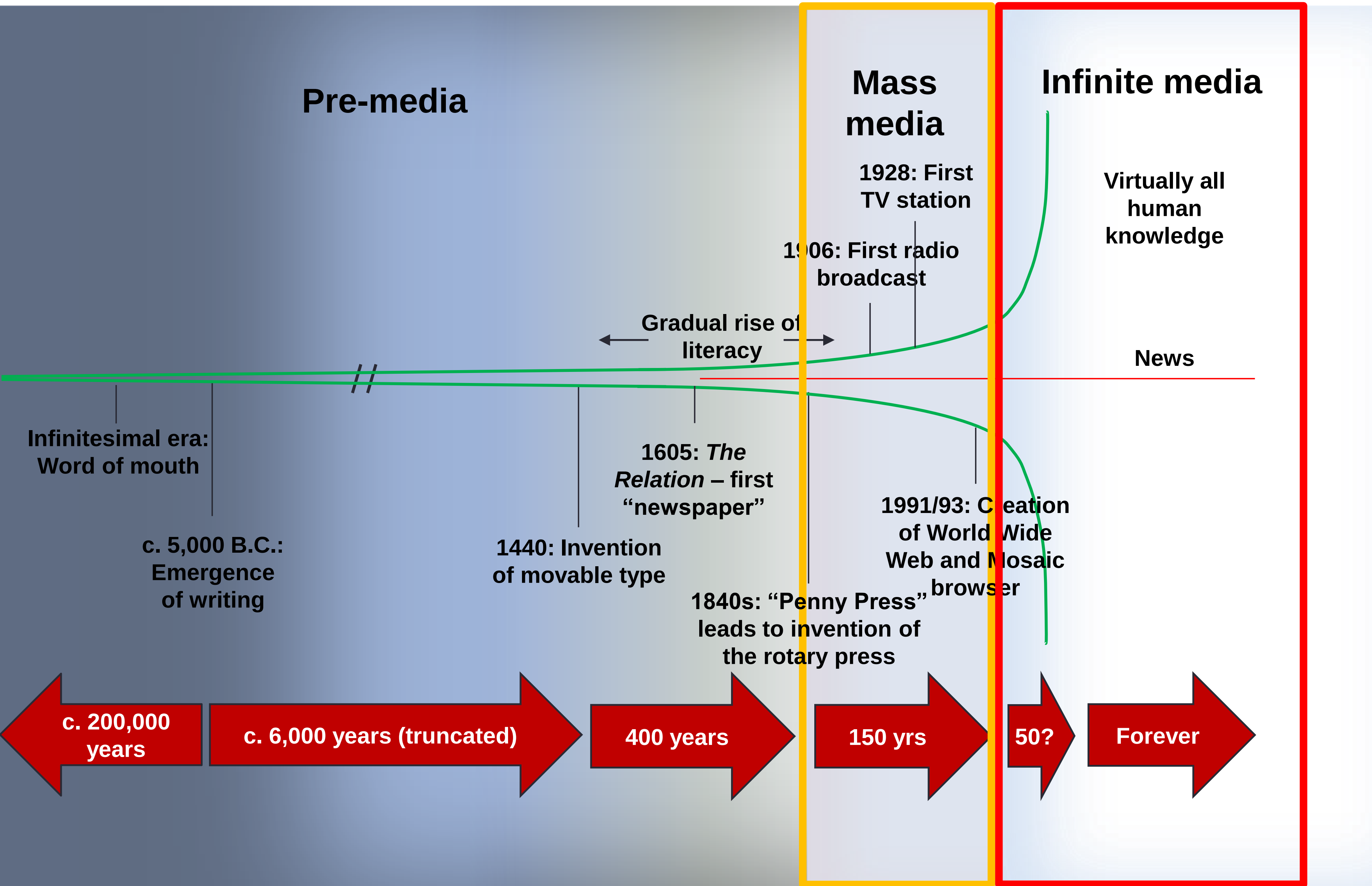
Reframing

- New facts
- Old facts in a new light
- Clarifies priorities
- Shows new paths forward

Reframing the big picture

Information goes to infinity



Newspaper Next

- Started in 2005
- One-year, $2 million research project to develop an innovation method for newspaper companies
- Purpose: Provide a practical method that newspapers could use to diversify their products and business models
- Worked with Innosight LLC, innovation consulting firm founded by HBS professor Clayton Christensen
- 50 one-day newspaper workshops in 2006-07
- 5,000 people attended

Procter & Gamble

In common with newspapers:

- Many products in decline every year
- Need to replace the disappearing revenue

The P&G innovation model

- Recognize declining products
- Forecast the rate of decline
- Determine the replacement dollars needed

In 2005:

- $57 billion in annual sales
- Predicted revenue decline: $1 billion

Solutions to replace revenue:

- Acquire new products
- Create new products

Takeaways for newspaper companies

- We never had to think this way – now we do!
- It's a skill set we need to develop
- Incremental product changes won't do it
- Rate increases won't do it
- Digital revenues won't do it
- We've shrunk by half over 10 years
- It continues unless our gains equal or exceed our declines
- Time for a big dose of realism!
- Adopt aggressive acquisition/development strategies
- Who's thinking this way? Jim Moroney in Dallas

Forecast your main revenue streams

Do three-year projections for:

- Local print advertising
- Major & national advertising (preprints and ROP)
- Digital advertising
- Circulation
- Niche products
- Commercial printing
- Anything else (legals, obits, events, etc.)

- How we did it at Morris – and a tool you can use

  http://goo.gl/dqnSqw

Questions & discussion

- Does the P&G model make sense for our companies?
- Any questions about the process?

A big number

- Historicals – 5 to 10% a year
- Why should we expect something different in the future?

Big questions:

- Where would we get the amount of money we need to invest to make up the declines?
- Most of our companies are profitable, but….
- How much of your profits can you invest?
- What if it's not enough?

Finding the money

- Try some thought experiments
- Focus on major/national

Premise:

- Major/national will fall to near zero

Why?

- Disruption of big-box store sales
  - January report : “In-store traffic down 5% a month for 30 straight months”
- They’re shifting dollars from print to digital and promotion
- Our distribution numbers are falling
- They’re demanding rate cuts
- We have no leverage against national decisions

Result: Major/national revenues falling 8% to 20% a year

Will it continue? YES

What this means for us

Big declines in revenues – and profits

- No sales calls to make
- No ads to design
- Nothing to print

$1 of lost revenue = (90 cents) at the bottom line?

Thought experiment #1

- Imagine major/national revenue is suddenly $0
- Zero out major/national in your P&L

Are you still profitable?

- Small dailies and weeklies – maybe
- Mid-size dailies and larger – probably not

Realizations

#1: Major/national revenue is a crutch

- We could be profitable on local revenues – but we haven’t had to be
- Eventually we’ll have no choice

#2: We will keep getting smaller

- We can’t stop or slow the decline in major/national
- We’ll be making still more painful cuts year by year
- It will continue until our revenues equal or exceed the declines

#3: We need to double down on local advertising

- It’s our future – let’s focus on growing the number of local accounts
- Can we simplify or centralize the handling of major/national?

Thought experiment #2

- If major/national revenue will be near zero in five years…
- Let’s pretend it will be gone in **two years**

What would you do?

- You would start scaling expenses to that revenue **NOW!**

Realizations

#1: This would be very painful

- We would have to make bigger cuts and sooner
- But … eventually we'll have to make them anyway
- These cuts would be less about protecting the status quo – more radical and more strategic

#2: We would produce a bump in cash flow!

- Major/national won't disappear in two years
- We will temporarily outrun the revenue declines
- We can put this extra cash flow to good use:

Fund the Procter & Gamble investment model!

Where would we invest?

MPG acquisition guidelines

- Consider different models, industries, opportunities
- Be realistic about a prospect's potential – don't fall in love
- Must be profitable now – boost our bottom line immediately
- Must be able to grow in the digital revolution – or be immune
- Must be unlikely to shrink (e.g. print, conventional advertising)
- Must have a proven manager who will stay on
- Must not depend on our existing sales teams for success
- Internal rate of return must be 15% or more
- We must have a convincing post-purchase business plan

Desirable:

- Skills or abilities that fill an MPG gap
- Recurring revenue from an established customer base (vs. transactional revenue)

Summarizing….

Follow P&G's model –

- Forecast your declines – estimate the amount of revenue you will need to replace every year
- Budget enough investment in acquisitions and/or new products to replace that revenue loss

To produce investment dollars –

- Get ahead of the revenue losses – restructure/downsize now
  - Make the hard changes that will make you sustainable
- Size your company to local revenues
  - Double down on local: grow active accounts, drive digital sales
- Take the temporary cash flow surplus and…

Invest in <u>profitable</u> companies and products that will <u>grow</u>!

Discussion

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