



Presentation to Media Finance Focus 2020

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Media Finance Focus 2020 Virtual Conference

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Introduction

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- Background – Mike DeNardo
 - President of DeNardo Consulting Group – 10 associates
 - Consulted to over 300 newspaper properties
 - Numerous other industries
- Most newspaper consulting concentrated in Production and Distribution
 - Optimizing operations
 - Consolidating functions across properties
 - Production
 - Delivery
 - Call centers
 - Focus today will be on production and distribution
- Also have had success in News and Advertising



Recent Challenges

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- 2019 was a tough year
 - Looking like the “good old days” now
- Covid 19 put pressure on
 - All revenues –
 - Inserts
 - Page counts
 - Single Copy Sales
 - Commercial print revenue – closures, decreased frequency, reduced pages, inserts
 - How much of the lost volume/revenue will return?
- We always hear – “we have done everything possible to reduce costs” yet in most cases we find more opportunities
 - Many times we get a call – “I have to cut more \$, after huge cuts last year – no idea how to get more \$, maybe you can help”
- In the past – a lot of resistance to expense cutting initiatives, economics have changed that
- Let’s explore some ideas.....



Polling Questions

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- Do You expect advertising revenue in the 4th quarter (adjusted for year over year changes) to:
 - a) Return to pre-Covid levels
 - b) 1-10% less than what was originally expected
 - c) 11-20% less
 - d) 21-35% less
 - e) Greater than 35% less



Items to Discuss

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- Consolidating production
- Optimizing production operations
- Optimizing distribution costs while coping with declining volumes



Consolidating Printing

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- This is the biggest industry production initiative
 - Regional print centers – “get large or go home”
 - Limited appetite for capital expenditures
- A couple of issues
 - How to price printing other newspapers
 - Keeping commercial printing profitable with declining volumes
 - How to fit new work into existing schedules



Commercial Print Pricing

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- The printer wants a large component of fixed pricing to prevent erosion of revenue with lower draws, paging, press runs and inserts
 - When pricing, look at profitability if all volumes drop 20 or 30% - is the job still profitable?
 - Many printers have found out profits go away with significantly less volume
- The publication being printed prefers limited fixed pricing and a unit cost model where costs decrease directly as volume decreases
- Sale of property, capital needs in current operation can supplement operating cost savings
 - If you are the printer, try to estimate the current cost of production for your potential customer when making a bid
 - This will result in creating a bid which makes economic sense to the outsourced property



Commercial Print Pricing

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■ Pricing models:

■ Fully loaded – all costs are loaded into the costs with a profit margin added

- There may be two hours of pre-press, 2-3 press hours for the entire crew, a certain amount of maintenance and supervision, packaging machine operator, supervisor, maintenance, etc.

■ Incremental costing

- This could be based on no added pre-press staff, no added press operators, maintenance, supervisors, etc. Only added labor is part time packaging staff

■ Pricing:

- Fully loaded cost = \$14,000 a week, add 25% = \$16,800 weekly, \$874K annually
- Incremental cost = \$8,000 a week, add 35% = \$10,800 weekly, \$562K annually

■ Which to use:

- Commercial only shops need to utilize fully loaded costs, or the next small job adds a crew and has a very high price
- Newspapers will often use the incremental model – thinking, I don't think I'll get the job with the fully loaded model (particularly when the customer says "it's cheaper to keep my shop open"), and the incremental price provides \$146K to the struggling bottom line



Downside – Incremental Pricing

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- Incremental pricing can lead to issues later
 - One example –
 - A newspaper operation had a day and night shift operation for core publications
 - Commercial work was added to better fill the schedule
 - An analysis showed eliminating the day shift operation, and the commercial work on that shift would save a net of \$350,000 (with lost commercial revenue)
 - The commercial work was bid incrementally, and the operation was better off reducing the cost structure and losing the commercial work



Fitting Additional Work into the Schedule

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- Often, it's not just fitting one additional daily into the schedule
- Earlier deadlines are often used
 - If you are driving two hours, there is no way to make up that time other than starting earlier
- Look at press and inserter output – what speeds are you running at, versus rated speeds
- On-deadline inserting
 - Complete papers are better for carriers, but can take more production time, and if inserting capacity is limited can reduce peak plant capacity
 - Complete papers will leave later than mains only with more opportunities for delays
- Consider splitting a main run into two runs – one earlier and one on deadline
 - If equipped with two folders, may enable running two publications simultaneously



Production Consolidation - Trucking

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■ Trucking

- Most efficient is trucking all product on a minimal number of tractor trailer(s)
 - Creates issue at receiving newspaper – if all papers are moved at once, and there are multiple distribution centers, how is product dispersed at outsourced property?
 - Sometimes additional, smaller trucks save time, and in the end \$ in transportation
- Consideration must be given to current first papers off the press



Management Structure

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- Look at management and support staff
- Flatter organization can be more nimble
- Many organizations have flattened the organization
 - Depending on size of the organization, many department head positions have become hands-on (part of the crew)
 - Many manager and supervisor positions have been consolidated
 - Newsprint and prepress often had a manager, now reporting to press



Polling Questions

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- When do you think newspapers will by and large cease print editions?
 - a) 1-2 years
 - b) 3-5 years
 - c) 5-7 years
 - d) 7-10 years
 - e) 10 years or longer



Production Opportunities

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Production Opportunities

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- Pre-press through platemaking
 - Improve workflow, look at window, workloads
 - Consolidate departments, prepress, newsprint, press
- Press
 - Can press do all roll handling – how many rolls a day are used now?
 - Press crews – used to be 6-7
 - Typical now is 3 or 4,
 - A day shift crew, off deadline with few webs may be 2 people
 - Press scheduling is critical
 - Lay-out press schedules on a grid, calculate run time based on reasonable output
 - Can the day shift be eliminated?
 - Output – many examples of newspapers buying a 70,000 CPH rated press, and operating at 45-50,000 CPH
 - Makeready/setup – improved practices can result in quicker turnover, faster start-up and reduced waste
 - “Pit stop” mentality expedites change-overs
 - Can you run 2 presses with “a crew and a half” – one setting up while the other is running
 - Consider flexible press crew scheduling to better match staffing to print needs
 - 9 or 10 hour day on a busy day, 6 or 7 hours on a slower one



Sample Press Scheduling Grid

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PRESS SCHEDULE

Revised 6/1/2020

Core USAT Maintenance
Non-Daily Commercial Collect Runs

Tuesday	5:00 AM	5:30 AM	6:00 AM	6:30 AM	7:00 AM	7:30 AM	8:00 AM	8:30 AM	9:00 AM	9:30 AM	10:00 AM	10:30 AM	11:00 AM	11:30 AM	12:00 PM	12:30 PM	1:00 PM	1:30 PM	2:00 PM	2:30 PM	3:00 PM	3:30 PM	4:00 PM	4:30 PM	5:00 PM	5:30 PM	6:00 PM	6:30 PM	7:00 PM	7:30 PM	8:00 PM	8:30 PM	9:00 PM	9:30 PM	10:00 PM	10:30 PM	11:00 PM	11:30 PM	12:00 AM	12:30 AM	1:00 AM	1:30 AM	2:00 AM	2:30 AM	3:00 AM	3:30 AM	4:00 AM	4:30 AM				
Press A													Make Ready		Special Section 96K 24p BS				Make Ready	The News 11K 25p Tab							Make Ready	NYT Early Run 9.9K 16p BS			Make Ready	NYT First Ed 9.9K 42p BS		Make Ready		Comics 102K 8p BS																
Press B					Make Ready 1.3 JK 8p BS	Thu Zones 1.3 JK 8p BS										Make Ready	Weekly 33.5K 24p BS													Make Ready	Daily News 54K 36p BS				Make Ready	Wed Main 32K 22p BS		Make Ready	TV Book 24K 12p Tab													
Press C																											Make Ready	USAT 16.6K 18p BS		Make Ready	Wed Main 7K 20p BS			Make Ready	Wed Main 27K 24p BS		Make Ready	Wed Main 19K 20p BS		Make Ready	TV 5.7K 12p Tab											
Staffing	5:00 AM	5:30 AM	6:00 AM	6:30 AM	7:00 AM	7:30 AM	8:00 AM	8:30 AM	9:00 AM	9:30 AM	10:00 AM	10:30 AM	11:00 AM	11:30 AM	12:00 PM	12:30 PM	1:00 PM	1:30 PM	2:00 PM	2:30 PM	3:00 PM	3:30 PM	4:00 PM	4:30 PM	5:00 PM	5:30 PM	6:00 PM	6:30 PM	7:00 PM	7:30 PM	8:00 PM	8:30 PM	9:00 PM	9:30 PM	10:00 PM	10:30 PM	11:00 PM	11:30 PM	12:00 AM	12:30 AM	1:00 AM	1:30 AM	2:00 AM	2:30 AM	3:00 AM	3:30 AM	4:00 AM	4:30 AM				
Manager																																																				
Supervisor																											2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
Press Operator					6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9		
Roll Tender																											3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Maintenance																																																				
Platemaking / Press Op																																																				
Paper Handler																																																				
PTO																																																				
TOTAL:	-	-	-	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14

Crew	Hours	FTEs
Manager	-	-
PIC	17.0	2.0
Press Operator	127.5	15.0
Roll Tender	25.5	3.0
Maintenance	-	-
Platemaking / Press Op	-	-
Paper Handler	-	-
PTO	-	-
Total	170.0	20.0



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Maintenance

Collect Runs

Manager
Supervisor
Press Operator
Roll Tender
Maintenance
Platemaking / Press Op
Paper Handler
PTO

19



Packaging/Mail Room

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Packaging/Mail Room

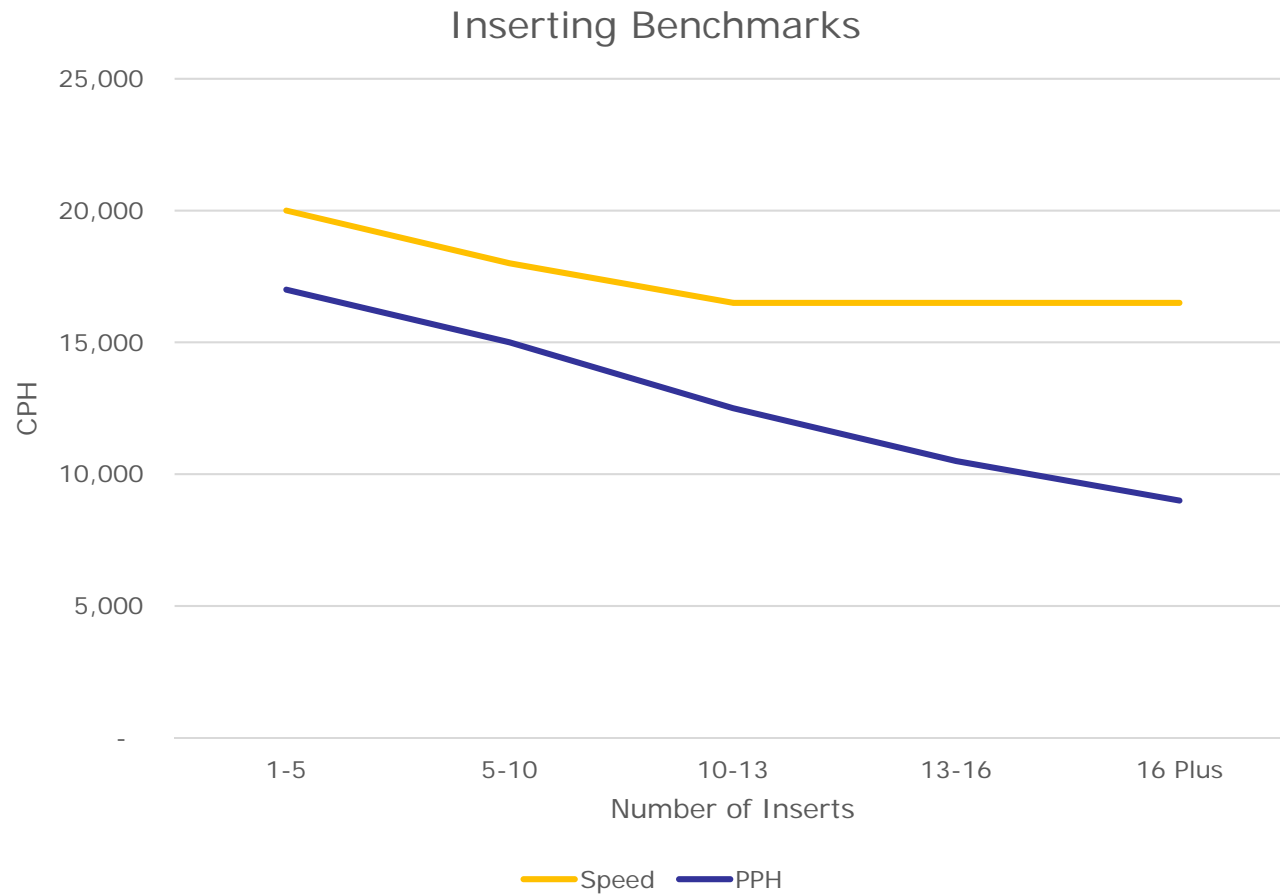
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- This is one of the more difficult areas to efficiently plan staffing
 - Products change during a shift, changing staffing
 - Make-up of individual products will change during a run, changing staffing needs
 - Presses will change products during a shift, changing mail room staffing needs
- Best practices items:
 - Staffing – by product, by position
 - Inserter run speeds
 - Net output
 - Inserters inherently have numerous machine stops, above items can influence the frequency and duration



Packaging Inserting Output

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Packaging/Mail Room

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- Mailroom staffing and scheduling
 - Develop new guidelines –
 - Staffing guidelines should be tighter now – lighter products
 - Develop a staffing model
 - Usually results in reduced packaging costs – at least 20%
- Explore staffing and hiring practices
 - Full time, part time or temps
 - Length of shifts
 - Wages
 - Lowest cost is part time at low wages, but sometimes leads to too much turnover resulting in more staffing and higher costs
 - Need a balance for a reasonably steady work force



Circulation

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Polling Questions

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- Are you increasing mail delivery in lieu of carrier delivery with your publications?
 - a) More carrier, less mail
 - b) Slightly more mail in place of carrier
 - c) Significantly more mail in place of carrier



Circulation Opportunities

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- With declining circulation, how has your department fared:
 - Total distribution cost?
 - Distribution cost per copy?
 - FTE per copy?
 - Reduced trucking & distribution center expense?
- Typical Opportunities include:
 - Carrier-route restructuring/agent fees
 - Benchmark carrier costs to industry and local market
 - Optimize route structure, size and fees
 - Improved route layouts for ZIP purity and ad zoning
 - Lower circulation density is putting pressure on carrier fees and down routes
 - Need to be continually right-sizing and optimizing routes to keep carriers and minimize impact on costs
 - Is fringe circulation still profitable?
 - Consolidate drop points/DCs
- Impacts of reduced frequency
- Mail options – Same day Mon-Sat (Saturday as weekend edition?)



Circulation Opportunities

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- Consolidate delivery on overlapping publications & national publications
- Distribution Logistics (drop points and trucking)
 - Distribution center size & location
 - Consider some grab & go vs carrier tables if fewer parts
 - Trucking – benchmark costs and options
 - Is it time for more contract trucking (bundle haulers)
- Single Copy
 - Route structure, delivery expense per outlet, small and unprofitable outlets, combining HD & SC routes
- Circulation Staffing
- Customer Service, Call Centers, complaint delivery



Route Restructuring

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- Carrier compensation is one of the biggest expenses
 - Benchmark on cost per delivery as opposed to % of revenue
- Computerized mapping has allowed more analysis
- Mapping examples:
 - Poor route structure costing time and miles
 - Smaller route sizes cost extra
 - Route compensation that has become unbalanced over time
 - Declining circulation results in smaller routes and higher subsidies
- Evaluate technology to provide carriers route lists
 - Multiple products make this more beneficial
- Routes need continuous review & restructuring



Carrier Fee Comparisons

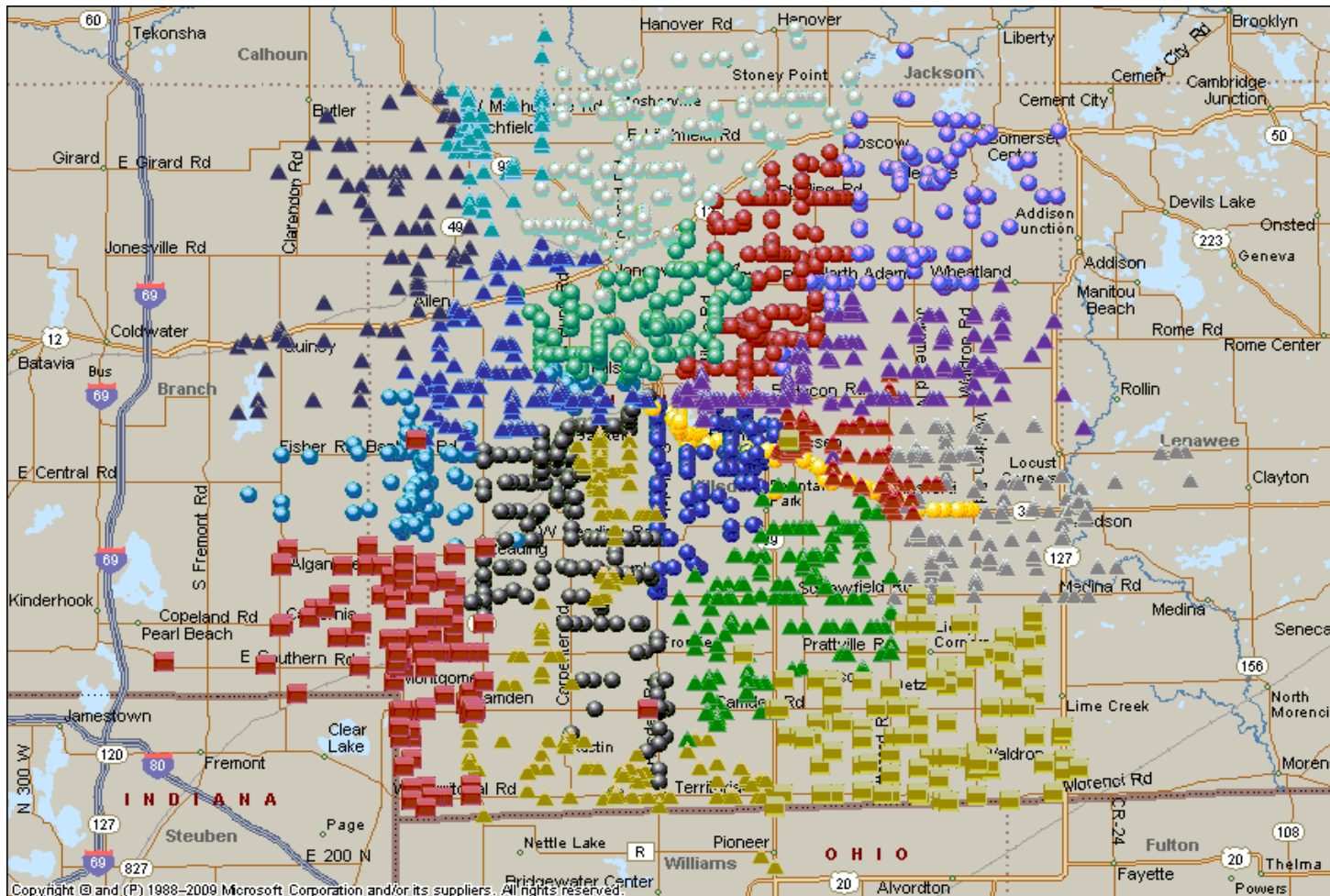
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- We use 7-day rates to compare
 - Cost of delivering average subscriber 7 days
- Wide variation in rates
 - We see as low as \$1.00 per 7-day subscriber and as high as \$1.90 – these are market wide rates
 - Density, porch delivery, route size, mileage all affect carrier rates
 - State, rural rates can be significantly higher
 - Usually small portion of total subscribers
 - With declining volumes, fringe areas need continuous review for profitability
 - Some are converting rural areas to 6-day, same day mail delivery with bundle truck or single copy routes doing local post office drops
 - Some maintain Sunday only routes & others make Saturday a weekend edition for rural areas



Routes With Poor Design and/or Overlap

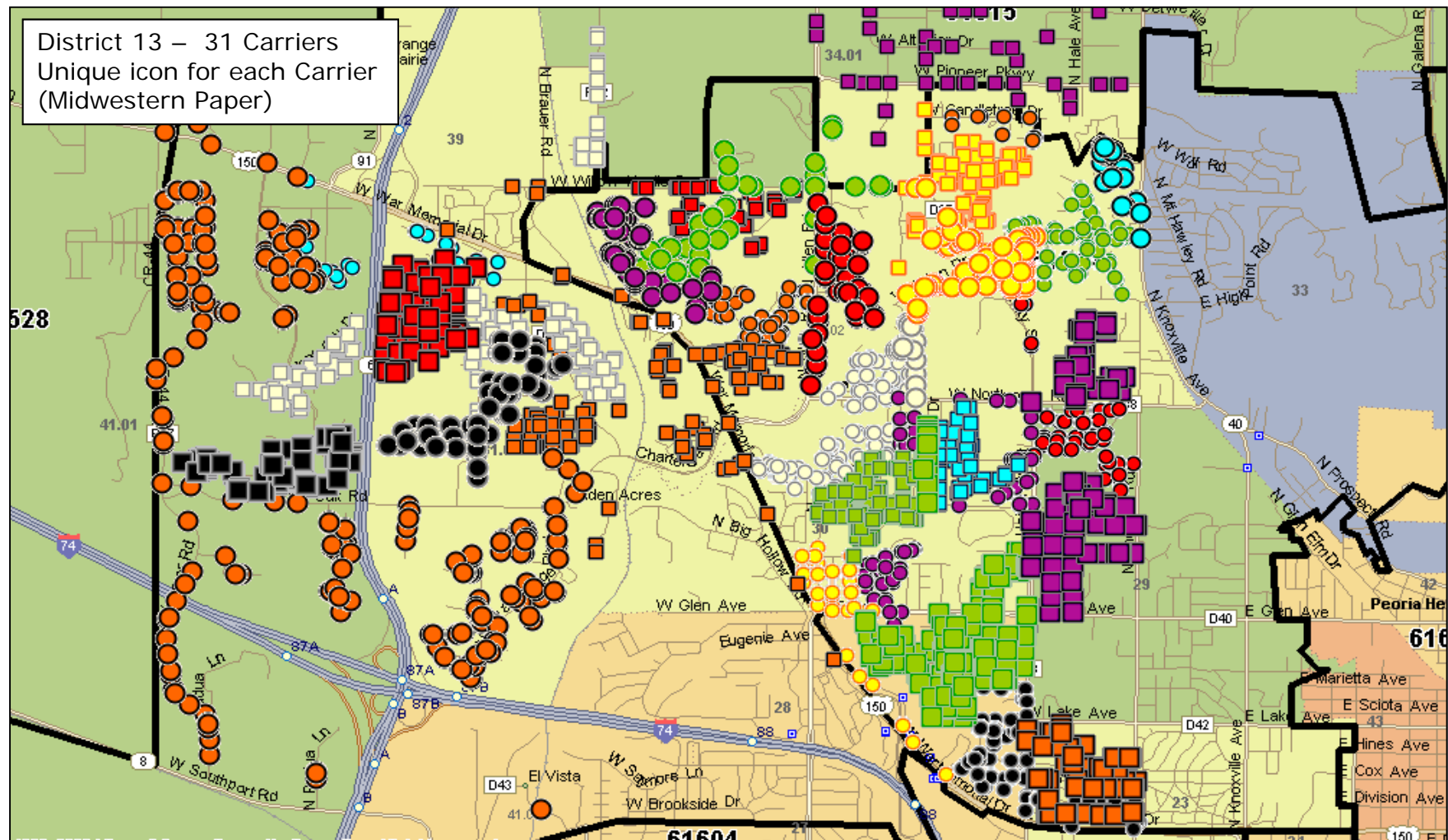
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Routes Are Too Small / Multiple Routes

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DMs, Agents (Distributors), Outsourced

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- Traditional is District Manager (DM) managed carrier force
 - District manager recruits, manages routes, etc.
 - Company pays for DC, part time help
- Agent
 - Paid a fee
 - Contracts with carriers, distributes papers
 - Often provides facility, sometimes handles trucking
 - Limits newspapers liability with carriers
 - Recent carrier lawsuits
- Outsourced Distribution
 - Several national firms handling complete distribution
 - Also instances of outsourcing to an overlapping/neighboring newspaper
 - Paid a fee per delivery to handle entire distribution
 - Limits legal liability of newspaper
 - Works best when multiple papers in area



Distribution Centers

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- Smaller newspapers tend to have all city carriers picking up at plant dock, with some bundle haulers to outlying areas
- Distribution centers are used to limit carrier drive time/expense
 - Cheaper to have one truck drive a half hour, as opposed to 30 to 50 carriers driving 30 minutes each
 - Our experience – carriers driving over 25 minutes to a distribution point causes higher turnover
 - Locate near major highways, cuts drive time
- Benchmark of 5-8 Sunday papers per square foot – will vary a lot
 - With smaller papers, less volume & earlier press times, papers are downsizing DCs
 - Mix of early/late carriers using same table & some grab & go distribution



Optimizing Trucking

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- Analyze all current delivery points – DCs, carrier drops
 - Use mapping software drive time analysis
- Develop a zero-based model
 - Calculate time – we utilize mapping software, and build in a 15% cushion, + up to ½ hour to load/unload
 - Mileage – based on mapping software
 - Truck capital and operating cost, labor cost
 - CDL vs. non-CDL truck is important
 - Over 26,000# GVW requires a CDL license (more expensive driver, more regulation)
 - CDL truck holds 18,000# of cargo vs. 12,000# for non-CDL
 - Carts or Skids – skids far more economical
- Compare model to current operation – in house or outsourced
 - Outsourced trucking is often very expensive
 - Using some carriers, with vans or pickup trucks with topper as bundle haulers, usually cheaper than trucking



Single Copy

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- Items to evaluate and benchmark against best practices:
 - Sales per outlet
 - We see a lot of outlets selling less than one paper per day
 - Delivery cost and returns make these outlets cost prohibitive
 - Cost per outlet
 - \$8-\$12 per outlet per week – dedicated single copy, \$5-\$7 if combined with home delivery
 - Route structure – should have 40-80 outlets (window?)
 - Benchmark against local wages, collective bargaining, employee vs. independent, etc.
 - Percent of returns
- Many or most papers are combining some or all single copy routes/outlets with HD routes
 - Some keep 1 or 2 dedicated SC routes for large outlets
 - Both HD & SC costs are improved
 - May save DM/SC manager



Summary

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- Challenging financial times for newspapers
- Many options to control expenses
- Thorough review can yield results
- If you have “done everything possible”
 - Look deeper
 - Or get some help