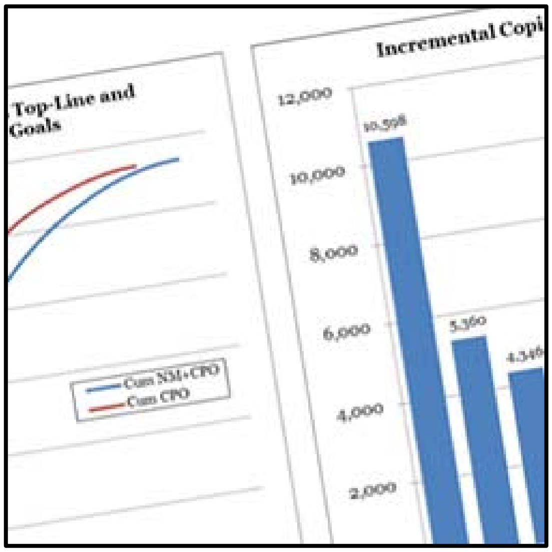

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How media companies can manage subscriber acquisition budgets on the fly

By harnessing data, media companies can quantify the non-linear relationship between financial investments in subscriber acquisition and actual long-term circulation gains, making better decisions about where to spend.

By Jim Fleigner, Impact Consultancy LLC

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Although newspapers often create a plan for acquiring new subscribers at the start of each fiscal year, the reality is events happen throughout the year that create unplanned changes in goals and strategies.

As a result, circulation departments often are expected to simply pivot in direction and take off on a new course seamlessly and instantaneously.

These changes in direction, however, often are made with little understanding of their underlying economic impact.

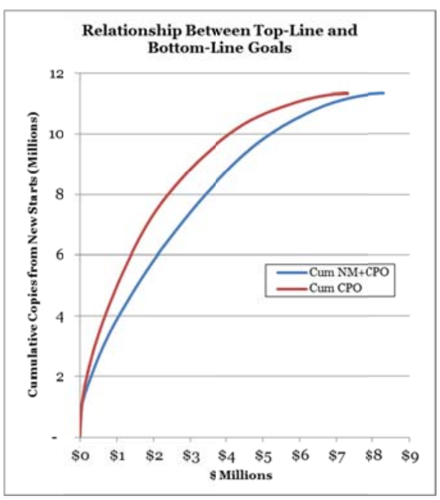
Consider the following situation: Your publisher rushes into your office and says, “There is a pending shortfall in advertising revenue that must be covered by circulation. I need you to cut your circulation acquisition budget by 20% for the rest of the year, but I need you to do it while minimising the impact on our circulation goals for the year.”

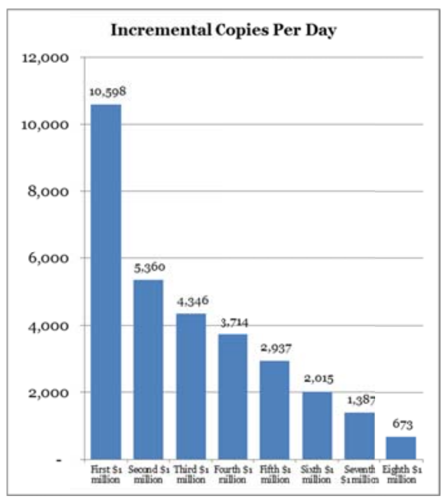
How would you think about implementing this request?

- Would you simply cut your entire acquisition budget by 20% on a pro rata basis across all channels, programmes, zip codes, frequencies, and subscription terms?
- Would you focus 100% of the cuts on your worst-performing channel? And if so, how would you define “worst performing?” Is it the channel with the highest average cost per start, or is it the channel with the lowest introductory rate? Or is it the channel with the lowest lifetime retention?

This does not have to be a frantic, knee-jerk exercise. With the right data at their fingertips, circulation managers can answer such requests with little anxiety, and with a high degree of empirical strength.

The first element to this exercise is to quantify a phenomenon that is intuitively understood by many circulation executives, but is rarely used in explicit decision making. This phenomenon is the law of diminishing circulation returns, which can be seen in the charts below.





For every acquisition dollar that is spent, it is often the case that the productivity of that dollar decreases as the total acquisition dollars increase.

For example, this top 50 newspaper spent roughly US$8 million to acquire new starts. The first, most productive US$1 million generated enough copies to add more than

10,000 in average circulation, which is a very reasonable contribution level.

However, if we look at the next US$1 million spent, the productivity falls to almost one-half of the first US$1 million, and so on. By the time we get to the final US$1 million, the copy productivity is more than 90% lower than the first US$1 million, with a contribution to circulation of only about 700 average subscribers – probably not enough to warrant the acquisition investment in the first place.

This phenomenon is true not only at the aggregate level, but it is true within each channel, as well. It is also true at the delivery frequency level, as well as the subscription term level. In fact, for every segment scheme that you might use to manage your subscriber acquisition business, there exists a unique circulation curve for each and every segment.

In the vast majority of the segments, the relationship between acquisition investment and circulation contribution is not linear. Quantifying these relationships allows newspapers to make better decisions about where to invest money and where to avoid investing it.

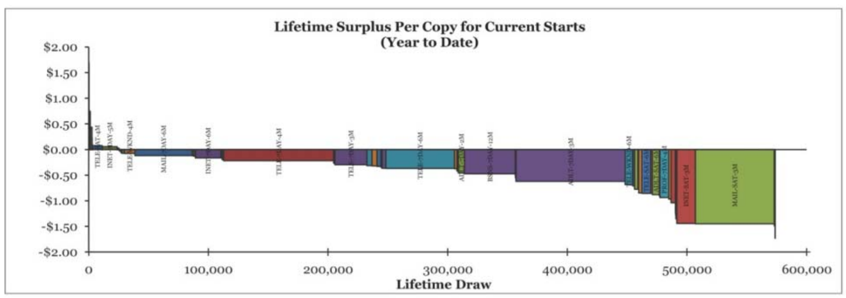
Going back to our hypothetical example, if we need to trim our acquisition spend by 20%, we should focus on those segments that are at the far right of the curve, as those segments contribute very little to overall circulation relative to the dollars spent.

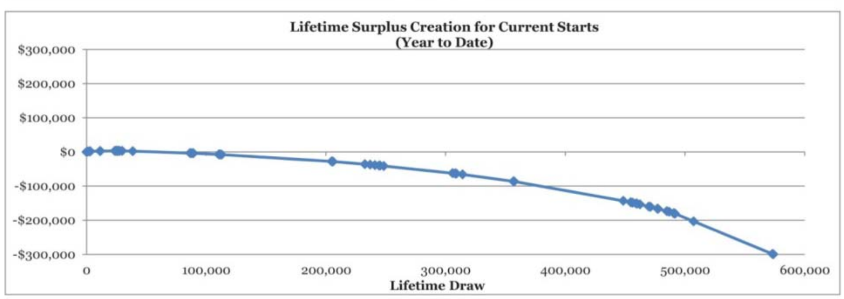
However, this approach still has one major flaw – it does not account for the fact these copies are also generating a lifetime value of differing amounts, which is another way of saying that "not all copies are created equal."

In other words, in an industry where every copy has its own unique combination of weekly net margin (driven by circulation revenue, pre-print revenue, newsprint and ink expense, and delivery expense), lifetime retention, and upfront acquisition expense, the only way to normalise for these differences in economic terms it to unitise that performance on a "per copy" basis. And then prioritise decisions using that metric.

In the example below, a top 50 newspaper has segmented its new starts by acquisition channel, delivery frequency, and original subscription term.

For each start, it has calculated a lifetime net margin and netted that against the upfront acquisition cost, to arrive at a net margin surplus (or deficit) for each start, which is then bundled with other similar starts to arrive at the net margin surplus for each segment.





Then the newspaper has divided that figure by the total copies that will be generated from that collection of starts. Dividing one by the other yields the two charts below.

By sorting the segments from best to worst performing, while holding circulation constant, this circulation executive can now reply to his boss' request with an empirically grounded answer about how to best cut 20% from the acquisition budget.

All we have to do is start with the worst performing segment (i.e., the segment on the far right side of the chart) and stop selling into that segment. If we have not yet reached our 20% target level, we move on to the segment to the immediate left. And we continue until the 20% reduction in acquisition expense has been reached.

By focusing on those segments that have the worst combination of lifetime net margin surplus on a circulation-adjusted basis, newspapers can become extremely targeted and can make valuable adjustments to their acquisition budgets throughout the year — even if the total dollar amount is required to change.

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