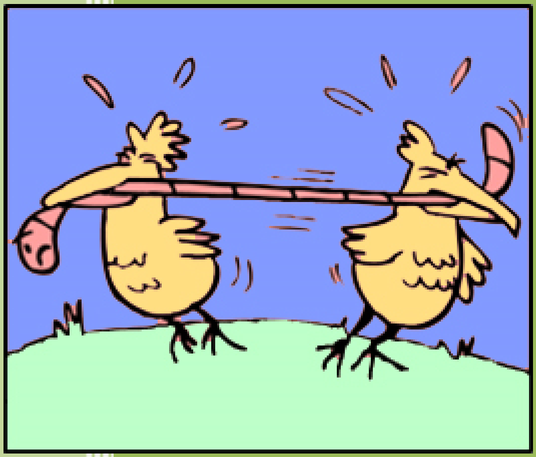
Avoiding the Tug of War: How a Major Newspaper Improved Retention 22%



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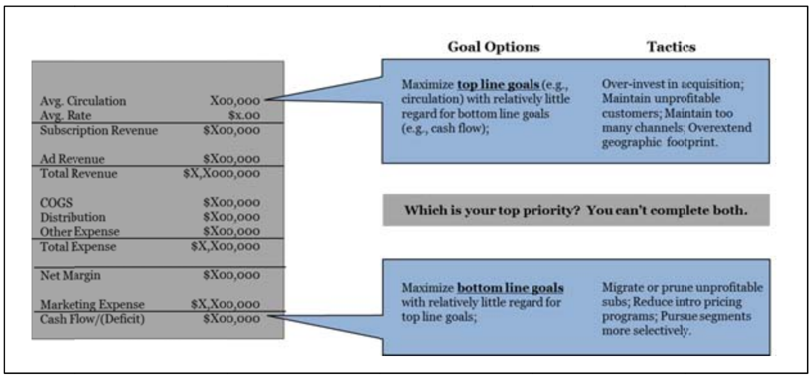
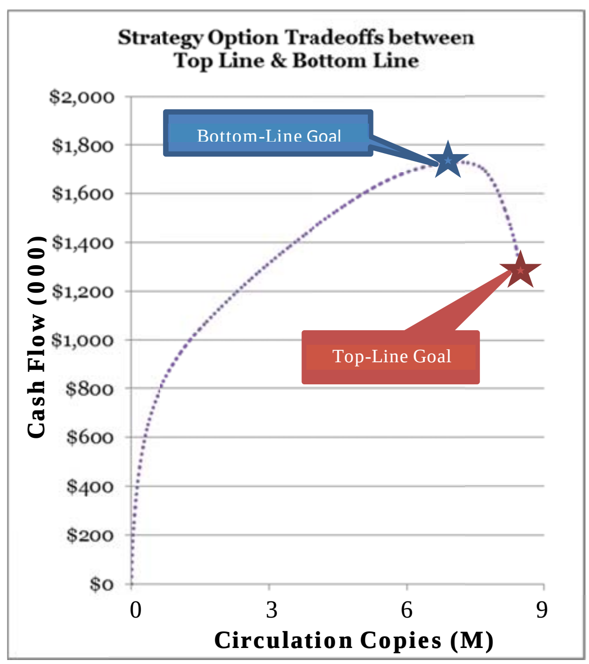
A top 50 newspaper used Impact's ICAPTR™ data to maximize copies in its stop-save program while avoiding money-losing copies.

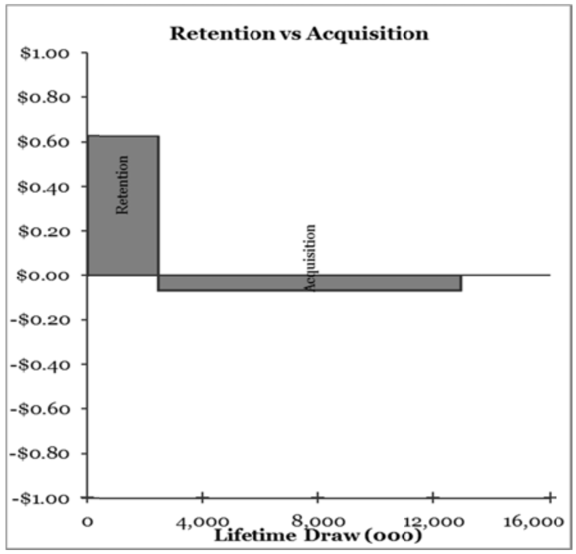
For newspapers, the tension between top-line versus bottom-line objectives has never been more pronounced. As seen in the diagram below, some newspapers are in current pursuit of a **top-line goal**, such as boosting circulation, often at the expense of a bottom-line goal, such as increasing cash flow. This can be seen in such tactics as an overinvestment in acquisition, the acceptance of unprofitable customers, the use of too many channels, or an overextended geographic footprint. Meanwhile, other newspapers are trying to pursue a **bottom-line goal**, such as lifting cash flow, often at the expense of a top-line circulation goal. This can be seen in the systematic migration or pruning of unprofitable subscribers, the reduction or elimination of aggressive introductory pricing programs, or a more targeted participation strategy.



Yet in the long-run, an inevitable tradeoff exists between top-line circulation and bottom-line cash flow goals. As seen in the chart, a newspaper in pursuit of a top-line goal has no choice but to pursue potential subscribers that are increasingly marginal in their profit potential. Eventually, all profitable subscribers have been captured (blue star) and the newspaper must choose to either stand pat with its profitable subscriber base or to pursue subscribers that it knows (or strongly suspects) are unprofitable yet are nonetheless needed to achieve that top-line goal (red star.) The slope and arc of the curve may look somewhat different for every newspaper, but the relationship is effectively identical – a newspaper can successfully prioritize one goal or the other goal, but it can't achieve both. A newspaper must choose, and then it must be consistent in its choices throughout all segments if it is serious about maximizing the impact of that goal.



But what happens if a newspaper pursued top-line goals in some segments and bottom-line goals in other segments? One might compare this tension to a "tug of war" – a battle between two sides that usually results in a standoff that nobody wins. The accompanying chart for a top 50 newspaper shows an economic picture that, based on our experience, is quite typical. The average copy saved via retention is usually quite profitable (in this case, $0.64 per copy), while the average copy acquired through new paid starts is usually unprofitable (($0.18) per copy.) Why is this important? Because it demonstrates the "Tug of War" strategy that exists within most newspapers. Newspaper executives will proclaim that they want to pursue a top-line circulation goal, undertaking each of the steps (including the tactics outlined earlier) to support that strategy within the acquisition function. However, their strategy in retention completely contradicts that approach, as they take none of the steps in that activity to maximize copies – in fact, they often do exactly the opposite, which is to pursue tactics that maximize a bottom-line cash flow goal, with huge negative consequences for circulation maximization. Thus, while the newspaper likely doesn't realize it, it is engaging in the "Tug of War" strategy, as some of their tactics support one strategy while other tactics support a strategy that is the exact opposite. The net result is that neither goal is fulfilled. As a result, circulation-focused executives miss out on a great chance to generate incremental copies via more aggressive pricing efforts in retention, while the cash flow-minded executives skip right past a prime opportunity to generate incremental cash flow by overinvesting in acquisition and acquiring many paid copies that lose money for the newspaper.



One recent Impact client, the same top 50 newspaper depicted above, recognized this inconsistency in their strategy and decided to address it. They wanted to find new sources of copy growth and they were willing to sacrifice profits that they might have accrued from a higher pricing strategy. However, they did not want to explicitly add any money-losing copies to its existing circulation base. While adding break-even copies was not a viable option in the area of paid acquisition, as their average copy per acquired start was worth ($0.18) and they did not want to increase that loss, such an approach was a very viable option in retention, as their average copy per retained save was worth $0.64. This newspaper realized that when the retention of existing subscribers is so profitable, it provides the newspaper with a valuable option to price those stop-saves more aggressively for additional copies. And because the newspaper was committed to a top-line circulation goal, it was just as willing to incur similar losses in retention (on a per copy basis) as it did in acquisition. Thus, a new top-line stop-save program was proposed.

To reiterate, a newspaper's goal should be to continue to selectively expand some of its segments and contract other segments to the point where all copies are generating a similar profit or loss per copy. The goal itself (e.g., profit or loss) is inconsequential – it is whether the newspaper is setting an identical profit goal across all of its activities that determines whether the newspaper is being consistent strategically, or whether it is unintentionally engaging in a "Tug of War" strategy.

As we have discussed many times previously, Impact's ICAPTR™ data can be used in a myriad of different ways, depending on the current and projected needs of the newspaper. In order to facilitate the implementation of this new stop-save strategy, ICAPTR™ data was used to pinpoint exactly how the newspaper could maximize copy growth in its stop-save program, but to do it without taking on additional money-losing copies. The premise was that by forgoing any chance of incremental profits, the newspaper can offer the lowest possible stop-save price, which will maximize the likelihood of incremental copies and higher overall retention levels.

Impact's ICAPTR™ system calculated a fully loaded incremental cash flow per copy for the entire universe (i.e., hundreds of thousands) of individual subscribers who could potentially call in the future to cancel their subscription. Historically, the newspaper offered a high level stop-save price that was clearly profitable but made little to no distinctions for the unique economics of each subscriber, whether it was due to unique preprint revenue, delivery expense, newsprint & ink expense, etc. Further, each subscriber possessed a different delivery frequency which needed to be accounted for, as well as a projected retention after the hoped save. ICAPTR™ provided the exact price that was needed for each individual subscriber to break-even, taking into account all of the unique economics described above.

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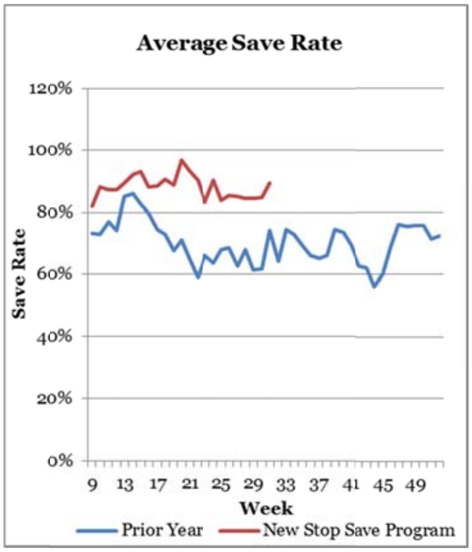
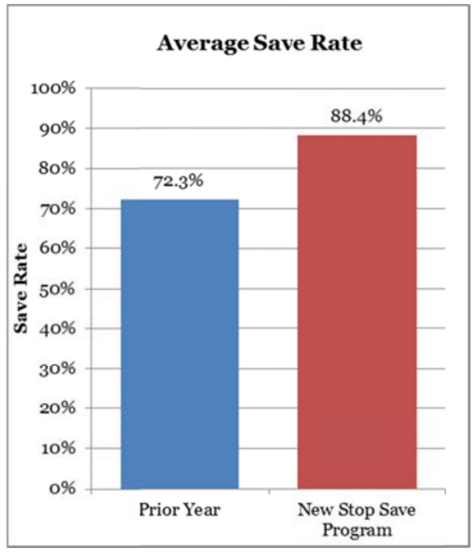
Because this meant that every current subscriber had its own unique stop-save rate, it was no longer possible to simply provide a one page rate card to the newspaper's telephone operators who handled stop-save calls, as the newspaper had done. Instead, Impact worked with the newspaper's IT department to build a new set of tables within their existing IT architecture that calculated and stored the unique breakeven rates. Thus, when any subscriber called to cancel their subscription, a uniquely tailored save rate would immediately pop up on the telephone operator's computer screen – a rate which was calculated to offer the lowest possible renewal rate while still breaking even financially. This data was refreshed monthly to account for new incoming starts who might cancel in the future, as well as for monthly changes in preprint revenues, delivery expense, newsprint & ink expense, etc. By tailoring these offers to better align with performance in acquisition, this newspaper avoided the "Tug of War."

The results of this new top-line oriented stop-save program were undeniably effective. During a 22 week program period measured in 2015, average retention was 88.4%, up 22% from the 72.3% retention rate recorded during the same time period in the prior calendar year. As a result of this improvement, this newspaper generated an extra 50-60 saves each week. Because each save was projected to generate an incremental 200 copies over its remaining lifetime, the improvement in aggregate saves and subsequent retention was responsible for an increase of 525,000 – 650,000 copies annually, an amount far greater than any new acquisition program this newspaper could conceivably pursue.





Of course, these extra copies may have been priced at break-even, but it is important to recognize that the opportunity cost associated with these copies was very real. By pricing them at the lowest possible level without losing money (i.e., at break-even), the newspaper was essentially foregoing the profits for some of those saves that might have been willing to continue at a higher price. While it is impossible to quantify the exact amount, we already know that the profit for the average saved copy was $0.64, so it is reasonable to assume that the worst case scenario for that opportunity cost was equal to 650,000 copies x $0.64 profit per copy = $416,000. But because it stands to reason that a subset of subscribers who retained at the break-even price point would have canceled at the higher price, the opportunity cost was certainly lower than this hypothetical maximum.

In sum, creative options are available to drive incremental circulation, but it always comes at a cost to cash flow. But more importantly, regardless of whether you decide to pursue a top-line or a bottom-line goal, be sure to pursue it consistently throughout your entire organization. Otherwise, the “Tug of War” you are engaging in will make it impossible to succeed, regardless of which goal you choose.

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