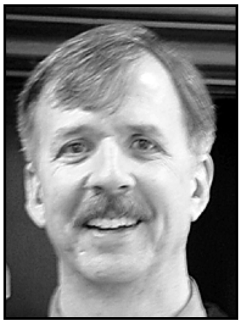
N.I.C.E. News

Alberta • British Columbia • Manitoba • Saskatchewan • Alaska • Idaho • Montana • Oregon • Utah • Washington

November 2005

President's Message

By Rick Sass – NICE President



It's a tough time to be in the newspaper business – and tougher still being in the circulation side of the business. Circulation volumes are down nearly 2% nationwide, advertising sales revenues are down, newspaper profits are down, and the average newspaper company stock price is down by more than 20% from a year ago. And the three largest shareholders of Knight Ridder have made a less-than-subtle suggestion to K-R management that they might want to put themselves up for sale or face a hostile takeover of the Board or other action.

It's the end of newspapers as we know it! Or is it? In my experience, these things, like newsprint prices, are pretty cyclical. Back in the late 1950s there was an uproar over the dawn of a new era - Television. Why would anyone ever buy a newspaper again? Why would any advertiser ever advertise in the newspaper when there would soon be TVs in every home in America promoting every product known to mankind? Why someday, they said, there would be a television in every room of the home with specific content designed solely for the room's occupant.

That was the 1950s – a full decade before newspaper readership hit its peak in the late 1960s. More than twenty years later, a young Northwest entrepreneur (and college dropout) predicted that newspapers would be obsolete within ten years - gone. They would be replaced with handheld computers that would bring news, information and targeted advertising to everyone in America. That prediction, by a young Bill Gates, also has failed to come to pass. For while changing lifestyles and newspaper buying habits have resulted in a loss of circulation volume from more than 62 million copies daily in 1970 to less than 55 million in 2004, we're still the top medium for advertisers to get their message to potential customers. Better than TV, radio, outdoor and the Internet.

Let's put that into perspective: Internet web sites will generate nearly $12 billion in ad revenues in 2005 (of which nearly $2 billion will be on newspaper web sites). That's an increase of more than 25% over 2004, and a very healthy number, but it pales in comparison to the nearly $47 billion newspapers generated in 2004 (also a record). So contrary to Bill Gates and his predecessors' dire predictions, newspapers are not going anywhere for a while. We're still the choice of millions of advertisers and the choice daily of millions of adults for delivery of information and advertising. And we've done a pretty good job of adjusting to the changing technological world and the new challenges to the advertisers' money over the decades.

So why all the bad numbers news? Why are the stocks dropping? And what can (and should) we be doing about it?

To start with, the numbers news isn't news, and was accurately predicted by many. Fuel prices have soared in the last six months; something painfully obvious to everyone in the circulation or distribution business. Newsprint prices have risen. Advertiser ad budgets have been cut. Not to mention there were elections and Olympics in 2004 – unusual events in the year we're being compared to here. And profits are down because "fixed" costs (payroll, fuel, taxes, rents, interest expenses, etc.) have gone up at a time when revenues are flat at best. Wall Street, which has long held newspaper company stocks up as a measure of profitability, suddenly is in semi-panic mode. The old reliable media companies aren't putting up old reliable double-digit profit numbers. And shareholders are very aware of declining or not-up-to-par profit levels.

So, what is a newspaper publisher to do? Well all of my college business courses taught there were only two ways to improve the bottom line: increase revenues or cut expenses. For years newspaper companies were able to do just that – raise more revenue, cut costs, or both.

But this year is a little different and needs to be treated as such. For crying out loud, gas prices hit $3 a gallon! (I found gas for $2.49 a gallon recently and was actually excited – if you'd told me that would happen two years ago I'd have thought you were nuts!) To consumers, it's perhaps not the best time to be raising prices, but in the last year the Seattle Times, Seattle P-I, Oregonian, Tacoma News-Tribune and USA TODAY have all raised prices. Why even Dave Jacobsen's Peninsula Daily News had a "revenue enhancement" recently. Some of these price increases were long overdue (USA TODAY, for example, had not raised the cover price in more than 19 years).

Some newspaper executives and most circulation executives (at least those not at Gannett papers) become somewhat squeamish at the suggestion of raising prices because of the resulting loss of volume. But while any rational person knows raising prices will result in some loss of sales, we also need to keep in mind the value of the product we put into the consumer's hands each day. If we value our product cheaply, it will be viewed as such; if we respect the bargain the cost of a daily paper represents, and consumers see that value, there should be no problem. If consumers are willing to pay $3 or more per gallon of gas without adjusting their

Continued on page 6

Legally Speaking

by L. Michael Zinser - NICE General Counsel

NLRB: Independent Contractors in St. Joseph, MO

On August 27, 2005, the NLRB, in a 2 to 1 decision, reversed a September 6, 2001 decision by ALJ Albert Metz and found that the newspaper carriers (both home delivery and single copy) and bundle haulers of St. Joseph News-Press are independent contractors excluded from the protection of the Act. The Board found the following facts:

- carriers do not complete employment applications;
- carriers sign a contract expressly describing themselves as independent contractors — the parties believed they were creating an independent contractor relationship;
- the contract grants the carriers the non-exclusive right to purchase, sell and deliver the newspaper in a designated area and to control the method and means of making deliveries;
- 30 days notice is required for either party to terminate the contract without cause;
- the contract prohibits carriers from displaying the newspaper's logo or insignia;
- carriers must post a bond, which is negotiated;
- for home delivery, the contract states a wholesale rate, which can be changed on 30 days notice and also provides for a rate adjustment credit which carries from carrier to carrier;
- single copy carriers negotiate a per piece rate for delivery;
- most subscribers pay in advance to St. Joseph News-Press, but some pay the carrier (carrier collect);
- carriers can bill customers and decide whether and to what extent to extend credit to customers;
- if a PIA customer fails to pay, the customer is converted to a carrier collect customer; the carrier has the discretion to continue delivery or cancel for nonpayment;
- carriers lease newsracks for $1 per month;
- carriers are charged for any sales tax they collected from customers they bill directly and a $1 per month service charge for processing sales tax;
- the newspaper withholds no income taxes and does not cover carriers for workers' compensation;
- carriers receive a 1099 for tax purposes;
- carriers receive no fringe benefits that the company's employees receive;
- carriers provide the vehicles they use; the newspaper does not specify a particular type or make of vehicle;
- carriers are responsible for finding a replacement vehicle if needed; carriers maintain their vehicles and are not reimbursed for any maintenance or operating costs, "although they receive a gas subsidy to offset higher gas prices;"
- carriers purchase their own supplies, such as plastic bags and rubber bands, which they can purchase from any source;
- the newspaper communicates with carriers primarily through memos left on top of their bundles;
- District Managers ("DM") are the primary contact with carriers; DM's meet with carriers "occasionally"; DM's start work at 9:00 a.m. — long after deliveries are made; the carriers perform their services without supervision;
- DM's do not discipline carriers who fail to correct problems complained about by customers; carriers are not covered by the "employee handbook";
- carriers may, without notice to the newspaper, engage substitutes; the terms and conditions of the substitute's employment are set by the carrier; there is no limit on the right of substitution;
- if the newspaper makes a redelivery, the carrier is charged;
- carriers can solicit new customers on their own and thereby increase the profitability of their routes;
- if the newspaper solicits a new subscription from a customer previously canceled by the carrier for nonpayment, the carrier can refuse delivery; the carrier can also refuse to service a new subscriber who lives too far from the carrier's route or whose home is inaccessible;
- carriers do not have exclusive routes; some carriers deliver to racks or dealers located within another carrier's route;
- carriers are free to hold other jobs and deliver other products while delivering newspapers; carriers have the right to contract to deliver competing products;
- carriers have the right to contract to deliver more than one route;
- new carriers usually learn their routes from the previous carrier; if the previous carrier is not available, the DM rides the route with a new carrier;
- carriers prepare a route book or an audio tape that describes how they delivered; new carriers given the route book or tape are not required to follow the route book or tape; carriers have the right to choose the sequence of delivery.

The NLRB stated that earlier NLRB cases involving newspaper carriers retained vitality as precedent. Then, significantly, the NLRB rejected the union's argument, embraced by dissenting Board Member Liebman, that the Board unilaterally legislate a change in the Act; the argument was that relative bargaining strength should control the issue. "In essence, the argument is that independent contractors should be deemed employees if their economic circumstances are markedly inferior." Member Liebman argued that the "legislatures of other countries" have such a standard.

THE BOARD MAJORITY CORRECTLY NOTED:

She calls upon the Board to unilaterally remedy perceived deficiencies in the Act and to apply a test not sanctioned by the

Congress or the Supreme Court… In sum, although other countries have provided in their statutes for the concept of economic dependence, the United States has not done so… It is not appropriate, as advocated by the dissent, for the Board to implement such an alteration of the legal landscape without Congressional direction… Our colleague has not only incorporated economic dependence as a single factor to be weighed, she has elevated it to be the determinative factor… Our dissenting colleague, thereby, forecloses the possibility that a party with greater bargaining power could ever structure an independent contractor relationship. Again, we find such a result contrary to the intent of Congress in amending the Act to exclude independent contractors.

Editor's note: The Zinser Law Firm represented St. Joseph News-Press

The Power of Thank You

By Jodie Krueger

Thanking customers is a simple concept really, but one we don't often think of, or use to our advantage. By January 1, 2006 the dominant order type at The Oregonian will be an EasyPay order. Currently all door and kiosk starts are either EasyPay or prepaid. To ease our Telemarketing group into the concept of selling EasyPay, we developed a "thank you" card with an EasyPay insert and an EasyPay referral card. The premise is this: after a telemarketer secures an order, they personally sign and address a thank you card to the customer who just subscribed. We also encourage them to write a personal note relating to the conversation such as "enjoyed discussing the sports section with you…" giving the card even more of a personal touch. The outside of the card simply says "Thank you for Subscribing to the Oregonian" with a nice photo of the city on the inside cover. The body of the thank you card is as follows:

> Thank you for subscribing to The Oregonian, the Northwest's largest newspaper.
>
> We are very happy to be of service to you and your family.
>
> The Oregonian has been published for over 150 years, we love what we do, we hope you find your local paper to be a tremendous value and resource for life in the Northwest.
>
> Enclosed is an EasyPay enrollment form. When you enroll in EasyPay, we'll extend your current $2.00 weekly rate for a whole year, a total of 52 weeks!
>
> Additionally, when you enroll in EasyPay using the enclosed form, we'll also send you a $25 gift card. Just think.... no more bills, checks to write or stamps to buy…that's easy!
>
> Lastly, we've also included a friend referral card. For any subscription we receive with your referral, we'll send you a $20 gift card.
>
> Our way of saying thanks!
>
> **Warmest Regards,**
>
> *Client Advisor*

The gift cards are from local grocery stores, and prominent advertisers.

The impact of the "thank you" card has been very positive in the phone room. The reps receive a $10 commission for any card we receive back with their source code and they feel empowered beyond just making phone calls.

The response from customers has also been very positive! We started using the card in mid August and so far we have seen an 8% response. We average 836 orders per week in our phone room, so at 8% we are getting 67 people per week switching to EasyPay, a much higher response than we get from a regular direct mail offer.

We have also had a .75% return on the referral cards. This program gives us a chance to reach customers who we might not touch and reinforces the value of the newspaper to the referring consumer.

The cost of 25,000 thank you cards, envelopes, 2 inserts, and a return envelope was $8,900 or 36 cents per piece. Of course you also have to add postage (14 cents), premium expense, discount expense, and sales commissions. Currently our cost per order is $88.30. A relatively small cost for moving customers from an initial 10-week telemarketing order with a 52 week retention of 16% to a 52 week EasyPay order with a retention of over 61%. Not to mention making a good impression on a customer by saying "Thank you".

ONPA Report

"It's better to be a great company in a crummy business than a poorly managed one in a great business."

-Professor Jeffrey Pfeffer, Stanford University

I attended the Oregon Newspaper Publisher's convention in July and was impressed by a presentation made by Ed Baron of Ed Baron and associates. His central presentation was hung upon this preceding quote. He led off with all of the doom and gloom about readership and shrinking market reach scenarios that we all know so much about. After he scared all of us administrative types by showing us hard data and statistics that show that our readers are deserting, our advertisers are shifting, our competitors are growing and that our customers increasingly demand more and more, he gave us some solid ideas for future growth and reminded us that we are still the single biggest dog on the block.

Our industry has been called a sleeping giant by many outside the newspaper business. We've been successful for so long that we have been slow to innovate and our business culture has been perceived to be resistant to change. For years we have preached to our advertisers that they should spend an average of 4 to 5% of their sales on advertising. We've also told them that a business that isn't doing well can grow again if promoted heavily. We've raked in millions of advertising dollars by giving solid advice. Isn't it a shame that as an industry we ignore our own advice when it comes to the growth of our own newspaper business? Newspapers on average spend only 1.6% of their sales on promotion for their business. This is a woeful statistic when you find that TV spends 7.6% and our direct mail competitors spend over 6% to attempt to eclipse us.

It's a known fact. If you advertise a consumer product you will increase sales. We are battling to keep and grow our paid circulation and in many cases our business ends aren't up to the task. Fight for your promotion budgets. Practice in your circulation departments what we've been preaching for years in advertising. If your budget needs some trimming, make promotion the last line item to go. We have spent a

lot of years managing tactically when we should have been managing strategically. We've left money and new subscribers on the table. It is absolutely essential to our survival that we turn our business away from a focus on distribution to a more rounded approach to circulation marketing.

I know I'm preaching to the choir. All of us would dearly love our publishers to triple our promotional budgets and give us more tools to prospect with. In many cases they would love to open the checkbook too. Here are some fairly inexpensive ways that you can increase your promotion and not break the bank.

We use magnetic signs and decals on all of our Daily Courier vehicles to promote specials and to act as rolling billboards. Several years ago we developed a mascot and "Fred the news dog" is a life-sized reminder on our vans. Fred (in his dog suit) visits with local schoolchildren and with a handler reads to area students twice a week in their classrooms.

We have sponsored a bus, which takes seniors and others with transportation needs throughout our county. Our largest expense in these programs has been in the graphic vinyl signs which are on all of the vehicles. These vinyl signs and the graphic cartoon Fred dog also adorn our crewing vehicles. Fred and his handler make visits each Friday to five area garage sales. Fred brings goodies from the Courier and sandwiches and coffee from our other business partners.

We have established a partnership with a local television station. We cross promote via our weather page and they give us spots each day on their morning and evening newscasts. We have also opened our building for a satellite office space for the television station to have a bureau in our town and are currently developing a magazine and televised story series which will focus on the Rogue River which will be co-produced in February. We haven't spent much money but the added resources and reach will bring us in front of a different audience.

Innovation is critical for our business growth. We are going to need to cross promote, get smarter about the web, explore different newspaper web sizes and advertising forms and continue to provide a strong local focus. On a personal level, we need to meet frequently with others in similar positions to talk about our own strategies. That's why it's so important that you try to attend the NICE annual convention to network, brainstorm and learn about what's working and what's not working in different markets.

Eileen Widdison, Grants Pass Couurier

Budget Now For Spring Sales Conference

May 10-12, 2006, Coast Wenatchee Center Hotel, Hosted by the Wenatchee World.

CONFERENCE UPDATE

By Rick Sass – NICE President

I want to thank Richard Reed and his staff at the News-Register for being most gracious hosts for this year's Fall CMS meetings.

Set among an enormous hangar full of vintage aircraft of all types, including one of the most curious and legendary planes of all time, the Spruce Goose, two dozen circulation professionals were treated to the wisdom of Mike Zinser and former Oregon basketball player and current organizational transformation consultant Greg Bell, October 5-6.

Mr. Bell facilitated an entertaining and informative afternoon devoted to Effective Relationships, Conflict Resolution and Effective Listening Techniques. Participants were able to observe and practice effective listening techniques and to brainstorm on the most effective methods of conflict management. So if any of the attendees are acting differently toward their bosses and coworkers upon returning to their papers, it can best be attributed to the lessons taught by Mr. Bell.

The second day began with an energetic round table discussion on a variety of topics ranging from sources for solicitation efforts, to dealing with high gas prices and carrier turnover/recruitment.

Finally the participants were treated to the basics of how to effectively manage independent carrier contracts. This animated session included an excellent cross examination of Logan (UT) Assistant Circulation Director (and overall good sport) Nathan Slater, by NICE's own Legal Counsel Mike Zinser, who assumed the role of a carrier lawyer trying to get Nathan to admit in various ways that his contractors were actually employees of the newspaper. Mike's session was informative, engaging and entertaining, while teaching the basics of what to say and not say and how to prepare for trial if the need arises.

Greg Bell (left) and Mike Zinser anchored the recent CMS in McMinnville, OR.

But the underlying message, as always, was how to avoid ending up in court in the first place.

Both sessions received rave reviews from the participants who clearly learned a great deal during the two-day event.

I would like to thank everyone who sent participants to the CMS – your support is critical to our ability to continue to hold these sessions that benefit all in educating the circulation professionals and leaders of tomorrow.

I would like also to remind everyone to be sure to include in your 2006 Budgets NICE dues and funding for the 83rd Annual Sales Conference, which will be held in Wenatchee, WA, May 10-12, 2006. Conference Chair and NICE 1st Vice President Steve DeVore is working on a theme and speakers for the conference, which promises to be an outstanding event. We also will be having a CMS session in October 2006 in Seattle. So mark your calendars, and remember to get those dollars into your 2006 Budgets!

DUES ARE NOT DUE

Membership dues for 2006 are not due until February 1, 2006. However, those of you with a few dollars still left in your budget may prefer to pay them this year. Please complete all of the information on the included form and also consider a new membership for one of your staff members. Associate memberships are just $40. While budgeting, make sure you include the 2006 May Sales Conference in Wenatchee and 2006 CMS in Seattle next October.

President's Message, Continued From page 1

consumption habits, then certainly we ought to be able to collect $.50 or $.75 per day for the benefits derived from daily newspaper delivery. For many years former Gannett Chairman and USA TODAY founder Al Neauharth used to preach that the cost of a newspaper through the ages was always roughly the same as a cup of coffee or an ice cream cone. Well I'm not a regular at Starbucks, but I'm sure you won't get much coffee for 50¢ or 75¢ these days. And I don't think it will buy much at Coldstone or Baskin-Robbins either. Yep, we're still a bargain.

So am I advocating you run into your publisher's office and suggest a price increase? If it makes sense, absolutely! As a matter of fact, the high gas prices might make this the best time. Tell your readers you will pass a portion of the increase in price on to the carriers that do such a fine job delivering to them every day to help cover rising gas prices (and then pass some of it along to them!). That will result in a reduction in carrier turnover, lighten the load on your over-worked district managers and let you sleep better at night. And maybe help prop up your company's profits.

Of course it also would be a good time to visit with your editors to make sure the content of your product is what readers value and want to see each day. And it also is a good time to make sure that your education programs are targeting future readers at all levels of schooling since those readers represent the real future of the business, whatever the format.

In any event, while the recent news may not seem positive for many in our industry, my money is on newspaper companies for the future of information dissemination. We're not going anywhere. And as the last hundred years have indicated, we're an industry that adapts positively and rapidly to the changing world of technology.

HOW TO REACH US

Secretary/Treasurer:
Dale Irvine
PO Box 778
La Conner, WA 98257
360-466-2006
nice@galaxynet.com

President:
Rick Sass
USA Today
425-562-1593
rsass@usatoday.com

NICE, PO Box 778
La Conner, WA 98257

Montana
Alberta
Oregon
Alaska
Utah
Idaho
Montana
Washington
Saskatchewan
British Columbia

NICE
Northwest International Circulation Executives
Marketing Today's Newspapers