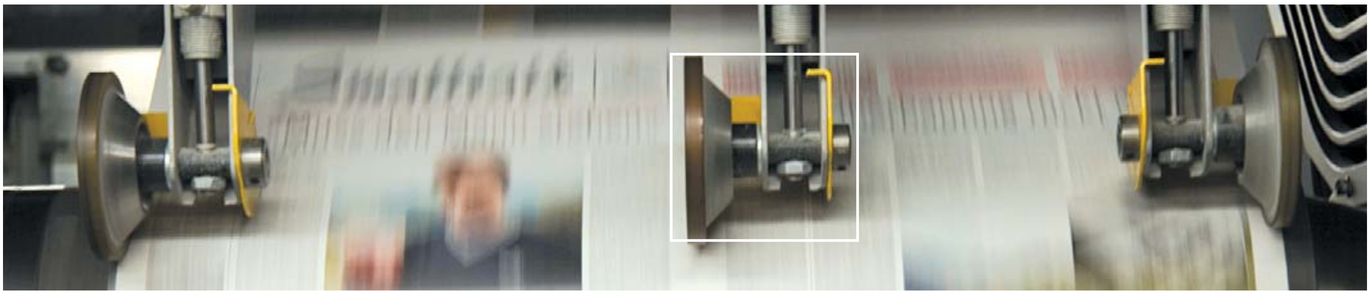
The Challenge of Creating Lean Media

A Review of the Process to Create More Efficient Media Companies *June '08*



How streamlining operations can help media companies face the digital challenge – The digital revolution has made cost restructuring a strategic necessity for media companies. Many have already taken action to optimise their cost structure, but there is one area that tends to escape such measures: the editorial department. Applying cost-optimisation initiatives to this department is often seen as the equivalent of performing surgery on the DNA of the company. As a result, many media companies are reluctant to include the editorial department in cost-restructuring programmes. However, Arthur D. Little has shown that by applying an integrated approach across the whole cost-structure chain, including editorial, it is possible to reduce overall costs by 5-10% – and, importantly, to leave the crucial DNA of a media organisation intact.

Traditional media under pressure

The arrival of digital media has had a profound impact on media companies and the market in which they operate. Four key changes can be observed:

- **A shift towards digital consumption:** Audiences are transferring to digital content (music, news, videos, etc). In the US, for example, young people already spend more time on the Internet than on any other media.
- **A shift in advertising expenditure:** The shift of audiences is causing a shift in advertising expenditure. In all the Western economies, the advertising market shows only limited growth in traditional media and strong growth on the Internet and on mobile. The current low monetization of the digital audience (the Internet represents more than 30% of time spent by consumers on media but only around 6% of advertising spend) means the trend towards Internet and mobile advertising can be expected to accelerate.
- **Increasing competition reshapes the value chain:** The huge potential of the Internet market is generating strong competition among different types of players: pure Internet players in all areas of the value chain (advertising, content, agency, etc); Internet giants such as Google, Yahoo! and MSN; telcos such as Orange and Vodafone; and equipment manufacturers such as Apple, and Nokia.
- **A change in the way content is supplied:** The trend is towards globalization of content supply, one of the results of which is a loss of quality. An easier access to increasing sources of content tends to reduce the share of in-depth analyzed information.

As a result of these changes, media companies' core business of providing content is under threat and they face declining revenues in their traditional markets. This has led them to restructure their traditional media in order to increase the profitability of their mature activities and create the means to invest in the growing digital market.

In the US, for instance, *The New York Times* recently reduced its newsroom headcount by 100 journalists, the *San Jose Mercury News* by 200 and Tribune Company by 330. In Europe, *Axel Springer*, *Lagardère* and *Le Figaro* have all announced or already implemented cost-cutting plans.

However, reducing costs in media is not only very complex, but also highly sensitive. To achieve significant savings, it is necessary to go deep into the DNA of the media and address the costs associated with generating editorial content. Yet reducing the quality of the service that is the essence of a medium's identity can jeopardize the future of a whole newspaper or TV channel.

For this reason, there is no single lean organizational model that can be applied to all media organisations in order to reduce costs; each must be taken as an individual case.

Improving operational performance in the media industry

Working side by side with a wide range of media groups, Arthur D. Little has developed a unique approach to improving operational performance in the industry and developing 'lean' media organizations. Our approach focuses on three major levers: cost control, operational excellence and fit of operational choices with an optimized strategic positioning.

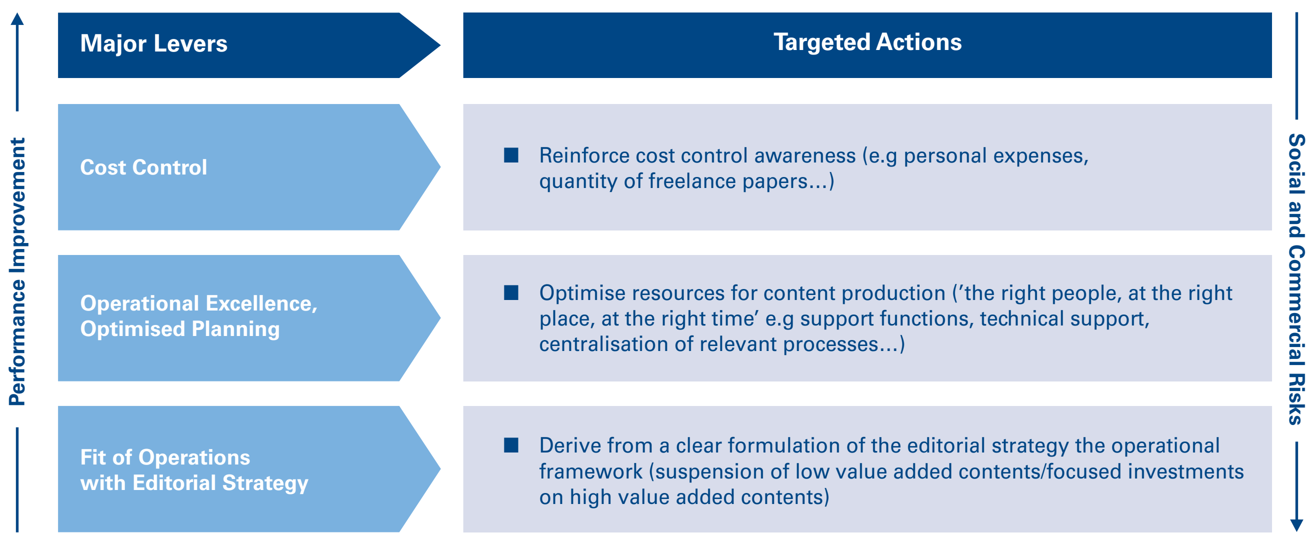
Implementing strong cost control

Implementing strong cost control is the first step to improving operational performance in the media industry and undertaking a detailed analysis of the cost structure of each business unit lays the foundation for this. Typical examples of addressable costs are expenses policies, freelancers' usage, photo acquisition costs and printing costs.

Optimizing operations and planning

The second step is to optimize operations and planning. As an example, at a TV information channel, the staffing level of the technical team for studio management had to be doubled during two peaks of activity every day. Most reporters were sending in their stories 30 minutes before prime time and the level of activity was too high to be managed with normal staffing levels. Giving priority to the technical department and ensuring that reporters sent in their stories immediately after recording would have reduced technical costs by more than 15%.

Figure 1: Sources of Performance Improvement for a Media Company



Similarly, in the press industry, managing the location and timing of so-called "cold" pages (those that can be prepared in advance) can save on unnecessary editing or rewriting. Leveraging all potential benefits of digital workflow in newsrooms, promoting multimedia production, automating low-value-added tasks (spelling, image filtering, etc) are other relevant examples that companies should consider in order to achieve operations and planning excellence.

Aligning operations with editorial strategy

The third and final step involves reviewing the operational framework (and continuing to review it regularly) to secure optimal alignment with the editorial strategy and ultimately with the value offered to customers (both consumers and advertisers). Typically, at this stage, media companies need to make decisions about suspending low value-added content and focusing investment on high value-added content to be more adaptive.

Reviewing the entire cost structure

With most media companies having faced some financial turmoil in their recent history, many have already made significant efforts to reduce general and administrative spend and, in many instances, to improve physical delivery. An ambitious performance program however should tackle the entire cost structure and cover four key areas:

- content production
- technical costs (paper, print, studio management, broadcast, distribution…)
- sales & marketing
- support functions and procurement

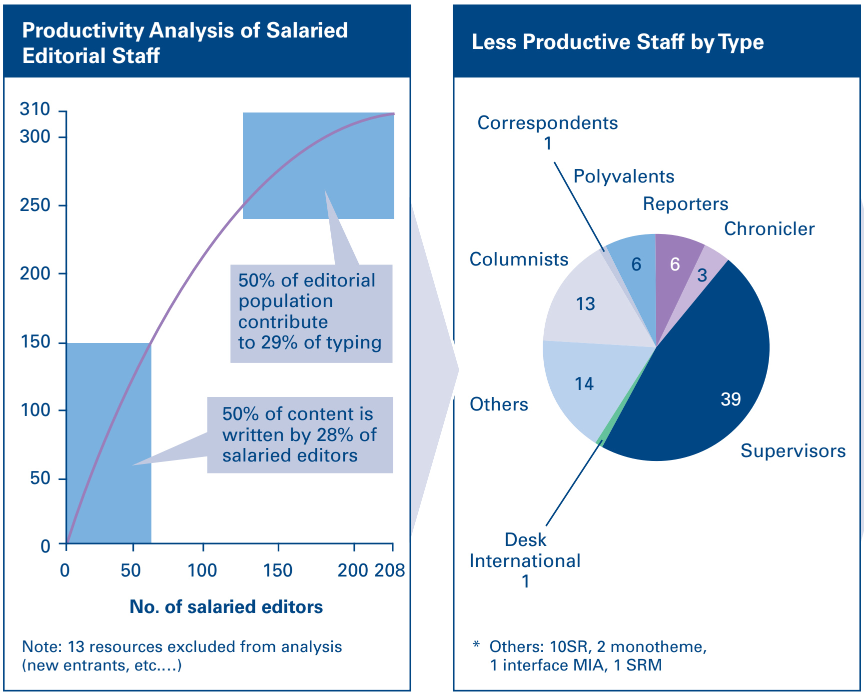
Content production

The production of content is at the heart of any media company. It is also one of the most complicated areas to address for various reasons:

- Any decision made in relation to content may affect the quality of the offer as perceived by the consumer or the advertiser and hence have a negative impact on revenue.
- The success of a media company may lie with a few key talents, who may resist change and even leave the company if changes made are not to their liking.
- The process of producing content cannot be measured in the same way as a standard industrial process. For example, in the press, an article of 3,000 characters is not equivalent to another article of the same size, as the impact of the two may be significantly different.

Nevertheless, a combination of quantitative and qualitative approaches can still prove to be a very valuable tool in helping editors-in-chief to optimize their cost structure (*see example Figure 2*).

Figure 2: Combining Quantitative and Qualitative Approaches at the Content Factory



Comments

In this case study (a leading national European upper-end newspaper), we undertook a quantitative analysis of the production of the editorial team.

We identified large discrepancies between the production of individual reporters, with one third of the journalists producing 50% of the content and half of them producing less than one third of the content.

A qualitative assessment of less-productive staff showed that reporters and chroniclers, that were quite numerous in the newsroom, were not the issue but that the problems were more concentrated on the management (quoted as supervisors) and, at a second order, on some editorial staff that had an excessive level of specialization (quoted as columnists)

An in-depth review of the organization with the editor-in-chief resulted in the reduction of editorial costs by more than 15%. This was achieved by:

- reducing the number of management levels
- reducing the number of managers within each service
- promoting broad expertise rather than narrow specialisation
- outsourcing specialisms such as chess and architecture
- restructuring the correspondent network

This example, specific to news production, can be transferred to all other types of media. Other areas that can be addressed in order to achieve best-in-class performance in content production include: leveraging the benefits of workflow automation; optimizing program grids; reviewing editorial support functions: developing content syndication; and using multimedia production.

Technical costs

In the media industry, optimizing technical costs is generally easier than streamlining content production, since technical processes are more suited to classic performance-improvement approaches. The most common levers used to optimize technical costs in a media company are a systematic review of staffing levels, equipment utilization, outsourcing and procurement policies.

For example, for one of our clients, a leading European information channel, we designed the optimum staffing level for the technical team, defining the number of video technicians, sound technicians and editors needed to manage the two TV studios, which operated 18 hours a day every day of the year. This showed that optimized planning and management processes would generate a saving of 12% in the technical team. By benchmarking the team's pay against industry data, we demonstrated that an additional 10% saving could be achieved by outsourcing studio management.

However, even where technical processes are optimized, best-in-class technical performance can only be achieved by optimizing editorial and sales processes alongside them.

Sales & marketing

Effective mobilization of a sales force requires a systematic review of the following:

- **strategy:** appropriate selection of the battleground based on market and competitive research
- **organization:** effective collaboration between front office, back office and marketing, effective allocation of agencies/advertisers to sales teams
- **processes:** preparation, execution and follow-up of commercial meetings, traffic and yield management, key account management
- **resources:** IT systems, training, staffing levels, etc

For example, for magazines, switching from a traditional sales organization, structured according to publication format, to a cross-format organization, structured according to the size of advertisers, can reduce the number of commercial meetings by up to 50%. Similarly, transferring all low-value-added activities (traffic management, invoicing, contract management) from the front office to the back office can improve the profitability of the sales force by more than 30%.

In addition reorganizing the sales process to offer all of the company's platforms (TV, magazines, Internet) to any potential advertising client can significantly increase revenues. In the US, for example, a multi-platform distribution model implemented by NBC for the TV series, "Heroes", led to an increase in revenues of 10-15%. As another illustration, the broadcaster, CBS, decided to merge its advertising sales process to create a new multiplatform unit (RIOT), incorporating its Radio (R), Internet (I), external advertising (O) and television (T) advertising sales operations.

Support functions and procurement

Optimizing support functions and procurement processes are more traditional pathways to performance improvement. Media companies, however, need to take account of a number of issues specific to their industry. For example, it may be necessary to review legal structures, the contractual framework for freelancers and reporting structures before make changes to improve the effectiveness of the sales organisation. Similarly, significant savings can be achieved through the globalization and bundling of procurement in key categories such as paper and printing. This however requires a good level of coordination across geographies and a systematic review, with the assistance of publishers and technical departments, of specifications and constraints such as delivery lead-times and paper quality.

Conclusion

Arthur D. Little's experience shows that a significant reduction in costs (in the range of 5–10% of total costs) can be achieved through a systematic review of operations, including core activities such as content production, sales and technical departments. Best-in-class companies not only control costs in a systematic fashion and optimize their operations and planning, but also frequently review their operations to ensure a complete alignment with editorial and business strategy.

In core areas such as content production and sales and marketing, both quantitative and qualitative analysis should be used to assess the potential for reducing costs. A wide range of improvement levers can be used to achieve best-in-class performance. We generally recommend starting with a top-down diagnosis during which the most critical levers are identified, allowing the implementation phase to focus on actions that will have a high impact. A typical diagnosis lasts between 6 to 16 weeks depending on company size and complexity.

The additional margin generated by applying the 'lean media' approach can be very useful for funding the development of new activities such as Internet or mobile.

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