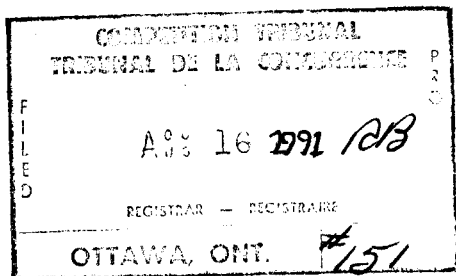


*Southam - Report  
Aug 15/91*



CT 90-1

**THE COMPETITION TRIBUNAL**

IN THE MATTER of an application by the Director of Investigation and Research for orders pursuant to section 92 of the Competition Act, R.S.C. 1985, c.C-34, as amended;

AND IN THE MATTER of the direct and indirect acquisitions by Southam Inc. of equity interests in the businesses of publishing The Vancouver Courier, the North Shore News and the Real Estate Weekly

BETWEEN:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Applicant

- and -

SOUTHAM INC., LOWER MAINLAND PUBLISHING LTD., RIM PUBLISHING INC., YELLOW CEDAR PROPERTIES LTD., NORTH SHORE FREE PRESS LTD., SPECIALTY PUBLISHER INC., ELTY PUBLICATIONS LTD

Respondents

AFFIDAVIT

I, Christine D. Urban of the City of Dedham, in the Commonwealth of Massachusetts, in the United States of America make oath and say:

I am the President of Urban & Associates, Inc., a market research and consulting company specializing in work with media companies. A copy of my resume is marked Exhibit 1 to this my affidavit.

In 1986 Urban & Associates, Inc. was retained by Southam, Inc. to study revenue and cost trends for Pacific Press Ltd. ("Pacific Press"). Pursuant to that retainer, a two-volume report dated December 1986 ("the 1986 study") was prepared and delivered to Southam Inc., a copy of which is marked Exhibit 2 hereto. The first volume of the study contained a quantitative analysis of the dynamics of the advertising marketplace in Vancouver B.C., and the share of those advertising dollars that Pacific Press earned. The second summarized qualitative research done to test key assumptions of that market and advertiser analysis, based on personal interviews with key executives of 10 major Vancouver retailers selected for the diversity of their size, type of business, and advertising buying behavior. The analytic method and reporting format of the 1986 report is similar to that Urban & Associates, Inc. has completed for a variety of media corporations throughout North America.

My ability to comment on these proceedings is based on my personal involvement in the preparation of the 1986 study, as well as my extensive professional experience in media economic analysis and evaluation of advertiser behavior and



market trends. I have also been provided with and have had access to information concerning the newspaper businesses of Southam Inc., and have been retained by Southam Inc. to update the estimates of the size of the retail advertising market in the Lower Mainland, and the share of that market that Pacific Press held in 1990.

#### Background to the 1986 Study

Even though the 1986 study was written primarily to stimulate management discussion and strategic decision-making at Pacific Press, the analysis represents an accurate and careful assessment of the retail advertising market, as well as the underlying foundation of the Vancouver B.C. economy that justified and explained retail advertisers' behavior. The most significant finding here was the fact that although Vancouver had a growing population, retail sales (especially in major department stores, key customers for metropolitan dailies such as the Province and the Sun) were hurt by the combined effect of double-digit unemployment of the period as well as the tendency for Vancouver households to spend a higher-than-normal (vs. other Canadian households) proportion of their disposable income on services rather than retail goods.

Vancouver's retail advertising market in 1985, then, was estimated at \$170,461,000, of which Pacific Press earned 26.7% share in retail ROP, retail insert and TV Times

revenues.<sup>1</sup> With its estimated share in 1985 already lower than that of three of the previous four years, the report went on to analyze Pacific Press' cost structure, to make projections of its likely share in 1990, and to discuss strategies by which its management could react to the problem of declining market share and the changes projected in its retail advertising environment.

Three other major conclusions of the 1986 study are also notable, and consistent with my experience in other major metropolitan markets across North America.

#### Definition of the Retail Advertising Market

First, it's clear from both analyses of retail advertisers' buying behavior as well as their comments when interviewed, that all print and broadcast media compete in varying degrees for all available retail advertising dollars, and that because each is perceived to have specific advantages in format, quality or quantity of audience, pricing structure or ability to meet an advertisers' objectives, no two media are perfect substitutes for one another.

---

<sup>1</sup> These 1985 estimates do not include advertising expenditures for retail services, nor the portion of Pacific Press classified revenues attributable to automotive advertising, both of which are included in the 1990 estimates in Exhibit 3.

This is evident in the fact, for example, that a substantial proportion of the advertising in weekly newspapers is placed by small retailers whose primary trading area is the specific community served by that weekly. Furthermore, retail advertising in daily newspapers is not insulated from competition with a wide variety of other print and broadcast. In my experience, a "single-medium" retail user would be the exception rather than the rule in a metropolitan market, a point confirmed by the recently-completed Angus Reid survey in Vancouver. New media (e.g.: Auto Traders, weekly newspapers or magazines targeted at very specific demographic or life-style segments, or electronic shopping cart displays) are also constantly entering the market, usually competing for these available advertising dollars by exploiting specific perceived weaknesses in existing media and thereby stripping revenues from them.

The complexity of advertisers' decision-making and fluidity of their communications objectives from ad-to-ad or campaign-to-campaign also requires them to constantly reevaluate the relative strengths and weaknesses of each medium available to them: a behavior also confirmed by the Angus Reid survey.

Given all of these factors, I do not agree with the Director of Investigation and Research's (the "director") assertion that retail newspaper advertising is a relevant market definition. On the basis of the 1986 study, my professional experience, and

my work in these proceedings, I believe there to be a market of total retail advertising dollars, within which the competition between all print and broadcast media in the Lower Mainland is quite intense.

#### Intensity of Inter-Media Competition

A second major conclusion of the 1986 report is that in this environment of strong inter-media competition for retail advertising dollars, the weekly newspapers in the Lower Mainland were becoming increasingly strong and attractive media options for retail advertisers. Weekly newspapers are naturally able to better satisfy the advertising objectives of two growing segments of the Vancouver retail economy (eating and drinking establishments and service advertisers), both of which tend to draw their primary trade from a relatively limited geographic area. In addition, they are also able to offer two unique competitive capabilities to larger retailers as well. One was to meet these large retailers' growing desire to "target" their advertising messages geographically (e.g.: when a retail chain will advertise only for a particular sale in a specific store rather than the whole chain). Targeting is a trend in retail advertising that has been growing in prominence for a number of years across all metropolitan markets in North America.

Most important of all, however, the weekly newspapers were well-positioned to

take advantage of a major change in retail advertisers' behavior: the long-standing shift of retail advertising dollars from ROP to inserts or flyers. First, the nature of the flyer or insert format usually determines that such advertising is done less frequently than on a daily basis. Also, because there were many weeklies, and because they offered advertisers nearly total market coverage (TMC) of the suburban communities where retailers were investing in new stores (and where Pacific Press had relatively low penetration), these weeklies achieved a "critical mass" that permitted them to compete effectively and cost-efficiently for the mass market distribution of those flyers. Both the quantitative and qualitative phases of the 1986 study confirmed this, and suggested that many retailers had substantial confidence in the weekly newspapers' ability to provide either TMC or targeted distribution of inserts -- neither of which Pacific Press was able to provide.

It's important to note that most often, when retail advertisers have decided to move their messages from an ROP to a flyer format, the shift is not reversible. Once they've enjoyed greater control over reproduction quality, the price advantage of flyers vs. ROP, and the positive sales results provided by flyers, they're unlikely to give these advantages up. Furthermore, flyers are a "portable" form of retail advertising, where the quality of the advertising message is uncoupled from the media vehicle in which it is carried. These conditions make the inter-media competition for distribution of flyers intensify and expand even further. Interviews

with the key retailers confirmed that even in the seemingly-straightforward selection of a distribution vehicle for their flyers, advertisers wanted alternatives -- therefore initiating intense competition between the weekly newspapers, distributors such as Southam's Flyer Force and Ad Mail in later years. Consequently, I do not think the Director is justified in segmenting the flyer distribution market between flyer inserts and free-standing flyers.

#### Pacific Press' Inability to Respond

The third major conclusion drawn from the 1986 study was the deficiency in Pacific Press' ability to compete effectively against the wide variety of print and broadcast media available to advertisers in the Lower Mainland. With high advertising prices necessitated by a disadvantageous cost structure (and advertisers unwilling to accept high rate increases in a depressed retail environment), with a history of strikes that convinced retail advertisers to search out the security of alternative media for flyer distribution, with constraints on management's ability to position the Province and Sun to react to market trends (e.g.: incremental TMC distribution of flyers to non-subscribers, creation of zoned sections for circulation and advertising growth in the suburban areas), and with the ever-increasing speed with which advertising revenues were being siphoned off by a variety of competitive media, the 1986 report suggested that it was unlikely that Pacific Press could exploit




advertising revenue opportunities in its market under its then-current publishing strategy.

1990 Update

Our recent analysis of the retail advertising market, which is marked as Exhibit 3 to this my affidavit, updates all the basic structural analyses of the Vancouver economy made in 1986, and confirms the predictions of an increasingly-fragmented and competitive advertising marketplace made at that time. In 1990, Pacific Press earned \$75,183,400 of retail ROP, retail insert, TV Times and the automotive portion of classified revenues. While its retail advertising revenues have grown since 1985, then, Pacific Press' share of the retail advertising marketplace continues to decline. In 1990, Pacific Press earned only 23% of the \$326,666,000 retail advertising market, with other media competitors having increased their share of those dollars in that time period.

Sworn before me in the Commonwealth of  
Massachusetts this 15th day of August, 1991

  
Christine D. Urban

  
Notary Public

MY COMMISSION EXPIRES  
JAN. 31, 1997

EXHIBIT 1

CURRICULUM VITAE

Christine D. Urban

Current

**President/Principal of Urban & Associates, Inc. - 1974 to present**

Market research and consulting company specializing in work with media companies, having served more than 120 newspaper clients in the United States, Canada and Europe

Education

**Ph.D. in Communications Research, 1975**  
University of Illinois at Champaign-Urbana

**M.S. in Advertising, 1973**  
University of Illinois at Champaign-Urbana

**B.S. In Advertising with honors, 1972**  
University of Illinois at Champaign-Urbana

Teaching/Professional Experience

**Faculty Member of the American Newspaper Publishers Association's annual Marketing Seminar and Strategic Planning Seminar (1979 to present)**

**Invited Speaker at numerous industry conferences, including those of the**  
American Newspaper Publishers Association  
American Society of Newspaper Editors  
American Press Institute  
Associated Press Managing Editors  
International Newspaper Marketing Association  
International Newspaper Advertising and Marketing Executives  
International Circulation Managers Association  
International Newspaper Financial Executives  
Newspaper Research Council  
Canadian Daily Newspaper Publishers Association

**Assistant Professor of Business Administration (1975 to 1980)**  
Graduate School of Business Administration, Harvard University

**Assistant Professor of Business Administration (1974 to 1975)**  
Florida Atlantic University

**Instructor In Advertising (1973 to 1974)**  
University of Illinois at Champaign-Urbana



Professional Association/Activities

Member of numerous professional and academic associations, including  
Association for Consumer Research  
American Marketing Association

Referee/editor for manuscripts, the Journal of Advertising (1984 to present)

Judge for Knight-Ridder Excellence Awards - 1989, 1990, 1991

Quoted in both general and trade press publications, including

Advertising Age

Presstime

Editor & Publisher

Wall Street Journal

AdWeek

US News & World Report

Forbes

Publications

Urban, C.D. "Life-style Patterns of Women: United States and United Kingdom", presentation to the American Academy of Advertising Conference, Knoxville, TN, April 20, 1975.

Urban, C.D. "A Cross-national Comparison of Consumer Media Use Patterns", the Columbia Journal of World Business, Vol 12, No 4, 1977.

Douglas, S.P. and Urban, C.D. "Life-style Analysis to Profile Women in International Markets", the Journal of Marketing, Vol 41, 1977.

Urban, C.D. "Life-style Analysis for the Evaluation of Newspaper Audiences", presentation at Fourth International Seminar in Marketing, Gordes, France, May 31 - June 3, 1977.

Urban, C.D. "Cross-national Patterns of Media Consumption: The Influence of Demographic and Media-usage Variables", presentation at EAARM, Stockholm, Sweden, May, 1978.


Urban, C.D. "Correlates of Magazine Readership", the Journal of Advertising Research, Vol 4, No 20, August 1980.

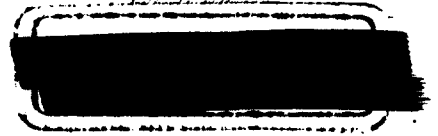
Urban, C.D. "Hindsight From the Year 2020 in The Changing Newspaper - Year 2000", in the Report of The Changing Newspaper Committee, Associated Press Managing Editors Association, Toronto, Canada, October 20-23, 1982.

Urban, C.D. "Newspapers Can Learn From Current Recession", in Presstime, Vol 4, No 11, November 1982.

Batt, C. and Urban, C.D.

"Reaching Hispanics: Survey Results Show How to Break Barriers Between Editors and Hispanics", in Report of the AMPE Minority News Committee, Louisville, KY, November 1983.

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- Urban, C.D. "Newspaper Marketing From Broad Concept to Synergy at the Top", in INAME News (International Newspaper Advertising and Marketing Executives), Vol 53, No 6, June 1983.
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- Urban, C.D. "Strategic Thinking About the Future", presented to the International Newspapers Controllers & Financial Officers Conference, Vancouver, BC, October 15, 1984.
- Urban, C.D. "Gearing Up for the New Telecommunications Businesses: Strategic Planning for Newspaper Companies", presented at ANPA/Newspaper Advertising Bureau Telecommunications Symposium, Dallas, TX - published in Charting Your Course - A Newspaper's Guide to New Ventures, ANPA Telecommunications Department, January 1985.
- Urban, C.D. "Newspaper Planning Strategies", International Circulation Managers Association Conference Report New Dimensions, June 9-12, 1985, Columbus, OH, pp 54-62.
- Urban, C.D. "The Competitive Advantage of New Publishing Formats", a chapter in Electronic Publishing Plus. Media for a Technological Future, Martin Greenberger, ed., White Plains: Knowledge Industry Publications, Inc., 1985.
- Urban, C.D. "The Power of the Newspaper Environment", presented to the International Newspaper Advertising & Marketing Executives Sales Conference, Las Vegas, NV, 1986.
- Urban, C.D. "Reader Expectations", presented to the 100th Convention of the American Newspaper Publishers Association Annual Convention, San Francisco, 1986.
- Urban, C.D. "10 Myths About Readers", American Society of Newspaper Editors Bulletin, April 1986.
- Urban, C.D. "Marketing To The Younger Reader", Ideas, The Monthly Magazine of the International Newspaper Marketing Association, Vol 1, No 2, July 1987.
- Urban, C.D. "Knowing The Enemy", American Society of Newspaper Editors, Report on the Future of Newspapers Project, December 22, 1987.
- Urban, C.D. "Adapting to Change", presented to the 103rd Convention of the American Newspaper Publishers Association Annual Convention, Chicago, 1989.
- Urban, C.D. "Market-driven Communication Strategy", the Healthcare Forum Journal, January/February 1991.
- Urban, C.D. "Spending is Being Shifted From Retail Goods to Services", Presstime, May 1991.
- Urban, C.D. "Grow Out of Recession-Now", Presstime, June 1991.



FUTURE VALUE OF THE VANCOUVER B.C. MARKETPLACE

Southern, Inc.

Urban & Associates, Inc.  
Sharon, Massachusetts

November 10, 1986

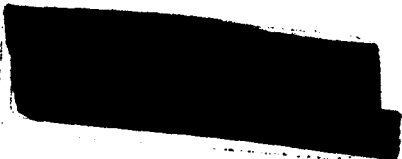


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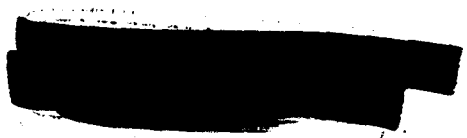
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## INTRODUCTION

This report presents the results of an evaluation of the Vancouver B.C. market, including projections of the value of that market -- and Southam's franchise in it -- for the near-term future.

This quantitative analysis is Phase I of the full market evaluation. It explains the dynamics of the Vancouver marketplace, and assesses its prospects for growth to 1990.

In Phase II (a series of in-depth interviews with key Pacific Press advertisers), retail executives will be asked to evaluate the market position of Pacific Press versus that of competitors, comment on market trends and business conditions, and discuss their own business goals and expectations as advertisers. Together, Phases I and II complement each other by (a) combining both quantitative and qualitative data in an exploration of Southam's options for the Vancouver market, and (b) testing and refining some of assumptions derived in this analysis against the "real world" conditions of customer behavior.

In the interests of clarity, only summary data and charts have been included in this report. Detail on the information and trend/series data summarized in those exhibits can be found in the separately-bound Data Appendix supporting this report.





**SECTION ONE**

**THE VANCOUVER ECONOMY TODAY**



### The Health of the Vancouver Economy

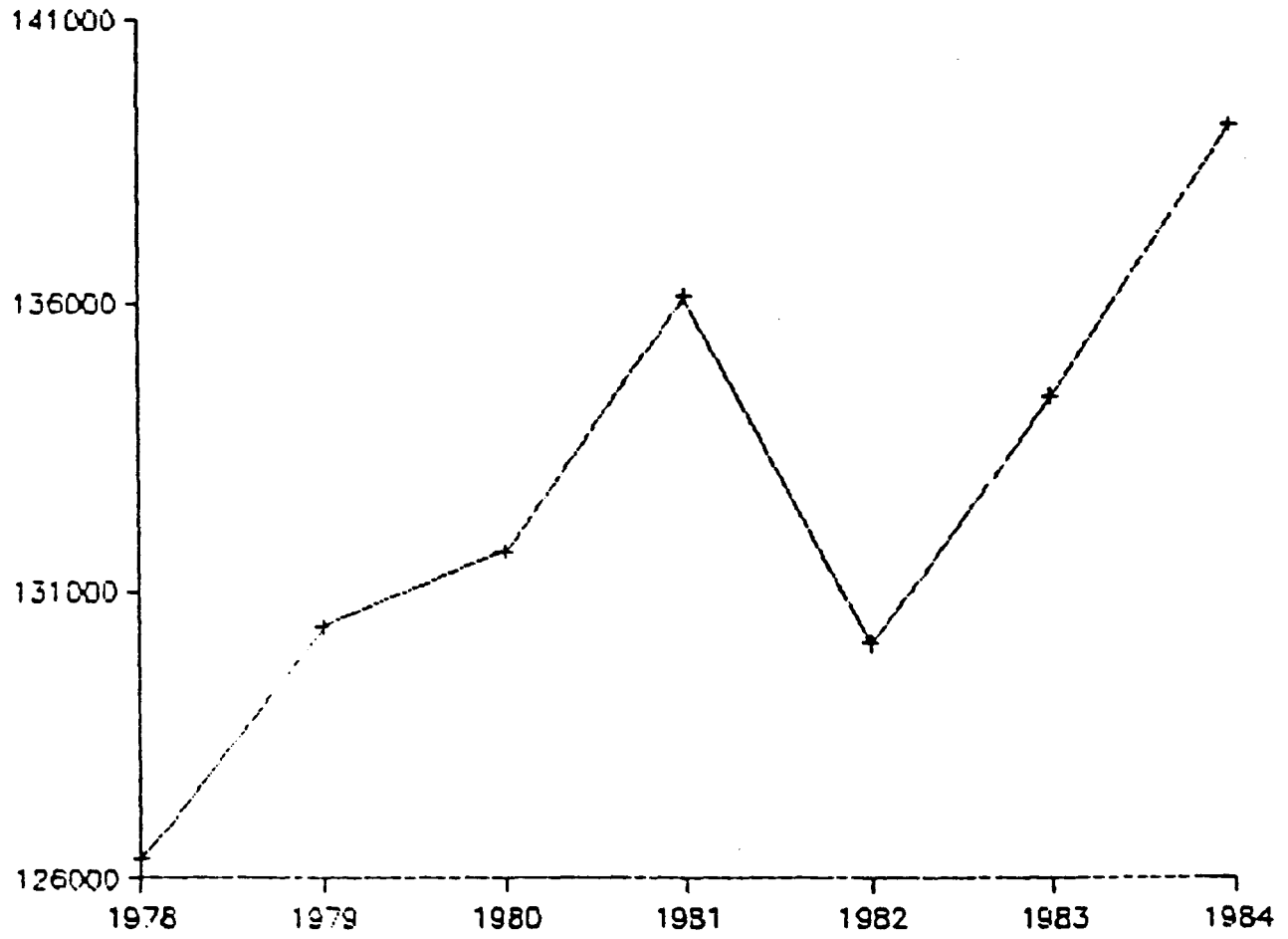
A gross snapshot of any market's historical economy is visible by graphing the strongest summary statistic available (GNP), and comparing it to the baseline of economic tendencies in the nation as a whole.

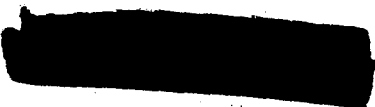
For all of Canada, the following tables show that the 1982 recession was sharp, but short: with a positive trendline (in constant dollars) being quickly reestablished as the national economy grew 3.3% in 1983 and 3.6% in 1984. British Columbia, on the other hand, took a very sharp 6.7% decline in 1982 and only recovered .9% of that in 1983, and 1.5% in 1984.

These graphs are only descriptive of B.C.'s inability to recover from the recession as did other markets in Canada -- they are not predictive of future economic trends. In order to project the future economy, it's necessary to understand the two underlying factors that appear to drive these patterns in the province.



**GDP IN CANADA**  
(Constant Dollars = 1971)





**GNP IN BRITISH COLUMBIA**  
(Constant Dollars = 1971)



[REDACTED]

There are two major factors at work in the Vancouver economy today -- one negative and one positive -- which push and pull against one another to ultimately determine the future of provincial economic growth.

#### **Negative Influences on the B.C. Economy**

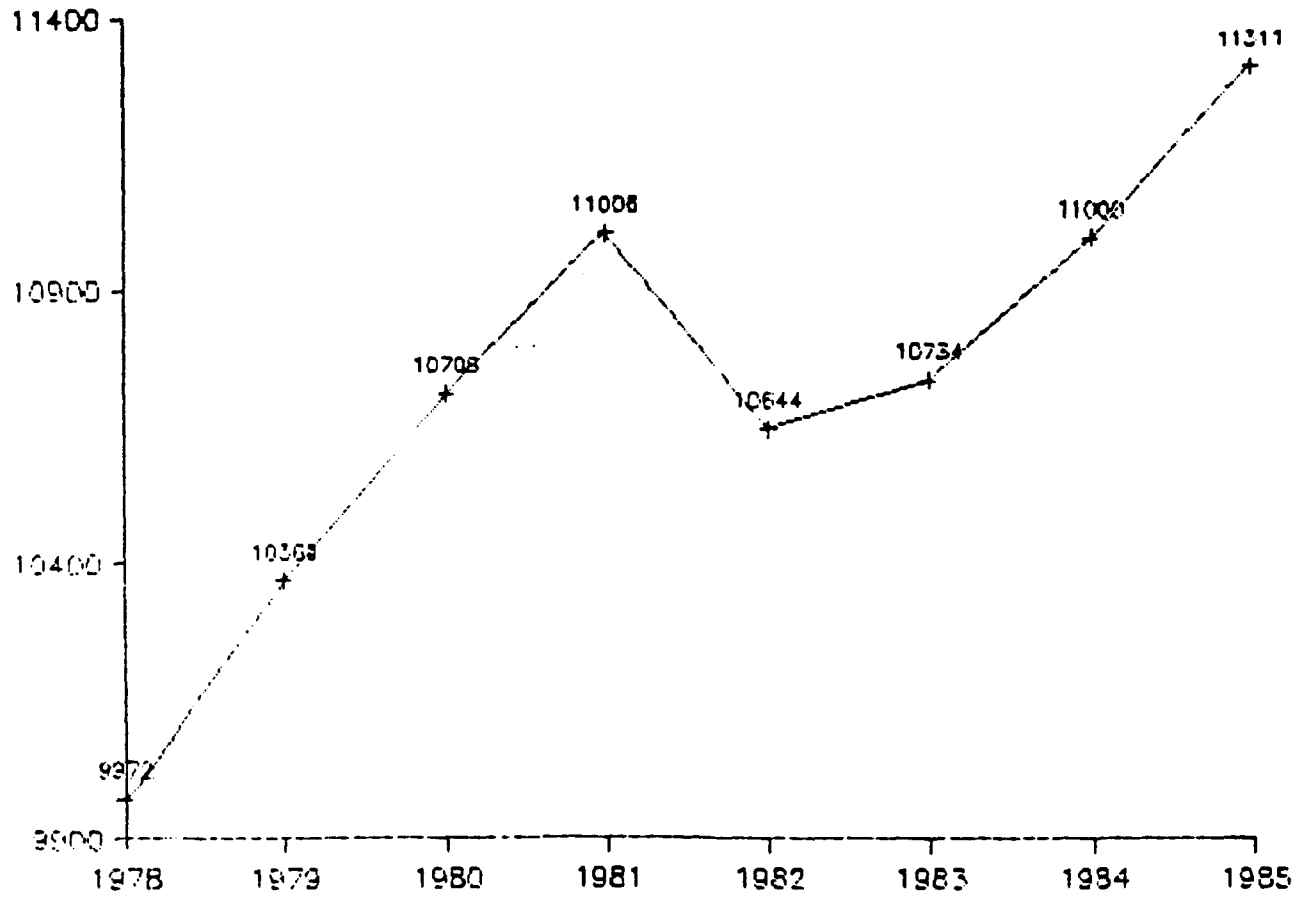
The very difficult time which the economy as a whole (and especially certain key sectors which seem to be in recession to this day) has had in recent years is primarily driven by employment, and secondarily by housing starts.

The next chart compares the recent history of this leading indicator. The effects of the recession in terms of total employment in Canada were relatively short-term: with employment dropping more than 3% from 1981 to 1982. By 1984, however, employment had risen to the 1981 level, and 1985 saw an increase of 300,000 jobs from the previous peak.

The picture in British Columbia is much different. Employment fell off 5% during the initial year of the recession and stayed at that level for the next two years. Only in 1985 did the situation begin to improve and even then employment was still off 42,000 from the previous peak.

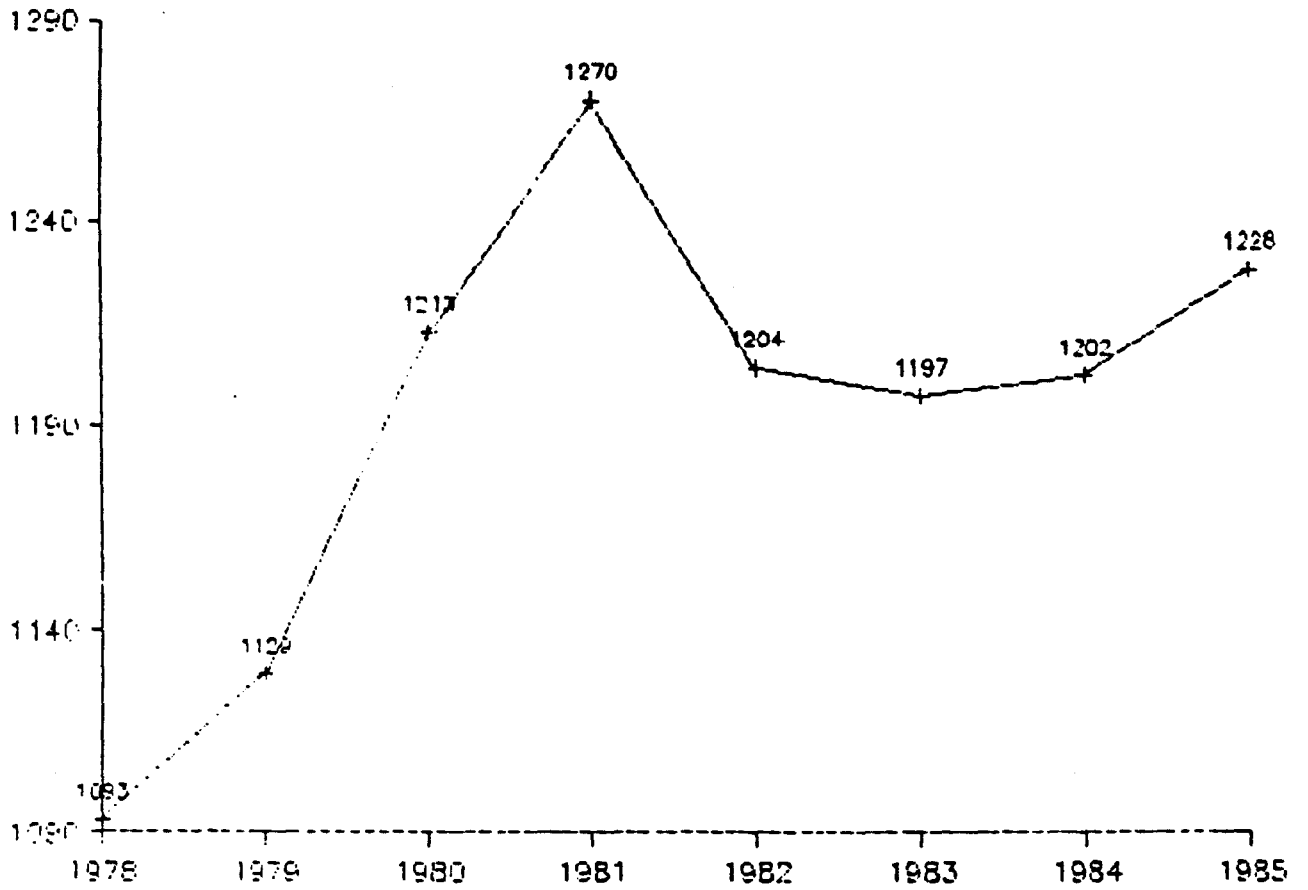



TOTAL EMPLOYMENT - CANADA





### TOTAL EMPLOYMENT - BRITISH COLUMBIA





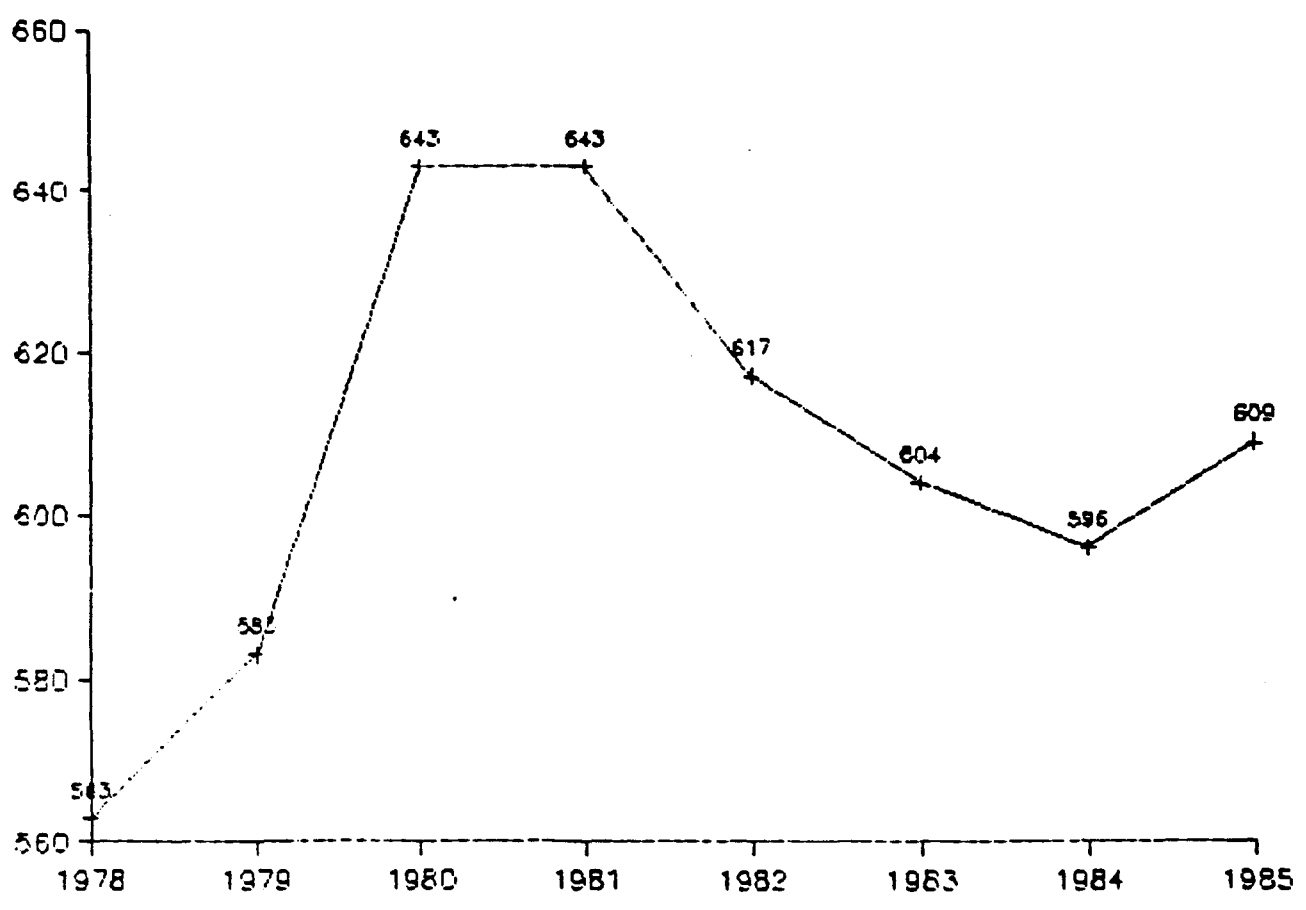
The city of Vancouver has fared still worse. Employment stopped growing in 1980 and fell for three years running from the beginning of the recession. A slight gain was registered in 1985, but employment was still off by 34,000 from the 1980-81 level.

Unemployment figures are not a perfect corollary to employment as a leading economic indicator, but these data show much the same picture. Prior to the recession, the unemployment rate in British Columbia was at the same level or less than the national rate. Since the recession it has remained extremely high, while the Canadian unemployment rates have improved somewhat.

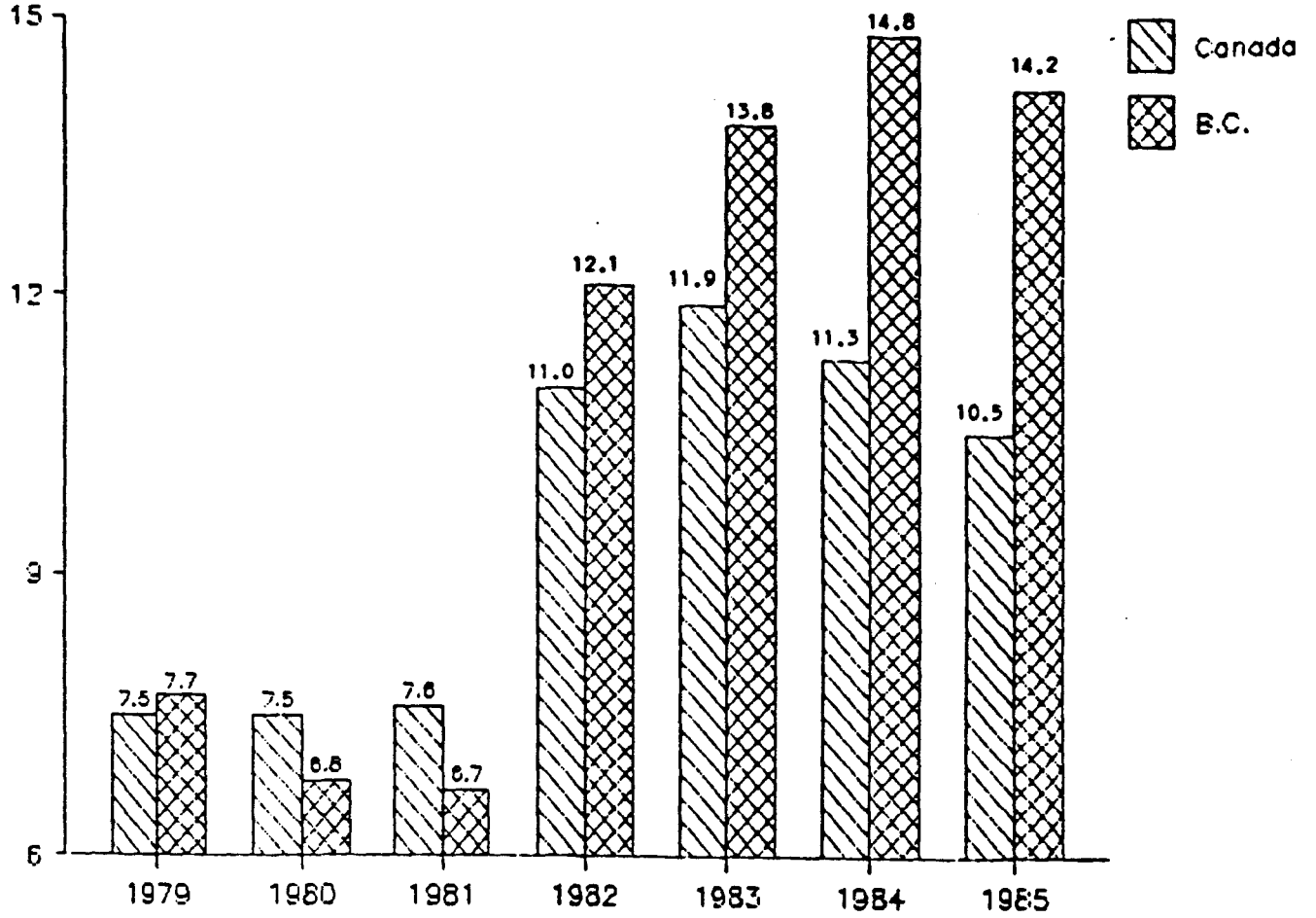
As late as last year, though, British Columbia unemployment stood at 14.2% versus 10.5% for Canada as a whole.



TOTAL EMPLOYMENT - VANCOUVER



COMPARATIVE UNEMPLOYMENT RATES




[REDACTED]

A powerful "reality-check" on the use of employment as a leading economic indicator is the number of housing starts, particularly important in markets with (a) growing populations and (b) resource/construction sectors -- such as the lumber industry -- as mainstays of its economy.

Although these conditions are both true in B.C., housing starts in recent years did not ameliorate the impact of stubborn, double-digit unemployment rates in the market. Housing starts fell by more than a third during 1981 and 1982, and have since stabilized at the 10,000-11,000 per year level.

HOUSING STARTS IN VANCOUVER





### Positive Influences on the B.C. Economy

In contrast to the very slow growth in the Vancouver "dollar economy" is the rapid and continuing growth in the "people economy."

Canada as a whole has been gaining about a quarter of a million people each year without fail, and between 20,000 and 30,000 of those new residents are either born in or choose to live in Vancouver. Given Vancouver's relative size in relation to that of Canada, this means that the rate of population growth in Vancouver has for six of the past seven years been above that of Canada, and population is compounding itself at a rate of almost 2% per year. (Also, this history of strong population growth and immigration to Vancouver seems likely to continue given that it is an exceptionally desirable place to live, and that Expo was, in effect, a massive, worldwide advertisement of that fact.)

Certainly this positive "people-driven" growth would traditionally be assumed to bode well for both newspaper circulation growth and the overall level of retail sales in a market. This assumptive logic would follow that population growth would overcome the slow-recovery rate of the general economy which has characterized British Columbia as a whole -- and Vancouver in particular -- by producing another "boom" sometime during the next five years.

We see no reason to predict future economic "booms" or "boomlets", however, and in fact believe Vancouver would be doing well given its recent history to be able to "catch up" to pre-recession growth levels by 1990.

Simply put, population growth in itself cannot become the primary driver of economic trends if the growing population has a hard time finding jobs.

[REDACTED]

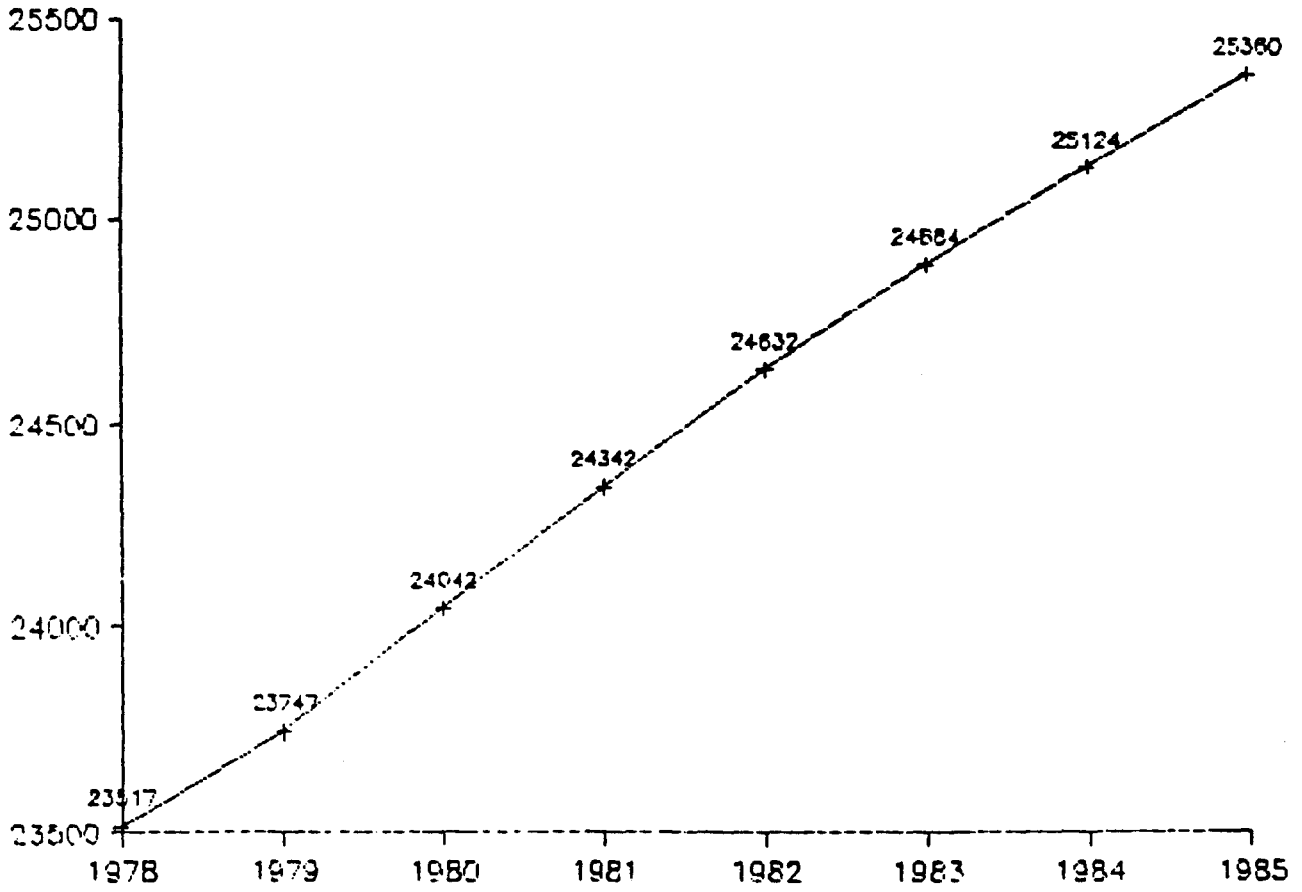
The economy of British Columbia is based largely on natural resource-intensive industries such as lumber, mining and fishing. Vancouver also serves as an important distribution point for shipping Canadian commodity production to the rest of the world.

In general, the outlook for commodity-based economies versus technology-based (i.e.: cheap-labor based) economies is not all that strong. With U.S. housing starts becoming soft again after a brief upturn during the spring, and the possibility of a more vocal protectionist sentiment in the U.S., the Canadian timber-product sector of the economy seems particularly threatened.

B.C.'s labor climate also weakens the positive effect of population growth on the provincial economy. Even as housing starts in the U.S. were beginning to lag and a duty was imposed on certain building materials produced in Canada, the woodworking unions went out on an extended strike. As Canadian farmers were producing record harvests (albeit at low commodity prices) the port of Vancouver was closed by labor action. High-tech manufacturers are unlikely to invest in the province, or provide any counterweight to its economic base, given the current labor climate which (frankly) shows few symptoms signalling change.

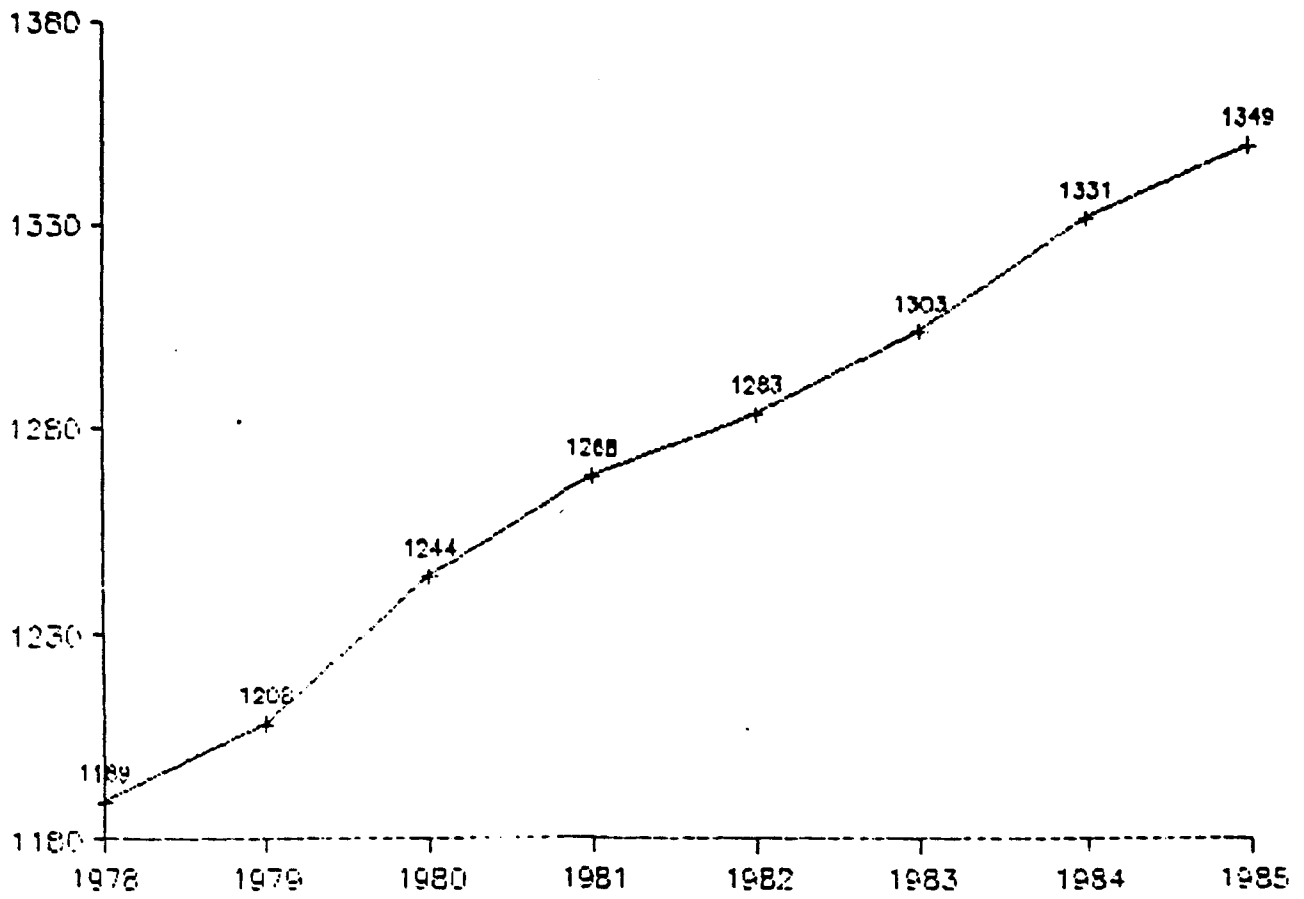


TOTAL POPULATION - CANADA



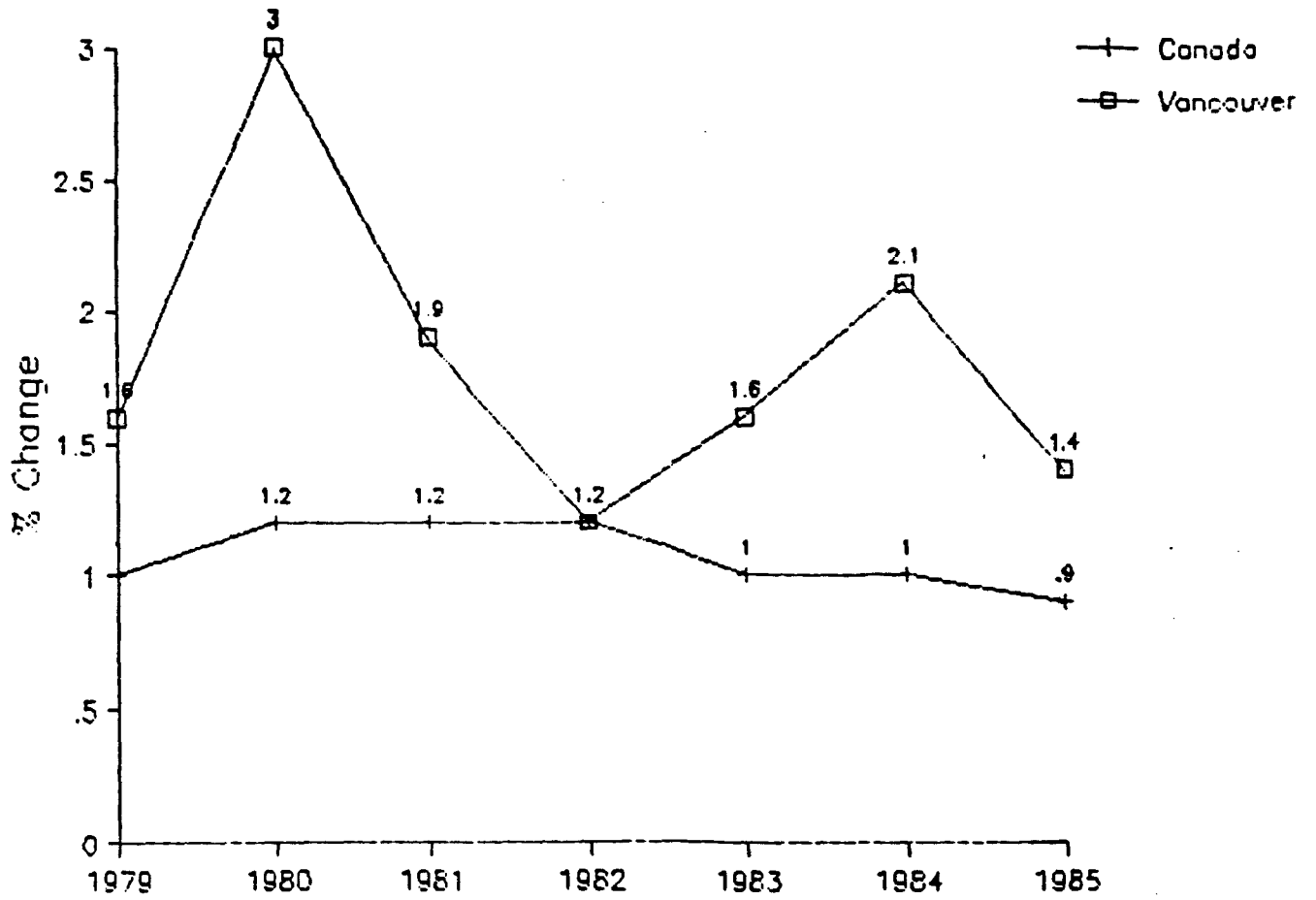


TOTAL POPULATION - VANCOUVER





COMPARATIVE POPULATION GROWTH RATES





### Summary of Section I

The leading indicators of British Columbia's economic past and future are population growth and employment rates -- which are, respectively, positive and negative influences on the provincial economy. The population growth "driven" by B.C.'s quality of life, unfortunately, is an insufficient balance to the detrimental impact of unemployment (and the labor conditions which tend to calcify it) in a commodity-based economy.

A remarkable fact about the Vancouver economy, however, is the extent to which its high union wages and government policies seem to put a "safety net" under basic household incomes and thus under retail sales. While the province recovers only sluggishly from the 1982 recession, the growing population of relatively affluent people in Vancouver helps to shield the secondary market (e.g.: advertising revenues derived from retail sales) from tracking the "rollercoaster" cycles of primary economic factors.

If this analysis does not project an economic "boom" in the future that could help the province catch-up to the rest of Canada, then, does it suggest a future "bust" on the horizon? Again, the answer is probably not. The same mix of positive and negative foundations of the economy that blunt sharp upturns tend to prevent sharp downturns: so a continuation of very gradual overall growth seems a likely pattern for the near-term future.



**SECTION TWO**

**RETAILING IN VANCOUVER**

### The "Ability to Buy" In the Vancouver Market

The chief determinant of the health of a local newspaper is the health of its market's retail sales from which advertising revenues ultimately flow. Although the previous discussion suggested the overall B.C. economy is only slowly recovering from the recession, a more detailed examination of retail sales in the market is required before judging the impact of those economic trends on Pacific Press Ltd.

As is evident in the following charts, Canadian retail sales as a whole (current dollars) have been growing at a steady clip, up 88% from 1978 to 1985. In inflation-adjusted terms (constant dollars), however, retail sales were flat prior to the recession, but afterward, the trend has been steadily upwards: rising 15.5% from 1982 to 1985.

Vancouver's retail sales story is, again, different from the national trend. Even in inflated dollars, sales were virtually flat from 1981 to 1983. In real terms, retail sales fell by 14.8% over that period. Only in the last year is there a measurable increase in "real" retail sales in Vancouver, despite the fact that the 1985 level is still 8% below the 1981 peak.

[REDACTED]

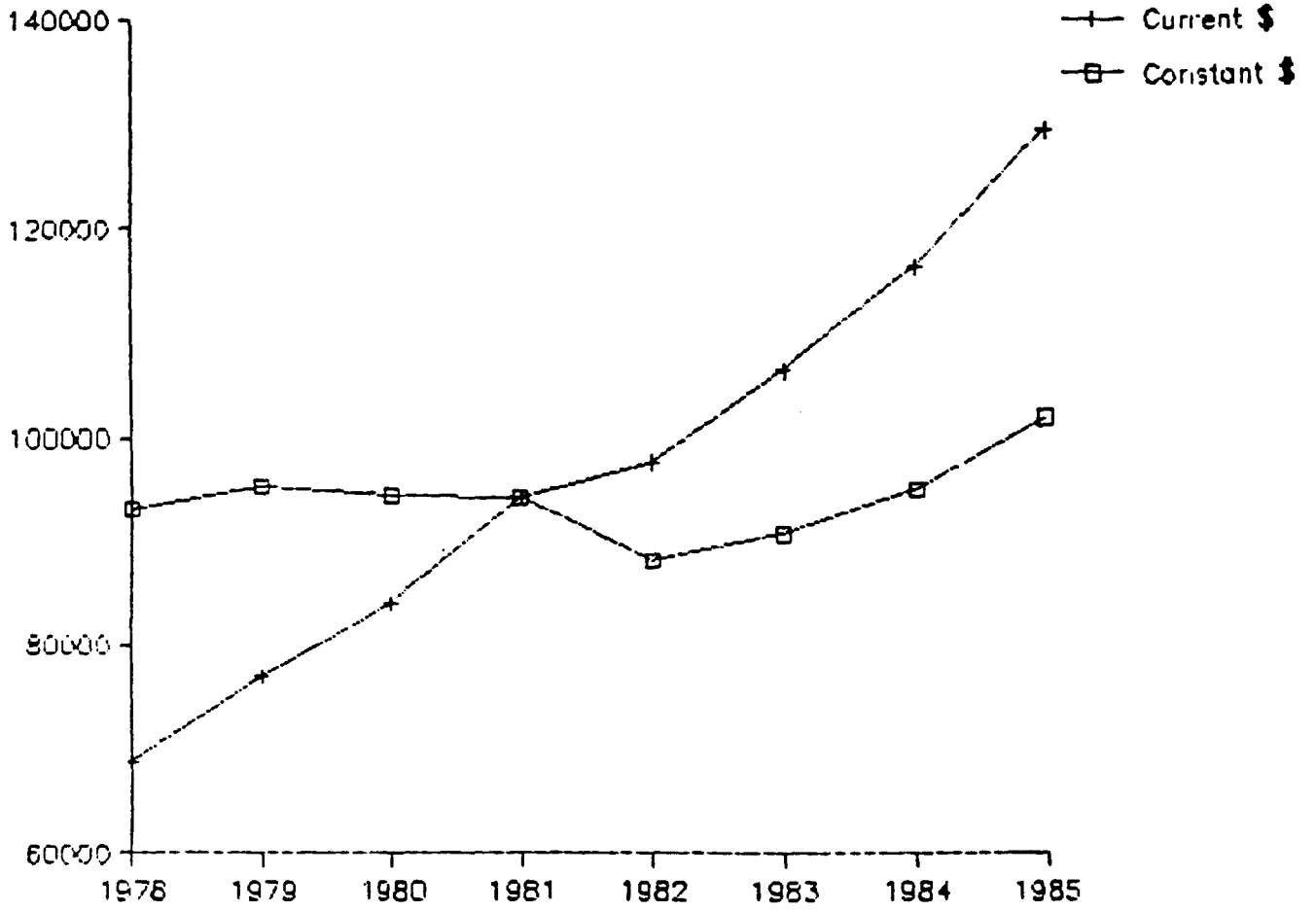
A Note on Expo: No discussion of the Vancouver economy can ignore Expo. But it must be remembered that this is not a general discussion of the economy, but an evaluation of how economic trends relate to newspapers.

In that regard, Pacific Press executives feel strongly that Expo was a mixed blessing, and we tend to agree. While it certainly created special image opportunities around the great entertainment event that it was, the kind of "retail sales" it created on the grounds and in restaurants and hotels is not easily transferable into future advertising expenditures. To the extent that Expo "soaked up" money which residents would have spent on regular retail sales, it could (in fact) have had a depressing effect on some newspaper advertising revenues in the very short-term.

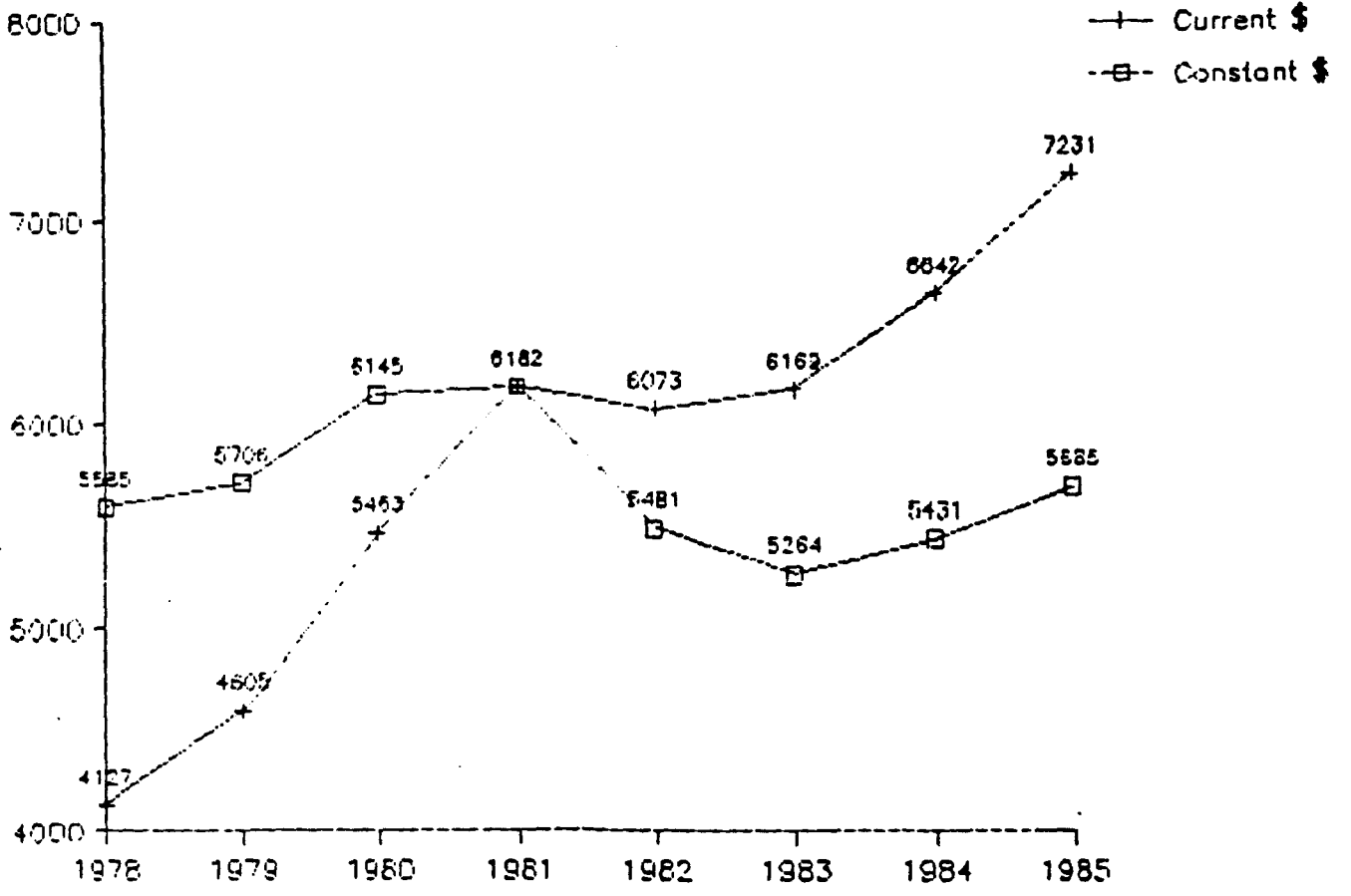
On the other hand, there is no doubt that Expo was an extraordinary public relations success in promoting British Columbia and Vancouver as wonderful places to visit and perhaps live. To the extent that Vancouver requires continued, strong population growth as a necessary counterpoint to prevent negative economic trends from accelerating, Expo was a plus, even though this one-time event couldn't solve the basic problems.

All things considered, it's probably best to consider Expo an interesting, but ultimately neutral, event in determining the long-term future of the market, or of Pacific Press.

TOTAL RETAIL SALES - CANADA



TOTAL RETAIL SALES - VANCOUVER



[REDACTED]

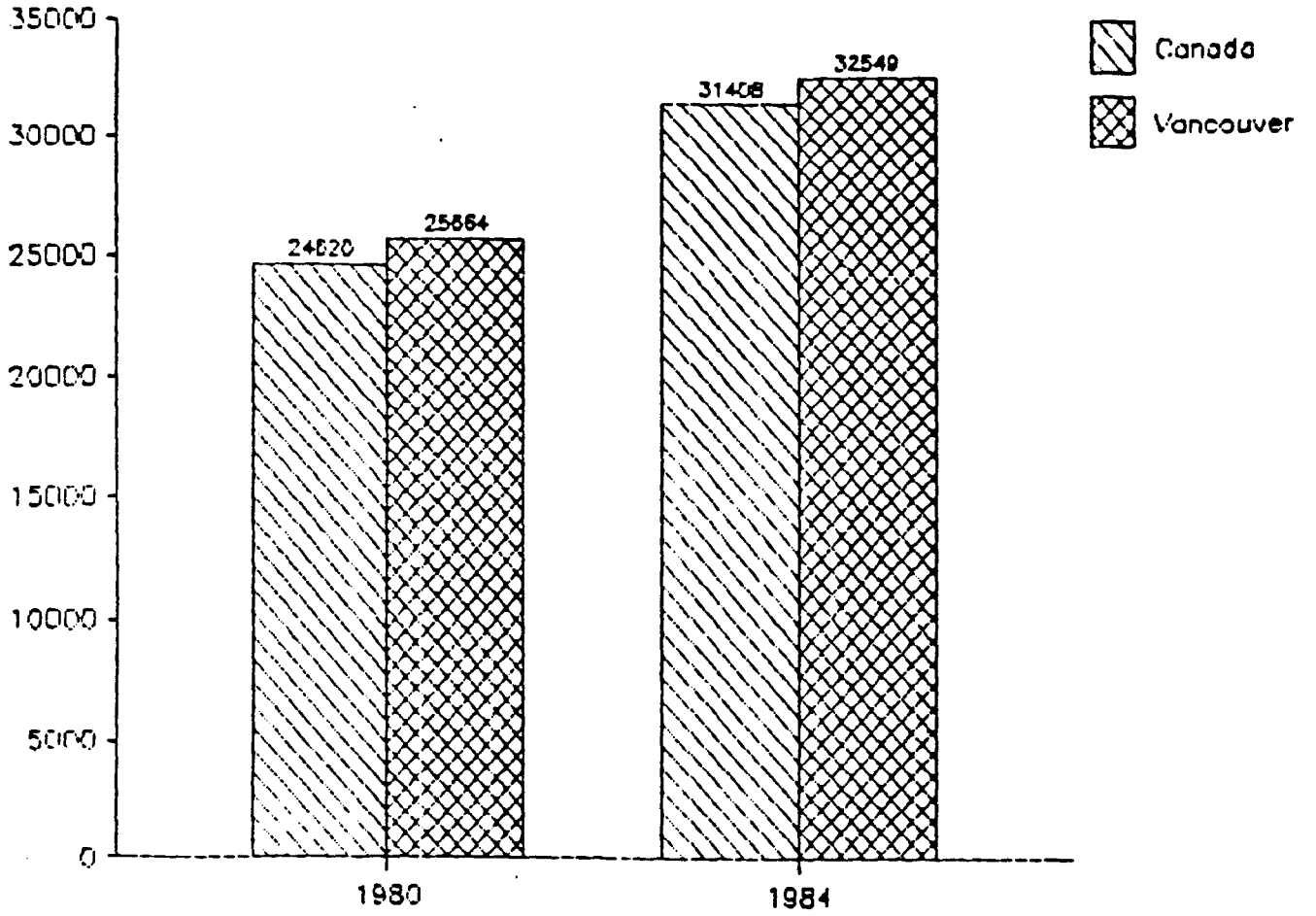
Any comparative softness in Vancouver retail sales is not due to the market's "inability to buy". The following charts show that in 1980 (before the recession) Vancouver's buying power was approximately \$1000 per household higher than found in the rest of Canada, and in 1984 (after the recession and with unemployment in the double-digit range), it was still about \$1000 higher.

Similarly, retail sales per Vancouver household were 15% higher than the rest of Canada in 1980. By 1985, comparative retail sales were slightly less, but still each unit of the growing household population in Vancouver was able to produce revenue for merchants at about the same level as elsewhere in Canada -- despite the struggling market economy.

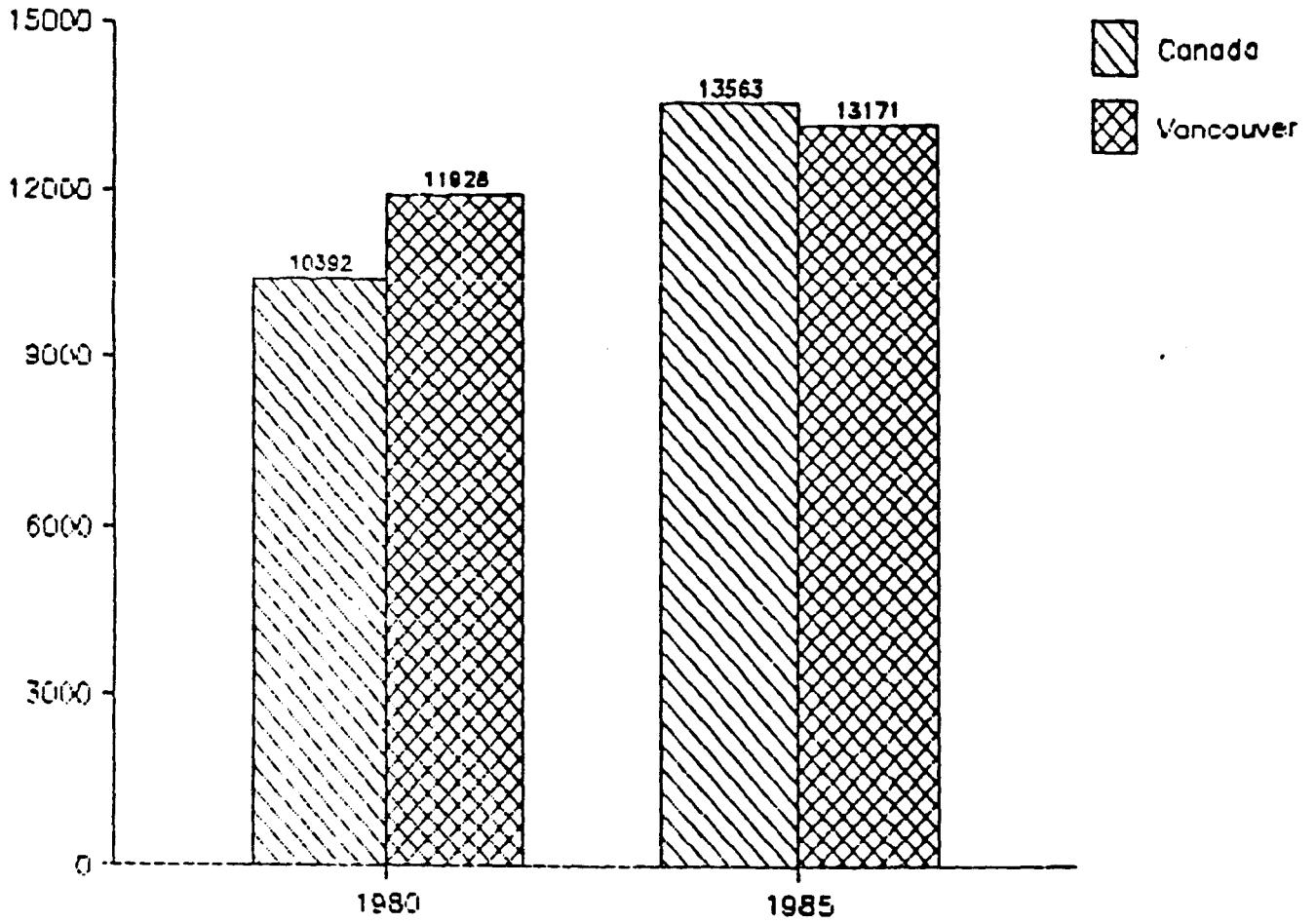
Softness in Vancouver retail sales, then, is not due primarily to economic conditions -- nor will the softness be likely to disappear if the economy were to miraculously catch-up in the next few years. Instead, this analysis has isolated two major factors which "mediate" the influence of the economy on retail sales in Vancouver, and have created the softness currently measurable.



COMPARATIVE BUYING INCOME PER HOUSEHOLD



COMPARATIVE RETAIL SALES EXPENDITURES PER HOUSEHOLD



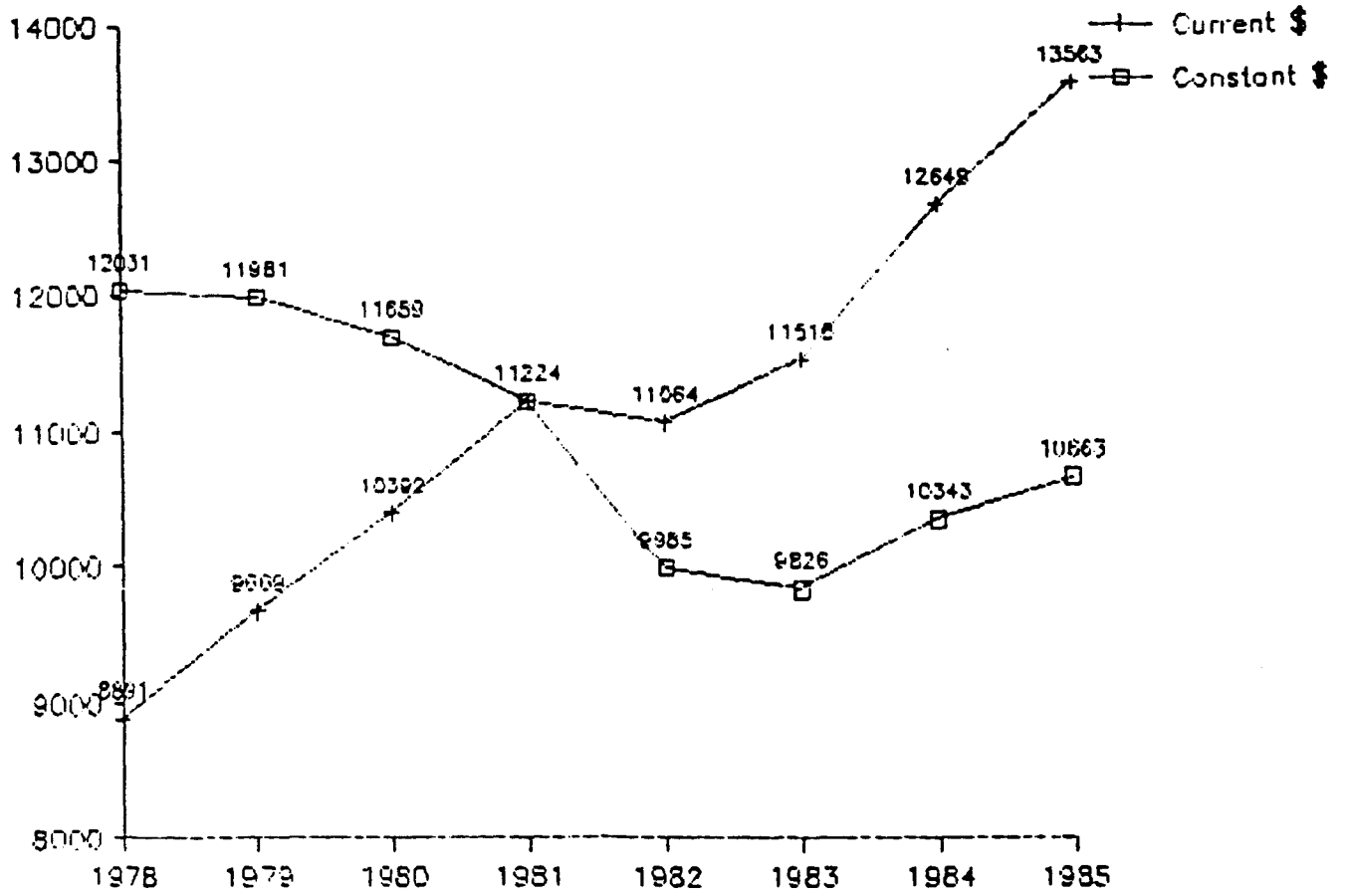
**Factor 1: The Market's "Unwillingness" to Spend on Retail Sales**

Retail sales on a per household basis for Vancouver have plateaued at an historically low level since 1983. Even though this trend reflects lower Canadian spending on retail sales overall, the curves in Vancouver -- as always -- are more pronounced.

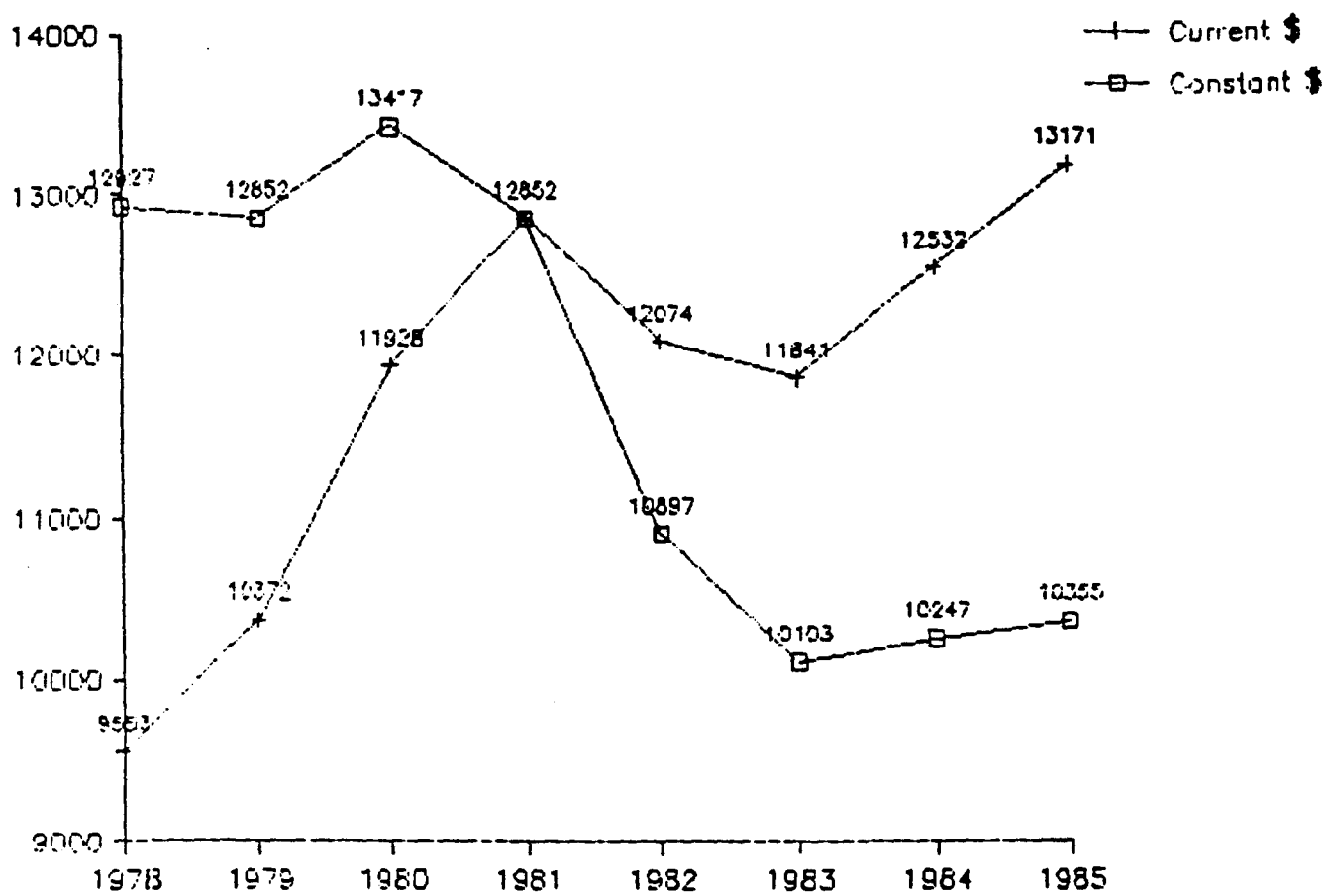
The following charts illustrate this phenomenon. Canadian retail sales per household on an inflation-adjusted basis had been falling slightly even prior to the recession. They took a dip of more than \$1,000 per household during the recession, but have been on the rise since, even though they have not reached pre-recession levels. Vancouver's real sales per household fell substantially for three years running during the early 1980's, and have risen only marginally since then. We think it unlikely that they will ever recover to their pre-recession levels.

This is not a trend limited to Vancouver, or for that matter, even to Canada. The whole nature of affluent economies' spending patterns has been changing over the past 6-7 years in market across North America. There is an increasing tendency for consumers to buy fewer goods and more services (the latter not "counted" in traditional measures of retail sales expenditure). This is not simply an accounting problem in the data, however, as these trends signal significant (and non-cyclical) shifts in the very nature of consumption -- especially in the kinds of "life-style sensitive" markets for which Vancouver could be a prototype.

RETAIL SALES PER HOUSEHOLD - CANADA



## RETAIL SALES PER HOUSEHOLD - VANCOUVER

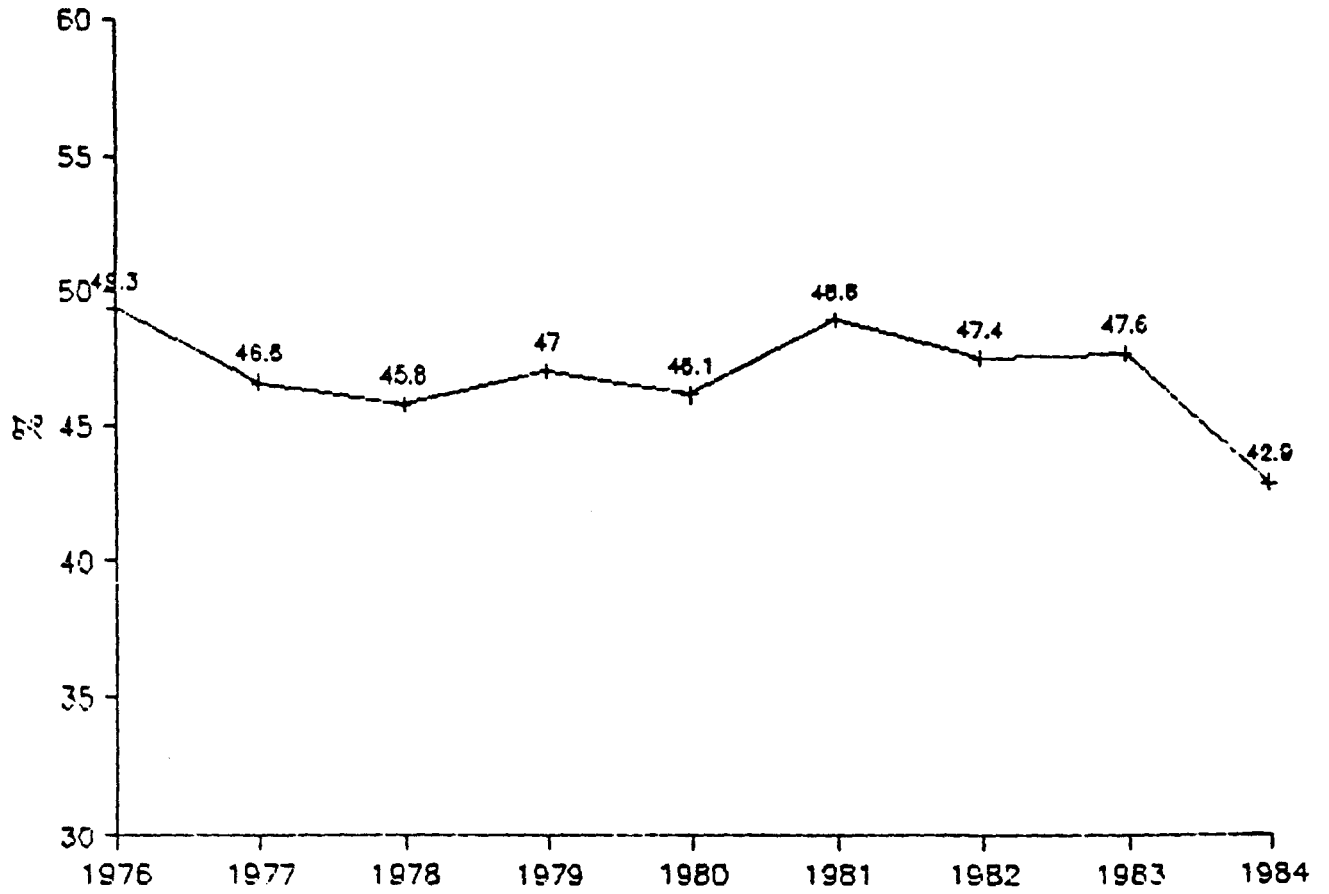


As the following charts show, the amount of available income expended for the purchase of retail goods fell from 49.3% in 1976 to 42.9% in 1984 in Canada overall, although for much of that period the ratio hovered in the 46-47% range.

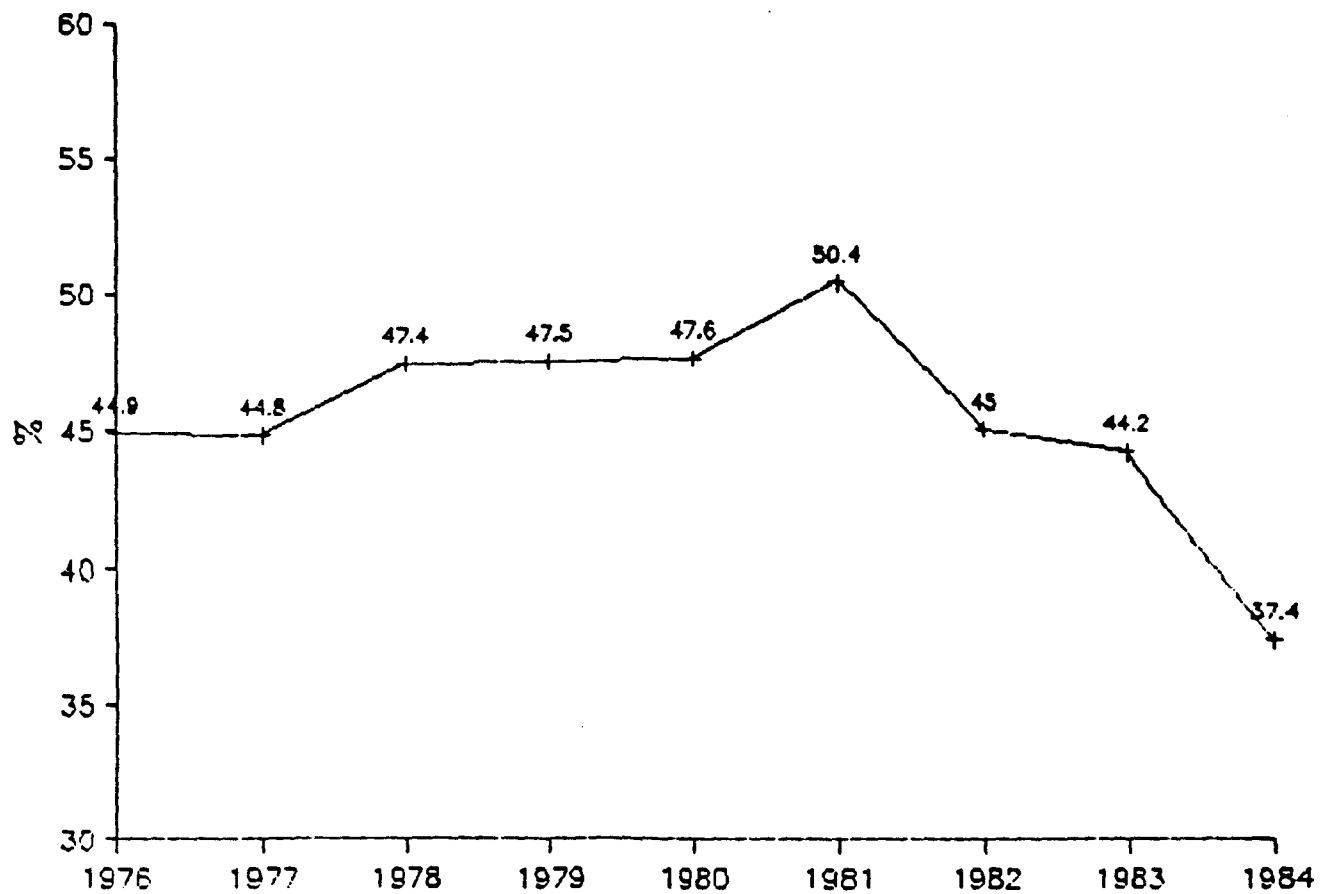
In Vancouver, there's a pattern similar to that often seen in the United States: with expenditures on retail goods representing 37.4% of available income in 1984, compared to 50% prior to the recession. It is this shift which puts a "lid" on the amount which per-household retail sales will grow, or, indeed, can grow. The sociology of this phenomenon of shifting consumer priorities (often jokingly referred to as "having enough stuff") is complex -- the impact of it on health of the major customers of a local newspaper is profound.



### RETAIL SALES AS A PERCENT OF BUYING INCOME (Canada)



RETAIL SALES AS A PERCENT OF BUYING INCOME  
(Vancouver)





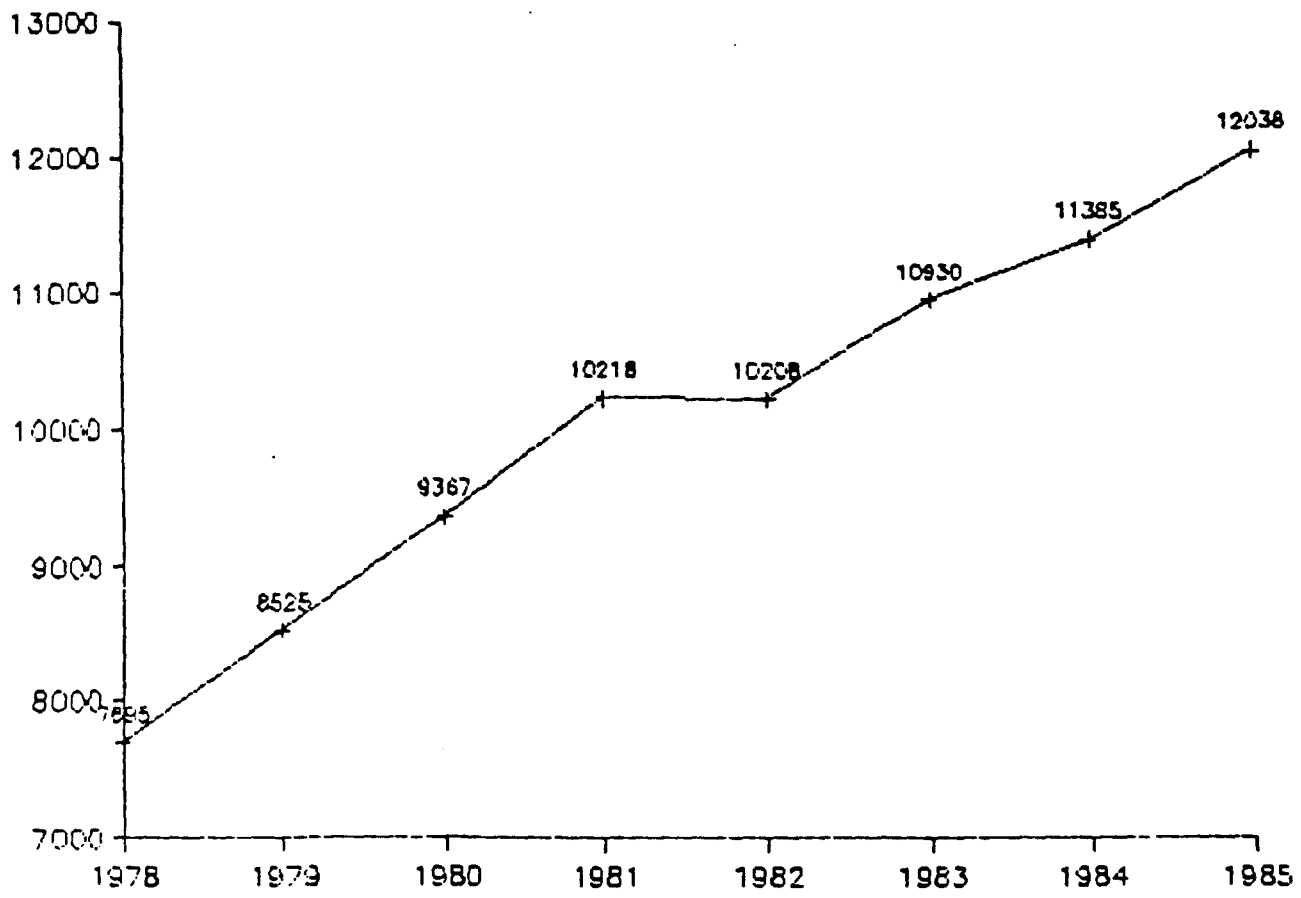
**Factor 2: Competitive Shifts In Retail Power**

A cursory examination of any local newspaper's receivables ledger easily suggests that major department stores are among its key customers, and are critical to the newspaper's revenue stream.

While department store sales in Canada have risen 56% since 1978 (and Toronto department stores have grown 57%), though, Vancouver department store sales have shown virtually no growth since 1981 in current-dollar terms, and (therefore) have actually declined in constant-dollar terms since that time. Unlike the inexorable shifts in national patterns of consumer spending noted in Factor 1, this shift in the ability of a particularly important class of retailers to hold share appears endemic to Vancouver.

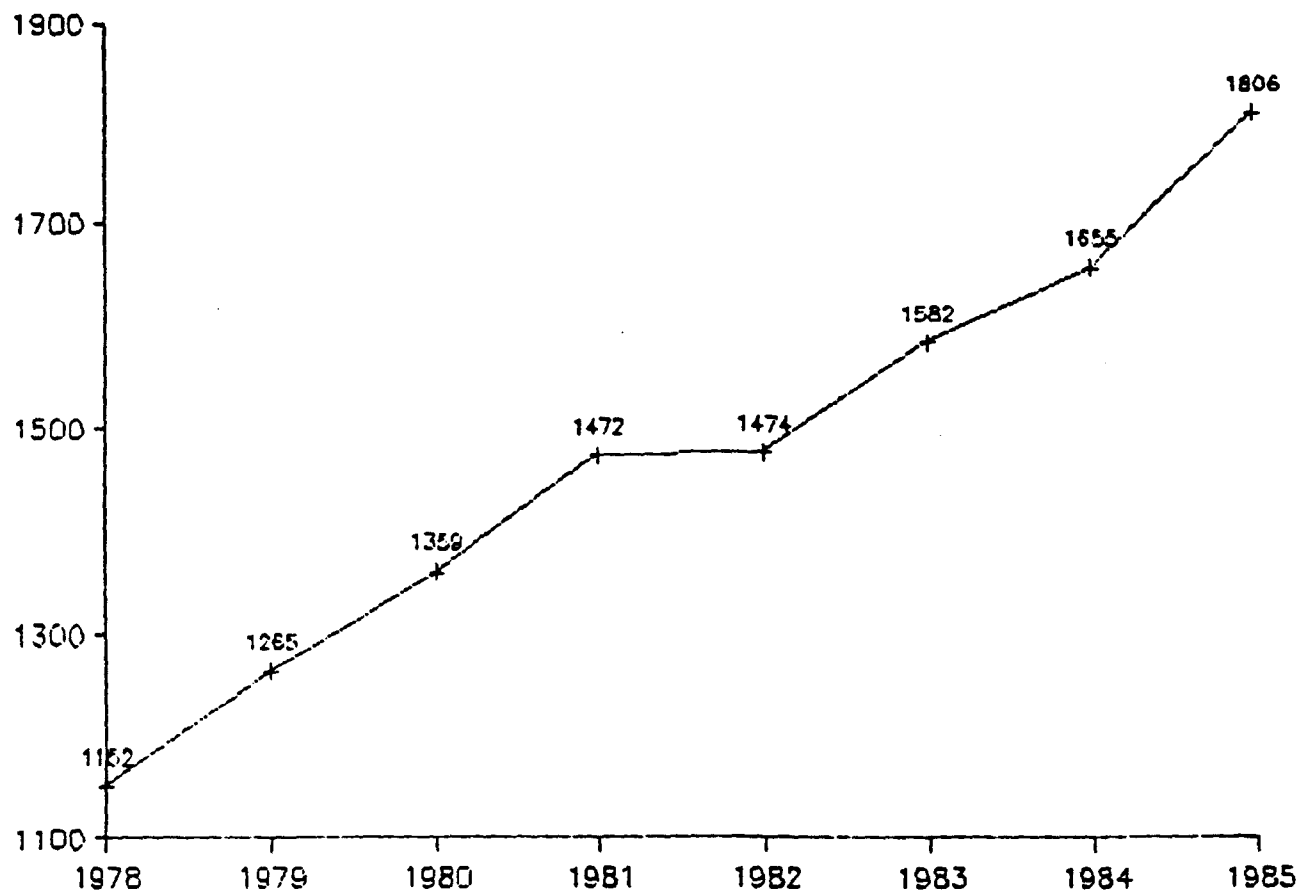


### RETAIL SALES IN DEPARTMENT STORES - CANADA

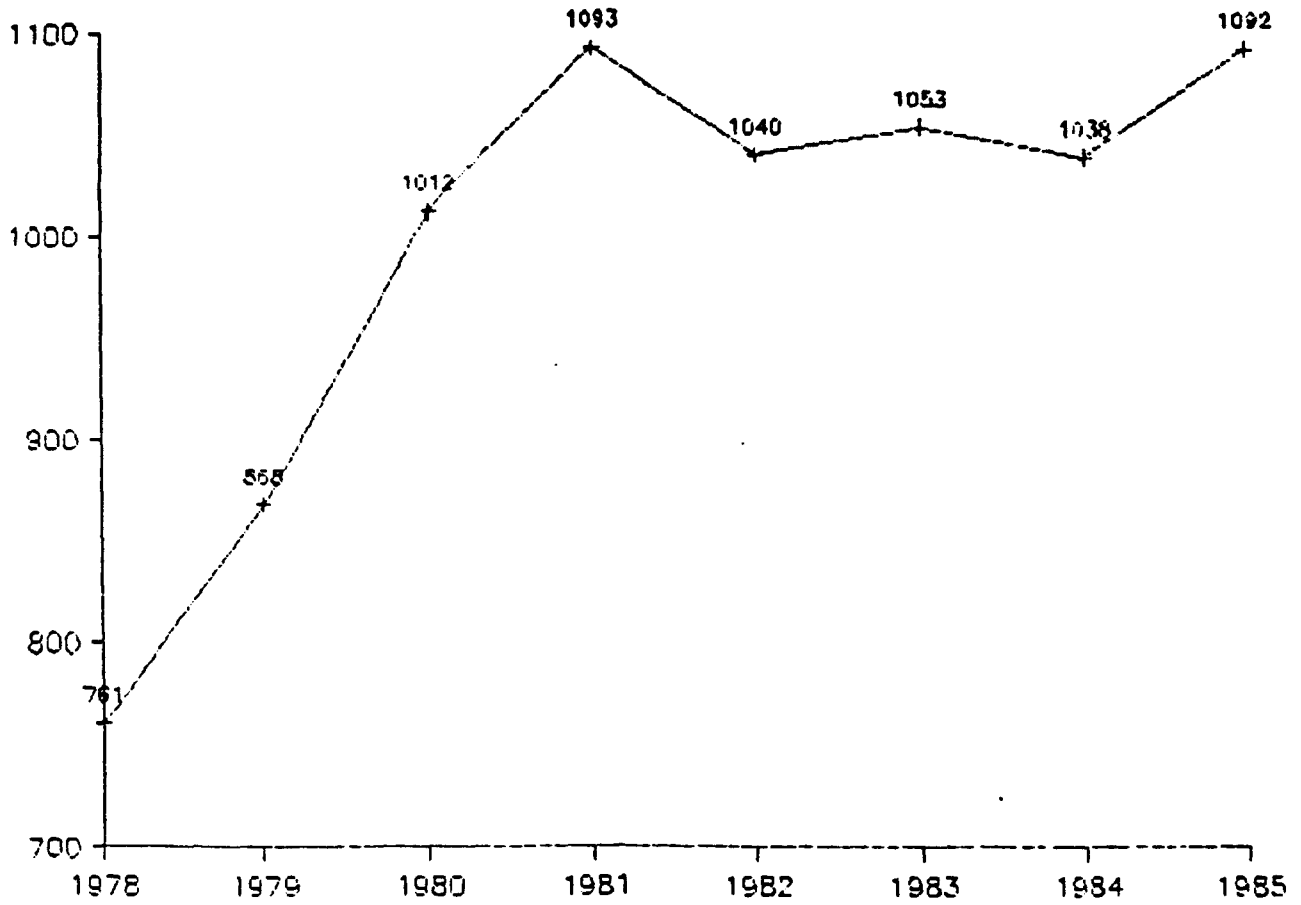




### RETAIL SALES IN DEPARTMENT STORES - TORONTO



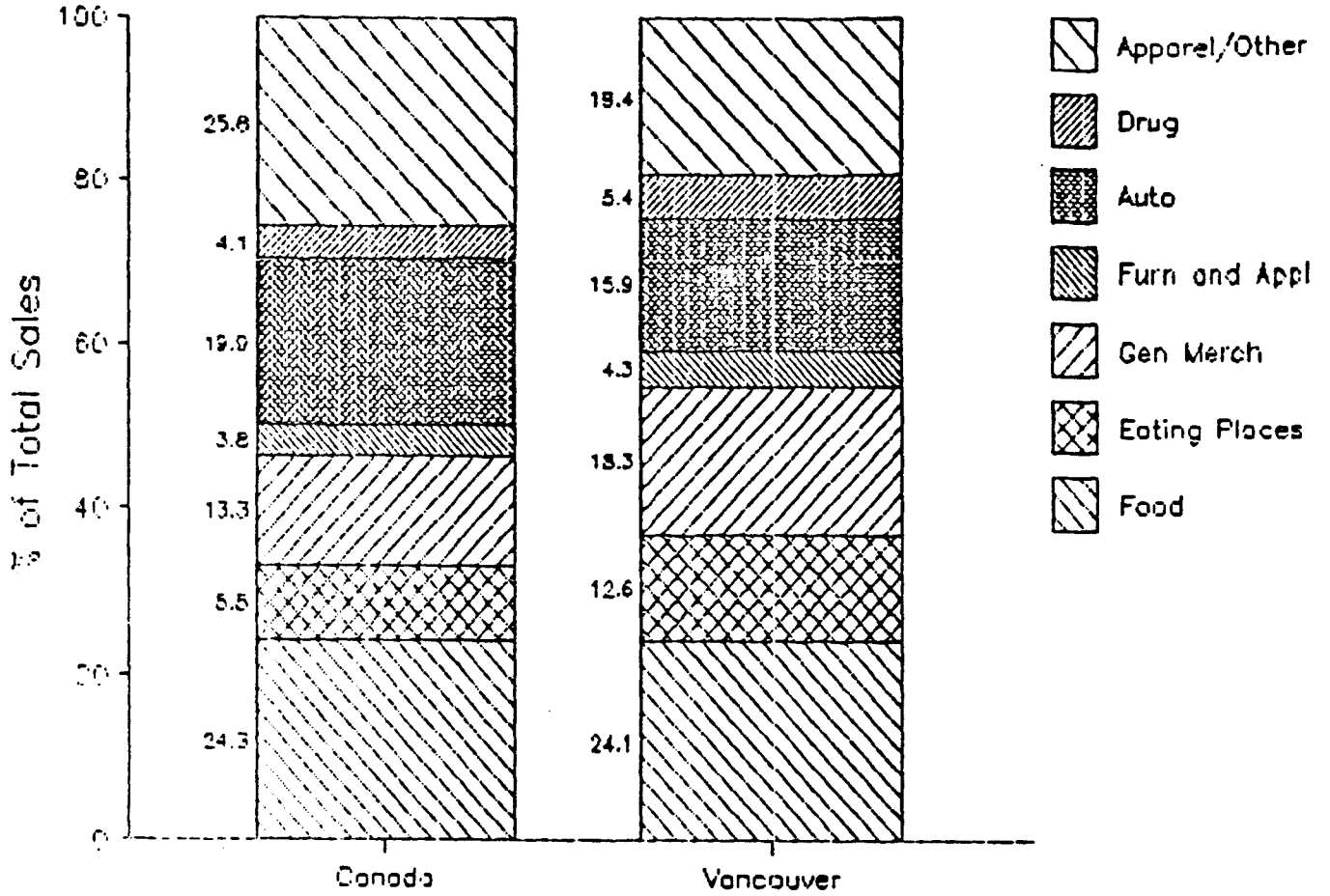
RETAIL SALES IN DEPARTMENT STORES - VANCOUVER



This comparative pattern is particularly important in light of the fact that department store and other general merchandise stores account for a larger share of the retail sales "mix" in Vancouver than they do in other parts of Canada: 18.3% of retail sales in Vancouver vs. 13.3% nationally.

Even though the "pie" of retail sales tends to be shrinking across most metro markets, then, the allocation of that pie into various category "pieces" has been found to be remarkably stable within individual markets. In Vancouver, for instance, the "West Coast life-style" influences the mix of retail sales. Eating and drinking places account for a higher portion of sales in Vancouver than in any other market in Canada -- including Montreal. Automotive sales (strongly influenced by imports) make up 15.9% of sales for Vancouver, but 19.9% for Canada as a whole. A more relaxed social environment brings the apparel category down to less than 20% of sales for Vancouver, compared to almost a quarter of total Canadian sales.

**RETAIL SALES BY CATEGORY**  
 (As a percent of total 1985 retail sales)



## Summary of Part II

Pacific Press' main concern in this analysis of retail spending in Vancouver is, of course, the impact it has on available advertising dollars in the market.

Despite economic downturns, there is no seeming "inability" to buy retail goods in Vancouver, and therefore the consumption that fuels retail sales (and thereby creates available advertising dollars for the newspaper and its competitors) exists in good measure. There is, however, a market "unwillingness" to spend on retail sales -- especially in Vancouver's major department stores who don't appear to be competing successfully in preserving their traditional share of that retail dollar.

(To the extent that weeklies and other print media have a competitive advantage in attracting the growth segments of consumption in Vancouver [e.g.: eating and drinking places, service accounts, category speciality stores and the like], it would be prudent for Pacific Press to develop marketing tactics to serve that broader base, and thereby gradually decrease its revenue dependency on major department stores.)

For the future, the health of Vancouver's retail marketplace will depend heavily on continued "feeding" through population growth. Given the underlying tendency of households to spend a lesser proportion of their disposable income on retail goods, however, the nutrition will probably not reinstate the major department stores' dominance of this market. In planning terms, then, it's probable that the growth in retail sales in Vancouver will not accelerate -- nor artificially "bump" the general economic curves projected for the market.



**SECTION THREE**

**PACIFIC PRESS MARKET SHARE**




### Determining the Base of Available Retail Advertising Dollars

To be able to calculate the share of available local advertising dollars captured by a newspaper, it is first necessary to determine exactly how many dollars are available. The method employed in this study (found to be quite accurate in comparison to actual ad expenditures where such data are available), is briefly described below.

- 1) Since retailers' expenditures on advertising as a portion of their total sales vary widely by store type (e.g.: less than 1% for food stores, 5-6% for furniture stores) it is somewhat dangerous to apply gross advertising percentages to total retail sales in a market. Instead, advertising spending levels should be determined by store group or retail category.
- 2) Over a number of years, actual advertising/sales ratios for detailed retail categories in the U.S. have been published (based on examination of tax returns). It is a safe assumption that brands, stores, and promotional techniques are quite comparable between the U.S. and Canada, and so the comparative rates of spending could be shared (e.g.: high turnover food stores spending less of a percentage of sales on advertising than low-turnover furniture stores).
- 3) The absolute levels of expenditure in Canada, however, are apt to be quite different. (For instance, spending as a percentage of GNP and per capita spending on advertising is generally 40% less in Canada than in

[REDACTED]

the United States.) Using STATSCAN data to remove the effect of major differences in national ad expenditures in the U.S. vs. Canada, it was determined that Canadian local ad spending averages 17% less than local \*  
spending in the U.S. -- so that factor has been applied to all ad/sales ratios derived from U.S. data.



**Pacific Press' Share of Available Retail Advertising Dollars**

Using this method, the available advertising dollars for each measured retail category was calculated for the last three years. (The detailed data contained in the following three exhibits will be very useful in combination with the qualitative information to be gained from the advertiser interviews soon to be conducted in the Vancouver market.)

[REDACTED]

**AVAILABLE RETAIL ADVERTISING DOLLARS - 1983**

(By Retail Category)

Store Type	1983 Retail Sales	Ad/Sales Ratio	Ad Dollars Available
-----			
Food Stores	1,619.5	.011	17,474.485
Department Stores	1,053.1	.026	27,096.263
All Other General Merch Stores	90.9	.026	2,363.400
Motor Vehicle Dealers (New)	918.8	.012	10,676.456
All Other Automotive	621.2	.012	7,218.344
Automotive Group	1,540.0		
Women's Clothing	116.0	.020	2,310.720
All Other Clothing and Access	236.6	.020	4,713.072
Shoe Stores	34.4	.013	456,832
Apparel Group	387.0		
Hardware Stores	26.0	.019	496.340
Furniture Stores-Household	79.9	.056	4,509.556
Appliance Stores-Household	18.4	.045	824.688
Furniture/TV/Radio/Appliance	43.6	.045	1,954.152
Furn/Appliance Group	141.9		
Pharmacies/Medicine/Cosmetics	297.7	.015	4,447.638
Jewelry Stores	80.8	.048	3,889.712
Sporting Goods and Accessories	112.5	.023	2,614.500
All Other Stores	820.0	.023	19,056.800
Total Retail Sales	6,169.4		110,102.878
Eating and Drinking Places	652.2	.027	17,322.432
Grand Total	6,821.6		127,425.310



**SECTION FIVE**

**THE VALUE OF THE VANCOUVER B.C. MARKETPLACE IN 1990**

[REDACTED]

**AVAILABLE RETAIL ADVERTISING DOLLARS - 1984**

**(By Retail Category)**

Store Type	Retail Sales	Ad/Sales Ratio	Ad Dollars Available
Food Stores	1,717.7	.012	19,959.674
Department Stores	1,038.2	.027	28,436.298
All Other General Merch Stores	85.9	.027	2,319.300
Motor Vehicle Dealers (New)	1,056.0	.013	14,023.680
All Other Automotive	696.2	.013	9,245.536
Automotive Group	1,752.2		
Women's Clothing	129.5	.017	2,149.700
All Other Clothing and Access	256.2	.017	4,252.920
Shoe Stores	34.7	.017	576.020
Apparel Group	420.4		
Hardware Stores	27.0	.018	493.020
Furniture Stores-Household	93.3	.059	5,498.169
Appliance Stores-Household	33.2	.047	1,570.692
Furniture/TV/Radio/Appliance	43.2	.034	1,470.096
Furn/Appliance Group	169.7		
Pharmacies/Medicine/Cosmetics	337.5	.013	4,482.000
Jewelry Stores	79.0	.051	4,065.340
Sporting Goods and Accessories	142.6	.028	4,024.172
All Other Stores	871.8	.028	24,602.196
Total Retail Sales	6,642.0		127,168.813
Eating and Drinking Places	761.1	.031	23,373.381
Grand Total	7,403.1		150,542.194

**AVAILABLE RETAIL ADVERTISING DOLLARS - 1965**  
**(By Retail Category)**

Store Type	Retail Sales	Ad/Sales Ratio	Ad Dollars Available
Food Stores	1,841.2	.012	21,394.744
Department Stores	1,091.6	.029	31,710.980
All Other General Merch Stores	74.8	.029	2,169.200
Motor Vehicle Dealers (New)	1,305.7	.013	17,339.696
All Other Automotive	817.4	.013	10,855.072
Automotive Group	2,123.1		
Women's Clothing	162.4	.024	3,908.968
All Other Clothing and Access	263.4	.021	5,465.550
Shoe Stores	40.8	.018	745.008
Apparel Group	466.6		
Hardware Stores	34.7	.022	777.627
Furniture Stores-Household	101.8	.048	4,900.652
Appliance Stores-Household	33.6	.047	1,589.616
Furniture/TV/Radio/Appliance	44.7	.038	1,706.646
Furn/Appliance Group	180.1		
Pharmacies/Medicine/Cosmetics	340.9	.012	3,961.250
Jewelry Stores	77.7	.051	3,998.442
Sporting Goods and Accessories	155.1	.035	5,406.786
All Other Stores	845.5	.035	29,474.130
Total Retail Sales	7,231.3		145,404.375
Eating and Drinking Places	815.9	.031	25,056.209
Grand Total	8,047.2		170,460.664

In 1985, Pacific Press' \$45,553,000 of total retail ad revenue represented a 27% share of the \$170 million dollars of local advertising available in the market. This is the lowest share level for Pacific Press in five years -- with the exception of strike-affected 1984.

Closer examination of the pattern of Pacific Press' market share points out some important factors -- although no specific trends.

- 1) Pacific Press appeared to do better competitively in 1982 and 1983, which were poor years for Vancouver retailers, and the pool of available dollars was depressed. (In this type of environment, newspaper share generally remains constant or grows, as secondary media are the first ones cut from the waning advertising budget.
- 2) In a good year (such as 1985), Pacific Press earned a few more share points over the previous strike year, but did not regain its pre-recessionary levels. It's possible that as retail sales started to grow again, advertisers may simply have not had time to increase newspaper spending in relation to sales gains -- but it's more likely that they used some of their new prosperity to experiment with other media.



## PACIFIC PRESS SHARE OF AVAILABLE RETAIL AD DOLLARS

(1981 through 1985)

<u>Year</u>	<u>Retail Other</u>	<u>Retail Major</u>	<u>Retail Inserts</u>	<u>TV Times</u>	<u>Total Retail</u>	<u>Ad \$ Potential</u>	<u>Market Share</u>
1985	30.911	9.379	3.546	1.697	45.553	170.461	.27
1984	25.367	7.851	2.556	981	36.755	150.542	.24
1983	29.382	11,123	3.453	918	44,876	127.425	.35
1982	27.210	10.685	3.240	561	41.696	121.885	.34
1981	24.658	8.717	2.917	656	36.948	124.073	.30

- [REDACTED]
- 3) Compared to other Southam newspapers (especially the 7 largest ones), Pacific Press has the lowest market share with the exception of Montreal -- whose share is significantly affected, of course, by the dominance of French-language publications and advertising spending in that market.

Notwithstanding the fact that all of the Southam newspapers (large and small) have suffered declines in share of available advertising dollars between 1983 and 1985, Pacific Press and Montreal are now the only major Southam markets that do not enjoy more than one-third of the market's advertising expenditures. Exempting Montreal on grounds of its bilingual and competitive marketplace, Pacific Press, then, appears perilously close to losing most or all of the leverage so common in single-newspaper-owned markets.

[REDACTED]

COMPARATIVE RETAIL AD DOLLARS SHARES IN SOUTHAM

**1985**

Market	Retail Other	Retail Major	Retail Inserts	TV Times	Total Retail	Ad \$ Potential	Market Share
Pacific Press	30.911	9.399	3.546	1.697	45.553	170.461	.27
Montreal	26.611	6.414	5.074	1.731	39.830	330.232	.12
Ottawa	31.226	4.198	4.581	1.844	41.849	86.258	.49
Edmonton	21.144	10.090	3.981	2.148	37.363	96.763	.39
Hamilton	17.558	3.377	3.662	1.312	25.909	69.111	.37
Calgary	20.179	7.957	3.036	2.195	33.367	93.484	.36
Windsor	10.891	2.012	2.011	650	16.364	37.547	.44
Brantford	2.437	1.552	741	139	4.869	9.476	.51
SS Marie	2.081	1.280	565	119	4.045	16.993	.24
North Bay	1.676	712	607		2.995	9.982	.30
Prince George	2.469	828	740		4.037	10.448	.39
Kamloops	1.834	433	569		2.836	13.974	.20

**1983**

Market	Retail Other	Retail Major	Retail Inserts	TV Times	Total Retail	Ad \$ Potential	Market Share
Pacific Press	29.382	11.123	3.453	918	44.876	127.425	.35
Montreal	23.871	6.287	5.129	1.099	36.386	237.147	.15
Ottawa	25.859	4.691	4.326	1.046	35.922	64.021	.56
Edmonton	21.747	11.015	4.318	2.125	39.205	76.035	.52
Hamilton	16.406	5.069	2.256	1.138	25.669	50.390	.51
Calgary	18.482	8.161	3.905	2.258	32.806	74.788	.44
Windsor	9.971	1.876	1.951	440	14.238	27.497	.52
Brantford	2.255	1.617	661		4.533	7.354	.62
SS Marie	1.710	1.382	464		3.556	12.200	.29
North Bay	1.504	635	459		2.598	7.386	.35
Prince George	2.061	1.020	637		3.718	8.281	.45
Kamloops	1.718	535			2.253	10.692	.21

### Causes of Pacific Press' Market Position

What is the reason for this substantial difference in market performance seen between Vancouver and other markets? We believe strongly that it is the large number of aggressive weeklies in Vancouver, which are siphoning revenues (logically) due to the Sun and/or Province by virtue of their readership and market presence.


The weeklies are powerful because:

- there are 41 of them
- their combined circulation is 1,727,000
- (therefore) there are 3.15 weeklies distributed to every metro area household, and
- their currently-loose confederations appear to be adequate vehicles by which to challenge the dailies, without significant loss of their "localness" or strategic flexibility.

Most important of all, the weeklies seem to have achieved the critical mass necessary to be effective players for major accounts in the Vancouver market.

The following pages (reproduced from memos provided by Pacific Press) list the preprinted circulars distributed by the weeklies -- and by the Sun and Province -- during the end of September and beginning of October, 1986. The fact that these weeklies

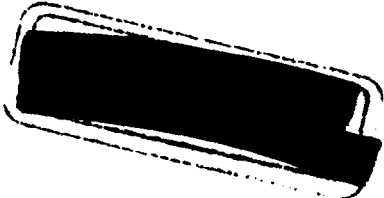
- carried an average of two inserts each in the week examined
- attracted preprints from 26 individual stores in the week, and
- were able to convince major department stores that they were a viable buy



makes them a competitive force to be reckoned with in determining the future of Pacific Press in the Vancouver market.

Comparing their customer list with the preprints that ran in the Sun and Province for the same week, one can notice that most of the advertisers represented on the weekly list are not on the Pacific Press list at all. Some (notably The Bay) ran zoned preprints only, and six advertisers used zoned preprints plus Flyer Force. (Given the pattern shown here, it seems quite likely that without Flyer Force at least some of those preprints would have run in the weeklies.)

This is a disturbing pattern, since it suggests that a fundamental change in media perceptions is occurring among Vancouver retailers. Traditionally, the daily newspaper(s) had an almost unassailable competitive advantage in providing effective and efficient CPM's for major accounts, while weeklies were positioned as efficient only for frequency-building, or for clear targeting of demographic or geographic customer segments. Now, however, major retailers may be on a learning curve that positions the ubiquitous weeklies as the true mass distribution vehicle for the market -- eliminating a whole class of powerful ammunition from the daily newspaper arsenal.



NAME OF PUBLICATION	ISSUE DATE	TOTAL CIRC.
BURNABY NOW	WED. 10/1	51,000
COQUITLAN/MAPLE RIDGE NOW	TUE. 9/30	43,000
NEW WESTMINSTER NOW	TUE. 9/30	51,000
SURREY/N. DELTA NOW	WED. 10/1	51,000
COQUITLAN, PT. COQUITLAN, PT. MOODY THE NEWS	WED. 10/1	44,300
DELTA, N. DELTA SENTINEL	2/MO 9/30	12,300
DELTA OPTIMIST	TUE. 9/30	12,705
DELTA OPTIMIST, THE WEEKENDER	FRI. 9/26	32,721
LADNER-TSAWASSEN SUNDAY REVIEW	WED. 10/1	12,000
LANGLEY ADVANCE	WED. 10/1	9,035
LANGLEY ADVANCE WEEKEND ED.	SAT. 9/27	24,000
LANGLEY TIMES	WED. 10/1	25,000
LANGLEY TIMES SATURDAY a.m.	SAT. 9/27	25,000
MAPLE RIDGE THE NEWS	WED. 10/1	18,173
MAPLE RIDGE/COQUITLAN THE SUNDAY NEWS	SUN. 9/28	118,000
MAPLE RIDGE/PITT MEADOWS, THE RIDGE-MEADOW TIMES	WED. 10/1	17,300
N & W VANCOUVER NORTH SHORE NEWS	WED. 10/1	57,656
" " " "	FRI. 9/26	57,656
" " " "	SUN. 9/28	57,656
RICHMOND NEWS	WED. 10/1	42,210
RICHMOND REVIEW	WED. 10/1	17,924
" " " "	FRI. 9/26	17,924
RICHMOND REVIEW SHOPPERS EXTRA	WED. 9/26	15,000
RICHMOND REVIEW SUNDAY REVIEW	SUN. 9/26	39,300
RICHMOND TIMES	TUE. 9/30	39,000
SURREY/DELTA THE LEADER	WED. 10/1	48,002
" " " "	SUN. 9/28	48,679
SURREY SHOPPER	MON. 9/29	70,000
SURREY SUPER SHOPPER	MON. 9/29	108,000
VANCOUVER BUY & SELL	THU. 10/2	31,509
VANCOUVER EAST ENDER	THU. 10/2	51,500
VANCOUVER WEST ENDER	THU. 10/2	52,500
- WEEKENDER SUPPL. comb. rate	THU. 10/2	-
VANCOUVER HIGHLAND ECHO	WED. 10/1	22,653
VANCOUVER PENNYSAVER	TUE. 9/30	85,000
VANCOUVER, SOUTH VANCOUVER REVUE	SUN. 9/28	21,000
VANCOUVER, THE COURIER	WED. 10/1	60,500
" " " "	SUN. 9/28	146,000
VANCOUVER WESTERN NEWS	WED. 10/1	40,000
WHITE ROCK PRACE ARCH NEWS	WED. 10/1	20,986
WHITE ROCK, PRACE ARCH NEWS	SAT. 9/27	20,956

\* Exclusive of circulation

ADVERTISING INSERTS / COMMENTS

Home Hardware, Shop & Save, Woodward's
General Point, New Pharmasave, Shop & Save, Woodward's Food Week
Sears, Woodward's, Woodward's Food, Shop & Save, K-Mart
Home Hardware, Shop & Save, General Point, Sears
The Bay, Nurseryland
NIL
Overwaiter, Sears, The Bay
Block Bros, Real Estate Guide, Woodward's
Sears, London Drugs
General Point
NIL
Shop & Save, Clearwood Furniture
Super Valu / Canadian Tire
The Bay, Nurseryland
Yellors, Overwaiter, Safeway, London Drugs
NIL
General Point, Home Hardware, Sears, Woodward's, The Bay
Woodward's
Safeway, London Drugs, Super Valu, Woodward's, Sears, Woolco
NIL
The Bay, Sears, Woodward's Food, Shop & Save, Home Hardware
NIL
Free distr. of Veg. inserts
London Drugs, Sears, Woodward's(2), Super Valu, Safeway, Yellors
RR Furniture
Beaver Lumber
Woodward's, Woodward's Food, The Bay, Woolco
K-Mart
NIL
The Bay, Kennedy Heights, SC, Consumer Dish, Sears, Lumberland
HomeTown
NIL NOT APPLICABLE
NIL
NIL
NIL
NIL
NIL
NIL
NIL
NIL
NIL
NIL
Home Hardware
Stang's
NIL
NIL
Beaver Lumber, Pharmasave, Sears, The Bay
NIL

(Selected Weeks)

PREPRINTS CARRIED IN B.C. WEEKLIES

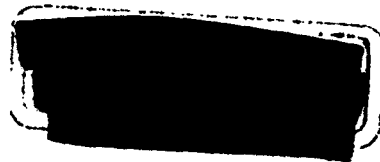
**PREPRINTS CARRIED IN PACIFIC PRESS**  
(Selected Weeks)

<u>THE VANCOUVER SUN</u>	<u>ISSUE DATE</u>	<u>ADVERTISING INSERTS/COMMENTS</u>
	MON. 9/29	LONDON DRUGS 16 tab, 106,000 (plus Flyer Force) SEARS 20 BR. 55,800 (plus Flyer Force) GENERAL PAINT 4 tab, 127,000.
	TUE. 9/30	ARMY & NAVY 8 tab, 250,000 SEARS 32 tab, 55,800 (plus Flyer Force) CALGARY 88 OLYMPICS 4 PP, 250,000.
	WED. 10/1	THE BAY 48 tab, 161,000 WOODWARD'S 8 tab, 24,500 (plus Flyer Force) WOODWARD'S FOOD 8 tab, 57,000 (plus Flyer Force) McINTYRE & DODD 134,000.
	THU. 10/2	NIL
	FRI. 10/3	WOODWARD'S 48 tab, 81,500 (plus Flyer Force)
	SAT. 10/4	CANADIAN TIRE 8 tab, 240,000 FOOD & WINE OF FRANCE 24 tab, 130,000.

<u>THE PROVINCE</u>		
	MON. 9/29	NIL
	TUE. 9/30	CALGARY 88 OLYMPICS 4PP, 107,000.
	WED. 10/1	THE BAY 48 tab, 28,500.
	THU. 10/2	NIL
	FRI. 10/3	NIL
	SUN. 10/5	FOOD & WINE OF FRANCE 24 tab, 82,500 FRANKLIN MINT 2PP, 197,000.

CIRCULATION  
WEEK ENDING SEPTEMBER 28, 1986

<u>THE VANCOUVER SUN</u>		
	MONDAY - THURSDAY AVERAGE	233,564
	FRIDAY	278,365
	SATURDAY	286,455
<u>THE PROVINCE</u>		
	MONDAY - THURSDAY AVERAGE	173,806
	FRIDAY	194,654
	SATURDAY	224,485



### Estimating Competitive Share -- Available Retail Advertising Dollars

No competitive threat to a daily newspaper -- no matter how negative or fast-moving -- is meaningful unless the dollar impact of the problem is known.

Exactly how much market revenue, then, do the weeklies capture?

For accuracy, we have generated two independent methods by which to estimate weekly advertising revenue -- by necessity not breaking out their retail vs. classified contributions.

The first is a simple process of elimination, summarized in the following table. We know that, given its size in relation to that of Canada, Vancouver is approximately a \$200 million dollar per year market for local advertising (retail plus classified). Using known data (Pacific Press revenues and STATSCAN measures on broadcast revenues), as well as derivations of national STATSCAN data on direct mail, phone books, and outdoor, we have accounted for approximately \$160 million dollars. The weeklies are the only other substantial medium in the market, so the remaining \$40 million dollars can be attributed to them.

Does this number make sense? To "reality-test" it through an independent method, we have taken all the data we have on the weeklies and calculated the minimum volume needed to achieve \$40 million in revenue.

If the weeklies averaged 20 tab pages per week in ROP advertising (and many of the issues sent us have far more) and two preprints, they would indeed be at the \$40 million level. The following exhibit notes the key assumptions underlying this calculation.




ESTIMATED COMPETITIVE SHARES IN VANCOUVER ADVERTISING MARKET  
(Retail and Classified Combined)

	(000's)
Pacific Press	77,000
Television	13,000
Radio	29,000
Direct Mail	21,000
Directories	14,000
Outdoor	7,000
Subtotal	161,000
Weeklies	40,000
Total	201,000


## VALIDATION OF WEEKLIES' ADVERTISING SHARE

Total Circulation	1,726,545
Retail Rate per Line	32.49
Retail CPM	.0188
Revenue Estimation	
Circulation	1,726
52 weeks	52
Retail CPM	.0188
<u>20</u> Tab Pages	20
Lines per page	980
Total	\$33,072,000
Inserts	
<u>2</u> per week \$40/thousand	7,180,000
Grand Total	\$40,252,000



If half of the weekly's estimated advertising revenues went back to Pacific Press, then, its share would increase to 38%, right at the Southam standard.

There are strong quantitative and logical reasons, then, to assume that the depression in Pacific Press' share of the local advertising dollars available in the Vancouver market is attributable less to the overall economic underpinnings of the market than to the competitive position gained (recently) by the weekly publications. They still exhibit a somewhat immature strategy, however (which works to Pacific Press' benefit if it could be prepared for aggressive market action), but the speed of their growth -- and the major retailers' faith in their product -- is ominous.



### Pacific Press' Share of National and Classified Advertising Dollars

Unlike retail advertising -- where the local weeklies appear to have burrowed into strong position and (if fact) prematurely increased the revenue return possible on their existing franchise -- Pacific Press gets more than its "fair share" of the national and classified advertising dollars in the market. In these two fields, the Sun and Province retain the classic offensive position of major metropolitan newspapers.

### National Advertising Revenues

National advertising revenues should follow the trends of retail sales and product movement in the market, albeit lagging that sales curve somewhat in budgeting and (therefore) expending of the advertising dollars. Comparing Vancouver to other large Southam markets, this generalization appears to hold true.

Note, however, that while Vancouver accounts for 5.6% of Canada's retail sales, Pacific Press took in 9.1% of all newspaper national advertising expenditures in Canada: thereby "outperforming" its probable ROI to major national advertisers. This makes sense for two reasons:

- 1) Vancouver is, by far, the most important West Coast market, making it -- and Pacific Press -- a "must buy"
- 2) large advertising agencies are generally averse to buying space in weeklies, and are less familiar with the local competitive situation (There is always the danger that someday they might.)

[REDACTED]

COMPARATIVE NATIONAL AD DOLLAR SHARES IN SOUTHWEST

1985

	National Revenue	% of Canadian National Rev	% of Canadian Retail Sales	Diff
	-----	-----	-----	-----
Pacific Press	27.227	9.1	5.6	3.6
Montreal	18.645	6.3	11.8	-5.6
Ottawa	6.491	2.8	2.9	-.1
Edmonton	11.848	4.0	3.1	.9
Hamilton	6.045	2.0	2.5	-.4
Calgary	13.753	4.6	3.3	1.3
Windsor	3.353	1.1	1.3	-.2

1983

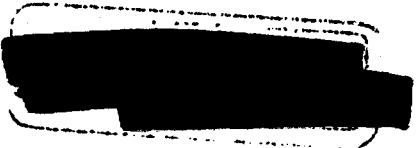
	National Revenue	% of Canadian National Rev	% of Canadian Retail Sales	Diff
	-----	-----	-----	-----
Pacific Press	22.871	9.9	5.8	4.1
Montreal	14.363	6.3	11.5	-5.2
Ottawa	6.057	2.6	3.0	-.3
Edmonton	10.109	4.4	3.2	1.2
Hamilton	4.438	1.9	2.4	-.5
Calgary	10.976	4.8	3.5	1.3
Windsor	2.293	1.0	1.3	-.3

[REDACTED]



### Classified Advertising Revenues

Classified revenues and linage are generally "population-driven", in that it depends on cars, housing, employment and private party sales to produce volume. Comparing the share of Canada's population accounted for in each Southam market with its share of Canadian classified advertising revenue, it appears that Vancouver has by far the greatest differential of any Southam market: 9.4% of Canada's classified revenues versus 5.2% of its population. Again, there seems to be two reasons for this:

- 1) Vancouver's record of household growth which would put a lot of energy into that side of the business, and
  - 2) the inability of the weeklies to be truly effective in any type of advertising that is built on frequency, and which "discovers" potential customers in which are naturally thin markets to start with.
- 

## COMPARATIVE CLASSIFIED AD DOLLAR SHARES IN SOUTHWEST

1985

	Classified Revenue	% of Canadian Classif Rev	% of Canadian Population	Diff
	-----	-----	-----	-----
Pacific Press	38.508	9.1	5.3	3.8
Montreal	17.710	5.3	11.3	-6.0
Ottawa	15.166	4.5	3.0	1.5
Edmonton	16.826	5.0	2.7	2.3
Hamilton	9.518	2.8	2.2	.6
Calgary	13.450	4.0	2.4	1.6
Windsor	5.277	1.6	1.0	.6

1983

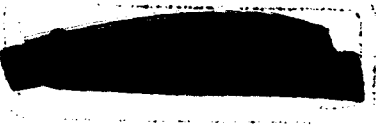
	Classified Revenue	% of Canadian Classif Rev	% of Canadian Population	Diff
	-----	-----	-----	-----
Pacific Press	26.189	9.4	5.2	4.2
Montreal	13.715	4.9	11.4	-6.5
Ottawa	9.463	3.4	3.0	.4
Edmonton	16.523	6.6	2.8	3.8
Hamilton	6.787	2.4	2.2	.2
Calgary	16.896	6.1	2.5	3.5
Windsor	4.009	1.4	1.0	.5



Summary of Part III

Pacific Press' share of the locally available retail dollars -- at 27% -- is quite low compared to either a Southam "standard" or the performance expectations common to major metropolitan newspapers. While it is now, and probably will remain, the medium that can command the lion's share of national and classified advertising dollars in Vancouver -- this benefit does not ameliorate the atrophying effect of the loss of retail share (on both its advertiser and reader franchises).

The fact that competitive weeklies have been able to attract not only increasing dollar share, but attention from major retailers, implies that the advertising market in Vancouver is willing to accept a relatively "premature" competitive advantage for the weeklies -- which will not only help their share position in the short-term, but infuse them with cash for eventual expansion and/or strategic action over the long-term. In projecting the future worth of the Vancouver marketplace to Southam, then, we anticipate that these weeklies, (left unchecked) could gain more than a significant foothold for the future advertising dollars to be available in the market.

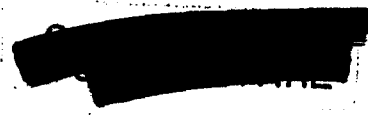







**SECTION FOUR**

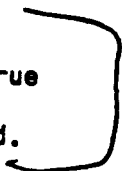


**FIXED COST/VARIABLE COST ANALYSIS**





### Fixed and Variable Cost Analysis

Costs at Pacific Press undoubtedly have been subjected to microscopic scrutiny in recent years. As a key factor in the predictive equation, however, they deserve another look -- one which enables us to estimate future costs while adjusting for the historical swings in Pacific Press volume due to circulation growth, strike years, and declines in ROP volume. Basic assumptions in the analysis include:

- 1) In this analysis, newsprint and ink are considered the only true "variable" cost, with all other cost elements treated as fixed. 
  - 2) To project both the volume and non-volume sensitive cost elements of publishing two newspapers at Pacific Press, all unit costs were standardized to units of 1,000 "pages published", (i.e.: off the press in gross press run), with tabloid Province pages converted back to broadsheet. This standardization allows a more accurate estimate of cost increases independent of the impact of circulation (gross press run), and advertising volume (average pages per day). 
  - 3) Days published per year was included as an analytic variable in order to remove the cost effect of cessation of publication during strike periods.
- 

The next table points up the key cost elements at work in Pacific Press' recent financial history, an analysis that does not portend an encouraging picture for the future.

From 1981 to 1985, total costs rose 30.8% (even though newsprint and ink fell 2.2%). Payroll was up 49.2% and non-payroll costs rose by 34.3%.

Since units published actually fell 4.4% (due to linage decreases which were not totally balanced by circulation increases), unit costs per 1,000 pages published rose 36.9%:

	1981	1985	% change
newsprint and ink	1.59	1.62	2.4%
payroll	2.60	4.06	56.1%
other costs	1.24	1.74	40.5%

A plot contrasting these unit cost and revenue trends highlights the steep curve of per unit-cost increases (even with a base of "variable" newsprint and ink costs virtually flat), and the inability of per-unit revenue increases to keep pace.

**FIXED/VARIABLE COST ANALYSIS**  
(Pacific Press - 1981 through 1985)

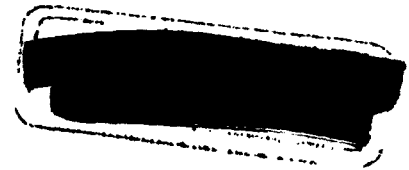
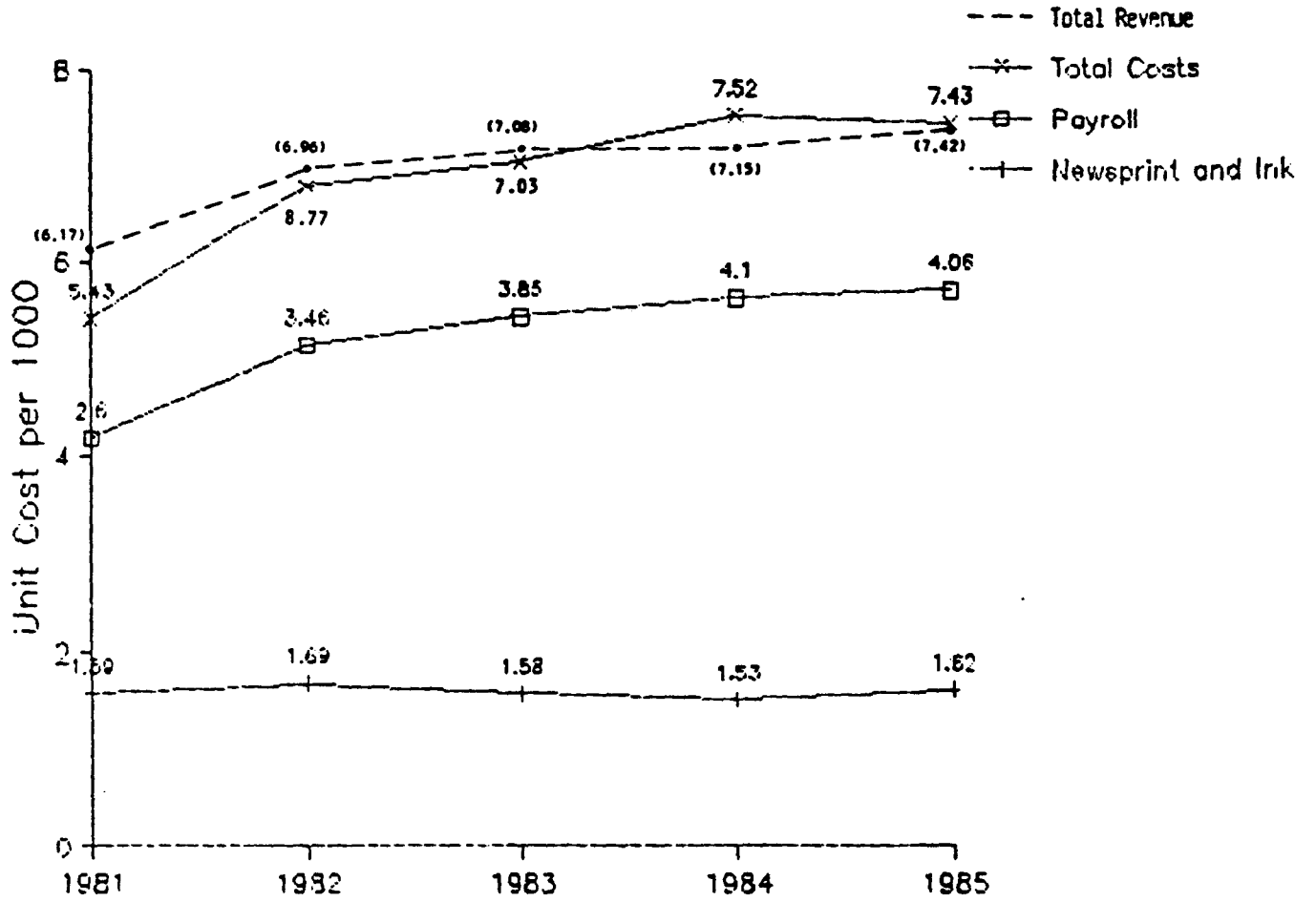
**Actual**


	1981 ----	1982 ----	1983 ----	1984 ----	1985 ----
Newsprint and Ink	29,365,142	27,260,768	26,517,915	22,676,839	28,728,201
Payroll	48,212,578	55,694,117	64,463,615	68,857,156	71,933,688
Other costs	22,900,836	26,815,828	26,654,995	28,155,826	30,747,863
<b>Total Costs</b>	<b>100,477,756</b>	<b>108,970,713</b>	<b>117,636,525</b>	<b>111,689,821</b>	<b>131,409,744</b>
Units Printed:					
Gross Press Run	427,433	432,174	450,817	471,318	483,526
Average Pages	142.5	122.5	122.3	121.7	120.8
Publishing Days	304.0	304.0	303.5	259.8	303.8
<b>Total (000's)</b>	<b>18,518,996</b>	<b>16,098,101</b>	<b>16,734,816</b>	<b>14,858,526</b>	<b>17,696,747</b>
Cost Per 1000 Units Printed:					
Newsprint and Ink	1.59	1.69	1.58	1.53	1.62
Payroll	2.60	3.46	3.85	4.18	4.86
Other costs	1.24	1.62	1.59	1.89	1.74
<b>Total Costs</b>	<b>5.43</b>	<b>6.77</b>	<b>7.03</b>	<b>7.52</b>	<b>7.43</b>
Total Revenue	114,310,508	112,829,378	118,488,685	106,228,528	131,312,078
Revenue Per 1000 Units	6.17	6.96	7.08	7.15	7.42

**Annual Rate of Change**

	% Change 1981-1982 ----	% Change 1982-1983 ----	% Change 1983-1984 ----	% Change 1984-1985 ----	% Change 1981-1985 ----
Newsprint and Ink	-7.2	-2.7	-14.5	26.7	-2.2
Payroll	15.5	15.7	-5.6	18.2	49.2
Other costs	13.6	2.5	5.6	9.2	34.3
<b>Total Costs</b>	<b>8.5</b>	<b>8.0</b>	<b>-5.1</b>	<b>17.7</b>	<b>30.8</b>
Units Printed:					
Gross Press Run	1.1	4.3	4.5	2.6	13.1
Average Pages	-14.0	-2	-5	-8	-15.2
Publishing Days		-2	-14.7	17.0	-3
<b>Total (000's)</b>	<b>-13.1</b>	<b>4.0</b>	<b>-11.2</b>	<b>19.1</b>	<b>-4.4</b>
Cost Per 1000 Units Printed:					
Newsprint and Ink	6.8	-6.4	-3.7	6.4	2.4
Payroll	32.9	11.3	6.3	-8	56.1
Other costs	30.7	-1.4	19.8	-8.3	40.5
<b>Total Costs</b>	<b>24.8</b>	<b>3.8</b>	<b>6.9</b>	<b>-1.2</b>	<b>36.9</b>
Total Revenue	-2.0	5.8	-10.3	23.6	14.9
Revenue Per 1000 Units	12.7	1.7	1.0	3.8	20.2

**FIXED/VARIABLE COST TRENDS**  
(Pacific Press - 1981 through 1985)

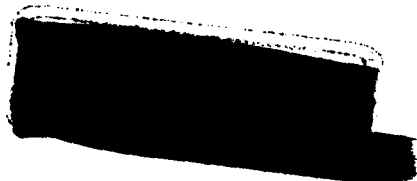




This is an unusual and disturbing situation. As the following table shows, circulation volume and revenue growth have been strong at Pacific Press even considering the economic problems of Vancouver in the early 1980's -- and the 1984 strike. From 1981 to 1985, net paid circulation grew 13.7% and circulation revenue increased 45.3%. Although advertising revenue growth has been much slower (9.1% from 1981 to 1985), the 26.7% gain in 1985 was certainly dramatic.

Yet even these substantial gains have been completely erased by cost increases in areas which would normally be considered "fixed." (As we understand it, much of this increase is caused by escalation clauses for manning in Pacific Press' labor contracts as certain types of volume increase.)

This is the reverse of the normal cost/revenue pattern of a major metropolitan newspaper, one in which good growth in circulation stimulates parallel increases in variable costs (i.e.: newsprint, ink, and some distribution costs such as gasoline) but a shallower curve of increase in fixed costs. In this happy situation, the additional circulation revenue and (more importantly) the incrementally higher advertising rates reflecting the value of stronger circulation numbers can easily "pay for" the increased variable costs, and contribute to the bottom line as well.



## CIRCULATION AND ADVERTISING REVENUES

(Pacific Press - 1981 through 1985)

## Actual

Revenue	1981	1982	1983	1984	1985
Classified	32,086	26,008	26,189	23,985	30,508
Retail Other	24,657	27,210	29,382	25,367	30,911
Retail Major	8,717	10,685	11,123	7,851	9,399
Retail Inserts	2,917	3,240	3,453	2,556	3,546
Total Retail	36,291	41,135	43,958	35,774	43,856
National ROP	26,556	22,192	22,871	21,844	27,227
National Inserts	240	500	512	438	650
Total National	26,796	22,692	23,383	21,474	27,877
TV Times	965	825	1,480	1,609	2,687
Grand Total	96,138	90,660	95,010	82,842	104,928
Circulation	17,593	20,622	22,549	19,833	25,562
Net Paid Circulation	379	382	395	414	431
ROP Linage	72,199	59,366	57,289	47,021	54,272
Revenue per Line	1.33	1.53	1.66	1.76	1.93

## Annual Rate of Change

	% Change 1981-82	% Change 1982-83	% Change 1983-84	% Change 1984-85	% Change 1981-85
Classified	-18.9	.7	-8.4	27.2	-4.9
Retail Other	10.4	8.0	-13.7	21.9	25.4
Retail Major	22.6	4.1	-29.4	19.7	7.8
Retail Inserts	11.1	6.6	-26.0	38.7	21.6
Total Retail	13.3	6.9	-18.6	22.6	20.8
National ROP	-16.4	3.1	-8.0	29.4	2.5
National Inserts	108.3	2.4	-16.0	51.2	170.8
Total National	-15.3	3.0	-8.2	29.8	4.0
TV Times	-14.5	79.4	8.7	67.0	178.4
Grand Total	-5.7	4.8	-12.8	26.7	9.1
Circulation	17.2	9.3	-12.0	28.9	45.3
Net Paid Circulation	.8	3.4	4.8	4.1	13.7
ROP Linage	-17.8	-3.5	-17.9	15.4	-24.8
Revenue per Line	14.7	8.6	6.2	9.7	45.2

### Projections of the Future Value of the Vancouver B.C. Marketplace

The previous sections of this report have built the quantitative foundation on which any projections of Vancouver's future economic health (and Southam's participation in it) must be constructed. In order to secure sufficient perspective on which to make the strategic decisions so important to the future of Pacific Press, we have projected each of the critical "market value" factors to the year 1990 under the following rules:

- 1) None of the projections are "straight-line" extrapolations of the market's most recent history, since this kind of linear regression-based logic tends to distort the importance of specific data points in a cyclical market like Vancouver. Instead, each factor is projected based on its most-likely pattern of future activity.
- 2) All summary estimates are "built" from their respective components rather than projected from historical summed totals (e.g.: our 1990 retail sales projection is based on independent estimates of each retail category, our cost estimates are based on independent projections of each per-unit cost element).
- 3) We have avoided presenting either "best-case" or "worst-case" projections, trying instead to produce reasonable, conservative, and reliable estimates of market conditions: isolating (through careful analysis of historical patterns) high-probability estimates of 1990. Of course, no econometric projection can account for extraordinary factors (e.g.: national policy shifts that affect the value of B.C.'s resources, natural disasters, etc.), so these projections must be modified if these occur.



**Summary of Anticipated Vancouver Market Conditions - 1990**

1) **Population/Households** We project a continued "bullish" growth of population and household in Vancouver over the next 4-5 years, with households growing 3% per year to 628,000 by 1990 (up 79,000). It is also highly-likely that most of that growth will be centered in the suburban areas, especially the lower valley.

2) **Retail Sales** As can be seen in the following table, we expect significant increases in per household spending on specific retail sales categories -- especially

- \* food
- \* automotive, and
- \* eating and drinking places

which are fueled, in large part, by the increasing population in Vancouver.

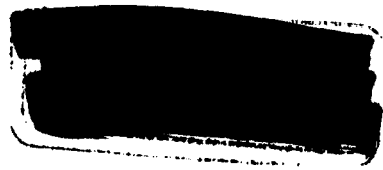
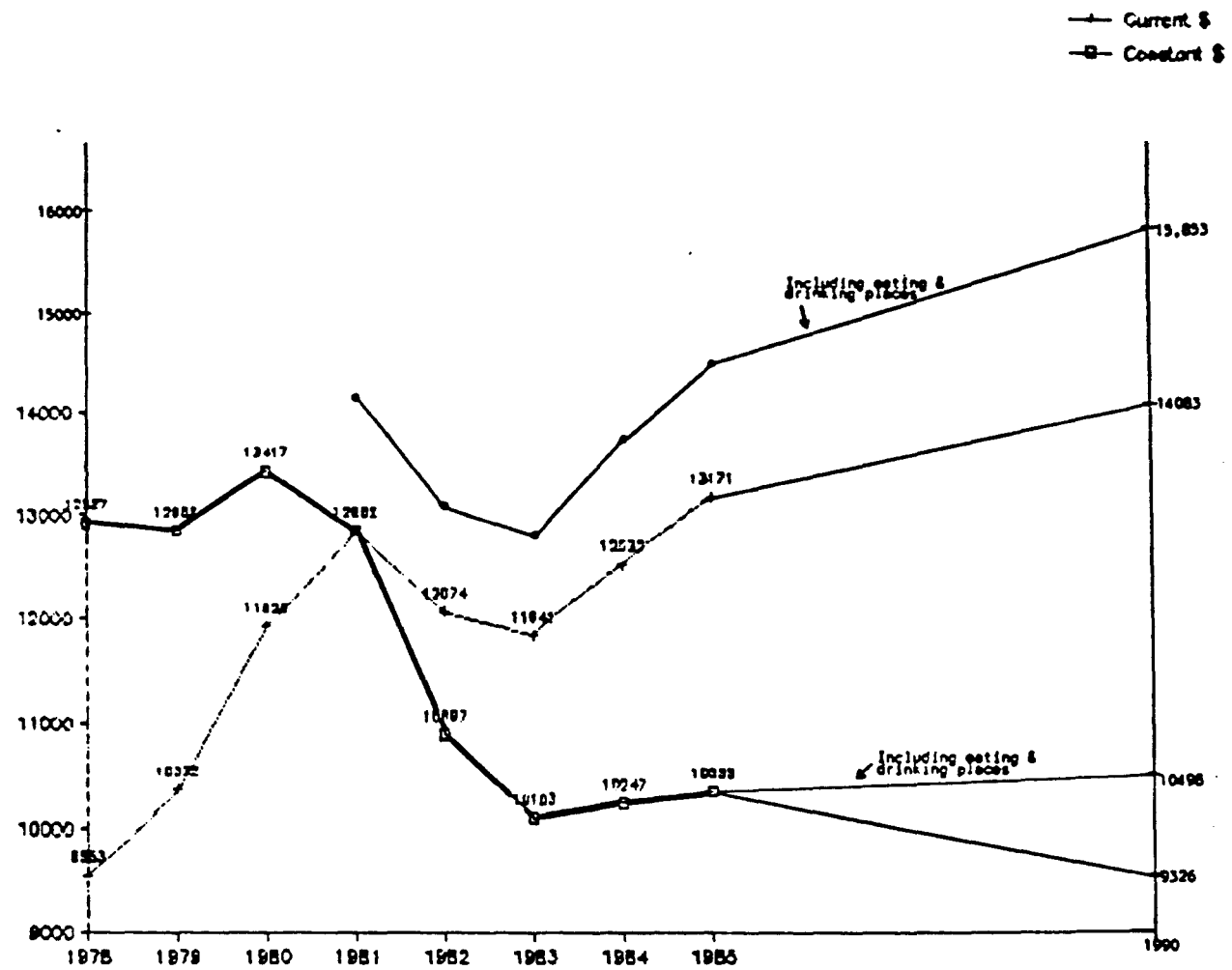
With a conservative estimate of 4% inflation, retail sales per household are expected to grow to \$15,853 by 1990 (up 8.2% from 1985), or to \$10,498 in constant-dollar terms. By way of contrast, retail sales per household rose only 3.6% from 1981 to 1985 (a period when inflation was still high), but we think that this optimistic view of future retail spending per household is justified given both the buying power and historical purchasing patterns of Vancouver households.

Given an estimate of 628,000 households in the Vancouver CSMA in 1990, then, these category projections would create total retail sales of \$10.1 billion dollars in the market -- up 40% compared to 32% for the previous 5-year period.

PROJECTED RETAIL SALES PER HOUSEHOLD BY CATEGORY  
(Vancouver through 1990)

Store Type	1985	% Change 1981-1985	Projected 1990	% Change 1985-90
Food Stores	3.354	18.2	3.820	13.9
Department Stores	1.988	-12.6	1.988	.0
All Other General Merch Stores	136	-38.6	125	-8.1
Motor Vehicle Dealers (New)	2.378	-4.7		
All Other Automotive	1.489	-20.4		
Automotive Group	3.867	-3.6	4.300	11.2
Women's Clothing	296	47.8		
All Other Clothing and Access	480	-15.4		
Shoe Stores	74	-4.4		
Apparel Group	850	.6	870	2.4
Hardware Stores	63	15.6	60	-4.8
Furniture Stores-Household	185	5.4		
Appliance Stores-Household	61	74.2		
Furniture/TV/Radio/Appliance	81	-11.0		
Furn/Appliance Group	328	8.4	360	9.8
Pharmacies/Medicine/Cosmetics	621	18.4	680	9.5
Jewelry Stores	142	-23.9	140	-1.4
Sporting Goods and Accessories	283	13.2	300	6.0
All Other Stores	1.540	-5.2	1.440	-6.5
Total Retail Sales	13.172	2.5	14.683	6.9
Eating and Drinking Places	1.486	14.6	1.770	19.1
Grand Total	14.658	3.6	15.853	8.2

PROJECTED RETAIL SALES PER HOUSEHOLD  
(Vancouver through 1990)



**Summary of Anticipated Pacific Press Revenues - 1990**

3) **Retail Revenues** Assuming that market penetration of the Sun and Province remain the same, Pacific Press' circulation would stand at 490,000 by 1990. This level of circulation performance would allow Pacific Press to retain its current share of available retail ad dollars in the Vancouver market (27%). Based on projections of retail sales by category, available ad dollars in 1990 would be \$202.3 million dollars and Pacific Press' share of those dollars would be \$54.6 million.

4) **Classified and National Revenues** Both classified and national revenues are quite sensitive to tremors in the Canadian national economy, and because we expect lower inflation rates over the next five years, we project that the rate of growth in these two classes of ad revenue will be slightly lower than that seen over the past five years. We are projecting 15% growth in Canada's classified revenues -- and 24% growth in Canada's national revenues.

Applying Pacific Press' relatively stable historical shares of the national and classified markets (i.e.: 9.1% of the Canadian market), we would expect \$33.7 million dollars in national revenue, and \$35 million in classified revenue in 1990.

5) **Circulation Revenues** Based on the estimated 490,000 net paid circulation, we would project that Pacific Press could earn \$35.4 million dollars in 1990 with no more than inflation-based price increases of 4% per year.

The following two exhibits provide additional detail for these projections.

## PROJECTED CIRCULATION AND ADVERTISING REVENUES

(Pacific Press through 1990)

Revenue	Actual					Projected 1990
	1981	1982	1983	1984	1985	
Classified	32,086	26,000	26,189	23,985	30,500	35,035
Retail Other	24,657	27,210	29,362	25,367	30,911	
Retail Major	8,717	10,685	11,123	7,851	9,399	
Retail Inserts	2,917	3,240	3,453	2,556	3,546	
Total Retail	36,291	41,135	43,950	35,774	43,856	54,617
National ROP	26,556	22,192	22,871	21,044	27,227	
National Inserts	240	500	512	430	650	
Total National	26,796	22,692	23,383	21,474	27,877	33,670
TV Times	965	825	1,480	1,609	2,687	3,000
Grand Total	96,138	90,660	95,010	82,842	104,920	126,322
Circulation	17,593	20,622	22,549	19,833	25,562	35,354
Net Paid Circulation	379	382	395	414	431	490
ROP Linage	72,199	59,366	57,289	47,021	54,272	51,350
Revenue per Line	1.33	1.53	1.66	1.76	1.93	2.46

## Annual Rate of Change

	% Change 1981-82	% Change 1982-83	% Change 1983-84	% Change 1984-85	% Change 1981-85	% Change 1985-90
Classified	-18.9	.7	-8.4	27.2	-4.9	14.8
Retail Other	10.4	8.0	-13.7	21.9	25.4	
Retail Major	22.6	4.1	-29.4	19.7	7.8	
Retail Inserts	11.1	6.6	-26.0	38.7	21.6	
Total Retail	13.3	6.9	-18.6	22.6	20.0	24.5
National ROP	-16.4	3.1	-8.0	29.4	2.5	
National Inserts	108.3	2.4	-16.0	51.2	170.0	
Total National	-15.3	3.0	-8.2	29.0	4.0	20.8
TV Times	-14.5	79.4	0.7	67.0	178.4	11.6
Grand Total	-5.7	4.8	-12.0	26.7	9.1	20.4
Circulation	17.2	9.3	-12.0	28.9	45.3	38.3
Net Paid Circulation	.0	3.4	4.8	4.1	13.7	13.7
ROP Linage	-17.8	-3.5	-17.9	15.4	-24.8	-5.4
Revenue per Line	14.7	0.6	6.2	9.7	45.2	27.2

[REDACTED]

ESTIMATE OF PACIFIC PRESS REVENUES

(In 1990)

Retail Sales

Sales per Household 15,853

Households

+3% per year

638  
10,114,217

Ad/Sales Ratio 2%

202,284 (Ad potential)

Pacific Press Share

27%

Retail Revenue

54,617

Classified

15% Growth for Canada

385,000

Pacific Press Share 9.1%

35,035

National

24% Growth for Canada

370,000

Pacific Press Share 9.1%

33,670

Circulation

Current Revenue/1000

59.30

4% Increase per year

72.15

X 490,000 circulation

35,354

[REDACTED]



### Summary of Anticipated Pacific Press Costs - 1990

The primary objective of this report was to estimate the potential value of the Vancouver B.C. marketplace and Southam's participation in it, but the interpretation of these projections is difficult without a clear understanding of the investment necessary to benefit from them.

Based on the unit-cost analyses presented in Section 4 of this report, then, we project the following "business-as-usual" assumptions for 1990:

6) **Variable Costs (newsprint and Ink)** Canadian newsprint suppliers have recently said that they will try to increase newsprint prices 4-5% a year for the next few years. Despite the fact that current oversupply makes these percent increases somewhat unrealistic, we think that the flat price picture of the past several years cannot continue indefinitely either. As such, we estimated cost increases in newsprint of 3%/year.

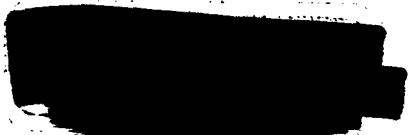
Volume estimates and projections are more complex, but based on assumptions of

a) 4% per year ROP rate increases (with concomitant lineage decreases of 5.4% that will decrease "pages published" accordingly), and

b) 13.7% increases in gross press run (to account for the stable levels of penetration previously assumed),

units published rises 7.6% all together.

Combining the effects of price and volume increases, then, we project that Pacific Press' variable production costs will grow 25% over the next five years.



[REDACTED]

7) **Fixed Costs** As discussed in Section 4, both the "labor" and "other" components of Pacific Press' fixed costs have been increasing dramatically -- over 45% -- for the past five years. It's unrealistic for this analysis to project the probable outcome of future negotiation and/or management decision-making, but it is reasonable to suggest that if Pacific Press were to expect even a modest 10% operating profit in 1990, fixed costs would have to rise no more than 6.8%, with total costs rising no more than 10.7% over current levels. In other words, unit fixed costs (i.e.: per 1000 pages published) would have to decline .7%.

The following exhibit presents a pro forma for a 10% operating profit year in 1990, along with the actual 1981 to 1985 costs as a base of comparison.

[REDACTED]



**PROJECTED FIXED AND VARIABLE COSTS**  
(Pacific Press through 1990)

	Actual					Projected 1990
	1981	1982	1983	1984	1985	
Newsprint and Ink	29,365,142	27,254,768	26,517,915	22,676,839	28,728,201	35,810,000
Payroll	48,212,778	55,694,117	64,463,615	68,857,156	71,933,600	109,698,000
Other costs	22,900,036	26,015,828	26,654,995	28,155,826	38,747,863	145,508,000
<b>Total Costs</b>	<b>100,477,956</b>	<b>108,978,713</b>	<b>117,636,525</b>	<b>111,689,821</b>	<b>131,409,744</b>	<b>145,508,000</b>
Units Printed:						
Gross Press Run	427,433	432,174	458,817	471,318	483,526	550,000
Average Pages	142.5	122.5	122.3	121.7	120.8	114.3
Publishing Days	384.0	384.0	383.5	259.0	383.0	383.0
<b>Total (000's)</b>	<b>18,518,996</b>	<b>16,898,101</b>	<b>16,734,816</b>	<b>14,856,526</b>	<b>17,696,747</b>	<b>19,848,000</b>
Cost Per 1000 Units Printed:						
Newsprint and Ink	1.59	1.69	1.58	1.53	1.62	1.88
Payroll	2.60	3.46	3.85	4.18	4.96	5.76
Other costs	1.24	1.62	1.59	1.89	1.74	5.76
<b>Total Costs</b>	<b>5.43</b>	<b>6.77</b>	<b>7.03</b>	<b>7.52</b>	<b>7.43</b>	<b>7.64</b>
Total Revenue	114,310,508	112,829,378	118,488,685	106,228,528	131,312,078	161,676,000
Revenue Per 1000 Units	6.17	6.96	7.08	7.15	7.42	8.49
Profit	13,832,752	3,858,665	852,160	-5,461,293	-97,666	16,168

**Annual Rate of Change**

	% Change 1981-1982	% Change 1982-1983	% Change 1983-1984	% Change 1984-1985	% Change 1981-1985	% Change 1985-90
Newsprint and Ink	-7.2	-2.7	-14.5	26.7	-2.2	24.7
Payroll	15.5	15.7	-5.6	18.2	49.2	6.8
Other costs	13.6	2.5	5.6	9.2	34.3	6.8
<b>Total Costs</b>	<b>8.5</b>	<b>8.0</b>	<b>-5.1</b>	<b>17.7</b>	<b>30.8</b>	<b>10.7</b>
Units Printed:						
Gross Press Run	1.1	4.3	4.5	2.6	13.1	13.7
Average Pages	-14.0	-2	-5	-8	-15.2	-5.4
Publishing Days		-2	-14.7	17.0	-3	
<b>Total (000's)</b>	<b>-13.1</b>	<b>4.0</b>	<b>-11.2</b>	<b>19.1</b>	<b>-4.4</b>	<b>7.6</b>
Cost Per 1000 Units Printed:						
Newsprint and Ink	6.8	-6.4	-3.7	6.4	2.4	15.0
Payroll	32.9	11.3	6.3	-8	56.1	-7
Other costs	38.7	-1.4	19.0	-8.3	48.5	-7
<b>Total Costs</b>	<b>24.8</b>	<b>3.8</b>	<b>6.9</b>	<b>-1.2</b>	<b>36.9</b>	<b>2.9</b>
Total Revenue	-2.0	5.8	-10.3	23.6	14.9	23.1
Revenue Per 1000 Units	12.7	1.7	1.0	3.8	20.2	14.4

**Summary of Key Projections for 1990**

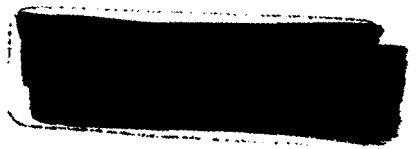
Overall, we do not believe that these revenue expectations are at all pessimistic, especially given the slow-growing nature of the Vancouver economy and the relative flatness of projected retail sales. In fact, if Pacific Press executives could be guaranteed a 20.4% increase in advertising and a 38.3% increase in circulation revenue over the next five years, we feel they would take the offer without hesitation.

Even these projected rates of revenue increase, however, don't promise direct benefit to Pacific Press or Southam's shareholders. A clear strategy by which to take advantage of the increasing value of the Vancouver B.C. market must be formulated, or else Pacific Press faces a future of continued investment for little or no bottom-line return.



SECTION SIX

STRATEGIC OPTIONS FOR THE FUTURE



It is clear that Pacific Press must escape from its role of an Industrial Sisyphus -- laboring on the revenue side, selling ever-more newspapers, fighting hard to retain ad share against formidable competition -- only to have costs swallow up those hard-earned revenues year after year.

Based on the projections of future market and franchise "value" developed in this analysis, it appears that there are four strategic options which Southam could consider for the Vancouver B.C. marketplace:

- 1) "Wait Your Way Out" This is the classic "business as usual" strategy. It assumes that the Vancouver economy will move forward again in the short-term, and that with circulation growth continuing at a healthy pace, Pacific Press could not only justify rate increases (reflecting the "added value" of this growth to advertisers), but that there will be sufficient incremental advertising dollars available to afford them.
  
- 2) "Grow Your Way Out" This scenario accelerates the revenue-based strategy which Pacific Press has tried over the past several years. Even in the absence of economic resurgence, this strategy assumes that the combination of two, distinctly-positioned daily newspapers can "fill-up" the readership franchise fast enough (using the Flyer Force to keep the weeklies at bay) to both deflect any new competitor's interest and garner enough sheer market power to build revenues faster than ordinary operating costs could increase.

- 3) "Compete Your Way Out" This aggressive strategy assumes that the key to security in Pacific Press' future is not in continuing to grow bigger (since current publishing strategy virtually defines the daily newspaper field), but in competing more effectively to capture share of retail advertising dollars back from competitors. Since each point of share is so significant in a market the size of Vancouver, the critical strategic goal must be to increase the perceived value of each of the marketable units (i.e.: newspaper subscription, advertising inch, etc.) already produced.
- 4) "Save Your Way Out" This scenario assumes that expectations of dramatic revenue increases (either due to a booming Vancouver economy or recapture of lost share) are untenable in the foreseeable future, so that the foundation of any ultimate solution must be winning relief from spiralling wage increases, restrictive manning clauses, and other cost reductions that can lead to substantial and permanent changes in Pacific Press' operational cost structure.

Following is an analysis of each of these four strategic options, based on projections of the future revenue value of the Vancouver B.C. marketplace to Southam Inc.



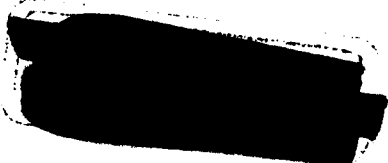
### Analysis of the "Wait Your Way Out" Strategy

The major assumption underlying this strategic option is that the Vancouver market's current economic sluggishness is temporary, and that the downward trending "S-curve" of retail sales will reverse itself -- making up most (if not all) of the momentum lost since the recession.

There is no quantitative nor qualitative evidence that this assumption is valid: In fact, both Sections 1 and 2 of this report present compelling analysis to the contrary.

A corollary perspective of "waiting your way out" is to assume that the weeklies are a major competitor for Pacific Press' ad revenues, but that they will be increasingly vulnerable to organization attempts as their market presence grows and the financial rewards become more compelling to labor. Whether this eventuality eliminates one of the weeklies' present cost advantages over Pacific Press is not, at its root, irrelevant to the decision that must be made regarding Pacific Press' strategic posture over the next few years.

In sum, then, "waiting" for the external environment to artificially buoy-up the company's difficulty in translating revenues into profit appears a long and fruitless vigil.



### Analysis of the "Grow Your Way Out" Strategy

The process of setting cost and revenue assumptions for 1990 has, in essence, completed most of the analysis of this strategic option. Even with well-founded projections of quite substantial volume growth for Pacific Press, costs swallow any revenues or profits attendant upon that growth.

Any strategy designed to leverage the sheer size (i.e.: the "900-pound gorilla's ability to do whatever he wants") must be examined carefully for its probable effectiveness as well as its sustainable nature. In Vancouver, the effectiveness of a "grow your way out" strategy comes into question under these two tests:

- 1) Circulation -- We have already assumed that circulation rises proportionately with household growth, and that penetration retention gives Pacific Press a total net paid circulation of 490,000 in 1990.

Could this be pushed further?

Examining the NADBANK figures on the following page, we simply don't see much room for great improvement. Pacific Press already has 69% readership penetration both daily and weekend, and an 88% weekly "cume." Although Province figures do show some room for improvement, it seems likely given the pattern of change from 1984 to 1986 that such gains would come at the expense of the Sun. Since the Sun still has the upscale advertising lead, and the Province is a necessary competitive "counterpoint" to it in the market, it seems logical that such cannibalization can and should be avoided.

[REDACTED]

READERSHIP OF THE SUN AND PROVINCE  
(Comparison of 1984 and 1986 NADBANK figures)

	<u>NADBANK</u> <u>1986</u>	<u>NADBANK</u> <u>1984</u>
Base: Adults 18+	1,045,000	998,400
Read yesterday		
Vancouver Sun	42.6%	40.5%
Province	40.6	29.1
Sun/Province combined	69.2	57.7
Read last weekend		
Vancouver Sun	48.6%	50.6%
Province	39.8	28.1
Sun/Province combined	68.6	64.4
Monday-Friday CUME		
Vancouver Sun	60.1%	65.1%
Province	55.6	47.4
Sun/Province combined	84.9	82.4
7-Day CUME		
Sun/Province combined	88.1%	83.8%

[REDACTED]




- [REDACTED]
- 2) Advertising -- Pacific Press is enviably successful in capturing classified and national share, so successful that further large increases in share levels are hard to envision. Even projecting deceleration in classified and national revenues for the whole of Canada (due largely to the cooling of inflation), the company still outperforms other newspapers at its current size and market position.

The problem is that even if we're very wrong in these projections, the relative size of classified and national revenues (versus the total) can't take up the slack. To provide a 10% profit and 20% for fixed cost increases in the next five years, Pacific Press needs \$20 million in additional revenue by 1990 over what we've projected. Doubling the rate of classified growth projected would only raise another \$4.5 million -- doubling the rate of national growth would raise another \$5.8 million. If Flyer Force could take all the preprints away from the weeklies, it would only mean approximately \$7 million.

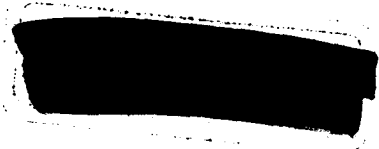
- 3) The economy -- Our projection of retail revenue rests on our projection of retail sales. But, again, we find that it's very difficult for us to have been "wrong enough" for a retail sales boom to solve the revenue/cost dilemma. At Pacific Press' present retail share, retail sales would have to increase 62% -- and 40% per household -- to achieve a 20% fixed cost increase and 10% operating profit by 1990.

In almost any other market, getting "bigger" equates to getting "stronger", or having the muscle to squeeze out the maximum benefit from each incremental

[REDACTED]



effort of circulation growth or competitive action. In Vancouver B.C., however, the confluence of market trends and (more importantly) the threat represented by the weeklies diminish this equation.



[REDACTED]


### Analysis of the "Compete Your Way Out" Strategy

The answer to whether Pacific Press can gain back share from competitors rests largely with information that will be gained during the advertiser interviews. From this analysis, however, we would note the following:

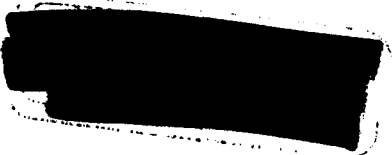
- 1) The amount of share which would be needed is substantial. Again, to provide for 20% in fixed-cost increases and 10% profit, we calculate that an eight-point rise to 35% is needed. Given the experience of other Southam markets, that is certainly not a goal that is beyond attainment, although capturing a point of share back from someone else is far more difficult than increasing revenue through participation in a growing market.
  
- 2) The share would have to be gained largely from the weeklies, and we believe at this point that they will not surrender it easily.

Weeklies are easy to underestimate. They are fractionalized, cantankerous, always starting up and going under, and (in other markets) can often be accurately characterized as pesky rather than threatening. Even in Vancouver, no one of them has even a hundredth of the market power of Pacific Press, but in this market they seem to come out of each ownership change and transformation a bit better off, they have some very major customers, they are learning to band together to achieve some "critical mass" of competitive strength, and there are simply so many of them. (One is tempted to draw an analogy to an ant hill.)

[REDACTED]



Despite these factors, Pacific Press must consciously and proactively construct a strategy to aggressively compete with the weeklies: a strategy that, at worst, will continue to preserve the dailies' 27% share and, at best, blunt the weeklies' ability to form better/stronger confederations. It would be especially dangerous if the weeklies were given any "open" period of time in which to operate with impunity, consolidating the gains they may have made with major advertisers and having the opportunity to teach advertisers new comparative criteria for their selection of print media.





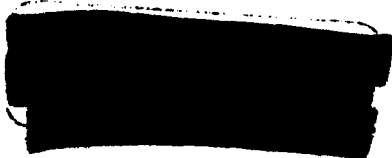
### Analysis of the "Save Your Way Out" Strategy

The execution of this strategic option in Vancouver is profoundly difficult, but essential. While its chances of success are best evaluated by labor rather than marketing experts, our feeling is that no "revenue-driven" strategy tested in this analysis has come up with a dramatic-enough solution to Pacific Press' current situation.

Pacific Press has been extraordinarily fortunate in the past few years that newsprint and ink costs have been held to very modest gains. To fuel the growth which we do foresee and which is needed to provide increased revenues, it is inevitable that such variable costs will have to rise.

As examined in the previous section of this report, achievement of a 10% operating profit for Pacific Press demands that total costs rise no more than 10.7% through 1990. Without holding this level, no degree of growth in market value, competitive advantage or market strength will enhance Pacific Press' ability to translate revenues into profit -- or preserve either its financial viability or journalistic franchise.

The primary answer remaining, then, seems to be the development of a clear strategy to control costs -- and the commitment toward successful execution of the same.





FUTURE VALUE OF THE VANCOUVER B.C. MARKETPLACE

PHASE II: ADVERTISER INTERVIEWS

Southam, Inc.

Urban & Associates, Inc.  
Sharon, Massachusetts

December 26, 1986


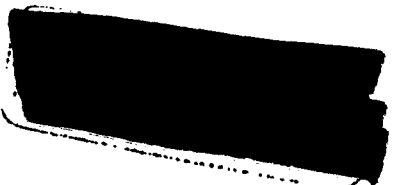




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INTRODUCTION

This report presents the results of in-depth interviews with major retailers doing business in Vancouver B.C. to evaluate the competitive position of Pacific Press in the advertising marketplace. It marks the end of Phase II of an overall evaluation of the "worth" of the Vancouver market -- and Southam's franchise in it -- for the near-term future.

Phase I was the quantitative evaluation of the market, exploring the dynamics of the Vancouver marketplace and assessing its prospects for growth to 1990. This final phase was designed to test and refine the assumptions derived from that analysis against the "real world" conditions of customer behavior.

A key element of the Phase I report was the development of four strategic options for the future which Southam could consider for the Vancouver B.C. marketplace, based on the projections of future market and franchise value developed in that analysis. It is most important, then, to consider the general findings of this report in relation to those options, which we have done in the final section of this volume.





## OBJECTIVES OF THE ADVERTISER INTERVIEWS

This research was conducted to understand the present competitive strengths and weaknesses of the Sun and Province in the Vancouver market, and identify options for improving its competitive position.

Specifically, this research defines:

- 1) the key goals of advertisers in the marketplace and their evaluation of how effective -- and efficient -- Pacific Press and its competitors are in meeting those goals,
- 2) advertiser evaluations of Flyer Force, a major competitive move by Southam in the marketplace,
- 3) advertiser evaluations of the Province,
- 4) market perceptions of retail business conditions over the next several years, and
- 5) other "fixable" problems advertisers have in doing business with Pacific Press.

It is important to remember in reading the findings that each advertiser's beliefs cannot be automatically projected onto a larger population -- nor can they be dismissed as simply "one man's opinion". Findings of this report were selected and analyzed specifically because they represent a pattern of respon-

ses throughout the interviews -- patterns that suggest widespread agreement on the points developed in this report.

The verbatim comments in this report, then, are meant to be impressionistic, and represent key elements in an overall pattern of advertiser perceptions of the competitive position of Pacific Press in the Vancouver market.

[REDACTED]



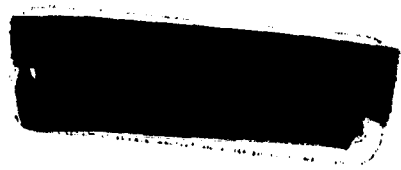
## THE RESEARCH DESIGN


In order to evaluate the competitive position of Pacific Press in the Vancouver marketplace, Urban & Associates conducted a series of in-depth interviews with 11 individuals in decision-making roles for 10 retailers.

These interviews were conducted by an experienced interviewer with wide exposure to newspaper operations and sales. The interviewer was briefed beforehand by Pacific Press executives on each advertiser's past advertising schedules and general position in the marketplace, but discussion of any advertiser's current relation with Pacific Press was avoided to eliminate preconceptions as much as possible.

Before the actual interviews (held on-site at the advertiser's place of business or corporate office), each advertiser received a briefing on the goals of the research from the Pacific Press advertising manager in charge of the account, and an appointment was set up.


Interviews were conducted from December 1-3, 1986, in Vancouver, and on December 16 in Toronto. The interviews averaged just over an hour in length. In order to ensure candid and reliable answers, the respondents were assured that the confidentiality of the source of each direct quote in the final report would be retained (as it has been).





Selection of the Advertisers Interviewed

It is important to remember that the set of ten advertisers chosen for this study are not a representative sample of the businesses in the Vancouver market. Instead, the advertisers were chosen:

- 1) for their size, since it was considered important to interview those who could have a major impact on the overall revenue of Pacific Press,
  - 2) for diversity across the major lines of retail trade, and
  - 3) for diversity in the use -- or potential use -- of Pacific Press products from the Sun and the Province to flyers and Flyer Force.
- 

## THE RESEARCH SAMPLE

Hudson's Bay Co.	Robert Chorley Asst. General Sales Manager Western Region
A & B Sound	Sandra Lee Advertising Manager
London Drugs	Lester Stevens Advertising Manager
Woodwards	George Bailey Vice President/Marketing
Canada Safeway	George Blackstock Advertising Manager
Eaton's	Ray Luft Marketing Services Manager (Toronto)
	Delcie Bewley Advertising Manager (Vancouver)
Overwaitea Foods	Ron Olmstead Manager of Advertising and Promotion
Sandy's Furniture	Sandy Seney Owner
Lansdowne Pontiac-Dodge-Hyundai	James Ratsoy Owner
Woolco	Fred Roy Advertising Manager (Toronto)

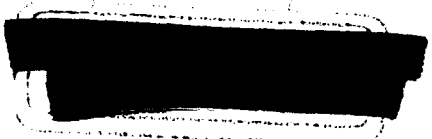


SUMMARY OF GENERAL FINDINGS

The Competitive Position of Pacific Press In the Vancouver B.C. Marketplace

- FINDING #1: The key marketing problem faced by Pacific Press is its light penetration in fast-growing suburban areas which are served by the retailers: newest, high-volume, high-margin stores.
- FINDING #2: The suburban weeklies, which are the greatest competitive challenge to Pacific Press, are seen by advertisers as legitimate purveyors of highly-localized news, with a position in their overall media mix which complements the urban orientation of the Sun and Province.
- FINDING #3: The chief weakness of the weekly newspapers is the spotty nature of their flyer distribution, which leads to doubts about their claimed circulation.
- FINDING #4: Pacific Press rate increases in the face of a difficult retail sales environment have led to significant advertiser resentment, and limit the amount by which ROP volume can be increased.
- FINDING #5: Advertisers consistently report an improved attitude toward them since Pacific Press came under Southam control, and even at this early stage "company-to-company" dealing at a high level has sparked advertiser interest.

Advertiser Evaluations of Flyer Force

- FINDING #6: Advertisers see Flyer Force as a "smart move" by Southam and are impressed by the concept, but nevertheless are taking a "wait and see" attitude due to concern that Flyer Force is moving too rapidly in opening up delivery areas.
- FINDING #7: Having used weeklies and private distribution companies successfully for many years to distribute flyers, advertisers expect near-perfect delivery, 100% coverage of key suburbs and a price competitive with the weeklies before they will make major commitments to Flyer Force.
- FINDING #8: Certain key advertisers see the weekly newspapers as a "safety net" under preprint distribution in case of labor problems at Pacific Press and as a counter to the Pacific Press "monopoly." So they say that while they want Flyer Force to be a success, they don't want it to be "too" successful.
- 

**FINDING #9:** Major advertisers seem quite content with their current flyer-oriented advertising programs, and any substantial move back to ROP advertising seems quite unlikely.

#### Advertiser Evaluations of Pacific Press

**FINDING #10:** Advertisers are consistently impressed with the growth of the Province, and virtually every advertiser has to consider using it. But some advertisers remain critical of its editorial tone, and say they will never advertise in The Province no matter how large its circulation becomes.

**FINDING #11:** Production errors seem frequent and severe for advertisers who utilize any Pacific Press composition services at all. However, the Pacific Press unions seem to take more of the criticism than does management.

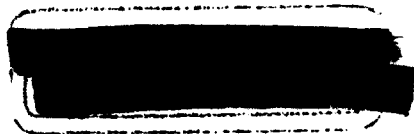
**FINDING #12:** Special sections are getting a reputation as sales gimmicks rather than editorial products designed to reach special audiences and produce increased results.

#### Evaluation of Vancouver Retail Business Conditions

**FINDING #13:** Advertisers are universally pessimistic in their evaluation of the prospects for retail sales growth over the next several years. They see most of their growth coming from market share gains rather than pure sales growth as in the past.



THE COMPETITIVE POSITION OF PACIFIC PRESS  
IN THE VANCOUVER B.C. MARKETPLACE





**FINDING #1:** The key marketing problem faced by Pacific Press is its light penetration in fast-growing suburban areas which are served by the retailers' newest, high-volume, high-margin stores.

Pacific Press is perceived as doing an excellent job in Vancouver's residential "core" (i.e., the area to the west of Boundary Road) and in support of downtown stores, but these areas are simply no longer perceived as the heart of the retail "action".

Advertisers with outlets across the market were shown an area-wide map and asked to identify where they thought the Vancouver dailies had their greatest strength and where they lacked sufficient coverage. Virtually all advertisers pointed to Coquitlam, Surrey, Langley and Richmond as weak areas for Pacific Press, but important enough to the market as a whole that they have to be "filled" with other media. Opinion was divided on Burnaby, New Westminster and North Vancouver, with some advertisers considering these as relatively strong Pacific Press territory, and others still considering penetration as too light. Dominance of the city of Vancouver, on the other hand, is universally ceded to the Sun and Province, with no need for other print media buys to provide adequate coverage.


There are two problems with this pattern: 1) Two of the six "mass" merchants interviewed have no outlets at all in the city of Vancouver, and are very leery of using the Sun or Province for anything but "spectacular" sales which might draw Vancouver residents to the suburbs. 2) Marketing strategies for downtown stores versus suburban outlets are often different, with downtown merchandise aimed at the older, more affluent shopper, and suburban stores targeted more

toward the young family who have moved out of town seeking cheaper housing and space. Thus, "upscale" advertising in the Sun is sometimes seen as "wasted" in the suburbs, and suburban merchandise does not seem to "fit" in the Vancouver-dominated Sun and Province.

When asked to name the single thing which Pacific Press could do to gain ground versus its competitors, all the mass merchants asked for more suburban coverage.

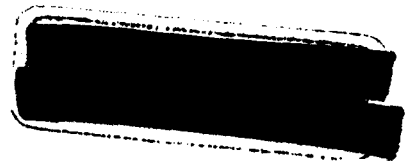
#### Verbatim Comments

- \* They haven't got full steam up anywhere in the suburbs. We want to cover every household in the market, and they only really cover the core.
- \* Let's say I want to feature \$100 all-leather handbags. I can put an ad in the Sun and pull older people from Vancouver into the downtown store and sell them, but that item will do nothing in the suburban stores, because the suburban housewife tops out at \$40 to \$60 for a handbag. So I've wasted all the Sun circulation outside Vancouver... So why don't I run \$40 handbags in the Sun? Because where that handbag will sell is in the suburbs and the Sun just doesn't have the penetration there... We'll end up running the \$40 handbag in the flyer in the weeklies because it will ultimately support the most stores.
- \* The Sun and the Province really only cover the central core of Vancouver. To reach the number of households you really need, you have to use the community newspapers.
- \* The people at Pacific Press have done a great job in the last couple of years. The Province has grown to the point where we're using it and we can feel the traffic. But their big problem is distribution. If



they can't deliver the penetration in the areas around the outlying stores, we'll always have to use the weeklies and will have to cut the Sun and Province back largely to support of downtown.

- \* They always point out that they have 70% readership, and I always get the picture of that as a lot of copies read and purchased in Vancouver and brought home to the suburbs, because when you talk about circulation and distribution in those areas, it's really too thin for a roto-type product.



**FINDING #2:** The suburban weeklies, which are the greatest competitive challenge to Pacific Press, are seen by advertisers as legitimate purveyors of highly localized news, with a position in their overall media mix which complements the urban orientation of the Sun and Province.

In most other markets which Urban & Associates has studied, weekly newspapers are a secondary medium, of most interest to the small merchant. In the Vancouver market, by contrast, weeklies are seen as a primary medium by even the largest merchants, and of critical importance to support of their suburban stores.

The weeklies have established a good reputation for providing local news, and advertisers who use them for flyer distribution generally believe they are well-read, giving an added dimension to this type of distribution versus door-to-door delivery by private firms or by the mail. It is interesting to note that those advertisers most heavily involved with distribution of flyers via the weeklies are heavy readers and "fans" of the newspaper distributed in their neighborhood.

Since the weeklies' coverage of key suburban markets is perceived as so much greater than that of the Sun and Province, virtually all the advertisers distributing flyers across the market said they "cut back" on Pacific Press distribution in the suburbs and use the weeklies exclusively to avoid any duplication. Thus, in the city of Vancouver the Sun and Province are considered the "mass" medium, but in the suburbs the weeklies are, with Pacific Press held to across-market "specials."

Three of the advertisers interviewed (one department store, one chain drug

store and one discount grocery outlet) have used ROP in the weeklies and report good results.

Verbatim Comments

- \* The weeklies pull surprisingly well in print [ROP]. When we run an ad in support of a specific store with an item of suburban interest, let's say plants, it pulls better than print in the Sun and Province.
- \* The community newspapers work, and they work because they are excellent publications.
- \* If you have a strong, well-edited weekly, that newspaper has a place beside the daily newspaper. Vancouver still has a lot of community feeling and identity because it is so chopped up geographically.

[REDACTED]

**FINDING #3:** The chief weakness of the weekly newspapers is the spotty nature of their flyer distribution, which leads to doubts about their claimed circulation.

All flyer-oriented advertisers interviewed had their favorite horror stories about thousands of flyers found pitched into rivers, calls from irate customers whose homes had been missed, misses week after week of their own block.

Advertisers in Vancouver are seeking virtually 100% coverage of their trading area, and any problem which casts doubt that that level of coverage is being achieved will cause the weekly in question problems. Also, the extreme level of competition between the weeklies themselves due to the amount of circulation overlap seems to have led to circulation claims which advertisers doubt.

The fragmented nature of the weekly field, which means advertisers must buy virtually dozens to achieve total-market coverage, does not seem to bother advertisers, and is seen as a "fact of life" of doing business in Vancouver.

It is interesting to note that the large groups of weeklies which have formed combination buys for national advertising sales appear not to have done so for flyer distribution. Advertisers report that the weeklies are bought and sold pretty much "one at a time" even for multi-newspaper groups such as NOW, and that even when discounts are offered within these groups they are hard to take advantage of due to the need to tailor distribution to individual stores' trading areas.

Verbatim Comments

- \* They can say their distribution is, say, 50,000, and 5,000 to 8,000 of that might never reach your customers' homes. I read a weekly up on the North Shore and last week they missed my whole block. That kind of thing makes you continually wonder.
- \* The weeklies will be vulnerable to things like Flyer Force as long as my phone keeps ringing after every distribution we do, with things like bundles in peoples' yards, people who didn't get their flyer, and store managers needing flyers because the delivery people never got them there.

[REDACTED]

**FINDING #4:** Pacific Press rate increases in the face of a difficult retail sales environment have led to significant advertiser resentment, and limit the amount by which ROP volume can be increased.

Most advertisers will complain about rates when given a chance. Eight of the ten interviewed did, but their comments seemed particularly critical, and in some cases almost bitter.

Almost all the advertisers said their budgets were reduced during the 1981-82 recession and have never really come back to normal, being kept flat at best. The regular and substantial Pacific Press increases have meant cutting back on other media, cutting back on ROP space, or switching to preprints. With the degree of resentment being what it is, the latter two courses of action seem most likely for the future.

All newspapers would like to gain back ROP space at the expense of flyers. But several of the advertisers interviewed noted that ROP rate increases versus more moderate increases in printing costs and virtually no increase in distribution costs over the years had made the relative efficiency of flyers even greater than when flyer programs were instituted.

Verbatim Comments

- \* How can they justify going up 6% this year when the retail community is bathing in red ink? You have these featherbedders over there causing a lot of these rate increases, and I think it's time they did something about it.
  - \* Their prices are horrendous. How much higher can they go?
- [REDACTED]



- \* One of the things that make the Sun and Province hard to use is their pricing. When you get an effective reach of 45 or 50% of the people who are really around your stores, the CPM just goes crazy versus the smaller newspapers which cover just what you need.
- \* The retail business has been difficult for several years now, and the advertising budget given us by Toronto has either been cut or, at a minimum, not increased. When the newspapers go up year after year, all it really means is that we cut back on space.
- \* The newspapers just don't want to talk about price, but I think that what I pay versus what I could be paying as a big retail display advertiser is totally unfair. They seem to think that our business will keep coming to them in a steady stream no matter what they do or what they charge.

**FINDING #5:** Advertisers consistently report an improved attitude toward them since Pacific Press came under total Southam control, and even at this early stage "company-to-company" dealing at a high level has sparked advertiser interest.

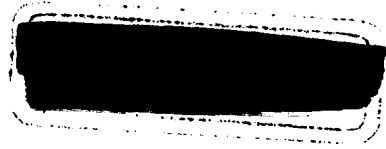
Attitudes toward Pacific Press in general, apart from the pricing issue and one major exception noted below, were quite positive. Advertisers noted improved service, more contact with management, more willingness to come up with new ideas, and the progress of the Province as major advances over the past several years.

Three advertisers mentioned contacts with Southam involving packages of printing, flyer distribution, and ROP advertising on a company-wide multi-newspaper basis. Although with discussions in such an early stage there was little specific mention of an eventual outcome, the willingness to deal on this basis was seen as a positive step. One major department store advertiser who had no compunction about lambasting Pacific Press in other areas said this was positive, even while criticizing Pacific Press for not giving up anything on rates compared to the printing and distribution arms.

The advertiser who had serious communication problems with Pacific Press was a major classified user. He was particularly upset by a long series of production and billing errors, and felt that management virtually ignored his pleas for better service and took his business totally for granted.

Verbatim Comments

- \* They're doing a hell of a job and we seem to have a good relationship with them. They've made a lot of changes over there and they seem to be changes for the better.
  
- \* When we talk to Southam about packages of printing and distribution and advertising, it all sounds great and like they're really trying to help us. But the only people who come to the party without a bottle are from the newspapers. They won't give an inch on rates, so we can't do a deal.
  
- \* There are some publications in this area which I can't even get to call on me. But I get the feeling that if I even mentioned "new business", they'd drive a busload of people over here. They seem to think there's more here, but they're all over this account and I don't think they're missing anything.



ADVERTISER EVALUATIONS OF FLYER FORCE

[REDACTED]

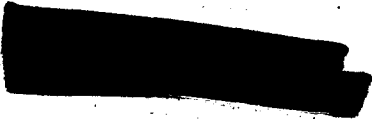
**FINDING #6:** Advertisers see Flyer Force as a "smart move" by Southern and are impressed by the concept, but nevertheless are taking a "wait and see" attitude due to concern that Flyer Force is moving too rapidly in opening up delivery areas.

All advertisers interviewed who use flyers had seen the Flyer Force presentation, were impressed by the logic of the idea, and knew about the success of Flyer Force in Calgary and Edmonton. But only one advertiser had actually used Flyer Force with regularity, and at the time of the interview was considering going back to distribution by the community newspapers due to Flyer Force delivery problems.

This "wait and see" attitude in reality compared to all the intellectual support of the Flyer Force concept is based on two factors: 1) The feeling that by pushing ahead of its original schedule, Flyer Force may be sacrificing delivery quality. 2) Advertisers' natural tendency to stick with delivery systems which, even given their shortcomings, have produced positive results over a long period of time.

#### Verbatim Comments

- \* I think they've got the formula between the Sun and Province and Flyer Force, but they've got to make it work better than it has so far -- I really wish they'd have waited until next year to bring it up, and really done it right. It would have been better for them and better for us.
- \* I keep getting calls from our Toronto office, "What do you think of Flyer Force, when are you going to use Flyer Force?" And I keep saying, "I'll use Flyer Force when it's ready, since they are going to have to show me it's a better alternative to what we have now".

- 
- \* I've used Flyer Force for two years in Calgary and Edmonton. I like the idea of an independent delivery system with the newspaper. You get the benefit of the people who want the newspaper plus the flyer going to everybody else.

[REDACTED]

FINDING #7: Having used weeklies and private distribution companies successfully for many years to distribute flyers, advertisers expect near-perfect delivery, 100% coverage of key suburbs, and a price competitive with the weeklies before they will make major commitments to Flyer Force.


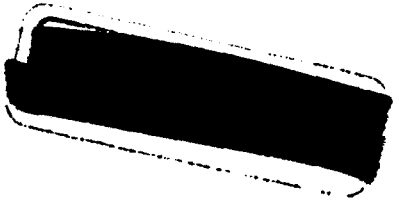
Because they have an alternative that works, advertisers demand virtual perfection from Flyer Force -- and are in a position to get that level of service. Several mentioned that with Flyer Force in the market, they are now telling the weeklies and other distribution services the same thing.

Virtually all the advertisers thought that Vancouver would be tougher than Edmonton or Calgary for Flyer Force to crack. They have the impression that suburban daily newspaper penetration is greater in those cities, putting more flyers into "real" news products versus solo delivery.

There is some concern, since a majority of the Flyer Force delivery will not have any news "wrapper" as it does with all the weekly distribution, that results might be less for Flyer Force-delivered preprints. But since that can be tested, it should not be a concern over the long run, if indeed Flyer Force is as effective in Vancouver as it is elsewhere.

Verbatim Comments

- \* Flyer Force will have to become the "quality alternative". They can't miss any households and they'll have to be priced right. Given that, they could cause some of the smaller, weaker weeklies problems.
  
- \* I think they're moving in all the right directions with Flyer Force, but it's a transition period and I hear they've had some problems. This market's a lot tougher than Calgary or Edmonton.

- 
- \* For Flyer Force to work effectively you've got to maintain a strong daily circulation. If I go into a zone and the newspaper's only got 15% coverage, I'm delivering 85% using door-to-door. If I'm paying \$50 per thousand for that, maybe I'm better off going to a good community newspaper which has the newspaper readership to support the flyer.
- 



**FINDING #8:** Certain key advertisers see the weekly newspapers as a "safety net" under preprint distribution in case of labor problems at Pacific Press and as a counter to the Pacific Press "monopoly". So they say that while they want Flyer Force to be a success, they don't want it to be "too" successful.

Three of the four advertisers who mentioned Pacific Press labor problems as a factor in the marketplace said that the power of the weeklies had essentially been "created" during the 1978 strike. In addition, two major department store advertisers worry that if Flyer Force becomes too successful, it will cause them problems with the weeklies in the event of another Pacific Press strike. That was one of the reasons, though not the primary one, for these advertisers being slightly leery of Flyer Force.

Verbatim Comments

- \* During the strike eight years ago, we all learned to advertise different means. We learned to turn around in a hurry, and we learned that what we tried [inserts in the weeklies] worked perhaps better than we thought they would.
- \* If there ever were another strike, I think we're supposed to put everything into Flyer Force. But if we do that, where does that leave us with the distribution we have now? If we ever needed them again, I don't think they'd take us back.
- \* The community newspapers do a superb job. I hope Flyer Force doesn't put too much pressure on them. Those guys came to our rescue during the strikes.

**FINDING #9:** Major advertisers seem quite content with their current flyer-oriented advertising programs, and any substantial move back to ROP advertising seems quite unlikely.


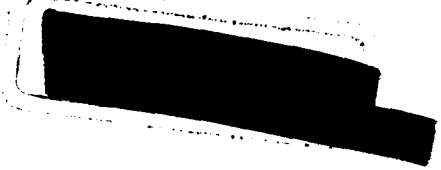
Given their problems with ROP pricing, the inability of the Sun and Province to print slick-stock color (which advertisers feel is essential to the presentation of some merchandise), and what seem to be very good results from flyers, ROP on a large scale from those advertisers who have already made the switch does not seem to be in Pacific Press's future.

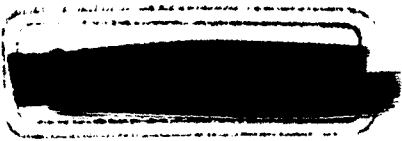
Advertisers in this market also seem less concerned with demographic and geographic targetting than other markets which Urban & Associates has studied. Even the department store which described itself as the most "upscale" said it wanted to reach 100% of the households in the market, which again makes flyers attractive.

Among existing ROP advertisers, there seemed to be an inordinate amount of complaining about positioning and a high degree of sensitivity to this issue. While advertisers recognize that by going to smaller and smaller ads they decrease the size of the newspaper and the number of premium positions, they seem to want virtually the same positions they had in the days of full pages and double trucks.

#### Verbatim Comments

- \* ROP in the Sun is the last thing I'd consider given our strategy. They've got bad presses, bad color and bad reproduction.
- \* The strikes forced us to be more creative. One of the things we learned to do was inserts, and we learned that they really work. I doubt that we'll ever go back to in-paper advertising.

- 
- \* One of the things about Vancouver is that the suburban housewife has been trained over the years to look to the Inserts for everything she wants to buy. The average household is now exposed to 200 four-color pages of Insert advertising per week, and that Insert package has become basically a "shopping trip" in its own right.
- 



ADVERTISER EVALUATIONS OF PACIFIC PRESS

**FINDING #10:** Advertisers are consistently impressed with the growth of the Province, and virtually every advertiser has to consider using it. But some advertisers remain critical of its editorial tone, and say they will never advertise in the Province no matter how large its circulation becomes.

Whether they use it or not, advertisers consistently mention the growth of the Province as one of the most positive accomplishments of Pacific Press since its reorganization. As marketers themselves, they tend to understand the philosophy underlying the Province, and know how difficult it is to make gains as rapid as those which the newspaper has made. It is interesting that several of them actually "played back" the phrase "fastest-growing newspaper in North America" that is seen in Province sales materials.

But for some advertisers, and not just those in the "upscale" group, the respect is grudging, and they do not see the Province as part of their future plans. This group includes two of the three department stores and a drug store chain. They believe that the circulation target of the Province is too far removed from their own target customer, and that the "tone" of the other advertisers would clash too much with their own.

There is also a group of three advertisers who do not now use the Province and question its editorial quality, but do not reject it out of hand either, since they believe the Province may become just too big to ignore and might someday deserve a "test."

It is important to note that those advertisers currently committed to the Sun all said that it is important that Province growth not come at the expense of the Sun, although only one said categorically that he believed this had happened.

Verbatim Comments

- \* They really have gotten the Province to grow, even though we'll probably always emphasize the Sun. But we did start using some Province ROP six months ago and results are better at the downtown store. You've got to attribute that to the Province.
- \* It's a throwaway. We don't like its editorial quality and we're starting to feel that there is duplication with the Sun.
- \* The tone is all wrong for our target, and you just can't get a good position when you're crowded in with all the cheap advertisers and electronic and record stores.
- \* As the paper grows we're having more and more problems with positioning and the price, but you have to admit that the results have been good and the Province has been important to the growth of our business.

[REDACTED]

FINDING #11: Production errors seem frequent and severe for advertisers who utilize any Pacific Press composition services at all. However, the Pacific Press unions seem to take more of the criticism than does management.

All advertisers other than those who provide completely camera-ready copy or who use flyers only had numerous complaints about production errors, including dropped type, failure to make corrections, lack of proofs on long-deadline ads, mispositioning of ad elements, and failure to honor position commitments.

Two of those advertisers said they had begun their own ad production departments to eliminate some of the errors, spending money which would have otherwise been spent on advertising space.

Billing, too, comes in for its share of criticism. One large advertiser had a monthly bill on which all insertions had been billed incorrectly and credits agreed to by Pacific Press.

Verbatim Comments

- \* Their makeup department just doesn't work. I have to do everything camera-ready here and it costs a lot. The proofs come in right at the wire even then, and I'm afraid to make corrections for fear that they'll make them worse -- which they do.
- \* We're doing a job in production that the newspaper should be doing, but we still get hit with a makeup charge. And still when we send in a change there's only about a 50/50 chance that the change will get made.
- \* They have no night people at all. After 5 you can't get anyone. They really don't care about your problem.

- \* The reps aren't talking to composing. There's no communication between the middleman and the guy actually laying out the ad.

It is interesting that much of the blame for production and billing errors was aimed not at the organization itself, but the unions, as if the blame had been passed onto them for a long time. But regardless of the initial source of the errors, advertisers want them fixed.

#### Verbatim Comments

- \* I'll bet I know what they're going to do with your report. They're going to take it down to the union boss and say, "Look at all these problems -- you've got to do better", and they'd be right in doing that.
- \* They [sales representatives and production people] don't give a damn about their jobs because they're in the union and get paid too much without having to really work... They really don't appreciate the business we give them, which in our case just walks in the door.



**FINDING #12: Special sections are getting a reputation as sales gimmicks rather than editorial products designed to reach special audiences and produce increased results.**

Advertisers report considerable sales emphasis on special sections. They seem generally well-disposed toward the idea of reaching a specialized audience within the context of the daily product, and report good results from those which have been well done (such as the National Furniture Sale and Expo specials).

But there were considerable numbers of complaints about sections which never quite got off the ground and ran so small in size that they had little interesting copy or were "buried" in the rest of the newspaper. Advertisers felt it would be better to cancel these altogether rather than "poison the well" for future special-section sales.

Advertisers were also critical of the practice of letting advertisers who have no product that relates directly to the theme of the section advertise anyway. They feel that this dilutes the impact of the section and confuses readers as to its intent.

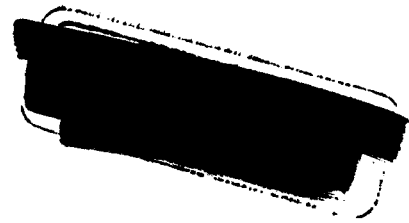
#### Verbatim Comments

- \* They really push these special sections, but to work for us they really have to be "special". Sometimes they only run eight pages and they get buried in the rest of the newspaper. Other times it looks like they've let anybody that wants to run an ad whether they have anything to do with the section or not.

- \* Their special sections aren't really that special. They will let anybody into them, which I think distorts the "pull" of the section. There are people who I know aren't even at the Boat Show or the Home Show and they have their ad in there anyway.



EVALUATION OF VANCOUVER RETAIL BUSINESS CONDITIONS



**FINDING #13:** Advertisers are universally pessimistic in their evaluation of the prospects for retail sales growth over the next several years. They see most of their growth coming from market-share gains rather than pure sales growth as in the past.

Retailers like to point out how tough things are, setting themselves up for an eventual triumph over adversity. But this group seemed particularly gloomy, pointing to the poor labor environment, the end of Expo, and basic weakness in the price of British Columbia commodities as serious problems for the retail sector in particular.

There is a growing feeling, too, that the area may be getting "overstored" as retailers combat slower growth by opening more outlets further and further away from Vancouver and in less desirable locations than in the past. For instance, with the growth of the Safeway and Overwaitea "superstores," Vancouver has added as much square footage in the grocery category over the past five years as any market in Canada.

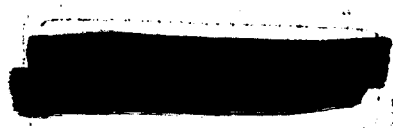
Both these factors lead retailers to believe that future growth for their own operations will be based more in share growth (a bigger slice of the pie) than it will be in growth based on better business overall (growth of the pie), and are positioning themselves more for competitive battles than for expansion. They also believe that retailing will become more and more oriented towards promotions and sales and less toward image and benefit advertising as retailers fight for share.

When asked what this kind of environment might mean to Pacific Press, advertisers generally felt that it would be good for the newspapers overall in that no advertiser would be able to cut budgets severely without losing share to

competitors, but that in the overall tougher, slower-growth environment, advertisers would be more cost-conscious and inclined to use flyers rather than ROP.

Verbatim Comments

- \* I think we're in for tough times. Expo was great but it's gone. The woodworkers are still out and the lumber industry is depressed. The labor problem at the port is so bad that we bring all our merchandise in through Seattle and truck it to Vancouver, which is a sad commentary on how things are going.
- \* In Vancouver the way you grew in the past was to go further out in the suburbs and start more stores. Now everybody has too many stores, so the way to make an extra dollar is to take it away from the other guy.
- \* This market has the after-Expo blues. We never really got over the recession, but in my line there have been 17 new stores which have opened since then.
- \* We're emphasizing market share and competitiveness as the way to win in this market now rather than pure growth. I think instead of all the players winning in this market, some are going to win and some are going to lose, and Southam better be nice to the winners.



THE IMPACT OF ADVERTISER PERCEPTIONS ON STRATEGIC OPTIONS

Since we now have a great deal more data with which to evaluate three of the four strategic options outlined at the conclusion of the Phase I reports, in this section we will review those options, outline our evaluation of them from the quantitative phase of this research, and discuss how our findings based on the advertiser interviews effect each option.



The "Wait Your Way Out" Strategy

**Strategy Review:** This is the classic "business as usual" strategy. It assumes that the Vancouver economy will move forward again in the short-term, and that with circulation growth continuing at a healthy pace, not only could Pacific Press justify rate increases (reflected in the "added value" of this growth to advertisers), but there will be sufficient incremental advertising dollars available to afford them.

**Quantitative Evaluation:** After Phase I we concluded that neither the Vancouver economy in general, nor the retail sector in particular, can grow fast enough to provide the amount of revenue needed to "pull" Pacific Press into an acceptable level of profitability, and that "waiting" for the external environment to artificially buoy up the company's difficulty in translating revenues into profit would be a long and fruitless vigil.

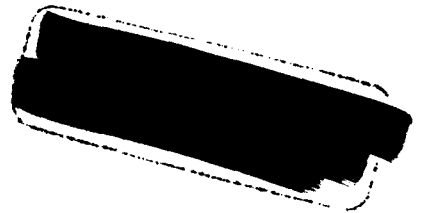
**Results of Advertiser Interviews:** The retailers interviewed strongly support our views on the immediate economic future of Vancouver, and if anything they are more pessimistic than we are.

Retailers in Vancouver are developing a "bunker mentality," preparing to fight one another for share rather than reap the benefits of economic growth. Share fights mean that all sides must indeed keep advertising or ultimately lose the battle. But they also mean that advertisers will be extremely conscious of costs as sales are gained not through market growth, but through the expensive process of diverting sales dollars from competitors.





The "waiting" strategy assumes, in addition to economic growth, the ability of Pacific Press to translate that growth into rate increases. Retailers in this market are already extremely rate-sensitive, and this can only grow as competitive pressure builds.



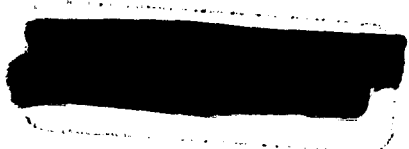
The "Grow Your Way Out" Strategy

**Strategy Review:** This strategy accelerates the revenue-based strategy which Pacific Press has tried over the past several years. Even in the absence of economic resurgence, this strategy assumes that the combination of two distinctly positioned daily newspapers can "fill up" the readership franchise quickly enough to garner the needed sheer market power to build revenues faster than ordinary operating costs could increase.

**Quantitative Evaluation:** Here, too, our economic evaluation simply did not point to a climate conducive to rapid revenue expansion. And our analysis of the Pacific Press revenue/cost structure showed that to leap ahead of costs, revenues would have to be increased \$20 million over our reasonably optimistic projections. Given that Pacific Press national and classified share is far above average and that retail could not take up that much slack, this seemed a very tall order.

**Results of Advertiser Interviews:** Advertisers have added a new dimension to the analysis by being very specific as to where the growth in a successful "grow your way out" strategy must occur -- in the new suburbs, most of which are far away from the core city.

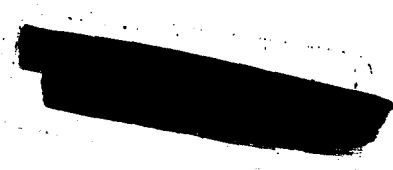
Yet the most dynamic of the Pacific Press products from a growth standpoint is the Province, which has a distinctly urban "feel" and a format that would make a highly localized approach difficult.



We do feel, as a result of these interviews, that the Province has not yet reached its full potential in attracting new advertisers even with its Vancouver orientation, but that the growth curve is becoming flatter as resistance continues from those advertisers who won't use the Province. In addition, these interviews found that Sun-oriented advertisers will be very disturbed if any Province growth occurs at the expense of the Sun, and we know that recent NADBANK figures suggest that much more Province growth could make this form of cannibalization a distinct possibility.

Altogether, then, it does not appear that the Province alone can provide the substantial revenues needed for a growth-oriented strategy to succeed.

Over the long-term, additional revenue growth for the Sun could be achieved, but such a strategy would probably require shifts in the Sun's and Province's publishing cycles as well as reorientation of their respective circulation areas. There is little opportunity for Pacific Press to "grow its way out" in the short-term, however, since the revenue growth required of the Sun would have to be achieved with a massive switch from preprints back to high-leverage ROP in the Sun -- an unlikely scenario given advertisers' satisfaction with their flyer programs, which they consider both effective and cost-efficient.



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The "Compete Your Way Out" Strategy

**Strategy Review:** This aggressive strategy assumes that the key to security in Pacific Press' future is not in continuing to grow bigger, but in competing more effectively to capture share of retail dollars back from competitors. We estimate that to be successful in this strategy, share of available retail advertising dollars would have to be increased from the current 27% to at least 35% by 1990.

**Quantitative Evaluation:** In Phase I we concluded that the suburban weeklies are the major cause of Pacific Press' low retail share, and that "on paper" the weeklies are formidable competitors in their number, their relative efficiency, and their ability to generate revenue.

**Results of Advertiser Interviews:** We believe that the weeklies are as strong in the reality of day-to-day advertiser decisions as they are in the theoretical world of quantitative evaluation.

Simply put, advertisers like the weeklies, think they're doing a good job, and believe their presence provides valuable balance and stability in a crisis-prone print-media marketplace.

On the other hand, we believe that every tactical move being made by Pacific Press and Southam to compete with the weeklies is exactly on target:

- 1) The idea behind Flyer Force is basically: "If distribution of flyers in the suburbs is what advertisers want from our competitors, let's go do that better, more efficiently, and with a better product than they have". There are few strategies better or more tested by time than "building a better mousetrap".
  
- 2) The new all-Southam package sales unit takes the decision making process into a league where the weeklies cannot compete, provides added-value to flyer-oriented advertisers by giving them "one-stop shopping" for services from the flyer mechanical all the way to the consumer's home and, frankly, lumps Vancouver in with stronger markets and shields it from microscopic advertiser scrutiny.
  
- 3) The Vancouver/Southam management team's new attitude and aggressiveness may ultimately make them "liked" and trusted as much as the weekly people.

But as positive as these competitive thrusts are, they leave the nagging question: Can they gain enough share fast enough to save Southam from the requirement of winning major reductions in cost?

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Our answer is a reluctant "no", for three reasons.

1. The major finding of the advertiser interviews is that Vancouver retailers have no particular problem with the status quo: Pacific Press does a good job in the city, and the weeklies and private distributors take care of the rest of the market.  
  
Now their situation is even better: If the weeklies don't deliver 100% perfect service or raise rates, they'll go with Flyer Force. If Flyer Force stumbles, they'll go back to the weeklies.
2. A change in advertisers' perceptions of Pacific Press' (or Southam's) attitudes toward them as customers is certainly desirable, but while any new "customer-driven" marketing approach certainly can't hurt, advertisers have elephantine memories. The new Southam approach has to make up for years of misunderstandings of Sun policy, which will take time.
3. The new company-wide sales packages will be a big help in altering the "mix" of advertising revenues to Southam's benefit in Vancouver. Advertisers' initial reaction to the plan looks promising, but clearly a key element of such a sales package has to be rate reductions on ROP, making it "not-so-high" profit ROP. (And one always wonders whether, given Pacific Press' current cost structures, incremental ad volume in the short-term doesn't cost more than it contributes.)

Finally, then, executives at U&A have had considerable experience in designing and selling such cross-market advertising packages in the U.S., and they can be tremendously powerful. Realistically, however, if advertisers take a conservative, "wait and see" attitude when dealing in thousands of dollars, it will take months to impact revenues when the price tag reaches millions.

The strategies now underway at Southam and Pacific Press have laid a solid foundation for a successful "compete your way out" strategy. None of the elements of that strategy (e.g.: Flyer Force, Southam sales packages, etc.) can be expected to achieve the magnitude of share gain required for the short-term, however. As long as key advertising customers are able to "whipsaw" both Pacific Press and the weeklies, neither side gains much ground -- since advertisers preserve maximum flexibility and control.

Ultimately, we believe that the greater resources and professionalism of Southam -- as well as the logic of its recent strategic actions -- can make it the winner of dominant share in the Vancouver marketplace. Even these solid strategies, however, won't produce the "quick fixes" or revenue miracles likely to solve the short-term dilemma.

Thus, we are inevitably led to believe that the fourth strategic option outlined in Phase I of this study is the most realistic, and best supported by both quantitative and qualitative analysis:

The "Save Your Way Out" Strategy

This scenario assumes that expectations of dramatic revenue increases (either due to a booming Vancouver economy or recapture of lost share) are untenable in the foreseeable future.

Over the long-term, the company can and should become a more effective competitor for advertising share. Even over the long-term, however, the most aggressive growth strategies cannot produce an acceptable return on investment -- nor ensure the viability of Pacific Press' franchise -- without substantial and permanent changes in Pacific Press' operational cost structure. This, then, must be the primary strategic objective for the short-term, as it is the foundation of all future strategic success.