

Paying to Print

Several scenarios emerge as the outsourcing trend gains traction

BY JIM ROSENBERG

FOR DECADES, LOCAL NEWSPAPERS JEALOUSLY GUARDED the manufacture of their product, maintaining and upgrading presses even as national, niche, and non-daily papers paid others to print. But now, outsourcing printing is beginning to gain acceptance across the industry.

Why? Simple economics.

No equipment costs newspapers more to purchase and power than presses. But relative to revenue, the burden of fixed costs associated with installed, heavy equipment increases as circulation decreases, absent a return from capabilities to print more and better color advertising or more products. Presses installed to send copies to 220,000

homes 10 years ago are likely supplying smaller editions to only 200,000 homes today and fewer tomorrow. And for older iron, the more maintenance, repairs, or upgrades required would seem to offer less reward.

The economy in general and the state of the industry in particular suggest that the net return may at best amount to little more than running in place. And for sites facing press replacement, the return on investment for many must now seem a fraught proposition.

Depending on equipment condition and utilization, local market forces, and a paper's plans, a sensible operating alternative may be to pay only for capacity needed.

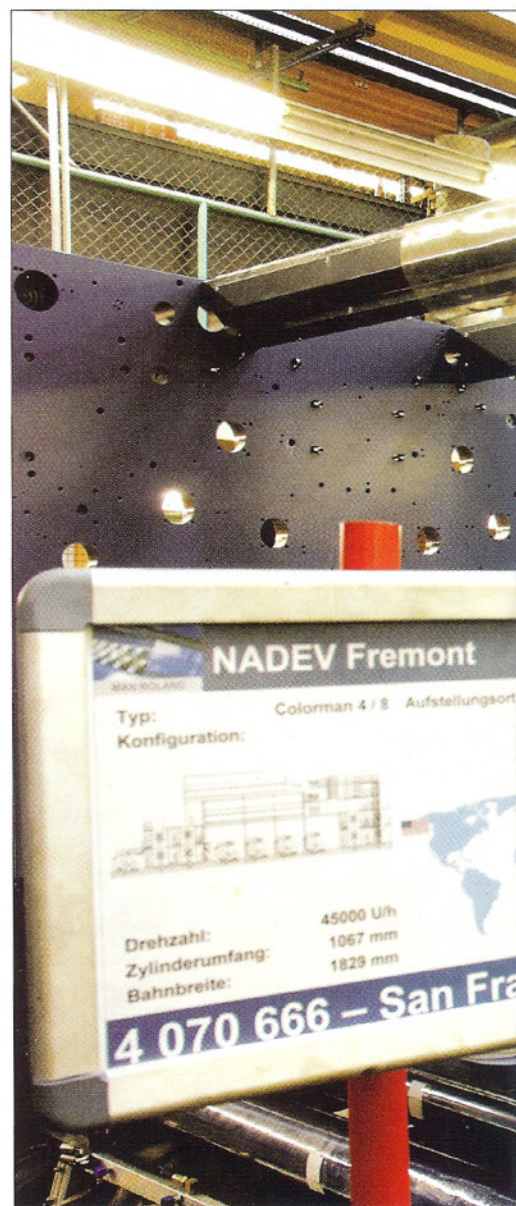
After all, the pressroom is really the final frontier of outsourcing, as more newspapers try to off-load more editorial and IT chores and, most notably, revive the practice of handing off advertising production to outside companies — a concept that emerged as

long ago as the mid-1990s, when technology and graphic-design companies began performing ad make-up for the *Los Angeles Times* and *Los Angeles Daily News*.

But producing digital ad files that can move at nearly the speed of light is not the same as producing page plates or entire printed publications that move at conveyor and truck speeds. A pressroom can be only so far from a newspaper's market.

What's more, while ad-makeup systems and staffers can be reacquired relatively quickly should an outsourcing arrangement sour, platemaking and printing equipment, not to mention pressroom personnel, require much more time, planning, and investment.

Publishers understandably have resisted giving up control; papers aren't truly published until they are delivered, and start losing value rapidly an hour after delivery. And newspaper production experts are split



even on whether traditional commercial printers even want newspaper work. After all, few commercial shops operate doublewide presses or place quality expectations — however much they have been raised at newspapers — second to speed and volume.

The age of 'insourcing'

That said, newspapers have a wide range of outsourcing possibilities: creating their own production units; paying another paper for print service; consolidating production with nearby papers under the same or different ownership; or dispensing with print operations altogether by sending pages to a commercial shop or arranging for a third party to take over the newspaper's pressroom.

Then there is the example of the *Houston Chronicle*, which turned to so-called "insourcing." The 507,437-circulation daily turned over its advertising color prepress

MAN Roland technicians assemble the triplewide Colorman XXL presses that will be shipped to Transcontinental's new plant in the San Francisco Bay Area from their factory in Augsburg, Germany.



operation to an outside company that hired the *Chronicle's* staffers, bought its systems and linked them to its printing plant, and continues to work out of the paper's facility.

The *Chronicle's* relationship with American Color evolved over the years, and a new contract was being negotiated this winter, according to Production Vice President Mike Mayo. The paper now manages all production through pagination, and American Color still assembles most commercial print sections. In summer of 2002, it also took over the *Chronicle's* commercial heatset printing operation — a separate facility which it now owns and where the *Chronicle* is one of many customers.

In fact, some newspapers remake their own pressrooms into third-party operations. Ed Padilla, Global Press Sales CEO and Goss International Chairman, is a former newspaper owner, publisher, and senior executive



with the Washington Post Co. and press maker MAN Roland. He cites Publisher Joe Hladky's decision to restructure the organization of *The Gazette* in Cedar Rapids, Iowa. Recognizing his business as advertising and editorial, Padilla says, Hladky chose to "make manufacturing a separate business center," with its own profit and loss responsibility and the newspaper as one of its customers. "They've done a good job of that."

Another possibility is a joint venture among independently owned dailies, such as Premier Printing of Central Ohio — an arrangement also tried years ago by weeklies, notes Inland Newspaper Machinery Corp. President Beau Campbell.

Bring in the third parties

For the majority of daily print outsourcing pioneers, though, the job calls for third parties with deep knowledge of newspapers. As is the case with ad production, most of the early clients are in California.

Three years ago, the *Daily Breeze* in Torrance followed its own contract customer, *The New York Times*, to Southwest Offset Printing's (SOP) plant in nearby Gardena. This month, *The Bakersfield Californian* turns over its pressroom to Brad Moseley Inc. (BMI), which has managed its mailroom for several years. And next year, the *San Francisco Chronicle* will close the last of its three plants when printing transfers to a new facility being built by Canada's Transcontinental Inc.

The trend has been spreading nationwide, though. As far back as 1995, North Jersey Media Group, publisher of *The Record* in Bergen County, N.J., began printing Advance Publications' *The Jersey Journal* in Jersey City for distribution in a non-competing county. And exactly a year ago, E.W. Scripps' *Knoxville* (Tenn.) *News Sentinel*, started printing *The Oak Ridger* (then a Morris Communications daily) located less than 25 miles away.

In creating a comfort level for a metro daily, Transcontinental covers all bases: It publishes a dozen dailies and 160 non-dailies, its printing division handles another 75 dailies and weeklies, and it is building a Bay Area plant equipped with triplewide MAN Roland presses and staffed by skilled, cross-trained personnel. Aiming to expand work for U.S. publishers, it also has hired two notables in newspaper operations to help launch and manage a U.S. business unit.

Northern neighbors weigh in

In a more traditional arrangement, large local printers like SOP, with operations near Los Angeles and San Francisco, and AFL



For the last year, copies of *The Oak Ridger* have been run off a MAN Roland Regioman press at the nearby *Knoxville* (Tenn.) *News Sentinel*.

Web Printing, with plants near Philadelphia and New York, handle the printing. Executives at neither company responded to requests for comment.

For outsourced Canadian titles, Transcontinental uses its own plants for the likes of *The Globe and Mail* and Montreal's *La Presse*, and newspapers' plants, such as those at three smaller Gesca Ltd. dailies. It has commercial-printing and direct-mail operations in several U.S. cities, and in Canada it already prints copies of *The New York Times*. But the company's Bay Area operation represents its first foray into the newspaper market within the U.S.

"We continually look at outsourcing to someone like a Transcontinental [and] to outsourcing to another newspaper," says Gannett Production Vice President J. Austin Ryan. "We have been most successful in outsourcing to ourselves," he adds, referring to Gannett's many print sites.

Transcontinental Printing is variously judged the sixth or seventh largest North American printer, but "I don't see us bump-

ing up against a national competitor," says Ted Markle, who last year was named senior VP of Transcontinental's North American Outsourcing Development and U.S. Operations Division.

One competitor, Quebecor Inc. (also based in Montreal), may be Canada's largest newspaper publisher, with 37 paid dailies, seven free dailies, and 184 non-dailies. It also is a big commercial printer and distributor of ad inserts and flyers. In January, Quebecor announced it was in no way affected by international commercial printer Quebecor World's bankruptcy reorganization, calling Quebecor World an independent company (Quebecor Inc. is its principal shareholder).

So might Quebecor Inc. be a player? "It is my understanding that even with everything that's going on, they're still looking to do more

of it," says Web Offset Services President Sam Wagner. In North America, he adds, "that door is not closed."

In the meantime, Transcontinental, which has offices in Fremont, Calif., has its "implementation team fully formed and in place," says Markle. "We've made all the major equipment decisions." Planning and design for the plant, he adds, are "progressing very well."

As for business, Markle says it is "mostly true" his division is looking at metro-area papers, though much deeper than the top 20 — and that there may be other opportunities when clusters are considered.

Further, he says regional papers — and not only the largest — in coming years also probably will want to talk to Transcontinental. When it comes to circulation size, he remarks, "we don't have a hard-and-fast number in terms of critical mass." Three or four mid-sized dailies could justify another operation, Markle adds.

As for non-newspaper work, he thinks models for commercial and newspaper

printing are "converging," especially as quality expectations get closer. So, while initially printing only the *Chronicle*, the Bay Area operation likely will seek both newspaper and commercial jobs.

"We are firm believers that newspapers need to reinvent themselves in terms of quality," says Markle, adding that with no "new statement" since *USA Today's* launch in 1982, the industry bears some blame for its sad shape.

The general argument for outsourcing production is that it frees newspapers to focus on reporting news, not printing newspapers. In remarks to Ifra's *newspaper techniques*, Markle called outsourcing "a better use of capital" that will "help ease the technological and financial risks."

At last year's Nexpo, former *Winnipeg Free Press* Publisher Andy Ritchie reviewed the pros and cons of outsourcing, primarily from his earlier experience as *Globe and Mail* operations vice president. Newspapers can retain some say in production, while taking advantage of commercial printers' technical know-how and larger operations' other plants as back-up. Also, he noted, contracts have shorter lives than plants and presses, quality and performance are negotiable, and commercial printers run operations with little overhead.

But Ritchie warned that publishers don't relinquish responsibility for their newspapers. Their customers won't complain to the printer. To the extent that a newspaper can manage production, it is indirect and delicate, relying on its quality manager working closely with a printer's press crews, as well as on leverage obtained through contract-specified procedures and performance criteria. Because a newspaper will be charged for everything, its accounting practices must be in sync with the printer's.

Another option: leasing

If outsourcing fails, there's no returning to previous practices any time soon if the old press is sitting in a scrapyard or another shop. An alternative may be to lease the press hall and equipment to a printer.

To both doubters or promoters of in-house outsourcing, Brad Moseley has a firm response: "I hate the word 'outsourcing.'" The president of BMI calls his business

"rightsourcing." Providing the right kind of service in the right area when it makes sense, he says, gives publishers the flexibility they require. Furthermore, he argues, "rightsourcing isn't taking jobs away. It's keeping jobs in the community."

Several years ago, when Ferag withdrew from facilities management, Moseley, who sold its RollStream system to the *Californian*, stayed on to run that paper's mailroom.

In a leasing deal, BMI this month also takes over the 62,377-circulation *Californian's* 20-year-old TKS doublewide press, a year after another paper chose another route when it gave up printing on its even older TKS singlewide. In a column two years ago, Publisher Richard Esposito mentioned that because the *Oak Ridger* owned the only TKS model of its kind in the coun-

web width will be cut to 46 inches.

Transcontinental's partnerships rely on "shared business values," says Markle. While he would "never say never" to an arrangement like the *Californian's*, he adds, "I don't think we'd be interested in taking over somebody's obsolete plant." Leases, he says, would depend on individual situations.

Though some recently installed presses could meet Transcontinental's needs, says Wagner, a newspaper pressroom probably would be undesirable because the big players hold close their information on equipment, practices, and the like. "The only way it could possibly work," he adds, is if the physical situation suited them, and they could structure a deal to keep operating details confidential.

Noting that BMI is neither a commercial

printer nor just any third party, Gannett's Ryan says he thinks "Bakersfield is an exception, and not a trend." Pointing to a need for a knowledgeable person to take over operations, Ryan says that after years at the *Californian*, Moseley likely acquired a good understanding of its practices, expectations, staff, equipment, and maybe some idea of its costs.

Moseley thinks others will emulate his approach, relying on their expertise rather than any existing commercial printing business. But, he adds, "there's more to it"

that will dissuade many, and he predicts "demand for it will far outweigh the number of people willing to get into this."

At any rate, the timing for BMI was right, according to Kay. It had a track record in the *Californian* mailroom, and about 10 months ago, when the family-owned paper issued a request for proposals to take over its printing, "as far as I know, we were the only company that responded to it," he says. "Our next hurdle is to get the second site," after which a third "will come that much easier," owing to BMI demonstrating less risk for a publisher, Kay says.

"When we're done," he continues, BMI will have 60 employees and expected annual sales of \$6 million for all of its business, including consulting.

Fewer jobs, less talent?

Another reason for outsourcing, Moseley argues, is "expertise in our industry that's going away," making it difficult to find the right people. And as the industry moves to



When *The New York Times* moved its West Coast edition onto Southwest Offset Printing's new Goss Mercury press, the *Daily Breeze* followed its former customer.

try, its "pressmen have become cannibals, stripping workable parts from one unit to use on another. If anyone needs a gear for a 1984 Kawasaki motorcycle, give me a call; we pulled one out of Unit 4 last month."

Regardless of what name it is given, the Bakersfield arrangement is a partnership, with each party dependent upon the other for success. If the *Californian* sells a commercial job, says BMI Press Operations Director Don Kay, "we would definitely try to work with them to do that." In terms of efficiency and quality, he adds, "we're already finding a lot of things we can do to benefit the *Californian*."

Kay says BMI is considering press enhancements to improve color registration and lay-down. The partners also look to profile the press and make upstream improvements in color management and separations' line screens. As for the iron itself, "we can really get some fine settings" from the true bearer press, with its four bearers across, says Moseley. In June, the

production consolidation and outsourcing, pressroom jobs likely will become fewer.

The *Californian's* pressroom staff can reapply for positions with BMI, which "absolutely" will draw from among them, says Moseley, adding that younger individuals may need mentoring not necessarily limited to press skills to "show them there is a career in the newspaper industry."

Wagner sees an even wider personnel problem. "There is a severe shortage around the world" of those capable of doing good work on the latest equipment, he says. Transcontinental typically hires and trains young people, and commercial competitor R.R. Donnelley & Sons "has done that for years," he says, when it builds new plants.

While craftsmanship and mechanical know-how still matter, production personnel need to keep current with technologies, Gannett's Ryan advises. He recalls successfully negotiating at *The Des Moines (Iowa) Register* with the Graphic Communications International Union for structured training, including use of a press simulator, and testing before staffers were assigned to the new press. Some, he continues, accepted immediate buyouts because they did not want to risk failing the test. To encourage commitment, the buyout sum was reduced with each step in the training process. "It really put skin in the game," he adds.

At Transcontinental, "we hire first and foremost based on career fit," says Markle, explaining that it is not so much technical experience, but that "they will feel fulfilled on self-directed work teams."

And pointing to the experience of *Globe and Mail* staffers some years ago, he, too, says *Chronicle* employees can apply for positions at the new plant. But Transcontinental, he emphasizes, is different from other operations, because "our teams are very nimble and very responsive" — something the company regards as "critical for the future of the business."

At the management level, Wagner points out, a key individual can bring along or attract jobs and good people, and may have experience with the same or a similar press.

That's important, says Ryan, because it is "difficult for a commercial house to take over what newspapers do" when, among other things, "we print all kinds of crazy stuff all the time" and so quickly.

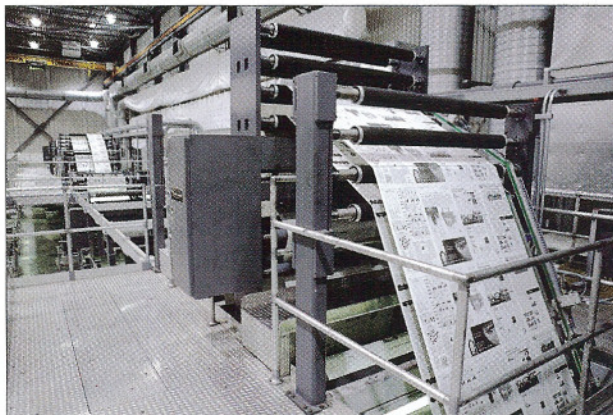
So it's no surprise that for its U.S. newspaper-printing team, Transcontinental recruited executives like Gannett Manufacturing Director Gary Hughes and North Jersey Media Technology Vice President Rick Ruffino (earlier Gannett's facilities planning director), or that BMI would hire

San Bernardino County Sun operations vice president Kay, also ex-Gannett.

"People who have worked for Gannett have a great reputation for being dollar wise," says Ryan. As for BMI's choice, "Kay is an artisan in the pressroom."

Moseley started in San Bernardino but had left by the time Kay arrived. The woman Kay later married introduced them.

Experience in newspaper publishing, not just printing, "is critical," Markle says. Printers serving newspapers need to appreciate



Transcontinental built a Goss Mainstream-equipped plant in Montreal for the purpose of printing Gesca's *La Presse*.

their "special sense of urgency and the need to make smart decisions at midnight and one o'clock in the morning. These are things that newspaper people relish," he notes. Having mixed daily deadlines with contract work, Ruffino and Hughes have "the right fit, the right character," he adds.

Covering and controlling costs

Printing contracts — price of printing, value of leases, who buys the consumables and carries the costs of maintenance and repairs — remain confidential. But they are spelled out, and many of the resulting benefits can apply when a newspaper company outsources to its own separate business unit, as in Cedar Rapids. With profit and loss accountability, says Padilla, there is no longer any mystery in overhead because it no longer gets buried. Paper and ink? "That's easy," he says, but what about items like heating and air conditioning costs just for the production area? Knowing that alone makes managing the business easier.

Outsourcing's tax advantages also should be considered. John Woolard, a managing partner at Austin-based property tax valuation consultants Morrison & Head, points out that old, unused presses' diminished value lowers the basis for property taxation, and disposal of equipment means no tax.

For papers that lease plants and equipment, "it's rare that the property tax liability

is not transferred to the lessee," Woolard says. "That could be huge, too."

Accurately determining property tax liability, says Woolard, means knowing its true cost. That "could mean just identifying the appropriate line item, or require a detailed fixed-asset cost-segregation study" of accounting records.

In his experience, Woolard says, "newspaper presses are grossly over-assessed in most cases" by assessors unfamiliar with the equipment and business. When removal

cost exceeds sales price, he adds, "a lot of presses actually have negative value."

For a product that is essentially irreplaceable from one day to the next, the biggest costs are delay or failure to produce, irritating readers and jeopardizing future ad income. Outsourcers will not discuss the particulars of their performance guarantees. But Web Offset Services' Wagner says that while approaches differ, contracts typically specify

that if a run is not completed, "every thousand copies short ... you will rebate us X-thousand dollars," with a similar arrangement for every certain number of minutes late to a given delivery point.

He adds that there is "a certain leverage you didn't have when it was your press: What are you going to do, charge yourself?" The same is true for press breakdowns. The third party takes the hit. A newspaper sets the quality bar and can say, "you only did X, and I'll pay only X," whereas when a newspaper handles its own printing, it can only put a system in place, then hire and train as best it can.

Performance guarantees generally contain "some carrots and ... some baseball bats," which may include financial penalties, says Moseley, adding that contracts include cancellation clauses. "Each paper will have its own issues based on its own history," each with its own "hot buttons" such as late delivery or newsprint waste. "More than anything else," he continues, performance means being able to change along with a publisher's requirements.

Performance also means "we have mutual formalized print agreements," so that if Bakersfield's press cannot print, other newspapers stand ready to do the job and vice versa, says Kay. "We were the ones who got involved and set that up for them."

For Wagner, the need to meet deadlines

is absolute. "More people fail because of that one thing than anything else," he says.

Other options for the future

Moseley recalls revenue-sharing proposals (before working at the *Californian*) in which the client would print and Moseley's operation would insert. In the future, he says, it may make sense to explore revenue sharing where BMI owns the equipment and facility, or where the publisher owns the building and BMI owns the equipment.

Inland's Campbell thinks that as newspapers' print quality rises, their equipment can attract other revenue to be shared by insourcing arrangements. Even then, he adds,

"it would probably require some sort of investment," though not necessarily a big one. Among those other jobs, Moseley sees opportunities for weeklies and smaller dailies.

Cautioning that newspaper and other work may compete for press time, Wagner cites the Bloomsburg, Pa., *Press Enterprise* as an early exception. The small, family-owned daily successfully got into semicommercial printing and then added heatset.

Besides printing at sister papers or group sites, crossing ownership lines is not out of the question. Ryan says he has "had conversations" to be the outsourcer of choice for newspapers in neighboring towns. Conversely, Gannett sought but could not find

an outsourcer for *The Times* in Shreveport, La., which will install a refurbished press.

One industry veteran recalls that, with a "New York bank willing to underwrite the project," he earlier approached several publishers in a northeastern metro area with the idea of forming a joint venture to print their newspapers. A study prepared for the proposal showed non-newsprint savings of about 18%, and even more on mailroom operations, said the would-be dealmaker, who insisted he not be named.

The venture never materialized, but the same person still expects "to see more competitors looking to each other to produce their papers." He calls the proposal a case where an equipment vendor or broker could help by supplying the kind of equipment that will see increased use and permit entry into new markets. "The industry is trying to evaluate a number of options to increase revenue and improve utilization of the investment made in capital equipment," he says. "Are they capable of doing it?"

Similarly, Wagner is working with unnamed North American newspapers that decided last year to pool resources to print their own titles and commercial work, along the lines of Ohio's Premier Printing. He's also aware of another group trying to do the same, with some market overlap.

Wagner expects to see a mixture of approaches: some big printers, newspapers joining with or printing for one another, and small or mid-size printers with some newspaper experience that already may be printing a business or specialty daily.

Over the next 10 years, particularly in this country, Padilla foresees "organizational structures that'll be significantly different from what the industry has seen in the last five decades."

He finds the current newspaper environment "alarming" but also "enlightening," and anticipates an increased possibility of competitors sharing operations, simply on the basis of a need to reduce cost. It will result not just from new, non-traditional ownership and will vary from market to market, he says, noting long-time publishers MediaNews Group, Gannett, and Stephens Media partnered to create clusters that cross ownership lines.

So will U.S. newspaper printing evolve to approximate the European model, in which publishing and printing are or operate as separate businesses? "That's the direction that has the best chance," Padilla says. ■

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