



**Client Memo: SOURCE EVALUATION**

In today’s tough economic climate managing marketing channels for optimal results takes on more significance for achieving and maintaining profitable publishing results. The ROI Plan Analyzer module in the **SMARTmodel** system can help you:

1. Determine optimal overall circulation goals for both short and long term plans.
2. Weed out unprofitable sources or segments of sources.
3. Establish work priorities to maximize marketing performance.

Before we describe how to build a Source Evaluation model in **SMARTmodel** let’s review two basic evaluation methodologies.

1. **Depletion (or attrition) Method.** For each marketing channel a block of new orders (subs) are evaluated for a period, of, say, seven years from the initial order thru conversion and renewal cycles. The table below helps visualize the dynamics of this method assuming:

	Year						
	1	2	3	4	5	6	7
New Subs 100%	10000						
Conversion 40%		4000					
1st Renewal 60%			2400				
2nd Renewal 80%				1920			
3rd Renewal 80%					1536		
4th Renewal 70%						1075	
5th Renewal 60%							645
<b>Total Subs</b>	<b>10000</b>	<b>4000</b>	<b>2400</b>	<b>1920</b>	<b>1536</b>	<b>1075</b>	<b>645</b>

2. **Maintenance Method** The underlying calculations for this method are exactly the same as those for the Depletion Method except that the model is calculated to maintain a certain level of circulation replacing non-renewing subs from the same source being evaluated. This method is often used for ad-driven publications.

	Year						
	1	2	3	4	5	6	7
New Subs 100%	10000	6000	5200	4560	4240	4205	4236
Conversion 40%		4000	2400	2080	1824	1696	1682
1st Renewal 60%			2400	1440	1248	1104	1018
2nd Renewal 80%				1920	1152	998	883
3rd Renewal 80%					1536	922	799
4th Renewal 70%						1075	737
5th Renewal 60%							645
<b>Total Subs</b>	<b>10000</b>	<b>10000</b>	<b>10000</b>	<b>10000</b>	<b>10000</b>	<b>10000</b>	<b>10000</b>

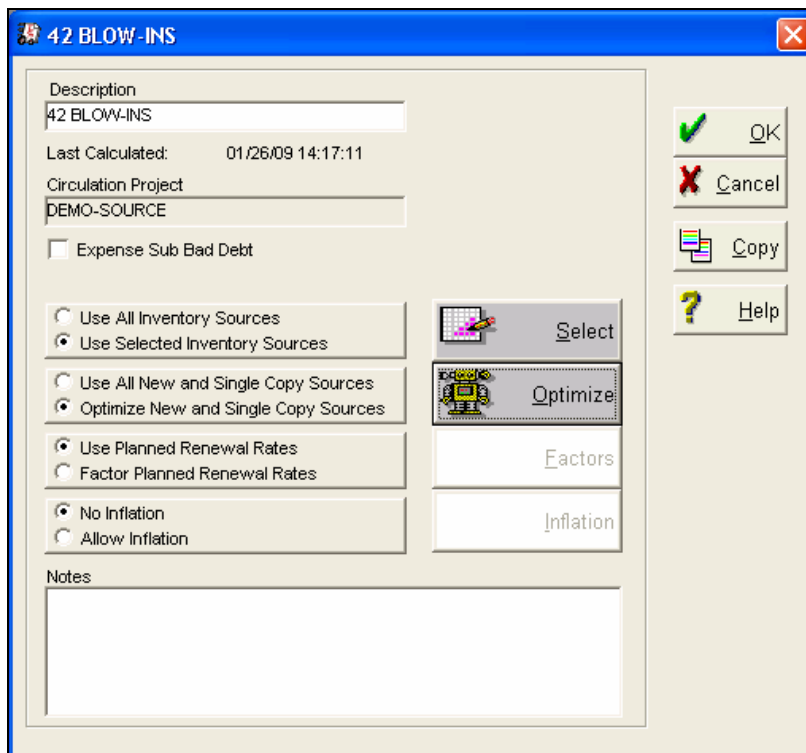
Generally, using either method will usually result in equal ranking of source profitability unless the dynamics of a marketing channel are expected to change dramatically over the period evaluated. For instance, if direct mail postal and mailing costs are expected to rise at a rate faster than costs for other sources and coupled with declining response this source would fare worse under the maintenance method.

Another dimension in source evaluation involves unloaded and loaded analytics:

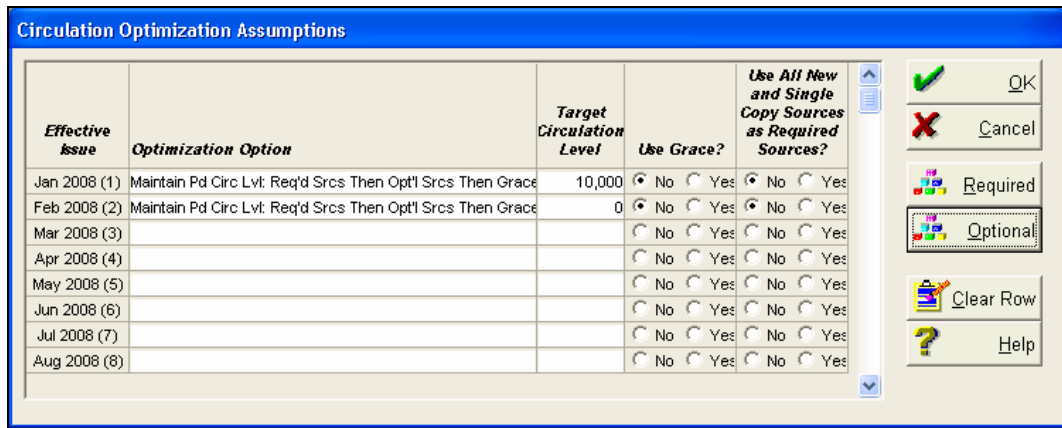
1. **Unloaded Analysis** – evaluates only direct variable revenue and circulation marketing costs associated with the marketing source. For instance, sub revenue less direct circulation department marketing, billing and fulfillment costs.
2. **Loaded Analysis** – All variable revenue and costs streams associated with the source, including sub (or single copy) revenue, the value of the circulation for generating advertising pages, list rental and other income streams. These revenue streams are offset by variable circulation, fulfillment, advertising, list rental and printing and distribution costs.

Developing a profitability profile for key circulation or marketing channels using **SMARTmodel**'s ROI Plan Analyzer can be quite helpful in planning marketing efforts. We recommend the following steps:

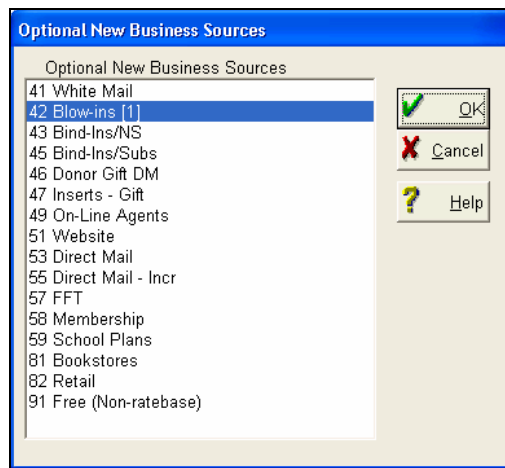
1. Make a copy of your control project and rename the copied project, eg. DEMO-SOURCE.
2. In DEMO-SOURCE delete all fixed departmental costs such as overhead, salaries and prepress.
3. Delete fixed revenue sources, if any.
4. For each source that will be evaluated adjust the following:
  - a. In Setup specify starts by issue.
  - b. In Orders reconfigure starts so that at least 10000 net subs will be produced for the first issue. If you're performing a depletion analysis check off the box specifying production for one issue only. Make sure all starts and order production spreads either default or show 100% starts with issue 1.
  - c. In Expenses check to see that all promotion costs are variable and either calculate against mailing universe or orders.
  - d. For each renewal source make sure that all renewal response data is shown as a percent and not orders.
5. Go to Reports>Circulation Plans>Calculate and set up a Circulation Plan for each source to be evaluated.
  - a. For each source plan make sure that inventory sources are not selected



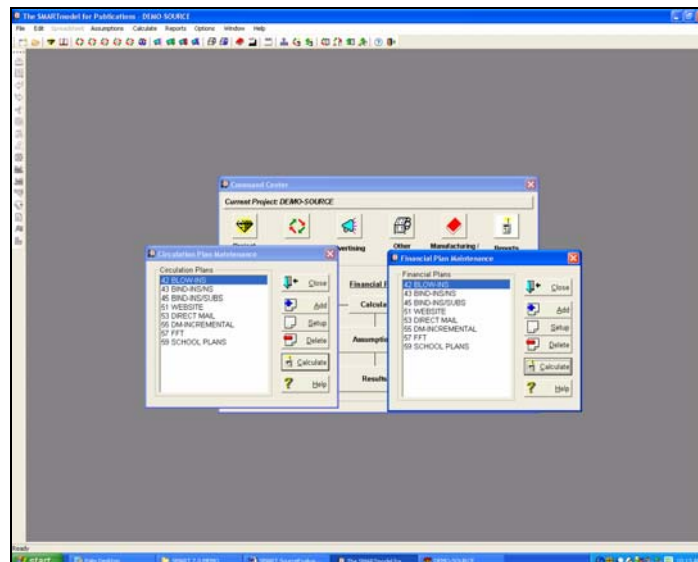
- b. In the Optimizer for Issue 1 specify a target circulation level of 10000 net subs and check off the “no” boxes for grace copies and required sources. Be sure to set the level back to zero for issue 2.



- c. In the Optional box select only the New Business Source that will generate orders for its evaluation plan.



- d. Go to Financial Plans>Calculate and specify a financial plan name using the same name as the Circulation Plan name. In setup for each financial plan check off the box specifying always calculate the Circulation Plan first. Highlight all financial plans and hit the Calculated Button.



- To review the Source Evaluation results click on the ROI Plan Analyzer button and specify the Source Plans for reporting detailed results for each source and a summary.

**SMARTmodel for Publications - DEMO-SOURCE**

Publication: NEW SAMPLE      Report: Detailed Plan Comparison  
 Project: DEMO-SOURCE      Date: 01/23/2009  
 Time: 10:24:30

**42 OK COMMENTS**  
 42 BS OK COMMENTS

At Risk: \$15,968

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<b>Production Analysis</b>							
New Business Net Orders Sold	10,000	0	0	0	0	0	0
Revenue/Line Order Sold	0	2,840	2,128	1,820	1,230	920	920
Total Net Orders Sold	10,000	3,840	2,128	1,820	1,230	920	920
<b>Average Units</b>							
Net Line Size	12.0	15.0	15.0	15.0	15.0	15.0	15.0
Net Line Size	120,000	57,600	31,932	27,360	18,444	13,800	10,368
Average Rate Base	9,958	3,834	2,802	2,194	1,656	1,251	945
<b>Financial Analysis</b>							
Total Revenue (M) - Period	\$415.7	\$165.7	\$117.1	\$87.8	\$67.5	\$50.7	\$38.2
Cumulative Revenue (M)	\$415.7	\$601.4	\$718.5	\$806.4	\$873.9	\$924.5	\$962.7
Revenue/Net Order Sold - Period	\$41.57	\$43.37	\$55.03	\$53.67	\$54.86	\$55.12	\$55.26
Cumulative Revenue/Net Order Sold	\$41.57	\$43.45	\$45.00	\$45.96	\$46.54	\$46.94	\$47.22
Revenue/Line Unit Sold - Period	\$3.46	\$3.22	\$3.67	\$3.71	\$3.86	\$3.67	\$3.68
Cumulative Revenue/Line Unit Sold	\$3.46	\$3.39	\$3.43	\$3.46	\$3.47	\$3.48	\$3.49
Total Profit (M) - Period	(\$37.3)	\$54.1	\$22.5	\$13.7	\$9.7	\$6.7	\$3.2
Cumulative Profit (M)	(\$37.3)	\$16.8	\$39.3	\$53.0	\$62.9	\$69.5	\$71.7
Profit/Net Order Sold - Period	(\$3.73)	\$14.08	\$10.58	\$8.70	\$7.92	\$6.24	\$4.00
Cumulative Profit/Net Order Sold	(\$3.73)	\$1.21	\$2.46	\$3.02	\$3.34	\$3.48	\$3.52
Profit/Line Unit Sold - Period	(\$0.31)	\$0.94	\$0.71	\$0.58	\$0.53	\$0.42	\$0.21
Cumulative Profit/Line Unit Sold	(\$0.31)	\$0.69	\$0.19	\$0.23	\$0.25	\$0.26	\$0.26
Profit/M Average Rate Base - Period	(\$3.74)	\$14.108	\$7.814	\$6.261	\$5.895	\$4.932	\$3.365
Cumulative Profit/M Average Rate Base	(\$3.74)	\$1.215	\$2.356	\$2.810	\$3.059	\$3.146	\$3.155
<b>ROI Analysis (5% hurdle rate)</b>							
Present Value Factors	0.913	0.8240	0.751	0.683	0.626	0.576	0.530
Net Cash Flow (M)	\$62.7	\$54.1	\$22.5	\$13.7	\$9.7	\$6.7	\$3.2
Present Value (M)	\$57.3	\$50.0	\$17.0	\$11.5	\$7.8	\$4.3	\$2.3
Cumulative Present Value (M)	\$57.3	\$130.3	\$150.1	\$163.8	\$173.7	\$179.9	\$179.9
Net Present Value (M)	(\$39.7)	\$10.3	\$30.1	\$41.6	\$48.3	\$53.7	\$56.0

**SMARTmodel for Publications - DEMO-SOURCE**

Publication: NEW SAMPLE      Report: Plan Comparison Summary  
 Project: DEMO-SOURCE      Date: 01/23/2009  
 Time: 10:25:30

Year 1 Analysis	Total	Net		Average		Profit		Profit		Profit		Total		Net		
		Order	Rate	Unit	Rate	Line	Unit	Line	Rate	Unit	Rate	Unit	Revenue	Cost	Profit	Value
ENR/ENR/ENR	10,000	9,958	120,000	12.0	\$30.0	\$3.00	\$3,013.11	\$415.7	\$62.7	\$60.3	\$0.3	\$415.7	\$62.7	\$60.3	\$0.3	\$0.3
43 BND-ASGAS	10,000	9,958	120,000	12.0	\$30.0	\$3.00	\$3,013.11	\$415.7	\$62.7	\$60.3	\$0.3	\$415.7	\$62.7	\$60.3	\$0.3	\$0.3
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