

Circulation Fulfillment Australia

Providing turnkey circulation solutions to the publishing industry through core services of Home Delivery, Telemarketing and Customer Care

Business Plan

Commercial in confidence.

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Mission

To provide world-class service support to the written media industry, publishers, distributors and consumers with sales, customer care, distribution and other circulation services.

To provide a model which newsagents might find useful in considering their response to the growing consolidation occurring in the marketplace.

Vision

That CFA is the circulation product fulfillment company of choice.

This is a position we shall strengthen by seizing opportunities to grow, delivering world-class service to our clients, exceptional service to consumers and creating a workplace that values employees.

We will exploit opportunities for growth beyond the media industry by leveraging our core functions of customer care, sales and distribution to clients throughout the marketplace.

Values

As a commercial business, CFA is first and foremost the servant of its shareholders. In pursuing this, the company will hold to the following core values:

- Honesty.
- Fairness.
- Openness.
- Teamwork.
- Respect for our employees.
- High quality operating performance.
- Strong leadership.
- Strong client relationships.
- Excellent commercial results which benefit all stakeholders.
- Simple operating model.

Overview

Circulation Fulfillment Australia is a newsagent for the twenty first century.

It is the result of a group of newsagents banding together and locating their individual distribution businesses into a well resourced and managed single corporate operation.

Owned by newsagents, CFA is a business which amalgamates individual newsagent distribution operations into a more commercial logistics centered consumer fulfillment and marketing organisation, freeing some newsagents to concentrate on their retail businesses and others to exit the day to day operation of a newsagency.

Separation of retail and distribution newsagency businesses in this way allows the individual newsagent to have more resources available for managing and building the retail side of the business while retaining an economic interest in a distribution operation.

The initial partners in CFA gain an added benefit – that of developing this exciting model for the future of newsagencies and newsagents.

CFA provides a structured and viable exit mechanism for newsagents looking to exit the industry. CFA also provides a commercial alternative for newsagents who want to work together and aggregate their individual distribution businesses into something more competitive and valuable.

CFA aims to:

- Leverage economies of scale and reduce the per delivery point delivery cost.
- Improve the service retail customers receive and therefore sales achieved and the number of locations reached.
- Improve the service home delivery customers receive and therefore improve retention and market penetration.
- Develop and implement successful home delivery customer recruitment campaigns.
- Surpass supplier customer service objectives.
- Provide a financially rewarding and lifestyle enhancing alternative for newsagents.
- Provide an ownership and management structure appropriate to the today's commercial climate which enables newsagents to more easily compete.
- Eliminate the duplication of effort inherent in the current newsagent system.

Newsagents adopting this business plan will hand their entire distribution business¹ over to CFA in return for an agreed shareholding in the company. At the same time CFA will enter into a five year agreements for the distribution of newspapers and magazines (home delivery and sub agents) in the handed up 'territories'.²

¹ Home deliveries, sub agent distribution and Network Services Delivery Program areas.

² Subject to the approval of publishers and distributors. Five years sought on the basis of the projected significant capital investment required in establishing CFA.

Newsagents not wishing to take up shares in CFA would have the option of receiving payment according to an agreed valuation formula and over an agreed period of time.

CFA will operate the distribution business from a separate specialist location with specialist distribution and marketing staff. From the time of take over, the selling newsagents would have no further involvement with distribution other than as shareholders in CFA.

CFA would employ distribution, marketing and customer service specialists and resource them with state of the art facilities to enable the most efficient and cost effective circulation product distribution operation possible. The product delivered out of the distribution facility would aim to set a new benchmark for the distribution of newspapers and magazines in Australia.

Our goal is to be serving 10,000 consumer delivery points and 150 retail resellers from the planned distribution facility.

We plan to build a business so successful that newsagents and suppliers approach us wanting to be involved.

Once established from one distribution centre, we will look for opportunities where our model might be duplicated should there be sufficient newsagent interest.

CFA would not operate any retail business.

The new business model

1 Services

1.1 Marketing

Central to the operation of CFA will be an integrated marketing function designed to grow the business, gain additional sales to existing customers and facilitate the retention of existing customers.

Marketing activity will be planned quarterly in advance with all activities integrated to ensure focus on the overall business growth goals for the year.

New Customer Marketing. Directed by our in house marketing manager and using external resources as necessary, our new customer marketing activities will include:

- Telemarketing using IT tools to guide cross selling and upselling
- Door to door canvassing
- Product give aways
- Local event sponsorship
- Personalised direct mail
- Letter box drops
- High profile, in the field presence, through a strong corporate image as represented in brightly painted delivery vehicles, uniformed employees and contractors and distinctive product packaging.

Additional Sales Marketing. Using sophisticated database and mapping technology we will target existing customers and pursue up sell opportunities to maximize use of our distribution infrastructure and achieve optimum product penetration. Our plans to achieve this include:

- Personalised direct mail
- Special multiple drop pricing offerings
- Rewards for additional business
- Telemarketing
- Special offers promoted with monthly accounts

Customer Retention Program. Our circulation manager and marketing manager will work together to ensure that customer churn is kept to a minimum. Our plans to achieve this include:

- Anti attrition calling – to fix a problem before it happens
- Cancellation prevention – a strategy for handling a cancellation requests with a view to converting them
- Structured communications including:
 - regular customer newsletter adding value to the relationship
 - optional SMS advice in the event of major delivery delay

- Easy contact 24/7 to stop or start deliveries by telephone or the CFA website
- Easy payment options eg. Bill Express, BPay, Cardlink or similar facilities
- Regular market research to determine customer opinions about products and service
- Added value services increasing the value of the total relationship to the customer

1.2 Distribution

Delivery, merchandising and returns management services for retailers of newspapers and magazines in the geographical area serviced by CFA. Distribution services include:

- Delivery product to retail locations for resale
 - Product clearly labeled and priced
 - Deliveries to include a computer generated delivery document listing all stock provided in each delivery and price
- Placement of product on display and in pre agreed positions and by a pre agreed time ready for purchase
- Placement of posters as agreed for the location
- Removal of product due to be returned with a receipt for removed product provided
- Counting of product remaining on the shelf at that time, for agreed titles, using portable barcode scanner
 - Data uploaded to host system at end of the delivery round and to be available for publishers and distributors via agreed mechanism that day
 - Retail out allocations system to automatically adjust supply based on net sales figures and according to formulae agreed with publishers and distributors
- Training of retailer employees on any special promotions

Retail outlets will be graded with those achieving higher volume business receiving two visits each day to ensure sufficient stock levels.

Financial reward incentives will be offered for retailers who work with CFA to drive sales.

1.3 Home fulfillment

While initially home fulfillment refers to the home delivery of newspapers and magazines, it is anticipated that this service will develop to include the home delivery of other products and or services as CFA matures.

CFA plans to provide a more consistent and more valuable home fulfillment service to newspaper publishers, magazine distributors and other commercial partners wanting to ensure safe on time delivery of their products to consumers.

The cornerstone product/service mix of the home fulfillment service is that of newspaper distribution.

The key elements of the home fulfillment service are:

- On time and accurate placement of the right product at consumer delivery points as ordered by the consumer
- Management of run sequence to ensure efficiency and on time arrival of product
- Brightly painted corporate image delivery vehicles
- Uniformed employees
- In vehicle electronic run lists (with GPS facilities once economically justifiable) with optional ability to record each drop including drop time
- Missed delivery correction within an hour of reporting of miss with service operational to 2 pm each week day and 12 noon on weekends
- Use of distinctively coloured packaging material to protect delivered product from weather and to make location of delivered product easy
- Establishment of key performance indicators for delivery service which include measurements for on time delivery, acceptable number of mistakes, damaged product, damage to property due to service

2 Infrastructure

To meet the operational and service objectives set out in this business plan, CFA will establish the following infrastructure.

2.1 Distribution facility

This purpose developed facility would be located away from residential dwellings and offer the following features:

- Close to main road network
- On site office
- Easy 24 hour 7 day a week access for large delivery trucks with all weather protection and to enable rapid unloading
- Sufficient space for easy and safe use of a forklift
- Drive in access for CFA distribution fleet
- Large allocations area
- Separated large returns area
- Security
- Protection against flooding
- Dry

2.2 Distribution facility equipment

CFA will equip the distribution facility with the equipment necessary to ensure the company's performance goals are met and that company employees have

access to state of the art tools to enable maximum performance and job satisfaction.

- Newspaper wrapping capacity of 10,000 items per hour across multiple wrapping machines to ensure redundancy protection³
- Strapping units for distribution and returns processing
- Portable scanning equipment to enable tracking of inwards and outwards movement of product
- Appropriate efficient delivery assembly space
- Secure storage

2.3 Distribution fleet

In addition to facilitating efficient home fulfillment and wholesale distribution, the CFA fleet will play a key role in building consumer awareness of the service. The key attributes of the fleet will include:

- Brand new vehicles at establishment of fleet
- Common model for home fulfillment and retailer distribution
- Purpose created interior to allow efficient operation
- Bright corporate branding to make vehicles visible and to facilitate promotion
- Professional driver training to ensure maximum safety

2.4 Technology

Technology systems will be used at every possible and practical opportunity to improve service levels and measurement of performance. IT will also enable systemization of the CFA business to ensure proper measurement of performance and maintain a healthy focus on efficiency and consistency of service.

Our goal is to track every delivery item from receipt into our distribution facility through to final destination if so required by a supplier.

- ADSL link and backup dial up link
- Computer systems at our distribution facility:
 - Administration
 - Customer relationship Management
 - Stock receipt
 - Stock dispatch
 - Returns processing
- In vehicle systems. With this niche of technology 'in play' at present, we anticipate considerable change in a short time. We plan to start with in vehicle electronic run books. Attached to each dash, these slim easy to operate units will provide employees with delivery run details.

³ Wrapping capacity dependent on wrapping technology used and this would be selected once we have conducted thorough trials of all possible machines to handle the projected volume

- The second phase on in vehicle technology is expected to be a GPS mapping system which visually identified each delivery point and offers audio advice as to what is being delivered. Ideally this unit will also connect to the base allowing for some interaction while on the road.
- Bill Express link. This will enable payment of accounts issued by CFA in any of the 2,000 Bill Express newsagencies across the country.
- All accounts will be computer generated and printed according to publisher standards. Accounts will be forwarded by mail and or email as requested by customers.
- In addition to the Bill Express payment option, customers will also have direct debit options linked back to banking and credit card accounts.
- Provision of daily invoices in electronic form to retailers seeking EDI acceptable invoices which link into their retail systems.
- Customers will be able to adjust orders, process stops and starts and make payments against their account via the exclusive CFA website.
 - The CFA website will offer up sell and cross sell opportunities in addition to other products.

3 Personnel

3.1 Management

CFA will be managed by a full time Circulation Manager who will have day to day on the ground management responsibility for building the business according to the guidelines set by the CFA Board and as reflected in the business plan. CFA will hire an expert with a proven ability and who wholeheartedly supports the business model being pursued by CFA. This position is the key day to day interface between CFA, publishers and magazine distributors.

3.2 CRM/Marketing

CFA will hire an energetic skilled marketing specialist to drive the marketing and customer relationship management functions of the organisation. This position will be augmented by contract and or casual employees as needed to fulfill the marketing plans.

3.3 Administration

An administration team of two multi-skilled people to manage creditors, debtors, stock and core customer care activities. By using two people the company can ensure appropriate attention to customer queries during peak periods. The office will be manned from 7 am through 6 pm Monday to Friday.

3.4 Distribution/Fulfillment

- Shift leader. Manages early morning break up of delivery product; arranges backup employees as necessary; emergency delivery; forward schedule planning.
- Preparation team. Prepares product ready for distribution. Scans and packages returns. Trained in efficient, safe use of equipment.
- Distribution team. Responsible for all deliveries to homes and retailers.

4 Customer care

Critical to the success of CFA will be its attention to customer care. A holistic, IT based customer care program will be at the heart of the business from the first day of operation. The key focus and attributes of the customer care program will be:

- Ease of customer access to CFA 24 hours a day 7 days a week by live telephone and via our customer friendly website which will enable customers to:
 - adjust their orders
 - pay accounts
 - record stops and starts
 - note missed deliveries
 - adjust special delivery requirements
- Friendly hassle free contact where the focus is on customer satisfaction
- Fast follow up in the event of any problem
- Developing and maintaining a valuable connection with each customer beyond deliveries. This will include newsletters, surveying to determine service satisfaction and other customer events.
- Measurement of published customer service goals
- Consistent goal oriented response to any incident
- Consistent and focused anti attrition efforts

5 Key Performance Indicators

5.1 Marketing

- (a) New customer acquisitions each year
- (b) Existing customer up sells each year
- (c) Volume of outbound activity

5.2 Distribution

- (a) New location acquisitions each year
- (b) Unit sales growth from existing locations each year
- (c) On time and accurate servicing

5.3 Home fulfillment

- (a) On time accurate delivery
- (b) Number of complaints to CFA
- (c) Number of complaints to publishers
- (d) Territory penetration

6 Ownership structure

CFA will be a privately incorporated proprietary limited company.

With a view to the future, the Articles of the company will reflect, among other points, the following:

1. Issuing of voting shares and non voting shares.
2. Only individuals and corporations not directly involved in the publishing of newspapers and or magazines could own voting shares.
 - a. For the first five years only individuals and corporations selling their newsagency territories into CFA or owning a majority share of a newsagency⁴ will have the right to own voting shares. (Thus ensuring that CFA is newsagent owned and controlled.)
3. Initial shareholding to be based on the value of the initial newsagency territories⁵ folded into CFA as per method outlined in section 10. This will determine an initial share price.
 - a. To provide CFA with sufficient start up capital, all initial shareholders will have the option to purchase additional shares at the initial share price. To satisfy capital requirements this offer will only be available directly to the initial shareholders and will only be open for a limited time.
 - i. Where more shares are sought than the Board has deemed available, CFA will allocate shares by proportion according to the number of shares sought.
 - b. At the time of the initial capital raising shares may be offered to other newsagents who will not be putting in their territories if approved by the CFA Board.
 - c. If the operational budget shows that expected cash flow requirements will not be met by shareholder investment, the Board would have the option to invite selected informed and appropriate non newsagent investors to take on non voting shares in the company.
4. Any party could own non voting shares with the Board having the right to issue non voting shares in the event it elects to raise capital in this way.
5. Non voting shareholders would have all the rights, privileges and access to information of voting shareholders except for the right to vote on any matter.
6. The Board will consist of a minimum of three Directors, elected by the shareholders, who must be shareholders.
7. The Board may appoint, at its discretion, up to two appropriately qualified non shareholder Directors.

⁴ Shares would only be sold to newsagents who have not put their territories into CFA with the approval of the Board and if CFA needs the additional capital to fulfill its business plan.

⁵ Newsagents participating in CFA would have to fold in their entire circulation product distribution business including home deliveries, sub agents and Network Services Delivery Program business.

8. No shareholder may be employed in a management position by the company if they own a retail newsagency.
9. CFA will invest in its own business and any other business which the Board considers reasonably aligned to or connected with the business space inhabited by CFA.
10. Each year, immediately prior to its Annual Meeting, the auditors for the company will assess the commercial value of each share in the business with such assessment reflecting the fixed asset backing of CFA and a reasonable goodwill assessment given the then existing nature of the distribution business. Such assessment is to take into account any recent transactions involving distribution newsagents so that fair market value is considered in the final share price determination.⁶ This valuation will remain in force for the following year unless a new valuation is approved by all shareholders at a Special General Meeting.
11. Any party wishing to dispose of their shares must put the offer, at the then agreed share price, in writing on a form, as designed by CFA management, to existing shareholders.
 - a. Existing shareholders will have a thirty day first right of refusal period in which time any shareholder wishing to take up the offer would lodge an acceptance with a ten percent deposit cheque, in the name of the seller, for the shares with CFA.
 - b. Should the shares on offer remain unsold by that time the seller may dispose of then to any other party for any price in accordance with Corporations Law.
 - c. In the event of more than one CFA shareholder wishing to purchase the available shares, the pool of shares would be equally split between the interested shareholders.
12. The Board will have the right to issue additional shares in CFA in consideration for a newsagent adding their territory to the CFA business. The price of such shares will be the last determined price as set by the company's auditor with the price being used to determine the number of shares to be issues based on an independent valuation of the business to be purchased.
13. CFA will host quarterly shareholder meetings at which the company would report on KPIs, unaudited financial results operational matters and growth plans.

7 Transition plans

Most newsagencies are currently owner operator businesses and encompass retail, distribution (sub agent) and home delivery services in an all in one type operation.

All newspaper deliveries in Victoria are currently handled through such a newsagency with employees shared between the various operations of the business. An average newsagency delivers to between 400 and 800 homes each day.

The current system has several problems which the CFA proposal seeks to address:

- Conflict between the financial, management and manpower demands of the retail business versus the distribution business

⁶ Also reflecting the goodwill formula as outlined under transition arrangements.

- Lack of specialist resources to adequately manage and grow the distribution side of the business
- Insufficient revenue to justify reasonable capital investment in infrastructure in the distribution business
- Poor financial performance due to inability to leverage economies of scale with limited size territories
- Competing demands of pursuing sub agent opportunities versus growth in the newsagent's own retail business
- Number of accounts to be managed by publishers

This business plan outlines a dramatic shift from the historic structure of the newsagent channel. It represents significant consolidation of the traditional home delivery and sub agent focused newsagent into a mid size logistics and marketing operation run more along corporate lines.

The anticipated benefits of the CFA business model are:

- **Newspaper publishers and magazine distributors.**
 - Better service.
 - Fewer accounts.
 - More consistent and commercial focus on distribution and therefore greater success.
 - Less conflict with the newsagent retail channel.
- **Newsagents.**
 - Structured exit opportunities.
 - Career path if they choose to participate in CFA operation.
 - Fairer valuation and elimination of some transfer costs such as business brokerage.
 - Greater control over their own destiny.
- **Consumers.**
 - Better home delivery service.
 - Broader range of services.
 - Greater choice at retail outlets.
 - Greater competition.

The anticipated steps of transition for a newsagent who wishes to participate in the transition from their current operation to the CFA operation are as follows:

- Review and acceptance of this business plan and any associated CFA documents.
- Signed agreement as to the purchase terms based either outright payment or issuing of shares in CFA based on formula of:
 - An amount per home delivery customer of more than three months standing based on the type of account or subscription arrangement in place for each customer.
 - An amount based on a multiple of earnings from sub agents.

- An amount based on earnings from Network Services Delivery Program using an auditor agreed figure per delivery for previous six months for the areas being handed up into CFA.
- Independent audit of the claimed customer and sub agent accounts.
- Agreement regarding any future role in the CFA business for the newsagent and or any employees.
- Agreement regarding settlement of accounts.
- Approval of the purchase by the CFA Board.
- Proposals and presentation to newspaper publishers and magazine distributors.
- Agreement on a settlement date between all stakeholders.
- Review of the territory being acquired by CFA including extensive consultation between the newsagent and CFA operations employees to ensure all aspects of current service is understood.
- Transfer of data to CFA systems on week before settlement to enable integration with existing CFA operation.
- Joint letter to customers from the newsagent and CFA.
- Settlement.

CFA acknowledges that its approach will not be for everyone. It also understands that some newsagents will feel threatened by its very existence. CFA offers these and, indeed, all newsagents the following undertakings:

- We will not pressure any newsagent into joining or selling to CFA.
- We will not seek to offer services into an existing newsagent territory unless that newsagent has first refused the opportunity CFA is considering.
- We will be active participants in the newsagent industry and look upon individual newsagents as colleagues.
- We will pursue opportunities which support newsagent retail businesses.
- In addition to CFA corporate branding we will embrace any unifying branding or trade marks used by individual newsagents to support.
- CFA will not own or operate a retail business.

8 Operational ‘territory’

While CFA does not wish to restrict its business model to a specific geographic area, the company currently plans to focus on the development of the model in the broader eastern suburbs of Melbourne as cornered by Ashwood, Wheelers Hill, Mitcham and Box Hill.

The initial group of newsagencies expected to be part of CFA will be located more closely than the area covered by the proposed ‘border’.

Careful attention will be paid to the capability of the distribution facility so as not to overload this to the detriment of customer service. Should this show signs of happening, CFA will establish an additional distribution facility to service the needs of growth.