



BACKGROUND INFORMATION PACK





GLOSSARY OF TERMS

ICAEW	Institute of Chartered Accountants in England and Wales
SWOT	A business acronym for strengths, weaknesses, opportunities and threats. It is essentially a compass, a guide reminding you what to think about when analysing a business.
CRITICAL ANALYSIS	A thorough assessment of the pros and cons of something.
MARKET	A 'market' is the total potential revenue (money that will be spent) on a certain product or service, be it trainers, fruit, toys or magazines.
MARKET SHARE	Your 'share' of the market is what percentage of the total revenue will come to you e.g. If 20% of all trainers sold are Nike trainers, they have a 20% market share.
FINANCIAL FORECASTS	A predicted set of accounts for the future years to come, bearing in mind the health of the business and the market it operates in.
RETAILER	Any shop selling magazines to customers.
DISTRIBUTOR	A 'middleman' collecting newly printed magazines and distributing them to various retailers.
EDITORIAL	The creatives and writers who create the content of the magazine.
PUBLICATION	A magazine 'title' e.g. Vogue, FHM, Radio Times.
PRINT MEDIA	Anything that is physically printed out on paper, rather than publications that are only posted online.
LIFESTYLE MAGAZINES	Publications themed around how you live your life, particularly focused on relationships, fashion, social trends and ethics.
ABC FIGURES	Audit Bureau of Circulations, an organisation that precisely monitors how many magazines are sold each year, giving a clear picture of the industry.





EMAIL

From: Sheila Stewart
To: <Final Year Trainees>
Date: 22 July 2015
Subject: Newbie Magazine Ltd

Dear team,

As promised, here's all the background information about Newbie Magazine.

Newbie is an independent, or 'indie', publishing company that creates quirky and original lifestyle magazines for 15-18 year olds. Please familiarise yourselves with its history, finances and the magazine industry as a whole to get you up to speed and to inform your recommendations.

Newbie has given us three possible pathways to consider. I need you to investigate these and recommend the one you feel would most benefit the client, explaining your reasoning in detail. You will then present these findings to Newbie's board of directors.

This is a great opportunity for us to develop our relationship with Newbie, so let's be thorough, creative and detailed in our approach. I have every faith in you!

I look forward to hearing back from you all,

Sheila

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THE HISTORY OF NEWBIE MAGAZINE LTD.

- 2003** In 2003, husband and wife team Hugh and Karen Richardson had a vision for a brand new type of youth culture publication that would build positivity in young people and bridge the traditional gap between the segregated girls mags and guys mags.
- 2005** In 2005, after months of rejection from established publishers, Hugh and Anita decided to go it alone, forming Newbie Magazines Ltd and launching their brand new lifestyle magazine of the same name to the UK retail market. Their marketing focused on a simple unique selling point: that 'Newbie' was aimed at both a male and female readership. The name 'Newbie' was chosen for its cultural relevance at that time - that to teenagers everything was new - and the type of teenager that they were targeting was the 'outsider', people who couldn't relate to the skinny model, who were too intelligent to put up with mindless drivel, but who were perhaps socially more isolated and were looking for a new magazine movement to be part of.
- 2006** During its first 6 months Newbie went viral, with retail sales growing rapidly. By early 2006 Newbie was competing with multi-million pound lifestyle brands.
- 2007** With increased revenue came an opportunity to launch new titles and during 2005-07 Hugh and Anita launched a more mature magazine for 18-21 year olds called 'BACKBONE' and a 20s-30s title named 'MILLENNIAL', as well as a series of one-off publications and themed editions with guest editors.
- 2009** During 2009 Newbie recruited a subscriptions manager to grow and develop the more reliable postal sales after retail sales of all their titles began to fall, largely due to the rise of eReading.
- 2012** Hugh and Anita were always resistant to taking Newbie online, passionately believing that the physical magazine was a key part of it's brand. However, in 2011 the increase in digital reading was huge and it became very apparent that Newbie would need to go online or perish on the shelves. In September 2012 Newbie launched online versions of its magazines, gradually leveraging social media and winning over portions of the market (though it is looking to develop further in this area).



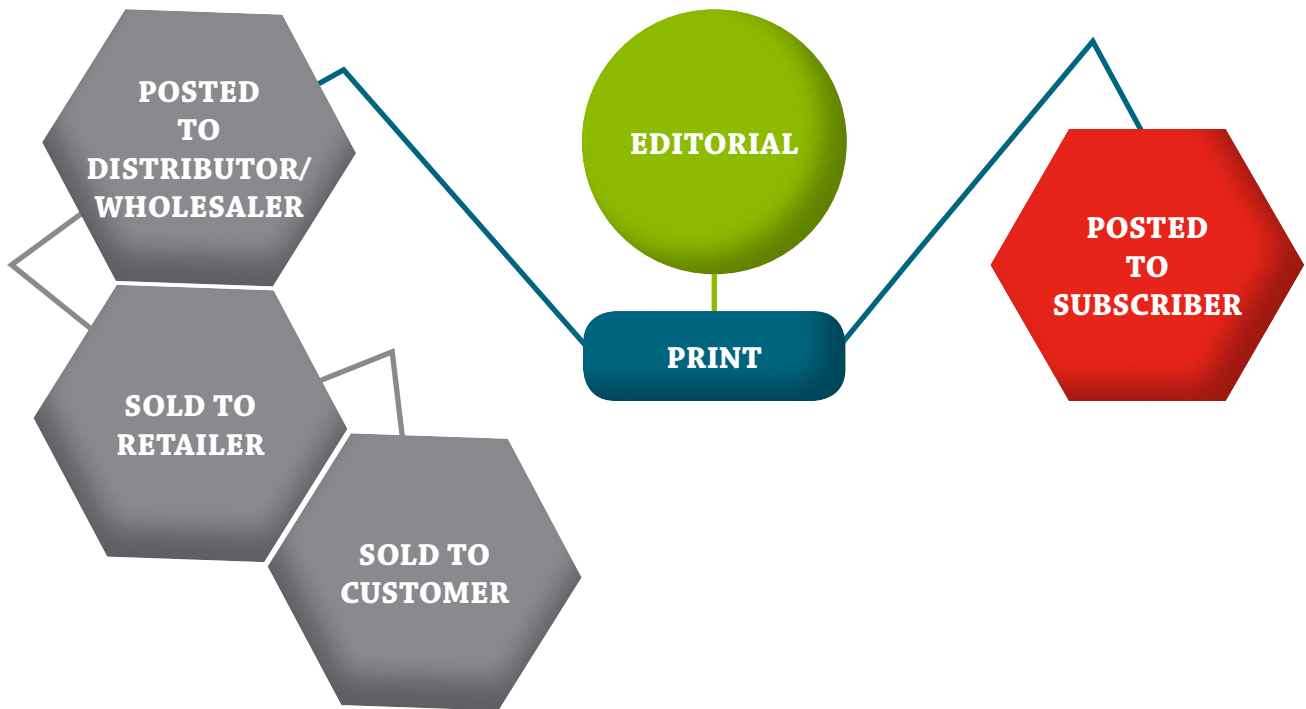
THE HISTORY OF NEWBIE MAGAZINES LTD.

- 2012** This online presence has helped to stabilise the decline of retail sales, but Newbie is not yet a fully digital publication - it is a print publication with an emerging online presence. Competing brands have developed much more interactive lifestyle brands that play to the strengths of digital publication, which has left Hugh and Anita wondering what role digital should play in the future of Newbie Magazines Ltd.
- 2014** In March 2014, Newbie won 'Best Lifestyle Magazine' for the youth category at the prestigious PPA Awards which has bolstered it's reputation with retailers and further stabilised sales. However, Hugh and Anita are concerned that if the company stands still it will certainly be swallowed up by bigger brands with more financial fire-power.



Hugh, Karen and the Newbie team at the PPA Awards 2014

NEWBIE BUSINESS MODEL



The flowchart above illustrates the supply chain which Newbie uses to sell to customers, a structure very common in the magazine industry.

With decreasing shelf space for retailers, convenience for the consumer and the increasing pressure on magazine publishers/retailers to become environmentally friendly, subscriptions are becoming increasingly popular and in 2014 accounted for 14% of total UK magazine sales. Newbie's subscriptions are in line with this percentage of total sales. Consumers can obtain big discounts on the cover price, especially if they commit to a long subscription. There are some online agents that solely specialise in providing subscriptions for a wide range of publishers and magazines. This gives them an advantage to offer high discounts from 35% to as high as 75% in exceptional cases.

For the publisher, the size of discount to be offered needs to balance (i) the postage costs with (ii) the saving from not paying a share of the cover price to the distributor/wholesaler and retailer (see below). However, subscription gives several automatic advantages, notably a guaranteed income (and cash flow), as well as certainty of sale – for a weekly magazine in particular, shop sales may be lost when consumers miss an issue through forgetting or being away.



TARGET AUDIENCE

The current average age of Newbie consumers is 15-18 years old. This has stayed consistent for the last decade. However, trends show that a wider range of people of all ages buying the magazine and subscribing via the online system.

SUBSCRIPTIONS

Subscriptions are becoming increasingly popular with customers due to their associated discounts and the convenience of delivery by post. Many “minority” magazines are by subscription only because of their small circulation and the limited shelf space with which retailers have to work. Around 95% of Newbie’s posted magazine subscriptions are carried by Royal Mail, the largest UK postal operator. Newbie Printer (Albano) are based in Italy, however all magazines are sent to Newbie HQ (in the UK) and distributed centrally.

RETAILERS

86% of Newbie’s magazine sales in the UK are sold in retail shops. A key influencer on retail sales is a publisher’s ability to secure a prominent display position for their magazines - a challenging task due to strong competition. One way in which Newbie have sought more exposure – and longer shelf-lives for their titles is through early publication. It is not uncommon nowadays to see the March issue already in the shops by the last week of January.

Shop sales entail collaboration between Newbie and intermediaries. These intermediaries (“wholesalers” or “distributors”) are responsible for physically getting the magazines to the shops, and often for the secure disposal – or “pulping” – of any unused or unsold magazines. Generally, the distributor supplies to the retailer on a “sale or return” basis, with the publisher being paid only for actual magazines sold. The amount received by the publisher is the cover price, less a deduction for the distributors and retailers agreed shares of that price

PRINTING

While some publishers print their own magazines in-house, Newbie outsources its printing activities to an external specialist, Albano in Italy, who is more cost-effective than UK printers. Cost is obviously affected by the quality of paper used and the quantity of pages in each edition. Changing your printing company can be costly, however finding the right printer for your needs is essential. The average cost within the lifestyle magazine industry is 30p per magazine.



SO HOW IS NEWBIE'S PROFIT MADE?

This table sets out an illustrative revenue and cost structure using two main methods of distribution (retail and post/subscriptions) for Newbie. The figures are averages per magazine, the cost price of £2 has been forecasted for 2015. The printing is carried out by a third-party printer, Albano Ltd.

Newbie Profit Margin		
	Retail	Post
	£	£
Advertising revenue	0.10	0.10
Cover price	2.00	2.00
Less: Subscription discount	/	(0.50)
Revenue	2.10	1.60
Postage costs	/	(0.28)
Printing costs	(0.40)	(0.40)
Payment to wholesaler	(0.40)	/
Payment to retailer	(0.50)	/
Costs to distributors	(0.15)	(0.15)
Total cost of sales	1.45	0.83
Gross profit	0.65	0.77

MORE INFO ABOUT NEWBIE MAGAZINE

- The current average age of Newbie consumers is 15-18 years old
- The unique selling point of a Newbie magazine is being “trend-setting”, providing a world of excitement and solace for the 21st century teenager
- Newbie currently offers a 25% discount when purchasing magazines by subscription
- Our market share ranges between 15-30%
- Like for like sales grew in total by 25% between 2011-2014, compared with 6% growth for the overall lifestyle magazine market
- Of its total revenue, 65% comes from retail sales, 25% from advertising and 10% from subscriptions





ALBANO
Grande stampa, ottimo prezzo.

27th March, 2015

Buongiorno Hugh!

How are things in that rainy little country of yours? I bet you wish you were back out here using my Ferrari?! It was great to see you - let's do it again soon?

I just thought I'd confirm the deal we discussed for your printing needs moving into our next contract. I'll get my secretary to send over the full contract, but essentially we agreed:

1. New contract will begin when the current one expires on 1st January 2016
2. The new contract will expire 1st January 2019
3. Fixed price of £0.40 per copy (special Newbie rate)
4. Minimum order £250,000 per month
5. Orders that fall below this amount will be charged a surplus to meet the minimum order price.

I look forward to continuing in partnership with you and your great team.

All the best my friend,

A x

Albano Maggiori
Chief Executive Officer, Albano Ltd.





MEMO

From: Rajesh Goyal
To: Hugh Richardson
Date: 19 May 2015
Subject: Staffing concerns

Hugh,

I've been doing some research into some competitors who've switched to digital publishing in the last 5 years, as discussed at our last board meeting. My impression is that the financial side will make a convincing case for action, but from a human resources point of view I do have some concerns regarding how it might affect our staffing.

If we were to switch to a totally digital publication we'd be requiring an entirely different skill set from our core team. Digital publishing relies much more heavily on interaction with our audience, getting them to talk rather than getting them to listen. It also is backed up by a solid tech team familiar with customer experience (CX) online and how to make enjoying a publication intuitive and fun. I just don't see that our current core team could adapt quickly enough or well enough to meet these needs. Therefore our options would be:

1. Make redundancies and hire a new core team - but risk damaging our organisational health and company values.
2. Hire additional staff on top of our existing core team - preferable on all levels, but with a serious financial commitment.

Maybe we can discuss this at the next board meeting?

Rajesh
Head of Human Resources, Newbie
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THE UK MAGAZINE MARKET

ECONOMY.

The customer magazine sector has grown considerably - by over 300% in the UK since 1990. However, with the economic downturn in 2008, not only have advertising revenues fallen but so has consumer spending on magazines as people look to be more careful with their disposable income. Magazines in particular can seem a luxury more than a 'need'. Regardless of the state of the economy, magazine closures have always been a feature of the industry; due to the crowded market place the heavy investment required to establish the title in the public consciousness and the expectation that early editions will be much cheaper to consumers. On average, a life of around 4-5 years is quite normal for those that seek to exploit a particular trend or fashion and when one magazine dies a new one can enter with a fresh voice. Because of this cycle there remains huge potential to expand into different demographics across all platforms.

CONSUMER HABITS.

In recent years consumer expenditure on magazines has increased by 48%, with online sign ups and subscriptions a key driver of change. Although the percentage of young people buying magazines has risen as a whole, 31% of people are buying fewer magazines. The attention of the teenager is a much fought over prize with more distractions than ever before. The rise of social media as entertainment has been a huge factor in falling readerships and the proliferation of bite-size news, low on content but high on instant impact and shareability. Cost remains a factor in the decline, with most online alternatives being free to access, funded by advertising revenue gained by internet traffic.

There are signs of life though: just over 30% of people tend to browse in the shop before deciding what to buy and the percentage of young people that read magazines grew by 14% from 2014 to 2015. A huge cultural shift for the lifestyle sector is the notion of 'Father Google': the idea that a majority of teenagers would first type questions into Google before putting them to their parents. This means that the internet and Google particularly is our "go-to" starting place for advice and content.

INDUSTRY TRENDS & CHALLENGES.

The digital revolution is over, the digital reign has begun. In 2015 the UK will be the first country in the world where more is spent on digital advertising than on 'traditional' forms (TV, radio, and print media). This key revenue shift will force all publications to consider carefully how they position themselves in the market. Expanding digitally helps a company not to have static circulation figures and potentially reap great returns, but the internet widens the magazine market by increasing competition, and simplifying self-publishing.





INDUSTRY TRENDS & CHALLENGES (CON'T).

New titles are hitting the internet everyday, but most can be expected to fail. The rise of 'DIY media' is also concerning, with vlogging YouTube channels gathering millions of followers and offering unparalleled opportunities for interaction, connection and community that a magazine simply cannot.

Brands are having to work harder to differentiate themselves from competitors. The trend towards online communications, coupled with a continuation of magazine brand extensions into radio, television and video games- is likely to be a feature of the market between now and 2017. Interestingly, companies focusing solely on subscriptions are forecasted to be the market leaders in the magazine publishing industry by the end of 2017. Subscriptions are a great way to hook consumers in for longer and for companies to guarantee sales. The main concern with printed magazines for the next three years will be the mounting pressure from government and consumer alike to be more environmentally friendly, with increasingly high sanctions for those neglecting their corporate social responsibility.

PRODUCT INFO.

Lifestyle magazines are sold in shops, including in airports and rail stations. They are an excellent diversion for long journeys. The proliferation of free newspapers in London and other big cities was initially a worry, but the editorial content is of such a notably poorer standard that many consumers are drawn to search for higher quality publications. Editorial quality has always been paramount, but now more than ever. The lifestyle magazine industry is often criticised for lax journalistic standards especially in the area of reviews, where conflicts of interest are common, and the consumers, especially teenagers are more sophisticated than ever at spotting any form of subliminal advertising.

The lifestyle market has strong links and similarities with the computer games market: it's a leisure magazine that consumers tend to repeat buy and read over a longer course of time, as it has engaging content that speaks to consumers current life situations.



RUNNING THE GAUNTLET

Does the digital world make print magazines less profitable?

January 23rd, 2015

By Steve Snow



Getting through to an audience has never been harder for magazine publishers. The rise of the digital reading space has hit small-medium sized publishers hardest, leaving many on the verge of bankruptcy. The trend seems to be that established magazine titles are faring pretty well, maintaining their loyal following and the crucial advertising revenue that goes with it. Conversely, new magazine titles are struggling to break through the market place and breathe new life into the sector. But hasn't this always been the case? Well yes and no. A new magazine launch has and always will be a very risky venture for any brand, even the big names, given the considerable outlay in set up costs and the lack of guarantee that the title will excite readers enough to bring any return on that

investment. Reportedly only one in ten new titles last more than a year, but for those who succeed great risk comes with great reward. Or does it? According to industry analyst Charles Pieterston, the huge profit margins which once lit up a CEO's eyes are numbers that belong to the past - Pieterston reports a 20% decrease in the best performing new titles. Successful returns in 2015 looks very different to those of 2005. Of course the old maxim will always apply that readers will buy great magazines, and in truth maybe the reason only a few make it through their first year is that only a few are good enough to justify that length of stay. The effects of digital publications are yet to be fully seen, but perhaps the days of editors striking gold have gone.



Who says print is dead?

Is the internet really killing print publishing – or could it prove to be its unlikely saviour, with niche magazines thriving in the digital era?

Mark Hooper

The Guardian, Sunday 3 June 2012 21.30 BST

Regardless of some high-profile print closures in recent years, the stories of doom and gloom in the publishing industry have been tempered by a mini renaissance in independent titles. And old-fashioned paper and ink has an unlikely saviour.

One of the best examples of a truly integrated multimedia success story has a very different target audience. Moshi Magazine, the spin-off print title for the online kids' game Moshi Monsters, posted an ABC figure of 162,838 in February, putting it ahead of men's magazines such as Nuts (114,116) and FHM (140,716). And it's clear that these kids are still in love with paper.

"You might be able to look at a digital game or magazine on an iPad, but you can't cut things out, colour-in, take pen to paper or stick it on your wall," says Emma Munro Smith, editor of Moshi magazine. Despite hugely popular online elements to the Moshi world, for Munro Smith's readers, "having their work, letters or username immortalised in print will always be incredibly exciting".

But Gerald Richards, CEO of 826 National is keen to stress that the two worlds can co-exist and support one another. "It's not an either/or situation," he says. "It works in tandem. One is a resource for the other: you read something in a book, then you look it up on a computer."

The beauty of online is that it allows them to instantaneously share with a larger audience. But the relationship with books is different. Kids take books home and they can keep them. Print does certain things very well. There's a sense of reward – almost luxury – of devoting time to the printed page that you can't put a price on. But at the same time, there's an immediacy and 'shareability' to the online world that's just as valuable in its own unique way."

If print really can anchor the brand and define the voice, often it is far more successful than intended. For instance, Joerg Koch produced a print phenomenon by chance when co-founding the influential Berlin magazine 032c: "You don't need print for news any more," he says. "But for long, visual-driven stories, it can offer a business model and an immersive focused quality that digital cannot offer yet."



Mail Online digital ad revenue growth offsets print decline

Angela Haggerty

TheDrum.com, 17 September 2014, 11:10 BST

Mail Online's digital advertising revenue growth offset the decline in print advertising in the last year, according to the Daily Mail and General Trust's pre-close trading update – although advertising revenue overall is down by two per cent.

Ahead of the completion of its financial year at the end of September, DMG released figures for the 11 months prior to it showing digital advertising revenue growth of £17m, an increase of 49%, to £53m. In contrast, the publisher's print advertising revenue fell by a smaller margin of £10m, a fall of five per cent, to £172m.

However, for the year to date, digital advertising revenue growth failed to prevent a decline in overall ad revenue, which fell by two per cent. Circulation revenue dropped by five per cent, while overall revenue for DMG Media operations fell by four per cent.

The Group statement said that the figures in DMG's Media operations were "in line with last year" and said the digital-driven growth in advertising had also offset the decline in print circulation.

"Circulation revenues are down five per cent due to lower sales volumes, although the Daily Mail and the Mail on Sunday reported increases in market share, reaching 22.2 per cent and 21 per cent respectively in August."

The statement added that Mail Online recorded 180 million global monthly unique browsers in August, an increase of nearly a third (30 per cent) year on year. The website's average daily unique browsers sits at 11.4 million, up by more than a quarter (26 per cent) on last year.

Overall Group revenue increased by one per cent in the 11 months to August 2014 according to the statement, and DMG said its Wowcher service had delivered a "particularly strong performance" with revenue growth of 77 per cent and a database of 5.9 million subscribers.



The fall and rise of magazines from print to digital

Declining sales do not mean the end for glossies. More platforms mean better ways of connecting people with their passions.

Barbara Rowlands

The Guardian, Thursday 7 March 2013 17.40 BST

Challenging times lie ahead for magazines. The Audit Bureau of Circulations figures published last month made grim reading. Sales of celebrity titles, such as Heat, Hello! and Closer have plummeted, squeezed out by celebrity websites and the Daily Mail's sidebar of shame. Weekly women's consumer titles and Nuts's miserable year-on-year sales figures (-29.7%) merely confirmed the downward spiral. Even NME stalwarts seem to be abandoning their weekly fix (down 16.6%).

But these figures are only a partial reflection of what is really going on. The industry trade body, the Professional Publishers Association, released its first combined digital and print circulation chart alongside the traditional ABC figures and its CEO Barry McIlheney says that for many titles, such as Conde Nast's GQ and Future's technology magazine, T3, a combined figures is a truer reflection of how the industry is faring.

Indeed, some sectors are doing quite nicely and all magazines are built around the twin pillars that have always eluded newspapers – passion and community. The most successful ones are returning to their roots.

Some big titles have done just this. Top Gear (down 16.7% in the ABCs) is a brand, its editor a brand manager, its journalists, passionate providers of content across platforms. The print product is to linger over, but the iPad edition and the app, with its galleries and high-definition videos, its exclusive offers and interactivity, is where the magazine's strength now lies.

The fully interactive iPad version, not captured in the ABC figures, is the number one motoring app in the US and UK. Editor Charlie Turner told me readers were migrating to the tablet edition, where they could get an instant fix. "Cars come to life, they can start them up and see beautiful images close up. For creatives who are passionate about their subject, it opens doors to many more readers. The potential is huge and very exciting."

If passion, fuelled by knowledge, is the heart of a great magazine, readers will gravitate towards brands that continually strive to deliver. Content really is king.

