



# TEACHER RESOURCE PACK





## CHALLENGE INSTRUCTIONS

Welcome to the ICAEW challenge. This team activity gives students an opportunity to develop skills in the areas of problem solving, business analysis and verbal reasoning, whilst also providing a taste of the chartered accountancy profession.

In addition to this pack you will have received:

- The Challenge Powerpoint
- Background Information Pack
- Proposal Sheets

The Powerpoint presentation will support you leading the challenge in your classroom, providing timings, key information and summarised tasks, reminding students of their focus throughout the session.

The background information pack is the first handout used by the students, enabling them to better understand the client ('Newbie Magazine Ltd') and the magazine industry as a whole. The SWOT answers overleaf will give you an idea of what outcomes we expect from the students' analysis.

The proposal sheets in this pack mimic those that the students receive.

We hope you enjoy the challenge.

ICAEW



**Welcome to the Challenge**





## NEWBIE SWOT: KEY ANSWERS

### Strengths

- Experienced publishers, 10 years in the business, three 'well-performing' titles and capacity for more
- A clear, well-defined brand with a strong USP
- Recently reached award-winning status at the PPA Awards
- Established online presence
- Loyal fan-base with a strong growing readership
- A very prominent market share
- A loved brand with much more staying power than the average lifestyle title

### Weaknesses

- A small company, with less profit to invest in new titles or high impact marketing
- Haven't launched a new title for over 7 years
- Are behind the competition in the digital world and don't know if they even want the magazine to be digital at all
- Heavily reliant on retail sales which are more volatile in the current climate
- Low profit margin per magazine
- A small team with more limited productivity

### Opportunities

- Launch a new title off the back of their recent award, for a new demographic
- Use the award as leverage to negotiate better agreements with suppliers, and increase profit margin
- Invest in digital media and social networks to reach their target audience on every platform
- Grow print sales by growing online presence and subscriptions
- Bring their high quality editorial to news trending sites, increasing its share-ability and reach among the teenage demographic
- Advertise on Google via Pay-Per-Click and reach new audiences searching for key topics
- Use the buzz around vlogging and other media to bolster Newbie's brand as a voice for a generation
- Advertising revenues online can offer superb revenues





### Threats

- The market is more crowded than ever, with print and digital competition increasing
- Newbie can easily lose readers to quirky self-published, low-cost brands, whilst not being big enough to compete with giant lifestyle titles
- Their absence of interactivity online leaves space for someone else to fill, encouraging competitors and copycats
- Retail buying habits among Newbie's demographic could change rapidly over the next three years for the worse
- Most digital publications are free and funded through advertising, meaning Newbie's pay-model could be a barrier to cash-poor teenagers
- Newbie's reliance on retail sales makes the company very unstable should the market change dramatically
- Newbie's strength is its editorial content, but their contributors could easily be poached by bigger firms





## EMAIL

---

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

Dear team,

Randolph Stewart has been approached by lifestyle magazine 'Newbie' to consider three separate business proposals. The three proposals are as follows:

1. Push online presence as a 'shop window'  
Build the online audience in order to drive subscriptions of the printed magazine.
2. Fully embrace the digital age  
Make Newbie a digital publisher.
3. Enter a new magazine market  
Launch a new title for the 11-14 demographic.

Actions:

I have attached the three proposals in more detail along with Newbie's own financial forecasts. I need you to investigate these forecasts to find out if they are credible, or if they're too optimistic or too conservative. I then need you to consider the benefits and drawbacks of each proposal, and recommend the strongest option, taking into account the financial implications, the 'Newbie' brand, the risk involved and the organisational health of the company.

Newbie's board of directors believe they only have enough resources to focus on one of these opportunities so would like you to recommend which one they should pursue, along with any amendments you think should be made.

You'll be presenting these recommendations before the Newbie board at our upcoming meeting, so do ensure you are ready to clearly communicate your conclusions with clear reasoning behind your advice.

Many thanks,

Sheila



**Task Instructions**





## PROPOSAL 1 - PUSH ONLINE PRESENCE AS A 'SHOP WINDOW'

Build the online audience in order to drive subscriptions of the printed magazine. A move away from retail sales to a larger percentage of subscriptions will enable Newbie to reduce costs and could solve the problem of wasted magazines in store. However, this will mean investment in web development and ongoing web presence, higher advertising costs in order to push new revenue and encourage customers to engage online and sign up.

### Newbie's forecasts

We expect our retail circulation to decrease as we focus more on subscriptions, which naturally will increase rapidly by 15% each year. Consequently our advertising revenue will increase by 10% every year as companies recognise our improved reader loyalty.

Our postage costs per magazine should gradually decrease as we'll be sending more magazines in bulk each year and due to our subscriptions rise the need for printing excess copies for retail sales will also decrease.

Payments to wholesalers, retails and distributors will likely decrease, we think by up to 20% in 2017 as our subscription model kicks in.

### Teacher's Notes - Wider Considerations

The new printing agreement with Albano should be considered, firstly because his price is 10p higher than industry standard (see background information pack, p6) but also because of his 'minimum order' of £250,000 (BIP, p8), which will eliminate print savings Newbie could otherwise be making.

The rate of growth for Newbie's subscriptions is rather ambitious and dangerous when weighed with the predicted decline of retail sales. If retail sales decline quicker and subscriptions grow with less rapidity, Newbie's profits could be severely reduced.

Newbie's advertising revenues could grow as their digital presence increases. However, generating the internet traffic needed to interest advertisers will need financial investment not accounted for here.

This is probably the safest of the three options with the least amount of risk, the only real danger being if Newbie loses its audience through a significant change in the market, the success of digital competitors or poor editorial quality.

Students should note the rise in price for subscriptions from £1.50 to £2.00 in 2016, the same as the retail price. This goes against the industry standard and offers no benefit to subscribers for their loyalty. It may result in a decline of subscriptions at a time when Newbie are trying to grow postal purchases.



## Proposal 1



## PROPOSAL 1 - PUSH ONLINE PRESENCE AS A 'SHOP WINDOW'

<b>Proposal 1: Profit and Loss</b>				
Average monthly circulation	2014	2015	2016	2017
Retail	581,500	557,283	501,283	474,321
Cost per magazine (retail)	£2	£2	£2	£2
Subscriptions	95,000	112,394	121,248	135,294
Cost per magazine (subscriptions)	£1.50	£1.50	£2	£2
Total circulation	676,500	669,677	622,531	609,615
Average Monthly Revenue				
Retail Sales (circulation x cost per mag)	£1,163,000	£1,114,566	£1,002,566	£948,642
Subscription Sales (circulation x cost per mag)	£142,500	£168,591	£242,496	£270,588
Advertising (10p per mag)	£67,650	£66,968	£62,253	£60,962
Overall revenue	£1,373,150	£1,350,125	£1,307,315	£1,280,192
Average Monthly Costs				
Postage costs (subscription only)	£26,600	£31,470	£33,949	£37,882
Printing costs	£270,600	£267,871	£250,000	£250,000
Payment to wholesalers, retailers and distributors	£610,575	£585,147	£526,347	£498,037
Other costs				
Total average monthly costs of sales	£907,775	£884,488	£810,297	£785,919
Average monthly profit/loss	£465,375	£465,636	£497,019	£494,272
Annual profit/loss	£5,584,500	£5,587,637	£5,964,222	£5,931,266

All figures are rounded to the nearest pound, therefore annual profits should be given a £3 variance tolerance.





## PROPOSAL 2 - FULLY EMBRACE THE DIGITAL AGE

Move with technology making Newbie a digital publisher with its own digital identity, rather than simply replicating printed material online. Newbie is aware that in order to stay competitive it must make better use of the smartphone and tablet readership so integral to a teenage audience. What direction should this take? If the heart of the magazines moves to a digital space, will the audience be best served? Will the potential revenue from online advertising adequately replace the loss of retail sales and subscriptions?

### Newbie's forecasts

The move to digital will, we think, reduce our retail circulation due to a higher focus on promoting electronic advertising sales. However, our subscription circulation will increase as more people start to use electronic magazines and download titles on smartphones and tablets. We're confident advertising revenue will increase by 5% in 2015, 10% in 2016 and 15% in 2017.

With users subscribing digitally, we hope we can implement price rises without losing customer loyalty. We have budgeted £5000 extra for the development of the new website.

Advertising rates change to 12p in 2016 and 15p in 2017, to account for the growth in marketing revenue.

### Teacher's Notes - Wider Considerations

Newbie will be essentially entering a new market and students should consider if they have fully costed this investment up. The £5000 for website development and subsequent £200 upkeep per year will certainly be inadequate. They also will need to consider Newbie's staffing needs (BIP, p9) and what effect that will have on future profits.

Students should note the rise in price for subscriptions from £1.50 to £2.00 in 2016, the same as the retail price. This goes against the industry standard and offers no benefit to subscribers for their loyalty. It may result in a decline of subscriptions at a time when Newbie are trying to grow postal purchases.

The advertising revenue is based on a magazine model (BIP, p7) rather than a digital model and given the industry shift to digital advertising (BIP, p10) there is likely to be a significantly greater amount of income from a much visited web publication aimed at the internet's most frequent visitors - young people.

Albano's print contract should be a concern, (see note on proposal 1).



## Proposal 2







## PROPOSAL 2 - FULLY EMBRACE THE DIGITAL AGE

<b>Proposal 2: Profit and Loss</b>				
<b>Average monthly circulation</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Retail	581,500	551,395	524,804	485,271
Cost per magazine (retail)	£2	£2	£2	£2
Subscriptions	95,000	111,239	140,123	175,938
Cost per magazine (subscriptions)	£1.50	£1.50	£2	£2
Total circulation	676,500	662,634	664,927	661,209
<b>Average Monthly Revenue</b>				
Retail Sales (circulation x cost per mag)	£1,163,000	£1,102,790	£1,049,608	£970,542
Subscription Sales (circulation x cost per mag)	£142,500	£166,859	£280,246	£351,876
Advertising	£67,650	£66,263	£79,791	£99,181
Overall revenue	£1,373,150	£1,335,912	£1,409,645	£1,421,599
<b>Average Monthly Costs</b>				
Postage costs (subscription only)	£26,600	£31,147	£39,234	£49,263
Printing costs	£270,600	£265,054	£265,971	£264,484
Payment to wholesalers, retailers and distributors	£610,575	£578,965	£551,044	£509,535
Other costs		£5,000	£200	£200
Total average monthly costs of sales	£907,775	£880,165	£856,449	£823,481
Average monthly profit/loss	£465,375	£455,747	£553,196	£598,119
Annual profit/loss	£5,584,500	£5,468,960	£6,638,350	£7,177,423

*All figures are rounded to the nearest pound, therefore annual profits should be given a £3 variance tolerance.*



**Proposal 2**



## PROPOSAL 3 - ENTER A NEW MAGAZINE MARKET

Diversify into a new print market launching new magazines for younger teenagers. With the launch of many popular young audience magazines entering into the 11-14 audience might be an exciting new venture.

### Newbie's forecasts

Initially we hope our retail sales will dramatically increase as the new title launches, and we are optimistic that there would be a knock-on effect for Newbie subscriptions due to the extra exposure.

Advertising rates should stay the same in 2015, and increase by 20% in 2016, and an additional 50% in 2017, as our new title grows.

We have factored in start-up costs for the new magazine title, around £80,000 a month in 2015, and £30,000 per month in 2016 and 2017.

Advertising rates change to 12p in 2016 and 15p in 2017, to account for the growth in marketing revenue.

### Teacher's Notes - Wider Considerations

The risk involved in launching a new publication is high and the rewards may not be as lucrative as Newbie's financial forecasts presume (BIP, p12). The rapid rate of sales growth is certainly optimistic given that Newbie will only be adding one new title to its current range of three (BIP, p4).

This proposal also ignores the current trend of print publications investing in the digital space in one way or another. Teams should think about reinvesting projected profits in online development.

Albano's print contract should be a concern, (see note on proposal 1).

Newbie has a loyal following, an established award-winning brand and a clear USP and therefore they are likely to be successful in reaching out to a new age demographic. It could be argued this is their strength and therefore what they should focus on. It also offers the best chance of financial growth - though quite how much growth is uncertain.



## Proposal 3





## PROPOSAL 3 - ENTER A NEW MAGAZINE MARKET

Proposal 3: Profit and Loss				
Average monthly circulation	2014	2015	2016	2017
Retail	581,500	663,283	743,182	834,273
Cost per magazine (retail)	£2	£2	£2	£2
Subscriptions	95,000	107,283	128,657	174,386
Cost per magazine (subscriptions)	£1.50	£1.50	£1.50	£1.50
Total circulation	676,500	770,566	871,839	1,008,659
Average Monthly Revenue				
Retail Sales (circulation x cost per mag)	£1,163,000	£1,326,566	£1,486,364	£1,668,546
Subscription Sales (circulation x cost per mag)	£142,500	£160,925	£192,986	£261,579
Advertising	£67,650	£77,057	£104,621	£151,299
Overall revenue	£1,373,150	£1,564,547	£1,783,970	£2,081,424
Average Monthly Costs				
Postage costs (subscription only)	£26,600	£30,039	£36,024	£48,828
Printing costs	£270,600	£308,226	£348,736	£403,464
Payment to wholesalers, retailers and distributors	£610,575	£696,447	£780,341	£875,987
Other costs		£80,000	£30,000	£30,000
Total average monthly costs of sales	£907,775	£1,114,713	£1,195,101	£1,358,278
Average monthly profit/loss	£465,375	£449,834	£588,870	£723,146
Annual profit/loss	£5,584,500	£5,398,012	£7,066,434	£8,677,746

All figures are rounded to the nearest pound, therefore annual profits should be given a £3 variance tolerance.

