Final Paper

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Problem Statement

Should Capital magazine be added to Prisma Presse product portfolio?

Background Information

The multimedia Bertelsmann Group has a subsidiary called Gruner+Jahr. And Prisma Presse with headquarters in Paris is the French subsidiary of Gruner+Jahr.

Axel Ganz founded Prisma Presse in 1978. Since 1978 the company has launched six magazines and acquire two. The average is one magazine launched every 18 months.

Prisma Presse has become the second biggest magazine publisher in France. Its product portfolio includes eight magazines (Geo, Prima, Femme actualle), which are among the leader in their segments. This compares favorably with the industry average.

Company Assessment

<u>Organization Structure</u>

The type of Prisma Presse structure includes many levels and thus a relatively narrow number of subordinates a manager directly manages. It is a tall structure.

Prisma Presse is structured around each magazine. Each magazine is headed by an executive editor, who usually works with two magazines and is responsible for financial results, and an editor−in−chief, who is assigned to one of magazine and is responsible for execution of editorial policies. Both are responsible for staffing, circulation, revenues of magazine, and editorial policies.

Marketing research, promotion and distribution management are functions of specialized department covering all Prisma Presse magazines. Prisma Presse concentrates efforts on text and layout in its magazine, and outsources such activities as documentation, photography, printing and distribution. Each magazine has its own staff of journalist, art team, and advertising department, which sometimes compete for business against other Prisma Presse magazine.

Incentives

Incentives are a key factor in Prisma Presse management. Magazines derive revenue both from circulation (readers) and advertising. Journalist's salary depends on circulation, which determines the major part of bonus payment. Bonus payment, including two month's additional salary for some staff, range from 60 percent of the annual salary for the management. The managers who fail more than once achieving objectives are asked to leave.

<u>Type of Organization</u>

The Prisma Presse strategy is based on differentiation. Axel Ganz's priority is clearly the reader. This close attention to the reader is rather unusual in the French press.

During 90−91 period, the performance of Prisma Presse has been a growth of 10 percent, Gruner+Jahr has been 6 percent and Bertelsmann Group has been 9 percent. The market size for business magazines only is 4.8 millions of readers.

<u>Marketing Assessment</u>

Target Market

The main reader target for Capital would be 900,000 senior and middle managers in business firms who read business magazines. The potential readers for business magazines are senior and middle managers in business firms, top non−business professionals (lawyer, doctor, teacher), entry−level managers, and news magazine readers.

The target market is buying business or news magazine because of their need to gain information on business related issues. The magazine can be obtained through newsstand or subscription, and are published on weekly, biweekly, or monthly bases.

Four P's

<u>*Product*</u>− Prisma Presse publishes eight magazines covering a wide range of topics. Travel/Discover, Science, Woman interest, Television are some of them. Business magazine should be another of the covered topics by Prisma Presse after the Capital launch.

<u>*Promotion*</u>− Prisma Presse's promotion strategy for each of the magazines depend on what advertising strategy is determined through the result of the focus groups.

<u>*Price*</u>− There is pricing strategy for reader and advertising. Magazines derive revenue from readers and advertising. There are two types of pricing strategy for readers: newsstand and subscription. The subscription strategy includes a higher price that newsstand but with high subscriptions discounts and massive direct mail.

The pricing strategy for advertisers depend mainly on its absolute number of executive readers, the share of executives among its readers, and the total number of buyers.

Distribution & Logistic− Prisma Presse distributes its magazines through newsstand and subscriptions. Distribution is done by outsources. And the printing plan is located in Germany. The headquarters are located in the center of Paris.

Environmental Climate

The decline in the economy after the Golf War affects the advertising issues related to the magazine and readers budget dedicate to magazines too.

The Pc−based publishing system, which allows Prisma Presse to transmit data to Bertelsmann printing plan in Germany, is a technological factor that saves money to the company.

The social/cultural/ethical factor regarding the magazine is the need to translate it into the country's language, and articles covering local issues related to the country itself.

Competitive Analysis

Nature of competition could be separated in internal and external competition. The advertising departments of Prisma Presse magazines compete for business against each other.

Basis of competition are distribution and advertising. Newsstand and subscription are the two types of distribution strategy used by Prisma Presse and competitors. The advertising is badly affected for the economic decline suffered after the Golf War.

SWOT

Prisma Presse

Strengths

Axel Ganz is the key strength of Prisma Presse. He has good visions as he monitors to search for new product lines in all segments and different countries. And he has earned the enviable track record such sobriquets as magazine alchemist and man with the Midas touch.

Prisma Presse magazines are among the leaders in their segments with a strong financial position; this enables them to achieve a distinctive identity.

Prisma Presse is the second biggest magazine publisher in France.

Being a subsidiary of Gruner+Jahr and Bertelsmann is a major strength of Prisma Presse. This allows Prisma Presse to obtain a wide variety of resources.

Prisma Presse launch a new magazine every eighteen months with the purpose of sustains growth. Every magazine should have high circulation potential and be innovative rather than imitative.

Prisma Presse produces magazines based on the reader's perspective something unusual in French Presse.

All the magazine layouts for Prisma Presse are easy to read because they have short articles, short words and sentences, comprehensible titles, and a variety of pictures.

Research and development programs such as surveys and focus groups that Prisma Presse does in order to explore new markets.

Weaknesses

Prisma Presse itself has a lack of experience in the business magazine market let alone the French business market.

Prisma Presse's circulation mainly comes from newsstands instead of subscriptions.

Tight cost controls create a sense if leanness in the organization.

Prisma Presse suffered a $ 3.6 (F2) billion turnover from 1990−1991.

Opportunities

The business magazine market in France is promising since readers are interested in the business and economic news.

The factor that in 1984, the Mitterand presidency's shift from anti−business to pro−business, gave rise to increased interest in business information.

The market is fragmented or is divided into a lot of magazines that have relatively low market share; Prisma Presse should use their skills and resources to excel on their market share.

Threats

Circulation, advertising revenue and volume have declined and about a 20 percent drop of advertising in the whole industry.

Prisma Presse is competing with other established business magazines in the French market like for example, L'Expansion a biweekly, Le Nouvel Economiste a weekly, and Science & Vie Economie a monthly.

French magazines invest less on editorial content that in others countries.

<u>Capital</u>

Strengths

Well−known management team. Team is made up of Dr. Andreas Wiele, assistant to the president and CEO of Gruner+Jahr and executive manager of Capital (Hermes), Remy Dessarts, who worked at L'Expansion, and A pour Affaires to be editor−in−chief for Capital (Hermes).

Gruner+Jahr is familiar with the business magazine market, and Capital is already the leading business magazine in Germany.

Weaknesses

No clear identity and personality of the magazine. The readers do not know whether it is a business magazine or a news magazine.

Cost of the fail Capital prototypes before launching the magazine.

Opportunities

There is no clear market leader. The reason for weak market leadership is because the older magazines did not change and appeared old−fashion.

Approximately 20% of news magazine reader's fall into Capital's reader target market.

France is a promising business market.

Publishing Capital on the same day as news magazines (Thursday or Friday) and displaying prominently, a significant share of the 600,000 buyers of weekly news magazines at the new stand might pick up Capital.

Threats

Competition with other established business magazines (L'Expansion−biweekly, Le Nouvel Economiste−weekly, and Science & Vie Economie−monthly).

Negative connotations in France with the name Capital,

Lack of identity; again the no clear distinction between news or business magazines

Development Process of Capital (Prototype)

Opportunity development

Strengths

Excellent management team.

Leading business magazine in Germany.

Gruner+Jahr is experienced in the business market.

Weaknesses

Prisma Presse had no experience in the business market.

No interaction with journalists working for Gruner+Jahr's Capital magazine in Germany due to isolation.

Product development

Strengths

PC−based publishing system allows Capital to transmit data to Bertelsmann Group located in Germany through saving many cost.

Extensive R&D: focus groups used for each prototype.

The PC−publishing system, which allows transmitting data electronically from French to Germany.

Focus groups expressed pleasant surprise with numerous photos, big headlines, clear layout, and easy reading.

Some of the recruited journalists had extensive experience in the French business press.

Constant attention paid to the integration of text, visuals, and layout as the articles progressed.

Weaknesses

Cost of prototypes before launching the magazine.

Magazine's identity and personality is not clear.

Printing plant is located in Germany.

Project had a total cost of $1.07 (F6) million.

Recruitment remained a problem throughout, and several journalists were asked to leave if they do not reach their goals.

Concept development

Strengths

Broader in scope.

More entertainment.

More useful.

More informative.

More international.

More visual.

Weaknesses

Possible negative connotation of the name Capital in France.

The training costs of journalists in order to get Prisma Presse formula.

It is very hard to find good journalists, who have excellent business/economic knowledge, and willing to adapt to the editorial principles and culture of Prisma Presse.

Focus groups indicated negative reactions to the articles. It was superficial and was only good to be read at the hairdresser's.

Full−blown launch required a formal approval of Gruner+Jahr and Bertelsmann.

Articles require intense and time−consuming research.

Competitors Strengths

<u>L'Expansion</u>

Leading business magazine in France.

The 84% of its circulation comes from subscription.

The Total circulation of the magazine is 149,000.

It is a biweekly magazine.

It has the 31% share of annual gross circulation revenue in 1990 of the business magazines in France.

It has the 42% share of gross advertising revenue in 1990 of the business magazines in France.

<u>Le Nouvel Economiste</u>

Second leading business magazine in France.

Total circulation of the magazine is 89,000.

It is a weekly magazine.

It has the 24% share of annual gross circulation revenue in 1990 of the business magazines in France.

It has the 28% share of gross advertising revenue in 1990 of the business magazines in France.

<u>Science & Vie Economie</u>

Third leading business magazine in France.

Total circulation of the magazine is 106,000.

It is a monthly magazine.

It has the 10% share of annual gross circulation revenue in1990 of the business magazines in France.

It has the 3% share of gross advertising revenue in 1990 of the business magazines in France.

Porter Analysis

Barriers to Entry− ***High***

Economies of scale, capital requirement, and brand identity are high.

Determinants of Buyer Power− ***Low***

Buyer volume, buyer switching cost, and price sensitivity are low.

Determinants of Supplier Power− ***High***

Differentiation of inputs, switching cost, and importance of volume to supplier are high.

Determinants of Rivalry− ***High***

Fixed cost, product differences, and diversity of competitors are high.

Determinants of Substitutions Threats− ***Medium***

Relative price/performance and buyer's threat are medium. Switching cost is low and supplier's threat is high.

Opportunities Analysis

Market Size: Prisma Presse Circulation (Exhibit 2)

	Calculations	Total
Monthly Magazines	580,000 + 350,000 + 1,220,000 + 350,000 + 230,000 =	2,730,000
Weekly Magazines	1,800,000 + 1,220,000 + 600,000 =	3,620,000

Total Industry Revenue: (Exhibit 3,6,7)

	Calculations	Total
Total Industry Revenue for Prisma Presse	2,057 / 5.6 =	$ 367.32
Total Industry Revenue for Business magazine		
Circulation of main business magazines in France	239 / 5.6 =	$ 42.68
Advertising in main business magazines in France	659 / 5.6 =	$ 117.68
$160.36 (42.68 + 117.68)		

N.B. Figures are in millions

Growth: (Exhibit 6,7)

	Calculations	Total
Circulation: Growth rates average for main business magazines in France.	(−6% + −3% + −4% + −5% + 7% + 42% + 64%) / 7 =	14%
Advertising: Growth rates average for main business magazines in France.	(−18% + −23% + −7% + 84% + 13% + 56% + 55%) / 7 =	23%

Figures from 1987−1990.

Competition: (Exhibit 6,7)

	L'Expansion	Le Nouvel Economiste	Science & Vie Economie	Total
Circulation	(74/5.6) =	(56/5.6) =	(25/5.6) =	$ 27.67

	$ 13.21	$ 10	$ 4.46	
Advertising	(274/5.6) = $ 48.93	(184/5.6) = $ 32.86	(17/5.6) = $ 3.04	$ 84.83
Total	$ 62.14	$ 42.86	$ 7.50	**$ 112.5**

Figures for 1990.

Figures in millions.

$ 112.5 is the estimate profit for the business magazine.

Competitors Dependency:

	L'Expansion	Le Nouvel Economiste	Science & Vie Economie
Advertising revenue as a % of total gross revenue	79%	77%	40%

− Competition dependency on the market is high when they hold a higher market share, therefore the companies will react accordingly.

Financial Analysis

Industry Profitability: (Exhibit 6,7,8,15)

Dear Professor Scrizzi,

Ailee, Melissa, Fiorella, Yumiko, Iker, Adnan, Maria, and myself Diego have been working on this section of the paper for quite some time and we were still unable to calculate the industry profitability. We hope that this will not affect our final grade due to the time we invested.

Thank you.

Contribution Analysis: (Exhibit 8)

	L'Expansion	Le Nouvel Economiste	Science & Economie	Total
Circulation Market	3,450,000/year	4,500,000/year	1,177,000/year	9,127,000/year
Advertising Market	2,366,000/year	2,259,000/year	224,000/year	4,849,000/year
Gross Circulation Revenue	(74/5.6) = $ 13.21	(56/5.6) = $ 10	(25/5.6) = $ 4.46	$ 27.67
Gross Advertising Revenue	(274/5.6) = $ 48.93	(184/5.6) = $ 32.86	(17/5.6) = $ 3.04	$ 84.83
Mechanical Cost/Page	$0.011/page	0.003/page	$0.014/page	N/A
	(2.60/5.6) =	(1.30/5.6) =	(2.40/5.6) =	N/A

Gross Contribution per copy	$ 0.46	$ 0.23	$ 0.42	

Capital Financial Analysis

	Capital Magazine
Circulation Market	Estimated 50,000 for first 6 months. 100,000 needed for one year.
Advertising Market	Estimated = 755,000
Gross Circulation Revenue	N/A
Gross Advertising Revenue	N/A
Mechanical Cost/Page	$0.008
Gross Contribution per copy	N/A

Alternatives

To launch or not to launch the magazine in September 1991 are the two possible alternatives.

Analysis

Why Capital should be launched?

Knowledge in the magazine industry.
No clear market leader.
Based on newsstand strategy, which is a new approach.
The 20 percent of the news magazine readers fall into Capital's reader target market.
Differs from other business magazines in content.
Strong financial position of Prisma Presse.
Positive feedback of the focus groups.
As Axel predict the decline in advertisement revenues is not due to lack of demand, because the offering was unsatisfactory.

Why Capital should be not launched?

Costs of Research and development.
Costs of employment.
Lack of journalists in business area.
Inexperience in business magazines.
Economic recession.
A 20 percent decrease of advertisement revenues.

Recommendation

My recommendation is to launch the magazine in September 1991.

Implementation

Competitive Advantage

How?

Using the newsstand strategy, the price will be $2.67 and the media advertisement per copy $3.75. If the magazine is successful I do not think that the target market will care about the price or discount of the magazine, they have money enough to buy it without any problem. But they will like to receive the magazine at home every month. So, Capital should use subscriptions to help the customer to receive the magazine.

When?

In September 1991.

Who?

The Prisma Presse Group.

Where?

Everywhere in France.

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