Case #5

Company: NA

Topic: Market Estimation

Industry: Publishing

About the Case

This is a market estimation case. The case is based off estimations and the candidate's ability to work with those estimations. While there are no right/wrong answers in market estimation cases, the interviewer usually has a range of 'correctness', if you will. Your answer should fall within interviewer's estimate to the extent that your assumptions are realistic.

Defining the Problem

Your client is the CEO of a publishing company producing a line of educational magazines and a line of women's magazines. Both businesses are profitable but not growing quickly. He wants to start a third monthly magazine in the US targeted at 25- to 55-year-old men (e.g. GQ Magazine). His stated goal is $12 million in circulation revenues in the first year. Is this possible?

Prompt 1: Solution Approach – *Ask the candidate to walk you through his thought process – top-down, bottom-up. Once his /her structure is in place, ask him/her to compute the calculation. Various methods may be used to estimate the answer; one approach is outlined below.*

Suggested Answer

- The total US population is approximately 300 million.
- Based on a normal distribution with the average life span of 80 years, approximately 1/2 of the population falls between 25-55, or about 150 million people.
- Approximately 1/2 of them are male, or 75 million.
- Of the 75 million 25- to 55-year-old men in the country, assume that at least 1/2 would read a magazine or ~40 million.
- Given the wide range of magazines on the market assume that only 10% of magazine readers would want to read a men's journal, or 4 million target customers.

- As a new magazine assume that you can generate a 5% share of the men's magazine market in year one, or 200,000 customers.
- Based on other magazines selling for $2.50-$5.00, assume a cover price of $4/magazine at the newsstand and $2/magazine for a subscription.
- Now make some assumptions on how many customers will buy at the newsstand versus subscription: assume 50% subscribe (200,000) and 50% buy at the newsstand (400,000).
- Accordingly monthly revenues amount to $200,000 + $400,000 or $600,000. For simplicity assume that all target customers buy a magazine every month. This would generate total annual revenues of $600,000 X 12 or $7.2 million.

Conclusion: In this case, given the CEO's stated goal of $12 million in circulation revenues, it does not make good business sense to launch the magazine.

Author's Commentary/Notes

Market estimation cases have no right or wrong answer, rather the interviewer is looking for a logical approach and structure to the candidate's problem-solving skills. Always clarify the assumptions that you make. The above solution is just one of many ways to answer this question