Case 1: Business School Journal (I of II)

AT Kearney, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request[1]
Your client is a European academic institution that wants to increase the brand profile of their business school. One strategy that they have identified is creating a business journal. The university has done its own research, but has also asked you to do a pro bono assessment of this strategy. They want to know if the strategy will increase their brand image, and also if it will be profitable.	University has traditional image, Business school is very new B-school rated in top 10, but they want it to be rated in top 3 Other strategies that they are doing: conferences and symposiums, sponsorship of students from corporations Professors very good, but business school not well known for any one thing, as Wharton is known for Finance, or Kellogg for Marketing Alumni well respected, but school is new, so alumni much smaller than others Harvard Business School largest journal publisher with 75% market share (HBS has 75,000 subscriptions); remainder split between 6 others HBS charges $10/issue of $120/year (12 issues), Lowest charge of others is $60/year (4 issues) Other revenue: Advertisements, currently at $2000/page, average 10 pages of advertisement per issue As subscriptions go up, can charge more for advertisements Costs: Writer - $500/article, 10 articles/issue; Printer (2 options: outsource or internal): Outsourced - $15/journal, internal – initial cost $1 million for printing machine; Distribution: $0.50/journal; Managing editor: $80,000/year fully loaded

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Candidate should calculate marginal contribution per customer…

	Io	FC	VC	R	Marg. Contribution
Outsource	NA	\$5K*4=\$20K + \$80K = \$100K	\$15.5*4= \$62/customer	\$60/customer \$20K*4=\$80K	(\$2)/customer
In-house	\$1mln	\$100K	\$0.5*4= \$2/customer	\$60/customer; \$80K	\$58/customer

Then determine if the two options make sense

Outsource: At a marginal loss of \$2/customer, the university would have to rely solely on advertising revenue. The current \$80K assumes a circulation up to 4000, the average of the 6 smaller competitors. This would not be enough to cover fixed costs, much less the loss on each customer (-\$2*4000 - \$100K = -\$108K; an additional \$28K in advertising revenue would be required).

In-house: At a marginal contribution of \$58/customer, the university would be able to cover fixed costs with a readership of approximately 345 (V=(\$100K-\$80K)/\$58). However, recouping the additional \$1M will take 5 years if the university can replicated reach a circulation of 4000/year, or longer if it can not.

A solid interview will address other factors besides profitability

- **Drivers for readership of business journal (small alumni base will keep expected circulation numbers low)**
- **Alignment with strategy (will a journal promote an Ivy League/traditional brand image?)**
- **Risks associated with implementing a journal (high failure rate for new publications)**

Sample recommendation

Client should not pursue a business school journal. Producing a journal would require a large initial up front investment, with a five year minimum payback period. Additionally, the journal does not serve the correct audience to advance the university's desired brand image, and could actually risk it, as there is a high failure rate for new publications. The university's resources could be better directed to other strategies, such as…