



CASE STUDY

NOVEMBER 2020

ADVANCE INFORMATION

This material is issued prior to the examination session on 4 November 2020.

Candidates MUST bring this material with them to the Examination Hall.

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BEAL PUBLICATIONS LIMITED (Beal): ADVANCE INFORMATION

This Advance Information is issued prior to the examination session so as to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis. The Advance Information is also published on the website: www.icaew.com/students.

You MUST bring this Advance Information with you to the Examination Hall, annotated if you wish, together with any other notes of your preparatory work. You must carry out sufficient and appropriate analysis work **of your own** in order to have a detailed understanding of the Advance Information. You should also undertake any additional research and analysis you feel necessary to enhance your awareness of the industry and market context and to enable you to clarify any technical terms or other issues of vocabulary. You will need to be able to refer back quickly to the Advance Information and your notes during the exam; you are therefore unlikely to benefit from taking large quantities of additional material with you into the Examination Hall.

At the start of the examination you will receive some additional material which will complete the description of the case scenario and state the Case Study requirements. Your answer must be submitted on the CBE software provided by ICAEW in the Examination Hall. Any pre-prepared papers, or papers comprising annotated exhibits from the case material, included in your answer **WILL NOT** be marked.

Assessment of the Case Study

The marks in the Case Study are awarded for professional skills, allocated broadly as follows:

- | | |
|--|-------|
| • Assimilating and using information | 22.5% |
| • Structuring problems and solutions | 22.5% |
| • Applying judgement | 22.5% |
| • Drawing conclusions and making recommendations | 15.0% |
| • Demonstrating integrative and multidisciplinary skills | 17.5% |

Of the total marks available, 15% are awarded for the executive summary and approximately 10% for the relevant discussion of ethical issues within your answer to the requirements. Ethical issues do not form a specific requirement but, within a requirement, may cover such topics as:

- Lack of professional independence or objectivity
- Conflicts of interest among stakeholders
- Doubtful accounting or commercial practice
- Inappropriate pressure to achieve a reported result.

You should be clear that marks are awarded for demonstrating your professional skills, not for reproducing facts from the case. In order to be successful, you will need to:

- Demonstrate your knowledge of the case material and make use of your preparatory work;
- Carry out relevant analysis of the problems and structure your proposed solutions;
- Apply your judgement on the basis of the analysis that you have carried out; and
- Draw conclusions from your analysis and judgement and develop them into practical commercial recommendations.

Omitting any one of these elements will have a significantly detrimental effect on your chances of success.

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November 2020 Case Study: BEAL Publications Limited (Beal)

List of exhibits

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Who's who in BEAL Publications Limited:

Josh Delores	Managing Director
Sis Strong	Finance Director (an ICAEW Chartered Accountant)
Lou Bhatia	Marketing Director
Kia Kaya	Production and IT Director
Mo Leclerc	Managing Editor of MLE
Anneliese Adams	Manager of Customer Advertising
Tim Doe	Commissioning Manager and Editor for Special Reports
Sab Huang	Web Manager

About you (Ollie Phelps), your employer (Galbraith Worthy) and your client (BEAL Publications Limited)

You are Ollie Phelps, a final-year trainee ICAEW Chartered Accountant, working in the business advisory unit of Galbraith Worthy (GW), a firm of ICAEW Chartered Accountants with offices throughout the UK. One of your clients is BEAL Publications Limited (Beal), a company which publishes the MLE (Management, Lifestyle and Economics) magazine in both online and hardcopy (print) versions. It operates from a site in London. The online version of MLE is available to be purchased from anywhere in the world, but the print version is sold in the UK only. You report to Lettie Pass, a partner in the business advisory unit.

Since you joined the firm your work has included:

- Analysing and evaluating the management accounts and financial statements of clients to identify trends and key issues, enabling clients to make informed board decisions and to communicate information about their business
- Performing financial data calculations and evaluating further financial analysis to assist the consideration of any business opportunities or issues for clients
- Preparing financial and numerical calculations for clients, considering different assumptions and providing a critical professional review to enable the impact of future business decisions to be accurately assessed
- Offering clear evaluations to clients based on analysis of both opportunities and threats and their impact on profitability and the cash position
- Drafting reports for clients on all financial and commercial aspects of their business, including business trust and ethical issues.

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The UK magazine publishing industry

Magazines (also known as periodicals) occupy a market space between books and newspapers. There are four main categories: scholarly; professional and trade; news and opinion; and popular. There is also a broad distinction between (a) stand-alone magazines, such as *The Spectator*, *Prospect* and *The Week*; and (b) those magazines which are circulated to subscribers and received through their membership of an organisation, as part of a broader package, such as *The National Trust* and, until recently, *Economia*.

Range of magazines

The UK magazine publishing market is highly diversified. There are daily, weekly, monthly as well as quarterly, biannual and annual publications. The range of publications is enormous, with magazines on every topic imaginable. Although all magazines would describe themselves as high-quality publications, there are categories of publications which cater for quite distinct markets.

Some would be classed as technical in terms of their content, presentation and readership. Examples of such in the UK include *The Lancet* (a publication for the medical profession) and *The Lawyer Magazine*, which cater for an informed audience in their field. Some would be classified by a specific focus on an activity, such as: gardening; driving; camping; sport; fitness; fashion. As well as there being an enormous range of English language publications in the UK, there are also many publications catering for readers in other languages.

Online publishing

The development of online magazine publishing has been an important process of transition for most publishers. For some, it was an optional development – particularly where the timing of the publication of the magazine was not critical for its content. However, that is no longer the case and online publication cannot be ignored. Although many readers continue to enjoy reading a magazine's articles on a printed page, to which they can return time and again, others prefer the lack of clutter and the ease of access and transportability of the downloadable online version. There are many who choose and use both options.

Circulation

The total number of copies distributed through all channels – retail, print subscription and online subscription – is the circulation of the magazine. Some corporate or larger customers pay subscriptions for multiple copies and for both print and online versions – each of these multiple copies or versions is counted as a separate subscription for the purposes of determining circulation.

Circulation is always a critical number for magazine publishers. The reason is that most publishers' costs are fixed within bands of circulation (they are in effect stepped fixed costs). In producing a magazine, the cost of contributors (researchers, writers and editorial staff) is the same regardless of the numbers sold. Similarly, other costs of sales – which include the direct cost of production (particularly where the publisher outsources its printing and online publishing) – remain almost the same regardless of numbers sold. There are also elements in other operational costs such as administration, including other salaries and property costs, which must be incurred to create the product regardless of the level of sales. Under these financial circumstances, it is vital to maximise revenue relating to circulation in order to cover the fixed costs, but also to maximise advertising revenue (see below), which is based on circulation.

The main sources of revenue for magazine publishers

Subscription and sales revenue

Magazines generate revenue from subscriptions – for both print and online versions – and from hardcopy sales at newsagents and other retail outlets. There is a cover price for a magazine which is displayed on the front, but the publisher usually receives lower revenue per copy because of discounts that it offers. Subscriptions are normally taken out for a defined period (eg, 12 months); and, to entice customers to become subscribers, a discount is usually offered on the cover price – this discounted price is the effective revenue per copy for the publisher.

For print versions of magazines sold by retailers, the cover price has to allow the retailers to earn a profit, so they will only pay the publisher the cover price less an agreed discount – this discounted figure is the effective sales price (or revenue) per copy for the publisher.

Advertising revenue

All magazine publishers earn revenue from selling space in their publications to other organisations wanting to advertise their goods or services. Amongst other factors, advertisers pay the required price for their adverts, based on a publication's reach (readership). Although readership is not easily verifiable, circulation numbers (which can be audited) are capable of being determined. The circulation figure is taken as an indication of the minimum number of readers who will see the advert. It justifies an important aspect of the price charged for the advert, and consequently the advertising revenue which is generated.

As a result of previous circulation verification issues (where unscrupulous magazine publishers claimed larger circulations than they actually achieved), a body was created by the publishing industry – the Audit Bureau of Circulations (ABC) UK – to verify and provide accurate circulation numbers in order to enable advertising charges (based on circulation numbers) to be agreed.

There is also a similar body for digital advertising – the Internet Advertising Bureau (IAB) UK. Its circulation figures for each publication permit advertisers to identify visits to, and time spent on, the magazine website; hits on an advert; and other information. Recent IAB UK policies include three fundamental aims: to reduce advertising fraud; to improve the digital advertising experience; and to increase brand safety (isolating or protecting adverts from dubious or harmful negative news or other critical content).

Other revenue

Another source of revenue for the publishers of technical, professional or specialised magazines is from performing research and writing special reports commissioned by clients. Depending on the content and expertise of the magazine and the skillset and stature of its writers, a magazine can create a significant stream of revenue from special reports. A clear example is *The Economist* Intelligence Unit, the research and analysis division of the Economist Group. Examples of its work include providing economic forecasts and advisory services through research and analysis, together with risk analysis reports for any industry.

Marketing as a cost for magazine publishers

For all publishers of magazines, marketing appears to be an absolute necessity. Any publication needs to promote itself in order to be noticed by customers, both to retain the existing customers and to attract new ones, and this can be at a significant cost. For many magazine publishing organisations, maintaining their own circulation is achieved through a mixture of the strong positive reputation of the publication and good marketing of the magazine. As much as magazine publishers gain from adverts placed by their clients, they must invest similar or greater sums in promoting and marketing their own publications.

Beal: Origin and development

Origin

Beal, which is now an upmarket magazine publisher, started in 2001, as a vehicle for collaborative Special Report (SR) publications by four PhD students at Cambridge University: Josh Delores, Kia Kaya, Lou Bhatia and Sis Strong. Previously, as undergraduates, all four had been involved in working for student publications in different universities and had enjoyed the challenges that occurred when trying to meet the publishing deadlines.

They met at the start of their time at Cambridge at a gathering for student magazine writers. However, they each decided against writing for any university publications – the time commitment and ethos of a student magazine no longer had its appeal. Instead, following discussion and agreement, the four set up together as a writing syndicate under the name BEAL Publications (Beal) [BEAL standing for Business, Economics And Lifestyle] as a vehicle through which their work could be channelled. Each of the four could draw on their skills as writers and their knowledge in different disciplines, and together with other researchers whom they commissioned, worked as contributors for Special Reports produced for commercial clients. The four remain equal shareholders and directors of Beal.

During their three-year PhD programmes, Beal's commissioned work grew as the skills and the reputations of the original four developed. It ranged from short analytical summaries on business, economic, marketing, and financial topics for publication in a variety of newspapers, journals and magazines, through to larger-scale projects, researched case studies and detailed reports for major organisations and professional bodies. Beal also started to produce a short quarterly newsletter with acknowledged summaries of recent work which was sent to appropriate interested parties (major private and public sector organisations) for their information, and as a marketing device.

Development

After completing their PhDs, all four went to work in London pursuing different careers. Two of them, Josh and Kia, developed careers in professional journalism with different publications and in different areas of expertise: Josh with the *Financial Journal* (a daily financial newspaper) and Kia with *Engineering Design* (a monthly periodical). Lou joined a large marketing consultancy organisation and Sis went on to qualify as an ICAEW Chartered Accountant. During the next four years until September 2008, Beal continued to be commissioned to write a variety of articles and Special Reports from various independent researchers and authors. In the meantime, the four founders continued to use Beal, as a business sideline, on these paid SR projects.

In the aftermath of the financial crash of 2008, demand for Beal's SR work increased rapidly. The company's reputation and status had been significantly enhanced because Beal had previously presented a series of short analytical articles in 2006 which had detailed the impact of an imminent financial crash. This vision and clearly articulated analysis gave the Beal team kudos and a high profile. Many organisations and publications, shunning previous consultants, wanted a clear, independent analysis and summary of the 2008 crisis and its aftermath (and the possible future direction the economy might take) for their in-house newsletters and publications. Most of the content commissioned was aimed at managers and leaders of organisations who wanted to have a focused review and report on which they could rely and which they could provide to their business contacts. Beal provided that independent tailored analysis.

The company's status was confirmed when the Beal team were named as the winner of the UK's Best Business Consultancy Journalists Award for 2008 for their newsletter – an award voted for by business leaders and other journalists. This accolade, from both its readers and its peers, drew the attention of an increased number of UK Government and public sector bodies, which also began commissioning Special Reports from Beal.

As demand for copies of their SR work and newsletter increased, the four original founders decided to make the newsletter a monthly publication from October 2009. This was an interim step, towards the setting up of a regular magazine format for future output and delivery to a wider range of customers, both individual and corporate. Although the magazine was established as a hardcopy publication, Beal also developed a collection of complementary truncated reviews online, which acted as sample reading and were designed to direct readers to the printed magazine and its detailed longer-form journalism.

In October 2010, the four directors resigned from their other employment to work full-time for Beal. They each raised personal finance and contributed equally to Beal's £500k share capital. A monthly UK magazine – Management, Lifestyle and Economics (MLE) – was created as the publication to bring their strategic plan into being. Building on the SR work and clients, and using Beal's reputation, MLE established a steadily growing market of subscribers.

Beal today

MLE's subscribers are mainly UK based. The profile of regular non-corporate subscribers is that they are university educated, or at least have continued their education and training after leaving school (aged 18+). They tend to be qualified professionals in fields such as accountancy, law, engineering, architecture and design, or medical and veterinary practice. Over 80% of regular subscribers are in the age-range from 35 to 55. They are split between male and female subscribers, in the approximate ratio 60:40. The details of readers (all subscribers are readers, but not all readers are subscribers) are more difficult to identify. Research on the readership ratio implies that MLE magazine appeals to a more gender-balanced range of readers, by comparison with the profile of subscribers. This is important for determining magazine content. It is estimated that there are two readers for every copy purchased. The strategy is for readers to become subscribers.

MLE's steady growth has enabled it to attract a wide range of appropriate contributors. These contributors include researchers, writers, journalists, editors, together with backroom design and artistic staff for print and online versions of MLE. As well as a team of regular contributors, MLE has selected other contributors to add depth and to broaden further the scope of the magazine.

Operational policies were established which ensured that writers had to provide details of sources and evidence of research conducted to establish the validity of all Beal output. Content included single-topic current business, economic and social articles, as well as multidisciplinary writings which offered analysis and consideration of issues affecting the UK from multiple perspectives.

Beal established its strategy for operations and growth – its Three Rs: Reputation, Readership, Revenue. All its work and success were to be predicated on the first of these – its reputation. The four founders were aware that what they were producing was being relied upon because of its quality.

Editorial policy

MLE circulation grew steadily from its creation. Its fundamental editorial ethos was established as the objective analysis and clear presentation of newsworthy issues, presented in an informative and readable form, written by relevant experts. This was embodied in its masthead "Beal: a publisher of objective, analysed, newsworthy reports".

Because Beal always continued with its commissioned SR work, it sought to distance itself from using biased contributors and tried to avoid providing an editorial slant on its reports, believing in allowing any judgement to follow the analysis as published. Beal established a similar editorial policy in MLE and only used contributors who conformed with Beal's acknowledged research methods to corroborate and develop the analysis and explanation of the items published. As a result, MLE's reputation for impartiality and rigorous reporting grew, and with that reputation its circulation expanded. The continued growth in circulation drew in requests from leading organisations to advertise in the magazine. Although the revenue from advertising was an important consideration (**Exhibit 8**), Beal realised that the advertising itself should also conform with Beal's publishing and editorial standards.

**Beal: Review of the management accounts for the two years ended 30 September 2018
(prepared by Sis Strong)**

I attach the management accounts for the three years ended 30 September 2019 (**Exhibit 5**). I am providing a summary of the financial and operating history to accompany these management accounts, both below for the two years up to 30 September 2018 and in **Exhibit 6** for the year to 30 September 2019, together with additional financial and operational information in subsequent exhibits.

Overview

Beal is now located in London. Its revenue is a mix of MLE magazine sales; advertising; and Special Reports.

MLE magazine sales (MS) are predominantly by subscription. The same price is charged for printed (hardcopy) and online versions. Approximately 25% of subscription revenue is hardcopy only, approximately 25% is online sales only and approximately 50% (mainly corporate subscribers) is where the subscribers take multiple copies of both versions. Each subscription counts as one in circulation figures. A very small percentage of magazine sales (included in circulation numbers) are sold through retailers direct to customers (**Exhibit 7**).

Advertising (AD) revenue is a function of a combination of different factors. Advertisers are charged on the specific size and style of the advert placed, the period and frequency over which it is run, and the number of copies of MLE circulated (both print and online) which contain the advert – as determined by audited circulation figures (**Exhibit 8**). There is also a significant amount of advertising revenue from the sponsoring of annual events run by Beal, paid by those businesses deemed by Beal to be appropriate sponsors.

Special Report (SR) revenue is generated by special reports involving commissioned research and analysis on behalf of a range of private sector, public sector and UK Government organisations (**Exhibit 9**).

Year ended 30 September 2017 (2017)Revenue

Revenue in 2017 reached £24 million. This overall increase of approximately 4.5% from 2016 to 2017 was a good result, being slightly better than the previous year's increase. It was a function of different trends in each of our business streams:

- MS revenue increased by approximately 5.2% from 2016 to 2017, which maintained our trend of increasing sales revenue in consecutive years since MLE's creation.
- AD revenue suffered a decrease of approximately 4.8% from 2016 to 2017, in line with the magazine publishing industry decline in this stream of revenue over this period.
- SR revenue continued to grow strongly as we continued to win new contracts in both the private and public sector.

In terms of sales mix, MS continued to provide more than 50% of total revenue (50.7%), with AD generating 26.4% and SR the balance (22.9%). Sales of MLE in both formats continued to increase (**Exhibit 7**).

Cost of sales

Cost of sales covers both hardcopy and online versions of output. Total cost of sales increased by approximately 4.7%. This was slightly more than the increase in total revenue and caused a continuing

squeeze on margins. The main cost of producing the output is that of contributors (**Exhibit 11**). In 2017 this amounted to £6,625k, which was 75.8% of total cost of sales, a similar percentage to previous years.

The other component of cost of sales is the cost of outsourced printing and digital costs for both hardcopy and online versions. This includes set-up and security costs, which exist across both versions and are subject to constant review and update.

The 2017 gross profit margin was 63.6%, which appears healthy. There had been a decline in this margin over the previous two years.

Other operating costs

The 2017 other operating costs increased by approximately 3.8% over 2016. This increase is a greater percentage increase than the increase in revenue and, together with the decline in gross profit margin, it puts further pressure on the operating margin, which for 2017 was approximately 1.4%. The three components of other operating costs are:

- Distribution, which includes freight, postage and web posting as well as the maintenance of the customer lists. It also includes the cost of collecting unsold copies from retailers and the pulping (for recycling) of those copies. Distribution costs are related to circulation, but they are not directly variable with revenue. There was an increase in distribution costs of approximately 5.0% in 2017 by comparison with 2016.
- Marketing, which is a major and essential cost for Beal. It includes the cost of running its three main annual events (**Exhibit 10**), as well as major marketing campaigns and promotions throughout the year. Marketing costs increased by 3.5% in 2017 by comparison with 2016.
- Administration, which covers the cost of running the Beal office function. Administration costs increased by 2.9% in 2017 by comparison with 2016.

Finance costs

These represent bank charges and interest on the fluctuating overdraft, as well as transaction costs related to running the bank account. Because Beal has a significant number of monthly transactions which are processed by the bank, it incurs high costs on that activity. All finance costs are subject to review in our regular bank meetings.

Property and equipment (P&E)

Beal has a policy of constantly upgrading its IT and related security system in order to ensure that it has the best software and equipment available both for its office-based staff and contributors and for any of its contributors who are located away from the office. There is a variable depreciation policy based on the estimated useful lives of assets (3-10 years). In 2017, there was a net increase in the carrying amount of these assets caused by the new investment of £504k, with depreciation and losses on disposal on all P&E assets of £302k.

Trade and other receivables

Trade receivables represent amounts owing to Beal by advertisers, retailers who sell hard copies of MLE, as well as organisations that have commissioned SR work. A number of these organisations are public sector (such as the UK National Health Service [NHS]) and other Government bodies, which traditionally take two months to pay for any work. We constantly review our outstanding trade receivables to consider whether there has been any impairment. Our previous experience has been good. The trade receivable days at 30 September 2017 was approximately 48 days – a slight increase on the previous year caused by the increase in public sector SR clients.

The main element of other receivables is prepayments for services – particularly property taxes and insurance.

Trade and other payables

Total trade and other payables in 2017 increased by comparison with 2016. The main components are:

- Trade payables which includes outstanding cost of sales and other operating costs. This liability is tightly controlled.
- Deferred income, which comprises subscriptions in advance. Although most annual subscriptions are on monthly direct debits, some are single annual subscriptions – which frequently happens when subscriptions are taken out as a gift for someone else, around Christmas time. At 30 September 2017, the deferred income of £467k represented an average of approximately 14 days of MS revenue.

Overdraft and statement of cash flows

Beal operates with a fluctuating overdraft on which the agreed limit is £200k. It has maintained a good margin of safety on that limit.

The statement of cash flows provides a clear indication of how Beal managed its financial affairs in 2017:

- Beal generated £558k from its operations – an increase on the previous year.
- After it had paid taxation (£45k) and finance costs (£17k), there was £496k net cash generated from operations.
- Beal invested £504k in equipment and received £5k from the disposal of old equipment.

Overall, this was a well-balanced year in terms of the generation and usage of cash. The net shortfall of £3k meant that the overdraft increased only marginally, from £121k to £124k.

Year ended 30 September 2018 (2018)

Revenue

Total revenue in 2018 was £25,438k. This overall increase in revenue of £1,407k (5.9%) from 2017 to 2018, taking revenue above £25 million, was a good result continuing previous years' increases. There were different trends in each of our business streams:

- MS revenue increased by £662k (5.4%) from 2017 to 2018. This followed our decision to increase the cover price for MLE on 1 October 2017 from £7.99 to £8.99. This 12.5% increase in cover price was the first increase since October 2014. Circulation was affected (**Exhibit 7**).
- AD revenue decreased by £509k (8.0%) from 2017 to 2018. This is larger than the industry decline. This line of revenue has been affected by MLE not achieving some advertising clients' circulation targets.
- SR revenue grew by £1,254k from 2017 to 2018. This represents a growth of an impressive 22.8% on the previous year (but it is worth noting that this was from a base of £5,503k – at that time the smallest of the three streams). Our independent report work is continuing to receive plaudits from its recipients, and this leads to more new contracts in both the private and public sectors.

In terms of sales mix, MS continued to provide more than 50% of total revenue (50.5%) but, with the results indicated above, AD revenue dropped to 22.9% while SR increased to 26.6% – showing its growing importance for Beal.

Cost of sales

Total cost of sales increased by just £64k (0.7%). This percentage increase was less than the percentage increase in total revenue, which meant an improvement in margins. The 2018 gross profit margin increased to 65.4%, which meant that margins were restored to the levels of three years ago. This was a function of the increase in magazine cover price and the increase in SR revenue whilst holding the cost of sales relatively stable.

The main cost of sales is always that of contributors (Exhibit 11). In 2018 this amounted to £6,677k, which remained at 75.8% of total cost of sales. There was a noticeable operational change in this year, with an increase in the use of SR output, which Beal was also able to edit and use in its features in MLE.

Outsourced printing and digital costs remained under good control, with negligible changes over the previous year.

Other operating costs

Total operating costs increased by £1,401k (9.4%) over 2017, a greater percentage increase than for revenue. It offsets and exceeds any improvement created by the increase in gross profit margin. This increase in operating costs reduces the operating margin for 2018 to 1.1%. The changes in other operating costs are as follows:

- Distribution costs have increased by £156k (3.9%), less than the percentage increase in revenue. Prima facie there is an efficiency in this cost in 2018, but because it is related to circulation, it needs to be reviewed closely against the circulation details.
- Marketing costs increased significantly, by £1,037k (13.4%). Almost all (£1,000k) of this increase has been increased marketing to overcome any resistance following the MLE cover price increase in October 2017.
- Administration costs increased to £3,383k (2018) from £3,175k (2017). This increase of £208k (6.6%) must be seen in the context of the operating profit of £290k.

Property and equipment (P&E)

In 2018, there was an increase in the carrying amount of P&E assets caused by the new investment in updated equipment and software of £477k. Depreciation and losses on disposal on all P&E assets were £350k. Given the low level of losses on disposal, the company believes that its depreciation policy continues to be appropriate.

Trade and other receivables

The increase in SR work – particularly for public sector organisations, using Beal's substantial expertise in public sector economics – has led to an increase in trade receivables by comparison with total revenue. The trade receivable days at 30 September 2018 against total revenue was approximately 50 days – only a slight increase (2 days) on the year before, but any increase needs to be, and is, kept under constant review.

The main element of the other receivables remains prepayments for services – particularly property taxes and insurance – which has increased by just £14k (an immaterial amount).

Trade and other payables

Total trade and other payables in 2018 increased by £191k compared with 2017:

- Trade payables as at 30 September 2018 remain at a similar proportion of related purchases as in 2017. This liability remains well controlled.
- Deferred income at 30 September 2018 was £527k, which represented approximately 15 days of MS revenue.

Overdraft and statement of cash flows

The statement of cash flows provides an indication of how Beal managed its financial affairs in 2018:

- Beal generated a cash inflow of £488k from its operations – a decrease of £70k on the previous year. This was a function of its lower operating profit of £290k against the 2017 operating profit of £348k, and the increase in trade receivables in 2018.
- After it had paid taxation (£63k) and finance costs (£18k), there was £407k net cash generated from operations – a reduction of £89k on 2017.
- Beal invested £477k in equipment and received £8k from the disposal of old equipment.

From the above it can be seen that in 2018 there was a noticeable outflow of cash of £62k. This net shortfall meant that the overdraft had increased from £124k in 2017 to £186k in 2018. Beal did not exceed its overdraft limit during the year.

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Beal: Management accounts for the three years ended 30 September 2019**Statement of profit or loss****Year ended 30 September**

		2019	2018	2017
	Note	£000	£000	£000
Revenue	1	27,278	25,438	24,031
Cost of sales	2	(9,659)	(8,805)	(8,741)
Gross profit		17,619	16,633	15,290
Other operating costs	3	(17,251)	(16,343)	(14,942)
Operating profit		368	290	348
Finance costs		(19)	(18)	(17)
Profit before taxation		349	272	331
Taxation		(67)	(52)	(63)
Profit for the year		282	220	268

Statement of financial position**As at 30 September**

	Notes	2019	2018	2017
		£000	£000	£000
Non-current assets				
Property and equipment (P&E)	4	1,344	1,378	1,259
		1,344	1,378	1,259
Current assets				
Trade and other receivables	5	4,356	3,883	3,540
		4,356	3,883	3,540
Total assets		5,700	5,261	4,799
Shareholders' equity				
Ordinary share capital		500	500	500
Retained earnings		1,956	1,674	1,454
Total shareholders' equity		2,456	2,174	1,954
Current liabilities				
Trade and other payables	6	2,984	2,849	2,658
Taxation		67	52	63
Overdraft		193	186	124
Total current liabilities		3,244	3,087	2,845
Total equity and liabilities		5,700	5,261	4,799

Year ended 30 September	2019	2018	2017
	£000	£000	£000
Statement of cash flows			
Profit before tax	349	272	331
Adjustments for:			
Depreciation & loss on disposals	342	350	302
Finance costs	19	18	17
	710	640	650
Change in trade and other receivables	(473)	(343)	(309)
Change in trade and other payables	135	191	217
Cash generated from operations	372	488	558
Taxation paid	(52)	(63)	(45)
Finance costs	(19)	(18)	(17)
Net cash from operating activities	301	407	496
Investing activities			
Purchase of P&E	(312)	(477)	(504)
Proceeds from disposal of P&E	4	8	5
Net cash used in investing activities	(308)	(469)	(499)
Net change in cash and cash equivalents	(7)	(62)	(3)
Cash and cash equivalents at start of year	(186)	(124)	(121)
Cash and cash equivalents at end of year	(193)	(186)	(124)

Notes to the management accounts

Year ended 30 September	2019	2018	2017
	£000	£000	£000
Note 1 Revenue by category			
Magazine sales (MS)	14,046	12,848	12,186
Advertising (AD)	5,328	5,833	6,342
Special Report (SR)	7,904	6,757	5,503
	27,278	25,438	24,031

Note 2 Cost of sales	2019	2018	2017
	£000	£000	£000
Contributors	7,376	6,677	6,625
Production	2,283	2,128	2,116
	9,659	8,805	8,741

Note 3 Other operating costs	£000	£000	£000
Distribution	4,721	4,204	4,048
Marketing	9,014	8,756	7,719
Administration	3,516	3,383	3,175
	17,251	16,343	14,942

Note 4 Property and equipment (P&E)

	Property £000	Equipment £000	Total £000
Cost			
At 1 October 2016	446	2,170	2,616
Additions	-	504	504
Disposals	-	(68)	(68)
At 30 September 2017	446	2,606	3,052

Depreciation

At 1 October 2016	223	1,331	1,554
On disposals	-	(59)	(59)
Charge for the year	45	253	298
At 30 September 2017	268	1,525	1,793

Carrying amount at 30 September 2017

178	1,081	1,259
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Cost

At 1 October 2017	446	2,606	3,052
Additions	-	477	477
Disposals	-	(96)	(96)
At 30 September 2018	446	2,987	3,433

Depreciation

At 1 October 2017	268	1,525	1,793
On disposals	-	(74)	(74)
Charge for the year	45	291	336
At 30 September 2018	313	1,742	2,055

Carrying amount at 30 September 2018

133	1,245	1,378
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Cost

At 1 October 2018	446	2,987	3,433
Additions	-	312	312
Disposals	-	(52)	(52)
At 30 September 2019	446	3,247	3,693

Depreciation

At 1 October 2018	313	1,742	2,055
On disposals	-	(42)	(42)
Charge for the year	45	291	336
At 30 September 2019	358	1,991	2,349

Carrying amount at 30 September 2019

88	1,256	1,344
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Note 5 Trade and other receivables

	2019	2018	2017
	£000	£000	£000
Trade receivables	3,902	3,473	3,144
Other receivables	454	410	396
	4,356	3,883	3,540

Note 6 Trade and other payables

	2019	2018	2017
	£000	£000	£000
Trade payables	2,374	2,257	2,129
Deferred income	539	527	467
Other payables	71	65	62
	2,984	2,849	2,658

Beal: Review of management accounts for the year ended 30 September 2019 (2019)

Revenue

Total revenue in 2019 was £27,278k. The overall increase of £1,840k (7.2%) was a very good result for a business in the magazine industry. As in previous years, there were different trends in each of our business streams:

- MS revenue increased by £1,198k (9.3%). This reflected a recovery in circulation (**Exhibit 7**), which had dipped in 2018, and includes a full year's positive impact of the October 2017 price increase on magazine revenue.
- AD revenue continued to decrease. It fell by £505k (8.7%). This accelerating decline has occurred despite the recovery in MLE circulation numbers – critical for advertising revenue.
- SR revenue grew by £1,147k (17.0%). This represents another year of good growth. Beal has conducted a successful targeted business-to-business (B2B) marketing campaign (see below) to further promote this work, but once again it was Beal's report work itself, receiving recognition and praise from its recipients, that was the best form of advertising.

In the sales mix for the year to 30 September 2019, MS provided 51.5% of total revenue. AD dropped to 19.5%, and is under constant review, but SR increased to 29.0% – reflecting a very good year of growth in this work.

Cost of sales

Total cost of sales increased by £854k (9.7%). However, this was more than the percentage increase in total revenue, which meant a decline in the gross profit margin from 65.4% to 64.6%, indicating that overall cost of sales is increasing faster than revenue.

Contributor costs increased to £7,376k, which was 76.4% of total cost of sales – an increase by comparison with 2018. There has been a need to increase the number of special contributors to enable Beal to meet the increased demand for SR work, as well as increased use in MLE output.

The cost of outsourced printing and digital costs remained in line with total revenue (at 8.4%) and have been well controlled.

Other operating costs

Total other operating costs increased by £908k (5.6%) over 2018. This is a lower percentage increase than for revenue. The smaller overall increase in other operating costs meant that despite the reduction in gross profit margin this year, operating margin for 2019 improved to 1.3%. The changes in other operating costs are as follows:

- Distribution costs have increased significantly by £517k (12.3%). This cost increase is linked to the increase in circulation (not simply revenue – which is affected by price changes) and follows a year (2018) of a small increase, which means there is a slight distorting effect on comparisons between these years.
- Marketing costs have increased only marginally by £258k (2.9%), following a large increase in 2018. As stated above, there has been a successful, targeted B2B marketing campaign (costing £1,200k) relating to SR work which has kept overall marketing costs high, but Beal is always aware that this cost must be kept under review.

- Administration costs increased to £3,516k (2019) by comparison with £3,383k (2018). This increase of £133k (3.9%) is relatively small. It has again been caused by increases in both local property taxes and insurances, which are difficult to avoid.

Property and equipment (P&E)

In 2019, there was a small decrease in the carrying amount of P&E assets. There was an investment in updated equipment and software of £312k, and depreciation and losses on disposal on all P&E assets of £342k. The company believes that the significant depreciation charges are appropriate and the carrying amount accurately represents the value of these assets.

Trade and other receivables

As at 30 September 2019, trade receivables were £3,902k, an increase of £429k over 2018. There has again been an increase in SR work with its longer collection times. The trade receivable days at 30 September 2019 against total revenue was just over 52 days. This was an increase of 2 days on 2018. These continuing increases are being monitored and analysed.

The main element of the other receivables remains prepayments for services (particularly property taxes and insurance), which have increased by £44k.

Trade and other payables

Total trade and other payables increased by £135k:

- Trade payables as at 30 September 2019 represent a marginal decrease against related purchases by comparison with 2018. This liability remains well controlled.
- Deferred income at 30 September 2019 was £539k, which represented 14 days of MS revenue.

Overdraft and statement of cash flows

The statement of cash flows provides an indication of how Beal managed its financial affairs in 2019:

- Beal generated £372k from its operations – a decrease of £116k on the previous year. The biggest adverse effect was the £473k increase in trade and other receivables.
- After it had paid taxation (£52k) and finance costs (£19k), there was £301k available for any investments – a reduction of £106k on 2018.
- Beal invested £312k in equipment and received £4k from the disposal of old equipment.

From the above it can be seen that in 2019 there was a marginal net outflow of cash of £7k. Although this net shortfall is relatively small, it meant that the overdraft at 30 September 2019 had increased from £186k in 2018 to £193k in 2019, just below our overdraft limit of £200k. Beal did not exceed its overdraft limit during the year.

Beal: MLE magazine sales (MS) revenue, effective price and circulation – Josh Delores

Subscriptions and sales

The two formats (print and online) have the same cover price and, whenever price changes are made, they come into effect at the same time across both formats. The sales price is the same each month, including the bumper December (Christmas) edition. This bumper edition has approximately 50% more content – which provides additional reading material over the holiday season. This acts as a good stimulus to increase readership of the magazine, and it leads to an upsurge in demand and encourages more buyers to take out annual subscriptions. There is a second reason why December is the time when subscriptions increase: people buy them as Christmas presents for relatives, friends, and colleagues.

The vast majority of MS revenue is from annual subscriptions, with only a small number being sold through retail outlets. Subscribers are both individual and corporate customers. Subscriptions are taken out for 12 months and nearly all of these are paid monthly, either by direct debit or by bank transfers. Bank direct debits allow agreed price increases to be put into effect by Beal on the anniversary of the subscription without the customer having to make any further interventions.

Effective price

During the year ended 30 September 2017, the average revenue per copy (effective price) was approximately £6.00. This average revenue is a combination of (a) the discounted price to retailers who sold MLE at its full cover price (£7.99 per copy) and (b) the discounted price for annual subscriptions and other promotions. As a result, the overall average revenue per copy is almost £2.00 lower than its cover price, at approximately £6.00 per copy in the year ended 30 September 2017. In October 2018 Beal increased the MLE cover price to £8.99, and this caused a change in its effective price (see below).

Circulation

In the 12 months ended 30 September 2017, Beal had achieved an important target of selling more than two million copies of MLE (approximately 2,031,000). Circulation started the year at approximately 165,000 copies per month. Sales grew steadily throughout Beal's financial year, ending with monthly sales of just under 175,000. This was an annual increase of a fraction under 100,000 copies over the whole year – an increase in circulation of a little over 5% compared with the year to 30 September 2016.

Beal has had a policy of raising MLE's cover price by a noticeable amount when it believes that the market will accept an increase. As a result, on 1 October 2017 Beal raised MLE's cover price to £8.99. Beal was aware that this 12.5% increase would cause an impact on circulation because it had experienced this effect following previous significant price rises (the last one had been on 1 October 2014). For Beal, the reason for the increase was both the timing (the successful growth in circulation) and a continuing squeeze on margins. Importantly, it was calculated that this cover price increase to £8.99 would in fact result in an effective revenue per copy of £7.00.

The price increase was accompanied by a new marketing campaign created by Beal's marketing consultants aimed at retaining existing customers and attracting new subscribers. This campaign concentrated on emphasising the quality of MLE content, evidenced by the journalistic awards won, the fact that it was a source of quotation and citation reference for other journals and broadcast output, and ranked highly by independent researchers and writers. A strong link was identified between these journalistic factors and the profile of its customers as discerning, well-informed readers of an influential and targeted publication.

MLE customers are loyal and their profile indicates that they are relatively wealthy. MLE is perceived by readers as being a source of properly researched material and comment, as well as being one of the coffee-table publications of today. As a result, demand for MLE is relatively price inelastic, particularly amongst corporate clients. As the finance director of a major company commented, "What else would we read in its place? – both my partner and I find it interesting and informative from our different perspectives".

Despite this, and other similar positive feedback, following any price increase there is always an immediate impact of an initial monthly drop in numbers of magazines sold – the overall circulation – across both formats.

Following the previous price increase in October 2014, the initial decline in circulation had been of the order of 10% in the 6 months following the price increase. At the same time as the increase in 2014, Beal had invested in a specific MLE marketing campaign to counter that price rise and overcome resistance (**Exhibit 10**). Although that marketing campaign had cost £500,000 over the 12 months following the price rise (the increased marketing was concentrated on the first six months) and its aim was very clear – to explain and justify the £1 price increase by comparing it against such everyday items as a purchased cup of coffee – the campaign was not considered to have been effective. As stated, although the immediate decline in monthly circulation had been about 10%, the overall decline for the 12 months following the price increase had averaged out as being 5% of the previous annual circulation. When reviewing this outcome, Beal's marketing consultants suggested that a higher amount should have been invested in a different campaign, which would have been successful.

After the price increase on 1 October 2017, a fall in MLE circulation was expected during the following 12 months. This time there was a comprehensive campaign, across all media, which concentrated on the quality of MLE and its overall value for money. This campaign added almost £1 million to the marketing cost for the year to 30 September 2018. It was combined with a series of very popular analytical interviews with high-profile industrialists and commercial artists, a focused series of location reviews and a number of pre-planned articles, written by leading authors and analysts, in the December 2017 edition.

As a result, in the year to 30 September 2018 Beal's decline in circulation was limited. There was an initial fall of about 7% in monthly sales over the six months after the price increase, but then MLE circulation recovered such that in the full 12 months following the price increase, sales of MLE were approximately 1,977,000 copies – an overall decline of just 2.7% on the previous year.

An important factor in the assessment of this price increase is its impact on Beal's revenue and, mainly because of marketing costs, its operating profit. Raising the cover price by £1 from £7.99 to £8.99 might imply an increase of 12.5%. However, this cover price increase of £1 in fact had the result of raising the effective average revenue per copy to £7.00 (from £6.00), an increase of 16.7%. In the year to 30 September 2018, because of the time-lag effect (caused by subscribers not facing an agreed increase until their renewal date), the effective average revenue per copy of MLE was £6.50 (an 8.3% price increase).

In the year to 30 September 2019, there were no price increases and as a result the average effective revenue per copy throughout the year was £7.00. Circulation also recovered to just over 2 million copies for the year. This circulation increase over the year to 30 September 2018, taken with the full impact of the price increase made on 1 October 2017, meant that in the year to 30 September 2019 there was a 9.3% increase in MS revenue.

Beal: Advertising (AD) revenue – Anneliese Adams

The most important fact about advertising activity and revenue is that throughout the publishing industry it is in decline as a source of revenue, particularly for those organisations using third-party web platforms. Beal does not rely on such platforms.

In the same way that Beal's cover pricing of MLE is the same across both formats, it has established a similar policy for adverts placed in MLE, because they appear identically in both formats, in accordance with MLE editorial policy.

Print version

The amount that Beal charges, or can charge, for publishing an advert in MLE depends on the following main factors.

For Beal

- 1) Circulation and readership (these are the critical factors for Beal – and the advertiser)
- 2) Size and placement. These include front cover; whole additional wrap around; whole page; half-page; column width; column height
- 3) Location on the page – the top right-hand corner costs more
- 4) Complexity and details of any photographs and graphics accompanying the advert
- 5) Frequency of appearance (eg, one-off, every month for a specified period)

For the advertiser

- Circulation: by comparison with click-throughs, email open rates, and many other digital metrics, the ability to extract data on Return on Investment (ROI) for print copies is limited for the advertising organisation. However, creating the equivalent of a call to action is achievable with printed materials, by adding Quick Response (QR) codes, or by an offer for redemption, will allow an organisation to track ROI.
- If the target audience is under the age of 30, print is problematic. Print is not the format of choice for this age group. However, Beal's readership across its two versions tends to be older, which is an important feature for advertisers.
- Print readers tend to read through a full-page advertorial (an advert with an endorsed explanation) to get more familiar with the uses and benefits of products that interest them.
- Studies show that readers trust the printed page of magazine content (including marketing/adverts which readers often enjoy as much as articles). Readers develop loyalty to publications that provide information they want. That loyalty builds a brand.
- Adverts in magazines are based on reach. Reach (or readership) is calculated as the circulation multiplied by the number of times a magazine is 'passed along' or read by another reader. There is some guesstimating involved, and hard evidence is almost never collected, but print has an element of longevity. Ask the question. How many copies of print publications lie around homes or offices? The answer is, at worst, "a few." That longevity and the pass-along factor mean more people see print adverts more often.

Online version

The amount that Beal can charge for publishing an advert online depends on the following main factors.

For Beal

Beal, like any website owner, online advertising service or publisher, can use any model and charge whatever it wishes for adverts. Beal tends to charge a monthly or annual fee for adverts, depending on the frequency of their appearance. It can also charge per advert click. Beal uses two versions:

- CPA (Cost-per-Action): with this model, the advertiser pays only when someone clicks on the advert and then completes a required action, such as buying a product, going to a sales page or signing up for a newsletter.
- CPM (Cost-per-Mille): This is the cost of the advert per thousand views. It may take a day or a year for a separate web page to be opened 1,000 times.

CPM ("mille" is Latin for thousand) has become the standard way to measure the cost of internet advertising. This figure tells advertisers how much impact they are getting for their money, and it allows them to compare the relative effectiveness of various advertising campaigns, regardless of the cost of those campaigns or the number of people who see the adverts. For example, a £50,000 campaign that generates 1 million views is less effective for the advertiser than a £1,000 campaign that generates 100,000 views because its CPM is higher (£50 vs. £10).

Use of website banner adverts: the cost depends on the size of the advert, the website displaying the advert and its specific placement. For Beal, banner adverts are popular with advertisers because there is a greater chance that they will be noticed.

For the advertiser

- With the appropriate contract and full access to the data generated, an advertiser can determine with accuracy who has seen the advert, how long they looked at it and what its possible effect was. An advertiser can also see how the viewer came to look at that specific advert and what links were subsequently clicked on. This includes being able to see if the advert was viewed on a PC, tablet or cellphone, as well as other information.
- A major problem with online advertising is TLDR (Too Long; Didn't Read). Advertisers know that a major problem with online advertising is the skim factor employed by many readers – particularly younger readers, which one major marketing manager described as “being a difficult audience to engage”. In reality, they are used to zoning out those items which are not immediately essential to their reading. As a result, online advertisers must use every creative opportunity in advertising design and online placement to avoid this factor and poor reach.

Beal's editorial and corporate policy

The question of how closely aligned the hardcopy and online versions of a magazine should be is one which has challenged publishers, and those that trade with them, since publishing in both formats became possible. Deadlines for potential content, including those for adverts, are the same for both formats, being approximately 10 days before publication. Contributors and all distribution operations work to the same cut-off date. The basic issue is that after that deadline, print is not flexible – once set in print, the message cannot be changed until the next issue; by contrast, the online version can be more flexible.

Beal has always had to ensure that organisations placing adverts in MLE are aware that, just because an advert appears in a magazine, a Beal reporter will not be obliged to write an article (favourable or otherwise) about the organisation in that publication. MLE contributors try as hard as they can to stay separate from advertising salespeople, and journalistic ethics dictate that contributors should never pay attention to the identity of advertisers in a magazine when they write their articles. Most contributors do not know which organisation has placed which adverts in which edition and for what period. Occasionally there is an overlap between a magazine article and an advert, but that is never by design. All contributors to MLE must disclose the receipt of any gifts or inducements from any organisation in order that Beal editors and senior managers can consider their possible impact on any articles written and published.

Beal also restricts attempts at native advertising by any advertiser. (The word 'native' refers to this blending and blurring of the content of the advert with other adjacent non-advert content.) It does this by ensuring that there is no close proximity between an advertiser's product or service and the articles being published. Native advertising matches the details of both the platform and the content alongside which it appears. In many cases it can appear like an advertorial (an advert with an endorsed editorial).

Testimony from Nadia Ozbay (Head of Marketing for CC Limited)

CC has used MLE to advertise its commuter folding and electric bicycles since 2016. The content of MLE in terms of its ecological and sustainable principles, together with the profile of its readers, has proved to be a positive match for us in terms of the quality of audience for our products. MLE's viewing traffic for our adverts is very desirable. In addition, MLE knows our products, our advertising objectives and requirements, and meets our needs and goals. We believe that since we started to advertise with it – initially in a small but regular way – we have seen sales of our folding and electric bicycles increase significantly. At the outset, MLE gave us assurances that it would not accept any other bicycle company adverts to avoid any conflict with our products, and it has maintained that policy. We are now paying an average of £40k per month for a well-positioned, trackable advert and we believe that it is an effective, value-for-money campaign.

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Beal: Special Report (SR) revenue – Tim Doe

Special Reports

From the outset, Beal has always earned revenue from its SR work. It has a reputation of being an organisation which conducts original research and analytical work on behalf of its clients and presents the results of that work in objective, reasoned and clearly-written reports to those clients – regardless of any standpoint of the organisation paying for the report. The main topics covered are business-based and concern economic, operational and strategic issues which are of importance to the clients.

Special reports may be specific to an industry (eg, transport, food production or medicine); or more generic, covering issues such as High Street shopping or UK employment trends. They are highly valued, not only by clients, but also by a wider audience looking for reliable reporting, coupled with clear interpretation of statistical analysis (where relevant) and with quotable information on issues.

Following the creation of MLE, Beal's SR contracts with client organisations have always included permission for Beal to use the SR material (in full or in part) in subsequent issues of MLE – with an appropriate time-lag (usually no longer than three months) and provided that there is no selective editing. In many instances, the clients are pleased about the publicity that being the subject of an article in MLE brings.

In any SR contract between Beal and its client, there are clauses that prevent any attempt by the client to influence or edit the final commissioned report or make changes to the final delivered form of the report in any way.

An example of an executive summary from a Beal report, indicating the work conducted, is as follows:

Summary of special report on online competitors – prepared by Beal on behalf of UK High Street Retailers (HSR), October 2017

Executive summary

Although many online competitors appear to be engaged in selling and supplying products in direct competition to bricks-and-mortar high street enterprises, they are predominantly data collection companies. High street enterprises, which use third-party web-based platforms to sell their products, present these third parties with unpaid-for opportunities to collect more data. They are gifting these third-party organisations the future prosperity of the high street.

This should be no surprise to anyone familiar with the UK supermarkets' use of loyalty cards. The primary purpose of these cards was always to collect data on customers, with the customers' (not very well informed) consent, in a free and unlimited way, under the umbrella of offering customers small rewards. For supermarkets, the data collection is limited to the range of products that they sell. In the case of web-based organisations, it includes everything that a customer purchases or searches for through its pages. The scope for data collection is enormous and totally comprehensive.

The biggest problem is that originally these third-party web-based organisations were rarely under any contractual obligation to share the data collected with the selling organisations. However, they may respond to requests from an individual customer to provide a datastream history based on the customer's own clickstream and history. (Clickstreams are the digital trails which show which site users come from, how they travel through the site, and where they go next.) The fact that their clickstream history (a bit like a loyalty card history) is a valuable commodity is an unknown or uninteresting factor for the vast majority of users.

The data analytics work being performed by these platforms, using the clickstream trails of customers, enables them to personalise and target different recommendations – in a detailed, large-scale way. It always includes, as a minimum, tailored emails in a customer's inbox. From the side of the platform operator, it enables a customer-based dataset, which can provide endless information and opportunities for predicting or influencing customer choices. These warehouses of information on both a customer (customer A), and all the many other customers who are similar to customer A, enable these platforms to predict, and change, behaviour for customer A. This may not simply apply to purchasing behaviour.

High Street organisations that have been too slow or too disorganised to spot this data-gathering by these platforms, or to organise comprehensive web-based platforms for themselves, have seen both advertising revenue and real revenue (through lost or diverted sales) diminish or disappear. It is this massive data mining process which now means that there is almost certainly no way back for them.

The above report formed part of the debate being led by HSR about the future of the High Street and its enterprises. Following its publication in MLE, it has informed the behaviour of many retailers. (Beal had already managed its own interactions with third-party platforms.)

SR clients

Beal contracts with SR clients to provide independent external research and analysis, testing and evaluating specific issues and outcomes for a variety of organisations including UK Government departments and large private sector organisations. An example would be its work for The Office for Budget Responsibility (OBR). This is a non-departmental public body funded by the UK Treasury, established by the UK Government to provide economic forecasts and independent analysis of the public finances. Beal assists in providing analytical expertise.

SR revenue is earned by way of agreed fees from organisations, depending on the work conducted. In addition to fees for specific projects and tasks, Beal is currently paid a minimum monthly retainer by some key clients, in both Government and commercial organisations, to be available for analytical work at short notice. In the year to 30 September 2019, the fees for client SR projects ranged from £100k to £600k.

Beal has a significant amount of repeat business from its SR clients, indicating complete satisfaction with its work. An acknowledged major strength for Beal in its SR work is its excellent adherence to deadlines, which has put it ahead of many of its more academic rivals.

Beal's contributors may also act as keynote speakers for business and professional conferences, either based on SR work or providing input for the theme of the conference based on previous MLE articles. All fees earned for such work are shown under SR revenue.

Feedback testimonial from Pam Riggs, Director of Logistics, RS Limited – an SR client (July 2018)

In March 2015, RS commissioned Beal to produce a comprehensive analytical special report for RS based on the future of home deliveries using available historical information and expert analysis of future economic, household and lifestyle trends. As a result of the report's conclusions, RS made the necessary investment in vehicles, personnel and IT to take advantage of the forecast changes. Beal's economic predictions and trend analysis have proved remarkably accurate. When Beal published extracts of this report in MLE three months after delivering the report to us, with acknowledgements, there was a noticeable increase in customers wanting to establish a home delivery service with us. The RS home delivery line of business has continued to grow ever since. At £150k this report was excellent value for money.

Beal: marketing costs – Lou Bhatia

Marketing message

In recent years, Beal has based its main marketing campaigns on emphasising the fact that it offers a top-quality publication serving a targeted market of discerning, reasonably wealthy, intelligent, loyal readers. MLE has an element of sophistication – it looks well-presented and conveys an informed content, without being ostentatious.

If MLE is seen on display in an office or at home, the implication is that its buyers and readers are capable of assimilating the content, which ranges across a wide variety of current issues, as well as understanding insights into other tangential topics. This magazine also implies that readers can identify linkages across topics. Beal's marketing message is aimed at promoting those content and readership qualities.

Nearly all of Beal's marketing is outsourced to JAX. This is a leading UK marketing services organisation which is responsible for implementing Beal's marketing policy and assisting in the development and delivery of Beal's strategic marketing plan. In all cases, the main message is of Beal products being high-quality output. This starts with MLE and includes all SR work, and it emphasises that all output is researched and written by independent professionals and objective journalists and that it covers a full range of topical issues.

Marketing outlets

In line with its own output, both online and hardcopy, Beal makes use of a range of different types of marketing outlets. JAX's marketing for Beal uses all the channels and platforms possible. It markets MLE very heavily in a range of quality publications and newspapers such as the *Financial Journal*, and at targeted audiences in other equivalent monthly periodicals. The responses triggered from these publications are monitored by asking customers who want to take out MLE subscriptions to use codes for discounts identified in the marketing details in those publications.

JAX also arranges a prominent poster advertising campaign. The posters are displayed in main railway stations; commuter hub points; airports and other similar locations. The aim is to maintain and increase awareness of MLE as well as providing publicity for Beal's SR work.

JAX also conducts market research on behalf of Beal to identify the perception of MLE among customers, readers and others. This enables better targeting of marketing and eventual sales of MLE.

Marketing events

In recent years, Beal has become a well-known sponsor of conferences and other events. The aim is always to introduce MLE and Beal's SR output to a wider audience. There are three such events each year. Two of these are aimed specifically at younger audiences.

The most important annual event, which started in 2011, is the Beal Annual UK Conference. This conference, held in early February each year, is aimed at informed and influential participants from a wide spectrum of activities. The conference is an analytical business and lifestyle review. From a slow start in 2011, it now draws in a range of top speakers from many disciplines. The audience is selected by invitation only, from individual and corporate subscribers and other prominent people. The theme of the conference is identified 18 months in advance, at which time any appropriate co-sponsoring organisations are also identified. Conference themes are based on a topical core concept with bridges and links across disciplines and industries. The cost of running this conference is approximately £500k.

A second event is The Beal Parents and Leavers Careers Forum held in April each year. This event, aimed at school leavers, is based on a successful model operating in other European countries. Leaders from major employers, such as engineering companies, as well as professional firms and design organisations, are invited to introduce and promote to the audience a variety of career possibilities and routes to those careers. Although there is representation from universities and colleges, the emphasis is on eventual employment and the various means to that end. This Forum costs approximately £250k to run.

The third event is a Beal Young Writers and Journalists Fair, held in August each year. This is aimed at providing encouragement and experience to the young people attending who hope to become writers or journalists. The participants have been invited to attend as a result of the quality of written and journalistic work submitted to Beal during the year. A team of nationally known writers and journalists work with participants during the Fair, helping to identify, develop and hone the necessary skills. The Fair costs approximately £250k to run.

Marketing costs

With initial planning and marketing costs, venue costs, travel and subsistence costs and follow-up review work, these events – which are held in different UK venues each year – might be seen as an expensive indulgence at £1 million in total, but they are always reported on local and often national UK television. They generate a lot of goodwill and good publicity. As JAX has stated, “If we could run a conference every month and receive the same publicity and increased recognition, we would”.

The magazine publishing industry is highly competitive and is facing overall decline. As a result, Beal, like most publishers, invests considerable sums in marketing MLE and its SR work, which means that marketing costs appear very high. Like most publishers, and all purchasers of advertising and marketing services, Beal is not always able to identify a link between a specific campaign and specific changes in demand. What is apparent is that there is correlation for Beal between the overall level of spending on marketing with the overall level of revenue.

Beal: contributors and subscribers

Contributors (researchers, writers, reviewers, editors and designers)

Beal uses a team of in-house contributors and self-employed external contributors for all its written output. External contributors, who are normally commissioned to write to an agreed specification, may be paid both an annual retainer fee and a fee that depends on the work done and their status in their field of expertise.

There are also other external contributors, known as stringers – usually self-employed journalists – who contribute articles, reports and photos for publication on an ongoing basis, and who are paid individually for each published item. The stringers used by Beal are usually active practitioners and researchers who are known experts in their discipline, with a flair for journalism. These freelance writings are often an excellent combination of original thinking and a professional perspective on a current topic.

There is a risk in using stringers and their material. Beal has a hierarchy of approval involving the managing editor, Mo Leclerc, and the relevant specialist editor, as well as a member of Beal's board. Beal has a policy of excluding anybody who is, or has recently been, a Government official or elected Member of Parliament. There is also an exclusion on members of the armed forces, or police and intelligence services or public relations employees working for large organisations.

Contributions from stringers, and from all retained contributors, are always assessed by the Beal editorial team for relevance and reliability. The whole team of contributors is involved in both MLE writing and editing, as well as producing output for SR contracts. Given that a strong reputation has built MLE's success, the quality of Beal's contributors is critical.

Subscribers

Feedback from Tom Dooley (Managing Director (MD) of R4, an MLE commercial subscriber)

Tom Dooley, MD of R4, a nationally known recycling organisation, which was one of the sponsors of the 2019 Beal Careers Forum, was asked for his personal and corporate views about Beal and his response was immediate: "Beal produces a nationally-renowned magazine MLE, for which we subscribe in multiple copies, both print and online versions. It is very popular amongst all head office staff, and hardcopies all get taken home to other interested readers. We can see that Beal, through MLE, practises what it prints. Its products are all fully recyclable (and we should know – we are involved in that task!), it is fully engaged in efficient production and yet strives to achieve sustainable output".

Feedback from Lu Tobyn, an ICAEW Chartered Accountant and private subscriber

Lu Tobyn, who trained and qualified with Porterfields Hunter, stated that during her training the office had always subscribed to MLE. Following qualification, Lu established her own practice and decided to take out her own MLE subscription. Lu pays the subscription, but she states that the magazine is read avidly by both her partner and her mother. Although this is anecdotal evidence, it indicates that MLE is more widely read than just by those on its subscription list – providing evidence that this magazine has significant reach.

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Beal: competitor analysis – prepared by Kia Kaya for Beal board meeting (October 2019)

Further to the request from the Beal board for an analysis of our competitors ahead of the October 2019 Beal board meeting, I have prepared the following business SWOT analysis from information available from our major competitors. These are publishers of magazines in a similar field to MLE and sold in the UK. Some of them are located in the US. In contrast with MLE, most of them are weekly publications. The information presented below is a series of examples from different individual magazines, shown under the relevant headings.

From Beal's perspective we might need to look at this information in reverse: for example, a competitor's strength as identified might be evaluated as our weakness. However, we also need to consider whether this information is all relevant to our situation in terms of how we are seen in our market and our stage of development, together with the implications for our way forward.

EXAMPLES OF STRENGTHS OF VARIOUS COMPETITORS

1. The brand has a high reputation and it is prestigious to be associated with or featured in this magazine.
2. This magazine has an excellent reputation amongst its customer base.
3. Some specific annual features are hugely popular and increase readership.
4. This magazine is one of the most popular weekly news magazines in the UK – its plain and conversational tone has always been appreciated by its readers.

EXAMPLES OF WEAKNESSES OF VARIOUS COMPETITORS

1. The global editions of this international magazine face stiff competition from well-produced national magazines in other countries which it is failing to overcome.
2. The brand is comparatively not as popular in some other countries as it is in US, particularly in the UK, which may be due to its perceived US-centric perspective.
3. The magazine is seen as having a perceived bias in the analysis of critical current topics.
4. The brand needs to grow in certain parts of the world, such as the Middle East and Asia.

EXAMPLES OF OPPORTUNITIES FOR VARIOUS COMPETITORS

1. The magazine covers a variety of issues, such as politics, business, technology, science, health, entertainment, and hence can appeal to an increasing range of potential customers.
2. The magazine has some popular names associated with its editorial panel. These give it an iconic status, which it can use for future development in other arenas.
3. The magazine can attract potential young customers by making its presence felt in social media and virtual space.
4. The magazine's audio editions and applications on various platforms have the potential to attract a lot of young customers.

EXAMPLES OF THREATS FOR VARIOUS COMPETITORS

1. Similar content and information are available on the internet at a cheaper cost to the reader.
2. There are other popular international brands in the global market, competing for the same potential customer base, that command a lot of brand loyalty.
3. The global editions of the magazine face stiff competition from national magazines in specific countries, such as the UK, in terms of country specific content.
4. The physical distribution networks of national editions of some of its global magazines in some countries are not as well developed as those of the countries' own magazines.

A financial statement analysis of competitors – which would complement the above business SWOT analysis – was not attempted, because of the lack of detailed financial information available.

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Beal: Strategic review (prepared by the Beal board, October 2019)

Overall challenges for the magazine publishing industry

- The internet provides a huge amount of competition (and opportunity) for the industry. Since media websites do not require expensive distribution networks, they do not need to charge a fee. They can therefore operate an advertising-based business model and reach a wide audience. Although this has so far affected other print media more than magazines, it could still cause problems for magazine publishers in the future. The percentage of households with internet access is expected to continue to increase throughout 2020, presenting a threat to publishers still reliant on print-only publications.
- Real household disposable income determines the level of consumer spending on discretionary items such as magazines. Any fall in disposable income tends to reduce the number of people that buy magazines, resulting in decreased circulation and lower industry revenue. Disposable incomes are expected to increase marginally during 2020, providing a potential opportunity for publishers.

Challenges for Beal's revenue

Magazine sales

- As in every year, the main challenge for Beal going forward is that of maintaining or increasing circulation. At times this has been a bit like trying to fill a bath with the plug partially removed. Beal tries to attract new customers and readers to increase magazine sales whilst at the same time preventing any failure to renew subscriptions. The biggest reason for the failure to renew is where the recipient of MLE is not the person who paid for the initial subscription and the subscription is just taken out for one year as a birthday present or similar. We are aware of this issue and target such readers as far as possible, to get them to continue to subscribe as new customers.
- On the other hand, a more positive situation with subscriptions is the high level of corporate subscribers. These invariably take out multiple subscriptions with both formats being requested. They form a solid core of repeat magazine sales. The challenge is to encourage them to recommend MLE to others, and we believe we are partially successful in this. This also applies to readers within an organisation taking out subscriptions when they change jobs and lose access to the corporate copy.
- There are other possibilities for increasing magazine revenue:
 - One is a possible expansion with a second magazine – which would enable an increase in output, whilst maintaining, or not significantly increasing, costs.
 - Another is a possible international expansion – offering an English or local language edition. The question is 'where?': France (neighbour)?; Germany (most powerful EU economy)?; US (same language; one country or many states)? By using the same output in a variety of locations, there might be only a marginal increase in MLE costs but a good increase in revenue.
 - There is a further possibility with the continuing steady transition towards online subscriptions which may increase our revenue.

Advertising

As far as possible in a declining arena, Beal is maximising its advertising revenue by a series of strategies:

- By producing MLE as a top-quality serious publication, making it a natural medium for those organisations that want to advertise premier products or services.
- By maintaining good professional linkages with quality organisations that place their adverts with us helps to ensure repeat business.
- By the quality of our output both in MLE and in SR which encourages association with Beal.

Special Report

- Although the revenue from this stream is dependent on new requests, we are in the increasingly fortunate position of being retained by a number of organisations in both the public and private sector, which also require additional SR work.
- In this business stream, recommendations from existing satisfied clients are also important, and we are fortunate in receiving regular referrals from previous satisfied recipients of our work.
- The quality of our output acts as an important marketing aid in obtaining new SR work.

Quality of content and output

Beal has always avoided the use of vox pops and similar devices. (Vox pops are those interviews with the person in the street about major stories – such interviews can be totally superficial and highly selective.) Instead, its hallmark is the detailed interview with a genuinely knowledgeable and objective source. Trust in content has become a major issue for all news organisations as the concept of “fake news” has dominated reporting and commentary, creating uncertainty in a number of areas. Beal is fully aware of this potential accusation, which it seeks to avoid.

IT security

In an organisation such as Beal, the issue of IT security runs through everything we do. A system failure would affect (amongst other areas):

- Creation of reports, as files are shared by teams of contributors wherever based
- The necessary secure transfers to enable editing of items prior to final output
- The delivery of output to up-to-date customer lists – both hardcopy and online
- The maintenance of financial details of all customers who have transactions with us
- Controls over input from third parties – such as advertisers – to prevent virus infection
- All of Beal's SR and MLE work

We are aware of all these issues and invest heavily in operational technological updates to assist security. We know that the price of failure could be fatal.

Financial review

From a review of our management accounts, it can be seen that Beal has sufficient elements of financial strength to compensate for any perceived financial weaknesses and we are confident of our future.

RECENT MEDIA COVERAGE

EXHIBIT 14a

GLASGOW CHRONICLE

February 2020

A report from the Beal Annual UK Conference 2020 by Peejay Squires

There was an interesting opening presentation of this year's Beal conference, which was held in Sunset Mansion in Glasgow, made by the keynote speaker, Alison Waites (AW), CEO of Media Post, who was invited to give her analysis of the future of the magazine industry.

- AW opened by summarising events since 2010 – she had addressed the inaugural Beal conference in 2011 and argued in favour of the publishing industry evolving with the digital age.
- Today, AW identified the concept of the well-targeted or niche magazine publication. She argued that the more refined the expertise in that magazine, the better the chance of its survival. She added that contributor expertise, properly communicated, is also critical – readers want something engaging and informative that they cannot find elsewhere.
- She has not changed her view on the decline of print but notes that despite the print element of the magazine industry being under intense pressure, with advertising declining and direct costs increasing, she has identified some elements where print is not only surviving but flourishing.
- AW predicts that print will always have a special place for those willing to pay for it – this applies particularly to magazines which are either obviously niche in content (eg, *Mountain Goat Rearing in Scotland*) or can make themselves appear to be so by format or perceived excellence.
- As a corollary to this point, AW argues that print will almost become a luxury item, making this format highly profitable – with surviving print magazines having thriving revenue and the most longevity.
- AW also identified that print will always hold its place for both scientific and practical reasons. She quoted studies that prove that paper both stimulates a stronger emotional response and significantly improves memory and comprehension.
- Further to this point, she noted that digital media allows for, and indeed aims for, significant reader distractions for advertising and other purposes, whilst with print these can be avoided.
- AW tied in the current all-pervasive concerns about sustainability by emphasising that print's staying-power would also depend on offering new eco-friendly solutions that consumers, especially younger generations, can value. This would include use of recycled and recyclable materials in production.
- AW concluded on how readership is evolving, and how the industry must evolve with it. She identified the fact that the well-educated under-30s are extremely sophisticated media consumers, but there is considerable evidence that many of these are as willing to use traditional media as they are to use new media if the content and delivery appeal to them.

For a magazine publisher which provides both print and digital versions of its products, and which is seeking to increase its younger readership, that concluding remark must have been music to the Beal board's ears.

The decline of advertising as markets are hit by the virus

Kris Kane

Major newspaper and magazine publishing and advertising poster companies are forecasting a slump in advertising revenues of at least 10% this month as companies in the travel and hospitality sector and others pull spending in the wake of the COVID-19 outbreak.

AD UK is a known market leader for the wider advertising market and its forecast also paints a grim picture for some sectors of the industry. A spokesperson said, "Early indications suggest total advertising spending will be down 10% in both April and May." With the cancellation of most major sporting and entertainment events, companies in all sectors are reviewing the value of any advertising for their products. "If nobody is allowed to go out anywhere, they will not be spending money on buying clothing or similar items just to sit at home".

However, all this gloom may in fact be missing the point. Whilst some sectors identified above are being hit hard, other products that can be sold online, and delivered to those in lockdown, are being heavily advertised and successfully sold. As a result, web advertising in whatever output possible – to match web shopping – has increased significantly.

EXHIBIT 14c**News Chronicle****April 2020**
Peter Best**Bank security lapse proves to be enormous cost for customers and bank**

A report issued by one of the UK's leading banks has identified the cost of its cyber security breach in the past year as being almost unmeasurable. Apart from the money transactions that are believed to have gone into the wrong accounts but which have since been retrieved, it appears that there are many thousands of transfers which have gone missing into untraceable accounts.

Sorting out these financial problems has been a hugely costly exercise for the bank but, as a spokesperson confirmed, the real long-term cost has been the access gained by third parties (who are, as yet, unknown) to customers' private details. The result of this IT security breach has been a complete loss of confidence by large numbers of customers, many of whom have changed banks as a result. The spokesperson stated, "Those changes made by customers are the visible evidence of the lack of confidence in our system, but we have no way of calculating how much potential new business we have not seen because of this issue".

As is often stated, it is difficult to prove a negative, but there is some evidence that the failure to sign up new customers, particularly to its online banking app, has been significantly slower than the rate for other banks. This proves once again the immense cost for any organisation caused by breaches in its IT security systems.

The Consumer Weekly Digest**21 April 2020****The price of popularity**

Janice Janer

For many years there have been certain price barriers which all sellers know and adhere to, starting with the famous “just under a pound (£)”. Handing over a £1 note (or subsequently a £1 coin) and receiving some change meant that an item was reassuringly affordable. Handing over more than £1 meant that the customer would often pause for reflection. £1 was, and some cases still is, seen as a clear price barrier – ask any supermarket selling a standard loaf of bread.

As time has passed, and inflation has occurred, the critical price barriers have moved as well. Today those barriers still exist, but they have become £10, £20 or even £50. As items approach these price barriers, many customers, particularly older ones, reflect on the value of an item against those financial hurdles. “Under £10” is a good marketing slogan – you never see “Over £10” as a magnet for sales. Telling customers that they are the wrong side of a barrier is not a good marketing ploy.

However, these barriers may become less meaningful in an age of the cashless society. If you no longer have to pull a crumpled £10 note out of your wallet to pay for something, but simply swipe your plastic bank card on a reader, then these denominational price barriers have less impact or meaning.

Why the concern – or, in fact, why the decrease in concern? Well, it appears that amongst the many changes caused by the move by retail organisations to ask customers to pay by any means other than cash (and cheques obviously!), this change has been accepted. This means that card swiping has increased both in popularity and exponentially, and with it the psychology of the price hurdle is disappearing. Those hurdles will not return – and the crumpled £10 barrier will not be the same again.

Beal reporters nominated for “Concise Report” award in two arenas

Beal’s initial report on the medical and economic impact of the spread of the COVID-19 pandemic – based on research from acknowledged medical data gathering and statistical sources and various UK government economic actions – has been nominated for two awards.

The first nomination is for “Technical report based on a commissioned publication for a client”. This report, which is available both online and in print format, has been referred to and used as part of the medical background briefing by other publications during the crisis. It draws on acknowledged sources for its main content, but its presentation and use of clear graphics have meant that it has become a reference document for many presentations throughout medical briefings.

The second nomination is for an article published by Beal in MLE, using extracts from the above report under the heading of “Early Summary of the Crisis”. It has been nominated for the award of “Best concise report of an issue”. The criteria are (1) a clear summary of the facts affecting an economic issue in layman’s terms; (2) a referenced analytical report of fewer than 1,500 words (acknowledging sources); (3) the provision of sound judgement based on analysis; (4) the analysed projection and judgement concerning that issue. The authors of the MLE article, which was written in the early period of the crisis, comprises a team of four UK writers and includes leading author and business consultant Jason Crease, a previous winner of multiple awards for outstanding business journalism.

A spokesperson for Beal summarised what the company believed were the factors in successful reporting of this issue: “... the use of available, well-researched objective sources and evidence; clear use of relevant numbers properly explained to readers; logical appropriate judgement identifying assumptions where appropriate; clearly presented by expert authors in analysis and evaluation”. They also revealed that Beal was spurred into action in its work by initial reports, and headlines, that COVID-19 deaths had gone up by 25% in just one day in the UK, when closer analysis identified that this was in fact an increase from 28 to 35 deaths – an increase of seven deaths. The same spokesperson stated: “This was the erroneous use of apparently accurate information to sensationalise an extremely important issue. It was not wrong in itself, but it did no service to an uninformed or anxious reader. Our aim was to improve that type of analysis”.