

# X234/701

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NATIONAL  
QUALIFICATIONS  
2007

MONDAY, 14 MAY  
1.00 PM – 3.45 PM

BUSINESS  
MANAGEMENT  
ADVANCED HIGHER

100 marks are allocated to this paper.

Candidates should spend fifteen minutes reading the case study material and the questions.

Answer **all** questions in Section One (50 marks).

Answer **two** questions in Section Two (50 marks).

**Note:** The questions are printed on a separate sheet inserted inside the front cover of this paper.



## **JOHNSTON PRESS plc**

### ***Background Information***

The head office of Johnston Press plc is in Edinburgh. It is the fourth largest company in the local newspaper industry in the UK with about 15% of the UK market in terms of circulation. It became a public limited company in 1988, although it was founded in 1797 in Falkirk where it still publishes *The Falkirk Herald*.

The core business of Johnston Press is publishing local and regional newspapers. This includes paid for daily and weekly newspapers as well as weekly free newspapers. In July 2005 it had 276 newspaper titles with a combined circulation of 11.2m readers. Its titles cover Great Britain from Arbroath in Scotland to Portsmouth in the south of England.

In recent years it has extended its interests into other publications such as specialist magazines and business directories and moved into on-line operations. It now has almost 200 internet sites, most of which are closely related to its print publications. For example, it has a locally oriented website for each area in which it publishes newspapers, such as [www.falkirktoday.co.uk](http://www.falkirktoday.co.uk).

Johnston Press employs over 5,500 people and has over 30 subsidiary companies. It has grown by acquisitions and extending its own activities. It attributes its success to its strategy of combining highly efficient operations with meeting the needs of local communities through quality publications.

Exhibit 1 gives further details of the company's operations.

### ***Life is Local***

The company's business philosophy is "Life is Local". It aims to serve the needs of local communities by providing local news and information. Each local market is different and for this reason each publication is tailored specifically to its own distinct market place and there is very little common branding. Newspapers are prepared and edited by teams of people based in the area covered by the paper.

The policy of Johnston Press is to give each newspaper editor the right to determine content and editorial approach. As a result, each paper and website reflects the concerns and interests of its local area. For example, newspapers often run local campaigns. However, the company requires that its newspapers conform to national guidelines such as the government approved Press Commission Code of Practice. It also sets general standards for editors on matters such as quality. *The Southern Reporter* has won the award for the best local newspaper in Scotland for the last 3 years.

The company's principal customers are the readers of its publications and the advertisers who make use of them. Johnston Press is committed to making sure that it understands the needs of readers. In 2004 it spent £1m on market research for 65 of its titles. The results highlighted that these newspapers are seen as relevant by local communities and they also confirmed the high proportion of people who read local newspapers. This is important for advertisers as it increases the chances of a high response to advertisements. Local advertising is a significant source of revenue for Johnston Press and is particularly

important for the sale of cars and property and for jobs. The market research showed, for instance, that 81 % of people in Blackpool read the Blackpool Gazette when looking for a job.

Exhibit 2 gives some examples of the company's publications and other activities.

### ***Operations***

Although many of its activities are locally based, they are closely co-ordinated through company-wide procedures and policies. These enable Johnston Press to gain the advantages of economies of scale and maintain strict control of costs. Some examples are given below.

- Most Johnston Press publications are printed in-house at the print centre most appropriate to the location of the publication.
- Johnston has invested heavily in its Printing Division to ensure that it has state of the art colour printing and other facilities.
- A specialist team in Peterborough maintains and develops the technical aspects of all the company's websites using a common template. It does not influence their content which is locally determined and related to local papers.

### ***Growth by Acquisition***

Johnston Press, in common with other local newspaper companies, has grown by acquisition. This is partly because many local newspapers are well-established in their market and have been in existence for some time. During the 1960s and 1970s Johnston Press acquired titles in Scotland and, in 1978, it expanded into England for the first time. The volume of acquisitions grew in the 1990s after the company went public in 1988 and included its first daily newspaper when it bought *The Halifax Evening Courier* in 1994. The size of the acquired companies also became larger and, in 2002, it reinforced its position as a leading player in the UK market by paying £560m for Regional Independent Media Holdings Ltd [RIM]. This added 53 more titles including the prestigious regional daily morning newspaper, the *Yorkshire Post*, and other local market leaders. Johnston Press became the market leader in Yorkshire, gained a significant presence in Lancashire and added new titles in Scotland.

Exhibit 3 explains how Johnston Press integrated RIM into its operations.

### ***Expansion into Ireland***

In August 2005 Johnston Press bought Score Press, the newspaper division of Scottish Radio Holdings (SRH), for £155 m. Most of its 35 titles were in Ireland. This was a new location for Johnston Press, as all their existing local newspapers were in Scotland and England.

The following month Johnston agreed to pay £65 m for the Belfast based Local Press Group and £95 m for the Leinster Leader. The Local Press Group has 12 titles, 7 in Northern Ireland and 5 in the Republic, while all the Leinster Leader's 7 titles are in the Republic of Ireland.

The newspaper advertising market in the Republic of Ireland grew by 15 % between 2004 and 2005. By contrast the UK market is static.

Johnston Press has stated that it may be interested in future acquisitions in Ireland, where consolidation in local newspapers has been less than in mainland Britain. However, Tim Bowdler, Chief Executive of Johnston Press, does not expect to make acquisitions elsewhere in Europe. The company has spent £1 m researching Europe but considers that risks are higher there. It believes that the potential openings do not fit its current business and that it would have fewer opportunities to reduce costs through scale and efficiency. Tim Bowdler believes that there will be further consolidation in the UK and that this will provide sufficient opportunities for growth.

### ***Organic Expansion***

Johnston Press made no acquisitions in 2003 and 2004 but it did extend its activities. In 2004, for example, it introduced more than 20 specialist and lifestyle magazines designed to attract advertisers who would not normally use Johnston Press publications. It launched 6 regional editions of Jobs Today, which is branded to fit in with the Jobs Today website, and a weekly free newspaper in Milton Keynes. It also upgraded its websites. These initiatives reflected changes in the local newspaper market, the increasing use of IT and the need to use new media developments to maintain advertising revenue.

### ***Employee Relations***

Johnston Press's policy empowers editors, but in 2002–2003 it introduced other measures to develop employee relations. Some of these are:

- A Share Incentive Scheme by which qualifying employees (based on the number of contracted hours of employment) are awarded free shares in the company if financial targets set by the Board are achieved
- Four key “People Values” developed with employee input which represent the core beliefs and standards of working in the company. They are “passion for continued success”; “act with integrity”; “open and straightforward”; “value everyone’s contribution”
- Team briefings, company results briefings and employee forums.

Exhibit 4 gives some financial and other information on the company.

[The above information is taken from the Johnston Press plc Annual Reports 2002–2004. Additional material came from company websites at [www.johnstonpress.co.uk](http://www.johnstonpress.co.uk), [www.letterboxdirect.co.uk](http://www.letterboxdirect.co.uk) and [www.falkirktoday.co.uk](http://www.falkirktoday.co.uk).]

Except where stated, the above, and the accompanying exhibits, are current at 30 November 2005 and refer to the situation at that date.

## **Exhibit 1**

### ***Operations of Johnston Press plc***

Johnston Press has a distinctive structure. It has over 100 office locations throughout the UK, most of which are local newspapers where the editor is responsible for a team of journalists and other staff. Key management services such as finance and human resources are centralised at head office which is relatively small.

The company has 12 Divisional Managing Directors, each responsible for an aspect of the company's activities. These responsibilities are summarised below.

**Regional Publishing Divisions** – there are 8 of these, each of which comprises the subsidiary companies in a particular area. The areas are Scotland, Northeast, North, Northwest, North Midlands and South Yorkshire, East Midlands, South Midlands and South.

There are 3 companies in the Scotland division. Between them, they produce 30 newspapers and operate 14 local internet sites in Central Scotland, Fife and the Borders. In some cases, the geographical spread of the newspapers overlaps, which explains why there are fewer internet sites.

**Printing Division** – this consists of 13 regional print centres across Great Britain. In 2004 the company committed £60 m to building a new printing works at Sheffield and announced the redevelopment of its Portsmouth facility at a cost of £45 m. The company also prints publications on contract for companies such as News International, publishers of *The Sun*.

**JP Ventures** – this was set up in 2004 and covers non-local newspaper businesses such as specialist magazines. Outbound Publishing, for example, publishes overseas property magazines, while Days Out UK produces a leisure guide.

**Electronic Publishing** – this has responsibility for the maintenance of all websites operated by the company and for taking forward new developments in electronic publishing.

**IT** – this was set up in 2002 when a Divisional Managing Director was appointed with a remit to coordinate and standardise hardware and software across the company. Recent developments include:

- A common newspaper sales system to be used by all companies in the Group
- New software to enable estate agents to upload property information direct to newspapers
- A Customer Relations Management system which, among other things, will help to gather data on customers (eg from websites). This will enable Johnston Press to match customers and advertisers more closely.

**[Turn over**

## **Exhibit 2**

### ***Some Examples of the Activities of Johnston Press***

#### ***Letterbox Direct***

This is part of JP Ventures and was originally part of RIM, which Johnston Press bought in 2002. Letterbox Direct specialises in the preparation and distribution of leaflets, which includes advertising inserts in newspapers and door to door leaflet delivery.

This is an expanding area of business for Johnston Press. For example, leaflet drops can be made to particular postcode areas. Advertisers can specify areas where the characteristics of residents match the target customer profile for their goods and services.

#### ***Associated Websites***

As well as locally based sites providing local information and news stories, Johnston Press has introduced more general classified websites which have recently been upgraded with the aim of making them the best in their area. For example, the [www.jobstoday.co.uk](http://www.jobstoday.co.uk) site has a facility where users can input their CV to search for jobs. The sites are all part of the Electronic Publishing division and share the company approach of developing electronic media which complement print media. They illustrate ways of developing the business and how the company is addressing the increasing importance of electronic media.

#### ***Campaigning Activities of Johnston Press Newspapers***

These illustrate the freedom given to editors, as well as the importance of local newspapers to particular communities. In 2005 they included:

- A successful campaign by the *Glenrothes Gazette* for a War Memorial to be erected after 2 soldiers from the town died in Iraq
- A campaign by the *Southern Reporter* against the closure of local schools in the Borders—a similar campaign was run by the *Midlothian Advertiser* against a decision to close schools in Midlothian
- The editor of the *Cumbernauld News* chairing a series of public meetings about possible upgrading of the A80 trunk road.

### **Exhibit 3**

#### ***Integration of Regional Independent Media Holdings Ltd (RIM)***

A significant aspect of Johnston's success has been its ability to integrate acquisitions into the company quickly and obtain benefits from the growth. Prior to taking over RIM, Johnston Press forecast that it would achieve total savings of £9 m by 2003 and that at least 50 % of these would be obtained in 2002.

The company was able to integrate RIM into its existing operations successfully and it did achieve the expected savings. The actions it took included the following:

- Closing RIM's head office and rationalising all RIM's central functions such as accounting, sales and IT into Johnston Press systems
- Carrying out extensive consultation to minimise the impact of about 250 job losses
- Disposing of non-core activities of RIM such as local radio stations
- Selling 4 newspaper titles in Scotland which, because of their location, did not fit in well with existing Johnston Press coverage
- Changing the organisational structure of Johnston Press:
  - Two publishing divisions were enlarged to bring in RIM titles (in one case, the enlargement incorporated the merger of 2 existing divisions)
  - A new division was formed based in Preston

In each case, either the new Managing Director or the new Finance Director was an existing Johnston Press employee.

**[Turn over**

## Exhibit 4

### *Selected Financial and Other Data: 2000–2004*

	2004	2003	2002	2001	2000
	£ 000	£ 000	£ 000	£ 000	£ 000
Group turnover	518,830	491,843	428,394	300,615	292,174
Pre-tax profit	150,600	127,972	92,725	68,546	65,457
Net assets	724,309	634,932	561,497	288,009	248,997
Cash inflow (outflow) before financing	93,971	79,630	(493,320)	22,658	n/a

Johnston Press, like other regional newspapers, earns much of its revenue from advertising. Most of this is classified advertising for cars, property, jobs and other items such as announcements of births and deaths. The remainder is display advertising (eg for supermarkets) which is displayed separately in the paper and does not fall into a predetermined category.

### **Table A**

This shows sources of revenue for Johnston Press in 2003 and 2004 in £ millions.

	<i>2004</i>	<i>2003</i>
Advertising revenues	394.4	371.2
Newspaper sales	69.6	67.6
Contract printing	19.3	20.2
Other revenues	35.5	32.8
Total revenue	<b>518.8</b>	<b>491.8</b>

[END OF CASE STUDY]



## QUESTIONS

**You should spend fifteen minutes reading through the case study material and the questions.**

*You should note that, although the following questions are based on the case study material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.*

### SECTION ONE

**Answer ALL of questions 1–5.**

- |    |   |             |
|----|---|-------------|
| 1. | Acquisition has been Johnston Press's preferred method of growth. Explain why this method has been particularly suitable for the company. | <b>8</b>    |
| 2. | Analyse possible ways in which Johnston Press's use of information and communications technology may increase its profitability.          | <b>8</b>    |
| 3. | (a) Explain the benefits to Johnston Press of its policy of empowering its editors.   | <b>6</b>    |
|    | (b) Assess the motivational effects of the other measures used by Johnston Press to develop employee relations.                           | <b>6</b>    |
| 4. | (a) Using force field analysis, discuss Johnston Press's decision to buy RIM.   | <b>8</b>    |
|    | (b) Explain the reasons for Johnston Press's decision to buy companies in Ireland.  | <b>6</b>    |
| 5. | With reference to Exhibit 1, examine the different ways in which Johnston Press has chosen to divide up its organisational structure.     | <b>8</b>    |
|    |   | <b>(50)</b> |

**[Turn over for SECTION TWO**

## SECTION TWO

Answer any TWO of the following questions.

*You may illustrate your answers to questions in this section with examples from Johnston Press or from other firms with which you are familiar.*

6. (a) A distinctive feature of the UK is that, in addition to being the home of several multinational companies, it also acts as a host to many foreign multinational companies. Examine the benefits this combination may bring to the UK. 14
- (b) Effective leadership is essential to the achievement of a firm's objectives. Analyse the factors that might affect a manager's leadership style. 11
- (25)**
7. (a) Globalisation has increased international competition. Discuss ways in which UK firms might make use of information and communications technology to enable them to face this challenge. 11
- (b) Assess the possible impact of each of the following on UK firms seeking to expand abroad.
- European Monetary Union
  - Transfer pricing
- 14**
- (25)**
8. (a) Many new business startups fail within their first year. Analyse ways in which the UK government may influence the success or failure of such organisations. 14
- (b) Discuss the extent to which the roles and qualities required to be an entrepreneur may differ from those required to be a manager. 11
- (25)**
9. (a) Change is constant in the modern business environment. Discuss how the features of the corporate culture of an organisation may influence its ability to accept change. 13
- (b) Explore how pursuing a policy of corporate social responsibility might influence the marketing and operations functions of a firm. 12
- (25)**

[END OF QUESTIONS]

## ACKNOWLEDGEMENTS

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