

Organic Growth

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by **Matt Kinsman & Bill Mickey**

As private equity continues to dominate the magazine industry, the priority is on identifying new acquisitions for a rapid revenue build-up, where a company can then be flipped in another three to five years.

Organic growth, however, remains an essential part of doing business. No executive will tell you that organic growth is sacrificed in favor of growth by acquisition. And the rise of multimedia assets makes it easier and more relevant than ever. Folio: spoke with a handful of publishers on the lessons they've learned about growing organically and how they're applying it to their companies today.

Reviving Old Brands

Peter Sprague specializes in breathing new life into brands.

Initiative: Has leveraged live events to kick start growth in both consumer and b-to-b companies.

Example: Expects events and trade shows to be a substantial business for Gearhead Communications and a great service for readers and advertisers.

Takeaway: "Multiples have gotten so high that the ROI tends to be much better on organically developed extensions than it is on acquisitions."

As a longtime and successful media entrepreneur on both the consumer and b-to-b sides, Peter Sprague has taken the lessons he's learned about organic growth from his earlier ventures and applied them to his current venture, enthusiast publisher Gearhead Communications.

In 2001, Sprague turned to organic growth to revive his acquisition of Physician's Weekly. The magazine had gone from making \$2.3 million per year to losing about \$1 million annually. To stem the flow, Physician's Weekly introduced a series of specialty issues targeting specific markets. "We basically took a horizontal medium, rendered it vertical, and made it multimedia," says Sprague. After four years, Physician's Weekly had regained ground to the point that it made more than \$3 million in revenue per year.

Sprague previously applied those lessons as president of, and a shareholder in, NurseWeek Communications, a publisher of bi-weekly trade newspapers. "Since nurses loved the newspapers, we created a series of shows where in essence the attendees are the circ, the seminars are the edit content, exhibitors are the advertisers" says Sprague.

NurseWeek launched a series of career fairs in 20 markets that were highly successful from day one, says Sprague. The program offered continuing education for nurses while the print products drove traffic to companion Web sites. NurseWeek processed over 90,000 continuing education tests per month. "I hate the word 'synergy' but we had the means to promote them, we had advertiser relations that could be extended to exhibitor relations, and the Web site to promote them," Sprague adds. "The ROI was excellent and the service was very well received by attendees and exhibitors because no real net investment was needed to get started."

The key to organic growth is understanding your core constituency. "If you don't have audience and don't serve it well, you've got nothing else," says Sprague.

With Gearhead, the company is recognizing new areas, specifically live events, to better serve the audience for its flagship magazine, Premier Guitar. "We cater to serious guitarists and they kept telling us there's nothing out there they can go to for a live event that combines instruction, product and entertainment," says Sprague. "We're trying not to build a trade show in the conventional sense, but much more of a festival and celebration of the guitar. We'll provide our readers and attendees with an experience that helps their tone as well as helps them buy, sell, fix and enhance their gear while simultaneously hearing some of the best guitarists in the world at the live events during the Celebration."

The shows will debut later this year in Boston, Chicago, New York, Washington D.C. and New Jersey. "In a way, this is similar to what we did with the NurseWeek career fairs," says Sprague, who adds that Gearhead expects to attract 15,000 to 20,000 guitar players at each show. "We'll spend through the nose for this," he says. "We will probably spend over \$150,000 on attendee promotion for each event. But when you have a paid gate, if you do it right, the math works pretty well and we deliver a big buying audience for our exhibitors and sponsors while giving our attendees a two and one half-day experience they won't soon forget."

Gearhead is also leveraging online for organic growth. At www.premierguitar.com, the company is creating a social network area where bands can visit, attach mp3s, troll for other members and book gigs. There is also a free interactive, real time service – Gear Search – that allows over 200,000 unique visitors per month and growing to buy, sell, and trade gear." The website is currently breaking even but it provides an invaluable multimedia experience for our readers and viewers," says Sprague. "We also now offer viewers a monthly Ezine that they can view free on our site through unique page turning software that allows viewers to read and download all editorial and advertising content," Sprague continued. "With over 100,000 online readers of our magazine each month, we're moving into a whole new media era."

Sprague expects trade shows and events to ultimately be a multimillion business for Gearhead. "In 2007, we will invest heavily and in 2008 we forecast to make money, but modestly," says Sprague. "We're probably 80/20 organic in terms of growth."

Safer than M&A?

While today's PE-crazed market emphasizes M&A, organic growth may be the safer bet, according to Sprague. "Acquisitions often look better when they close than they do two or three years later," he says. "Multiples have gotten so high that the ROI tends to be much better on organically-developed extensions than it is on acquisitions. The down side of organic growth is if you don't plan rigorously or if you have a lousy idea, you can dump a lot of money into it and never realize any ROI. But I'm not sure the risk of melding cultures in an acquisition isn't at least as great."