

INNOVATIVE DIVERSIFICATION IN THE PUBLISHING BUSINESS: INTERNATIONAL ASPECT

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Abstract. *A comparative analysis of diversification processes at publishing and printing companies in the world and domestic markets has been carried out. The choice of corporate diversification strategies depending on a stage of a company life cycle development has been substantiated. Basic development trends of the industry based on the analysis of calculated profitability indexes of products, activities and assets have been determined. The classification of a company innovative diversification has been suggested.*

Key words: *diversification, innovations, publishers, acquisitions, mergers, profitability, strategy.*

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1. INTRODUCTION

Ukraine continues to undergo a systemic economic crisis. As a result, the level of uncertainty of conditions and prospects for the functioning of enterprises remains rather high. The efficiency of enterprises reduces significantly resulting in the reduction of profitability, decrease of output volumes, deteriorating of general financial results, etc. However, not all companies, even within the same industry, are equally exposed to the crisis.

Enterprises that are able to quickly and adequately respond to external changes and select an innovative development strategy can ensure a stable operation even under conditions of general business activity decline. It is innovative diversification strategy which can provide high management results in times of crisis.

Such renowned scientists as A. Thompson, A. Strickland, M. Porter, I. Ansoff, A. Aronov, H. J. Goldstein have devoted their works to the study of a company diversification strategy. In Ukraine the study of this matter is carried out by V.V. Vitlynsky, V.G. Gerasymchuk, A.P. Nalyvayko, V.S. Ponomarenko, Z.E. Shershynova, K. Biletskaya, S.M. Popova, A.A. Sharko. However, despite the growth of scientific researches on this subject in recent years, such issues as the influence of an innovating activity of a company on a selection of its development strategy and the study of practical approaches to determination of the effectiveness of a company diversification strategy are still scarcely explored.

The main goal of the paper is to study the general development trends of publishing and printing industry companies based on the diversification of their activities and funds, and develop a classification for innovative diversification through acquisitions and portfolio investments.

2. THE ANALYSIS OF PROCESSES AND TYPES OF DIVERSIFICATION

2.1. The Choice of Corporate Strategies

The analysis of studies on the process of diversification resulted in some divergences on the definition of diversification concept itself. In our point of view, existing wordings reflect the essence of diversification process and have the right to exist. However they require a clarification. The performed analysis of studies [1, p. 181-196; 2, p. 4-12; 3, p. 178-197; 4, p. 344-345; 5, p. 150-161; 6, p. 15-20; 24, p. 97-100; 25 p. 181-182; 26, p. 200, 217 - 219] reveals that there is no universally accepted classification of diversification. By denominating a trend and pointing out a method of diversification, its fundamental characteristics, advantages and disadvantages, most authors do not specify the scheme for the choice of a variant of diversification which is the most profitable for a company.

We believe that the choice of corporate diversification strategies should be based on a life cycle analysis of a company which includes a continuity of stages of growth - instability - survival [2, p.4]. Survival strategies are used under conditions of a severe crisis of entrepreneurial functioning and are focused on the sale and liquidation of a business, unprofitable and low-profit enterprises. Stages of instability correspond to the recovery strategy, economy and restructurisation of the portfolio of projects in different business areas. Corporate strategies for diversification of the production on a company life cycle growth stage imply the entry into new activity areas and can be implemented in the following forms: acquisitions, creation of new enterprises (companies, firms) or joint ventures. An acquisition of an already established company is the most widely used form of diversification. Its advantage is a rapid growth of presence at target markets overcoming such entry barriers as the elimination of a technological inferiority, establishment of a connection with suppliers and the availability of a distribution network.

Basic corporate strategies at the growth stage are presented by a vertical diversification, combined, diversification into related and nonrelated branches. Vertical integration implies the absorption of suppliers and customers including retail chains. Its benefit is the control over all stages of production, marketing, and maintenance.

The essence of a corporate strategy for diversification into related industries corresponds to a strategy of concentrated diversification with a firm going beyond its industrial chain and looking for new activities that complement already existing ones in technological and commercial terms to reach synergies and expand a potential market. Corporate strategies of diversification in a nonrelated field are involved with a conglomerate type of diversification. As a rule, the growth of an enterprise by the acquisition of other firms increases the market price per share and a financial stability of a company. These strategies have many advantages: the commercial risk is distributed over various areas, financial resources can flow into more profitable areas, and internal rates of return stabilize.

2.2. Innovative Diversification, its Nature and Classification

In the modern context innovative diversification becomes relevant as a process of portfolio investment in assets of innovatively-active enterprises or their direct acquisition for the purpose of distributing impact into new areas of activity (expanding the nomenclature and geographical sphere of product and services distribution, discovery of new markets). It has its proper areas of implementation and actualization. According to

the methods of implementation of diversification, we distinguish a direct and portfolio investment of assets. According to the areas of implementation - related and unrelated diversification. In case of a related diversification, a new business sphere is characterized by a significant unity with the main company activity and signifies the availability of potentials of the scale economy or synergism. Unrelated diversification does not imply the availability of a substantial similarity between markets, distribution channels and production technologies. The strategy of unrelated and conglomerate diversification implies development of new product types and services that may appear as an addition to the main offer, contribute to its sales on the key markets and lead the way to new ones. Based on the generalization of existing studies [7, p.6-8; 8, p.7-8; 9, p.10-11], the author developed the classification of this process. The activity of RR Donnelley has been chosen as an example (Fig.1)

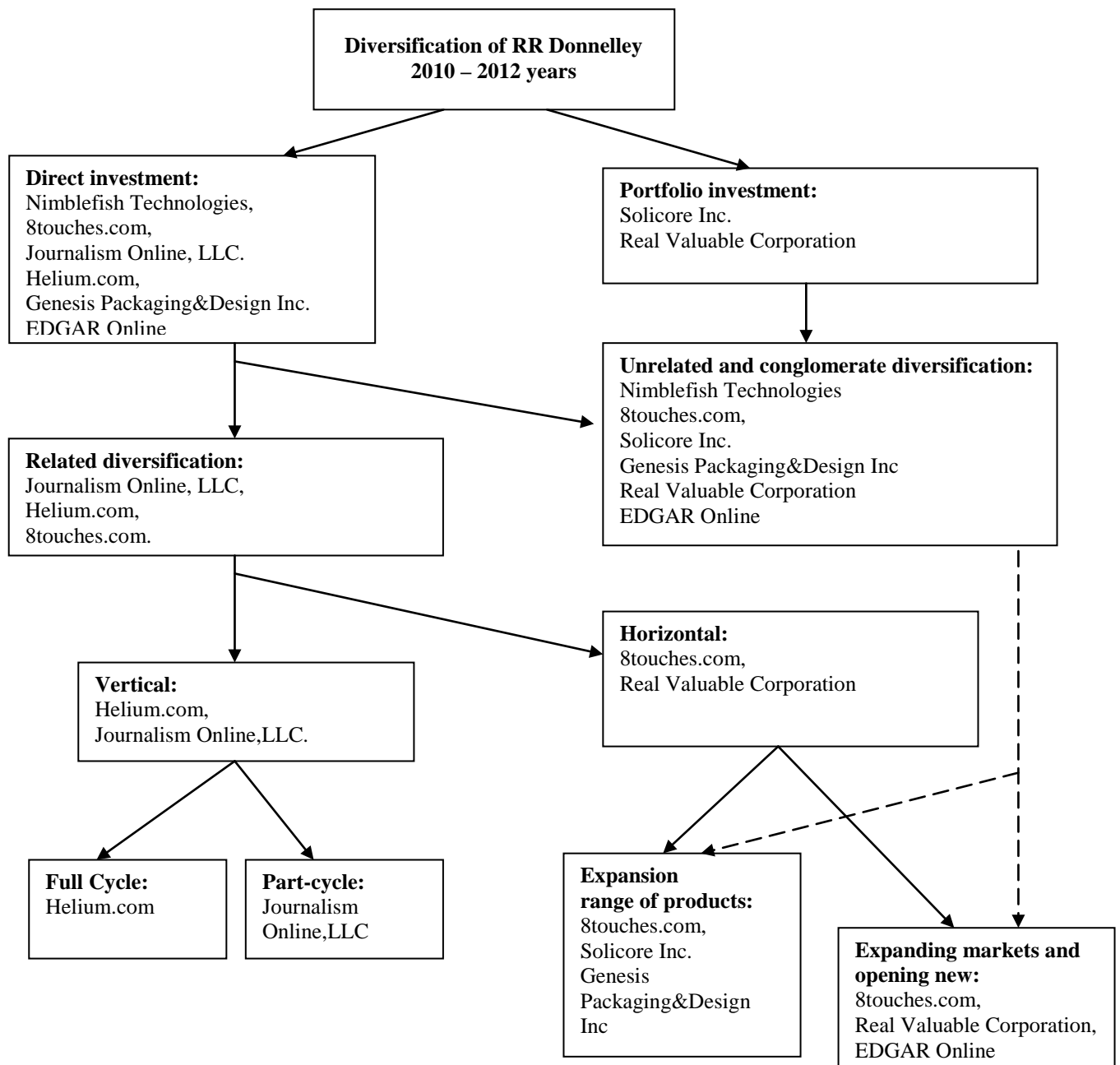


Fig.1. The classification of process of innovative diversification
(Developed by the author according to materials [10])

US-based RR Donnelley, with annual sales of \$10 billion and the staff comprising more than 55 million people, is one of the largest and most successful printing corporations in the world [10]. It implements an aggressive acquisition strategy of high-tech firms to diversify its activity and strengthen market positions. During 2010 - 2012 it purchased such companies as Nimblefish Technologies - the provider of services for multichannel marketing that cooperates with leading companies in retail, technology, telecommunications and hotel business industries; such companies as 8touches.com - the site that offers tools for creating personalized advertising materials (> 1000 templates); such companies as Journalism Online, LLC - the manufacturer of innovative software Press+ that allows publishers to complement their sites with a function of pay-per-view materials (to sell web content).

RR Donnelley has made portfolio investments in assets of Solicore Inc., a world leader in the production of embedded batteries for smart cards, RFID-devices, specialized medical equipment and electronic sensors making it possible to meet technological needs of customers who develop innovative printed products using miniature batteries. The corporation carried out an acquisition of Helium.com, the largest community of copywriters in the world, a social platform that allows authors to publish their articles while publishers and content managers can choose interesting materials for publications in books, magazines, and websites. Most importantly, the purchase of this platform will allow RR Donnelley Corporation to offer publishers and other clients a cyclical turnaround of production, as well as to cover all stages of content management: from the initial phase to publication.

Moreover, the acquisition of assets of Genesis Packaging & Design Inc., which specializes in the productions of a unique packaging including the design, printing, cutting, processing and assembly, has been carried out. It enables the corporation to improve the level of service for companies operating in food and pharmaceutical industries, wholesale and retail trade, manufacturers of appliance electronics and consumer products, publishers of educational literature and other clients. RR Donnelley purchased the block of shares of Real Valuable Corporation, the manufacturer of CoffeeTable - the app for iPad which allows browsing directories of retail stores (even when the gadget is offline) and make purchases. In consequence of the investment in CoffeeTable, the company is able to help clients to deliver their content to a target audience through reliable channels and at the right time.

RR Donnelley Corporation acquired EDGAR Online, the leader in the development of software and integrated solutions in the sphere of financial reporting, publishing of financial data and risk assessment. It implies the purchase of best-in-class technologies in the sphere of XBRL (an open standard for electronic financial reports), which is essential for customers and potential shareholders.

2.3. Implications and Effects of Innovative Diversification

The analysis of classification carried out in Fig.1 enables to come to certain conclusions regarding the direction of innovative diversification undertaken by RR Donnelley. Thus, a direct investment of funds took place by the means of related and unrelated diversification while a portfolio investment - only by the means of unrelated diversification. The purchase of a number of high-tech companies had a dual synergistic effect associated, first of all, with the main activity of the company and, secondly, with the development of new products and discovery of new markets. Thus, the acquisition of 8 touches.com enables RR Donnelley to create personalized advertising materials to promote printing products, and target applications for new industries and vertical markets.

By purchasing a stock of shares in Real Valuable Corporation, the company expanded a feasibility to bring information to both its target audience and potential buyers of consumer products. Intensive processes of acquisition and portfolio investment have made significant changes in the profile of the company: in addition to printing, pre- and post-printing services, RR Donnelley range now includes packaging, photography, design, direct marketing, creation and processing of content, fulfillment, production of e-books, data processing, business process outsourcing, and others. RR Donnelley provides solutions in the sphere of communications related to the needs of various industries, such as publishing, education, investments, healthcare, manufacturing, etc.

2.4. Innovative Diversification in the Global Publishing Market

The acquisition of Zagat Survey restaurant guide and publishing assets of John Wiley & Sons which owned the brand and produced Frommer's guides for travel by Google, is the example of related horizontal diversification [12]. The key object of acquisition is an online resource of Frommers.com publisher - an online travel service that accumulates information about holiday destinations and a variety of interactive tools for travelers. Thus an internet company diversifies its activities and spreads the influence to new market segments.

The merging of assets of two world publishing leaders: Penguin and Random House, which led to the formation of a new global publishing group Penguin Random, is also an example of a related horizontal diversification manifested through direct capital investments. Penguin Random will include all business units of Penguin and Random House in the U.S., Canada, UK, Australia, New Zealand, India, and South Africa, Penguin publishing assets in China, and Random House in Spain and Latin America. A new holding with a turnover of \$4 billion, which controls 26% of the world market of printed consumer literature, plans to invest in new formats of digital publishing, digital publishing models, sales channels, products and services in growing segments of the market [11].

The activities of German publisher Hubert Burda Media, which compensates the decrease in revenue from the sale of printed matter by the increase of its presence in the internet market by acquiring the stock of shares in a social network Hing in 2009 and by the decision to buy the entire network at \$311 million after shifting to the strategy of direct investments in 2013, is an example of an unrelated diversification strategy. [13].

3. A GENERAL DESCRIPTION OF THE DOMESTIC PUBLISHING MARKET

3.1 Primary Trends of Functioning of the Publishing Market of Ukraine

The reduction in the global market of printed media caused by the advent of new alternative mass media and the transfer from an offset to digital printing is now giving way to the stagnation. It is witnessed from the results of "Printed media and polygraph industry market size in the United States: 2010 - 2015" [23], according to which the world market of printed products will grow by 0.4% over the next 5 years. A significant decline in a total circulation of printed matter continues in the former Soviet Union: thus in Russia the decline constituted 300% [16, p.164], in Ukraine the scope of book publishing has decreased by 1200% within the previous 20 years (from 6 to 0.5 copy per a citizen) [17, p.7]. Among 30 thousand of registered print publications only 15% are being actually published [18, p.20]. Small and medium-sized printing and publishing houses go bankrupt: within more than 3 thousand publishing houses listed in the State

Register of Ukraine only 400 operate in the national book market [18, p.11]. This fall has acquired a significant relevance in the past year: 70% of publishers reduced the supply of printed matter by 25% on average per year; encyclopedias and reference materials - by 50% [17, p.7].

3.2. The Analysis of Profitability of SJSC "Ukrvydavpoligrafiya"

The activity analysis of Ukrainian PPI (publishing and printing industry) enterprises including suppliers of paper and consumables, as well as companies involved in the book trade, unravels negative trends in the industry: they bear losses and face negative profitability indexes of sales according to a net profit (Table 1), calculated by the formula [22, p.30]:

$$R1 = NP: D [1]$$

where R1 - profitability index;

NP - net income;

D - net operating income.

This index calculates the share of net profit in the net income from the sales of company products. The product commercial viability analysis of listed enterprises indicates a sharp decline in their business activity and profitability. Profitability decline rates of sales accelerate every year. A considerable range of variations of the index under analysis from year to year indicates the degree of its fluctuations and an increased risk.

Table 1 - Return on sales of PPI companies

Indexes, % / Years	2007	2008	2009	2010	2011
1. Lviv book factory "Atlas"	-0.3	-0.7	0.09	-10.4	-41.3
2. "Kyivska Pravda" publishing house	-8.4	-7.4.	-1.3.	-3.2.	-20.8
3. "Prapor" publishing house	0.9	13.7	-85.5	-366	-12.7
4. Kharkiv book factory "Globus"	4.4.	-7.2.	3.6.	2.9	-4.5.
5. "Kharkiv" publishing house	-3.0	-29.0	-12.9	-8.2.	-10.3
6. "Volynska oblasna printing house»	4.3.	1.0	2.1.	0.2	-5.1.
7. "Kharkivska printing house №2"	1,3.	-29.4	-36.4	-37.5	-534
8. "Polihrafknyha", KyivKyiv	-8.9	-29.2	-18.3	-11.1	-39.5
9. "Bilotserkivska knyjna fabryka"	0	-0.7	0.09	-10.4	-41.3
10. "Galytska knyga" (trade)	1.8	1.1.	-9.3.	-11.6.	-9.6
11. UkrNRI of Special Printing Methods	5.4.	0	0.4	2.1.	0.2
12. "Kyivpoligraphmash"	39.7	3.71	2.1.	1,3.	0.4
13. OJSC "Ukrknyha"	4.3.	0.9	-135.8	-25.2	962.7
14. PJSC "Lvivpolihrafpostach"	-2.9	-3.2.	-12.7	-13.9	-5.9.
15. PJSC "Ukrpolihrafpostach"	2.1.	4.3.	-10.6	-5.7.	-0.5

Calculated by the author according to data [19]

Thus, the profitability of "Atlas" factory decreased by 137 times in five years and turned into the loss ration; "Prapor" publishing house - by 14,1 times; at "Kyivpoligrafmash" it decreased by 99 times. Profitability - is a qualitative index

characterizing the return rate of production costs and sales of products, the effectiveness of company activities, its ability to grow the capital and therefore update the technological basis and implement innovations in the production process, which could make the output cheaper and more competitive. Products rentability has to be a positive and gradually increasing value. At the premises of SJSC "Ukrvydavpoligrafiya" this index is negative within the entire study period because it bears losses instead of gaining profits. Let us calculate average profit margins of enterprises being the part of SJSC "Ukrvydavpoligrafiya" (Table 2).

Table 2 - Average annual profitability indexes on SJSC "Ukrvydavpoligrafiya"

Indexes, % / Year	2007	2008	2009	2010	2011
1. Profitability of sales (net profit)	0.10	-7.50	-13.9	-10.1	-15.0
2. Profitability of sales (gross profit)	23.1	15.6	10.9	12.8	2.4
3. Return on assets	2.3	-4.6	-6.9	-5.6	-6.4
4. Return on equity	2.8	-6.9	-10.7	-9.4	-13.1

Indexes calculated on the basis of statistical data [19]

In keeping with the period under analysis, the profitability of sales according to net profit at SJSC "Ukrvydavpoligrafiya" decreased by 150 times on average; profitability of sales according to gross profit - by 9.6 times; return on assets - by 8.7 times; return on equity - by 15 times. The trend data of these exponents is given in Fig.2.

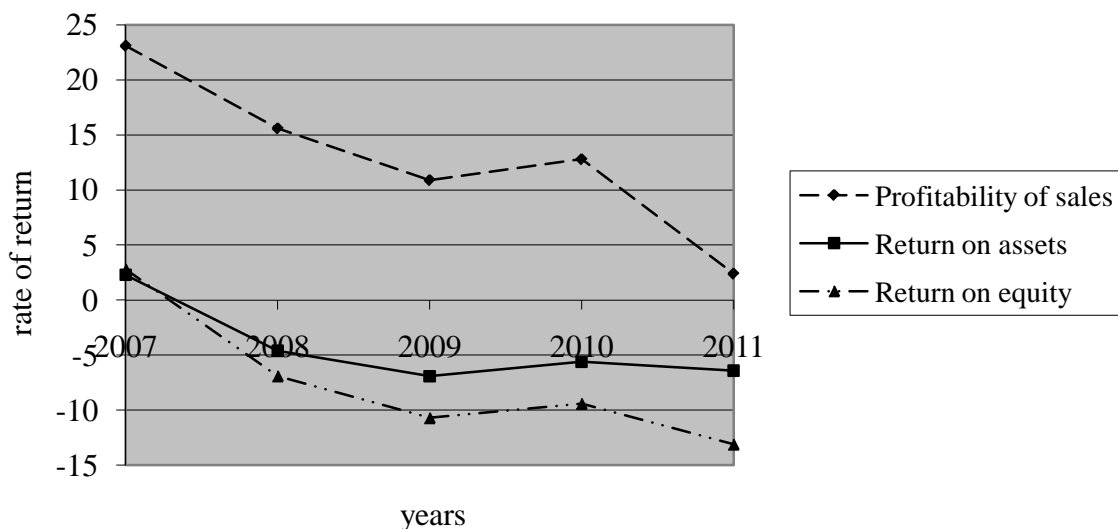


Fig. 2. The trend data of average profitability at SJSC "Ukrvydavpoligrafiya" on annual basis

Source: Private graphic display based on Table 2

3.2 Activities for Innovative Diversification at UMH Publishing Holding

Amid the crisis that characterizes most PPI businesses in Ukraine, profitability indexes of the largest publishing holding in Ukraine, a multimedia company UMH (United Media Holding), which comprises a group of companies UMH (Ukrainian Media Holding) and a publishing house "Populyarnaya Pressa" which runs business in Russia,

Belarus and Kazakhstan, appear remarkably positive. It unites 60 publications, 8 radio stations, printing and publishing integrated works, a printing house and retail chain of newspaper outlets. It is obvious that the holding is actively implementing a related horizontal diversification taking a leading position in the markets of the Internet, radio and press in Ukraine and other former Soviet countries [21]. The company foundational business – is production of content for all types of media. The holding includes four strategic business units - companies: UMH Online, UMH Radio & TV, UMH Publishing and UMH Russia. Target markets of the company - adult post-Soviet Russian-speaking population, which is about 155 million people whereas the company is currently covering about 12% of the audience, or 18.6 million people. More than 4400 employees work in 43 offices across Russia and Ukraine. Processes of merging and acquisitions continue as evidenced on the purchase of 52.14% of stock shares at KP Media with its US capital by United Media Holding [15, p.12]. Alongside with active development of digital technologies, the Internet has become an important priority in the business development of UMH group: via purchase and development of its own projects, the company formed a portfolio of over 15 projects with 47% covering of Ukrainian audience.

Innovative activity of UMH is manifested by the acquisition of licenses including Russian newspaper brands "Argumenty and Fakty" and "Komsomolskaya Pravda", or the "Futbol" football magazine. In only six years the structure of the UMH increased by more than 10 successful media projects while the dynamics of the group development allowed it to become a major player in the press market. An important event for the company was the signing of the license agreement for the publication of Forbes magazine in Ukraine in 2010. The project was launched very successfully: the Forbes-Ukraine magazine is published each month, a business resource Forbes.ua is operation, conferences are held. According to the license agreement, the Forbes magazine is published in 26 countries. The Ukrainian magazine hits the top five in view of achieved results in 2012 among licensed media under the Forbes brand.

3.3 The Analysis of Profitability of UMH

The study of UMH holding business activity dynamics from 2007 to 2011 (Table 2) enables to evaluate the effectiveness of its operations, expressed by indexes of profitability, calculated using the approach [22, p.29 - 30]. Activities regarding innovative diversification of the holding are primarily manifested by the growth of all types of income and therefore all kinds of profitability, by the effectiveness of its activities. Thus sales margins according to gross profit increase from year to year: they indicate how much profit from sales accrues per one monetary unit of net income and are calculated using the formula:

$$R2 = WP: D [2]$$

where R2 - margins of sales according to gross profit

WP - gross profit, or the revenue from sales of products

D - net income from sales.

On average, at SJSC "Ukrvydavpoligrafiya" they constitute 44.4% while mid-year growth rates reached 13%. The return on equity characterizes how well a company uses its own capital. It is a peculiar index for owners and potential shareholders. It varies on an annual basis from 55,5% to 108,8% and is calculated as follows:

$$R3 = NP: Kp [3]$$

where R3 - return on equity,
 NP - net profit,
 D - net operating income.

Operating profitability indicates the amount of profit from operating activities attributable to a hryvnia of costs associated with total operating expenses. It varies from 14,5% to 31.7%, i.e. mid-year profitability constitutes 20.4%, which exceeds performance indicators of international firms in the global market.

Table 3 - The profitability of sold products of UMH holding on an annual basis

Indexes, % / Years	2007	2008	2009	2010	2011
1. Profitability of products, %	43.7	39.5	39.5	46.5	53.0
2. Return on equity, %	74.8	60.8	64.7	56.5	93.8
3. Operating profitability, %	31.7	15.5	15.5	14.5	24.8

Calculated by the author according to financial reports of UMH [20]

Let us investigate the trend of profitability indexes at UMH on an annual basis in the graph presented in Fig. 3. It is obvious that all three indexes have a positive trend

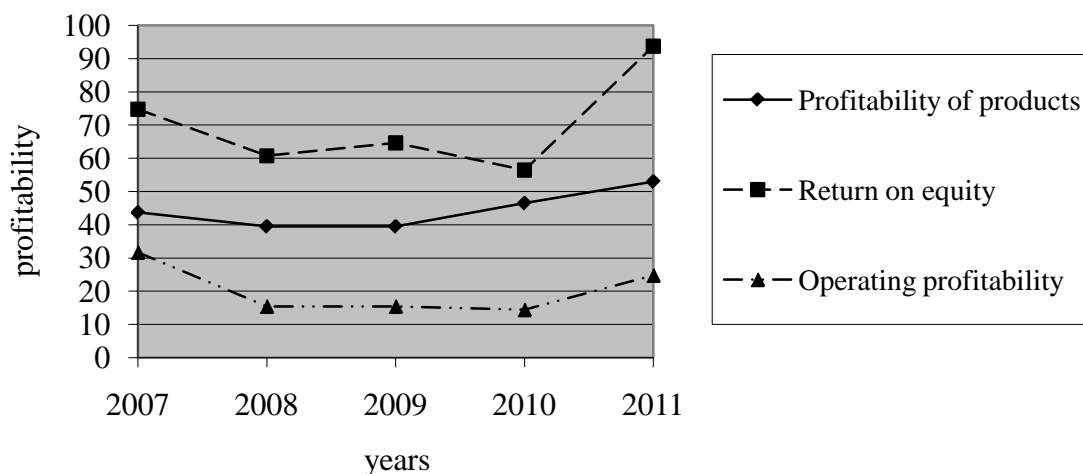


Fig. 3. Profitability trend data of UMH on an annual basis
 Source: Private graphic display based on Table 3

for growth, after overcoming consequences of the world financial crisis in 2008 - 2009, and demonstrate a steady growth. It proves the effectiveness for innovative diversification of the holding, increase of its financial stability, growth of the business activity and cost effectiveness, increase of its products profitability, activities and assets.

4. SUMMARY

The processes of mergers and acquisitions of publishing and printing assets of foreign companies in the global market, which resulted in the strengthening of their market positions, discovery of new markets and technologies, as well as the creation of great holdings, have been studied.

The classification of activities for innovative diversification of a publishing and printing company, on the example of US-based RR Donnelley implementing an aggressive strategy of acquisitions of high-tech firms, has been carried out. As a result, the company benefits from both vertical and horizontal diversification. RR Donnelley covers all phases of working with the content from the initial phase to publication. Its profile is noticeably changing as well: in addition to printing, pre- and post-printing works, it carries out photographing, packaging, designing, direct marketing, creation and processing of the content, fulfillment, production of e-books, data processing, and outsourcing of business processes.

The trend for reduction of the national printed publications market, its causes and consequences, such as reduced profitability of PPI enterprises, their unprofitability and bankruptcy, has been analyzed. Attributable indexes of industry enterprises cost effectiveness have been calculated. The implementation of innovative diversification strategy for publishing and printing enterprises which will enhance their financial stability, growth of business activity and cost efficiency, increase in profitability of their products, activities and assets, has been suggested.

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Innovative business models in the strategic adaptation of multinationals to emerging. Economy environment. Basic research program working papers. It is especially noteworthy that this diversification is accompanied by the development of another important trend – fast growing importance of business model innovation (BMI). As indicated in one of the forward-looking studies of the new trends in global innovation space, – in earlier decades, innovation was often associated with technology Diversification is a business strategy noted as offensive, defensive, concentric, horizontal, or conglomerate launch of new products in new or existing markets. Notably, in the Ansoff Matrix lecture, we introduced the concept of diversification as a growth strategy. Diversification is a strategy used to expand market share or enter new markets by launching or acquiring new products (perhaps through licensing, merger, or acquisition). It allows a company to grow by expanding market share in an existing market or by developing a market presence. In essence, diversification involves innovation and market disruption. Below are defined types of diversification. Offensive and Defensive Diversification Strategies. Any business is dependent on the repeat customers. Hence, diversification should only happen to strengthen a company’s existing business by enhancing its value proposition for customers – like Coca Cola’s fruit juice business or Disney’s Pixar acquisition. These diversification ensured repeat purchase by the same customer for different but related needs. Diversification is a corporate strategy to enter into a new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification is one of the four main growth strategies defined by Igor Ansoff in the Ansoff Matrix: Ansoff pointed out that a diversification strategy stands apart from the other three strategies. Whereas, the first three strategies are usually pursued with the same technical, financial, and merchandising resources