

# How did it all go wrong at Media24?



By Louise Marsland

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In what has been described as one of the worst months in media giant Media24's history, the focus turns to how to deal with the fallout and how to prevent such a damaging scandal to the entire magazine publishing industry from ever happening again. Was it the fault of organisational culture? The increasing competition in the magazine marketplace, or just fraud on the part of a few individuals?

The story is actually just beginning to unfold. We know 'the who' and we know 'how', but 'the why' and 'the where to next' narrative still has to be told.

Media24 are making all the right noises, but the questions are still being raised by media directors and other publishers and media workers: how could this have happened? How could it have gone undetected so long? And what would have motivated the decision to commit what is being labeled as 'out-and-out fraud' by some?

We know that Media24 as a publishing group has expanded incredibly rapidly over the past few years, buying up smaller, successful publishing groups at a rapid rate. What this does to organisational culture is anyone's guess and unless there are specific change management processes in place, there is going to be fallout at some point.

## Under pressure



Media24 group MD Hein Brand

Media24 group MD Hein Brand has admitted that extreme competition in particularly the women's magazine sector of the market led to extreme pressure and this may have been a catalyst for some of the irregularities in that division.

"My assessment is that the underlying dynamics are entirely different in the Women's Magazine Division. My theory is that the Women's Magazine Division has been faced with an unbelievably competitive market, and this led to pressure building. There was speculation in the marketplace that some magazines aren't sustainable, that not all are financially viable and that pressure was building in this industry and pressure in our division as well. We had two new launches... maybe there was fear of failure; it's a tough environment. Hopefully we will understand exactly way."

He said the Touchline irregularities baffled him. "They operate in specified niches and are clear category leaders." He did not believe that variations in circulation figures of between 2% and 7% in the main (although *Wisden Cricketer* with its niche numbers had higher percentages of overstatement of figures, as high as 17%) would have made that much of a difference in the long run. "They were in no head-to-head situations in the marketplace."

Brand added: "We have got to do a lot of work now. I'm taking comfort from the forensic exercise that this is not endemic and is limited to the two divisions. Clearly we have a huge problem in the Women's Magazine Division."

Ever pragmatic, Media24 Magazines CEO Patricia Scholtemeyer, who some feel is lucky to have kept her job, is focusing on the priority of getting the right people into place structurally to plug any gaps left by the suspensions or by refocusing circulation audit processes.

When asked about staff, she says the number one issue is staff moral: "Our staff are ethical, talented people."

The next few weeks will be taken up by the disciplinary process, which could take up to three



Media24 Magazines CEO Patricia Scholtemeyer

months, the ABC audit of all titles in the magazine divisions, and resolving all the fallout around the circulation scandal with advertisers and media agencies.

She wanted to emphasise this point: "We mustn't taint all the apples in the basket with the rot of a few. The rest of the business is a fantastic, great business."

## Manipulation

So what exactly happened? ENS Forensic auditors, brought in by Media24 to investigate after the Audit Bureau of Circulations (ABC) picked up irregularities first in Media24's Women's Magazine Division bulk distribution sales, paints a picture of dishonesty and deliberate manipulation of circulation figures in a planned cover-up, in both Touchline and the women's magazine division.

ENS Forensics MD Steven Powell said his team conducted in depth interviews with all the role players, including publishers, circulation managers and distribution agencies covering the circulation and distribution of titles within each business unit, reviewing all relevant documentation – particularly pertaining to bulk sales – and quantified misstatements or misclassification of figures as reported to the ABC.

Its findings were:

1. No dishonesty found in 10 of the 12 business entities in the magazine publishing division of Media24.
2. Inflated circulation found in the Women's Magazine Division:
  - Intermittently from July 2005 to June 2007
  - Seven of the 12 titles were involved in this division: *FairLady*, *Sarie*, *True Love*, *Leef*, *InStyle SA*, *True Love Babe*, *True Love Bride*.
3. Inflated circulation found at Touchline Media:
  - Intermittently from July 2005 to June 2007
  - Five of the 12 titles involved at Touchline: *Men's Health*, *Sports Illustrated*, *Shape*, *Wisden Cricketer*, *Kick Off*
4. Some revised circulations are below the 2% materiality rule of the ABC, but have been included because there is dishonesty involved.
5. Issues of interpretation of ABC rules need to be clarified on two more titles.

Specifically, the irregularities involved the misstatement of circulation figures on bulk sales using fictitious invoices. A particular individual employed by Media24 apparently colluded with a distribution company to make up bulk sales invoices, which did not exist.

Preventative measures undertaken by Media24 as a result of the audit findings are:

- Reviewing audit procedures required from internal and external auditors.
- Appointment of a senior person with appropriate auditing skills to head up ABC department.
- Creating a centralised ABC reporting function for all 12 business entities.
- Actively engage with the ABC on matters of interpretation before applying the rules.
- Further enhancing ABC knowledge and skills within the Media24 group through comprehensive training.
- Accelerate the implementation of project Cycad, Media24's new oracle-based consolidated circulation, subscription and distribution platform with revised business processes, currently scheduled to go live mid-2008.

In summary, Brand said the irregularities were the result of collusion amongst a few dishonest individuals which went undetected by internal and external audits and that Media24 has acted in good faith and with transparency through the

process and will continue to do so, co-operating fully with the ABC and other industry structures.

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## ABOUT LOUISE MARSLAND

Louise Burgers (previously Marsland) is Founder/Content Director: SOURCE Content Marketing Agency. Louise is a Writer, Publisher, Editor, Content Strategist, Content/Media Trainer. She has written about consumer trends, brands, branding, media, marketing and the advertising communications industry in SA and across Africa, for over 20 years, notably, as previous Africa Editor: Bizcommunity.com; Editor: Bizcommunity Media/Marketing SA; Editor-in-Chief: AdVantage magazine; Editor: Marketing Mx magazine; Editor: Progressive Retailing magazine; Editor: BusinessBrief magazine; Editor: FMOG Files newsletter. Web: [www.sourceagency.co.za](http://www.sourceagency.co.za).

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