

## Playboy Enterprises, Inc. (A)

In early 1986, Christie Hefner, president and chief operating officer, Playboy Enterprises, Inc., had been reviewing the company's strategies to face the changing world. Once considered a trendsetter for urban sophisticates, the adult leisure company in recent years has increasingly found its offerings out of step with the times.

As a writer on social issues put it, "The image of the playboy in a smoking jacket is obsolete. People today are more interested in their cars and their careers than they are in sex." Although that claim may be open to dispute, Playboy has reason to be alarmed. The circulation of its flagship magazine has dwindled to just over four million a month from more than seven million in 1972. The number of Playboy Club key holders has fallen steadily. The cable television Playboy Channel, once seen as crucial to the company's future, loses money and has yet to prove that it can survive in its highly competitive field.

Between 1983 and 1985, *Playboy's* revenue fell by nearly 50 percent. It earned a profit on operations in only one of four years between 1982 and 1985, when it was forced by old legal problems to give up its lucrative casinos. The company was in the black (by \$6.7 million) in its 1985 fiscal year only because of returns on \$60 million in investments. Its auditors qualified their opinion on the financial statement for that year because of uncertainty over whether Playboy could collect all it is owed on one casino sale.

### COMPANY HISTORY

Initially, Playboy Enterprises, Inc. was established as HMH Publishing Company in 1953 to publish *Playboy*. The present name was adopted in 1971.

Today, the company's businesses, in addition to *Playboy* and *Games* magazines, include the

development and production of programming principally for pay television and videocassettes and products for direct sale and licensing that feature the Playboy name and trademarks for worldwide distribution. In addition, the company owns and franchises Playboy Clubs. In the 1970s, the company entered the resort hotel and casino business in different places, including London, Miami, the Bahamas, and Atlantic City. However, in 1982 the company discontinued its resort hotel and casino operations.

### ENVIRONMENTAL CHANGES

Playboy is a victim of the social changes it helped promote. Attitudes toward sex have evolved rapidly since the days when the magazine could shock millions by publishing two photographs of an undraped Marilyn Monroe. Today, *Playboy* must compete, not only with countless far more lurid "skin books," but also against the popular media. Rock songs may have X-rated lyrics and an episode of "Dynasty" may be nearly as titillating as a centerfold.

As Ms. Hefner puts it, "We no longer can contrast ourselves to a gray-flannel Eisenhower society. It's now a lot more difficult for us to offer something unique."

Yet Playboy also finds itself considerably vexed these days by those who consider its business immoral or sexist or both. Although its cable television fare isn't hard-core, for instance, it has repeatedly been challenged in court (so far unsuccessfully) by communities that want it banned.

After ABC recently broadcast a film based on Gloria Steinem's critical account of her 1963 stint as a bunny, Playboy President Christie Hefner fired off a memo asking her staff to "ponder what it is Playboy and all of its resources can and should be

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This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

doing to counter the . . . misimpression out there that we are not good guys."

Perhaps a tougher problem for Hefner, though, is finding a clear mission for Playboy in the 1990s, one as potent as her father's former vision for the company. In an era of aggressive careerism among both sexes, the company no longer gets much mileage out of the so-called Playboy philosophy, Mr. Hefner's concept of the lifestyle of a man of leisure.

### THE REAL PROBLEM

Some company officials believe that one of Playboy's biggest handicaps may be its association with the public image of its founder, now 59 years old. As a Playboy executive put it, "Pajamas just aren't as fashionable as they used to be."

Though still the best-selling magazine for men, *Playboy* has fallen far behind arch-rival *Penthouse* in lucrative newsstand sales. According to *Penthouse* publisher Bob Guccione, "*Playboy's* market is older and its readers are passing into oblivion." Playboy executives say that the readership age difference is minimal. However, there are other worrisome signs. A Chicago newsstand operator who has sold many copies of *Playboy* speaks of the typical buyer as "a guy who thinks he's up-to-date but isn't." One woman who posed for a pictorial was surprised when she saw the letters the feature generated: "A whole bunch of them were from guys in prison." A former public relations executive for Playboy contends that the company "doesn't want to face reality—that time has passed it by."

### NEW STRATEGY

Against this background, Playboy Enterprises is undertaking what Hefner calls a "repositioning." The strategy, she says, is to go after a more upscale audience by being more in tune with current tastes and values. "I think we should be on the cutting edge of how people who have changed their behavior to reflect a more liberal lifestyle are going to live."

The October 1985 issue of *Playboy*, marked "Collector's Edition," began what the company calls the magazine's next generation. This included greater coverage of such "life style" subjects as personal finance and home electronics. An ad in that issue asked, "What sort of man reads *Playboy*?" and offered as an example race car driver Danny Sullivan. Posing in a black silk evening jacket, he explained that he "grew with the magazine," learning, for instance, to care about clothes. Curiously, elsewhere in the issue was a piece satirizing the consumer society.

Sensitive to criticism that it portrays women as sex objects, *Playboy* intends to feature some who are more mature or more accomplished. The lead feature in the November 1985 issue was a nod in this direction, but it hardly seemed likely to defuse the moral issue. Picturing members of Mensa, the club people can join only if they have high IQs, the feature was entitled "America's Smartest Girls Pose Nude."

Nevertheless, Hefner says *Playboy's* effort to move upscale is working. As evidence, she notes that the October 1985 issue carried advertising for Campbell Soup's Le Menu frozen dinners.

Covers of the new generation *Playboy* are to have a glitzier look. They are planned in long meetings by a committee of fashion and art experts who try to base their designs as much on the latest fashions as on erotic content.

The graphics also are slicker and a different printing process binds pages with glue instead of staples, giving a more finished look. According to *Playboy's* art director, "The magazine is supposed to look a lot more like the kind of thing you'd put on a coffee table." That goal may be a bit optimistic, however; newsstands say that half of the buyers of *Playboy* still ask for a paper bag to carry it home.

The new magazine retains many standard features, like the Playboy Advisor, which intersperses advice about sex with answers to questions about stereotypes or turbochargers. Some editors complain about the uneven quality and occasionally questionable taste of color cartoons. Mr. Hefner himself

is said to have rejected an editor's plea to eliminate the Party Jokes feature, which in the October 1985 issue regaled readers with one-liners like, "What's boffo box office among milkmaids? *Pail Rider*."

The "repositioning" also applies to the Playboy Clubs, which haven't had a major updating since they were started a quarter-century ago. Even with a recent redecorating, the club in Chicago, with its plush red carpeting and black leather bar stools, looks a little like a museum for the jazz age. A gift shop upfront peddling Playboy T-shirts, cigarette lighters, and golf putters lends a touristy atmosphere to the place.

Rather than confront the deteriorating image of its big-city clubs, Playboy several years ago headed for the hinterlands, franchising clubs in places like Lansing, Michigan, and Des Moines, Iowa, where they might still have novelty value. However, without a strong big-city base, the whole chain lost its urban gleam. The Lansing club began resorting to such decidedly unglamorous promotions as lip-sync contests and valet parking for farm tractors.

### THE NEW YORK EXPERIMENT

In the fall of 1985, the company reopened its newly done New York club. It was a bold experiment. The cottontailed bunnies were replaced by hostesses greeting guests wearing long, glittering Jean Harlow-style gowns. Some of the waiters were men. Absent were the traditional pool table, party balloons, and Leroy Neiman paintings. Instead, video effects, stage acts, and music by a 10-piece house orchestra were offered.

The New York club's new look was sculpted by Richard Melman, who is noted for elaborate concept restaurants that are as much show-biz productions as eateries. He selected bunnies with talent as bodybuilders, astrologists, and jugglers. Costumes ranged from a sequined one called the Michael Jackson outfit, to sweater dresses, to a take-off of the current cottontail suit. The idea of male waiters (called rabbits) was to help women feel more comfortable in the club.

It remains to be seen if the company will convert other clubs to the New York style. The company has 12 other Playboy Clubs, 10 of which are franchised rather than company owned. A section of the club called Cafe Playboy may be tested as a prototype for a chain of franchised bars open to the public. (A Playboy key still is needed for admittance to the clubs, though temporary memberships are readily available.)

### STRATEGY FOR OTHER BUSINESSES

Playboy's products division, too, is working to bolster the company's image—or at least to stop endangering it. The division has sold countless key chains, air fresheners, and the like, even though doing so risked cheapening the company's trademark. Now Playboy is moving away from novelty items and into fashion apparel and branded consumer products. One success is Playboy's men's underwear, the second-best-selling brand.

Playboy still has some hard thinking to do about its video operation. The division, which launched the first sex-oriented cable channel for a mass audience five years ago, had identity problems from the start. Unable to decide how racy to be, the channel wound up alienating viewers at both ends of the spectrum.

Earlier in 1985, for instance, the channel stopped offering erotic programming during prime time and switched to mainstream movies and quasi-journalistic specials such as "Omar Sharif Hosts the Prostitutes of Paris." Viewership dropped and Playboy soon reverted to prime-time prurience.

Partly because of its turnabouts, the Playboy Channel has had the highest disconnect rate in the industry, 13 percent of viewers each month. Its current level of about 762,000 subscribers isn't enough to pay for the quality programming that might attract a larger audience. At \$20 million, the channel's yearly budget is less than a network might spend during a season on a single series.

As a result, Playboy is de-emphasizing the channel as its main outlet for programming and will

focus more on cassette sales and a recently launched pay-per-view service. It is also weighing a return to producing a late-night variety show or hour-long specials, either of which it would try to sell to one of the networks.

Still, Playboy's video operations, like the rest of its empire, is continuing to grope for the right formula for today's audience. As Ms. Hefner sums up, "We have to reflect a modern, sophisticated image."