CASE 9

Metro: A modern newspaper for a modern people?

By Heather A. Hazard[1]

We are committed to our aggressive – international expansion, as we have demonstrated with out two most recent launches. This expansion, as well as the development of Metro in Sweden and our 15 other editions is our primary focus. Everyday *has fulfilled our expectations in terms of readership growth, but advertisers remain to be convinced and we prefer to focus our efforts on the Metro free morning newspaper business, which continues to grow strongly.*

With these upbeat (but cautious) words, on 15 March 2001 Pelle Törnberg, President and CEO of Metro International SA announced that his company would publicly give up the battle for the attention of the evening commuter in Stockholm. Still Metro had only begun the publication of *Everyday* the August before as a companion to its flagship product, the morning Metro. Metro was launched in 1995 but while the idea of giving away free newspapers was not a new one the idea of using an urban transit system for distribution was. And what an idea it was – to publish a free newspaper carrying only 'headline' local, regional, national, and international news in a standardized accessible format that commuters could read during a typical journey of about 20 minutes. The income was to be derived solely from advertising. What would make Metro more appealing to advertisers than a standard 'light weight' freebie? The demographic make-up of the readers (employed and therefore with high average income) and the captive nature of their attention were exactly the characteristics advertisers were looking for.

The Kinnevik group launched Metro in 1995. Kinnevik had made its first investment in the Astra satellite consortium in the mid 1980s. Each of the Kinnevik products had been launched with the intention of finding a lucrative niche in a market where rivalry was limited. The company styled itself as 'pioneers in the Scandinavian media market'. In 1988, Kinnevik set up an arm (the Modern Times Group) to oversee its TV and media ventures. While the stated focus was on TV, MTG also sought to obtain benefits from cross-promotion, co-ordination of advertising sales, customer service, and production. Pelle Törnberg was present at the creation and became vice-president of the Kinnevik Group in 1993. In 1995 he was rewarded for his commitment by being made the President and CEO of MTG. When a decision was made to capitalize Metro in August of 2000 (by floating it on both the Swedish and NASDAQ stock exchanges) he was made the President of Metro International SA.

The strategy behind Metro was clear. They would attempt to develop each of their newspapers into the leading newspapers within their market (as they indeed had with their first launch in Stockholm) and to capitalize upon the Metro concept by replicating it in other cities including using the same name whenever possible to develop the brand. Replicating the concept was important not only because they would be utilizing a known and refined business model but because they hoped to attract advertisers who would buy space in all of their publications in addition to the standard local customers. Each local paper would be run with only a lean local editorial team who would create a local adaptation (language, 'feel', etc.) only to the most limited extent they could. As the editor of the Philadelphia edition, Mary Ellen Bornak, put it: 'We don't drill down, but we have most of the news that the other papers have just in a brief format. And that is all that most people think they need to know.' Printing and distribution would be outsourced to keep operating costs at a low level and news and photos would be purchased from third parties. The strategy also called for the specific pre-emption of competitors by entering only markets where rivals did not pre-exist. By doing this, Metro

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executives hoped to be a successful player in two markets at once. The would 'buy' the attention of readers with advertising and editorial content and then turn around and resell this attention to advertisers in exchange for revenues. But while they were playing the traditional broker role they were doing so in a new way by forgoing the subscription and per copy revenues from readers that most newspapers depended on (see Figure 1).

The fact that Metro chose free distribution gave it a hidden advantage in its earliest launches – the existing newspapers didn't take it seriously. As a result they didn't react and Metro was able to pursue its strategic objective of increasing the number of ad pages (and revenues) relatively unimpeded. While executives had planned for profitability by year three they were able to achieve that performance target in the very first year. Media analyst Alan Wilson felt that Metro single handedly changed the reading patterns of Swedes and that it is all that the young people (coveted by advertisers for their disposable income) read. Thomas Axen, president of *Dagens Nyheter*, admitted 'We didn't look on it as a real newspaper. We didn't think that it was a real threat because we didn't believe anybody would read it.' *Dagens Nyheter* was looking down from a position of tremendous strength as the city's largest newspaper, over 350,000 subscriptions and almost no single copy sales. Five years later Axen regretted their lack of response that had allowed Metro to grow into the city's second largest newspaper with over 250,000 distributed copies and an estimated readership of twice that. Moreover, Axen admitted both that 'people view it as a newspaper of high quality' and that 'Metro sells lots of ads and makes tons of money'.

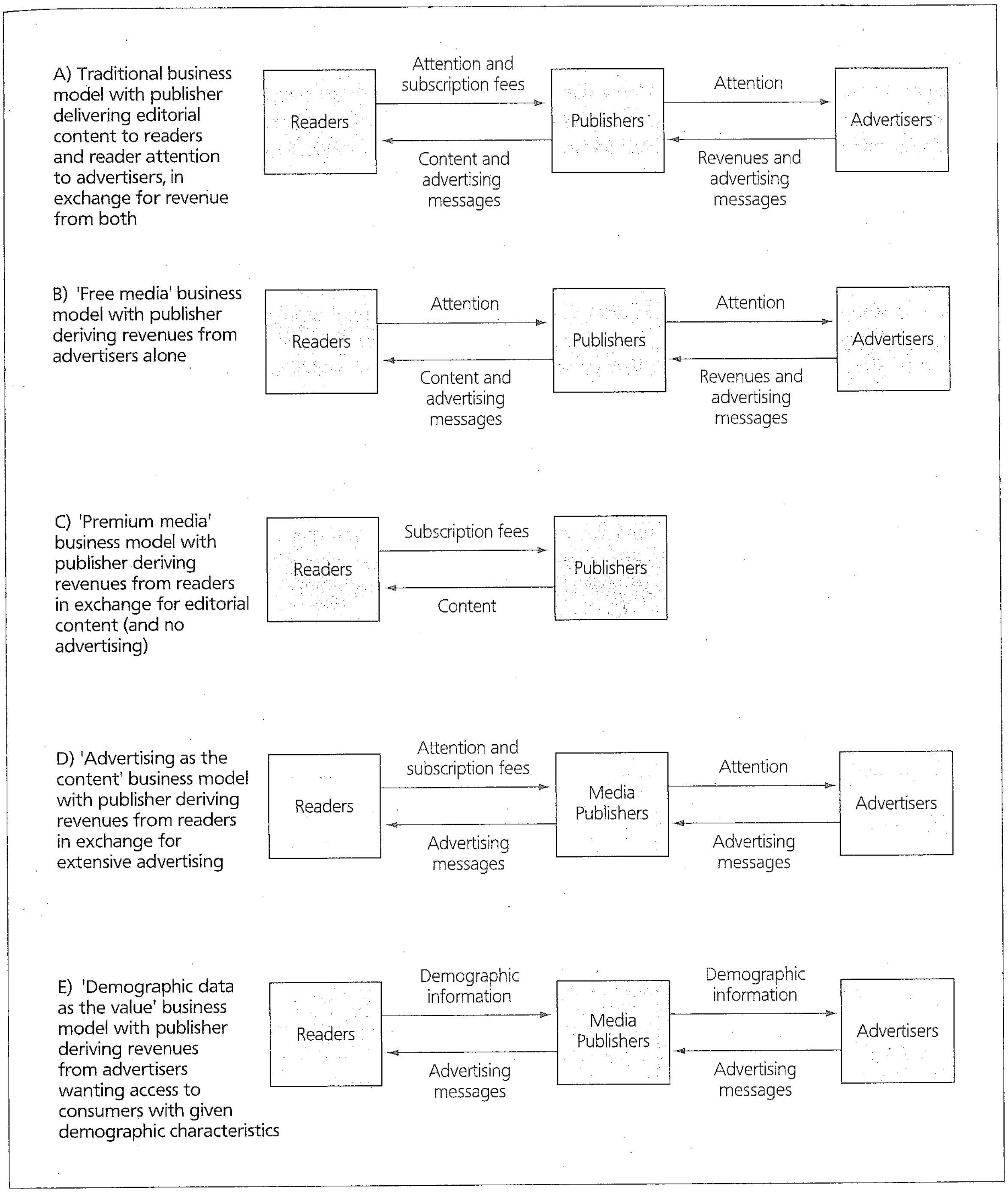
By the time they launched their afternoon edition in Stockholm however, the Swedish Press Subsidy Board was not so complacent, however, Karl Erik Gustafsson of the Board felt that the launch would provoke 'a tougher competition . . . and the profit margin will very likely shrink' for other newspapers in Stockholm. The successful launch in Stockholm was followed first by companion national launches in Gothenburg and Malmo and later by international launches in Hungary and the Netherlands.

By this time, however, competitors were learning from *Dagens Nyheter*'s mistaken impassivity and taking the threat seriously. The Norwegian publisher Schibsted was quick to recognize the unpleasant consequences an entry Metro would have on its sales and ad revenues both from its broad sheet *Aftenposten* and its upscale tabloid, *Verdens Gang*. Schibsted made preemptive claims that it would launch a free transit newspaper in Oslo. Metro backed off – the market would now fail its no direct competitor criteria. Schibsted was never forced to fulfill its threat and only launched a free home-delivered newspaper, *Newspaper 1*. Delivered only twice a week and only to customers who didn't already subscribe to *Aftenposten*, Schibsted was able to keep Metro at bay and limit cannibalisation of its other products and revenues. Moreover, they used the launch and communication strategy to realize synergistic effects with *Aftenposten*.

The unhampered launches of the early years were only a pleasant memory by the time MTG decided to role out a London edition. Associated Newspapers was already well established within the market as the publisher of the *Mail* titles and of the *Evening Standard*. When they picked up rumors of MTG's intentions they quickly entered talks with the London Underground. In order to create the management capacity, Associated undertook a major reshuffle and created a new products division. While the division was new though the leadership was well seasoned as Associated put Kevin Beatty in charge as its executive director and expected him to bring in all the experience he had gained as the managing director of the *Mail on Sunday*. The London Underground also understood the potential and entered into 'commercially sensitive' discussions with several publishers simultaneously. Associated also moved quickly to strike at the core of MTG's strategy by licensing the Metro name for its own use. MTG attempted to fight this maneuver legally but lost and gave up the venture. Pelle Törnberg tried to put a cheerful face on the loss when he told the *World* reporter that he really didn't mind the loss as it gave him more cash to put into his venture in Philadelphia and the latitude to seriously consider entry into San Francisco. Others, including Constantine Kamaris of the World Association of Newspapers, thought that Associated had won big, however. He told the *Editor and Publisher Market Guide* that 'the project has quickly transformed itself into an aggressive, product-development venture which taps into a very important market – young, non-newspaper readers. Other newspapers should recognize this is a new paradigm and take advantage of it.'

Associated also learned from the Schibsted model. While they did make good their threat to produce a free transit newspaper they negotiated an agreement with the London Underground in their

FIGURE 1 Traditional and emerging revenue models in publishing



own favor. Specifically, they wanted to limit cannibalisation of the *Evening Standard* so they agreed that *Metro* would only be distributed from 6 to 10 in the morning – and then it would be removed. Apparently, disagreement remained in the upper management at Associated as to whether or not *Metro* was a spoiler newspaper for them or not.

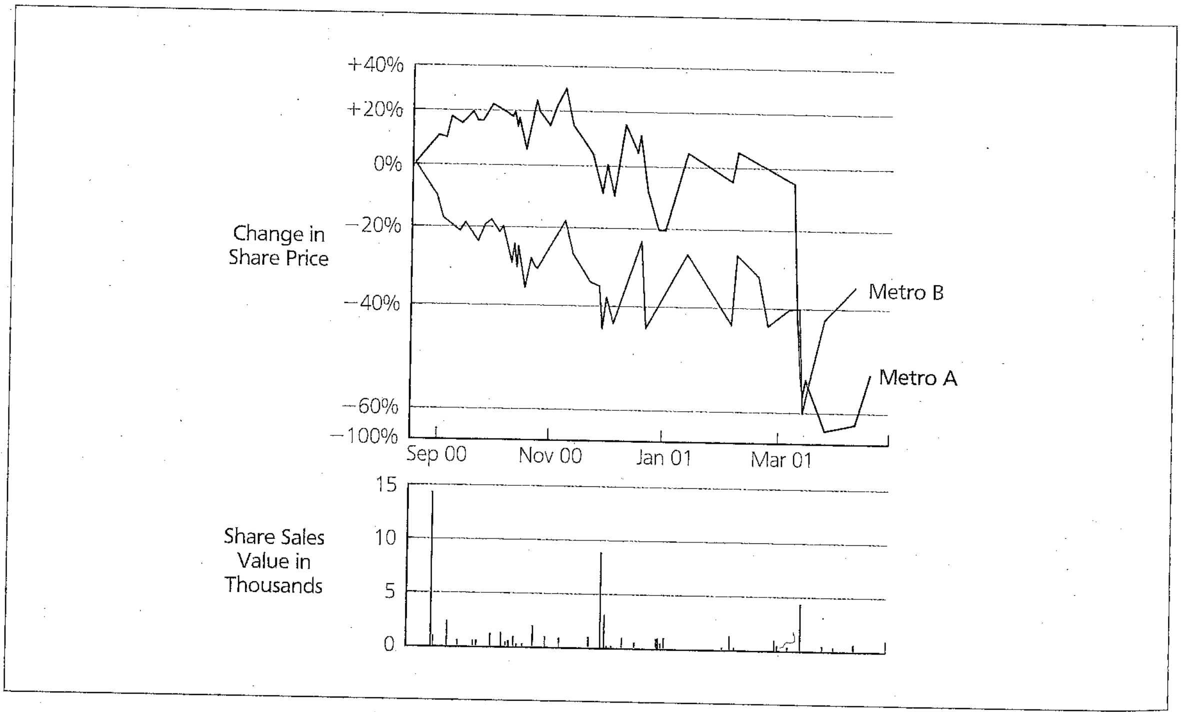
Whether or not it was a spoiler for Associated in London might have been a matter for internal debate, but it didn't stop Associated from pushing ahead with the strategy elsewhere. They also launched free newspapers in Manchester, Liverpool, Glasgow, and Edinburgh and used cross-promotional efforts to lure marginal readers to their paid products. MTG responded by launching under the *Metro* name in Newcastle – only to land promptly in a legal battle over their name and to face the rival *Metro* just outside the subway doors.

When it was preparing for public listing, Metro itself recognized the lack of any real barriers to entry in its markets. In the Netherlands, for example, it had launched only to meet a responding volley from the Dutch publisher of *De Telegraaf*, a leading Dutch newspaper. Triggering such responses from competitors had two problems. The first was that the competitors generally had far greater resources. The second was that they were teaching old dogs new tricks. Once a traditional publisher had mastered this new business model there was no reason they shouldn't replicate it in other markets either pre-empting Metro or competing for its readership and ad revenues. The Dutch publisher rapidly acquired an independent publisher in Sweden that published a free newspaper in Stockholm. Metro also encountered strong competition in Helsinki and in Zurich. In Toronto they were both countered by two local newspapers and constrained by the government to acquire a local partner. Metro's ill-fated *Everyday* was, in fact, launched in anticipation of a rival.

The increased competition and the heightened awareness of traditional publishers have put the Metro mode under severe stress. They have had to offer extremely deep discounts to advertisers. Running up to 90%, these discounts have left Metro significantly indebted, cash short, and shaken. Its goal of profitability by year three (on an annual basis) for each publication has in fact only been met by their original Stockholm paper. Their limited liquidity has left them vulnerable and unsure as to the availability of additional financing. The response of the market can also be seen in the volatility of the stock prices as shown in Figure 2. (Metro A shares have voting rights and Metro B shares do not.)

The ability to use the name and the distribution strategy has both come under pressure. The Newcastle newspaper is published under the *Morning News* name. The Zurich and Warsaw papers have not been able to use the Metro name either and are published under the *Metropol* name. And while Metro is proud of its global presence it is publishing

FIGURE 2 Metro International share price, 2000–01



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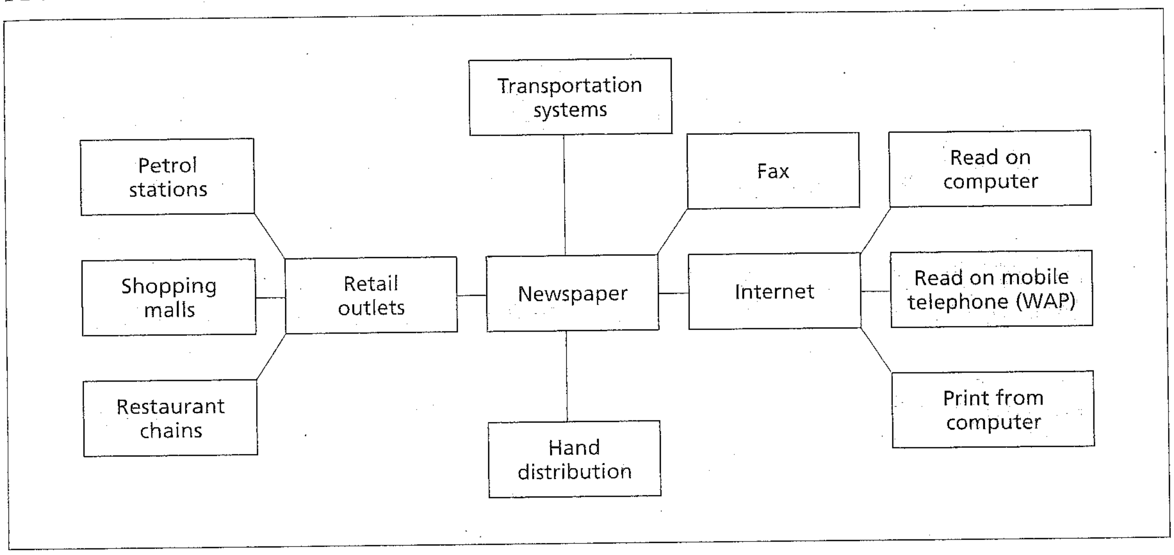
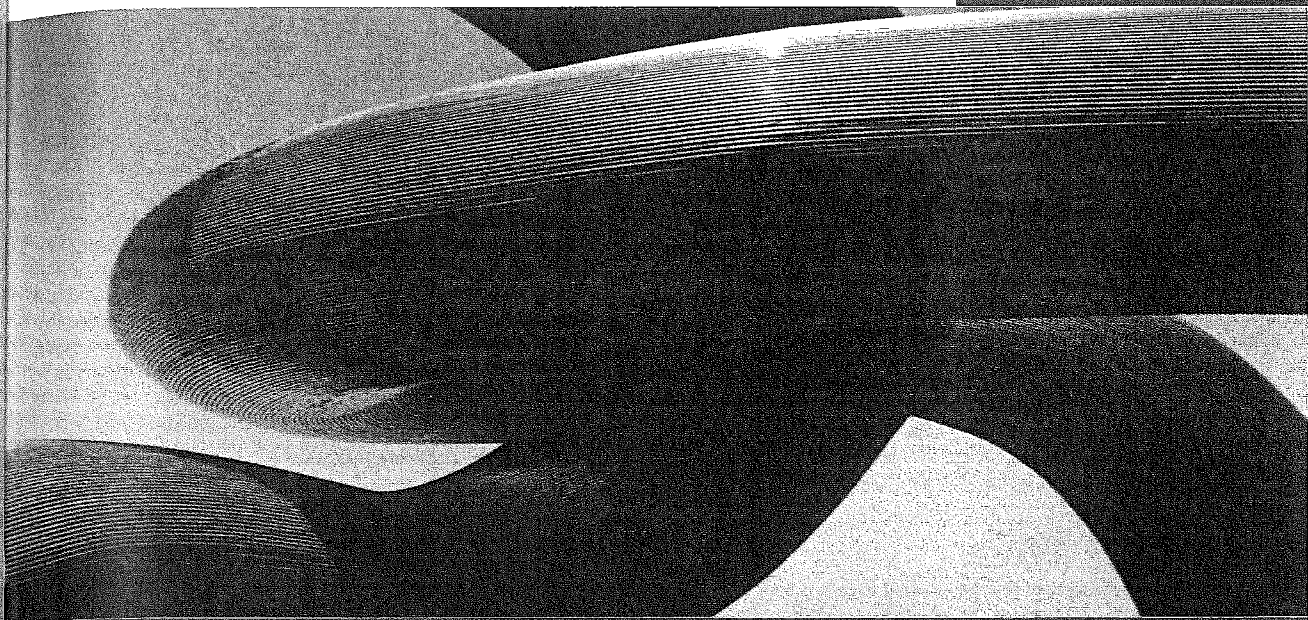
its Santiago and Buenos Aires papers as *Publimetro*. The distribution strategy has been challenged in multiple cities (and most problematically in Philadelphia where they also encountered labor union resistance) and Metro has admitted that they have limited knowledge of other distribution methods although they are experimenting in different markets with other channels (see Figure 3).

So while, Pelle Törnberg could put a brave face on the closure of *Everyday*, the risks that Metro faced were multiple, known, and all too real. The question was whether Metro would be able to continue its seemingly unstoppable growth and whether it would be able to staunch its losses and become the profitable venture it was strategically committed to being. Metro planned to launch in other markets but the markets were more populous and Metro wondered if they had the management resources to manage such expansion and the knowledge to handle these larger markets.

FIGURE 3 Alternative distribution channels



THIRD EDITION



STRATEGY

Process, Content, Context

AN INTERNATIONAL PERSPECTIVE

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