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Schibsted

Newspapers cannot be defined by the second word—paper. They've got to be defined by the first word – news.

—New York Times publisher Arthur Sulzberg, Jr., 2002[1]

Kjell Aamot, Chief Executive Officer of Schibsted, pushed the elevator button on the top floor of the media company's Norwegian headquarters. He adjusted his characteristically chic glasses and stepped onto the glass elevator. As it descended, he wondered: had Schibsted's impressive successes during the past five years adequately prepared his senior management team and the rest of the organization to deal with the challenges they now confronted?

Schibsted began as a family-owned newspaper company in Oslo, Norway, in the mid-nineteenth century, and remained so for roughly 150 years. In 1989, the firm embarked on a transformation that would result, by 2006, in a media group of over 8,500 employees in 20 countries. Schibsted maintained operations in newspapers, book and magazine publishing, television, and video production. The group had garnered the most attention, however, for its series of innovations in the newspaper business. By 2007, the group owned the leading online newspapers in both Norway and Sweden and controlled many of Scandinavia's most popular web sites for classified, search, and other online services. They also distributed a free print newspaper, *20 Minutes,* throughout France, Spain and other countries that had grown to become one of the ten largest newspapers in Europe. The acquisition of Trader Classified Media in July 2006 fortified Schibsted's position in the classified advertising business in Europe and parts of Latin America. The group's success had not gone unnoticed. Prominently featured in a cover story of *The Economist* in 2006 and occasionally lauded as "the only newspaper in the world to have turned online into a profitable business,"[2] Schibsted had become something of a legend in the world newspaper community. Still, myriad challenges and questions remained.

Aamot left the elevator and walked toward a conference room, where he was meeting with two members of his senior management team: Sverre Munck, Executive Vice-President (International), and Birger Magnus, Executive Vice-President (Norway) and Aamot's deputy manager. The group had two pressing matters to discuss. First, Google had announced the launch of a Norwegian news aggregator, a service that could greatly undercut Schibsted's online ad revenue stream. If Schibsted let Google "crawl" its online news sites, consumers might soon bypass the front pages of those sites, resulting in potentially significant revenue loss. On the other hand, Munck noted that "you don't lead

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Professor Bharat Anand and Research Associate Sophie Hood prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

in online businesses by prohibitions, and by closing stuff. The nature of the net is free access, and whoever is best wins."[3]

Whereas Google represented a clear and present danger, Aamot and his team were also concerned about longer-term organizational challenges facing Schibsted. Consumers of media products continued to alter their behavior in often dramatic ways, and start-up firms continued to create business models that threatened established ones. In this environment, could Schibsted ensure that its recent success was somehow repeatable? Or, would it be viewed as an organization that had experienced a very good run but that had its best days behind it?

Aamot knew that his team looked forward to the challenges that lay ahead. As he approached the conference room, he glanced up at the skylights. It was already dark at three in the afternoon.

Industry Background

History of the Newspaper

Origins Julius Caesar is often credited with the establishment of the earliest recorded "newspaper."[4] The *Acta Diurna (Daily Events),* first published in 59 B.C., was posted in prominent locations throughout Rome and the provinces. The handwritten gazette distributed official political and social news ranging from trials and military campaigns, to gladiatorial contests and astrological omens. Early Chinese governments had also produced hand-written newssheets, called pao.

In the 1440s, Johann Gutenberg invented the printing press, facilitating the mass production of news. By the 17th century weekly newspapers were circulating in many European countries.[5] Venetian news sheets, known as avisi or gazette, bore the greatest resemblance to modern newspapers: short sets of news on wars and politics, with the city of origin and date appearing on the top of the sheet. Publishers were often hard-pressed to find enough stories to fill their sheets, and printing was done at the leisure of publishers. As a weekly, and then daily cycle took hold, the printing process sped up and the pace of reporting adjusted accordingly. Newspapers typically did not have a local focus: French papers covered British royal scandals, for example, while English papers covered French military mistakes.

Newspapers began to play a major role in commerce and politics as they became increasingly frequent and more readable. *Publick Occurrences Both Forreign and Domestick* was the first newspaper published in what would become the United States in September 1690. However, the publication was suppressed by colonial authorities. Some historians referred to the *Boston News-Letter*, which began regular publication in 1704, as "the first genuine American newspaper."[6] The press played a significant role in the American Revolution, and maintained a partisan tone in the subsequent decades, typically falling into either the Federalist or the Republican camp. The *Gazette of the United States*, first published in 1789, made clear its partiality through its motto: "He that is not for us is against us."[7]

Freedom of the Press The latter half of the 17th century witnessed a shift from international to local reporting, and created stronger motives for censorship. After the beheading of King Charles I in England, Oliver Cromwell consolidated power and reigned in the press. John Milton's "Areopagitica" (1644) provided eloquent arguments against such suppression, resulting in the abandonment of pre-publication censorship in England in 1695. Sweden was the first country to pass a law protecting freedom of the press in 1766. In the United States, the First Amendment to the Constitution, ratified in 1791, secured this freedom, as did Norway's Constitution in 1814.[8] By the end of the 17th century, "journals with at least some independence of the state were beginning to assume an accepted, albeit restricted role in political communication."[9]

Telegraph The 19th century saw tremendous growth in the newspaper business, because of cheaper printing, technological advances such as mechanical typesetting and high-speed printing, and increased literacy. The advent of telegraphic transmission in 1844 led to unprecedented immediacy in reporting. For newspapers, the telegraph presented both a threat and an opportunity:

> A threat because the telegraph might provide more timely news directly to the public and displace newspapers, but an opportunity if telegraph dispatches could be used to stir excitement and sell more papers. The prompt response of leaders of the popular press reflected their immediate appreciation of the potential use of the telegraph and their interest in ensuring that it would be more a partner than a rival.[10]

The cost of telegraphic transmission resulted in industry changes. Between 1846 and 1848, six New York papers began a cooperative venture to share the cost of telegraph reports and news gathered from ships arriving in New York's harbor. This allied group became known as the "associated press" of the city, and was the precursor to the well-known wire service.[11] Other wire services such as Reuters sprung up in Europe.

In the late 19th century, editors first began referring to a newspaper's first page as the "front page," designed to grab the attention of passersby. Publishers continued to use more illustrations, larger type, bolder headlines, and melodramatic crime coverage. With greater circulation and advertising, they also added more features: sports pages and women's sections in the 1880s, personal advice columns and comic strips in the 1890s.[12]

Twentieth-Century Trends

Penny Papers In the early 20th century, several publishing entrepreneurs realized that they could obtain substantially higher circulation rates and more advertising by lowering their prices and delivering a more entertaining paper to a broader readership.[13] Growth in commercial advertising first reduced and then practically eliminated the role of political patronage in the economics of newspapers, and resulted in increased objectivity in reporting.[14] As newspapers reached out to more consumers, and as wire services distributed news to more papers, an emphasis on facts became predominant in the nascent journalism profession.[15] In 1933, the printer Benjamin Day launched the first successful "penny paper" in New York City: the *Sun*.[16] Although the popularization and commercialization of the press had been developing for decades, the penny papers were an "innovation of singular importance."[17] In their efforts to obtain higher circulation, they became "the first papers in the United States to publish extensive coverage of local news and to turn news itself into entertainment."[18] The papers were also physically different from their predecessors. The established New York dailies measured 3 feet high by 2 feet wide; the penny papers were 12 inches by 18 inches or smaller, and designed to be read "on the go." The papers also created new distribution channels, using newsboys for the first time.

Consolidation In the early 1900s, newspapers began consolidating. By 1908 in England, Alfred Hansworth owned the *Daily Mail*, the *Evening Post*, the *Daily Mirror*, the *Observer*, and the *Times*.[19] In the United States, E.W. Scripps, William Randolph Hearst and Joseph Pulitzer were rapidly expanding their newspaper chains. The number of independent American newspapers declined over time, and chains continued to proliferate as dominant players enjoyed the advantages of reduced competition. Later, advances in technology, labor and regulation led to further consolidation and changes in ownership. In 1953, 1,300 of America's 1,785 daily newspapers were owned by independent publishing families. By 1980, just over 700 independent newspapers remained.[20] As of

1998, there were "approximately 1,500 dailies with a combined circulation of 60 million readers and another 8,000 nondaily variants with combined circulation of over 5 million more. But only a dozen or so large companies dominate[d] the business."[21]

Circulation Trends The introduction of radio and television in the mid-20th century provided new ways for consumers to receive news, and resulted in declines in newspaper readership that continued for the next few decades. In 1964, the average weekday readership for adults was 80.8 percent. In 2006, readership was estimated at 49.9 percent.[22] Demographic analysis revealed that, with each new generation, newspapers were finding it more difficult to attract young readers (see **Exhibit 1** for readership percentages by age).

In the 1980s newspaper companies in the United States began to target a national audience, in an attempt to increase advertising revenues and better compete with television.[23] *The Wall Street Journal* and *The Financial Times* were among the first nationally circulated daily papers. In 1982, the Gannet Co., Inc. launched *USA Today*, a colorful national-interest newspaper. *The New York Times* expanded its reach in 1998 by offering subscriptions in most U.S. cities.

Industry Economics

Overview In 2004, the global newspaper market generated revenues of over $150 billion.[24] A typical newspaper catered to two types of "customers." It provided news and entertainment to readers, and advertising space to advertisers. Revenues thus came from two sources: circulation (either subscription or single-copy sales to readers), and advertising. A common revenue breakdown was 20 percent circulation and 80 percent advertising (See **Exhibit 2** for revenues and expenses for a typical newspaper).[25] Declining circulation rates in recent decades had shifted this revenue mix over time: in the 1970s this ratio was closer to 30 percent circulation and 70 percent advertising. [26]

Advertising was subdivided into classified, retail, and national advertising. "Classifieds" included help-wanted ads, automotive ads, and real estate listings. In the late 1990s, classified advertising accounted for approximately 40 percent of ad revenues for a newspaper, and was the most profitable component of ad sales. However, classifieds also had the most exposure to economic cycles. Retail, or local, advertisements typically comprised half of total advertising revenues. The profitability of retail advertising had been limited by shifts away from print promotion and by retail consolidation. National advertising, primarily related to travel and financial services, accounted for the remaining 10% of advertising, and was considerably more profitable than retail.[27] National advertisers had been estimated to pay about 60 percent more than local advertisers for similar space.[28]

Raw material and printing costs comprised the major costs for newspapers (almost 40 percent of revenues). Other major expenditures included an ad sales force, the editorial staff (journalists), and distribution, with each accounting for between 10 and 15 percent of revenues. The significant economies of scale, together with the fact that advertisers preferred the paper with the highest reach per dollar, created a winner-take-all effect in the newspaper business.[29] In 1973, 98 percent of American newspapers were local monopolies.[30] As a result, newspaper companies typically enjoyed high margins. A newspaper in a mid-size market in the U.S., for example, could enjoy operating margins of up to 40 percent.[31] Profitability varied across firms, and industry averages indicated that profits were highest at both ends of the sales spectrum, for relatively small and large newspapers.[32]

Goodwill tended to be a significant factor in newspaper valuation. Some analysts estimated that the proportion of a typical newspaper's value represented by goodwill was 80 percent, with the remaining 20 percent being physical assets.[33]

In 1946, at the dawn of the television age, newspapers commanded 34 percent of the overall advertising market. By the end of the twentieth century, newspapers' share had fallen to around 20 percent.[34] However, newspaper advertising rates increased by 253 percent between 1975 and 1990, despite a gain in newsprint prices of only 161 percent, and a gain in the Consumer Price Index of just 141 percent.[35] In the 1990s, newspapers continued to struggle with rising newsprint costs.[36] One economist noted that "even small changes in the cost of the newsprint become significant when applied to the approximately 20 billion units that the industry produces each year."[37] Such production required impressive resources: the Sunday edition production of the *New York Times*, for example, was estimated to consume about 27,000 trees.[38]

The Internet and the Newspaper Industry

The advent of the World Wide Web in 1994 posed a significant new threat to newspaper organizations around the developed world. Over the next decade, many users—existing newspaper readers and television viewers, as well as a younger audience that had grown up on the Internet—began to turn to online sites as the primary source for their news. The array of digital media news sources also increased over time. Several of these sources, like RSS feeds, podcasts, and blogs, did not have revenue-generating objectives. However, even well-established sites like Google News and Slate only generated modest advertising revenues. Newspaper firms themselves explored numerous online revenue streams, such as display advertising, sponsorships, classified ads and directories, Internet access, subscriptions, transactions, and pay-per-story archives.[39] By 2005, several newspaper firms, such as the *Washington Post* and the *New York Times*, were reporting double-digit growth in online revenues. Still, online revenues comprised only between 6% and 8% of total revenues of major public newspaper companies in 2006, and online profitability remained questionable. Furthermore, although certain online news sites of newspaper companies were popular (particularly those of the Gannett Newspapers, Tribune Newspapers, and the New York Times), the most popular online news sites—Yahoo News, MSNBC.com, CNN.com, and AOL News—were all offshoots of TV or Internet businesses.

In 2005, Rupert Murdoch, chairman and CEO of News Corporation, summarized the "role of newspapers in the digital age" in a speech delivered to the American Society of Newspaper Editors:

> We've been slow to react. We've sat by and watched while our newspapers have gradually lost circulation. ... There are a number of reasons for our inertia in the face of this advance. First, newspapers as a medium for centuries enjoyed a virtual information monopoly. We never had a reason to second-guess what we were doing. Second, even after the advent of television, a slow but steady decline in readership was masked by population growth that kept circulations reasonably intact. Third, even after absolute circulations started to decline in the 1990s, profitability did not. But those days are gone. The trends are against us. Unless we awaken to these changes, we will, as an industry, be relegated to the status of also-rans. [40]

Murdoch went onto note how the typical newspaper had reacted to the Internet:

> I venture to say that not one newspaper represented in this room lacks a website. Yet how many of us can honestly say that we are taking maximum advantage of those websites to serve our readers, to strengthen our businesses, or to meet head-on what readers increasingly say is important to them in receiving their news? ... And, the data support an unpleasant truth. Studies show we're in an odd position: we're more trusted by people who aren't reading us. [41]

In 2005, Warren Buffett also warned at his annual investors' meeting that "newspapers appear to have entered a period of protracted decline. ... [Furthermore], for newspapers that have pinned their hopes on their web sites, the economic potential of a newspaper Internet site...is at best a small fraction of that existing in the past for a print newspaper facing no competition."[42] Several traditional indicators were gloomy. Circulation in 2006 was 3% lower than in the previous year (continuing recent trends), and classified advertising continued to migrate online to sites like Monster.com, Hotjobs.com and Craigslist.com. Earnings at most newspaper companies fell. Large metro papers like the Dallas Morning News and the Philadelphia Inquirer experienced major newsroom cuts, and national and international bureaus were closed. Shares of publicly traded newspaper firms in the U.S. fell by about 14% in 2006, following on the heels of 20% decrease the year before. One industry account noted that "the stage seems set in 2007 for more business turmoil, a negative industry image, and further cuts in the newsroom's capacity to do public-service reporting with distinction." [43]

Schibsted

History (1849-1992)

The First 150 Years Schibsted's founder, Christian Michael Schibsted (1812-1878), lost his parents at an early age. When he was nine years old, he entered an orphanage in Oslo that happened to operate a printing company. Schibsted trained as a typesetter and printer, and had the opportunity to closely observe the newspaper business. As an adult, Schibsted worked at several printing companies before forging a partnership with Johan Krohn, a book publisher. In 1843, Schibsted took over their modest printing operation (see **Exhibit 3** for a picture of a historic printing press) and began publishing a monthly satirical magazine that quickly became a success. The magazine eventually became a liberal daily newspaper, but the political opinions of the paper's primary editor cost the newspaper many of its subscribers and the paper was sold thereafter. In May 1860, Schibsted launched a new daily newspaper called *Aftenposten*, or "afternoon post."

As Oslo's population grew, and newspaper technology improved, the newspaper market expanded. Schibsted's son, Amandus Schibsted, acquired the most modern equipment for *Aftenposten*, installed the first rotary printing press in Norway in 1886, and was committed to high-quality content, securing well-known and highly respected writers. By 1901, *Aftenposten*'s circulation was 13,730 and it was the most widely read newspaper in Oslo, despite fierce competition. *Aftenposten* continued to be run by Schibsted's descendants throughout the early to mid 20th century. As the number of family stakeholders grew, so did the politics of management.

During World War II, German occupying powers took over *Aftenposten's* printing operations. The daily was published throughout the war, while other papers were forced out of business by the occupation. Later, the paper was ordered to hand over 100,000 Norwegian kroner (NOK) of its wartime earnings. In 1945, a group of resistance veterans founded a newspaper, *Verdens Gang (VG)*, or "the way of the world." Although initially successful, *VG's* financial situation deteriorated over the next two decades. In 1966, *Aftenposten* acquired *VG* for the symbolic price of one Norwegian krone, and agreed to take on *VG*'s debt. The papers remained independent competitors, cooperating only in technical matters.

VG had been developed as a casual sales rather than a subscription-based paper. The new management converted it to a tabloid format, and expanded its editorial staff. By 1972 it had surpassed its closest competitor to become the second-largest newspaper in Norway, behind *Aftenposten*. Soon after, *VG* developed nationwide distribution channels and overtook *Aftenposten* in circulation. As *Aftenposten's* owners balanced the management of the two competing papers, they established a department in the mid 1970s called "The Schibsted Group."

As investors began to systematically acquire smaller papers in the 1970s and 1980s, Schibsted too expanded its portfolio. In 1986 Schibsted acquired *Trömso,* a local newspaper published in the city of the same name in northern Norway (see **Exhibit 4** for the readership levels and penetration of Schibsted top Norwegian newspapers as of 2006). The acquisition of the film laboratory Laboratorie-Service AS in 1986 was Schibsted's first venture into the motion (or "moving") picture industry.

Changes in Ownership As Schibsted grew and diversified, the management of the family-owned company became considerably more complicated—and contentious. By the mid-1980s, board meetings consisted of not only family owners, but their lawyers. After "eighty years of family quarrels,"[44] the family-owned and managed firm decided to reorganize in 1988. In 1989, Schibsted established subsidiaries and became a joint stock company. Schibsted A/S was formed with Tinius Nagell-Erichsen, the last family CEO, as Chairman of the Board of Directors. Kjell Aamot, the former managing director of *VG*, became President and CEO. Aamot was known for his neutrality, and had gained the trust of Nagell-Erichsen.

Schibsted became a publicly listed company on the Oslo Stock Exchange in July 1992, and its two major subsidiaries, Aftenposten and VG, also listed shortly thereafter. Aamot noted that "these were two very different organizations in operations and culture. Aftenposten was bureaucratic, slow, and had built up considerable fat in the organization. VG was lean, mean, and very fast. It had been a loss-maker from 1945 until 1966, then things turned around and it became profitable, and then reached the dominant share in terms of circulation. The story of Aftenposten was similar to VG, except that the turnaround occurred a few decades later."[45]

Over the next few years, each family member gradually sold his or her shares in the company. Nagell-Erichsen, however, maintained his 26.1 percent ownership and in 1996, he established the "Tinius Trust," in order to ensure the independence of Schibsted's subsidiaries in the future. As he commented at the time of the trust's formation:

> Ownership is much more significant to a newspaper than a normal industrial company. A newspaper is not a standard product, but rather a forum for essential social information and debate, on which our democratic society rests. In addition to its long-term nature, newspaper ownership should openly pledge itself to the values which the newspaper represents. At times it may be called upon to defend these values so that the newspaper can retain its freedom and independence. This is when it is an advantage to own a large share.[46]

Nagell-Erichsen's shares were held by Blommenholm Industrier, making it the group's largest shareholder (See **Exhibit 5** for Schibsted's top twenty shareholders). In May 2006, Nagell-Erichsen transferred the sole voting share in Blommenholm to the trust. All amendments to Schibsted's articles of association required a three-quarter majority, and no shareholder could own, or vote for, more than 30 percent of the shares. Moreover, resolutions made by the group's subsidiaries required the support of three-quarters of the votes at the general meeting. As long as the 26.1 percent stake was not split up, these provisions afford the trust considerable influence over Schibsted's management.

The spirit with which the Tinius Trust was founded continued to influence the company's management even after Nagell-Erichsen stepped down as Chairman of the Board in 2002. His successor as Chairman, Ole Jacob Sunde, was originally a financial entrepreneur who had a longstanding relationship with Nagell-Erichsen. Sunde was a respected member of Norwegian society, at times helping to manage the royal family's accounts.

After its listing as a public company, Schibsted began to pursue new investments. In 1991, a Schibsted—led consortium applied for, and received, a government license to operate Norway's first terrestrially distributed commercial television channel. TV2, the resultant independent, advertising-financed television channel, was the first of Schibsted's many investment forays as a comprehensive media company (see **Exhibit 6** for timeline of Schibsted's growth from 1966 to 2006).

The Transformation of Schibsted

In the spring of 1995, Schibsted management held a strategy session in the western Norwegian city of Bergen. Kjell Aamot attended with his closest colleagues and advisors, including Sverre Munck (who had joined Schibsted in 1994 as the Chief Financial Officer) and Birger Magnus (a McKinsey partner and former colleague of Munck who would later join Schibsted). By the end of the meeting, the broad feeling amongst top management was that "we may be the new dinosaurs[47]." The Internet presented certain value-add opportunities as a new distribution channel for news. But they were also convinced that it posed a longer-term threat to newspapers with the potential migration of both readers and classified advertising.

Aamot recalled, "The first thing we decided was that to stay in the traditional newspaper business was to put ourselves on death row. Beyond this, it is worth remembering that the atmosphere of a publicly listed company was a totally different one for me and others to work in. I had to deliver growth. And, we acknowledged that the traditional newspaper was not going to deliver growth in the longer term. So we decided that we should utilize our strong position, the cash flow, and strong competitive advantages of the two traditional newspapers, to take aggressive positions in the online market."[48]

The meeting resulted in various changes within the organization. First, Schibsted announced a two-part vision. As Magnus explained, "we were going to make the transformation from print media to electronic media; and, we were going to make a transformation from being a Norwegian company to a Scandinavian company."[49] Second, in November that year, Schibsted reorganized into three business units: Print Media, TV/Film, and Multimedia. As Munck explained, "we knew that the risk profile of online initiatives was incredibly different from that of newspapers, and we wanted to both focus on it and be transparent to our investors that we were moving into online. Furthermore, all our online initiatives had to be built up outside the newspapers because, at the time, our thinking was that they could not both defend and attack at the same time. Indeed, the newspapers were very opposed to certain initiatives. So, this was headquarter-driven."[50]

During the next few years, Schibsted invested in numerous projects and companies. In September 1995, it acquired Oslonett, an Internet technology infrastructure company, then sold it the following year. In 1997, Schibsted became a partner in the Internet portal Scandinavia Online (SOL), a joint venture with the telecommunications firm Telenor. It initiated an online classified business as an internal venture run by its main newspaper, *Aftenposten*. It launched online news sites for each of its newspapers. And, in 1999, it introduced its first "free daily" newspaper, *20 Minutes*.

Crisis in 2001

In March 2000, the stock market crashed. The bursting of the "dot.com bubble" resulted in a relatively mild yet lengthy recession throughout the developed world, and significantly impacted old and new media firms. Schibsted was not spared: in 2001, its annual loss exceeded 350 million NOK, and the group's share price dropped by more than 50 percent (See **Exhibit 7** for Schibsted financials year over year, and **Exhibit 8** for Schibsted's historical share price).

Aamot recounted: "This loss was huge for us. We had major loss-making initiatives in our online ventures (SOL and our online newspapers), the free newspapers (that we launched in late 1999) were yet to prove their viability, the online classified business was barely breaking even, and the Swedish newspaper *Aftonbladet* had not entirely turned around. And all that was absolutely my responsibility. The board of directors very much felt that it was necessary to shut down some of these activities. I had very little support, and realized that I was about to lose my job. All members of the board were of the opinion that I should resign. The only exception was the main shareholder, Nagell-Erichsen, who was absolutely not into the Internet, and is not even today. But he was a very strong supporter of me and my team. Yet, it was very hard even for him to stay strong in the face of the criticism I received. In the end, it was very close. They decided that I would not resign but that the chairman and co-chairman of the board would be closer to the operations as well."[51] Magnus recalled this period simply as being "very tense, and quite exhausting."[52]

The crisis shook Schibsted's senior managers, and resulted in great pressure to cutback new media investments. However, Aamot and his team chose a different approach: narrow the focus and continue to emphasize the development of online newspapers, classified advertising, and free dailies, while cutting costs and selling certain assets. Their reasoning was that "we remained convinced that digital media is coming. It's just a question of when, and how."[53] The most salient concession was the sale of Schibsted's shares in SOL to the Nordic directory company Eniro in December 2001 for a gain of approximately NOK 550 million.

According to Aamot, "there was no pressure from the shareholders, or the board, to continue our Internet investments. Indeed, it was close to the opposite. This was especially true for investors in New York at that time. They said: 'How is it that you are running a newspaper with such lousy margins?' Our belief however was that we are not just newspapers – we are part of the media industry, and we are not going to die, we are going to survive. So, save your critiques for the newspapers who don't want to go this route. Indeed, there were other newspaper companies that also invested in the Internet during this earlier period. I'd say that in the year 2000 we were not considerably different from these companies. The main difference was that, following the dot.com collapse, we continued to invest whereas others scaled back considerably or even abandoned their online ventures. And now they have to start over."[54]

Classified Advertising

Take 1 Schibsted's entry into online classified services first occurred in 1996. But, as Terje Seljeseth, FINN's managing director, described it:

> It was established as a company that was owned equally by five regional newspapers (including *Aftenposten*), and was in essence a technical project that was designed simply to enable them to put a copy of their newspaper ads on the Internet. The thinking was that if we could successfully do this, we had solved the problem that the Internet posed to the entire classified advertising business of the newspaper. There was one part-time employee leading this work, and he was coordinating the work of tying the site with a consulting firm. We had a lot of online ads, but they were mostly PDF copies of newspaper ads and were not searchable. And, the only way you could buy an online ad is if you bought the newspaper ad - in which case you got the online ad for free. This venture was not a success. People didn't use it. Meanwhile, other sites like StepStone and Tinde, were clearly gaining business and had established the number one positions.[55]

Take 2 In 1999, Schibsted changed its classified ad strategy. Robert Steen, Managing Director of Schibsted International Classified & Search, and Seljeseth explained: "First, we went to the other four newspapers and redesigned the model so that it divided the ownership between them according to each's market share in the print classified arena. So, *Aftenposten* would now hold 62%, and the others' shares ranged from 4% to 11%. The reason probably that the others agreed to this was that they really didn't believe in the Internet, and perhaps saw this as a venture that would lose money for the next five years at least. Second, the new online classified strategy started not with an online solution. Rather, the five newspapers re-branded their print classified section with the new name FINN (meaning "to search," or "to find," in Norwegian).[56] This was *not* meant to be an Internet brand nor an individual company brand, but was meant to be perceived as a sub-brand of readers' trusted print newspapers. This was one of the tools that we used to build trustworthiness and loyalty, with negligible marketing effort. At the time, there were a lot of scams on the Internet—white collar crime—and classified ads are vehicles of important transactions to customers buying or selling a house, finding a new job, etc."[57]

FINN launched its online classified service on March 17th, 2000—two days after the stock market bubble burst. Steen recalled that "the timing couldn't have been worse. But people looked at the online venture as being part of 'my newspaper,' rather than as a pure online play." [58]

Seljeseth described the subsequent developments: "We built the online operation by hiring a lot of people from outside the print newspapers—one from the biggest real estate brokers to be in charge of the Real Estate section, one from the big headhunters to manage the job site, others from the car industry, and so on. All the recruits in FINN could buy shares in the company with the option to sell them after two years. Unlike most newspaper companies, there were no unions at FINN. Employees were much younger, with an average age of 32. We invested a lot of money into product development to create a better product than our competitors. We organized differently than the print operation: for example, product development and sales were very integrated at FINN. We created a culture that resembled a start-up company's in many ways. And, of course, we created this time around an entirely different pricing structure that was unbundled from the print operation."[59]

Growing Pains Success did not come without challenges, however. Seljeseth noted that "the most significant were internal tensions. I remember very well our first meeting in the ad department in *Aftenposten*. They argued that there should be no sales people in FINN. So, I negotiated with them that we could hire one salesperson. Then, I called all the other salespersons something else - titles that had nothing to do with selling, but they were sellers. When we started growing, the ad sales department in *Aftenposten* wasn't happy at all. And, the CEO, Olav Mugaas, played a very important role, taking our fight to his own people, arguing that we will fight back but we can't stop them from doing it. He also had the incentive to do so - after all, *Aftenposten* still owned 62% of FINN, so all our success was consolidated into their account at the end of the day. And that was perhaps *the* most important aspect. Corporate also was a push in the back. Back in 1999, they told *VG*, the tabloid newspaper - you can compete with *Aftenposten* in the classified area online if you want to. And, *Aftenposten* and *VG* had always been in competition on the print side. So, Olav saw that *VG* was actually attacking his market, and was perhaps more eager to do something about it." [60]

Aamot summarized the lessons from the FINN experience: "When we launched our online classified initiative, it was defensive—our goal was to try and keep the classified ads in the print newspaper. We ran the venture this way for two years, and it didn't work at all. It started to work when we said to the people in FINN that from now on, you can attack your mother, get as many ads as you can. It was challenging, and particularly so for Aftenposten, but if we hadn't done it, a competitor would have. This led us to believe, and we continue to do so today, that if you are going to take a position online, you must not be afraid of losing your main business. We could have dragged our ventures out in time to reduce their effects on the main business, simply to buy time. But that is extremely, extremely dangerous. And that attitude, I think, is one of the mistakes that many newspaper companies made."[61]

Steen also noted that "the key was striking the right balance between what I would refer to as 'Learning, Forgetting, and Borrowing.' We had to build a learning culture in the start-up in order to pick up new things that are important to stay in the game. This is extremely difficult to do in a traditional business, wherever you are. Conversely, you want to forget certain behaviors that exist in the traditional business - the mindset of 1,500 people in the print newspaper that 'this is the way we've always done it" or that "we've been through all these ideas before and have seen them fail.' Then, there is the synergy or the Borrowing aspect - you want to borrow all assets that have any value for your new setup, whether that is brand value, or customer relationships, free promotion and marketing, or people."[62]

By 2005, FINN was Norway's largest online marketplace for real estate, recruitment, automotive and other classified ads. It received over two million unique users per month, making it the seventh largest web site in Norway.[63] FINN's market shares in different vertical categories ranged from 90 to 95 percent. FINN's prices were high: in 2006, the cost for an individual to advertise his or her car was approximately 400 Norwegian kroner (about $55), whereas various competitors offered such listings for free. As a result, FINN was very profitable: in 2006, its net profits were approximately NOK 160 million on revenues of NOK 400 million. Revenues derived equally from businesses and individuals. Approximately one-third of total costs were accounted for by product development and marketing costs.[64] By 2006, FINN's valuation exceeded that of *Aftenposten* (See **Exhibit 9** for Schibsted Revenue Growth and Profit in the Fourth Quarter of 2006 in Print versus Online businesses).

Online news

In 1995, Schibsted began to create online editions of its traditional newspapers in addition to its classified ad initiatives. Online efforts were typically part of "multimedia" subsidiaries that were somewhat separated from the print operations. For example, VG Multimedia, a subsidiary of the Norwegian newspaper VG, was established in October 1995. By 2006, it was responsible for developing an online news site, supplying news content to cellular phones, exploring interactive web-based radio, and accessing live video and moving pictures from the TV operations.

Torry Pedersen, VG Multimedia's Managing Director, acknowledged the initial reliance on the assets of the print operation: "It would have been more expensive to operate as a pure play rather than as part of a media house. Initially, we piggybacked on both the content and the brand of the print paper, which was the most widely read newspaper in Norway. But, separating the company from the print operation was important since it made us competitive. We had to struggle to survive, even if we knew that the mother was strong. We were also able to build our own culture as a result."[65]

Pedersen described the resulting approach of VG.no, which Munck referred to as "dramaturgy": "We realized early on that our online news site should be developed on the premises of the online medium (See **Exhibit 10** for a comparison of traditional versus online newspaper organizations). For example, this meant that content had to be continuously updated. In contrast, several newspapers simply shuffle content online and slowly update it, not utilizing the opportunities afforded by the Web. We gave people the feeling that you could get updated by our news whenever it suited you. This is the main proposition, and why online news is unbeatable—it can always be updated, and can be read whenever you like. Not even a 24-hour TV news channel can compare, since it is linear and takes you 15 minutes to get updated. On our site it takes 30 seconds."[66] In addition to continuous updating, the front page was constantly re-formatted, often in response to real-time feedback regarding the popularity of particular stories.

Pedersen described other ways in which VG.no exploited the opportunities afforded by the online medium: "Our online format is very different than our print format. Indeed, our front page differs in many ways from a typical online news site. For example, the top portion of the front page includes news items of very different types: politics, sports, entertainment, local. The reason is that if as many people as possible find something interesting in that `square'—your eye is able to see the square—then they will click on it. "As a result, Pedersen noted, "we also hire people with a different mindset—they want not only to promote journalism, but to tell stories online."[67]

Pedersen noted other ways in which the online news "philosophy" manifested itself. "We put energy into big news, *wherever* it is—the crisis in the Middle East, Janet Jackson in the Super Bowl. News organizations tend to be more elitist. However, we firmly believe that modern people eat frozen pizza and drink champagne. We simply try and be the best on very big news. The Asian tsunami of 2004 was a giant leap forward in building awareness and credibility for our site. Tragically, many Norwegians lost their lives there. People were satisfied that our news was very timely, and good quality. As a big event, it helped us establish traffic on another level."[68]

Such broad coverage bespoke not only VG.no's editorial approach, but also the mass-market characteristics of the paper. Pedersen noted that "Norway is an egalitarian society. [The same paper] is read by the top politicians and advisors and by cab drivers….It's not viable to have an elitist newspaper in Norway." Instead, Pedersen described the objective of VG.no in simple terms: "We want people to visit our site many times per day. We build anticipation for upcoming new stories during the day. We put great emphasis into telling what's going on now—successful brands are those that engage now rather than yesterday."[69]

VG.no was aggressive in trying to blend professional journalism with user generated content. "We have embraced user generated content. Media used to be informational, now it is conversational. We have created and integrated a large community online—220,000 inhabitants who we think of as the second biggest city in Norway. We give them various tools. Tools to take part in the conversation that the web facilitates—blogging tools, interactive tools. We have one of the biggest discussion forums in the world for general news. Tools that allow them to send us photographs instantly—for which we pay them."[70] For example, in its coverage of the Asian tsunami, VG.no was also able to compile images and news reports more quickly than international wire services as a result of user-supplied content from abroad.[71] The same year, a mentally disturbed man went on a rampage on a tram in Oslo; VG's front-page picture of his arrest was provided by a reader with a mobile-phone camera.[72] Beyond photographs, VG.no also integrated discussions on the blogs into the front page news.

By 2006, VG.no was highly profitable, as were Schibsted's other online news operations in Norway and Sweden (see **Exhibit 11**). Aamot noted the success, and the challenges that it created going forward: "We totally underestimated the price level that VG.no could support. Five years ago you could charge a few thousand NOK for a front-page banner ad. Today, you have to pay NOK 210,000 for a front-page banner for 24 hours. So now, there is a higher price for the top banner of VG.no than buying a full page ad from the print newspaper. As a result, our online newspaper, VG.no, now brings in half of our print newspaper profits. In 2007-08, this will probably be closer to 70-80%. This creates various challenges. For example, our print newspaper continues to reduce its headcount, whereas in VG.no it increased 30% in one year. The problem is that the redundancy in our print operations is not easily transferred into our online business. They are very different people in the two businesses. This is one of foremost challenges that we have to manage today."[73]

At the same time, Pedersen alluded to the array of untapped opportunities that still lay ahead for online news: "Online is a medium that is 11 years old. And we behave like an eleven-year old. It's still an immature medium; we are just approaching the teens. And in any person's life, those are essential years. The same will be true of the online medium.[74] (See **Exhibit 12** for usage statistics of VG.no versus NYTimes.com, and **Exhibit 13** for *Aftonbladet*'s offline and online readership).

Free Dailies

Metro and 20 Minutes As print newspapers around the developed world struggled to react to the online news threat, they found themselves confronting a major innovation in the print business as well: free newspapers. In February 1995, the European media company Modern Times Group

(MTG) launched a free daily newspaper called *Metro* in Stockholm, Sweden. The paper was profitable within the first year, and grew to become the most widely read morning paper in Sweden.[75] Since its initial success, Metro, which became an independent company in 2000, launched similar free editions in several other countries, including the Czech Republic in 1996, Hungary in 1998, Holland and Finland in 1999, and the U.S., Italy, Canada, Switzerland and the UK (among other countries) in 2000. While there had always been a small contingent of limited operations in the free daily market, the commercial success and rapid expansion of *Metro* forced the newspaper industry to take notice.

In 1999, the Schibsted Group launched its first free newspaper, *Avis1*, in Oslo, as a defensive response to another free daily that had been recently introduced in that market. *Avis1* was distributed twice a week to about 200,000 households in the Oslo area. However, after its competitor withdrew its paper, *Avis1* scaled back its own operation—cutting back initially to a weekly paper, and then exiting entirely in 2005.

Schibsted's initial foray into the free daily market was soon followed by a series of moves outside Scandinavia. In 1999, Schibsted launched its free daily *20 Minutes*, in Zurich, Switzerland, and Cologne, Germany. The next year, it introduced similar dailies in France, and in Spain (after acquiring, and then re-branding and re-launching the free newspapers of the Spanish firm Multiprensa y Mas). As with most free dailies, *20 Minutes* was distributed by hand and in racks at transport hubs and other heavily-trafficked areas, targeting young, urban commuters. The paper's title "referred to the average time that European commuters spent in public transport every working day."[76] Content was readable and colorful, with sections on news, life style, technology, media, celebrities, weather, horoscope, games/puzzles, and entertainment events.[77]

Economics The free newspaper model resulted in various cost savings relative to a traditional paid newspaper. Since it was entirely advertising driven, a free newspaper saved on the costs of operating a subscription or circulation department. Most free dailies were published in a tabloid format, saving on printing and ink costs relative to the typical broadsheet. In addition, since free dailies relied heavily on wire services and third party material, they "had a smaller editorial staff; a typical *Metro* edition employs only 40 people, 15 to 20 of them journalists…. Competing national and metropolitan dailies employ at least ten times as many journalists." [78] Free newspapers averaged a length of 24 pages, though some were as short as 16 pages.

The impact of free dailies on print newspapers in the same market was more controversial. Munck noted that the primary impact was to expand the print market since "newspapers are capturing the old readers, but failing to attract the new readers."[79] Aamot cited the evidence in France, noting that "a recent survey in France found that we have become the most read newspaper in the country. One of the most sensational results from that survey, however, was that seventy-seven percent of the people who read *20 Minutes* didn't read a paid newspaper—77 percent. That should tell our traditional newspaper people something." [80] However, other industry observers noted that in some markets, single copy sales dropped by more than ten percent right after free dailies were introduced.[81]

Despite the cost savings, a typical *20 Minutes* edition took a few years to achieve profitability. As Munck described:

> The fact that most of our readers do not read other papers is important, because it means that if an advertiser wants to reach them, with broad reach and high frequency, then they need us. But in the beginning, you're burning lots of money. Nobody knows the paper, and even though you have lots of copies on the street, it is difficult to prove readership to advertisers. So, you can sell ads because you're a credible person, who hired people who had contacts in the market—so you start not with zero revenues, but with very small revenues. With time, and

the notoriety effect, you start getting the readers, you can charge more for ads, and you start getting the revenues. There is typically about three years in which you're burning money—but then the revenues are stable. In fact, from there on, there is a perfect correlation between circulation gains and revenue gains.[82]

Resistance and Change By 2006, free newspapers were distributed daily in over 40 countries worldwide, with at least 60 million readers. Both *Metro* and Schibsted's *20 Minutes* boasted widespread readership, but each had experienced varying degrees of success across markets. In Paris, French newspaper printers went on strike in 2002, citing the threat that free dailies posted to the entire print industry; hawkers who distributed free papers were attacked, and free papers burned. In various cities, print competitors filed lawsuits on grounds ranging from unfair competition to littering. Munck noted that "although *20 Minutes* in Switzerland had become the second largest newspaper in the country within the first year of its launch, we sold the operation there. That had nothing to do with our belief in the concept; rather, it had to do with the fact that we had other owners who didn't want to invest more."[83] Similarly, Magnus noted that "*20 Minutes* had a very bad start in Germany. Cologne was closed before 2001, because the papers were being taken by competitors and destroyed."[84] *20 Minutes* editions in Spain and France, however, were ultimately successful. Schibsted's profits from free dailies in the fourth quarter of 2006 were approximately NOK 22 million.

Aamot summarized the importance of free dailies going forward: "To understand the future of newspapers, I'll use *VG* as an example. *VG* print is losing circulation, yet the *VG* brand is as strong as ever because of our online newspaper. The portion of the adult population that reads *VG* in one form or other is now close to 50%. So, the reach of *VG* has increased significantly even though the print version continues to account for less and less. The print version will have to concentrate on those things where they can actually compete. The worst scenario for print, and probably one that will appear, is that at a certain level of circulation it becomes in our interest to cut the circulation further. In other words, at some point you convert it into a free sheet to maintain a certain level of circulation and have a certain impact on readers, and then start distributing it in other ways as well. So, I foresee a very strong future for tabloids in Scandinavia as the revenue structure and distribution change very much in the next ten years."[85]

Until 2006, Schibsted had chosen to introduce a free daily newspaper only in markets where it did not own a print newspaper. An industry observer noted that in doing so, Schibsted largely adopted the "entrepreneur model of the free newspaper publisher. [They] enter a new market with a new product: capitalize and don't cannibalize."[86] In September 2006, however, Schibsted was debating the idea of introducing a free newspaper into one of its core print markets, Stockholm. Munck noted the logic behind this decision: "*Aftonbladet* has been the leading paid print newspaper in Sweden since 1996. But, *Metro* is the leading free daily there. At stake is the number one position in the market. We're coming from behind *Metro* as a free daily, but the most important reason to launch one is to hold onto our number one position there."[87]

Leveraging Online Platforms

In 2002, the majority of Schibsted's revenue and profits still came from its traditional business: print newspapers (see **Exhibit 14** for business segment by revenue and profitability, year over year). By 2005, the picture looked quite different: 35 percent of its operating profits came from online activities (see **Exhibit 15** for 2005 business area breakdown and **Exhibit 16** for the share of Schibsted's profit from online activities). The group's online operations also had strong market positions. *Aftonbladet*, their Swedish newspaper, had Scandinavia's largest media web site, with VG.no second. FINN was Norway's biggest online marketplace, and Blocket, its Swedish equivalent, was also ranked first in its country.[88] Indeed, many of the most popular web sites in Norway were owned and operated by Schibsted (see **Exhibit 17** for table of top Norwegian web sites as of 2007).

Schibsted's online successes resulted in an internal re-evaluation of its potential. Aamot summarized the sentiment: "Despite our successes and early stubbornness, I don't think we were quite aggressive enough. For example, I don't think we really understood the force of controlling certain online markets in Scandinavia. We weren't as aware of communities as we should have been. And, we weren't aware of the importance of traffic machines."[89]

Success in online activities led to additional investments. In the fall of 2005, Schibsted created another online business: E24.se, an online trade and industry newspaper that targeted business professionals or those interested in finance. The company represented the outcome of a collaboration between Schibsted's Swedish newspapers *Svenska Dagbladet* (60 percent) and *Aftonbladet* (40 percent). E24 shared content with both newspapers, and could also be accessed through particular links on the parent-newspaper sites—those pertaining to personal finance, for example. Within a few weeks of its launch, it was the second-largest economic news site in Sweden, and after six months it had become the country's largest. Based on E24's success, Schibsted decided to launch a sister company in Norway. E24.no was also a joint venture, co-owned by the Norwegian papers *Aftenposten* (60 percent) and *VG* (40 percent). As Aamot described: "it was the same context, same model, same structure of relationships." [90] E24.no was launched in April 2006. Within seven hours, it was the number one economic news site in Norway.

In November 2005, Schibsted also launched its own search engine, Sesam. Sesam was developed by Schibsted Søk ("Search"), and powered searches of both VG.no and the internet on VG.no's home page. Such embedding helped Sesam quickly establish traction among Internet users: within a year, it was one of the leading search services in Norway.

In 2005, Schibsted articulated a new ambition: "Schibsted is to create tomorrow's media—today, and be the most attractive media group in Europe."[91] By 2006, Schibsted's operations spanned a variety of products, platforms, and markets (see **Exhibit 18** for Schibsted Group's organizational structure, and **Exhibit 19** for its main brands). Schibsted continued to dominate the Scandinavian media market, but had also made gains throughout Europe. *20 Minutes* was by then one of the ten largest newspapers throughout Europe. Business also extended beyond Europe: Schibsted had operations in 20 countries, including Estonia, Latvia, Lithuania, Austria, Italy, Switzerland, Russia, Slovenia, Venezuela, Mexico, Brazil, Argentina, Colombia and Singapore. In July 2006, they expanded their footprint further, with the partial acquisition of Trader Classified Media. Schibsted purchased the European and Latin American parts of Trader, a firm that provided classified ad services for vehicles, real estate, recruitment and general merchandise, for EUR 580 million. Trader distributed via print, online, mobile phones and e-mail. Munck saw "good opportunities for cooperation between our own classifieds in France and Spain and the internet services of Trader Western Europe. Furthermore, 80% of their revenues are print, and 20% are online. So, we are betting on our ability to manage this transition from print to online."[92]

Challenging Conventions

By 2006, newspapers around the world were hoping that Schibsted's success was an indicator that their future was not entirely bleak. Yet, as Schibsted entered 2007, it confronted several new challenges of its own. Where could its online classified business, that currently enjoyed market shares of over 90 percent, continue to find growth? Should its online news sites move aggressively to develop moving-picture capability that would lead them to further compete with broadcast TV? And, should it launch a free daily for the first time inside one of its core markets, Sweden, at the risk of cannibalizing its print newspapers?

Google News

Each of these decisions would determine how successful Schibsted was in preserving its competitive advantage in its core markets in the near future. Foremost, however, was the threat posed to the online news operations by Google News, now knocking at Schibsted's door with its recent launch of Norwegian and Swedish news aggregators. Munck summarized the concern:

> Google's news aggregator poses a threat because if users don't access our articles through our home page, that could destroy our reach. And, if the aggregators destroy our reach, Google gets the dollars and we get only cents. So, we're having discussions—and they haven't been concluded—as to whether or not we should tell Google that they cannot index our news sites. If you just put a script on your site that says [robot.txt], Google respects that—they don't crawl if you tell them not to. The question is, should we pursue this approach? At most news sites, managers wouldn't dare to deny access to Google, because then their articles wouldn't be in Google News, and no one would come to read their stories. But because we are so big in Norway, and in Sweden, if we wanted to stop Google at the door, we could perhaps do that.[93]

One recent account suggested that doing so was folly. In *Search*, John Battelle argued that "sites that wall themselves off are becoming irrelevant, not because their writing or analysis is necessarily flawed, but because their business model is. In today's ecosystem of news, the greatest sin is to cut oneself off from the conversation."[94]

Competition from Google was not constrained to online news. Munck noted a similar impact on Schibsted's classified advertising business: "For now, we do not allow Google to crawl our classified ad sites in Norway and Sweden either. They are not allowed to display our results on Google. Because then the threat would be much more imminent. If people get used to saying 'I want a used Audi' and then going onto Google, that would be really tough."[95]

In the face of this possibly formidable threat, what should Schibsted do? Aamot and his team expressed concern. But, if history was any indication, they were also unlikely to simply bend over and capitulate. In recent years, Schibsted's managers had even demonstrated a certain audacity in looking to wrestle dominance in the regional search business from Google. Aamot noted that "we are using a lot of money to develop our own search engine, Sesam, to compete with Google in Scandinavia. It seems crazy. I thought it was absolutely crazy when one of our guys suggested the initiative. But then I became convinced that there was no alternative. There are no alternatives to Google, and most media companies are just teaming up with them. It's too late to start Google in the US. But we might be able to compete in Scandinavia or in some other countries. We have certain advantages: we can offer a video search, for example. We have access to all the news clips from the past 15 years from the national broadcast. And they are searchable in our search engine. This is a popular feature already. Plus, we have a Norwegian focus—and we update more regularly. So, when I'm searching for company updates on Schibsted, for example, I search in the morning, in the evening, and at all sorts of times in between. Now, Google crawls every 24 hours. Sesam crawls every 5 minutes."[96]

Institutionalizing Success

Beyond simply protecting its core businesses, Schibsted had recently looked to expand its reach outside Scandinavia. The recent acquisition of Trader raised several near-term challenges: how successful would Schibsted be in executing this merger integration, and enhancing Trader's classified ad operations? These questions were representative of a more general one: was Schibsted's success within Scandinavia repeatable outside it? Indeed, how far could its competitive advantage travel?

Aamot summarized the challenge: "This organization has had multiple infusions of energy over the past couple of decades. First, the energy that was created with *VG* print's ascension in Norway was maintained for several years. Then, we repeated that with *Aftonbladet* ten years later. Then later, with Schibsted, as an organization that was believed to be in the forefront of media development. And, we would like to stay there. How can we keep this position going forward?"[97]

Magnus echoed these concerns about challenges to Schibsted's businesses:

> Right now, we have strong market positions, strong brands, and a favorable ownership structure. But we face challenges on several fronts. To begin with, we face competitors on two ends. One is from companies like Google, major companies that have global products, and business models that are completely different from ours. On the other side are small garage companies. Blocket, for example, in Sweden was a garage company that we acquired. It is now one of Sweden's leading online services. They had three or four people in this company but we could not out-compete them, even with our market positions. How do we prevent this?[98]

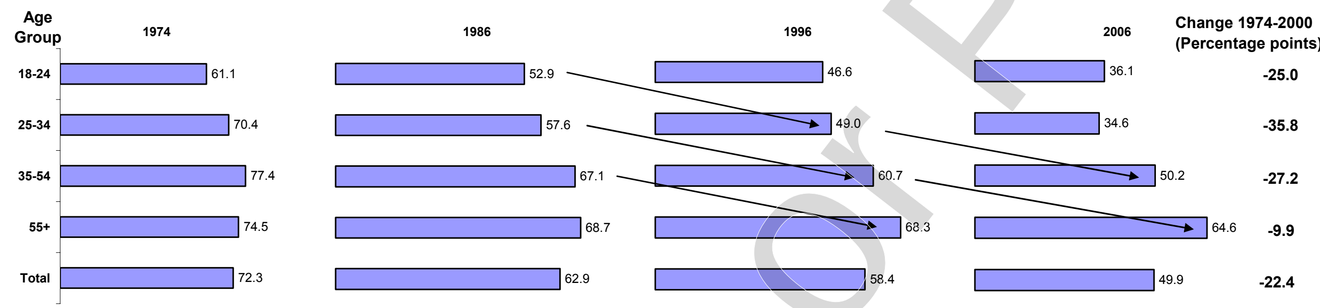
Magnus went onto describe the accompanying organizational challenges: "The change in consumer behavior in most media products has been dramatic, and requires a change in management behavior as well. Indeed, our role in the corporate center has changed over time. It started off as a financial holding. Then, it became something of a godfather to new ventures internally. And now we are in a completely new mode, where we are trying to be more of an integrator and orchestrator, and have a shared business system, particularly in digital services. ... We realize that in the digital arena we are not able to predict what's going to happen, it's going to be chaotic. The only thing we know is that we want to be the very best organism of handling this new environment. That requires creating an innovative machine with the best people. But it also requires that we make it less dependent on individuals —we are not there yet—and more related to the way we work, the way we develop people, and the way we develop our organization."[99] Aamot echoed this sentiment: "Organizationally, we have a challenge because we have many new initiatives and not enough people to do them. The number of experts within this new system is small. So, management time is extremely scarce."[100]

As Aamot and his team pondered the changes that would be required in the organization and its products, they also recognized that survival and profit were not the only goals to which Schibsted aspired. Ole Jacob Sunde, the firm's chairman, described it succinctly:

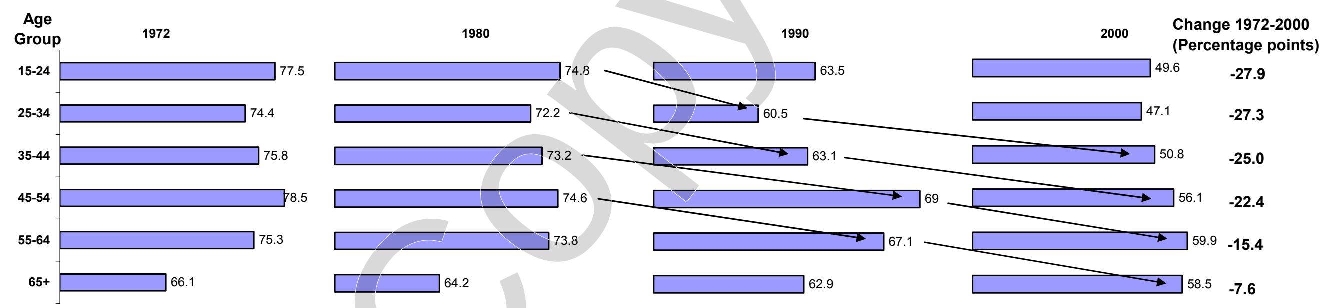
> We continue to face huge challenges in transforming Schibsted from being a local Norwegian newspaper company to a truly international media company. We continue to face challenges in becoming more of a corporation than a collection of strong business or individual identities—there may be operational synergies, but there are very definitely managerial synergies that we could exploit. And, then we face another challenge—here, we have the stock exchange and there we have the cathedral. The stock exchange is really the profit motivation for the business. The cathedral represents the underlying values of, or the importance of, the newspaper in society. We can't underestimate that. We are serving the common good. We have the honor of distributing information in society, and doing that correctly. That is still a very important role. And I think newspapers will have that role for a long period of time. So, as profits are dwindling, you face the question: shall we take the stock market approach? Or, the cathedral approach?

Exhibit 1 Daily Newspaper Readership* Percentages

United States



United Kingdom



*Share of population reading a newspaper (excluding free sheets) at least once on an average day Monday-Saturday.

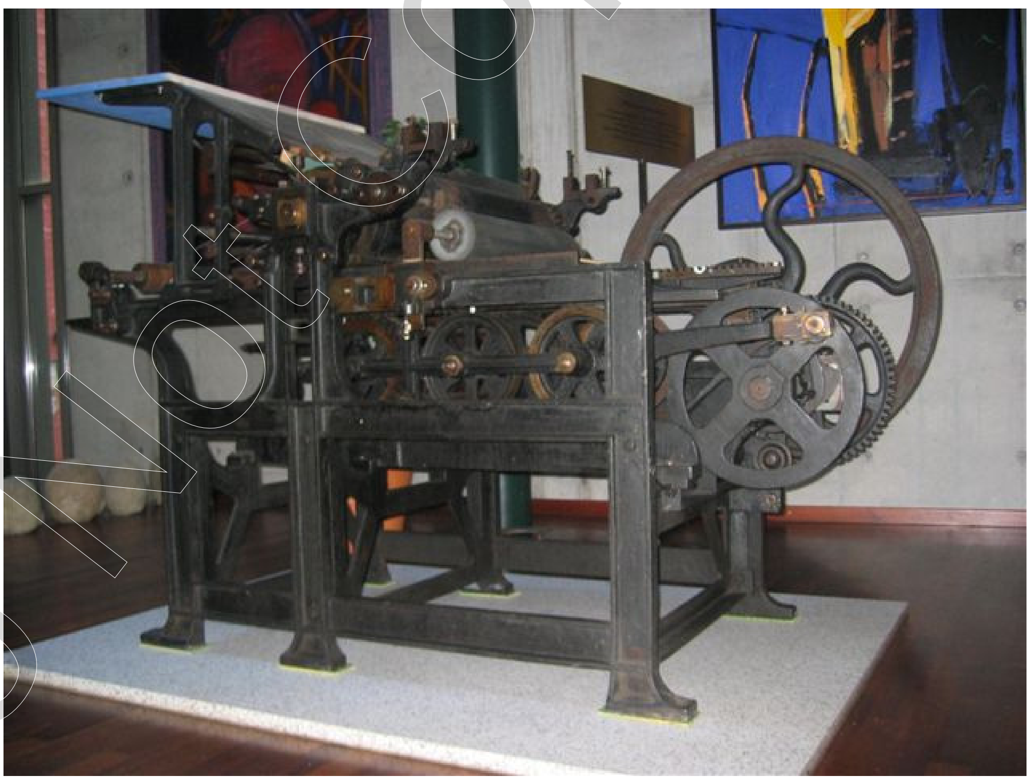
Source: Compiled by casewriter from Newspaper Association of America data (United States), and McKinsey analyses, based on data from World Association of Newspapers, as cited by Annet Aris (United Kingdom).

Exhibit 2 Typical Newspaper Revenues and Costs

Sources of Revenue (%)	
Advertising	80
Classified	32
Retail	40
National	8
Newsstand	17
Subscription	3
Total	100
Costs as % of Revenue	
Advertising, selling and promotion	12
Editorial	14
Production	20
Distribution	13
Postage	1
Raw Materials (e.g. paper, ink, etc.)	18
Administrative and other	9
Total	87
Operating Profit Margin	13

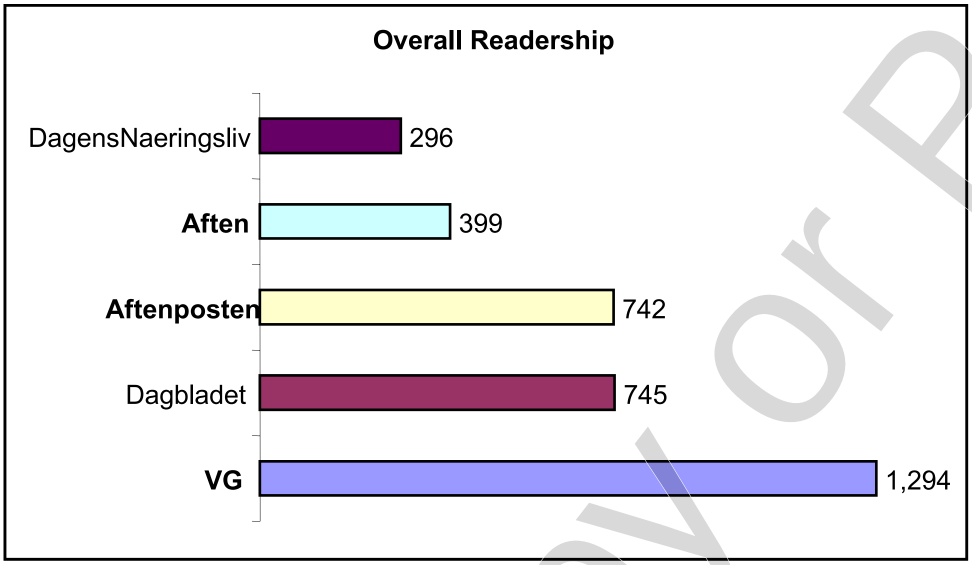
Source: Adapted by casewriters from Harold L. Vogel, *Entertainment Industry Economics,* p. 209.

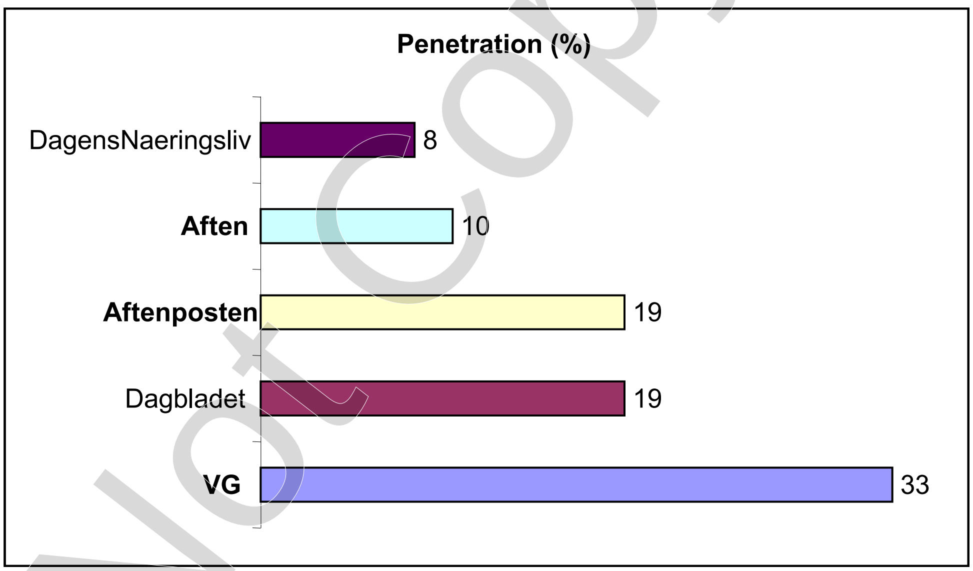
Exhibit 3 Hand-operated Schibsted Printing Press from 1856



Source: company materials.

Exhibit 4 Schibsted's ownership of top Norwegian newspapers



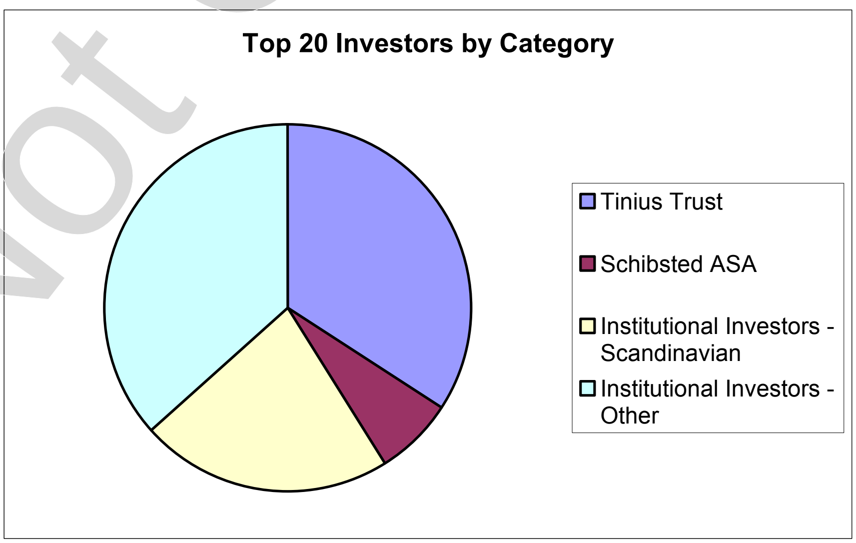


Source: "Introduction of Schibsted ASA" company presentation, January 2007.

Exhibit 5 Schibsted's Top Twenty Shareholders as of October 2006

Shareholder	Number of Shares	Ownership Share
Blommenholm Industrier	18,083,520	26.1%
State Street Bank (NIBUS D)	6,881,367	9.94%
JP Morgan Chase (Treaty Account)	4,967,050	7.17%
Schibsted ASA	3,665,804	5.29%
Folketrygdfondet	3,588,250	5.18%
Mellon Bank	2,654,448	3.83%
State Street Bank (NIBUS F)	2,449,772	3.61%
Orkla	2,137,100	3.09%
Nordea Bank (Finland)	1,352,741	1.95%
Scandinaviska Enskilda	1,329,261	1.92%
Nordea Bank (Sweden)	772,408	1.12%
Svenska Handelsbanken	754,750	1.09%
Svenska Handelsbanken (c/o Handelsbanken)	750,269	1.08%
Vitalforsikring	726,872	1.05%
JP Morgan Chase (Escrow Account)	651,473	0.94%
Scotford's Schibsted Guri	650,000	0.94%
Investor's Bank & Trust	420,949	0.61%
BNP Paribas	389,400	0.56%
KLP Liv-Norg	376,550	0.54%
Cogent-FD International	369,500	0.53%
% of foreign shareholders as of October 23, 2006		48.40%
Number of shareholders		3,942
Outstanding shares		69,250,000
Shares owned by Schibsted		3,665,804

Source: Company Web site, accessed November 2006.



Source: Compiled by casewriters.

Exhibit 6 Timeline of Schibsted's growth, 1966-2006 (not an exclusive list)

Year	Newspapers	Television/Film	Online and Mobile	Books and Magazines	Estonia/Baltics	Other
2006	Acquisition of 66.6% of the company which publishes *Moi Rayon* (My District), a free weekly newspaper in St Petersburg, Russia. There are eleven local editions of the paper, which is the second-largest in St. Petersburg. *Moi Rayon* is launched in Moscow in Fall 2006.	Divestment of TV 2 and TV4 in Scandinavia.	Acquisition of the European and Latin American businesses of Trader Classified Media. Launch of the Næringsliv24 website. The site, co-owned by Aftenposten and VG, quickly becomes the largest of its kind in Norway.		Schibsted acquires a tabloid paper and a pure online classifieds operator in Lithuania.	
2005	Aftenposten transitions to tabloid format in January. 20 Minutes adds six new cities in Spain and France, and becomes the largest general newspaper in Spain.		Sesam, Schibsted Søk's new search engine, is launched in November 2005. Svenska Dagbladet and Aftonbladet launch the Näringsliv24 website together, which becomes the second-largest business news site in Sweden.		Schibsted acquires a magazine group and a free daily newspaper in Lithuania.	Schibsted outgrows its 1995 vision, and establishes a new ambition: "Schibsted is to create tomorrow's media – today, and be the most attractive media group in Europe."
2004		Schibsted becomes a major shareholder in Sweden's TV4.				
2003			Acquisition of blocket.se – "Sweden's biggest Buy and Sell market" – makes *Aftonbladet* a market leader in online classifieds			
2002	*20 Minutes* launches in France			Schibsted Forlagene (Norwegian publishing house) takes over the popular fashion magazine, *Tique*.		
2001	*20 Minutos* launches in Spain					
2000			The three main shareholders of Scandinavia Online (Schibsted, Telia and Telenor) agree to list the company on the stock exchange.			
1999	Launch of Schibsted's first free newspaper, *20 Minuten*. The concept is extensively researched, and is launched in Zurich, Switzerland and Cologne, Germany in December.		FINN.no, the Norwegian classified ads portal, is established in October 1999			
1998	Acquisition of 73.6% of the shares in *Svenska Dagbladet,* one of Sweden's leading newspapers. *Svenska Dagbladet* makes extensive changes to its product over the following years, including changing to a tabloid format.				Acquisition of the majority stake in Estonia's biggest newspaper, *Postimees,* and also take-over of *Sõnumileht,* Estonia's fourth largest newspaper. Establishment of the Eesti Meedia media company, which makes Schibsted the dominant player in the Estonian market.	
1996	Purchase of 49.9% of *Aftonbladet,* Sweden's largest newspaper, and assumption of operational and financial responsibility.					Tinius Nagell-Erichsen founds the Tinius Trust in order to ensure that Schibsted's newspapers and other media continue as free and independent bodies.
1995		Purchase of Muttergruppen (a merger between Swedish companies Meter and Mekano). In 1996, Schibsted acquires Metronome Productions in Denmark. The three national production companies are then merged to form Metronome Film and Television.	First investments in the internet and new media, including the acquisition of Oslonett AS, subsequently renamed Schibsted Nett.		Initial investments in the Baltic media market, including the purchase of a share in Estonia's largest private television channel, Kanal 2.	Schibsted assesses their long-term strategy, concluding with a new mission: "Schibsted's vision is to be a leading Scandinavian media company by being the preferred content supplier to consumers and advertisers, irrespective of their choice of media."
1992		First investments in TV and films, including the independent, advertising-financed television channel, TV 2				Schibsted is listed on the Oslo Stock Exchange.
1989						Schibsted becomes a limited company, establishes subsidiaries and creates Schibsted A/S after many years of family ownership.
1966	Acquisition of *Verdems Gang (VG)*, which becomes Norway's largest newspaper in 1981					

Source: Compiled by casewriters from company materials.

Exhibit 7 Schibsted Financials, 1989-2006

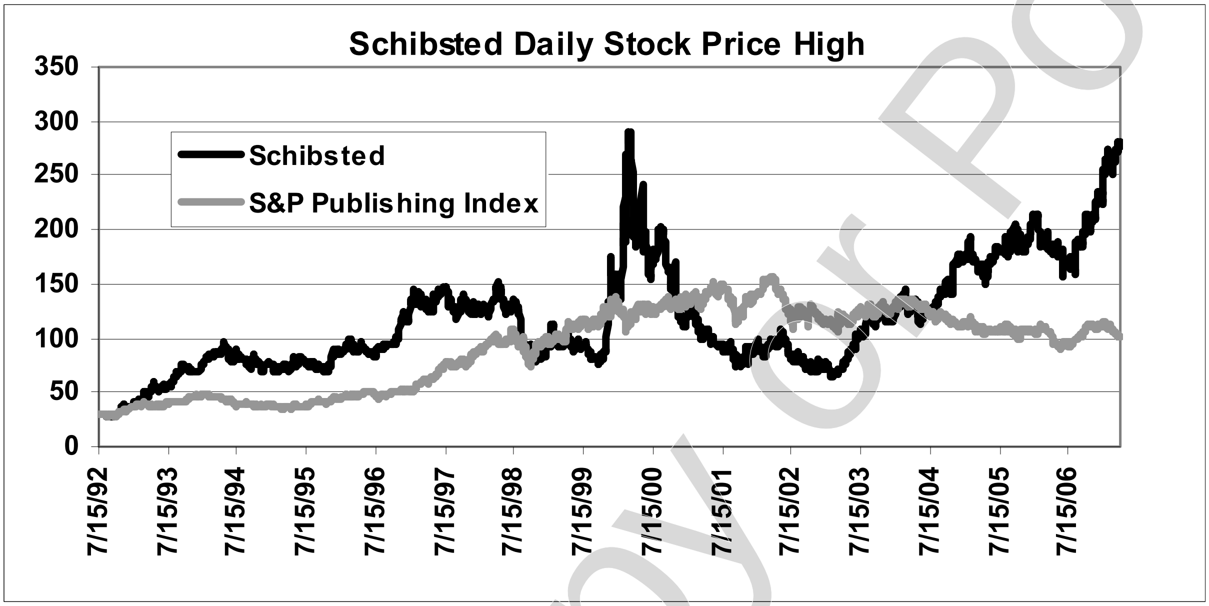
(NOK million)	2006	2005*	2004*	2003	2002	2001	2000	1999	1998	1997**	1996**	1995	1994	1993	1992	1991	1990	1989
Total revenues												3,348	3,042	2,753	2,625	2,565	2,499	2,368
Operating revenues	11,648	9,832	9,690	8,555	7,872	7,972	8,270	7,514	6,633	5,360	4,569							
Operating expenses	-10,196	-8,709	-8,458	-7,422	-6,948	-7,309	-7,349	7,342	6,315									
Operating profit (loss) (EBITDA)	1,452	1,321	1,316	1,133	924	663	921	172	318			409	416	318	171	163	136	154
Depreciation and amortisation	-439	-344	-376	-354	-375	-391	-408	484	329									
Operating profit (loss) before goodwill and other revenues and expenses (EBITA)	1,013	977	940	779	549	272	513	298	509	-	-							
Operating profit (loss) (EBIT)	2,495	1,161	514	701	494	56	537	172	318	645	578							
Profit (loss) before taxes	2,413	1,177	476	681	271	-387	950	114	267	731	579	498	461	427	231	279	174	173
Operating margin:																		
EBITDA margin (%)	12.5	13.4	13.6	13.2	11.7	8.3	11.1											
EBITA margin (%)	8.7	9.9	9.7	9.1	7.0	3.4	6.2	4	7.7	12	12.6	12.2	13.70	11.50	6.50	6.30	5.60	6.50
EBIT margin (%)	21.4	11.8	5.3	8.2	6.3	0.7	6.5											
Profit ratio (%)		8.9	2.5	5.5	2.0	-5.4	7.3	0.6	2.6	9.6	8.9	10.3	10.40	11.50	6.40	6.60	3.90	4.20
Equity ratio (%)	31.2	40.6	32.8	36.6	34.1	32.0	37.8	33.3	37.3	50.6	48.1	59.6	56.00	50.60	46.50	34.30	38.70	32.10
Return on equity (%)		33.5	10.5	21.5	7.6	-18.1	24.2	1.8	7.3	24.6	23.2	23.5	25.80	27.60	18.10	20.50	24.40	35.00
Return on total assets (%)		16.2	7.7	11.3	5.8	-3.4	14.6	3.5	6.1	17.9	18.5	20.3	21.60	19.20	11.40	11.90	18.10	20.00
Net interest bearing debt / EBITDA	2.3	0.6	0.9	0.7	1.1	2.1	1.3											
EPS (NOK)	32.52	12.91	3.55	6.9	2.3	-6.3	8.8	0.61	2.48	7.47	5.79	4.99	4.56	4.55	2.47	2.57	1.83	1.83
Cash flow per share (NOK)	39.53	18.53	15.39	14.5	9.3	5.4	15.2	8.76	9.95	10	9.5	8.01	7.47	6.71	5.23	4.08	2.62	2.7

*Accounting principles: As from 2005, Schibsted reports its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS), pursuant to the requirements that apply to listed companies. In addition, comparable figures have been prepared for 2004.

**Not recalculated according to new classification of operating result

Source: Compiled by casewriter from company annual reports

Exhibit 8 Schibsted's Share Price versus United States Newspaper Industry



Source: Thomson Financial Datastream.

Exhibit 9 Schibsted's Revenue Growth and Profit in Fourth Quarter 2006: Print versus Online

	Growth (%) in print advertising and online revenues	Profit Margin (EBITA %)
Print	(Advertising Growth)	
Aftenposten	9	7
VG	7	13
Aftonbladet	8	16
SvD	10	5
International Classifieds (Trader)	-11	9
Online	(Revenue Growth)	
Newspapers		
VG Multimedia[a]	48	34
Aftonbladet Nya Medier[a]	31	34
Classifieds/Search		
FINN	42	30
Blocket/Bytbil	49	48
Infojobs[b]	69	57

a) VG Multimedia and Aftonbladet Nya Medier receive some editorial content from the print newspaper
b) EBITDA margin for Infojobs

Source: Adapted by casewriters from "Introduction of Schibsted ASA" company presentation, January 2007.

Exhibit 10 Traditional versus Online Newspaper Organizations

Organizational Characteristic	Traditional Newspaper	Online Newspaper
News Cycle	24 hour	Continuous
Presentation	Static	Dynamic
Salience of Page Order	Ordering-central	Order-neutral
Orientation	News-oriented	Customer-oriented
Sources	Journalists and other professionals	Journalists and users
Advertising Function	Generalist	Focused
Head Count	Larger	Smaller
Age of Employees	Older	Younger
Culture	Structured	Entrepreneurial

Source: Casewriters

Exhibit 11 Operating Profit (EBITA) of Schibsted's primary Scandinavian News Businesses, 2005-06

	2005	2006
Norway *(NOK million)*		
Aftenposten Group	*266*	*298*
Aftenposten newspaper	145	152
Aftenposten online	117	148
VG Group	*300*	*290*
VG newspaper	248	209
VG online	51	82
Sweden *(SEK million)*		
Aftonbladet Group	*314*	*316*
Aftonbladet newspaper	240	254
Aftonbladet online	85	178
SvD Group	*13*	*34*

Source: Adapted by casewriters from Schibsted's "2006 Preliminary Annual Statement," February 2007.

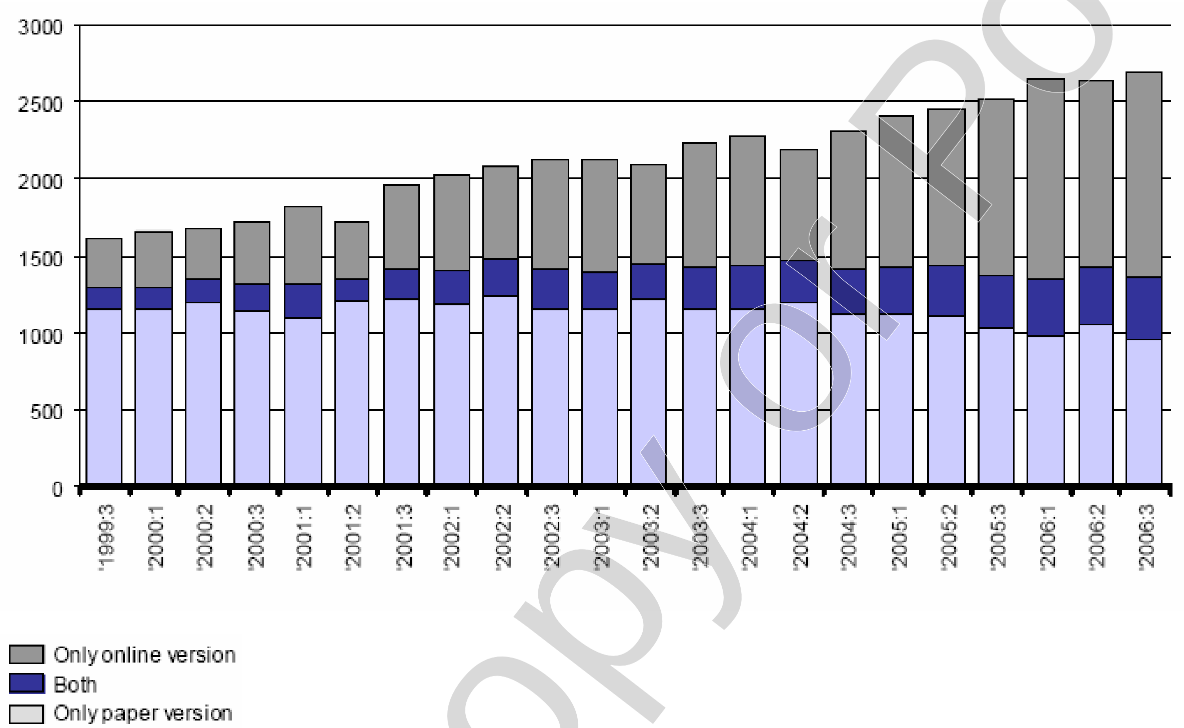
Exhibit 12 Usage Statistics of VG.no versus NYTimes.com

January 2007	VG.no	NYTimes.com
Number of unique monthly visitors	6,100,000*	14,097,000
Active Reach (%)	42.25	8.99
Number of page views per session	11.1	6.14
Number of sessions per visitor	9.3	5.96

*Includes some double-counting due to multiple computers; the population of Norway is approximately 4.71 million.

Source: Compiled by casewriters from Nielsen//NetRatings and case interviews.

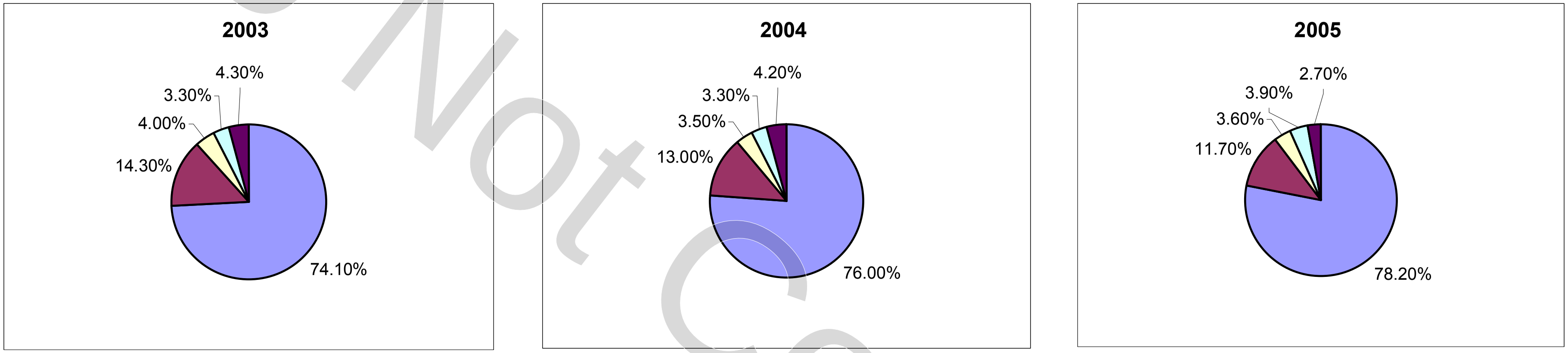
Exhibit 13 Aftonbladet Offline and Online Readership: Daily Readership (in thousands)



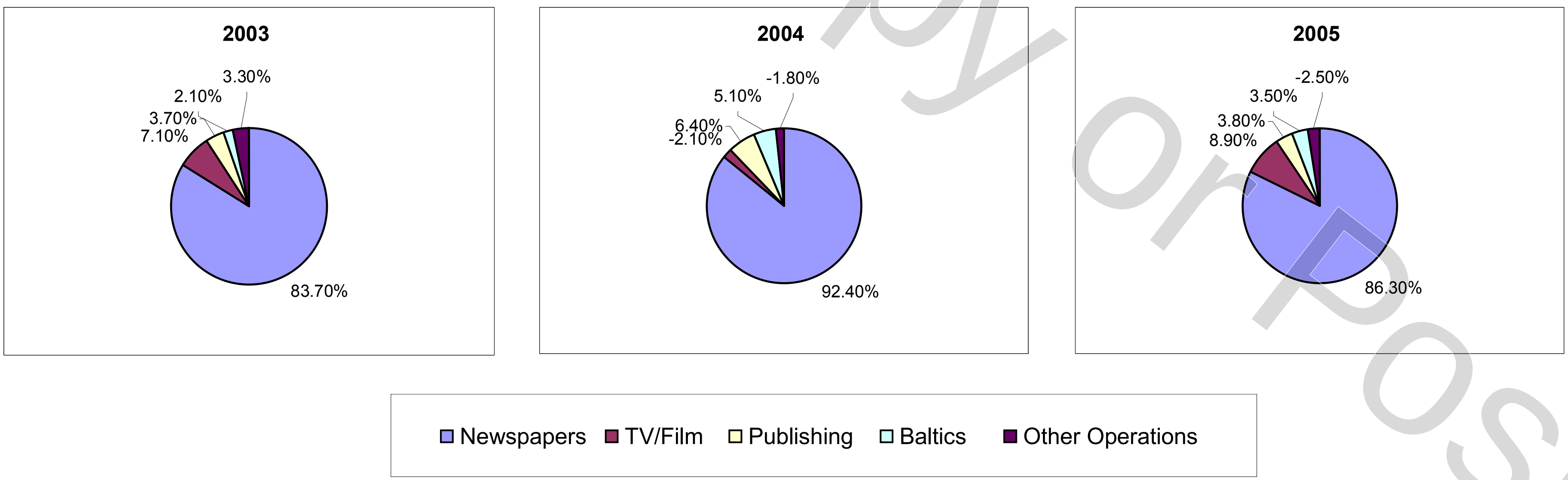
Source: "Introduction of Schibsted ASA" company presentation, January 2007, citing Orvesto.

Exhibit 14 Segment Performance, 2003-05

Total Revenue

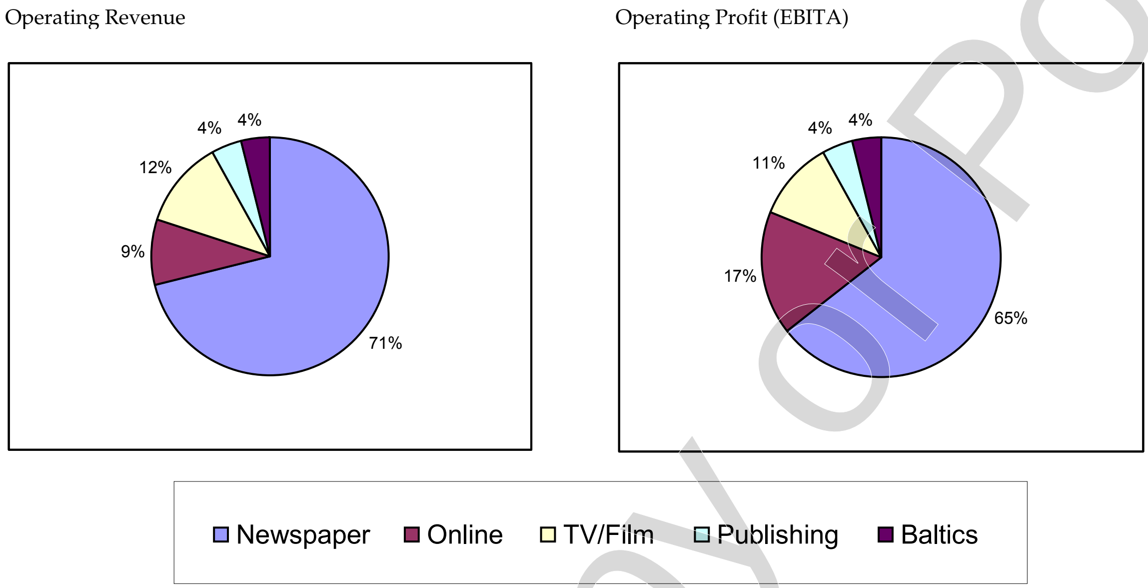


Operating Income/Loss



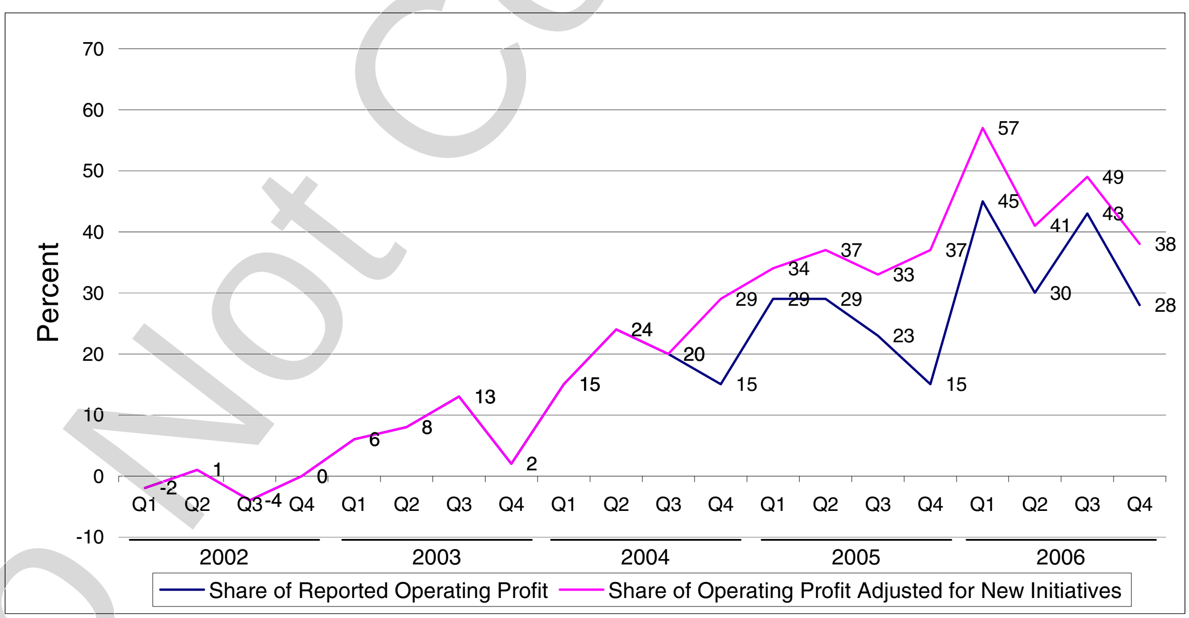
Source: Compiled by casewriters from OneSource® Business Browser[SM], an online business information product of OneSource Information Services, Inc. ("OneSource").

Exhibit 15 Business Area Breakdown, 2005



Source: Compiled by casewriters from company Annual Report, 2005.

Exhibit 16 Online activities' share of Schibsted's operating profit (EBITA, excluding associated companies)



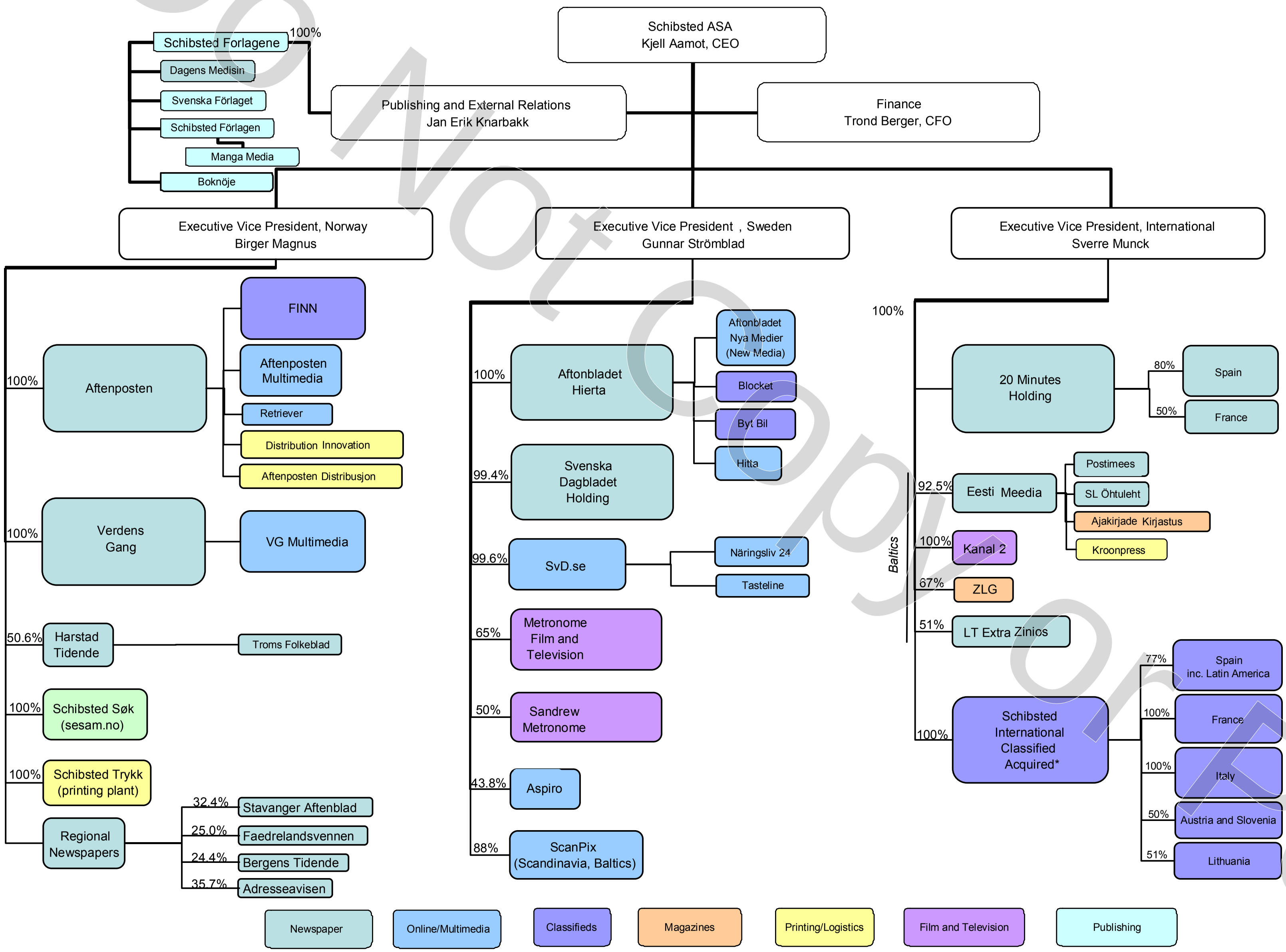
Source: Adapted by casewriters from "Introduction of Schibsted ASA" company presentation, January 2007.

Exhibit 17 Top Web Sites in Norway as of January 2007, based on Page Views and Users

Web Site		Domain
1	Microsoft Network (MSN)	msn.com
2	Google (Norway)	google.no
3	Google	google.com
4	**FINN**	**FINN.no**
5	**Verdens Gang (VG)**	**vg.no**
6	Yahoo!	yahoo.com
7	Dagbladet.no	dagbladet.no
8	YouTube	youtube.com
9	Gule Sider	gulesider.no
10	Windows Live	live.com
11	**ABC Startsiden**	**startsiden.no**
12	Piczo.com	piczo.com
13	**Aftenposten Interaktiv**	**aftenposten.no**
14	Scandinavia Online	sol.no
15	Wikipedia	wikipedia.org
16	Norsk rikskringkasting	nrk.no
17	Kvasir	Kvasir.no
18	Microsoft Corporation	microsoft.com
19	Online.no	online.no
20	**Tv2.no**	**tv2.no**
21	Nettby.no	nettby.no
22	Nettavisen.no	nettavisen.no
23	Myspace	myspace.com
24	Telenor AS	telenor.no
25	123spill.no	123spill.no
26	The Internet Movie Database	imdb.com
27	**E24.no**	**e24.no**
28	Abcsok.no	abcsok.no
29	DinSide	dinside.no
30	QXL Auksjon	qxl.no
31	**Sesam**	**sesam.no**
32	Blogger.com	blogger.com
33	The Pirate Bay	thepiratebay.org
34	Komplett Data	komplett.no
35	BBC Newsline Ticker	bbc.co.uk
36	**Bergens Tidende (BT)**	**bt.no**
37	Amazon.com	amazon.com
38	Megaupload	megaupload.com
39	Kommune.no	kommune.no
40	MSN Norge	msn.no
41	EBay	ebay.com
42	ITavisen	itavisen.no
43	Hegnar.no	hegnar.no
44	Flickr	flickr.com
45	Dagbladet :start	start.no

Source: Alexa Traffic Rankings for Norway compiled by casewriter, accessed January 2007.

Exhibit 18 Schibsted Group's Organizational Structure as of 2006



*Two joint ventures in International Classified under establishment in Southeast Asia.

Source: Materials compiled by casewriters based on company materials and corporate web site, accessed November 2006. Bubble sizes roughly based on profitability.

Exhibit 19 Main Schibsted Brands and Market Presence

	Norway	Sweden	International
Print newspapers	Aftenposten, VG	SvD, Aftonbladet	20 minuten, Postimees, Õhtuleht, Segundamano, LaCentrale
Online newspapers	Aftenposten, VG Nett, E24	SvD, Aftonbladet.se, E24	20 minuten
Classifieds/Search	Finn, sesam.no Bedre treff	blocket, bytbil.com, hitta.se	CompraVenta, willhaben.at, leboncoin.fr, Segundamano, InfoJobs.net, LaCentrale
Live pictures		metronome, Sandrew Metronome, 7 Aftonbladet	

Source: "Introduction of Schibsted ASA" company presentation, January 2007.

Appendix

Newspaper Terminology

Tabloid The term tabloid was coined in the 1880s as the pharmaceutical-industry name for compressed, easy-to-digest medicine.[101] The *Daily News* of New York, founded in 1919, was the first modern tabloid in the United States, and was selling nearly a million copies per day by 1925; nearly two million by 1940.[102] Tabloids were easy to hold on a train or trolley and very readable. They were characterized by black headlines and many pictures. While the easy-to-read focus of tabloid papers has led to an understanding of the tabloids as low-brow, the term also refers to a tabloid format: smaller page sizes, more readable font, increased use of color, and more images.

Broadsheet Broadsheet papers are in the traditional format, larger sheets with primarily black and white text and multiple columns.

Single-copy sales and other methods of distribution Newspapers have three primary distribution channels: home delivery, mail, and single-copy sales. Single-copy sales refers to those papers "sold directly to street vendors at wholesale prices [which are] then retailed to the buying public. The various outlets include newsstands, retail stores, newspaper boys on street corners, and street racks."[103] Home delivery of papers occurs via independent contractors who purchase papers at the wholesale rate and deliver them to customers in a specified area at the retail price. The postal service provides papers to those readers farther a field [104]

Shovelware "Shovelware" refers to the practice of "taking information generated originally for a paper's print edition and deploying it virtually unchanged onto its web site."[105]

Page Impressions Page impressions, or page views, refers to the number of times a specific Web site has been accessed by a user, or, more technically, "the combination of one or more files presented to a user as a single document as a result of a single request received by the server."[106]

Unique Users Unique user statistics measure readership. As the term indicates, unique users refers to the number of different people who visit a Web site over a given time period. A unique user is "identified through an IP address plus a further identifier such as User Agent, Cookie, and/or Registration ID."[107]

Circulation Circulation figures refer to the number of print newspapers sold or distributed over a certain time period. Papers are often divided into categories based on circulation numbers: small papers typically below 10,000; large papers typically above 50,000.[108]

Endnotes

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