

Growing Audience

Innovation in Action

Schibsted Media: A Model for Global Innovation



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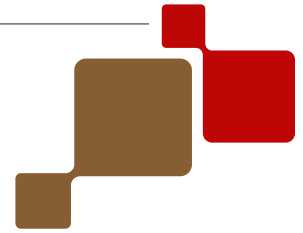
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A Model for Global Innovation

By David LaFontaine

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Schibsted Media

A Model for Global Innovation

By **David LaFontaine**

What is it?

Schibsted Media dominates the Scandinavian market, and its moves into France, Spain, Switzerland and other countries where it launched the 20 Minutes brand of newspapers are a wild success. Its Web-based classified ad platforms are huge moneymaking engines throughout Europe. Now Schibsted is set on becoming the best source for breaking news video and has already beaten television competition on some big stories.

Why should I care?

Schibsted's willingness to commit to radical strategies has made its online operations so profitable that analysts predict as much as 60 percent of next year's revenues will come from its network of Web sites. Rather than relying on referrals from Google, Yahoo! or other search engines, 90 percent of page traffic to the newspaper's site, VG.no, arrives directly on the front page.

Can I adopt this?

Schibsted's integration of video, mobile newsgathering and constant revisions to the Web site's front page should interest any paper that hopes to win back readers' attention. However, the emphasis on growing the Web, even if it means cannibalizing readers from print products, is not for the faint-hearted, and the Norwegian newspaper market is in no way as fragmented as that in the United States.

More than 10 years ago, the Norwegian media conglomerate Schibsted decided to pursue an Internet-centric corporate strategy aggressively.

Unlike many other media companies, Schibsted stuck with that strategy after the dot-com implosion of 2000-01 and even diverted money from print products to online.

Across Europe, laughter echoed from rivals' corporate suites, and as one editor says, Schibsted was derided as "a bunch of slow-witted Norwegians whose brains were so frozen from the cold that they haven't gotten the message that there is no money to be made from the Internet."

No one is laughing now. Schibsted's earnings are up 28 percent, its Web business is responsible for nearly 50 percent of revenue and Harvard Business School is touting the company as a shining example of how to conduct business on the Web.

Yet Schibsted is not satisfied.

Schibsted is using its flagship site VG.no to test the best strategies for video online. It has implemented a bold site redesign to emphasize breaking news and create what it calls "the CNN effect."

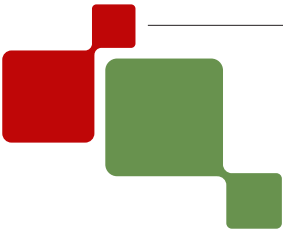
Recently launched are:

1. Snutter, Schibsted's version of YouTube.com
2. Lesernes VG (Reader's VG), where all content comes from the readers and Schibsted staff members edit the front page
3. Nettby, a social networking site that has grown by 550,000 members in its first year and is being launched in Sweden and Spain.

Schibsted already has a strong presence in Spain, where its online classified sites—InfoJobs.net, coches.net, Foto-Casa.es and secundamano.es—are No. 1 for jobs, vehicles, real estate and auctions.

In Switzerland, Spain and France, Schibsted reaches more readers than any other media group with its Web and print publications.

"We've set ourselves a goal of seven percent organic revenue growth a year," says Sverre Munck, executive vice president responsible for Schibsted's international



business group. “That’s a pretty tall order, given that a lot of our traditional papers are not growing. So that means that the growth area has to be primarily the Web.

“Since newspapers are 75 percent of our business and their growth is flat, you can do the math. We have to grow very, very fast, particularly in our online initiatives.”

Chief Executive Officer Kjell Aamot says the U.S. newspaper market “missed their opportunity five years ago. Schibsted would not invest in the U.S. market, but South America, Asia, and other parts of Europe are possibilities.”

Particularly attractive for Schibsted are countries like Colombia,

where the online population doubled in the last year to about 10 million, and Russia, which is experiencing the world’s fastest growth rate for Internet connectivity.

VG.no continues to set records, reaching more than 1 million unique visitors in one day this fall, especially impressive because Norway’s population is only 4.5 million. About 38 percent of adults read the print edition, but almost 50 percent of the Norwegian market uses a VG product—print, online or mobile—every day.

“Our target is to pass 60 percent,” Munck says. “We call that building an audience, even though we’re slowly, slowly eroding our print audience.”

Schibsted’s new media initiatives in other markets in Europe are also growing rapidly. The free sheet 20 Minutos has rocketed from nowhere to 14 regional editions. It is the most-read newspaper in Spain and part of a chain of branded 20 Minutes free newspapers that seek aggres-

Strong Classifieds Online Position in Spain

Site	Market Position
	#1 Recruitment
	# 1 General Merchandise
	#1 Cars
	# 1 Real Estate

Schibsted holds the leading position in all main segments of classified ads online in Spain

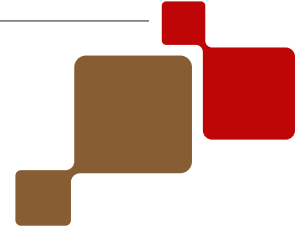
Note: Based on unique monthly visitors.
Source: Nielsen Netrating, July 2007.



sively to integrate their print and online news operations, following a TV-like, 24-hour constant news update cycle with a promise that the entire paper can be read in 20 minutes or less.

Key to the success of 20 Minutos is José Antonio Martínez Soler, founder of its predecessor and its current CEO. As a young journalist, he was arrested and beaten by the Franco regime and later founded several newspapers and magazines. He became a famous morning news anchor on national TV, was fired for political reasons, sued the state and won.

Soler started his own free paper, Madrid e Más. “He ran that for a few years, and he developed the recipe for how to do this successfully,” says Espen Egil Hansen, VG’s online multimedia editor. “But eventually, Soler wanted to develop this concept more and realized he needed more money to do things right.



“That was when Sverre and Schibsted contacted him. In a series of meetings, both men found they got along really well and that they both had a good feeling about doing 20 Minutos, so they went forward with the idea.” Madrid e Más became 20 Minutos.

“As an editor in chief, I have never had greater freedom than with Schibsted,” says Arcenio Escolar, who has led 20 Minutos from its inception.

Three-tier Video Strategy and a Bear Hunt

Schibsted has been producing and streaming video content from its Web site for more than eight years, but only in the last year has it seen a dramatic increase in the amount of video produced and the number of viewers. The company attributes that partly to the increase in broadband penetration and partly to the fact that Schibsted is finally learning how to use video on the Web.

Editors and designers at VG.no are still working on the look and feel of their video product but have definitely determined that imitating traditional TV news broadcasts does not work. If users wanted to watch a TV-like broadcast, they would just turn on the TV rather than waiting for a video clip to download, buffer and start playing.

VG.no and Schibsted have found that the key to success is a three-tiered approach to video.

“The first tier is on the front page, where people’s attention is short, so the videos are quick-quick,” Hansen says. “We tell you the news, and the readers read the headline, see the picture and that’s it. The video is just a quick, short clip that has the essential images, maybe five to 15 seconds, of the story.”

The second tier is for readers interested enough to click to the interior page. Research has shown that once readers click on a video to see more, they are willing to wait a couple of minutes for buffering and playing. As broadband speeds increase, however, that patience is expected to evaporate.

“The last tier is for the people who are really into the subject and who want to see the whole interview,” Hansen says. “These are the same people who will click over and

go through documents that we put online word by word. We’re finding out every day what works and what does not. Mostly, we’ve found that doing traditional news show-type clips really doesn’t get us anywhere.”

VG also makes sure that the video bit rate is no more than 70 percent to 80 percent of the user’s total bandwidth. For instance, if a user has broadband access that allows downloading of 768 kilobits per second (Kbps), the video’s encoded bit rate will be no more than 600 Kbps.

At the second and third levels, the bit rate is higher, the video is longer and a series of related clips may be available.

A higher bit rate translates into larger screen size, better video quality and clearer audio. The problem is that data congestion across the Internet can cause stutters in video playback, frame dropouts, audio distortion or many other problems that cause viewers to click away.

“Some users want to see what was really said and how,” Hansen says. “They may only be a small part of the audience, but they are the ones who are really interested, and we think giving it to them helps us build a strong core that comes back again and again and brings other people with them.”

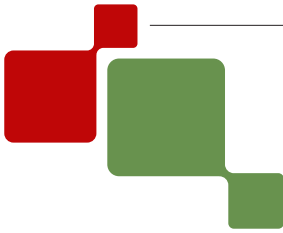
A recent example involved a speech by Sen. Hillary Clinton, D-N.Y., about how Norwegian pension funds wield influence because of their investments in U.S. companies. VG.no assigned a reporter to follow her and record her speeches, so when the story broke, the entire video was quickly available online.

“Of course, there will not be 200,000 people watching that video,” Hansen says. “But it’s an extremely good service, and it will be there for the 3,000 people who really, really want to find that kind of content on our pages and nowhere else.”

Besides offering depth of content, Schibsted is moving to compete with TV news in delivering breaking video. VG.no has hired experienced TV journalists, equipped them with the latest mobile technology and told them to beat TV at its own game.

“We need to be lighter and quicker than the competition, which is why all my reporters have the Nokia N95 cell phone now, like Reuters,” Hansen says. “This is really starting to pay off for us.

“For example, a few weeks ago, a man was killed by a bear on the Swedish border. I think it was the first time in



20 years that a man was killed by a bear in Norway, so it was, of course, very dramatic news.

“We sent a reporter who stayed in the woods all night, and the next morning, he was able to join the hunt for the bear. He didn’t capture the actual shooting of the bear, but he got footage right afterward and an interview with the hunter.

“The reporter was then able to e-mail it directly from his phone back to VG, and we were able to publish it within seconds. The TV crews that were there didn’t get their footage on the air until five or six hours after us.

“The quality was more than good enough for us because it was quick. We delivered the moving pictures of the interview to our readers when the interest was at its absolute highest peak.”

Even Schibsted, however, has not been able to strike a deal with music labels, a failure that grates on company nerves.

The major labels have allowed VG.no to stream live concerts and performances by big-name bands but hate and fear the Internet so much that their demands have been punitive. “The rights owners ... are very afraid of the Internet, so they make models we can’t live with,” Hansen says.

“They wanted to charge us a percentage of all the income we make from everything on the site—all the advertising, the classifieds, all of it. Their alternative was that they would then own the rights to everything that was downloaded off our site, which ... would kill us.

“We’ve been trying to make a deal like what the radio stations do for one year, but we haven’t gotten that deal yet. We can do the live concerts ... we can use some music, but we don’t have the other deal yet. To be honest, we haven’t really even gotten close. We don’t know if we will ever get it.

“So basically, they’ve just completely abandoned the market to the pirates. Companies like Schibsted, we could have been working with them for years, building decent models. But now everyone younger than 30 is basically downloading their music from BitTorrent for free.”

Traffic Control, the “CNN effect” and Page Design

U.S. conventional wisdom holds that Google is a friend to newspapers, that newspapers should allow Google to aggregate their news stories in return for Web traffic that Google sends their way.

But the number of people who wind up on the newspaper’s site is far less than the number on the Google page, and since advertisers pay for wherever users spend most of their time and attention, the newspaper receives an ever-shrinking slice of the pie.

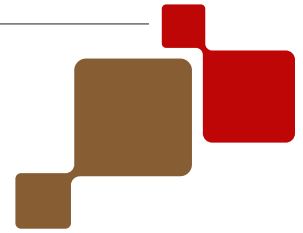
“American papers are so afraid of change, of cannibalizing their mother products that they’ve given away the market to Google and other players,” Hansen says. “They are now so dependent on Google that they will have a hard time getting free of them.”

Schibsted’s strategy is to design and promote its newspaper home pages in such a way that users go there first. In Norway, more than 90 percent of VG.no traffic comes directly to the front page, not seeking a specific story but because readers have become accustomed to finding information relevant to them every time they go there.

From the Norwegian perspective, the biggest problem facing U.S. papers is that they do not have control over their page traffic, a situation the Norwegians would find intolerable.

“People voluntarily bookmark my front page and come there,” Hansen says. “This means we have control over our traffic. People come to the front page, they click to read a story, then they come back to the front page. Then they click to watch a video, and then they come back to the front page again. This is where we make our money. Sixty to 70 percent of our ad revenue comes from that front page, and 40 percent from the articles.

“Meanwhile, in the U.S., the users start out on Google News. They see a story they like, and they click right into it. They read it, and then they return to Google News again. So Google controls the traffic. ... This is, I think the U.S. newspapers’ challenge. It will be hard, very hard to change this.”



Schibsted is also working to develop deep local search. The thinking is that since trends in the Internet and news are toward the hyperlocal approach, a giant multinational like Google cannot possibly compete with a determined newspaper on its home turf.

“Since we have such a huge audience on our front pages, we get a lot of money,” Munck says. “For example, the top banner for VG in Norway for a 24-hour period costs more than a full-color full-page ad in the newspaper.

“That money is a lot different than the cents you get from Google when someone accesses a particular article in the newspaper because they saw the headline on Google News.

“But I’m not sure that our business model is practical everywhere in the world because the Scandinavian market is a lot more concentrated than the U.S. market. There is no U.S. newspaper that has the reach or market share that we do.”

One of the biggest tools used by VG and Schibsted to attract readers to their front page rather than Google’s is updating front-page news minute by minute. Schibsted takes great pains to change the page so readers never see the same thing twice.

“It’s like when CNN covers an invasion, you’re watching it and you can’t turn away from the screen because you want to see what happens next,” Hansen says. “When we have frequent updates, it gives our readers the sense that anything can happen. This technique is something that we use on almost all our stories now.

“The visual language of the U.S. papers is much too static. We know that does not work. Day after day, they have the same size pictures, same size headlines, page after page. It doesn’t take advantage of the medium.”

Schibsted’s most recent experiments include user-generated content on the front. Users can add their own videos to stories, such as a recent feature on Paris. Schibsted managers think that allowing users not only to comment on news stories but also to add their own rich multimedia content will energize the community and strengthen the coverage.

They are well aware that the downside of energizing users to post video content is that some will take advantage of the public space to post porn, insults or spam. Schibsted has devised what it thinks is a robust way to combat Internet pranksters and saboteurs.

“We let people upload to our site as long as they register with a number from their mobile phones,” Hansen says. “Every phone in Norway has a real person behind it, so we know who they are. We have some basic rules, but other than that, we will let them upload anything.

“If the readers find a video objectionable, they mark it, we investigate it and then we take it away and kick the person out so they cannot deliver content to VG anymore.”

Schibsted’s thriving online community is growing every day. Between 10,000 and 15,000 discussions occur daily on forums, in chat rooms and between blogs. Monitoring all of them is impossible, and trying to do so would kill what Hansen terms the “magic” that has attracted the audience, he says.

While this does not fit into the traditional newspaper model wherein every word and punctuation mark is scrutinized before publication, Schibsted has found that users’ ability to comment and contribute to online discussions has such value that the managers are obligated to learn to handle it.

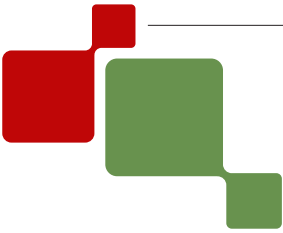
As with most attempts to control discussion on the Web, motivated and malevolent users eventually skirt the controls. But Schibsted and VG.no are committed to matching the ingenuity of the evaders so users can have a valuable online experience.

The other upside to reader participation is that some contributed content has taken Schibsted’s coverage in new directions. “Some of the video that we have been getting from the public works better with the stories than the stuff that our staff does,” Hansen says.

Making Online Classifieds Work

U.S. newspapers have lost considerable ground to Web-based classified ad operations, such as craigslist. In October, BusinessWeek magazine cited the San Jose Mercury News as an example of how badly U.S. papers have been “hammered by the Web.”

In 2001, the Mercury-News earned \$121.5 million from employment-related classifieds. Two years later, that number fell to \$17.9 million. Such drastic decreases have been responsible for many of the painful cutbacks in the newspaper industry.



Schibsted avoided this by making early and bold moves, migrating classified ad business onto the Web. This has resulted in classified market domination in Norway and Scandinavia and increasing domination in Switzerland, France, Spain and other European companies.

“We initially launched Finn [Norwegian for “sell”] as a defensive move to protect advertising—recruitment, real estate, cars,” Aamot says. “This was a disaster. Newspaper management are extremely conservative. So we had to start by establishing a portal outside the newspaper.”

That has been such a success that Schibsted has seen the price of online advertising rise sharply since 1999 from far less than its print equivalent to far more.

Most people who call Finn are seeking to place classifieds online, and operators answering their calls encourage them to put ads in the paper edition, too. Interestingly, more than 80 percent of those calling to sell vehicles want to include pictures of them, a very lucrative upsell.

Launching a classified site that competes with their print products would be anathema to most media companies, but Schibsted took a deep breath and set Finn loose on Aftenposten, another of its newspapers. The much-feared cannibalization occurred, but the combined revenues from the two classified ads channels has exceeded what Aftenposten was earning on its own.

More importantly, the Finn classified ads product has so firmly established itself as “the” place to go for Scandinavians looking to buy, sell, rent or hook up with something or someone that Schibsted hasn’t lost all its revenues to craigslist or others.

“Schibsted is probably the smartest media company in the world these days,” says Peter M. Zollman, founding principal and executive editor of Classified Intelligence, the global consulting company. “They’re relentless. They’ve figured out the formula and are applying it better and better every day.

“Many of the newspaper operations in the U.S. spent their time and energy trying to preserve print at all costs, and online was just a throw-in. Schibsted has focused on both but decided very early that if print was going to be cannibalized, Schibsted would be the cannibal,” he says. “Now, online advertising has become critical, and in many cases, print is the upsell from online rather than the other way around.”

However, Aamot recently said he thinks that to compete

with free services such as those offered by craigslist, newspapers, too, may have to offer completely free classified ads.

Survival of the Fittest

Schibsted’s managers do not knock themselves out trying to determine ways to use the Web business to shore up a faltering print operation. They are not trying to integrate; they flat out favor the Web.

They take money and profits from print operations and redirect it to grow online audience, competing directly with other European online companies.

“We let different companies within the group and online versions compete with the ‘mother brand,’” Hansen says. “Not many media companies have the courage to do that, and that’s why we are so successful.

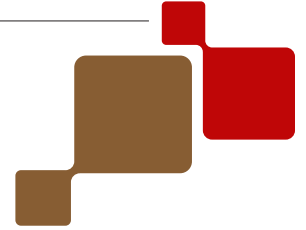
“Back in ’95, we started concentrating on the Internet because we wanted to make strong products, even if they hurt the mother brand. What we found out was that it didn’t really hurt the mother product. We didn’t cannibalize our audiences as much as we took over the readers from our competitors.”

One reason Schibsted is so competitive in the international marketplace is that it is very competitive within itself. This bare-knuckle ethos is embedded in Schibsted’s DNA. When it was just a minor family-owned company, Schibsted owned two newspapers that fought over audience, advertisers, circulation and everything else. They shared only a printing plant.

This spirit of competition has survived.

“Back in ’96, we actually ... reorganized the company ... print, broadcast and online,” Munck says. “We didn’t have a single online company, but we knew we would be getting some. So we wanted to focus on it and to show our investors that we were doing this because we knew the risk of online business is a very different risk from that you find in a print business.

“So that meant we encouraged internal competition from the very beginning, establishing a new online company that competed with the existing print companies. But after the dot-com shakeout of 2001-2002, we changed tactics and instead of having necessarily separate companies, we said that the newspaper companies themselves, they are in fact now able to conserve their brand. Now they can take it to



print to broadcast or online, or anywhere they want.”

Schibsted initially separated its print and online operations because it had no confidence in its newspapers’ ability to try simultaneously to steal competitor’s audiences while preserving market share. Since then, the managers have been impressed with the way the spirit of competition from online has bled into the print side. They have given their print products freedom and the incentive to do so, and the change has allowed streamlined operations by folding online editions into print edition and making them subsidiaries of the parent brands.

Many U.S. newspapers have struggled with revenue loss when a reader migrates from the paper to online. Typically, a newspaper loses about 60 percent of its ad revenue when a reader switches.

Munck says Schibsted found that because it no longer must truck huge bundles of paper, distribution costs have fallen sharply. On balance, online may produce lower revenues, but decreased costs have resulted in higher profit margins.

The most recent reorganization within Schibsted recategorized products into mature and growth products, experimental products that become core products, and established but fading core products that may be phased out.

Managers rely on a combination of up-to-the-minute data about the financial status of their properties, revenue projections and “a good bit of common sense” to make their determinations. They do not automatically assume that print products should be phased out, and some of Schibsted’s most profitable divisions still produce paper.

They carefully track traffic flow from one media property to the others. A community site launched recently has reached the point at which the viral effect has kicked in—that is, it has enough members and user-generated content that users are recruiting friends and acquaintances to join. Meanwhile, the news and editorial properties need to send constant classified and directed services traffic their way.

Empowered Employees Create New Business

One eye-catching aspect of Schibsted is the care and attention to recruiting, retaining and empowering employees.

A management training program has been in place for 10 years, and the prospect of Schibsted employment is attractive enough that the company can attract top talent even from Norway’s oil companies although the oil business is more reliably lucrative. Unconventional features of the training program include team-building exercises, one of which featured helicoptering a group into a remote village in Uganda and not allowing it to leave until members dug a new well.

“Our CEO interviews every single trainee candidate that’s on the short list, not all that apply because there are hundreds,” Munck says. “But when we have our presentations at different business schools or tech schools, one out of the four senior vice presidents or the CEO is there, so the students see that top management really cares.”

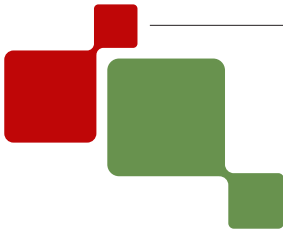
Schibsted devotes significant resources to ensuring that highly prized employees are happy. The Great Place to Work Institute Inc. of San Francisco has been brought in to consult, and Schibsted is implementing the institute’s suggestions at its 250 companies worldwide. For instance, the dreaded performance evaluation report has been changed. Now, employees grade managers, who are rewarded based on how satisfied their underlings are.

“The growth, the new products, pretty much come from the bottom up, and the management supports it,” Hansen says. “Schibsted really encourages us to work a lot with employees. It’s a kind of Scandinavian tradition to have a relaxed structure.

“I like to call this ‘The United Companies of Schibsted.’ Our strategy is to look for strong, able people who can make good products. From strong people come new ideas because we talk to each other.”

Schibsted generates innovative ideas on its secure Intranet by giving employees what managers call “funny money” to invest in new projects proposed by colleagues within the subsidiary.

“All these ideas and projects are posted where everyone can see them and talk about them amongst themselves,”



Munck says. “The funny money allows people to be virtual venture capitalists within their own company.

“It’s kind of for fun and pride, but it generates a lot of enthusiasm and attention, and we find that our people are then working on these projects on their own time outside of work. It’s not like people are literally going to become millionaires by doing this, just that it’s good product ideas within their line of business.

“It’s like a virtual suggestion box, but the difference is that an old-time suggestion box would be emptied now and then, and then you made a list of suggestions. Then those things never happened.

“But when people actually place their funny money into these projects and then can win a bottle of champagne or whatever ... then there’s a little more life around these ideas than just a suggestion stuck into a box. We’re using the tactics of Web 2.0 to grow our business.”

Schibsted’s managers are aware that they no longer compete for top talent just with other newspapers, magazines or TV stations but with pure Web players that offer employees perks and creative freedom. In a globalized economy, especially in Europe, where storytellers with Web skills are in such high demand, Schibsted has worked hard to attract the kind of talent that allows launch and maintenance of such impressive Web products.

“Creative people can work wherever they want to these days,” Hansen says. “When they have a choice, they take it. The barriers are much much lower than they would have been even five years ago.

“The restructuring of companies to be more horizontal is something we definitely think is the way that companies are going to have to exist in the future. But there is a cultural aspect. What’s natural in Norway is not natural in Spain, and what’s easy in Denmark is much less so in Malaysia.

“We want to respect those cultural issues while still remaining true to our core values of democracy and serving the community both locally and globally.

“This way, Schibsted will always be full of talented, young people who are able to create strong, interesting films, videos, podcasts and even make business models that we didn’t think of.”

Another payoff of this soft and fuzzy management approach has been that employees look for new business op-

portunities. Recently, a trainee whom Munck was mentoring turned out to be fluent in Russian. Schibsted had been toying with expanding into the red-hot Russian market but had no one to handle the research.

The trainee took on this extra responsibility, and thanks to his efforts, Schibsted snapped up a chain of small local newspapers in Russia—totally new business that never would have been started otherwise.

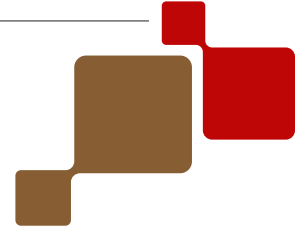
The road to such dominance has not been without bumps. In 1996, Schibsted gambled that classifieds would move very quickly to the Internet and spent what Munck says is too much money trying to front the wave. When the Internet bubble burst in 2001, Schibsted sought to determine which companies had long-term value despite the short-term pounding.

“Our shareholders didn’t necessarily applaud,” Munck says drily. “It wasn’t easy in 2001 to convince investors that next quarter isn’t the issue, it’s next year and the whole company’s future.”

Schibsted convinced shareholders that the alternative to reinventing the company was slow death. To this day, Schibsted is willing to accept steep startup losses in exchange for long-term growth. Last year’s profit would have been nearly \$90 million higher had it not invested in what Schibsted calls “organic initiatives.”

“We take a lot of the cash flow we get from our papers, a big, big chunk of it, and invest it in new ventures,” Munck says. “The print people aren’t necessarily applauding and singing either.

“It’s using their money to make a company that’s going to kill them.”



Author Biography

David LaFontaine is a freelance writer/videographer who lives in Los Angeles, Calif. He began his journalism career as a copy editor at the Arizona Republic, then went on to become managing editor of the Caracas Daily Journal in Venezuela. He moved into the digital media area as managing editor of Singe Parent Magazine and then the streaming video site, Filmson.com. He has produced segments for ABC's Prime Time, and his multimedia work appears in the Online Journalism Review.



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