

Mergers, Alliances or Investments: Newspaper Company Partnering Strategies in the Digital Age

Innovations in Newspapers: The 2000 World Report
An Annual Survey for the World Association of Newspapers

Benjamin M. Compaine

All over the world, newspaper publishers are searching for strategies that work as they face intense competition from a plethora of media ranging from shoppers and free sheets to the World Wide Web. The digital realm, which newspapers have used for decades for their internal production process, has now invaded the home and workplace of their customers. Publishers face competition not only from other traditional media, but from new media: cable and satellite-delivered television, audio and text; direct-to-home advertising circulars delivered by computer-targeted mailing lists; classified advertising providers reaching consumers via the Internet.

How are publishers responding? How can they respond? How should they respond? Depending on their market their concerns range from complacency to fervent deal-making and change. One common approach is through forging strategic alliances, either as equity investments or more simple relationships with unaffiliated enterprises toward a common goal.

Alliances, in the form of equity arrangements, partnerships and strategic agreements, as well as acquisitions, are not of themselves new to the newspaper industry, particularly in the U.S. Publishers were among the early investors in radio and then television broadcasting. Many of the larger publishers had minority interests in newsprint manufacturers. Some have partnered with cable operators. But the Internet has added a new urgency and created both real concerns as well as viable opportunities for publishers and their many potential allies or competitors.

Alliances are occurring at a blurring rate now for several reasons. There is uncertainty about how the Internet, broadband and wireless communications and the digital revolution in general will affect traditional newspaper publishing. But it has and will continue to have major consequences. Publishers, no matter what their size, are coming to realize they have neither the financial resources nor the expertise to go it alone.

Hence they need to partner in some form with others either horizontally within the value chain or vertically along the value chain with others who can offer new skills or services. The value chain for media companies is illustrated in Figure 1, using as example two alliance described in this article. Publishers require content, packaging and distribution. Traditionally they have done it all themselves, though some content may have been acquired from contractual partners, such as wire services. Many publishers owned their distribution, while other contracted that out to partners. Historically, most alliance have been in the form of acquisitions of similar business. When a newspaper publisher buys another newspaper or chain, that is an example of moving horizontally within the value chain.

But in the new media environment, it is harder to own it all. Hence the need for partners across the value chain. That is exactly the nature of the deal struck this year between Brazil's Grupo Estado, parent of *O Estado Do Sao Paulo*, with Spain's Terra Networks Corp. Terra had distribution, but needed content. Grupo Estado had tons of content but would benefit from solid Internet distribution. When the alliance was announced in early 2000, it was viewed as a benchmark for the industry. The critical need for reputable content by the new players in the Internet space was acknowledged by Terra's statement in making the alliance. Marcelo Lacerda, Terra's business development director in Brazil, justified its \$68 million value: "We are doing a deal with a company with more than 100 years in journalism...to work exclusively with Terra for four years... which is almost an eternity in Internet time?"

Another player in Latin America, Real Media, was itself active in striking alliances with newspaper publishers. It represented national newspapers with their own portal sites and brought them into Real Network's Latin America network for unified advertising sales. These portals included Ciudad Internet in Argentina, UOL in Brazil, and Mexican sites Infosel, Mexico.com and Mexico Web guide.

News Corporation, with newspaper as well as other media interests around the globe, was spending 1999 and 2000 playing catch-up in its Internet presence. It formed a partnership with Scottish Knowledge Plc to create a distribution mechanism for higher education distance learning. For an investment of 3.54 million pounds (\$5.8 million) it received a 25% interest in the venture. Les Hinton, executive chairman of the News International subsidiary, explained the deal as an "important part of the strategic Internet investment program" of News Corp.

Many European publishers are looking for partnerships to play to their own strengths, often forging transnational alliances in the process. Teaming up with U.S.-based search engine firms to combine into localized portals has become one popular type of venture. Sometimes the package of players creates a strange group or bedfellows that would have had little in common in the pre-Internet age. For example, Germany publishers Axel Springer and Holzbrinck joined with Deutsche Telekom to partner with Infoseek to create a localized portal service. Monique van Dusseldorp, director of a Dutch consultancy bearing her name, has warned that some alliances may be a deal with the enemy: "These localized and customized American navigation sites and Web portals might pose more of a threat to European newspapers than other content sites because of their draw on user attention and advertising expenditures."

But the conundrum for the publishers is whether such sites will be successful anyway as the powers of the portal sites team up with someone else while they sit on the sidelines or try to go it alone and fail for lack of knowledgeable and experienced partners.

Determining the nature of the relationships that makes sense often involves asking simple questions that may generate gut-wrenching answers. *De Financieele Tijd*, the Belgian newspaper, generated 11% of its revenue in 1999 through electronic services. Its editor, Jan Lamers, suggests that publishers must examine their core competencies, the available technology, and their customer franchise. Then they can answer the questions: "How can

I serve my customer better tomorrow than today??

The answers will also be somewhat related to national cultures. Publishers in the U.S., who in the mid 1990s seemed to view online ventures as primarily defensive experiments, are now more inclined to see such activities as true revenue opportunities. According to Terry McGuire, former senior vice president of the American Newspaper Publishers Association, sees US publishers as treating the content of online services as independent of the newspaper or at least including content not in the print product. This is not the case in Europe, he notes.

But European publishers may be starting to think more boldly. *The Telegraph* in the U.K. has set up a separate operation, The Electronic Telegraph and France's *Le Monde* has created a new company dedicated to Internet and related developments to work both independently and as well as with other partners. Michael Colonna d'Istria, media director for *Le Monde*, believes that "This strategy is aimed at long term revenues, because no profit is envisaged for the first three to five years." Denny Meadows-Klue, the marketing director for the *Electronic Telegraph* reinforces this strategic view. "The newspaper industry...is not known for investing heavily in research and development, but to profit from the chances the digital is bringing, long term vision and substantial investment are necessary."

Not all publishers find happiness with their alliances, however. One of the first publishers to anticipate that allies, even competitors, may benefit all the boats in the sea was the *Boston Globe* (subsequently acquired by The New York Times Co.). Starting in 1995 its Boston.com offered a gateway "today it might be called a portal" to a wide variety of Web sites that would serve the Boston audience, including Web sites of participating local TV and radio stations, a metropolitan weekly newspaper, local civic organizations, traffic reporting and others, as well as its own newspaper. But by 2000 Boston.com had clearly devolved into a site that was mostly Boston Globe material, with less visible content from outside sources.

On the other hand, Ireland.com seems to be happy with its well established portal approach. It's designed to be a portal site, not just the site for the *Irish Times*. "We wouldn't think of not having the newspaper as the core part of branding," advised Seamus Conaty, its Managing Director. Yet he argues that "online newspapers aren't market leaders," so publishers need to be prepared to "identify partner with whom you can make an alliance."

Deals and partnerships are thus on the ascendency. In the U.S., The Tribune Company has been in the forefront of creating a portfolio of investments in new media players (see Case Study). They were an early investor in America Online the portal and Excite@Home, among others. The Tribune has very specific criteria for what it will consider for its investments: the company must feel it can add something to the portfolio company's chance of success or reduce a critical risk factor. That is, these are more than passive investments. Of course, traditional mergers and acquisitions are alive and well.

After selling off its video, paper and book publishing operations over the past decade, Times Mirror Co. offered what was left -- its newspapers and magazines -- to the Tribune Co. this year.

Not just the newspapers themselves are playing the game. The Associated Press news service forged its own partnership with cable and Internet upstart CNET in early 2000. AP will offer stories from CNET's daily technology coverage to its print and broadcast membership, as well as passed through to the Web sites of 300 of its members. For its part, CNET will have the right to use AP's technology and general news at its own Web site. Reuters, through its Reuters New Media, was in the forefront of partnering with nascent Web search engine sites and others to become the early leader in providing news as an add-on to Web sites such as Yahoo.com and Excite.com.

In a similar bond between new players and old, venerable Dow Jones & Co. concluded an agreement with media upstart Excite@Home to create a jointly owned Internet site devoted to business-to-business communications and transaction for smaller businesses. The business model for the venture, called Work.com, follows that which is familiar to both newspapers and especially the Internet: revenue will initially be primarily from advertisers, with a long term expectation to add both subscription and transaction revenue streams.

One of the consistencies of these alliances is that they are often innovative. The Internet, in particular, has created opportunities that were inconceivable a decade earlier. E-commerce, which in 2000 was substantially further developed in the U.S. market than elsewhere, provided one type of model. And the economics make it feasible for smaller players to participate. In a Philadelphia suburb, the *Bucks County Courier Times* is creating a new type of partnership with some old "partners" of sorts: heir advertisers. They are setting up an e-commerce site within the newspaper's Phillyburbs.com Web site. Using turnkey software from Internet Tradeline, they are recruiting merchants to set up online shops. Internet Tradeline handles all the billing, while the newspaper sells the "mall" to local merchants. The participants are charged a monthly "rent" as well as a small fee for each transaction.

Through affiliate programs, publishers can also engage in alliances without even negotiating with the intended partner. Pioneered by online merchant Amazon.com, these agreements allow any Web site operator to become an affiliate of a merchant. Then, the purchases of buyers that come to the merchant's site via a click at the publisher's own Web site earns the publisher a commission. At the *Burlington County Times*' Web site, 77% of all users clicked through to the site of American Greetings, which offered e-mail greeting cards.

The Internet has been a particularly fertile catalyst for new and innovative deals. The extent of alliances seems to be endless and the range of partnerships and investments is unlimited. Publishers all over the world are discovering how they can get a piece of the new economy while keeping themselves in the old industry so long as it makes economic sense.

Contacts:

Grupo Estado
Julio Moreno
jmoreno@ageestado.com.br

Ireland.com
Sean Conaty
sconaty@irish-times.com

Monique van Dusseldorp
Van Dusseldorp & Partners
monique@vandusseldorp.com

Terry McGuire
tmaguire@newspaper.com

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Mexico.com
<http://www.mexico.com/>

Agencia Estado
<http://www.ageestado.com.br/>

Internet Tradeline
<http://www.internettradeline.com>

Trend Setter:**Tribune Ventures Equity Approach**

The Tribune Co. invests in opportunities only where Tribune can either *enhance* a success factor or *reduce* a risk factor of the portfolio company. Ventures focuses on generating opportunities that require relatively small amounts of capital but, if successful, can meaningfully impact Tribune.

An important Ventures mission is to facilitate learning throughout Tribune. These nimble, cutting-edge portfolio companies provide us with insights that make Tribune smarter and faster. Tribune usually takes a seat on the board of directors of its investments and works actively to build value in the portfolio company and learn from its activities.

- **Product development** - strategic relationships improve Tribune's ability to develop and launch new interactive products and services
- **Information access** - investments provide insights into new technologies, content, markets and capabilities to strengthen Tribune's existing businesses and help them grow
- **Funding source** - proceeds from the sale of successful investments defray internal development costs for new interactive products

Strategic Priorities

- Identify and invest in emerging media and information businesses that are strategically important to Tribune: online content, digital television, e-commerce, electronic education, business-to-business information and interactive direct marketing.
- Identify business opportunities with existing portfolio companies

Tribune Ventures Portfolio, 1999

[America Online](#) - America's largest online service, with more than 21 million subscribers.

[CheckFree](#) - The largest electronic payment processor, used by 19 of the 20 largest banks in the United States.

[Excite@Home](#) - Leading provider of broadband Web services and open access to the Internet via cable..

[Exactis](#) - Customizable, scalable e-mail marketing solutions for business.

[Food.com](#) - The Internet's largest takeout and delivery service.

[iOwn.com](#) - Online mortgage broker and real estate service.

[iVillage](#) - A leading online network targeted to women, with top brands Parent Soup and Better Health.

[Lightspan](#) - Developer of electronic education curriculum products. Products used in more than 500 school districts.

[Open Market](#) - Leading provider of Internet commerce software and services.

[Peapod](#) - Online grocery shopping service, with more than 75,000 customers and operations in eight U.S. cities.

[Pseudo Programs](#) - Online entertainment network. Produces more than 40 Internet-television programs.

[Replay Networks](#) -- Creators of next-generation television products using advanced digital technologies.

[ValuPage](#) -- A website service where consumers receive coupon savings on leading national brands at local supermarkets.