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WEEKLY INSIGHT
Bertelsmann abandons Internet businesses
German media giant said it plans to withdraw from its online retail ventures that have failed to make a profit. Among them are the electronic shop Bol.com and the music swap service Napster. Bertelsmann has admitted contacts with competitors to sell these online units, but the company wouldn’t confirm conversations with Amazon. According to some sources, Bertelsmann will maintain BeMusic division, which includes CD retailer CDNow, its BMG MusicService music club, and its 36 percent stake in Barnes&Noble.com. Bertelsmann’s new strategy follows a shake-up orchestrated by the new CEO Gunter Thielen, who has announced his intention of throwing more weight behind its traditional book and music club businesses. Bertelsmann’s moves highlight the trend among some big media conglomerates to step back from their Internet operations. From News.com [Full Story]

Highlights
- Bertelsmann is the world’s third largest group of communications, behind AOL-Time Warner and Vivendi. It is a private company, whose major shareholders are Bertelsmann Foundation, Bruxelles Lambert group and the Mohn family.
- The company owns Random House, a publisher; BMG, the world’s fifth-largest music group; the Arvato media services group; the online music retailer CDNow, the American and European publisher Gruner&Jahr; and the European broadcaster RTL. The first semester of the year, the group had revenues of €8,830 million, 5% less than the same period of last year, thus it has begun a disinvestment process.
- In 2001, Bertelsmann invested €900 million in projects related to the Internet. At the moment, Bertelsmann wants to sell the e-commerce outlet Bol.com, founded in 1999. The sale of the online file-sharing service Napster has been blocked by a federal judge, a decision likely to force the onetime file-swapping powerhouse out of business.
**Press Review**

*From The Economist*

“The departure of Mr Middelhoff [Bertelsmann ex-CEO] will mean an about-turn in Bertelsmann’s strategy. For starters, Mr Thielen said on July 31st that the Mohn family will not sell any of the 75% stake it controls—as Mr Middelhoff had wished—when there is a public offering of 25% of the group’s shares in 2005.

(…)

It is also likely that the company will shut down or sell many of Mr Middelhoff’s Internet investments. And, like AOL Time Warner, Mr Thielen has also signalled that he will abandon Mr Middelhoff’s attempts to create synergies between the different groups—ranging from Random House, a publisher, to BMG, the world’s fifth-largest music group, to the Arvato media services group—instead allowing them to be run independently, as in the past. In his statement of July 31st, Mr Thelen said the autonomy of the divisions would be at the centre of his management style”. [Full Story]

*From MSNBC*

“By purchasing bol.com, Amazon would strengthen its dominant position in the online-bookselling market and rid itself of its most serious competitor. A spokesman for Amazon couldn’t be reached for comment. Amazon is regarded as a natural buyer, but people close to the matter cautioned a sale had yet to be discussed in detail”. [Full Story]

*From New York Times*

”The strategy is to make money as soon as possible in our core businesses in our core markets,’ said a senior Bertelsmann executive, who spoke only on the condition that his name not be used. ‘Unfortunately, this doesn’t include BOL.com.’

(…) While Mr. Thielen’s swift moves have surprised insiders, he has not decided the fate of all Internet-related properties. The company owns 35.2 percent of BarnesandNoble.com, an American online bookseller that has been dwarfed by Amazon. Despite rumours that Bertelsmann wants to sell its stake, executives said a sale was not planned—in part because the service is a joint venture and is separately managed”. [Full Story]

**Commentary by…**

Africa Ariño, IESE professor

**The correct decision or the right decision?**

In company life, all decisions are taken under conditions of uncertainty because the available information is never complete. When decisions are strategic and there is a turbulent environment, the future of the company is at risk. Bertelsmann’s new CEO’s decision to shed its online businesses is a good example of that.

Three or four years ago, a series of new generation companies (Amazon, Napster...) started to threaten the traditional players, of which Bertelsmann is one of the biggest. Prospects for this kind of project were very optimistic and the “now or never” perception prevailed. In this atmosphere, the German media group decided to invest in Bol, the online bookstore, and later on, in Napster, the popular music-swap service.

However, many questions made it difficult to decide whether to participate in the Internet businesses. For instance, in the case of Napster, uncertainties about content security (copyright protection) and quality of downloads stood out. The evolution of these two variables let us foresee four possible scenarios: 1) high quality and secure content, where digital music would replace the traditional one; 2) content protection and low quality, in which a parallel low price music market would be created but with sparse demand; 3) low quality and insecure content, with digital music becoming a complementary resource without any incidence in the market; and, 4) high quality and insecure content, which would lead to the practical destruction of the traditional record industry. The last scenario—that seems to be gaining ground—was the only one capable of damaging Bertelsmann. In all the other eventualities, the alliance with Napster placed the company in better conditions than its traditional competitors regarding digital music, allowing it to even block access to them.

Given the uncertainties of the moment, the former management team of Bertelsmann more than likely took the correct decision, after analysing all the possible scenarios, but that doesn’t mean Bertelsmann got it right.

Time has passed and at present there is more information about how Internet works in this sector. However, the dilemma is repeating. Is it worth investing in a service that, at the moment, is not profitable but can help to place the company in a good position in a market with a future? According to Bertelsmann’s new chief executive officer, it isn’t. The alternative chosen could mean that the development of strategic assets will be slowed down and that may be of great importance if Bertelmann wants to be able to compete in the future.

In this case, at least two important doubts can be distinguished: the development of the market and the behaviour of
the competitors. Only the future will tell us if the decision is right. Whether it is a correct decision will depend on the fact that those responsible have considered the foreseeable consequences with the information available today.

EBCENTER ARTICLE
The Internet, the big opportunity for traditional travel agencies
Fabrizio Noboa, IESE PhD Student
The Internet provides the traditional travel agencies with a great opportunity to reduce inefficiency, cut costs and place last minute offers on the market. [Full Story]

REPORTS
Online content market increase 155%
Tittle: Online Paid Content. U.S. Market Spending Report
Source: Online Publishers Association (OPA)
Date: August 2002
Abstract: This report, covering the full year of 2001 and the first quarter of 2002, shows that this market is experiencing a period of spectacular growth: U.S. consumer spending for online content in Q1 2002 was $300 million, an increase of 155% over Q1 2001. The top three categories – Business Content, Entertainment and Personals/Dating – account for 59% of spending for online content. The OPA states that 1,700 sites charge for content online. Annual subscriptions accounted for 49% of paid content sales in 2001, while monthly subs accounted for 31%. Single purchases accounted for 15% of content sales. The survey shows that 74% of those who subscribed for monthly payments were still visiting fee-restricted content areas 12 months later. On the other hand, the average conversion rate for those who signed up for free trial offers becoming paid subscribers was 17.4%. [Full Story]

Examining online travel sales commissions
Tittle: The Internet Travel Industry: What Consumers Should Expect and Need to Know, and Options for a Better Marketplace
Source: Harrell Associates for Consumer WebWatch (Project of Consumers Union, supported by grants from The Pew Charitable Trusts, the John S. and James L. Knight Foundation, and the Open Society Institute)
Date: June 2002
Abstract: The American consumer association Consumer WebWatch has elaborated a survey that analyses the U.S. online travel market and its transformation due to Internet. In 1997, it was estimated to have made up 1% of the total U.S. travel market. Today it has grown to 11%, valued at over $20 billion. According to the report, three important factors had gained enough momentum to drive the aggressive migration to Internet-based travel: high distribution costs; new technology that offered a cheaper alternative to existent technology and direct access to customers; and a consumer population receptive and eager to take control of their own destinies.
The document classifies travel Web sites as service providers, destination related or Internet travel agencies. Moreover, Harrell Associates alludes to the commissions issue, that haven’t disappeared with Internet. The analysis reveals that four large independent sites—Cheap Tickets, Expedia, Lowestfare and Travelocity— may not always be totally objective. For example, advertised airlines dominated flight listings and certain airlines with viable itineraries for routes tested were not listed at all. [Full Story]

Workers spend more than one entire workday accessing non-work-related sites
Tittle: Web@WorkSurvey 2002: Cyber-Addiction in the Workplace
Source: Websense
Date: August 2002
Abstract: Employers report that workers spend 8.3 hours - or more than one entire workday - accessing non-work-related sites at work each week. That is the major finding of a Websense report, that describe its behaviour as
addictive. According to the survey, one out of every four employees reported feeling addicted to, or compulsive in, his or her use of the Internet. In addition, 9% of workers reported having been told they use the Internet too much. Besides e-mail, employees reported that the following categories of Web content are most addictive: shopping (24%); news (23%); pornography (18%); gambling (8%) and auctions (6%). The study, interviewing both employees and HR managers, shows 67% of workers reported accessing news sites for personal reasons at work and 37% access shopping and auction sites at work. According to Websense, while 78% of employers block employee access to pornography, only 20% block access to shopping and auction sites, 47% to gambling and 4% to news. Thus, many corporations fail to block Web sites that employees find most addictive.

[Full Story]

COMPANIES

SonyEricsson doesn’t convince Ericsson
Ericsson said that the continued financing of its mobile phone joint venture with Sony is dependent on the unit improving its financial performance and market share of the handset sector. The joint venture, Sony Ericsson Mobile Communications, was formed in October 2001 and aimed to be the world leader in mobile phones and multimedia handheld communication products within five years.
From Europemedia.net [Full Story]

Dell, eBay and Amazon founders, young and millionaire
Michael Dell, Dell founder and CEO, heads the ranking of America’s 40 richest under 40, elaborated by Fortune magazine. His wealth is worth $16.49 billion. The second place is for eBay Chairman Pierre Omidyar, who has $3.82 billion.
There are others New Economy founders in the ranking. Jeff Bezos, Amazon CEO, holds the fourth place with $1.66 billion and Yahoo! founders David Filo and Jerry Yang, hold seventh and eighth place, respectively. From Fortune [Full Story]

WE RECOMMEND

Internet, a key in brand building
In spite of the fact that companies perceive the Internet simply as another channel, brand building is an area in which the Internet could change everything. Indeed, the real transforming power of the Internet derives from its ability to serve as the central organising platform for integrated marketing communications programs.
Three concepts illustrate how the Internet can be turned into a mechanism to integrate multichannel marketing programs effectively. On the one hand, the Internet can also provide a critical market-sensing test, providing marketers with metrics that help them decide whether to scale up or cut back programs in other media. Moreover, the Net can support a feature or service that will differentiate the brand. Lastly, the Web can help integrate multiple brand-building approaches by being a common component and a forum where they can appear together.
An integrative Web program can multiply not only the exposure of the advertising, but, more important, its impact, thus sometimes online support can mean the difference between failure and success for a customer promotion.
From Strategy+Business [Full Story]

How to negotiate the IT budget
As budget negotiations for fiscal 2003 proceed, CIOs undertake the job of negotiating with their CFOs for IT project approvals, which is no simple task, because the CFO seems to regard IT as a sort of fiscal black hole. Optimize Magazine has elaborated a guide to help CIOs to sustain a conversation about the financial indicators of the business with the CFO and CEO.
Knowing the opposition is the most important thing. The CIO must ask the CFO for a glossary of financial terms and jargon used at the company--and in return, offer himself to educate him or her about IT. In this way, CFOs can understand the cost of maintaining the existing infrastructure and why it is necessary to upgrade systems that still have a useful life in financial terms.
Moreover, the CIO must learn to quantify project benefits, something rather difficult because of the inherent ambiguity
of strategic plans. From *Optimize Magazine* [Full Story]

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