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Opportunities and Risks of Electronic Publishing: The Case of 'Rentrop Publishing'

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Abstract

This paper analyzes the opportunities and risks of launching Electronic Publishing in the case of the medium-sized German publisher 'Rentrop Publishing'. After a short look at the company's business and an introduction to the corporate philosophy, products and core competencies, the question of entering Electronic Publishing is enlightened from three different angles - timing of entry, value-chain activities to be included, and product design. The paper ends with first conclusions concerning the opportunities and risks and some 'Lessons Learnt' of entering into this market.

1. Introduction

Printing and printed products have had a tremendous influence on the development of mankind, especially as a medium for the dispersion of knowledge. Printing made knowledge available at low cost and broke know-how monopolies. Publishers, along with librarians, have been the guardians of knowledge and drivers for

innovation. Lately, electronic media have increasingly challenged the position of traditional print media in their knowledge conveying function. Means of mass communication, such as television, are less expensive and offer the possibility of reaching many more people than printed publications. However, traditional TV has proven barely suitable to disseminate the content supplied by traditional publishers. The Internet, on the other hand, supports the necessary functionalities.

This case study of a mid-sized specialized publisher analyzes the opportunities and risks of entering the Electronic Publishing (EP) business. Facing a situation where EP is assumed to become rather predominant during the next decade (European Commission 1996), the paper discusses the situation of Rentrop Publishing (RP) on the brink of EP, investigating the following three management decisions:

- (1) Timing for entering EP activities
- (2) EP value chain activities to be offered
- (3) Digitalization of traditional products versus new product creation

Preliminary conclusions are drawn which should aid in designing adequate frameworks for the introduction of EP by small and medium-sized publishers, thus also furthering the development of a viable business model for EP.

2. Rentrop Publishing

Rentrop Publishing (RP), headquartered in Bonn, Germany, was founded in 1975. With about 300 authors and an additional 160 employees, RP is one of the most important German business-focused publishers today.

2.1. Business Model

RP's core business is consultative journalism for entrepreneurs and individuals with entrepreneurial responsibilities. Traditionally, the company has considered printed media as the only possible means of conveying valuable know-how and consulting at fair prices.

The Rentrop Publishing consulting pyramid (see Figure 1) is at the core of RP's publishing philosophy: Classical 1:1 consulting services offered by consulting companies at a cost of around DM 2000 per day are judged to be prohibitive for entrepreneurs. Even consulting seminars with about 10 participants and costs of about DM 800 per head and day are considered to be too expensive for entrepreneurs. RP therefore concludes that the only affordable possibility for a start-up company to receive necessary and appropriate consulting services is by buying a specialized publication (published consulting) where the total cost for the expert

advice is shared by a rather large number of interested parties (see also Gumpert 1982).

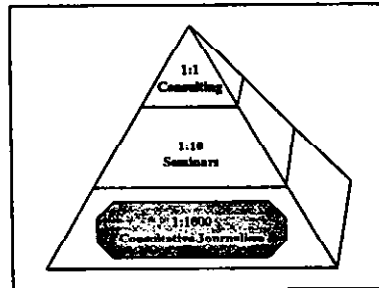


Figure 1: The Rentrop Publishing consulting pyramid
(Source: Rentrop 1997, p. 6)

2.2. Product Range

RP's product range includes magazines, loose-leaf services, newsletters, and books covering topics such as advertising advice, public speaking, money management, taxation and social security, human resources as well as personnel law.

In total, RP offers four *magazines* on a monthly or bi-monthly basis. Once every two months, the 100 page magazine 'Die Geschäftsidee' (The Venture Idea) presents the newest business ideas. Furthermore, the archive of 'Die Geschäftsidee' has more than 3000 key words and contains very detailed information on each of the listed subjects. Subscribers can also use additional services. For instance, twice a week, an expert team is available by telephone for free advice ('Editor Consultation Hotline'). The magazine 'Chef (Boss)' is RP's *only* publication for new ventures available at news-stands. It appears bi-monthly and is sold in Germany and Austria.

RP's *information letters* summarize up-to-date news from various sources. Its 'Trendletter' presents the most important developments from more than 120 international and German specialized journals and information letters. The 'Rentrop Letter' gives an overview of the newest information on political decisions from Bonn, Berlin, Brussels, Washington and Zurich. Customers can obtain a 'Trendletter' subscription in English or German.

As of 1998, RP offers about 30 different *loose-leaf editions* supplying updates and additions on a regular basis via mail to customers. Every single article is written by an expert from the individual field. The concept is to offer regularly updated information on topics where a reference book would become outdated within a few months due to new developments.

In addition to magazines, information letters and loose-leaf editions, there is an extensive selection of *specialized books*. The thematic focus lies on the setting-up

of new ventures, advertising, business strategy, real estate and motivation. The overall objective of these books is to offer readers easily understandable knowledge that can be put into practice immediately.

Free Extra Services range from up-to-date tax information, various form sheets for companies and practical work guidelines, to the usage of the extensive editors' archives. Subscribers of the loose-leaf editions can make use of a combination of services as well as of individual consulting. They receive vouchers for these services on a regular basis. Furthermore, around the clock fax line and electronic services containing permanently updated documents are available.

2.3. Advertising and Public Relations Activities

Magazines, loose-leaf editions, and books need advertising to be positioned or to defend their position in the market. RP's most important advertising measures are directly addressed letters, ads and inserts in magazines as well as TV spots. Direct advertising is a measure without dispersal losses that aims at a targeted and informative contact with each individual customer (Kotler 1991). Every year, RP runs two big regular mail-based advertisement campaigns with information on its newest publications. The necessary addresses are obtained partly from recording all customer information after a query or an order, from generally accessible media such as telephone books, or they are bought from specialized suppliers.

In terms of public relations, RP sponsors a basketball team, the BG Rentrop, which plays successfully in Germany's first basketball league for women. Also a number of prizes are funded, such as the 'Cicero Prize' (supporting the speech and debating culture), 'Franchise-Prize' and the 'Prize for New Ventures', which is awarded annually by the German Minister of Trade and Commerce.

2.4. Employees

RP aims at hiring the best experts in their respective fields as editors, demanding a high degree of journalistic quality. Depending on the individual field, these editors are supported by 10 to 20 specialized authors. It is the company's policy to select real-world practitioners from industry, consulting and public administration that do research and analysis on the relevant subjects. As printing and distribution are outsourced, RP sees its real assets in the authors' and editors' capabilities and know-how.

In its effort to provide its employees with opportunities for continuous learning and training beyond the usual seminars, every employee gets a fourteenth salary, which is ear-marked for personal training and development measures. The use of this sum is up to the employee.

2.5. Growth Strategy

Over the last 20 years, RP has achieved rapid growth by pursuing expansion on the basis of a holding-structure organization (see Figure 2). This allowed the development of an internationally operating publishing and media group from the core business of being a specialized publisher. As 'acquisition strategy', RP supplies capital to young publishers with good ideas. The related investments not only comprise financial support, but also include substantial know-how in form of controlling and accounting instruments.

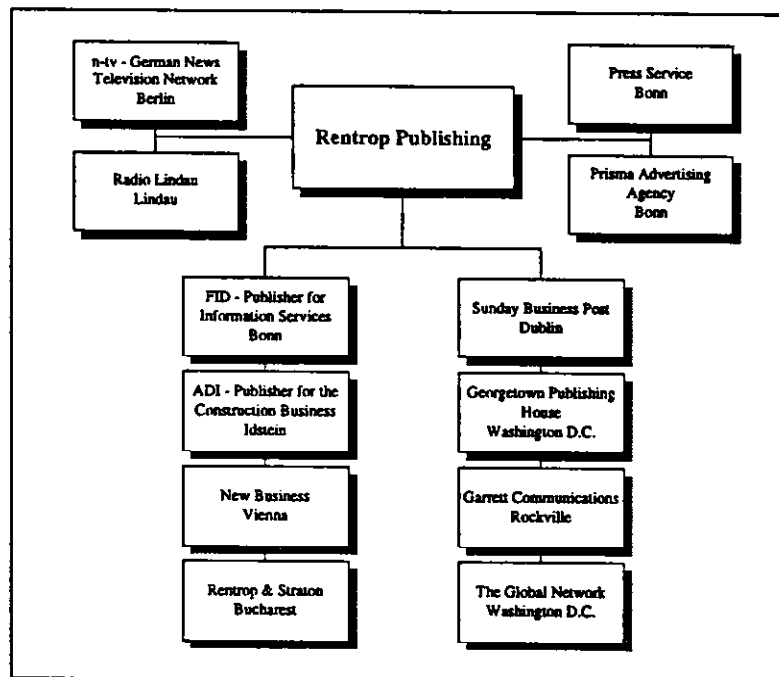


Figure 2: Holdings of Rentrop Publishing (Source: Rentrop 1997, p. 5)

In its effort to expand internationally, RP focuses on the concept of licensing certain products. As a result, in 1997, more than 600 employees and roughly 1000 authors accomplished a turnover of about DM 154 million for the group in seven countries.

The entry into the US market was achieved through joint ventures with renowned partners and with products that had already been successful in Europe. Those were then adapted and rewritten according to the needs of local customers. RP holds 50% of Georgetown Publishing, a company specialized in loose-leaf services for public speaking as well as protocol and etiquette. RP's share in The Global Network, a US company specializing in business newsletters, is 47.5%. Finally, RP owns 25% of Garrett Communications that focus on industry newsletters.

One of the corporate objectives is to become world leader in speech-writing consultancy. This was achieved in the U.S. due to the commitment of leading experts, such as the ghostwriter of Former President Ronald Reagan., as well as excellent partner companies. So far, such license partners have not been found for France or the UK, though.

In Europe, various RP consulting products have been available for a number of years, partly as licensed products, mainly in Eastern Europe and in France. As of February 1998, national and international investments in print media were the main focus of RP's corporate portfolio, as the company still sees a big growth potential in the field of special (printed) information services.

Altogether, the question of market expansion is rather difficult to answer for RP. The Internet offers a possibility to develop and market new products to new customers. On the other hand, the company still sees a number of horizontal expansion possibilities in the conventional business, for example in the areas of contract or controlling consulting. There is also quite a large number of business sectors that RP has yet to cover in its sector reports. Furthermore, the company sees new products, such as digests of already covered subjects. The area of contracted writing on sectors has also been expanding rapidly. Additionally, as outlined above, RP started a process of internationalization with traditional products by aiming to attract license partners for special product lines in various countries. This conventional internationalization strategy obviously differs widely from internationalization via the Internet.

3. Three Decisions BEFORE ENTERING the 'EP' Business

The entry into EP could enable RP to further extend its successfully applied business concept of the consulting pyramid. By offering products and services electronically, most likely via the Internet, this would be equivalent to the expansion of the pyramid shown in Figure 2 by an additional base layer (see Figure 3). Content (consulting) provision via the Internet, could vastly increase the number of potential customers per service to about 100,000.

In spite of those numbers, RP is currently still rather unsure about the expected role of the Internet in its business model for the near future. In order to further analyze the opportunities and the risks we will now investigate three main decisions to be taken by RP in preparation of an eventual entry into the EP business.

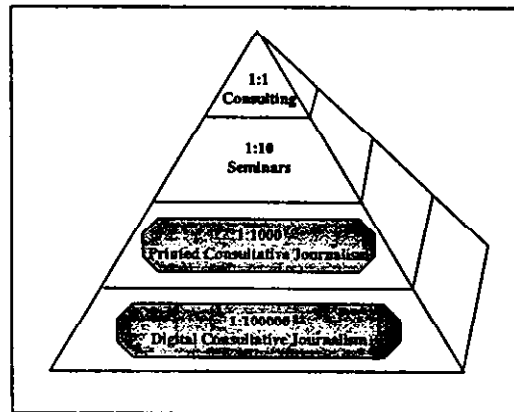


Figure 3: Electronic Publishing consulting pyramid (adapted from Rentrop 1997, p. 6)

3.1. Timing of Entering EP Activities

There are two basic options for the timing of entry into EP activities: (1) to be an innovator and early adopter which would suggest to become active on the Internet as soon as possible, or (2) to wait and learn from the first experiences made by other companies before designing one's own strategy (for a slightly more differentiated list of alternatives see for example Kalakota and Whinston (1997)).

In the current hype about the Internet, most authors and consulting sources suggest going on the Internet as early as possible, even if in the first phase it is mainly for learning purposes. Not entering EP is considered to endanger publishers' survival in the long run, robbing them of expansion and growth potential. As entry barriers are quickly rising, late entry may make it more difficult to establish a sufficient customer base. Following this line of argument, early investment in EP should allow publishers to gain and develop a certain degree of know-how and to slowly build up a customer base. Generally speaking, this would then make them more attractive for the still most important source of revenue - namely - advertising.

While RP is aware of those lines of argument, the company stresses that according to various sources (e.g. Kalakota and Whinston 1997) the profit potential of EP is still doubtful, and that EP represents only about one to three percent of the traditional publishing markets in value (e.g. European Commission 1996).

In contrast to this strategy of trying to be first, RP proposes the strategic concepts of an 'innovative imitation' and a 'fast second'. The concept of 'innovative imitation' (Rentrop 1985, 1995) follows Theodor Levitt's encouragement for more strategic imitation which was introduced at the Harvard Business School in 1966 (Levitt 1966). This strategic approach refers to applying a business model, proven to be successful in one market to a different market for which it is truly innovative.

However, a more precise interpretation of the term 'innovative' is necessary. While Levitt refers to the establishment of early-warning systems in order to identify successful innovations in different markets faster and thus to enable the own company to benefit from them ('pull'), Rentrop stresses the importance of transferring successful solutions into new markets ('push'). A generally known example of such a strategy are franchise systems where a successful concept is transferred into geographically new markets.

For RP this means transferring its currently successful business approach to a new market, which could be the Internet world, but which could also mean further promoting similar products for different customer groups (e.g. covering business sectors or entrepreneurial topics not sufficiently covered yet) or increasing the number of licensees and expanding to additional countries.

In his argument, Rentrop (1985, p. 27) names the following three prerequisites for the successful application of the 'innovative imitation' strategy:

- there is not only one world market, but there are several separated markets where an innovation in one would not necessarily be an innovation in another,
- there are similar markets with free market access,
- information about innovations, their concepts and their success is available.

From those three prerequisites it becomes debatable to what degree the strategy of 'innovative imitation' can be successful with regard to potential EP activities. Prerequisite (1) seems to be at risk. The general claim is that the Internet leads to one world market, although Rentrop would question this statement, as he assesses RP's products to be very language, legislation and culture dependent.

The strategy of the '*Fast Second*' (Baldwin, Childs 1969) was first promoted in the business world by IBM in the 1970s (Hoffman 1975). The company decided not to develop new products or new markets on its own, but to let small companies go first. Once a new concept had been successful, the idea was to then enter the market fast and to immediately start production. High pre-production costs and the importance of economies of scale would soon provide large companies with a competitive advantage compared to the small innovator.

RP is in favor of the strategy of the 'Fast Second' as it is not aware of any relevant national or international competitor that has already made profit on the Internet. Aiming to be a 'Fast Second', RP should wait with entry into EP until the market and its boundaries have been defined. Then the company will imitate its most successful competitor, thus avoiding costs of testing and mistakes. Once having entered into EP, it will be difficult to leave this market again, even if it proves to not be profitable (Kelley, Thibaut 1978).

The strategic preference for the 'Fast Second' approach can also be seen in other potential changes in the company's business activities. For example, RP is investigating the opportunities and risks of selling software (via diskette or CD-ROM) which has turned into a complement to traditional print media. However,

similar to its Internet approach, RP currently only observes and tries to analyze the activities of a German publisher of similar size that started to sell software about two years ago. Says Norman Rentrop, "This company has been getting a lot of publicity, but I doubt that they are making any money on their software products. Before entering this market, I want to see that there is money to be earned and I want to know the DOs and DON'Ts. Once I understand the business processes, I think that we will be able to catch up with early movers very rapidly and then to even overtake them." (Rentrop 1998)

3.2. EP Value Chain Activities to be Offered

In its traditional business model, RP's core competence is the creation and provision of first-class, focused, almost unique content. Business critical is the finding of experts in their respective fields who commit themselves to regular publications (exclusively for RP). Only two of the currently 42 editors and their according teams are RP employees, while the rest are free lancers with a commitment to write only for RP. The following discussion focuses on RP including its free lancers.

In order to successfully distribute its product lines and, of course, to also provide appropriate customer support, RP needs to continue operating as a publishing house. It only disseminates the content that was exclusively written for it.

Taking this strong focus on content creation into account, it seems necessary to analyze various activities possibly to be performed in the EP business in order to determine which ones offer the best opportunities for RP.

We propose the following EP value chain (see Figure 4) as basis for further discussion (for the original value chain concept see Porter 1985; Porter, Millar 1985). It differentiates between two layers. The content-related layer addresses 'Content Creation', 'Content Packaging', and 'Market Making'. The infrastructure-related layer comprises 'Transportation', 'Delivery Support' and 'End User Interfaces'.

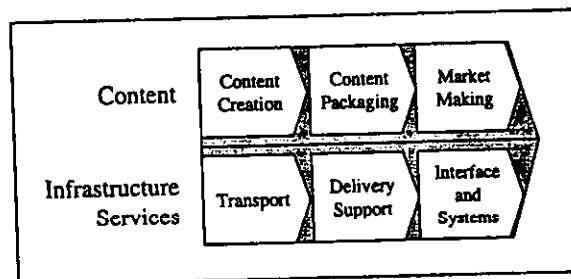


Figure 4: Electronic Publishing Value Chain
(Source: European Commission 1996, pp. 21-22)

Within this framework, the European Commission (1996) suggests that publishers may want to choose from the following roles to position themselves in their move from traditional to electronic publishing (see Figure 5):

- Online Network: Managing a full electronic marketplace
- Community Organizer: Focusing on an interest-centered target group
- Interactive Studio: Creating content with new levels of functionality
- Content Rights Agency: Managing rights and matching content to market needs
- Platform Provider: Creating an end-to-end easy to use technical platform for authors, publishers and/or end users.

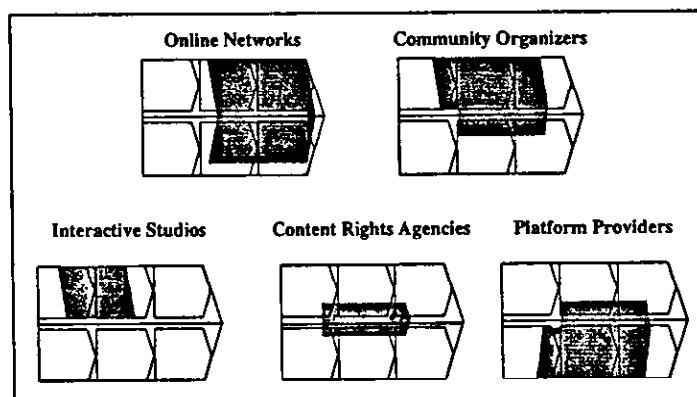


Figure 5: Strategic Roles in Electronic Publishing
(Source: European Commission 1996, pp. 22-29)

While we think that it is debatable if the 'Online Network' has its focus on content-related activities, it becomes obvious that the European Commission sees important opportunities in building new infrastructures and the complementary technological applications (i.e. the ability to manage full electronic markets) and conceives additional chances in running interactive studios for innovative content design.

For a mid-sized, content-focused publisher like RP, however, those market entry strategies currently do not look attractive. First, as mentioned in the previous section, RP prefers to be the 'Fast Second', i.e. new business models should be tested by other companies such as potential competitors, before RP begins to pursue them. Second, and even more importantly, RP, in conjunction with its editors, currently sees its strengths in the fields of 'Content Creation', 'Content Packaging' and 'Market Making'. The infrastructure needs, which are required in any of the business models, as well as the technical production, are outsourced to a variety of specialized companies.

Following its strategy of 'innovative imitation', RP aims at transferring its current core competencies into the EP world (see Figure 6). Physical distribution, technical delivery support, and interface design are - at a small scale - considered to be barely feasible and not profitable. The outsourcing strategy already in place in the conventional business should certainly be continued concerning necessary competencies in the EP era, such as cryptography, platform management, billing, inter-publisher clearinghouse functions, and vendor transactions management (Cronin 1995).

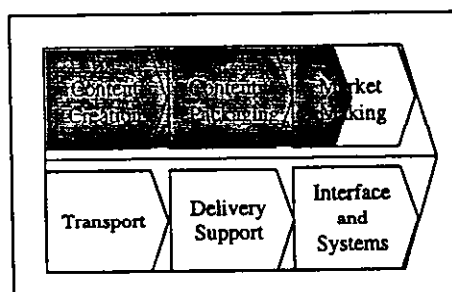


Figure 6: Rentrop Publishing - Potential EP focus

RP still regards itself a specialized publisher whose competitors (if any) are mostly other publishing houses that use similar methods to provide content, i.e. who have the same core activities and competencies. However, it seems more likely that other companies will become equally good at production, delivery and customer support activities than they start offering similar content (According to Norman Rentrop, as of February 1998, no other company in Germany provides similar content).

Therefore, following one of the basic rules for moving into the Information Society - leveraging one's core competencies - RP promotes a clear strategic decision. If it becomes active on the Internet with its products, it will clearly focus on content creation and packaging (may this be EP or not).

3.3. Digitalization of Traditional Products versus New Products

The third angle to be analyzed is whether to digitalize and, in terms of formatting, adjust existing products, or rather to create new content to be distributed via electronic channels only.

RP has been successful with its current printed product range. As most companies, it has already started to use the Web as a marketing tool for those products. Customers can see the product offers on RP's web page and order via e-mail. Regardless if payment services are integrated in the electronic business process or

not, those activities are *not* considered EP - they just describe the Web as additional means for marketing and customer support.

Within the range of EP activities, the first option is to take existing products, especially information letters, magazines, and loose leaflets, and to prepare them (without significantly changing the content) for presentation and distribution on the Web. While this approach is comparatively inexpensive and technically not demanding (Ellsworth, Ellsworth 1996), RP still waits for three major questions to be answered:

- (1) Is there enough interest from its customers for electronic products? How soon will its current customers become active on the Web?
- (2) Will the issue of copyright protection have a significantly stronger negative impact on electronic media than it has on print media?
- (3) Will the issue of product line cannibalization reduce sales in print media, or can separate customer groups be maintained for the same product offered through different media?

Currently, except maybe for university graduates considering to start their own business, the majority of RP's customers does not belong to the group of Internet users. However, with the general push towards the Information Society, RP foresees this to change within the next two years. More relevant are the problems of copyright protection and the issue of forbidden reselling of digital products. While technologies to support both issues are under development (Kalakota and Whinston 1997), they are not available yet, and the question, to what degree technical solutions will offer sufficient protection, is still under debate. Those issues are relevant in particular if RP digitalizes existing products, since this could increase the general risk of product-line cannibalization. Furthermore, even though copyright protection may become less of a technical problem in the near future, there is no regulation that limits reading (Choi, Stahl, Whinston 1997), and the marginal cost to disperse a document electronically is negligible (Maloff 1995).

The alternative option is to develop a separate line of business for the EP market. As outlined in the previous section, instead of getting involved in innovative roles within the EP segment, RP would focus on leveraging its core competencies from print. Consequently, RP's new business line would only consist of new products written by additional editors and their teams in order to serve rather diverse customer needs.

Since delivery costs are negligible in EP, RP could aim at developing legislation- and culture-independent products attractive to potential customers around the world. Furthermore, the significantly higher interaction potential offered by EP in comparison to conventional publishing would allow much more precise customization of newly created products to customer needs (Gerdy 1996). Customer expectations could be included to a large extent (development led by demand).

4. Lessons Learnt

EP can be used to supply innovative content, especially differently packaged, more targeted information. It combines communication with content, offering added-value by higher quality. Users of EP are much more in control of how much and what kind of information they want to obtain. When substituting print media by EP products, customers will request additional value such as availability (newest information, access to data from any location), presentation (multi-media such as video clips, sound, etc.), interactivity (user-friendly downloading, search functions, etc.), or innovative content (Figure 7).

However, whereas in many business areas the significance of time will further increase for information, this is not likely to be the case for many of RP's current products. Almost the same applies to video and sound elements. For RP there is much more EP market potential in offering increased interactivity which would provide its customers access to various consulting services (extended hotline features) as well as to detailed archives equipped with intelligent search agents. As RP aims at leveraging its core competencies into EP, the company sees a definite need to create innovative content when entering the new business. Otherwise, it assesses the risk of cannibalization as higher than the additional profit potential.

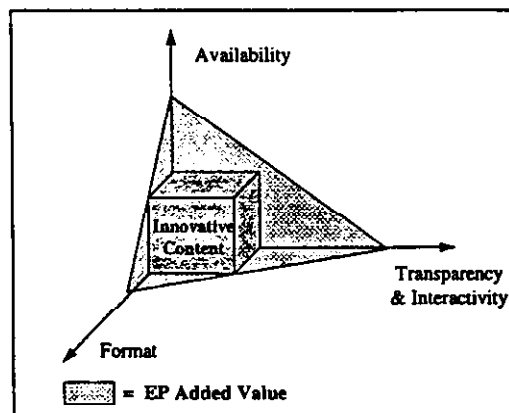


Figure 7: Dimensions of Added Value in EP Products

Last, but not least, RP would need to adapt the role of revenues from advertising in its cost benefit calculation to the common market principles in EP. The most important source of revenue in electronic commerce is the selling of advertising space (Choi, Stahl, and Whinston 1997). RP only has advertising in three of its publications, though. The main reason for not having advertisements placed in a larger number of its publications lies in RP's focused market approach. RP sells more than 98% of its publications directly to a comparatively small customer group. With such a small reach, selling advertising space is difficult. As long as RP keeps its business model of selling published consulting targeted at a comparatively small

customers group, the lack of attractiveness for advertisers will not change by being on the Internet.

5. Conclusion

Should a mid-sized specialized publisher like RP enter into EP? The analysis of risks and costs shows how different the EP business model is from the traditional one. As long as the necessary changes have not been implemented, rushing into EP seems rather risky and a positive return doubtful. In this respect, RP's strategy seems to be a good approach.

It is likely that, at least in the medium future, many customers will be willing to pay for access to the sites of those publishers whose print products they consider high-quality - if they see added value or a more favorable price as an incentive. However, in what way new user groups and usage patterns will develop using modern media technologies, thus opening growth and revenue potential, remains to be seen. As in any new venture, it will take some time for investments in EP to become profitable. Chances are that they will.

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