Strategic Actions in German Newspaper Publishing:
New Entrants Creating Turbulent Times for Incumbents

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"Competition jolts Germany's press: New foreign entrants and tough competition in domestic markets are forcing German newspaper publishers to reinvigorate their editorial and design in this now turbulent sector."

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Abstract

In the Internet era, the newspaper industry entered a competitive situation where sustainable advantage necessitated learning to move very quickly through 'attack-defense loops'. Incumbents and attackers in Germany had to analyze the newspaper economics in light of technological developments as seen from the perspective of traditional German players, traditional publishers entering the German market, and dot.com players trying to take advantage of what seemed to be low barriers of entry. The size and wealth of the German market made it attractive for international newspaper publishers.

The following exploratory paper represents an 18-month action research undertaken in the German market for business dailies during the battles between the incumbent, 'Holtzbrinck Publishing' with its business daily Handelsblatt and the seemingly most threatening new entrant, the Pearson Group, launching the Financial Times Deutschland (FTD) in a new alliance with the German Gruner & Jahr Publishing.

Introduction: Setting the Scene

German newspaper publishers long enjoyed what pundits described as a stable and staid oligopolistic coexistence. Germany was not only one of the five largest newspaper markets in the world, it had consistently been Europe's largest market for the circulation of dailies and for advertising revenue (World Association of Newspapers 2000, 2001). Of the dailies considered to be important business reading by Europe's decision-makers, Handelsblatt's strength in Germany had translated into leadership in the entire EU based on the weight of the German market (World Association of Newspapers 2001).

A warning of unprecedented turbulence came when the British Pearson Group (100% owner of Financial Times Group and the German publishing house, Gruner & Jahr, agreed to join forces. They began to recruit journalists late in 1998 for what its owners hoped would be a high profile launch of the German language Financial Times Deutschland (FTD). The defender Handelsblatt, Germany's only business daily until then, had the brand, the portfolio, the reputation, and the readership. But even as a privately owned newspaper insulated from financial market pressures, it could not afford to take this threatened market entry lightly. Within less than six months, in June 1999, Holtzbrinck formed an alliance with a 'third party' to counter the attack. The Street.Com reported "a strategic - although the cynical might term it defensive - alliance" between the Dow Jones Group and Holtzbrinck Publishing to swap minority stakes in their flag ship newspapers, The Wall Street Journal Europe (49% to Holtzbrinck) and Handelsblatt (22% to Dow Jones). Thus, besides defending Handelsblatt's ground against the attacker, the FTD, the arrangement also eased the entry of another new player (Dow Jones) to the German market of dailies.

In 1999, these deals marked Germany as the latest battleground between the Pearson Group and the Dow Jones Group with Handelsblatt as the key strategic defender in that battle.

World Newspaper Industry

Industry and Market Trends

All over the western world, newspapers had faced two decades of declining circulation, migration of advertising investments, and increased competition for the consumers from many new and non-traditional sources. In 1999, the most relevant trends for the international newspaper industry were (1) consumer time poverty, (2) consumer lack of concern for community, (3) rising service expectations of corporate customers, (4) saturation of marketing messages in society, and (5) the technological revolution.

Those trends translated into risks and uncertainties:

- Impact of global business conditions on advertising sales and the sale of products and services,
- Increased competition in the financial news market due to the rise in popularity of the Internet, financial television programming and other new media,

- Pressure to diversify the advertising base of print publications,
- Need to expand production and service capacity for electronic publishing products on a timely basis, and
- Cost of newsprint and labor.

However, these threats were not universally viewed as negative for the industry. The new and intensifying competition was also proving to be a remarkable stimulus to newspaper companies both to play better on their traditional strengths and to exploit to the full the new media opportunities (Balding 2001). Even in the European Union where circulation had been sliding for many years, the rate of decline had slowed to -0.1% as gains in seven countries almost offset declines in six others.

Newspapers were increasingly establishing themselves as platforms or portals for news and information to be accessed in various formats. Therefore the declines in circulation could be seen as being misleading in some ways. Where Internet penetration was high, newspapers might have lost slightly in the paper format, but they have, in many cases, compensated for this through readership on their web site (Balding 2000). Based on a strong brand identification, a reputation for credibility, and existing skills and talents in comparison to the increasing number of dot.com players invading the content provision market, the industry had sufficient opportunities to take advantage of the new economy (see also McGrath 2000).

Economic Fundamentals of Newspaper Publishing

While the newspaper business environment may be frenetic, there are durable principles of economics (Varian, Shapiro 1999) which serve as a guide for the production and sale of information goods (see Figure 1). Moreover, anything that can be digitized is information. What makes the nature of competition so special in information markets is its unusual cost structure. Information can be extremely costly to produce and cheap (or even essentially costless) to reproduce. In keeping with this, volume was widely considered to be the cornerstone of newspaper economics. (See Hendricks (1999) for empirical evidence and an extended analysis of the following model.)

The sharp decline of unit costs with volume implies that the newspaper industry is subject to significant economies of scale. Long run average costs will be minimized when the firm has reached a so-called 'minimum efficient scale'. Given the size of a market, there is only room for a select number of firms at the minimum efficient scale. This results in a general trend towards consolidation in the industry as companies moved to take advantage of opportunities to generate economies of scale and reuse content, and to offer more attractive packages to larger advertising customers (see also Bunting 1996).

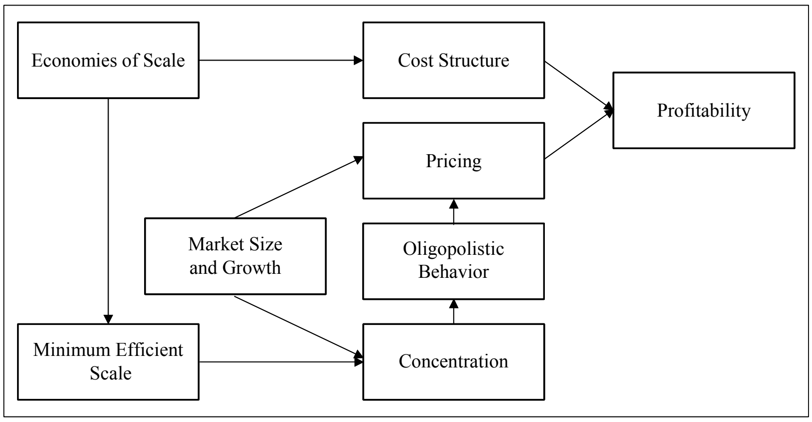

Figure 1: Economic Principles for Informaiton Goods
(After: Hazard, Loebbecke 2000, p. 4)

Historically, the physical production process drove economies of scale. But as other distribution channels emerged, the logic that bound together the value chain of the traditional newspaper could no longer be taken for granted. The information value chain and the physical value chain would be unraveled. Each had to be allowed to evolve in accordance with its own economics or value would be suppressed (Evans, Wurster 1999).

The newspaper industry also enjoys the potential for achieving significant economies of scope by producing two products simultaneously, thus serving a dual market. Content and advertising messages are delivered to customers in return for their subscription fees and attention. At the same time, the attention of those customers is delivered to advertisers in return for revenues for carrying the advertising messages (see Dunnett 1988 for an elaboration of this model; see also Loebbecke, Powell 1999; Picard 2000). While all variations on this basic model are possible (e.g., free newspapers funded only by advertising revenues, paid newspapers carrying free advertising, paid newspapers carrying no advertising, etc.), the industry norm is joint production with the ratio of advertising revenues to subscription revenues varying by country, market niche, and degree of competitive rivalry.

Newspapers and the New Media

The digitalization of the newspaper production process was well established before direct distribution to the consumer became possible. While the role of the World Wide Web as a distribution channel for news, entertainment, product information, and advertising was indisputable, the merger between AOL and Time Warner had underscored the ability of new and old media to complement each other. Multi-channel distribution made the central product of newspapers - high quality information - more valuable (Drayton 2001). Moreover, interactivity enriched the possibilities for exchange, personalization, and search. The challenge, however, was competition on the digital platform from other media and from independent producers. While the investment and infrastructure needed to start up a new newspaper remained high (creating a significant barrier to entry), the threat of substitutes had increased dramatically. Paper sales revenues were under threat as readers turned elsewhere and advertising revenues were at risk as advertisers discovered alternative channels. Newspaper publishers had two basic options: Either they developed their own Internet site or they became a content provider to an independent host.

The German Newspaper Market

The German newspaper 'market' was more generally divided between the markets for (1) regional papers, (2) German language 'supra-regional' papers, and (3) internationally oriented papers. By 1999, 52% of German cities had only one regional paper serving them and another 42% had two. Thus, within these some 400 geographic markets, the competition was extremely limited. The market for national newspapers was oligopolistic as it was shared between just a few newspapers (including 'Boersenzeitung', 'Frankfurter Allgemeine Zeitung' (FAZ), 'Handelsblatt', 'Sueddeutsche Zeitung', 'Die Welt'). A last significant segment of the market was the so-called yellow press, papers sold on the street (such as 'Bild' and 'Express') without subscriptions, which did not serve the business market.

Germany's newspaper market was more vulnerable to emerging competition from new media. The delay in developing commercial broadcasting, cable TV and more liberal broadcasting regulations had created a pent-up demand among advertisers for radio and airtime. Unlike the US market, where broadcasting and cable were mature industries unlikely to make dramatic inroads into newspaper revenues, in Germany, the younger privat broadcasting industry could potentially enter into competition with the newspaper industry (Abarran, Chan-Olmsted 1998).

Main Competing Players

Dow Jones Group and Wall Street Journal

In 1999, Dow Jones and Company, founded in 1882, employed 8,200 people and had revenues of $2.06 billion with a net income of $272 million. They embrace Barron's (the Dow Jones Business and Financial weekly), 'Smart Money', and a number of electronic services. Dow Jones is involved in extensive syndication of its content to television and radio and has an alliance with NBC. They own 50% of CNBC Europe and CNBC Asia. In 1999, Dow Jones co-founded Vedmosti, an independent business newspaper for the 'new Russia' with its rival Pearson.

The Wall Street Journal (WSJ) is the flagship print product of the Dow Jones Group. Founded in 1889, it reached an average paid circulation of 1,840,000 by 1999 (the largest paid circulation in the US). With potential saturation in its home market, the WSJ looked for growth abroad. The Wall Street Journal Europe (WSJE), founded in 1983, is headquartered in Brussels and printed in Bologna, Brussels, London, Frankfurt and Zurich. By 1999, the WSJE reached a circulation of 83,000.

Dow Jones Newswires began distributing news electronically in 1897. More recently, WSJ.com was founded in 1995. While most other newspapers chose to launch their on-line sites with free subscriptions to generate traffic and attract advertisers, the Dow Jones group launched WSJ.com with an annual subscription fee of $59 (or $29 for subscribers to the print edition). By January 2000, the newspaper had 375,000 subscribers paying the full fee (with 15% living outside the US) and revenues of $30.9 million.

Pearson Group and Financial Times Deutschland

The Financial Times Group (FT Group) was one of five major publishing groups acquired by the Pearson Group. The FT branded businesses constitutes a group of operations that Pearson intended to use to build on the strength of the Financial Times brand. The FT has been aggressive about boosting sales outside of the United Kingdom (its home market). In September 1997, it successfully launched a US edition bringing it into the home territory of its arch-rival, the WSJ. In 1999, the FT newspaper attained record growth with profits up 33% to £56m. In December 1999, average daily circulation topped 435,000 (up 14% from 1998). In the US, the FT reached its circulation milestone of 100,000 daily sales in 1999. In continental Europe, the FT average daily sales amounted to 120,000 (20% increase from 1998). In 1995, with a relaunch in 1996, the FT started an online edition primarily intended to promote its Los Angeles office. Offering free access with registration, FT.com grew to being one of the ten top ranked news sites in the world by October 2000.

Holtzbrinck Publishing and Handelsblatt

Holtzbrinck Publishing is a German-oriented, media holding privately owned by the Holtzbrinck family. Handelsblatt Publishing is a cornerstone within that structure with interests in publishing (newspapers, magazines, and trade publications), electronic media, and services. Since it is privately held, Holtzbrinck Publishing is under no obligation to reveal its accounts despite its extensive web of holdings. Its direct German competitors are Bertelsmann (the third largest media group in the world behind Time Warner/AOL and Disney), the Kirch-Gruppe (mainly TV, music, video and movies), Axel Springer (mainly print), and WAZ (mainly regional newspapers).

Handelsblatt began publication on 10 May 1946 with a print run of 10,000 under a British license for the distribution and sale of a business and financial newspaper. Holtzbrinck acquired Handelsblatt in the late sixties. In 1970, Handelsblatt became the leading business and financial newspaper in Germany. It is the only German national daily focused on business and financial news. In 1998, Handelsblatt launched an online interactive service, 'Handelsblatt Interaktiv', with an independent editorial staff.

Competitive Maneuvering

The Defender's Action Plan

As soon as *Handelsblatt's* joint CEOs learned about the 'Pearson / Gruner & Jahr project' to launch a German language paper with a strong international focus, they saw two alternative responses to the invaders: 'Wait and see' or 'be faster than their enemy'. They built a 'defense team' to collect information about the project, evaluate the four strategic 'Ps' - 'partners', 'people', 'public', and 'product', reflect on Handelsblatt' strengths and weaknesses, and prepare strategies for confronting the 'invader'.

The team was readily able to assess the players: Pearson was an expert in the British newspaper market, Gruner & Jahr was an expert in the German magazine market. Both had virtually unlimited resources but neither was considered to be experts in the German newspaper market. Handelsblatt knew far less, however, about the proposed product. The team realized that Handelsblatt in circulation was among the national dailies second only to FAZ[1], and that it had the highest circulation among business newspapers in Germany. They were concerned that the invaders knew about Handelsblatt's weaknesses, i.e. that it was perceived as 'German', the style was laborious.

As major defense action, in June 1999, Dow Jones and Holtzbrinck then agreed to swap shares between Handelsblatt and WSJE in a strategic alliance at the German stock exchange in Frankfurt. The WSJE editors would be gaining access to material from Handelsblatt translated by WSJ translators into English on a real-time basis for same day publication. Reciprocally, Handelsblatt would be translating WSJE material into German. While they would exchange editors to intensify editorial cooperation, both papers were to maintain full editorial control over their own products. Together they would have the largest network of journalists worldwide and the largest German network of business correspondents.

To Handelsblatt Publishing, the strategic alliance was just the start. Their team decided to view the FTD launch as a challenge to overcome Handelsblatt's weaknesses as expediently as possible rather than as a threat. Agreeing that the worst case scenario was that the invaders might launch as early as mid-November, they made a decision to relaunch Handelsblatt within only two months. A week later, they opted to run a brand campaign to support Handelsblatt subscriptions and a sales campaign to promote their newsstand sales. Since Handelsblatt expected the invaders to mount a massive launch campaign, a choice was made to occupy all communication channels to the target group of decision-makers in 1999 and 2000. This meant that they had to double the

1 FAZ was a leading German language daily that included strong financial coverage.

marketing budget in 1999 and 2000, take early placement on 'n-tv' (German counterpart to CNN) and major radio stations.

Meanwhile, Dow Jones looked to the partnership with Handelsblatt as the foundation for the largest and most ambitious growth program they had ever undertaken for the WSJE.

More than a Two-Party Game

In October 1999, the German 'FAZ' and the International Herald Tribune (IHT)[2] announced a 'Spring 2000 Launch' of an English language FAZ version. This version was planned to be sold as an eight page insert in the IHT in its Belgian, German, and Austrian markets. The move was backed by the largest promotional campaign that the IHT had ever run in Germany (its second largest market) with direct mail, outdoor and press advertising. Within two months, the total IHT circulation in Germany jumped from over 25,000 to almost 31,000 copies. IHT's enthusiasm for partnering was not confined to Germany. They had also teamed up with the Rizzoli Corriere della Sera in Italy, Ha'aretz in Israel and Katherimerini in Greece. Moreover, they were reporting circulation increases of 30%, 1,300% and 130% respectively.

Further Speeding-up the 'Attacker-Defense Loop'

February 7, 2000:	*Dow Jones* relaunched the WSJE "with more staff, more technology coverage, and a less archaic front page" (Economist (ed.) 2000). The investment testified Dow Jones' belief that the concept of a pan-European newspaper had come of age (Kann 2000).
February 21, 2000:	The *FTD* was launched with a starting circulation of 50,000 and 130 journalists. Newsstand sales reached an estimated 33,000 copies.
April 2000:	The *FAZ/IHT* product appeared as scheduled.
May 2000:	*Handelsblatt* relaunched 'Handelsblatt Interaktiv' under the name of 'Handelsblatt.com'. They added a 28-day archive ('Handelsblatt Topix') to their offering that was free to print subscribers (and available on a pay per month scheme to non-subscribers). From then on, the WSJ.com link was prominently featured on the Handelsblatt.com site.
July 2000:	*Handelsblatt* announced a joint venture with the *Reuters Group* to launch a personal finance website (50% / 50% ownership).

Conclusion and Further Research

By October 2000, the Handelsblatt CEOs looked with satisfaction at the battle for business newspaper readership in Germany. Every circulation figure was above where it had been the year before. FTD newsstand sales were deteriorating sharply, and Handelsblatt had also captured the pole position from FAZ for the first time. Still, overall circulation of the FTD was rising. Pearson had deep pockets and was unlikely to accept defeat quickly.

The competitive maneuvers observed in Germany closely followed the strategy of aggressively pursuing partnerships to build competitive advantage (see also Dyer, Singh 2000). 'Structure followed strategy' (among others Chandler 1962), as horizontal alliances were forged to enable firms to react to market pressures and to face prevailing market conditions (see also Nelson 1994).

However, in the ever shorter 'attacker-defender-loops', the potential for firm-specific differentiation deteriorated and the various competitors engaged in similar strategic actions. Alliances between local specialists and foreign industry incumbents have been the result in the German newspaper market to date.

Beginning in July 2002, a further 6-month research phase in this exploratory investigation is planned to track the evolving strategies of the three top alliances ('Dow Jones / Handelsblatt', 'Financial Times / Gruner & Jahr', and 'FAZ / IHT'). Emerging strategic differences, with a focus on their deployment of new media (in the age of a seemingly drastic Internet downturn) will build the core of this effort.

2 IHT was an English language daily owned 50% by the Washington Post and 50% by the New York Times.

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