

## Norwegian newspaper publisher finds the secret to profiting online

By Eric Pfanner

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After catching up on the latest news flashes on the death of Anna Nicole Smith, visitors to [www.vg.no](http://www.vg.no), the online version of the biggest-selling tabloid newspaper in Norway, can get their minds back to business by scrolling down the page — to the oil company earnings reports.

The financial headlines link readers to E24, an online business "newspaper." Not many tabloids feature such unsalacious fare on their front pages, and perhaps even fewer papers willingly direct readers to other publications. But VG, or Verdens Gang, and E24 are both owned by Schibsted, an Oslo-based newspaper publisher that does things differently on the Internet — making lots of money, for starters.

At a time when other newspaper companies lament a loss of readers and advertisers, Schibsted is thriving. No profit warnings here: Earnings rose 28 percent in the fourth quarter. Online operations will generate about 20 percent of the company's revenue this year, according to analysts at Kaupthing, a bank based in Reykjavik, even as many other big newspaper publishers struggle to reach the 10 percent mark.

**Perhaps more important, at least for investors, online businesses will provide nearly 60 percent of the company's operating earnings by next year**, the Kaupthing analysts predict. Schibsted has become so emblematic of online success that Bharat Anand, a professor at Harvard Business School, is writing one of the institution's well-known case studies on the company.

"There's clearly something quite special here," Anand said. "There's no question they managed this transition earlier than a lot of newspaper companies, and they're in a better position as a result."

Starting in 1995, Schibsted started investing heavily in new media, and it stuck with those commitments during the dot-com bust, when some other publishers turned skeptical. In recent years, the investments have started to pay off, and Schibsted is now the biggest player on the Internet in Norway and in neighboring Sweden. It has also expanded aggressively into new markets like France and Spain, starting free newspapers under the name 20 Minutes and acquiring classified advertising businesses that it is moving onto the Internet.

Kjell Aamot, chief executive of Schibsted, said the company recognized more than a decade ago that "being a traditional Norwegian newspaper company would not be sustainable over time."

While other newspaper companies tried to cling to their existing business models, "we changed from a defensive stance at the beginning of the Internet age to a very offensive one," he said during a telephone interview from Oslo.

Anand said one reason Schibsted may have been able to shift gears so quickly was that some top managers were from outside the newspaper business, including several executives hired from McKinsey, the consulting firm. Instead of being wedded to print, analysts said, they were willing to cannibalize existing businesses in order to develop new ones on the Internet.

Rather than trying to insulate VG or Aftenposten, a more highbrow paper, from competition, the company created internal rivals by developing Internet- only brands that do some of same things as the newspapers, only better. Circulation and ad sales have fallen at some of the print titles. VG sold an average of 316,000 weekday copies in the fourth quarter, down from 344,000 a year earlier.

But a specialist classified advertising Web site, [www.finn.no](http://www.finn.no), has become one of the 10 most popular sites in Norway, and has been replicated in Sweden under the name **Blocket**. Revenue from the classified sites has helped to offset declines at the newspapers, in effect subsidizing the cost of the papers' journalism.

"If it's a new channel, they are willing to try it and let the market decide," said Tor Jakob Ramsøy, a consultant at McKinsey. "The main thing they have done is to recognize that the consumer is king."

To be sure, Schibsted had some advantages over newspaper companies in larger markets, where the media landscape is more diversified and competitive.

Norway has the highest newspaper readership in the world, according to the World Association of Newspapers, making its newspapers trusted brand names for consumers to gravitate toward online.

While portals like Yahoo and search engines like Google dominate most markets, Schibsted was able to build [www.vg.no](http://www.vg.no) into the most popular site in Norway, attracting more than two million unique visitors a week. Four other Schibsted-owned sites are in the top 20, and the company has a comparable presence in the Swedish Web rankings.

By dominating so much traffic within each market, Schibsted has managed to avoid one of the biggest problems plaguing print publications elsewhere: Because many visitors to newspaper Web sites arrive there simply by following links from search engines, they depart as quickly as they arrive. So advertisers choose instead to spend their money with Google, where consumer eyeballs linger.

The growth of the company's Web sites shows the benefits of bringing visitors in through the front door and then keeping them in the Schibsted house. At [vg.no](http://vg.no), occupying the prime banner advertising space for 24 hours costs an advertiser 210,000 kroner, or \$34,000 — more than a full-page, full-color ad in the paper — and the next available slot is in June, Aamot said.

Schibsted even started a Norwegian search engine, Sesam, in competition with Google.

The strong position of VG and Aftenposten, another site in the Norwegian Top 10, has helped Schibsted build up new Internet brands like E24, which has Norwegian and Swedish sites. A link from Aftenposten or VG, with which E24 shares some resources, immediately brings thousands of readers, said Hans Christian Vadseth, publisher of the Norwegian E24.

Though the Norwegian E24 was started less than a year ago, it already attracts more than 450,000 unique visitors a week, far more than the Web sites of the country's two established financial newspapers, Finansavisen and Dagens Naeringsliv, he added.

"Until this experience, we probably didn't understand the enormous potential if you control traffic machines," Aamot said.

E24.no was profitable by its fifth month, and expects to generate a profit margin of 8 percent in 2007, Vadseth said. An E24 site in Sweden, which was started in 2005, has also turned profitable, he added.

Vadseth said the Norwegian site expected to sell €3.5 million, or \$4.6 million, worth of advertising this year — a modest amount, perhaps, but Norway is a small market, and E24's costs are also low compared with those of a traditional newspaper.

"Internet sites start without a lot of the legacy costs of papers," Dag Sletmo, an Oslo-based analyst at Kaupthing said. Schibsted can afford to lose some advertising from the print newspapers and still make more money, he said, simply because profit margins are much higher on the Internet. **An online classified generates only about 30 percent as much revenue for Schibsted as the equivalent print ad, he estimates, but provides 65 percent higher profit.**

So attractive are Internet-only publications like E24 that a rival Norwegian business publication, called Na24, is pursuing a similar strategy, making the country one of the most fiercely fought-over markets for business news in

the world, analysts say. So far, enough banks, telecommunications companies and other advertisers are buying in that Na24, like its rival, is profitable, said Inge Berge, the editor.

Like E24, Na24 benefits heavily from links to other media partners, which provide half of its traffic, Berge said. Na24 is owned by TV2, a broadcaster that also owns four regional newspapers, and Carl Allers Etablissement, a magazine publisher. Na24 also has something to offer its partners: It provides video business news segments for a 24-hour television news channel recently started by TV2.

Analysts say other publishers in the Nordic region have been unusually adept at moving online. Dietmar Schantin, director of Newsplex, a consulting arm of Ifra, an international newspaper organization based in Germany, said that Nordjyske Stiftstidende, a regional newspaper in Denmark, was one of the first to recognize the importance of integrating online and print news operations, at a time when many papers dismissed their Web sites as annoying appendages.

Now that Schibsted has established its online credentials, "the big question is: Is this a repeatable success, or is it a very good 10-year run?" said Anand, at Harvard Business School. "And how far can it travel outside Scandinavia?"