

Full version

# THE CASE 2009

# Acknowledgements

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# Schibsted's history

## 2008

-- The go-ahead for Media Norge

## 2007

-- Tinius Nagell-Erichsen died at 73 years of age

## 2006

-- Acquisition of selected parts of Trader Classified Media

## 2005

-- Schibsted Søk launches Sesam

## 2003

-- Acquisition of Bloeket AB

## 2002

-- Launch of 20 Minutes in France

## 2001

-- Launch of 20 Minutes in Spain

## 2000

-- Scandinavian Online (SOL) listed on the stock exchange

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## 1999

-- Launch of the free newspaper concept 20 Minutes

-- FINN.no is established

## 1998

-- Acquisition of Svenska Dagbladet

-- Investment in the Eesti Meedia Group

## 1996

-- Acquisition of Aftonbladet

## 1995

-- Acquisition of Metronome Film & Television

-- First investments in online and new media activities

-- First investments in Estonia - Kanal 2

## 1992

-- Listing on Oslo Børs

-- First investments in TV and films

## 1989

-- Converted from private company to limited company and group

## 1966

-- Takeover of VG

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## 1885

-- Aftenposten starts to be published twice a day

## 1860

-- Launch of Christiania Adresseblad/Aftenposten

## 1839

-- Chr. Schibsteds Forlag is established

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“The Internet is made for classifieds and classifieds are made for the Internet”

- Sverre Munck, Executive Vice President SCM, Schibsted ASA

“When you toy with Blocket.se you toy with the property of the Swedish people”

- Martin Frey, CEO, Blocket.se

The cab pulls up in front of an old redbrick building with a modern glass facade added on. The building is located in winter cold downtown Oslo.

“Apotekergaten 10” the driver exclaims in well-spoken English and asks for his fair. While you pay him, you think about the consulting challenge ahead. The job involves Schibsted Classified Media (SCM) – a division under the Norwegian media house Schibsted ASA, listed on the Oslo Stock Exchange and part of the OBX-index. Walking to the front door, you pass a black statue of a man with a thoughtful expression on his kind face, clutching a rolled-up newspaper in one hand and holding a cane searchingly in front of him. The statue of Tinius Nagell-Erichsen, the last member of the family that founded Schibsted ASA, is looking towards the future, a future that, thanks to online classifieds, is unfolding rapidly. The focus on the online classified business has already been instrumental in propelling Schibsted from having around 2000 to around 9000 employees over a period of 10 years. Moreover, Schibsted ASA has gone from being a Scandinavian company to a truly global corporation active in 22 countries with at least two more subsidiaries under way at the time of writing. In Q308, the online classified division made up 16% of the company’s revenue, the division had revenue of close to NOK 2.0 billion and EBITA of NOK 290

million. Schibsted ASA is credited with being the only media corporation that has been able to turn great profits out of new online offerings, and 88% of the estimated target share price of NOK 103 is made up of the value of the online activities alone. The well-liked CEO Kjell Aamot can proudly and justly boast that “Schibsted is by far the largest multi vertical player in Europe, and will continue to grow even in a period of global downturn”.

You and your team of top external consultants have been hired to give detailed suggestions on how to expand the SCM division while at the same time aligning initiatives with the overall strategy of Schibsted ASA and a Scandinavian management culture. It is imperative that profit margins are realistic and well-documented as well as adjusted for the financial crisis and competitive outlook. Furthermore, the suggestions should be as attractive as possible – also in a long-term perspective. You are to present your findings and suggestions to the recently appointed CEO of SCM, the sympathetic, down-to-earth and experienced Schibsted veteran, Rolv Erik Ryssdal.

# from scandinavian traditions to global presence

The history of Schibsted commences back in 1839, when printer and typographer Christian Michael Schibsted, who grew up poor in an orphanage, entered into a partnership with printer Johan J. Krohn establishing what was renamed Schibsted Forlag (Schibsted's Publishing Company) in 1843. From this company he went on to publish what is still today Norway's most popular morning newspaper.

Schibsted went public in 1992 and, according to Schibsted's management, they have tried to follow planned strategies to achieve profitable growth. "We set the ambition of becoming the largest player in Scandinavia, and we have come far in becoming the most attractive media group in Europe" Executive Vice President, Sverre Munch, stresses while essaying a smile. However, looking at the historic development, one can argue that Schibsted's strategies, to a large degree, have emerged as opportunities arose. "The same year as we wanted to become the leading Scandinavian media company, we went to Estonia - the same year as we announced our ambition of becoming the most attractive Media House in Europe we went to Asia", says the talkative Vice President, Robert Steen, with his patented dry humor.

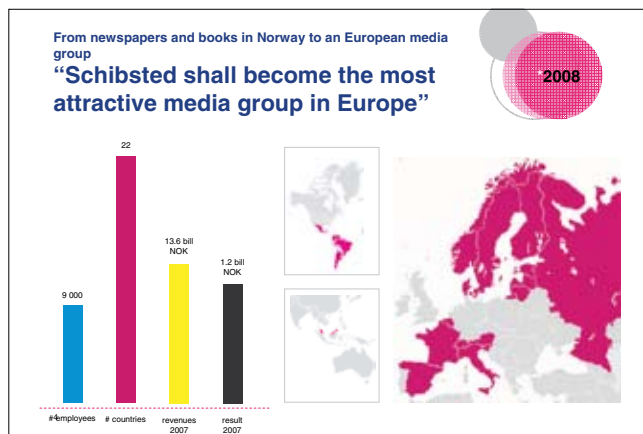
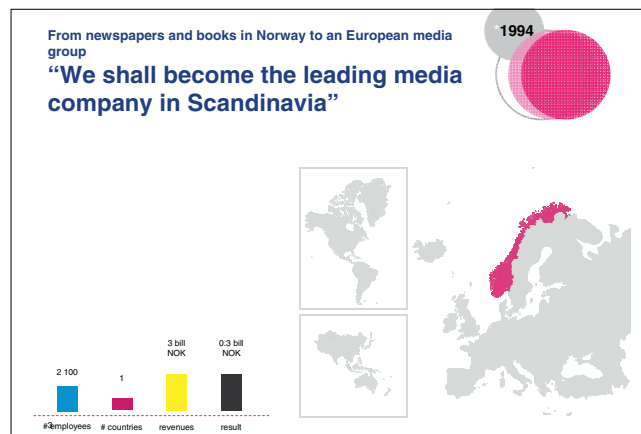
Going online was the main development in Schibsted's growth strategies and happened in response to the Internet revolution. The Internet revolution

led to forecasts of less revenue from paper newspapers and increased new competition.

## HOW SCHIBSTED BECAME THE NUMBER ONE ONLINE CLASSIFIED COMPANY IN EUROPE

On the uncanny date of 06-06-06, Schibsted acquired Trader Classified Media for the price of EUR 553 million, adding additional nine countries to its classified operations and taking over for lost revenue in the paper newspaper market with the stroke of a pen. In 2007, online classified operations were also established in Singapore, through a partnership with a local player, and as a greenfield in Malaysia that passed Ebay Kijiji - their greatest competitor - after only seven months in the market. In Q308, it was made official that all of the Spanish offline activities acquired through the Trader acquisition would be closed down, thus substantially cutting costs and allowing full concentration on online

## Schibsted ASA in growth from 1994 to 2008



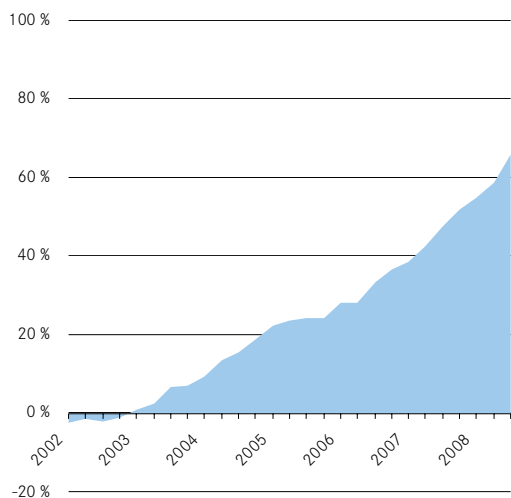
Source: Schibsted ASA

<sup>3</sup> Latin American activities (Argentina, Brazil and Mexico) are organised under the Spanish holding company Anuntis Segundamano Holding (ASH), which is part of SCM. The group holds 76,23 % of the shares of ASH.

<sup>4</sup> Media Norge was established in 2008 as an attempt to organize a common ownership of Aftenposten, Bergens Tidende, Stavanger Aftenblad, Fædrelandsvennen and FINN.no. Schibsted owns 50,1% of the company. The goal is to take this venture public independent of Schibsted ASA. The IPO is currently on hold due to the financial crisis.

## Increasingly an online company

Online share of adjusted EBITA\*  
rolling 12 months average pr Q3 08



10

Adj. EBITA = EBITA ex associated companies

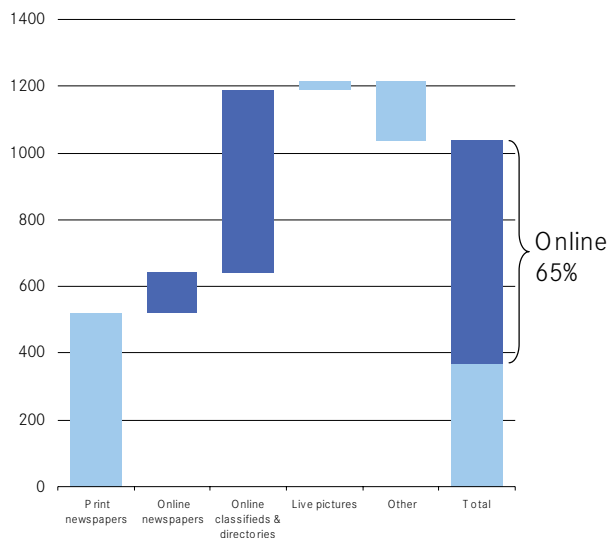
Source: Schibsted ASA

activities in Spain and Latin America. However, closing down the Spanish offline activities also resulted in restructuring costs of NOK 95 million in Q408.

### REORGANISING INTO SCHIBSTED CLASSIFIED MEDIA (SCM)

Being the month when all online classified activities, except FINN.no, were organised under the subsidiary Schibsted Classified Media (SCM), April 2008 stands as a landmark for Schibsted. The underlying idea was to achieve more scale advantages and separate the financial results from the declining printing divisions. Plans were also made to include FINN.no but these failed, because FINN.no already was a vital part of a consolidation project in Norway called Media Norge.

Adjusted EBITA\* LTM pr Q3 08



In the Q3 Report 2008, the SCM division was credited with literally having saved Schibsted's overall results, despite some declining revenue and margins in response to the economic downturn and restructuring expenses. In the same report it was announced that Schibsted's online operations were expected to continue performing well – also in challenging markets such as Spain – and further migration towards online media is likely to continue. Nevertheless, despite these positive announcements, Q408 and Q109 are expected to be tougher due to upcoming refinancing of loans for the Trader purchase and restructuring costs.

## **Schibsted Classified Media holds 36 brands in 14 countries**

<p>SPAIN</p> <p><b>InfoJobs.net</b></p> <p><b>coches.net</b></p> <p><b>FotoCasa.com.mx</b></p> <p><b>segundamano.es</b> <i>La web para comprar y vender.</i></p> <p><b>Laboris.net</b></p>	<p>SWEDEN</p> <p><b>blocket.se</b> <i>Sveriges största Köp &amp; Sälj marknad</i></p> <p><b>bytbil.com</b></p>	<p>FRANCE</p> <p><b>leboncoin.fr</b></p> <p><b>caradisiac</b></p> <p><b>LaCentrale</b> <i>Le numéro 1 du véhicule d'occasion</i></p> <p><b>annonces DU BATEAU</b></p>	<p>ITALY</p> <p><b>InfoJobs.it</b></p> <p><b>subito.it</b> <i>Veicoli &amp; Compra di tutto in Italia</i></p> <p><b>Secondamano.it</b></p> <p><b>BARCHE.it</b></p> <p><b>CASE.it</b></p>
<p>BELGIUM</p> <p><b>Kapaza!</b></p>	<p>AUSTRIA</p> <p><b>WILLHABEN.AT</b></p>	<p>LITHUANIA</p> <p><b>autoplus</b></p> <p><b>domoplus</b></p>	<p>MALAYSIA</p> <p><b>mudah.com.my</b> <i>The marketplace of Malaysia</i></p>
<p>PORTUGAL</p> <p><b>CustJusto.pt</b> <i>Compre e venda em toda Portugal</i></p>	<p>SLOVENIA</p> <p><b>bolha.com</b> <i>trg mnogih priložnosti</i></p>	<p>ESTONIA</p> <p><b>Soov</b></p>	

# the market for online classifieds – being number 1 is key

Fundamentally, the classified business revolves around providing a platform where sellers and buyers of goods can meet – businesses and private individuals alike. The products could be big-ticket items such as boats and real-estate or small-ticket items such as used baby clothes and window repair. What is more, online classified websites make a large part of their revenue on external placement ads, and a given website's value to advertisers should be seen as a function of segmentation, unique users, and page views. Within a few years, the revenue from online classified advertising is expected to exceed EUR 1.2 billion with a potential of 90 million Europeans using such a marketplace.

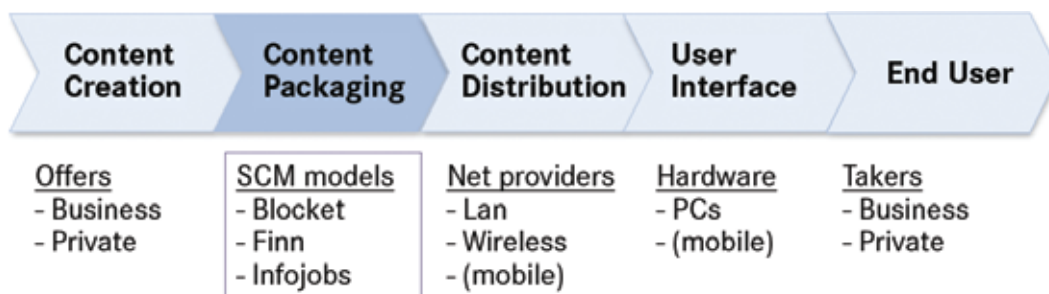
Historically, classifieds were found in the telephone book, on local billboards and especially in newspapers. A look at the average revenue stream of a traditional subscription-based newspaper before the advent of the Internet would reveal just how important classifieds were and still are for these papers. 70% of total the revenue in a traditional subscription-based paper came from ads, 70% of these being classifieds, making classifieds accountable for approximately half of the total revenue for a traditional subscription-based newspaper.

Another important aspect is that the area of classifieds was a local business where people bought from their local area. Subsequently, the advertisers were mostly local. This meant that most classifieds appeared in local newspapers physically distributed by a paperboy and with a very limited market scope. This picture has changed with the Internet. At first, and again after the Dotcom-bubble, traditional newspaper houses thought that the Internet was a fluke and would go away. This did not happen. Today, Internet penetration is widespread and growing.

As a player deeply rooted in newspapers, Schibsted had extensive experience dealing with paper classifieds, but felt threatened by the Internet. Therefore, Schibsted analysed the situation and saw that, by changing the delivery format from physically distributed paper to bits of data in cyberspace, the market no longer needed to be local. They also forecasted that potential foreign competition from online classified websites could attack the main source of revenue from their newspapers.

They seemed to be right in this analysis. Today, the trend is that most people in most markets do online searches of some kind for their classifieds needs. Businesses and other posters have also seen a fundamental increase in promotion opportunities with electronic ads rather than through the limited scope of paper. At first, most former classified players, such as newspapers, simply scanned their paper classifieds thereby posting them online – not utilising search words, pictures and other new options facilitated by electronic delivery.

## SCM value chain



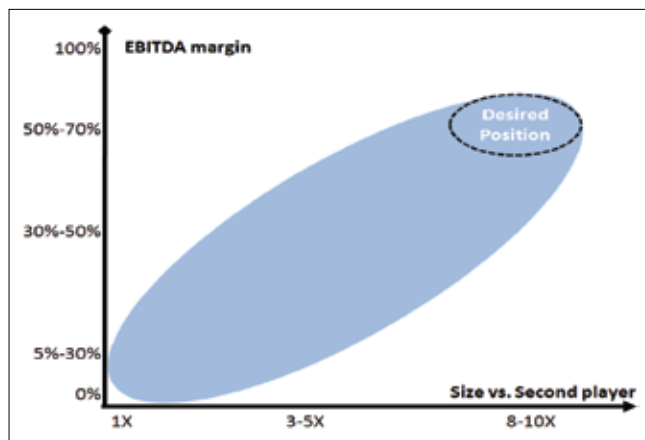
Source: Own analysis

<sup>1</sup> The most accepted way to measure a websites popularity over a dimension, like time, and hence its value for advertisers. The number can be treacherous as it measures unique computers, hence people with more than one computer might show up more times in statistics.  
<sup>4</sup> The number of pages requested by users of websites. Can be average or per unique user.  
<sup>7</sup> World Economic Forum, Global Competitiveness Report.



“One of the advantages of SCM is that we think online from the beginning in our technological platform. To many others, the Internet is about transferring printed media, but with us it is anything but that.” Robert Steen stresses. However this is not enough to guarantee high return on the websites.

## Leadership position means increased profit



Source: Framework developed by SCM

According to SCM’s own analysis, having a leadership position is crucial in the classified business. Leadership consists of a cause (position in relation to the closest competitor) and the effect (EBITDA margin). The point, as shown in the figure above, is that if two companies are close to having an equal size, both competitors have equal margins in the area of below 30%. Once one company grows to 3 to 5 times the size of the second player, the EBITDA margin gets above 30%, and the desired position of SCM respectively is to be 8-10 times the size of the second player and thus eligible for tremendous EBITDA margins upwards of 70%. SCM estimates that a new website will take between 12 to 24 months to get to a number one position in the market if successful. In markets with limited competition, the process is likely to go faster. The speed seems to be highly contingent on spending upwards of 80% of the initial budget years on the right kind of marketing. After a certain point however, given that the company succeeds, the website reaches an inflection point where growth happens without need for major marketing.

The Internet also revolutionised the classified business by changing the traditional cost structure – where customers had to pay to place or view classifieds – into the contemporary structure where most websites are more or less free and revenue is generated by ads small in individual terms but explosive in quantity. Combined with the network dynamics of the Internet, the aspects mentioned above can make classifieds assume a monopoly-like position. The philosophy is that monopolies are attacked either on price or by better offerings from new entrants. However, as you cannot get a lower price than zero, competition is only focused on execution.

The amazing success of the online classified business can be illustrated by the fact that no Norwegian would dream of looking anywhere but on Schibsted’s website FINN.no for classifieds, and the fact that more than 50% of Swedes have bought or sold an item on the SCM website Blocket.se. For a more flamboyant illustration, one can visit the office of InfoJobs.net in Barcelona where a loudspeaker plays the sound of an airplane taking off every time 1000 new CV’s are uploaded – on any given day 6 planes fly through the office.

### SCHIBSTED CLASSIFIED MEDIA’S PRODUCTS AIM AT QUALITY.

At the time of writing, SCM has 36 classified websites. Out of these, most of the websites are based on SCM’s three business models referred to in this case as: ‘Blocket’, ‘Infojobs’ and ‘FINN’, all representing different categories for classifieds. SCM’s classifieds are mainly grouped into what SCM’s management portrays as its three vertical business areas: 1) real estate, 2) cars and 3) jobs and the one horizontal business area for generalist goods such as equipment, furniture, bikes and other used items. Whereas the vertical areas require that the SCM employees have good market knowledge and contacts with real estate agents, recruitment or automobile providers in the relevant markets, the horizontal business area is much less dependent on connections, and the model can be leveraged in only a few months.

Whereas the Blocket-model is based on providing services within the vertical area of cars and the horizontal area of generalist goods, the Infojobs-model is based on providing services within the vertical area of jobs. Finally the FINN-model is based on providing services within all three vertical areas as well as the one horizontal area while also adding some additional services to its websites such as dating and travelling. Additionally, SCM has classified websites for the vertical area of boats, but this vertical area is out of SCM’s current focus in terms of expansion and organic growth.

## SCM leading positions attractive compared to main competitors

### Heatmap of leading positions in European countries

#### Schibsted

	GE	UK	FR	SP	NL	IT	BE	AT	SW	DA	NO
Generalist			■	■		■	■	■	■		■
Jobs				■		■		■	■		■
Cars			■	■		■	■	■	■		■
Real estate				■		■					■

#### eBay classifieds

	GE	UK	FR	SP	NL	IT	BE	AT	SW	DA	NO
Generalist	■	■	■	■	■	■				■	
Jobs							■			■	
Cars	■				■					■	
Real estate								■	■	■	

#### Scout Group

	GE	UK	FR	SP	NL	IT	BE	AT	SW	DA	NO
Generalist										■	
Jobs	■						■			■	
Cars	■		■	■		■		■		■	
Real estate	■									■	

■ Top 3 position

### THE BLOCKET-MODEL

The Blocket-model is based on the Blocket.se website in Sweden – a platform that makes it possible for users, businesses as well as individuals, to trade cars and generalist goods on the Internet. The website is organised as an interactive map where people can click on local areas in order to trace goods and post classifieds close to where they live.

**Price of use for consumers:** Consumers pay for general services, but special features are available for free in Sweden. However, in less mature markets where the Blocket-model has been leveraged, services are free and special features are paid for.

**Costs:** The Blocket-model does not require extensive human resources to be rolled out and takes little time to set up. It can potentially be copied onto a disc and started up anywhere in the world with only a handful of people in a roll-out team, like the LeBonCoin (Bloquent-model) case in France where seven people provide a service used by 15 million French people. It does, however, require heavy initial marketing expenditure.

**Revenue streams:** The two major revenue streams are listing advertisement (1/3) and display advertisement (2/3).

**Rents:** The websites based on the Blocket-model have experienced EBITA margins up to 56%.

**Presence:** Today the Blocket-model is leveraged to Spain, Malaysia, Italy, France, Belgium.

### THE INFOJOBS-MODEL

The Infojobs-model is based on the classified website Infojobs.net in Spain – a website for recruiters and applicants to meet through CV registrations and posted company information. New services include database search, corporate websites, matching services, complementary HR services, advertisement services and payment services for candidates.

**Price of use for consumers:** Prices are calculated based on the highest prices for the individual job postings.

**Costs:** The model is similarly to the Blocket-model, being easy to roll out in new countries and only dependent on a small roll out team and heavy marketing.

**Revenue Streams:** The majority of revenue comes from job listings.

**Rents:** The websites based on the Infojobs-model have reached EBITA margins between 40 to 50 %.

**Presence:** The Infojobs-model has only been leveraged to Italy at the time of writing, but holds potential for further leveraging.

### THE FINN-MODEL

Of the three models, FINN is the most expensive and the hardest to execute. It is based on the FINN.no classified website in Norway, and it is the most developed and mature business model including all three vertical areas of real estate, cars and jobs and the one horizontal area of generalist goods, as previously explained.

**Price of use for consumers:** General services such as posting a classified on the website are paid for, but special features such as posting pictures together with the classified are free.

**Costs:** The model is relatively time consuming, expensive to setup and heavy on staff. Once it has achieved a dominant position in a market however, it is highly profitable and close to impossible to threaten.

**Revenue streams:** The two major revenue streams are listing advertisement (2/3) and display advertisement (1/3).

**Rents:** The model has experienced an EBITA margin of up to 44%.

**Presence:** Today, the FINN-model is only leveraged to one other country besides Norway. This country is Austria, where the website is called Willhaben.at. Willhaben.at is a joint-venture with the Austrian media company Styria Medien and was established in 2006. The website was subsequently developed into a website similar to FINN.no as Schibsted's joint venture partner already had real estate contacts in the market making the transformation process easier.

### WHAT MAKES SCHIBSTED CLASSIFIED MEDIA'S WEBSITES ATTRACTIVE AND DIFFERENT?

There are a number of factors that make SCM different from its competitors. These differentiating factors include having non-auction websites, family-friendly websites, strict reviewing of classifieds before posting as well as providing tailored names and design to all of its websites.

First of all, none of SCM's online classified websites include regular auction features, which can explain why the horizontal generalists in SCM's business models rarely contain collectibles as this product group is more suited for auctions due to winners curse being less relevant for the subjective evaluation of collectors.

Second of all, SCM is globally preoccupied with having family-friendly websites. Many of their competitors, both online and offline, have personal advertisements for prostitutes, gambling, and other grey areas. SCM refuses to be associated with such personals. "It is not because we are stereotypical puritan Norwegians trying to impose morals, but it makes good business sense. In

the short term you might make some profits on those areas, but in the long term we believe that you conquer market share by being a sober website that everybody can use”, Sverre Munck, Executive Vice President SCM, states. The philosophy stems from Schibsted’s history of paper business where no shady classifieds could be found, a philosophy that has proven an advantage in the online business as local managers do not spend time trying to locate new short-term revenue streams.

Along the same lines, a unique aspect of SCM’s websites is that all posted classifieds are reviewed before online publication. Even though roughly 100.000 new classifieds are reviewed every day, it normally only takes minutes to get a classified posted online. This requires resources, especially in Asia where more than half of all classifieds are rejected. The conviction being that, in the long term, a higher quality database will be a defence against competitors – it remains to be seen if this holds true.

SCM believes that, in spite of the new global landscape of the classified business, being local is still very important. Respectively, SCM aims at hiring local managers and incorporating local wishes in the layout and structure of their websites. Especially in terms of the vertical areas, local market knowledge is essential. One example is the fact that the real estate market functions differently from country to country. It can vary vastly, and the success of the websites is thusly contingent on understanding these aspects. All websites have local boards, and top-level management from SCM is active in each local board.

A final differentiator is that SCM’s websites have unique names tailored to the markets where they are operating. This is a very different strategy to that of SCM’s largest competitor, eBay Kijiji (Ebay’s non-auction classified division), which uses the generic name, eBay, for all of its websites in all of its markets. The strategy of SCM is certainly more cost intensive and risky than using a generic name. Nevertheless, it can create cultural and local adherence. Robert Steen ponders on the branding strategy; “The name is not necessarily that important when you pick it, it is what you put into it over time”.

#### **FUTURE THREATS ARE FOUNDED IN TECHNOLOGY IMPLEMENTATION**

Besides eBay Kijiji, newspapers websites, and other classified players such as Craigslist and Gumtree, SCM faces potential competition from search engines such as Google and other aggregators. “At first we were very worried about aggregators and search engines crawling our websites for content. We did contemplate keeping them out, but that won’t work in our business.

People would stop posting on our websites since posters go for the highest exposure. But we do limit the speed that they crawl our websites”, Sverre Munck conveys. Today, no SCM website is an aggregator, and SCM’s management does not feel that they understand the business model well enough but does realise that aggregators serve a purpose in fragmented markets. Moreover, SCM believes that the brand strength in most markets is worth more. Google has stated that the area of online classifieds is within their scope of interest, but has not moved on this claim so far. On the other hand, social network websites such as Facebook have started moving into the business of online classifieds.

The biggest risk however, for SCM today, seems to be disruptive technologies, new entrepreneurial start-ups, and new trends in Internet-usage like community-based transaction and web 2.0 quasi legal regimes. It is nearly impossible to protect against these, especially since national cultures and user-friendly execution are essential to success and can attract otherwise loyal users in almost an instant. The only option is to look proactively for threats and try to engage them early on in the process or execute an acquisition. Simultaneously, this threat is also an advantage for SCM as they themselves enter new markets acting as entrepreneurs against current players. The situation also places a natural emphasis on innovation. Especially FINN.no’s innovation model, FINNOp (translates to: ‘invent’) is effective in generating and evaluating innovation among employees and incorporating them into FINN.no. FINN.no is also about to launch a user-driven innovation platform called FINNLab.

<sup>3</sup> A web application that aggregates content from external websites, like classified websites, in one location in order to attract users looking for overview and convenience thereby making ad revenue for the aggregator website.  
<sup>4</sup> Automated script that systematically browses the Internet in order to categorise findings and the technology behind search engines like Google. Some websites set up defence-mechanisms, such as time constraints.

# expansion models and making an even greater success

SCM is looking to grow and is likely to get most of the available investment capital from Schibsted in the near future. The management at SCM have developed certain criteria when evaluating expansion that you as consultants should become familiar with. The target segment has to be within one of the three vertical areas or the one horizontal area mentioned above. It needs to be a geographical fit, meaning that the country should have at least 10 million citizens (unless there is a really good window of opportunity), and the market should be easy to get to. Asia is one example where this is not the case, as it takes almost a whole week for Robert Steen to partake in a board meeting. Nonetheless, attractiveness can make up for this concern. The national market, on the other hand, does not need to be fully technologically advanced in terms of Internet coverage, but should be on the path to reaching this position. Hence, markets where mobile penetration is higher than Internet penetration, like many African countries, are deemed outside SCM's business scope. Finally, the market should preferably also be young and provide SCM with a fair probability of reaching a number one position within a relatively short period of time. These basics might seem limiting, but as Rolv Erik explains: "Having these straight forward benchmarks makes it easy to progress. My people or an investment banker shows me a prospect, and within 10 minutes I can pretty much decide whether or not we should spend time on it".

SCM has traditionally used three levers to expand the classified business and its geographical scope; Organic Growth, Acquisitions, and Roll outs:

## **Organic growth – Being better, not cheaper**

The combination of Internet and classifieds presents growth projections and realisations that would cause scepticism in most economic models. Nonetheless, the story of FINN.no and Blocket.se testifies to the truth of the matter. SCM's management believes that cost effectiveness is not the key to success in the online classified market, but some analysts disagree. The reason for this belief is that, while it is true that centralisation initiatives like placing all IT-developments in Oslo would properly deliver on cost savings, it would remove SCM's management from having a local feel of the market, which, as mentioned, is considered imperative for success. Notwithstanding, SCM is starting to look into the potential for cost savings. This being said, organic growth is mostly viewed as a necessary investment to expand and make the websites continuously better, rather than cost optimization. Sverre Munck tries to lightly cover a slight suspicion that stock analysts do not understand the online classified business with the following comment: "We take some beatings investing too much in organic projects, but I rather do that and see some years in red than having to buy that market for 50 times the organic expense five years down the road".

## **Mergers and Acquisitions – Becoming proactive in buying new markets**

Schibsted's online classified history is a history of mergers and acquisitions (M&As) – from the purchase of Blocket.se to the huge take-over of Trader Classified Media. Traditionally, M&As have come from investment bankers contacting management with potential targets. However, as a defence against potential entrepreneurial competition, a more proactive strategy of searching out potential takeover targets has taken over at SCM and a short-list of companies has already been derived. Another reason for this change is the realisation that a takeover can be time consuming and convincing entrepreneurs to sell their baby is no easy task.

Today, when executing a takeover, it is always a clear ambition to get a controlling share of the company. It might not always be possible, but as the CFO of SCM Stein Yndestad, sporting a trendy flower shirt fitted for a media house rather than the orthodox pin-stripe finance suit, explains: "Being able to do what you want when you want it is important. Having to negotiate with a joint venture partner that has other concerns is akin to politics and carries heavy transaction costs, which is simply too time consuming for this market". This also explains why the old strategy of doing joint ventures is now less prominent. Joint ventures can be difficult and have proven a learning experience for SCM. "Before we thought that local knowledge and marketing muscles were obvious to buy into via a joint venture. Today we know we can do this just as good on our own". Robert Steen concludes.

There are currently some number one players coming up for sale in the short term but they are quite expensive. In such cases, it is also an option to go for number two players but that is more risky. Moreover, any potential acquisition will always be benchmarked against doing it as a roll out (see below), and if the decision is made to execute an acquisition it will consequently keep its brand name.

## **Roll outs – Greenfields are paving the way for new growth**

Today, it is especially roll outs based on the Blocket-model that are being prioritised. It should therefore not be surprising that the target rate of SCM's greenfields is aggressive. Historically, the roll out time was adjacent to a pregnancy and took nine months, but today SCM is down to doing an effective roll out in only four months. The roll outs could potentially be done in a joint venture format, but as it is today, the most commonly used method for executing roll outs is selecting a team of 4-5 Schibsted employees to do the job. In order to avoid a repetition of the Swedish FINN launch (see appendix 10), SCM heavily emphasises doing a deep market analysis. Apart from market analysis, the two most important aspects are hiring a local CEO and picking a local brand. The CEO of Blocket.se, Martin Frey, who has been involved in several roll outs, warmly says "When you work on a Blocket roll out, you really get to love the concept behind it."

# strategy of attractiveness and new core competences

With the establishment of SCM, it has become apparent that Schibsted's core competences shifted from newspaper printing and providing quality journalism to new competences more focused on classifieds and online delivery.

## **WHY SCHIBSTED BELIEVES IN A STRATEGY OF ATTRACTIVENESS**

The overall goal of Schibsted today is to be the most attractive media company in Europe. The choice of the word attractive is very important. As Executive Vice President Norway and Deputy-CEO, Birger Magnus, explains while gesturing to the room and world at large: "Being attractive has many meanings, but it is also very narrowly defined. To be an attractive investment to shareholders is one very important meaning for Schibsted. To be an attractive workplace in order to attract the best human talents is another important aspect". Rolv Erik Ryssdal nods and expands on this point: "So in that sense the word attractive can be applied in many different contexts. Though it is a finite word, you either are attractive or you are not. You either appear more attractive than the alternatives or you do not"

In all endeavours that Schibsted plans to undertake, a clear focus on being attractive is therefore key. In order to operationalise this goal, and make sure the media group actually is attractive and not just appears so, the company has defined three strategies that should be taken into account when future options are evaluated.

## **Schibsted's three overall strategies**

### **Media House // Dominate markets**

- Optimize benefits within a national market
- Develop new products and brands
- Norway, Sweden, Estonia, Spain and France

### **Products // Roll out proven products**

- Export of proven products
- Focus online Classifieds in Europe - SCM

### **Capability building // Best skills in Europe**

- Synergies across companies and countries
- Build tools and skills for increased effectiveness and innovation

Source: Schibsted ASA

## **Media house - Dominate markets**

Based on Schibsted's long experience with different media platforms, Schibsted's management believes that domination is vital. Domination can be in the form of dominating a market segment or, in the case of online classifieds, a platform. Schibsted wants to become stronger where they are strong, rather than stronger where they are weak. Reaching a number one position is crucial and highly profitable if achieved. One illustration of this is FINN.no where strategic partnerships with real estate agents ensure full coverage in the market segment for Internet house shoppers in Norway.

## **Product - Roll out proven models**

When entering markets or improving existing offerings in online classifieds, options for innovation and local adaptation are plentiful. So is the need to act fast and reach the benefits of automation. After organic projects, the strategy of rolling out proven products is the second most emphasised growth strategy of Schibsted. Rolv Erik Ryssdal ponders, however, "If I were to choose between, organic projects, mergers and acquisitions and roll outs, I would choose roll outs".

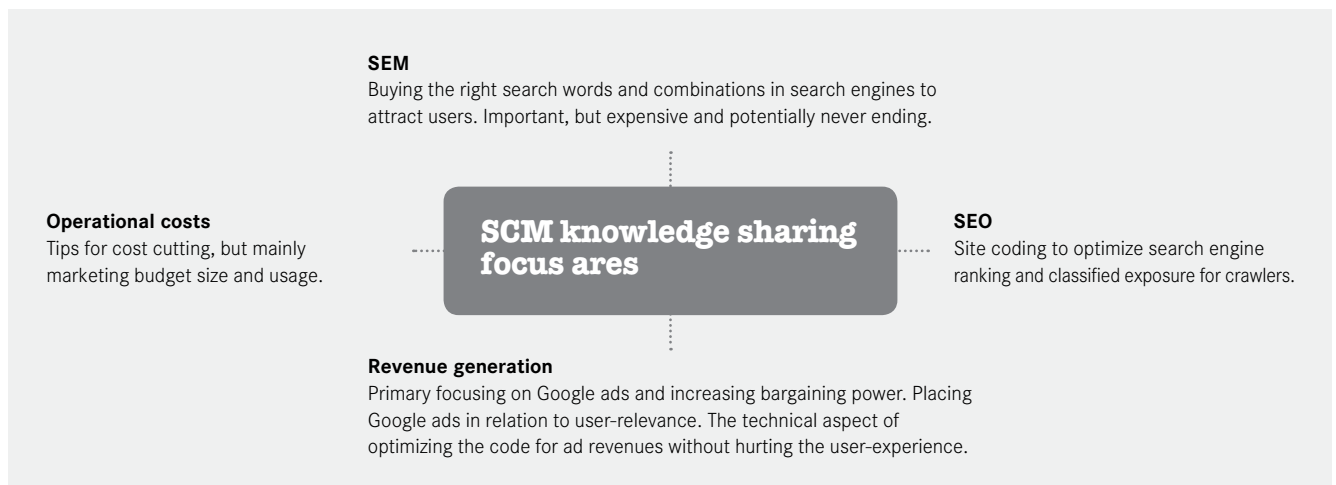
## **Capability building - Best Skills in Europe**

In the business of new media, having the right people is not enough. You need the best people available in the industry in order to outperform your competitors, and deliver your services in a superior way. In the communication business, both concept and speed ultimately depend on talent. Accordingly, Schibsted is extremely focused on recruitment and training.

## **A STRONG COCKTAIL OF CULTURE AND GLOBAL KNOWLEDGE MANAGEMENT**

SCM is fundamentally Scandinavian and Norwegian at that. It is always hard to understand what that implies when in the middle of it. Some differences noted by both non-Scandinavian employees and the management in Oslo are a flatter hierarchy, straight talk even when the topic is sensitive, and the fact that meetings revolve around reaching a consensus. Anybody wishing to advise SCM must understand that the mix between local autonomy for subsidiaries and the overall strategy of the headquarters in Oslo is both a strength and a weakness, and any suggestions should account for organisational and cultural challenges.

## Focus of knowledge sharing groups



Source: Own abstraction based on Schibsted ASA interviews.

Today, the main focus of SCM is becoming familiar with the new market for classifieds and its constantly changing nature. Furthermore, they emphasise continuous improvement in terms of how they can learn from each other internally at SCM. At first, shortly after the Trader acquisition, best-practice groups were setup and located away from Oslo, in order to learn as much as possible from each other. The best-practice groups were a necessary first step for everyone to get to know each other and to acknowledge and appreciate each other as associates in providing growth for SCM. Today, focus has been shifted to four specific areas deemed vital for online classifieds to leverage local knowledge.

**SEM:** Search Engine Marketing. Internet marketing aiming to promote website penetration by buying words and combinations of words in order to increase visibility in third party search results such as a Google search. A classified example can be the words: "used", "Volvo", and "Paris". Or the combinations of such words, like: "Volvo Paris" or "used Volvo". North American advertisers alone spent close to ten billion USD on SEM in 2006, which shows an increase of over 60% to 2005 and a 750% increase over the year of 2002. Large SEM vendors include Google AdWords, Yahoo! Search Marketing, and Microsoft adCenter.

**SEO:** Search Engine Optimization similar in essence to SEM, except being an

internal process of optimising website coding to increase visibility for search engine crawling. The idea being that the better placed a website is, the more users and page views it will generate. Can be a quite complex endeavour and many companies seek external consultancy for the task.

One thing is to learn from each other, another thing is when direct orders arrive from headquarters. Moreover, language barriers put natural limitations on the speed of implementing corporate-wide initiatives and require tough prioritising by management. Another aspect is that in some cultures people do not take orders well, while others people listen happily. Oddly enough, local subsidiaries' listening propensity seems to be counter correlated with execution – those that are hard to get to listen execute, whereas those that listen, do what they want regardless. This realisation has caused some frustration in Oslo.

As previously mentioned, SCM believes that having a launch and learn culture is a crucial need in an immature industry such as online classifieds. This belief enables them to build strong brands and trading platforms that can potentially change people's lives. "We are a learning organisation" Robert Steen boasts: "We would rather experience success and failure than only success – as we can draw important learning points from failures".

# current outlook

**Rolv Erik Ryssdal** is sitting in his Oslo office. He has been with Schibsted for over 15 years. His pay check states that he is employee number 10. He began his career in a head office consisting of only a handful of people during a time when the main business was subscription newspapers. Much has changed since then, Rolv Erik philosophises.

It is snowing lightly outside, and the sky is grey and foreboding. However, Rolv Erik has a smile on his lips. The reason being that SCM has a blue sky to look at. Sweden is living up to its potential with an EBITA margin of 62%. Likewise, the Swedish Blocket-model has proven a success in France, Spain and Malaysia. The same goes for the Infojobs-model in Italy. Nevertheless, there are a couple of clouds on the horizon. The poor macroeconomic conditions have limited the revenue from Schibsted's vertical classified operations, and Italy is struggling. On the other hand, it is estimated that the online classified business will double in the next 4-5 years, and already SCM's new international markets are under the mean. These blessings and issues aside, the next step for SCM seems even sunnier.

Though, the question of how to grow profitably remains. SCM does not hold the best track record in cost management, but does show good performance in revenue (which translates to getting users), and this could make it an imperative to roll out the Blocket-model or Infojobs-model in even more countries. If so, which countries should they choose and when to launch? What micro and macro factors should be considered, and will these influence a roll out positively or negatively? How many websites can SCM handle in terms of execution, both from a management and a capital point of view? Other questions are also pressing; should SCM continue to focus on organic growth projects or engage in mergers and acquisitions, and how can they take full advantage of synergy potential? Further on the horizon lies the questions of what the future business models will look like and even whether SCM should be taken out as a separate company all together?

As Rolv Erik leans back in his chair and ponders these and some of the many other exiting ways forward, he hears you and your team of top consultants getting ready to be directed into his office. He is looking forward to hearing your suggestions on how to address these or maybe other issues related to the attractive future of the SCM division.



## Schibsted ASA overall financials

(NOK million)	2007	2006	2005	2004
<b>Operating revenues</b>	<b>13 610</b>	<b>11 648</b>	<b>9 832</b>	<b>9 690</b>
Operating expenses	(11 996)	(10 375)	(8 709)	(8 458)
Income from associated companies	149	179	198	84
Operating profit (EBITDA)	1 763	1 452	1 321	1 316
Depreciation and amortisation	(586)	(439)	(344)	(376)
Operating profit before impairment of goodwill others revenues and expenses (EBITA)	1 177	1 013	977	940
<b>Operating profit (EBIT)</b>	<b>1 246</b>	<b>2 495</b>	<b>1 161</b>	<b>514</b>
Profit before taxes	1 028	2 413	1 177	476
<b>Operating margin:</b>				
EBITDA (%)	13.0	12.5	13.4	13.6
EBITA (%)	8.6	8.7	9.9	9.7
EBIT (%)	9.2	21.4	11.8	5.3
Profit ratio (%)	4.7	18.40	8.9	2.5
Equity ratio (%)	31.0	31.2	40.6	32.8
Return on equity (%)	13.2	54.9	33.5	10.5
Return on total assets (%)	8.1	21.2	16.2	7.7
Net interest bearing debt / EBITDA	2.3	2.3	0.6	0.9
EPS (NOK)	9.52	32.52	12.91	3.55
EPS diluted (NOK)	9.49	32.45	12.89	3.55
Cash flow per share (NOK)	19.36	39.53	18.53	15.39
RISK per share		(4.19)	(3.18)	1.21
<b>NORWAY</b>				
Operating revenues	5 979	5 351	4 941	
Operating profit (loss) (EBITA)	779	533	631	
Operating profit (loss) (EBIT)	947	1 532	710	
Operating margin (EBITA) (%)	13.0	10.0	12.8	
<b>SWEDEN</b>				
Operating revenues	4 903	4 626	4 150	
Operating profit (loss) (EBITA)	251	430	370	
Operating profit (loss) (EBIT)	234	971	275	
Operating margin (EBITA) (%)	5.1	9.3	8.9	
<b>INTERNATIONAL</b>				
Operating revenues	2 840	1 735	791	
Operating profit (loss) (EBITA)	147	50	(24)	
Operating profit (loss) (EBIT)	65	(8)	176	
Operating margin (EBITA) (%)	5.2	2.9	(3.0)	

### DEFINITIONS

#### Operating margin:

**EBITDA margin:** Operating profit (loss) before depreciation and amortisation, impairment of goodwill and other revenues and expenses / Operating revenues

**EBITA margin:** Operating profit (loss) before impairment of goodwill and other revenues and expenses / Operating revenues

**EBIT margin:** Operating profit (loss) / Operating revenues

**Profit ratio:** Net income (loss) attributable to majority interests / Operating revenues

**Equity ratio:** Equity / Total assets

**Return on equity:** Net income (loss) attributable to majority interests / Average equity excl. minority interests

**Return on total assets:** (Profit (loss) before taxes + interest expenses) / Average total assets

**EPS:** Net income (loss) attributable to majority interests / Average number of shares

**Cash flow per share:** (Profit (loss) before taxes + depreciation and amortisation +/- net changes in pensions +/- income from associated companies - taxes payable) / Averages number of shares

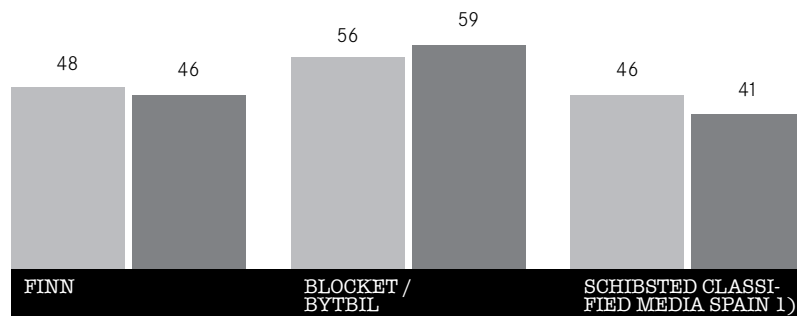
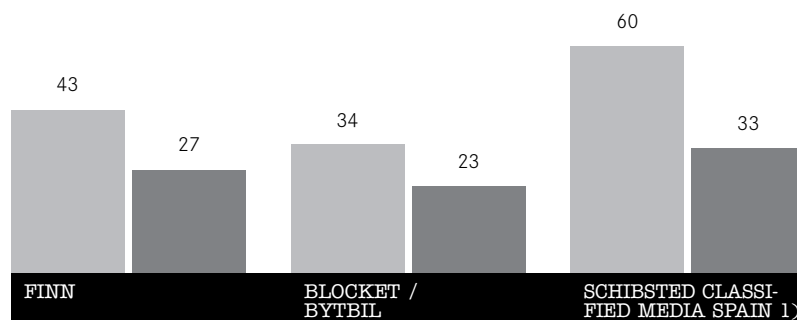
## **Media platform growth rates of revenue (NOK million) and margins**

	REVENUE PR. Q3 2008	CHANGE Y/Y	EBITA MARGIN PR. Q3 08	PR. Q3 07
<b>Group</b>	<b>10 204</b>	2 %	9 %	9 %
Print newspapers	6 509	-4 %	8 %	9 %
Online newspapers	637	16 %	16 %	19 %
Online Classifieds & directories	1 843	31 %	26 %	23 %
Live pictures	948	-1 %	2 %	- 3%

Source: Schibsted ASA. Classifieds revenues excluding directories, but including FINN.no, is 1 704 making the share 17%.














## **Selected online classifieds revenue growth and margins pr Q3 in year-on-year, percent**

Classified / Search

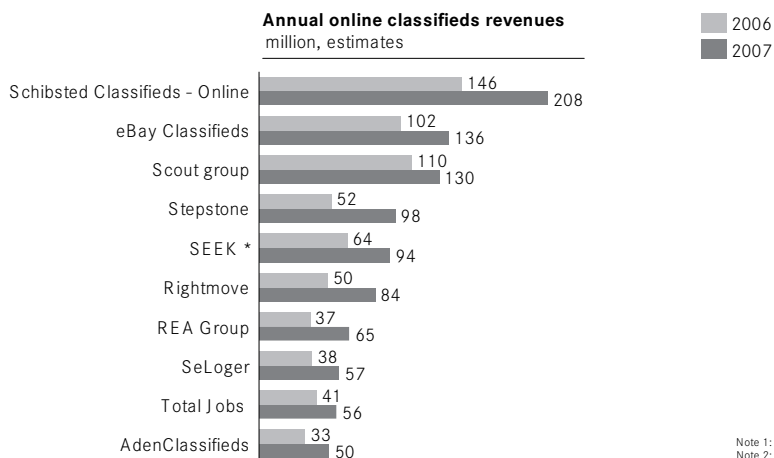


Source: Schibsted ASA

## SCM leading positions

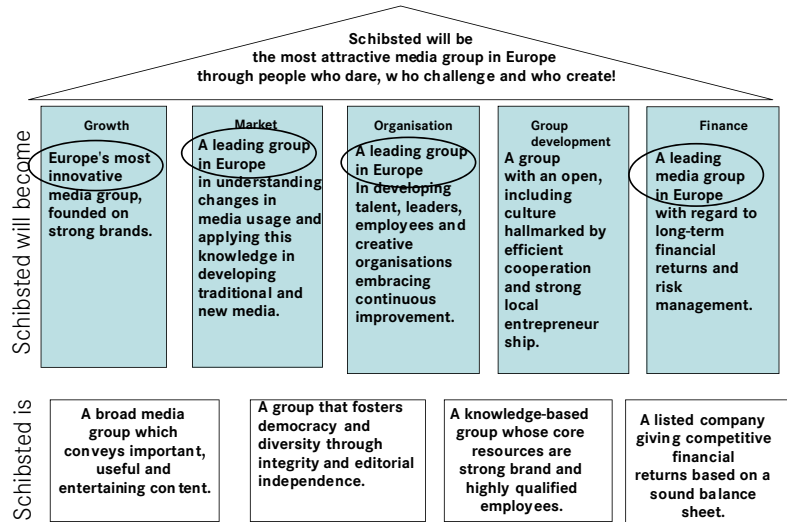
Site	Market position	Unique monthly visitors	
<b>Spain</b>			
	No. 1 recruitment	3.1 million	
	No.1 generalist classifieds	2.7 million	
	No. 1 cars	0.8 million	
	No. 1 real estate	1.1 million	
	No. 4 recruitment	0.6 million	
<b>Austria</b>			
	No. 1 in generalist classifieds and growing in Real Estate and Car verticals	0.8 million	
<b>France</b>			
C&BM		#1 car classifieds	2.2 million
		#1 car car content	1.2 million
		No. 2 general merchandise	1.2 million
<b>Italy</b>			
	No. 1 in recruitment	1.1 million	
	No. 1 general merchandise	2.0 million	
	#2/3 in cars /real estate	1.0 million	
<b>Belgium</b>			
	No. 1 in general merchandise	0.2 million	

## Schibsted is the largest online classified player in Europe



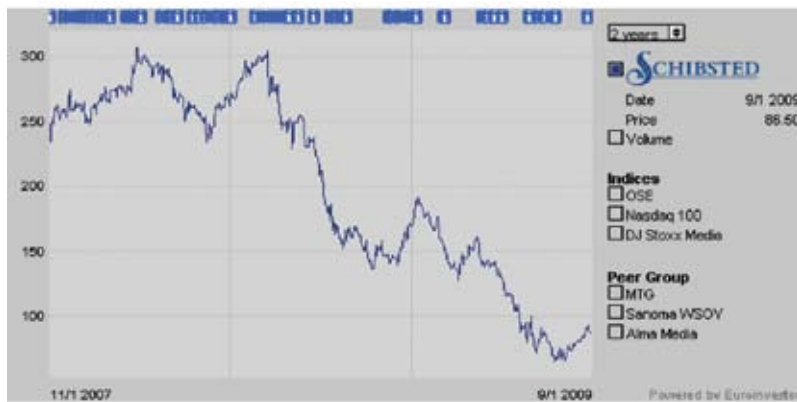
Note 1: includes FINN.no and 100% numbers for SCM Joint Ventures.  
Note 2: Excluding Monster Europe; Monster International (non-US) around 350m

## Vision house



Source: Schibsted ASA

## Schibsted ASA Shareprice from January 2007 to January 2009



Source: Schibsted ASA

## **NOK versus Euro 2006-2009**



Source: E24 Bars

## **Benchmark of SCM's websites on Traffic Rank last 3 Months**

Brand	Country	Vertical Real Estate	Vertical Cars	Vertical Jobs	Vertical Boats	Horizontal For Generalist	Traffic Rank 3. Months Average
Blocket.se	Sweden		X		X	X	952
Byttbil.se	Sweden		X				7.580.071
Infojobs.net	Spain			X			1.500
Coches.net	Spain		X				3.757
Fotocasa.es	Spain	X					4.240
Laboris.net	Spain			X			5.894
Segundamano.es	Spain					X	1.086
Willhaben.at	Austria	X	X	X	X	X	7.467
Autoplius	Lithuania		X				N/A
Domiplus	Lithuania	X					N/A
Leboncoin.fr	France		X			X	378
Cardisiac	France		X				N/A
Lacentrale.fr	France		X		X	X	3.451
Annoncesdebateau	France				X		N/A
Mudah.com.my	Malaysia		X			X	5.174
Subito.it	Italy		X			X	2.040
Infojobs.it	Italy			X			3.621
Secondamano.it	Italy	X	X			X	6.001
Cercaetrova	Italy	X	X			X	N/A
Barce.it	Italy				X		N/A
Piocase.it	Italy	X					N/A
Polha.com	Slovenia	X	X		X	X	14.915
Kapaza	Belgium	X	X			X	2.87.108
Soov	Estonia	X	X			X	5.473.542
Costojusto	Portogal		X			X	N/A
FINN.no	Norway	X	X	X	X	X	1.410

Source: Own Analysis. Alexa.com. FINN.no is included, but not part of SCM

# lessons from the resent past - first steps into online classifieds

For more than a hundred years Schibsted was a family-run enterprise, a normal structure in Scandinavia. In 1980 however, the decision was made to establish Schibsted as a limited company named Schibsted ASA, followed by the further initiative to go public on the Oslo Stock Exchange in 1992.

“The decision to go public was not done because we really needed the capital or had big projects lined up, but rather because minority shareholders wanted to get out. As a publicly-listed company, growth expectations follow, urging us to deliver” says Sverre Munck, a seasoned Schibsted boss and currently Executive Vice President of SCM known for his welcoming but sharp responses to questions.

Since then, the company has contentiously redefined and pursued a growth strategy. Looking back at the last 20 years, these expansions include going outside of Norway and into new media platforms, including free newspapers in Europe and finally, through a big thrust, going into the online classified segment. Today Schibsted correspondingly has become a European Media House with operations in the areas of newspaper, TV, film, online, mobile-phone, book and magazine media.

Schibsted’s first online success was FINN.no (translation: to find) – a classified portal in Norway. The website was established in October 1999 in cooperation with five regional newspapers and launched March 7th 2000 - the Friday before the dot-com bubble burst. The ambitions for the website were high, and 200 people named FINN (also a typical boys’ name in Norway) were invited for dinner at one of the most exclusive hotels in Oslo. In addition to this, the website was launched on the outside of the hotel front via large projectors. Before the online launch, the five regional newspapers behind the venture also renamed their classified section: “FINN” for people to become familiar with the brand.

However, the launch of FINN.no did not happen without internal resistance. The newspapers under Schibsted’s umbrella were concerned about FINN.no stealing revenue from their profitable classifieds and forced the corporate level to limit FINN.no to one sales person per segment. This internal compromise almost killed Schibsted’s commencing take on the online classified market in Norway; a market at that time was ripe with competition. If Schibsted did not allow internal cannibalisation, competitors would attack head on. “In order to meet the restraint of having a limited sales force in FINN.no we hired sales people under different titles. Any outsider going over our headcount at that time must have been highly confused”, reminisces Robert Steen with a little laugh.

Despite these initiatives, the website almost went bankrupt in 2001, mostly due to the dot-com bubble burst and the economic conditions at the time, but recovered as potential competitors were more defensive in their strategies giving FINN.no a head start in reaching its current market leader position.

Due to the quick recovery and success in Norway, attempts were made to leverage the website to Sweden, Schibsted’s second largest market, and similar to that of Norway. Failing to see that there already existed a strong and popular platform for buying and selling goods in Sweden called Blocket.se, started up by one entrepreneur in a private garage in Southern Sweden, Schibsted had to withdraw. However, the Blocket.se website raised curiosity and Schibsted almost immediately started talking about executing an acquisition, but rejected the first offer seeing the website as overpriced. Less than a year later, they changed their mind and paid double the amount first suggested. Today the website is worth more than ten times the price paid and is the most used roll out model for SCM.

# about the case writers

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