TUCK SCHOOL OF BUSINESS AT DARTMOUTH
WILLIAM F. ACHTMEYER
CENTER FOR
GLOBAL LEADERSHIP

no. 2-0006

New York Times Digital (A)

Steve Luciani worked in the information systems group at *The New York Times* newspaper. Among his responsibilities were keeping an eye on emerging technologies, and warning of trends that could present threats or opportunities to The New York Times Company. In 1995, he started setting off alarms: "This Internet thing is going to be huge. It is a tremendous opportunity. We have to get on the bandwagon."

Early Operations

Russ Lewis, CEO, agreed. He created a small budget and assigned Mr. Luciani and three colleagues – two from the news desk plus an advertising executive – to the task of building a website. Over the next several months, they built what by today's standards is a rudimentary news website.

Even while this was underway, Mr. Lewis heightened his commitment to the Internet. He began an external search for a senior executive to lead a new Internet business unit. Several months later, he hired interactive media expert Martin Nisenholtz to head The New York Times Electronic Media Company. Mr. Nisenholtz had spent his entire career in interactive media. Prior posts included a research position at NYU that focused on predecessors to web technologies and an 11-year tenure at the advertising firm Ogilvy & Mather, where he established the first creative development group devoted to interactive communications.

Soon, the company launched NYTimes.com. Readers could view almost all newspaper content online for free. The NYTimes.com team repurposed newspaper content, making it suitable for the Internet. In practice, this meant altering headlines, adding hyperlinks, resizing photos, and changing captions. The team updated the website throughout the night, keeping it current until the Late Final edition went to press.

The team also sought creative ways to leverage the power of the Internet, and added content and features that were not available in the newspaper. For example, they created "Cyber Times," devoted to news on new media, and created special sections on the presidential elections, Bosnia, and the downsizing of America. They also created discussion areas, so readers could share viewpoints on topical issues, and programmed interactive features. One allowed readers to calculate how a tax cut proposed by a presidential candidate would affect their personal finances.[1]

---

[1] Details of early NYTimes.com operations are drawn from Rayport, Jeffrey F. and Louie, Dickson L., *The New York Times Electronic Media Company (A),* Harvard Business School Case Study, #9-897-051, p. 8.

This case was written by Professor Chris Trimble of the Tuck School of Business at Dartmouth. The case was based on research sponsored by the William F. Achtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

Mr. Nisenholtz recalled the aspirations of the early NYTimes.com news team:

> "The news group on my side of the business wanted to grow a second newsroom. Their feeling was that the *Times* newsroom created a newspaper, and that a journalistic entity that focused on the web was needed."

A narrower focus for the NYTimes.com newsroom emerged. Mr. Nisenholtz continued:

> "We've cleanly split the functions. Any journalism is done by the newspaper because they have the infrastructure and editing capabilities. What we create here is value added. In addition to providing news updates throughout the day, we create features and functions that enhance the news report. We also add other databases that we import from other sources. In a sense, we [NYTimes.com] are a software operation, and they [the newspaper] are a news operation."

The NYTimes.com team actively considered and reconsidered the business model. They studied alternative approaches to advertising, including sponsorships of certain sections, and the possibility of charging for access to some or all content. Although some competitors, most noticeably the *Wall Street Journal,* had decided to charge readers a subscription fee, NYTimes.com remained free. Naturally, the circulation staff feared that online newspaper content available at no charge would have a negative impact on subscriptions to the printed version of the newspaper.

Mr. Nisenholtz did decide to require users of NYTimes.com to register, providing some demographic information. Because there were many alternative news sources on the web, the NYTimes.com team felt that this could be risky. In fact, another online media site had decided to remove its registration constraint. Registration information enabled NYTimes.com to serve advertisements to targeted audiences. Mr. Nisenholtz expected that advertisers would place a high value on this ability.

Building a New Business Unit

The Company owned various media properties, including the *New York Times* newspaper, the *Boston Globe*, the *Worcester Telegram & Gazette*, and several other regional newspapers, located mainly in the southern United States. The Company also owned magazines plus several broadcast media properties, which in 1995 accounted for 10 percent of revenues (Figure 1).

The *Times*, which accounted for greater than half of the corporation's revenue, sought to provide high value-added content to wealthy, sophisticated readers. The New York Times brand was believed to be the Company's most valuable asset, built through years of top-notch reporting and analysis, plus marketing and promotion. The paper won 79 Pulitzer Prizes, more than any other newspaper.

In forming the new business unit, Mr. Lewis had to balance two needs: (1) to give the new business sufficient freedom to explore a new opportunity, and (2) to protect the brand. Mr. Nisenholtz reported to both the general manager and the editor of the newspaper. This was an unusual move, since The New York Times, like most news organizations, maintained a "Chinese Wall" between the editorial and business sides of the organization to ensure editorial independence. Longtime foreign affairs editor and diplomatic correspondent Bernie Gwertzman, who held the company record for most front-page headlines after many years in cold war-era Moscow, was assigned to direct the editorial operations of NYTimes.com. In time, the NYTimes.com team grew to several dozen, drawing new people mostly from within the newspaper organization.

As an integral part of the newspaper organization, newspaper employees perceived NYTimes.com as a credible part of the corporation. This might not have been the case if it had been organized as an independent operating unit that reported directly to corporate executives (similar to the broadcast properties, for example). In fact, many senior newspaper executives would have been acutely uncomfortable with entrusting the priceless New York Times brand to an operating unit that they didn't control. Because the newspaper staff closely supervised NYTimes.com, it developed values and a culture similar to the newspaper.

Through 1998, the Company steadily increased its investment in its online operation (See Figure 2). The budgeting process for the new business unit was integrated with that of the corporation. Mr. Nisenholtz was a constant advocate for increasing investment in the website. As he reported directly to the publisher and editor of the newspaper, his views were influential. Russell Lewis, the Company's CEO, recalled anticipating this organizational dynamic:

> "When Mr. Nisenholtz came on board, we knew he was going to say, 'Look, if I am the guy that is charged with exploiting this area and finding out what's possible, then we have got to be serious about our financial commitment.' From that time forward, the amount we invested ratcheted up and up."

Various factors shaped perceptions of how the website was performing. Although the budget was integrated with the corporate budget, NYTimes.com had its own P&L. Evaluation depended mostly on the following questions:

- Can we tolerate the losses we are generating?
- Are we having any significant operating problems?
- Are we damaging the core business or the core brand?

The Company established an informal goal that online operations were to be profitable within five to six years.

Against those standards, NYTimes.com was performing well. But Mr. Nisenholtz was uncomfortable. While the ultimate business model for media websites was as uncertain as ever, Mr. Nisenholtz felt strongly that the Company was taking too timid an approach to capturing a strong position on the internet. The world of internet media seemed to be evolving more quickly than NYTimes.com. For example, new websites such as Monster.com, a job search website, were threatening to swipe important revenue sources from the newspaper industry.

Mr. Nisenholtz felt constrained by the limitations of working for a large company. He recalled:

> "We weren't where we needed to be. We didn't have the resources we needed to create the necessary infrastructure to get there. But when one works for a big company, you recognize the art of the possible. Given that it was going to cost a lot of money to do what needed to be done, I just didn't think that it was possible."

Mr. Nisenholtz's staff shared his angst. They referred to the software they had developed as "shovelware" – as in all it could do was simply "shovel" newspaper content onto the Internet. They referred to their business as "newspaper.com."

Mr. Nisenholtz felt that a straightforward "newspaper.com" operation could not possibly take full advantage of the Internet's vast potential. In particular, as the technology advanced, multimedia content appeared crucial. Text would have to be integrated with slideshows, audio, video and advanced interactive features. Competitors were investing heavily in their online operations, and investors were throwing money at anything with growing revenues, regardless of expenses.

Wall Street Beckons

By early 1999, Internet valuations were rising dramatically, and even senior executives outside of NYTimes.com began to question whether the Company was devoting adequate resources to the internet. In addition, they wondered whether the level of constructive and creative dialogue about the direction in which the website could go was adequate.

Then, Mr. Lewis began receiving phone calls that forced consideration of significant changes. Investment bankers encouraged Mr. Lewis to take the Company's Internet operations public through a special equity security known as a tracking stock. The financial strategy would enable the company's websites to be valued more like Internet properties, which were skyrocketing at the time, than like traditional newspaper properties. The bankers estimated high valuations for such an offering. Shockingly high. Mr. Lewis had to decide: Should he reconstitute the Company's Internet operations (which included websites for the Boston Globe and several magazines) as an independent business unit? And should the Company offer shares in the business unit to the public?

Figure 1: 1995 Revenue Breakdown ($B)

Newspapers	2.16	90%
Broadcast	0.08	3%
Magazines	0.16	7%
Total	2.40	100%

Figure 2: New York Times Digital

	Revs $M	Operating Losses $M
1995	0.1	(11.4)
1996	6.0	(10.0)
1997	10.1	(11.1)
1998	14.2	(21.1)

no. 20006

New York Times Digital (B)

In early 1999, despite resistance from within the newspaper staff, The New York Times Company created New York Times Digital (NYTD), consolidating Internet operations under the leadership of Martin Nisenholtz. The Company simultaneously began a process to offer shares of NYTD to the public in the form of a tracking stock. However, tracking stocks were complex securities. By the time the tracking stock was ready for launch, the NASDAQ had fallen sharply, and the Company withdrew the offering.

NYTD included NYTimes.com, Boston.com, NYToday.com (metro area entertainment and activities guide), GolfDigest.com, WineToday.com, and Abuzz (a new technology-driven, natural-language question site that was designed to connect users to web pages or to other users who could answer their questions). NYTD was also responsible for managing the Company's Digital Archive Distribution business, which provided content for research news retrieval services, such as Dow-Jones and Lexis Nexis. NYTD executives expected that wrapping all the Company's websites into a single organization would promote exchange of information and learning between website staffs.

What, exactly, did it mean that NYTD was now a "separate" business unit? First, the company's Internet operations would be consolidated in a single P&L. Second, Mr. Nisenholtz would report directly to the CEO, Russ Lewis. NYTD would be a peer to the other business units, including the *Times,* the *Globe*, the regional newspaper group, and the broadcast group. But there were many other details to be considered, such as staffing, structure within NYTD, titles, roles and responsibilities, and more.

NYTD set up an independent senior policy team, consisting of Mr. Nisenholtz, an executive vice president, a CFO, legal counsel, and vice presidents for business development and human resources. NYTD also made a concerted effort to create a distinct "Internet culture" within NYTD. Muriel Watkins, NYTD's vice president of human resources and communications, recalled:

> **"We wanted to really get across a strong message that we were a different business, a different company, and a different culture. We wanted to hire a workforce that valued different things than the workforce of The Times. So we made a lot of changes. We formed a culture committee, which was largely to figure out who we were or who we wanted to be and then what we needed to put in place to get there."**

NYTD sought to create an experimental culture, and minimized bureaucratic controls, procedure, and paperwork. The business unit operated as a "confederation of websites" in

This case was written by Professor Chris Trimble of the Tuck School of Business at Dartmouth. The case was based on research sponsored by the William F. Achtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

To order additional copies please call: 603-646-4055

a decentralized structure. Some defined processes were allowed to develop, but were never considered to be "set in stone." A team approach and a spirit of openness were emphasized. Information was shared, and decision making was transparent.

NYTD made plans to move into a new building in midtown Manhattan, about 10 blocks from the newspaper's headquarters. The design of the new workspace was meant to reinforce NYTD's new culture. The design was modern, much different from corporate headquarters. There were large open spaces— "teaming areas" — including a central café, to encourage conversation and cooperation. The offices of senior executives had glass walls to enhance the sense of openness.

The NYTD executive team modified hiring policies to support the effort to create a distinct culture. Until NYTD separated from the newspaper, most NYTimes.com staffers were internal transfers. NYTD's new hiring plan called for extensive hiring from outside the Company. The employment market for technology-related positions was extremely competitive in the late 1990s. The promise of stock options based on the soon-to-be-launched NYTD tracking stock was critical in attracting potential hires with the profile NYTD sought: young, smart, ambitious, and with dotcom experience. The pension program, valued within the newspaper organization, was eliminated from NYTD's compensation package.

The boom in the Nasdaq market and the separation of NYTD from the newspaper organization altered budgetary constraints. Heavy spending was encouraged by Wall Street, and competitors appeared to be making rapid progress. As a result, NYTD invested aggressively in creating a world-class IT infrastructure dedicated to interactive media, one that had substantially different requirements than the IT systems that supported the newspaper operation. Scott Meyer, general manager of NYTimes.com, reflected on the build-out:

> "NYTimes.com runs on an IT infrastructure that is very different from the newspaper's. Building it required developing new expertise. Because our projects are much smaller in terms of capital required than newspaper projects, it would have been difficult to get them prioritized if we were part of the newspaper. Being separate allowed us to move faster. At the same time, being part of The New York Times Company allowed us to take advantage of the better pricing that the corporation is able to get from vendors."

NYTD developed a bottom-up approach to budgeting. They sought ideas for new content and new features from throughout the organization. Experienced executives and journalists proposed the most solid projects. To get a sense for what readers wanted, NYTD executives constantly reviewed usage data for its websites. But they also encouraged thinking independent of this data. The intent was to ensure that the company generated ideas that could attract potential customers, not just existing ones. The senior executive team evaluated and selected or rejected the plans using a combination of loose net-present-value analyses and experienced judgment.

Because of the rapidly changing nature of the Internet market, NYTD's budgets and forecasts had the potential to change rapidly and were updated monthly. There was much guesswork involved, particularly in projecting revenues. The process was still coordinated with the corporate budgeting process. However, budgets in other business units were not exposed to the same variability, and were revised at much longer intervals.

The corporate executive team set financial targets through negotiations with the NYTD team, and then evaluated NYTD based on financial performance vs. forecasts and budgets, and the long-term path to profitability. NYTD's CFO Ellen Taus commented:

> "Financial performance was not the only measure. We always measured audience reach, traffic, and various measures of consumer satisfaction as well. Still, even though we had been in a loss position, hitting bottom-line targets was important."

Enhancing the Product

Despite the tensions with the newspaper that accompanied the creation of the separate NYTD business unit, Mr. Nisenholtz was, over time, able to build trust and independence, allowing him sufficient maneuvering room to experiment with new ideas on the website. This, in combination with a higher budget and an influx of new people resulted in a burst of creativity. NYTimes.com expanded in scope and functionality. In fact, the organization was so successful in generating new and creative ideas for what NYTimes.com could become that for a while, the ability to hire and train new people constrained the rate of investment in new projects. NYTD's senior team prioritized proposals.

NYTD news operations broke away from the daily rhythm inherent in newspaper operations and shifted to a more continuous mode. In fact, NYTimes.com created a special Continuous News Desk, which was physically located in the New York Times newsroom and reported to New York Times editors, but was funded by NYTD. This group was responsible for adding New York Times style and perspective to breaking news reports from around the world, and publishing on the website as quickly as possible, throughout the news day. Occasionally, the Company chose to break exclusive stories on the website first, fearing a "scoop" by the broadcast media, which were not constrained by publishing timetables and could go on the air at any moment. The new technology infrastructure made the faster operational rhythm possible by automating many steps in the process of preparing content for Internet publication. Even with all the new activity, the NYTimes.com news team numbered only several dozen at the end of 2000, compared with 1,200 newspaper journalists at The Times newspaper.

NYTimes.com regularly introduced new "products" – any of various ways to package content and advertising on the website or in emails to registered users. The team found ways to maximize the potential of their new technology infrastructure with features that combined text, audio, slideshows, video, and interactivity. In addition, NYTD struck partnerships with other news organizations, such as the Associated Press and CBS Market

Watch, and integrated their content onto the site. NYTimes.com was able to track page-views for any part of the website. As a result, feedback on which features were being used and which were not was continuously available. Such feedback had to be interpreted cautiously, however. Feedback from early adopters was not always reflective of the market as a whole.

As NYTD sought to accelerate new product introduction, it became clear that the organizational structure adopted from the newspaper was not the best possible choice. After some experimentation, NYTimes.com settled on a structure in which the general manager, Mr. Meyer, was responsible for day-to-day operations (Figure 1). Functional heads, including sales, marketing, technology, and content development (excluding editorial decision-making), reported to the GMs. Cutting across functions, product managers were named to develop and manage new products. Product managers also reported to the GMs. In a related change, NYTD walked away from traditional titles that reflected newspaper heritage, such as "publisher."

NYTD had initially been formed with a respect for longstanding principle within the newspaper industry that there should be no contact between the newsroom and personnel on the business side of the newspaper. However, as NYTD gained experience, they questioned the principle. Some of the more innovative and successful additions to NYTD's website were coming from cross-functional collaboration between journalists, marketers, sales staff, and technology staff – all facilitated by the product managers.

By the end of 2000, NYTD had grown to approximately 400 employees, of whom fewer than one-quarter had experience at the newspaper. The staff was young, aggressive, and anxious to advance in the business world at a time when it seemed anyone could make millions. The new employee makeup did have side effects. Ms. Watkins commented:

> "We had a very ambitious and assertive group of people who were all hungry for responsibility and autonomy. They carried extremely high levels of self-confidence. It didn't matter that they didn't have the experience to back it up."

Although NYTD was growing, it wasn't possible to satisfy all needs for creativity, autonomy, and authority. In what threatened to become an excessively competitive internal environment, NYTD had to develop a more forceful and confrontational leadership approach than was traditional within the Company.

Through conscious choice and natural evolution, NYTD had become a distinct organization with a distinct culture.

Generating Revenue

NYTD experimented with subscription charges for premium content, but generated almost all revenue by selling advertisements. This included both display and classified ads. Models for online display ads were still evolving, and there were new alternatives to banner ads. Commenting on the perceived intrusiveness of new “pop-up” and “pop-under” ads, Lincoln Millstein, executive vice president at NYTD, observed how newspaper readers had become conditioned to accept what worked best for advertisers:

> “The newspaper is an extremely intrusive advertising vehicle. But the readers of the newspaper have been trained over decades to have certain expectations. You can’t tell me it is a good experience to have eight stories to start off on page one and then jump into four or five different places. That can’t be a quality newspaper experience.”

NYTimes.com managed its own sales force for selling display ads. At first, NYTD sold ads primarily to Internet companies, and through newly launched Internet-only advertising agencies. Sales grew quickly during 1999 and 2000.

There were many eyes watching NYTD’s success in growing revenues in 1999 and 2000. NYTD’s tracking stock initiative required a significant release of information to the public and attracted regular coverage in the financial press. And, because NYTD’s budget was rising rapidly, it was getting the attention of more people internally as well. As with other dotcoms, revenue growth became the most significant influencer of performance perceptions. Revenues vs. forecast, and revenue growth vs. competitor revenue growth, were frequently reviewed internally.

It was an extraordinary time, as Ms. Taus recalled:

“We were just blowing the doors off. Revenues were double what we had budgeted and were expanding. Our revenue forecasts had less of a bearing at that time—either up or down. One year they are way too low and the other year they are way too high.”

Figure 1: NYTD Organizational Structure

The New York Times Company

Russell Lewis, Chief Executive Officer

↑

NYTD Senior Executive Team

Martin Nisenholtz, Chief Executive Officer

Lincoln Millstein, Executive Vice President

Ellen Taus, Chief Financial Officer

Catherine Levene, Vice President of Strategy and Business Development

Muriel Watkins, Vice President of Human Resources and Communications

Ken Richieri, Vice President and General Counsel

↑

Website General Managers

Scott Meyer, NYTimes.com

Lisa DeSisto, Boston.com

↑

Functional Vice Presidents

(Marketing, Sales, Content Development, Technology)

New York Times Digital (C)

Scott Meyer hung up the phone. He had just been speaking with Lisa DeSisto, his colleague and counterpart at Boston.com, New England's largest regional portal and the Internet home for the Boston Globe.

The date was September 27, 2001. Both Mr. Meyer and Ms. DeSisto were exhausted from the frenetic pace of operations sustained since the terrorist attacks at the World Trade Center and the Pentagon two-and-a-half weeks earlier. But the primary subject of this particular phone call was another topic entirely. At a meeting scheduled for the next day at corporate headquarters, the senior executive team would discuss possible changes to NYTD's organizational structure. Over two years earlier, the Company had restructured to consolidate all Internet operations as an independent business unit. Now there was a proposal on the table to reverse that decision.

Naturally, the two GMs were nervous. The previous year had been difficult. In late 2000, Wall Street, in a shockingly rapid shift in perspective, started evaluating dotcoms based more on profitability than on revenue growth. The NASDAQ was plummeting (Figure 1). In aggressive pursuit of revenue growth for two years, NYTD had generated big losses (Figure 2).

Quickly, NYTD had come under intense pressure to achieve profitability as quickly as possible. To achieve greater operating efficiencies, the NYTD leadership team folded NYToday.com and WineToday.com into the NYTimes.com website. And, they sold GolfDigest.com with several golf-related print magazines. That left NYTD with two websites, NYTimes.com and Boston.com.

Expecting further pressures, Mr. Nisenholtz initiated conversations with the corporate executive team about the possibility of layoffs. Soon the Company cut NYTD's budget. Two painful rounds of layoffs followed in January and in April of 2001. As a result, the NYTD leadership team discontinued many existing website features that were not drawing significant user attention. The team also began declining speculative project proposals that had no clear payoff within one year. They made exceptions for projects that were critical to the core editorial mission of the newspaper and projects that related to the development of NYTD's technical infrastructure. Even then, they closely examined proposals to ensure a *New York Times* quality job for the lowest possible cost.

The layoffs were successful from a financial perspective: NYTD was approaching profitability. To Mr. Meyer, this did not seem like the time for a major organizational change.

This case was written by Professor Chris Trimble of the Tuck School of Business at Dartmouth. The case was based on research sponsored by the William F. Achtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

Mr. Meyer knew that his boss, Mr. Nisenholtz, would be the most influential advocate at the meeting for keeping the existing structure. Wanting to provide some thoughts to Mr. Nisenholtz, Mr. Meyer wondered: What is the most convincing argument I can make for retaining the current organizational structure?

As he mulled through the considerations, he reviewed how the relationship with the newspaper organization had evolved. The creation of NYTD seemed to have had so many positive outcomes, but NYTD's distinctiveness did create new strains. Interactions with the rest of the Company began to take on an "us versus them" undertone. All of the media attention lavished on dotcoms was resented by some newspaper employees.

There were also several tensions rooted in many more substantive business concerns.

Protecting the *New York Times* Brand

From the moment that the decision to create NYTD was made, newspaper executives fretted over whether a brand new business unit should be entrusted to protect a valuable, 150-year-old brand. It was particularly important to the newspaper that the new division operate with a "Chinese Wall" between business and editorial. Nonetheless, NYTD created cross-functional product teams.

Over several decades, the newspaper industry had adopted the separation of editorial operations and business operations as a sacred principle. The principle developed because in the industry's early years, many unscrupulous owners would do anything necessary to sell their product – including pandering to advertisers' interests. Over time, readers lost trust. Organizations that respected the separation in its strictest sense forbade communication between newsroom employees and the rest of the organization.

Protecting Subscription Revenue

The newspaper department that was least enamored of NYTD was circulation. Naturally, they continued to fear that offering free newspaper content on the Internet would have a negative impact on subscription sales. To address the fears, NYTD collected extensive data comparing the readership of the website to the readership of the newspaper. The web readership was a different audience—slightly younger, more affluent, and much more geographically dispersed. In addition, surveys and focus groups failed to support the fear that online registrations were cannibalizing subscription sales.

In fact, by the middle of 2000, the website had become the second most important source of new subscriptions to the newspaper. It was a great mechanism for generating trial use of the newspaper, but in the end, many readers preferred having a printed copy. Despite this evidence, the circulation staff worked independently of NYTD.

Selling Display Advertisements

Although they felt that they could succeed on their own, NYTD's sales teams made efforts to join forces with the newspaper sales force to approach the newspaper's major accounts. Sometimes, a sales representative from NYTimes.com and one from the newspaper would call on customers together. But early approaches to advertising departments at large corporations and traditional ad agencies were difficult. Buyers long conditioned to print did not understand the benefits of digital advertising, nor did they understand what prices or pricing structures made sense, nor did they budget for it.

The newspaper sales force had reservations about working with NYTD for several reasons. First, they didn't understand the new media as well. Second, they had built relationships with key customers over years, or even decades, and were hesitant to put those relationships at risk by letting the "dotcom kids" through the door. Third, they expected that digital sales would be tiny compared with newspaper sales, so it seemed sensible to use space on the website as a giveaway to help sell print advertisements. (The corporate executive team quickly made it clear that this practice was unacceptable.) Fourth, most customers were only just beginning to get comfortable with advertising on the web; it was a more difficult sell than the well-understood print media. Commission compensation naturally encouraged the easier, higher value sales. Finally, there was inconsistency from one customer to the next. Some wanted a single sales rep to call on a single buyer to discuss both media, others preferred separate sales calls.

Selling Classified Advertisements

The classifieds team within the newspaper was more eager to collaborate. The newspaper team was under a real threat from new websites, such as Monster.com, that were becoming popular alternatives to newspaper help-wanted ads. As a result, there was a clear and compelling motivation to figure out how to create value by combining traditional classified advertising with online classifieds.

Editorial and business staff from both Boston.com and the Boston Globe created a successful integrated offering known as BostonWorks. The new brand included both job listings and employment market articles, both in print and on the website. At the New York Times, a classified leadership team was created. Ultimately, full responsibility for selling both print and online recruitment classifieds was given to the newspaper organization. NYTD retained separate responsibility for managing online real estate and automotive classifieds.

Evaluating the Financial Picture

NYTD did not suffer alone in 2001. The core newspaper business declined through a general economic slump. In the second quarter, the economy posted an anemic 0.3 percent annual growth rate (Figure 3). Profitability of newspaper operations was particularly sensitive to economic conditions, because during downturns corporations tended to make heavy cuts to advertising budgets – 65 percent of the Company's total revenues (Figure 4). Newspaper employees pinched pennies to sustain profitability. Even as NYTD made layoffs, some resented the division because they felt that the division was able to "get away with losing millions."

NYTD's profitability was not easy to calculate because of the operating overlaps between NYTD and the core business. In some cases, specific internal transfers were made to account for the overlaps. For example, NYTD was charged $5M per year (or more, depending on its total revenues) for use of New York Times content. And, the Company's newspaper circulation departments were some of NYTimes.com biggest advertisers. They paid advertising rates that were heavily discounted from market prices.

However, there was no attempt to make revenue or cost allocations for other areas of overlap. NYTD believed, for example, that it was having a large positive impact on the value of the New York Times brand, especially by expanding its reach geographically. (Eighty-five percent of NYTimes.com readers were from outside the New York metropolitan area, compared with only 45 percent for the newspaper.) More concretely, by 2001 many people subscribed to the newspaper after first sampling the paper online, but NYTD received no commissions. On the other hand, NYTD's financial position was helped considerably when, in late 2000, the highly profitable Digital Archive Distribution business was transferred from the core to NYTD.

Because of the ambiguity associated with evaluating the performance of an internal startup, performance perceptions depended on more than just financial data or other quantitative metrics. Perceptions were shaped through internal discussions and politicking. The health of the relationship between NYTD and the core business had an impact. As Ms. DeSisto put it, "It's just good business to be friends with your cousins."

Figure 1: NASDAQ Performance

Source: finance.yahoo.com

Figure 2: New York Times Digital

By Year

	Revs $M	Operating Losses $M
1995	0.1	(11.4)
1996	6.0	(10.0)
1997	10.1	(11.1)
1998	14.2	(21.1)
1999	26.8	(30.0)
2000	49.9	(85.2)

By Quarter

	Revs $M	Operating Losses $M
99Q1	3.8	(5.1)
99Q2	5.0	(4.6)
99Q3	6.1	(8.1)
99Q4	11.7	(14.2)
00Q1	11.6	(10.0)
00Q2	13.5	(15.5)
00Q3	12.1	(20.0)
00Q4	12.7	(39.7)
01Q1	14.1	(7.6)
01Q2	15.3	(1.8)

Notes:
00Q4 earnings reflect a $22.7M write-down associated with Abuzz acquisition.
2001 results include revenues and earnings from Digital Archive Distribution. In 2000, the Company earned $15.9M on $16.8M in revenues from this business.

Source: SEC filings.

Figure 3: Gross Domestic Product

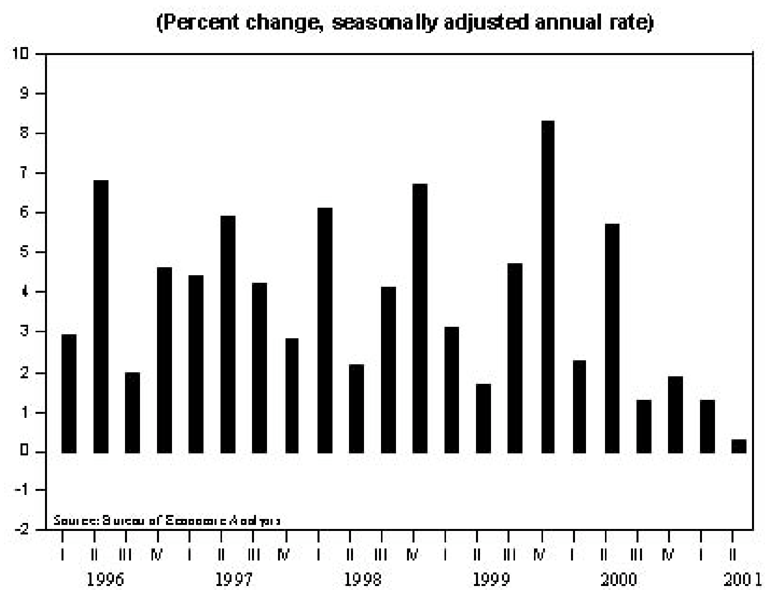
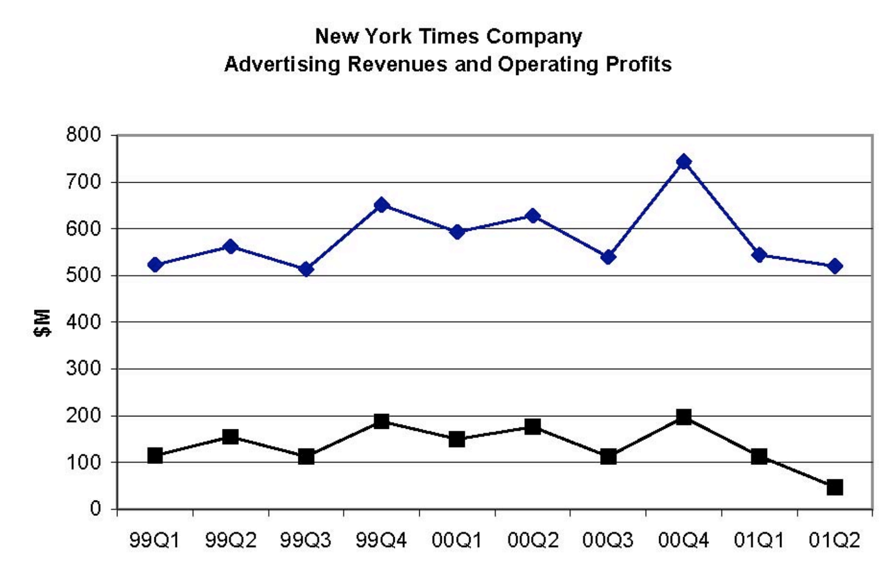


Figure 4: New York Times Company: Advertising and Operating Profits



Source: SEC Filings