

[Nov. 1998 Issue of CIO Web Business Magazine](#)

STRATEGIC PARTNERSHIPS

That Sinking Feeling

When they saw the Web coming, nine of the most powerful newspaper publishers in America knew they had to do something. They just couldn't agree on what it was.

BY SARI KALIN

Reader ROI

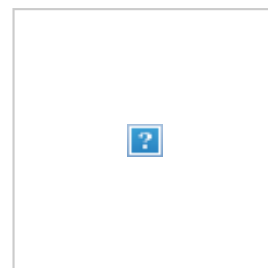
In this story, readers will learn

- ▶ That new media demands new rules
- ▶ The dangers of co-opetition
- ▶ Why big names and big bucks don't guarantee success

LIKE MANY AN ONLINE AFICIONADO, Charles Brumback took his first look at the Web through an early download of the browser Mosaic, some time around 1993. What the then-chairman, president and CEO of the \$2.7 billion Tribune Co. saw through Mosaic was the Web's future for his business. And he saw a way for the newspaper industry to own a chunk of that Web business: Band together and pool their content to make something "attractive and important to anyone accessing the Internet." Brumback, who had been in newspapers for more than 30 years, confesses he didn't have a concrete plan for how newspapers would make money through this idea. But he feared that if newspapers didn't act, they could lose a lot of money, especially with new competitors like Microsoft Corp. delving into interactive services. "People were going to get some of their information and entertainment through this new media," he says. "Our classified [ad base] was at risk."

The same fear moved Brumback's publishing peers to join him in an ambitious plan that, for the traditionally insular newspaper industry, was uncharacteristically chummy: creating a national network of local online newspaper services via the Net. New Century Network (NCN), the joint company, announced on April 19, 1995, was founded by eight of the largest and most powerful newspaper companies in the United States, who together owned 185 newspapers that reached a

Advertisers



Sunday circulation of 23 million: Advance Publications Inc., Cox Newspapers Inc., Gannett Co. Inc., The Hearst Corp., Knight-Ridder Inc., The Times Mirror Co., Tribune Co. and The Washington Post Co. The New York Times Co., a star noticeably absent from the opening day marquee, joined the following month.

NCN's initial goal was to help get even more papers online and offer local content and services, such as sports scores and shopping, entertainment guides and electronic mail. The theory was that the structure would be beneficial for readers, national advertisers and "affiliates," local newspapers that would join the network. Readers would get a one-stop clearinghouse with access to all of America's hometown newspapers. National advertisers would be able to buy ads through the network and reach local online audiences with a one-stop shop rather than having to strike ad deals with each affiliate individually. The affiliates themselves would get technical assistance, even group-negotiated discounts on technology. And like a television network, the affiliates would also be part of a two-way promotional engine, whereby they would drive traffic onto the network and the network would drive traffic to them.

On a handshake, NCN's founders ponied up \$1 million each for the venture. They picked an interim CEO and charged him with writing a business plan that would keep all nine happy. With their combined clout, their cash resources and their decades of expertise in old media, the partners thought, NCN had to be a winner. They couldn't have been more wrong.

Three years, a total of about \$25 million and an untold number of board disagreements later, all that NCN had to show for itself was a poorly trafficked news hub Web site, an advertising network that was just starting to pick up steam and a handful of other content projects in various stages of completion. By last March, when NCN partners agreed to pull the plug, national news sites were a dime a dozen. Web surfers turned to search sites like Yahoo to find their way around the Web as well as get their headlines and sports scores, stock quotes and free e-mail. Microsoft's Sidewalk, AOL's Digital City offerings (in which Tribune

Learn More...

Electronic Commerce Research Center

(<http://www.cio.com/forums/ec/>)

was a partner) and other city-oriented guides were going after the local content market. Today most partners don't even want to talk about it. (Former board members from Advance, Knight-Ridder, Tribune and The Washington Post all declined to be interviewed for this story, while a former board member from Gannett was not available for an interview.)

When you ask some of NCN's former owners and employees or online media pundits why this high-profile strategic partnership went south, most offer some variant of this answer: Too many cooks spoil the broth. Former CEO Lee de Boer notes that the company came together at a time when there wasn't much consensus in the industry on how to approach the Web.

"Without that consensus, when you had the industry in a microcosm on the board, it's particularly tough to run the business," says de Boer says. Other observers will tell you that NCN would have done better to limit its focus from the start on building the advertising network and that it should never have been in the content business. One observer, however, says NCN's problem lay in the very premise that nine cooks could benefit equally from a for-profit business cooperation in the first place or that cooperation in a "Web content cartel" was better for their businesses than competition.

"What are the odds that [the nine companies] are going to have converging stakes?" says Michael Schrage, a research associate at MIT and a Merrill Lynch Innovation Fellow. "The more successful they would be, the more reasons they would have to argue and break off and go their own way."

Bill Bass, Forrester Research Inc. senior analyst in Cambridge, Mass., sees NCN's Achilles' heel in its founding mission: figuring out what was best for the newspaper industry online. Given that most of the partners were more than newspaper companies—Cox, for example, had strong radio, television and cable holdings in addition to its newspaper business—what was best for the newspaper industry might or might not be best for the individual partners around the board table. Says Bass: "That's a recipe for disaster."

Find It Online

CNET Inc.

(<http://www.cnet.com/>)

Gannett Co. Inc.

(<http://www.gannett.com/>)

The Hearst Corp.

(<http://www.hearstcorp.com/>)

Kleiner Perkins Caufield & Byers

(<http://www.kpcb.com/>)

Knight-Ridder Inc.

(<http://www.kri.com/>)

Microsoft Corp.

(<http://www.microsoft.com/>)

**Netscape
Communications
Corp.**

(<http://www.netscape.com/>)

**The New York Times
Co.**

(<http://www.nytimes.com/>)

Time Life Inc.

(<http://www.timelife.com/>)

Tribune Co.

(<http://www.tribune.com/>)

Washington Post Co.

(<http://www.washingtonpost.com/>)

The first signs that owners couldn't agree on a recipe for the company's success came less than a year after the debut press release. Brumback had announced he would retire from Tribune Co. by the end of 1995, and a few NCN board members asked him if he would consider being NCN's chairman or CEO for a year or two to get it off the ground. Brumback said he would but only if the board approved a business structure he'd had in mind from the start: adding the Silicon Valley-based venture capital firm Kleiner Perkins Caufield & Byers as a tenth owner, with an eye toward an eventual IPO. If that happened, he reasoned, NCN could recruit top talent with the inducement of stock options. Plus, Kleiner Perkins, an original investor in Netscape Communications Corp. and other hot technology firms, had Internet savvy that NCN sorely needed. "They had their hands on the real creative use of content that the newspaper industry didn't have," Brumback says.

A few board members who, Brumback says, "saw the future properly" were receptive to the Kleiner Perkins idea. Most were not. And at a

The board's lack of consensus revealed a split between those who believed NCN should be a fast-moving company responding to the new market and those who viewed it as a trade association.

discordant board meeting in Miami, the proposal was shot down. The board's lack of consensus revealed the fundamental split between those who believed NCN should be a fast-moving company responding to the new market and those who viewed it as large cooperative—or, as Al Sikes, president of Hearst New Media, puts it, "a trade association acting somewhat defensively as the new market emerges." In the end, it was neither defensive nor fast.

NCN's interim CEO Peter Winter, who was then

vice president of market development at Atlanta-based Cox Newspapers and was later named president of Cox Interactive Media Inc., continued to work on a business plan that would satisfy all the partners. National advertising would bring in revenue, especially once it became clear that almost no publishers would charge for Web content. But classified advertising never made it into the mix, Winter says, largely because NCN's partners were too "chicken" to give up control of such a potentially lucrative revenue stream. "In hindsight," Winter says, "that was probably a mistake."

Meanwhile, in October 1995, six newspapers—Times Mirror's Los Angeles Times, The Washington Post, the Chicago Tribune, The New York Times-owned Boston Globe, The New York Times and the Knight-Ridder Inc.-owned San Jose Mercury News—struck out to form a classified site of their own, a recruitment ad site called CareerPath.com. "Once CareerPath got started," says Forrester's Bass, "NCN couldn't do anything in help wanted."

It took an entire year from the announcement date for NCN's board to settle on a business plan and pick a permanent CEO, former HBO International president de Boer, whose experience developing content and wooing affiliates appealed to them. By that time, AOL had launched Digital City, a business unit that would deliver local news, weather, sports, event calendars and classifieds, and Microsoft was a few months away from divulging word of its own local entertainment and listings sites, code-named Cityscape (and later renamed Sidewalk). CitySearch launched its first local-services-oriented Web site in May 1996. Even Yahoo, the Web guide that had gone from grad-student hobby to hot public company in a mere two years, had begun to get local content fever.

De Boer started work in New York City in June 1996, and he set about hiring the staff that would make this high-profile venture hum, charging ahead on three fronts: signing up newspaper affiliates to the network, building a

revenue stream from national advertising and developing content applications that the affiliates' Web sites could use, including a national gateway site that would drive traffic to affiliates' Web sites. NCN's board, never one for acting quickly, took until late January 1997 to settle on a final agreement for affiliates to sign. Affiliation fees were modest, ranging from under \$2,000 a year for the smallest newspapers to roughly \$30,000 a year for papers with print circulation of over 500,000. In return, affiliates got access to NCN's content, advertising network, promotion and software discounts. Susan Bokern, NCN's vice president of affiliate relations, managed to sign up 150 affiliates, including some papers not owned by NCN's founders.

De Boer chose Tom Bates, who had run the international edition of USA Today, as senior vice president of advertising and charged him with building a revenue stream. Bates says when he joined in October 1996, NCN was looking to develop vertically oriented sites that would aggregate affiliates' content on topics such as cars, as well as develop a general news gateway site to its affiliates. Since those efforts clearly would take a while to get off the ground, Bates started on an advertising project that would get money into the affiliates' pockets right away: building a nationwide online advertising network that could reach deep into local markets. NCN would sell some ad space on the affiliates' Web sites and would serve and track the ads as they ran on those sites. Simplicity was the draw for national advertisers, like IBM: They could give Bates one order for online ads on as many or as few of the NCN affiliates' Web sites as they wanted, receive one bill and get one set of tracking statistics. Exposure was the draw for affiliates: They would attract national advertisers who might not have taken the effort to negotiate individually with 10 or 20 sites that reached only regional audiences.

The affiliates had to agree to set aside a certain amount of standard-sized ad inventory that Bates would be able to sell, independently price (most ads sold in the \$20 to \$40 per thousand views price range) and serve. The affiliates would give NCN a sales commission and promotional fee of about 20

percent-lower than some other networks, Bates says, which could charge up to 50 percent. "It was not a great moneymaker for NCN alone, certainly not at those percentages," Bates says of the network. "But [it was] delivering immediate value to affiliates, and it [started] getting us in front of advertisers."

On the content front, de Boer picked John Papanek, former editor in chief at Time Life Inc., to try to carve cutting-edge online products out of content produced by the network affiliates' 25,000 journalists. Papanek, who declined to be interviewed for this story, had an impressive media résumé, including stints as Time's first director of new media and as managing editor of Sports Illustrated. As NCN's senior vice president and editor in chief, he was the chief architect behind NCN's first content product and the product that caused the most friction among its affiliates: the NewsWorks Web site. Despite the "news" emphasis in the site's name, none of the journalists hired to NCN's editorial staff spent their time breaking news. They instead built "content packages"—collections of links to stories from different affiliates' Web sites on a particular topic or event, such as the Unabomber trial, plus a paragraph or two of text to put these linked stories in context. When users clicked on a story link, they would move to the affiliate's newspaper site, but the NewsWorks navigational frame remained on top. The site also had a search engine for the affiliates' newspaper sites.

NewsWorks was intended to be a "hub," or a gateway, that would pull content from the affiliates in the network and drive traffic back out to them. Yet even before it launched, there were signs that not all affiliates liked the idea; indeed, some would later see the site as competing with their own. The New York Times decided not to include its own flagship paper's content in NewsWorks because it wanted to establish its own Web site as a standalone, national brand. Gannett Co. Inc.'s flagship national paper, USA Today, was also not part of NewsWorks. Still, on launch day, June 30, 1997, NewsWorks' young editorial staff members felt like they were part of a new era in journalism. For the past few weeks, they had been putting in

12 hour days. They were so elated, one staffer recalls, they didn't even feel tired. Papanek shook everybody's hand.

Less than two months later, those staff members learned that Papanek would be leaving: ESPN Magazine had picked him to be vice president and editor in chief. And his creation, NewsWorks, was trying to find a niche on the Web. True, NewsWorks traffic had been increasing each month (at its best, in October 1997, according to Media Metrix, the site had a 1 percent reach, meaning that about 1 percent of Web users visited the site from home). But a major promotional engine that NCN had counted on—traffic from affiliates' sites that would link to NCN—never really got fired up. Affiliates did link to the site, but many of them put the NCN button on the bottom of their home page, sometimes without much explanation. "Internet screen real estate is extremely valuable," says Peter Levitan, president and CEO of Advance Communications-owned New Jersey Online, which had the NCN button on the lower part of its home page. "You're going to want to hype your own service before you hype someone else's, in particular if...[it's] sending people off your site."

Because of its relatively light traffic, NewsWorks never had much appeal for advertisers, Bates says. They were more interested in the ad network,

Because of its relatively light traffic, NewsWorks never had much appeal for advertisers.

There were other plans too, such as an HTML e-mail service giving customers a

daily Web page "front page" or other customized content. Another was a complete redesign of NewsWorks that would improve the in-house publication system and make it easier to cobrand or syndicate NewsWorks content to its affiliates.

The multiple projects required lots of "intellectual bandwidth" and outside consultants, according to former NCN development editor Mark Lazen, since NCN needed the outside help to

compensate for the lack of deep Web experience internally. "It was a constant process of trying to come up with something that the board would clap their hands at and begin to build it," Lazen says. "Given the diverse interests of the board, by the time it was in prototype stage, the board was on another planet."

By Thanksgiving, rumors abounded that one partner or another was going to pull out of the next round of funding. The partners had already kicked in a total of roughly \$25 million (Winter says the partners kicked in a total of about \$3 million each throughout NCN's lifetime; The New York Times, however, contributed only to the first round of funding, according to a spokeswoman there.) They were also investing heavily in their own Web plans, both singly and in joint ventures; in December, for example, Tribune, Times Mirror and the Washington Post announced they were forming Classified Ventures LLC, a company that would develop vertically oriented classified advertising sites (their properties now include apartments.com and cars.com; they have also signed on other former NCNers Knight-Ridder and The New York Times). Still, the top executives tried not to let on that anything was awry. At Christmas, one exec personally sprung for bottles of champagne for his entire staff, as a token of his appreciation for their hard work.

But hard work, as the editorial staff members were soon to learn, was not what it would take to satisfy the partners. What they wanted was ROI. On Jan. 7, NCN cut 10 percent of its 70 employees, laying off 7 people from its content and operations groups. Both in the media and in the company, NCN execs portrayed the layoffs as a minor restructuring that would help sharpen its focus. NewsWorks staffing would be trimmed on weekends, and fewer packages would be produced, but affiliates were assured that most readers would not notice dramatic changes in the site. De Boer, in an e-mail, told staff members NCN would continue working hard on the advertising network, the HTML e-mail service and on finding a way for NCN affiliates to get navigation capability,

including discussions with Web portal partners. "As we move into 1998," de Boer said in the e-mail, "we are reminded that change is the constant companion in the Internet business."

Given the uncertainty about whether the board members would decide to keep NCN alive, Bokern says, NCN's execs decided that they would not collect affiliate fees for 1998. The content staff completed NewsWorks' redesign, but they feared that it would never launch. It never did: Later that month, on Feb. 25, NCN decided to pull the plug on original content development for the NewsWorks site—and cut the roughly 20 editorial positions related to it. NCN had come close to pulling off a deal with CNET Inc. over Snap, a portal that would have given NCN affiliates a way to add Web navigation capability to their sites. But the board narrowly rejected it because of what one board member called investor fatigue: The partners didn't want to throw any more money off the bridge.

After that defeat, de Boer was still trying to keep NCN afloat, even in a scaled-down fashion. The ad network was a bright spot with \$2 million on the books for 1998, and the HTML e-mail service sounded promising. But according to Cox's

Some of the partners just wanted to put an end to a venture they regarded as competition.

Winter, some of the partners just wanted to put an end to a venture that they were starting to regard as competition. "They probably lost track of the simple fact that their competitors were not newspapers from other markets," Winter says. "Their competitors were national portals going local." In a final board meeting, held via a conference call instead of face-to-face, the board members voted to liquidate.

The e-mail to staff members just after lunch on Monday, March 9, said it all in its subject line: "No pizza this time." Just a meeting in an hour in the Tech Room. A grim-faced de Boer told the remaining 40 staff members that the board had decided to shut down the company. "The message basically was it wasn't a reflection of the work anyone had done on the project," says Evan

Davies, a former technical project manager there. "The message was...that the partners couldn't agree on what they wanted NCN to be doing."

As the company wound down, NCN promotional items—mugs, T-shirts, chili packages with hot sauce—were doled out among the staff. When it came time to liquidate the venture's more substantial assets, Digital Deliverance's President and CEO Vincent Crosbie was interested in buying the HTML e-mail program that his company had designed. But the program was packaged with other NCN assets, including one that three years earlier had been the pride of most of the major newspaper publishers in the United States: the company's name. No one, Crosbie recalls, would go near it. **CIO**

Senior Writer Sari Kalin can be reached at skalin@cio.com.



- ◆ [Printer-friendly version](#)
 - ◆ [E-mail this article](#)
 - ◆ [Request Reprint](#)
 - ◆ [Subscribe to CIO](#)
-

In this Issue of CIO:



CIO Magazine - November 1, 1998
© 1998 [CIO Communications, Inc.](#)

http://www.cio.com/archive/110198_failure.html