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New York Times Digital

Scott Meyer, general manager of NYTimes.com, the website for *The New York Times* newspaper, 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. Both websites were operated by New York Times Digital (NYTD), a division of the New York Times Company (hereafter referred to as the "Company").

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, discussion would focus on possible changes to NYTD's organizational structure.

Naturally, the two GMs were nervous. NYTD had survived two painful rounds of layoffs earlier in the year and, as a result, was rapidly approaching profitability. In fact, there was wide anticipation the current quarter would be the organization's first profitable quarter. Operations were running very smoothly.

Mr. Meyer and Ms. DeSisto were satisfied with the current state of their careers. Many of their contemporaries had leaped into the Internet craze after receiving MBAs in the mid-1990s and were now searching for new positions in a tough job market. By contrast, Mr. Meyer and Ms. DeSisto not only had challenging and rewarding positions with an Internet survivor, they were part of a prestigious and highly respected organization. They did not believe now was a good time for a major change.

Mr. Meyer knew that Martin Nisenholtz, CEO of NYTD, would be the most influential advocate for NYTD at the meeting the next day. The two would certainly have many opportunities for conversations before the meeting, as Mr. Nisenholtz's office was just around the corner from Mr. Meyer's. Wanting to provide some input for the meeting the next day, Mr. Meyer wondered, What is the most convincing argument I can make for retaining the current organizational structure?

This case was written by Professor Chris Trimble and Professor Vijay Govindarajan of the Tuck School of Business at Dartmouth, and sponsored by the William F. Achtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practice.

Unless otherwise noted, the information in this case was gathered from one of the following sources: (1) SEC filings, (2) internal New York Times documents, and (3) interviews listed in Appendix 1.

The New York Times Company

In 2001, the Company owned a variety of media properties, including *The New York Times* newspaper, the *Boston Globe*, the *Worcester Telegram & Gazette*, and 14 other regional newspapers, located primarily in the southern United States. The Company also owned several broadcast media properties, which accounted for 5 percent of revenues, and NYTD, which accounted for 2 percent of total revenues (Figure 1).

The New York Times newspaper 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 topnotch reporting and analysis, plus marketing and promotion. The paper had won 79 Pulitzer Prizes, more than any other newspaper.

However, the year was shaping up as a tough one for both the Company and the economy, which had posted an anemic 0.3 percent annual growth rate in the second quarter (Figure 2). In addition, the terrorist attacks on September 11 had dramatically increased feelings of uncertainty.

Profitability of newspaper operations was particularly sensitive to economic conditions. Corporate advertisers, the most important customers, tended to cut ad spending significantly during downturns. Advertising represented 65 percent of the Company's total revenues.

The previous year, during the dotcom boom, the Company had increased its investment in NYTD dramatically. But by early 2001, corporate profits had started to decline (Figure 3), and the Nasdaq had fallen to half its peak, which had been reached in March 2000 (Figure 4). As a result, tolerance for the losses NYTD had been accumulating were diminishing rapidly.

Although NYTD had posted positive cash flows in the second quarter for the first time, it was still believed that costs could be reduced further by more fully integrating the operations of NYTD with the rest of the Company. Several options for restructuring NYTD were to be discussed at the September 28 meeting.

New York Times Digital

By September of 2001, NYTD had developed and was operating two websites: NYTimes.com and Boston.com. The websites included Internet access to the complete contents of *The New York Times* and *Boston Globe* newspapers, regularly updated breaking news, and a variety of enhanced interactive features. 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.

In total, the NYTimes.com news team numbered several dozen (compared to 1,200 newspaper journalists at The Times newspaper). This group managed the process of producing all content for the website.

Part of the news team coordinated with 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.

Beyond coordinating with the continuous news function, the newsroom repurposed all content produced for *The New York Times* newspaper, making it suitable for the Internet. In practice, this meant altering headlines, adding hyperlinks, resizing photos, and changing captions. Content from a variety of partners, such as the Associated Press and CBS Market Watch, was also integrated with the site. Sophisticated information technology systems automated significant portions of the process of converting newspaper content to website content.

The news team did much more than simply reformatting articles for the Internet. They also sought to find new and creative ways to make full use of Internet multimedia, including slideshows, audio and video content, and special interactive sections, such as one for the Salt Lake City 2002 Winter Olympics.

Access to NYTimes.com was free. However, users were required to register for the site, providing NYTD with demographic information. (With so many alternative news sources on the web, forcing users to register had been perceived as 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. Digital advertisers placed a high value on this capability.

Although NYTimes.com was experimenting with subscription charges for premium content, almost all revenue for NYTimes.com was generated by selling advertisements on the website. 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. In some cases, a sales representative from NYTimes.com and one from the newspaper would call on customers together. Most advertisers, however, chose either one medium or the other. While other Internet companies typically chose online placement, traditional advertisers remained more comfortable with print.

Classified advertisements, including employment ads, were sold by the newspaper's classifieds team. They were encouraged to "upsell" from print-only ads to print plus digital wherever possible.

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. New products were introduced regularly to the website, created by cross-functional teams of salespeople, market researchers, software developers, editorial staff, and general managers.

Although operations at NYTimes.com and Boston.com were quite similar by 2001, Boston.com had followed a different evolutionary path in many respects. In addition, Boston.com continued to be first and foremost a portal for local information, with access to Boston Globe content a secondary part of the value proposition. Where NYTimes.com aimed to attract an international audience, Boston.com focused strictly on attracting and retaining a dominant share of the Boston metropolitan area.

Financial results for NYTD are shown in Figure 5.

Developing the NYTD Organization

The way that the NYTD operation was managed had evolved over a six year period, since The New York Times first ventured onto the Internet in 1995. NYTD was shaped by choices related to organizational structure, leadership, culture, staffing, budgeting, and performance evaluation.

Organizational Structure and Leadership

In early 1995, Steve Luciani, an employee in the information systems department at the Company, became convinced the Internet was going to have a tremendous impact on the business. His responsibility had been to keep an eye on emerging technologies and to ensure the Company stayed ahead of new trends.

Four employees—Steve Luciani, two employees from the news desk, and an advertising executive—were assigned to the new website project. They invested in what they called “shovelware,” which enabled the Company to simply “shovel” newspaper content onto the Internet.

By the middle of 1995, the New York Times Company had made a stronger commitment to the Internet. Interactive media expert Martin Nisenholtz was hired as president of the future NYTD, which, at that time, was known as the New York Times Electronic Media Company and consisted of a single website: NYTimes.com. Mr. Nisenholtz’s entire career had been spent in interactive media, including 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.

Mr. Nisenholtz reported to both the general manager and the editor of the newspaper. This was an unprecedented move, since The New York Times, like most news organizations, had established a “Chinese Wall” between the editorial and business sides of the organization to ensure editorial independence. Soon thereafter, 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.

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

> When we were part of the newspaper, the news group on my side of the business wanted to grow a second newsroom. Their feeling was that *The Times* newsroom creates a newspaper, and that a journalistic entity that focused on creating for the web was needed.

Over the next four years, the Company steadily increased its investment in its online operation. As it did so, a narrower focus for the NYTimes.com newsroom emerged. Mr. Nisenholtz continued:

> Now, 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.

As an integral part of the newspaper, NYTimes.com was perceived internally 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 NYTimes.com was supervised closely by newspaper staff, it developed values and a culture similar to the newspaper and adopted the decision-making biases of an established corporation.

By 1999, however, Internet valuations had started to rise dramatically, and senior executives within the Company became concerned that insufficient resources were being devoted to developing NYTimes.com. In addition, they worried that the level of constructive and creative dialogue about the direction in which the website could go was inadequate.

While the ultimate business model for media websites was as uncertain as ever, many felt a straightforward "newspaper.com" operation could not possibly take full advantage of the Internet's vast potential. Competitors were investing heavily in their online operations, and investors were throwing money at anything with growing revenues, regardless of expenses.

As a result, the Company implemented two decisions. First, in May 1999, management created a new operating division, NYTD (initially called Times Company Digital), that reported directly to corporate rather than newspaper management. Second, a "tracking stock" (a special class of stock which, in theory, tracked the performance of a division within a corporation) was launched that would enable NYTD to raise capital at Internet valuations, rather than newspaper valuations.[1]

While the creation of NYTD as an independent unit altered the official reporting structure, it marked only the beginning of a transformation of the informal power structure. The relationship with the newspaper changed slowly and subtly.

Initially, there was a great deal of tension because the newspaper was reluctant to entrust a brand built over 150 years to an independent division. It was particularly important to the newspaper that the new division operate with a "Chinese Wall" between business and editorial. Despite the tensions, Mr. Nisenholtz was, over time, able to build trust and independence, allowing him sufficient maneuvering room to experiment with new ideas on the website.

When it was created in 1999, NYTD included all the Company's website properties, including 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). Part of the rationale for wrapping all the Company's websites into a single organization was that it would better facilitate learning from one to another.

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[1] As it turned out, the tracking stock was never offered. By the time it was ready in late 2000, the Nasdaq had fallen dramatically, and the Company was advised by Goldman Sachs that the new offering would not be well received. However, NYTD was well established as an independent operating unit by this time.

For about a year, NYTD operated as a “confederation of websites” in a very decentralized structure. Within that structure, NYTimes.com experimented with several organizational structures. Titles often reflected newspaper heritage, such as “publisher.” However, NYTD’s management concluded that traditional roles and responsibilities were not a good fit for the new organization.

Pressures on NYTD to achieve profitability were increasing by the end of 2000. As a result, management decided to pursue greater operating efficiencies by centralizing operations. NYToday.com and WineToday.com were folded into the NYTimes.com website, while GolfDigest.com was sold along with several golf-related print magazines. Ultimately NYTD settled on a structure in which the general managers, specifically, Mr. Meyer and Ms. DeSisto, were responsible for day-to-day operations. Functional heads, including sales, marketing, technology, and content development (excluding editorial decision-making), reported to the GMs.

To improve cross-functional coordination, product managers were nominated, who also reported to the GMs. “Products” were any of a variety of ways to package content, advertising, and interactive functionality on the website. For example, a recently launched email product called “DealBook” was motivated by a mergers and acquisitions journalist who wanted to increase his following by reaching more potential readers through the Internet. Product managers coordinated all tasks associated with their products, soliciting input from sales, marketing, and technology. They would develop a business plan around new products and, if approved by the GM and senior staff, manage it on an ongoing basis.

GMs, in turn, reported to a six-member senior policy team headed by the CEO, Mr. Nisenholtz (Figure 6). As of September 2001, there was consensus within NYTD that the organizational structure was working well.

Culture and Values

The New York Times newspaper was steeped in tradition and operationally very conservative. At the time of the separation in mid-1999, however, there was a concerted effort to create a distinct “Internet culture” within NYTD. Muriel Watkins, NYTD’s vice president of human resources and communications, recalls:

> 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 . Bureaucratic controls, procedure, and paperwork were minimized. 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.

In January 2001, NYTD moved into a new building in mid-town 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 in that respect 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.

Boston.com had actually made the decision to move the Internet division to a separate location several years earlier. According to Ms. DeSisto:

> If there is a separation of about one mile, that is ideal—close enough to get support, but far enough away to have your own culture and make decisions quickly.

If the decision to create a separate culture for NYTD had a significant side effect, it was that interactions with the rest of the Company began to take on an "us versus them" undertone. All the media attention lavished on dotcoms contributed to an internal perception that NYTD was the glamorous side of the business. That perception augmented tensions.

Hiring and Compensation

Hiring policies were modified 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. In fact, difficulty in hiring appeared to be NYTD's most limiting growth constraint. The promise of stock options based on the soon-to-be-launched NYTD tracking stock was critical in luring 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.

Prior to the two rounds of layoffs in early 2001, NYTD had grown to approximately 400 employees, of whom fewer than one-quarter had experience at the newspaper. By September 2001, some concern had developed about how to ensure that Internet-related skills and knowledge was transferred back to the newspaper organization.

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 overly competitive internal environment, NYTD had to develop a more forceful and confrontational leadership approach than was traditional within the Company.

The Budgeting Process

Early in the life of NYTimes.com, its budgeting process was completely integrated with that of the corporation. Hiring Mr. Nisenholtz represented a significant increase in the Company's level of commitment to the initiative, since with him in place, there would be a constant advocate for increasing investment in the website—one who reported directly to the publisher and editor of the newspaper. Russell Lewis, the Company's CEO, recalls:

> 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 committed to it ratcheted up and up.

Still, in many ways Mr. Nisenholtz felt constrained by the limitations of working for a large company. He recalls:

> We weren't where we needed to be from a performance perspective. 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 sort of 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 in 1997.

The boom in the Nasdaq market and the separation of NYTD from the newspaper organization altered budgetary constraints dramatically. Heavy spending was encouraged by Wall Street, and competitors appeared to be making rapid progress.

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. Mr. Meyer 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. Though most solid ideas for new projects were generated by experienced executives and journalists, ideas for new content and new features were encouraged from throughout the organization. To help generate ideas, NYTD constantly reviewed usage data for its website but also encouraged thinking independent of this data. This was meant to ensure ideas were generated that could attract potential customers, not just existing ones.

Promising ideas were assigned to product managers, who developed mini-business plans based on cross-functional input. The plans were then evaluated by the senior executive team, using a combination of loose net-present-value analyses and experienced judgment.

Because of the rapidly changing nature of the Internet market, budgets and forecasts had the potential to change rapidly and were updated monthly. There was a lot of guesswork involved, particularly in projecting revenues. The process was still coordinated with the corporate budgeting process, and financial targets were set at the corporate level. However, corporate budgets were based on expectations of much smaller variability and were revised at much longer intervals.

For a while, the rate at which NYTD could invest in new projects was constrained by its ability to hire and train new people. The senior executive team prioritized amongst the proposals that had been submitted.

In late 2000 and early 2001, however, financial resources once again became the primary constraint. Wall Street, in a shockingly rapid change in perspective, started evaluating dotcoms based more on profitability than on revenue growth. Anticipating the pressures this would create, Mr. Nisenholtz initiated conversations with the Company about the possibility of layoffs. Subsequently, the Company made a series of incremental cuts to NYTD's budget. Two painful rounds of layoffs followed in January and in April. As a result, many existing features that were not drawing significant user attention were discontinued.

NYTD was under intense pressure to achieve profitability as quickly as possible. Project proposals that were highly speculative—meaning no clear payoff within one year—were quickly declined. Exceptions included projects that were viewed as critical to the core editorial mission of the newspaper and projects that were related to the development of NYTD's technical infrastructure. Even then, proposals were closely scrutinized to ensure a New York Times—quality job for the lowest possible cost.

Performance Evaluation

A variety of factors shaped perceptions of how NYTD was performing. In the early years, although the budget was integrated with the corporate budget, NYTimes.com had its own P&L. Evaluation was driven primarily by the following questions:

- Can we tolerate the losses we are generating?
- Are we having any significant operating problems?
- Is any damage being done to the core business or the core brand?

In 1995, the Company set an informal goal that NYTD was to be profitable within five to six years. Over time, financial performance vs. forecasts and budgets, and the long-term path to profitability, increased in the degree to which it influenced internal performance perceptions. 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 critically important.

Financial targets were negotiated by NYTD and the Company's senior staff during the corporate budgeting process. These targets tended to focus on the most important metric for the corporation, which could change from one year to the next depending on the Company's strategy and the condition of the economy.

NYTD's tracking stock initiative required a significant release of information to the public and attracted regular coverage in the financial press. 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 extraordinarily volatile time, as Ms. Taus recalled:

> For the first half of 2000, 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. Budgets were getting outdated pretty quickly. Still, we were expected to actively and vigorously manage expenses and hit our bottom-line targets.

NYTD's impact on the Company as a whole was an important consideration, both internally and on the Street, as Mr. Meyer observed:

> We have to perform like any other operating division. There are targets that corporate establishes for us and we agree to hit them. Having been at an independent dotcom for two years before taking this job, I can tell you that NYTD is evaluated and run more like a unit of a traditional media company.

Though NYTD's profitability was becoming more important, it 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 substantial 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 to only 45 percent for the newspaper.) More concretely, by 2001 a substantial number of new newspaper subscriptions were being ordered by people who first sampled 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."

Maintaining a healthy relationship became more challenging as the core business suffered through the advertising downturn that began early in 2001. Employees within the core were pinching pennies to remain profitable. Some of them grew to resent NYTD, believing the division was able to "get away with losing millions."

Nevertheless, by September 2001, NYTD appeared to be very close to reporting its first profitable quarter.

Conflicts with the Core Business

As the senior management team met in late September 2001 to discuss the future organizational structure for NYTD, several areas of friction were at top-of-mind. Each was created by overlap between the operations of the core business and NYTD.

Editorial Operations and the New York Times Brand

Editorial operations at NYTD and their potential impact on the New York Times brand continued to be an area of concern. 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. Over time, readers lost trust. NYTD executive vice president Lincoln Millstein described how the industry survived:

> After all those years, publishers developed organizations that really respected the singular function of the different departments…they were very careful and constructed the organization to respect editorial independence. As a result, I think newspapers in general have developed deep silos. I used to be in the newsroom and I'm quite aware of those silos.

In practice, organizations that respected the separation in its strictest sense forbade communication between newsroom employees and the rest of the organization. NYTD was initially formed with a respect for that principle.

However, as NYTD gained experience, the principle increasingly was called into question. 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. Mr. Meyer commented:

> So much of our success has relied on quickly building a world class IT infrastructure for online media. Taking advantage of it requires collaboration. The success of new products depends on using technology to create a better user and advertiser experience, not just text and pictures.

DealBook was one example, but there were others, including a new real estate feature that was under development, and a collaboration with New Line Cinemas to promote the Lord of the Rings movie trilogy by creating an integrated online packaging of advertisements, movie reviews, and historical content about J.R.R. Tolkien and his books.

Advertising Sales

Integrating corporate sales operations had been a challenge from the beginning. NYTD was highly motivated to start selling website advertising space to the newspaper's traditional customers. But the newspaper sales force wasn't nearly as anxious.

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, digital sales were expected to be very small compared to newspaper sales, so it seemed sensible to some newspaper sales reps to use space on the website as a giveaway to help sell print advertisements. 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.

As of 2001, Mr. Nisenholtz felt most of these hurdles had effectively been overcome. Still, many newspaper clients were choosing not to advertise online.

Integration was a bit smoother in classified sales. Here, the newspaper team was under a real threat from new websites, such as Monster.com, that were becoming very 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.

Subscription Sales

Initially, there was a great deal of fear, especially on the part of the circulation staff, that offering free newspaper content on the Internet would have a negative impact on subscription sales. After collecting extensive data comparing the readership of the website to the readership of the paper's print version, these fears subsided. The web readership was a substantively 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. As a result, the websites were viewed as complementary assets rather than as competitors.

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. As of September 2001, however, the circulation staff was working quite independently of NYTD.

The Meeting

As Mr. Meyer constructed an argument for retaining the current organizational structure, he considered the following questions: (1) Was NYTD achieving the full potential offered by the Internet? (2) Would any other structure provide NYTD with sufficient maneuvering room to continue to experiment with new business ideas? (3) Although NYTD analysis showed that streamlining operations could save roughly $3M annually, was this the most important consideration at this stage of the subsidiary's development? Mr. Nisenholtz was due back in his office in an hour.

Discussion Questions

1. Describe NYTD's evolution to date.
2. What impact has NYTD had on the rest of the Company?
3. How does the way NYTD is managed compare to the way a venture capital firm manages a startup? What insight, if any, do you draw from this comparison?
4. What impact do internal perceptions of NYTD's performance have on its operations?
5. Would you change NYTD's existing organizational structure?
6. If so, how would the change you propose affect:
    a. NYTD's culture and leadership style?
    b. NYTD's likely budget?
    c. The way NYTD's performance is judged?
    d. The way new ideas for the websites are generated?
7. If you do *not* recommend a change to NYTD's structure now, would you in the future? If so, when?

Figure 1: 2000 Revenue Breakdown ($B)

Newspapers	3.16	93%
New York Times	1.92	57%
All Other	1.24	37%
Broadcast	0.16	5%
NYTD	0.06	2%
Total	3.38	100%

Figure 2: Gross Domestic Product

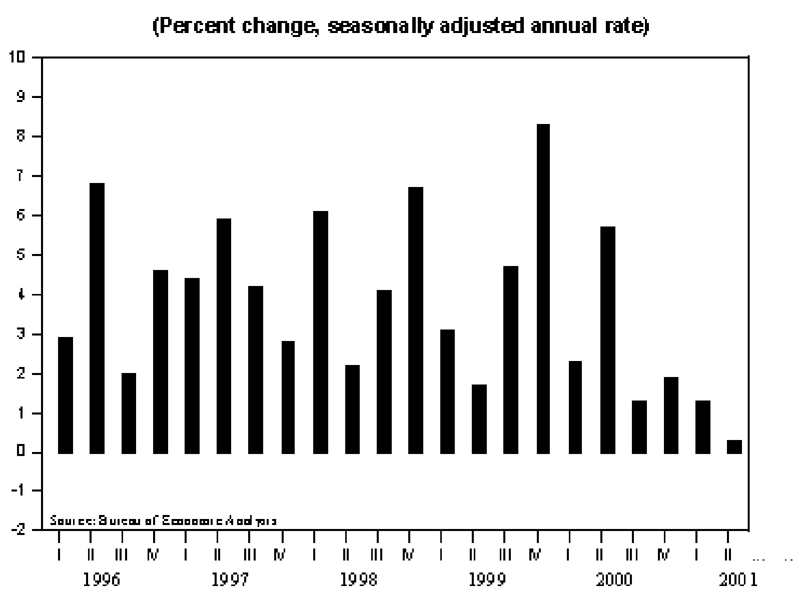
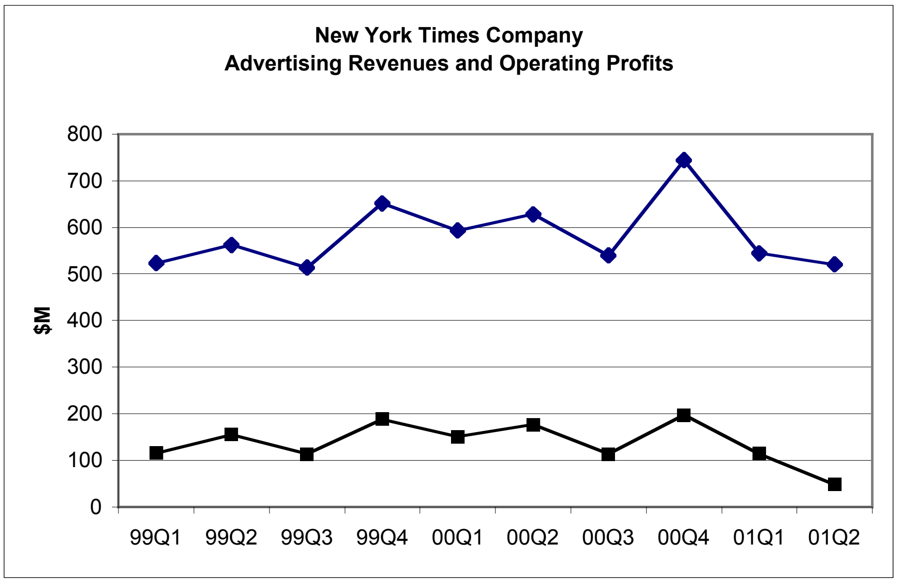


Figure 3: New York Times Company: Advertising and Operating Profits



Source: SEC Filings

Figure 4: NAS/NMS Composite (Nasdaq® Stock Exchange)

Figure 5: 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:

1. 00Q4 earnings reflect a $22.7M write-down associated with Abuzz acquisition.
2. 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 6: 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)

Appendix 1: Interviews conducted for this case include:

Lisa DeSisto	General Manager, Boston.com	May 9, 2001
Scott Meyer	General Manager, NYTimes.com	May 9, 2001
Jason Krebs	Vice President, Sales, NYTimes.com	May 9, 2001
Martin Nisenholtz	CEO, NYTD	September 19, 2001
Lincoln Millstein	Executive Vice President, NYTD	September 19, 2001
Ellen Taus	CFO, NYTD	September 19, 2001
Muriel Watkins	Vice President of Human Resources and Communications, NYTD	September 19, 2001
Russell Lewis	CEO, The New York Times Company	October 4, 2001