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SCMP.com: STRATEGIC REPOSITIONING OF A NEWSPAPER

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Abstract

In 1996, the South China Morning Post (SCMP), a Hong Kong-based English-language news daily, established PostNet (an electronic publishing division) to experiment with the on-line medium. In mid-1999, SCMP's Board of Directors observed the Internet's meteoric rise and considered PostNet's e-commerce opportunity. In order to leverage e-commerce's growth, they resolved to reposition the SCMP from a print-based publisher to a company capable of multi-media publishing. PostNet was renamed SCMP.com.

To be successful in this endeavour, the SCMP had to overcome numerous problems, including the need to build a viable business model, to streamline internal workflows, to transform the mindset of the employees and to search for the "right" strategic partners to strengthen its on-line network. In addition, the SCMP would be required to decide whether or not to spin off SCMP.com (or any other part of its Internet capable business) into an independent concern.

Prior to mid-1999, the Internet presence of our newspaper was a defensive move. Six months ago, our Board of Directors took the view to seriously develop the on-line business. We realise that if we don't spend a lot of money to establish our on-line business now, we could lose a lot of money in the future (Jonathan 1999).

THE SOUTH CHINA MORNING POST

South China Morning Post Publishers published the *South China Morning Post* and the *Sunday Morning Post*. TVE (Holdings) Limited, its wholly-owned subsidiary, published *Automobile*, *Champion*, *Harper's Bazaar*, *Cosmopolitan*, *Amoeba* and *PC Home*; TVE also produced music CDs and laser disks, operated retail stores (Daily Stop and Health Plus) and published Channel Home, a Hong Kong personal computing website [Exhibit 1] (<http://www.channelhome.com.hk> 1999). TVE was also a major shareholder in Post Publishing Co., which published the *Bangkok Post*, a leading English-language newspaper in Thailand.

Debuting in Hong Kong in 1903, the *SCMP* was one of the oldest newspapers in Asia. It remained Hong Kong's dominant English-language daily newspaper. The *SCMP* had established a reputation as a quality content provider; its writers and photographers regularly won a majority of awards at the Newspaper Society of Hong Kong Press Awards. In July 1999, the *SCMP* was voted the "Best English-language Newspaper in Asia" by the Society of Publishers in Asia. The *SCMP* was the flagship publication, earning most of its profits through advertising sales (SCMP Annual Report 1998).¹

¹In 1998, newspaper operations accounted for 63% of the Company's total turnover and 95% of its operating profit.

Having gained the highest readership among Hong Kong's best-educated and most affluent households, the *SCMP* amassed a large base of advertisers and became the most reputable source of job advertisements in Hong Kong. The *SCMP*'s approach to enhancing its brand name was to continuously introduce new editorial products and to improve existing ones:

Quality is the key to holding and winning readers, and the advertising which follows (SCMP Annual Report 1999).

The *SCMP*'s circulation displayed steady growth, capturing some 90% of English-language local newsstand sales in Hong Kong [Exhibit 2] (SCMP Annual Report 1997). Its readership rose from 225,000 in 1994 to 280,000 in 1998 (SCMP Annual Reports 1996 to 1999).² In comparison, copysale revenue generated markedly less revenue than advertising.

To enhance its Chinese news coverage, the *SCMP* established news bureaus in Beijing, Shanghai, and Guangzhou and became the highest-selling English-language newspaper in China published outside the country (SCMP Annual Report 1997).

The *SCMP* was a highly profitable newspaper, but it became a victim of the 1997 Asian financial turmoil [Exhibit 3]. The general economic downturn intensified business closures and retrenchments, which adversely affected the *SCMP*'s display advertising and classified advertising revenue. From a high of 200 pages on a Saturday, classified pages shrank to a quarter of this in late 1998.³ Signs of recovery were evident in spring of 1999. Sally Chow, assistant general manager at the *SCMP*, said, "Classified ads are up 20% to 30% from a year ago, and we are expecting things to get better" (Tharmaratnam 1999a).

JOINING THE LEAGUE OF ELECTRONIC PUBLISHERS

In the early 1990s, electronic publishing gradually became popular in the West. In late 1995, print-based publishers and other traditional media—radio and television—increasingly claimed a piece of "web space" of their own (Peek 1997). A number of Asian publishers also began to take part in this new form of publishing [Exhibit 4]. In 1994, the *SCMP*'s Head of Library noticed this trend and suggested the setting up of an electronic publishing division to participate in this emerging business area. The Company's Chief Executive accepted her suggestion. In 1996, the *SCMP* established PostNet as its electronic publishing division. Its initial mission was quite basic:

To formulate and execute an electronic publishing strategy for the Company (Justice 1998).

When it launched, PostNet management was not confident about the Internet becoming a dominant electronic publishing medium. Therefore, it defined "electronic publishing" widely to encompass "any form of publishing that was not ink-on-paper." PostNet intended to capitalize on the *SCMP*'s broad collection of news stories, photographs, and editorials by designing content-based products delivered to users through various electronic media such as voice, fax, CD-ROM, global database hosts and the Internet.

As electronic publishing was still a relatively new concept in Asia, PostNet found there was little prior product design experience it could draw on; as a result, it adopted a trial-and-error product development approach to explore technical feasibility and market reaction to new products. Product development was based on experimentation, thus PostNet initially developed products by putting the paper's content on-line. For example, Classified Post was fashioned as the Classified Post Interactive.

Internet-based Products

- In December 1996, the daily Internet Edition of the *SCMP* and Classified Post OnLine were launched.⁴ These two products were the cornerstones of PostNet's contents.

²Circulation of a newspaper refers to the number of copies sold. Readership of a newspaper refers to the number of people that read the newspaper.

³Most job ads were placed in the Saturday paper.

⁴The on-line edition of the *Hong Kong Standard*, the *Post*'s English-language daily rival in Hong Kong, was launched a few months ahead of the *Post*'s on-line edition.

- In June 1997, the Handover website was added. This website attracted a lot of public attention; it received 6.5 million hits within the 36 hours surrounding the Handover event on July 1, 1997.
- In July 1997, the SCMP's official website, PostNet, was launched with the Countdown to History website, reporting on Hong Kong's transition from British colonial rule to a Special Administrative Region of China.
- By mid-1999, Internet-based products offered on PostNet included the daily Internet Edition of the SCMP, Classified Post OnLine, SCMP Careers, SCMP Archive Search, the Regional Hotel Guide, Racing Post Online, and the Meeting Point (a personal advertisements website) [Exhibit 5].
- In 1997, Global Investor was launched as a subscription-based service, but was subsequently discontinued because of difficulties in obtaining adequate content [Exhibit 6].

Non-Internet Products

By mid-1999, non-Internet products offered by PostNet included:

- PostCD-ROM
- PostSyndication
- PostPhoto and the Meeting Point's voice service [Exhibit 5]
- PostFax and ICR were two non-Internet products that had been offered in the past but were discontinued
- PostResearch was initially in the launch plan but was eventually withdrawn because PostNet was unable to prove its commercial viability [Exhibit 6]

By 1998, PostNet became a critically acclaimed website. In February 1998, *Editor & Publisher*, a U.S. journalism magazine, voted PostNet the Best Non-US Newspaper Online Service because "it was well-designed, easy-to-use and impressive in its breadth of information and services available. The news and business information were deemed particularly useful" (Justice 1998). In June 1998, the Newspaper Association of America awarded PostNet the Digital Edge Outstanding Achievement Award for Best News Presentation. These two awards were won by a Hong Kong electronic publisher for the first time.

PostNet was one of the most visited Hong Kong websites. By April 1998, PostNet recorded over a million visits each week; by late 1998, the Internet Edition of the SCMP had more than 220,000 registered users, a high percentage of whom were professionals, managers and executives (SCMP Annual Report 1999). PostNet's SCMP Careers section regularly carried over 1,000 employment advertisements and was considered one of the largest job databases in the world (SCMP, April 18, 1998).

"INVEST NOW OR ELSE TOO LATE"

In Asia, the number of Internet users was expected to reach 160 million by 2000 [Exhibit 7] (Informal Working Group 1997). Driven by customer demand and business imperatives, both Internet-based companies and traditional businesses were quickly transforming their business processes into e-commerce processes.

In five years, there won't be any Internet specific companies because they will all be Internet companies
(Markowitz 1999).

In 1999, the Board of Directors resolved to seriously develop commercial imperatives for the SCMP's on-line presence. To reflect this new focus, PostNet was renamed SCMP.com, and an investment of HK\$20 million to HK\$30 million was set aside to equip SCMP.com (Saunders 1999).⁵ Six months prior to the launch date, conceptual discussions were going on regarding the design and function of the SCMP.com. Three weeks before the launch, there was a major physical redevelopment of the website. Finally, on November 2, 1999, SCMP.com was launched. The aim was for SCMP.com to be a one-stop, first point of reference for news, information, services, and e-commerce related activities. With the added and improved services, the SCMP.com home page was redesigned for easy navigation: some sites were made more interactive on-line and contents were expanded. Other plans were to introduce a number of vertical niche market information portals that would be complemented by their own e-commerce offerings.

⁵US\$1 = HK\$7.78.

Building the SCMP.com Team

In November 1999, SCMP.com had 30 employees working in four divisions: Editorial and Research, Design, Marketing and Administration, and Technical. SCMP.com planned to increase staffing to approximately 70 during 2000, primarily for its editorial content. New employees would be recruited for the Finance Division, taking care of SCMP.com's financial matters; in the Editorial Division, handling content-based products; in the Technical Division, designing web pages; and in the Marketing Division, managing advertiser relationships. One of SCMP.com's greater challenges was to attract qualified candidates with Internet exposure and experience. However, many other companies in Hong Kong were also searching for similar candidates, who were in short supply.

In the same month, SCMP.com announced the appointment of four senior executives: Chief Executive, Editorial Director, Chief Financial Officer and Publisher [Exhibit 8] (*SCMP*, November 19, 1999). Three of the executive appointees were executives of *Post*. Kuok Koon-Seng, the *SCMP* subsidiary TVE International Executive Director, was appointed Chief Executive of the SCMP.com. Kuok was a former Director of Television Broadcasts and had several years of experience in the publishing, retailing and entertainment businesses. Ray Bashford, the *Post's* Business Editor, was designated the Editorial Director. Bashford joined *SCMP* as the Business Editor four years ago, after 10 years at the *Financial Times* in London where he was Financial News Editor. Larry Campbell, the Technology Editor of the *Post* from 1990 to 1996, was named Publisher. Campbell was the only executive that had a background in on-line publishing, having been founder and publisher of *The Dataphile*, an on-line and print Internet magazine. Cheng Chai, who had 20 years of experience in the financial industry, filled the Chief Financial Officer position.

Building the SCMP.com Strategy

Although SCMP.com started its on-line product development through trial-and-error, its approach to gaining on-line readership was the same as with its print edition: provide readers with quality contents and in-depth information. *SCMP's* assets were its contents and its relationship with advertisers, thus contents were used to create a leadership base. SCMP.com was well aware that in the U.S., advertisers view on-line advertisements as poor opportunities. Therefore, SCMP.com focused on building specific content that could (1) meet the needs of specific readership and (2) create new readership with a view to achieving cost efficiency while generating revenues.

SCMP.com addressed its multi-faceted readership by offering them goods and services that are appropriate to their needs, at different prices. The identification of the appropriate product of a particular reader was, to some extent, the responsibility of the Internet Publisher. The Internet Publisher has to evaluate the products on offer, to cleave out specific products and to attach to each product a class of advertisers and e-commerce parties. The e-commerce parties were either the customers for the products or allies with whom SCMP.com could set up strategic alliances or joint ventures to enhance the quality and value of the product. Another important staff member that SCMP.com planned to recruit was a Senior Editor to handle the content products. The post required somebody with proven abilities in handling reengineering within corporations.

Because SCMP was already a well-known brand, the Company did not have to invest heavily on branding as did other websites and its competitors. To drive on-line readers to the website, SCMP.com marketed its website by including the URL in the *SCMP* print edition. However, SCMP.com believed that it was more important to develop the contents first before embarking on a full marketing campaign. The focus was predominantly in developing and designing product offerings that would cater to the multi-faceted customers. One of the core contents that SCMP.com developed that formed a lot of traffic to the website was the Careers site.

Enhancing the Brand Name

Building and enhancing the brand name in both print and on-line medium was a major marketing effort, and the *SCMP* continuously launched new and improved editorial products.

We realize that at some stage, it is inevitable that readers will migrate from print to on-line medium. We want to ensure that if that migration does happen, readers will migrate with us (Jonathan 1999).

The cost of entry for on-line publishers, in terms of technology investment, website design and implementation, was low compared to marketing and branding costs. SCMP.com intended to leverage the *SCMP's* reputable brand name to differentiate itself cost-effectively from other on-line content providers.

SCMP.com's CHALLENGES

To Build a Viable E-Business Model

Similar to many on-line businesses, a major challenge SCMP.com faced was to build a viable business model. Owen Jonathan recognized the different nature of its print business and on-line activities:

We have been experimenting to find a business model; on-line business is very different from what we have been doing. While planning for a new business within our traditional business environment, we project expenses, revenues and payback periods. While developing the on-line business, these components of business have to be put to one side, for a while at least.

The business model of an on-line content provider could include one or more revenue streams, including subscription, pay-per-view information download, advertising and e-commerce transactions. Determining an optimal mix of revenue streams was difficult. Advertising revenue and syndication sales had been SCMP.com's two largest sources of revenue, but so far these revenue streams were unable to generate profits for SCMP.com.

Past e-commerce trends indicated that a viable business model could not be built upon advertising revenue alone; in any case, SCMP.com's on-line advertising revenue had been slow to emerge. In the U.S., click-through rates dropped from 2% in 1997 to less than .5% cent in 1999 (Tweney 1999).⁶ Advertisers were wary of spending their advertising dollars in on-line ads as "the ability to gauge advertising effectiveness remained elusive" (Mottl 1999).

SCMP.com was reluctant to impose subscription charges on most of its content because charges could reduce website traffic, further restricting the opportunity to earn advertising revenue. Also, a subscription-based business model required a major overhaul of on-line readers' buying habits as a lot of information could be accessed on-line for free. For SCMP.com to increase subscription revenue, it needed to change the buying habits of its on-line audience.

Generating Revenue

Apart from selling banner ads and corporate sponsorship of particular website sections, SCMP.com adopted a "print-plus" approach to generate revenue from on-line classifieds. When an advertisement was placed in the Classified SCMP print edition, it would be posted on Classified Post OnLine for an additional incremental charge. Revenues from the Classified Property section came from selling "buttons" to real estate developers and agents on the main page [Exhibit 10]. Through the "print-plus" approach, advertisers were charged in incremental stages according to the amount of additional materials they wanted to post on-line.

As for generating subscription revenues from content-based products, SCMP.com had three alternative approaches:

1. To "push" an extensive amount of information that carried advertisements to the on-line audience. On-line readers obtained the information free of charge. [Exhibit 9 is one example of this.]
2. To "push" the same amount of information to the on-line audience without including any advertisements. On-line users still obtained the information free of charge but they needed to provide more demographic information upon registration.
3. To offer information that was much more focused based on the specific needs of the recipients. On-line users were required to pay a subscription charge.

Jonathan strongly believed that in the age of information overload, Internet users valued an information filtering service, so SCMP.com resolved to provide a more focused approach. The challenge was to create new revenue streams using this approach to make SCMP.com viable.

⁶Click-through is the percentage of people viewing a banner ad who actually clicked on it.

Designing Products

SCMP.com was in the process of examining all existing products for on-line commercial potential. A group of advertisers and e-commerce parties, i.e., potential customers or companies with whom SCMP.com could set up strategic alliances, was attached to each product identified during this process.

In 1999, SCMP.com launched/relaunched the following products:

- In May 1999, SCMP.com formed a six-member team to turn the *SCMP*'s weekly supplement *Technology Post* into a daily IT news website targeted at professionals and executives (<http://www.technologypost.com/main> 1999). A sister website, Nan Hua Ke Ji, using simplified Chinese to target a mainland audience, was also launched (<http://www.nanhuatech.com> 1999). A link was established in SCMP.com's homepage to the Channel Home website (<http://www.channelhome.com.hk> 1999).
- In June 1999, *SCMP*'s Internet Edition was redesigned to enhance content depth. A "news ticker" was introduced to update local and international news throughout the day. Hong Kong share prices and the index were updated twice a day. A *HK Quick Quotes* service was included to allow users to obtain free stock quotes—updated four times a day with a one-hour delay—for up to 10 Hong Kong stocks at a time. Coverage of other Asian financial markets was also expanded.
- The *SCMP* embarked on a two-pronged strategy to strengthen its position as Hong Kong's leading provider of classified job advertisements. In 1999, *Careers Post*, a print job classified supplement catering to young job seekers with career development advice, was launched. The [careers.SCMP.com](http://careers.scmp.com) website, launched in autumn 1999 to replace Classified Jobs Online (<http://careers.scmp.com> 1999), had a sophisticated search engine and provided a range of services for both job seekers and employers.

Jonathan believed that a trial-and-error approach would be used in the product design process before product offerings could be refined according to customer taste. "We realize that some of these product offerings will be successful and some will not," he said. He also felt that specialization was important as the Internet was growing so fast. SCMP.com would be positioned as a news website that provided rich, targeted, and in-depth coverage on business, financial markets, banking and China news. Although the specific form of on-line products was to be determined, SCMP.com decided its future product offerings would be "far more sophisticated and in-depth" than its existing offerings.

While the *SCMP*'s printed edition was predominantly read by Hong Kong readers, *SCMP*'s Internet Edition readership varied (*SCMP*, April 18, 1998).⁷ Jonathan wanted SCMP.com to design on-line products that addressed the needs of its multi-faceted readership and offer these products at prices that captured their value to readers.

Marketing Issues

Although SCMP.com had not yet marketed itself through any channels except making references to printed *SCMP* editions, it planned to launch a marketing campaign in 2000. The "new-and-improved" [careers.SCMP.com](http://careers.scmp.com) website would be marketed first in early 2000 as a "one-stop shop" for job seekers and employers in Hong Kong. Other websites in Hong Kong had employed cross-media advertising campaigns using radio, television, billboard, the print media, and on-line tools to promote their websites. Management was considering whether SCMP.com should adopt the same approach, which required a sizeable advertising budget, or to launch a more modest marketing campaign, as the *SCMP* already possessed a strong brand name.

The *SCMP*'s established brand name and customer base meant that marketing expenditure could be devoted to enhancing customer relationship management in addition to building a subscriber-based customer data bank. However, it was critical that SCMP.com overcome user inertia against subscription-based products and prevent subscribers from switching to competitors' products.

A fundamental feature of on-line content-based products, or information goods, was that the production cost was largely determined by "first-copy costs." Once the first copy of the information about the goods was produced, the cost of reproducing and delivering additional copies of the same product through a digital network was close to nothing. SCMP.com's challenge was how to price its on-line products appropriately in view of these cost characteristics to maximize total revenue.

⁷In 1998, more than 50% of the website traffic originated in Hong Kong; the remainder came from the U.S. (26.64%), Canada (3.5%), and Australia (2.93%).

To Streamline Internal Coordination

Interlocking Work Flow and Employee Mindset

SCMP.com worked closely with a number of *SCMP* departments: Display Advertising, Classified Post, Circulation, Editorial, Library, Graphics and Design, and Information Technology.⁸

As evidenced from its product offerings, SCMP.com was not a content creator. SCMP.com utilized the *SCMP*'s existing content supplied by the Editorial Department (for the Internet Edition), the Classified Post Department (for Classified Post OnLine and careers.SCMP.com), and the Library (for PostSyndication and PostPhoto).

SCMP.com collaborated with other departments on joint projects. The Regional Hotel Guide was developed at the request of the Circulation Department.⁹ SCMP.com also often conducted joint presentations with sales teams from the Display Advertising Department to advertisers who might also be interested in placing on-line advertisements. Cross-departmental cooperation was, therefore, needed.

Allocation of Revenues and Costs

SCMP.com's costs and revenues by late 1999 were as follows:

- *Advertising Revenue:* On-line advertising included banner ads and sponsorship of specific webpages [Exhibits 11 and 12].
- *Classified Post OnLine and SCMP Careers:* SCMP.com's revenue came from the "print-plus" services it offered to advertisers.
- *Other Revenues:* Revenues also arose from syndication sales of *SCMP* articles and photographs, voice reply charges and the sale of electronic stamps for the Meeting Point service, subscriptions to Racing Post Online, paid access to the SCMP Archive Search and the sale of Post CD-ROMs.
- *Operating Costs:* SCMP.com had two types of operating costs: direct costs and allocated costs. Direct costs consisted of salaries, production costs for CD-ROMs, product development costs, and sales and marketing costs. A portion of the operating costs incurred by the *SCMP*'s Display Advertising Department and Information Technology Department was allocated to SCMP.com for services it received from these two departments. The allocated amounts were determined through negotiations between these departments and SCMP.com.

Joint Product Design Constraints

The close working relationship between SCMP.com and other departments limited SCMP.com's flexibility in product design. The Regional Hotel Guide was a good example. Several hotels in Hong Kong that did not subscribe to the *SCMP* had expressed interest in placing advertisements in the on-line Regional Hotel Guide and banner ads on that webpage. The Circulation Department, however, insisted that listings on the Guide be offered to *SCMP* subscribers only.

⁸Library and Graphics and Design were sub-departments. Library was part of the Editorial Department while Graphics and Design was part of the Display Advertising Department.

⁹The Circulation Department wanted to use the Regional Hotel Guide as an incentive for hotels in Hong Kong to subscribe to the *SCMP*. The *Hong Kong Standard*, the *SCMP*'s rival, was offered to hotels in Hong Kong free of charge. Hong Kong hotels that subscribed to the *SCMP* were given free listings in the Regional Hotel Guide.

To Find the “Right” Strategic Partners

In July 1999, *SCMP* took the first step toward enlarging its on-line network by acquiring a strategic interest in China Web Ltd., the majority owner of Homeway Co. Ltd. (<http://www.homeway.co.cn> 1999).¹⁰ China Web Ltd. launched ChinaWeb in November 1999 (<http://www.chinaweb.com> 1999). This bilingual website was positioned as “a definitive tool for the China-focused investor,” featuring on-line financial and business news, stock quotations, and foreign exchange data on the Greater China region. Jonathan explained why the *SCMP* took this strategic stake: “As world attention turns to Greater China and as the Internet begs the need for intelligent content, the *South China Morning Post* is well-positioned to promote understanding of this region among the global business community interested in Greater China investment” (*Business Wire*, November 30, 1999).

SCMP.com was also actively seeking other “relevant” strategic partners. In order to leverage e-commerce opportunities, Jonathan felt that *SCMP.com* needed to create an e-commerce environment with the right content and readership to attract companies to effect transactions within that environment. First, *SCMP.com* needed to identify the type of e-commerce companies with which it would like to partner. It could then create an appropriate e-commerce environment and articulate its relevance to potential e-commerce partners to entice them to create a partnership. Also, instead of building an e-commerce infrastructure from scratch, which was not considered one of *SCMP*’s core competencies, *SCMP.com* preferred to form alliances with e-commerce companies that specialized in this area.

While the Company had the financial strength to purchase strategic interests in the “right” companies to enlarge its on-line network, it remained important to look for the right allies.

TO SPIN OFF OR NOT?

Other than dealing with the issues of building a viable e-business model, streamlining internal coordination, and looking for the “right” strategic partners, Jonathan and the Board of Directors were also considering the corporate form that *SCMP.com* would assume. *SCMP.com* could exist in one of the following forms:

- To remain a division of the *SCMP*
- To be spun off, through the launch of an initial public offering (IPO), as an independent, self-sustaining Internet venture, given a free rein to manage its own business and report its own results

In 1999, several highly publicised IPOs were launched by a few Hong Kong-based Internet and technology companies [Appendix 1]. While a successful IPO would allow *SCMP.com* to generate positive publicity, to recoup the investment made, and to raise additional funds for expansion, the Board had to carefully evaluate the impact of such a move on the rest of the Company. After all, the working relationship between *SCMP.com* and other departments was extremely close. The impact of an IPO on *SCMP*’s integrated workflow, overall profitability, employee morale, and existing shareholders would have to be carefully considered.

Jonathan and the Board of Directors were certain that in order to sustain growth, the *SCMP* had to make a serious commitment to develop its on-line business. The transformation from a print-based publisher to a multi-media publisher would not be a smooth journey, however. All these outstanding issues would have to be resolved if *SCMP.com* wanted to be successful in the Internet arena.

¹⁰ Homeway was one of China’s first Internet content providers (ICPs) and the only ICP in China to be authorized by the Chinese Securities Regulatory Commission as an on-line financial advisory company.

Appendix 1

Internet IPOs

Initial public offerings (IPOs) allowed companies to recoup their investments and helped finance expansion. In 1999, several technology and Internet-based companies in Hong Kong and China took advantage of the market condition by launching IPOs in stock exchanges.

Technology companies that had solid performance and/or were backed by large parent companies could seek listings on the Hong Kong Stock Exchange and the NASDAQ Stock Exchange in the U.S. to raise funds. China.com was the first Hong Kong-based Internet company to list on NASDAQ (Lo 1999). It raised more than US\$80 million from its IPO and began trading on NASDAQ on July 1999 (Chan 1999).

i-Cable Communications, a cable television and Internet service network unit of Wharf Holdings, one of Hong Kong's largest conglomerates, raised more than HK\$3.74 billion in its November 1999 IPO in both stock exchanges (Lo 1999). On November 10, 1999, Cable & Wireless HKT announced its plan to spin off its interactive activities by obtaining a dual-listing for this new concern.

Internet-based companies shared some commonalities: young, loss-making, and struggling to find revenue streams. Most of them did not fulfil the profitability/track record listing requirements of the Hong Kong Stock Exchange. The Growth Enterprise Market (GEM), or the so-called second board of the Hong Kong Stock Exchange, was designed to bridge this gap.

Requirements Comparison

	Hong Kong Stock Exchange ("the main board")	Growth Enterprise Market ("the second board")
Listing Requirements	Company must be in operation for two years but does not need to have a record of profitability.	Company must have HK\$6.5 million profits over three years and three years in business.
Disclosure	Companies post financials twice a year and do not need to publish comparisons.	Twice a year, companies must compare their performance to plans announced at time of listing. Financials must be published 45 days after the end of each quarter.
Corporate Governance	No such requirements.	Audit committees and compliance officers are mandatory. Investment banks must monitor companies two years after they help them list.

Source: S. Prasso, J. Moore, and D. Roberts, "A Bourse of Their Own," *Business Week*, International Editions, Asian Business, Stock Markets, No. 3644, August 30, 1999, p. 26.

The GEM was modeled after NASDAQ, offering small to medium-sized companies in Greater China that showed the potential for high growth, especially in technology industries, opportunities to raise funds. To obtain a listing on GEM, a company was not required to have achieved a history of years of profitability. As the companies listed on GEM were in the "high-risk, high-growth" category, GEM was positioned as a "buyers beware market" for informed investors.

GEM started trading on November 25, 1999, and attracted significant interest from investors. The first two companies listed on GEM were Timeless Software, a Hong Kong-based software company, and China Agrotech, a China-based fertilizer maker. Timeless Software and China Agrotech raised HK\$495 million and HK\$90 million respectively in their IPOs (Tharmaratnam 1999b). In November 1999, China.com announced its intention to spin off its wholly-owned Internet portal, hongkong.com, through a listing on the GEM (Hui 1999).

**Exhibit 1. South China Morning Post (Holdings) Limited
Subsidiaries and Associated Companies**

Company	Percentage Ownership	Nature of Business
SUBSIDIARIES		
South China Morning Post Finance (Cayman) Limited, Cayman Islands	100%	Investment holding
South China Morning Post Investments (Cayman) Limited, Cayman Islands	100%	Investment holding
South China Morning Post Publishers Limited	100%	Newspaper and magazine publishing
South China Morning Post (S) Pte Limited, Singapore	100%	Advertising agent
Sunny Bright Development Limited	100%	Property holding
Sunny Success Development Limited	100%	Property holding
SCMP (1994) Limited	100%	Investment holding
West Side Assets Limited, British Virgin Islands	100%	Investment holding
Markland Investments Limited	100%	Investment holding
TVE (Holdings) Limited	100%	Investment holding
Capital Artists Limited	99.7%	Organization and promotion of stage and film performance and record publishing
Praise Onward Development Limited	88.9%	Operation and management of kindergartens
Publications (Holdings) Limited	100%	Publishing
Retailcorp Limited	100%	Operation of retail kiosks
South Horizons Residents Club Limited	100%	Operation of recreation club
Shanghai Pacific Ice Palace Corporation, The People's Republic of China	100%	Operation of amusement center in Shanghai
Spotlight Enterprises Limited	100%	Operation of recreation club
Sun Island English Kindergarten Limited	88.9%	Operation and management of kindergartens
Telford Recreation Club Limited	100%	Operation of recreation club
TVE International Limited	100%	Investment holding
TVE Publications Limited (Formerly T.V. Week Limited)	100%	Publishing
Video-Film Production Limited	100%	Production of commercial films
Kalkeith Limited, The Commonwealth of the Bahamas	100%	Investment holding
Coastline International Limited, The Commonwealth of the Bahamas	100%	Property holding
Lyton Investment Limited, The Commonwealth of the Bahamas	100%	Property holding
Macheer Properties Limited, British Virgin Islands	100%	Property holding
ASSOCIATED COMPANIES		
Asia Magazines, Limited	27.1%	Magazine publishing
The Post Publishing Public Company Limited, Thailand	20.3%	Newspaper and magazine publishing
New Trend International Limited, British Virgin Islands	45%	Investment holding
NIIT-TVE (Hong Kong) Limited (Formerly Home PC Limited)	35%	Operation of computer training center
Dymocks Franchise Systems	45%	Bookshop operation
Earn Active Limited	50%	In liquidation
Start Circle Limited	50%	Investment holding

Source: South China Morning Post 1998 Annual Report.

**Exhibit 2. South China Morning Post
Daily Circulation Statistics**

	1999	1998	1997	1996	1995	1994
January – June	107,129	106,609	105,808	104,037	102,881	-
July – December	-	117,563	119,921	116,992	115,795	115,773

Source: South China Morning Post (Holdings) Limited Annual Reports: 1999, 1998, 1997, and 1996.

**Exhibit 3. South China Morning Post (Holdings) Ltd.
Turnover Classification**

(HK\$'000)	1999	1998	1997	1996	1995
Publishing, printing and distribution of newspaper and other publications	1,028,370	1,574,326	1,692,667	1,280,328	1,253,845
Provision of entertainment, recreation and leisure services	161,681	181,996	218,069	69,221	-
Retailing	344,672	352,234	318,628	61,258	-
Production of commercial films	30,732	42,895	42,787	10,162	-
Gross rental revenue	83,058	84,862	80,299	23,136	12,285
Total turnover	1,648,513	2,236,313	2,352,450	1,444,105	1,266,130
Net profit attributable to shareholders	389,433	412,168	805,300	695,874	580,062

Source: South China Morning Post (Holdings) Limited Annual Reports: 1999, 1998, 1997, 1996, and 1995.

Exhibit 4. Selected English-Language Websites of Asian Newspapers

COUNTRY/CITY	WEBSITE ADDRESS
CHINA	
China Daily Online	http://chinadaily.com.cn
China News Services	http://www.chinanews.com
People's Daily Online	http://peoplesdaily.com
HONG KONG	
South China Morning Post	http://www.SCMP.com
Hong Kong Standard	http://hkstandard.com
JAPAN	
The Japan Times Online	http://www.japantimes.co.jp
Asahi News Paper	http://www.asahi.com/english
Mainichi Shimbun	http://www.mainichi.co.jp/english
KOREA	
The Korea Herald	http://www.koreaherald.co.kr
THE PHILIPPINES	
Manila Times	http://www.manilatimes.net
SINGAPORE	
The Straits Times Interactive	http://straitstimes.asia1.com.sg
TAIWAN	
China Times Interactive	http://www.china-times.com.tw
Taiwan News	http://taipei.org
THAILAND	
Bangkok Post	http://bangkokpost.co.th

Exhibit 5. SCMP.com Products

SCMP.com

A group of websites were housed within SCMP.com. They included the *Post's* Internet Edition, Classified Post OnLine, Your Money, SCMP Archive Search, the Regional Hotel Guide, Racing Post Online and the Meeting Point.

Internet Edition of the *Post*

Selected full text articles from all sections of the *Post*, including local, regional, and world news, Business Post, Markets Post, Focus, Sport, Property, and Technology, were featured in the Internet Edition. The Internet Edition was updated at 9:00 a.m. every day from Monday to Saturday.

Classified Post OnLine

This website contained all advertisements printed in the Classified Post. Similar to the printed edition, Classified Post OnLine was divided into four sections: Classified Property, Motor Vehicles and Boats, Business Opportunities, and Notices. Classified Property was the largest section, carrying the largest number of advertisements.

SCMP Careers (careers.SCMP.com)

Originally the largest section of the Classified Post Online, the Careers section was developed into an independent website, offering services to both jobseekers and employers. Registered users could access all the services offered to jobseekers free of charge.

All the printed employment advertisements in the Classified Post were posted on SCMP Careers. A sophisticated search engine was designed to help jobseekers locate the relevant jobs. Employment advertisements were searchable by keyword, SCMP reference number, industry (38 categories), job type (22 categories), industry description, academic qualifications, length of work experience and salary. Services offered to jobseekers included My Career (listing of relevant jobs according to criteria preset by the jobseeker), My Resume (online submission of resumes), Career Forum, Career Advice and Development, and a listing of employment agencies and their available vacancies.

Services for employers included Candidate Search (a matching service to locate the desirable candidates for employers based on candidate profiles provided) and Employer Profile (posting of a brief profile of the employer together with a list of available job vacancies). These services were available to employers for a fee.

SCMP Archive Search

This was a subscription-based service. Full-text articles from the *Post* were available from 1993 onward. These articles could be downloaded for HK\$10 each.

The Regional Hotel Guide

PostNet offered this free-of-charge service to hotels that subscribed to the *Post*. A webpage was developed for each hotel. Other than a graphic display of the hotel, details such as location of the hotel, facilities, room types and rates, and reservation information were also available. The Regional Hotel Guide did not handle on-line hotel reservations. It provided links to the hotels' own websites, however. Users of the Regional Hotel Guide could post e-mail or fax requests directly to PostNet for additional information on hotels that appeared in the Guide.

Racing Post Online

This website offered both free and subscription-based services. Free services included news on horse races, details of upcoming races and racing results from the last racing day. For a monthly fee of HK\$198, users were granted access to services such as racing tips, statistics, jockey and trainer analysis, racing databases, etc.

The Meeting Point

The Meeting Point was initially launched as a voice service. PostNet developed this voice service together with Micro Voice, a U.S. voice marketing company. The Meeting Point website was launched at the beginning of 1998. This website housed all the personal advertisements printed in the *Post's* Personals section. Advertisers, who placed their print and on-line personal advertisements free of charge, were each assigned a mailbox with a passcode. They could record a voice introduction to go with their advertisements. Each advertiser was set up to receive both e-mail and voice replies. Interested parties had to purchase a certain number of electronic stamps on-line with their credit cards and use these stamps to send in their e-mail replies to advertisers.¹¹ Alternatively, they could call and leave a message in advertisers' voice mailboxes.¹²

PostCD-ROM

PostCD-ROM was launched in the second half of 1996. It was the CD-ROM edition of the *Post* from 1993 onward. Each PostCD-ROM contained full text articles from an entire year of the *Post*. These CD-ROMs were used as reference materials in corporate, government, and academic libraries.

PostSyndication and PostPhoto

This was the licensing of *Post* articles and photographs to publishers and information database hosts. Before PostNet was established, the syndication business was handled by the Library. A PostPhoto website was developed to drive the sales of the *Post's* news photographs. PostSyndication's customers included global database hosts such as Lexis-Nexis, Dow Jones News Retrieval, and FT Profile.

¹¹As at June 1999, five electronic stamps that cost US\$2 were required to post one e-mail reply.

¹²An access charge of HK\$10 per minute was imposed on the posting of voice replies.

Exhibit 6. “Discontinued” PostNet Products

PostFax

Launched in 1996, PostFax offered *Post* headlines and stories on fax. This service was discontinued due to diminished demand.

IVR

This interactive voice response audiotext service was launched in October 1996. Users of IVR called in and selected the *Post*'s editorial and advertising content they wanted to listen to. Charges were based on minutes of usage. This service was cut back substantially in 1999 due to diminished demand.

Global Investor

This subscription-based service, accessible through PostWeb, was launched in the second quarter of 1997. PostNet developed this service together with M.A.I.D., a provider of on-line business information. M.A.I.D. was also the content provider of this service.¹³ Global Investor subscribers could set up on-line investment portfolios to track public companies and had access to newswires, archived news, and other research materials focused on the Asian region. This service was subsequently discontinued because of difficulties in obtaining adequate content.

Your Money

This was a weekly electronic magazine about personal finance. It was offered free of charge and was targeted at small investors in Asia. This magazine featured articles on personal financial management, weekly reviews of Asian business news, weekly summaries of stock market performances in Hong Kong and mainland China, and reviews on foreign currency market movements.

PostResearch

PostResearch was initially planned as an information brokerage service that would utilize the resources of the *Post*'s Library to meet research needs in the marketplace. Upon further evaluation, two decisions were made. First, the Library, which was part of the Editorial Department and the holder of all the *Post* content, decided to devote all its efforts to supporting the *Post*'s journalists and editorial staff. Second, it was difficult to design an information brokerage product that had a mass appeal and yet was cost-effective to implement. Based on these decisions, PostResearch was withdrawn from the launch plan.

¹³M.A.I.D. was renamed the Dialog Corporation following its takeover of Knight-Ridder Information, Inc., another on-line information provider, in 1997.

**Exhibit 7. Internet Penetration Rate
as of the Beginning of 1999**

Country / City	Percentage
Singapore	25
Hong Kong	12.5
Taiwan	12
Malaysia	6.3
China (Beijing, Shanghai, and Guangzhou)	2.9
The Philippines	2
Thailand	1.5
Indonesia	1.2
Canada	38
USA	25
Australia	25
New Zealand	24
Germany	14

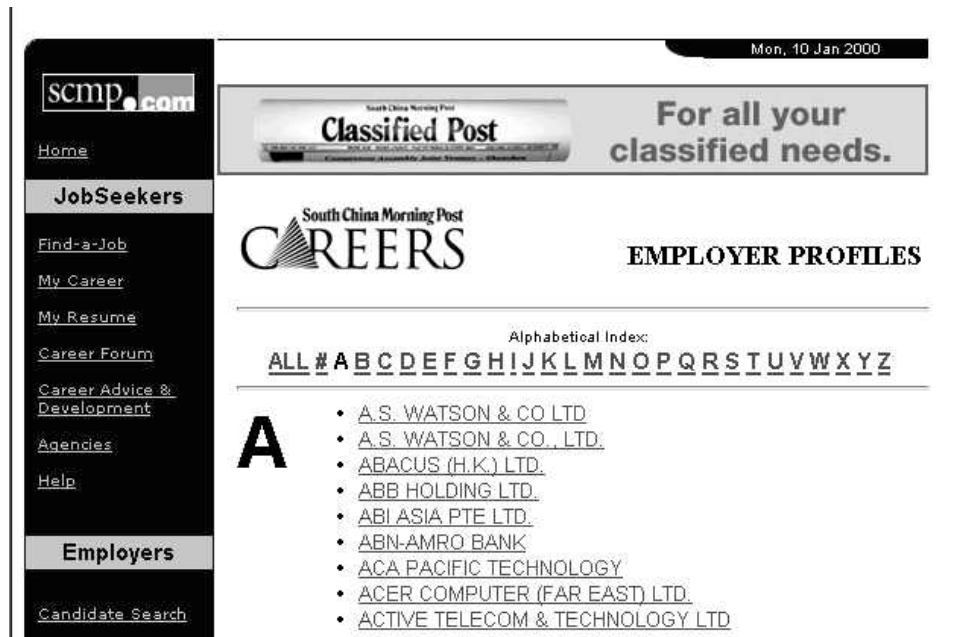
Source: ACNielsen, "Singapore the Top Net Surfer in Asia, ACNielsen Global Study Reveals," *ACNielsen NetWatch Survey*, ACNielsen Press Release, February 5, 1999.

**Exhibit 8. Biographies of SCMP.com Senior Executives
Appointed in November 1999**

Kuok Koon-Seng, Chief Executive	Mr. Kuok was a former executive director of TVE International and a former director of Television Broadcasts. He had several years of experience in the publishing, retailing, and entertainment businesses.
Ray Bashford, Editorial Director	Mr. Bashford joined the <i>Post</i> as Business Editor in 1995, after spending 10 years at the <i>Financial Times</i> in London as financial news editor. Prior to that, he had worked on newspapers in Australia.
Cheng Chai, Chief Financial Officer	Ms. Chai was a former director, mergers and acquisitions, for Merrill Lynch (Asia) in Hong Kong. Ms Chai had 20 years of experience in the financial industry and had worked for Schrodgers Asia in Hong Kong, D&C Nomura Merchants Bankers in Kuala Lumpur and Touche Ross & Co. in London.
Larry Campbell, Publisher	Mr. Campbell had been in journalism for 15 years and had been involved in on-line publishing since 1993. He was Technology Editor of the <i>Post</i> from 1990 to 1996. Before joining the <i>Post</i> , he was publisher of <i>The Dataphile</i> , an on-line and print Internet magazine he founded in 1993.

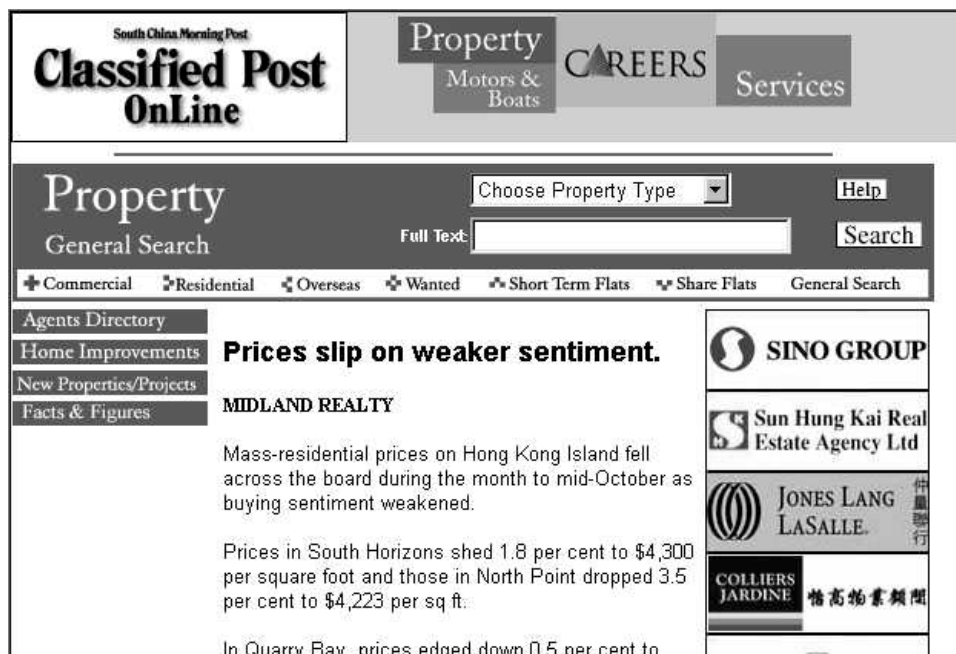
Source: "SCMP On-line Unit Makes Four Senior Appointments," *South China Morning Post*, Business, November 19, 1999, p. 3.

Exhibit 9. Index of Employer Profiles on the Careers.SCMP.com Website



Source: SCMP Careers (careers.scmp.com) website, <http://careers.scmp.com/profile.asp?agency=N&Alphabet=C>, January 10, 2000.

Exhibit 10. “Buttons” on the Main Page of Classified Property



Source: Classified Post OnLine, Classified Property, http://www.classifiedpost.com.hk/prop_ind_fs.html, January 10, 2000.

Exhibit 11. Sybase's Banner Ad on Technology Post Online

South China Morning Post
Classified Post OnLine

Property MOTORS & BOATS CAREERS Services

Property General Search Choose Property Type [v] Help
Full Text: [input] Search

Commercial Residential Overseas Wanted Short Term Flats Share Flats General Search

Agents Directory
Home Improvements **Prices slip on weaker sentiment.**
New Properties/Projects
Facts & Figures

MIDLAND REALTY

Mass-residential prices on Hong Kong Island fell across the board during the month to mid-October as buying sentiment weakened.

Prices in South Horizons shed 1.8 per cent to \$4,300 per square foot and those in North Point dropped 3.5 per cent to \$4,223 per sq ft.

In Quarry Bay, prices edged down 0.5 per cent to

SINO GROUP
Sun Hung Kai Real Estate Agency Ltd
JONES LANG LASALLE
COLLIERS JARDINE 怡高物業顧問

Source: Online Technology Post, <http://www.technologypost.com/main/index.asp>, January 10, 2000.

Exhibit 12. The Markets Update Webpage Sponsored by HSBC

South China Morning Post
Classified Post OnLine

Property MOTORS & BOATS CAREERS Services

Property General Search Choose Property Type [v] Help
Full Text: [input] Search

Commercial Residential Overseas Wanted Short Term Flats Share Flats General Search

Agents Directory
Home Improvements **Prices slip on weaker sentiment.**
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JONES LANG LASALLE
COLLIERS JARDINE 怡高物業顧問

Source: SCMP Markets Update, <http://www.SCMP.com/News/Markets/Update/Update.asp>, January 10, 2000.

SCMP.com: STRATEGIC REPOSITIONING OF A NEWSPAPER

Teaching Note

SUMMARY OF THE CASE

The *South China Morning Post (SCMP)* established PostNet, an electronic publishing division, in 1996 to experiment with the on-line medium. In mid-1999, the Board of Directors of the *SCMP* observed the meteoric rise of the Internet and the accompanying e-commerce opportunities. They resolved to seriously develop the on-line business and to reposition the *SCMP* from a print-based publisher to a premier on-line content provider. PostNet was renamed SCMP.com. To be successful in this endeavour, the *SCMP* had to overcome numerous problems, including the need to build a viable business model, to streamline internal workflows, to transform the mindset of the employees, and to search for the “right” strategic partners to strengthen its on-line network. The *SCMP* was also considering whether or not to spin off SCMP.com into an independent concern.

TEACHING OBJECTIVES AND TARGET AUDIENCE

This case targets second-year MBA students. It may be used to illustrate the issues encountered by a bricks-and-mortar company when it transforms into an e-commerce company. Specific issues illustrated in this case study include:

- The building of a viable e-business model, i.e., how to generate profit from on-line content-based products, how to acquire an installed customer base, and how to design and price on-line products.
- The search for the “right” strategic partners.
- The impact of spinning off an on-line business division on a traditional business organization and its investors.

TEACHING APPROACH AND STRATEGY

Suggested assignment questions:

1. Identify the *SCMP*'s strengths and weaknesses as an electronic publisher.
2. After the strategic repositioning of its business activities, the *SCMP* will become an operator of multiple businesses: print-based and on-line publishing. How can *SCMP* craft a new corporate strategy that helps create sustainable corporate advantages?
3. How can SCMP.com segment its market?
4. How should SCMP.com approach the product design issue?
5. How should SCMP.com price its on-line products?
6. How can SCMP.com build an installed customer base for its on-line products?
7. Should SCMP.com be spun off? Why or why not?

ANALYSIS

Identify the SCMP's strengths and weaknesses as an electronic publisher.

The SCMP's strengths as an on-line publisher:

- A long history accompanied by a highly reputable brand name, which serve as valuable assets to draw an on-line audience.
- A pool of highly qualified editors, journalists and photographers who have proven ability to produce high-quality news content.
- A readership among the high-income, highly educated households in Hong Kong that anchors a large base of advertisers.
- An expansive collection of quality content accumulated over a long period of time.
- The ability to provide comprehensive coverage on China news through its own news bureaus in three key Chinese cities.
- A large group of product offerings including newspapers, books and magazines, and retail stores that have e-commerce potential.
- Solid financial strength that allows it to acquire strategic partnerships when opportunities arise.

The SCMP's weaknesses as an electronic publisher:

- It seems to lack a clear vision for its on-line activities and a strategy to achieve that vision.
- Being a newspaper publisher, the SCMP may have become accustomed to gradual changes occurring over decades as opposed to changes happening at "Internet speed" in the on-line world. As a result, the SCMP's existing organizational structure and reporting procedures may impede SCMP.com's competitiveness.
- The mindset of print-based employees who have worked for the SCMP for a long time might be very hard to change.
- Newspaper publishers typically view their business as producing "news" on "paper." If the SCMP extends this view to the operation of SCMP.com, product innovation ideas will be very much restricted, thus lowering its chance of on-line success.
- A lot of time was wasted between 1996 and mid-1999, when the SCMP treated its on-line presence as merely a defensive move. The SCMP's effort to seriously develop SCMP.com as an e-commerce website may be perceived by the on-line audience and potential e-commerce partners as another half-hearted attempt to participate in the e-commerce arena.

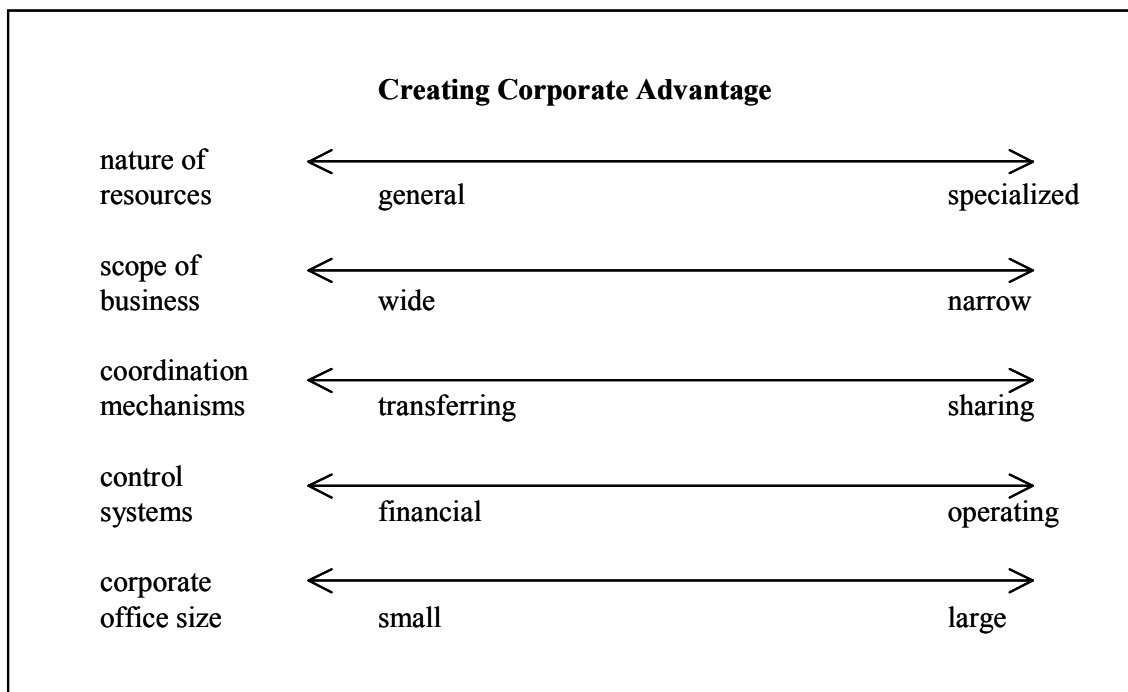
After the strategic repositioning of its business activities, the SCMP will become an operator of multiple businesses: print-based and on-line publishing. How could the SCMP craft a new corporate strategy that helps create sustainable corporate advantages?

According to Porter, a competitive position built on a system of activities is far more sustainable than one built upon individual activities. This is because it is harder for a competitor to match an array of interlocked activities than to imitate a single activity, such as a capable sales force, an advanced technology, or a particular set of product features (Porter 1996).

Achieving strategic fit is far from a straightforward task because it requires the integration of decisions and actions across independent sub-units in an organization. If there is no strategic fit among activities, it is difficult for a company to create corporate advantage. Therefore, an important element in the process of strategic repositioning is the reconfiguration of company activities and the realignment of the entire system.

Collis and Montgomery proposed a practical model to handle such a reconfiguration. The main theme of this model is that "an internally consistent corporate strategy tailored according to a firm's resources and opportunities can create a meaningful corporate advantage" (Collis and Montgomery 1998).

According to Collis and Montgomery, a company's corporate advantages are in those resources that are vital to the company's success, such as Sharp's technology in liquid crystal displays (LCDs). A corporate strategy should focus on how to make the best use of these vital resources. The elements in a corporate strategy include the scope of a company's business, the mechanisms to coordinate company activities, the type of performance control systems, and the size of the corporate office.



Source: D. J. Collis and C. A. Montgomery, "Creating Corporate Advantage," *Harvard Business Review* (76:3), May/June 1998, p. 81.

The resources that create corporate advantages range from general (e.g., a capable sales force) to highly specialized (e.g., Sharp's LCD technology). The nature of a company's resources, according to this model, determines a company's corporate strategy.

The *SCMP* could consider applying Collis and Montgomery's model to reconfigure its organizational activities during the process of strategic repositioning. It seems that the *SCMP*'s competitive advantage comes from rather specialized resources: its journalists, editors and photographers, who have a proven ability to produce quality content, and its well-established brand name. Applying this model, the *SCMP* could consider focusing on a narrow scope of business—producing and publishing quality content—to create sustainable corporate advantage. The highly specialized resources are best shared by the entire company. The *SCMP* could establish a set of operating controls (e.g., the quantity and quality of articles produced and editorial quality) to guide company performance.

How can SCMP.com segment its market?

SCMP.com could begin the market segmentation process by collecting detailed demographic information on its on-line audience and analyzing their past behavior. A detailed profile of on-line visitors serves two important functions. First, by knowing its users well, *SCMP.com* can design and price its on-line products according to user characteristics. Second, with this profile in hand, *SCMP.com* is able to describe its on-line audience clearly to advertisers and to set the appropriate advertising rates. Billing information from paid subscribers and on-line tools such as user registration, on-line surveys, and the observation of on-line user behavior are useful to collect user information. User resistance and accuracy of information are two main problems in obtaining user demographics on-line. *SCMP.com* may need to offer them "bribes" such as free trials of subscription-based products to overcome this problem.

How should SCMP.com approach the product design issue?

Players in the on-line publishing industry have come to a general consensus that enhancing the depth of information is the key to developing successful content-based products. The ability to create a unique source of information that appeals to the preference of a targeted audience is also important. The success of the *Wall Street Journal* Interactive Edition is a good example. By monitoring and analyzing “click streams”—the sequence of clicks or pages requested as a visitor explores the SCMP.com website—SCMP.com could gain some idea of what users look for on the website and their browsing habits. However, by virtue of the HTTP protocol, each request for a web page is treated as an independent request. A website server has no memory of the pages it has sent to a user. As a result, special software is required to gather “click streams” for analysis. SCMP.com could consider incorporating “cookies”—mechanisms that allow the server to record user preferences on users’ own computers—into its website and to analyze the information stored there.

SCMP.com needs to design products that are able to exploit the interactive nature of the on-line medium. SCMP.com could position these products as an extension of the *SCMP* but offers the unique functionality, such as news updated throughout the day, unavailable in the print edition. The *Wall Street Journal* Interactive Edition designs its products according to this principle and has proved that readers are willing to pay for timely and in-depth financial information.

Another consensus among on-line publishers is that Web users are more willing to pay for on-line content that is delivered at the speed and in the format that is most relevant to them. Focus and depth are the key attributes that offer added value to users. SCMP.com may want to design products with these valuable attributes.

How should SCMP.com price its on-line products?

According to Shapiro and Varian, the cost structure of information production is characterized by high fixed costs but low marginal costs, i.e., information is costly to produce but cheap to reproduce (Shapiro and Varian 1999). For information that is delivered through a network in digital form, the total costs are largely comprised of the “first copy” cost, because the cost of producing and delivering additional copies is close to zero. Information production is also not subject to the constraint of production capacity. This cost structure leads to substantial economies of scale. To maximize profit, an on-line information provider should concentrate on increasing sales volume. Once SCMP.com recoups the “first copy” cost, the additional revenue will be pure profit. Shapiro and Varian also argue that cost-based pricing is not applicable in this scenario as a markup on a unit cost that is close to zero does not make much sense. The appropriate pricing approach for on-line content products, they suggest, is value-based pricing, i.e., pricing products according to their value to users.

The ideal pricing approach for on-line products that captures maximum user value is perfect price discrimination, i.e., offering the same product to each user at a different price that reflects the unique value of the product to that particular user. In reality, perfect price discrimination is extremely difficult to implement. Shapiro and Varian suggest two alternative pricing strategies to capture user value.

One strategy is “versioning.” According to this strategy, SCMP.com could offer a product line that includes low-end and high-end versions of the same product and then let users choose the version most appropriate to them.

The other strategy is “group pricing.” If SCMP.com can segment its on-line audiences into distinctive groups that display some common characteristics, it could impose group pricing for each distinctive user group.

SCMP.com could use past subscription histories, search choices, and “click stream” behavior as the guideline to differentiate products and prices. SCMP.com should avoid offering too many versions of the same product, however, as this may cause user confusion. If a market does not segment naturally, Shapiro and Varian suggest that three versions—high-end, medium and low-end—may be produced. This way, a company essentially pushes the sales of the medium product. As information is cheap to reproduce, SCMP.com may offer users free access to the low-end version as advertisements for the higher-end versions.

How can SCMP.com build an installed customer base for its on-line products?

On-line content products are experience goods: users need to experience them to find out what they actually are and their value to them. To build an installed base of customers, SCMP.com first needs to overcome the experience goods problem. Branding and reputation are effective means that help overcome this problem. SCMP.com has a competitive advantage in this regard as the *SCMP* already possesses a well-known brand name. Users are more likely to associate contents that can be trusted with SCMP.com than other lesser-known on-line publishers. The cost structure of information goods offers SCMP.com additional opportunities to overcome the experience goods problem as it can give free samples or trials of on-line products to users at a very small cost.

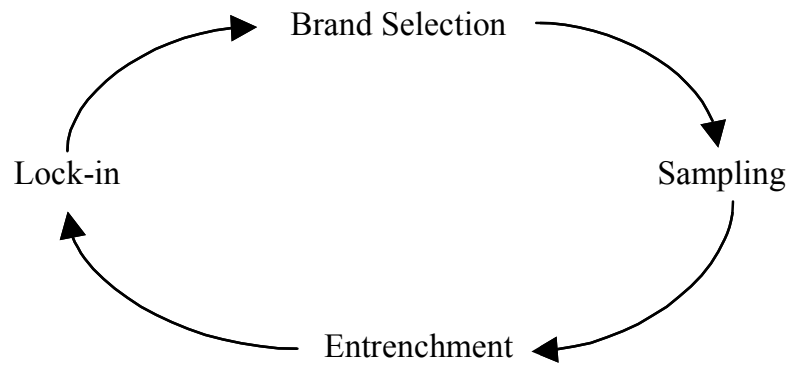


Figure 1. The Lock-in Cycle

Source: C. Shapiro and H. R. Varian, *Information Rules: A Strategic Guide to the Network Economy*, Boston: Harvard Business School Press, 1999, p. 132.

An installed customer base requires loyal subscribers. Branding and sampling can bring subscribers “in the door,” but retrenchment is needed if they are to stay. If SCMP.com’s products are designed in such a way that when users switch to a competitor’s product, they will incur substantial switching costs, users will be more loyal. Other tools that may help to lock in customers are user-friendly interfaces, proprietary features, and presentation formats that are easy to read and comprehend. Websites that are perceived as useful or informative tend to attract loyal followers.

Should SCMP.com be spun off? Why or why not?

While positive publicity and financial reward from a successful initial public offering (IPO) are tempting, a spin off will have profound impact on both SCMP and its investors.

The advantages of SCMP.com remaining as a division within the SCMP:

- SCMP.com is able to leverage on the SCMP’s existing assets such as editorial skills and advertising skills.
- A “sunrise, sunset” mentality might develop among the SCMP’s staff once SCMP.com is spun off. They might perceive SCMP.com’s employees as the “chosen” few who are able to participate in a high-growth environment and offered equity-based compensation packages. Employee morale could be adversely affected. If SCMP.com remains as a division of the SCMP, this problem can be avoided.
- As the success rate of Internet startups is low, the reputational risk associated with a flop of the on-line venture after a high profile IPO can be minimized.

The disadvantages of SCMP.com remaining as a division within the SCMP:

- The SCMP might find it difficult to convince existing shareholders to undertake a big investment, as SCMP.com’s ability to earn sizeable profits is still largely unproven.
- The organizational structure and reporting procedure of the SCMP are most likely tailored to print-based operations. They could limit SCMP.com’s ability to respond swiftly to rapidly changing market situations in the on-line business arena.
- SCMP.com is unable to offer stock options as part of its compensation package for its employees; the lack of it may limit SCMP.com’s ability to attract qualified candidates.

The advantages of spinning off SCMP.com as an independent concern:

- SCMP.com will be able to break free from the bureaucracy of traditional print-based management, creating its own organizational structure and reporting procedures to facilitate swift decision-making and rapid product innovation.
- SCMP.com will be able to offer stock options and the excitement of a fast-paced, Internet-focused startup operation to attract Web developers and on-line marketing professionals.
- If SCMP.com turns out to be a successful venture, it will be able to issue new shares to acquire other Internet players, thus creating the “currency of acquisition.”
- SCMP.com will likely have more focused business teams whose livelihood depends on the success of SCMP.com rather than the profits from SCMP’s existing operations.
- After a clear relationship between SCMP.com and other departments of the SCMP is articulated, SCMP.com will be able to deal with the SCMP at arm’s length.

The disadvantages of spinning off SCMP.com as an independent concern:

- If SCMP.com is unsuccessful after a high profile IPO, the SCMP’s reputation will be harmed.
- Spinning off could result in a “sunrise, sunset” mentality among the SCMP’s employees, thus affecting employee morale.

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