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THE WALL STREET JOURNAL: PRINT VERSUS INTERACTIVE

In early January 1999, Peter Kann, chief executive officer of Dow Jones & Company, pondered the future of one of the company's most valuable brands and products, The Wall Street Journal. A meeting with Kann's top management team had been called for the following month to discuss the future of this brand, primarily focusing on the relative positioning and performance of the print and Interactive Journal.

The Wall Street Journal had enjoyed an unrivaled position as the top daily business newspaper in the United States for over 109 years. The Journal was the largest circulation newspaper in the United States with approximately 1.8 million subscribers, reached five million worldwide readers daily, and enjoyed tremendous loyalty among readers. However, the newspaper industry was facing a future of little to no growth and mounting competition from other forms of news delivery, most recently and saliently, the Internet.

Internet news providers threatened the typical newspaper's core product and service of timely, current news reporting and delivery. The threat to The Wall Street Journal was felt not only from competitors on the Web, such as CNN and CBS MarketWatch who operated free sites, but from its own Interactive Journal. The Interactive Journal was introduced in 1996 and within a year became the largest paid subscription site on the Internet. But what would the rising demand for instant, Web-based news do to the company's mainstay business of the print edition? Would the Interactive Journal serve as a complement or a substitute for print? Given this, Peter Kann wondered how the two products should be positioned, priced and promoted in order to maximize revenue for both. The answers to these questions would fundamentally shift the industry as well as Dow Jones & Company.

DOW JONES & COMPANY

Dow Jones & Company was a global provider of business news and information. Its primary operations were in three business segments: print publishing, electronic publishing, and general-interest community newspapers.

The print publishing segment included The Wall Street Journal, Barron's, National Business and Employment Weekly, The Asian Wall Street Journal, The Wall Street Journal Europe, Far Eastern Economic Review and SmartMoney Magazine. The electronic publishing segment included The Wall Street Journal Interactive Edition, Dow Jones Newswires, Dow Jones Interactive and the Dow Jones Indexes.

The Wall Street Journal Print Edition

The Wall Street Journal (WSJ), Dow Jones' flagship publication, was long considered the most respected source of business and financial news in the United States. By 1999, The Wall Street Journal was one of the most recognized brands in the world with a subscription renewal rate of 80 per cent. Its circulation rate of approximately 1.8 million subscribers remained relatively stable in the 1990s.

Over 600 reporters and editors — who also support other Dow Jones products — contributed to an outstanding record of journalistic excellence. In 1997, the company received its 19th Pulitzer Prize, an award also given to its chief executive officer in 1972. Each of the print editions of The Wall Street Journal drew heavily upon The Wall Street Journal's worldwide news staff. The Wall Street Journal Europe, headquartered in Brussels, had an average circulation in 1998 of 71,000 and sold on day of publication in continental Europe, the United Kingdom, the Middle East, and North Africa. The Asian Wall Street Journal, headquartered in Hong Kong, had an average circulation of 62,000 in 1998 and was printed in Hong Kong, Singapore, Japan, Thailand, Malaysia, Korea and Taiwan. In addition, the company distributed special editions of Wall Street Journal news within 30 newspapers in 26 countries, published in 10 languages with a combined circulation of four million.

Despite its long-standing traditional front page format without full paper-width headlines, six columns, dot print photos, and the "What's News" summaries, the Journal innovated many new formats in the 1990s. Starting in 1993, the Journal expanded its business and economic trend regional coverage to select parts of the

United States, including Texas, Florida, California, New England, the Northwest and the Southeast. These Journal editions consisted of a four-page weekly section included in papers distributed in those regions. Four-color advertising, introduced in 1995, saw increased revenue of 60 per cent in 1997, contributing to overall advertising linage up 13 per cent, on top of a 14 per cent growth in 1996. 1997 saw the addition of a daily page of international business news and 1998, a two-page technology section. Weekend Journal, introduced in 1998, expanded typical content to include lifestyle issues such as personal finance, food and wine, sports, travel, and residential real estate, as well as other new editorial features appealing to new advertisers and readers.

However, these new innovations in the Journal served as supplements rather than substitutes to the three traditional sections of the five-day-a-week paper. Kann explains, "Visually, the Journal has a unique trademark quality. It's a uniquely recognizable page. But the main reason we haven't changed it is it's a very useful format." Section A included the front page and business and political news. Section B, "Marketplace," focused more on lifestyle and marketing issues, including regional editions, and the technology section. Finally, Section C, "Money & Investing," centered on financial news, daily stock and bond quotes and other financial information. Dow Jones also announced plans to spend US$230 million between 1999 and 2002 to expand the number of color pages and total page capacity. This investment would increase the color page capacity from eight to 24 and the total page capacity from 80 to 96.

Economics of Print Publishing

Within the relevant range (circulation and advertising within 15 per cent), most print WSJ expenses were fixed. Variable components (including newsprint, ink, plates, production and delivery overtime) account for approximately 15 per cent of costs. Print WSJ revenues came from two primary sources: sales/subscriptions and advertising. Advertising rate growth was dependent upon at least roughly preserving the circulation level. Hence, if circulation dropped 10 per cent, ad revenue could fall 10 per cent or more.

The paper was printed in 17 company-owned U.S. and 13 overseas plants, 12 of which were leased. Company employees (through the company's National Delivery Service, Inc. subsidiary) delivered 75 per cent of U.S. subscriber copies by 6:00 a.m. daily. This system provided delivery earlier and more reliably than the postal service. Company plants were unionized, operated one shift daily, six days a week, and were important to maintaining the Journal's traditional size, which was larger than typical print newspapers. This size format was believed to be more appealing to advertisers and to readers alike.

The Print Newspaper Industry

Wall Street had long found newspaper stocks appealing and therefore priced them at a premium to the rest of the market. Exhibit 1 includes stock data for Dow Jones & Company. However, newspapers faced increasing media competition in the 1990s, making advertising sales a harder pitch. Local newspapers in general turned to supplemental advertising flyers and catalogues placed between the pages of daily and Sunday papers in order to provide more dependable cash flow. In addition, growth of classified ads was strong due to the general expansion of the economy resulting in strong real estate, automobile and job markets. Classified volume typically contributed 15 to 25 per cent of total newspaper linage sales and was the industry's most profitable ad category on a per-line basis in the 1990s. However, classified ads also faced increased competition from on-line offerings. Overall, newspapers benefited from the robust economy in 1998 by encouraging more advertisers to buy more linage at increased rates. The total advertising market in the United States for print medium was US$72 billion in 1999, up from US$55 billion in 1995, and projected to exceed US$83 billion by 2001.

Despite relatively stable cash flows in the past, newspaper circulation was in a general downward trend from 1987 through late 1996, although there was some stability starting in 1997. Local distribution of newspapers, both home and newsstands, was increasingly contracted out to third parties.

The Wall Street Journal was the first national daily paper in the United States and enjoyed status as the only national daily until the advent of USA Today in 1985. In the late 1990s, the New York Times and Los Angeles Times also nominally entered into the nationally distributed sector of the industry. However, their entry into the nationally distributed sector did not indicate a shift towards nationally focused news; The New York Times and Los Angeles Times still concentrated on a fairly targeted geographic region in terms of subscribers and content. In addition, the business-versus-general-interest focus of The Wall Street Journal kept it relatively immune from direct competitors until the expansion of UK-based Financial Times in 1998. While the Financial Times's focus was primarily business news, its exposure in the U.S. market was dwarfed by that of The Wall Street Journal, with the circulation level of the Journal around 35 times that of the Financial Times.

The Wall Street Journal Interactive Edition

The Wall Street Journal Interactive Journal (http://wsj.com), introduced in April 1996, was another innovation for Dow Jones as well as for the publishing industry. While initially a free site, subscribers were first asked to pay in August of 1996. Subscribers totaled over 100,000 within the first year of launch, and reached over 266,000 subscribers by the end of 1998. While many competitors were delivering news on the Web for free, The Wall Street Journal Interactive Edition became the largest paid subscription site on the World Wide Web. Around one per cent of the content at the web site was free access, with the remaining 99 per cent accessible only to subscribers. "Our proprietary information has value, and we have the guts to charge," said Peter Kann.

U.S. News & World Report called the Interactive Journal "the best single financial site on the Internet." The Interactive Journal offered continuously updated news and market information, access to the international editions, in-depth background reports on over 20,000 companies and pay-per-view access to the Dow Jones Publication library. In addition, the Interactive Journal included proprietary information and coverage not found in the print editions. Within each story in the Interactive Journal were links to stock quotes and other information about the companies discussed.

Careers.wsj.com was a free site, launched in 1997 and linked to the Interactive Journal, that offered a searchable database of employment listings and content from the National Business and Employment Weekly.

Advertising sales were relatively stable in 1998, coming off two relatively strong years of growth. Subscription renewal rates were approximately 75 per cent to 80 per cent. Further comparison of subscribers, subscriber revenue and acquisition costs for both the print and Interactive editions is given in Exhibits 2 and 3.

Economics of Electronic Publishing

Typically for Web-based publishing, most costs were fixed or step-function fixed, except for subscriber acquisition and advertising selling expenses.

For free sites, primary revenue came from advertising, with the number of people visiting the site largely determining the fees charged to advertisers. For subscription sites, however, revenue came from both advertising and subscriptions, similar to print publishing. A third category of revenue also became possible in electronic publishing: transaction fees. Forrester Research predicted that online revenue from subscriptions, advertising and transaction fees would grow from just over US$520 million in 1997 to US$8.5 billion within five years.

The total advertising market for Internet medium was approximately US$2 billion in 1999 and was projected to exceed US$5 billion in 2001. As a quarterly comparison, the first quarter of 1996 saw total U.S. Internet advertising spending at US$29.9 million. By the first quarter of 1998, this number had grown to US$351.3 million and second quarter of 1998 to US$423.0 million. Unlike television, radio or print advertising, an almost unlimited supply of advertising and a concurrent glut of it accompanied the advent of the Internet. As a result, advertising rates plummeted in 1998 due to the lack of target viewers. However, this trend did not apply to web sites that could offer advertisers access to more targeted demographics.

A 1998 GVU Internet survey indicated the attitudes about pay versus free sites on the Internet. Of those individuals who refused to pay for information on the Internet, 44.5 per cent did so because the information was available elsewhere for free, while 32.7 per cent would not pay for Internet information because they were already paying to gain access to the Internet itself. Other reasons given for the resistance to pay for site access included excessive cost and poor site quality. Similarly, a survey conducted by the BBDO advertising agency found that 60 per cent of respondents replied negatively when asked if they would be willing to pay for an on-line subscription edition of their favorite print publication. Of those that answered “yes,” 89 per cent indicated they would not be willing to pay more than the newsstand price for an on-line version.

Unlike print publishing, editorial and news skills for a near-real time environment became necessary skills for electronic publishing. With continual news updates, reliability and quality of journalism reports became subject to increased time pressure. Accuracy, the elimination of bias, clarity and comprehensiveness in the face of a flood of information became critical for electronic publishing. In addition, new skills of technology, ease of Web site navigation, effective layout for a computer screen, etc., became necessary for Web publishing.

The Wall Street Journal Interactive Edition was expected to attain its break-even point in 1999. Forrester Research estimated the average annual operating costs of content Internet sites of US$893,000 and of transactional sites at US$2.8 million in 1998. For Income Statement information for both Print and Electronic products, see Exhibits 4 and 5. Company-wide financial information is provided in Exhibits 6 and 7.

The electronic publishing division, which included Dow Jones Interactive, provided subscribers with a news library of over 5,000 publications, including a full-text archive of The Wall Street Journal and Dow Jones Newswires as well as roughly 1,200 non-U.S. news sources, and the 50 largest U.S. newspapers and business magazines.

The Internet/Web Publishing Market

Growth in the use of the Internet exploded in the 1990s. It was estimated that in 1998, the number of worldwide Internet users was over 147 million with over 57 million in the United States alone. The number of U.S. households joining the Internet was estimated at 760 per hour in 1999 with nearly 38 per cent of households being reached by the Internet. Nearly 90 per cent of Internet users gathered news and information from the Web's news, information and entertainment sites. In 1996, Pew Research Center estimated that only four per cent of Americans got their news online. This number jumped to nearly 20 per cent in 1999.

It was projected that by 2003, over 55 million professionals, managers and executives would be using the Internet at work. In 1999, over 17 per cent of the online population preferred to receive their financial news online.

Internet penetration by age was concentrated in younger generations by the end of 1998. Fifty-nine per cent of 12- to 17-year-olds used the Internet, with the percentage dropping with each higher age group to 27 per cent of the population aged 55 to 64, and only 14 per cent of the population over age 65. In 1996 the male to female ratio of Internet use was 57 to 43 but by 1998, this ratio had changed to 51 to 49.

The Interactive Journal competed with a variety of business news sources on the Internet, including sites maintained by traditional print competitors such as Business Week, Fortune, The New York Times, and The Financial Times. In addition, it faced competition from non-print competitors such as CNNfn, Bloomberg, on-line brokerage firms, CBS MarketWatch, TheStreet.com and Yahoo and others who received their news from Reuters. Many of these competitors provided news and information on their Web site for free (for example, CNNfn, Yahoo, Bloomberg, and The New York Times). Still others provided limited free information for non-print subscribers and free on-line access to print subscribers (e.g. Fortune and Business Week). Due to the ease of entry into Web publishing, as opposed to print publishing, competition was growing and fluid. One important difference between print competitors and purely on-line competitors had to do with branding. Companies with established brand names outside of the Internet had a cost advantage over competitors that were Internet-born (e.g. Yahoo and Amazon) due to the high costs of marketing new brands.

Print versus Interactive Customers

Since its introduction, the Interactive Journal was not aggressively promoted to current print subscribers of the Wall Street Journal. Partially, this was a result of the difference in customer profiles for the two products.

Print WSJ customers had a higher average age than Interactive Journal customers and were more likely to be retired. Print customers tended to use the Internet more at work than at home, to have a higher total value of investments, were more likely to have a home office, and were more likely to live in the eastern United States. Interactive Journal customers, on the other hand, were more likely to have children at home, to use the Internet at home than at work, to have a lower total value of investments, to use online brokers and other online information, and to travel internationally for business.

Simmons Market Research Bureau reported that of WSJ print readers, 9.3 per cent had completed high school, 8.3 per cent had some college education, 33.57 per cent had graduated from a four-year college or university, and 30.68 per cent had attended graduate school. The subscription base of WSJ was characterized by an average age of 52 with an average household income of US$75,000. The majority of print readers were 35 years old or older (75.7 per cent), with only 24.3 per cent within the 18 to 34 age group. Most print subscribers were male with a male to female ratio of 75 to 25. Nearly 74 per cent of WSJ print subscribers read the paper every day, spending on average 50 minutes per issue. As of 1999, 40 per cent of Interactive Journal subscribers read the edition on a daily basis and 36 per cent reported using the edition a few times a week.

Current Pricing, Promotion and Positioning

Currently, the Interactive Journal is positioned as a supplement, not a substitute for the print edition and is priced accordingly. Non-print subscribers pay $59 per year while print subscribers pay $29 per year. The print edition is priced at $175 per year with newsstand copies for seventy-five cents each. The print pricing compares with other print competitors as follows: Business Week — US$42.95 for 51 issues; Fortune — US$54.55 for 26 issues; Forbes — US$23.97 for 17 issues; USA Today — US$119/year; New York Times — US$208/year for weekly editions only; and Financial Times — US$175/year,[1] although most magazine competitors did offer discount subscription rates.

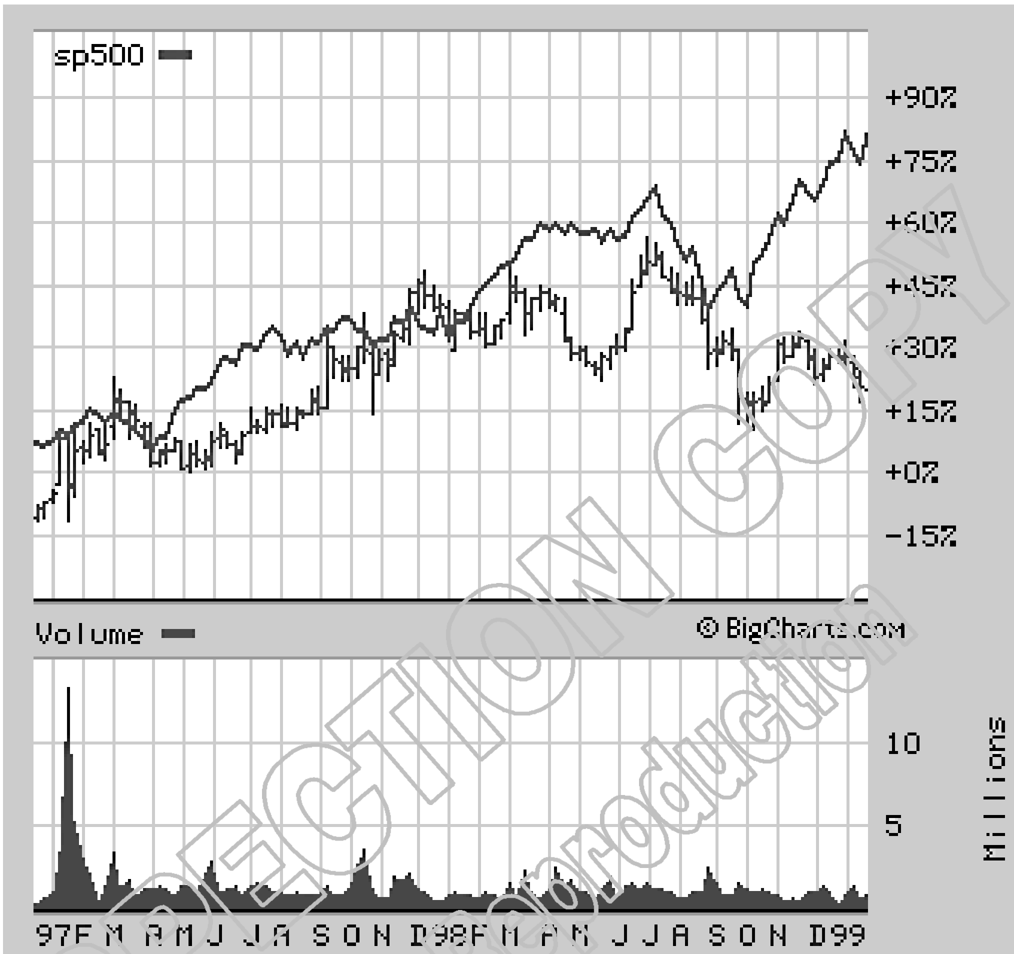
The Challenge

The challenge ahead of Peter Kann was a serious one, but he was no stranger to tensions. His Pulitzer Prize was awarded for coverage of the Indian-Pakistan war. As he looked towards the next month's meeting, which would largely shape the direction of the future for The Wall Street Journal print and interactive, Kann wondered: Would the future mean prosperous co-existence of the two formats or a battle with but one format as the victor?

[1] *This price is the effective price after taking into consideration widespread discounting.*

Exhibit 1

STOCK PERFORMANCE FOR DOW JONES & COMPANY



Source: Interactive Chart – dowjones.htm; October 4, 1999.

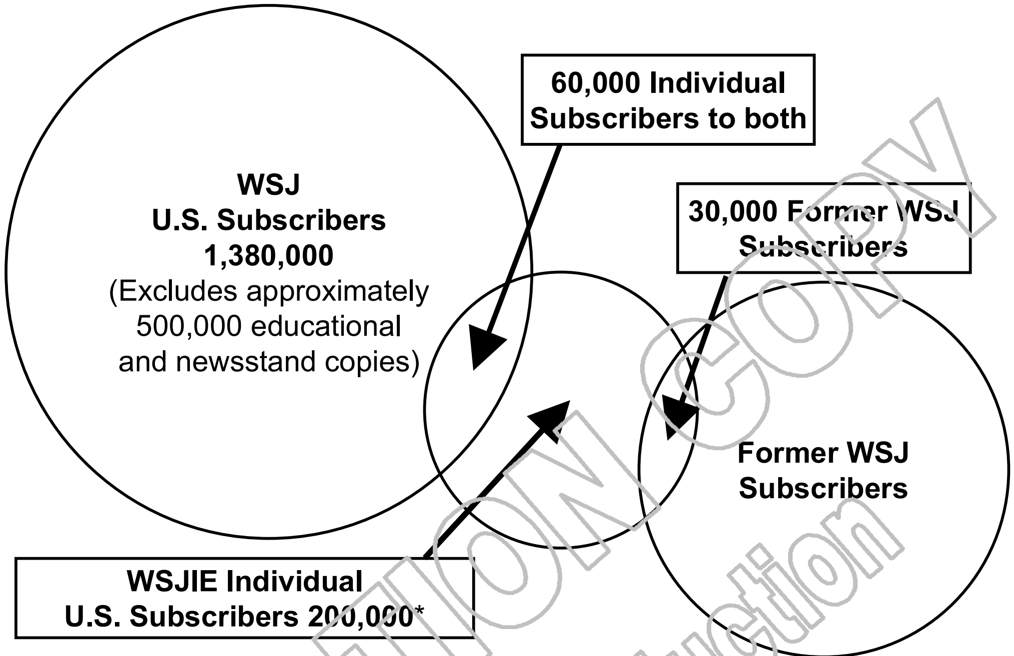
Exhibit 2

PER-SUBSCRIBER REVENUE AND ACQUISITION COSTS

	Print WSJ	Electronic WSJ
1 Year Subscription Non-Print Subscriber	N/A	$59
1 Year Subscription Print Subscriber	$175	$29
Advertising Revenue Per Year Per Subscriber	$500	$40
Average Acquisition Cost New Subscriber	$160	$40
Average Renewal Cost	$5	$5
Renewal Rate	80%	75%

Exhibit 3

**THE WALL STREET JOURNAL
PRINT/ELECTRONIC INTERACTION**



* Excludes corporate and International WSJIE subscribers

Exhibit 4

PRINT PUBLISHING PRIMARILY THE WALL STREET JOURNAL
($ Millions)

	1997	1998
Revenue:		
Advertising	$790	$777
Circ. & Other	$353	$360
TOTAL	$1,143	$1,137
Operating Expenses	$896	$931
Operating Income	$247	$174

Exhibit 5

ELECTRONIC PRODUCTS
DOW JONES INTERACTIVE
DOW JONES NEWSWIRES
THE WALL STREET JOURNAL INTERACTIVE EDITION
($ MILLIONS)

	1997	1998
Revenue:		
Dow Jones Newswires/Indexes	$204	$220
Interactive Publlishing	$159	$172
TOTAL	$363	$393
Operating Expenses	$302	$315
Operating Income	$61	$78

Exhibit 6

FINANCIAL HIGHLIGHTS

Income Statement Results

(in thousands except per share amounts)	1998	1997	% INCREASE (DECREASE)
CONSOLIDATED			
Revenues	$2,158,106	$2,572,518	(16.1)
Operating Income (Loss)	218,573	(741,974	-
EBITDA[1]	437,127	510,023	(14.3)
Net Income (Loss)	8,362	(802,132)	-
Net Income (Loss) Per Share – Diluted	.09	(8.36)	-
EXCLUDING SPECIAL ITEMS [2]			
Revenues	1,872,204	1,776,238	5.4
Operating Income	327,915	335,955	(2.4)
EBITDA	416,456	454,071	(8.3)
Net Income	185,039	185,707	(0.4)
Net Income Per Share – Diluted	1.92	1.92	

Financial Position and Cash Flows

(in thousands except per share amounts)	1998	1997	% INCREASE (DECREASE)
Long-Term Debt, Including Current Portion	$ 149,889	$ 234,124	(36.0)
Stockholders' Equity	509,340	780,822	(34.8)
Capital Expenditures	225,834	347,797	(35.1)
Cash From Operations	306,226	459,763	(33.4)
Purchase of Treasury Stock, Net of Put Premiums	291,215		-

Revenues and Operating Income (Loss) by Segment

(in thousands except per share amounts)	1998	1997	% INCREASE (DECREASE)
REVENUES			
Print Publishing	$1,161,939	$1,143,395	1.6
Electronic Publishing [3]	393,178	363,232	8.2
Community Newspapers	317,087	300,611	5.5
Segment Revenues	1,872,204	1,807,238	3.6
Divested/Joint Ventured Operations:			
Print and Television Operations		21,091	-
Telerate	285,902	744,189	(61.6)
Consolidated Revenues	$2,158,106	$2,572,518	(16.1)
OPERATING INCOME (LOSS)[4]			
Print Publishing	$ 173,582	$ 247,191	(29.8)
Electronic Publishing	56,060	61,089	(8.2)
Community Newspapers	44,760	50,584	(11.5)
Corporate	(22,602)	(18,189)	(24.3)
Segment Operating Income	251,800	340,675	(26.1)
Divested/Joint Ventured Operations:			
Print and Televisions Operations		(18,239)	-
Telerate	(33,227)	(1,064,410)	96.9
Consolidated Operating Income (Loss)	$ 218,573	$ (741,974)	-

[1] EBITDA is computed as operating income (loss) excluding depreciation and amortization and restructuring costs.
[2] Consolidated excluding Telerate operations and loss on its sale, and other special charges/gains.
[3] 1997 revenue includes $31 million of one-time index licensing fees.
[4] excluding restructuring charges,, segment operating income was as follows (000's):

	1998	1997
Pring Publishing	$223,496	$251,903
Electronic Publishing	65,921	78,138
Community Newspapers	61,100	50,584
Corporate	(22,602)	(18,189)
	$327,915	$362,436

Exhibit 7

FIVE-YEAR FINANCIAL SUMMARY

(in thousands except per share amounts)	1998	1997	1996	1995	1994
REVENUES					
Advertising	$1,031,210	$1,011,864	$ 896,981	$ 771,779	$ 724,990
Information Services	670,441	1,101,696	1,125,625	1,092,002	976,800
Circulation and Other	456,455	458,958	458,986	419,980	389,187
TOTAL Revenues	2,158,106	2,572,518	2,481,592	2,283,761	2,090,977
EXPENSES					
News, Operations and Development	677,381	899,868	820,564	748,945	642,184
Selling, Administrative and General	762,803	895,707	831,270	764,161	681,244
Newsprint	163,146	152,478	164,766	157,047	107,178
Second Class Postage and Carrier Delivery	117,649	114,442	110,256	103,497	96,751
Depreciation and Amortization	142,439	250,734	217,756	206,070	205,303
Restructuring	76,115	1,001,263			
Operating Expenses	1,939,533	3,314,492	2,144,612	1,979,720	1,732,660
Operating Income (Loss)	218,573	(714,974)	336,980	304,041	358,317
OTHER INCOME (DEDUCTIONS)					
Investment Income	12,266	3,473	4,249	5,379	4,884
Interest Expense	(7,193)	(19,367)	(18,755)	(18,345)	(16,858)
Equity in Losses of Associated Companies	(21,653)	(49,311)	(5,408)	14,193	(5,434)
(Loss) Gain on Disposition of Businesses & Investments	(126,085)	52,595	14,315	13,557	3,097
Other, Net	(4,250)	(9,300)	(121)	4,075	(5,981)
Income (Loss) Before Income Taxes & Minority Interests	71,658	(763,884)	331,260	322,900	338,025
Income Taxes	63,083	37,796	147,728	139,878	157,632
Income (Loss) Before Minority Interests	8,575	(801,680)	183,532	183,022	180,393
Minority Interests in (Earnings) Losses of Subsidiaries	(213)	(452)	6,437	6,550	787
Income (Loss) Before Cumulative Effect of Accounting Changes	8,362	(802,132)	189,969	189,572	181,180
Cumulative Effect of Accounting Changes					(3,007)
NET INCOME (LOSS)	$ 8,362	$ (802,132)	$ 189,969	189,572	178,173
PER SHARE Basic					
Income (Loss) Before Cumulative Effect of Accounting Changes	$ .09	$ (8.36)	$ 1.96	$ 1.96	$ 1.83
Net Income (Loss)	.09	(8.36)	1.96	1.96	1.80
PER SHARE Diluted					
Income (Loss) Before Cumulative Effect of Accounting Changes	.09	(8.36)	1.95	1.94	1.82
Net Income (Loss)	.09	(8.36)	1.96	1.94	1.79
Weighted-Average Shares Outstanding ('000's):					
Basic	95,180	95,993	96,703	96,907	99,002
Diluted	96,404	95,993	97,371	97,675	99,662
Dividends	$ .96	$ .96	$ .96	$ .92	$ 84
OTHER DATA					
Long-term debt, including Current Portion, as a % of Total Capital	22.7%	23.1%	17.0%	13.9%	16.9%
Newsprint Consumption (Metric Tons)	278,000	270,000	252,000	224,000	221,000
Number of Full Time Employees at Year End	8,253	12,309	11,844	11,232	10,265
Cash From Operations	306,226	459,763	405,157	371,887	403,142
Capital Expenditures	225,834	347,797	232,178	218,765	222,434
Cash Dividends	91,662	92,116	92,969	89,131	83,360
Total Assets	1,491,322	1,919,734	2,759,631	2,598,700	2,445,766
Long-term Debt, Including Current Portion	149,889	234,124	337,618	259,253	300,870
Stockholders' Equity	509,340	780,822	1,643,993	1,601,751	1,481,611