

Amazon Foiled Middelhoff's Plans

Ousted Bertelsmann CEO Failed to Turn Company Into E-Commerce Leader

By DAVID PRINGLE

Amazon.com Inc. was a nagging thorn in the side of Thomas Middelhoff, the former chief executive of Bertelsmann AG. Mr. Middelhoff, ousted from Bertelsmann Sunday, spent hundreds of millions of euros to turn the German media company into an electronic-commerce behemoth, but even in Europe it still trails far behind U.S.-based Amazon.

"Amazon is by far the dominant player in Europe," says Rebecca Ulph, an analyst with Forrester Research in London. Ms. Ulph says that Bertelsmann's decision to merge its flagship electronic-commerce business BOL.com into its book-club operations in May 2001 was a sign that it was struggling to compete head on with Amazon. "BOL never really established traction against Amazon," she says.

In the U.K. market, for example, French research firm NetValue ranks BOL the seventh most visited books and music site, while Amazon's U.K. site is No. 1 and Amazon.com is No. 2.

Rocco Thiede, a spokesman for Bertelsmann, says that Amazon's aggressive international expansion in the late 1990s secured it a significant head start, but he

adds that BOL has a strong position in some European countries. "In the Netherlands, we are No. 1 and in Germany we are a very good No. 2," he says.

Bertelsmann also owns a 36% stake in U.S. online book retailer Barnes & Noble.com, a joint venture with Barnes & Noble Inc., which is the No. 2 online book retailer in the U.S. behind Amazon. Before sealing the joint venture with Barnes & Noble in 1998, Mr. Middelhoff came close to bidding for Amazon itself, holding several meetings with the U.S. company's CEO Jeff Bezos.

Mr. Middelhoff was playing catch-up. By the time Bertelsmann launched BOL in 1999, Amazon had already set up sites in the U.K. and Germany, while its U.S. site was serving thousands of customers in Europe. BOL tried to close the gap by quickly setting up local sites across Europe.

In late 2000, BOL even opened a site in China, and in the 12 months to June 30, 2001, BOL's sales nearly tripled to almost €100 million, while its customer base more than doubled to 2.5 million. But this rapid expansion program proved very expensive. BOL wasn't making a profit and Bertelsmann's accounts show it spent about €500 million building up its electronic-commerce businesses during the year to June 30, 2001.

Amazon also spent heavily to turn Europeans into loyal customers, investing in computer systems that track shoppers' buying patterns and then suggest more books they would like. "They are the

benchmark for sophisticated marketing capabilities," says Patricia Luer, an analyst with Jupiter Communications in Munich.

In May 2001, Bertelsmann's board mounted a partial retreat, closing BOL's sites in Denmark, Norway and later France. It also decided to merge BOL and its other electronic-commerce sites, such as CDnow in the U.S., with the book-clubs businesses in Bertelsmann's DirectGroup division. In doing so, Bertelsmann hoped to service book-club members cheaply online and attract more customers to BOL.

In the six months to Dec. 31, 2001, the DirectGroup had an operating loss of €40 million on revenue of €1.5 billion. Bertelsmann didn't provide figures for BOL but said that its performance was "encouraging." The company said the restructuring had helped reduce the "start-up losses" related to its electronic-commerce activities to €127 million for the six-month period.

Bertelsmann's Mr. Thiede said the new division is exceeding its internal targets, but BOL still isn't expected to turn a profit until either 2003 or 2004. In the U.K., figures from NetValue show that the number of people visiting BOL.com was 26% higher in June 2002 than in June 2001, while Amazon's sites notched up an increase of only 13%. But in absolute terms, BOL has a huge amount of ground to make up. Amazon's sites attracted more than three million U.K. visitors in June, compared with 334,000 users for BOL, NetValue reports.