
Coping With Disruption



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How boards of incumbent companies can safeguard value creation when launching new businesses.

The past two decades have seen many industries shaken to the core by a series of digital disruptions. This started with the advent of the internet, followed by the rise of social media, smartphones and now the shockwave of generative AI (GenAI). Industries such as media, advertising, mobility, tourism and telecommunications look fundamentally different today than even just five years ago. While management pulls out all the stops to stay on top of this upheaval the challenge for the board is to take a macro perspective and ensure that even in the heat of the fight, resources are allocated wisely and the boundary conditions for success are in place.

The technology, media and telecom (TMT) sector is a case in point. One of the first industries to face digital disruption, it offers multiple cases of both successes and failures as organisations looked to pivot to confront the new challenges presented by these fast-paced changes. What can industries take from these examples and what lessons can boards learn as they steer their organisations through the next disruption?

The Schibsted story

One firm that was able to grasp the opportunities presented by disruption was Schibsted. Like many media companies, the 180-year-old Norwegian group was hugely impacted by the rise of the internet in the late 1990s. Now, 20 years on, it has managed to pull off a digital transformation and become a world leader in the field of online classifieds.

Schibsted's online classifieds journey began as the dot-com bubble burst. When most media companies minimised their investments in the internet, Schibsted did the opposite and launched the online classifieds portal FINN.no (Norwegian for "find"), setting it up to cannibalise its profitable newspaper classifieds. The initial years were tough, but as the online classifieds market finally picked up, FINN.no came out as the clear leader in a winner-takes-all market. Buoyed by the success of FINN.no, Schibsted implemented a strategy of aggressive international expansion across Europe, Latin America and Asia through a combination of organic growth (e.g. Le Bon Coin in France), acquisitions (e.g. the C2C portal Blocket in Sweden) and partnerships (e.g. Telenor in Asia and Prosus in Brazil).

In 2018, the company spun off its international classifieds business into a separate entity called Adevinta. Three years later, Adevinta acquired eBay Classifieds, setting it on a path to become the global leader in classifieds with a market capitalisation of over €12 billion, reaching around one billion people worldwide.

Lessons for boards

Although the success of the Schibsted story was mostly driven by management, the board also played an important role on several fronts. It selected and appointed forward-looking managers, it knew when to support management in difficult times and, critically, it scrutinised but ultimately supported bold strategic moves.

What can other boards learn by comparing the Schibsted experience to less successful digital adventures in the TMT industry? How can a board separate

the wheat from the chaff when new business initiatives are being proposed? There are several critical questions boards should ask the management and themselves when deciding whether to launch new businesses in the digital world.

1. Are we talking about a storm or a climate change?

Most media companies became disenchanted when the dot-com bubble burst in the early 2000s. However, this turned out to be just a passing storm. Schibsted was able to recognise the underlying digitalisation of media as a lasting and fundamental transformation – a climate change – and was one of the few companies to keep investing. This gave them a head start over their competitors.

2. Do we have the timing right - are we early enough and not too early?

Growing your own new business takes time. When you are late to the game, as German media conglomerate Bertelsmann found with its launch of the online bookstore Bol.com, you will not be able to catch up, especially in a winner-takes-all digital world. But being first is also more difficult and more controversial and will require stamina. And if you are too early, as Hong Kong Telecom was with its iTV portal, the technology will still be too clunky, and demand will not take off. Schibsted struck gold with its bet on digital classifieds by being fearless in exploiting a technology that was here to stay, when others were too scared to take the leap.

3. Do we have the agility to win?

The digital world is even more relentless and cutthroat than the analogue world, and only the very best offerings will grow and achieve the network effects. Myspace, although launched earlier than Facebook, lost out because the company was unable to keep pace with Facebook's quality.

From the beginning, Schibsted's online classifieds business was set up as a separate unit, allowing them to embrace a steep learning curve and continuously improve performance. Agility, however, not only applies to launching new digital businesses but also the ability to pivot traditional businesses to new business models, even if that means losing revenues in the short term.

Schibsted repeatedly did exactly that. Besides gambling its dominant position in traditional classifieds on a move into the online marketplace, it also transformed its newspaper distribution network into Norway's leading e-commerce delivery service Helthjem (Norwegian for "all the way home") in the early 2010s. On the media front, it convinced readers to move from more advertising-driven traditional newspapers to a subscription-driven online model. Additionally, Schibsted pivoted radically to being mobile-first leveraging the rise of smartphone use.

4. Are we open enough to partnerships?

When growing new businesses, management is often inclined to stay in control, either by launching new businesses organically or by fully acquiring another business. However, in the scale-up phase, when significant resources are needed and the necessary skills might not be obtainable, strategic partnerships might be a better way to ensure the required speed of growth. Schibsted's partnerships with Telenor in Asia and Prosus in Brazil in the case of classifieds, and with other newspaper publishers in the case of Helthjem, were ultimately crucial for its long-term success.

5. Are we aligned around our risk appetite?

Building new businesses will inevitably mean going through ups and downs and weathering tough times, be it the cannibalisation of the core business or significant upfront investments. On the other hand, there may be a resistance to pull the plug on a project when necessary because there are significant sunk costs.

Going through these cycles is only possible when management, employees, the board and key shareholders have enough mutual trust to stick it out and are aligned on the risks they are willing to take. From the early days of FINN.no to the bold acquisition of eBay Classifieds, Schibsted's board and Schibsted's key shareholder, the Tinius Trust, consistently but critically supported a bold course. This occurred even in the face of some failures, such as Sesam, the short-lived Scandinavian search engine that was shut down after just four years.

6. Are we set up right for execution?

Boards rightly tend to focus on the strategic decisions and leave the execution to the management team. At the same time, execution and the ability to carry through are key to long-term success. At Schibsted, execution has always been seen as the ultimate key to success. The failure of Bol.com was to a major extent due to an inability to execute at pace and at the right level of quality. The role of any board is to ensure that sufficient attention is paid not just to the set-up of the execution but also to the follow through of that execution.

Setting boundaries

In times of digital disruption, where the core business of an incumbent company is severely challenged, launching new businesses often seems the only way out to ensure future profitable growth. A historic look at the media industry, and especially Schibsted, shows that this is indeed possible, but that significant value can also be destroyed when the right questions are not asked.

While it is the role of the management to do its level best to make the new business a success, it's the role of the board to ensure that the right boundary conditions are in place to support the management in this journey. By frequently asking the right questions and not being afraid to act, the chance of launching successful new digital businesses will grow significantly.

Find article at

<https://knowledge.insead.edu/leadership-organisations/coping-disruption>

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