ENCYCLOPAEDIA BRITANNICA

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Abstract

For over 200 years, the Encyclopaedia Britannica has been the standard against which all other English language encyclopaedias were measured. In the early 1990’s, Bill Gates, CEO of Microsoft, extended an offer to Encyclopaedia Britannica to form a partnership in providing the content for a CD-ROM based encyclopaedia. Britannica, however, stubbornly resisted the offer, failing to recognise the potential and business opportunities it presented. Encyclopaedia Britannica failed to respond to market changes and customer preferences. By 1996, the company was in deep trouble and had to be bailed out by a Swiss Investor. This case highlights environmental changes and missed opportunities. A detailed Teaching Note is available from the author.

KEY WORDS: Encyclopaedia, Encyclopaedia Britannica, CD-ROM, Microsoft Encarta

HISTORY

For over 200 years, Encyclopaedia Britannica has been the standard against which all other English language encyclopaedias were measured. Encyclopaedia Britannica originated in Edinburgh, Scotland, when engraver Andrew Bell, printer Colin Macfarquhar, and editor William Smellie became convinced that the English-speaking world would welcome a substantial reference work along the lines of the French Encyclopaedia, which had been published in 1751. The editors released the first edition of the Britannica between 1768 and 1771. The work sold well and subsequent editions were issued on a regular basis. In 1920, Sears, Roebuck and Co. purchased the company and had its headquarters moved to Chicago. In 1941 William Benton who upon his death willed it to the Benton foundation purchased it. By 1990 the company hit an all time sales high of US$650 million for the year and employed a sales force of 2,300 in the United States [Korte, 1999].

AN OFFER FROM MICROSOFT

In the early 1990’s, having assessed the new consumer demand for digital information, Bill Gates, CEO of Microsoft, extended an offer to Encyclopaedia Britannica to form a partnership to provide the content for a CD-ROM based encyclopaedia. Britannica, however, stubbornly resisted the offer, failing to recognise the potential and business opportunities it presented. Microsoft went ahead on its own to launch its CD-ROM encyclopaedia, Encarta, and was followed by other competitors such as Grolier and Funk and Wagnalls who moved quickly to offer CD-ROM versions of their encyclopaedias.

With the arrival of low-cost CD-ROM encyclopaedias, that take up no shelf-space and were given away with computers or sold separately for US$99 to US$395, Britannica sales began to drop dramatically. In 1990, a complete set of the Encyclopaedia Britannica retailed for AUD$2000 and consumed approximately two metres of shelf space to store. For roughly the same price, a family could purchase a personal home computer, which came bundled with a CD-ROM version of Encyclopaedia Encarta. Bill Gate’s product strategy turned out to be highly successful – although consumers received
the initial version free, with improved versions launched each year, there was considerable incentive to purchase new, updated Encarta versions. In addition, the CD-ROM was comparatively simpler and more convenient to use than text-based encyclopaedias. It, therefore, became increasingly difficult for Britannica to compete.

At a time when many families considered the purchase of a personal computer a necessary educational investment for their children, opting for the comparably priced Britannica began to seem a hopelessly old-fashioned alternative. Aspiring middle-class families, Britannica's best potential customers, wanted the latest features that technology could deliver. The personal computer thus became Britannica's competitor. Not only were CD-ROM encyclopaedias available, but also search engines such as Yahoo and Altavista offered convenient access to large amounts of information. Sales plummeted from 117,000 sets in 1990 to 51,000 in 1994, as the text-version of the product moved into the major decline phase [Morse, 1994]. By 1996, Britannica had watched its US sales dwindle to only 17 per cent of their 1990 level [Meda Intelligence Bulletin, 1997].

**CAUSES FOR BUSINESS DOWNTURN**

**ATTITUDE OF MANAGEMENT**

Encyclopaedia Britannica failed to respond to changes in market requirements and customer preferences. The reluctance of the Encyclopaedia Britannica, Inc. to embrace technology resided at the top of the corporate structure [Auchter, 1999]. An October 20th 1997 article in Business Week claimed the company was run by an 'ossified management culture' that had 'repeatedly botched its new product development.'

Britannica's top management assumed that, because Encarta was not much more than a child’s toy from the standpoint of scholarly value, it was not to be taken seriously [Murtagh, 2000]. Although this may have been the case initially, Microsoft, improving on information content and graphics, including animated clips and multimedia features, launched new versions of Encarta every year. Britannica could not comprehend that the definition of its industry had changed. In 1985, Britannica's director of public relations was quoted as saying, 'The Encyclopaedia Britannica has no plans to be on a home computer and since the home market is so small - only 4 to 5 per cent of households have home computers – we would not want to hurt our traditional way of selling' [Tarzan, 1985]. The traditional way of selling was a reference to Britannica's team of trained sales personnel. As the people who were responsible for selling the vast majority of the encyclopaedias through home sales, the 2,000 strong US sales force held a great amount of influence on the corporate culture at Britannica's Chicago headquarters. Earning a commission of US$300 per sale, they were fiercely resistant to an electronic version that would retail for a fraction of the price of the bound volumes [Melcher, 1997]. Rigid corporate concerns, rather than idealistic visions, were driving the Britannica.

**HIGH PRICE**

Traditionally, the company operated only on sales leads. The enormous marketing expense the company incurred to generate those leads, such as paying to have promotional materials included with credit card billings, contributed heavily to its demise. Few prospects became customers and even successful sales were slow to develop, since sales people needed an average of four 60-to-90 minute visits. In addition, hefty commissions – some top sales people earned six figure salaries every year – and a sizeable infrastructure, kept prices high and uncompetitive in the new economy age. The consumer was almost an afterthought as all resources were devoted to servicing the salespeople [Borden, 1996].

**FAILURE TO RECOGNISE MARKET POTENTIAL**

Speculation for Britannica’s slow entry into the electronic age has also focused on the ill-advised sale of the company’s Compton unit in 1993 [Auchter, 1999]. Compton had served as a lower-end encyclopaedia set to round out Britannica's product line. In the late 1980s, the company had begun to explore the possibilities of electronic text and had launched this venture with the smaller, less complex
Comptons. When the Compton’s CD encyclopaedia debuted in 1989, it was an immediate hit. However, another electronic encyclopedia, Grolier’s, entered the market in the early 1990s, and the success of these electronic encyclopaedias dealt a blow to Britannica’s sales. Short of cash, Britannica made the questionable decision to sell Compton’s to the Chicago Tribune for US$57 million. Thus, although the 200 year-old company had seen the new CD-ROM technology coming its way, and even experimented with it for some time in its Comptons unit, it did not recognise its potential and importance in the marketplace. This was despite the fact that approximately seven million US households had computers with CD-ROM drives by that time [Cravens et al., 2000]. As stated by Tim Pethick, previously Encyclopaedia Britannica’s Australian managing director, ‘we were clinging tenaciously to the fact that we publish books. We had not really considered ourselves as electronic publishers or providers of information’ [Banaghan, 1997]. Management’s ‘myopic’ view had led it to focus on solving short-term problems without considering the longer-term implications of those decisions.

The company then further blundered when it apparently promised the Tribune not to publish an electronic version of the Encyclopaedia Britannica for two years [Samuels, 1994]. The company had effectively locked itself into a product that was expensive to produce, with a direct sales force that needed its commissions. In contrast to US$250 in production costs plus hundreds in salesperson’s commission incurred by Britannica, the CD-ROM encyclopaedia cost just US$1.50 per copy to produce [Murtagh, 2000].

OUTCOMES

DISMISSAL OF STAFF

Changes in consumer trends were making it ever more difficult for the sales force to do its job. As increasing numbers of women went to work and families became busier than ever, finding both spouses at home became rare [Corman, 1996]. Also, as the fear of crime increased, prospects were less willing to invite strangers into their homes. As a result, Britannica’s traditional business design built on a large sales force became unproductive and obsolete.

In 1996, the Swiss investor Jacob Safra, bailed out the flagging company for US$135 million. With the takeover came some immediate and major marketing changes: the layoff of over 600 door-to-door salespeople worldwide, a major internal reorganisation, and a complete re-evaluation of the role digital technology was to play in the company’s future product development [Nelson, 1998]. As part of the restructuring, aimed at reducing the cost of the sales force, 70 of 90 regional offices in the US were closed, commissions were cut, marketing was scaled back and recruiting and training were abandoned [Corman, 1996]. In Australia, the staff peak of 450 in 1991, already reduced to 240, was further cut to 15 in 1997 [Business Review Weekly, 1997]. Door-to-door sales ceased in 1996. In comparison to its early 1990’s staff of 7000 worldwide, analysts put its sales force at around 400 in 1999 [Australian Financial Review, 1999].

ENTRY INTO THE ELECTRONIC MARKET

The first CD-ROM version of the Encyclopaedia Britannica was finally produced in 1994. Priced at AUD$1,198, it was four or five times more expensive than its major competitor, Microsoft Encarta. If judged strictly by textual content, the Britannica was clearly the intellectual superior to all its competitors. However, with new and improved versions available every year, Encarta has increasingly encroached on Britannica’s advantage. In an era where no-cost or low-cost electronic CD-ROMs were widely available, convincing the consumer to pay over a thousand dollars for the Britannica continued to be a tough sell.

CURRENT OUTLOOK

Encyclopaedia Britannica is now on the offensive and fighting back. The company has fired the direct sales organisation in favour of direct marketing-based techniques. With the advent of the ‘dot com’ revolution, Britannica has made the switch to free access in hopes of making revenue through advertising and other related features. Unfortunately, the company was a little late on this trend and only months after...
turning its website into a free service many internet related companies were caught up in a market downturn [Anonymous, 2000].

In October 1998, Britannica decided to take things a step further, putting the entire 32 volumes on the Internet for free. ‘It’s the new business paradigm: information wants to be free’, said Tony Burrett, www.britannica.com.au director of marketing and alliances. The company has also aggressively pursued other opportunities offered by the Web. The latest version of their Web directory is called eBLAST, Britannica’s web navigation service. Britannica’s CD-ROM now sells for around AUD$190. In book form, the encyclopaedia accounts for less than around 10% of sales in Australia [Attwood, 1997].

**DISCUSSION QUESTIONS**

1. What are the factors that lead to the decline of Encyclopaedia Britannica?
2. Explain the ways that Britannica failed to track major changes in its environment in the late 1980’s and early 1990’s.
3. Evaluate and compare both Britannica’s and Encarta’s product and pricing strategy.
4. Explain the myopic views of management at Britannica with regards to the selling of Comptons and the other mistakes that they made.
5. Explain how the product life cycle theory can be applied to Encyclopaedia Britannica.
6. What marketing strategies would you adopt for Britannica against your competitors, especially Microsoft?

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