## Lost in Cyberspace

While most of Bertelsmann's traditional media operations have been profitable, its efforts to expand into e-commerce have lost millions while its music business is struggling to return to the black.

**RTL GROUP** Television and radio content and broadcasting, mostly in Europe.

**DIRECTGROUP** Direct marketing including book clubs and e-commerce.

**BMG** Music recording and distribution.

**GRUNER + JAHR** Magazine and newspaper publishing.

**ARVATO** Media services including printing, network services and consulting.

**RANDOM HOUSE** Book publishing.

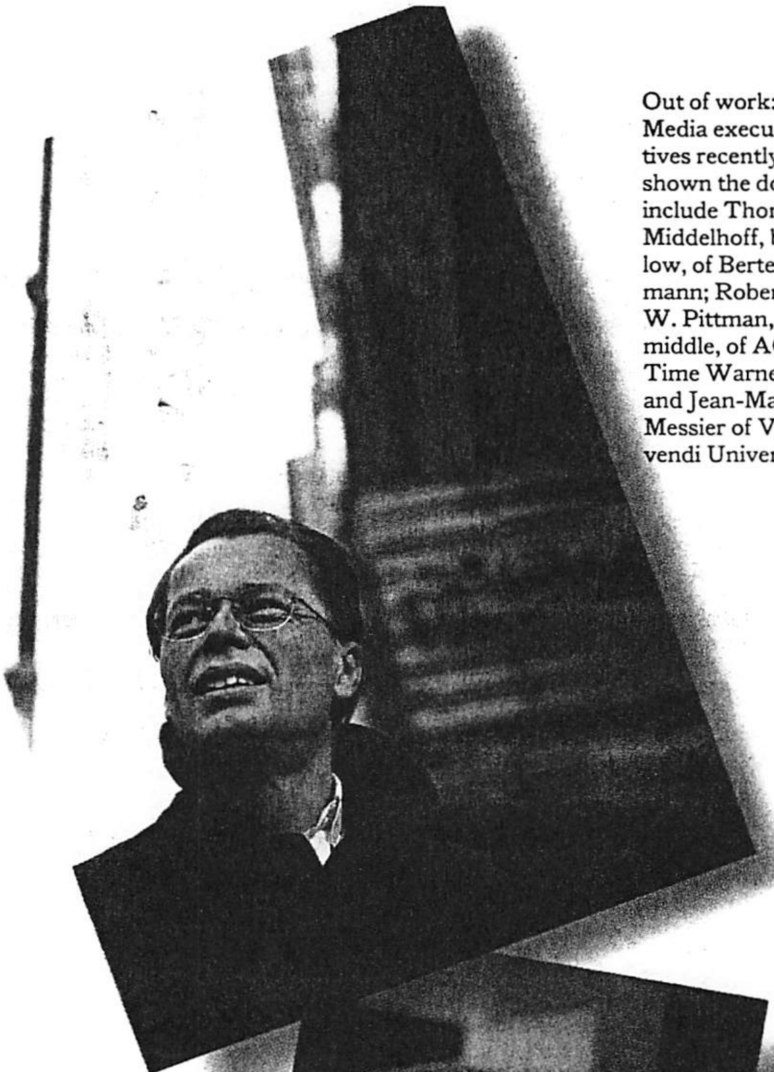
**BERTELSMANNSPRINGER** Specialty publishing in fields like science and business.

| | 2001 revenue, in billions | Percentage of total revenue | Net income, in millions '00 | Net income, in millions '01 |
|---|---|---|---|---|
| RTL GROUP | $3.46 | 20% | +$340.0 | +$455.9 |
| DIRECTGROUP | $3.20 | 19% | –$49.5 | –$45.0 |
| BMG | $3.11 | 18% | +$212.4 | –$5.1 |
| GRUNER + JAHR | $2.57 | 15% | +$365.8 | +$249.6 |
| ARVATO | $2.54 | 15% | +$165.7 | +$158.8 |
| RANDOM HOUSE | $1.76 | 10% | +$90.5 | +$152.8 |
| BERTELSMANNSPRINGER | $0.64 | 4% | +$61.0 | +$57.7 |

Notes: Data for fiscal years ended in June and converted from euros each year. Figures do not equal totals for the company because of accounting after consolidation.

*Source: Company reports*

The New York Times



Out of work: Media executives recently shown the door include Thomas Middelhoff, below, of Bertelsmann; Robert W. Pittman, middle, of AOL Time Warner; and Jean-Marie Messier of Vivendi Universal.

Jeffrey A. Salter/The New York Times (top photograph); Reuters (middle); and Chester Higgins Jr./The New York Times (bottom)

# The Fraternity Of Corporate Exiles: Europe Executives Undone

## Global Ambition Failed to Defer to German Caution

By MARK LANDLER

FRANKFURT, July 29 — It was one of Thomas Middelhoff's standard replies, delivered to anybody who questioned how **Bertelsmann**, a 167-year-old printing company based in the sleepy German burg of Gütersloh, could become an Internet-driven global media empire.

"We are not a German company," Mr. Middelhoff would say in fluent but accented English. "We are an international company."

Mr. Middelhoff was only half-right. Bertelsmann is certainly international, with a portfolio of assets that includes the book publisher Random House and the Bertelsmann Music Group. But it is also resolutely German, steeped in a culture of caution that is often at odds with the fickle promises of new technology.

Mr. Middelhoff learned that truth on Sunday, when Bertelsmann's board dismissed him as chairman and chief executive. People at the company said the executive, who is 49, clashed with the family that controls Bertelsmann over his aggressive — critics said headlong — plans to remake the old-line media company as a new-era media machine. And after seeing stock prices fall, the controlling family turned against Mr. Middelhoff's plan to issue public shares in Bertelsmann.

"When he stepped on the gas, he forgot about taking the employees along," said Erich Ruppik, a member of Bertelsmann's board, who represents the company's 31,370 workers in Germany. "You have to go to the trouble of convincing the employees of the necessity of the changes."

Mr. Middelhoff gained much of his credibility through Bertelsmann's dual investment in AOL and its AOL Europe venture. Bertelsmann acquired 5 percent of AOL for

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**A SEASONED, SAFER STEWARD AT THE HELM**

*Gunter Thielen's appointment at Bertelsmann follows a pattern of replacing visionaries with seasoned stewards. Page C5.*

THE NEW YORK TIMES, TUESDAY, JULY 30, 2002

THE CULTURE

# A Fraternity of Outcasts: Europe Executives Undone


Associated Press

In 2000, Bertelsmann championed an embattled Napster. At a New York deal briefing, from left, Hank Barry, Napster's chief; Andreas Schmidt, president of the Bertelsmann eCommerce Group; Thomas Middelhoff, Bertelsmann's chief executive; and Shawn Fanning, Napster's founder.

*Continued From First Business Page*

$50 million, a stake that grew in value to $1.4 billion. He later sold Bertelsmann's share of the European joint venture back to **AOL Time Warner** for $8 billion, at the peak of Internet fervor.

But his subsequent leaps into cyberspace were more often costly and distracting, according to current and former executives. Late in 2000, Mr. Middelhoff championed **Napster**, the online file-sharing service that had been vilified by the music industry as a pirates' playground. His move was hailed as a bold gamble, but no other music company joined his particular campaign to develop the Internet as a distribution channel for recorded music.

Napster never recovered from the legal assault of the record industry, while Mr. Middelhoff's campaign opened fissures within Bertelsmann, contributing to an exodus of top executives from its music division, BMG. "If you focus so much on this new world, it can have a huge effect on ordinary employees who work on the day-to-day business," a former Bertelsmann executive said.

Mr. Middelhoff joins Jean-Marie Messier of **Vivendi Universal** in the club of Western-focused, technology-dazzled European media moguls who have been brought down by resistance at home.

But they are the not the only media executives to have lost their jobs because of angry shareholders or unfulfilled promises. In the United States, AOL Time Warner recently ousted its chief operating officer, Robert W. Pittman, and many of the company's investors are now calling for the head of Stephen M. Case, the company's chairman.

***Dazzled by technology, but less sensitive to owners and employees.***

But what makes the European boardroom turmoil different is the cultural dimension. At a time when American-spawned capitalism is awash in corporate scandals, Bertelsmann and Vivendi are not simply rejecting their chief executives. They are rejecting a way of doing business — the American way.

"Those who never liked U.S.-style shareholder capitalism are having a field day, especially given Enron and WorldCom," said Josef Joffe, editor in chief of Die Zeit, an influential German paper. "It is so much easier to focus resentment against those who eschewed stodgy Gütersloh in favor of Park Avenue and Sun Valley."

Like Mr. Messier, Mr. Middelhoff spent much of his time in New York and gossiped with fellow moguls at Allen & Company's annual media conference in Sun Valley, Idaho. Describing himself as an American with a German passport, he made English the official language of business at Bertelsmann.

While Mr. Middelhoff did not have Mr. Messier's baronial lifestyle or his penchant for grand pronouncements, they saw each other as fellow travelers. Their two families even vacationed together.

As he became better known, according to several current and former executives, Mr. Middelhoff became a threatening figure to the old guard at Bertelsmann. He pushed for a stock offering that would have diluted the stakes of the controlling shareholders, the family of Reinhard Mohn. And asked for more authority than that normally granted to a German chief executive.

The Mohns are descendants of Carl Bertelsmann, who founded the company in 1835 as a publisher of Lutheran hymnals. The family has kept a tight grip on the company through a web of voting and nonvoting shares. It owns 17 percent of

Bertelsmann's shares directly and controls 58 percent more through the powerful Bertelsmann Foundation.

In particular, executives said, Mr. Middelhoff ran afoul of Reinhard Mohn's 60-year-old wife, Liz Mohn. Mrs. Mohn, who is on the board of Bertelsmann and is active in the foundation, has worried about the family's continuing grip on power in view of her husband's age — 81.

Mr. Mohn initially supported a plan developed by Mr. Middelhoff, which could have led to a stock offering by 2005. But Mr. Mohn now apparently has doubts, and an executive at the company said Mrs. Mohn told Mr. Middelhoff on Friday that he had lost the support of the board.

Other executives noted that Bertelsmann might have little say over whether some of its shares go public. Last year, it sold a 25 percent stake to **Groupe Bruxelles Lambert** as part of a swap that gave Bertelsmann control of the European television group RTL. Under the terms of that deal, the Belgian company has the right to sell those shares to the public starting in 2005.

Bertelsmann could try to buy back the stake, but analysts estimate that would cost up to $8 billion. A spokesman for Bertelsmann declined to comment on the role of Mrs. Mohn or on the board's deliberations.

What is clear is that Bertelsmann is likely to curb its appetite for new ventures. Mr. Middelhoff's replacement, Gunter Thielen, runs the company's printing division, its oldest and least glamorous business. People who have worked with Mr. Thielen describe him as a quiet but effective executive. "Thielen looks at every new business from the point of view of whether he can squeeze a profit out of it," one executive said.

Given that outlook, some analysts said they doubted that the new chief executive would rush to revive Napster. Bertelsmann agreed to acquire the assets of the languishing service last May for $8 million.

Some experts said the ouster of Mr. Middelhoff could signal a broader retreat of European media companies from the American market. They note that Vivendi's new management is exploring ways to overhaul the company that could include selling Universal Pictures and its other United States media properties. "They don't want to be American right now, and it's not just the scandals of the last few months," said Porter Bibb, managing director of Technology Partners, an investment advisory firm in New York.

Still, other experts said that a more inward-focused Bertelsmann was not necessarily a bad thing. They said the company needed to focus on improving its operations, which have been depressed by the advertising slowdown, as well as a deep recession in the German book market.

Bertelsmann Music Group has yet to recover from the rudderless period after several of its top executives left the company. It has gained market share recently, but only after a long fallow period.

"They're not facing a disaster like Vivendi, but it's just not adding up," said John Tinker, research director at Blaylock & Partners, an investment firm in New York. "In media, we're going back to a simpler world."

Mr. Middelhoff's place in this world is still a mystery, though few executives think he will be without a job for long. Already, his name has cropped up as a candidate to take the helm of **Deutsche Telekom**, which recently ousted its chief executive, Ron Sommer, and as a possible successor to Mr. Pittman at AOL Time Warner.

For some people here, the moral of Mr. Middelhoff's sudden ouster is that German corporate culture — like the French model at Vivendi — is stronger than any single executive.

"If you are Middelhoff, and you join a company like this, you must know there are certain limits," said Max Dietzsch-Doertenbach, an investment banker who advises family-owned firms in Germany. "I'm sure they did it with a tear in their eye, but Bertelsmann had to say, 'enough is enough.' "