



Encyclopædia Britannica, Inc. (B)

In 1993, EBI responded to Microsoft's entry by:

- Selling its Compton's unit for \$57 million
- Publishing the entire text of Encyclopædia Britannica on a two-CD set, and offering a three-year, two-workstation license to businesses only for \$2,100 per year. (Use required a 1 GB hard drive, which at that time cost \$1,100¹)
- Making no changes in the consumer market

Encarta soon became the best-selling multimedia encyclopedia, despite the fact that Funk & Wagnalls did not have Encyclopædia Britannica's tony reputation. An associate publisher of Encyclopædia Britannica commented, "this is a powerful, adult-level research and retrieval tool to be used in the kind of intensive research applications demanded by publishers, news organizations, and business and government agencies."²

As sales of the Encyclopædia Britannica fell, Encarta appeared to be a distinctive threat. In response, the following year EBI created the Encyclopædia Britannica CD-ROM for the consumer market. The company offered the CD free to consumers who bought the print set (which cost Britannica about \$200-\$300 to produce, compared to \$1.50 for a CD-ROM); however, the company charged \$995 if the customer wanted just the CD.³

Annual sales and revenues of the Encyclopædia Britannica continued to slide, and growth of the Internet only accelerated the decline. Worse, EBI's best salespeople started to leave.

Over the next few years, EBI continued to struggle with its marketing and product mix. Encyclopædia Britannica was available online to university faculty and students in 1994 on a subscription basis⁴ at a price of \$2000 per year.⁵ Well-heeled libraries

¹ James Coates, "The binary beat – Britannica on CD," *Chicago Tribune* (August 8, 1993), 7.

² James Coates, *Ibid.*

³ Philip B. Evans and Thomas S. Wurster, *Harvard Business Review* (September-October 1997), 72.

⁴ "Encyclopædia Britannica," *Publishers Weekly* (February 14, 1994), 14.

⁵ Hal Varian and Robert Shapiro, "Information Rules," *Harvard Business School Press*, 1999.

This case was written by Professor Vijay Govindarajan and Professor Praveen K. Kopallé of the Tuck School of Business at Dartmouth College. The case was based on research sponsored by the William F. Ahtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

were able to afford the price tag, but those of more modest means—as well as families and businesses—opted for the less expensive Microsoft CDs. In 1995 the company offered the Encyclopædia Britannica CD-ROM for around \$200. By 1996 sales of Encyclopædia Britannica had plummeted to \$325 million, about half their 1990 level (see Exhibit 1); over 117,000 hard-cover copies were sold in 1990 versus 55,000 in 1994. The company was in financial trouble by 1996 and a Swiss businessman Jacob Safra acquired the firm for a fraction of its book value.

Discussion Questions

1. How effective was EBI's response to the threat of the digital revolution?
2. What strategy should Jacob Safra follow to get EBI back on track?

Exhibit 1**Estimated Sales of Encyclopædia Britannica⁶**

Year	Estimated Sales (\$ Millions)
1990	650
1991	627
1992	586
1993	540
1994	453
1995	405
1996	325

⁶ Sources: (a) Tom Kelly, "The Britannica," *The San Francisco Examiner* (June 17, 1995), A15. (b) Mark Lander, "Britannica is for sale," *The New York Times* (May 16, 1995), 1. (c) *Economist* (February 26, 2000), 54. (d) Hal Varian and Robert Shapiro, "Information Rules," *Harvard Business School Press*, 1999. (e) Hoover's Company Profile Database, 2000. Research assistance was provided by Jenny Neslin in compiling Exhibit 1.