



INTERVIEW WITH THOMAS RABE, CHAIRMAN & CEO, BERTELSMANN  
BY PHILIP MOSCOSO

Photos by RAÚL URBINA

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## ■ Fit for the Future

Born in Luxembourg, **Thomas Rabe** earned a doctorate in economics from the University of Cologne before starting his career practicing corporate law in Brussels and then working for a venture capital firm in Berlin. In 2000 he became CFO of Radio Television Luxembourg (RTL), the leading European broadcasting group majority-owned by the Bertelsmann media conglomerate. After six years, he became CFO of Bertelsmann itself, and within the Executive Board was also responsible for Bertelsmann's music rights business, BMG. In 2012, he was named chairman and CEO of Bertelsmann. Since then, he has been working hard to make the German family media business founded in the 19th century fit for the digital realities of the 21st century.

# The Digital Revolution: It's Not All Bad News for Media

**A**t a time when most media companies are complaining about the challenging situation facing the industry, Thomas Rabe, the 49-year-old chairman and CEO of Bertelsmann, is refreshingly upbeat about the future. In a special session moderated by Prof. Philip Moscoso, Rabe told 3,000 executives gathered in Madrid for IESE's Global Alumni Reunion that digital transformation presented opportunities as well as challenges to traditional media businesses like his.

Take book publishing, the division on which the German family business was founded in 1835. By merging two former rivals, Bertelsmann has created the world's largest publisher – Penguin Random House – selling more than 700 million books, audiobooks and e-books worldwide. Bertelsmann book publishers now generate more than 20 percent of their global revenues through digital, and in the United States this figure is 25 percent or higher.

The same is happening in other Bertelsmann divisions: using apps to leaf through magazines published by Gruner+Jahr; providing logistical support in data management, digital distribution and digital storage to B2B clients through Arvato; and expanding digital print offerings through Be Printers.

In addition, RTL Group is solidifying its position as Europe's leading entertainment provider by thinking beyond television channels and radio stations to more video-on-demand services and “second screen” offerings via apps, to keep viewers engaged when using smartphones or tablets while watching television.

“Media companies have felt the digital harbingers earlier than other industries,” Rabe wrote in a recent editorial. “The interiors of houses, cars and refrigerators are just setting out for where television stations, books, magazines and music have already arrived: in a continuously interconnected, data-driven online world. We are entering a new era and have a great opportunity to shape its course.”

The disruptive, dizzying nature of these technological shifts need not be reason to fret, provided that companies understand the true potential of these technologies and leverage them intelligently. After all, “the billions of smartphones are just shells that need to be filled with creative content,” Rabe wrote. In this sense, the digital revolution means

the consumption of media has never been greater. And for a producer of media content like Bertelsmann, this is something to be excited about.

**PHILIP MOSCOSO- The transformation to digital is a strategic priority for Bertelsmann over the next decade. What will the company look like 10 years from now? What are the success factors in this process of change?**

**THOMAS RABE-** We want to keep moving forward with our strategic priorities as successfully as we have done over the past two and a half years, so that, 10 years from now, Bertelsmann will be faster growing, more digital and more international than it is today, based on three pillars: media, services and education. This means strengthening our core media and services businesses, promoting their digital transformation, establishing and expanding new growth platforms, and generating a higher share of revenues in high-growth countries such as China, India and Brazil.

**PM- You mentioned education as one of the pillars of your strategy. Why education, which seems less conventional for a media company?**

**TR-** The rising demand for high-quality education is a global megatrend – millions of people around the world see education as the key to social inclusion. Already, the global education market has a volume of \$5 trillion. It offers high growth rates for private-sector providers, and for Bertelsmann the overlap with our expertise as a content and services company is relatively large. We recently achieved our first strategic milestone with the acquisition of the U.S. e-learning provider, Relias Education.

In the music industry, we are a few steps further along. In 2008 we deliberately pulled out of the traditional recorded music business, because we felt the structures and behavior patterns of the market were not capable of reform. Instead, we built BMG from scratch – a music rights business that caters perfectly to the needs of artists in the digital age. We are already No. 4 in the market again. We hold rights to more than a million songs and are the preferred partner of such great artists as Mick Jagger and Keith Richards of The Rolling Stones. We would like to repeat this success in the field of education in the years ahead.



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**PM- Advances in software and technology will have a substantial impact across Bertelsmann's spectrum of businesses. What do you expect the business models of traditional industries, such as television, publishing and music, to look like in the future? In particular, how does the issue of piracy need to be dealt with, especially in markets that do not share the same understanding of intellectual property?**

**TR-** The development varies from one medium to the next. In the TV business, the use of traditional linear TV services is still rather high. In Europe, for example, it averages 220 minutes a day per person. So television will remain an indispensable vehicle for large-scale ad campaigns in the foreseeable future. Of course, the various types of online video – from on-demand to web originals to multi-channel networks – are also becoming increasingly important. This is why RTL Group has acquired majority stakes in companies such as Broadband TV (a multi-channel network), StyleHaul (a video network focused on fashion and beauty content) and SpotXchange (a video advertising platform).

In the book market, the e-book has become a robust, highly profitable business model for the digital age, thanks to the existence of attractive e-commerce platforms and reading devices right from the start. This is in contrast to music, where ecosystems have only recently emerged to properly structure the market, whether in the form of stores or streaming services, which open up additional opportunities for us.

The protection of intellectual property is a fundamental issue that affects all creative works and content. Irrespective of national boundaries, we need appropriate regulations that accept and reflect the reality of media convergence. Our creative minds deserve an up-to-date copyright law that empowers us to be courageous and invest in new ideas even in the digital age.

**PM- You identified China, India and Brazil as important to your future growth: What are your plans there? And where does Europe fit as part of your future strategy?**

**TR-** We see attractive long-term prospects in China, India and Brazil, fueled by population growth and emerging middle classes. There is a significant

increase in consumption, especially in the sectors that Bertelsmann is interested in.

Long-term, we intend to generate revenues of a billion euros in these three countries. To achieve this, we are investing primarily in the areas of education and digital media. We are confident that we will meet our targets.

We are seeing numerous positive examples. Our Bertelsmann Asia Investments (BAI) fund in China has become a prime venture capital investor in digital media. Penguin Random House is a flagship brand in India. Our services arm, Arvato, is able to serve global as well as local customers and markets. We have corporate centers in Beijing, Delhi and Sao Paulo. Wherever we operate, we rely on local management teams with employees who know their home markets best.

As for Europe, it will remain Bertelsmann's most important territory for years to come. We just recently published a study on the economic and social significance of creativity in the digital age in France, Germany and the United Kingdom. Altogether, companies from the creative sector in these three countries generate gross value added (GVA) of 128 billion euros a year – nearly four percent of the three countries' total economic output outside the financial sector. There is no doubt that Europe will continue to be an exciting market.

**PM- How do you foster creativity and innovation in a company like Bertelsmann, and balance that with its tradition and history? How can established companies keep pace with start-ups in this respect?**

**TR-** We are pursuing different approaches. As I just mentioned, we are active as a venture capitalist in the start-up scene – not only through Bertelsmann Asia Investments (BAI) but also through Bertelsmann Digital Media Investments (BDMI) in North America and Europe.

The magazine *Global Corporate Venturing* recently ranked Bertelsmann as the second most influential corporate venture in media, well ahead of U.S. media companies and all other European media companies – an accomplishment we're very proud of as an established and traditional company.

At the same time, it's important for our whole group to foster a digital and creative mind-set in





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everything we do. Last year, we held an international conference in Silicon Valley focused on digitization. We followed that up in September 2014 with a similar event in London dedicated to creativity and innovation.

Another important element is Bertelsmann’s unique corporate culture that thrives on entrepreneurial freedom and a high degree of responsibility for our executives. For us, this means we need to set the right incentives for long-term entrepreneurial success, to foster cooperation on creative ideas across divisions and to employ new forms of partnership. This might involve working with external entrepreneurs who want to put their ideas into practice with a partner of our scale and resources. I believe it’s possible to create a “small company feel” even in a group the size of ours.

**PM- How does being a family business affect your way of doing business?**

TR- Bertelsmann has been a privately owned company for nearly 180 years, and has been extremely successful with this model. We are owned by a family and a foundation, which gives us the big advantage of being able to take a long-term view of our businesses.

We aim for sustainable value creation and are a conglomerate by design, managing the wealth of our shareholders. This means, for example, that diversification is a must for us as a group. It also means we want to hold significant majority shareholdings in all of our core businesses, so that we can exercise influence over such matters as corporate culture, values, strategy, capital allocation and management development.

**PM- Which leadership and management competencies are needed to steer a steady course through change? What have you learned through your experience of leading organizational change since 2012?**

TR- Running a company like Bertelsmann is a challenge, but also a privilege. To fulfill the requirements and expectations, you must take responsibility, lead actively, be persuasive and make tough decisions. I am fortunate to be able to rely on outstanding teams who have done everything they can to support me daily since I took office.

Looking back, I can say that the key for our transformation has been getting everybody involved at an early stage. Straightforward, timely communication is vital if you want to change things. Active internal and external communications are a must, especially as the CEO of a media company. That’s why I use Twitter and established an online dialogue with my colleagues on our intranet, featuring video interviews, as soon as I took office.

**PM- You’re known to be an active sportsman. What do you get out of training that helps you in your executive role?**

TR- The world of work in general has definitely become more demanding, with increased workloads. Sport is the perfect counterbalance to this. I do a lot, but not to the point of exhaustion – this is essentially the same approach we’re taking to the transformation of Bertelsmann. Seems like a good complement to me! □

**■ Thomas Rabe was interviewed by Philip Moscoso**



**Philip Moscoso** is a professor at IESE and the Euredt Chair of Excellence in Services. His primary area of interest is the management of service operations. Prior to IESE, he worked at Bain & Company. He has done management programs at Harvard Business School, and earned his doctorate from the Swiss Federal Institute of Technology (ETH) in Zurich.