Keynote : Online News: Realistic Strategies for the Post-Bubble Internet

Panelist:
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DAVID CARD: So you actually may even see one slide that looks very familiar to you, but I also think that what you'll see also is that we all are talking about some of the same themes. And I'm going to act almost as a bridge between sort of the audience analysis and the business discussions that are going to happen afterwards. I have a few things to say about the craft itself, but I'm no expert in that in particular. As I said, I direct the media programming research at Jupiter Media Metrix and Jupiter is - well, we're a dot com. We've been living this just like everybody else is. So for those of you that chuckle, most of the people who are presenting or on stage today, many of them are my clients.

Jupiter Media Metrix is a company that is in the sort of hybrid between the market research and a consulting firm. And Jupiter is on the advisory service side. We create, we do a lot of work with companies in the media business or the advertisers or even the technology companies that are supporting them, as well as some of the other businesses that generally have a consumer-facing component to them. So we do a lot of work in automotive and pharmacy and things like that as well. And we try to talk about, or try to analyze how the Internet and new technologies have an impact on businesses that have a big consumer-facing front end to them. We do our analysis through a combination of consumer surveys. We do case studies kind of examples where we look at companies and see how they are doing. And you'll see examples of that today. We also - and then Media Metrix is in the measurement business. There's a lot of talk about that in the last session in particular.

Media Metrix, what Media Metrix does is they have a - we recruit a panel of about 40 or 50,000 people per month in the U.S. and we have a piece of software that lives on their computer and spies on them. Of course their privacy is all protected cause it's only reported in the aggregate, but it's basically the best way I would argue to measure actual Internet behavior, because it's actually watching what goes on on the computer screen. So Media Metrix is the company that's trying to be the Nielsen ratings of the web, essentially. In a medium that is much more measurable than television or print in most cases. And then on the Jupiter side of the house, we use the Media Metrix traffic analysis (and you'll see me use it here a little bit too) to help guide our analysis, which is to try to spot the trends and forecast what's going to happen in terms of usage adoption and revenues and things like that. As well as do some competitive analysis for the companies who are looking at each other. So we try to put those pieces together.

I was sort of chuckling because when I said we wanted to be the Nielsen ratings of the web, we did decide that we were going to merge with the other company that decided they wanted to be the Nielsen ratings of the web, also, which is Nielsen. Nielsen had the division called "Net rating" but the FCC didn't think that was a good idea. So our merger is now off. So this is an interesting phenomenon. I've gone through an IPO and a merger with Media Metrix and a near merger that was called off in 18 months, so we're definitely living the Internet bubble just as everybody else is.

So, anyway, what I wanted to talk about as the bridge between the two - the first panel and then the next panel - is realistic strategies for the Internet. I'm going to talk a little bit about online usage which we've just spent a good deal of time talking about already, as well as some consumer attitudes towards news online. I try to make the case - why would you even do a site? I actually don't think I need to do that. This is probably preaching to the converted in this particular case, but there are some pretty good reasons, economic & otherwise, for supporting continuing on in the Internet. So what I'll ask you folks to do is sort of pretend that you're already graduated and moved out and you're working for these companies now, and I'll present to you as if you were people who are deeply involved in these kinds of companies already.

And then I'll talk a little bit about some realistic expectations for how the business might evolve in the near future. And what kind of things - things cost - how to balance some of the costs against the revenue opportunities.

So first, in case anybody had any doubt, the Internet is indeed still growing and usage is, more importantly, is still growing. So I love the guys at the Pew Charitable Trust. They do tremendous research. But if you ask people about their usage of things, which I will contradict myself in a second or two and show you our surveys of asking people how they use things - but it's not the best way to actually measure things. A panel that is actually - where the software is watching - is the best way to use this. And what this slide illustrates in a kind of turgid manner is the number of minutes people spend online in an interactive application like email and instant messaging and things like that. And you can see from a trend point of view, it's been steadily upward even after the dot-com bust and the Internet shakeout and things like that. So see a steady increase in the usage of the Internet and the related applications to it. So, I have seen some studies that suggested that people are using the Internet less than they were a year ago, and we do not believe that at all. And, in fact, as people have pointed out earlier from the point of view of the U.S., over half the households in the U.S. are online now, so basically we've reached the point where I think you can really truly call this well beyond critical mass and well towards the point of it being a mass media and the usage reflects it.

We ask consumers what they look for, so this is, as opposed to the traffic data which is based on the panel research on the previous slide, this one is survey based so we asked 3000 adults: "Where do you go to get the following types of information?" I've got two slides on this and I want us to just take a couple of takeaways from these slides. The thing that is kind of interesting is the blue bar. The blue bar is where they say they prefer to go at the expense of the others to the Internet to get this kind of information. And what you'll see here is in no case that I am going to show has the Internet surpassed most traditional media in terms of the first place people go for things. Except in a couple of cases which is kind of interesting. So, you see that television is the white bar and will be in the next slide as well. So television is the place that people go for everything. We live in America, that's the way the world works, right? But you'll see that in the case for national/international news, 20% of the online population prefer - they go to the Internet first for their international news. That's bigger than going to newspapers. That's I think a fairly striking and perhaps scary or perhaps nice opportunity to take advantage of for the people who are in the media business.

In a kind of a less serious mode, the information that's about things that are related more to entertainment and local - and this is a, you'll hear me talk a little bit about local continuously through this presentation because I think local is one of the major opportunities still to be taken advantage of that nobody has quite figured out how local news operations should best take advantage of the Internet, cause the scale generally isn't there like it is in a national property. I'll talk about that again in a bit, but one of the things you will see in one of the revenue opportunities obviously that falls out of the kinds of media or information needs that people have, related around local listings and movies and things like that. One way to take advantage of the local property is to try to exploit people's - and I don't mean exploit in a bad fashion - but take advantage of the idea that that's where people go for that kind of information. Unfortunately, of course, we have Moviephone and Ticketmaster - the two monopolies that are dominating that kind of business - Moviephone owned by AOL and Ticketmaster owned by Barry Diller, USA Interactive. But there may be some opportunities to be able to do deals with those kinds of companies. But those are some of the information that people are starting to look for on the Internet - for those listings and entertainment.

We also asked people, then, what kind of news in general? So this is sort of a genre of news type. I would say that - don't count so, don't look so much at what the total percentages are, but the rank order is kind of interesting. So you ask people - I'm sure the people who are creating this information would confirm that this is indeed the way their traffic looks in most cases. You see what people search for. We ask the question, what kind of news do you look for when you're online or when you're on the Internet? Breaking News taking advantage of the real time nature of the medium isn't too much a surprise - shows up at the top as well as national platforms. Then there's that once again we're getting into the entertainment and sports - the things like that. Local is still a lot lower than national so people are, I think, already have it in their mind that it's a global medium and they look primarily to the Internet for that kind of information whereas there's sort of a secondary thought to think about catching the other stuff. Business and technology might be surprisingly low.

The Internet, by the way, is - there's more women online than men. That's the way the country is, slightly. And so we've already reached parity there and I think if you take a look at this survey by cutting it by gender, you'll find that the men are more interested in business and technology and that kind of deflates this number a little bit. At the risk of sounding sexist, that's just what the data would show. There was a lot of talk also, or there was a little bit of talk at the very end when the Aussie guy asked a question about demographics and psychographics and things like that. I think most people - and he'll probably talk about this later on - think about a nirvana world when you're thinking about your audience. It's a pyramid almost like a Maslow's hierarchy of needs where you start at things that are basic like demographics and we move up into psychographics and attitudes and then you move up at the top is the sort of the behavioral pinnacle - that would be the nirvana if you knew what someone was doing at any given point in time. And frankly, one of the reasons why we don't do a whole lot - or why we do research on this but we don't do a whole lot of programming based around these things besides the fact that it's as much an art as a science, is the fact that advertisers aren't ready for it. So that most advertisers aren't sophisticated enough to take advantage of that kind of thing.

So things like what the New York Times is doing where they take some basic demographics and match it against the contextual space - you know what article you're reading at the same time - that produces a result that an advertiser can get their mind around and actually you can sell inventory against that. When you start talking about things like pscyhographics, most or a lot of people are not quite ready to buy into that notion that that would happen. The ideal way of understanding an audience, if I could illustrate that pyramid, is that I'm a 40 year old male, probably over educated who lives in Manhattan and that would be my demographics characteristics. And I behave like that most of the time. I'm also a - I'm not really an early adopter from a technology point of view, but I'm pretty optimistic. I do try out things. I'm a seeker in some of these psychographic type profiles. So that would describe - I'd be moving up that pyramid and that would be pretty accurate. And that would describe me, you know, my behavior on line for maybe 350 days a year when I'm buying a present for my Mom, all of a sudden I'm behaving like a 65 year old woman. And so you wouldn't want to be advertising or marketing to me in my aging yuppie Manhattanite mode when in reality I would be in my Mom's mode. So, I think that gets kind of an anecdote for how to describe what the pyramid of audience understanding would be.

One of the things that we've found to be the biggest predictor of behavior is actually online tenure. And so this is one, even more than conventional demographics like age or gender or household income, the thing that is most predictive of Internet behavior is how long you've been exposed to the media. It appears, and we've done surveys on this for a long time now so it's not just an early adopter phenomenon. We see it happen year and year after year. It appears that after about 18 or 24 months, kind of a light bulb goes off in your head and you start using the medium more often. You start being more comfortable with purchasing things. You start to be a more aggressive adopter of the medium. And that seems to be again and again the most significant predictor of online behavior. So, the magic message is if you can figure out which of your audience has been online long enough - for two years - they're the ones that you sort of do the aggressive things with, while at the same time you're kind of taking care of the ones who are less experienced.

Now, since I interrupted myself to talk audience, I feel like I have to make - because it's a presentation but at the same time we've had such great discussions so far today, I want to interrupt the flow every now and then, but if I start going too far off track, wave at me and say "get back to it" or something like that. So moving back, and a second ago we saw what kind of news types people were actually interested in online. Now where do they go for them? Here's one of the first scary parts for those of the mainstream media companies. We looked at this - we did this survey in 2000 and in 1998 and again last year and what you can see is - I wouldn't look so much, once again, at the absolute numbers but sort of the patterns and the trends of how things change. Another scary thing is that people really look for a lot of news consumption with search engine and portal sights like Yahoo and AOL as well as their homepage, which in many cases is the same thing. But one of the interesting things, I think, that changed over the course of the two years when we did that survey is that local newspapers is really the only thing that grew - that shows any change there. So I think, as I said, I'm sort of fascinated with the local opportunities and challenges. I think this is a sign that the idea of the website of the local paper is starting to resonate and the sites are starting to get a lot better too. That's probably part of the reason why this data changed, is because the content is getting better. People are looking for that.

So why would you do a site? There's a number of different reasons why you would do it. Cannibalization. If your audience is, in fact, if it's going to go some place, better for you to eat your children lest somebody else does. Right? So if the audience is becoming fragments or somebody else is going elsewhere, you're better go where they're going. Competitive threat. One of the things that we find in the traditional media business. The New York Times doesn't really compete with CNN in the real world either for its audience or for the advertisers. And advertisers have in mind what they want to advertise in print and what they want to advertise on television in many cases. The audience is the same way. They go to CNN on TV for one thing and the New York Times for another, in many cases. However, in the digital world, we have a competitive environment where CNN and New York Times absolutely compete every minute of the day. So even though the boom has sort of worn off on the whole venture capital-funded, public market-funded startup business which we find and there's a lot fewer companies out there - lots of fewer startups doing this kind of thing. The media industry is less worried about being amazoned than they used to be. They may well be amazoned by their regular competition in the offline world. So you find that because this medium is not hard-wired to the - the content is not hard-wired to the medium, you have new competitors. The other thing is that I guarantee the audience will demand that they get their news from the places and from their familiar brands and from the places they go. And so if they're going to be at work, it makes sense for them to want to be able to check the New York Times at work as well as read it at home. This is I think, we've seen good examples of this already.

The single biggest reason probably why newspapers should be concerned about this is to the defense of one of their biggest revenue streams. Classifieds is probably the single most profitable part of the newspaper business and classifieds is getting dramatically cannibalized by the Internet market. And then there are some revenue opportunities which I'll sort of segway in the last section.

So here's a good, a scary, well not that scary, a cannibalization story.

Every year we ask this and television always comes up first, which is not surprising because television is the medium that everybody spends the most time with, so it's the biggest ox to gore. And the scarier one is, especially since the trend seems to indicate that it's getting worse, whereas television, the cannibalization appears to be leveling out or flattening. With magazines and newspapers it looks like people are thinking they're spending less and less time with them and more and more time with the Internet. So, that's the kind of a scary one if you want to think about where your audience might end up if you're a traditional media company. Radio is pretty safe because people listen to radio in cars and for a little while, we won't be getting the Internet in the car. Let's hope.

Another thing to be scared about. You better be on the Internet because of inertia. What this slide illustrates is how many people, the percentage of the online audience that goes to a given number of sites in any given month. So the way you look at this is that, the way you really look at this is that 60% of people visit 30 or fewer sites in any given month. Thirty is a lot compared to television, for instance, where the average person, individual in a household really watches about 6 or 7 channels. So 30 is a good healthy number, but considering that there's a zillion sites on the web, it's kind of scary.

On the other hand, though, this isn't quite the same thing as consolidation because my 30 sites are probably not the same as your 30 sites. My top 2 or 3 probably are, but the other ones are not. So what this looks like, this industry looks like to me is a lot like the magazine industry where you have a handful of publications with multi-million circulation and then a bunch of specialized, sort of nice offerings. The other thing I always love to point out with this because it's counter the conventional wisdom, there's a significant, small, but a significant portion - 12-15% of people - that go to lots and lots and lots of sites. Browsing or surfing is really a new phenomenon. Surfing on television - I'm stealing a line from an author who I have to credit here - Stephen Davis, the guy from Feed. Remember Feed? That was a great publication. He said that you surf on TV cause you're bored but you surf on the Internet cause you're interested. And I think that's absolute true and so the people who say that surfing was an early adopter thing and it doesn't happen. They really get focused and the Internet is a very directed medium, which I think in a large part, is true - as indicated by the left-hand side of the bar - but there's still a lot of people out there that are really massively interested in checking out lots of different things. But by and large the public has inertia and once you're bookmarked, you've got them and they won't go anywhere else.

Here's another scary one, although this is depending on which side you're on on how much the government should be involved in these kinds of things. Right now I'm sort of sour on that idea, but generally I'm a good liberal. This is, what I'm doing here is measuring the percentage of time spent. Remember that time spent chart I showed you early on in the first slide? This is the percentage of time spent in the digital universe at these particular sites. So what you see is the AOL with all its sites and Time Warner properties sucks up almost 30% of all the time spent on the Internet. This is market share like nobody else has in any other media industry. Most media… I mean, the closest is really Time Inc. in magazine where Time Inc. has pretty much roughly a 30% share of the entire magazine industry. Television is nothing like this. The leading TV network is only a couple of point ahead of the #2, #3, and #4 players. So this is pretty serious market share. The other thing that's interesting about it is the other two leaders are Microsoft and Yahoo. Not media companies, or at least not conventional media companies. What I love about this is that it shows that there is a certain amount of concentration and it also shows that the startups - of course AOL now owns Time Warner - but it also shows that the new media companies are dominating the total market. Now one thing I have to point out with this is about 60% of the time of each of those companies is spent in communications applications - things like email and instant messaging and chat. Each of those - It's true for all for them. It's true for Yahoo as well as AOL. So, it's not quite the same thing as a conventional media or broadcast media experience. It's much more an interactive two-way kind of medium that a lot of the time is spent. But even if you strip out that 60%, the lead of the next tier of companies if pretty impressive. The next tier of companies, you see that Microsoft and Yahoo suck up about 9% of the total time spent. The next tier companies is a third of that, so it's like 3%. Those companies are companies like eBay and electronic arts - the gaming company - they're not conventional media guys. Companies like Disney and Viacom are in another tier below that a little bit.

So this is a, we had talked about people's audience size earlier, too. What this chart is measuring, this is a very, this is really sort of flexing our muscles with the PowerPoint here. The size of the bubble means how big the audience is in terms of visitors a month. The axis on the bottom is how often they go, so you can figure that out. And then the axis going up, the vertical axis is how many minutes per day they spent. So look what you've got here. You've got the New York Times, is a pretty big audience. New York Times digital so this is actually including Boston.com and some of the other properties. Pretty big audience and it also gets a lot of frequency of visits relative to some of its competitors. Although not relative to Yahoo. And the New York Times is impressive from a point of view of how much time soaks up from its audience, too. They spend many minutes a day there on a regular basis, so they have an intense and I think quite loyal audience. But, look at Yahoo which is a bigger audience than some of the mainstream news sites. This is just Yahoo news. This isn't Yahoo. This is Yahoo's news channel. Yahoo's news channel is a bigger audience than most of the other players and they visit it extremely regularly. You might be saying to yourself, what's the difference between 4 days a month and 2 days a month. It's a pretty big difference because the spread of how often anybody goes to a site on an average isn't really that - the spread is like the difference between 6 and 1. So people don't usually go to very many sites every day of the week. We boil it down on the average.

So this is kind of interesting. This also illustrates the idea that the medium breaks down the barriers of competition. That, in fact, people do go to MSNBC and CNN and the New York Times and ABC News. You've got cable companies competing with broadcast companies competing with print companies. And then the Tribune Network out there is one of the - collecting up all of its local properties - is a pretty interesting phenomenon also.

I'll just give you a little bit more traffic data. This is basically more simple, this is how many visitors were there in a given month. This is for February. So you can see the New York Times by our calculations. By the way, this data I'm showing you is U.S. based so bigger numbers would come if we were tracking the international market which are very difficult to track and very expensive to track, but you don't me to get into that. So the New York Times got all of it's sites, not the Boston sites, but New York, the local site as well, the daily, got 6.7 million users which was a 6% reach of the audience. USA Today, Washington Post, Boston Globe. Wall Street Journal, even though it's largely almost - there's not very much free content on the journal - still does pretty well in terms of getting visitors. So you can see, this is the flip side of my argument is that traditional sites are doing well.

New media. Welcome to media. It's just like old media, except for Yahoo and MSN. Here's on that's a little bit different. Time has done an amazing job, partially because of AOL promoting it a lot. If I did show you this data from 6 months ago, Time would not have been the leader. In fact it would have been - it got the same amount of traffic as everybody else. But Time has really sort of spiked up in recent months. And look at this one. Look at Slate. This is an example of - I like Slate. It's Microsoft's news publication. Michael Kinsley launched it. It has a real bonified, it's a good product. So it comes from a technology company, so big deal. But it shows the power of the MSN network because much as I said, it's a good product. Who would go to Slate? It's not a brand that anybody in the mainstream is really familiar with. But because of MSN's promotional capabilities, it drives traffic. The network of MSN drives traffic to Slate. Slate holds onto the audience. It's actually a pretty successful site in other metrics too, in things like duration and frequency. People use it pretty well too. And it's almost profitable. Of course it was almost profitable at the end of last year before the market tanked and it's always almost been profitable. But it's a pretty lean and mean organization and I think they're doing a pretty good job. I didn't put up a tremendous amount of stuff, but just to pick on somebody who's probably not here. If you want to know an old media or a traditional media that is not competitive online it's the business press. With the exception of Business Week, Forbes, and Fortune and places like that, they are not doing a good job online yet. Which is kind of surprising because so much activity on the Internet is around technology and business and the stock trading and things like that. You would think that those companies could have exploited that.

Here's the slide I said you'd seen before so I won't spend too much time on it. Prime time is spread out on the Internet. This is, of course, when we're measuring from Eastern Standard time because I'm a New Yorker and I'm biased. But what you see here is 5 pm Eastern time, people are still at work in California. But you do see the same thing that was pointed out earlier today that the prime time of the Internet is an earlier part. It's a day part medium rather than a night time. AOL itself, I think their prime time is like 10 at night, which suggests that lot of people, go home and do a lot of their email and chat later at night. But this shows another reason, you know, why would you do a site? Reach your audience at work. Here's another one to confirm that and this might surprise you. What I did here is we did our actual - how many people are online and where they get their access from. So the white part, if you're an adult, is from home. The orange part is from home and from work. And then the blue part is if you get onto the Internet from work only. So the first surprising thing is, there's not, the audience that's at work only is actually a relatively small audience. Probably smaller than you think. You might wonder, how can that possibly be? The reason is because most people do it both places. The people who have it at work also use it at home. And then they do the same for kids at school. So what you see is that you see two things that are most interesting. The single biggest place that people get it is "both". And that implies to me that there's a real bi-mobile audience. First of all, you can reach our audience during the daytime and at night if you're media or a news property. And you can also - it's going to be a little bit different. What turns out when we also do our research either traffic or survey-based, you'll find out that people at work - you might be surprised to hear this too - they go the same places that they go to at home. Maybe not the porn sites, but most everything else they do at work also. So, basically you get an audience that has the expectation that they want to do the same things at work and at home. So you have an audience that has a built-in expectation of sort of an almost 24 hour experience.

AUDIENCE posed question.

DAVID CARD: The question was, does this say anything about bandwidth. That's an absolutely correct observation. About 10 million homes in the U.S. have broadband connections, but a lot of people at work do. Although maybe fewer than you think because a lot of small business don't have broadband access. But a good half or actually a third to a half of the people at work have what I call broadband access. So the reality is, you give them a different experience. So this bimodal behavior has the expectation they get the same kinds of sites and services, but they also might have a different expectation of how it should perform at work because it's broadband. And they're also probably using a different computer, so they might have Mac at home and a PC at work or something like that. So it makes it harder for everybody to take into account that, but you should do it.

The other thing I usually say to my clients is that day part programming probably isn't worth it, partially because since you can't track where they're coming from. Cause we were talking about this a little bit earlier on the other panel, that the technology to know where somebody is coming from, you can register them, but that's really the only way you can know. Then you've got to guess which computer they're actually coming from cause they might be on the road or something. But the technology for tracking where people come from by reading the IP addresses and stuff just doesn't work. So there's no way to know where you audience is coming from. So if you're a national kind of a medium, you don't know if they're on the west coast on the east coast.

However, changes are if you are a local site, you might want to consider doing day part programming because there's a pretty good chance your audience is in your environment. You might know how many are coming from outside, but you might know where they're coming from. So, you might be able to take advantage of things like - it was interesting what the Post was saying about how they've sort of taken down the banner of the PM, the extra edition. I actually thought that was a good idea, because - they must have made a tough trade-off because well on one point it probably made the site feel like it was only updated once a day, but on the other hand, they were kind of building in the expectation that there were multiple times that you should go. They were teaching their users, their audience, to come to the Post more than once a day, which is not a natural behavior. It is very natural for people to go to CNN many times a day. It's understood by the audience, the brand means a 24 hour news medium. But the Post brand doesn't mean that, so, you might want to advertise the fact that you actually are updating the site a couple of times again. Because you're teaching your audience to have an expectation that there's an update.

So day part programming is tough. It's difficult today. Most advertisers won't pay for it. They haven't figured out what to do with it yet. Though I have a lot of clever ideas about promoting stuff as you're going home. You're at work and you're checking the traffic, and stuff like that and you're getting ready to go. You should get the takeout food. Maybe this is a uniquely coast experience, but in California everybody picks up the food on the way home. And in New York everybody calls up on the phone and orders it. But you might want, if you know your audience it's 5 pm and they're thinking about dinner, you might want to adjust both your programming and your advertising to meet that.

I said classified is a big reason to be careful or to be aggressive or to take advantage of the medium. This is our forecast for the online classifieds market and so we're forecasting that

that market will be worth a couple of billion dollars in the next couple of years. We're actually raising this forecast. We're in the midst of redoing our advertising forecast and this number will come up because it outperformed our expectations as they say on Wall Street. And what happened was that the offline business, last year the offline classifieds business actually went down about 15% whereas the Internet classified business went up well over 30% from a small base, but nonetheless it's up. So what we're seeing is that in different categories - things like jobs - the jobs market, the Internet market is already 12% of the total entire business. And you're probably sitting there cause I haven't given you a lot of perspective on that, but think about this. In the Internet advertising business, Internet advertising is about 3 or 4% of the entire U.S. advertising market. But in classifieds in jobs, it's already 12 and will probably go to 20 or 30 over the next several years. So there is serious cannibalization. The other thing, of course, about Internet classifieds is they don't charge the user to post, usually. So they're going to gut the entire classifieds market. It's not just going to be a channel shift. It's going to go away. As people get used to doing classifieds online, unless the business models change, the overall market will shrink. This is not an example of a disrupted technology that actually increases the total pie. This is one that's going to shrink the total pie.

So what can you expect in terms of revenues besides getting a piece of that classifieds market and then how do you execute on this in a manner where you won't go out of business? So I'll talk a little bit about subscriptions, advertising, and syndication - you know the revenue streams. The New York Times is - I'm not saying this cause they were there - they are a very good example of what we think the modern media company will look like online with diversified revenue streams and experimentation in paid subscriptions. They're selling a lot of subscriptions online, etc. etc. So those four are kind of the main revenue streams. Then I'll talk a little bit about staffing.

So we heard the Times say this already. They generated 85,000 subscriptions last year by selling them online. Time Inc., has done a million or something like that across its different magazines. And this is a sort of an interesting detail - maybe too much detail - but the offers that Time Inc., across its various magazines, People and Time and things like that, offer to the AOL audience are not good offers. They're the least discounted. So not only are they selling a lot of subscriptions online, they're selling at a pretty high price. So all the better reason to do your online marketing. And we found that, surprisingly perhaps, the little click here to subscribe at the end of the story appears to be one of the more effective ways to drive traffic.

Here's the entire - here's our forecast for advertising, which I said we're changing. But we're not raising this one. We took this one down a little bit. The entire advertising market tanked last year and Internet was kind of flat. So the way you read this chart - this is our forecast for - the orange part is the things that are similar to display advertising and sponsorship. So it's the, what McKay and Erickson would call "measured media". And then the blue chunk on top of that is the stuff that's more like direct marketing like email campaigns and things like that. So two things to look at it were this. The market is going to go - people talk about these forecasts being crazy, you know. I would be the first one to admit that the forecast is more art than science once you get out beyond two or three years. But we are very conservative historically. Our forecasts have been within 10 or 15 every couple of years of coming out the way they were coming. We're generally on the low end of the forecast, so there could be a lot of upside to this. That's one way of looking at it. But one thing to think about is that we do expect there to be some recovery in the market and then some pretty good growth in the out years to the point where by 2005 and 2006, the Internet will be about low double digit percentage of an entire advertising market. Not a big piece, but still a notable piece. In this case, a lot of it is incremental so, it's not just channel shift, it's actually adding new advertising media.

The other thing that's quite interesting here, I think, is to look at our forecast for the marketing spending which by 2004 is starting to get bigger. We're almost as big as the advertising spending. So by 2005 it surpasses it. So what's the challenge here is for traditional media companies who always participate in that orange stuff to figure out how they can participate in the blue stuff. So a lot of things that we do is to try to advise our clients on how to optimize their Internet platform or their Internet offering - their site business - to take advantage of other kinds of marketing opportunities. And you're seeing Yahoo do this already by offering market research in some cases but other kinds of - not just things beyond sponsorship, but also sort of new kinds of -they'll manage your email campaign for you and things like that. This is a new skill set for business people who work in the news business to acquire. Because it's nothing like the advertising business that they're used to in the offline world. Isn't it funny to say offline? Am I the only one that says that? I think that's it.

In the real world where people actually make money, this is another couple of revenue streams, would be the syndication business - you know, selling your content to other people and the Times does a little bit of that. The Post does some of that too. And the paid content. Getting a consumer to actually shell out money for either pay for view or subscription service. And you can see, these markets are growing and they're interesting, but they're pretty small change. You might look at this and say "4 billion dollars in paid content, that sounds huge!" But it's chump change compared to the magazine industry or the cable TV industry. It's still a pretty small business, I think, going forward.

Licensed content that tends to work - and my definition of successful licensed content is a site that generates anywhere from 5-15% of its company revenues through syndication. You find that these things, some of them look like traditional media news content like what iVillage distributes. It looks pretty much like magazine article. But then you'll find things like MarketWatch, which has a big part of its business, is syndication. It's syndicating information and news, but it's also syndicating tools - some software tools as well. Sports is a similar thing. And right now, one of the reasons our forecast is so small is because this is truly still a new medium and the business rules and the models, they haven't stabilized yet. So in a traditional media industry you have a pretty clear role. Particularly it's very obvious in movies, but it sort of works in news as well. In movies you have studios that produce the movies and then TV networks that produce the shows and networks that show them. And often there's syndication in the middle in the newspaper business. Obviously there's a lot of syndication in features and things like that. Everybody kind of knows what role they play and what the deals look like. Right now, we had thought that the deals would start shaping up and more money would be exchanging hand by now, but what happens is that in the early days everybody was exchanging traffic rather than revenue. So you'd give away content so you'd get a link to drive traffic back to your site which worked in the early days but didn't generate any revenue. And that's still the way the deals look so there's not that many dollars changing hand.

On the paid content side, which is, let me tell you, every year there's a new thing that's going to save the industry, right? Remember content is king. And then the media companies were going to sell stuff. It was going to be commerce. It was going to be contextual commerce. The 3 C's. Commerce. Content & Community. This year, it's paid content. It's subscription that's going to save them. Next year it's going to be wireless, I guarantee you. Any money is wireless, is way the hell out there. There is no money in wireless for media companies in the U.S. For years and years and years. Paid content is the business model dejour. Well, we surveyed online consumers and said, what would they pay for and 70% of them said nothing. This is going to be tough. People expect it to be free. A couple of conditions are changing that. One would be the idea that if you took it away from them they might have to pay. So I'm not talking about collusion, but the fact that some of the Internet companies - the free ones that failed - there might be more opportunity to condition, reset expectations for what actually you should do out here. The other thing to take away from this, and this is kind of a megatrend - is that we think in the near term , at Jupiter we believe that since none of these categories is really very big, you know there's no killer application it looks like that anybody would pay for. We think that aggregations of these things are the way to go. So collections of different kinds of genres is probably going to be the initial way to convince people to spend any money on for content online separate from the access business. So you guys are probably familiar with Real Networks, the company that makes the streaming audio and video software, they have a service they call RealOne that's a premium service and it does, indeed, aggregate some sports content, some entertainment and trailers, audios, radio and things like that. So things like that where you have a company that is sort of putting together a bunch of pieces, might be the way to go in the near term.

Some examples of successful paid content initiatives. Consumers Union has often said, they've got a bigger number. Last year they went to about 800,000 subscriptions. I guess they've broken a million now. That's amazing. That's better than I would have thought and it's mighty impressive. American Greetings - greeting cards -free online greeting cards! Can you imagine that a million people are paying for greeting cards online? Who'd have thunk? Not me! Greetings is a hugely popular application online but you wouldn't think that people would pay for it. American Greetings has done a good job. Wall Street Journal has a lot of subscribers reel for its service. Sony Interquest is an online game. So what we tried to do is we tried to identify some patterns here. Why did these things catch on? They caught on because you can see that many of them are indeed exclusive. So this is one thing that we're taking away that it looks like if you do an exclusive lead that might be a way to jump-start the whole business. Onreel did a really great thing. They are exclusive on two fronts.

Let me just tell this story. Their exclusive you can't get anywhere else but the Internet and you can only get it on the Internet from them. And what I'm talking about is baseball games. So, audio baseball, not video. Video is still a crappy experience online as we all know. But audio online - Internet radio works pretty well. It's not a bad experience. You can multitask and you can be at work listening to the baseball game. (Not that I ever do that.) And previously - and there's no national sports network. So there's no way if I live in New York I can listen to the Boston Redsocks games. I went to school in Boston. It doesn't work. I can't pick up the radio station. But on the Internet, you can get games when you're a displaced fan. I can even listen to the Giants when I used to live in San Francisco. It used to be free. Yahoo used to broadcast some of those games for free. But Real went and cut a deal with major league baseball, pulled it off of Yahoo, and then charged for it. So they made it exclusive. You can't get it offline so it's exclusive to the Internet. And you can't get it anywhere except from Real networks. And major league baseball. You can rent it from them too.

The other things that took advantage, I think, of those things, tended to play off the experience. We were talking a lot about this in the genre section. And I wish I had time to talk about that. That was great - I hope you guys get into that again in the future panel at the end too. There just are so many things I think that we're close to figuring out what really works on this medium. But clearly things - what's unique about this medium - is that it's a two-way interactive medium and it can be multimedia. Although I'd be careful about doing too much video. So lest you think that there's a lot of money in paid subscriptions, what I did was I took the 4 billion dollar number and I broke it up into its individual categories. And you can see that none of the markets - I don't want to tell you want all the markets, because it's boring. But none of the markets is very big. They're all pretty small. The leading single biggest category of online paid content is porn. Although it's not the billion dollar market that some people would have you believe it is. News organizations that should know better have some very dubious sources.

Blockbuster was invented, so usually good things happen when you're got enough people in the U.S. with a technology platform or a media platform. So we're expecting new kinds of content to arise with broadband when it reaches that critical mass point in the next couple of years. And that should accelerate the availability of the audio video.

And then the other one - news and finance, by the way, news and archives is right under this. But the other market I think that has the most immediate near term opportunity is financial and business news. Partially because some of the exclusives can be cut in that space and also because it's not as widely available. And also because, take advantage of the interactivity with utility tools and calculators and things as a way to add value to the basic news content.

So finally just let me talk - a couple of slides about implementation and then we can get back to the mainstream presentations. The programming mix - the ideal program mix obviously will vary across different categories. But clearly what we try to work with our clients on is helping figure out what that is. And clearly there's different tactics you use if you're trying to create different kinds of behavior in your audience. So if you're going for reach, you want to start thinking about programming the different affinities in audience types which we've seen companies doing. If you're trying to increase frequency of visits, you want to establish the notion of a recurring utility, so style.com which is the site that is Conde Nast's collection of magazine sites. They actually try a calendar, they publish on a calendar, so on Mondays you know that there's going to be a certain kind of fashion content and on Tuesdays it's going to makeup or something like that. And to teach an audience that's used to monthly behavior to try to think about the publication on a daily basis. Themes work at Discovery Channel. When it's shark week on television, by God, it's shark week online too. So they do a lot of programming around cross media programming around thematic event. If you're trying to increase intensity of duration of visit, things like games and polls and quizzes and chats and things like that drive up the audience.

Another thing to think about is the Internet is a metamedia, a medium about other media. We saw those listings and things like that was quite a popular place for people to go online to look for that kind of thing. I had a question I thought of at the very end of the first panel that I didn't have a chance to ask, and maybe we can ask it going forward, is what have we learned from Drudge, besides the fact that it drives traffic to you? This idea that aggregating other sources… I mean, a lot of companies are nervous about doing that at the risk of diluting their own brand value, but maybe there's a way of experimenting and just collecting up links and serving them up. I think Slate does a pretty good job. One of Slate's most popular sections is today's news where they highlight the stories that are going on in other newspapers and things like that. So I think this is an ideal medium to talk about media and to drive people to other media in some cases. And it's a valuable service to offer your audience.

The whole user content one is another one that is a tremendous tension between editorial integrity and editorial voice and editorial judgment and letting your audience make those decisions. I think we have a lot to learn in this space, but it truly does engage the audience. I think everybody is a psych client when they have their online activities. They find out a small portion of their audience does participate in the chats and the message boards and things like that and those people are extremely vocal. They're really loyal users. But it isn't the mass market. But somehow to figure out that mix of what should be consumer driven and what should be editorial driven, I think is a creative tension, in fact, that we'll go forward with. Someone asked a really good question about how do you use the Internet to drive your offline programming. And nobody really answered that. I think the television networks in particular have the opportunity to test drive the popularity of a story. Maybe if it bleeds it leads, wouldn't have to be the way we do programming in local news if they were watching what people were interested during the day and the adjust their show calendar at nighttime when they got home.

And then one of the things that we find out is that as much as the Internet is a very seeker and browsing medium in some cases, people are sheep and they want to be led. So they will go to what you promote. I think the Times has found out this very well. The Post probably too. I put Slate up there because I was talking to their management and editors and basically the stuff that gets read the most is the stuff that they put at the top. I don't know if you're familiar with Slate, but the first page is a table of contents and on top they have graphics. And so people will go to what you tell them to go to.

Other kinds of implementation tricks to reinforce the idea that exclusivity doesn't have to be at the expense of cannibalization. We ask people why they go to a magazine and they go for exclusive articles and exclusive pictures more so than because the thing is free. So there's some opportunity there. I put this one up there to try to encourage people to put more stuff online. I'm a believer.

Let me skip over this one. Then from a staffing point of view and from a costs and implementation point of view, which might follow some of the discussions we were having and set up some more that come forward. What we did is we looked at a lot of variety of different kinds of content sites, including news media sites, but also ones that were supporting other businesses. And people's staff is all over the place, but the reality seems to be that nobody can afford to have huge, monstrous editorial staffs any more and the editorial function, it varies obviously by what kind of genre of medium you're participating in or whether you have to create new stuff or whether you can repurpose other stuff. But it's hard to imagine too many staffs where fewer than half too many staffs where fewer than half of the editorial staff wouldn't be technical. And by technical I mean scripter and editor kind of thing or maybe a database designer, but not a coder, not somebody who writes C. But probably most medium size to large size media organizations or news organizations should not be ridiculously big.

The Wall Street Journal is on the record saying they spent 28 million dollars on their site relaunch. And the whole technology of writing a site can run anywhere from a million dollars a year to $10 or $20 or $30 million a year, depending on what you're going to do. So I didn't want to talk about the technology part. But from an editorial staffing point of view, if you're a big, heavy-trafficked news organization and you're spending a whole lot more than $10 million, you're not going to recap it anytime soon. And people underspend on syndication I think. I think there's value out there that isn't being tapped. From an organizational point of view, in many cases, the studio style organization works. We have a producer, a TV style. We have a producer and then a content lead and a tech lead when they're creating new channels and things like that. And then the handoff should probably come directly from print because there's no - much as we're going towards database approach for developing this stuff - and the Times has that awesome custom taxonomy engine that they have for tagging things and producing things. The whole idea of a multi, edit once, or create once populate to interactive TV into the website, into the wireless and into the paper, that doesn't work. You can't buy that and you can't even build it yet. So the technology is not going to be anywhere near mature for several years. That's one of the reasons why it's better to pick a straight path right now.

So, let me just make my concluding points and we'll let everybody get back to… I'm an analyst. You can't shut me up. Twenty minutes long. Not too bad.

At the end game, obviously in this business is to own your audience across mediums. I tried to make the case that they are going to have the expectation that you deliver your product, whatever it is, to multiple points, multiple times of the day. The best place to reach them, while they're at work is through the Internet today. So that's basically what we're all in this to do, is to own a single audience perhaps under a single brand and reach them wherever they might be. However, the thing that will pay for that - this idea that people really advertisers and agencies really want these cross media campaigns. Everybody who is multimedia says that, especially AOL for obvious reasons. But the deals are starting to happen but they're still not really there yet. Nirvana is not the right word. I don't think you ever achieve Nirvana, right? So it's a stretch goal right now that I think we'll increasingly see happen. But right now those big "I want to buy a television and I want to buy Internet and I want to buy radio and I want to buy billboards", they don't happen all that often yet. But they will happen over time.

So in the near term, especially in the next 6 or 9 months, most site's objective should be the reverse of what they were 2 years ago. Two years ago people were using air time, television broadcast time to drive people to the site. And they still are and that's a good thing to do. But in the near term, since there's not much money on the web, a lot of the effort of the web property should be to drive traffic to the opposite direction - back to the traditional media. So the Times should encourage people to read online at work but get them to go subscribe to the paper which they do. And TV stations should absolutely do a lot of promotion and drive traffic to the actual show. I firmly believe that having a good site will drive up your Nielsen, your TV Nielsen ratings. There's precious little evidence to really support that now, but I do believe it and it's definitely the right way to go in the next few months.

I talked a little bit about local off and on throughout my presentation. I think there's some real wild cards out there, both some opportunities and challenges that perhaps a local newspaper might be able to charge for content more aggressively than a national site. So, where the Times and the Post have to really think hard about extending their audience and really believing in bigger and achieving a bigger reach, maybe a local paper can get away with saying, you can't get to the site unless you already subscribe to the newspaper. Maybe you could pay a little extra for something else. Because their audience is less likely to be as fragments. And people maybe on the road who wouldn't pay for a print subscription that gets mailed to them 3 days late, might be willing to pay a few bucks a month to get to the old hometown paper delivered online.

The other thing I think a local - there's revenue opportunities outside of advertising. Local advertising. If you look at my advertising forecast or the actual numbers. The number that's spent locally outside of classifieds is very low. It's 4 or 5% of total Internet spending outside of classifieds is local. Which is nothing like the real market which is like a third to a half, depending on which medium your talking about, is local advertising. So the local advertising is still a tough market but there's other revenue opportunities perhaps in ticketing in advance and things like that. And then once again as I was point out before, the competition is local. There's national networks that are now gaining some traction. So

Knight Ridder, Tribune, obviously Citysearch (another Barry Diller), Ticketmaster and AOL's Digital Cities are a national network of local sites that is starting to pay off.

Ironically, the TV networks have not done a good job of this at all. They used to invest in supporting their local stations but most of them are not doing that now. But for now, and this is a controversial one I want to leave with you to set up the futures thing. Online content, shovelware is OK. Online content is really about the presentation of the content. The best thing the Internet can offer you is new ways to find things and navigate and present things, as opposed to a truly, truly new form. We think that the future user interface for the Internet has yet to be really nailed. But just let me leave 3 thoughts in your head. What things really work online that are unique to the medium and different from television or print? It's interactive and two-way. People can pass along. Let your audience do the navigations virally, you know, spread the word. Or you can make it easy for them to email articles to other people and stuff like that.

The other thing is when we do our surveys, people do, if you ask them, they say they want graphics to help them navigate. They basically mostly find their way around by bookmarks and by search. But they say they want graphics. So use the Flash as a navigation technique perhaps or using pulldown menus and things that you can do that you can't do as aggressively in a static world.

And then search is the way people find stuff. So there's absolutely tremendous value to be added in search in terms of presenting things to people either in director or in search form or in taxonomies. And teaching them how to use the thing. Because I think most of the failures with personalization and customization, a lot of it has to do because it's expensive, but a lot of it has to do because a consumer can't figure out how to do it. Making suggestions to them. "It looks like you're doing this, would you like to do it this way?" Do you like the way their papers were presented to you, or may be giving them templates. Here's three different ways. You might be able to look at it and do a little demographics before you go all the way to behavioral. Here's the way to find around the news when you're in the business section by life stage. Here's the kind of things you should think about when your kids are going to college or when you're getting ready to retire. Stuff like that.

And then finally, no surprise there. There's no way we can justify spending what we've been spending for the past few years previously in this market the way it is today. So this is not news. Everybody I think has made that adjustment. We've all made our layoffs, including Jupiter, and basically we're living in a much leaner world that I think everybody has pretty much recognized.

And that's my prepared comments. Thanks very much for your attention.