

## **2003 – International Symposium on Online Journalism**

### **Panel 2: The Post-Bubble World**

*Has profitability been achieved for the online news industry?*

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**Moderator:**

**Melinda Gipson**, Electronic Media Director, Newspaper Association of America

**Panelists:**

**Neil Chase**, Managing Editor, CBS MarketWatch.com

**Peter Krasilovsky**, Partner, Borrell & Associates Inc.

**Stephen Newman**, Deputy General Manager & Director of Operations, New York Times Digital

**Elaine Zinngrabe**, Assistant General Manager & Executive Producer, Los Angeles Times (latimes.com)

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**MELINDA GIPSON:** Peter Krasilovsky is a partner with Borrell Associates. Steven Newman is Deputy General Manager and Director of Operations and New York Times Digital. Elaine Zinngrabe is Assistant General Manager and Executive Producer at latimes.com and I predict the most popular panelist because she took UT in the final four office pool. And Neil Chase, Managing Editor of CBS MarketWatch.com with apologies to Neil, all these other people are sort of in and out of the newspaper business, but he's the one that we get all our good ideas from. He's the one that we go to to steal.

I'm going to shift a little bit from just the topic of profitability to talking about value and what the online publishing experience adds to the value of the franchise that we have as publishers. What we really have to do to create value is we have to prove our worth to advertisers, we have to enhance our worth to readers, we have to shape the future of media - we have to make this something that helps us get to where we want to be. And we have to be an asset to our industry.

So let me ask real quickly, how many of the students here are journalism oriented? Almost everybody. How about marketing? Any marketers - future marketers of America? One. OK. Well, you know, sometimes when I start off by saying this, I say, well guess what? Your salary is all going to be paid by online job ads. But in fact, it's a lot more complex than that. We really are trying to build this as a business for advertisers across a wide range of categories. And what they value is reach, relevance, and return on investment. So you have to ask yourself the question, how does your online site uniquely deliver these things? Well, you have to be a dominant media player or you don't get the reach. Right? That is either locally or in your niche - like MarketWatch.

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But you also have to build networks and partnerships and you have to leverage that local reader loyalty if you are just a local paper into something that you can deliver to advertisers who've been buying preprints and display ads all this time. What we work on at the NAA is trying to turn that into more of a network place so that we can start to pull in the money that has been going online which is very nationally based. You know, it's BMW, it's Dove. So the most important thing for us to remember in this whole equation is that it's still about putting buyers and sellers together.

You have to ask your question, what are buyers doing? What are the readers doing online? This is what they're doing online. Top ten researched activities online: traveling, shopping. Going to movies, eating out at restaurants, listening to music, attending concerts and theatre events, attending cultural events, book reading, cooking, home decorating. So when I go on the road and I talk to newspaper publishers, I ask them how closely does your online site match the interests of what people do online? Think about that.

This has become an even more interesting question of late because what we have done is we've been working with MORI Research on a day part study. When are people online? And what are they doing online at different times of the day that changes throughout the day. Eight to eleven pm? That's squarely the newspaper website. We're doing great there. And even first thing in the morning a printed newspaper. But the numbers are much bigger for the Internet than even for the online newspaper in general in that time frame. And if you look 6-10 pm, the other big 50 square under Internet, that's huge compared to where people are in terms on an online newspaper or printed newspaper for sure. And it's the closest thing to television in the evening hours.

You'll get a chance to take a look at these slides later. I just want to point out what the blue squares are telling us. What they are telling us is that from 6-10, what people are doing when they go online is - we already said they're shopping to a large degree, but they're looking for jobs, homes, vehicles, auctions. 9-11 is where you get the 21 percent bracket here. That's when they're shopping for business related purchases. But what are we talking about there? Hewlett Packard, Compaq. You're talking about personal stuff 6-10. When you get home or maybe if you're in the office a couple hours later. Six-10 pm users online banking, off-beat news, online games, downloading music, calendar of events, health information, movie and event times, travel information, multimedia features, maps and directions. What are we doing about it?

There are about half a dozen newspapers I know of now that have started to have a full time day parting editor sort of function. That changes over at 5 pm. There's a new look here. There's a good night Phoenix, or whatever else is going on in those markets. It turns into a little bit more of a city guide type of site. It's a lot more hip, there's more blogging, there's downloading music. That's what it's starting to look like.

Edging your lead story in graphics - this is the Lawrence Journal World. Rob Curley is one of our sort of stars out there. But you still have to show the advertisers what

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their success looks like or you can't make the business proposition. And every year what we do at the NAA is we have this digital edge awards and we give awards for online advertising. And I don't want to - I'm not going to say anything negative about this site. I'm just going to say that this is the reality for a midsize site. This was the winner this year. It was actually very clever of them to have gone to Dillards and talked to them about what their marketing and their brand goals were. They wanted to extend brand preference and built affinity, they wanted to drive foot traffic to the local store, and they wanted to target a medium to upscale user. Obviously this is a wedding site. The difficulty that the newspaper ran into right away was, here's a registration online site and wouldn't it be great if that's what Dillard's wanted. But it wasn't. They didn't really want the database. They wanted to make this site drive foot traffic to the local store where they would go in and register. They almost didn't know what to do with the database itself. So here we have a disconnect between what we're able to offer our advertiser and what they're really able to understand and accept and exploit.

Flip side. Interesting that it still involves getting engaged, getting married. That's a lot of what the web is about, right? - is finding the right person... So this is the Washington Post's entry and they also won in the big size category. And what they did, is they had this floating wedding ring, or floating anniversary ring or big red lips. And they targeted this very intrusive advertising - what is in effect a popup - to the sports sites for the younger guys and to the business site for the anniversary rings. Here again, trying to target a very upscale audience, trying to do it in a way to get their attention. They had the ability to take registrations if you were interested and Mervis Simon wanted it big time. They actually exploited that list and found it very valuable. It can be big like the intrusive ad that I was talking about. It could be also small - a tiny little ad down there for Days End. The KU Sports site here - of course basketball was big there as well this year. What it says is best KU Bball room rate. They didn't even have to call the advertiser and tell them this ad was open, was on the site, because they got 8 reservations the first night it was up without telling anybody. OK, this is extremely effective because it's contextual and it's in a place where somebody would want to find a room.

We've gone large in a lot of respects as well. This is a campaign that the Boston.com folks did alongside the Boston Marathon. They of course built a marathon site as they do every year. But they got it sponsored this past year by Kohls and they decided to tie in event marketing, a lot of feel good stuff. They built a whole site for - anybody a marathon runner here? - no. When you run a marathon (no, I'm serious, a lot of people in advertising, you'd be surprised.) They have to get sponsors to be able to run at all because it's expensive to run in a marathon. And so you get a sponsor who is really paying the money to save Children's Hospital in Boston but you're their runner. So they passed out signs along the site route - Boston.com people - saying "Go Mike" and then Kohls at the bottom. So it was tough to provide a metric to track this campaign, but what this shows is being a dominant local media player and being able to go large to other forms of advertising can be very valuable for a retailer or anybody else for that matter.

Everybody's seen the little popups where the car drives across the screen. What we've starting to do a lot more of - at least in our publishers - is after you're ready to

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leave the site you get a popup, and they don't want to lose the lead for the dealer. They really are trying to generate leads so that somebody is going to actually buy something at the end of the day. And in Beulah they're even smarter. They have turned this into a whole direct marketing empire (is probably too strong a word) but what they've done through their registration process is compile a very detailed database of people who have opted in to receive offers when they are relevant. Now the relevance is always a tough test - you know, that's always a tension there - but they were able to pull together this email campaign to target households with 75,000 plus income, specified zip codes, mail for AT&T broadband Internet service. And wow, that's a marketer's dream. And of course the performance was really very, I don't want to say above average, of any campaign that AT&T ran. Very good.

OK, so what does this look like from a publisher's standpoint? What it looks like is that when you want to see the Ryder Cup coverage or something where you launched this... Anyway, when you go to a page that you want to see and it has been closed off. It's now behind a registration wall and you have to fill this in. Dallas was extremely intrusive. They wanted to know everything. They wanted to even know your phone number, which is very clever because now they can match it against their circulation database in print. Sacramento B Movie Club did a similar approach. They have something called Ticket Club and they drew 35,000 registrations to Ticket Club with the promise of receiving free premier tickets on a regular basis. Now there was, of course, a drawing. Everybody, all 35,000 people didn't get free tickets, but the chance of it was enough to fill out a 25 question questionnaire and what you had at the end of this is an extremely rich database of entertainment habits of people in Sacramento. I mean that's something that hopefully they can take to the bank. It's been tough, obviously, with entertainment clients to do something like that.

In contrast you have something really ugly that we're doing, which is just kind of - I won't call it a shopping site - this is more like an advertising listing site on the Houston Chronicle. And what have you got? You've got icons. Now, I didn't know that I wanted to go to JoAnne's Fabric when I went to the Houstonchronicle.com shopping site, so I may not go there very often. Driving traffic is a problem to these sites because up until recently they haven't been that relevant. What we have done, though, is we've put more of our preprints online in a way that people understand them and I will say, primarily the advertiser understands them. This is not what Marshall McLuhan said - the medium is the message. Obviously this looks like the paper online. It's kind of like if you thought about the early days of television - reading the newspaper with the camera facing you. That's really not where we want to be eventually, but guess what, it's extremely profitable for us. And it has at least been usable to the point where you see the Lowe's preprint on Father's Day you can shop for a barbecue grill, select a barbecue grill by price comparison to other people, and actually buy the barbecue grill.

Something else that we're doing a lot more thinking about is contextual relevance. And I would have to call this infomercial capability. We were approached by Target - at the VP Advertising level - and asked, what should we be doing online? And of course we put a lot of thought into it and said, something you might want to consider is how about a teen music review that we go and we get written internally. We basically generate the content but it's going to be sponsored content and Target

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would sponsor it obviously with the hope of connecting the desirable CD to something I'd like to buy at Target.

So I've spent the first couple of minutes on proving your worth to advertisers - on the enhancing your worth to readers issue, new audiences. Obviously RawKansas.com is not the Topeka Capital Journal and it needs not to be. Because if we are ever going to attract another younger, more involved, more Internet savvy audience, this is going to have to be the way we're going to have to do it. The content has got to change. The attitude has to change. A lot has to change. We could certainly tell stories differently online than we used to. This was another Digital Edge award winner. It told a story of a boy who had to journey, I think this is the one where he went - did he go back, going north to LA. Really gripping stuff, but very interactive and really intensely immersive experience. This is another one from the Chicago Tribune - 9/11 a year later coverage which was really compelling.

And I have to use this as an example again. I use them a lot, but they really have at Lawrence, Kansas, databased extensively and given people a lot of opportunity not to throw intrusive advertising in there, but to have little contextual links that make a lot of sense. You don't use this the way you use the paper. I have to come back to Dallas again as well. Blogging obviously is taking over the newspaper industry and you've probably seen MSNBC and other people's blogs from Baghdad. But they used it very interestingly at the Dallas News after the Columbia shuttle blew up. They had witnessed a history here where you actually had readers who were able to get on there and blog about their experience.

From something that's changing the way that we cover the news, I really had to jump a little bit into broadband. Out in Oklahoma, NewsOk.com has taken its original site which was called Oklahoman or something like it and partnered with a local television station and turned this into an extremely multimedia site. It's a little hard to see, but over on the left-hand side on the gray bar, there are even little cameras of auto ads and maybe that's again not the kind of medium that people thought of when they were thinking about the Internet originally, but it does provide some reuse for the auto advertiser and he can link it to the database of what his latest deals are.

What happened when they did this, was that Oklahoma.com and (inaudible) are separate in the blue and red bars. When they combined it, if you look from August the last blue and green bar where they start to edge into the newsok.com to January of last year, they've doubled their reach just by combining forces and having one message in a single strong brand in that market. And I think that's a really important message for everybody - not just that newspapers don't market Internet sites as well as television - that's not what I'm saying. What I'm saying is that if you can consolidate your effort in a market, you're getting to that point where you're really talking about strong market reach.

Another thing we talk about in our online newspapers is unduplicated reach. In San Francisco we're going about an additional audience. Sfgate.net reaches 477,200 people but here are 264,600 people - a quarter million people - who don't read the paper. So that is additional reach for an advertiser and that's what you go to sell.

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Obviously we're moving to broadband in other ways. This is the feed room, which is a Tribune/MSNBC joint venture. You'll see a tiny little ad in the lower left-hand corner. I actually watched the Columbia memorials in the feed room. And I was disappointed that there wasn't anyplace for a commercial. And yet, maybe it wasn't suitable to that sort of an activity. The same issue is, it's kind of tough to advertise around a war.

But we're getting there, and that's the kind of thing that can provide a rich media environment for car companies and anybody else who has very brand, very immersive sort of a message. Obviously we can go narrowband as well. And when we think about opening up new platforms, we did a whole project called infotogo wireless pilot project at the NAA with our newspapers. All of you journalists here will think in terms of this being a really compelling message here and obviously very relevant to me because I'm stuck in San Diego and my phone is going off at 6:18 in the morning. That's west coast time - you know. We can't solve the alert issue to that extent, but West Coast time, this is happening real time. Nobody else is up in San Diego and I have several hours lead time to try to figure out how I'm going to get home. In fact, that probably is not a huge profit center that you're looking at right there - as valuable as that information is. What people told us that they would pay for is something more like this: tell me when there's a house, a car, a job available, that I'm interested in that I'm willing to set up on the web and I'll give you \$20 a month. \$20 a month, that's real money. That's more than some people are charging for their newspaper online for the year. You know, why not? \$20 a month. Not every single month of the year, but until I find the house, the car, the job.

In Europe, it's completely different. I just added this slide this morning because it was such an international crowd. The carriers are paying the publishers in Europe for the messages that they generate because the user has to pay for them. So here you've got the BBC which did this very clever thing. Send us your pictures from the anti-war demonstration and they're posted automatically in some cases. They've done this in Japan as well. And especially the woman who is very pregnant. Her stomach says, "the world is my home. Peace." You might not see that in your local newspaper, but it's pretty compelling stuff online. And they are making money from it, but just not here. And that's partly because we don't have the business environment to be able to do that. They're still trying to give away things to attract customers.

Obviously there are other platforms that are coming onto the scene that we're going to have to think about. How do you charge for that? I do think that this is probably a subscription model platform here - this is the tablet that they're working on at the Times. And of course there are some compelling things for fans, for instance, that people will pay for. And they're clearing six figures up there in Milwaukee just on Packer fans. This is an email that goes out and a subscription based website where you can go in and get everything you could possibly want to know. And for these people it's at least 10 months out of the year. It's not just four months out of the year. So there's some prospects there and some niche markets.

The ultimate portable device, unfortunately, is still the tabloid and you're seeing something very interesting in Chicago where they've got something that was

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essentially Metromix in terms of content and they've put it into a tab that they're trying to sell for a quarter. Their competitor in the market is doing it as well. The only reason I point to this is that all of the stuff about value I was talking about before - about attracting new readership - you know, the web can inform what we are doing in print, and has, to some extent. The burden that puts on me is that I have to figure out what the synergy is. And we've started a project with Dynamic Logic where we're trying to figure out what is the synergy between advertising in the printed newspaper and online. How do you optimize that relationship? What kind of lift is there? We're going to be starting that very shortly - within the month, so keep an eye on that and maybe we can talk about it a year from now.

The push to profit on online newspapers really started after the dot bomb, or after the bubble burst. And my favorite quote on this subject comes from Martin Nisenholtz from Nytimes Digital. "From 95 to 99 the web was more than an experiment but less than a real business. We began to invest from the middle of 99 to 2000 in a very aggressive way. When it became clear the Internet companies were not going to be values any more in the bubble, we knew that the metrics for success were going to change very quickly from growth to profitability." The good news is we are profitable, at least what we're able to determine by survey anyway. In North America, 39% of papers are profitable; an additional 26% are breaking even; and for many of these that is the goal. They don't want to lose their market share. They want to keep spending up into what they're taking in just to be able to be pushing the envelope a little. But a completely different picture in Europe. And this was done by the World Association of Newspapers and the Innovation in Newspapers project that they did last year.

The good news for us is that we are growing faster than the Internet - that people are coming to us at a faster rate than they are going to the Internet as a whole. Simple rules for becoming profitable online. Achieve scale. My best example here, unfortunately, is from the New York Times. They had this great wine site. They didn't feel like they could take it to scale. It was great in Sonoma County but it was not great as a national site, necessarily. It wasn't big enough. And even when you look at online businesses as a whole, sometimes you're talking about 2 to 3% of contribution to overhead and profit - 2-3% of the company's entire revenue may be online and you're profitable and growth is higher, but it's still small numbers. So there's achieving scale as an issue on another level.

You have to create a family of brands that connect with new audiences. You have to pick your battles. Sometimes you have to drive known revenue streams like the classifieds. Sixty to 70% of revenue inside online newspapers is from online classifieds. And some of that money is what Vin would call "funny money". It's upsold classifieds, or it's an increase to the overall rate without somebody understanding what they really do to get it. In the long term, people really are assigning value to the Internet or they're not going to make money at all long-term.

When it comes to critical technology systems, we learned that those people that were profitable in that last survey - they're building rather than buying. Very interesting. People like the Washington Post are investing in critical systems like their jobs platform. You have to diversify revenue sources. You have to invest in audience

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tracking and registration. You're going to hear more about that. You have to move to fully allocate your costs or it is just funny money. And you have to build a balanced score card. Since there are no B school people in the room, a balanced score card is really something that measures something that's not just black and white numbers. You have to look at how can I measure myself against goals that aren't just about profitability? Well, these are the ones that Media General came up with and I think it's an awfully good list. You have to measure yourself in terms of your value to your publishing franchise, in terms of how much you prompt additional public trust and identity. How much you acquire and retain users and subscribers. Do you develop and acquire new products and services that you build online? Do you acquire and retain advertisers? Are you offering excellence and enterprise support and are you learning and growing?

Our next speaker is going to spend a little bit more time on kind of a controversy in the industry. We've been talking about this concept that as newspapers they've understood the Internet. They've understood it in their own terms. We looked at the preprint, right? Well, when they went to the web, the first thing they did was classifieds. But way out there in that white space that we weren't touching were things like eBay and Orbitz and Amazon. And how did we miss that? So we need to be more innovative generally as publishers and think about that. And that's why we have Peter Krasilovsky...

**PETER KRASILOVSKY:** Thank you, Melinda and thank you Rosental for having me here. Well, as Melinda said, today we're going to take a macro view of the challenges that newspapers face to be relevant in the age of interactivity. And it's not just the Internet, as other speakers have talked about. We're talking about wireless and wireless data and interactive TV and all the other forms of digital media that take us away from the print newspaper form that we rely on today.

Now I'm looking out at you and I'm thinking maybe you're not really that oriented towards business discussions. If you're all interested in pursuing careers in journalism as opposed to marketing. There's one marketer in the room. But how many of you think you'll be working for a newspaper or newspaper company in 10 years? Just curiosity. Three people. Do you just assume the newspapers are toast or that they don't have anything that is interesting for you? Obviously newspapers have to adapt to be relevant to people who are interested in journalism and also interested in pursuing local commerce. Yes. (inaudible question) Cable TV setting the agenda? (inaudible comment) laughter. Well, that's interesting.

You know we got into a good Texas fight at the bar last night. The guy in a white hat from Houston, and he found out that we were in town for a journalism conference. And he said, you know, what do you think of Fox news. I think it's fair to say that most of us here probably hate Fox news. We think it's terrible. But to him it's like that, God, we finally have somebody who's honestly reporting what's going on over there in Iraq. And to him, it never occurred to him that we actually worked for newspapers, because newspapers aren't relevant to him. So these are just some of the challenges that we face. But the fact is newspapers still get a high penetration of US audiences. At the local level they're still the most impactful way of reaching

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people and really connecting buyers and sellers. It's the flip side of the yellow pages business which I'm very familiar with.

So let's really talk about newspapers and the challenges that they face. They're important and if they adapt more you may want to work for them or for things that they put out.

My company does a lot of work with newspaper companies and other local media companies as well - yellow pages companies, broadcasters, and so forth. We help them with their microstrategies for reinventing relevant sections that are revenue streams today, such as real estate, recruitment, nice sites, things like that. And we've also been taking a macro view of where newspapers are in terms of being dead ducks. Whether the Internet is acting as a disruptive technology that will come in and destroy newspapers because newspapers really can't adapt and that they really are stuck in the print medium.

Now I want to talk about what disruptive technology is. When I went to grad school in the mid eighties we weren't really talking about disruptive technology, we were talking about the fusion of innovation. We were very impressed by the penetration levels of different types of new technologies. And right then the VCR was coming in. It was the fastest new media we'd ever seen. Everybody had a VCR within ten years of its introduction. Well now I think of the disruptive technology theory as the fusion of innovation but with dollar signs. Now we're more focused on not only the usage of different types of media, but the ability of different revenue streams within that media to catch up, and for us to transcend the new types of revenue that are attached to new media. So disruptive technology is a concept that was popularized in 1997 by Clayton Christiansen from Harvard Business School. And Clayton's idea was - you have a new technology that comes in and it basically wipes out the companies that are in bigger areas. But it's something that happens over a multiphase process.

So we're looking at three phases of disruptive technology. It starts in new markets before attacking established industries. The established industry begins experiencing slower growth. It has price pressure. It can't charge as much for advertising for instance. And then disruption fully attacks the established industry by serving its core customers. And some of the examples that are in the Innovator's Dilemma (the book): the steel industry. Big steel had not anticipated light steel plants coming up. Photography. You had Kodak probably not being as prepared for digital photography as it could have been. And we're watching to see how it gets destroyed, if it doesn't adapt. We had things like medical stints taking over from open heart surgery. You know, they used to come in and just tear your stomach open and put the valve into your heart. But now they can put little stints in and it's not as invasive. And this is something that gradually happens over time in the three phases.

How does it relate to the newspaper industry and to other medium? Well, the first thing we have to do is get over the hang-up of technology because the Internet is not really a technology. A technology is as Harvard business school has to redefine it, is more a system for making money. So if we think of the Internet and its attack on newspapers, it's a pretty interesting exercise.

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So to avoid being disrupted, you've got to focus on growth, and preferably new growth. Right now I think you'd say that newspapers are probably more focused not on getting new growth, but on taking the existing revenue streams and protecting them. Especially in classifieds. You can see it's a relatively small area of overlap. Now if the newspaper industry is all about going after a fraction of a fraction of revenues that are declining today - because the print business is declining - probably none of you will be working for newspapers in ten years. And I won't be working with them. But if newspapers can reinvent themselves and come up with new areas that are relevant to their local, online commerce hubs - because nobody reaches the local consumer like newspapers do - then I think they really do have a very relevant feature.

So we've done some research and we've looked at how newspapers make money today online. We figure it's about a half a billion dollars. That sounds like a lot of money. And it certainly is not funny money - until you look at it and you realize that most of it is upsells of classified revenue today. And people do play around with - well, this is what we made on the Internet side and now we're able to upsell it for ten bucks and we sold an online ad. And you begin to wonder. Who made the money? The print side or the online side? And it's an ongoing debate in the newspaper industry.

So upsells are a healthy thing unless that's your focus and you don't have anything else to show for it. Some newspapers really don't have any other revenues other than what they're reporting from classifieds. And let me digress for a minute, because I think this is kind of interesting. How does it relate to journalism? It's a challenge. It's not just a matter of, well, the classifieds pay your bills, and allows me to go the Iraq and cover the war. I think it's much more complex than that, especially in some of the great opportunities we have with new media.

I'll give you an example. I just moved to San Diego so I've gotten pretty close with the San Diego Union Tribune people. And as you know, that was the site of this year's Superbowl. So they figure, the superbowl is coming to town. So the San Diego Union Tribune - they approached the NFL and they became the official site of the NFL Superbowl. Now they paid a price for doing that and they became a partner. Strategically, it was valuable and it was a great promotion, not only for the print newspaper, but also for the online newspaper. So the ad sales people said to the online guys, you know, I think we can sell some advertising around a new section for the Super Bowl. All those people coming from outside the area needing information about San Diego restaurants, San Diego hotels, San Diego events, San Diego history. So the ad people said, "hey editorial, can you build a special site around that?" The editorial guys assigned several people. They came up with an extremely compelling superbowl site that really complimented what the official NFL effort was. So it ended up making a great deal of new revenue that wasn't going to be involved before. It was specifically relating to the Internet and it was a great new journalistic opportunity as well. So I think that these are the kinds of new niche opportunities that we'll find ourselves getting more involved in. We're journalists. We have to work very closely with the marketing side. And we'll see more and more examples of that over time.

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So here's just a discussion of newspapers as opposed to general Internet sites. It's an open debate for me whether it's an appropriate comparison. But what we're looking at is online media advertising going through rapid growth. And we're talking about general sites - like Yahoo and iVillage and MSN and all the others. Well, classified, which is where newspapers have put most of their energies - it's a good business. But it isn't really going to grow very much, is it? Not for newspapers. Because all they're doing is they're dealing with the displaced revenues from their print sources. For them it's not new revenue.

Now, are newspapers really competing for advertising from Kraft cheese? Maybe not. But there is an area newspapers will be competing for, and it probably is a little bit of apples and oranges for this chart. It's for getting targeted consumers. And if newspapers can say, this is the consumer in Austin, Texas, and this is who it is, and they can charge a premium for selling that type of advertising, then we think newspapers will be on the right road at last. Today, in our research, we've discovered that most newspapers cannot tell you who the users are of their website. So it means nothing to advertisers.

So we just look at what some best practices might be for advertising. And this is totally separate from the other opportunities that are available to newspapers getting involved with commerce like sports registration or ticket sales and all those other things that really amount to 2.7 trillion dollars of commerce every year. This is only about advertising. And if newspapers can get more involved by registering their users and really finding out who they are and serving them on a personalized basis, you'll see new revenue coming up from email and watching their behavior and demographics. It goes much beyond a context that newspapers sell today which is I know that Bing Crosby is some guy who likes to go to the sports section and he lives in the New York area. It doesn't go much beyond that for newspapers today. There are a number of glowing exceptions and that's what we'll be talking about with our next panelist.

So 45% of advertising revenues might be said to be missing today, because newspapers are not targeting their consumers. With the exception of the leaders that we have speaking after us. Just some food for thought. I think that there are tremendous opportunities for newspapers to adapt and I hope most of you end up working for them. Thank you.

**STEPHEN NEWMAN:** Thank you very much for having me. It's really nice to be back in my home state of Texas. I want to talk a little about - I want to build on what you've heard from Melinda and Peter and talk about what we're doing at New York Times digital, but first give you a little bit of background on nytimes.com and New York Times Digital.

New York Times Digital is primarily now consisting of nytimes.com and boston.com. As Melinda has mentioned, we had several other properties that we folded - in some cases into nytimes.com and just places closed down altogether. Including Wine Today - and we're still drinking all that wine to this day. Nytimes.com, just as a little bit of an introduction, is ranked number four measured by traffic behind MSNBC, CNN, and Yahoo. Measured by time spent, however, nytimes.com is consistently

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ranked number one. It's also the number one newspaper site on the web. We have anywhere between 1.7 and 2.2 million daily unique users to the website on weekdays. About 12 to 13 million active registered users and over a half a billion monthly page views. Our today's headline email product now reaches 3.7 users everyday. That's three times the number of people who actually subscribe to the newspaper itself.

So I want to talk a little bit today about how we reach profitability and what I believe as sort of the keys to profitability. And I do that before I go into some of the specific advertising concepts and innovations that we've been rolling out and really trying to champion among the industry itself in hopes that we can turn this into a bigger business than we've seen it thus far.

So first these keys to profitability. I don't have these on a slide, but I'm going to run through them. And there is no particular order of importance. First of all, you need to backup the brand with the best possible news reports. It really takes advantages of the medium. Nytimes.com is not an online newspaper, by any stretch of the means. We are the New York Times presented in a medium that's unique to all the other mediums. New York Times company, while they make most of their money in newspapers, the New York Times company itself owns several television stations. We now own a digital cable, channel, in conjunction with discovery communications; we have a full-blown television production unit that produces documentaries. Another programming both branded and non-branded for various cable outlets as well as partnership with outfits like Public Roth Casting Company. So we believe that by taking the brand, and by leverage in the medium, and by obviously producing a high quality editorial port, that it's critical to success of any venture.

The second key is what we like to call the highways before the malls. We have spent many years developing world class infrastructure, world class systems, which we believe is critical to being able to really undertake the kind of journalistic endeavors that we want to be able to undertake. So it's really about building out the highways, putting the infrastructure in place before you get the malls. Because you can have the greatest malls, but if there's no way for these folks to get to the malls, then they're not going to do much business. So it's really about discipline investment - and that's another key. Back in the heyday of the Internet, we remained very disciplined about the undertakings that we pursued, both in terms of infrastructure as well a content development.

The third point is something that I know you've heard a lot about and will continue to hear a lot about. And that is registration. We did registration before registration was cool. And the key to our business, and a big part of our business, is really all about database marketing. And you heard Melinda talking a little bit about it, you heard Peter talk a little bit about it. But it's really about understanding your users, knowing who they area, and having the technology, the insights to be able to reach these folks, not only through advertising but also in various editorial ways. So database marketing is really the center of what we're doing here.

Fourth. Sales and marketing innovation. I'm going to go into this in a little more detail and show you some examples of this innovation, but the efforts that we're

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doing with that database with concepts like Surround sessions, which I'll talk about, site sessions which is day parting, wide angle targeting which is our newest innovation. Things that we've done by leveraging the vast archive of the New York Times through things called sponsored archives. And we can talk a little about that as well. These are all critical to our growth and to our profitability.

Fifth is the right relationship with the newspaper on all levels - both on editorial and on the sales level. We talk about how a lot of newspapers are reliant on upsells from the newspapers. We have a very independent sales staff who work on their own but at the same time, there's quite a bit of brick and click initiative going on there. So we're reaching out to clients who are spending, who have a budget for the newspaper and we're actually expanding that budget, we're not cannibalizing that budget for the website. So we're doing a lot of that type of close brick and click initiatives. And on the editorial side, we've really developed strong relationships with the newspaper and we've really begun to change the way news gathering is being done at the old gray lady. We've got almost 200 years of tradition there, but now we're seeing more and more of the journalists understanding that they need to file earlier or file continuously and we have a very integrated, continuous news operation with the newspaper. We have a web journalist over in Kuwait covering the day and we have various content that is exclusive to the website. For instance Michael Gordon is filing dispatch pieces from the war that's exclusive to the website. So they're very tight and close relationship on all levels.

The sixth key to profitability is diversified revenue streams. I'm going to talk about that in one minute. It's sort of building on the slide that Peter had just showed us about how important it is to really rely on various revenue streams.

And then finally commitment to user experience and customer satisfaction. We're going to get into this a little later. I think Neil is going to cover a little bit of this. But it's all about creating a user experience that's not intrusive, that doesn't detract from their ability to digest news, but at the same time we have another customer that we need to appeal to and that's the advertiser. And so what we like to do - we're very careful about the types of advertising we take and how intrusive it might be. We call it flexible containment and we can go into a little bit of that further - but it's really creating a user experience through design and through the user interface as well as from the balance between edit and ads.

So I want to get a little bit more into the revenue side of things. Where does our revenue come from? One-third of our revenue (newyorktimesdigital) comes from display. About a quarter comes from classifieds, which is extremely different from what you've been hearing about the typical online newspaper. The remaining almost two-thirds comes from a combination of pay products, direct revenue, licensing and email. So it's very much like the bar chart that you saw with Peter. That email is a very thriving business for us. As I said, we have not only editorial products like today's headlines and various vertical related newsletters, but we also have a very thriving advertising business in email. Again, database driven, database marketing. We have millions of opt-in subscribers that we know very well and we can target on not only their demographics but also on their behaviors.

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Pay contents is another area that we're moving into more and more these days. We don't believe it's an all or nothing game. We don't believe that it's all about putting up a wall on the front page of the website and requiring someone to charge for content. We're a firm believer in this medium as one that can support an advertising business model. But we do believe that, for better or worse, we are dealt a hand in this card game early on about the way content would be available. And we're continuing to develop more revenue streams, more direct pay revenue streams. Right now our two biggest are archival revenue streams as well as crosswords product. In a couple weeks we're going to be introducing another pay product and all I can say is, stay tuned for that.

So moving on to some of these ad innovations. Over a year ago we introduced something called the Surround Session. And I'm going to walk you through a little bit about what the Surround Session is and how it looks. This is sort of a very closeup view of the section front on (and my time's up.) And you'll see two ads for American Airlines on this page. The surround session basically dedicates your session to one advertiser. The advertiser owns your session. And basically the way it works is that as you move through the website you will only see one advertiser in your session, and that's American Airlines. The basics of how this works is that we will count it as a surround session if the user sees a minimum of five consecutive page impressions - a maximum of ten. And it's very targeted. We can target it basically any way in which the client pleases. By contexts, demographics, or site behavior. A surround session is nice because it allows flexible creativity in positions and the sequence of those positions, and it can really meet many marketing goals of the advertiser.

I should mention that the key to surround sessions is having the data and the infrastructure to understand how to optimize this. Cause you can imagine that if we - you know, you're selling sessions, you're not selling page impressions. And so if people come to the website and bail after two page views, well, that's not considered a surround session and we don't charge the advertiser for that. So it's really important that you have users who are really going deep into your website, and that's the case with us. And we've also been able to target this so fine-tunely so that we know who to service a surround session to. We know that you're likely, when you come to the site, you're more than likely to see more than five pages. So we'll go ahead and serve you a surround session as opposed to those who we don't think will reach five and we'll have to wait. But we've really gotten good over the last year, really honing this down so that there is very little waste.

So the implications for the advertiser on the surround session is that it moves the model away from click-through rates to session-based selling. Which the importance there is that this is a model they understand. Marketers understand the reach in frequency model which is basically the broadcast model. And so now we can begin to get them thinking - comparing apples and apples - and they don't have to be so concerned about the clickthrough. And we can begin to also tap into these broadcasting budgets that were so hard and so large - so hard to tap into and so lucrative. As I said, we can do sequential messaging, which is very nice - high duration of your interactions - it's exclusive, there's no clutter. And it allows the advertiser to really build on these offline campaigns that they've spent so much money building up. They can really leverage that in a surround session campaign.

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We worked with Dynamic Logic to test how surround sessions would form against the typical ad campaign. And in all the four major categories of measuring success, you could see a three-fourth the times life in brand awareness, message association, favorability, and purchasing time. So by every measure, surround sessions is exceeding expectations.

It's been very popular. We've had over 30 blue chip clients advertising with us with surround sessions. We've already gone well into six figures in the first few months of this year in surround sessions, and surpassed that obviously last year. In December of last year we ran 17 clients alone doing surround sessions - all very high profile marketers.

There's some challenges with introducing these new formats. Obviously there's a lot of education that goes into it - especially with the marketer. And one of the ways in which we tried to promote a better creative execution of these types of campaigns is we actually held a surround session contest in which we basically put out the call that the winner would receive \$50,000 which is not a small sum and would have their campaign run for free on nytimes.com for quite awhile. So there was quite a lot at stake. We had an enormous response to that, but we were really doing it so that we could educate the advertisers on which keys worked creating a successful session. And here you see some of those.

As I said there were challenges. Inventory management is becoming increasingly difficult to control and predict with all of these new models. Session-based models, targeting via context and behaviors and it's all dynamic. I mean, it makes yield management in the airline industry look like a walk in the park. And there's no real tool out there with the exception of a few proprietary systems built by some of the larger portals to really do that. So it's become quite a challenge for anybody.

Industry acceptance. Again, getting the advertisers to really understand it. I think we've made a lot of headway in that.

Direct response metrics. Again, this is the issue of trying to get advertisers less focused on clickthrough rates and more focused on branding. You might have a 1% click-through. Does that mean that 99% is meaningless. It's not the case at all. Pricing becomes a little more difficult, and then just spreading the word among the industry itself to try to get other sites to adapt this so it becomes more of a standard.

OK. This is a little bit of an event here. A lot of people have not seen this. This is the new ad size that nytimes.com is introducing in 10 days. It's called the - we don't actually have a name for it yet, so if anybody has ideas - but basically it's much more magazine-like. It's roughly half the page. And the idea here is - before you all freak out - the idea here is ignoble. You give them, you give advertisers a little bit more room, a little better palette in which to work, and you can perhaps move them away from all of the intrusive advertising that you're seeing that you all love so much. So this is also, if you think about it, much more like what the experience is in the newspaper. No one complains that they're reading one column of text in the

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newspaper next to a three-quarter page ad for lingerie in Bloomingdale's. So it's much more magazine-like, much more newspaper-like and I hope will move us all away from these overlay, intrusive ads that we all love so much.

We mentioned surround sessions as one of the innovations. This next one is much newer. It's called wide angle targeting. It allows us to reach users of various sections of our site no matter where they are on the website. So we have several very highly demanded areas of the website. Travel, biz, tech, auto, health are just a few. Well, there's only so much traffic in these areas and you quickly find yourself sold out of inventory in these areas. But who's to say that all these visitors - they're not any less interested in these offers or in these messages when they are reading in international, which is much harder to monetize through advertising. Or when they're reading in other areas of the website national. So what wide-angle targeting allows us to do is basically serve the same ads that they would see in travel while they are in other sections of the website. And it's through things like registration, connected with our ad serving capabilities and infrastructure, connected with our site analytics infrastructure. But connecting those three dots we can do this. And the glue connecting the dots is what's really so hard. But you can see we've now really increased the number of impressions that are available to us for each of these segments. And we don't charge quite the premium that we do for reaching these users in the section itself, but we've created a second level tier so in effect, we've taken our lower price run of side inventory and we've created a new tier. Think about it in sort of the airline model - there's first class and coach. We've created sort of a business class now and we've really raised our average GPM across the site by doing this. And it's really had quite an impact.

And with that we'll move on to Elaine and latimes.com and hopefully we can have a discussion about some of these things after we're all done. Thank you.

**ELAINE ZINNGRABE:** ... please raise your hand if you do so I can see you later. You know, what do you do with what you've got? Registration. OK. So obviously as Stephen just talked about. There's a lot to be done with registration information in terms of advertising. You can use it on your site target advertising at particular segments of people, you can use it to send out email messages to particular segments of people to reach them on behalf of an advertiser, and you can also use it for something we've done, which is sort of creating special segments. And we've done this for mainly two clients so far. One is Miller Brewing, and the other is Macy's. What we did for Miller, and this has been a two year project so far, is develop a couple of advertorial sort of subsections of the site, if you will. Miller was really interested in reaching a Latino audience and a gay and lesbian population with their MGD and Miller Lite. So we created these advertorial sections that were sort of based around what to do in LA and executed a lot of promotion in tandem to draw people to these sites. And then were able to actually create a user base around them, because the latimes.com is not inherently a great driver of gay/lesbian Latino population, and so actually create this user segment for them, encourage these people to register, and to get on the hot list of upcoming events that we were going to be at, and so on so forth.

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The other one that we're going to be running again - we did this last year - for Macy's was around Mother's day. Macy's was interested in running a sweepstakes where you would - last year it was you filled in an essay question on why your mother was great, or something like that. And you qualified to win \$500 or something at Macy's. Really successful again because what you're asking the consumer to do is fairly challenging. It requires some work on your part as a consumer for not the biggest reward in the world. But again, allowed us to put together an area for them where there was sort of some contextual content around it and develop this user base of registered people who had specifically signed up for this.

The other thing that Stephen touched on - registration is good for user behavior and I think that this is something that is pretty easily overlooked in our constant drive to get money out of things. So this is also useful in sort of making sure you're spending your money the right way. User behavior. So who are your loyal users and exactly how loyal are they? How many times a month do they come back? When they come back how many pages do they look at, how long do they stay, and so on and so forth. And then which content is most popular with which segments? Are you wasting your time trying to drive women into hockey content because it just isn't happening (or whatever). And then lastly who's making money for you? Because your quick hit people who come let's say come in off a quick referral off of Google news or off of Yahoo news; they couldn't even be bothered enough to come to you originally. They had to get referred by somebody else. Chances are they've come in and they go and they're not really ultimately worth that much to you.

So these are really important concepts again in figuring out where it is best to devote your limited money and human resources and other capital into improving different content areas.

In 2002, Minnesota Opinion Research also known as MORI did a study around paid content and what they did was talk to users who are currently subscribers to paid sports content. And what they asked them was, they asked them questions about what kinds of things were important to them, and what kinds of things would make them likely to renew their subscription. And so they came up with this graph that you see here - that's got these cute names and different quadrants. And obviously as with most graphs, where you want to be is top right. You really don't want to be at bottom left. So what was really interesting in this graph here was that the things that really moved people were, and you can seem them and these are obviously sort of masked names, Hemingway, notebook chad, Dave Wrighter. It was the columnist. It was the personality and the uniqueness of the content that was really important that drove people to say, "yeah OK, I'll pay you again. Yes, this is what I come to look at everyday." Interestingly, something that we all spend a lot of time and effort and money thinking about and executing on - audio, video, multimedia, email news were bottom left. So it runs sort of counter intuitive. And I will stop short of saying that we're all wasting our time investing in multimedia, because clearly with the growth of broadband penetration and just as the Internet community becomes more sophisticated, this is an area where we want to be. But we shouldn't necessarily assume that that's where we are today.

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Here's another thing that sort of runs, may not counter, but it's sort of interesting for us especially as a journalism community. Roughly the same amount of people use the web for news and use it for entertainment. Meaning that the great news, and this is especially difficult for me to say coming from the Los Angeles Times, the great news and journalism and reporting and foreign reporting and so on and so forth that we put out is not necessarily what people want to see all the time. So it's not necessarily, again, the only place that we want to invest our resources. We can't assume that that alone is the answer.

This last slide, and OK other than me and Stephen, who else is a B school grad? OK. So except for B school grads in the room, here are the things that your B school friends know. Your B school friends know about this thing called the three Cs. Very B school term - use it in parties, it's very impressive. It talks about customers, competition, and company. Right? So again, along the lines of checking for editorial ROI, what's worth doing - these are the three things that you try to check again.

Customer needs. So does it fit with what your customers are wanting? Again, if you have a site that's tracking mostly Rader's fans, don't give them Longhorn content. Competitive advantage. Do your competitors have it or not? And if they do, should you as well or is that a reason why you shouldn't? And in company resources, what does it cost to maintain or to do this? Obviously there's the build/buy question. And another sort of corollary to this question of every time you add something, even if it doesn't cost you hard dollars, it costs you something. It costs you effort. Even just a partnership costs you effort to strike and to maintain that partnership.

In addition to the resources of adding something on, is there a place where you should be cutting something out? We do a lot of things, certainly we do things at our site, I'm sure, that everybody else does too because you've done them forever. The system's been there forever and nobody looks at it but it's always been there so you can't possibly not have it. So again it's sort of an equal question of cutting and adding because we all have a finite pot of resources to expend.

With that I'm going to hand it off Neil.

**NEIL CHASE:** There's the United States, just where we left off. Let me give you a little idea of what we do at CBS MarketWatch and how we've tried to make a little money on all this. We are a profitable company as of December. We made a grand total of \$800,000 last quarter which sounds like a lot of money until you look at the millions we've spent in getting there. But the best part of it is, we are business journalists and we spend a lot of time writing about companies like Enron with all their fancy, silly accounting, and we finally managed to come up with a profit of our own that was a real bottom-line profit that even the accountants couldn't criticize.

This is our website. This is an introductory message - our most popular advertising unit at the moment. It kind of reminds you of a television commercial. First you watch the thing, the commercial, then you see the website and ads for British Airways on the website. Somebody mentioned this as a niche publication before. Somebody else called me an advertising slut, but I won't mention her name, Elaine. And we're an interesting beast. CBSMarketWatch is separate from CBS News. We are

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our own company. We are a site that focuses on individual investors. That's our niche. But twenty, thirty years ago a very small percentage of Americans had money of their own. Your retirement, if you had any retirement money saved up it was in a union pension fund, it was in a teacher's pension fund, it was somewhere you couldn't control it. Now far more than half of Americans have some kind of investments. I won't embarrass people by asking, but think about your money. Where is your money? Anything saved up, all the money you're pouring in the UT system for instance. It all comes from accounts that you manage. It's money that you can invest in stocks and things like that.

So our audience is investors, which means people with money, which is most of the people you see around here. Not as much money any more. So it's not just about the markets. For instance the DOW dragged back near flat, Wall Street putting greater focus on the war than the economy. Here's what's going on right now. And there's Saddam, is he alive? We have a whole war section. We don't have anybody in the Gulf right now, but we do have a lot of war coverage up. And as I ramble on here you'll see our page change several times. We're filing something like a thousand new news items a day, including these real time headlines that go through the box in the middle. And not that we would do it for page views, but you'll see the page refresh itself every three minutes and give you a new ad. That's one of the ways we've been able to make some of this money.

MarketWatch is a website, but it's a multimedia company. We are a TV network, we're on CBS television stations - 150 of them around the country. Every weekend with the Weekend Show, plus you'll see our folks on a lot of the CBS national shows. We are the business operation for CBS news. We are radio, we're on 250 radio stations around the country and in a lot of those radio stations we're on every half hour. We are the website. Fourteen million unique users in January. And we're now in print. We're in a handful of newspapers. We're on the Knight Ridder Tribune wire. So we're doing journalism in these multiple media. We have our own little groups of people who specialize in writing or doing audio or doing video. We have a lot of people who do all of those, especially people who are more recent college graduates who don't know that you're supposed to specialize in one thing or another, and will do journalism any way they can find. And everything's free on our website so far, with a couple of exceptions I'll show you in a minute.

This is the site that the mission is to liberate and enrich the individual investor. Maybe enrich and liberate. It's all about giving people information. And when they started this seven or eight years ago, it was very hard to get financial information so you couldn't just call your broker and get information, you couldn't trade stocks cheaply, and they kind of took all this information and put it into a news format out there in the public where everybody can see it. So this is never a website where we're going to all of a sudden say, you know what, we're going to charge for everything. It's not what we do. The one thing we've done very well for going on seven years now is stick to what we do and stick to our model.

What we did do about a year and a half ago is start encouraging people to register. You've heard a lot about registration this morning. It used to be that everything on MarketWatch was free. You could just go get it. You can sign up if you want to. And

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if you did sign in you got your personalized portfolio where you can keep track of your stocks. That's a great registration database. We know what people own, what they're interested in. And that's how people come to our site. A lot of folks don't come through the front door, they come because they want to check their stocks, especially on the days when the market goes up. And from that they read the stories about their stocks, they read the press releases about their stocks.

We started requiring registration for any story over 14 days old, just to see our archives. Didn't get too much flack about that. We took it down to 7 days, 5 days, 4 days, 3 days. We kept taking it down. Our traffic didn't go down. Page views went up and we got very few complaints. And more than half the complaints came from one specific user group - my reporters, who were too lazy to sign up for their own site. Literally, more than half the complaints came from people in the newsroom. They said, why can't I get to this? Shut up and register. You work here. So that was it. We were terrified. Registration's going to scare everybody away. It didn't happen. And what we have is this great group of users as we've heard from folks this morning that you can really sell ads around.

We have I said 14 million users a month. Dow Jones with the Wall Street Journal has I think it's about half a million - maybe more than that now - people who are paying for the Wall Street Journal online. You can ask yourself, is it better to have 14 million for free or half a million paying you \$30, \$40, \$50 bucks a year. We like to think the free part is better. We're not sure it's going to guarantee us all jobs forever. What has kept us alive is that as advertising tanked the past couple years, we were not strictly dependent on advertising. Again, the same themes you keep hearing over and over - have these diverse revenue streams. We bought a company in 1999 called Big Charts, and bigcharts.com was distributing all of the charts and data that you saw on all the brokerage websites. Well, all the people who are trading on those brokerage websites were coming to us for news and going to Big Charts for the charts and data. We bought Big Charts, put the two together, and what we got out of that was more than just a bunch of charts and data. We got a syndication operation. Big Charts is now delivering our stories along with their charts and graphics and all sorts of stuff to more than 500 other websites and to newspapers and all kinds of publishers in other media. So something like 50% of our revenue during the lean advertising times the last couple years came from this other revenue stream.

We then bought another parallel thing. It all has to do with figuring out who we are, who our users are, and what matches. We bought something called the Holbert Financial Digest, which I'm guessing most people haven't heard of. I hadn't heard of it before we bought it. That's probably not a good sign. A lot of folks thought I should have. But there's this whole industry out there - billion dollar industry - in financial newsletters. People who will send you a newsletter once a month in the mail and say, here's what stocks to buy, here's what to sell, here's my advice, I'm an expert. Pay me \$1,000 a year for this newsletter and I'll make you rich. And there are lots of people who do this, to the tune of a billion dollars a year. There's one guy out there who follows all those newsletters - has for 20 years - and has built track records about them - what they do, which stocks they pick, which ones have been more successful, less successful - and it's this guy Mark Holbert. He's got a partner Peter Brunlow who writes columns about his work.

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This was a perfect match for us. Here's a guy who sends out a newsletter by email and by FAX and by regular mail, but is not using the web at all. And he's got all these people paying him for the newsletter about the newsletters they pay for, and they're the same people who are using MarketWatch. That's the kind of thing that makes sense for us. That's how we grow our business. My boss is out right now looking at acquisitions, trying to find more companies to buy. We have \$40 million in the bank, we're breaking even and making a little bit of money, and our investors are saying, go spend the money, buy something, expand, grow. But it's not about let's go buy Pets.com because we hear they're available right now. It's about finding things that are going to make sense for us. Somebody is doing something investors like but that maybe they're not taking full advantage of the technology on the web that we can help them with. We can bring that to our investors. We looked at a lot of companies. There are going to be some more acquisitions coming down the road here. It's all about what we do and how we do it. And that's the one thing we've not done after all these years is changed our model.

In addition to the newsletters, we have a couple other revenue streams. We've just started a paid newsletter by one of our most popular columnists. That grid that Elaine showed you with all the columnists' names up there in the Super Bowl part of the grid, we took one of the most popular columnists. He's doing another piece now that is a paid newsletter. You still get his column on the website, but he's doing this paid newsletter on top of it. Again, it's a way of taking stuff that we know our readers like and turning it into a premium piece of content. And they're paying for it.

We're also doing a thing called Yahoo platinum. Also on the grid that Elaine showed you, the audio and video was at the very bottom. Like nobody cared about audio and video. Which is hard to explain to somebody who downloads 500 Mp3s a day. Obviously they care about audio and video. The problem was, they didn't care about our audio and video. On the day of September 11th, we put up the video of the towers coming down and we had something like 2 million plays of those videos during the day. Our site was up when a lot of other sites were down or too busy. That was up from about 10,000 plays a day. Normally we have maybe 10 or 20,000 broadband plays. We had two million that day because we had content somebody wanted. The same thing with the war now. MSNBC is talking about the number they are getting with their video. If you've got something people really want, they're going to come look at it. But, somebody standing up in front of the microphone telling you how the markets are doing today is not the most fascinating thing in the world. It doesn't draw two million people a day.

We just hooked up with this news service called Yahoo Platinum. How many people watch market reports on television on a regular basis? Don't lie. How many people watched Survivor? American Idol? You're all lying. I know better. I used to be a professor at the journalism school at Northwestern. They had trouble scheduling undergraduate classes during the 11 o'clock hour because Jerry Springer was on and the students wanted to watch Jerry Springer. Frightening.

This is Yahoo Platinum. We're now in a playpen with a bunch of other content providers. And this is bringing people to our audio and video who weren't coming to

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it before, and it's a paid thing. You pay \$9 a month, \$10 a month, \$15 if you want the premium sports. Here's ABC news live. The second thing on here is the latest Saddam Hussein statement. Does this picture look familiar? It's from CBS MarketWatch. Now what business do I have providing you with paid content that is the Saddam Hussein statement? That's what we do. We give our readers the news of the day. And a lot of it's about money and not all of it is. And we are one of the main providers on this service. People come here for the Survivor videos. There's like these half naked topless things they didn't show on TV here. Yes, you have to pay for it. No, you can't have my password. And when they're there, they're also looking for other kinds of stuff. It makes more sense for us to be in a news package, like a TV newscast with news, weather, sports, business. And that's where we are. And there's also a business update every half hour. Here's ABC News and CBS MarketWatch. Latest business news, interview with the labor secretary, and the latest Saddam Hussein statement. By having the news mixed in with the business stuff, we keep ourselves in a good place.

We are doing a lot of innovative advertising stuff. Stephen showed you the new half column ad which does go back to the model of newspapers and the 50/50 split of news hole advertising. We're calling it the 50/50 for lack of a better name. There may be some better names coming up. We're selling as well. We have this process at MarketWatch where we have always been an innovator in advertising. Our ad guy has a sign behind his desk. It's a quote from a customer. It says, "if this conversation is about banner, it's going to be a short conversation." And it was what a client said to him one day when he went into the office and wanted to make a pitch for sales. Nobody wants to buy these ad banners any more. He said, that's OK. I've got 19 other solutions to show you. This was 3 years ago. He started showing him all these different innovative ads we've come up with. Some we've invented, some other people have invented. You see a lot of the ads that we talked about earlier. The very intrusive things, the things that interrupt you when you're trying to read.

We finally kind of came up with a policy and that is, we will do anything within reason that is an ad that will not interrupt the reader's use of a story. You can do anything you want to my readers before they get to the story. Once they get to the story, you've got to leave them alone. So we had these introductory messages. You saw the British Airways one. Here's the one for Absolut Vodka. A lot of liquor ads these days. We've made a major shift in the past couple of years from market oriented ads to brokers and things like that to consumer products to beer and orange juice. We're day parting the ads as well. You see Tropicana ads in the morning and Budweiser ads in the afternoon. And at any given time of the day, if it's 8 o'clock in the morning in San Francisco we're seeing orange juice ads. If it's evening in London, they're seeing Budweiser ads. But by 8:00 in the morning we've been at work for 3 hours, we're ready for the Bud ads.

So that was an ad that came on and then disappeared. And if you go back to some of these other things, we have a lot of different ways of interrupting people but none of them will continue into the story. The most popular campaign we've had as far as reaction, as far as the advertiser actually getting click-throughs or responses was this campaign from GE when they came out with their new slogan. It's not in this one, but there's a thing where you can go in and doodle. It's about imagination at

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work. You could go into this little window, draw a picture and send it to a friend. Huge response. Nothing to do with GE except that it helped introduce their new slogan. But it was something people could do and they loved it.

A bunch of other ones here to show you. But, there is a process we have about advertising, since we're always coming up with new stuff. We have a creative guy in New York who's usually the one that's developing the fancy new ad. We have our General Manager of the company. We have the Executive Vice President in charge of ad sales, and we have my boss the Executive Editor of the website, the top news guy. The three of them have to wrestle over ads. So this creative guy in New York comes in and says, "We've got a great new thing, check it out." One of them was a Remington shaver ad where the page comes up and then a bunch of black dots show up all over the page, and then this razor comes in and starts taking them off. We said no to that because it was interrupting. It was putting up the page and then doing something after you started reading, and that doesn't fly with us.

But we have the system where these people go through this process and they read, they look at these things, they debate it, they try to figure out how to make it work. We don't want to turn down ads. I'm the editorial guy. I've got the shortest title of anybody on this panel. It's just Managing Editor. I'm just a news guy. And maybe I should be on the storytelling panel next. But the reason I'm here is because it's different now. You can't be in the newsroom without thinking about profitability, without thinking about the revenue, and without paying attention to it. So we try to find ways to make things work and keep our editorial integrity together. The other day we got a message from the ad folks saying, take a look at this.

You saw the 50/50 ad that Stephen showed you. He said, what if we put it on the front page? CBS MarketWatch sponsored by British Airways. Take the whole front page and just smush it - run this big half page ad down the side. Oh, and by the way, he said, we've already shown this to British Airways. They want to go in for a quarter million dollars as soon as we say yes. But nobody wants to turn down a quarter million dollars, right? He got three notes back very quickly from those three people, all of which I can't repeat to you because of the language in them. But they all basically said, no thank you and how dare you show this to the advertiser before running it through this committee, because that's not how we work! We take anything new and creative like this and we debate it inside and make sure it's OK first. And then he said, go back again and take a look at the last tease on the page. It says, "Happy April Fools from Daniel, Sandra & Jeff." This was their version of the April Fool's thing. They got our executives completely off guard. This was done on Tuesday. But that's how touchy this stuff is at MarketWatch. We're very serious about it and when somebody comes up with something like this and you don't figure out it's April Fools, you're going to be upset.

We have a lot of things to talk about. Melinda had some questions. We're going to switch back to the other machine I think now and throw out some advertising issues. Thank you.

**MELINDA GIPSON:** All the panelists have to come back up now. ... So we wanted to stimulate the discussion by talking a little bit about how intrusive should online

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advertising become. And maybe just a couple of brief questions about what have you rejected and accepted and why? Neil started the conversation. Did you want to add anything on that first, Steve or Elaine?

**STEPHEN NEWMAN:** We actually have a very similar type of committee which actually I'm a part of that goes through the process of looking at ads for acceptability, not only in terms of the intrusiveness, but in terms of just general taste and whatnot. In fact, it's so important that in two weeks from now I'm going to be sitting down with Arthur Sulzberger who takes a very keen interest in this area and it's actually the fourth meeting that we're having with him on this very subject. Because it's just been critical to us. Not only because we feel like we need to not turn advertisers away, but work with them very carefully to sit on that very fine line of not creating an experience that's going to be detrimental to the consumption of news and to our brand, but also not jeopardize the business itself. It's just a really tough area.

**ELAINE ZINNGRABE:** Yes. Our process is extremely similar. There's a committee. It includes myself, our ad director, some other people, and we go through them, as you pretty much have to, on a case by case basis, because they're all different and irritating in their own unique way. We rejected, there was a Microsoft tablet ad that I think you took - and we rejected it, which just shows you how sort of subjective this is ...

**STEPHEN NEWMAN:** We modified it.

**MELINDA GIPSON:** Describe it. Well, let's start out with what they wanted. What they wanted was to come in and to pull up your home page and then one of the great benefits of the tablet is that you have a pen and you can write on it and sort of scribble all over it. What they wanted to do was come in, take over your homepage and scribble all over it.

**STEPHEN NEWMAN:** But we didn't allow that. What we did allow, though, is we turned that into an interstitial which is basically what Neil was showing you, which is sort of the broadcast model, that when you come to the website and are viewing a page, before you get to the next page you're going to be confronted with this Microsoft tablet ad. And basically it showed a shrunk down mockup of a nytimes.com page that then had a hand come over and write a message that said, "wish come true" and then it had arrows pointing to ads sitting on that page that was promoting this tablet. And the big debate among us was whether or not that page should actually be a real page taken from the site or an old page but real nonetheless, or whether that page should be something completely mocked up. And it turned out in the end that we actually felt it was more important for it to be a real page, because the danger of any mocked up page might be construed as it really was us and we didn't want the confusion. Of course that page was only up for 10 seconds so it really wasn't much of an issue with users, but in the end we did decide to work with it and go back and forth with Microsoft and in the end we took it.

**NEIL CHASE:** There's a lot of back and forth. It's amazing. In the newspaper business, unless you have something really objectionable in your ad - some

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pornographic content or something that doesn't meet community standards or something like that - you take the ad, you put it into the box, you transmit it out to hundreds of newspapers at once and you're done. This is a very collaborative, back and forth wrestling process. And even among the bigger websites you find different solutions in different places. And it seems like on different ad campaigns it doesn't always make sense who takes what and who does what. We have this new network, the at work network. Because we did some research that found a lot of people who were not counted in a lot of the numbers you see are online at work all day. And it's a huge audience. The Internet is by far the best way to reach those people. More people see the web than see TV and other media during the day when they're at work. So it's MarketWatch, the New York Times and a handful of other sites, and that's one place where in theory you place one ad and it goes out to the whole network. But there's still this amazing back and forth wrestling with every ad. It's either a boring rendition of some format we already have or a whole new fight about something new.

**ELAINE ZINNGRABE:** What's interesting too is how over time - this is true for us, I'm just going to see if it's true for you guys. Your willingness to take different things changes. A couple years ago we were very buttoned down and pretty much wouldn't take anything. And then the next thing you know we have a Saturn driving across the page.

**MELINDA GIPSON:** Originally this ad did not have the feature by Sony advertising series in teeny type at the top. But the whole Sony ad controversy kicked around our industry for a little while. Basically what they wanted to do was have something that would appear in our typeface that looked like a feature that when you clicked on it was really a review or a purported review of a Sony product that was written by Sony itself. And a lot of folks rejected that. National Geographic took it.

**STEPHEN NEWMAN:** What we did to confront this sort of issue. I mean advertorials are a very popular concept in newspapers, but on the website there's issues of trying to drive traffic into them and they don't quite work as well. But what we did is we found a way to kind of meet both our needs as well as the users and the advertisers. And I mentioned it in my presentation - that's the sponsored archive. And what we did, and we launched this actually with New Line Cinema upon the release last year of the first Lord of the Rings movie. We had an enormous amount of content buried in our archives, even in our non digital archives from the early part of the century back in the day of J.R. Tolkien that we redigitized and surfaced up and it saw the light of day for the first time in 70 years. And we created an entire environment around this film or actually the work of J.R. Tolkien that was sponsored by New Line Cinema. But it was done in such a manner that we had, that we created this space with absolutely no input from the advertiser. We made a very clear disclaimer message - much clearer than as done and actually much more detailed message about how this whole thing was put together. And there was a lot of criticism and debate about it at the time, but we felt like this was a way to create an environment that was advantageous to the readers, especially fans of Tolkien who never had access to all this content - the original book reviews that came out in the New York Times of his books. W. H. Auden.

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**MELINDA GIPSON:** OK. How many of you hate this? Pop-up. Good. Because what I was interested in was maybe opening up the conversation a little bit and asking some of you some questions. And if you feel like responding, come on up. Does anybody have a question that they want to ask? Go ahead and ask your question first because we have about 7 or 8 minutes. We were going to try and do our independent focus group research from the crowd here.

**VIN CROSBIE:** I heard in Peter's presentation something that struck me as pretty pessimistic which is that I guess that 71% of online newspaper dollars are coming from classified areas and that's a relatively flat, at least predicted to be flat in the future. And then there's also some confusion about whether or not those were additional dollars on top of print or replacement dollars. And I guess the question I have is that surely there are some strategies that hope to position the Internet and online newspaper section as a supplementary advertising medium as opposed to a replacement one to print. To hopefully help grow the bottom line as opposed to just slowly but surely transfer dollars from print to the web. So I guess my question is for Stephen and Elaine. What are those strategies and are there any that you can share so that the total amount of advertising grows for both online and print as opposed to just being shifted back and forth?

**STEPHEN NEWMAN:** A couple of things on that. One is, at least with us, our classified business is growing in double digits, in 20-30% in terms of the upsell, but on the digital side it's growing like 140% on the native side of the business. In the area that we're working together, we have 3 predominant classified areas - job market, autos and real estate. Job market is a great example of that. With real estate and with autos we're much less integrated with the paper side. With job market it's a combined strategy. I mean we're working very closely and we're trying to expand the pie and grab share away from other brands. We have a very strong brick and click initiative where we are trying to expand the budgets that are coming to the New York Times as a brand, as opposed to just siphoning off some of that money that would otherwise go to the paper or to the website. So without getting into too many specifics, we have an independent sales forces, but we also have a very strong initiative in trying to do just what you had described.

**ELAINE ZINNGRABE:** You sort of raised sort of a number of different points - or I guess Peter did. I think it's different from company to company how they're accounting for the revenue - whether it's a true bundle, whether it's an upsell or forced upsell or whatever. And that's going to shake out over time. But more to the point on the strategy: What we're seeing is that there are some categories of classifieds - and there are basically three - jobs, cars, homes and then sometimes personals. Jobs is clearly moving away from print to online. It just is. Cars not so much. So it sort of depends on how that works. It's related a lot to what kind of new products can you offer? Can you offer virtual home tours? Can you offer key word buys so that every time a user goes and searches for Toyota, your dealer's banner ad appears on the page? Alternate delivery - sort of what Melinda was talking about that you'd buzz somebody with an open house in their area or the new listing of a whatever - open house directory. So I think a lot of it is about new products and not just whether you're trying to maintain or move your print revenue is one thing. But

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then on the online side, to grow the market you're talking about offering things that you could never offer in print before.

Personals is an interesting one too, because a lot of papers used to have personals. A lot of them have gotten out of it. Again, that market has shifted pretty much print to telephone to online. And so that's a pretty new place for a lot of us too.

**MELINDA GIPSON:** And I have to add a comment, because I asked this question to Chris Hendricks from McClatchy. Are you bothered by the fact that 60% of your revenue is from online? And his comment was, online that's almost directly proportionate to the traffic that we're getting at some of our sites. So if that's what the users are doing and that's accounting for the traffic, then I guess I don't hate it. But the comment I would make about it is that as a business it doesn't scale the way some of these other things do. There may be a limited universe of people selling a car at any one time, if you see what I'm saying. But the other things that these other people are looking at are moving into more of a brand universe - trying to use online for the kind of advertising that you've done in television. And I think what we really have to think about is what the unique aspects of the Internet are and how you can use the targeting capability of online to make that advertising more relevant.

**PETER KRASILOVSKY:** I'd just like to say that classifieds may be flat overall but there's a reason why people like Terry Summell of Yahoo and Jeff Taylor of Monster and others are so excited about classifieds. Because it's not just the placement of an advertisement anymore. In fact, Monster is making about half of its money from extensions of the job listings. They're doing things like elearning and classes, job fairs, and a whole bunch of monster relation. All these new areas that newspapers really haven't seized the opportunity in. And so while classifieds might be kind of flat as an area, in general advertising might be more attractive as a super growth area - it's the opportunities in classifieds for the companies that are taking charge that we really are excited about.

**REGINA McCOMBS:** I'm curious about registration because maybe I'm alone in this, but I have never yet told the truth on a registration at a website. The only honest thing you'll ever get from me is my email address. Never would I give you my phone number under any circumstances. So I wonder how you guys deal with it. And maybe it's just me, but I'm pretty sure it's not.

**MELINDA GIPSON:** You would have to stop reading the Dallas Morning News online.

**REGINA McCOMBS:** No. I'm registered at the Dallas Morning News.

**MELINDA GIPSON:** And you didn't give them your phone number?

**REGINA McCOMBS:** I didn't give them a real phone number.

**MELINDA GIPSON:** The privacy debate is a very interesting issue. Do any of you want to discuss that?

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**NEIL CHASE:** Well, remember what the papers are trying to get out - you gave Chris a bad phone number and he used it to check his database and figured out you're not a subscriber to his paper. It's amazing how much stuff people will give you and don't mind giving as long as you don't go too far. We don't ask for stuff that seems to be too far. And if you're getting good data from a decent percent of the people, you're fine.

**ELAINE ZINNGRABE:** That's what we found. I mean, I don't know if you found that too, but we found that - I mean we realize that people lie on some or all of the fields that they fill in. But we've thrown ours up against third party data and if people are lying then they're lying together in unison against third party data, which was pretty impressive.

**STEPHEN NEWMAN:** There is a price for the website. It's called give me a little information, rather than a dollar. That you do without hesitation for the newspaper. So privacy is probably number one. Privacy information is number one in terms of our priorities and we don't mess with it at all. And I think we've built that trust with our brand and with our relationship with our readers that they understand that. And that was sort of my 7th key to profitability. You have to build that trust and it's really played out because we don't see a lot of that here.

**MELINDA GIPSON:** And the rest of us as an industry just need to make a better effort at stating the value proposition. This is a trade. Information for really great content that you're not paying for out of the box.

**CHRISTOPHER J. FEOLA:** Hi. I'm Chris Feola from Belo Interactive. One thing that comes out of that is that we all merge and purge our data against other databases. So if there's any piece of data that's accurate, we can build the whole set, and if it's all inaccurate we can bounce you out. And one constant conversation, at the point most of us are registering are acquiring people at such a prodigious rate that it's not really that much of a question about it. And most of it is good information, frankly, on the basis of the merge and purge. But there's a conversation in the industry and the time will come when if your information is not accurate you will be asked to make it accurate or you will be invited to no longer use the site.

**MELINDA GIPSON:** I just wanted to share this remarkably prescient slide that says "What about you? Would you register to receive more targeting advertising for marketers interested in you as a consumer?" Would you register? Would you opt in to receive more targeted messages?

**NEIL CHASE:** What if that targeted mail was movie tickets or something you actually wanted?

**PETER KRASILOVSKY:** You've had great results with that.

**MELINDA GIPSON:** People obviously are.

**STEPHEN NEWMAN:** But it's not just about advertising either. I mean it's about your overall experience and what we can do. I mean, that's leveraging the medium.

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It's a partnership here between the website and the user that they're... If there's no trust then let's just all walk away. If there is some modicum of trust there, then trust us that we will, we're in this not to just inundate you with messages in your inbox. We're here to provide an editorial experience as well that can take advantage of the medium in that ability. So it's not just about ads.

**MELINDA GIPSON:** And keep in mind, we're here to pay your salary. So did we sway anybody into a potential career in online newspapers? Anybody? OK. Well, obviously some work to do over lunch and we'll have to have some discussions with Rosental about that. Thanks very much for your time.