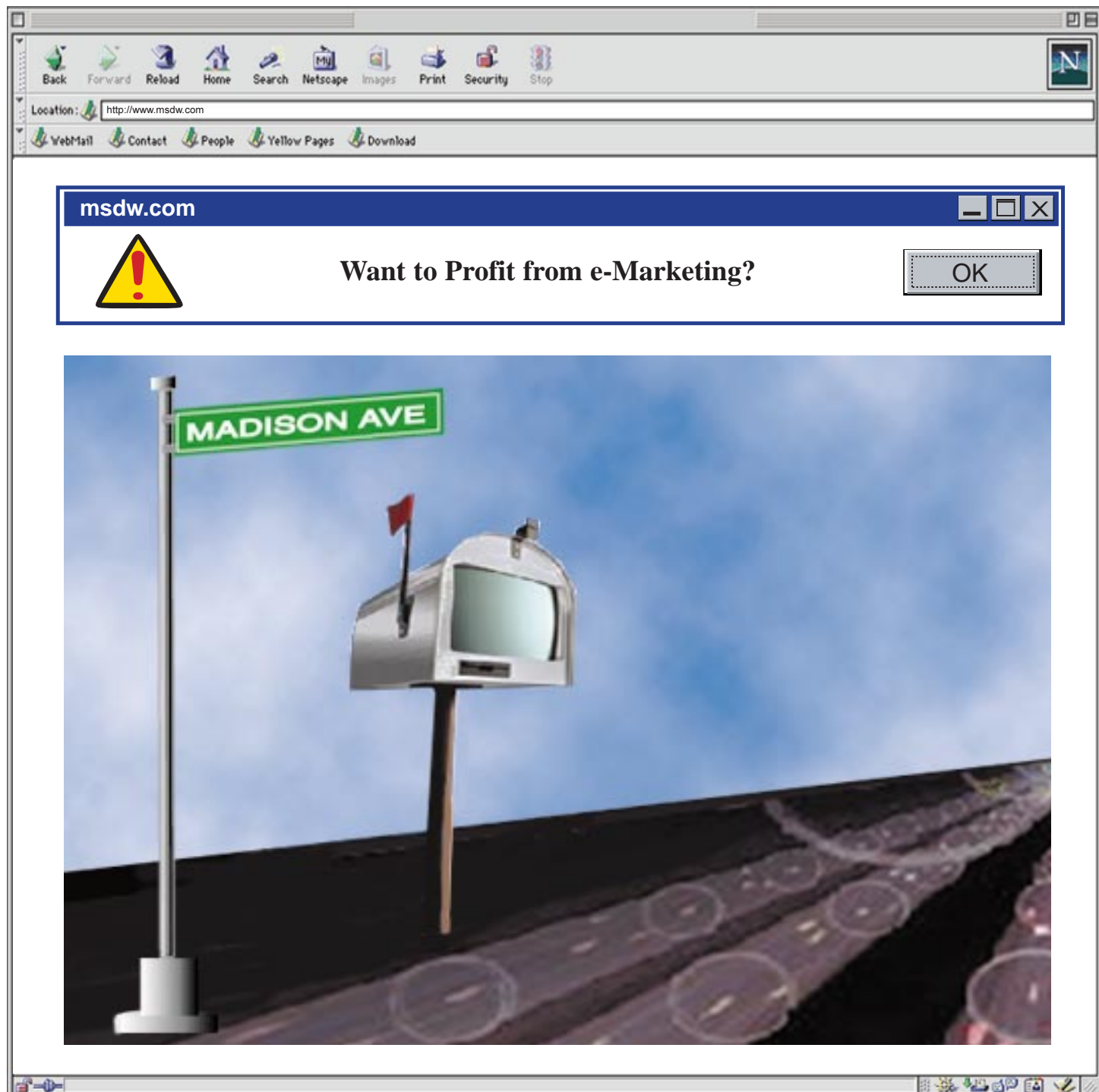


The e-Marketing Report



Morgan Stanley Dean Witter

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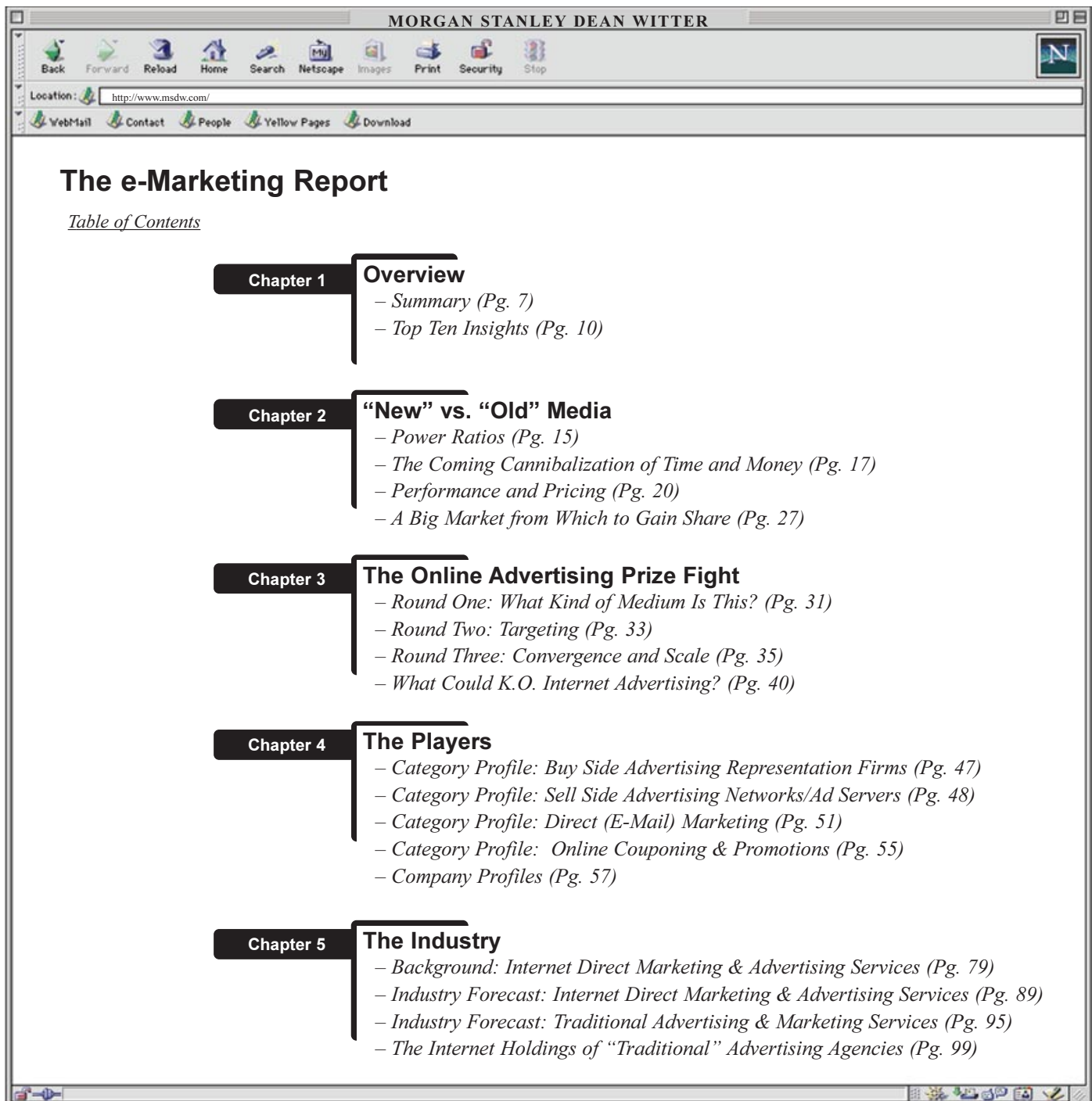
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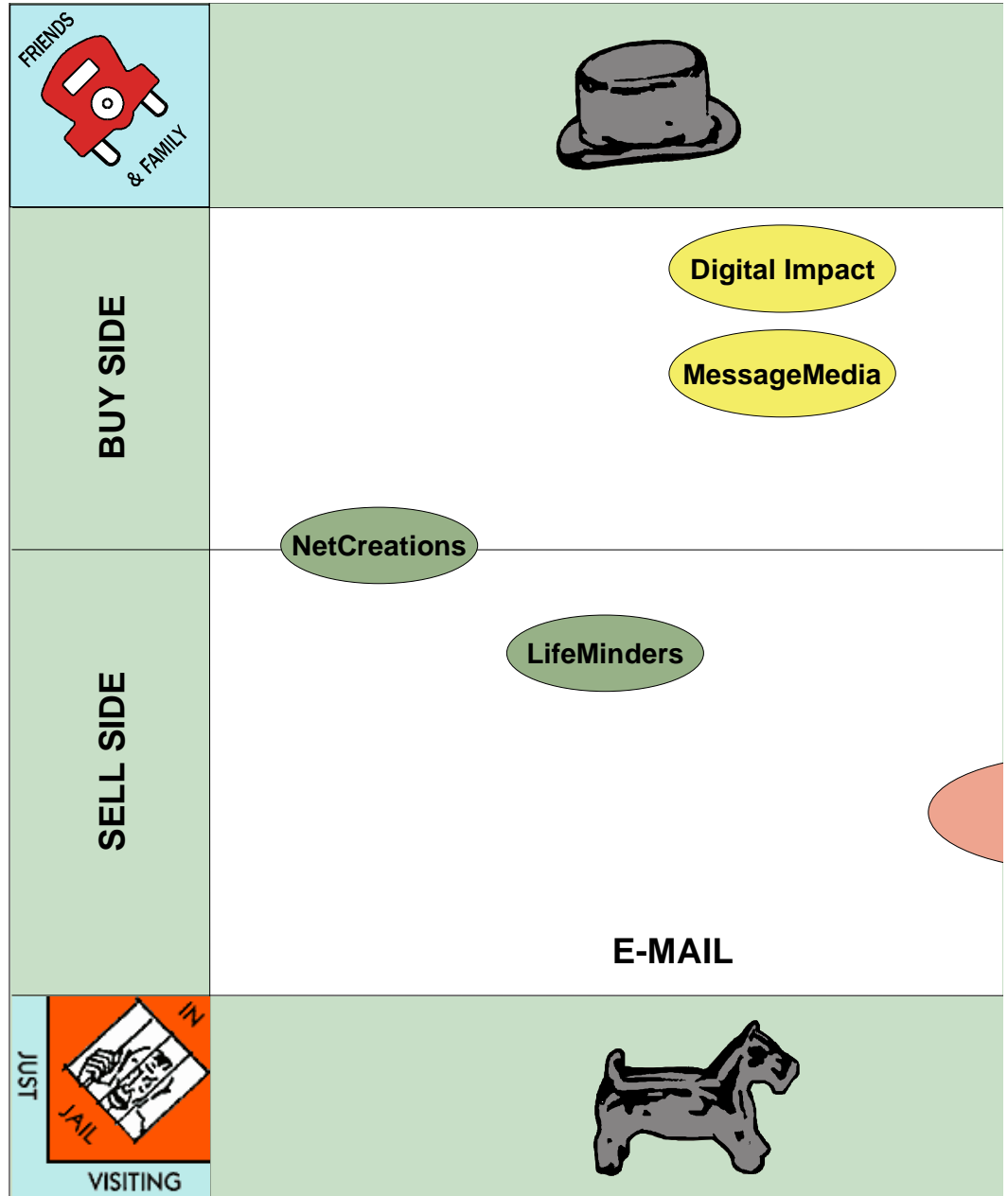
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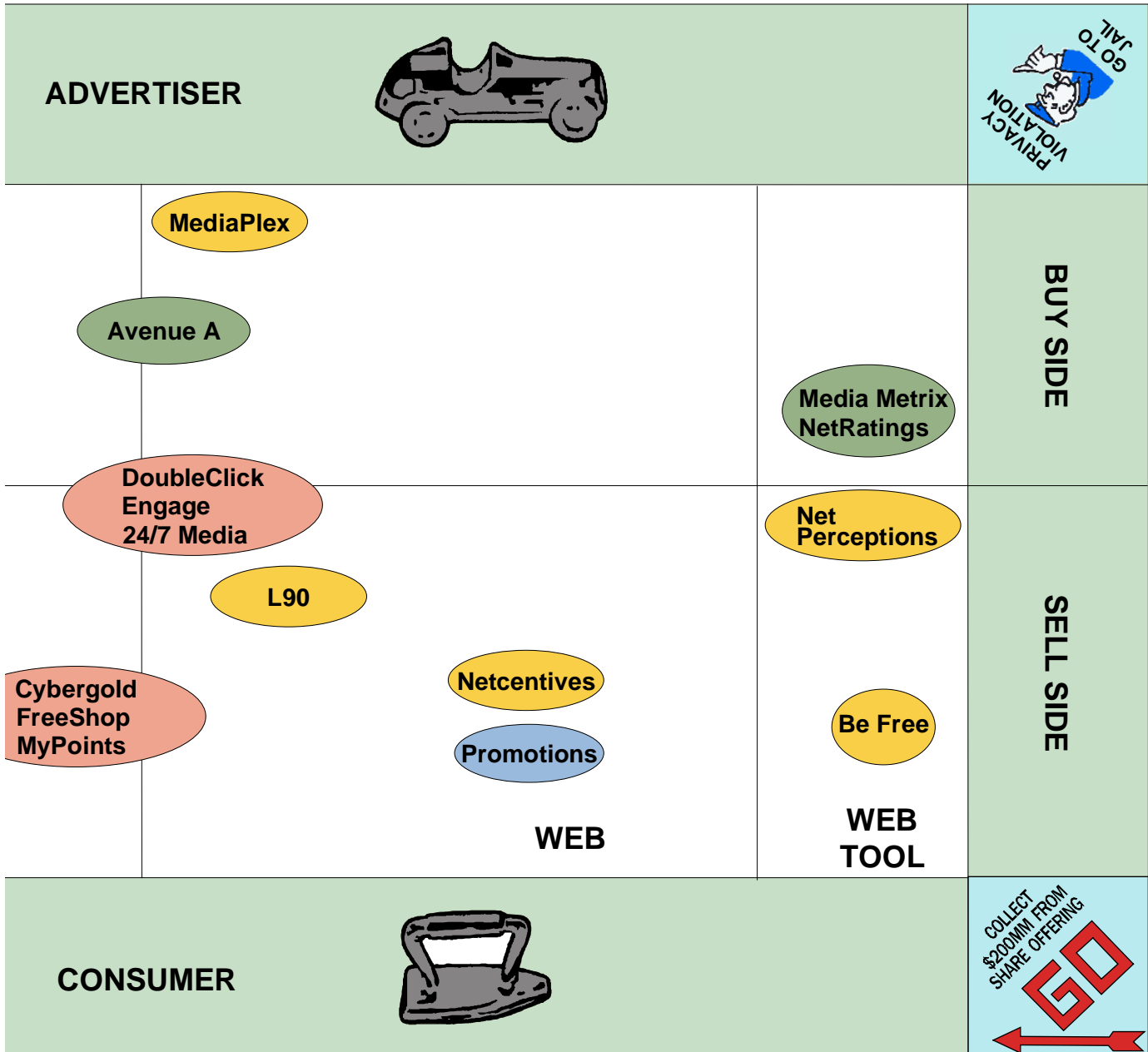
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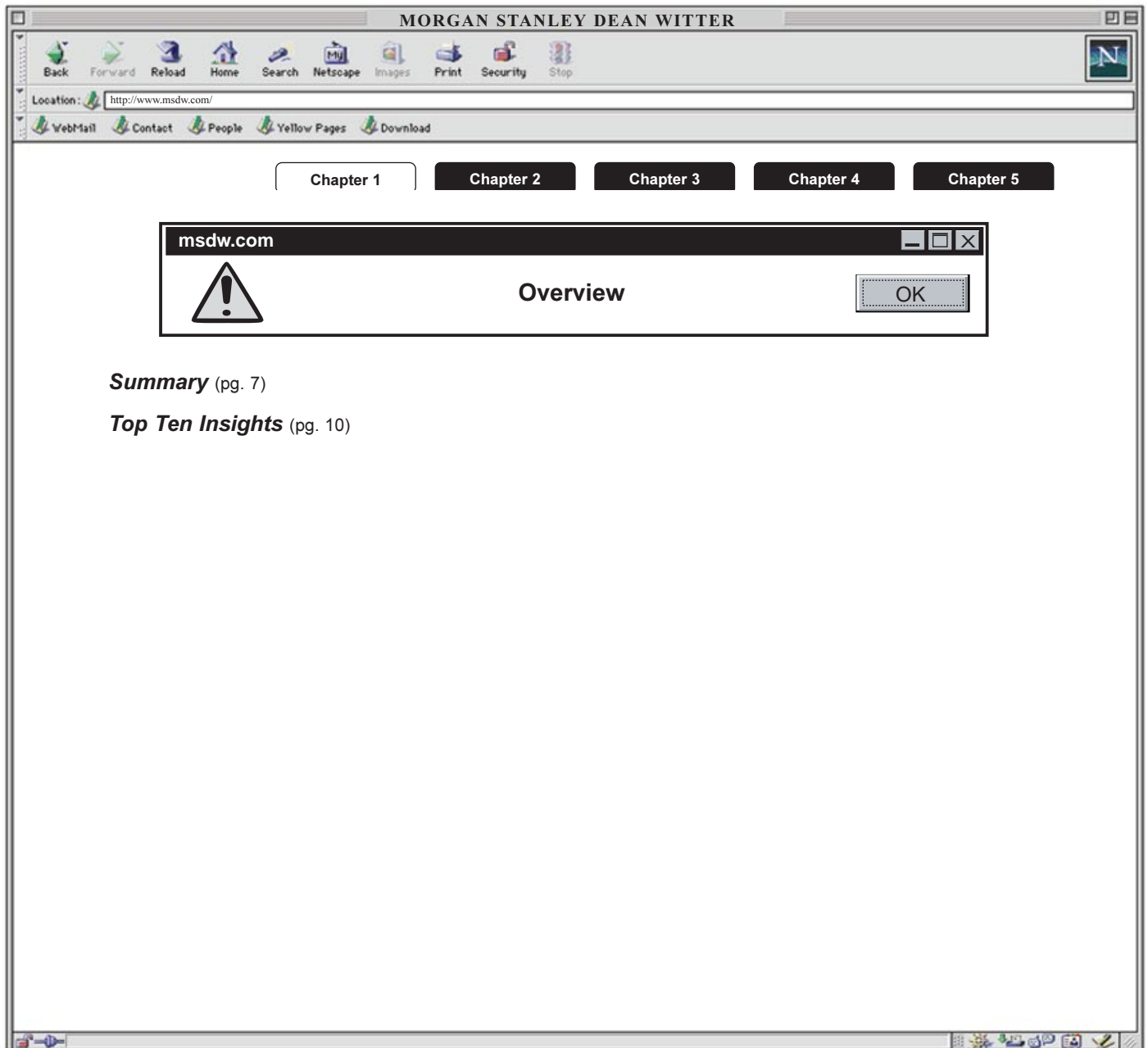
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The e-Marketing Universe







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Top Ten Insights (pg. 10)

May 3, 2000

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The e-Marketing Report

In the beginning (before Internet time)...

“I know that half the money I spend on advertising is wasted... but I can never figure out which half.”

John Wanamaker

In the beginning (of the Internet)...

“Advertising is a science, but the limitations of the media turned it into an art.”

Kevin O'Connor

Co-founder and CEO, DoubleClick

Today, on the Internet...

“The right ad in the right location can generate results up to 100 times greater than the worst ad in the worst location. Not knowing the proper combination leaves a lot of value on the table.”

Brian McAndrews

CEO, Avenue A

Overview Three years have passed since we worked with Mary Meeker and her team to publish *The Internet Advertising Report*. It is time to revisit e-advertising and add an analysis of direct e-marketing (e-mail) to it.

E-Advertising Will Be Big...

And Direct E-Marketing (E-mail) Is Fast on its Heels

We expect e-advertising will continue to swell. Our 2002 estimates for e-advertising indicate that the U.S. may exceed \$17 billion (a CAGR of over 64%) and Europe may reach \$2 billion. Combined with estimates for Asia, Canada, and Latin America, worldwide e-advertising may reach \$21 billion in 2002. Global e-advertising and direct e-marketing should be over \$22 billion in 2002, up from \$4.5 billion in 1999 — a CAGR of 71%.

In the traditional world of U.S. marketing services, direct marketing exceeds brand advertising. Even with low response rates, direct marketing can easily justify budgets aggregating to \$175 billion in 1999. This total direct marketing number is more than twice the \$85 billion of traditional brand advertising spending.

The Internet is the perfect direct marketing tool. The Internet's interactivity and tracking ability allows custom tailored marketing at minimum costs. The ability to perform matched cell tests and to change creative content on the fly makes for possibilities unimaginable in the traditional direct marketing world.

The Internet allows for targeting by individual browser — as well as by context or demographic. The Internet is able to target specific messages to individual browsers or e-mail accounts. It can also work like other media that narrowcast contextually to households in particular demographics. The Internet allows advertisers to access valuable background information on consumers through the use of cookies, click-stream tracking, domain name recognition, and other means.

The Internet lets marketers know which pages are “dog-eared,” revealing an “intentional” database. The three major actions performed online — research, browsing, and purchasing — all leave behind electronic trails of demonstrated interests that are incredibly valuable to advertisers.

The Internet produces a transactional database. By collapsing the ordering, billing and payment cycle into an integrated process, the Internet improves payment and lowers cost while maintaining an updated transactional database.

Early data indicate that the Internet *may* prove to be more effective than traditional media in direct response advertising. Proof of such effectiveness may result in upward pressure on Internet advertising pricing and downward pressure on traditional mass market advertising pricing.

The Potential of Internet Advertising Is Understood by its *Power Ratio*

It is our belief that the Internet’s current power ratio of 1.1 is well below the 3.0 it could be. Simple recognition of Internet user demographics should push the power ratio higher — this should mean better pricing and higher inventory sellout ratios on the Internet.

The benefits of targeting could push the power ratio to the 3.0+ level, somewhere ahead of magazine advertising. As the Internet’s power ratio rises, we believe that those areas with currently high power ratios, high pricing and low targeting capabilities — such as newspapers — may be hurt.

The War Between Traditional & Internet Advertising Has Been a Cold War So Far: 2001 Will Be Different

The Cold War To date, the Internet boom has increased total media usage, increased advertising supply, and increased traditional and e-advertising demand. A strong economy and strong pharmaceutical advertising trends have added to the good-time frenzy in ad spending.

The Hot War In 2001, we expect the Cold War will turn Hot and the battle for advertising market share will intensify. We forecast that in 2001 U.S. e-advertising and direct e-marketing could take 17% of the incremental advertising/marketing spending (we expect this to further increase to 21% and 20% in 2002 and 2003, respectively). In 2001 we expect Internet advertising and marketing spending to grow at almost a 77% clip, while we expect traditional media advertising — excluding spending on the Internet — to grow at a 5% pace in 2001.

Dot-com’s may “eat their own cooking” in 2001. We expect successful Web brands will understand that they need to continue to invest in advertising their brands long after the initial land grab is over. Advertising can be thought of as maintenance capex for a brand. However, we also expect them to migrate more of their advertising online by 2001 (i.e., “eat their own cooking”), as the ROI of this ad space becomes more obvious and brands have been established.

Investment Conclusions

Based on the changing dynamics of the Internet’s impact on advertising, we find four clear investment themes:

- 1) **Starting now, we would advise traditional media investors to increase their exposure to the new media trends that we foresee developing in 2001.** This can be achieved through pure-play Internet advertising companies or through traditional companies with distinguishable Internet operations.
- 2) **Additionally, we would encourage investment in companies with strong *direct marketing and database marketing skill-sets* and personnel that can exploit these skills on the Internet.** If advertising becomes more of a science because of the Internet (as Kevin O’Connor of DoubleClick believes — and we agree), invest in the companies with the scientists.
- 3) **Marketing services businesses appear less vulnerable to the Internet threat than do mass media, brand advertising companies.** Due to the accountability and affordability, we feel that marketing services (direct marketing, promotions, public relations, and other specialty communications) are less vulnerable to

the Internet threat than traditional branding businesses like mass media advertising.

- 4) **When it comes to market share gains, bigger sites appear to be best** (they are currently squeezing the mid-sized sites), but in aggregate the smaller niche sites appear to be holding their own. Over the past 9 quarters, smaller niche sites (those just below the top 50) appear to be on average holding on to, or gaining, market share. Over the same period, the top 10 sites appear to be gaining market share, largely at the expense of the top 11-50 sites. It thus appears that purchasing a royalty on the revenue streams of small sites may be better than investing in the mid-sized sites and equally as good as picking the big-time winners among the largest sites.

The companies below are likely to be some of the public beneficiaries of the trends cited in this report. (Although it is difficult to classify the companies into singular, non-overlapping categories, we have attempted to do so below and list them alphabetically):

- 1) Buy-Side Companies
 - a) new media buyers (Avenue A, Mediaplex)
 - b) traditional media buyers (Interpublic, Omnicom, True North, WPP, Young & Rubicam)
 - c) direct e-mailers (Digital Impact, MessageMedia)
- 2) Sell-Side Companies
 - a) portals
 - b) ad networks (DoubleClick, Engage, L90, 24/7 Media)
 - c) e-mail newsletters (LifeMinders)

- 3) Promotions Companies
 - a) providers of loyalty, incentives, and savings programs (Be Free, Cybergold, Free Shop, MyPoints.com, NetCentives, NetCreations)
- 4) Web Tools
 - a) audience and advertising measurement services (Media Metrix, Nielsen//NetRatings)
 - b) site-level marketing infrastructure, consulting and measurement (Net Perceptions, Be Free)

Additionally, e-consultants offer Web site development, Internet business planning and e-commerce development, in addition to Internet marketing. While not within the scope of this report, these companies are often partially owned by the traditional ad agencies. Companies included in this space are: Sapient, MarchFirst, Viant, Scient, Organic, Agency.com, Razorfish, ModemMedia, and others. Finally, many of the large "traditional" agency holding companies like Omnicom, Interpublic Group, Young & Rubicam, True North and WPP Group have consolidated operations in companies that do e-marketing and e-consulting.

For now, we expect the market to prefer buy-side opportunities. Sell-side companies somewhat compete with the more established major portals for media sales and may have more exposure to privacy concerns. Buy-side companies appear to have less exposure to such issues. We also expect some consolidation in the promotions area, as promotions and e-marketers converge in direct marketing.

At the same time, our conclusions reduce our general enthusiasm for some U.S. advertising media, particularly newspapers. While we do not believe the Internet will commit "media-cide" and kill off any of the traditional media, we do believe it will alter their upside, market share and economic models.

Top Ten Insights

Here are the top ten insights to take away from this report.

1. In the next 6 years we expect the Internet to increase its share of advertising nearly 5-fold.

- The Internet accounted for about 3% of U.S. advertising in 1999. By 2005, we expect this to grow to 14%.
- Supporting this conclusion is the fact that in 1999 about 9% of the incremental growth in U.S. advertising went to the Internet.

2. The global market for advertising and marketing services is enormous — we expect approximately \$678 billion in 2000. Should the Internet get just 12% of this market, it would reach \$81 billion globally.

3. New data-driven, ROI-obsessed companies are being created that are attacking this significant and growing opportunity by building impressive knowledge bases.

The insight bred in these knowledge bases increases exponentially as the companies apply technology to harness the tremendous amount of data created by all those clicks. We expect that the leaders will generate sustainable advantages for their clients — and for their competitive position. As a result, some of these companies will create significant market capitalizations for investors.

4. The power of these new companies may fragment the power of the top advertising sites. Sell-side ad networks and buy-side media buyers may be able to create synthetic networks that “spread the wealth” to a wider range of “top sites” — as long as they offer better ROI for marketing dollars than the current top sites do. Wherever the e-marketing specialists find the best value for advertisers may also be the best place for investors.

5. The Internet did not invent direct marketing, but it may fulfill its dream of accountability and ROI. The Internet helps eliminate some of advertising’s limitations — and turns it into more of a science. By running a number of matched cell tests to determine the most effective creative, best ad sequencing, and optimal number of ad exposures for a given prospect, the marketer can use precision targeting and cross-selling to iteratively optimize campaigns based on

real-time changes in marketing conditions in e-advertising and e-mail.

- **Direct e-mail is where e-advertising was 4 years ago... and may be poised to take off.** Commercial use of e-mail has been slowed by the historical bias against “spam” and commercial e-mail. The opt-in nature of direct e-mail lists, e-mail newsletters, and e-customer care initiatives are likely to grow and be appreciated by customers.

- **Direct marketers find banners and direct e-mail offer attractive performance compared to other media.** In the U.S. alone, we believe that direct marketing expenditures reached \$175 billion in 1999. Additionally, direct response represents about 30% of the media spend in broadcast and print. Early indications are that the Internet offers direct marketing performance as good as, or better than, direct mail and direct response television.

6. Long-term, Internet advertising may be the most expensive on a CPM basis, have the highest power ratio because of its efficiency in targeting — and still be the best value for marketers.

- **The Internet’s commercial “power ratio” is 1.1 — meaning that its share of advertising dollars is slightly above its share of media usage.** This is well below the level of newspapers — which are in the 5-7 range — and on par with Broadcast TV.
- **The Internet’s effective CPM (cost per thousand ad impressions) pricing is about \$4, below all other ad-supported media.** We expect Internet advertising to be able to generate future effective price increases (even as list prices fall) through higher sell-out ratios and the demonstrated ROI benefits of targeting.

7. If there is eventually a zero-sum game among media, newspapers seem to be the most vulnerable to the Internet threat. With higher ad pricing and power ratios than other media, newspapers may have the most to worry about. We may soon move from a stage in which everyone wins

because Internet usage is incremental — to more of a zero-sum battle for share of time and ad spend.

8. The “tail may wag the dog” — information gleaned from interactive advertising may determine decisions on pricing, positioning, and promotion in other media. Although we do not forecast the Internet to become the largest advertising medium, it could be the most important. The immediate feedback and iterative process of e-advertising is likely to create intelligence on the pricing, positioning, and messaging across all media.

9. Privacy issues are at a sensitive stage right now. E-marketing companies must be sensitive to the concerns of consumers and legislators regarding privacy in all of their host countries. As the Internet creates and tracks databases of transactional, behavioral and contextual information — and as this information is linked to other data we already have — privacy concerns will be aired at the national and state level. In the worst case, cookies could be demonized

and be made “opt-in,” reducing (but not eliminating) the ability to target advertising, personalize content, and improve customer service. Even in this worst case, however, e-advertising and direct e-mail will offer the best targeted marketing medium, just to a lesser extent.

10. Broadband promises to deliver rich media — which allows marketers to get beyond banners and use sound and motion for more creative commercial offers that generate higher response rates. This means better pricing, larger budget commitments and a greater opportunity for well-positioned e-marketing services companies, providing another wave of opportunity. While still hard to quantify, some analysts point to broadband as another cable TV business in the making. To put this in perspective, in the U.S. national and local cable systems represent \$11 billion in advertising, about 7% of the total. Additionally, a convergence of TV/Internet and wired/wireless appliances may lead to convergence in interactive marketing plans.

Chapter 1 Chapter 2 Chapter 3 Chapter 4 Chapter 5

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“New” vs. “Old” Media

Power Ratios (pg. 15)

- The Internet's commercial “power ratio” of 1.1 is low, meaning more pricing power ahead. The Internet's demographics and targeting strengths could push it toward the magazine power ratio of 3.0.
- If there is eventually a zero-sum game among media, newspapers seem to be the most vulnerable — with a possibly unsustainable power ratio of 5-7.
- TV and radio appear safer — with 0.8 and 0.3 power ratios that are slightly lower than that of the Internet.

The Coming Cannibalization of Time and Money (pg. 17)

- Cannibalization of time spent on traditional media will occur ... it's just a question of when.
- Time share — how consumers allocate their time — will lead to market share (how advertisers allocate their budgets).
- Currently, Internet usage appears to be incremental — it does not seem to be taking time away from TV viewership. Other media have experienced minor declines in usage, but nothing significant... yet.

Performance and Pricing (pg. 20)

- Using the *effective* CPM pricing of about \$4, Internet advertising compares favorably with traditional media. Its average CPM is below that of all other media. We expect that eventually its superior targeting capability may lead to premium pricing.
- Banners and direct e-mail offer attractive cost-per-order performance when compared to the direct marketing performance of traditional media — the problem is that traditional media has never been measured as closely.
- The click-through rate is declining, but so is its importance. ROI-driven cost-per-action (i.e. order, registration) metrics are driving pricing and budget allocations.
- Recently, all traditional advertising revenues have been strong due to pricing growth. From 1993 to 1999 media inflation grew at 6% per year. Recently, price increases have ranged from 10-20%. New dot-com brands and pharmaceuticals have helped drive demand and pricing across-the-board — a trend we believe will boost effective Internet CPMs, as well.

A Big Market from Which to Gain Share (pg. 27)

- For now, Internet marketing services are but a tiny portion of a huge market. Investors may not realize that our estimate for the global marketing budget in 2000 is about \$678 billion.
- The Internet accounted for about 3% of U.S. advertising in 1999. By 2005, we expect this to grow to 14%.
- When considering the entire U.S. marketing budget of \$390 billion (advertising plus marketing services), the Internet accounted for only 1% in 1999. We expect this number to quadruple by 2005.

“New” vs. “Old” Media: Power Ratios

KEY POINTS:

- The Internet’s current commercial “power ratio” of 1.1 is low, meaning more pricing power ahead. The Internet’s demographics and targeting strengths could push it toward the magazine power ratio of 3.0.
- If there is eventually a zero-sum game among media, newspapers seem to be the most vulnerable — with a possibly unsustainable power ratio of 5-7.
- TV and radio appear safer — with 0.8 and 0.3 power ratios, respectively, that are slightly lower than that of the Internet.

per and magazines, which have very high advertising shares as compared to time shares — and consequently high power ratios — are vulnerable to price erosion. Television and radio appear to have a greater time share than advertising share — and, thus, lower power ratios — and may experience increased prices in the future.

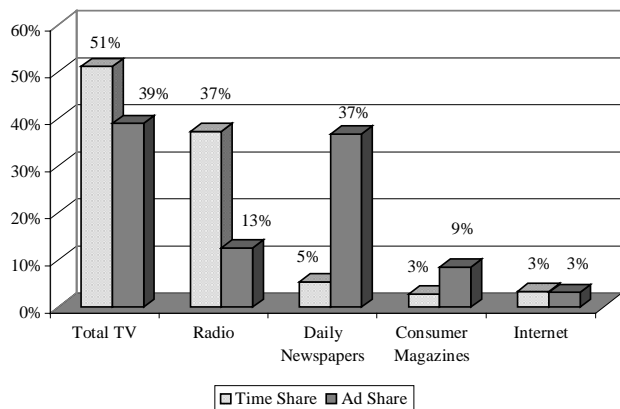
Higher power ratios are justified by better targeting and better demographics. Lower power ratios may represent poor demographics and/or poor targeting. However, overly inflated power ratios are vulnerable to price erosion and overly low power ratios may indicate excess pricing power.

U.S. Internet Advertising Power Ratio

We believe that exploiting the Internet’s superior targeting capability and eventual mass market reach will push the current power ratios — and pricing — higher. In traditional media, the “power ratio” is simply the percent of total advertising presented through a given medium divided by the percent of time the audience spends on that medium.

Figure 1

Media Comparison of Advertising Share and Time Share

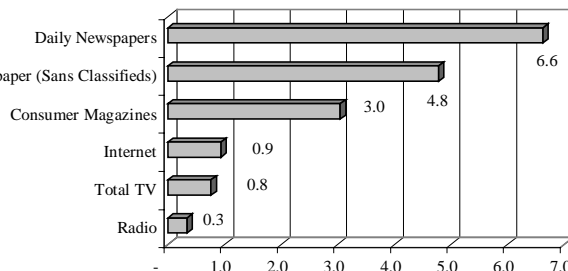


Sources: Morgan Stanley Dean Witter Equity Research, Media Metrix, Veronis Suhler

As the figure above shows, some of the major media have an unequal distribution of usage and advertising. Newspa-

Figure 2

Comparative Power Ratios (1999)



Source: Morgan Stanley Dean Witter Equity Research

Advertisers are already rewarding the Internet for its targeting and demographics, but not to the extent that we feel it deserves. Based on our estimates, we believe that Internet advertising and marketing represented about 3.1% of the 1999 expected total U.S. ad spending (on all ad-supported media TV, radio, newspapers, magazines, and Internet) and took up 3.3% of the average person’s ad-supported media day. Putting these two figures together (3.1/3.3), we arrive at a power ratio of 1.1 — a figure implying virtual equality between an individual’s usage of the Internet and the share advertising that is spent on the Internet.

Internet supporters claim superior targeting leads to fewer wasted impressions. The demographics of Internet users allow online advertising to reach a group of citizens that are 12% more likely than the general U.S. population to exceed \$50,000 in annual income. This would argue that the power ratio should be higher for this more targeted, demographically attractive medium.

Advertisers are already rewarding the Internet for its targeting and demographics, but not to the extent that we feel it deserves.

Unfortunately, power ratio calculations fluctuate due to a wide range of usage estimates. Between Media Metrix, Nielsen//NetRatings, and other Internet usage monitors, one could arrive at varying levels for the power ratio of the Internet. Sites' internal usage logs would give another set of data from which to calculate a power ratio.

Table 1

Power Ratios of Major U.S. Media

	1998	1999	2000E	2001E	2002E	2003E
Broadcast TV	1.0	1.0	1.1	1.1	1.1	1.1
Cable TV	0.4	0.4	0.4	0.4	0.4	0.4
Total TV	0.8	0.8	0.8	0.7	0.7	0.7
Radio	0.3	0.3	0.3	0.4	0.3	0.3
Daily Newspapers	6.8	6.8	6.7	6.6	6.3	6.2
Consumer Magazines	3.1	3.0	3.0	3.0	2.9	2.8
Internet	0.5	0.9	1.1	1.5	1.9	2.1

Sources: Morgan Stanley Dean Witter Research and Media Metrix

“New” vs. “Old” Media: The Coming Cannibalization of Time and Money

KEY POINTS:

- **Cannibalization of time spent on traditional media will occur ... it’s just a question of when.**
- **Time share — how consumers allocate their time — will lead to market share (how advertisers allocate their budgets).**
- **Currently, Internet usage appears to be incremental — it does not seem to be taking time away from TV viewership. Other media have experienced minor declines in usage, but nothing significant... yet.**

Cannibalization? If Not Now, Then When?

“Online advertising will serve as a catalyst for change in the traditional ad business... Media integration and the inevitable erosion of traditional markets will be more important than the effects of online ad dollar growth.”

— *Patrick Keane, Jupiter Communications*

For those in the media business and for advertisers attempting to reach consumers, a critical question is whether the Internet is cannibalizing the use of other media — and if it isn’t yet, when will it begin to?

Several studies have been conducted on whether consumers’ current Internet usage is affecting their consumption of other media; more often than not, these studies have offered up conflicting results. In the future, however, as broadband makes the Internet more television-like and true convergence occurs, we believe other media will most certainly suffer at the hands of the Internet.

Does Time Spent on the Internet Hurt TV Time? Nielsen Studies Yield No Clear Results

Nielsen Media Research studied its 5,000-household National People Meter Sample in the fall of 1997. The data suggested that Internet homes consumed less television than non-Internet homes. This finding was confirmed in follow-up studies in April 1998 and October 1998.

However, Nielsen released a report in May 1999 stating that Internet homes were lighter-than-average TV viewers even before they received Internet access — by about 15%, or eight hours per week. Out of the total difference in TV viewing time, 80% was attributed to pre-existing differences between the two groups. The remaining 20% was time taken away from television by Internet usage. Nielsen’s studies also point to a different media diet for Internet users than for non-Internet users. Internet users consume less weekday daytime television, but their prime-time viewing levels were comparable to those of non-Internet users.

Jupiter Studies Show That Internet Users Are Sacrificing Other Activities for Internet Usage

In a study conducted by Jupiter Communications, Internet users claimed that they used less of all kinds of traditional media due to their Internet usage. However, 30% of users said they used both the Internet and television at the same time. The future of media usage is likely to include more of this multi-tasking.

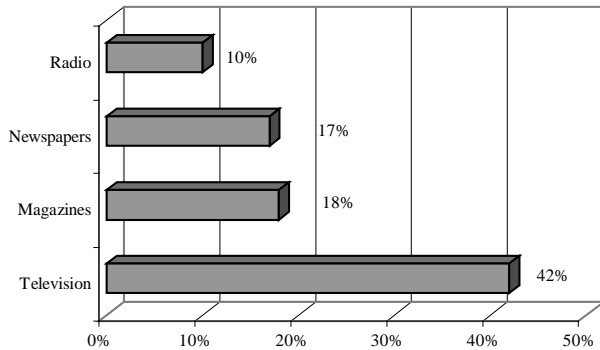
Another Study Reveals that Internet Users are Media Junkies

Another usage study, conducted by True North Communications’ TNMedia unit in November 1998, compared Internet users and non-users within the same demographic mix. Internet users were found to consume more of almost all forms of traditional media. This would seem to contradict the Nielsen study, but there was one exception — television. Internet users watched less daytime TV, as the Nielsen study indicated, causing their overall television consumption to be lower. This study found that Internet users actually watched more prime-time television than non-users, although not enough to offset their lower daytime usage.

While some studies indicate that Internet users reduce their prime-time television usage, the TNMedia report indicates that Internet households watch more prime-time television (including the post-late-fringe slots, from 8 pm to 2 am) and more weekend TV from 11 am to 1 pm. However, Internet households watch less weekday TV from the early morning through prime access (6 am to 8 pm) and less overall weekend TV except for 11 am to 1 pm.

Figure 3

% of Internet Users Who Claim to Use Less of Traditional Media as a Result of Their Web Use



Source: Jupiter Communications

The “cold” war of peaceful coexistence in Media Land will come to an end in the near future.

One would expect Internet (and generally increased media) consumption to hurt other activities. Below is a list of activities that consumers say have been most affected by their Internet use, according to a study by Yahoo!

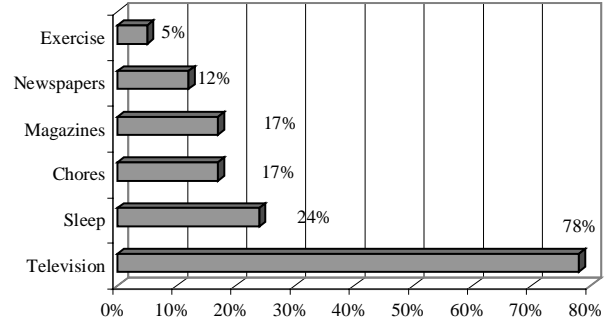
Media Consumption (and Advertising Spending) Will Soon Become a Zero-Sum Game

The “cold” war of peaceful coexistence in Media Land will come to an end in the near future. It is our expectation that Internet usage will start to gain at the expense of traditional media and that advertising spending will follow. Forrester Research concurs, predicting that by 2004, roughly half of all Internet ad spending will come from the pockets of traditional media.

Newspapers have probably the most to lose as a result of increased Internet usage and ad spending. The high power ratio of newspapers makes us worry that time spent with newspapers is not high enough to justify the current level of ad spending on newspapers (see earlier chapter for power ratio details). Of course, this high power ratio has existed for some time, so it is not clear what “straw” would break the camel’s back.

Figure 4

Percent of Internet Users Who Do Less of Other Things as a Result of Their Web Use



Source: Yahoo!

Newspaper revenues and earnings have never been higher — thanks in part to dot-com advertising. But, as dot-coms move more of their advertising online and as usage / penetration of the Web increases, newspapers’ ad pricing is likely to be hurt. Classifieds, in particular, appear vulnerable to Internet cannibalization.

Magazines are slightly more targeted than newspapers, and thus, should be less affected. We expect magazines to be cannibalized for the same reasons as newspapers (an unsustainably high power ratio), but to a lesser extent.

Television is in a unique position relative to the Internet.

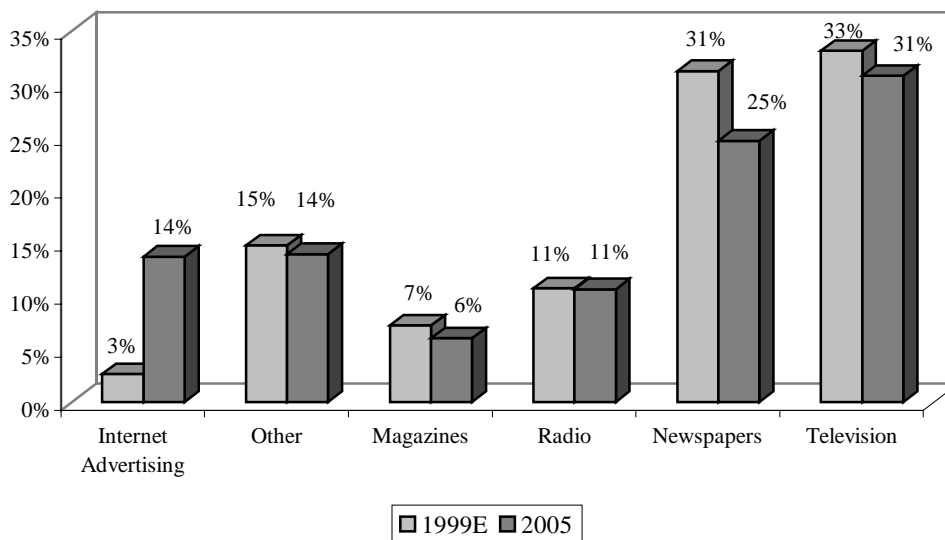
For now, television occupies a special position in most people’s homes (where the fireplace used to be), and its overall power ratio is similar to the Internet’s. While television usage has been minimally impacted by the Internet to date, the future is certain to be different. Traditional (i.e., passive) television is certain to see at least a small shift in usage and ad dollars toward an interactive alternative. The question is, will this be interactive television, the Internet, or a combination thereof.

We are already seeing the beginnings of this interactivity in companies like Wink. Wink allows broadcasters to add interactivity to their programming and commercials. Wink users see a small “i” in the corner of their screens when a program or commercial contains interactive features. They may then access this functionality to learn more about a product, statistics on players (Monday Night Football), or participate in game shows (*Wheel of Fortune* and *Jeopardy*, currently) via multiple choice menus.

While Wink is only a baby step into interactivity, much larger steps are sure to follow given the range of new technologies just coming to market at TiVo, Replay, WebTV, and OpenTV, among others. We expect television of this sort to eventually dominate the television advertising landscape. However, television will be held to higher levels of

performance in the future due to its interactivity. For instance, advertisers will be able to calculate the click-through rate on their television advertising. Instead of simply chalking up massive television budgets to branding, advertisers will be forced to defend their television budgets by the performance achieved.

Figure 5
U.S. Media's Share of Total Advertising (1999E and 2005E)



Source: Morgan Stanley Dean Witter Equity Research

“New” vs. “Old”: Performance and Pricing

KEY POINTS:

- Using the *effective CPM* pricing of about \$4, Internet advertising compares favorably with traditional media. Its average CPM is below that of all other media. We expect that eventually its superior targeting ability may lead to premium pricing.
- Banners and direct e-mail offer attractive cost-per-order performance when compared to the direct marketing performance of traditional media — the problem is that traditional media has never been measured as closely.
- The click-through rate is declining, but so is its importance. ROI-driven cost-per-action (i.e., order, registration) metrics are driving pricing and budget allocations.
- Recently, all traditional advertising revenues have been strong due to pricing growth. From 1993 to 1999 media inflation was 6% per year. Recently, price increases have ranged from 10-20%. New dot-com brands and pharmaceuticals have helped drive demand and pricing across-the-board — a trend we believe will boost effective Internet CPMs, as well.

The debate as to how successful Internet advertising really is consists of two separate issues: *branding vs. selling* and *impressions vs. performance*.

Is Internet advertising capable of branding? Yes

So are coupons and other promotional efforts. However, while companies such as Dynamic Logic claim to be able to measure the Internet's branding ability, the Web's effect on branding is still largely shrouded in mystery. Therefore, more quantifiable measuring sticks are used for Internet advertising campaigns. The most popular is the click-through rate (CTR). It is ironic, however, that in the offline world a low response rate — the equivalent of a CTR — is chalked up to branding, but in the Web advertising world, low CTRs are enough for a campaign to be considered a failure.

Of course, it is unclear how many clicks add up to brand awareness or how many clicks add up to a sale. Therefore, the cost-per-1,000 impressions (CPM) or clicks are considered less important than the cost-per-order. This is a direct marketing validation that acts as a floor to support certain pricing levels.

Table 2

Direct Marketing Campaign Comparisons

	Web Banners (list price)	Web Banners (average price)	Prime Time TV	Day Time TV	Direct E-Mail	Solo Direct Mail	Shared Direct Mail
Impressions	1,000	1,000	1,000	1,000	1,000	1,000	1,000
CPM (Cost per 1,000 Impressions)	\$29 ²	\$4 ²	\$16 ¹	\$5 ¹	\$20 ³	\$934 ⁴	\$40 ⁵
Request More Info/Click Through Rate	0.40%-11% ⁷	0.40%-11% ⁷	0.73% ⁶	0.73% ⁶	NA	NA	55.3% ⁸
Lookers	4-110	4-110	7	7	NA	NA	553
Cost per Lead/Look	\$0.26-7.25	\$0.04-1.00	\$2.20	\$0.68	NA	NA	\$0.07
Look-to-Book Ratio (% of lookers who buy)	10.00% ⁹	10.00% ⁹	NA	NA	NA	NA	6.33% ¹⁰
Buyers Booked	0.4-11.0	0.4-11.0	NA	NA	30-100	10-120	30-40
Order Response Rate of All Impressions	0.04-1.1% ¹⁰	0.04-1.1% ¹⁰	NA	NA	3-10% ¹¹	1-12% ¹²	3-4%
Cost per Order	\$2.64-72.50	\$0.40-10.40	NA	NA	\$0.20-0.67	\$7.78-93.40	\$1.00-1.33

Sources: ¹ Media Dynamics; ² Morgan Stanley Equity Research Estimate for average effective CPM is \$4; list price of portal is about \$29 according to WebConnect; ³ Morgan Stanley Equity Research Estimate, based on conversations with industry executives; ⁴ DMA Statistical Fact Book 1998 pg. 57, "Sample Working Budget"; ⁵ Based on ADVO data; ⁶ Based on assumptions generated by conversations with Wink Communications management; more detail to follow based on their experience; ⁷ Click-Through-Rate from Nielsen/NetRatings for average top site and the top site; ⁸ DMA Statistical Fact Book 1998 pg. 48, citing USPS Household Diary Study from 1996 "Consumer Treatment of Third-Class Mail" for merchants; ⁹ Jupiter Consumer Internet Economy, 1998 page 102; ¹⁰ Calculated based on other inputs; ¹¹ Digital Impact; ¹² Generally accepted direct mail response rate is 1%, but "will respond" rates for commercial sales notes in DMA Statistical Fact Book citing USPS Household Diary ranges from 8-18% and averages at 12%

Nearly 50% of Internet users claim never to look at banners. Further, most banners do not get clicked on for “more information,” and clicks convert into orders at only a 2–10% look-to-book ratio. This would seem worrisome, until one becomes aware of the comparable effectiveness measures for other media, and the information to do these comparisons is hard to come by.

The Web’s effect on branding is still largely shrouded in mystery.

Banner Successes

Internet advertising has many advantages over offline media. Several are detailed below:

- **Internet ads are relatively simple to create.** Even rich-media banner ads are still simple for most programmers to create. Yet even the most simple banner ad is a tool for creating brand awareness.
- **Internet ads are relatively inexpensive to develop.** Not only are banners much less expensive to create than television or radio ads, but they even put direct mail to shame; and then there is the low cost of e-mail compared with traditional mail. Jupiter Communications estimates that a direct marketing campaign on e-mail costs about \$0.01–0.25 per piece, versus \$1.00–2.00 using traditional mail.
- **Internet advertising is easy to update as conditions change.** Sponsorships are probably the most difficult type of Internet ad to update, but even they can be modified much more simply than offline ads.
- **Internet advertising is easier and faster to test.** A wide variety of creative content can be tested in matched cell tests so as to come up with the most effective approach as quickly as possible.
- **Internet advertising promises real-time interaction with consumers.** Not only are customers developing brand awareness from Internet advertising, but they are also able to link directly to the seller’s Web site and purchase a product. Internet advertising can compress the sales cycle into one interaction with the customer (information gathering, further research, company contact, and sale). No other medium can boast this kind of customer interaction.

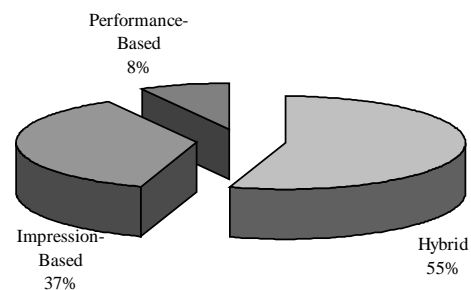
Payment for Performance and Impressions

Advertisers on the Internet are pushing for more quantifiable results. Cost-per-click, cost-per-lead, and cost-per-sale are different ways of quantifying results, and advertisers are pushing Web publishers to use more performance-based pricing.

Web publishers retort that they don’t control the creative content, nor what happens once the consumer clicks on the ad and is taken to the advertiser’s site. For this reason, Web publishers prefer to be paid on the basis of impressions (cost per thousand impressions, or CPM, is the most common such technique). Even if consumers don’t click on an ad, publishers argue, branding is occurring and the site should be compensated.

According to the Internet Advertising Bureau, the most popular form of Web ad buying in 1998 was priced using a hybrid of impression and performance metrics, accounting for about 56% of the total market. Pure impression-based (CPM) buying came in at about 40% of the total in 1998, with the remaining 4% based on some measure of performance. Performance-based advertising rose to 7% of total Internet advertising in 2Q99, with impression-based advertising rising to 41% and hybrid falling to 52%.

Figure 6
Pricing Models Used (3Q99)



Source: Internet Advertising Bureau

Going forward, we expect to see more pay-for-performance contracts. Advertisers’ push for more accountability will be the major reason for this shift. However, we don’t believe that pure pay-for-performance contracts will ever completely triumph over impression-based contracts, largely because performance measurement does not take branding into account. It is our belief that branding will play a larger role on the Internet going forward.

Impression Measurement:

What Are the “M”s in CPMs?

Currently no clearly defined consensus exists on what should be measured online. In the beginning (all four-plus years ago) the measure most often cited was “hits.” Roughly speaking, any time a user requested data from a Web page, a hit was recorded. This metric was soon out-moded, as several hits may be recorded each time a Web page is seen if the user requests more than one item from that page or if the user repeatedly clicks on a link without knowing that a request has already taken hold.

“Pageviews” came next. A pageview results each time a page is viewed. This measurement was considered superior to hits because it eliminated the double-counting of hits noted above. However, a single user could view a page numerous times with little incremental benefit for the advertiser, and the “Back” function available on browsers made pageviews a particularly weak means of measuring traffic. As a result, pageviews were soon out of fashion, replaced by “visitors.”

“Visitors” is the number of people who visited a site rather than the number of pages seen. And “unique visitors” (simply a nomenclature change) soon replaced “visitors” as the standard metric for measuring the attractiveness of a Web site.

Performance Measurement

“One of the bedrock problems is a lack of trustable research. There’s no bedrock yet in this medium, like in television, where there’s been 40 years of research to show what a 30-second spot can do.”

— *Rich Glassberg, Vice Chairman, Internet Advertising Bureau*

The Internet community has grappled with the above metrics to determine the merit of Web sites, but advertisers must go even further to attempt to gauge how successful their campaign is. By itself, a pageview or a visitor does not necessarily mean that an ad has been viewed.

Advertisers are demanding more information on the success of their Internet campaigns. For that reason, they have shifted toward a return-on-investment (ROI) measurement system. Some of the current Internet advertising metrics being used today are:

- **Click-Throughs:** The number of times that consumers click on an advertisement. The Cost-per-Click is the amount spent by the advertiser to generate one click-through. The Click-Through Rate (CTR) is calculated by dividing the number of click-throughs by the number of impressions served. This gives the rate at which consumers are clicking on an ad.
- **Cost-per-Action/Lead (CPA/L):** The amount spent by the advertiser to generate one lead, one desired action, or simply information on one likely customer. This information is sometimes obtained through a contest or a literature request form. The advertiser pays an amount based upon the number of individuals who enter the contest or fill out the form.
- **Cost-per-Sale (CPS):** The amount spent by the advertiser to generate one sale. Advertisers pay an amount based upon how many consumers actually purchase something.

The Falling Click-Through Rate

As happened to the catalog industry before it, the Internet advertising market is suffering a severe decline in responsiveness. The first banners were displayed in 1994, and received a click-through rate of about 10%. From there, it has been all downhill; CTRs fell to 2–3% in 1996–97. 1998 saw CTRs reach 1%, and as of today they have fallen even further; we estimate today’s CTRs to be in the 0.4% area. However, the best banners still garner CTRs over 10%, sometimes reaching over 15%. Meanwhile, we still do not have an effective measure of “click-through rates” for other media, although companies like Wink Communications will give some insight into the CTR for television commercials soon.

The reasons for the falling click-through rates are relatively simple. Internet users are becoming more discriminating. They are also generally not using the Internet as entertainment (like most TV, the easiest comparable), but rather as a tool to gather information, communicate, etc. Taking time out from whatever task is being pursued to click on an ad is the exception, not part of the typical user’s game plan. Consumers who were once “surfers” are evolving into “searchers.” The newness of the Web has also worn off, causing consumers to be less fascinated by advertising.

“Nobody surfs the Web anymore ... now it’s utility-oriented.”

— G. M. O’Connel, CEO, Modem.Media

Table 3

**New Internet Users’
Likelihood of Clicking on Banner Ads**

	Unlikely	Likely	Extremely Likely
Reading News	55%	39%	6%
Researching Products	35%	59%	9%
Shopping for Products	29%	65%	6%
Using a Search Engine	13%	81%	6%

Source: Forrester Research

Television is the most similar media in appearance to the Internet, and as such, comparisons are inevitable. However, if one compares the creativity, action, audio, and excitement of a television ad with those of an Internet ad, there is no comparison. Current Internet ads may be boring to some, but the emergence of more active video and sound will make them more appealing (and interruptive?).

“The smart marketers are really not paying much attention to click-throughs anymore ... CTRs are a misapplication of the accountability of the Net. Just because you can count click-throughs doesn’t mean it’s the right thing to count.”

— Rich LeFurgy, Chairman, IAB

Several studies have shown that a high click-through rate is not necessarily a sign of a high conversion (or sales) ratio. In fact, the correlation between click-throughs and sales is loose at best. AdKnowledge reports that the campaigns generating the highest click-throughs generate the most conversions only 14.3% of the time. That means that 85.7% of the time, the campaign generating the highest CTR generated a lower conversion rate than other campaigns with lower CTRs. Clearly, click-through rates are a poor measure of sales and thus performance.

Studies have shown that a high click-through rate is not necessarily a sign of a high conversion or sales ratio.

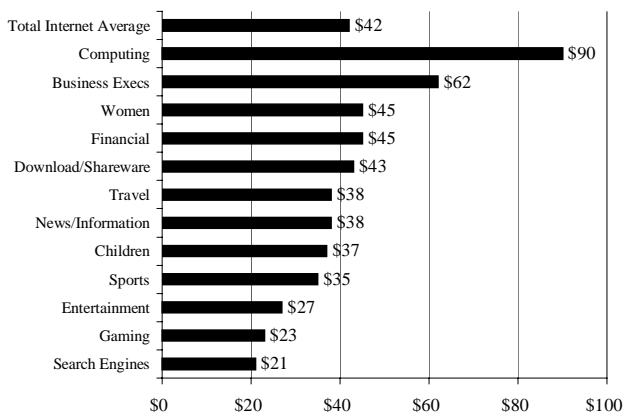
CPMs: The Rate Card

Impressions, which are so important in the offline world (particularly when used in calculating the CPM), are

difficult to quantify on the Web. Most measurement companies don’t even agree on what constitutes an impression. Some calculate an impression as the number of times an *ad* is requested. Others calculate an impression as the number of times *a page with an ad* is requested. Still others measure an impression as the number of times that *100% of an ad graphic is downloaded*. Obviously, this results in huge disparities. For our purposes, we will rely on the most commonly applied measure of impressions (and the one that we feel is most appropriate in measuring impressions): the number of times an ad is served (not necessarily fully loaded) to a unique visitor to a site.

Figure 7

Rate Card CPMs for Web Site Categories in 1999



Source: WebConnect

Estimates of list price CPMs on the Internet range from under \$1 — for an untargeted site and an untargeted ad — to as much as \$100 for a desirable site and a targeted ad. As nearly all Web advertising is priced in some way off of CPMs, it is important to understand the drivers of CPMs. Basically, supply and demand govern CPMs just like everything else in the world. The greater the supply of ad inventory on the Web, the lower the CPM will be, and vice versa. Since the supply of advertising space available on the Internet appears to have nowhere to go but up, it would seem that CPMs are likely to trend downward.

However, we believe a better understanding of the branding benefits of the Internet — combined with better understanding of the comparable click-through-rates of traditional media — will lead to increased demand for Internet advertising.

“Rates are plummeting ... for some of the most successful sites, their models are in jeopardy ... if the Internet follows the life cycle of the traditional media, there will be a shakeout.”

— Greg Smith, Director of Strategic Planning,
Darwin Digital/Saatchi & Saatchi

Content targeting is one means of increasing a site’s attractiveness to an advertiser. The more targeted a site is, the more receptive an audience the advertiser can hope to reach. Thus, the advertiser will be willing to pay more for this space.

Table 4

Top 15 “Sticky” Properties of March — Ranked by Millions of Pageviews

	Property- Home	Pageviews	Property- Work	Pageviews
1	Yahoo!	5,647	Yahoo!	4,404
2	MSN	3,281	eBay	2,809
3	eBay	2,885	MSN	2,456
4	AOL Websites	2,157	AOL Websites	1,432
5	Excite@Home	1,047	Excite@Home	716
6	Lycos Network	1,014	GO Network	561
7	GO Network	751	iWon.com Inc.	556
8	iWon.com Inc.	528	AltaVista	492
9	AltaVista	449	Lycos Network	490
10	Uproar	449	E Trade	406
11	E Trade	308	Microsoft	302
12	NBC Internet	303	Time Warner	262
13	Amazon	281	Amazon	243
14	Microsoft	280	Intuit	231
15	Time Warner	252	NBC Internet	189

Source: Nielsen//NetRatings

Just as a site can be content-targeted, a user can be targeted. As advertisers are better able to target an ad at a particular user, CPMs will rise. The ability to target ads, regardless of what site a user is currently visiting, is the backbone of several Internet advertisers’ strategies. These advertisers foresee a day when a user that has visited a General Motors Web site to view a Suburban two days ago will be served an ad for the GM Suburban the next time s/he goes online.

Table 5

CPM Pricing as a Function of Targeting

Category of Site	Traffic Level	Demographics	CPM
Portal	Very High	Broad	Low
Content Provider	Moderate	Broad-Narrow	Higher
Niche Site	Low	Narrow	Highest

Source: eStats

Stickiness is very important for sites to generate higher CPMs. “Stickiness” is a measure of the degree to which users stay on a Web property. It may be measured in the amount of time spent on each property, the number of pages viewed per person, or the number of times each person returns to the site. “Sticky” sites will receive a higher CPM than those sites with rapid turnover. Likewise, any advertisement that catches the consumer’s eye, causing someone to take a second look, will demand a higher CPM.

Table 6

Top 15 “Sticky” Properties of March — Ranked by Minutes per User per Month

	Property- Home	Minutes	Property- Work	Minutes
1	eBay	133.97	eBay	224.67
2	E Trade	79.05	E Trade	110.63
3	Yahoo!	66.03	Yahoo!	109.17
4	iWon.com Inc.	57.10	MSN	87.80
5	MSN	56.42	iWon.com Inc.	85.92
6	Uproar	36.45	Intuit	62.27
7	MyFamily.com	35.95	AOL Websites	47.82
8	Intuit	33.23	CNN	37.10
9	Monster Board	30.82	GO Network	37.03
10	Homestore	29.93	AltaVista	37.00
11	AOL Websites	28.95	Excite@Home	35.70
12	Women.com	27.13	USATODAY.co	32.37
13	Excite@Home	27.08	Monster Board	32.07
14	GO Network	24.70	Snowball	30.52
15	iwin.com	23.93	iwin.com	29.98

Source: Nielsen//NetRatings

CPMs: The Effective Price

A better measure of the cost to reach consumers is the effective CPM. Typically, the standard CPM is based on the prices quoted on the Web publisher’s rate card. However, these prices rarely reflect reality. In fact, rate card prices are typically just the opening point for continued downward bargaining between the advertiser and Web publisher. The effective CPM is closer to reality, since it is calculated as the total actual advertising revenue (reflecting discounting and bartering) divided by thousand ads served.

We estimate that the average effective CPM today is about \$4. We expect this to increase in the future due to several factors. The first is a continuing consolidation of sites under large portals and into networks of sites. This consolidation makes individual sites more attractive to advertisers. A second factor is the shift of greater amounts of advertising dollars online. As the Internet establishes itself as a mainstream medium, more advertisers will devote

greater shares of their advertising budgets to it. Yahoo! recently pushed through a list price increase that has been accepted by the market. Yahoo!'s increase is a *list* price increase, but we would expect that the *effective* price will also increase.

Table 7
Top 15 "Sticky" Properties of March
— Ranked by Visits per User per Month

	Property- Home	Visits	Property- Work	Visits
1	iWon.com Inc.	10.09	iWon.com Inc.	15.65
2	eBay	9.35	eBay	13.93
3	MSN	8.51	Yahoo!	13.91
4	Prodigy	8.47	MSN	12.82
5	Yahoo!	8.37	AOL Websites	11.70
6	AOL Websites	7.00	E Trade	10.40
7	E Trade	6.92	CNN	6.33
8	Gator.com	6.38	Time Warner	5.80
9	EarthLink	5.42	AltaVista	5.79
10	PlasmaNet Inc.	4.39	GO Network	5.73
11	Porncity	4.24	EarthLink	5.72
12	Excite@Home	4.16	Intuit	5.68
13	Gamma Ent.	3.92	Excite@Home	5.59
14	AT&T	3.87	PlasmaNet Inc.	5.53
15	AltaVista	3.78	Washington Post	5.52

Source: Nielsen/NetRatings

Table 8
Yahoo!'s Public Gross Rate Card
— Non-Demographically Targeted

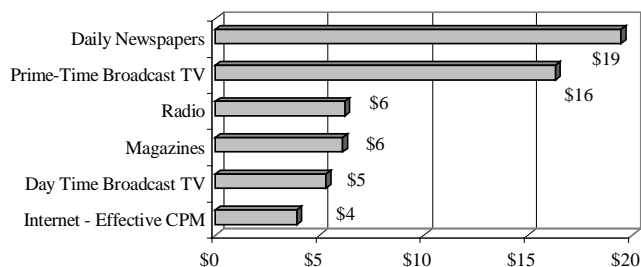
Run of Property 1999	Run of Property 2000
Group A: \$9.00–30.00	Group A: \$20.50–31.00
Group B: \$28.00–58.00	Group B: \$29.00–61.50
Group C: \$45.00–85.00	Group C: \$47.50–89.00

Source: Yahoo!

Although difficult in practice, advertisers must compare the effectiveness and cost of their online advertising to their offline cost and effectiveness. The effective CPM is currently the only statistic on which comparisons can realistically be based, and television is the medium that is usually compared with the Internet.

We willingly concede that CPMs may not turn out to be the best measure of ad performance on the Web; likewise, television may not turn out to be the best comparison, but both seem to be *en vogue* at present.

Figure 8
Inter-Media CPM Comparisons



Source: Morgan Stanley Dean Witter Research

We can compare the Internet to more traditional forms of media advertising in two ways: based upon "pageviews" and based on 30 seconds of exposure. (In television, an impression is considered 30 seconds of exposure.) Based on pageviews, the Internet's effective CPM is cheaper than those for all other media except day-time broadcast television.

Table 9
Inter-Media CPM Comparisons

	1996	1997	1998	1999E
Per 1,000 Pageviews				
Effective Internet CPM	\$2.35	\$3.04	\$3.23	\$3.90
Per 1,000: 30 second "spots"				
Effective Internet CPM	\$0.98	\$1.88	\$2.68	\$3.91
Pricing Comparison with Other Media				
PrimeTime Broadcast TV CPM	\$14.90	\$16.18	\$16.33	\$19.13
Internet CPM (pageviews) % index	16%	19%	20%	20%
Internet CPM (:30 spots) % index	7%	12%	16%	20%
Day Time Broadcast TV CPM	\$4.15	\$5.10	\$5.30	\$5.45
Internet CPM (pageviews) % index	57%	60%	61%	71%
Internet CPM (:30 spots) % index	24%	37%	50%	72%
PrimeTime Cable Net TV CPM	\$8.45	\$8.20	\$8.80	\$9.75
Internet CPM (pageviews) % index	28%	37%	37%	40%
Internet CPM (:30 spots) % index	12%	23%	30%	40%
Radio Spot CPM	\$6.50	\$6.78	\$7.25	\$7.78
Internet CPM (pageviews) % index	36%	45%	45%	50%
Internet CPM (:30 spots) % index	15%	28%	37%	50%
Magazines Newsweeklies CPM	\$8.15	\$8.35	\$8.75	\$9.35
Internet CPM (pageviews) % index	29%	36%	37%	42%
Internet CPM (:30 spots) % index	12%	22%	31%	42%
Daily Newspapers CPM	\$18.20	\$17.85	\$18.75	\$17.35
Internet CPM (pageviews) % index	13%	17%	17%	22%
Internet CPM (:30 spots) % index	5%	11%	14%	23%

Source: Morgan Stanley Dean Witter Research, Media Dynamics

Receptivity to Internet Advertising

Internet advertising cannot help but be compared with traditional offline advertising. The primary motivation of people using the media must be considered, however. Radio, television, even outdoor advertising is presented to a passive audience.

Television and radio are intended to entertain consumers. In contrast, the Internet is used for a mixture of business and personal communication, research, and entertainment purposes. This will likely impact how receptive consumers are to Internet advertising.

Compared with traditional media, the Internet has a very small level of advertising content. Newspapers are traditionally 62% advertising and 38% content. Magazines are 52% advertising and 48% content. Television is about 25% advertising and 75% content. At 9% advertising and 91% content, according to eStats, the Internet currently has a lower percentage of ads than all of these traditional media.

The free ISP model may change the Internet's ad/editorial breakdown for many users. By our rough calculations, when a free ISP's continuous banner/toolbar is displayed on a user's screen, the ad content could increase to about 20%.

Table 10

Advertising versus Editorial Content

Medium	% Advertising	% Content
Billboards	100%	0%
Newspapers	62%	38%
Magazines	52%	48%
Radio	25%	75%
Television	25%	25%
Internet	9%	91%

Source: eStats

“New” Vs. “Old” Media: A Big Market from Which to Gain Share

KEY POINTS:

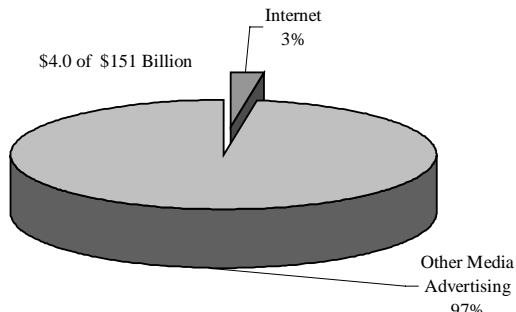
- For now, Internet marketing services are but a tiny portion of a huge market. Investors may not realize that our estimate for the global marketing budget in 2000 is about \$678 billion.
- The Internet accounted for about 3% of U.S. advertising in 1999. By 2005, we expect this to grow to 14%.
- When considering the entire U.S. marketing budget of \$390 billion (advertising plus marketing services), the Internet accounted for only 1% in 1999. We expect this number to quadruple by 2005.

Are We Underestimating the Size of E-Advertising and Direct E-Marketing?

We believe that investor perception of the magnitude of the opportunity may be too small. For example, in the U.S., traditional advertising spending is expected to have been \$151 billion in 1999, and Internet advertising is expected to be \$4.0 billion, or 3% of the total. We believe this number could reach 14% in 2005 — larger than radio advertising.

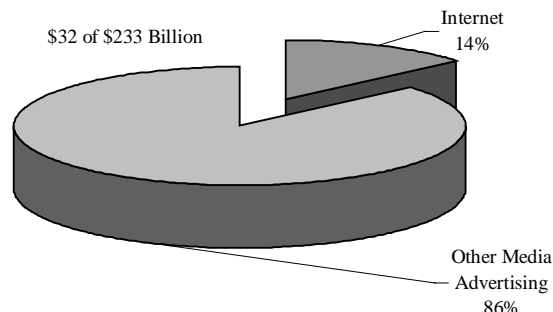
But the addressable market is even larger. We estimate that the total U.S. marketing budget (advertising plus marketing services) to be \$389 billion in 1999, only 1% of which is e-advertising and direct e-marketing. We believe Internet marketing could reach 6% of this bigger number by 2005.

Figure 9
Internet as a Portion of Total Advertising (1999)



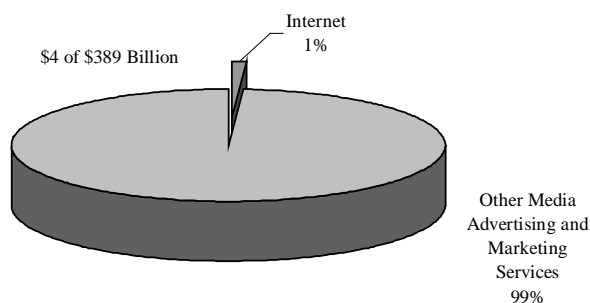
Source: Morgan Stanley Dean Witter Research

Figure 11
Internet as a Portion of Total Advertising (2005E)



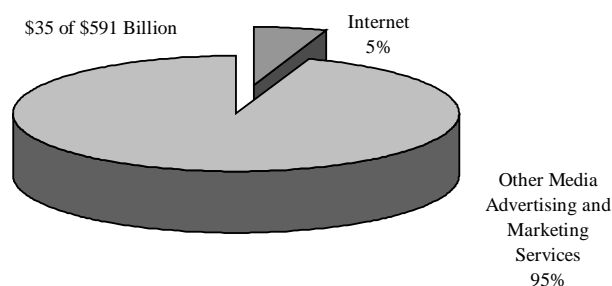
Source: Morgan Stanley Dean Witter Research

Figure 10
The E-Ad and E-DM as a % of Total Marketing Budget (1999)



Source: Morgan Stanley Dean Witter Research

Figure 12
E-Ad and E-DM as % of Total Marketing Services (2005E)



Source: Morgan Stanley Dean Witter Research

Table 11

Internet Advertising and Direct Marketing Relative to U.S. Advertising & Marketing Services Forecast

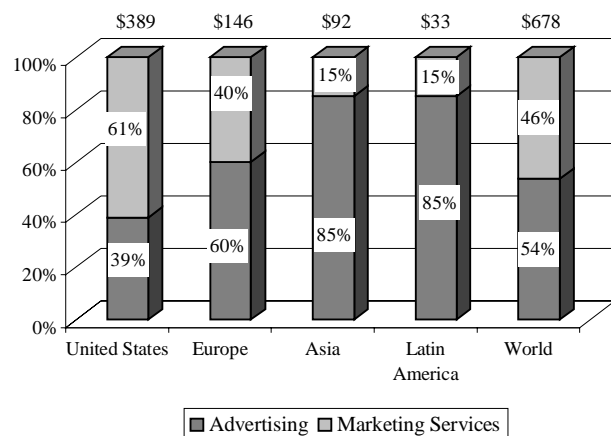
(\$ millions)	1996	1997	1998	1999	2000E	2001E	2002E	2003E	2004E
Incremental Marketing Spend	20,228	26,183	25,300	26,576	31,191	29,145	33,574	34,227	34,040
Incremental E-Marketing Spend	246	542	974	2,262	2,810	4,962	7,071	6,772	4,306
Incremental E-Marketing Share	1.2%	2.1%	3.9%	8.5%	9.0%	17.0%	21.1%	19.8%	12.6%
Incremental Trad Marketing Spend	19,982	25,641	24,326	24,314	28,381	24,183	26,503	27,455	29,734
Incremental Trad Marketing Share	98.8%	97.9%	96.1%	91.5%	91.0%	83.0%	78.9%	80.2%	87.4%
Trad Marketing Spend	310,577	336,218	360,544	384,859	413,240	437,423	463,926	491,381	521,115
% growth	6.9%	8.3%	7.2%	6.7%	7.4%	5.9%	6.1%	5.9%	6.1%
E-Advertising	301	843	1,800	3,982	6,600	11,100	17,600	23,700	27,200
<u>Direct E-Marketing</u>	<u>0</u>	<u>0</u>	<u>17</u>	<u>97</u>	<u>289</u>	<u>751</u>	<u>1,322</u>	<u>1,994</u>	<u>2,800</u>
E-Marketing Spend	301	843	1,817	4,079	6,889	11,851	18,922	25,694	30,000
% growth	447.3%	179.9%	115.6%	124.5%	68.9%	72.0%	59.7%	35.8%	16.8%
Total Marketing Spend	310,878	337,061	362,361	388,938	420,129	449,274	482,848	517,075	551,115
% growth	7.0%	8.4%	7.5%	7.3%	8.0%	6.9%	7.5%	7.1%	6.6%
E-Marketing Share of Total Marketing Spend - Total	0%	0%	1%	1%	2%	3%	4%	5%	5%
E-Advertising Share	0%	0%	0%	1%	2%	2%	4%	5%	5%
Direct E-Marketing Share	0%	0%	0%	0%	0%	0%	0%	0%	1%
Market Share Relative to Other Sub-Categories									
E-Advertising Share of Advertising	0%	1%	1%	3%	4%	6%	9%	12%	13%
Direct E-Marketing Share of Marketing Services	0%	0%	0%	0%	0%	0%	0%	1%	1%
Direct E-Marketing Share of Direct Marketing (non-media)	0%	0%	0%	0%	0%	1%	1%	1%	2%

E = Morgan Stanley Dean Witter Research Estimates

The final chart shows the size of the global advertising and marketing services industries by geographic location. The percentage make-up of this total is broken out between advertising and marketing services. Obviously, the U.S. continues to be the largest market by far, accounting for over half of all marketing. The U.S. also has the largest percentage of marketing services, at 61%.

Figure 13

Global Advertising and Marketing Services (2000E, \$ Billions)



Source: Morgan Stanley Dean Witter Research

The screenshot shows a Netscape browser window with the address bar set to <http://www.msdw.com/>. The browser's menu bar includes Back, Forward, Reload, Home, Search, Netscape, Images, Print, Security, and Stop. Below the menu bar are icons for WebMail, Contact, People, Yellow Pages, and Download. The main content area displays a navigation bar with buttons for Chapter 1, Chapter 2, Chapter 3, Chapter 4, and Chapter 5. A warning dialog box is overlaid on the page, featuring a yellow triangle with an exclamation mark, the text 'The Online Advertising Prize Fight', and an 'OK' button. The dialog box title bar reads 'msdw.com'.

Round One: What Kind of Medium Is This? (pg. 31)

- In the beginning, the Internet took a content-based targeting approach mimicking traditional media's approach, as advertisers tried to fit the Internet into existing models for magazines, cable and broadcast TV advertising.
- The prevailing question was whether advertisers should narrowcast on niche sites, broadcast on search engines, or both?
- The development of portals allowed advertisers to do both narrow and broadcasting conveniently at one location. Advertising networks sprang out of a portal model as a way for unaffiliated sites to gain scale and clout with advertisers.

Round Two: Targeting (pg. 33)

- Content targeting — as done on television — is the least valuable form of targeting for advertisers. Demographic targeting — as done in direct mail and some magazines — is more valuable.
- Behavioral targeting — now possible in real-time on the Internet — is the most valuable form of targeting to advertisers. The sources of the largest, most robust databases will likely be the winners.
- Companies are now trying to marry online and offline data to better target their messages and media to “the right person, at the right place, at the right time.”

Round Three: Convergence and Scale (pg. 35)

- Rich media — brought on by broadband — may lead to higher response rates, better branding capability, and more creative possibilities. A convergence of television and the Internet, with interactive advertising, is likely to lead to larger budget commitments.
- The largest advertisers are only just beginning to enter the online fray. The new interactive media will likely lead to significant perturbations in their business models, brands, and media choices, brought about by a new understanding of their customers.
- The future interactive agency and advertiser must be ROI-driven. To do so, they must be able to integrate campaigns, data, and technology across a wide variety of new, traditional, and converged media across geographies and cultures.
- The “tail may wag the dog” as information gleaned from interactive advertising will have implications for other marketing decisions on pricing, positioning, and promotion.

What Could K.O. Internet Advertising? (pg. 40)

- Privacy matters, software that blocks ads and cuts out cookies, and the anti-spam culture could reduce the effectiveness and the value of Web advertising. It would also curtail consumer convenience and reduce content quality — there is no free lunch without advertising.
- Net vs. Gross revenue recognition is a focus of concern. The SEC is looking into the way in which Internet ad firms account for their revenues. If FASB forced those firms that are “grossing up” their revenues to discontinue the practice, revenue multiples would be altered (which could hurt price to sales comparisons), but in most cases the underlying business would not be afflicted.

The Online Advertising Prize Fight — Round One: What Kind of Medium Is This?

KEY POINTS:

- In the beginning, the Internet took a content-based targeting approach, mimicking traditional media's approach, as advertisers tried to fit the Internet into existing models for magazine, cable, and broadcast TV advertising.
- The prevailing question was whether advertisers should narrowcast on niche sites, broadcast on search engines, or both?
- The development of portals allowed advertisers to do both narrowcasting and broadcasting conveniently at one location. Advertising networks sprang up that resembled the portal model as a way for unaffiliated sites to gain scale and clout with advertisers.

Since the advent of the Web (typically dated to 1994), advertisers have struggled to understand it and how they fit into the scheme of things online. In the beginning, many advertisers ignored the new medium; some embraced it, but more just scratched their heads. Today, many more advertisers have come to embrace the Internet, and although some are still scratching their heads, no one believes they can continue to ignore it.

The Internet: Cable Television?

Originally, advertisers looked at the Internet as a series of unrelated channels, much like cable television or magazines. They saw promise in Internet advertising due to its ability to reach users with specific demographic characteristics. Advertisements were targeted based on site content. Visitors to a pet site, for example, would receive Purina dog food ads, while visitors to financial news sites would receive E*Trade ads. This demographically targeted advertising followed the cable television and magazine models.

Of course, cable and magazines also get subscription revenues ... and the Internet tried. Once upon a time, many subscription attempts were made. Very few remain, as hopes of e-commerce have stepped in to join advertising as the supporting revenue for most business models. The Internet is now more like broadcast television than cable

television in its lack of subscription revenue for programmers.

The Internet: Broadcast Television?

The Internet soon shifted underneath advertisers. Search engines sprang up, allowing users to better navigate the Web. Because nearly everyone was lost in cyberspace, nearly everyone used search engines. Now, instead of focusing on niche content sites, advertisers could obtain a broad reach by placing ads on search engine sites. It thus appeared that advertising on the Web would follow a model similar to that of network broadcasters like ABC, CBS, NBC, and FOX. By advertising on the largest, most popular sites, advertisers could reach the broadest audience. Yahoo!, Excite, Lycos, Go Network, MSN, and AOL received the most benefit from this concentration of advertising.

Advertisers have come to embrace the Internet, and although some are still scratching their heads, no one believes they can continue to ignore it.

The Internet: Broadcast and Cable?

However, the Internet is neither a cluster of cable channels nor several large broadcast networks. Rather, the Internet offers advertisers the opportunity to follow both broadcast and cable television strategies. Advertisers can gain broad reach as well as target specific demographics. And just when advertisers started to think they had this "Internet Thing" figured out, the Web evolved, again.

Search engines became not simply directors of traffic, but also destinations for traffic. "Portals" are distinguished from search engines (although most have a search engine ability) by their aggregation of content; they serve as people's jumping off points on the Web *and* as their destination. To become a destination, portals grouped their content sites into channels that appeal to different groups of users. Thus, two users might both start at the Lycos portal, but

each would pursue a different channel of content within Lycos' complete offering of Web properties.

Advertisers quickly discovered the advantages of the new model by transacting with the largest portals. In this manner, they could purchase broad-reaching advertising on the opening portal pages, plus specific, demographically targeted advertising on selected channels or sites within the portal. Because of these advantages, and because users flocked to the aggregators for the same reasons advertisers did, advertisers focused their spending on the largest portals.

The Internet: Networks of Networks, Networks of Sites

The largest portals serve as networks of channels on which advertisers display their messages. Content aggregators — portals — purchased niche content providers to develop their networks of channels. This was one means for

smaller, less trafficked sites to share in the advertising of the Internet. Many of the smaller sites felt that they needed to link up with large portals, or they would be left to fend for themselves to secure advertising.

From this sprang the advertising network. Media sellers, such as DoubleClick, 24/7 Media, and Engage, formed networks of sites. By forming networks that resembled those of the portals, the media sellers could offer something to both advertisers and the sites in the network. Ad networks gave advertisers the ability to target broadly across all types of sites, narrowly on channels of sites, and more specifically on particular sites. This is called run of network, run of channel, and run of site advertising, respectively. The sites on the network gained most of the advantages of being part of a portal without actually joining one — access to more advertisers and their dollars.

The Online Advertising Prize Fight — Round Two: Targeting

KEY POINTS:

- **Content targeting — as done on television — is the least valuable form of targeting for advertisers. Demographic targeting — as done in direct mail and some magazines — is more valuable.**
- **Behavioral targeting — now possible in real-time on the Internet — is the most valuable form of targeting to advertisers. The sources of the largest, most robust databases will likely be the winners.**
- **Companies are now trying to marry online and offline data to better target their messages and media to “the right person, at the right place, at the right time.”**

Round Two of the Internet advertising battle is in the process of being played out. The key elements of this battle have already been established, however. Targeting, targeting, and more targeting is the key to Round Two.

Classical Targeting — Targeting via Site Content

Targeting based on the content of a television show, a magazine, or an Internet site is what we will call elementary demographic targeting. This type of targeting has been done for years by television (based on the likely demographics of viewers of a particular show or channel), radio, magazines, and other forms of media. As such, it was a logical way for the Internet to develop; e.g., sites containing financial news would serve financial advertising.

Neoclassical Targeting — Demographic Targeting via Registration

Web sites soon developed an enhanced form of targeting. Rather than assuming what type of user would show up, many sites have taken the next step to actually ask users about their interests through the use of registration questionnaires.

The information about the user is stored in the form of “cookies” that are imbedded in the browser and contain electronic codes that allow publishers to identify them. Each time a user comes back to a site on which they have

previously registered, the site immediately determines what advertising that user will be most receptive to based on the initial questionnaire.

Generally, the incentive of greater access to a site’s offerings is the carrot that is held out to encourage users to give up personal information in the form of a registration. Additionally, sites requiring passwords often ask users for information. The added value here is that users are able to have the site remember his/her password if they go through the registration. Any site that conducts commerce gains information on users. Each time a user purchases something, at the bare minimum, the site receives credit card, location, and product interest information.

The newest trend in gathering demographic information on users is via free Internet service registration. NetZero, Alta Vista, Excite, and other “Free ISPs” plan to gain all of their revenue from advertising (and any commerce that might occur on their sites). In return for receiving free Internet access, users are required to fill out a detailed questionnaire. This questionnaire allows advertisers to tailor their marketing to particularly receptive users.

There are many ways of obtaining demographic information on users, but it is all still demographic. Advertisers are only able to use statistics to forecast what type of ad a user with certain characteristics might be receptive to. The key tool for advertisers is behavioral data.

Credit card companies are the ultimate gatherers of behavioral targeting information.

New Age Targeting — Online Behavioral Profiling

Advertisers have known for some time that behavioral targeting (a.k.a. profiling) is vastly superior to simple demographic targeting. Knowledge of a consumer’s past purchases, interests, likes/dislikes, and behavior in general allows an advertiser to target an ad much more effectively.

Department stores have long kept track of consumers' past purchases. They are thus able to project what other types of products a consumer might be interested in and then send an appropriate coupon or sale offer. Credit card companies are the ultimate gatherers of behavioral targeting information. They maintain vast databases of cardholders' past transactions, and they sell lists of this data to advertisers.

The same type of behavioral model is forming on the Internet. Publishers and ad networks monitor the items that a consumer has expressed interest in or purchased on a site (or network of sites) in the past and target ads based on this information. The Internet can take it one step further than the offline world, however. For example, through a network of sites, an advertiser is able to serve an ad for a Toyota 4Runner to a user who is currently on the *New York Times'* Web site. Why is this important? Because that user was on Toyota's Web site several hours, or days, before and checked out that exact model of vehicle. No such ability exists offline. It's as if advertisers could see what pages of a catalog a consumer had dog-eared and then sent the consumer an ad for those exact products.

A network can track user behavior across its own network, but cannot do so once the consumer leaves to enter another network. For instance, Yahoo! cannot track a user's behavior once that individual enters the America Online network of sites. For this reason, the scale of the network is critical.

Future Targeting — On/Offline Behavioral

The future of Internet ad targeting may lie in combining online and offline behavioral data. Several Web networks have already formed relationships with, or purchased, offline database companies. AdForce has a relationship with Experion, which has an offline database of about 120 million households in North America; likewise, DoubleClick purchased Abacus Direct, a shared catalog database with information on over 90 million U.S. households. 24/7 Media has also formed an alliance to link online and offline data. These relationships will allow online advertisers to focus their ads with even more precision because they are receiving both on- and offline consumer behavior data. For example, if a consumer purchased a set of pots and pans through a catalog, s/he may receive an ad for a set of silverware when next going online.

The critical step in merging off- and online behavior is matching an offline identity with an online identity. This requires that a consumer who is in an offline database make an online purchase in such a manner that the offline and online data can be linked. This matching could be accomplished through a name, address, or some other uniquely identifying characteristic. **We believe that the size and richness of the database will be incredibly important going forward. Those with large, deep databases will be very attractive to advertisers.**

To date, none of the companies mentioned above have linked their online and offline data. DoubleClick announced plans to link its data, but soon withdrew these plans amid investigations by the Federal Trade Commission (FTC), the Michigan and New York Attorney Generals, and several class action lawsuits.

The Cookie File

A cookie is simply a text file. The cookie was invented in 1994 by Lou Montulli, a Netscape employee, as a means for Web sites to maintain a user's preferences. A unique identifier, it consists of numbers and letters. The sole purpose of the cookie is to act as an identifier for a browser. Web sites use cookies for just that purpose — to identify users on their sites. Cookies cannot pull information off of a user's hard drive.

The first time a user goes to a site, that site may place a cookie on the user's hard drive. This cookie is used to identify the user to the site. This allows for site customization (my Yahoo!), storage of a user's preferences (*The New York Times*), storage of payment information (Amazon), and targeted advertising.

Online advertising agencies also place a cookie on user's hard drives. These companies are then able to monitor the interaction of a user with their advertisements. Online agencies cannot monitor users across the entire Internet, they can only do this on their network of sites. By compiling data on users' interactions with advertisements and the content of the sites they visit online, agencies hope to be able to target more appropriate ads to that user and manage their frequency. Users can opt out of cookies by visiting the agency's Web site. Users can also set their browsers to reject all cookies, or to notify them when a site wants to place a cookie on their computer.

The Online Advertising Prize Fight — Round Three: Convergence and Scale

KEY POINTS:

- **Rich media — brought on by broadband — may lead to higher response rates, better branding capability, and more creative possibilities. A convergence of television and the Internet with interactive advertising is likely to lead to larger budget commitments.**
- **The largest advertisers are only just beginning to enter the online fray. The new interactive media will likely lead to significant perturbations in their business models, brands, and media choices, brought about by a new understanding of their customers.**
- **The future interactive agency and advertiser must be ROI-driven. To do so, they must be able to integrate campaigns, data, and technology across a wide variety of new, traditional, and converged media across geographies and cultures.**
- **The “tail may wag the dog” as information gleaned from interactive advertising will have implications for other marketing decisions on pricing, positioning, and promotion.**

We will soon enter the next round of the Internet advertising battle as broadband reaches the masses; the Internet becomes more ubiquitous and wireless; televisions become more interactive; video/data/voice appliances converge; brand advertising and direct marketing practices integrate; domestic brands, commerce and marketing become even more global; and big marketing spenders spend more money online. Many companies that are well-positioned today will need to continue to evolve to take advantage of the opportunities. We believe that the success of Internet advertising companies will largely be driven by how they maneuver among the coming developments.

Technology: Broadband Brings Rich Media

One of the key issues playing out in the next round of Internet advertising will be broadband technology.

Roughly defined as a minimum of 128 KBPS speed and an always-on connection, broadband will allow more data to

reach consumers faster. This is certain to increase usage of the Internet, causing more ads to be viewed. However, for advertisers, the real importance of broadband is that it brings rich media to the Internet. Rich media is graphic-intensive, animated, audio-enabled, and interactive.

There is no question that broadband is coming. The deployment of digital subscriber line (DSL), cable modem, and Direct Broadcast Satellite (DBS) technologies has assured that broadband will reach many users in the coming years. Further, many business offices already have broadband technologies deployed.

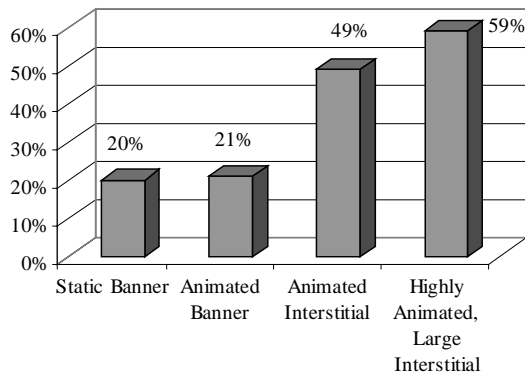
Rich media, brought on by broadband, will allow advertisers much greater creativity. This will be seen in the form of greater animation, audio features, and interactivity. Banners currently have some degree of all of these features, but the animation is jerky, the audio is often interrupted, and the interactivity is limited. Faster broadband connections will change this.

More detailed graphics will be possible, with more animation. For instance, movie clips or television-like advertisements can be viewed on the Web. In the past, these had to be downloaded through a lengthy process, given the limited speeds of telephone lines. Broadband will allow much faster downloads, as well as streaming media that is played in real time. Further, bandwidth “sniffers” are now being used that determine the amount of bandwidth that a user’s machine can handle and then deliver the ad with the maximum possible amount. Not only video, but audio too, will be enhanced by broadband.

Broadband streaming will allow advertisers to interact with consumers on the site where the ad appears, rather than forcing the consumer to click on a link that steers them away from their original Web destination. Interactive ads, games, and other forms of entertainment can be imbedded in a site’s advertising, allowing users to interact with the ad.

Figure 14

Advertising Awareness Is Increased by the Use of Rich Media (% Who Remembered Ad)



Source: Millward-Brown Interactive

Broadband will likely bring new types of advertising to the Internet, as well as enhancing some of the more traditional forms. Banners will be able to move without the traditional jerkiness. Additionally, they will have audio features, allowing users to hear jingles or music samples. Banners, interstitials, and sponsorships will become much more interactive. Instead of simply being linked to an advertiser's site or to a selling window, broadband will allow users to play entire ads on the screen without leaving the current page. This feature makes it much more likely that users will read about a product than if they were transported to a new page.

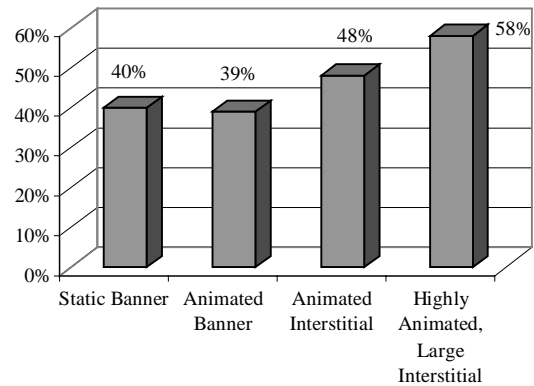
Expandable windows are gaining popularity on the Web. These ads appear to be normal banners but expand to reveal a much larger frame for viewing when a user clicks on the ad. This keeps the screen from getting cluttered and also allows the advertiser to really show off its wares to an interested consumer.

Interstitials will likely grow in popularity, thanks to broadband. These pop-up windows are perfect for playing animated ads. Further, they can be immediately closed if the consumer is uninterested.

Studies by Millward-Brown Interactive (a unit of WPP Group's Millward-Brown International) have found that large animated ads produce impressive awareness and brand recall. Greater animation, larger presence on the user's screen, and interactivity are all possible as a result of broadband technology.

Figure 15

Brand Recognition Is Increased Through the Use of Rich Media (% Who Remembered Brand)



Source: Millward-Brown Interactive

In addition to increased awareness and brand recall, 38% of respondents in a Millward-Brown Interactive study said that they came away with a positive reaction to the ad. Further, 26% said they were more likely to make a purchase after seeing the large, animated interstitial than if they had not seen it. Clearly, consumers enjoy more television-like animation in their ads, and this, we believe, will be critical in driving Internet advertising.

Excite@Home has conducted its own rich media studies in which broadband-enabled rich media generated 22% higher brand recall and a 35% higher propensity to click through. As both studies have shown, rich media will allow for greater branding on the Web. Branding requires more than a static banner to have its effect. The jingles that emanate from our televisions and radios, as well as the scenes that we see in magazines or on television, form our impressions of brands. With rich media, the Web will acquire the ability to use sound and animation to enhance the branding of products.

Rich media will allow for greater branding on the Web.

Television-like animation will be critical in driving Internet advertising precisely because it is TV-like. Advertisers are comfortable with television advertising, and they know how to use it to accomplish their goals. We believe that advertisers will view the broadband-enabled ani-

mation, audio, and video features of the Internet as an opportunity to expand their advertising on the Web. To date, most advertisers have spent tiny portions of their advertising and marketing budgets on the Web, and many have completely shied away from it. However, as the Web comes to more closely resemble television and enters more advertisers' "comfort zones," we expect many more to establish a Web presence, and the early adopters to continue to shift more of their advertising online.

Those companies that are best able to develop, serve, and track these new forms of advertising brought about by broadband will be best-positioned. As broadband enables a new form of Internet advertising to evolve, this will allow new players with specialties in this area to quickly make a name for themselves, while forcing more mature companies to re-invent themselves if they are to stay competitive.

Another area that will benefit from broadband will be audio streaming. Studies by Arbitron New Media have found that 31 million Americans have listened to radio over the Web, while only 16 million have watched streaming video. Importantly for advertisers, 69% of those surveyed requested more information concerning the audio clip they heard while listening to Web radio or hearing a Web advertisement.

Technology: Broadband II — Television and Internet Convergence

Broadband technology will allow the convergence of television and the Internet. Dubbed "interactive TV," in its simplest form this consists of television with some interactive capabilities. Basically, a user will see a television screen that is three-quarters traditional television, but with a frame that has Internet capabilities. This frame allows users to access up-to-the-minute sports scores or news on the Web, for example. More importantly for advertisers, it would allow viewers to immediately leap to the Web site of an advertiser whose ad was being shown. The user could find out more information or order the product right there: Impulse shoppers, beware!

What we have just described is the most *basic* version of interactive TV. Going forward, we expect that more functions will be added that truly integrate the two mediums. Whatever the case, advertisers will have to spend to integrate and enhance the abilities of their Internet advertising

campaigns. Those advertisers that are not already online will likely be forced to enter the game in a big way. Due to their familiarity with television, this may not seem to be such a big leap.

Content providers are already developing channels and programs that combine interactivity and television viewing, including Microsoft's WebTV and AOL TV. We believe that the advertising companies that are able to work with suppliers of integrated content and develop a seamless transition for their advertising clients will be best positioned to prosper in the future.

Technology Outsourcing

Outsourcing of Internet advertising will play an increasing role going forward. Since the beginning of the computer age — when instead of purchasing software, users would buy a share of it — outsourcing has played an important role. Today, we see it in the Web hosting model, in customer relations management, and to a growing degree in the e-mail sphere. We believe that Internet ad serving and targeting are no different.

Ad serving requires a huge technological investment in servers, back-up servers, a trained staff to man the servers, and real estate to house the server farms (not to mention the air conditioners to cool the servers). Likewise, the targeting/tracking software requires large outlays to purchase and maintain. And if the company is trying to bridge the on- and offline worlds, a database of behavioral history is required. This can be a huge investment — DoubleClick spent nearly \$2 billion to acquire Abacus Direct's database.

As more new entrants pop up on the Web, we believe they will look to outsource their ad serving and targeting, rather than making the investment to keep it in-house. In fact, very few Web publishers still perform these functions in-house, with Excite@Home, Yahoo!, the Go Network, and, to some extent, America Online being the few holdouts. Although these companies may continue to run their operations in-house, the number of Web sites is proliferating at an unbelievable pace. New entrants are not likely to make the huge investment to undertake ad serving and targeting on their own — particularly when they are spending virtually all of their IPO proceeds on marketing. Thus, they will need to turn to outsiders for help. For this reason, we believe that those companies with the best net-

works, serving ability, and targeting ability will ultimately triumph.

Online and Offline Advertising Convergence

We expect advertisers will increasingly integrate their on- and offline campaigns in the future. As mentioned above, rich media will allow advertisers to develop more television-like ads on the Internet, and this will encourage them to unify their messages in the on- and offline worlds.

There will always be some firms that specialize in certain mediums, particularly the Internet. However, ad companies that are able to bridge the gap between the on- and offline worlds should be best positioned to answer all of an advertiser's needs. An agency able to purchase time on CNN's Headline News and purchase space on the CNN Web site is the type of agency that we see flourishing in the converging world.

Historical Media Consolidation

In the traditional media world, consolidation has occurred over a long span of time. We expect online consolidation to happen at "Internet speed." The top six television networks account for 84% of advertising revenues, while drawing 67% of the viewers. The top 25 newspapers account for 88% of newspaper circulation. There are only 31 magazines with ad revenues over \$200 million, and Time Inc. captures 30% of the magazine advertising market. Only 20 "real" cable brands exist, and only two of these generate in excess of \$1 billion in revenue. Only five cable service companies have 3 million or more cable customers. We believe that this type of consolidation will occur in the Internet advertising space.

Brand Advertising and Direct Marketing Convergence

We feel that the Internet is much more of a direct marketing media than an advertising one. The ability to interact with consumers in real time is the Internet's power. The successful agencies will understand and practice this. Rather than simply running a bunch of static banner ads, good advertising campaigns will encourage consumers to interact with the advertiser.

The Internet is the first media with which an advertiser is able to directly interact with consumers. While this is a huge opportunity, it is also dangerous, as unwanted and irritating interaction will immediately turn off a consumer.

The successful agencies will facilitate interaction between consumers and advertisers. To accomplish this, advertisers will generate interesting and pro-active campaigns that draw users' attention. After getting their attention, it is important to ensure that a positive interaction occurs. This may entail entertaining games, more information, a chance to win a prize, or other appropriate means of encouraging and developing a positive relationship between an advertiser and a potential consumer.

Today, it is estimated that 30–40% of Internet traffic is internationally generated. This number will continue to grow.

If Media Goes Global, So Do Brands

Today, it is estimated that 30–40% of Internet traffic is internationally generated. This number will continue to grow. Currently, international users have a slightly lower response rate to ads than domestic users do. However, this too will change over time.

According to Jupiter Communications, today approximately one in four U.S. Internet users shops online. In Europe, the next most-developed Internet market, one in five users shops online. We expect Europeans to spend more time online, but we are only just getting data on their average usage. More time online should result in more shopping, and more shopping will result in more advertising. We expect this pattern to be played out around the world.

Currently, only 28% of U.S. Internet retail sites have foreign language pages for international shoppers (according to Jupiter Communications). Further, only 38% of U.S. retail sites will ship internationally. As these numbers increase, we expect that more advertisers will shift a greater share of their business online.

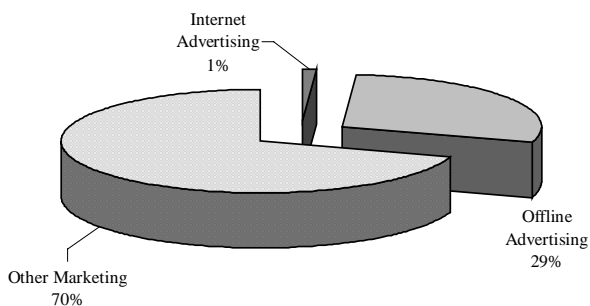
Those companies that are best positioned to serve ads in local languages, with local customs/mannerisms in mind, will be able to capitalize on the internationalization of the Web. Agencies that are capable of developing and serving ads in a multitude of languages and cultures will be best positioned to compete on the global stage.

Here Come the Big Ad Spenders

All of the aforementioned factors will lead to greater advertising on the Internet. Those agencies that develop the best capabilities to handle rich media, the convergence of TV and the Internet, technology outsourcing, direct marketing, and the globalization of the Web will reap the greatest rewards.

Figure 16

Marketing Budgets of the Largest Companies



Source: Association of National Advertisers

General Motors is the only advertiser to rank as one of the top ten offline and online advertisers. Even more important, GM spends less than 1% of its advertising budget online. The Association of National Advertisers reports that the average annual expenditure of an advertiser on the Internet

was \$714,000 in 1998, up from \$250,000 in 1997. Internet ad budgets have nowhere to go but up as advertisers shift larger portions of their budgets online. We saw the beginning of this in 2Q99, as consumer brand advertisers (usually the ones with the big bucks) accounted for 29% of total Internet advertising revenues, according to the Internet Advertising Bureau. This makes consumer brand advertisers the leading industry category for online advertising. As more large advertisers advertise on the Internet and as the online share of marketing budgets increases, online advertising expenditures will take off.

“Direct marketing online is a ‘sleepier’ waiting to explode. Major advertisers are still putting less than 1% of their ad budgets on the net; instead, two-thirds of their budgets are going into direct marketing, not impression-based advertising.”

— George Bell, CEO Excite

The concentration of advertising expenditures on the Internet has been broadening. No longer do only a few firms venture to advertise online. Rather, the Internet is becoming more of an accepted — and useful — advertising medium. We expect this trend to continue for some time.

What Could K.O. Internet Advertising?

KEY POINTS:

- Privacy matters, software that blocks ads and cuts out cookies, and the anti-spam culture could reduce the effectiveness and the value of Web advertising. It would also curtail consumer convenience and reduce content quality — there is no free lunch without advertising.
- Net vs. Gross revenue recognition is a focus of concern. The SEC is looking into the way in which Internet ad firms account for their revenues. If FASB forced those firms that are “grossing up” their revenues to discontinue the practice, revenue multiples would be altered (which could hurt price to sales comparisons), but in most cases the underlying business would not be affected.
- Today’s declining click-through rates and (tomorrow’s?) declining stock prices may lead to negative advertiser sentiment — hurting demand and pricing. While marketing ROI should be the only thing that matters, focusing on the wrong metrics could have an impact.

Privacy Concerns Are Gaining Momentum and Will Not Go Away Any Time Soon

Web publishers and buy/sell-side networks usually place certain informational text files called “cookies” on a user’s hard drive without the user’s knowledge or consent. Agencies use cookies to identify users and target appropriate ads to them. This can also help in limiting the frequency with which the user is shown a particular ad. If legal restrictions reduce the effectiveness of cookies, significant reengineering resources may be required for ad targeting. This would mean that Internet ads would have to be contextually placed, based on aggregate demographic group behavior (as is the case on television), rather than individually targeted based on personal behavior. Advertisers could also target based on the ISP of origin and other such factors. Internet browsers allow users to modify their browser settings to remove or prevent cookies.

In the offline world, many companies have just as much information (or more) on consumers — particularly the credit card companies. In the U.S., we believe that the ability to eliminate or block cookies by opting out of ad target-

ing programs, combined with clear privacy policies posted on Web sites (and an acceptance of just how much information offline companies already have on consumers), will mollify most users.

Overseas, however, privacy concerns seem to be playing a larger role. For example, the European Union has adopted a directive addressing data privacy that may result in limitations on the collection and use of certain information regarding Internet users. Also, Germany has imposed its own strict set of standards, limiting the use of cookies.

Internet users’ privacy concerns peaked with the announcement that DoubleClick was being investigated by the Federal Trade Commission’s (FTC) Bureau of Consumer Protection. This is not the same bureau that covers Antitrust/Competition. The Bureau of Consumer Protection’s mandate is “to protect consumers against unfair, deceptive, or fraudulent practices.” The Bureau enforces a variety of consumer protection laws enacted by Congress, as well as trade regulation rules issued by the Commission. It is common for such an investigation to take 6–12 months, and it may include investigations into other companies related to DoubleClick’s business.

In the worst-case scenario, the Internet goes all opt-in.

Several federal bills regarding privacy are under way in the U.S. House and the U.S. Senate, but with very few legislative days left in the shortened election year, it is unlikely we will have legislative resolution before 2001. In the worst-case scenario, the Internet goes all opt-in, as the most controversial legislation, written by Senator Torricelli (D-NJ), calls for. What does this worst-case mean? Users who choose not to opt in will not have cookies placed on their hard drives, and therefore will likely receive repetitive marketing messages. Others will opt in, creating a panel of users on whom data could be compiled; online advertisers could extrapolate from that data to do effective targeting. For those who fail to opt in, targeting would be based on the ISP of origination and the content of the Web page visited.

Finally, in order to increase the percentage of opt-in, sites and their marketers will need to offer sweepstakes and other benefits to entice consumers.

Even with the most basic tools, we believe the long-term value of Internet advertising can rise from its current power ratio of 80% (similar to TV) — to around 300% (similar to magazines). What does that mean in English? We believe that Internet advertising's pricing power may triple without cookies... and could possibly be higher with them.

State legislatures and Attorneys General say "Don't Tread on Me." Privacy is very much a state issue. Many on Wall Street and in Silicon Valley miss this point, thinking that government begins and ends in Washington, DC. Underlying the states' interests in this area is the most recent federal legislation on financial services, which devoted an entire section to privacy. In the excerpt noted below from the Gramm-Leach-Bliley Act, Congress permitted the states to propose more restrictive privacy rules.

Gramm-Leach-Bliley Act

Became Public Law No: 106-102, 11/12/1999. An Act to enhance competition in the financial services industry by providing a prudential framework for the affiliation of banks, securities firms, and other financial service providers, and for other purposes.

TITLE V--PRIVACY

Subtitle B--Fraudulent Access to Financial Information

SEC. 507. RELATION TO STATE LAWS.

(b) **GREATER PROTECTION UNDER STATE LAW-** For purposes of this section, a State statute, regulation, order, or interpretation is not inconsistent with the provisions of this subtitle if the protection such statute, regulation, order, or interpretation affords any person is greater than the protection provided under this subtitle and the amendments made by this subtitle, as determined by the Federal Trade Commission, after consultation with the agency or authority with jurisdiction under section 505(a) of either the person that initiated the complaint or that is the subject of the complaint, on its own motion or upon the petition of any interested party.

Some state legislatures and attorneys general have taken this permission as a mandate. In the State of Washington, the Attorney General has vowed to be the first to act on this "permission." Investors should expect a crescendo of state activity from now until next year, with a number of omnibus privacy bills and ballot initiatives considered.

Accounting Standards

— Gross vs. Net Revenue Recognition

Accounting standards questions have been a hot topic among Internet companies. On December 3, 1999, the SEC issued Staff Accounting Bulletin (SAB) 101 on accounting for revenue recognition to clarify current principles for recognizing and reporting revenue. SAB101a was recently released to extend the deadline for compliance until 2Q00. Although the SAB covers a wide range of issues regarding revenue recognition policies, the key area that could affect Internet advertisers is the gross versus net revenue disclosure.

In areas where it is unclear whether the gross revenues should be reported with a separate display of cost of goods sold to determine net sales, the SEC staff puts forth the following requirements: The staff considers whether the registrant: (1) acts as principal in the transaction, (2) takes title to the products, (3) has risks and rewards of ownership, such as the risk of loss for collection, delivery, or returns, and (4) acts as an agent or broker (including performing services, in substance, as an agent or broker) with compensation on a commission or fee basis. If the company performs as an agent or broker without assuming the risks and rewards of ownership of the goods, sales should be reported on a net basis. Managements claim to satisfy all of these conditions, yet should FASB disagree, companies could have to restate historical revenue and could have to report something closer to net revenues going forward.

A FASB decision that goes against a company's accounting policies should not change profitability projections or any other part of its business. However, should it result in a lower level of revenues, investors relying solely on revenue multiples for valuation may reduce the value of the stock — and this could impact strategic decisions at the company. This could hurt the stock considerably — and could have a negative (but uneven) impact on a number of names in the Internet advertising sector.

Barter revenue accounting is another area that has caused concern. Bartering occurs when two Internet companies exchange advertising space on their Web sites. The SEC finds fault with the fact that these companies sometimes report revenue earned for the ad and marketing expense for the bartered ad. Forrester Research believes that about 8% of reported Internet advertising revenues are barter revenues that should not be counted. Although most of the Internet advertising agencies would not be affected, a crackdown by the SEC on barter revenues could be a modest negative for the industry.

Ad-Blocking and Cookie-Cutting Software

Ad-blockers allow for a “free ride” — and some claim it could be faster, too. To date, \$20 off-the-shelf software by companies such as AdSubtract.com and Symantec Corp. has not proved too popular. This could change if the ad-blockers allow for faster Internet access, as some makers of such software claim. Other media have “ad-blockers” to deal with, too — consider the early models of TiVo and Replay for television. Of course, since few subscription models have worked on the Web, blocking the ads inevitably leads the content distributor to block the content — not a good plan for an ad-supported media. Finally, ad-blocking software is far from perfect; some ads slip through and some content is blocked.

Cookie cutters allow users to remove cookies, or stored identification markers, from their hard drives. This causes users to appear as completely new identities to Web sites. Ad servers, unaware of a user’s identity (and thus, preferences) will serve contextual ads to users who have cut their cookies. At the same time, sites will not remember user’s passwords, preferences, and ordering details, thus restricting convenience and detracting from the user’s experience.

Direct E-Mail & the Anti-Spam Culture of the Web

Direct e-mailers have become very wary of being associated with “spam.” They have tried to make their marketing programs invitations to buy, with very easy opt-out methods if a user wishes to unsubscribe to future mailings. They have also utilized previous offline relationships with brands to build new opt-in relationships. Clearly posted privacy statements and the ability to opt out of an ad targeter’s program are important means of empowering consumers.

Still, a Web consumer backlash could be ignited by a relatively small number of people angered by one careless or unlucky incident — so investors beware. Once Internet household penetration becomes more ubiquitous, however, we do not believe the average customer will be shocked that there is e-commerce going on in their e-mail box.

Declining Click-Through Rate

A continuously declining click-through rate on the Web could lead advertisers to look unfavorably upon Internet advertising ... even though they do not know the “click-through rate” of other media.

Although most admit that the click-through rate (CTR) is not the best measure of an advertisement’s effectiveness, it is easily quantifiable and may be cited by advertisers as proof of a campaign’s success or failure. For every study that shows a decline in CTRs — the percentage of people who click on an ad — there is one that refutes the importance of that measurement.

Not everyone agrees that the banner format itself is the problem; rather the way banners are created and used is the issue.

“It’s more a case of bad banner ads, just like there are bad television ads. The space itself has huge potential. You can have people register, there are pull-down scripts, you can play games.”

— *Mike Windsor, President of Ogilvy Interactive*

However, some of those who believe that banner ads are the problem point to emerging formats with higher CTRs as likely future Internet advertising applications. Unicast’s superstitials are Java-based pop-up windows that are supported by DoubleClick, Engage and 24/7 Media and are designed to be minimally intrusive and polite.

“The Superstitial is a pop-up on steroids. Superstitials have far exceeded our expectations.”

— *Sean Black, VP and Interactive Media Director, Grey Direct Interactive*

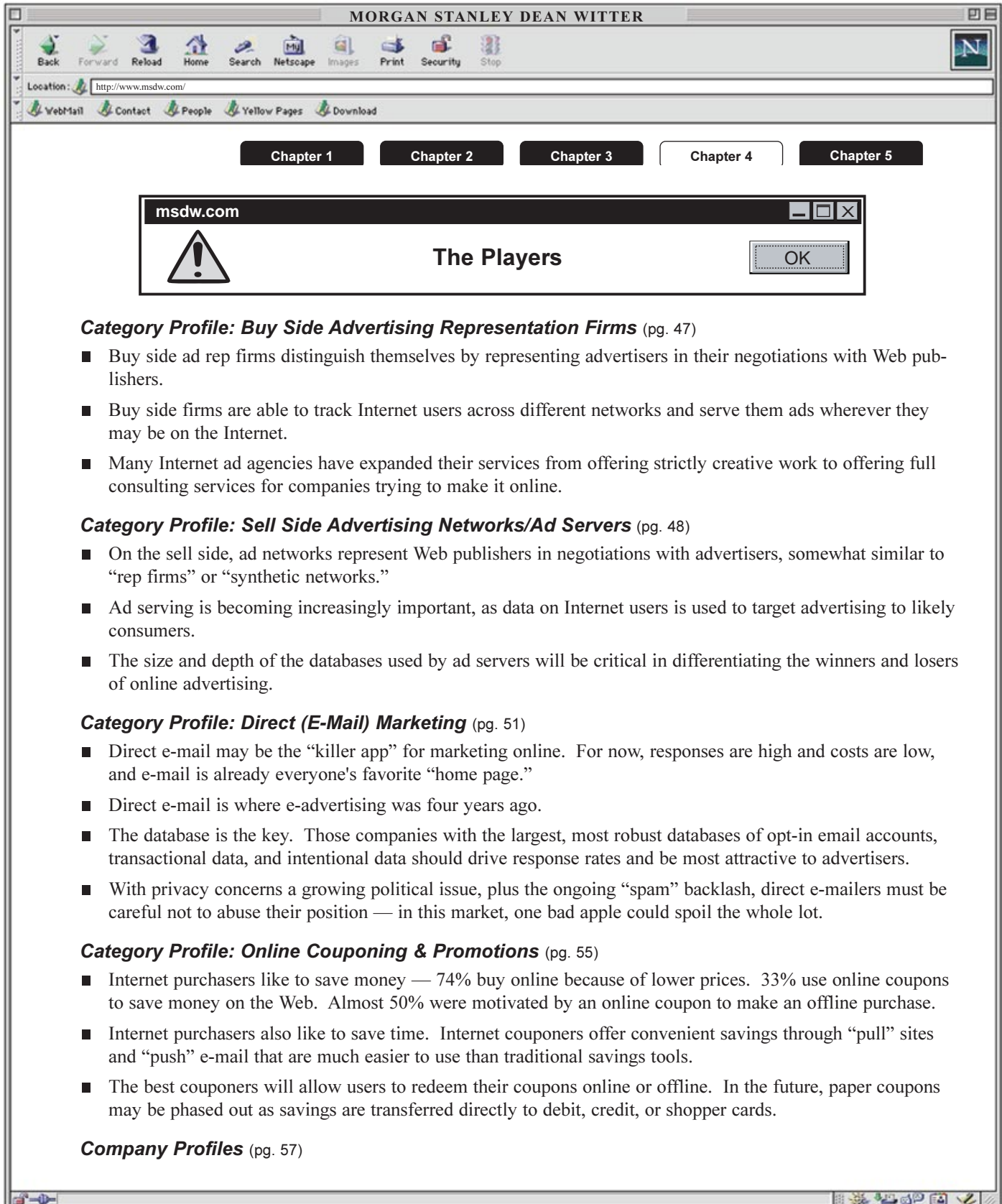
Additionally, CTR information is currently available only for Internet advertising. Over time, interactive television will give us another medium’s CTR and allow for comparisons. Finally, it is important to realize that CTRs, look-to-

book ratios, and response rates all boil down to ways to create a medium's clearing price for its advertising.

Where Wall Street Crosses Madison Avenue

At some point, investor sentiment in the Internet space may take a turn for the worse ... and this could affect advertising. While a lot of overvalued companies may justifiably falter, we worry that some of the good companies and their services will also be hurt should investor sentiment turn negative.

Analysts have sought to address this by using short-term conservative assumptions and long-term aggressive assumptions. However, should this dichotomous approach to forecasting appear to produce expectations out of line with evolving reality, many Internet advertising stocks could be unjustifiably hurt. As "the most measurable media ever," the Internet has a lot of promise to live up to.



Chapter 1 Chapter 2 Chapter 3 Chapter 4 Chapter 5

msdw.com

The Players

OK

Category Profile: Buy Side Advertising Representation Firms (pg. 47)

- Buy side ad rep firms distinguish themselves by representing advertisers in their negotiations with Web publishers.
- Buy side firms are able to track Internet users across different networks and serve them ads wherever they may be on the Internet.
- Many Internet ad agencies have expanded their services from offering strictly creative work to offering full consulting services for companies trying to make it online.

Category Profile: Sell Side Advertising Networks/Ad Servers (pg. 48)

- On the sell side, ad networks represent Web publishers in negotiations with advertisers, somewhat similar to “rep firms” or “synthetic networks.”
- Ad serving is becoming increasingly important, as data on Internet users is used to target advertising to likely consumers.
- The size and depth of the databases used by ad servers will be critical in differentiating the winners and losers of online advertising.

Category Profile: Direct (E-Mail) Marketing (pg. 51)

- Direct e-mail may be the “killer app” for marketing online. For now, responses are high and costs are low, and e-mail is already everyone's favorite “home page.”
- Direct e-mail is where e-advertising was four years ago.
- The database is the key. Those companies with the largest, most robust databases of opt-in email accounts, transactional data, and intentional data should drive response rates and be most attractive to advertisers.
- With privacy concerns a growing political issue, plus the ongoing “spam” backlash, direct e-mailers must be careful not to abuse their position — in this market, one bad apple could spoil the whole lot.

Category Profile: Online Couponing & Promotions (pg. 55)

- Internet purchasers like to save money — 74% buy online because of lower prices. 33% use online coupons to save money on the Web. Almost 50% were motivated by an online coupon to make an offline purchase.
- Internet purchasers also like to save time. Internet couponers offer convenient savings through “pull” sites and “push” e-mail that are much easier to use than traditional savings tools.
- The best couponers will allow users to redeem their coupons online or offline. In the future, paper coupons may be phased out as savings are transferred directly to debit, credit, or shopper cards.

Company Profiles (pg. 57)

Category Profile: Buy-Side Advertising Representation Firms

KEY POINTS:

- **Buy-side ad rep firms distinguish themselves by representing advertisers in their negotiations with Web publishers.**
- **Buy-side firms are able to track Internet users across different networks and serve them ads wherever they may be on the Internet.**
- **Many Internet ad agencies have expanded their services from offering strictly creative work to offering full consulting services for companies trying to make it online.**

Sell Side vs. Buy Side

As in the offline media world, the online media business has both a buy side and a sell side. On the sell side, agencies and networks represent Web publishers in selling Internet ad inventory (the ad networks described earlier). It is the sell side's job to negotiate the best deal (i.e., most money) from advertisers for the publishers they represent. On the buy side, agencies try to get the best deal for their customers — the advertisers.

Sell-side ad networks can provide advertisers with access to only a limited number of sites — those in the network. For instance, DoubleClick cannot serve ads to or monitor users who are on AOL's sites. Thus, they are unaware of what ads a user has been served and how they have reacted. Nor can sell-side networks target advertisements to users who do not enter their network of sites.

Buy-side ad agents essentially produce a custom network for advertisers. This is possible because they represent *advertisers'* — not *publishers'* — interests in negotiations. Buy-side agencies are independent of any Web publisher or advertising network. Thus, they are able to focus on the needs of Internet advertisers, rather than Web sites that sell advertising or advertising networks representing sellers of Internet advertising.

Targeting

Targeting is based on data acquired from prior interactions with users. This comes from a user's interaction with the

buy-side client's Web sites and from a user's responses to past advertisements. For instance, an Internet user who visits Jeep's Web site to look at the Jeep Wrangler could be served an advertisement for the Wrangler anywhere on the Web. Similarly, an Internet user who clicks through a Jeep ad to gain more information may be served a Jeep ad again.

Sell-side ad serving systems enable advertisers to control the frequency with which an ad is delivered — regardless of where the user sees the exposures. This is highly important, as it has been established that if a user is going to respond to an ad, it will be within the first several exposures. Except for branding value, additional exposures are wasted. If advertisers contract directly with publishers or sell-side ad networks (like DoubleClick, Engage, or 24/7 Media), they run the risk of wasting advertising, since publishers have no ability to control the frequency of ads outside their own networks. Sell-side ad shops track users at every exposure to a client's ad. They can thus control the frequency with which the user sees each ad. If a user has seen an ad three times on Yahoo!, then shows up on CNET, the company knows that s/he has already seen the ad, and will deliver a different creative at the fourth exposure.

Advertisers often design a sequence of ads intended to reinforce their brand, then request an action. Buy-side firms enable advertisers to determine the sequence in which they'd like users to see the ads, then execute this plan. The same goal cannot be guaranteed if advertisers contract directly with publishers or sell-side ad networks.

BUY-SIDE COMPETITORS:

- **Avenue A — AVEA**
- **DoubleClick — DCLK**
- **Engage — ENGA**
- **Mediaplex — MPLX**
- **24/7 Media — TFSM**

Category Profile: Sell-Side Advertising Networks/Ad Servers

KEY POINTS:

- **On the sell side, ad networks represent Web publishers in negotiations with advertisers, somewhat similar to “rep firms” or “synthetic networks.”**
- **Ad serving is becoming increasingly important, as data on Internet users is used to target advertising to likely consumers.**
- **The size and depth of the databases used by ad servers will be critical in differentiating the winners and losers of online advertising.**

Ad networks are basically groupings of sites that have banded together to present a united front when dealing with advertisers. In this way, they gain the benefits of a wide-reaching portal. Relatively obscure sites can bargain for media pricing from a position of strength when they are part of a network. Typically, ad networks conduct ad serving for their affiliated sites.

Ad serving is largely a technology job. When a user goes to a Web site, the site queries its ad-serving partner about which ads to deliver based on the user’s profile. The ad-serving partner serves (sends) the selected ad back to the Web site. A few sites have chosen to do this on their own, but the vast majority outsource the serving job to third-party ad servers. We believe that as greater targeting ability is developed, third-party ad servers will be even more critical.

Today, 61% of sites use some combination of internal and external ad serving. We expect this number to continue to climb as more targeting comes online and more rich media is demanded by advertisers.

Tracking

Internet commerce trackers and marketers believe that every Internet transaction generates ten times as much information on consumers as an offline transaction. The good ad trackers are able to monitor this clickstream of data and assemble it into a user profile. With individual user profiles developed through clickstream tracking, targeters can better serve appropriate ads to consumers.

Tracking has been going on in the offline world for some time. Individual stores monitor consumers’ purchases and try to target their specials to those consumers who may be interested. The online world takes tracking to a whole new level, particularly if the Internet bridges the online and off-line data.

Data Is the Key!

For an advertisement to be targeted, there must be data on consumers behind it. The richer and more in-depth the data, the better the targeting. In general, data are divided into behavioral and demographic data, although geographic is also starting to enter the scene as local Internet advertising catches on. Behavioral data can be further broken into transactional and intent-to-purchase data.

- **Transactional Data:** The most important form of data is transactional data. A form of behavioral data, this is a history of what consumers have purchased in the past. Advertisers can then market complementary products to consumers with this information.

- **Intent to Purchase:** Data on a consumer’s intent to purchase are nearly as important as the purchases themselves. Using this form of behavioral data, ad targeters are able to monitor what consumers have read about, requested more information about, or nearly purchased. With this information, they can offer special prices to consumers who turned back on a sale at the last moment because of the price or for other reasons.

- **Demographic:** Demographic data are based on a broad categorization of consumers. Ads are targeted at users based on their demographic group. For instance, males age 18–24 may receive football advertisements. Demographic-based advertising depends on broad assumptions, making it much less likely to generate a response than ads using behavioral data.

Targeting

Targeted advertising on the Internet is still in its initial stages. In our view, Internet advertisers are rich in data, but poor at using that data for targeting. We have di-

vided the development of Internet ad targeting into three time periods:

- **Building the Database:** From 1994 to 1997, as the Internet morphed from a nerd hangout to a mainstream medium, advertisers came to realize that they had a treasure trove of information waiting to be mined. Vast amounts of data on consumers were available, and more was being added by the second. Advertisers focused on mining the data on Internet consumers and developing databases to store it.
- **Manipulating the Data:** From 1997 through 1999, advertisers and Internet ad targeters have focused their efforts on manipulating these troves of data. Demographic data have been widely used to target advertisements, but using behavioral data as a targeting mechanism is still in its infant stages.
- **Targeting Customers:** Now that advertisers, database companies, and ad targeters have developed their databases, they are focusing their efforts on targeting ads based on demographic, behavioral, psychographic, and even geographic information.

Today, Internet ad targeting is moving from targeting based solely on site content — an estimate of the demographics of a typical viewer of that site — to targeting based on specific user data. However, numerous studies have shown that the vast majority of sites are still not tracking users' click-streams.

Closed Loop Marketing

Closed-loop marketing involves clickstream tracking and then targeting based on this information, in virtually real-time. Ad networks using this method track when users enter their network of sites, where they click, what ads they have responded to, what information they have requested, and what purchases they have made. With the information generated, closed-loop marketers are able to constantly refine their campaigns to generate the best possible results.

In the offline world, advertisers must wait until consumers make a purchase to be able to see their behavior. The Internet has turned this upside down, however. Now, the advertiser can track a consumer's behavior prior to a purchase and can actually facilitate that purchase through the use of targeted advertising.

Advertising Campaigns: From Broad to Narrow

On the Internet, advertisers can choose to reach a broad audience or a more narrow selection of users. Within both the broad and narrow audiences, the ad can be targeted, which distinguishes the Internet from other forms of advertising previously available.

- **Run of Network:** A run-of-network campaign runs across a media seller's entire network, similar to the broad reach enjoyed by network television. However, on the Internet, even though the ad is run across the entire network of sites, it can still be targeted to specific users based on the available data.
- **Run of Channel:** A run-of-channel campaign runs on a portal or network's distinct content channels. For instance, pet food maker Iams may advertise across Yahoo's network of pet sites. Within the channel, the Internet allows further targeting based on users' demographic, psychographic, or geographic data.
- **Run of Site:** Currently the most popular form of advertising on the Internet, a run-of-site campaign runs only on a particular site's pages. For example, one could advertise only on the *New York Times*' site.
- **Profile Targeting:** Advertisers have recently been offered the option of targeting a campaign at a user with a particular behavioral history. As of now, these profiles are anonymous, but marketers may try to link their online and offline data in the future.

As in the offline world, seasonality can influence an advertiser's choice of medium. More broad-reaching advertising, such as run-of-network campaigns, seem to be favored in holiday seasons, while more targeted forms like run-of-site campaigns dominate the rest of the year.

Affiliate Marketing

Affiliate marketing is the business-to-business version of viral marketing. Marketers pay affiliates to lead consumers to their site. Jupiter Communications predicts that affiliate programs will account for 24% of e-commerce revenues by 2002, up from about 11% in 1998.

The granddaddy of affiliate marketing is Amazon.com. Affiliate members feature a link to Amazon's site — usually

a button — on their own sites. When a user purchases anything on Amazon's site after having gone there via the link, the member who sent the purchaser to Amazon receives a commission.

In general, there are three types of affiliate marketing programs, distinguished by their payment style:

- **Impressions:** Affiliates are paid when they present a banner to a consumer.
- **Click-Throughs:** Affiliates are paid for each user that clicks through the banner or button.
- **Lead Generation:** After a consumer has clicked through to a site, the affiliate is paid if the marketer is able to register the user.
- **Revenue Sharing:** The affiliate is paid only when the referred consumer makes a purchase.

Agencies or Consultants?

Many Internet advertising agencies have expanded their services as opportunities on the Internet have expanded. Initially, companies like ModemMedia and Razorfish offered only creative marketing solutions to their clients. These "e-consultants" have since expanded their offerings to

include Web site development, Internet business planning and e-commerce development, in addition to Internet marketing. Companies included in this space are: Sapient, MarchFirst, Viant, Scient, Organic, Agency.com, Razorfish, ModemMedia, and others. Additionally, many of the large "traditional" agency holding companies like Omnicom, Interpublic Group, Young & Rubicam, True North and WPP Group have stakes in these e-consultants.

COMPETITORS:

- **DoubleClick — DCLK**
- **Engage — ENGA**
- **L90 — LNTY**
- **Phase2Media — Private**
- **Real Media — Has filed to go public**
- **24/7 Media — TFMS**

Category Profile: Direct (E-Mail) Marketing

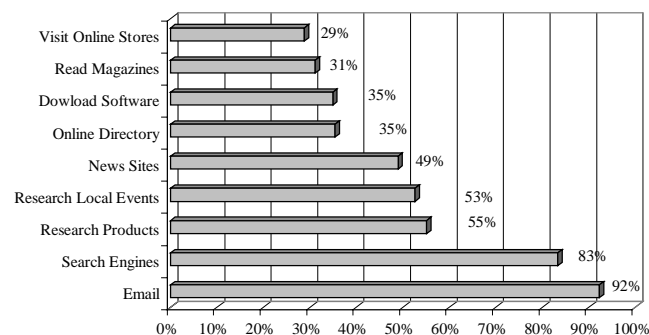
KEY POINTS:

- **Direct e-mail may be the “killer app” for marketing online.** For now, responses are high and costs are low, and e-mail is already everyone’s favorite “home page.”
- **Direct e-mail is where e-advertising was four years ago.**
- **The database is the key.** Those companies with the largest, most robust databases of opt-in e-mail accounts, transactional data, and intentional data should drive response rates and be most attractive to advertisers.
- **With privacy concerns a growing political issue, plus the ongoing “spam” backlash, direct e-mailers must be careful not to abuse their position — in this market, one bad apple could spoil the whole lot.**

As William Park, CEO of Digital Impact, points out, many consumers have made an online purchase (and many more will in the future), but how many of these consumers have made that shopping site their homepage? The answer is few to none. This is where e-mail comes in. **E-mail proactively reaches users, rather than trying to catch their attention as they navigate the Web.**

Figure 17

Reason For Use of the Internet



Source: Jupiter Communications

It is estimated that approximately 85% of home computer users and 75% of workplace computer users conduct personal and business operations via e-mail. As PC and Internet access continues to grow, e-mail will only become more

ubiquitous, given its advantages over traditional “old world” media. Some of these advantages are:

- **Cost:** E-mail can substitute for standard mail, and even the telephone, at much more economical prices.
- **Virtually real-time distribution:** On the Internet, marketers get their message out immediately.
- **Interactivity:** E-mail allows for direct links to Web sites, so consumers can go directly from seeing an ad to conducting more research to actually purchasing the product, completing the sales cycle without interruption.
- **Higher Click-Through Rates:** While banners are currently generating click-throughs significantly below 1%, e-mail is generating click-throughs in the range of 5-20%.

Table 12

E-mail Marketing Strategies

Acquisition	Retention
Permission List Marketing	Customer Relationship Management
Sponsored Newsletter	Corporate Newsletter
Sponsored Discussion List	Reminder Service
Advocacy Marketing (Referrals)	
Partner Co-marketing	

Source: IMT Strategies

Targeting Behavior

E-mail has the potential to be the ultimate direct marketing tool. The reasons cited above (cost, real-time distribution, and interactivity) tell part of the story, but they do not cover the key advantage: targeting. Direct mail has traditionally been the most targeted of all media. Direct mail is used by all sorts of advertisers to reach specific customers whose past behavior makes them appealing targets for the advertiser’s offering. Direct e-mail works on basically the same theory, but with some added benefits.

Direct e-mail allows advertisers to add users’ past Web behavior to the database. For example, if a consumer had recently been to the Compaq Web site and read about the newest laptop, direct e-mail would allow Compaq to offer a special coupon or more information to that consumer. This is the most proactive form of marketing that is currently available to Web advertisers. While static banners need to

be noticed and clicked through, a targeted e-mail reaches a more receptive audience and is much more difficult to ignore.

Direct e-mail allows advertisers to deliver different ads and offers to different consumers. Zip codes and local stores can be taken into account. The combination of demographic, geographic, and psychographic data makes direct e-mail a potent tool for customer acquisition and retention.

E-mail proactively reaches users, rather than trying to catch their attention as they navigate the Web.

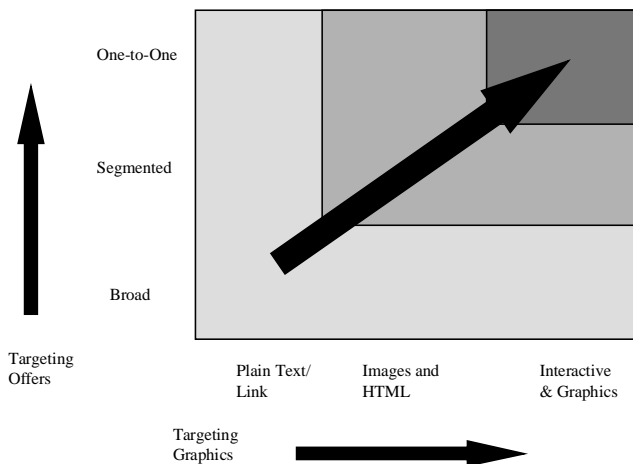
Targeting on Browsers: Browser Sniffers

In the past, e-mail consisted of text only. Now browsers have been integrated into the e-mail system to allow for links and graphics. Users can click on the link in the message and be transported directly to the related Web site. Additionally, many browsers now have rich-media functionality that can send full graphic pictures through e-mail.

Direct e-mail marketers are poised to benefit from this technology using “browser sniffers,” which indicate what type of browser a user has and then sends the richest form of media that can be viewed on that browser.

Figure 18

E-Mail Targeting – High and Right is Best



Source: Morgan Stanley Dean Witter Research and Digital Impact

Plain Text Approximately 10% of today’s e-mail users rely on browsers that can support text only, including Lotus Notes and Unix Mail. These users will receive text-only direct mailings. In order to gain more information, the user must click on the advertiser’s URL address and will be transported to the site. *The response rate to these text-only ads is 3–4%. This is about 3 times as effective as traditional direct mail.*

Clickable Text About 60% of today’s browsers allow for “clickable text.” Eudora 3.0 and Microsoft Exchange support this type of advertisement. With clickable text, the link takes the user to a site devoted to the offer itself, instead of the advertiser’s entire Web site. This allows many links to different portions of the advertiser’s site. *Response rates on these ads are 6–8%, or double those of plain text.*

HTML E-Mail HTML e-mail allows users to see graphic images in the message and accounts for about 30% of today’s e-mail market. Microsoft’s Hotmail and Netscape’s versions 3.0 and above service HTML e-mail. With HTML e-mail, users can click on the image or another link to be transported to a site with more information or the actual sale page on the advertiser’s Web site. *HTML e-mails typically generate response rates of about 12–15%, three times the level of plain text and two times the level of clickable text.*

Interactivity is currently being added to e-mail as well (users will be able to ask questions about an offer or play a game), which should further increase the response rates. Of course, as targeting and interactivity become more commonplace, it is possible that response rates will stabilize and drift lower from current levels as the novelty wears off. This has been the case with most new media (see the history of direct mail and, perhaps, Internet banners).

Table 13

E-Mail Response Rates

	Click Through	Cost per Mail
Plain Text E-Mail	3-4%	\$0.02
Clickable Text E-Mail	6-8%	\$0.03
HTML E-Mail	12-15%	\$0.05
Average E-Mail	10%	\$0.04

Source: Morgan Stanley Dean Witter Research and Digital Impact

Tracking

Just like ad serving, a consumer’s response to e-mail can be tracked. The offers that most interested a consumer and the degree of follow-through can be tracked. Of course,

once a consumer clicks through the e-mail to the advertiser's site, the consumer's behavior there can be tracked. Typically, advertisers receive information on what types of consumers are responding to different offers and what offers are generating responses.

Why Don't Advertisers Do This Themselves?

Several obstacles must be overcome before companies can successfully use e-mail as a marketing tool.

- **Large technology investments:** Companies must work around potential problems such as "bounced" messages and Spam-blocking software and deal with issues like network bandwidth utilization, content selection, and management of massive databases. These require larger investments in technology (not to mention an expert staff to manage it) than many advertisers are willing to make themselves.

- **Spam:** Unsolicited commercial e-mail (UCE), also known as "Spam," is a major concern among users and Internet service providers (ISPs). A high degree of expertise and attention is essential on the part of a company sending e-mail to a large number of prospects. "Opt-in" databases alleviate some of this concern, but they are not foolproof. This will be discussed further in the "Opt-In vs. Opt-Out" discussion below.

- **Online Is Different from Offline:** Techniques for adding subscribers/recipients and improving response rates are substantially different from those used in physical direct mail. Because the experience and technology for implementing an effective e-mail direct marketing program are so different, good direct offline mailers may not easily transform themselves into successful online direct marketers.

Opt-In vs. Opt-Out

How a direct e-mailer generates the database of consumers is of critical importance. In general, two methods are used.

Opt-Out The first is termed "opt-out," because a consumer is automatically added to the database and must contact the e-mailer to opt out of the program. This is generally used by advertisers trying to grab as many customers as possible, without much regard for long-term relationships. The problem is that consumers receive unsolicited e-mail that clogs up their inboxes and raises privacy issues.

Opt-In The second way to generate a database requires the consumer to specifically sign up for inclusion. Termed "opt-in," consumers that visit a direct e-mailer's Web site may list the areas about which they would like to receive information. With opt-in, consumer acquisition may not be quite as rapid as with opt-out, but a better long-term relationship is formed with the consumer. Consumers are much more receptive to advertising when they opted in to a program. As consumers become more and more inundated with e-mail, the use of filters will become more prevalent, and these filters will likely block opt-out e-mail for the simple reason that many consumers aren't interested. Opt-in e-mail will be much better received.

E-mail exchange programs also exist. In this case, a co-branded e-mail exchange registration page allows consumers to opt in for more than one e-mailer's list. Additionally, some direct e-mail ads have a link to a co-branded site at which the consumer can sign up for further e-mail groups in selected areas. This is very similar to the media seller's network of sites. Affiliated sites gain size, scale, and reach by participating. Further, they receive compensation for referring consumers to other members of the exchange program, making them more attractive in advertisers' eyes.

Table 14

Direct E-Marketing Appears to Beat the Rest

Medium	Click Through	Conversion of Clickers
Banner	0.5%	1.0%
Direct Mail - Purchased List	0.7%	NA
Direct Mail - House List	1.0%	NA
E-Mail - Purchased List	10%	10%
E-Mail - House List	14%	10%

Source: Morgan Stanley Dean Witter and IMT Research

Cost

Typically, direct e-mail campaign fees are broken into two types. Set-up fees start at about \$1,500 per campaign, and delivery fees are usually \$0.02–0.05 per e-mail, but volume discounts often result in lower fees.

Customer acquisition costs via direct e-mail are much lower than via direct mail. We estimate that the difference is approximately 20–30% in favor of direct e-mail.

Customer Acquisition/Retention

It is our belief that direct e-mail's greatest benefit lies in building customer relationships, rather than simply acquiring

ing customers. This is opposed to the prevailing Internet wisdom, which encourages dot-coms to grab share of their respective markets no matter what the cost. We believe that customer relations and quality will suffer if companies adopt the “land grab” strategy.

E-mail is much more intrusive than banner advertising or even interstitial advertisements. For that reason, it must be approached with more care. Customers receiving unsolicited e-mail are much more likely to react negatively than even those receiving unsolicited direct mail. Thus, we feel that opt-in e-mailers with a slowly building sales pitch are best-positioned in this industry. Rather than focusing on one-time sales, these companies will build relationships with customers over the longer-term. After all, getting the third or fourth sale is much more valuable than getting only the first.

Competition

Because of the low barriers to entry, the direct e-mail marketing space has many competitors. We believe that several characteristics will separate the winners from the losers.

- **Scalability:** Those e-mailers with scalable operations, possessing the ability to reach large numbers of consumers without incurring large extra costs, will stand out.
- **Rich Data:** Data on consumers is key for the success of e-mailers. Collection, management, and interpretation of data are important for ad targeters and direct e-mailers.

Those with the most rich data on the greatest numbers of people will be best-positioned.

- **Relationship Management:** In our minds, direct e-mail is not a customer acquisition tool. Rather, it is a customer relationship management tool. The successful e-mailers will view it this way and act accordingly.
- **On- and Offline Convergence:** Eventually, due to its low costs and incredible targeting ability, direct e-mail will become a complete direct marketing solution. Both on- and offline advertisers will use it to enhance their businesses. The e-mailers that position themselves for this coming convergence will be best prepared to beat out their competitors.

COMPETITORS:

- Avenue A — AVEA
- Cybergold — CGLD
- Digital Impact — DIGI
- DoubleClick — DCLK
- Message Media — MMSG
- MyPoints.com — MYPT
- 24/7 Media — TFMS
- YesMail — (Acquired by CMGI)

Category Profile: Online Couponing & Promotions

KEY POINTS:

- **Internet purchasers like to save money — 74% buy online because of lower prices. 33% use online coupons to save money on the Web. Almost 50% were motivated by an online coupon to make an offline purchase.**
- **Internet purchasers also like to save time. Internet couponers offer convenient savings through “pull” sites and “push” e-mail that are much easier to use than traditional savings tools.**
- **The best couponers will allow users to redeem their coupons online or offline. In the future, paper coupons may be phased out as savings are transferred directly to debit, credit, or shopper cards.**

Jupiter Communications reports that 74% of Internet purchasers choose to buy online because of the lower prices they have found there. Further, of those consumers who are motivated by an online source to purchase a product in the offline world, an online coupon motivated 49%. Separately, NPD Online Research reports that nearly one-third of those on the Internet are using online coupons to save money on the Web.

It is important to note that we do not consider e-couponing the same as direct e-marketing, just as we separate direct mail from coupons in the traditional space. However, couponers can use direct marketing to distribute their coupons.

The same can be said for loyalty marketing programs, which in the traditional space end up as some sort of promotion spending. Because of the database aspect of this business, in the e-marketing world loyalty marketing can also seem like direct marketing.

Coupons & Promotions:

The Internet Marketing Sweet Spot?

Couponers and promoters on the Internet sit in a very nice sweet spot. For several reasons, their marketing and ability to provide advertisers with high rates of return are virtually unparalleled.

- Users and their behavior do not need to be tracked across the Internet, as users go to the couponer’s home page to conduct transactions. There, couponers compile information on their various interests, often at the behest of the consumer.
- Couponers and promoters typically require registration information, so they immediately obtain very valuable information on consumers.
- Couponing is by definition an opt-in process. Thus, marketers can be assured that they are reaching a receptive audience.
- The demographics of Internet users, and those who sign up for online couponing in particular, are very attractive. This has caused many offline businesses to offer online coupons, even if they don’t ever expect to offer e-commerce.

Targeting

Through the use of coupons and rewards programs, marketers are able to closely monitor what consumers are purchasing, due to the simple fact that consumers must redeem their coupons or report what they are purchasing in order to generate points. The same is true on the Internet, but to a much greater extent. Consumers clicking on certain coupons are obviously interested in those types of products, so specific marketing can be targeted at them even if they don’t make a purchase.

In addition to the clickstream monitoring, couponers typically gather a great deal of information on consumers through the registration process, which allows advertisers to target specific individuals depending on self-described likes and dislikes.

Rewards Programs

It is our belief that rewards programs on the Internet will be big, like the “frequent-flier” programs currently offered offline. By purchasing goods on the Internet, consumers accumulate points that can be applied to the purchase of further products. Many companies are currently linking online and offline rewards programs, thereby allowing consumers

to accumulate points through both online and offline purchases.

The key to any such reward program is the marketer's ability to migrate consumers up the value chain. By gently encouraging consumers to make larger purchases — thereby earning more points — marketers are able realize the greatest benefits.

Drivers of Success for Internet Couponers & Promoters

While there is no set template that Internet couponers must follow to ensure success, we believe there are certain issues that will distinguish the winners.

- **The Offer:** Marketers must optimize their targeting, using all of the information available to drive up conversion ratios.
- **The Coupon:** For offline marketers, the coupon itself must be easily printable, but not easily duplicable. For online marketers, the coupon must offer a seamless ability to purchase the product online.
- **Privacy:** Online couponers generate a great deal of information on consumers that must be handled carefully and prudently. Clear privacy statements should be posted, and couponers must stick by them. Failure to do so may result in a mass exodus of consumers.
- **Customer Relations:** We feel that too many Internet companies are sacrificing good customer relationships in a scramble for customer acquisitions. Those couponers that establish good relationships through quality service and prudent use of consumer data will profit in the long term. Those who simply try to impress Wall Street with the number of customers acquired will fall behind.

The Future

In the future, we believe that those couponers who integrate redemption across the offline and online worlds will benefit the most from the development of online coupons. Looking further ahead, we believe that the actual paper coupon will disappear and be replaced by automatic transfers via credit card. Some couponers are already doing this, in one instance allowing a consumer to “clip” an online coupon for a restaurant and have the savings transferred directly to his or her credit card to be redeemed in the future. Cybergold goes even further to allow its cyber dollars to be transferred directly to customers' credit cards for use in purchasing anything.

COMPETITORS:

- **CoolSavings.com — Has filed to go public**
- **CouponSurfer.com — Private**
- **Cybergold — CGLD**
- **Directcoupons.com — Private**
- **e-centives.com — Private**
- **e-maildirect — Private**
- **Hotcoupons.com — Private**
- **MyPoints.com — MYPT**
- **Planet U. — Owned by News Corp. (NWS)**
- **Save.com — Owned by Valassis (VCI)**
- **ValPak — Owned by offline direct mailer ValPak**
- **Valupage.com — Owned by Catalina Marketing (POS)**




Company Profile: Avenue A (AVEA)

Avenue A / Ticker: AVEA

Price as of 4/27/2000	\$25.25
Market Capitalization (\$MM)	1,424.10

Table 15

Avenue A Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

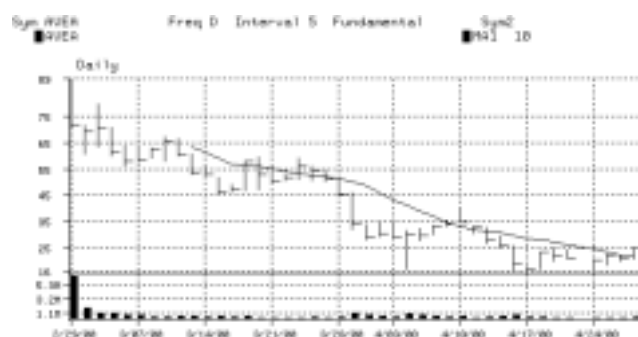
Avenue A is a buy side agency. The company does not do any creative work, but rather specializes in the purchasing of online advertising inventory. Avenue A helps clients determine the appropriate placement for an online advertising campaign and the metrics to gauge its effectiveness. Avenue A then purchases the advertising space from publishers for its clients. The company serves its clients' ads and reports on Internet users' interactions with the ads. Avenue A then adjusts the campaign according to these re-

ports. Avenue A can change the placement of ads or renegotiate with poorly performing publishers.

The company has two agencies for top spending clients (Avenue A and iBalls), one agency for small, but growing clients (Growth Markets), and a direct e-mail product (Precision E-mail). Through these agencies, the company manages client conflict and focuses on enhancing return on investment for its clients.

Table 16

Avenue A Stock Price Analysis



Source: ILX

Table 17

Avenue A Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	NA	NA	NA	NA	2.5	11.5	20.2	35.6	NA	0.6	69.7
Sequential Growth	NA	NA	NA	NA	NA	360%	76%	76%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	11517%
Cost of Goods Sold	NA	NA	NA	NA	1.8	9.5	16.7	29.0	NA	0.1	57.0
Gross Margin	NA	NA	NA	NA	0.7	2.0	3.5	6.6	NA	0.5	12.7
Gross Margin as a % of Revenues	NA	NA	NA	NA	28%	17%	17%	19%	NA	83%	18%
Operating Profit (Loss) (EBIT)	NA	NA	NA	NA	(1.5)	(1.4)	(1.6)	(8.0)	NA	(3.7)	(12.4)
Operating Margin	NA	NA	NA	NA	-60%	-12%	-8%	-22%	NA	-617%	-18%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	(\$0.06)	(\$0.04)	(\$0.04)	(\$0.20)	NA	(\$0.27)	(\$0.31)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: Be Free (BFRE)

Be Free / Ticker: BFRE

Price as of 4/27/2000	\$12.00
Market Capitalization (\$MM)	653.95

Table 18

Be Free Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input checked="" type="checkbox"/>

Be Free enables its customers to generate, place and manage hyperlink promotions for their products and services in tens of thousands of locations on the Internet. Customers pay for these promotions only when they generate sales or traffic. Be Free's customers include both online merchants and portals.

Customers use the services to establish and manage their own marketing relationships directly with third parties that

Table 20

Be Free Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.2	0.4	0.3	0.4	0.5	0.9	1.3	2.6	NA	1.3	5.3
Sequential Growth	NA	62%	-16%	20%	38%	62%	52%	100%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	125%	125%	309%	579%	NA	NA	302%
Cost of Goods Sold	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.4	NA	0.4	0.8
Gross Margin	0.1	0.3	0.3	0.2	0.4	0.7	1.1	2.2	NA	0.9	4.5
Gross Margin as a % of Revenues	62%	83%	78%	49%	81%	84%	85%	84%	NA	68%	84%
Operating Profit (Loss) (EBIT)	(0.1)	(0.1)	(2.7)	(1.7)	(2.7)	(4.0)	(3.0)	(5.6)	NA	(4.5)	(15.2)
Operating Margin	-59%	-17%	-827%	-435%	-500%	-458%	-229%	-212%	NA	NA	NA
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.02)	(\$0.01)	(\$0.31)	(\$0.26)	(\$0.52)	(\$0.69)	(\$0.97)	(\$0.14)	NA	(\$0.60)	(\$2.32)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

host Web sites or send e-mail messages (including affiliate marketing). The company enables these marketing partners to choose from among a variety of hyperlink promotions made available by Be Free's customers. Be Free tracks the sales or traffic generated for customers by these hyperlink promotions and reports this information to customers and to their marketing partners.

Table 19

Be Free Stock Price Analysis



Source: ILX




Company Profile: Cybergold (CGLD)

Cybergold / Ticker: CGLD

Price as of 4/27/2000	\$7.25
Market Capitalization (\$MM)	140.11

Table 21

Cybergold Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

Cybergold is a leading provider of Internet-based direct marketing and advertising solutions. The company combines Internet-based direct marketing and advertising services with programs that reward consumers with cash when they perform actions desired by advertisers. The company's advertisers are only charged when members execute specific predefined actions.

Cybergold's business revolves around "The Earn & Spend Community" — a place on the Internet where consumers

can earn cash incentives for responding to online marketing offers presented by Cybergold's advertising and marketing clients and then spend the cash with merchants. The cash earned by consumer members can be credited to either their VISA or bank accounts from their Cybergold account or be used to purchase content, services and products, including software, music, games, credit reporting services, and original art works and publications.

Table 22

Cybergold Stock Price Analysis



Source: ILX

Table 23

Cybergold Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.1	0.2	0.3	0.5	0.5	0.8	1.4	2.6	NA	1.0	5.3
Sequential Growth	NA	53%	73%	59%	12%	54%	78%	92%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	370%	372%	387%	487%	NA	NA	428%
Cost of Goods Sold	0.0	2.7	0.1	3.2	0.2	0.6	0.6	0.8	NA	0.5	2.2
Gross Margin	0.1	-2.5	0.1	-2.7	0.3	0.2	0.8	1.8	NA	0.5	3.1
Gross Margin as a % of Revenues	67%	-1522%	50%	-608%	51%	26%	60%	68%	NA	54%	58%
Operating Profit (Loss) (EBIT)	(1.2)	(2.4)	(1.1)	(2.4)	(1.7)	(4.0)	(2.9)	(3.8)	NA	(4.6)	(4.7)
Operating Margin	-1140%	-1449%	-398%	-533%	-345%	-512%	-212%	-144%	NA	-456%	-89%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.33)	(\$0.29)	(\$0.35)	(\$0.38)	(\$0.53)	(\$0.62)	(\$0.67)	(\$0.17)	NA	(\$0.20)	(\$1.35)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: Digital Impact (DIGI)

Digital Impact / Ticker: DIGI

Price as of 4/27/2000	\$11.44
Market Capitalization (\$MM)	269.34

Table 24

Digital Impact Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input checked="" type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>

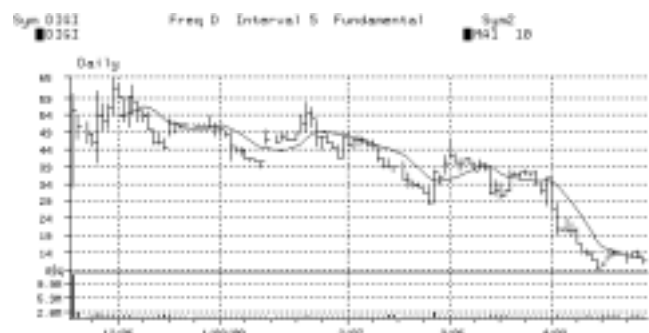
Digital Impact offers Internet direct marketing services to businesses that wish to communicate more effectively with their customers online through e-mail. E-mail campaigns, are designed to maximize the client's return on its marketing investment.

The company's core set of services includes campaign management, targeting and personalization, e-mail format opti-

mization, campaign tracking and reporting, and database hosting and management. Digital Impact recently introduced the E-mail Exchange Network, an online marketing network that provides clients with a new method to acquire additional online customers. Digital Impact offers clients a suite of e-marketing services that includes e-mail campaign services, customer acquisition tools, customer data analysis and strategic consulting services.

Table 25

Digital Impact Stock Price Analysis



Source: ILX

Table 26

Digital Impact Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	NA	0.0	0.1	0.4	0.8	1.4	1.9	4.0	NA	NA	1.3
Sequential Growth	NA	NA	284%	313%	99%	75%	35%	114%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	5440%	1850%	913%	NA	NA	NA
Cost of Goods Sold	NA	0.0	0.1	0.2	0.4	0.7	1.6	1.9	NA	NA	0.7
Gross Margin	NA	0.0	0.0	0.2	0.4	0.7	0.3	2.1	NA	NA	0.6
Gross Margin as a % of Revenues	NA	4%	9%	52%	50%	51%	14%	52%	NA	NA	48%
Operating Profit (Loss) (EBIT)	NA	(0.3)	(0.6)	(0.6)	(2.0)	(3.2)	(8.8)	(6.4)	NA	NA	(3.2)
Operating Margin	NA	-1212%	-675%	-139%	-259%	-228%	-470%	-160%	NA	NA	-248%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	(\$0.90)	(\$1.05)	(\$0.30)	(\$1.81)	(\$1.06)	(\$1.89)	(\$0.60)	NA	NA	(\$2.86)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data





Company Profile: DoubleClick (DCLK)

DoubleClick / Ticker: DCLK

Price as of 4/27/2000	\$69.75
Market Capitalization (\$MM)	8,243.54

Table 27

DoubleClick Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

DoubleClick is a provider of technology-driven marketing and advertising solutions to thousands of advertisers, advertising agencies, Web publishers and e-commerce merchants worldwide. The company provides a broad range of media, technology and data products and services.

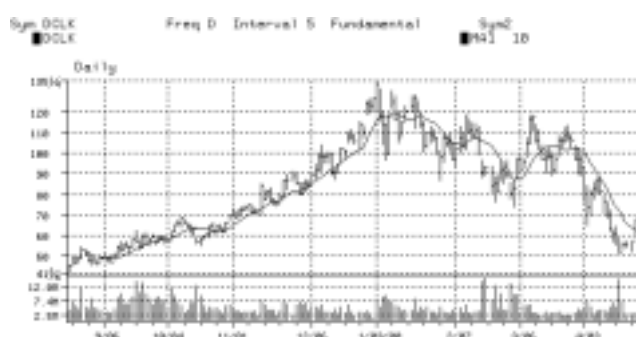
The company operates several lines of business: 1) DoubleClick represents Web publishers in their efforts to sell their Internet ad inventory to advertisers, 2) DoubleClick serves targeted ads on the Internet, 3) DoubleClick conducts tar-

geted e-mail campaigns for publishers and advertisers, and 4) DoubleClick operates the Abacus Direct catalog database in which catalog retailers share customer information to better target catalog advertising.

The company's patented DART technology is the platform for many of its solutions, and enables customers to use pre-selected criteria to deliver the right ad to the right person at the right time. DART is also a sophisticated tracking and reporting tool that customers rely on to measure ad performance and provide dynamic ad space inventory management.

Table 28

DoubleClick Stock Price Analysis



Source: ILX

Table 29

DoubleClick Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	13.0	17.3	20.8	26.1	39.4	49.9	75.3	93.7	30.6	77.2	258.3
Sequential Growth	NA	33%	20%	26%	51%	26%	51%	24%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	203%	188%	263%	259%	NA	152%	235%
Cost of Goods Sold	8.8	11.7	14.0	19.4	15.3	21.1	29.1	107.2	20.6	54.0	107.2
Gross Margin	4.2	5.6	6.8	6.7	24.1	28.8	46.2	-13.5	10.0	23.2	151.1
Gross Margin as a % of Revenues	32%	32%	33%	26%	61%	58%	61%	-14%	33%	30%	59%
Operating Profit (Loss) (EBIT)	(4.4)	(4.6)	(4.7)	(7.3)	(6.5)	(4.4)	4.8	3.8	(8.0)	(21.1)	3.8
Operating Margin	-34%	-27%	-23%	-28%	-16%	-9%	6%	4%	-26%	-27%	1%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	-21%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	-152%	NA	NA	NA
EPS	(\$0.11)	(\$0.07)	(\$0.07)	(\$0.07)	(\$0.08)	(\$0.05)	\$0.00	(\$0.38)	(\$0.31)	(\$0.30)	(\$0.51)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data




Company Profile: Engage Technologies (ENGA)

Engage Technologies / Ticker: ENGA

Price as of 4/27/2000	\$22.13
Market Capitalization (\$MM)	2,392.91

Table 30

Engage Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

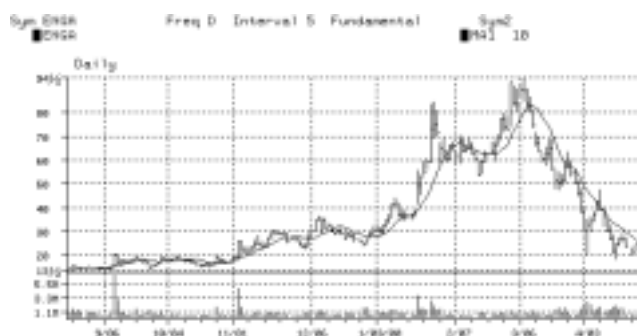
Engage Technologies is a provider of profile-based Internet marketing solutions. Engage is an approximately 87% owned subsidiary of CMGI. The company offers a range of products and services that enable Web publishers, advertisers and merchants to target the delivery of advertisements, content and e-commerce offerings to their audiences and to measure their effectiveness.

Engage has generated most of its revenue to date through sales of its local profiling and advertising management software and outsourced services, as well as its software and

services for measuring and analyzing Web site traffic. Engage offers several services: 1) It operates the Flycast network of cost-per-click sites — advertisers pay only when their ads are clicked on, 2) it conducts profile-driven marketing for Web publishers, through its growing database of anonymous profiles, and 3) its AudienceNet offers profile-driven marketing for advertisers.

Table 31

Engage Technologies Stock Price Analysis



Source: ILX

Table 32

Engage Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	NA	2.2	1.6	2.7	4.7	7.0	8.3	12.8	NA	2.2	16.0
Sequential Growth	NA	NA	-28%	69%	77%	48%	18%	54%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	217%	423%	377%	NA	NA	623%
Cost of Goods Sold	NA	3.6	2.3	2.9	4.0	6.1	6.6	20.6	NA	3.6	15.3
Gross Margin	NA	-1.4	-0.7	-0.2	0.7	0.9	1.7	-7.9	NA	-1.4	0.7
Gross Margin as a % of Revenues	NA	-64%	-42%	-8%	15%	13%	20%	-62%	NA	-64%	5%
Operating Profit (Loss) (EBIT)	NA	(13.7)	(5.5)	(4.7)	NA	(10.8)	(10.5)	(28.2)	NA	(13.7)	(27.0)
Operating Margin	NA	-618%	-349%	-176%	NA	-154%	-127%	-221%	NA	-618%	-169%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	(\$0.83)	(\$0.17)	(\$0.15)	(\$0.31)	(\$0.26)	(\$0.22)	(\$0.52)	NA	(\$0.83)	(\$0.89)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data




Company Profile: FreeShop.com (FSHP)

FreeShop.com / Ticker: FSHP

Price as of 4/27/2000	\$9.13
Market Capitalization (\$MM)	142.23

Table 33

FreeShop.com Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

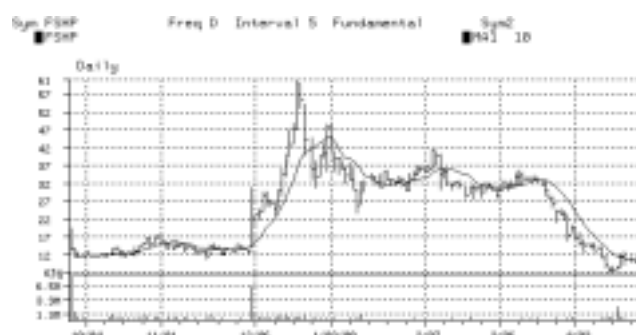
FreeShop provides online direct marketing services, giving consumers access to over 1,000 free, trial and promotional offers through Web sites and e-mail newsletters. Consumers seeking to discover, learn about, or try new products and services can choose from a collection of offers from over 300 companies.

FreeShop currently has more than 1,000 offers for items such as catalogs, magazines, product samples, software,

brochures, coupons and consumer goods. To assist consumers in locating offers that interest them most, offers are arranged by category, such as travel, personal finance, entertainment and sports. The company's primary source of revenue is lead generation, for which marketers pay fees based on the number of customer requests for the marketers' offers. The company also receives revenues from advertisements placed on its Web sites and in its e-mail newsletters.

Table 34

FreeShop.com Stock Price Analysis



Source: ILX

Table 35

FreeShop.com Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.2	0.2	0.3	0.5	0.7	1.5	2.3	4.1	NA	1.3	8.5
Sequential Growth	NA	-5%	54%	56%	33%	122%	56%	76%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	203%	608%	617%	710%	NA	NA	580%
Cost of Goods Sold	0.1	0.1	0.1	0.1	0.1	0.3	0.5	0.8	NA	0.3	1.8
Gross Margin	0.2	0.1	0.2	0.4	0.5	1.1	1.8	3.3	NA	0.9	6.7
Gross Margin as a % of Revenues	71%	70%	72%	79%	82%	78%	78%	80%	NA	74%	79%
Operating Profit (Loss) (EBIT)	(0.6)	(0.6)	(1.0)	(0.9)	(1.4)	(2.4)	(3.6)	(3.5)	NA	(3.1)	(10.9)
Operating Margin	-260%	-307%	-304%	-186%	-203%	-163%	-156%	-86%	NA	-250%	-128%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.10)	(\$0.11)	(\$0.16)	(\$0.14)	(\$0.17)	(\$0.30)	(\$0.43)	(\$0.23)	NA	(\$0.51)	(\$1.13)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: LifeMinders.com (LFMN)

LifeMinders.com / Ticker: LFMN

Price as of 4/27/2000	\$40.94
Market Capitalization (\$MM)	965.14

Table 36

LifeMinders.com Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input checked="" type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input checked="" type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>

LifeMinders.com is an online direct marketing company that provides personalized information and advertisements via e-mail to a community of members. The e-mail messages contain helpful reminders and tips that enable members to better organize and manage their busy lives. LifeMinders.com's proprietary information about its members and highly-precise targeting capabilities provide the company's advertising partners with the opportunity to more effectively reach their target markets.

Members can create profiles in one or more of 14 e-mail categories, including family, entertainment, home, personal

events, automotive, horoscope, cooking, pet, health, small business, personal finance, sports and recreation, travel and shopping. The average member creates profiles in four e-mail categories and receives an average of eight e-mails per month.

LifeMinders.com gathers member profile data from several sources, including information provided by members during the sign-up process and through member preferences and buying habits. LifeMinders.com also supplements its profile data with information obtained from third-party sources.

Table 37

LifeMinders.com Stock Price Analysis



Source: ILX

Table 38

LifeMinders.com Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	NA	NA	NA	NA	0.0	1.4	4.5	8.0	NA	0.1	14.0
Sequential Growth	NA	NA	NA	NA	NA	6070%	220%	77%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	24495%
Cost of Goods Sold	NA	NA	NA	NA	0.1	0.1	0.2	0.5	NA	0.1	1.0
Gross Margin	NA	NA	NA	NA	(0.1)	1.3	4.3	7.5	NA	0.0	13.1
Gross Margin as a % of Revenues	NA	NA	NA	NA	-330%	90%	95%	94%	NA	-4%	93%
Operating Profit (Loss) (EBIT)	NA	NA	NA	NA	(1.5)	(5.0)	(7.9)	(17.6)	NA	(1.9)	(31.6)
Operating Margin	NA	NA	NA	NA	-6726%	-354%	-174%	-218%	NA	-3416%	-225%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	(\$0.52)	(\$1.55)	(\$2.51)	(\$1.60)	NA	(\$0.64)	(\$6.26)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data


Company Profile: L90 (LNTY)

L90 / Ticker: LNTY

Price as of 4/27/2000	\$9.06
Market Capitalization (\$MM)	60.66

Table 39

L90 Offerings

Buy Side Advertising		Direct E-mail	<input type="checkbox"/>
Sell Side Advertising		Online Couponing	<input type="checkbox"/>
Ad Serving		Promos/Sponsorships	<input type="checkbox"/>

L90 provides advertising and direct marketing solutions for advertisers and Web publishers. The company designs and implements advertising campaigns for clients and places their ads on its network of Web sites. The company provides Web publishing clients with a fully-outsourced solution which includes the sale of advertising space on their Web sites, as well as the technology required to deliver advertisements to their Web sites.

Table 41

L90 Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	NA	NA	NA	NA	0.8	1.2	2.1	5.2	NA	NA	2.2
Sequential Growth	NA	NA	NA	NA	NA	55%	76%	155%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cost of Goods Sold	NA	NA	NA	NA	0.0	0.3	1.0	3.4	NA	NA	4.8
Gross Margin	NA	NA	NA	NA	0.8	0.9	1.0	1.8	NA	NA	-2.6
Gross Margin as a % of Revenues	NA	NA	NA	NA	100%	74%	50%	35%	NA	NA	-117%
Operating Profit (Loss) (EBIT)	NA	NA	NA	NA	(1.5)	(5.0)	(7.9)	(17.6)	NA	NA	(0.3)
Operating Margin	NA	NA	NA	NA	-205%	-430%	-385%	-336%	NA	NA	-13%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	(\$0.17)	(\$0.25)	(\$0.45)	(\$0.48)	NA	NA	(\$0.05)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

L90 specializes in creating advertising campaigns that incorporate sponsorships. Sponsorships integrate advertisements into the text or graphic content of a Web page. L90's adMonitor enables advertising and Web publishing clients to implement sophisticated advertising campaigns quickly and to selectively target ads to Web users based upon specific interests and characteristics. adMonitor also enables clients to track, measure and manage the effectiveness of their ad campaigns.

Table 40

L90 Stock Price Analysis



Source: ILX

Company Profile: Media Metrix (MMXI)

Media Metrix / Ticker: MMXI

Price as of 4/27/2000	\$33.00
Market Capitalization (\$MM)	649.51

Table 42

Media Metrix Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>
Internet Measurement	<input checked="" type="checkbox"/>		

Media Metrix provides Internet audience measurement products and services to leading Internet advertisers and advertising agencies, Internet properties, technology companies, and financial institutions. Media Metrix measures usage of the entire Internet, including its largest segments, the World Wide Web and proprietary on-line services like America Online.

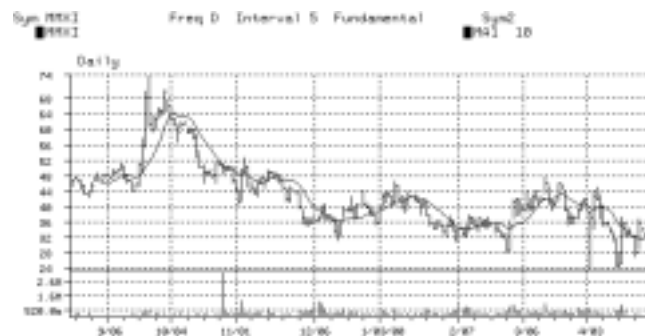
Media Metrix collects data by measuring Internet usage from a representative sample, or panel, of personal com-

puter users with the company's proprietary tracking technology. Media Metrix maintains a large panel of Internet users who report Internet usage at work and at home, as well as the usage of proprietary online services.

Each panelist is required to fill out a detailed questionnaire to provide background demographic information. Media Metrix's proprietary tracking technology collects data from the panelist's personal computer and transmits these data to the company's central office for processing. The data are then used to construct several databases, which are used to provide products and services.

Table 43

Media Metrix Stock Price Analysis



Source: ILX

Table 44

Media Metrix Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	1.2	1.3	1.5	2.3	3.2	4.3	5.5	7.6	NA	3.2	6.3
Sequential Growth	NA	16%	11%	56%	36%	34%	29%	38%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	174%	217%	268%	225%	NA	NA	99%
Cost of Goods Sold	0.8	0.8	0.9	2.1	1.7	5.6	4.3	8.7	NA	3.5	4.6
Gross Margin	0.4	0.5	0.6	0.2	1.5	(1.4)	1.2	(1.2)	NA	(0.3)	1.7
Gross Margin as a % of Revenues	31%	40%	41%	9%	46%	-32%	22%	-15%	NA	-9%	27%
Operating Profit (Loss) (EBIT)	(0.9)	(0.8)	(1.0)	(4.5)	(2.5)	(5.0)	(3.4)	NA	NA	(4.6)	(5.5)
Operating Margin	-73%	-62%	-64%	-194%	-77%	-118%	-63%	NA	NA	-144%	-88%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.14)	(\$0.14)	(\$0.16)	(\$0.54)	(\$0.19)	(\$0.16)	(\$0.15)	(\$0.75)	NA	(\$0.75)	(\$0.98)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data




Company Profile: Mediaplex (MPLX)

Mediaplex / Ticker: MPLX

Price as of 4/27/2000	\$49.63
Market Capitalization (\$MM)	1,609.93

Table 45

Mediaplex Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

Mediaplex conducts media buying for advertisers on the Internet. The company provides technology-based services to enable advertisers to deliver customized messages and offers to Web site visitors. The company's services encompass planning, executing, monitoring and analyzing Web-based advertising and marketing campaigns, and are based upon Mediaplex's proprietary technology, trade-named "MOJO." MOJO is an acronym for "mobile Java objects," which are discrete pieces of software written in Java code

Table 47

Mediaplex Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.6	0.9	1.1	1.0	1.6	5.7	6.6	12.5	NA	3.6	26.4
Sequential Growth	NA	60%	14%	-7%	64%	248%	16%	88%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	179%	508%	519%	1150%	NA	NA	636%
Cost of Goods Sold	NA	0.5	0.7	0.8	0.8	1.3	4.4	5.2	NA	2.8	20.4
Gross Margin	NA	0.5	0.3	0.2	0.8	4.3	2.2	7.3	NA	0.8	6.0
Gross Margin as a % of Revenues	NA	49%	32%	24%	51%	76%	33%	58%	NA	23%	23%
Operating Profit (Loss) (EBIT)	(0.3)	(0.5)	(0.1)	(0.9)	(3.0)	(2.2)	NA	(9.9)	NA	(1.8)	(22.7)
Operating Margin	-56%	-48%	-10%	-89%	-181%	-39%	NA	-79%	NA	-49%	-86%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.04)	(\$0.05)	(\$0.04)	(\$0.13)	(\$0.23)	(\$0.19)	(\$1.64)	(\$0.41)	NA	(\$0.25)	(\$2.47)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

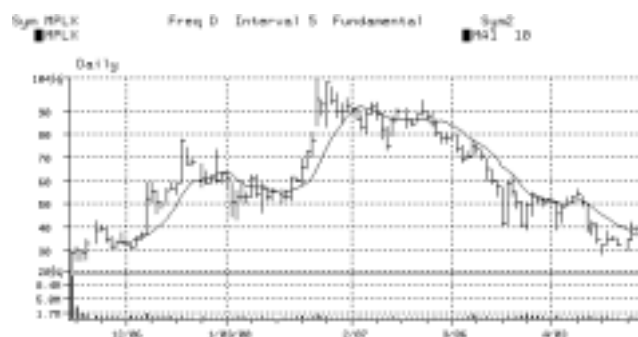
Source: FactSet Data

that perform specialized functions and communicate with each other.

Mediaplex's technology draws upon an advertiser's up-to-the-minute business data to tailor the message. Real-time customization of messages increases consumer response to online advertisements and marketing, thereby improving companies' returns on advertising and marketing expenditures. The company also offers an e-mail product for advertisers.

Table 46

Mediaplex Stock Price Analysis



Source: ILX

Company Profile: MessageMedia (MESG)

MessageMedia / Ticker: MESG

Price as of 4/27/2000	\$4.88
Market Capitalization (\$MM)	267.74

Table 48

MessageMedia Offerings

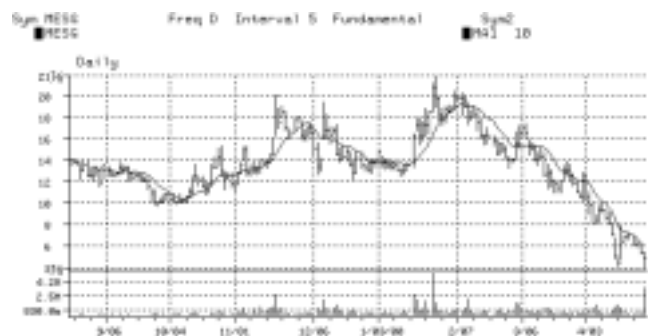
Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input checked="" type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>

MessageMedia is a leading provider of an integrated, comprehensive set of permission-based e-mail solutions. MessageMedia has a suite of services that utilizes the medium of e-mail to develop and foster permission-based relationships with customers. The company's e-mail solutions are available either on an outsourced-subscription basis or as an in-house packaged software solution.

The company enables businesses to use e-mail as a strategic tool to increase sales, improve customer communication, and develop long-term customer loyalty. Specifically, MessageMedia's suite of services and products includes Internet-based marketing, customer care, and survey and information distribution solutions, allowing businesses to establish and enhance two-way customer dialogue.

Table 49

MessageMedia Stock Price Analysis



Source: ILX

Table 50

MessageMedia Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.3	0.2	0.3	0.4	0.8	1.3	3.1	4.9	0.7	1.5	10.0
Sequential Growth	NA	-23%	60%	28%	70%	73%	134%	61%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	168%	500%	780%	1009%	NA	108%	591%
Cost of Goods Sold	0.4	0.5	0.3	1.4	3.5	3.7	10.4	16.0	1.4	2.6	33.5
Gross Margin	-0.1	-0.2	0.0	-0.9	-2.8	-2.4	-7.3	-11.0	-0.7	-1.1	-23.5
Gross Margin as a % of Revenues	-49%	-111%	9%	-211%	-367%	-182%	-239%	-225%	-97%	-77%	-234%
Operating Profit (Loss) (EBIT)	(3.6)	(3.1)	(1.7)	(3.3)	(6.0)	(6.1)	(13.7)	(19.7)	(15.9)	(11.6)	(18.7)
Operating Margin	-1263%	-1434%	-476%	-750%	-791%	-468%	-450%	-401%	-2278%	-802%	-187%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.38)	(\$0.32)	(\$0.05)	(\$0.13)	(\$0.17)	(\$0.14)	(\$0.29)	(\$0.36)	(\$1.94)	(\$0.63)	(\$1.00)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data




Company Profile: MyPoints.com (MYPT)

MyPoints.com / Ticker: MYPT

Price as of 4/27/2000	\$14.88
Market Capitalization (\$MM)	419.85

Table 51

MyPoints.com Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

MyPoints.com is a provider of Internet direct marketing services and customer loyalty infrastructure. The company's database-driven direct marketing service, MyPoints, offers direct marketers an approach to Internet advertising that is designed to enhance customer acquisition and retention efforts by integrating targeted e-mail and Web-based offers with incentives. MyPoints.com's rewards-based shopping channel, MyPoints Shopping!, provides Web users with the ability to earn points for every dollar spent at select retail sites. Points earned in the MyPoints program may be redeemed for a wide variety of products and services, such as gift certificates, travel awards and prepaid phone cards.

Table 53

MyPoints.com Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.2	0.2	0.3	0.7	1.3	2.7	7.0	13.2	NA	1.3	24.1
Sequential Growth	NA	4%	72%	166%	79%	109%	161%	90%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	750%	1607%	2495%	1761%	NA	NA	1777%
Cost of Goods Sold	NA	0.2	0.3	0.9	NA	3.5	2.9	4.1	NA	1.4	10.5
Gross Margin	NA	-0.1	0.0	-0.2	NA	-0.8	4.1	9.1	NA	-0.1	13.6
Gross Margin as a % of Revenues	NA	-57%	5%	-26%	NA	-32%	59%	69%	NA	-9%	56%
Operating Profit (Loss) (EBIT)	NA	(2.5)	(2.4)	(3.3)	NA	(15.8)	(9.8)	NA	NA	(8.2)	(25.6)
Operating Margin	NA	-1608%	-893%	-464%	NA	-593%	-141%	NA	NA	-638%	-106%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.74)	(\$1.00)	(\$1.44)	(\$1.14)	(\$1.91)	(\$2.79)	(\$0.69)	(\$0.47)	NA	(\$4.37)	(\$5.86)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

MyPoints.com also builds and manages co-branded and private label online customer loyalty programs.

When consumers enroll in the MyPoints program, they give the company permission to send them targeted online offers, and they receive rewards points for completing surveys that provide the company with demographic and behavioral information. MyPoints members earn additional points by responding to direct marketing offers, making online and offline purchases, and providing the company with additional demographic and behavioral data through surveys on a secure, confidential basis.

Table 52

MyPoints.com Stock Price Analysis



Source: ILX

Company Profile: Netcentives (NCNT)

Netcentives / Ticker: NCNT

Price as of 4/27/2000	\$9.94
Market Capitalization (\$MM)	321.43

Table 54

Netcentives Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input checked="" type="checkbox"/>

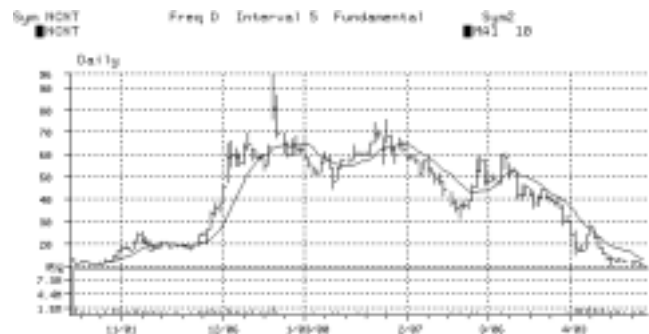
Netcentives is a leading provider of Internet loyalty, direct marketing, and promotion products and services used to drive consumer behavior. Netcentives' flagship program, the ClickRewards Network, is a powerful online promotion and loyalty program that allows e-commerce sites to reward consumers with ClickMiles, a digital promotion currency, for making online purchases.

The ClickRewards Network includes e-commerce companies from a broad range of industries. These companies pur-

chase ClickMiles from Netcentives and award them to consumers in order to convert browsers to buyers, increase average purchase size, drive repeat purchases and build loyalty to their sites. The Netcentives technology allows consumers to earn rewards currency at the point of purchase on sites throughout the Web and to track and manage them in their own personal account at a central Web site.

Table 55

Netcentives Stock Price Analysis



Source: ILX

Table 56

Netcentives Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.0	0.1	0.4	0.2	1.7	1.4	2.0	2.8	NA	0.6	7.8
Sequential Growth	NA	647%	225%	-57%	962%	-18%	47%	41%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	10940%	1119%	450%	1706%	NA	NA	1112%
Cost of Goods Sold	NA	5.3	3.5	6.3	9.4	10.3	14.0	22.8	NA	15.1	56.3
Gross Margin	NA	-5.2	-3.1	-6.1	-7.7	-8.9	-12.0	-19.9	NA	-14.4	-48.5
Gross Margin as a % of Revenues	NA	-4661%	-851%	-3913%	-465%	-651%	-597%	-708%	NA	-2227%	-619%
Operating Profit (Loss) (EBIT)	(2.1)	(5.1)	(3.0)	(5.9)	(8.3)	(8.4)	(11.5)	(19.0)	NA	(14.0)	(14.0)
Operating Margin	NA	-4544%	-818%	-3782%	-502%	-618%	-574%	-674%	NA	-2159%	-178%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$1.63)	(\$2.01)	(\$1.71)	(\$2.85)	(\$2.53)	(\$2.56)	(\$3.12)	(\$0.70)	NA	(\$8.58)	(\$8.91)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: NetCreations (NCR)

NetCreations / Ticker: NCR

Price as of 4/27/2000	\$34.75
Market Capitalization (\$MM)	521.25

Table 57

NetCreations Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input checked="" type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>

NetCreations provides Internet-based opt-in e-mail direct marketing services that enable direct marketers to target promotional campaigns to consumers who have given their permission to receive e-mail messages in any of over 3,000 topical categories.

Table 59

NetCreations Historical Financials

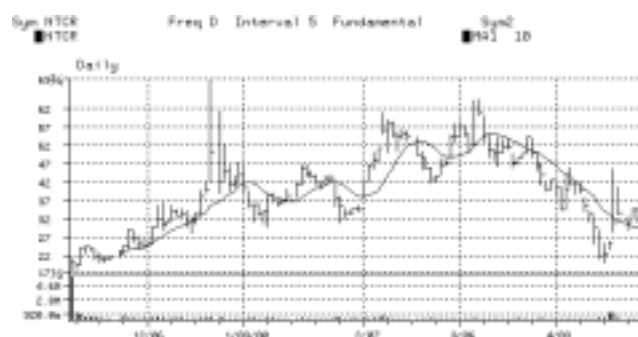
(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.5	0.7	0.9	1.4	1.7	3.6	4.9	10.5	NA	3.4	3.4
Sequential Growth	NA	49%	24%	58%	22%	111%	38%	112%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	255%	405%	463%	655%	NA	NA	0%
Cost of Goods Sold	0.1	0.3	0.4	0.7	0.8	1.8	2.4	5.6	NA	1.5	1.5
Gross Margin	0.3	0.4	0.5	0.7	0.9	1.8	2.5	4.8	NA	1.9	1.9
Gross Margin as a % of Revenues	70%	60%	54%	49%	50%	50%	51%	46%	NA	56%	55%
Operating Profit (Loss) (EBIT)	0.1	0.1	0.1	0.3	0.3	1.2	1.4	2.6	NA	0.6	0.7
Operating Margin	26%	19%	16%	20%	20%	32%	29%	25%	NA	17%	20%
Sequential Growth	NA	11%	2%	99%	19%	248%	23%	82%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	169%	741%	912%	827%	NA	NA	17%
EPS	\$0.01	\$0.01	\$0.01	\$0.02	\$0.03	\$0.09	\$0.11	\$0.14	NA	NA	\$0.05
Sequential Growth	NA	0%	0%	100%	50%	200%	22%	27%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	200%	800%	1000%	600%	NA	NA	NA

Source: FactSet Data

NetCreations' technology allows real-time, online e-mail address selection and ordering by direct marketers, as well as response-tracking. The company provides these services through its own postmasterdirect.com Web site and through third-party Web sites whose e-mail address lists NetCreations manages.

Table 58

NetCreations Stock Price Analysis



Source: ILX



Company Profile: Net Perceptions (NETP)

Net Perceptions / Ticker: NETP

Price as of 4/27/2000	\$19.75
Market Capitalization (\$MM)	435.01

Table 60

Net Perceptions Offerings

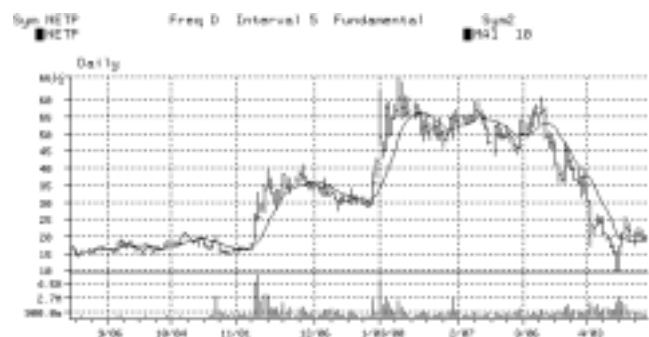
Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

Net Perceptions is a leading provider of marketing solutions that enable Internet retailers to market to customers on a personalized, one-to-one basis in real time. Using Net Perceptions' software solutions, a retailer learns from each customer interaction and, based on the information received, adjusts marketing messages and product offerings to that customer in real time. This allows retailers to attract more customers, generate more products per order, and increase customer loyalty. To date, the company has focused on providing solutions to electronic commerce retailers.

The company's products enable effective real-time relationship marketing by analyzing past and current customer behavior, including purchase history, stated preferences, demographic information, and Internet browsing behavior. Based on this analysis, the company's products use proprietary collaborative filtering technology to anticipate other merchandise or information a customer is likely to be interested in purchasing or viewing.

Table 61

Net Perceptions Stock Price Analysis



Source: ILX

Table 62

Net Perceptions Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.7	1.0	1.2	1.7	1.9	2.8	4.1	6.3	NA	0.3	4.5
Sequential Growth	NA	48%	17%	44%	14%	48%	46%	53%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	183%	185%	256%	279%	NA	NA	1312%
Cost of Goods Sold	1.6	2.0	2.4	3.5	0.3	0.6	0.8	1.3	NA	5.1	0.4
Gross Margin	-0.9	-1.1	-1.2	-1.9	1.5	2.3	3.3	5.0	NA	-4.7	4.1
Gross Margin as a % of Revenues	-135%	-106%	-104%	-113%	82%	80%	80%	79%	NA	-1497%	91%
Operating Profit (Loss) (EBIT)	(0.9)	(1.0)	(1.2)	(1.9)	(2.9)	(3.1)	(3.0)	(3.3)	NA	(4.7)	(4.9)
Operating Margin	-131%	-102%	-102%	-114%	-152%	-111%	-73%	-53%	NA	-1472%	-109%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.31)	(\$0.31)	(\$0.32)	(\$0.45)	(\$0.64)	(\$0.20)	(\$0.15)	(\$0.14)	NA	(\$3.01)	(\$1.40)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: NetRatings (NTRT)

NetRatings / Ticker: NTRT

Price as of 4/27/2000	\$24.50
Market Capitalization (\$MM)	786.70

Table 63

NetRatings Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input type="checkbox"/>
Internet Measurement	<input checked="" type="checkbox"/>		

NetRatings provides Internet audience measurement information and analysis. Information is collected from a representative sample of consumer and business Internet users. Detailed, flexible reporting and analysis provides customers with up-to-date information on Internet usage and advertising.

NetRatings has formed strategic relationships with Nielsen Media Research (the leading source of television audience measurement and related services in the United States and Canada) and ACNielsen (a leading provider of market research information and analysis to the consumer products and services industries). Through NetRatings' relationship with Nielsen Media Research, the company markets its products and services under the Nielsen//NetRatings brand in the U.S., Canada and Japan.

Table 64

NetRatings Stock Price Analysis



Source: ILX

Table 65

NetRatings Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	0.0	0.1	0.1	0.1	0.2	0.5	0.8	1.6	NA	0.2	0.2
Sequential Growth	NA	1600%	53%	35%	58%	187%	77%	84%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	5433%	833%	982%	1380%	NA	NA	0%
Cost of Goods Sold	0.1	0.1	0.2	0.7	1.0	1.1	2.1	2.7	NA	1.1	1.1
Gross Margin	-0.1	0.0	-0.1	-0.6	-0.9	-0.6	-1.3	-1.1	NA	-0.8	-0.8
Gross Margin as a % of Revenues	-3333%	-90%	-108%	-566%	-521%	-136%	-150%	-71%	NA	-348%	-348%
Operating Profit (Loss) (EBIT)	(0.9)	(0.7)	(0.7)	(1.5)	(2.1)	(3.5)	NA	(8.1)	NA	(3.8)	(3.8)
Operating Margin	-28333%	-1402%	-928%	-1390%	-1271%	-745%	NA	-524%	NA	-1582%	-1582%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.65)	(\$0.56)	(\$0.57)	(\$0.99)	(\$1.06)	(\$1.75)	(\$2.38)	(\$0.56)	NA	(\$2.78)	(\$2.78)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

Company Profile: Promotions.com (PRMO)

Promotions.com / Ticker: PRMO

Price as of 4/27/2000	\$6.06
Market Capitalization (\$MM)	86.34

Table 66

Promotions.com Offerings

Buy Side Advertising	<input type="checkbox"/>	Direct E-mail	<input type="checkbox"/>
Sell Side Advertising	<input type="checkbox"/>	Online Couponing	<input type="checkbox"/>
Ad Serving	<input type="checkbox"/>	Promos/Sponsorships	<input checked="" type="checkbox"/>

Promotions.com is a leading online sweepstakes promotion company. The company integrates sweepstakes, contests and similar promotional events with direct marketing tools. Promotions.com makes its promotions available without charge to consumers through its Web site.

Sweepstakes run continuously, providing consumers with the opportunity to enter each day to win more than 100

Table 68

Promotions.com Historical Financials

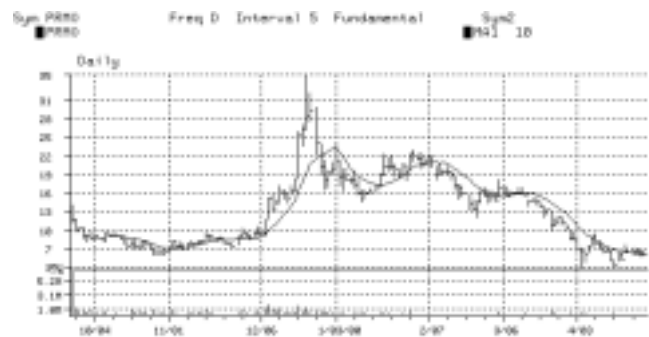
(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	1.1	1.2	1.3	1.3	1.3	1.7	3.1	4.4	NA	4.8	10.5
Sequential Growth	NA	12%	5%	3%	2%	32%	76%	43%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	24%	45%	144%	238%	NA	NA	118%
Cost of Goods Sold	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Gross Margin	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Gross Margin as a % of Revenues	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Operating Profit (Loss) (EBIT)	(0.1)	(0.2)	(0.5)	(1.1)	NA	(4.4)	(6.0)	(8.5)	NA	(1.3)	(19.0)
Operating Margin	-5%	-19%	-43%	-87%	NA	-254%	-196%	-194%	NA	-28%	-182%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.01)	(\$0.04)	(\$0.11)	(\$0.11)	(\$0.94)	(\$1.41)	(\$1.31)	(\$0.56)	NA	(\$0.09)	(\$1.80)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data

prizes with retail values typically between \$150 and \$400. To participate in the sweepstakes, users must provide demographic information. Promotions.com's technology enables it to present tailored direct marketing offers to members based upon their demographic profiles

Table 67

Promotions.com Stock Price Analysis



Source: ILX






Company Profile: 24/7 Media (TFSM)

24/7 Media / Ticker: TFSM

Price as of 4/27/2000	\$17.88
Market Capitalization (\$MM)	400.81

Table 69

24/7 Media Offerings

Buy Side Advertising		Direct E-mail	
Sell Side Advertising		Online Couponing	
Ad Serving		Promos/Sponsorships	

24/7 Media is an Internet advertising and direct marketing firm that operates internationally. The company primarily generates revenue by representing Web publishers and selling advertisements and promotions for them. The company operates two ad networks, designed for different sized clients. 24/7 Media also conducts e-mail campaigns for advertisers.

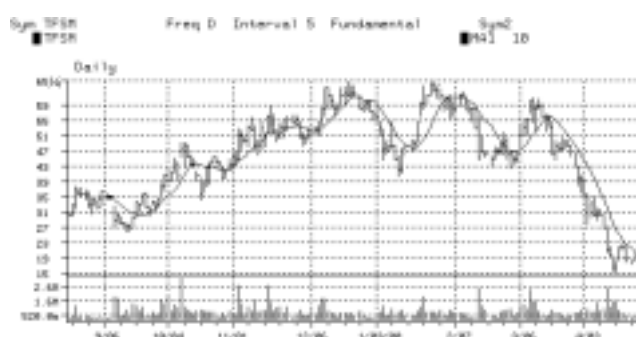
24/7 Media's customized solutions allow advertisers and direct marketers to tailor their ad campaigns to reach desired

audiences, while reducing costs, easing time pressures, and alleviating the need to purchase a series of ad campaigns from numerous Web sites. The company is increasing its ad targeting capabilities through the development of its Profiliz database and proprietary ad serving technology.

24/7 Media has a cross-promotion agreement with ShopNow.com — 24/7 Media owns 15% of ShopNow.com. ShopNow.com provides e-commerce services, an online shopping network, creative design services, and product fulfillment to approximately 30,000 merchants.

Table 70

24/7 Media Stock Price Analysis



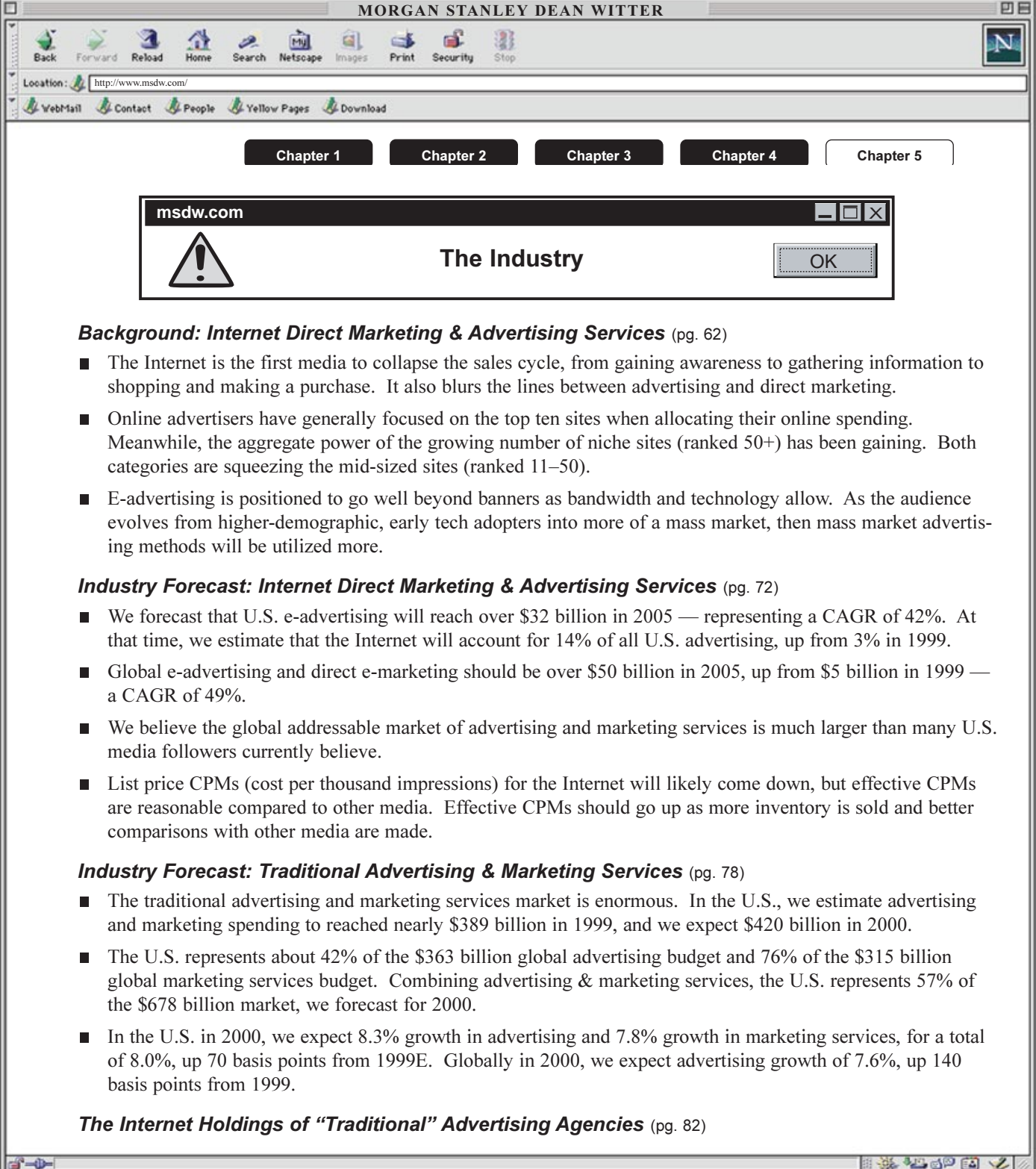
Source: ILX

Table 71

24/7 Media Historical Financials

(\$ Millions, except EPS)	F1Q98	F2Q98	F3Q98	F4Q98	F1Q99	F2Q99	F3Q99	F4Q99	FY1997	FY1998	FY1999
Revenues	1.2	4.0	5.8	9.6	11.5	17.2	24.3	37.1	3.1	20.9	90.0
Sequential Growth	NA	230%	46%	65%	20%	50%	42%	53%	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	851%	332%	319%	288%	NA	563%	331%
Cost of Goods Sold	1.3	4.7	6.5	9.3	11.1	15.2	22.0	26.4	1.7	16.1	65.7
Gross Margin	-0.1	-0.7	-0.7	0.3	0.4	2.0	2.4	10.7	1.5	4.7	24.3
Gross Margin as a % of Revenues	-7%	-18%	-13%	3%	3%	11%	10%	29%	47%	23%	27%
Operating Profit (Loss) (EBIT)	(2.2)	(4.9)	(6.0)	(6.7)	(7.2)	(7.1)	(11.7)	(14.8)	(4.2)	(25.7)	(43.1)
Operating Margin	-183%	-124%	-103%	-70%	-63%	-42%	-48%	-40%	-133%	-123%	-48%
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	(\$0.64)	(\$1.17)	(\$0.49)	(\$0.43)	(\$0.42)	(\$0.37)	(\$0.55)	(\$0.58)	(\$4.88)	(\$2.48)	(\$1.96)
Sequential Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Year-over-Year Growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: FactSet Data



Chapter 1 **Chapter 2** **Chapter 3** **Chapter 4** **Chapter 5**

msdw.com

The Industry **OK**

Background: Internet Direct Marketing & Advertising Services (pg. 62)

- The Internet is the first media to collapse the sales cycle, from gaining awareness to gathering information to shopping and making a purchase. It also blurs the lines between advertising and direct marketing.
- Online advertisers have generally focused on the top ten sites when allocating their online spending. Meanwhile, the aggregate power of the growing number of niche sites (ranked 50+) has been gaining. Both categories are squeezing the mid-sized sites (ranked 11–50).
- E-advertising is positioned to go well beyond banners as bandwidth and technology allow. As the audience evolves from higher-demographic, early tech adopters into more of a mass market, then mass market advertising methods will be utilized more.

Industry Forecast: Internet Direct Marketing & Advertising Services (pg. 72)

- We forecast that U.S. e-advertising will reach over \$32 billion in 2005 — representing a CAGR of 42%. At that time, we estimate that the Internet will account for 14% of all U.S. advertising, up from 3% in 1999.
- Global e-advertising and direct e-marketing should be over \$50 billion in 2005, up from \$5 billion in 1999 — a CAGR of 49%.
- We believe the global addressable market of advertising and marketing services is much larger than many U.S. media followers currently believe.
- List price CPMs (cost per thousand impressions) for the Internet will likely come down, but effective CPMs are reasonable compared to other media. Effective CPMs should go up as more inventory is sold and better comparisons with other media are made.

Industry Forecast: Traditional Advertising & Marketing Services (pg. 78)

- The traditional advertising and marketing services market is enormous. In the U.S., we estimate advertising and marketing spending to reached nearly \$389 billion in 1999, and we expect \$420 billion in 2000.
- The U.S. represents about 42% of the \$363 billion global advertising budget and 76% of the \$315 billion global marketing services budget. Combining advertising & marketing services, the U.S. represents 57% of the \$678 billion market, we forecast for 2000.
- In the U.S. in 2000, we expect 8.3% growth in advertising and 7.8% growth in marketing services, for a total of 8.0%, up 70 basis points from 1999E. Globally in 2000, we expect advertising growth of 7.6%, up 140 basis points from 1999.

The Internet Holdings of “Traditional” Advertising Agencies (pg. 82)

Background: Internet Direct Marketing & Advertising Services

KEY POINTS:

- The Internet is the first media to collapse the sales cycle, from gaining awareness to gathering information to shopping and making a purchase. It also blurs the lines between advertising and direct marketing.
- Online advertisers have generally focused on the top ten sites when allocating their online spending. Meanwhile, the aggregate power of the growing number of niche sites (ranked 50+) has been gaining. Both categories are squeezing the mid-sized sites (ranked 11–50).
- E-advertising is positioned to go well beyond banners as bandwidth and technology allow. As the audience evolves from higher-demographic, early tech adopters into more of a mass market, then mass market advertising methods will be utilized more.

Online Advertising vs. Direct Marketing: The Lines Are Blurred

The Internet is “a new medium for traditional direct marketing.”

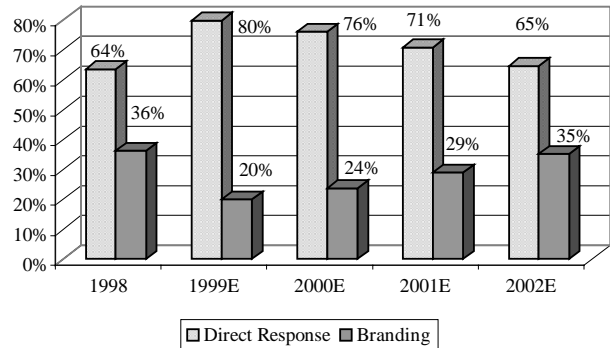
— H. Robert Wientzen, *President of the Direct Marketing Association.*

In the online world, even the simple banner ad can be (and often is intended to be) both an advertisement and a direct marketing service. The banner raises the passive consumer’s awareness of a product. Yet it also encourages the consumer to pursue action by clicking on the ad. Many buyers of Internet banners are justifying their expenditure based on direct marketing models.

It is widely accepted that in both online and offline worlds, the average viewer requires nine exposures to an ad before s/he begins to recognize the company and associate it with the product or service it provides. In addition, two out of three ads go unnoticed (particularly on the Internet) by people who are more interested in reading content than advertising. Thus, one could argue that brand recognition requires that a consumer be exposed to an ad 27 times before branding begins to occur.

Figure 19

Direct Marketing vs. Advertising on the Internet

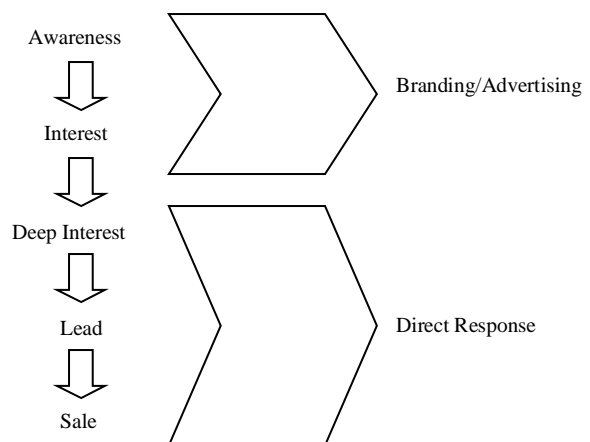


Source: Forrester Research

The interactivity of the Web lends itself more to response-oriented advertising than branding. In fact, DoubleClick reports that 90% of the ads served through its network are response-driven, while only 10% are intended to brand. 24/7 Media reports that about 20% of its ads served are intended to brand, while the remaining 80% are response-oriented. That differs slightly from conclusions from Forrester Research, detailed below.

Figure 20

Branding and Direct Marketing



Source: Morgan Stanley Dean Witter Research

However, the lines between advertising, direct marketing and promotional marketing, and the retail sales generated have been blurred by the Internet categories. A portion of

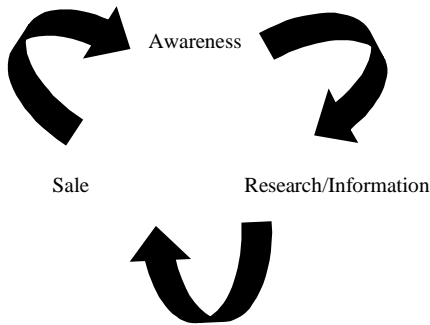
the revenues collected from e-commerce should be allocated to the direct e-mail/database marketing/e-coupons category. Separating e-advertising and direct e-marketing is more of a theoretical question. However, it is important to exclude e-commerce retail sales from advertising and marketing calculations unless one also includes traditional retail sales with traditional media advertising.

The First Medium to Collapse the Sales Cycle

The Internet allows for the entire sales cycle to be conducted on one medium, nearly instantaneously. From making the consumer aware of the product to providing additional information to transacting the final purchase, the Internet can accomplish it all. If for no other reason, advertising and direct marketing on the Internet have greater potential than in the offline world. Offline consumers first see an ad on television or in a magazine, then must research the product themselves, and finally make the purchase by going to a store or calling the seller.

Figure 21

Seamless Completion of the Sales Cycle



Source: Morgan Stanley Dean Witter Research

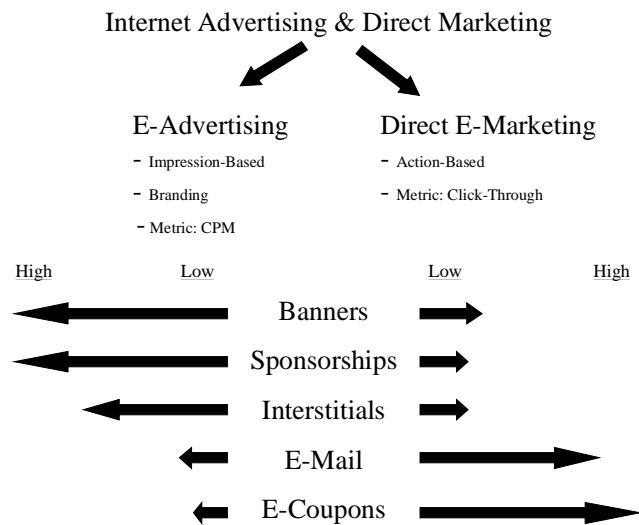
Offline point-of-sale promotions are displays located near the checkout aisles of stores. This is often the most valuable real estate because it allows for impulse shopping and is seen by all shoppers as they are checking out. The Internet is like one big point-of-sales display, with easy access to products and the ability for impulse shopping.

Impulse shoppers have found a true friend (or enemy) in the Internet. Within seconds from being made aware of a product, consumers can purchase it online. Further, with the targeting techniques available to advertisers, consumers who turn down a product because of the price can be identified

and served a special offer more likely to result in a purchase. In the right hands, with the right tools, the Internet really is an advertiser’s dream come true.

Figure 22

Internet Advertising and Marketing Breakdown



Source: Morgan Stanley Dean Witter Equity Research

What Does the Internet Advertising Market Consist of?

Attempting to measure or define the amount of e-advertising, even while excluding e-commerce, is an extremely difficult task. In fact, Forrester Research writes, “Ad measurement on the Internet is a mess.” Bob Coen, McCann-Erickson’s ad guru, states: “The best we can do is use a judgment estimate somewhere in the range of reality.” Estimates of the total amount of Internet advertising revenues in 1997 vary from a low of \$336 million to a high of \$940 million. The range of estimates for 1998 is even greater, from a low of \$560 million to a high of \$2.0 billion. The situation isn’t expected to clear up right away. “I see another 15 to 20 years of confusion ahead,” says Gene DeRose, CEO of Jupiter Communications.

Why do these disparities exist for historical figures? We believe there are two reasons:

- 1) *Differing measuring techniques used.* Some measurers obtain their information from the publicly quoted rate cards of Internet sites. This method ignores the fact that most publicly quoted figures are not actually used. Rather, a process of bartering and negotiation deter-

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mines the actual pricing. Results also vary depending on which party's results are being measured, the advertiser's or the publisher's.

- 2) *Different technology used for measurement.* This causes particular problems for the relationship between the advertiser/measurer and the Web publisher. Ratings companies miss 7% of a small site's and 34% of a large site's audited log files, according to the IAB, ARF, and FAST's data reconciliation project. Further, Web publishers typically use server log measurements to monitor Web traffic. On the other hand, advertisers prefer to use audience measurement techniques. The two techniques come up with different calculations of the effectiveness of an Internet campaign. The differences can be broken down into two areas:

- **International Traffic:** Server log analyses include international traffic in their calculations, whereas audience measurement techniques do not. International traffic currently accounts for up to 40% of traffic, and this number is only going to grow, causing further distortions.
- **Cached Pages:** Cached pages are stored and served to multiple users. Audience measurement systems include cached pages in their data collection; server log analyses do not. Media Metrix estimates that by not including cached pages, server log analyses miss 20–40% of a site's usage.

“Audience measurement is perhaps one of the most frustrating business issues facing agencies and publishers today ... Credible and reliable online advertising is key to the continuing growth of the medium.”

— Rich LeFurgy, Chairman FAST, IAB

Table 72

Type of Advertising Conducted Online

	1997	1998	1999	2000E	2001E	2002E	2003E
Banner	80%	52%	50%	46%	42%	41%	40%
Sponsorship	15%	40%	39%	39%	34%	32%	30%
Interstitial	5%	3%	4%	5%	6%	7%	8%
e-mail	0%	1%	3%	6%	10%	13%	15%
Other	0%	4%	4%	4%	8%	7%	7%

Source: eMarketer

How Are Advertisers Using the Web?

Banners are currently by far the most common type of advertising on the Web. Banners accounted for well over half of all ads served on the Internet in 1998 (eStats calculates that banners accounted for 52% of Internet advertising; Jupiter calculates the figure as 61%; IAB calculates 55%). Sponsorships took second place, with interstitials and other forms taking third and fourth, respectively. This mix is expected to change over time, with banners' share declining. Due to greater bandwidth, we expect more rich-media applications to take over, giving sponsorships and interstitials a decided advantage.

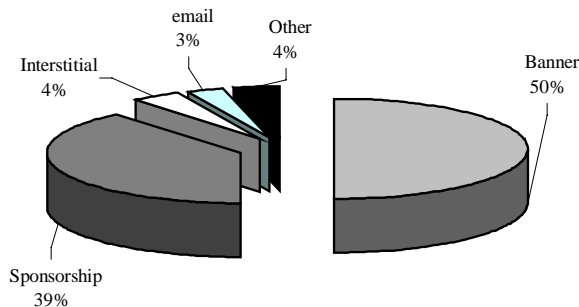
Banners: Banners were originally a static billboard-type ad displayed at the top of a Web page. No longer are they necessarily static, nor are they always at the top of pages. Greater bandwidth has allowed for the use of audio and moving images, and allowed consumers to click on the banner and be taken to more in-depth information, to the company's Web site, or directly to an area where s/he can purchase the product. Buttons serve basically the same purpose but are usually smaller and arranged along the side of a page.

Side Frames/Sponsorships: A side frame is displayed along the side of requested content (instead of at the top like the traditional banner). Side frames are most often used in conjunction with sponsorships, allowing companies to “sponsor” content that a user has requested. Like banners, side frames allow users to click-through to more information, the company's site, or to purchase the product. Additionally, however, sponsorships often create an interactive experience for the user.

Pop-Up Windows: This type of ad “pops up” in another browser window when a user enters a site. The new window containing the ad can be closed immediately or used to request more information/purchase a product. Pop-up windows are very similar (and sometimes identical to) interstitials.

Interstitials: Interstitials are large, nearly full-screen ads that often appear on browsers as a new page is loading. Obviously, this works best when the page being loaded is heavy on graphics or movement, forcing it to load more slowly.

Figure 23

Type of Internet Advertising Conducted in 1999

Source: eMarketer, Internet Advertising Bureau and Morgan Stanley Dean Witter

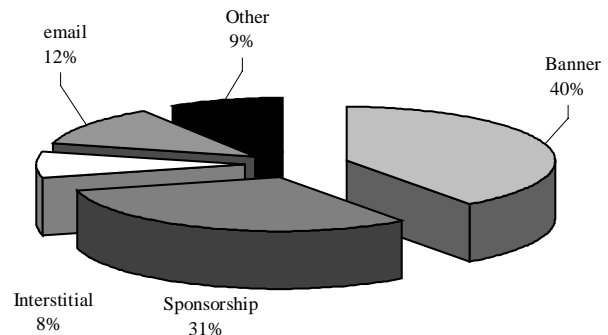
Interstitials are often alternatively referred to as splash screens, pop-up windows, daughter windows, parent windows, intermercials, extramercials, or transitionals.

Superstitials: This is another version of an interstitial, although not necessarily a larger one. These are often animated and sometimes contain interactive features like games. Users may click on a corner to remove the super/interstitial. As currently developed, superstitials are cached on the user's hard drive, so that they do not slow down the loading of the site. Also, they only play when they are fully loaded, so there is no delay for the user. This makes superstitials attractive as they are much less likely to aggravate users than other advertising.

Push Advertisements: Push advertisements have all of the characteristics of banners, but they are continuously displayed on a user's screen. As a user scrolls down a Web page, the push advertisement follows them, so it is always in the user's view.

Free ISP Banner/Tool Bars: The advent of free ISPs has created a whole new type of advertising, very similar to push advertisements. Free ISPs, like NetZero and Alta-Vista, offer consumers free Internet access in return for personal information, which is used to target advertising in a constantly visible banner ad. A free ISP's banner ad cannot be shrunk or turned off, although the user is allowed to move it around his/her window. The free ISP targets advertising based upon the user's characteristics (which the ISP received when the consumer signed up) and (in some cases) clickstream data.

Figure 24

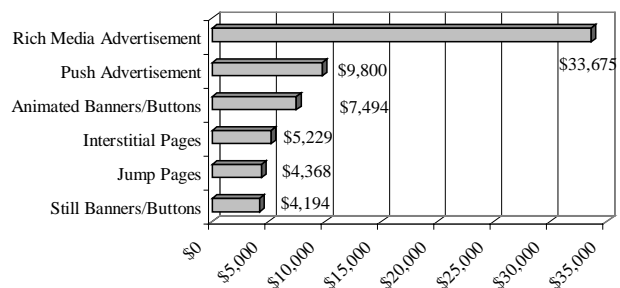
Type of Internet Advertising Expected in 2003

Source: Internet Advertising Bureau, eMarketer and Morgan Stanley Dean Witter

For instance, NetZero has a financial channel that is sponsored by Ameritrade and DLJDirect. These sponsorships show up much like bookmarks in a user's browser.

E-Mail: Direct e-mail is direct mail's Web equivalent. Depending on the type of e-mail and browser system employed by a user, s/he may receive plain text, text with links to a Web site, graphics, or even interactive features. Of critical importance in the direct e-mail sphere is the consumer's ability to opt in or opt out of an e-mail list.

Figure 25

Cost of Developing Various Types of Internet Advertising

Source: Association of National Advertisers

How Will Advertisers Use the Web?

The future of Internet advertising lies with rich media. Rich media is simply a fancy way of describing the integration of animation, sound, interactivity, and even e-commerce into a space that was formerly held by the static banner ad. Rich media is becoming an ever more popular form of advertising on the Web. It is more effective at generating consumer awareness than regular banner ads — due

to its greater interactivity, complexity, motion, and audio abilities. Today's rich media may give users a fuller experience of a product (i.e., an audio product description, a virtual "test drive," and other means that will push the consumer further down the road to a sale) without having to leave the current Web site. Rich media ads are currently estimated to account for only 5–20% of the ads served. However, we expect this number to grow as advertisers attempt to differentiate their ads in light of the falling click-through rates and as bandwidth increases.

Table 73

Online and Traditional Advertising

Online Ad Format	Traditional Ad Format
Banner	Magazine/Newspaper Ad
Sponsorships	Sponsored Sporting Events
Interstitials	TV Commercial
E-Mail	Direct Mail
E-Coupons	Coupons

Source: Morgan Stanley Dean Witter

Rich media does have some drawbacks, some (but not all) of which will be ameliorated by broadband availability.

- **Lengthy Downloads:** Because most users still use dial-up modems with maximum speeds of 56 KBPS (and are expected to continue to for some time), relatively few users can experience rich media without enduring lengthy download periods. Broadband is defined as greater than 128 KBPS. Greater bandwidth, allowing for faster download speeds, will eliminate this problem, but until then, few things are more annoying to users on the Web than having to wait for an advertisement to load before they can view the content of the site they came to see.

- **The Novelty Will Wear Off:** Just as click-through rates on banners fell as more and more banners were served, we expect the click-through rates on rich media will continue to decline as more rich-media ads are served.

- **More Expensive to Produce:** Although rich-media ads are still relatively inexpensive to produce compared with their offline brethren, those advertisers that turn to the Web for extremely inexpensive advertising may be turned off by rich media. Rich media is estimated to cost roughly three to five times more to produce than regular animated banners.

Who Is Advertising on the Web?

Logically, Web-savvy technology and telecommunications companies were the first adopters of the Internet as an advertising medium. Now, however, brick and mortar companies are advertising on the Internet — and pure-play Internet companies are advertising on "traditional" media. We estimate that Internet companies have added 2% growth to overall advertising in 1999.

Table 74

Top Web Advertisers (March) — Ranked by Millions of Impressions

	Advertiser - Home	Impressions	Advertiser - Work	Impressions
1	TRUSTe	2,816	TRUSTe	2,641
2	Amazon	726	Yahoo!	536
3	Yahoo!	660	Amazon	501
4	America Online	562	Datek	368
5	Microsoft	430	Microsoft	355
6	Next Card	363	ClassMates	285
7	SexTracker	354	America Online	264
8	Barnes & Noble	288	Next Card	261
9	ClassMates	272	Fidelity	243
10	Netscape	265	GetSmart	233
11	Ad Council	253	AllAdvantage	231
12	Datek	240	E*TRADE	224
13	GetSmart	240	Morgan Stanley	219
14	eBay	217	Netscape	216
15	WebSideStory	216	Barnes & Noble	207

Source: Nielsen/NetRatings

Deciphering what categories of companies are advertising on the Web may be an exercise in futility, as the answer appears to be that everybody is! That having been said, we believe that several trends are developing.

Table 75

Industry Category of Internet Advertisers

	3Q98	4Q98	1Q99	2Q99	3Q99
Consumer	27%	29%	27%	29%	32%
Computing	24%	20%	20%	22%	21%
Financial Services	16%	19%	21%	20%	19%
Telecom	11%	8%	7%	6%	6%
New Media	7%	7%	8%	NA	NA
Other	15%	17%	17%	23%	22%

Source: Internet Advertising Bureau

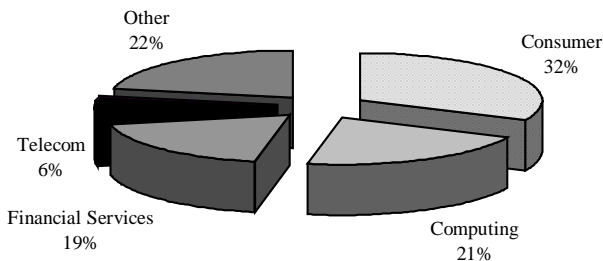
Consumer brand companies (the Procter & Gamble's of the world) are increasing their share of Web ad spending. The early dominators of Internet advertising — such as Internet, technology, and telecom companies — are spending greater and greater amounts on advertising, but their share of the pie

is shrinking as others ramp up their Web advertising. Financial companies have also been increasing their share of Internet advertising.

Looking forward, we believe that three broadly defined categories of advertisers will advertise heavily on the Internet. These three categories share several characteristics, the most important of which is that their products can be more easily purchased online. It is precisely for this reason that we believe they will also advertise heavily online. After all, when the sales cycle can be completed so quickly, over one medium, it makes sense for the companies that have the best ability to sell items online to also advertise online.

Figure 26

Top Internet Advertising Categories of 3Q99



Source: Internet Advertising Bureau

The three categories that we see dominating Internet advertising going forward are:

- 1) **Considered Purchases:** These are goods or services that require research before a purchase is made. Automobiles and travel are two such areas, as consumers are apt to do extensive research before purchasing these high-cost items.
- 2) **Highly Varied Items and Services:** Items for which many different variations exist are likely to be advertised heavily on the Internet. Jobs fit this category, as consumers can use the Internet's search abilities to dig deeply into databases to find what they are looking for.
- 3) **Electronic Delivery Services:** Services that can be conducted electronically will also be big advertisers on

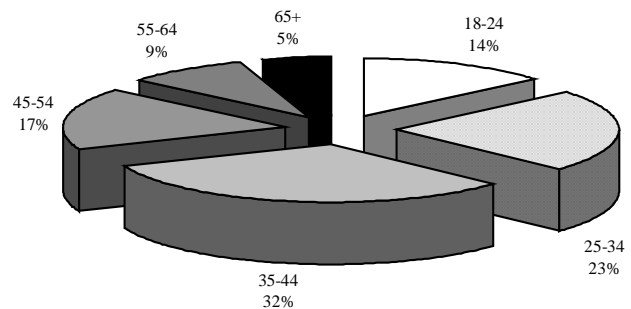
the Internet. Financial services, insurance, and credit card issuers fit this category.

Who Is Receiving Web Advertising? Attractive Demos

Internet users have some very appealing demographics for advertisers. The typical Internet user is in one of the more coveted age groups: 32% are between the ages of 35–44 and 23% are 25–34, according to eMarketer.

Figure 27

Appealing Demographics: Internet Usage by Age Group



Source: eMarketer

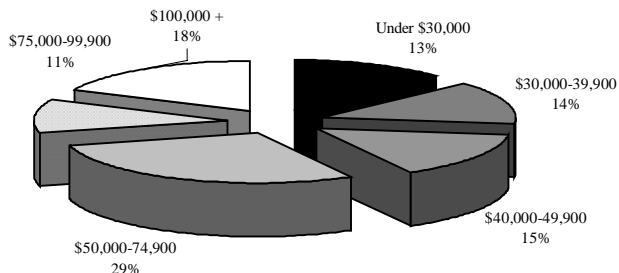
More important than age groups to advertisers, Internet users have money! 29% of users earn \$50,000–75,000 a year, and 18% earn over \$100,000 per year, according to Jupiter Communications.

While 18% of Internet users earn over \$100,000 annually, only 13% of the general U.S. population earns that much. Only 21% of the general population falls in the \$50,000–75,000 range, compared with 29% of Internet users. Interestingly, the bottom end of the spectrum (those earning under \$30,000) are also over-represented in the Internet population.

Best of all for technology advertisers, Internet users are early adopters of technology and (obviously) have access to a personal computer, making them ideal for certain types of technology advertisers.

Figure 28

**Appealing Demographics:
Internet Usage by Income**

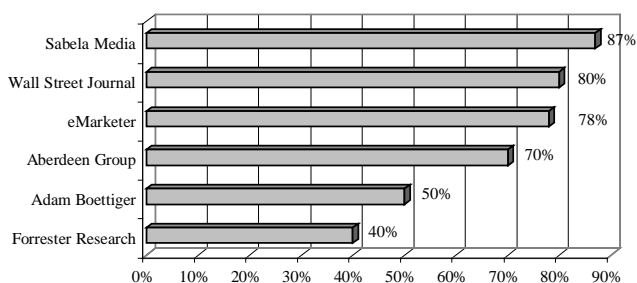


Source: Jupiter Communications

Of course, as Internet penetration pervades the U.S. and the rest of the world, its very success will dilute the demographic wallop, just as it did for television and radio decades ago. Higher levels of penetration mean access to larger marketing budgets, however. For example, many cable networks are now national, and in addition to increasing their penetration to more than 70% of U.S. households, they have benefited from a disproportionate increase in advertising market share. Of course, some cable networks still suffer from not being national enough for some advertisers.

Figure 29

Unsold Inventory Estimates (1999)



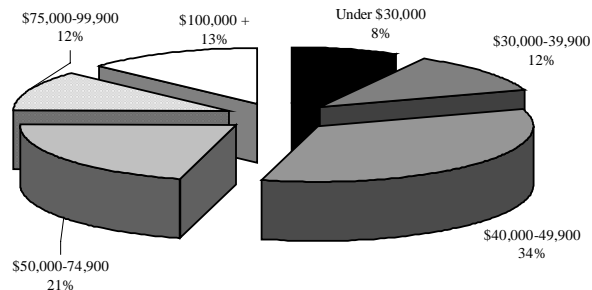
Source: eMarketer

Where Are Advertisers Advertising?

The number of Web sites is growing at a torrid pace ... and more are coming. At the end of December 1999, the number of Internet sites accepting advertising reached 3,347 (according to AdKnowledge).

Figure 30

U.S. Per Capita Demographics



Source: U.S. Census Bureau

With all of these sites, it is not surprising that some observers estimate that over 80% of all available Internet advertising space goes unsold and that even the biggest publishers only manage to sell a minority of their available inventory. We think this analysis is flawed, since it is based on the proposition that the remaining 20% is sold at its full, list price. The majority of the sites we go to have advertisements on more than every fifth pageview. If we reversed the argument and assumed that list prices are discounted by 80%, then 100% of the inventory could be considered sold. This is probably closer to reality than the argument that 80% of Web sites have no advertising.

Table 76

**Top Web Properties (March)
— Ranked by Advertising Impressions in Millions**

	Advertiser - Home	Impressions	Advertiser - Work	Impressions
1	yahoo.com	3,378	yahoo.com	2,723
2	ebay.com	2,590	ebay.com	2,507
3	aol.com	1,355	aol.com	561
4	go.com	480	go.com	471
5	realtor.com	413	quicken.com	370
6	excite.com	408	netscape.com	343
7	netscape.com	361	iwon.com	319
8	snap.com	356	ragingbull.com	298
9	ragingbull.com	341	excite.com	268
10	freei.net	305	cnn.com	228
11	iwon.com	302	realtor.com	226
12	msn.com	291	msn.com	222
13	gamesville.com	235	snap.com	199
14	compu-	229	infospace.com	172
15	lycos.com	212	altavista.com	165

Source: Nielsen/NetRatings

The top sites are still among the best places for investors to play e-advertising trends, as the vast majority of ad-

vertising dollars has been concentrated among the top sites. The absolute number of advertising-supported Web sites is expanding. However, the concentration of ad spending continues to consolidate at the top sites. eStats projects that the average ad-supported Web site received about \$570,000 in advertising revenues in 1999. Conversely, eStats calculates that the top 10 Web publishers' sites each raked in an average of \$193 million from Internet advertising.

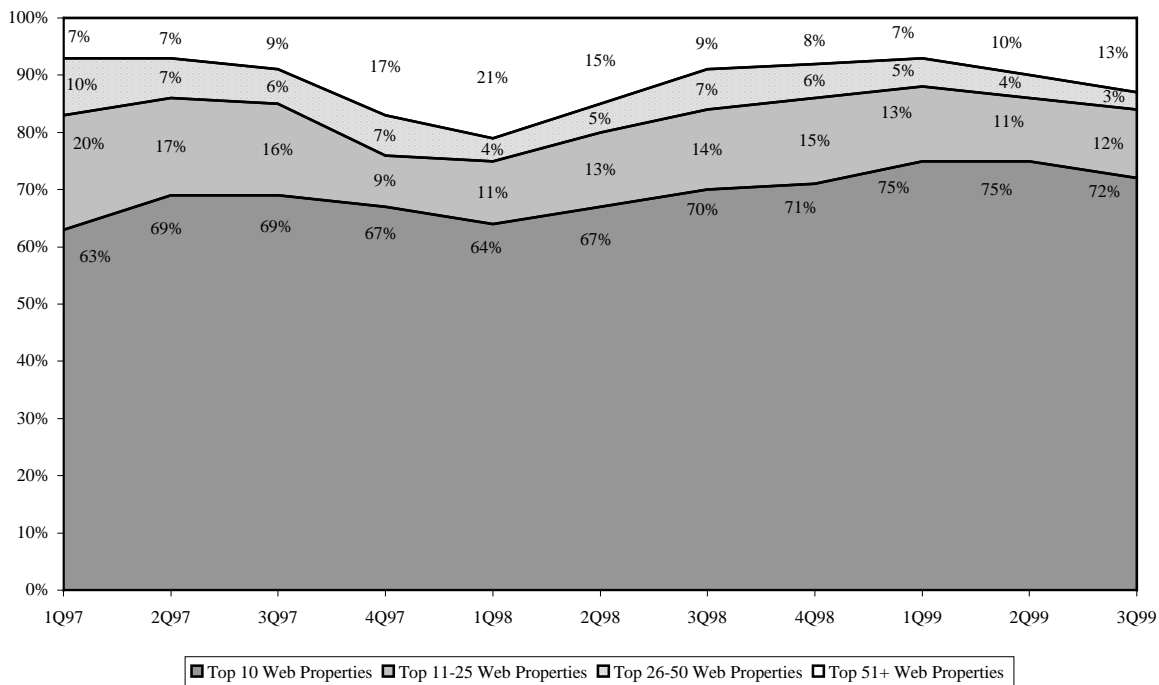
This trend of advertising concentration at the top sites is only getting more pronounced. According to the Internet Advertising Bureau (IAB), the top 10 Web publisher's sites accounted for 69% of ad revenue on the Web in 2Q97. By

3Q99, the top 10 sites' share of ad revenue had grown to 72%. Web properties that are classified as numbers 11–25 lost share in the same period, falling from 17% of Internet advertising revenues to 12%. Likewise, properties numbered 26–50 also lost share, from 7% to 3%. Sites numbered 51 and over gained share, going from 7% of advertising revenues in 2Q97 to 13% in 3Q99 (their share during the period reached as high as 21% in 1Q98).

The number of unique visitors determines the top sites. Although the list of top sites changes based on the number of visitors recorded each month, the top 10 sites have established a relatively dominant position in the industry.

Figure 31

Concentration of Internet Advertising



Source: Internet Advertising Bureau & Morgan Stanley Dean Witter Research Estimates

Portals, often top-10 sites, have been leading the pack in terms of advertising revenue generation. eStats estimates that in 1998, portals captured 49% of all Internet advertising. Specialty content sites captured about 20%, general content providers received 18%, and all others earned 13%. We don't expect portals (as traditionally defined) to con-

tinue to dominate advertising spending on the Internet. Currently, portals are re-inventing themselves as destination sites for shopping, trading, and doing remote tasks, rather than simple search engines or site organizers. This should help them to maintain their dominant position as receivers of advertising.

Revenue trends at niche sites may be nice, too — but can they get big enough to make their business models work?

In addition to the top sites, advertisers have also been spending on niche content providers. These sites have demographics that appeal to particular advertisers. Financial news sites in particular have been beneficiaries of this trend. Yet it is not clear that these smaller sites can reach the size where their business models will work. The ad networks may be a good way to ride the revenue growth of this category of sites.

Table 77

Internet Advertising Spending by Genre

	1Q98	2Q98	3Q98	4Q98	1Q99	2Q99	3Q99
Search/Portal	26%	30%	35%	35%	34%	35%	41%
Technology	29%	25%	31%	22%	22%	21%	17%
Business/Finance	23%	21%	18%	19%	21%	18%	16%
News/Information	6%	10%	7%	9%	5%	8%	8%
Sports	8%	6%	3%	6%	8%	5%	2%
Entertainment	4%	4%	3%	5%	4%	3%	4%
Women	1%	1%	2%	2%	3%	3%	2%
Community	NA	NA	NA	NA	3%	2%	2%
Other	3%	3%	1%	2%	0%	5%	8%

Source: IAB

IAB data seems to show that when it comes to e-advertising market share gains, bigger sites are best, but smaller sites seem better than the mid-sized ones. Over the past 10 quarters, smaller niche sites (the properties ranked 50+) appear to be holding on to market share. Over the same period, the top 10 sites gained share at an average pace of 3% per quarter, at the expense of the top 11–50 sites. Thus, we believe that obtaining a royalty on small sites' revenue streams may be better than investing in the mid-sized sites or trying to pick the next big winners.

Although the data do not paint a completely clear picture, it is our belief that niche sites will continue to gain advertising revenues on the Internet due to their targeted audience. We also believe that the efficiencies of scale in distribution, promotion, and other expenses will assist the top sites in maintaining their stature and share.

We believe that going forward, niche sites may become more attractive relative to their larger portal brethren.

As consumers spend more time on the Internet and bookmark certain sites that they use most frequently, they tend to bypass portals/search engines. The continuing growth in portal usage can largely be traced to the transition of new Internet users online. The table below shows that as Internet

users spend more time online, they are bypassing portals more frequently.

Table 78

Percent of Consumers Bypassing Portals

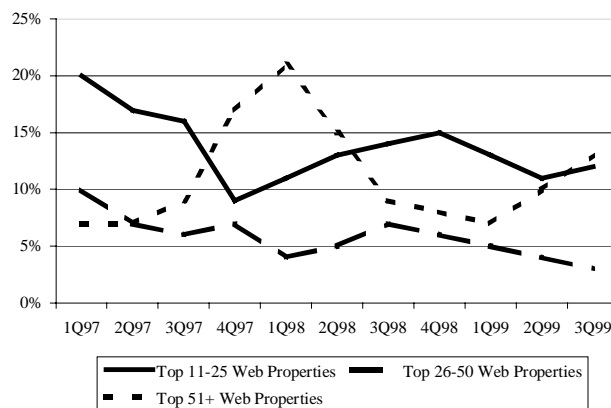
	Under 1 Year Online	2+ Years online
Investment & Trading	34.8%	60.9%
Auctions & Classifieds	29.0%	45.7%
Shopping	46.8%	53.2%
Product Information	35.5%	41.3%

Source: Mercer Management Consulting

A further reason for users spending less time at portals is that search engines are actually capturing less of the Internet's content. NEC Research believes that portals are currently only indexing 16% of Internet content — over 850 million pages. That percentage is down from 34% at the start of the year.

Figure 32

Niche Is Nice: Another Cut of E-Advertising Concentration Data

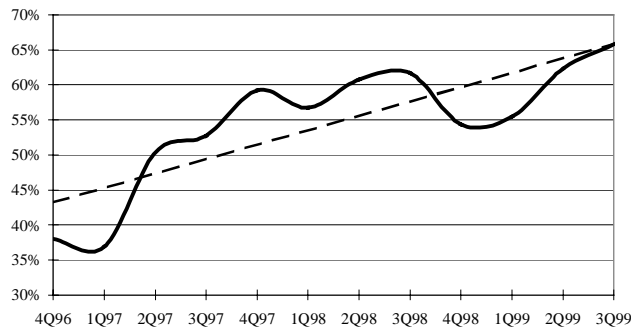


Source: Internet Advertising Bureau

Portals will, however, continue to receive a large share of Internet advertising in the future. Because they act as the directories of the Internet, one cannot ignore them. In fact, one of the principal reasons for advertising on portals/search engines is keyword searches. When a user queries Yahoo!, AltaVista, or any other search engine to look for something, the engine will return a list of possibilities. At the top of the page will be a banner ad based on the term searched for. When searching for “flower shops,” it is quite likely that a ProFlowers.com banner will be displayed. ModemMedia believes that click-throughs on keyword search banners are as high as 20%.

Figure 33

The Rest of the Net (Non - AOL and Yahoo!) Is Increasing its Share of Internet Advertising



Source: Company Data and Morgan Stanley Dean Witter Equity Research

In the Figure above, we see that Internet advertising appears to be fragmenting away from the two the behemoths of e-advertising — AOL and Yahoo! As of 3Q99, the rest of the net had grown to 66% market share, significantly better than the 53% from 2 years ago (not to mention the 38% of nine quarters ago), although not much better than the 62% of a year ago. While the sequential market share numbers are bumpy, the slope of the line from 4Q96 to 3Q99 shows about a 2% share gain per sequential quarter going to non-AOL and Yahoo! sites. This helps both the buy-side and sell-side e-marketing companies that aggregate media on behalf of advertisers to create affordable “synthetic networks.” Initial indications are that 4Q99 advertising trends were very strong at AOL and Yahoo!, nonetheless the trend line shows a gradual shift away from these two behemoths of e-advertising.

Media investors should not be surprised by the fragmenting trends of new entrants, as there are a number of historical precedents. Intra-medium, we find that new cable TV networks generally take share of usage and dollars from broadcast TV networks. Inter-media, we find that radio took share from print, TV took share from radio and print, and

the Internet is taking share from TV, radio and print. New media fragments audience and advertising budgets for pre-existing media.

What Services Do E-Advertisers Require?

Forrester reports that the average online ad campaign lasts 10 weeks — four weeks to plan and six weeks to run. It is our belief (and Forrester’s as well) that both sites and advertisers cannot handle this fast pace without the help of outsourcing service partners. As a result, online marketers surround themselves with an average of four external service partners to help manage online campaigns.

Why is outsourcing necessary?

1. Advertisers and direct marketers face significant challenges, including their selection of sites. Given the breadth of content available on the Web, it is difficult for advertisers and direct marketers to justify the costs of transacting individually with a number of small but desirable sites in order to reach a large online audience. Advertisers and direct marketers also find that individual Web sites typically lack the technology to serve a variety of advertisements to a broad reach of Internet users. In addition, many advertisers and direct marketers lack the analytical tools to evaluate the effectiveness of advertising campaigns, target appropriate users, and place advertisements, all of which are necessary to obtain and compare performance from a variety of Web sites.

2. Web publishers/sites face significant challenges, too. Most Web publishers have difficulty attracting and maintaining experienced personnel to sell ad space on their Web sites. It can be difficult to gain access to media buyers at large advertising agencies for all but the largest Web sites. In addition, most Web publishers cannot afford (or deliver) effective ad serving technology and databases to offer serving, targeting, and reporting to advertisers.

Industry Forecast: Internet Direct Marketing & Advertising Services

Key Points

- We forecast that U.S. e-advertising will reach over \$32 billion in 2005 — representing a CAGR of 42%. At that time, we estimate that the Internet will account for 14% of all U.S. advertising, up from 3% in 1999.
- Global e-advertising and direct e-marketing should be over \$50 billion in 2005, up from \$5 billion in 1999 — a CAGR of 49%.
- We believe the global addressable market of advertising and marketing services is much larger than many U.S. media followers currently believe.
- List price CPMs (cost per thousand impressions) for the Internet will likely come down, but effective CPMs are reasonable compared to other media. Effective CPMs should go up as more inventory is sold and better comparisons with other media are made.

Summary of Forecast

We believe that worldwide e-advertising growth trends can be sustained at extraordinary levels for some time. We have developed a forecast for Internet advertising and direct marketing in the U.S., Europe, Asia, and Latin America, using internal Morgan Stanley Dean Witter Research forecasts, as well as external forecasts. We have developed these forecasts through the help of Mary Meeker and Mark Mahaney in the Internet space and Jeff Camp, Stephen Flynn and April Henry in the Internet and Data Services space. We detail our U.S. forecasts below, but have limited our international forecasts due to a lack of data regarding international Internet usage and advertising.

Table 79

Global e-Advertising and Direct e-Marketing Summary

(\$ Millions)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
U.S. Internet Advertising	301	843	1,800	3,982	6,600	11,100	17,600	23,700	28,300
% growth	447%	180%	114%	121%	66%	68%	59%	35%	19%
Europe Internet Advertising	6	40	84	215	658	1,341	2,000	4,000	5,500
% growth	NA	533%	111%	155%	206%	104%	49%	100%	38%
Asia Pacific Internet Advertising	0	0	90	166	347	691	1,236	2,070	3,321
% growth	NA	NA	NA	84%	109%	99%	79%	67%	60%
Latin America Internet Advertising	0	0	0	51	121	260	517	949	1,646
% growth	NA	NA	NA	NA	137%	115%	99%	84%	73%
World Internet Advertising	307	883	1,974	4,414	7,726	13,392	21,353	30,719	38,767
% growth	NA	187%	124%	124%	75%	73%	59%	44%	26%
U.S. Direct E-Marketing	0	0	17	97	289	751	1,322	1,994	2,800
% growth	NA	NA	NA	NA	198%	160%	76%	51%	40%
Europe Direct E-Marketing	0	0	0	10	30	90	150	340	540
% growth	NA	NA	NA	NA	200%	200%	67%	127%	59%
Asia Pacific Direct E-Marketing	0	0	0	0	0	0	62	86	175
% growth	NA	NA	NA	NA	NA	NA	NA	40%	102%
Latin America Direct E-Marketing	0	0	0	0	0	0	0	9	40
% growth	NA	NA	NA	NA	NA	NA	NA	NA	NA
World Direct E-Marketing	0	0	17	107	319	841	1,534	2,429	3,555
% growth	NA	NA	NA	NA	198%	164%	82%	58%	46%
Total World E-Ad and E-DM	307	883	1,991	4,521	8,045	14,233	22,887	33,148	42,322
		187%	126%	127%	78%	77%	61%	45%	28%

Source: Morgan Stanley Dean Witter Research

With the potential to be more global than any other media, the Internet's global impact cannot be understated. We project global Internet advertising to grow from \$4 billion in 1999 to \$31 billion in 2003. We expect global direct e-marketing (e-mail) to grow from under \$1 billion in 1999 to over \$2.4 billion in 2003. Thus, total e-advertising and direct e-marketing is expected to grow from \$4.5 billion in 1999 to over \$33 billion in 2003.

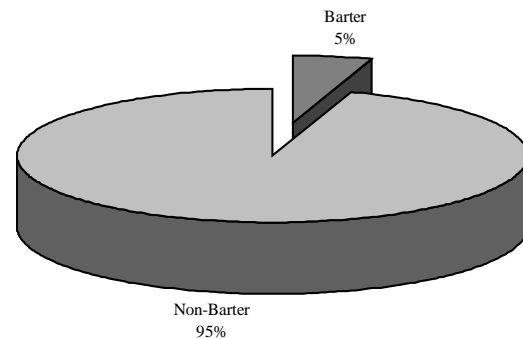
U. S. Internet Advertising Conclusions

There is a great deal of discrepancy among the available advertising forecasts; therefore, we show several of them to allow investors to make their own assumptions.

Barter revenues are one source of the confusion regarding Internet advertising. Barter occurs when a publisher trades advertising space on its own site for advertising space on another publisher's site. Estimates of the amount of advertising accounted for by barter range up to 20%, but we tend to agree with the Internet Advertising Bureau's estimate of 5%. We have endeavored to eliminate all barter revenues from our forecast.

Figure 34

Barter as a Percentage of Web Advertising (3Q99)



Source: Internet Advertising Bureau

The Internet Advertising Bureau estimates that U.S. Internet advertising was \$301 million in 1996 and that it grew 180% to \$843 million in 1997 and another 114% to \$1.8 billion in 1998. For 1999, we expect that it grew 121% to \$4.0 billion. In 2000, Internet advertising should grow 66% to \$6.6 billion. We forecast that Internet advertising will reach \$11 billion in 2001.

Table 80

U.S. e-Advertising and Direct e-Marketing Compared to Traditional Advertising and Direct Marketing

(\$ millions)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Total Internet Advertising	301	843	1,800	3,982	6,600	11,100	17,600	23,700	27,200
% growth	447%	180%	114%	121%	66%	68%	59%	35%	15%
Total Direct E-Mail	0	17	97	289	751	1,322	1,994	2,800	3,700
% growth				198%	160%	76%	51%	40%	32%
Total Advertising & Marketing Services									
Advertising	121,181	130,390	140,626	150,887	162,725	172,152	187,136	200,902	214,559
Marketing Services	189,697	206,768	221,818	238,771	261,161	282,997	306,280	331,340	358,163
Total Advertising & Marketing Services	310,878	337,158	362,444	389,659	423,886	455,148	493,415	532,242	572,722
% growth	7.0%	8.5%	7.5%	7.5%	8.8%	7.4%	8.4%	7.9%	7.6%
Direct Marketing									
Total Traditional Direct Marketing	141,700	152,400	162,700	174,818	187,439	198,804	211,320	224,739	238,993
% of Marketing Budget	46%	45%	45%	45%	44%	44%	43%	42%	42%
Total Advertising & Marketing Services excl DM	169,178	184,758	199,744	214,841	236,447	256,344	282,095	307,503	333,728
% of Marketing Budget	54%	55%	55%	55%	56%	56%	57%	58%	58%
Relative Internet Comparisons									
Internet DM as % of Total DM			0.1%	0.2%	0.4%	0.7%	0.9%	1.2%	1.5%
Internet incremental share				0.1%	0.2%	0.3%	0.3%	0.3%	0.3%
Internet Adv as % of Total Advertising	0.2%	0.6%	1.3%	2.6%	4.1%	6.4%	9.4%	11.8%	12.7%
Internet incremental share	2.7%	6.2%	10.3%	27.0%	28.4%	91.3%	76.6%	79.6%	34.5%
Internet Adv & DM as % of Total marketing Budget	0.1%	0.3%	0.5%	1.1%	1.7%	2.7%	4.0%	5.0%	5.4%

Source: Morgan Stanley Dean Witter Equity Research

Table 81

U.S. Internet User Forecast

<i>(Millions, except where noted)</i>	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Population	266.0	268.3	271.1	272.3	274.6	276.9	279.2	281.4	283.7
Population 18+	196.2	197.9	200.9	201.8	203.9	205.9	207.9	209.9	211.9
Households	99.6	101.0	102.2	103.3	104.4	105.5	106.6	107.7	108.8
People per HH	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6
PC/Internet Appliance Penetration		30%	35%	40%	45%	51%	58%	64%	70%
On-Line Households - Jupiter	15.2	21.9	29.1	35.8	42.6	51.6	64.7		
Residential Subscriptions		20.0	25.0	34.0	40.5	48.1	56.5	64.4	72.8
On-Line Residential Households		20.0	25.0	34.0	40.5	48.1	56.5	64.4	72.8
Internet Users / On-Line HH	1.8	1.9	1.9	1.7	1.6	1.6	1.6	1.6	1.6
% of People in HH On-Line	68%	70%	72%	65%	62%	62%	59%	59%	59%
Internet Users - eMarketer	27.9	37.2	48.0	58.0	66.0	78.0	88.0		
Internet Users - Jupiter	36.8	49.0	63.2	76.0	87.3	99.0	116.3		
Residential Internet Users	27.9	37.2	48.0	58.0	66.0	78.0	88.0	100.1	112.8
% growth		33%	29%	21%	14%	18%	13%	14%	13%
Business Internet Users - Total Active Seats	13.8	18.0	23.5	31.5	41.7	52.1	62.6	66.1	68.7
% growth		30%	30%	34%	32%	25%	20%	6%	4%
Total U.S. Users - not adjusted for overlap	41.8	55.2	71.5	89.5	107.7	130.1	150.6	166.2	181.5
% growth		32%	29%	25%	20%	21%	16%	10%	9%

E = Morgan Stanley Dean Witter Estimates

Internet Users — U.S.

We divide Internet users into two types: residential and business. We have tried to eliminate all overlap between these two groups. We reach our residential Internet user forecast through two methods. In the first, we start with the U.S. population, while in the second, we start with the number of households (connections, subscriptions, etc.).

Residential users. We estimate that in 1996 there were about 28 million residential Internet users, growing to 37 million in 1997, a 33% increase. This number then grew 29% in 1998 to 48 million, and we estimate there was a 21% increase to 58 million in 1999. Residential Internet user growth should slow to 14% in 2000 (66 million residential users).

Business users. We estimate in 1996 there were about 14 million business Internet users, which grew to 18 million in 1997, a 30% increase, and then to 24 million in 1998, a 30% gain. For 1999, we estimate there was 34% growth to nearly 32 million. In 2000, the number of business users should rise 32% to 42 million business, and another 25% in 2001.

Total Internet Users We believe that there were nearly 42 million Internet users in 1996 — that 16% of the U.S. population used the Internet. We have *not* attempted to ad-

just for the overlap between residential and business users, as we do not feel that there is sufficient data to do so. Thus, we consider a user to be a separate entity if they have both a home and work Internet connection. The number of users grew by 32% to 55 million in 1997 and by 29% to nearly 72 million in 1998. For 1999, we estimate there was 25% growth in users, to a total of 90 million. In 2000, we expect 20% growth to 108 million. In 2001, we forecast 21% growth to 130 million — 47% of the U.S. population.

Internet Usage

In addition to the number of people on line, the amount of time each user spends on line is of critical importance. This can be arrived at in two ways. One way is to forecast the amount of time that a user spends online for an average session. This is then multiplied by the average number of times that a user goes online in a week/month/year. This gives the total number of hours spent online per user. Alternatively, one can start with a projection for users and divide this by the total time all users spend online to come up with a forecast for the amount of time spent online by each user.

Hours of usage per user. We estimate that in 1996, the average Internet user spent about 61 hours online. Alternatively, the average user spent only 5.1 hours online each month in 1996. In 1997, the average user increased his/her

usage to 68 hours, or 11% growth. On a monthly basis, the average user spent 5.6 hours online. In 1998, Internet usage increased 16% to an estimated 78 hours per user. On a monthly basis, the average user spent 6.5 hours on line. We estimate that Internet usage climbed 21% to 95 hours per user per year in 1999, or 7.9 hours per month. For 2000 and 2001, we expect that the average user will spend 119 and 143 hours online, respectively. This represents 26% and 20% growth in usage. On a monthly basis, we expect that the average user will spend 9.9 and 11.9 hours on line in 2000 and 2001, respectively.

Usage is the critical assumption underlying a great many Internet projections. We have taken a look at the available historical usage figures provided by Media Metrix and Nielsen//NetRatings, as well as projections of future Internet usage by Jupiter, Forrester, and others to arrive at our own forecast for usage. There is a great deal of discrepancy between forecasts, and more surprisingly, between the historical data as well.

Media Metrix and Nielsen//NetRatings differ in their methodologies. Media Metrix claims to have a 70,000-user panel, consisting of 50,000 home users, 7,000 work users, and 20,000 international users. Nielsen//NetRatings claims to have a 85,000-user panel, consisting of 43,000 home users, 7,000 work users and 35,000 international users.

Media Metrix began life as a PC monitoring firm, keeping tabs on all of the computer programs that were in operation. From this sprang the idea to monitor Web sites. On the other hand, Nielsen//NetRatings is an independent arm of Nielsen Media Research, which is the #1 television measurement service.

In comparing the data, we come to several general conclusions. We find that Nielsen//NetRatings typically has higher days of usage than Media Metrix (an average of 4+ days a month and 50 days a year). However, Media Metrix typically calculates a longer online session (about 11 min-

utes longer than Nielsen//NetRatings). This is long enough to make up for the greater number of times that Nielsen//NetRatings believes people go on line. In fact, Media Metrix calculates that users spend more time on line per month (an average of about 14 minutes longer) and per year than Nielsen//NetRatings. Media Metrix also calculates a higher number of pageviews than Nielsen//NetRatings on a per session (about 17 more pageviews), per hour (about 12 more pageviews), per month, and per year basis.

Table 82

**Nielsen//NetRatings vs. Media Metrix Usage
(Average Month — September 1999)**

	Nielsen// Ratings	Media Metrix
Days of usage per person, per month	16	12
Days of Usage per Year	192	144
Minutes of Usage		
Minutes of usage per session	28.3	38.5
Minutes of usage per month	450.9	463.3
Minutes of usage per year	5,410.2	5,559.6
Pageviews		
Pageviews per hour	55.4	61.6
Pageviews per session	26.0	39.5
Pageviews per month	409.0	476.0
Pageviews per year	4,908.0	5,293.5

Sources: Nielsen//NetRatings and Media Metrix

Pageviews Pageviews are critical, because they determine the number of ads that a user views during his/her time online. (Of a course, a single page — one pageview — may have several, or no, ads on it. We have assumed an average of two ads per Web page.) For calculating pageviews, we start with the number of pageviews that an average user views in an hour. We then gross this number up to the total number of pageviews in a year. In 1996, we believe that the average user viewed 25 pages per hour. This number jumped about 48% to 37 pages per hour in 1997. In 1998, pageviews per hour climbed about 34% to 50. In 1999, we believe that this increased 21%, to 60 pageviews per hour. Assuming an average of two ads per page, we calculate the number of ads served.

Table 83

U.S. Internet Usage Forecast

(Millions, except where noted)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Hours of Usage per User per Year	61.1	67.7	78.4	94.8	119.2	142.7	164.3	187.7	191.6
% growth		11%	16%	21%	26%	20%	15%	14%	2%
Total Hours of Usage per Year	2,551	3,739	5,606	8,485	12,843	18,562	24,734	31,206	34,779
% growth		47%	50%	51%	51%	45%	33%	26%	11%
Pageviews/Hour of Usage	25.1	37.1	49.7	60.2	65.8	76.3	88.4	92.0	92.0
Pageviews per Year	63,936	138,758	278,771	511,046	844,884	1,415,888	2,187,573	2,870,402	3,199,038
% growth		117%	101%	83%	65%	68%	55%	31%	11%
Ads per Pageview	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Ad Impressions per Year	127,872	277,515	557,542	1,022,092	1,689,768	2,831,776	4,375,146	5,740,804	6,398,076

E = Morgan Stanley Dean Witter Estimates

Pricing — Effective CPM

We differentiate between the *list price CPM* (cost per thousand impressions) and the *effective price CPM* on the Internet. Most sites start with a list price CPM, which advertisers barter downward before reaching the effective CPM. We arrive at an estimate for effective CPMs (hereafter referred to simply as the CPM) through two methods. The first is based on the number of ads served, the other on 0:30 spots. When discussing CPMs on the Internet, it is important to remember that Internet CPMs represent the average pricing of all sites on the Web. *Unlike broadcast television, or even weekly news magazines, that have a very limited advertising inventory, the Internet effective CPM covers all sites on the Web generating advertising revenue.*

Pageview CPM. We arrive at an estimate for our preferred metric, the pageview CPM, by taking the total amount of Internet advertising revenues generated and dividing this by the number of ad impressions (or, more accurately, by thousands of ad impressions) served. For this analysis, we have

assumed that an average of two ads are located on each page. The pageview CPM gives the amount that an advertiser spends to generate 1,000 views of an advertisement. In 1996, we estimate that the effective CPM was \$2.35. In 1997, the CPM grew about 29% to \$3.04. In 1998, CPMs increased by about 6%, to \$3.23. In 1999, we estimate that a lift of 21% to \$3.90 occurred. In 2000, we expect CPMs to remain flat at \$3.90.

0:30 spot CPM Another way of looking at CPMs — which is more akin to the television model — is by breaking Internet advertisements into 0:30 commercials. When conducting this analysis, the Internet CPM declines even further from its list price. In 1996, we estimate that a 0:30 spot CPM was \$0.98. This means that advertisers paid just over a dollar to reach 1,000 Internet users for thirty seconds each. In 1997, the spot CPM rose an estimated 98% to \$1.88. In 1998, we estimate this climbed another 42% to \$2.68. We estimate the spot CPM climbed 46% to \$3.91 in 1999. In 2000 and 2001, we expect 10% and 16% growth, respectively, with pricing of \$3.91 and \$4.28.

Table 84

U.S. Internet CPM Forecast

(Millions, except where noted)	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Per 1,000 Ad Impressions									
Effective Internet CPM	\$2.35	\$3.04	\$3.23	\$3.90	\$3.90	\$3.93	\$4.01	\$4.13	\$4.26
% change		29%	6%	21%	0%	1%	2%	3%	3%
Per 1,000: 30 second "spots"									
Effective Internet CPM	\$0.98	\$1.88	\$2.68	\$3.91	\$4.28	\$4.98	\$5.93	\$6.33	\$6.52
% change		91%	42%	46%	10%	16%	19%	7%	3%

E = Morgan Stanley Dean Witter Estimates

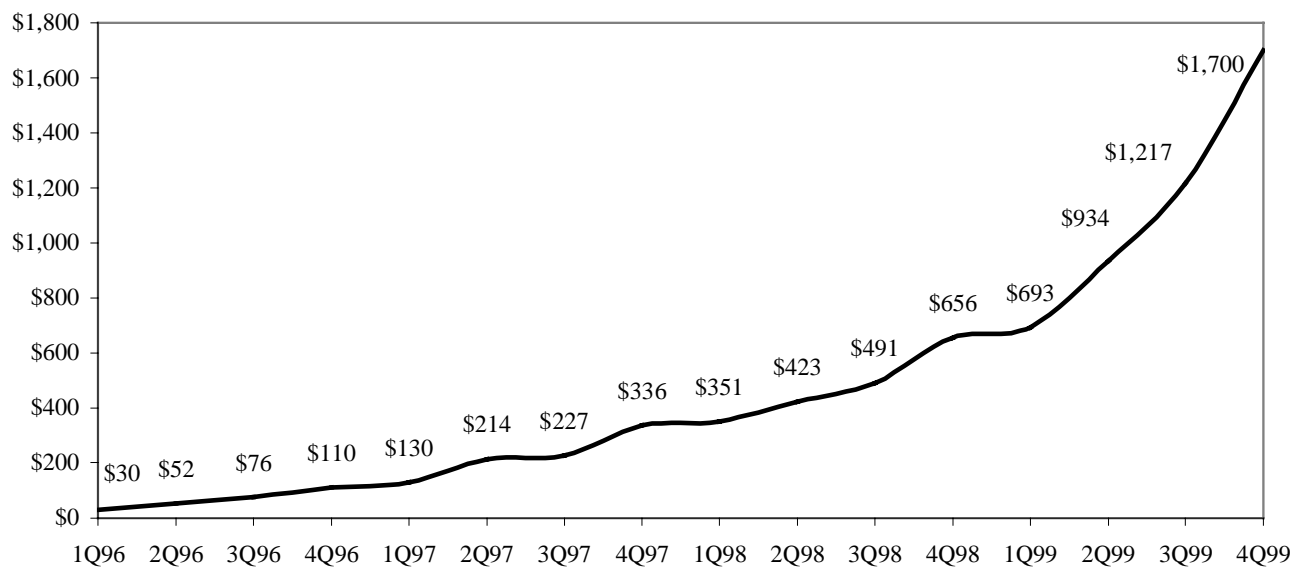
Table 85

U.S. Internet Advertising Forecast

<i>(Millions, except where noted)</i>	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Internet Advertising Revenues - eMarketer		650.0	1,667.0	3,095.0	4,820.0	7,509.0	10,171.0	13,292.0	
Internet Advertising Revenues - Jupiter	301.0	940.0	2,100.0	3,200.0	4,700.0	6,500.0	8,800.0	11,500.0	
Internet Advertising Revenues - Forrester		550.0	1,300.0	2,800.0	5,400.0	8,700.0	12,600.0	17,200.0	22,200.0
Internet Advertising Revenues - IAB		842.6	1,800.0	3,982.0	5,369.0	8,193.0	12,196.0	17,871.0	
Internet Advertising Revenues - MSDW	301.0	940.0	1,800.0	3,982.0	6,600.0	11,100.0	17,600.0	23,700.0	27,200.0
Total Internet Advertising	301.0	842.6	1,800.0	3,982.0	6,600.0	11,100.0	17,600.0	23,700.0	27,200.0
% growth	447%	180%	114%	121%	66%	68%	59%	35%	15%

Sources: Morgan Stanley Dean Witter Equity Research and Company Data

Figure 35

Internet Advertising Revenues

Source: Internet Advertising Bureau

Background: Traditional Advertising & Marketing Services

KEY POINTS:

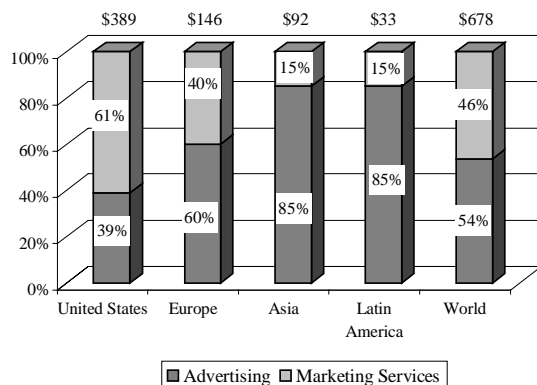
- The traditional advertising and marketing services market is enormous. In the U.S., we estimate that advertising and marketing spending reached nearly \$389 billion in 1999, and we expect \$420 billion in 2000.
- The U.S. represents about 42% of the \$363 billion global advertising budget and 76% of the \$315 billion global marketing services budget. Combining advertising & marketing services, the U.S. represents 57% of the \$678 billion market we forecast for 2000.
- In the U.S. in 2000, we expect 8.3% growth in advertising and 7.8% growth in marketing services, for a total of 8.0%, up 70 basis points from 1999E. Globally in 2000, we expect advertising growth of 7.6%, up 140 basis points from 1999.

Advertising & Marketing Services: A Big Market

The traditional advertising, direct marketing, and other marketing services sectors represent a large global market of \$678 billion of gross media spending. Developed media markets tend to demand more in marketing services — “below the line” alternatives to traditional media advertising. Marketing services include non-media direct marketing, promotions, public relations, and other specialty communications.

Figure 36

Global Advertising & Marketing Services (2000E \$ Billions)



Source: Morgan Stanley Dean Witter Research

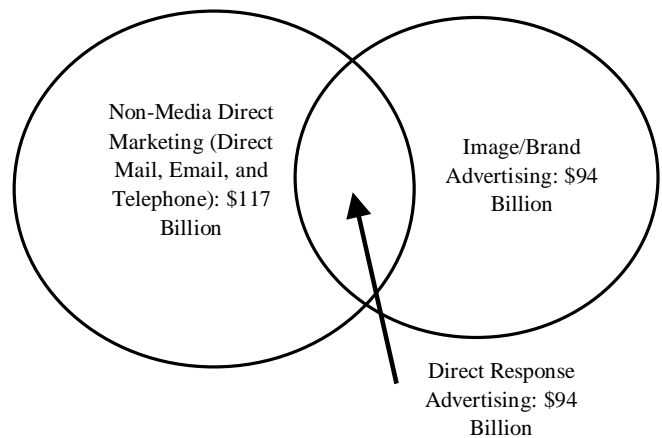
Advertising vs. Direct Marketing: Distinct Yet Blurred

In the offline world, advertising and direct marketing overlap, but can be differentiated from retail sales. A television commercial that shows a fancy SUV driving through pristine wilderness is termed advertising — the consumer is expected to associate the advertiser’s brand with the SUV and the beautiful scenery viewed on television. A television commercial for a magazine subscription that is 50% off the cover price and offers a free video and an 800 phone number as a call to action is termed direct marketing. The consumer is driven to respond by the video and phone number.

The following diagram demonstrates the overlap and size of direct marketing with advertising in the U.S..

Figure 37

Direct Marketing Overlap with Advertising (2000E)



Source: Direct Marketing Association, McCann Erickson and Morgan Stanley Dean Witter Equity Research

We expect the direct marketing budget in the U.S. to be \$187 billion in 2000. Direct marketing will likely represent 40% of all TV advertising, 56% for magazines, 37% for newspapers, and 40% for radio.

Direct mail and telemarketing have been considered non-media direct marketing outside of the traditional media. In 2000 we expect this to represent spending of \$117 billion in the U.S.

Table 86

U.S. Advertising & Marketing Services Forecast — Media Breakdown

(\$ millions)	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E	2003E	2004E
Television											
Network (Big Four)	10,942	11,600	13,081	13,019	13,930	14,477	15,526	15,837	16,814	17,529	18,828
Syndication	1,734	2,016	2,218	2,437	2,635	2,793	3,003	3,078	3,051	3,189	3,440
Spot (National)	8,993	9,119	9,803	10,000	10,620	10,620	11,576	11,807	12,164	12,474	12,932
Spot (Local)	9,464	9,985	10,944	11,436	12,295	12,541	13,481	13,751	14,411	15,107	15,955
Cable (National)	3,052	3,535	4,472	5,456	6,165	6,936	7,976	8,798	9,868	10,993	12,017
Cable (Local)	1,250	1,573	1,966	2,172	2,454	2,761	3,175	3,601	3,981	4,376	4,859
Total Television	35,435	37,828	42,484	44,520	48,099	50,128	54,737	56,872	60,288	63,667	68,031
Growth	11.8%	6.8%	12.3%	4.8%	8.0%	4.2%	9.2%	3.9%	6.0%	5.6%	6.9%
Radio											
Network	463	480	523	560	610	702	793	849	855	902	952
Spot	1,902	1,959	2,135	2,455	2,675	3,022	3,355	3,623	3,703	3,915	4,138
Local	8,164	8,899	9,611	10,476	11,419	12,504	13,591	14,679	15,876	16,986	18,174
Total Radio	10,529	11,338	12,269	13,491	14,704	16,228	17,739	19,151	20,434	21,803	23,265
Growth	11.3%	7.7%	8.2%	10.0%	9.0%	10.4%	9.3%	8.0%	6.7%	6.7%	6.7%
Newspapers											
National	3,906	3,996	4,400	5,016	5,415	6,065	6,284	6,436	6,589	6,746	6,907
Local + Classified	30,450	32,321	34,002	36,654	38,855	41,186	42,952	44,277	45,632	47,029	48,468
Total Newspapers	34,356	36,317	38,402	41,670	44,270	47,251	49,236	50,713	52,222	53,775	55,375
Growth	7.3%	5.7%	5.7%	8.5%	6.2%	6.7%	4.2%	3.0%	3.0%	3.0%	3.0%
Magazines											
Weeklies	3,140	3,347	3,581	3,850	4,081	4,349	4,567	4,757	4,956	5,104	5,255
Women's	2,106	2,236	2,303	2,576	2,707	2,813	2,953	3,077	3,205	3,301	3,399
Monthlies	2,670	2,997	3,126	3,395	3,572	3,768	3,956	4,122	4,294	4,422	4,553
Total Magazines	7,916	8,580	9,010	9,821	10,360	10,930	11,476	11,956	12,455	12,826	13,207
Growth	7.6%	8.4%	5.0%	9.0%	5.5%	5.5%	5.0%	4.2%	4.2%	3.0%	3.0%
Farm Publications	262	283	297	325	343	362	380	396	412	424	437
Growth	7.8%	8.0%	4.9%	9.4%	5.5%	5.5%	5.0%	4.2%	4.2%	3.0%	3.0%
Business Publications	3,358	3,559	3,808	4,109	4,540	4,949	5,246	5,561	5,894	6,189	6,437
Growth	3.0%	6.0%	7.0%	7.9%	10.5%	9.0%	6.0%	6.0%	6.0%	5.0%	4.0%
Outdoor											
National	939	1,017	1,089	1,167	1,261	1,374	1,470	1,573	1,683	1,801	1,927
Local	752	815	874	968	1,046	1,120	1,221	1,306	1,397	1,495	1,600
Billboard	1,691	1,832	1,963	2,135	2,307	2,468	2,691	2,879	3,081	3,296	3,527
Other Outdoor (National)	1,516	1,651	1,798	1,956	2,113	2,261	2,464	2,637	2,821	3,019	3,230
Total Outdoor	3,207	3,483	3,761	4,091	4,420	4,729	5,155	5,516	5,902	6,315	6,757
Growth	8.4%	8.6%	8.0%	8.8%	8.0%	7.0%	9.0%	7.0%	7.0%	7.0%	7.0%
Yellow Pages											
National	1,314	1,410	1,555	1,711	1,850	2,039	2,141	2,248	2,360	2,478	2,406
Local	8,511	8,826	9,294	9,712	10,140	10,647	11,169	11,615	12,080	12,563	13,237
Total Yellow Pages	9,825	10,236	10,849	11,423	11,990	12,686	13,309	13,863	14,440	15,041	15,643
Growth	3.2%	4.2%	6.0%	5.3%	5.0%	5.8%	4.9%	4.2%	4.2%	4.2%	4.0%
Internet Advertising	NM	55	301	843	1,800	3,982	6,600	11,100	17,600	23,700	27,200
Growth	NM	NM	447.3%	179.9%	113.6%	121.2%	65.7%	68.2%	58.6%	34.7%	14.8%
National Total U.S.	46,297	49,260	54,490	58,874	64,317	70,511	78,290	85,897	96,270	106,185	114,059
Growth	9.6%	6.4%	10.6%	8.0%	9.2%	9.6%	11.0%	9.7%	12.1%	10.3%	7.4%
Local Total U.S.	58,591	62,419	66,691	71,419	76,210	80,759	85,589	89,230	93,377	97,556	102,294
Growth	8.0%	6.5%	6.8%	7.1%	6.7%	6.0%	6.0%	4.3%	4.6%	4.5%	4.9%
TOTAL U.S. ADVERTISING	104,888	111,679	121,181	130,293	140,526	151,269	163,879	175,127	189,647	203,741	216,352
Growth	8.7%	6.5%	8.5%	7.5%	7.9%	7.6%	8.3%	6.9%	8.3%	7.4%	6.2%
TOTAL U.S. MKT SERVICES	166,888	178,972	189,697	206,768	221,835	237,668	256,250	274,148	293,202	313,334	334,763
Growth	NA	7.2%	6.0%	9.0%	7.3%	7.1%	7.8%	7.0%	7.0%	6.9%	6.8%
TOTAL U.S. BUDGET	271,776	290,650	310,878	337,061	362,361	388,938	420,129	449,274	482,848	517,075	551,115
Growth	NA	6.9%	7.0%	8.4%	7.5%	7.3%	8.0%	6.9%	7.5%	7.1%	6.6%

Sources: McCann-Erickson, Wilkofsky Gruen, Jupiter Communications, Outdoor Advertising Association of America, Morgan Stanley Dean Witter

Table 87

U.S. Advertising & Marketing Services Forecast — Marketing Services Breakdown

(\$ millions)	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E	2003E	2004E
Media advertising	104,888	111,679	121,181	130,293	140,526	151,269	163,879	175,127	189,647	203,741	216,352
% growth	8.7%	6.5%	8.5%	7.5%	7.9%	7.6%	8.3%	6.9%	8.3%	7.4%	6.2%
Direct E-Mail	0	0	0	0	17	97	289	751	1,322	1,994	2,800
% growth	NA	NA	NA	NA	NA	NA	197.9%	159.9%	76.0%	50.8%	40.4%
Direct Mail	29,638	32,866	34,509	36,888	39,655	42,233	44,555	47,451	50,536	54,023	57,480
% growth	8.7%	10.9%	5.0%	6.9%	7.5%	6.5%	5.5%	6.5%	6.5%	6.9%	6.4%
Direct Telephone	46,938	50,345	54,000	58,100	62,600	66,982	72,341	77,043	82,050	87,384	93,064
% growth	7.3%	7.3%	7.3%	7.6%	7.7%	7.0%	8.0%	6.5%	6.5%	6.5%	6.5%
Direct Marketing - Non-Media	76,576	83,211	88,509	94,988	102,272	109,312	117,185	125,245	133,908	143,401	153,344
% growth	7.8%	8.7%	6.4%	7.3%	7.7%	6.9%	7.2%	6.9%	6.9%	7.1%	6.9%
Point-of-purchase	11,098	12,024	12,600	13,100	13,703	14,401	15,150	15,999	16,799	17,605	18,450
% growth	8.8%	8.3%	4.8%	4.0%	4.6%	5.1%	5.2%	5.6%	5.0%	4.8%	4.8%
Premiums	4,350	4,400	4,200	4,360	4,500	4,662	4,853	5,052	5,304	5,553	5,814
% growth	1.2%	1.1%	-4.5%	3.8%	3.2%	3.6%	4.1%	4.1%	5.0%	4.7%	4.7%
Promotional licensing	4,900	4,850	4,990	5,140	5,238	5,400	5,573	5,746	5,895	6,042	6,193
% growth	4.3%	-1.0%	2.9%	3.0%	1.9%	3.1%	3.2%	3.1%	2.6%	2.5%	2.5%
Product sampling	704	774	856	925	1,010	1,120	1,250	1,350	1,450	1,550	1,657
% growth	19.9%	9.9%	10.6%	8.1%	9.2%	10.9%	11.6%	8.0%	7.4%	6.9%	6.9%
In-store marketing	829	990	652	748	800	860	901	931	975	1,036	1,100
% growth	12.0%	19.4%	-34.1%	14.7%	7.0%	7.5%	4.7%	3.3%	4.8%	6.2%	6.2%
Couponing	6,017.9	6,076.5	6,040.0	6,240.0	6,260.7	6,316.7	6,360.4	6,419.4	6,494.5	6,579.7	6,691.6
% growth		1.0%	-0.6%	3.3%	0.3%	0.9%	0.7%	0.9%	1.2%	1.3%	1.7%
Specialty Printing	5,336.4	5,283.0	5,600.0	5,300.0	5,287.9	5,275.9	5,263.9	5,251.9	5,239.9	5,228.0	5,216.1
% growth		-1.0%	6.0%	0.0%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Promotional Fulfillment	2,128.9	2,109.7	2,500.0	2,860.0	3,155.8	3,450.6	3,738.4	4,012.9	4,307.5	4,623.7	4,963.2
% growth		-0.9%	18.5%	14.5%	10.3%	9.3%	8.3%	7.3%	7.3%	7.3%	7.3%
Consumer Promotion	35,364	36,507	37,438	38,673	39,955	41,487	43,089	44,761	46,465	48,218	50,086
% growth	0.5%	3.2%	2.5%	3.3%	3.3%	3.8%	3.9%	3.9%	3.8%	3.8%	3.9%
Incentives	15,650	16,400	16,300	19,740	20,806	22,408	24,313	26,015	27,914	29,812	31,839
% growth	3.0%	4.8%	-0.6%	21.1%	5.4%	7.7%	8.5%	7.0%	7.3%	6.8%	6.8%
Promotional products	7,008	8,037	9,490	11,900	13,197	14,992	17,496	19,403	20,897	22,297	23,791
% growth	11.0%	14.7%	18.1%	25.4%	10.9%	13.6%	16.7%	10.9%	7.7%	6.7%	6.7%
Business-to-Business Promotion	22,658	24,437	25,790	31,640	34,003	37,400	41,808	45,417	48,810	52,108	55,629
% growth	5.3%	7.9%	5.5%	22.7%	7.5%	10.0%	11.8%	8.6%	7.5%	6.8%	6.8%
Promotions	58,022	60,944	63,228	70,313	73,958	78,887	84,898	90,178	95,275	100,326	105,715
% growth	2.3%	5.0%	3.7%	11.2%	5.2%	6.7%	7.6%	6.2%	5.7%	5.3%	5.4%
Event Sponsorships	4,250	4,700	5,400	5,900	6,756	7,350	8,247	9,038	10,331	11,571	12,959
% growth	14.9%	10.6%	14.9%	9.3%	14.5%	8.8%	12.2%	9.6%	14.3%	12.0%	12.0%
Trade Shows & Exhibitions	5,133	5,895	6,479	7,182	7,958	8,769	9,752	10,668	11,628	12,803	14,096
% growth	13.4%	14.8%	9.9%	10.9%	10.8%	10.2%	11.2%	9.4%	9.0%	10.1%	10.1%
Business Information - Marketing	9,407	10,021	10,881	11,785	12,692	13,695	14,941	16,091	17,298	18,492	19,768
% growth	4.5%	6.5%	8.6%	8.3%	7.7%	7.9%	9.1%	7.7%	7.5%	6.9%	6.9%
Public Relations	13,500	14,200	15,200	16,600	18,200	19,656	21,228	22,927	24,761	26,742	28,881
% growth		5.2%	7.0%	9.2%	9.6%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
TOTAL MARKETING SERVICES	166,888	178,972	189,697	206,768	221,835	237,668	256,250	274,148	293,202	313,334	334,763
% growth	NA	7.2%	6.0%	9.0%	7.3%	7.1%	7.8%	7.0%	7.0%	6.9%	6.8%
TOTAL MARKETING BUDGET	271,776	290,650	310,878	337,061	362,361	388,938	420,129	449,274	482,848	517,075	551,115
% growth	NA	6.9%	7.0%	8.4%	7.5%	7.3%	8.0%	6.9%	7.5%	7.1%	6.6%

Sources: McCann-Erickson, Wilkofsky Gruen, Jupiter Communications, Outdoor Advertising Association of America, Morgan Stanley Dean Witter

Table 88

U.S. Traditional Direct Marketing Market

<i>(Billions of Dollars)</i>	1994	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
Non-Media Types											
Direct Mail	29.7	32.8	34.5	37.0	39.3	42.2	44.6	47.5	50.5	54.0	57.5
Telephone Marketing	46.7	50.3	54.0	58.1	62.0	67.0	72.3	77.0	82.1	87.4	93.1
Media Types											
Newspaper	12.2	13.1	13.9	14.9	16.0	17.2	18.1	18.8	19.5	20.1	20.8
Magazine	6.2	6.8	7.2	7.9	8.4	9.0	9.6	10.2	10.8	11.4	12.1
Television	13.0	14.0	16.0	17.2	18.6	19.6	21.7	22.7	24.4	26.1	28.2
Radio	3.8	4.4	4.8	5.3	5.7	6.4	7.0	7.7	8.3	8.9	9.6
Other	9.7	10.5	11.3	12.0	12.7	13.4	14.2	15.1	15.9	16.9	17.8
Total Direct Marketing	121.3	131.9	141.7	152.4	162.7	174.8	187.4	198.9	211.4	224.8	239.1
% Change	8.8%	8.7%	7.4%	7.6%	6.8%	7.4%	7.2%	6.1%	6.3%	6.3%	6.3%
% of Mktng Budget	73%	74%	75%	74%	73%	74%	73%	73%	72%	72%	71%

Sources: Direct Marketing Association, McCann Erickson and Morgan Stanley Equity Research; E = Morgan Stanley Dean Witter Research Estimates

Table 89

Share of Direct Marketing Held by Traditional Media

<i>(Billions of Dollars)</i>	1994	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E
DM as % of Total Advertising	116%	118%	117%	117%	116%	116%	114%	113%	111%	109%	109%
% of Mktng Budget	73%	74%	75%	74%	73%	74%	73%	73%	72%	72%	71%
% share shift	NA	1.0%	1.0%	-1.0%	-0.4%	0.2%	-0.4%	-0.6%	-0.5%	-0.4%	-0.3%
Newspaper	35.5%	36.1%	36.2%	35.8%	36.1%	36.4%	36.6%	36.8%	37.0%	37.1%	37.3%
% share shift	0.2%	0.6%	0.1%	-0.4%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Magazine	53.7%	54.7%	54.9%	55.4%	55.1%	55.4%	55.7%	56.0%	56.4%	56.7%	56.9%
% share shift	0.3%	1.0%	0.2%	0.5%	-0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
Television	36.7%	37.0%	37.7%	38.6%	38.7%	39.1%	39.6%	40.0%	40.5%	40.9%	41.4%
% share shift	0.4%	0.3%	0.7%	1.0%	0.0%	0.5%	0.4%	0.4%	0.5%	0.5%	0.5%
Radio	36.1%	38.8%	39.1%	39.3%	38.8%	39.2%	39.5%	40.0%	40.5%	41.0%	41.3%
% share shift	0.1%	2.7%	0.3%	0.2%	-0.5%	0.4%	0.3%	0.5%	0.5%	0.5%	0.3%

Sources: Direct Marketing Association, McCann Erickson and Morgan Stanley Equity Research; E = Morgan Stanley Dean Witter Research Estimates

The Internet Holdings of “Traditional” Advertising Agencies

Table 90

Interpublic Group Internet Holdings

<u>Consolidated Operations</u>	<u>Ownership</u>
Zentropy	> 80%
C-E Interactive	100%
Creatid	100%
Decipher	100%
Draft Data and Tech Service	100%
Head New Media	100%
Hypermedia Solutions	100%
ISD	100%
Jack Morton Interactive Media Group	100%
Lowé Lintas Interactive	100%
Martin Interactive	100%
Western Media New Media	100%
<u>Internet Investments</u>	<u>Ownership</u>
21st Century Internet Fund	< 10.0%
Broadband Sports	NA
College Enterprises	NA
E-Ink Corp.	< 5.0%
Interlane	< 10.0%
Replay TV	NA
Sky Alland	NA
StarVest Partners	NA
<u>Internet Stock Holdings</u>	<u>Ticker</u> <u>Ownership</u>
AGT	AGTX < 0.5%
Alliance Communications / Atlantis	AAC'A < 5.0%
America Online	AOL < 0.1%
CMGI	CMGI < 0.1%
Engage	ENGA < 0.1%
Icon Medialab	ICONF 16.5%
Mediaplex	MPLX < 0.2%
Whittman-Hart	WHIT < 1.0%
Yahoo! warrant	YHOO < 0.1%

Source: Company Data

Table 91

Omnicom Internet Holdings

<u>Consolidated Operations</u>	<u>Ownership</u>
@tmosphere	100%
CareerMosaic	100%
DDB Digital	100%
Ross Roy Communications	100%
<u>Unconsolidated Investments</u>	<u>Ticker</u> <u>Ownership</u>
Agency.com	ACOM 53%
AnswerThink	ANSR 2%
Atmosphere Interactive	
Brand Wired	
Career Mosaic	
Critical Mass	
Dash.com	
DDB Digital	
G-CME	
L-90	LNTY 2%
Live Tech	
Nuforia	
Organic Online	OGNC 93%
Post	
PromoCity	
Rapp Digital	
Razorfish	RAZF 18%
Recruit Soft	
Red Sky Interactive	
Replay TV	
World Media Leaders	

Source: Company Data

Table 92

True North Internet Holdings

<u>Consolidated Operations</u>	<u>Ticker</u>	<u>Ownership</u>
ModemMedia	MMPT	46%
60-Foot Spider		100
R/GA Interactive		100%
<u>Unconsolidated Investments</u>	<u>Ticker</u>	<u>Ownership</u>
DoubleClick	DCLK	< 1%
International PR		5%

Source: Company Data

Table 93

WPP Internet Holdings

<u>Consolidated Operations</u>	<u>Ownership</u>
Cole and Weber	100%
JWT Digital	100%
Ogilvy Interactive	100%

<u>Unconsolidated Investments</u>	<u>Ticker</u>	<u>Ownership</u>
Asatsu - Japan		20.0%
Chime Communications - UK		29.9%
High Co. - Europe		29.9%
Newsedge - US	NEWZ	0.1%
Singleton - Europe		11.0%
Tempus - UK		18.1%

<u>Internet Stock Holdings</u>	<u>Ticker</u>	<u>Ownership</u>
Concept		15-20%
E-Rewards		15-20%
Intraspect		5-10%
Lycos	LCOS	< 1%
Media / Netforce		35-40%
MTEP Funds		5-10%
MTV		5-10%
MTV III		5-10%
Newsedge	NEWZ	5-10%
Syzygy / United		35-40%
TWI Interactive		15-20%
Visible World		5-10%

Source: Company Data

Table 94

Young & Rubicam Internet Holdings

<u>Unconsolidated Investments</u>	<u>Ticker</u>	<u>Ownership</u>
Cyber Dialogue		12.5%
Digital Convergence		6.5%
Emotion		14.8%
Harris Interactive		5.0%
iWeb		19.0%
Luminant	LUMT	22.0%
Mediaplex	MPLX	1.0%
Naviant		5.5%
Streampipe		28.0%
Team Holdings		25.0%

Source: Company Data

Appendix 1: Slide Presentation

MORGAN STANLEY DEAN WITTER 

Internet Direct Marketing & Advertising Services

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MORGAN STANLEY DEAN WITTER

Web's slice of U.S. ad supply is small but growing

Year	Total Ad Supply	Internet	Other Media Advertising
1999E	\$151 Billion	\$4.0 Billion (3%)	\$147 Billion (97%)
2005E	\$233 Billion	\$32 Billion (13%)	\$201 Billion (87%)

MORGAN STANLEY DEAN WITTER 22 Michael.Russell@msdw.com 212-761-6352

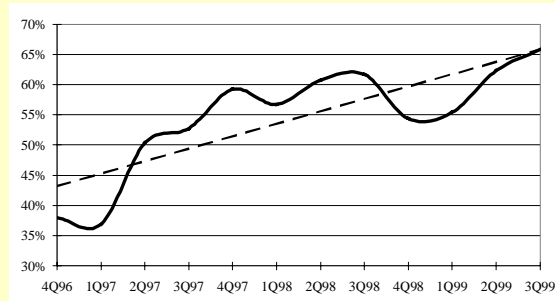
MSDW Web Ad & E-mail Forecast

(\$ Billions)	1999	2000E	2001E	2005E	2010E
E-Advertising	\$4.0	\$6.6	\$11.1	\$31	\$47
Direct E-Mail	\$0.1	\$0.3	\$0.8	\$4	\$11

E = Morgan Stanley Dean Witter Estimates

Smaller Sites are Gaining

- **Non - AOL and Yahoo! sites continue to gain advertising share from AOL and Yahoo!**



Pricing:

**List price Internet CPM
may decline...
...but we expect the
*effective CPM** to rise.**

*The effective CPM assumes all advertising is sold

MORGAN STANLEY DEAN WITTER

CPM: List Price vs. Effective Price

- **List Price CPM: \$20-40 (20% sellout)**

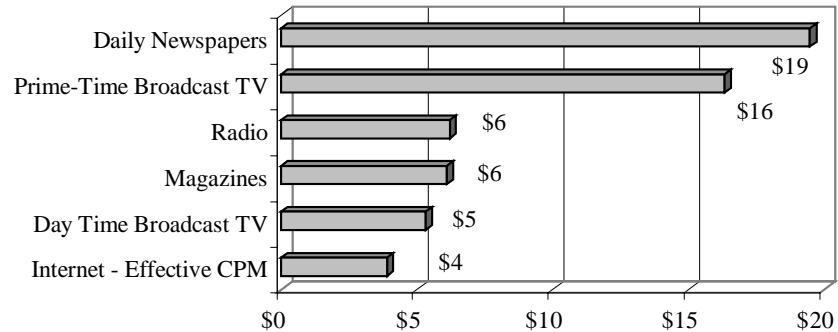
- **Effective Internet CPM: \$4 (100% sellout)**

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Comparing CPMs Across Media, the Net Looks Like a Good Buy

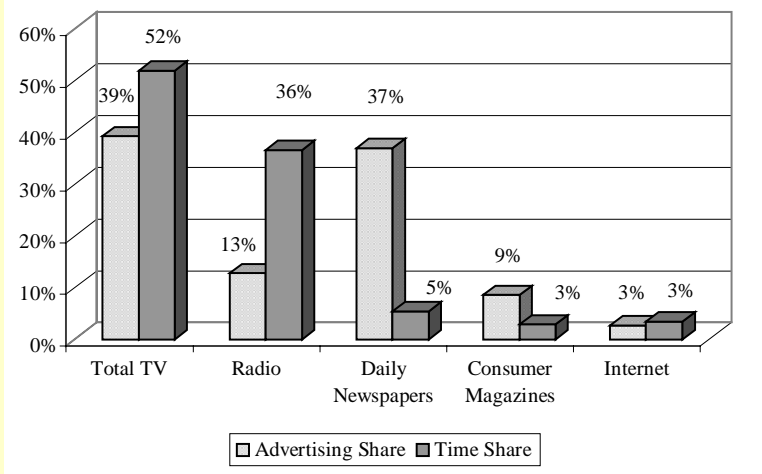


Source: Morgan Stanley Dean Witter Equity Research

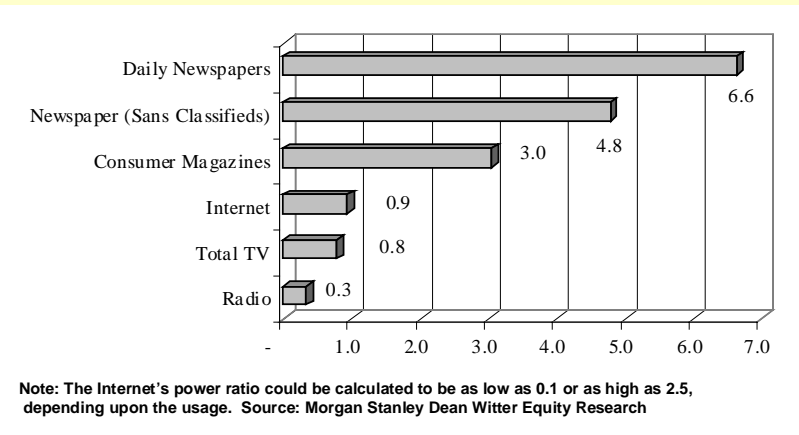
The Power Ratio:

Share of media usage will determine the winners and losers.

Commercial Media Market Share vs. Time Share



Compare the 1999 Power Ratios: The Web Should Take from Print



This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities mentioned. Please refer to the notes at the end of this report.

The Internet's Power Ratio Shows Potential Upside in Pricing

- **The Internet has a power ratio of 0.9, by our calculations**
- **Mathematically, the Internet accounts for 3.1% of total advertising and 3.3% of total media consumption
(0.9 = 3.1/3.3)**
- **This power ratio implies that the Internet has a slightly greater proportion of total media usage than of total ad spending.**

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Direct E-Marketing

- **Direct e-mail is similar in size as e-advertising in 1996**
- **About 7% of Internet advertising from direct response**
- **Direct e-marketing likely to exceed advertising on the Internet - already does in offline world**

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In the US, direct E-mail is where e-advertising was 4 years ago

U.S. (millions)	'96	'97	'98	'99	'00E
Internet Advertising	301	843	1,800	3,982	6,600
Direct e-mail			17	97	289

Internet Direct Marketing & Advertising Services

Industry Concerns

Industry Concerns

- **Declining click-throughs cause more imagined than actual concern**
 - **Other metrics like CPM/CPO/CPA are more important**
- **Ad-blocking software and cookie cutters would be worrisome developments ... if anyone used them**
- **Privacy concerns are real and global**

Picking The Winners...

...and avoiding the Losers

Integrated, Global and Sensitive: Good Policy for More Share

Good companies offer:

- **Integrated direct marketing & advertising services**
- **Global access to mass targeting vehicles**
- **Sensitivity to privacy concerns of netizens & gov't**



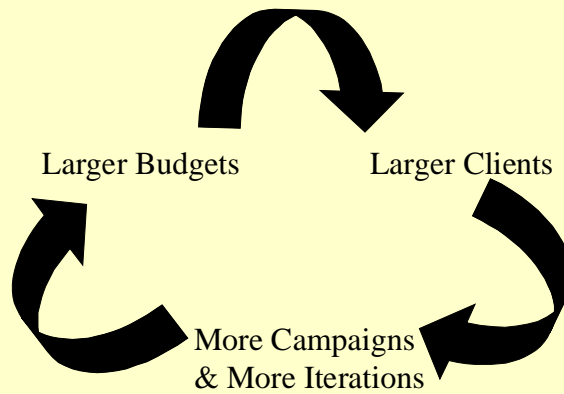
**More market share:
Gross margin power from network effect
on pricing and cost control**

The Key Asset: The Largest, Fastest Growing Knowledgebase

The key asset at good companies is a leverageable asset we call the “knowledgebase”

- **Database:**
An early lead in size & quality will widen over time
- **Salesforce:**
Quality and quantity are key
- **Clients:**
Associating with winning clients is critical and good for long-term business

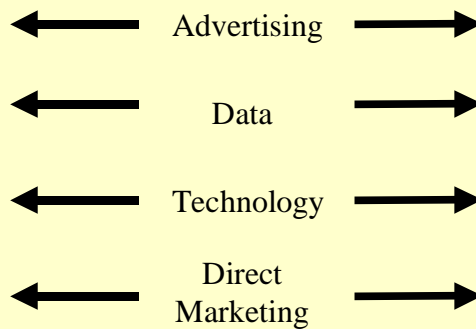
ROI Obsession Drives Knowledgebase & Self-Fulfills



Competitive Landscape

Buy Side

Sell Side



Appendix 2: Internet Advertising Data

Table 95

Top Internet Advertisers for Home Users — March 2000

Rank	Advertiser	Impressions	ClickRate	Rank	Unique Audience	Reach %	Rank
1	TRUSTe	2,816,220,070	<<	<<	33,087,541	40.53	4
2	Amazon	726,630,619	0.16	1017	41,903,808	51.33	1
3	Yahoo!	660,936,339	0.14	1057	29,145,697	35.7	5
4	America Online	562,334,740	0.18	971	37,987,552	46.53	2
5	Microsoft	430,567,109	0.19	957	35,885,794	43.96	3
6	Next Card	363,417,681	0.06	1290	26,157,993	32.04	7
7	SexTracker	354,674,266	0.22	908	8,607,707	10.54	71
8	Barnes and Noble	288,387,680	0.35	735	26,383,410	32.32	6
9	ClassMates	272,244,099	0.05	1309	13,329,514	16.33	32
10	Netscape	265,989,537	0.12	1108	25,401,081	31.11	8
11	Ad Council	253,481,523	0.04	1354	14,080,732	17.25	29
12	Datek	240,092,287	0.06	1271	7,592,074	9.3	88
13	GetSmart	240,070,196	0.03	1379	19,406,380	23.77	13
14	eBay	217,411,837	0.1	1160	20,580,265	25.21	12
15	WebSideStory	216,001,228	0.36	717	15,730,076	19.27	23
16	Network Solutions	214,467,244	0.03	1387	24,835,582	30.42	9
17	AllAdvantage	208,512,367	<<	<<	9,612,651	11.77	55
18	E*TRADE	200,147,795	0.14	1052	16,610,090	20.35	19
19	AT and T	192,743,122	<<	<<	22,664,205	27.76	11
20	Fidelity	178,353,210	<<	<<	7,717,041	9.45	83
21	Morgan Stanley Dean Wit	177,413,406	0.01	1421	3,384,940	4.15	263
22	Ameritrade	172,724,630	0.08	1201	16,484,618	20.19	20
23	Casino On Net	170,508,330	0.13	1070	16,743,184	20.51	18
24	National Discount Broker:	163,252,983	<<	<<	3,947,841	4.84	216
25	uBid	146,022,497	0.11	1112	24,628,052	30.17	10
26	Homestore	143,995,308	0.05	1327	3,222,178	3.95	277
27	Snap	142,075,092	0.2	946	9,268,501	11.35	59
28	ShopNow	130,895,186	0.03	1376	12,613,981	15.45	35
29	SexSwap	126,327,423	0.02	1404	3,876,710	4.75	220
30	CDNOW	123,536,811	0.11	1132	16,993,225	20.82	17
31	Better Business Bureau	122,704,997	0.01	1426	15,271,507	18.71	25
32	FreeShop	117,659,181	0.19	952	15,595,980	19.1	24
33	AltaVista	114,819,974	0.23	893	15,793,484	19.35	21
34	Lycos	114,097,356	0.05	1330	12,097,316	14.82	42
35	Excite	112,851,065	0.07	1257	10,218,235	12.52	52
36	Enews	111,808,003	0.01	1420	13,583,805	16.64	31
37	APB Online	105,893,128	0.17	984	10,971,465	13.44	44
38	FreeLotto	102,112,453	0.2	942	9,161,912	11.22	62
39	WebMD	100,877,896	0.14	1054	17,035,570	20.87	16
40	The Sports Authority	100,456,987	<<	<<	15,064,924	18.45	26
41	ZDNet	98,246,028	0.24	869	9,047,644	11.08	64
42	Masters Institute	97,632,688	0.07	1238	9,616,155	11.78	54
43	Uproar	96,478,391	0.51	590	17,371,590	21.28	14
44	Mail.com	95,163,166	<<	<<	5,681,758	6.96	130
45	RJB Telcom	95,141,138	0.75	469	6,482,153	7.94	111
46	OnHealth	94,077,278	0.22	909	17,072,341	20.91	15
47	DealTime	93,302,171	0.04	1338	9,455,587	11.58	56
48	Essentials	90,710,065	0.01	1424	2,997,614	3.67	300
49	InterClick	90,652,695	0.34	738	4,901,677	6	163
50	SmartAge	88,546,051	0.01	1417	5,584,420	6.84	133

Source: Nielsen/NetRatings

Table 96

Top Internet Advertisers for Work Users — March 2000

Rank	Advertiser	Impressions	ClickRate	Ranks	Unique Audience	Reach %	Rank
1	TRUSTe	2,641,057,251	<<	<<	18,764,200	59.93	3
2	Yahoo!	536,861,260	0.15	398	15,404,781	49.2	5
3	Amazon	501,474,456	0.14	409	21,063,551	67.27	1
4	Datek	368,944,804	0.03	550	6,876,255	21.96	47
5	Microsoft	355,456,746	0.15	394	20,321,356	64.9	2
6	ClassMates	285,457,045	0.03	546	8,445,614	26.97	32
7	America Online	264,497,901	0.13	415	17,411,369	55.61	4
8	Next Card	261,849,475	0.06	506	14,775,200	47.19	7
9	Fidelity	243,930,377	<<	<<	6,700,125	21.4	49
10	GetSmart	233,524,047	0.01	594	12,863,344	41.08	9
11	AllAdvantage	231,615,904	0.06	491	6,124,683	19.56	55
12	E*TRADE	224,870,100	0.11	429	11,733,369	37.47	14
13	Morgan Stanley Dean Wit	219,915,617	0.01	583	2,880,135	9.2	176
14	Netscape	216,002,649	0.17	382	15,366,376	49.08	6
15	Barnes and Noble	207,146,450	0.11	437	11,969,864	38.23	13
16	Ad Council	200,362,305	<<	<<	8,842,632	28.24	30
17	Ameritrade	181,446,841	0.09	451	12,614,300	40.29	10
18	Network Solutions	158,933,260	0.03	549	14,623,546	46.7	8
19	National Discount Broker:	136,577,756	<<	<<	3,842,711	12.27	120
20	AT and T	125,828,325	<<	<<	12,259,818	39.16	12
21	Mail.com	121,687,455	0.01	587	4,664,266	14.9	86
22	DealTime	118,135,826	<<	<<	5,223,234	16.68	72
23	eBay	117,867,532	0.07	488	10,313,681	32.94	18
24	Intuit	109,238,886	0.41	246	9,321,643	29.77	24
25	APB Online	107,686,931	0.21	352	7,060,575	22.55	43
26	Better Business Bureau	102,704,453	0.03	557	10,706,531	34.19	16
27	uBid	102,560,664	0.04	538	12,347,341	39.43	11
28	FreeShop	100,202,494	0.13	422	10,265,999	32.79	19
29	TD Waterhouse	100,153,335	0.09	464	4,110,950	13.13	106
30	AltaVista	99,723,931	0.23	338	9,068,930	28.96	29
31	Weather Channel	97,503,912	0.1	446	5,197,974	16.6	73
32	WebSideStory	96,101,633	0.45	233	7,758,291	24.78	38
33	SexTracker	94,812,848	0.24	328	2,916,104	9.31	171
34	FreeLotto	93,886,663	0.09	471	6,696,071	21.39	50
35	ESPN	88,142,765	0.04	527	3,192,716	10.2	146
36	The Sports Authority	87,651,405	<<	<<	9,316,728	29.76	25
37	OnHealth	85,181,050	0.08	480	11,263,344	35.97	15
38	Casino On Net	84,472,151	0.2	356	10,045,840	32.08	21
39	ShopNow	83,387,197	0.13	423	7,127,178	22.76	41
40	Essentials	83,169,464	<<	<<	1,970,972	6.29	266
41	Homestore	81,007,658	0.02	565	2,080,446	6.64	251
42	WebMD	79,105,555	0.27	307	10,220,451	32.64	20
43	SmartAge	79,088,036	0.06	504	3,586,785	11.46	130
44	Snap	78,543,302	0.09	463	5,236,264	16.72	71
45	Excite	77,658,222	0.01	580	6,136,150	19.6	54
46	CDNOW	77,179,837	0.17	386	9,261,038	29.58	27
47	Enews	76,632,525	0.09	459	7,652,444	24.44	39
48	Doubleday	75,240,566	0.09	457	4,289,025	13.7	96
49	ZDNet	73,389,483	0.18	377	6,450,686	20.6	51
50	Travelscape	73,150,685	0.06	505	8,235,391	26.3	34

Source: Nielsen/NetRatings

Table 97

Top Internet Advertising Locations for Home Users — March 2000

Rank	Domain	Impressions	ClickRate	Unique Audience	Reach %	Rank	# of Banners
1	yahoo.com	3,378,205,869	0.1	36,919,471	45.22	1	2,428
2	ebay.com	2,590,645,976	<<	9,255,425	11.34	9	206
3	aol.com	1,355,330,627	0.31	28,840,963	35.33	2	1,839
4	go.com	480,113,127	0.18	14,907,580	18.26	4	1,079
5	realtor.com	413,043,078	0.06	1,844,332	2.26	63	483
6	excite.com	408,097,987	0.11	9,777,566	11.98	7	1,132
7	netscape.com	361,992,216	0.2	13,708,181	16.79	5	993
8	snap.com	356,548,965	0.15	6,879,498	8.43	12	572
9	ragingbull.com	341,041,566	0.02	717,238	0.88	210	150
10	freei.net	305,624,346	<<	1,130,905	1.39	121	763
11	iwon.com	302,569,359	0.8	3,914,106	4.79	27	797
12	msn.com	291,707,261	0.24	16,331,522	20	3	1,390
13	gamesville.com	235,942,993	<<	1,309,675	1.6	104	315
14	compuserve.com	229,032,039	0.27	2,135,657	2.62	55	501
15	lycos.com	212,597,986	0.07	10,478,477	12.84	6	785
16	cnet.com	210,163,379	0.17	6,337,397	7.76	15	300
17	infospace.com	195,425,624	0.17	6,198,067	7.59	16	487
18	picpost.com	193,937,420	0.07	876,018	1.07	173	99
19	altavista.com	185,050,729	0.14	9,276,466	11.36	8	403
20	webmillion.com	136,006,879	0.37	674,017	0.83	223	7
21	looksmart.com	135,323,708	0.09	5,640,869	6.91	19	371
22	quicken.com	128,098,647	0.03	1,429,194	1.75	94	209
23	thehun.net	120,075,158	0.07	413,367	0.51	374	66
24	mapquest.com	112,404,734	0.1	5,356,027	6.56	20	422
25	porncity.net	108,626,776	0.09	2,689,614	3.29	39	400
26	marketwatch.com	102,916,933	0.06	3,158,448	3.87	32	361
27	usatoday.com	100,530,950	0.05	1,857,388	2.28	62	199
28	cnn.com	100,430,520	0.03	2,711,315	3.32	38	202
29	uproar.com	94,254,033	0.13	1,344,522	1.65	101	67
30	goto.com	91,268,111	0.13	4,050,734	4.96	25	276
31	zdnet.com	91,190,883	0.19	3,814,576	4.67	28	353
32	weather.com	88,235,876	0.12	5,106,692	6.26	22	206
33	ubid.com	85,488,813	0.03	974,737	1.19	151	170
34	freerealttime.com	85,036,847	<<	171,716	0.21	921	25
35	gamespot.com	83,229,104	0.05	1,229,625	1.51	113	160
36	monster.com	82,733,046	0.3	2,368,394	2.9	48	245
37	americangreetings.com	82,210,605	0.14	6,196,777	7.59	17	315
38	juno.com	79,626,523	0.08	1,732,106	2.12	69	145
39	siliconinvestor.com	79,513,247	<<	181,111	0.22	873	138
40	highschoolalumni.com	76,629,406	<<	1,014,747	1.24	141	34
41	ign.com	75,865,614	0.12	3,018,699	3.7	34	198
42	al4a.com	75,057,460	0.09	384,192	0.47	402	11
43	travelocity.com	72,870,207	0.34	2,592,816	3.18	41	424
44	cnnsi.com	69,744,685	0.5	1,993,236	2.44	59	160
45	att.net	69,227,016	0.02	1,717,128	2.1	70	500
46	bluemountain.com	68,716,161	0.81	7,601,359	9.31	10	83
47	digitalcity.com	66,916,912	0.03	3,642,590	4.46	29	281
48	prodigy.net	65,478,533	0.08	1,452,906	1.78	90	147
49	valueclick.com	65,054,811	0.15	6,614,075	8.1	14	512
50	dogpile.com	60,649,420	0.09	2,551,905	3.13	42	415

Source: Nielsen/NetRatings

Table 98

Top Internet Advertising Locations for Work Users — March 2000

Rank	Domain	Impressions	ClickRate	Unique Audience	Reach %	Rank	# of Banners
1	yahoo.com	2,723,917,521	0.13	18,939,323	60.49	1	1,375
2	ebay.com	2,507,195,924	<<	5,472,027	17.48	9	108
3	aol.com	561,504,760	0.21	10,149,626	32.42	2	731
4	go.com	471,153,854	0.2	9,294,604	29.68	3	671
5	quicken.com	370,309,979	0.13	1,115,665	3.56	71	155
6	netscape.com	343,265,952	0.3	8,514,366	27.19	5	463
7	iwon.com	319,000,284	0.86	2,915,079	9.31	26	481
8	ragingbull.com	298,910,991	0.02	705,307	2.25	119	97
9	excite.com	268,923,407	0.09	5,750,147	18.36	8	468
10	cnn.com	228,388,136	0.02	3,033,625	9.69	25	151
11	realtor.com	226,553,074	0.04	1,227,789	3.92	60	204
12	msn.com	222,774,061	0.13	8,787,905	28.07	4	731
13	snap.com	199,500,981	0.16	3,743,911	11.96	17	283
14	infospace.com	172,707,491	0.44	4,364,228	13.94	12	281
15	altavista.com	165,086,583	0.24	6,036,083	19.28	6	281
16	usatoday.com	157,445,462	<<	1,962,123	6.27	35	165
17	marketwatch.com	151,839,553	0.04	3,126,332	9.98	24	269
18	cnet.com	150,068,967	0.34	4,799,232	15.33	10	176
19	lycos.com	120,002,816	0.09	5,958,712	19.03	7	308
20	salon.com	113,195,804	0.03	1,111,134	3.55	72	94
21	picpost.com	108,980,643	<<	396,667	1.27	250	37
22	weather.com	97,762,851	0.04	4,164,675	13.3	13	128
23	cnn.com	93,138,576	0.91	1,951,617	6.23	36	141
24	mapquest.com	88,563,293	0.08	3,774,681	12.06	16	210
25	switchboard.com	85,583,141	0.15	1,643,874	5.25	41	121
26	goto.com	85,416,050	0.03	2,793,146	8.92	27	189
27	zdnet.com	76,900,440	0.17	3,240,199	10.35	22	222
28	webshots.com	76,492,770	<<	1,351,962	4.32	52	2
29	looksmart.com	68,606,190	0.07	3,303,032	10.55	21	205
30	travelocity.com	67,798,766	0.11	2,075,940	6.63	32	248
<<	paybar.com	<<	<<	<<	<<	<<	303
32	freei.net	55,234,588	<<	397,463	1.27	249	377
33	sportsline.com	52,432,878	0.06	2,196,080	7.01	31	96
34	compuserve.com	51,875,643	0.2	579,590	1.85	161	102
<<	freerealtime.com	<<	<<	<<	<<	<<	25
36	ubid.com	49,197,409	0.04	622,707	1.99	149	89
37	monster.com	48,979,335	0.13	1,549,175	4.95	44	113
38	thehungersite.com	48,157,722	0.51	752,606	2.4	110	25
39	fool.com	45,557,706	0.07	1,174,864	3.75	64	121
40	highschoolalumni.com	45,103,832	0.03	687,532	2.2	128	15
41	bloomberg.com	43,706,961	0.03	715,215	2.28	117	49
42	webmillion.com	42,719,501	0.11	439,286	1.4	222	5
43	nytimes.com	42,168,539	<<	1,074,141	3.43	77	65
44	bigcharts.com	40,656,357	0.02	658,256	2.1	140	163
45	stockmaster.com	40,256,305	<<	442,422	1.41	221	62
46	bluemountain.com	39,706,936	0.51	3,924,893	12.54	14	53
47	webmd.com	38,801,728	<<	1,351,216	4.32	53	16
48	prodigy.net	37,988,280	0.12	459,400	1.47	213	81
49	juno.com	37,846,133	0.1	955,943	3.05	86	32
50	about.com	37,152,278	0.11	3,370,546	10.76	20	162

Source: Nielsen/NetRatings

Appendix 3: Glossary of Terms

ADSL Asymmetric Digital Subscriber Line. High-speed transmission method usable on standard phone lines to accommodate graphics, video and sound.

Affiliate A station in contractual agreement with a network to carry that network's programs during specific times.

Agency commission The percentage of a media buy — usually 15% — that the advertiser pays to the agency placing the business.

Agent log A server record that shows which programs (e.g. spider, search engine, link verifier) have contacted a server.

Alternate delivery Methods of delivering direct mail or sample products to households without using the United States Postal Service.

Alternate media Any means of reaching consumers other than by using solo direct mail and telemarketing, including cooperative mailings, card decks, package inserts and free-standing inserts (FSIs), home-shopping programs, computer online services and broadcast.

Applets Small application programs that can be embedded within a Web page. Applets cannot be directly activated from the operating system.

Arbitron A national research firm primarily engaged in television audience data; it surveys individual markets, syndicated programming, network delivery, etc.

Area of dominant influence (ADI) An exclusive geographic area of counties in which the home market television stations hold a dominance of total hours viewed. (Arbitron's definition; similar to Nielsen's DMA definition).

Average audience (AA) The percentage of national television homes that view the average minute of a given telecast. This is the standard television rating that is generally used to determine national network performance. Locally, the ratings are usually per average quarter hour.

AVI Microsoft's format for packaging and playing video under the Windows operating system.

Backbone Very high-speed, wide-bandwidth transmission line forming a major pathway in a network.

Bandwidth The information capacity, usually measured in megahertz or bits per second, that can be transmitted by a particular line or cable or managed by a piece of hardware or software.

Banner Web advertisement generally displayed at the top of a Web page, that often links to the advertiser's site.

Bar code The nine-digit ZIP code translated into a coding structure of vertical bars and half bars used in order to speed the sorting of mail and enabling mailers to take a discount on postage.

Basic cable The basic, multiple-channel program service distributed to the cable subscriber for a monthly service charge averaging about \$9.75 per subscriber nationwide.

Batching The gathering and organizing of incoming orders.

Baud Bits per second, also known as the baud rate. Measures the rate of data transfer within a specific time. (Also see BPS.)

BBS Bulletin Board System. Special-purpose electronic communications system in which messages can be entered or retrieved either privately or publicly.

Bit Single item of information set to one or zero. It takes 8 bits to specify one byte, or one alphanumeric character.

Blurb Short electronic message about a business, product, service or related topic.

Bookmark Online reminder that flags a desired Internet address for future reference.

BPS Bits per second. Rate of information transfer. Modem speed is measured in K (kilo) BPS. (See band.)

Broadband communication systems A distribution network that can carry many channels spread over a wide band. It also refers to cable-TV systems.

Broadcast satellite service (BSS) A radio communications service that transmits or retransmits signals via space stations for direct reception by receivers in individual homes or by community receivers for multiple users at one location.

Browser Software that accesses Internet resources.

Buying service A company whose principal function is the purchase of media exposure.

Cable modem Modem that uses coaxial cable to achieve greater bandwidth and thus faster information transfer.

Cable penetration The percentage of TV households in a given area that subscribe to cable television.

Cable television (CATV) A television delivery system that provides from 12 to more than 125 channels of video programming to subscribers through a coaxial cable or optical fiber rather than by over-the-air transmission. Subscribers receive basic cable service and have the option of subscribing to additional channels for extra monthly fees. Cable television distribution systems consist of four parts: (1) headend, (2) trunk lines, (3) feeder lines, and (4) drop lines. (See individual entries.)

Cablecasting Programming originated by cable systems and fed directly to cable subscribers, also known as local origination or program origination.

Cache Download information and store in memory for future use.

Caging The opening and sorting of orders and the handling of checks and cash; term refers to cages in which people work for security purposes.

Call center A site that houses a telemarketing operation.

Card deck A pack of postcards, usually mailed in a clear poly outer envelope, that is used in both consumer and business-to-business direct marketing. The postcards, which either order the product or ask for more information, can be mailed back to the individual advertiser.

CD-R (Write Once Recordable) Currently available. Same as CD-ROM; however, user can write data to the disk one time and read it many times.

CD-ROM (Read Only) Currently available. User can only read the disk. Can hold up to 650 megabytes of data. Used for data or music, not for movie-length video.

CD-RW (Rewritable Compact Disk) Similar to CD-ROM; however, user can write, erase, and rewrite data to the disk many times.

Centerless network Network architecture that uses a redundant design so that multiple nodes remain running even if one becomes inoperative.

CGI Common Gateway Interface. Web programming method that turns non-Web information into a Web document on the fly and vice versa. Used for interactive online elements.

Chat room Online communication exchanges where typed messages can be exchanged in real time.

Churn The turnover in cable subscribers caused by partial and full-service disconnects and new customers.

Circulation The number of copies (newspapers and magazines) sold or distributed. For the more than 90% of week-day circulation audited by the Audit Bureau of Circulation, the term always denotes *paid* circulation. Circulation also refers to the number of households or individuals that actually view the schedule of a network or station during a specified period of time.

Classifieds Short text advertisements organized by category.

Cluster The grouping of commercial messages into a single segment to preserve continuity of program material.

Clutter The negative aspect of "cluster," i.e., ads losing impact because they are grouped with other ads.

Coding Accuracy Support System (CASS) Created by the U.S. Postal Service to ensure the accuracy of software programs used by service bureaus to check addresses and code mailings for delivery.

Common carrier A telecommunications company that provides communications transmission services to the public.

Communications Act of 1934 This legislation created the Federal Communications Commission (FCC) to regulate all interstate and foreign communications by wire and radio. It covers all common carrier and broadcast communications within the U.S. and its territories. There are three phases to the FCC's regulation of broadcasting: (1) the allocation of space in the radio frequency spectrum, (2) the assignment of stations in each service area within the allocated frequency bands, and (3) the regulation of existing stations.

Communications satellite A space vehicle located in a fixed orbit that can receive radio and TV signals and transmit them back to earth.

Community antenna television (CATV) The original cable TV system in which signals were picked up by a single high antenna and relayed by cable to subscribers. The service was developed in the late 1940s in communities unable to receive TV signals because of terrain or distance from TV stations. The term CATV now refers to cable television in general.

Computer network Two or more computers connected together to share resources.

Computer service bureau A company that will maintain lists for list owners. Services may include updating the list, merge/purge, data overlays and preparing the list for mailing or rentals.

Concatenate Chain together in a sequence.

Continuity program An offer of a series of products to be received in timed intervals. Most often used for books, tapes/CDs and recipe cards.

Cookie Software implemented on client's machine to make it easier for a server and client to remember previous transactions.

Cooperative advertising (Co-Op) Advertising (including direct mail, inserts, stuffers, card decks) where offers from several different mailers are included.

Cooperative broker A person/company who recommends and takes orders for marketers who want to be part of a cooperative effort.

Cooperative manager A person/company who sells space in the co-op for the cooperative owner.

Coupons A promotional device used by marketers to increase sales or store traffic by offering a discount when the coupon is redeemed.

Coverage The potential number of homes able to receive television programming aired by a given station or network.

CPM Cost per thousand. The calculation of the advertising cost to reach 1,000 households or viewers. Computed by dividing the advertising cost by the number of households or viewers. It measures cost efficiency and is used to compare programs with different audience appeal.

Currency exchange A service that changes money from one currency to another.

Custom publisher Any publisher who will, for a fee, create a publication for a direct marketer that is most often used for self-promotion or as a premium.

Cyberspace Term coined by William Gibson in his book *Necromancer* to describe an area that exists only online.

Data compression Method of reducing the amount of bandwidth required to transmit information, thus increasing the speed of transmission.

Database A file that is maintained on a computer comprised of pertinent information such as a company's prospects or customers. The file can serve multiple applications and be manipulated for various purposes. The following definitions apply to databases used for direct marketing purposes:

- **Database analysis** Interpreting information within the database in order to gain customer insight and improve marketing efficiency.
- **Commercial database management** Professional management of large compiled databases for list segmentation and rental.
- **Database modeling** Using statistical techniques in order to predict future customer behavior.

Data entry The entering of names, addresses and other information into a data storage and retrieval system. Data can be entered via manual keying, electronic data transfer, or by scanning.

Demographics Social and economic information about human populations including age, sex, income, education, type of residence, ownership of cars, etc.

Dayparts Specific segments of a broadcast schedule, e.g., morning, daytime, early fringe, prime time, and late night.

Decoder An apparatus that converts a purposely scrambled TV signal into a viewable picture.

Delivery sequence file A computerized file of more than 125 million records containing all the addresses the U.S. Postal Service serves throughout the U.S. Each address record features ZIP+4, carrier route, delivery sequence, delivery type and seasonal delivery information that can help mailers maintain accurate and complete addresses on the lists they own and rent as well as code their mail for walk sequence discounts from the postal service.

Designated marketing area (DMA) This represents an exclusive geographic area of countries in which the home market stations are estimated to have the largest quarter-hour audience share. (Nielsen's term; comparable to Arbitron's ADI.)

Digital cash Electronic money purchased in advance of expenditures, as with a debit card. Usually stored as encrypted data in a digital wallet.

Digital certificate Piece of identity in an online environment, often stored in a digital wallet.

Digital wallet Secure encrypted envelope that seals personal information including bank accounts, credit card numbers, expiration dates, shipping and billing addresses, and digital identification.

Direct broadcast satellite (DBS) A high-powered satellite system that works the same way that cable satellites do. Since it operates with more power, its signal can be received with much smaller, and therefore more affordable, earth stations. A DBS transmits several signals directly to homes for pickup by way of a small roof-top dish antenna. This

new generation of high-powered satellites was authorized in the summer of 1982.

Direct response advertising Commercial messages that seek direct and prompt response from the viewer by exhibiting telephone numbers, box numbers, etc., to get the viewer to order or inquire about products or services.

Directory Alphabetically arranged list of categories, used, for example, to locate sites on the Web.

Display Large Web advertisement, generally varying in size from quarter-, half- to full-screen, which links to another site.

Domain name Web site identification registered with InterNIC, usually ending in .com, .edu, .gov, .mil, .net, or .org.

Downlink An earth station used to receive signals from satellites.

Download Send a file or program from online storage to a personal computer for later use.

DVD-RAM (Rewritable Digital Video Disk) Similar to DVD-ROM; however, user can write, erase, and rewrite data to the disk many times.

DVD-ROM (DVD Read Only) Able to store 4.7 (single-layer) to 9 gigabytes (multiple-layer) and later 17 gigabytes (double-sided), (multiple layer), or 4,700, 9,000, and 17,000 megabytes, respectively. Can be used for data, music, or movie-length video. Cost \$2.50 per disk to manufacture.

E-mail Electronic mail. System that lets users exchange messages across a network.

EDI Electronic Data Interchange. The structured exchange of standard business information.

EFT Electronic funds transfer.

Encryption Coding of confidential, personal, or financial information for secure transmission.

Extranet Wide area network with Weblike operations.

FAQ Frequently Asked Questions. Appear often on news groups, mailing lists, forums, and technical support sites.

Feed Transmission of a program by a network to a local station.

Feeder lines Coaxial cables that branch from trunk lines past individual cable subscriber homes.

Firewall Security procedure that sets up a barrier between an internal LAN (local area network) and the Internet.

Fixed rate Price set by a station or network for a specific time slot. It guarantees that a commercial message will run in that position without any possibility of preemption.

Flame Send online communication involving personal attacks and/or derogatory remarks.

Forum Open discussion on an online service. Similar to news groups on the Net.

Forum message Announcement in message section of a forum.

Free-Standing Insert (FSI) A promotional piece that is loosely inserted into a newspaper or magazine.

Frequency The average number of times an audience views a given television schedule; programs, announcements, or both.

Fringe time That portion of the network broadcast day immediately preceding prime time (early fringe) and immediately following prime time (late fringe).

Fulfillment All activities involved in the processing and servicing of mail, FAX and telephone orders.

- **Literature fulfillment** Refers to the sorting and qualifying of leads, sending the appropriate information, and, if outsourced, forwarding leads to the marketer for follow-up.
- **Subscription fulfillment** A specialized service for periodical publishers. Services include maintaining the subscriber list, generating invoices and renewals and recording payments.
- **Product fulfillment** The storage and shipping of samples and merchandise.

FTP File Transfer Protocol. Method used to upload and download files between a computer and Internet servers.

GIF Graphics Interchange Format. Compressed, bit-mapped graphics file.

Geocoding The process of appending latitude and longitude coordinates to a database record so it can be properly placed on a geographical map.

Gross audience The total number of homes or people who view a certain television schedule, without regard to any possible duplication that may occur.

Gross rating point (GRP) Sum of individual telecast rating points on a total program basis or advertiser commercial schedule, without regard for duplication.

Hacker Individual who forces unauthorized entry into a computer system. Also slang for computer enthusiast or amateur.

Headend Comprises cable system facilities. This equipment is used to receive, amplify, and convert incoming signals (whether broadcast, via satellite, or local origination) and redistributes them to subscribers.

Hertz A unit of frequency equal to one cycle per second. One kilohertz is 1,000 hertz; one megahertz is one million hertz; one gigahertz is one billion hertz.

Hits Number of times an online site is visited.

Home page Main page or welcome image for a Web site. Often shows a table of contents or refers to documents on other pages.

Home passed Homes that are, or could be, connected to a cable system because feeder lines are in the area.

Homes using television (HUT) The percentage of television homes that are watching television during a given time period.

Horizontal saturation A heavy commercial announcement schedule on multiple channels, placed at the same time or thereabouts for several consecutive days. This is used to target a specific segment of the viewing audience (see “vertical saturation”).

Host Computer system (of any size) with a direct, high-speed transmission link to the Internet. Individual users connect to a host via LAN or dial-up modem.

HTML Hypertext Markup Language. Used to author Web documents containing links, graphics, and multimedia.

HTTP Hypertext Transport Protocol. Method used to transmit hypertext files.

Hypertext Any document with a link or links to other documents.

Icon Graphical interface that, when clicked, accesses an object or program.

Impressions (or “gross impressions”) The total number of times an advertisement is viewed; usually expressed in homes or viewers.

Independent stations Stations not affiliated with any network; usually refers to commercial stations only.

Ink jet printing Superheated dots of ink are sprayed from an ink reservoir on the printhead to form full characters.

Insert Preprinted literature (usually advertising) that is inserted inside the newspaper.

Interactive cable A cable system that provides two-way communication in which the viewer can respond, e.g., by pushing a button to give an opinion on a program or product, or to order a product.

Interconnects Several cable systems in a specific area connected together for programming and or advertising/sales reasons

InterNIC Shared activity between the National Science Foundation, AT&T (for directory service support), and Network Solutions for domain name registration.

Intranet Internal network with Web-like operations.

ISDN Integrated Services Digital Network. High-speed, wide-bandwidth, dial-up phone line for transmission of text, graphics and sound.

ISP Internet service provider. Company that maintains powerful servers and high-speed transmission lines to access the Internet.

Keyword Main word in text. Entered in search engines to locate information in a database.

Labels Paper printed with a name and address that is affixed to a mailing piece and serves as the mailing address vehicle. Different types of labels include: peel-off or pressure-sensitive, gummed and paper (or Cheshire).

LAN Local area network. Links computers in the same building or area, generally less than one mile.

Laser printing Similar to a photocopy machine, the laser printer uses a laser beam, toner and fuser to “etch” the image onto a photoelectric drum.

Leased line Telephone line set up between any two sites for dedicated, continuously active transmission.

Lettershop A company that will assemble and insert the various printed elements of a direct mail piece, label, sort, tag and deliver the mailings to the post office for mailing. The lettershop will provide the mailer with written proof of delivery to the U.S. Postal Service.

Link Jump from one location on the Web to another.

List Services

List broker A list specialist hired by a mailer to make the necessary arrangements to use other companies’ lists. Brokerage services usually include research, list selections, recommendations and logistics so that the rented lists arrive at the proper time. The standard commission to a list broker is 20 percent.

List cleaning The process of updating a list in order to remove any undeliverable addresses. Other cleaning activities could include removing duplicates, bad debts, names on the DMA Mail Preference Service, prison ZIPs, etc.

List maintenance The ongoing process of keeping a mailing list up-to-date by adding, editing and deleting data.

List manager Whereas a list broker works for a mailer, the list manager works for the list owner. The primary function

is to promote the list to mailers and list brokers for list rental. List managers can be either an internal employee of the list owner or part of an outside list management company paid a commission by the list owner. Management services usually include marketing of the list, coordinating and controlling rental activity, and accounting. The standard commission for a list manager is 10 percent.

List server Software that manages mailing lists on mailing list servers. Listserv and Majordomo are two of the primary mailing list servers.

- **Data overlays** The matching of two or more lists that contain the same names or addresses but where one list adds additional data such as demographics or geographics to the other.
- **Enhancement** Any additional information that can be appended to a list to increase its value to the mailer.
- **Merge-purge** The process of combining two or more lists into one while at the same time identifying and removing any duplicates.
- **Mail Preference Service (DMA MPS)** The Direct Marketing Association (DMA) offers a service for individuals who want their names removed from mailings lists so they will stop receiving direct mail.
- **Psychographics** The qualities or characteristics of individuals which indicate lifestyle, purchasing habits, attitudes and personal values.
- **Seeding** False or “dummy” names are added to a mailing list as a way to check delivery and to uncover any unauthorized list usage.

Local advertising The time sold by individual stations to local advertisers at local rates.

Local program Station-originated, non-network program.

Logo Name-only, paid advertisement on the Web, usually smaller and less expensive than a banner. May not link to named site.

Low-power television (LPTV) A new TV service (authorized in 1982) licensed by the FCC to broadcast a single, over-the-air signal of low power to a small geo-

graphic area. These new stations operate on existing VHF and UHF bands and can originate programming — either pay TV, advertiser-supported, or the rebroadcast signal of a consenting station. They are subject to fewer regulatory restrictions than conventional full-service stations. LPTV stations have traditionally rebroadcast the signals of full-service stations.

Mail bomb Useless e-mail that clogs an electronic mailbox.

Mailbot Cross between mail and robot. A program that responds automatically to routine e-mail.

Mailing list List of participants who exchange electronic mail message regularly, usually focused on a particular topic or concern.

Mail monitoring Mailers track their mail in order to verify content within the direct mail package and to determine the length of delivery time.

Mall Virtual area on a server or online service where people can sell or advertise their goods or services.

Market section audience (MSA) Nielsen term referring to audience market breakdowns by county size, income, occupation, etc.

Master antenna television (MATV) Delivery method for pay programming to multi-unit dwellings.

Media Any form of communication. Direct response media would include: space advertising, direct mail, TV, radio, take-ones, card decks, package inserts, cooperative efforts, on-line shopping services.

Media mix Utilization of more than one medium for an advertiser to achieve marketing goals.

Merge-purge See List Services

Microwave The portion of the radio spectrum above 1,000 megahertz (the frequency range between infrared and shortwave radio). It can be used to carry TV signals through the air for long distances. These signals do not follow the earth’s curvature and are not reflected by the ionosphere. They may pass through buildings and other obstacles, but are subject to absorption or interference.

Microwave relay system A system used to move a broadcast signal from one location to another without the use of land lines. TV signals have characteristics that preclude their being sent over ordinary wire lines; their transmission depends on coaxial cable, satellites, or microwave relay. TV signals are carried coast to coast mostly by microwave, with cable used for local loops where microwave is not feasible. Although some private microwave TV relay exists, most live networking is over the facilities of common carriers.

Mirror Copy and display the material from one Web site on another.

Modem Modulator-demodulator. Converts computer data to a form that can be transmitted over phone lines and vice versa.

Moderated When a news group or forum is checked by an individual with the authority to censor messages.

Multimedia Combination of text, virtual reality, graphics, video, animation, and/or sound.

Multiple system operator (MSO) A company that owns more than one cable system.

Multipoint distribution service (MDS) An over-the-air, super-high-frequency microwave service providing omnidirectional transmission to selected customer locations within a 10–20 mile radius. Since the FCC licenses MDS operators as common carriers, they must lease their transmission facilities to service providers. They generally lease most of their station time to pay-movie entrepreneurs, who provide programming to hotels, apartment buildings, and homes. They also transmit video, data text, or other services to subscribers, who must be equipped with special antennas and converters to receive the signals.

Narrowcasting Providing special-interest programming for small, target audiences via a variety of channels; frequently used to describe cable programming.

National Change of Address (NCOA) A service provided by the U.S. Postal Service, through licensed computer service bureaus, that enables mailers to make any necessary address corrections prior to their mailing being dropped. The mailer provides a magnetic tape that is run against the na-

tional change of address bank and then is returned to the mailer with all the corrections made.

National spot A form of broadcast advertising in which national advertisers, through their agency or buying service, select their own markets and stations. The station usually has a contract with one station rep firm to represent it to advertising agencies.

Net names See List Services

Netiquette Guidelines for appropriate communication in news groups.

Network address Electronic mail address.

Network advertising The sale of network time to national advertisers.

Network feed The transmission of program material by the network to its affiliate stations nationwide. The feed can be aired live by the stations or taped for broadcast at another time.

News group One of thousands of discussion groups on USEnet. Requires a full-service Internet account and news group reader software provided by an ISP.

Nielsen Media Research (now owned by VNU) A firm engaged in local and national measurement of the television audience. Also involved in other research and marketing activities.

Nixies Pieces of mail returned as “undeliverable as addressed”

Node Any computer connected to a network.

Nonlink Advertisement on the Web without a hypertext link. Usually less expensive than a linked ad.

O&O stations (owned and operated) Refers specifically to those stations that are owned and operated by a national network.

Offset printing Using a metal or paper plate, ink is first transferred to an offset drum and then passed to the paper.

Optical fiber Very thin glass fibers used to transmit light wave signals (as opposed to radio waves or coaxial cable).

Outsourcing Using an outside service rather than performing the work in-house.

Package A complete program or series of programs ready for airing; produced and sold as a unit.

Package inserts Any promotional offer included with the shipment of a customer's order. Offers may be from the same mailer shipping the product or other vendors who pay to be included.

Packets Means of dividing up and structuring information in a computer message for reliable Internet transmission to the correct address.

Participating program A television program sponsored by several advertisers.

Participation A commercial announcement within a program versus one between different programs.

Pay cable Premium program services for which the subscriber is charged fees above the cost of the monthly basic subscription. Such services are provided by about 20 programmers, including Home Box Office (HBO), The Disney Channel, etc.

Pay-per-view television (PPV) Pay television in which subscribers pay for individual programs rather than for a monthly subscription.

Pay television Premium television entertainment delivered to subscribers for a monthly fee via pay cable, over-the-air subscription television (STV), multipoint distribution service (MDS), and/or satellite master antenna systems (SMATV).

Penetration The proportion of TV households to total households in a given locale. Also, the percentage of households subscribing to a given service.

Personalization Using/printing personal information, such as a first or last name, in a direct mail campaign. See Variable Imaging

Piggyback An advertisement promoting two separate products in a 60-second commercial.

Plug-in Applet integrated with a browser that enables users to view text, images, sound, and/or video in special formats.

Pointcast A push technology that delivers requested information to a specific site. Also the name of a proprietary news/advertising product.

Poly bag An outside mailing envelope made of polyethylene instead of paper.

POP Post Office Protocol. Allows users to read e-mail from their operating system without logging onto a server.

Post Enter a message on a news group or mailing list.

Postage-paid reply service A service allowing mailers to use a lettershop's postage-paid permit and have the business-reply mail sent there instead of opening their own account with the USPS.

PPP Point-to-point protocol. Type of Internet account needed to access FTP servers.

Predictive dialing See Telemarketing Services

Pre-emptible spots Air time sold at reduced rates, with the station keeping the option to sell that time to any interceding advertiser willing to pay full price.

Premium A free gift offered to a prospect to induce a greater response to the main product or service that is being sold. A premium need not bear any relationship to the product being offered.

Pre-press services The various steps necessary, up to final printing, to transform original copy and art into the form required for printing. Services include:

- **Color proofing** Proofs made from the separate plates in color process work, showing the sequence of printing and the result after each additional color has been applied.
- **Digital color proofing** An off-press color proof produced from digital data without the need for separation films.
- **Image manipulation** Custom alterations of digital images.

- **Imagesetter** A typesetting system that can process both text and images.
- **Scanning: Desktop, high-end, mid-range** Electronic process used to make color and tone-corrected separations of images.
- **Thermal dye sublimation** Proof-making process where pigments are vaporized and float to desired proofing stock.

Preprint An all-advertising or advertising/editorial circular that is printed separately and usually inserted inside newspapers.

Prime access Peak viewing hours, Monday-Saturday, 8:00-11:00 pm in Eastern and Pacific time zones, and 7:00-10:00 pm in the Central and Mountain time zones. On Sunday, the times are 7:00-11:00 pm and 6:00-9:00 pm, respectively.

Protocol Standard procedure for processing data.

Psychographics See List Services

Public Access Rule FCC regulation requiring cable systems with 3,500 or more subscribers to make at least one non-commercial channel available to the public on a non-discriminatory basis.

Public TV Television programming supported by the public at large through government funds, corporate grants, and private donations, without standard commercial advertising.

Pull technology Typical Internet interaction in which an individual must specifically request desired information. (Compare to push technology.)

Push technology Internet interaction that enables data to be sent to an individual without a specific request. (Compare to pull technology.)

Quartile In a TV context, refers to a group of viewers that has been divided into fourths (or quartiles), ranging from the heaviest viewers to the lightest. These groups are then analyzed separately, based on frequency levels of viewing. Quintile is used to describe the subdivision of a viewing audience into fifths.

Quicktime Apple Computer's format for packaging and playing video and animation.

Q score A testing term that indicated the inherent appeal of a program or personality.

Radio common carrier (RCC) Common carriers whose major businesses include radio paging and mobile telephone services.

Rating Program audience expressed as a percentage of all households or a demographic category.

Rating service Research organization that offers a syndicated service of periodic measurements of the television audience.

Raw hit Visit to a single file on a Web page.

Reach The number of unduplicated households or people exposed to a program, a group of programs, or an advertiser's schedule over a specific period. Same as cumulative audience.

Referrer log Server record of which sources or URL addresses have launched a link to a file on that server.

Response booster Any device, token, premium or sweepstakes that will help raise the response rate.

RFC Request for comment. Method of open communication adopted in 1969 as part of the development of the Internet.

Roadblock Airing commercials on all stations simultaneously in the same time period for maximum "reach."

ROP Originally, ROP (or "run-of-press") denoted an advertisement position anywhere in a newspaper (as opposed to a preferred position). Now ROP is generally applied to ads that appear on a newspaper page (as opposed to inserts or preprints).

Roulette Link on a page that sends visitors randomly to another page on the same site or to another site.

Run-of-schedule (ROS) Scheduling of commercials at any time of the station's choosing.

Satellite master antenna system (SMATV) A pay-TV distribution system serving large apartment buildings, condominiums, private housing complexes, or mobile home parks. SMATV is technically similar to cable and pay TV in that it uses an earth station to pick up broadcast signals, pay cable, and other programming from space satellites, then transmits them through a master antenna TV system to subscribers. The difference is that SMATV wires only the complex that will receive the signal from a master rooftop antenna. This avoids two problems: obtaining a franchise from local municipalities, which regular cable TV companies must do to string or bury wire along streets, and acquiring rights of way from local municipalities. Another benefit is that operators are free from federal regulation since they do not come under the FCC's definition of a cable system, and they are free from local regulation since they do not need a municipal franchise. They have contracts only with property owners. These systems are sometimes called private cable systems or minicable systems.

Saturation Many announcements within a short period of time to give maximum impact to an advertiser's message.

Scanner A device that interprets the reflected light from a physical image and digitizes it so it can be stored on a computer. Using a scanner can eliminate the need for human contact with individual documents.

Scanning See Pre-Press Services

Scatter buying Network advertising time bought after the start of the broadcast season and for short periods of time in contrast to up-front buying.

Scrambler An electronic device that alters the TV signal so that the resulting picture cannot be viewed on a subscriber's set without a decoder.

Search engine Software designed for the rapid location of information in one or more databases.

Seeding See List Services

Selective binding The process which allows an advertisement to be inserted into only certain select issues of a magazine, or allows selected pages to be inserted in a catalog.

Server Computer used to control or manage a network.

Server report Operational information for host computer.

Service bureaus See Computer Service Bureaus

SET Secure Electronic Transactions. Standard for secure credit card transactions online that integrates SSL (Secure Socket Layer), digital signatures, digital wallets, and encryption technologies.

Share Audience during the average minute of a program, expressed as a percentage of households using television. Computed by dividing average audience rating by households using television.

Shared mail A direct mail term generally referring to two or more advertisements wrapped around each other, or wrapped together with any accompanying coupons, that are mailed out at third-class mail rates as a single piece. ADVO-System uses the trademarked terms "network mail" and "marriage mail."

Sheet-fed press An offset printer that prints on paper which is fed one sheet at a time. Used primarily for short runs or higher-quality printing.

Shockwave Macromedia's format for incorporating multimedia objects on Web pages.

Shopper Circulars distributed free of charge that look like newspapers, but generally have little editorial content, running between 75% and 100% advertising.

Signature file Three- to six-line, text-only, electronic file used as an online identity. Like an online business card.

Simmons Market Research Bureau Research organization that provides data for media and market planning. It covers media audiences, marketing data, demography, media imperatives, psychographics, and brand decision-making involvement.

Sitcast A Web-based event that incorporates real time video and chat lines with pre-recorded information.

SLIP Serial Line Internet Protocol. Type of Internet account needed to access Web servers.

Sorting The computerized process of reorganizing a list from one sequence to another. For example, a file can be

sorted by last name, company name, ZIP code, high donors, multi-buyers, recent buyers, etc

Spam Unwanted advertisements sent through e-mail or posted on inappropriate news groups.

Spider Also known as a robot or wanderer. A Web search program that automatically collects and stores keyword information.

Split-30 Two 15-second commercials aired during the standard 30-second commercial time slot.

Sponsor Cost-effective type of advertising on the Web, usually featuring a small banner ad linked to another site.

Spot Commercial time available for sale to local and national advertisers.

Spot advertising Time sold by individual stations to national advertisers.

SSL Secure Socket Layer. Netscape's protocol for sending confidential information, such as credit card numbers, over the Internet.

Station lineup The total assemblage of stations carrying a network program.

Streaming audio Sound files audible as they are transmitted over the Internet.

Streaming video Video images that can be viewed as they are transmitted over the Internet.

Strip A program or commercial announcement scheduled at the same time on successive days of the week (same as "across the board").

Subscribe Add one's e-mail address onto a mailing list or news group.

Subscription television (STC) A pay TV system that transmits scrambled signals over the air to a standard broadcast channel. To receive the program, subscribers must have a decoder attached to their sets.

Superstation An independent TV station whose signal is transmitted via satellite to cable systems in distant markets.

Sweeps A term used to describe those times of the year when all individual markets are measured by the rating services. In TV, it commonly refers to the four-week measurement periods in November, February, and May.

Syndication The market-by-market method of distributing programs, as opposed to networking.

Syntax checker Program that checks for "grammatical errors" in the structure of HTML code.

Sysop Systems operator. Manager of a bulletin board system, news group, online service, or special interest group site.

Take-ones Promotional literature found in racks, often at the grocery store.

Target audience The audience most desired by an advertiser in terms of potential product consumption or service usage. Sought-after segments may be defined by sex, age, income, occupation, county size, etc.

Tariff Common carrier's statement describing services it offers and rates it charges.

TCP/IP Transmission Control Protocol/Internet Protocol. The communications protocol for connecting hosts to the Internet.

Telemarketing Services

- **Inbound** Any phone calls that come into a telemarketing call center.
- **Interactive Voice Response (IVR)** The various recorded or digitized text messages that can be accessed electronically by using a telephone.
- **Outbound** Any phone calls made out of a telemarketing call center.
- **Voice Response Unit (VRU)** Hardware that is connected to the telephone through which Interactive Voice Response messages are generated.
- **Predictive dialing** The automatic dialing by a computer of telephone numbers on a pre-selected list. The system can, with great accuracy, discern an answering machine from a human voice and will instantly connect

a respondent to a TSR. If there is no answer or a busy signal, the computer will know to redial later.

- **Telephone Service Representative (TSR)** Anyone who sells or services customers over the phone, either inbound or outbound.
- **Telephone Preference Service (DMA TPS)** A service of the Direct Marketing Association for consumers who want to have their names removed from telemarketing lists.

Teletext One-way selective information system that transmits text and graphic information in a continuous cycle via a standard video signal to the user's home or office.

Thermal dye sublimation See Pre-Press Services

Tokens An action device, the purpose of which is to involve the prospect in the offer. It can be anything from a coin, peel-off stamp, or a punch-out paper piece that is inserted into the order form.

Total market coverage (TMC) A method newspapers use to reach newspaper subscribers and non-subscribers to attract advertisers. The TMC is usually a weekly or monthly "shopper"; it can be heavy on ads and light on editorial, or vice versa. The goal is always the same — to give marketers a blanketed or total market coverage approach to reach 100% of a newspaper's area. The term is used interchangeably with "alternate distribution system" (ADS).

Trade books Books marketed primarily (50% or more) through trade channels, i.e., to bookstores and libraries directly or through wholesalers and jobbers.

Transponder An electronic device on a satellite that receives audio and video signals beamed upward from earth and transmits them back to earth.

Trunk Coaxial cable that distributes signals from the headend of a cable system to feeder lines in the community.

Turnover Frequency with which the audience for a program changes over a given period of time.

TVQ A national survey of the opinions that people express about TV programs or personalities.

Ultra high frequency (UHF) In TV broadcasting, the wave bands that carry programs over the air and are received on channels 14 through 83 (see "very high frequency").

Unduplicated audience The number of different people or homes reached by a TV schedule or program over a specific period of time (same as "cumulative audience" or "reach") and usually expressed as a percent.

Up-front buying Major commitment by national advertisers to network purchases, often for an entire year, either on a firm basis or on a six-month firm basis. Such buying takes place after a network announces its new season schedule.

Uplink An earth station used for transmitting to a satellite.

Upload Send a file or program from a personal computer to on-line storage.

URL Uniform Resource Locator. Address designating the location of resources on the Web.

Variable imaging Personalization done on a digital press.

Vertical saturation Multiple commercial announcements placed on one or more days in various dayparts to reach many different people quickly (see "horizontal frequency")

Very high frequency (VHF) In TV broadcasting, the wave bands that carry programs over the air and are received on channels 2 through 13 (see "ultra high frequency").

Videocassette recorder (VCR) Instrument used to play videocassettes containing programming. It can play back, erase, and record. Also known as videotape recorder (VTR).

Videodisc Similar to a record, it stores a video program to play back on a videodisc player.

Videodisc player The instrument that plays the videodisc via a stylus or laser beam. It can neither record nor erase.

Videotape Magnetic tape on which both sound and picture are recorded simultaneously, in contrast to audio tape, which records only sound.

Videotex The generic or collective term for all forms of electronic information and/or services via telephony lines, broadcast signals, or cable TV.

Viewdata Textual information displayed on the TV set that is transmitted over telephone lines from a computer data bank. It is two-way, enabling subscribers to respond.

Virtual bank Online financial system that acts as an intermediary in purchasing transactions.

Virtual reality Computer-mediated method for interacting with a three-dimensional environment.

VRML Virtual Reality Modeling Language. Programming language for displaying three-dimensional objects.

WAN Wide area network. Links distant computer systems.

Web press A printing press that is fed by a large roll of paper instead of individual sheets.

Whois Computer database of domain names.

WWW World Wide Web. Portion of the Internet that contains data, graphics, sound, and video, and is accessed through a graphical interface.

Zapping When a TV viewer uses a remote-control device to change channels to avoid seeing commercials.

Price Table

Company	Ticker	Price as of 4/28	Rating	Target Price
ADVO	AD.N	30.00	Outperform	33.00
Akamai Technologies, Inc.	AKAM.O	98.88	Outperform	NA
Amazon.com	AMZN.O	55.19	Outperform	NA
America Online	AOL.N	59.81	++	++
Ariba Inc.	ARBA.O	74.19	Outperform	NA
ARTISTdirect Network	ARTD.O	4.75	Outperform	NA
Ask Jeeves Inc.	ASKJ.O	30.38	Outperform	NA
AT&T	T.N	46.69	Neutral	NA
Avenue A Inc	AVEA.O	31.75	Outperform	NA
Cablevision Systems	CVC.N	67.69	Neutral	NA
Catalina Marketing	POS.N	101.25	Strong Buy	130.00
Charter Communications	CHTR.O	14.69	Strong Buy	29.00
CNET	CNET.O	34.56	Outperform	NA
Comcast Corporation	CMCSK.O	40.06	Outperform	52.00
Concentric Network Corp.	CNCX.O	43.50	Neutral	NA
Covad Communications Grp	COVD.O	27.75	Outperform	55.00
Cox Communications	COX.N	42.81	Neutral	NA
CSG Systems International	CSGS.O	46.13	Outperform	100.00
DELL	DELL.O	50.13	Outperform	NA
Digitas Inc.	DTAS.O	15.44	Outperform	30.00
DoubleClick Inc.	DCLK.O	75.88	Outperform	150.00
drugstore.com Inc.	DSCM.O	7.81	Outperform	NA
EarthLink Inc.	ELNK.O	18.88	Strong Buy	34.00
eBay Inc.	EBAY.O	159.19	Outperform	NA
Electronic Arts	ERTS.O	60.50	Outperform	NA
Excite@Home	ATHM.O	18.63	++	++
Exodus Communications	EXDS.O	88.44	Strong Buy	190.00
Expedia Inc.	EXPE.O	15.06	Outperform	NA
Fox Entertainment Group	FOX.N	25.75	Strong Buy	41.00
FreeMarkets Inc.	FMKT.O	72.19	Outperform	NA
Getty Images Inc.	GETY.O	30.38	Outperform	NA
Grupo Televisa	TV.N	63.44	Outperform	83.00
Harte-Hanks	HHS.N	24.75	Outperform	32.00
Healthon/WebMD	HLTH.O	21.06	++	++
HomeGrocer.com	HOMG.O	5.00	Outperform	NA
Homestore.com	HOMS.O	18.25	Outperform	NA
Hughes	GMH.N	96.31	Outperform	152.00
IDG Books Worldwide	IDGB.O	10.06	Outperform	18.00
Inktomi Corporation	INKT.O	153.94	Outperform	140.00
Insight Communications	ICCI.O	20.38	Neutral	NA
InterNAP Network Services	INAP.O	38.50	Outperform	70.00
Internet Initiative Japan	IIJL.O	60.00	Outperform	100.00
Internet Initiative Japan(C)	IIJL.O	60.00	Outperform	100.00
Interpublic Group	IPG.N	41.00	Strong Buy	60.00
Intuit	INTU.O	35.94	Outperform	NA
Lastminute.com	LMC.L	215.00	Outperform	NA
Liberty Media	LMGa.N	49.94	Strong Buy	NA
MarchFirst Inc.	MRCH.O	21.31	Outperform	45.00
Marimba Inc.	MRBA.O	19.81	Outperform	NA
Martha Stewart Living	MSO.N	14.25	Outperform	35.00
MediaOne	UMG.N	75.63	Neutral	NA

Price Table (continued)

Company	Ticker	Price as of 4/28	Rating	Target Price
Microsoft	MSFT.O	69.75	Outperform	NA
NDS Group	NNDS.O	56.50	Neutral	NA
Network Solutions	NSOL.O	148.00	++	++
News Corp.	NWSa.N	44.00	Strong Buy	74.00
NorthPoint Communications	NPNT.O	16.13	Outperform	37.00
Omnicom Group Inc.	OMC.N	91.06	Strong Buy	115.00
Pixar Inc.	PIXR.O	37.19	Neutral	NA
priceline.com Inc	PCLN.O	63.25	Outperform	NA
PSINet Inc.	PSIX.O	23.19	Outperform	32.00
RCN Corporation	RCNC.O	28.63	Outperform	78.00
Rogers Communications	RG.N	26.00	Outperform	34.00
Savvis Communications	SVVS.O	14.13	Outperform	34.00
Scient Corporation	SCNT.O	54.00	Outperform	NA
Seagram	VO.N	54.00	Outperform	68.00
Tickets.com	TIXX.O	4.00	++	++
Time Warner	TWX.N	89.94	++	++
TMP Worldwide	TMPW.O	65.38	Outperform	90.00
True North Communications	TNO.N	41.19	Strong Buy	50.00
UnitedGlobalCom Inc.	UCOMA.O	53.13	Outperform	109.00
Valassis	VCI.N	34.06	Outperform	50.00
Ventro Corporation	VNTR.O	27.50	Outperform	NA
Verio Inc.	VRIO.O	37.56	Outperform	66.00
Verisign	VRSN.O	139.38	++	NA
VIA NET.WORKS, Inc.	VNWI.O	19.94	Outperform	81.00
Viacom	VIA.N	54.81	Strong Buy	70.00
Vignette Corp.	VIGN.O	48.19	Outperform	NA
Walt Disney	DIS.N	43.31	Strong Buy	40.00
webMethods, Inc.	WEBM.O	90.00	Outperform	NA
Women.com Networks Inc.	WOMN.O	5.00	Outperform	NA
WPP Group	WPPGY.O	77.38	++	++
WPP Group Plc	WPP.L	1,023.73	++	++
Yahoo!	YHOO.O	130.25	Outperform	NA
Young & Rubicam Inc.	YNR.N	55.69	++	++
Ziff-Davis	ZD.N	9.81	++	++

Source: Morgan Stanley Dean Witter Research

†† Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley Dean Witter policy, Morgan Stanley Dean Witter may be precluded from issuing such information with respect to this company at this time.

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