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Start-Ups

Developing Advertising Pricing Strategies for Online Publication Start-Ups

by

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Executive Summary

This paper explores the competitive environment in which web sites operate in an effort to establish a framework for setting advertising rates. Using MGoBlue.com, the University of Michigan's Athletic Department web site, as a model, this paper begins by reviewing the many elements of the competitive environment that must be addressed prior to establishing a strategy. This paper explores the motivation of advertisers when selecting advertising media. It also adopts a historical perspective by exploring traditional media advertising models and applying these basics to the models currently in place on the Internet. Using these foundations, the paper concludes by presenting recommendations for developing a pricing strategy that will strengthen the publication's ability attract advertisers and manage profitability.

Introduction

Internet publications like their predecessors in traditional media serve two groups of customers, the public (consumers) and advertisers. A publication's ability to attract advertising revenue is directly related to its ability to attract and retain economically attractive segments of the population. In order to accomplish these goals, publishers must understand their competitive environment and be able to shape it or respond to its changes rapidly.

Established print and broadcast media companies, as well as other online companies occupy an Internet publication's competitive environment. To achieve profitability, publishers must understand their place within this competitive environment and must be able to offer their advertising customers unique value that will attract advertising dollars away from competing and substitute products. Of the \$210 billion spent on advertising in 1998, only \$1.5 billion was spent on online advertisements.¹ Furthermore, the top 50 sites, which represent 1.1% of all web publishers, received 95% of all ad dollars.² (See Figure 1 below)

Pricing policy is a major component of the publisher's strategic and tactical plan. According to research performed by Ernst and Young in 1996, 53 % of online publishing revenue was generated from advertising, whereas only 5% was generated from subscription fees. Online production services and online purchasing accounted for the remainder. To maximize revenue, a publication must adopt a pricing strategy that is in line with its value proposition.

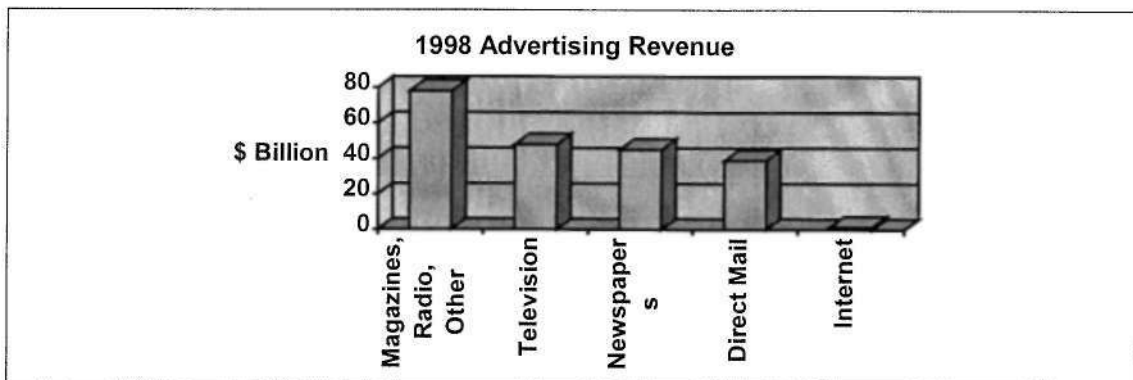


Figure 1

While this paper uses MGoBlue.com as a model, the concepts discussed are applicable to any news and information Internet publication. This paper is intended to provide a current analysis of Internet advertising and to provide a mechanism by which publishers can price advertising strategically and plan their operations accordingly.

Currently, Internet valuation models are based upon potential earnings rather than fundamentals such as book value, projected earnings growth or current earnings. This optimistic valuation model has enabled net stocks to trade at triple and quadruple digit price-to-earnings multiples. Historically, net stocks have generated working capital through venture funding, the issuance of treasury stock and debt and the sale of new equity rather than sustainable internal earnings. If and when these outside sources of working capital become unavailable as viable means of supporting the day-to-day operations of Internet companies, Internet companies will need to rely on their ability to generate positive cash flows from internal operations. Advertising is the primary mechanism by which news and information web sites will fund operations. In the words of John J. Curley, Chairman, President and CEO Gannett Company, Inc., "You can't eat good will."

MGoBlue.com History

MGoBlue.com was launched in October 1998 as the official University of Michigan Athletic Department web site. The athletic department plans to spin-off MGoBlue.com to an independent for-profit company which will package and franchise the MGoBlue.com model to other major university athletic departments. The University of Michigan will collect a royalty based upon the agreement signed with the independent company.

MGoBlue.com offers a variety of services and products including: athletic department publications, programs, season guides, tickets, memorabilia, and clothing. However, the core offering of MGoBlue.com is University of Michigan athletic news and information. MGoBlue.com provides this core content in a variety of ways: press releases, live feeds, statistics, game day programs, feature stories and interviews with coaches and current and former players. The site will also include live web broadcasts (or cybercasts), searchable video archives and interactive chat sessions with coaches and players.

MGoBlue.com intends to utilize its core content to attract fans and advertisers to the site, to generate advertising revenue. As of June, 1999 MGoBlue.com has generated over \$100,000 in advertising revenue from advertisers such as Northwest Airlines and Bank One, and had generated over 1 million page views per month from approximately 100,000 unique viewers. This figure is expected to grow as MGoBlue.com gains more visibility through promotions and advertising.

Developing an Effective Pricing Strategy (Nagle Framework)

In *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden suggest that developing an effective pricing strategy begins with the thorough understanding of three elements: costs, customers and competition.⁴ After evaluating these forces, Nagle and Holden suggest that the firm is able to set strategic objectives. I have supplemented their framework with Michael Porter's five forces framework to create a more comprehensive baseline from which to set strategic objectives for the firm. Once strategic objectives have been set, the firm is in a position to knowledgeably develop pricing tactics.

Competitive Analysis

MGoBlue.com exists as a member of the sports media and entertainment industry and as such competes for the attention of its target audience. The success of MGoBlue.com based upon is the interrelationship of many factors. MGoBlue.com must provide exciting content that will attract and entertain its affinity base. It must maintain internal systems to remain responsive to the needs of its customer base by continually providing up-to-date information. It must remain on the cutting edge of technology to deliver a level of excitement expected by Wolverine fans. As well, it must market its site to its target audience to continually attract customers. MGoBlue.com is also dependent upon the overall success of the University of Michigan athletic programs featured on the site.

By providing its customers with a compelling experience, MGoBlue.com can generate advertising revenue by quantifying and selling the demographic and psychographic profiles of site visitors, their page views and the duration of their visits.

Competition

MGoBlue.com's primary target audience is the University of Michigan affinity base which includes alumni, relatives of alumni, Michigan residents and others with a connection to the University of Michigan. MGoBlue.com's secondary target audience includes all other sports fans drawn to the site. MGoBlue.com's product is University of Michigan athletics and competes with other news and information products that provide the same or similar content. Currently, three sites represent strong competitive threats due to their depth of coverage and/or existing relationship with MGoBlue.com's affinity base. In addition, several other sites offer similar content, but due to their lack of depth represent moderate or weak threats. These companies are outlined in the Figure 2.

Fans Only

Fans Only was founded in 1996 by University Netcasting, Incorporated. The Fans Only web site provides web pages for all 138 NCAA Division 1-A college sports programs and the 10 athletic conferences, including the University of Michigan. These sites include news and information on each college's major and minor sports programs. Fans Only hosts official home pages for 49 of the 138 schools represented on its site. News and information for these 49 schools is provided by athletic department employees, local and national news sources and syndicated news sources. Content for non-official home pages are obtained from all the same sources with the exception of University personnel. During December 1998, Fans Only received 696,000 unique visitors. (Exhibit 1)

The firm has been successful in generating several rounds of venture funding from prominent West Coast venture capital firms, such as Brentwood Associates and Sorrento Partners. Fans Only has also attracted advertising support from many major corporations including: Pepsi, Sports Illustrated, Wingspan Bank.com, AT&T and Bell South.

M Live

This site is an alliance of eight local newspapers including: The Ann Arbor News, The Bay City Times, The Flint Journal, The Grand Rapids Press, The Jackson Citizen Patriot, Kalamazoo Gazette, The Muskegon Chronicle, and The Saginaw News. This site

contains web pages for all major Michigan athletic programs including those at the University of Michigan. The site also features live chats with Michigan athletic players and coaches and audio interviews with University of Michigan Athletic personnel. This site also includes community news and activities. M Live logged over 7 million page views during July 1999.⁵

Detroit News

The Detroit News has a circulation of over 300,000 daily and one million on Sunday. The Detroit News also has an online product that provides coverage of Michigan athletic programs including up-to-date news on the University of Michigan. The Detroit News also has comprehensive coverage of news and events in the Detroit metropolitan area. According to the Audit Bureau of Circulation Audit for March 1999, the Detroit News logged 1300 daily page view for its University of Michigan web site. During the 1998 football season that figure reached 2500.⁶

Additional Competitors	Description of Product	Threat
USA Today ESPN CBS Sportsline CNN/SI Sporting News	Individual Michigan web sites provides team roster, news, team statistics and other general team information. There is not much depth in the coverage of the Michigan athletic program on the individual web pages. However, these sites provide in depth news coverage of all U.S. athletic programs. Teach site contains a searchable archive.	Moderate
College Sports News Daily	Site contains news and statistics on all college athletic programs but does not have an individual web page for the University of Michigan. Database is not searchable by team only by date	Weak
Fox Sports	Individual Michigan web site provides team roster, news, team statistics and other general team information. Contains limited information on individual teams. Database is not searchable by team only by date. The site provides video clips, but they are not searchable by team, only by date. The site provides in depth news coverage of all U.S. athletic programs.	Weak
Total Sports	Total Sports hosts the official NCAA web site as well as web sites for all NCAA national championships. The company also licenses its content to CNN/SI, Major League baseball and Choice Seat, an in stadium statistical delivery system. TSN produces the daily online sports section for the Wall Street Journal. Total Sports does not maintain pages for non-member sites and does not provide a web page for University of Michigan Athletics.	Weak
Yahoo Sports	Contains in-depth coverage of all college sports. Does not contain an individual web page for University of Michigan. Database is not searchable by team, only by date.	Weak

Figure 2

Substitutes

MGoBlue.com is a niche product that competes for the attention of University of Michigan athletics fans by providing them with a resource to access news and information in real time and to retrieve in depth coverage from archives. There are a multitude of substitutes for MGoBlue.com, which consist of companies that provide similar content and a viable alternative to University of Michigan athletic fans. This group includes sports related local and national television, cable, radio broadcasts, and local and national print publications. Notable substitutes include CBS and Fox Sports, Sports Illustrated, ESPN Cable, and USA Today. A detailed discussion of traditional media is included below.

Suppliers

Sports news and information is available for purchase from a variety of sources including local media and national news syndicates (Associated Press, Reuters, etc.). For a nominal fee companies can subscribe to and reprint articles from new syndicates. Syndicates operate through a consortium of media companies who contribute content to the syndicate. Information is then made available to other members.

While outside sources of information provide an alternative perspective to athletic events, the most valuable content is produced internally. MGoBlue.com maintains writers on staff and is capable of cybercasting its own footage of events and interviews. Further, MGoBlue.com creates its own news through the athletic programs it covers, and as a consequence, is not threatened by the power of news syndicates.

Barriers to Entry

Barriers to entry include the costs of start-up, ongoing operations and most importantly site content. As discussed above, content for sports web sites are provided by a variety of sources. However, the most valuable source of content is access to the athletic department. This requires both a relationship with the athletic department and proximity to personnel, players and events which MGoBlue.com maintains. In addition, the costs to start and operate a competitive sports news and information web site are significant. According to The Gartner Group, the average Internet start-up costs \$1 million and takes an average of five months to complete.(Exhibit 2) The University of Michigan incurred \$550,000 in expenses related to MGoBlue.com between October 1998 and May 1999.⁷ A detailed breakdown of fixed and variable costs associated with MGoBlue.com are provided below. The Technology Management Office has provided these cost estimates for starting and operating MGoBlue.com as a stand-alone entity.

Start-Up Costs	
Core Software application Development	\$235,000
Network Equipment	\$50,000
Office Equipment	\$32,500
Total Start-Up Cost	\$317,500

Ongoing Expenses (Fixed)	
<i>Personnel</i>	
Marketing	\$50,000
Programmers	\$140,000
Editor	\$50,000

Bookkeeping	\$40,000
Publisher/Director	\$80,000
<i>Operating</i>	
Rent/Utilities	\$50,000
Web Hosting Service	\$40,000
Telecommunications	\$10,000
Marketing	\$50,000
Total	\$510,000

Figure 3

Costs

As illustrated above, the start-up costs and ongoing operating expenses for an Internet sports and information web site represent a significant barrier to entry. They also help guide the firm in selecting pricing strategy. According to the principles of economics, the firm should continue to operate in the short run so long as prices and revenue exceed short run average variable costs. Virtually all of the costs associated with MGoBlue.com and similar sites are incurred regardless of the quantity of advertisements appearing on the site. Consequently, any price received in the short run should act to reduce the firm's loss or increase its profits.

Customers

Consumers

MGoBlue.com targets University of Michigan athletic fans. Based upon this fact, it is expected that the consumer base will be comprised most heavily by individuals with an affinity to the University of Michigan as opposed to a general sports audience. The affinity base of MGoBlue.com is comprised of current students, alumni, family members of students and alumni, and current and prior area residents. Among these groups, the current and future alumni base is expected to comprise the largest segment. As of 1999, The University of Michigan had 408,000 living alumni, the largest living alumni base in the U.S.⁸ Due to their affiliation with the University, this group will incur significant switching cost, comprised primarily of the lack of consortium with their alma mater.

MGoBlue.com's audience profile represents an attractive market segment with strong purchasing power (Figures 4,5 and 6). It is also perceived that college alumni place value on the opinion of the school they attended and that advertisers affiliated with the school will benefit from this opinion. Advertisers should find The University of Michigan's relationship with its affinity group an attractive reason to advertise on the site.

Gender

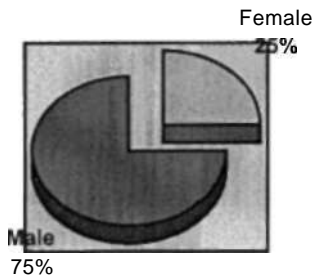


Figure 4
Source: MGoBlue.com 11/98 survey

Income

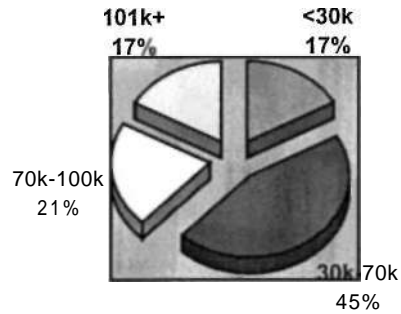


Figure 5
Source: MGoBlue.com 11/98 survey

Age

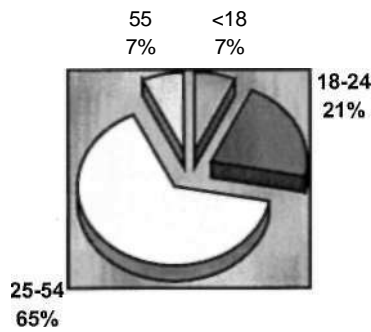


Figure 6
Source: MGoBlue.com 11/98 survey

Advertisers

Large national and regional advertisers utilize in-house and external advertising agencies to select advertising media and to place ads. According to 1996 U.S. census figures, there are over 10,000 ad agencies in the U.S. Of that figure, 545 agencies control over 75% of all agency-placed ads in the country.⁹ The proliferation of media from which an advertiser can choose and the concentration of advertising spending give agencies leverage when bargaining for ad space. Online publishers will need to be sensitive to the bargaining strength of advertisers when developing business relationships.

Factors Effecting Customers Willingness to Pay (Price Elasticity).

Setting an appropriate price is a function of the dynamics of demand and supply. In a perfect world, prices would be set, observed and changed to measure the elasticity of demand as those changes occurred within each market segment. This type of analysis requires analytical rigor, time and a stable market. Due to the nascence of the Internet, this type of study has not been performed. Furthermore, as it exists today, the Internet is in a state of exponential growth. Isolating consumer behavior based solely on price changes would be a difficult task. As the market stabilizes, this type of study would prove beneficial in terms of maximizing revenue.

In the absence of quantitative analyses, Nagle and Holden recommend the use of ten qualitative measures which effect customer's willingness to purchase. While these ten measures are discussed throughout the paper, I will briefly discuss the three that are most applicable to MGoBlue.com at this point: perceived substitute, unique value and switching cost effect.

Qualitative Factors Effecting Price

1	Perceived Substitute Effect	What and to what extent are the buyers(or segments of buyers) typically aware of when making a purchase?
2	Unique Value Effect	Does the product have any unique attributes that differentiate it from competing products?
3	Switching Cost Effect	To what extent have buyers already made investments (both monetary and psychologically) in dealing with one supplier that they would need to incur again if they switched suppliers?
4	Difficult Comparison Effect	How difficult is it for buyers to compare the offers of different suppliers?
5	Price-Quality Effect	Is a prestige image an attribute of the product?
6	Expenditure Effect	How significant are buyers' expenditures for the product in absolute dollar terms (for business buyers) and as a portion of income (for end consumers)
7	End-Benefit Effect	What end-benefits do buyers seek from the products?
8	Shared-Cost Effect	Does the buyer pay the full cost of the product?
9	Fairness Effect	How does the product's current price compare with prices people have paid in the past for products in this category?
10	Inventory Effect	Do buyers hold inventories of products? Do they expect the current price to be temporary?

Figure 3

Perceived Substitute, Unique Value, Switching Cost Effects

Consumers

As discussed earlier, there are several competitors and substitutes to MGoBlue.com. However due to the customer base of MGoBlue.com, customers will experience high switching cost when attempting to adopt an alternative product. This will occur for two reasons. MGoBlue.com has positioned itself as the official University of Michigan athletic site and aspires to be the superior provider of news content and delivery for University athletics. Secondly, by using another product in place of MGoBlue.com, the affinity base would need to shed its allegiance to its alma mater. MGoBlue.com will be able its high switching costs to maintain a loyal consumer base.

Advertisers

As discussed earlier, advertisers have many alternatives to turn to when seeking to attract the audience demographics and psychographics offered by MGoBlue.com including non-sports related media. Because of the proliferation of media, advertisers are able to find multiple media vehicles that serve very narrow market segments as well as general media. MGoBlue.com will need to leverage its relationship and influence with Michigan athletic fans to offer a unique value proposition to advertisers.

Advertisers typically deal with multiple media vehicles simultaneously and experience low switching costs. In August 1999, MGoBlue.com signed a three-year advertising contract with Bank One, effectively increasing the switching costs of this advertiser. Consummating similar contract lengths with other advertisers could shift the balance of power gained through low switching costs towards MGoBlue.com.

Media Strategy (The Advertisers Perspective)

Competing effectively for customer attention and loyalty is a requisite for Internet publishers to compete effectively for advertising dollars. To gain the attention of consumer many elements are necessary: a creative message, proper timing and the proper medium to name a few. Media buyers utilize several factors to determine the appropriateness of media vehicles as stand-alone purchases or as synergistic complements to other media buys. To gain a better sense for how Internet publisher can attract ad dollars, it is best to have an understanding of the goals and strategies employed by advertisers.

The Target Audience

The advertiser's most important objective is to ascertain and reach its product's target market. Advertising media perform audience research and make this data available to advertisers to assist them in selecting media that reaches their customer profile. Conversely, media companies market to advertisers on the strength of the purchasing power of the audience drawn to their media product. Media companies employ sophisticated measurement techniques to fine-tune the measurement of their audience. One such tool is Claritas, which segments markets by demographics and lifestyles using Zip codes as a primary measurement.

Message Requirements

To be effective, an advertisement must accomplish its intended purpose of building awareness, educating or enticing customers. Among the various factors that advertisers must consider is the predisposition of the audience to a particular medium. An ad in the Wall Street Journal may appear more credible than one found in a tabloid. More detailed product description may require a medium that can be viewed for an extended period of time, such as print or Internet.

Advertisers consider the involvement of the audience and how that may influence their purchasing process. For example, Car and Driver magazine reaches audiences who are actively engaged in thinking about automobiles.

Finally, advertisers look for complementary media. Coupons in a Sunday newspaper may be a strong complement to nationally televised food campaigns. Radio

provides a strong compliment to television campaigns because it has the ability to reach consumers close to the point of purchase. Billboards provide a similar function for print advertising campaigns.

Efficiency and Effectiveness

The building blocks of effectiveness and efficiency are frequency and reach. Frequency refers to the number of times an ad is delivered within a given period of time. Reach refers to the total number of people exposed to an advertisement. Most advertisers begin with a fixed monetary budget and attempt to make media buys that balance the two measures. The goal is to expose the appropriate audience to an advertisement enough times for the message to penetrate the market and influence purchasing behavior. Many factors influence the penetration rate of an ad: audience motivation to buy, message complexity strength of the ad, time of day/attention level and competition. The advertiser must perform focus groups or other qualitative market research to determine the impact (effectiveness) of a given advertising campaign.

The effectiveness of an advertisement is the qualitative measure of how successful the ad is in accomplishing its intended purpose. Efficiency refers to the cost of accomplishing that goal and is measured in the total number of exposure required. For example, market research may indicate that a particular television commercial elicits strong purchasing behavior when members of the target audience are exposed to it. It may also reach an audience of 50 million viewers of whom only 25 million are members of the target audience. This ad would score very high on the effectiveness scale. However, the medium would score a 50% because the advertiser would have to pay for 25 million viewers who were not members of its target market.

As marketers have grown more sophisticated in identifying target markets and media vehicles have become better able to reach these targeted segments, measurements of effective reach and frequency have grown. This has created demand for targeted media vehicles.

The standard advertising measure used to compare purchases across all media is the CPM (cost per thousand exposures). The general rule of thumb is that the more targeted the medium, the more costly the CPM rate. This price differential adjusts for the efficiency of the media. With more targeted media, advertisers are not forced to pay for reach wasted on audiences that are not among their target market or likely to purchasing their goods or services. The Internet provides an opportunity for advertisers to reach very narrow segments of the population based upon geographic location, lifestyle, purchasing habits and particular interests and affiliations. The bottom line in measuring the effectiveness and efficiency of an advertising campaign is the cost to convert a prospective customer to paid customer.

Traditional Media Advertising Models

The purpose of this section is to provide the start-up Internet publication a foundation in the products with which it will compete for advertising dollars. This section underscores the value proposition offered by alternative media as well as a foundation for pricing structure used by the industry. Furthermore, this section is intended to provide the reader with a sense of the influence that traditional media has played in the advertising models present on the Internet. Indeed, upon close inspection, it is evident that current Internet

advertising models are derivatives of traditional media models. And, the companies that dominate news and information on the Internet are also the companies that dominate traditional media. It is likely that these companies will continue to shape and influence how news, information and advertising are presented in cyberspace. Background information included in this section has been adapted from Kleppner's Advertising Procedure.¹¹

Outdoor Advertising

Background

Outdoor advertising is the oldest form of advertising. Evidence of this medium can be found in prehistoric carvings in stone and bronze. Outdoor advertising was used along the popular roadsides in ancient Egypt to post public notices and sales messages. In the U.S., posters were used to announce the Boston Tea party.

The modern form of outdoor advertising was introduced in the early twentieth century and was stimulated by the emergence of the automobile and the mobile society. Like the automobile industry, outdoor advertising has grown and flourished. Despite efforts by the Federal Government to curb the use of the media with the Highway Beautification Act of 1965 and similar efforts by local jurisdictions, outdoor advertising has grown to become a \$4,413 billion industry in 1998.¹² (See Exhibit 3below)

Advantages/Disadvantages

Outdoor advertising is a mass-market media capable of reaching an entire mobile population within a geographic area. Outdoor advertising takes many forms including outdoor billboards, transit and shelters. The most recognizable form is the elevated billboard, followed by ads attached to buses and other vehicles and finally ads that are placed on the outside and inside of transit shelter, airports, stadiums and other stationary structures.

Outdoor advertising is the most cost efficient mass media advertising vehicle. The closest competitor in terms of cost is Radio with a CPM three times higher than outdoor (See Exhibit 4). Outdoor advertising also has its shortcomings which include: passive involvement by passerby's, low audience selectivity and lack of availability of high-traffic roadways. Despite these limitations, advertisers select outdoor advertising for its ability to gain mass awareness for new brands, create reminder ads for popular brands and compliment advertising campaigns run via other media.

Outdoor Revenue Model

Regardless of the form it takes, outdoor advertising is sold on the basis of gross rating points (GRPs). One GRP is equal to 1% of the population. Outdoor companies perform market research to determine the traffic flow and resulting audience size of a given location. This measure is termed the daily effective circulation (DEC) of a location. The DEC is the percentage of the market population reached by the ad, calculated as the GRP times the local market population. Typically, an advertiser would purchase a package of posters in a given geographic area to accomplish a selected DEC for the entire market. The Traffic Audit Bureau (TAB) provides advertisers with third party verification of traffic volume and patterns for particular roads within a geographic location.

Print Media

Newspapers

Background

Newspapers predate all other forms of print media as advertising medium and formed a foundation for other print media as well. The invention of Europe's first printing press by Gutenberg in the 15th century gave birth to the printing industry. Although the original printing press and its progeny were used primarily to print books and pamphlets, newspapers began to emerge in Germany in the early seventeenth century. Within a few decades, newspapers were in print in all major cities in Europe.

The first American newspaper of record, *Public Occurrences*, was published in 1690 which reported "provocative" articles concerning modern day politics. Other newspapers also began to emerge throughout the colonies that were largely political in nature. By 1775, 37 such papers were in print.

In 1797 another type of newspaper emerged, the mercantile paper. One of the first mercantile papers was *The New York Commercial Advertiser*. These papers provided business news and advertisements. And, though political papers were inexpensive and did not generate profits, mercantile papers generated healthy advertising and circulation profits. Today's newspapers consolidate both aspects of their predecessors, political and mercantile papers.

Currently there are over 1500 daily newspapers with approximately 58 million readers in U.S. In addition, there are nearly 900 Sunday newspapers with a circulation of 62 Million.¹³

Two trends have emerged within the industry that effect how advertising dollars are spent. Circulation since 1950 has grown by only 10%, while population growth has been 90%.¹⁴ Secondly, Newspapers have undergone a massive consolidation which has resulted in the seven largest newspaper companies owning more than 1/3 of daily circulation.¹⁵

While the first trend undermines the power that the medium wields over advertisers because of the apparent diminished market share enjoyed by the medium, the second trend represents a consolidation and ability for newspapers to act collectively. This represents a strength that the industry did not enjoy in its earlier, independent form.

Advantages/Disadvantages

Most newspapers service local metropolitan and suburban areas. Several newspapers including the *Wall Street Journal*, *New York Times*, *Washington Post* and *USA Today* are considered national newspapers. However, none of these publications have a circulation greater than 2 million (which is less than 1% of the U.S. population), making their claim as a national newspaper questionable.

Newspaper's status as a local medium has had both its advantages and disadvantages as advertising media. Advertisers who wish to target local communities with measurable demographics find this media appealing. However, advertisers seeking to reach a broader geographic audience find it cumbersome to engage in the newspaper media buys necessary to patch together national or even regional coverage.

Newspaper Revenue Model

Newspapers attract advertisers by leveraging the their product's appeal to the local market. Most local newspapers engage in detailed market research to understand the needs of their markets and attempt to tailor their products to meet those needs. Newspapers also engage in complex segmentation studies to gain a full understanding of the demographic make-up of the neighborhoods to which they deliver and the psychographics of the individuals who live in those neighborhoods. Newspaper circulation statistics are certified by the Audit Bureau of Circulation, providing third party verification. Advertisers have access to this research and to audited circulation figures when they negotiate rates to pay for their ad placements.

Newspapers offer two types of ad placement, run of paper (ROP) and insert. As the name implies, ROP ads are interspersed throughout a newspaper on the pages of newsprint fed through the printing press. Inserted ads are added to the newspaper after it is printed and prior to distribution. In addition, advertisers have the opportunity to select the section of the newspaper in which their ads are printed or inserted. In both cases, the advertiser can generally select the neighborhoods or geographic zones to which their ad is distributed.

The Newspaper Rate Card

Advertisements are priced on a CPM basis, which is then translated into an elaborate rate card. The rate card specifies prices on the basis of column inches. As with other media, the rate card exists as a starting point for negotiations between advertisers and the medium.

Generally, newspapers maintain at least two rate cards, classified and retail. Additional rate cards may exist for industry segments (i.e. grocery, travel, and retail). Rate cards represent open rates and contract rates. Open rates are those rates that are available for advertisers who do not wish to be bound by a contract. Within both the open and the contract rate structure there is generally a descending rate structure based either on the frequency with which an advertiser runs ads or bulk, the total column inches purchased by the advertiser. As a general rule, the more space and the greater the frequency of space purchased by an advertiser the lower their cost per inch. In addition, when an advertiser under contract exceeds or falls short of the contracted level of advertising, the newspaper will either issue a rebate or charge the short rate which adjusts all of the advertisements they ran during the contract term to the appropriate rate for their actual media purchase.

Direct Response marketing

Background and Description

Direct response advertising has existed for centuries. In 1740 Benjamin Franklin sold scientific books by mail order. In the 19th century, retailers Montgomery Ward and Sears used mail order catalogs to sell their merchandise. Direct response marketing has since evolved to encompass more than mail order. Direct response is defined as any advertising used to sell goods directly to consumers, thereby bypassing the retailer.

Advantages/Disadvantages

There are many benefits of using this media. Direct response allows advertisers to reach narrowly targeted audiences with a personalized message. In addition, customer responses are measurable. While direct response advertisements contain enough information for the consumer to consummate the transaction with a purchase, direct response works best with products that already have strong brand awareness. In essence, direct response replaces the salesperson as the last customer interaction prior to purchase.

While direct response enjoys many benefits, it is haunted by several image problems. The history of direct response is replete with fraudulent sales gimmicks from overnight remedies to get-rich quick schemes. Additionally, due to the personalized nature of the medium, consumers fear that their privacy is being invaded and have grown reluctant to offer personal information for fear that their information will be sold to marketers. Finally, many consumers are aggravated by the nuisance of being targeted with unwanted solicitations.

Direct response assumes many forms and crosses many media. Direct response includes television spots that provide consumers a telephone number with which take make purchases. It includes print media enabling consumers to bypass a retail outlet and consummate a purchase. It also includes web site such as amazon.com and travelocity.com that allow consumers to complete their purchase online. However, direct response is a unique distribution channel for "direct response mailings". The cost structure and revenue model for "direct response mailings" is discussed next.

Direct Mail Revenue Model

Advertisers begins their direct mail campaign by purchasing or compiling a list of qualified customers. The two most important factors concerning the individuals on a list are their demographic and psychographic profile, which measure their potential value as consumers. List costs vary widely based upon these criteria. The advertiser also has to factor in the cost of postage. To produce effective solicitations in a cost-efficient manner, advertisers should consult with the post office prior to selecting the size of their mailing. Finally, the advertiser will need to design and print their solicitation. A simple targeted direct mail campaign can range from \$200 to \$300 CPM.

Alternatives to producing and mailing a stand-alone mailer are "packaged inserts" which allow advertisers to bundle their solicitation with those of other advertisers to economize on the cost of purchasing mailing lists and postage. This method generally costs in the \$40 to \$50 CPM range.¹⁸

Magazines

Background

Magazines published in the mid-19th century were literary, political or religious in content. They carried little advertising and relied heavily on their special interest following for financial support. At the time, magazines sold at premium prices to cover the cost of content and production. Later in the century, a rising middle class, mass production and national transportation enabled branded goods manufacturers to sell their goods on a national scale. This created a need for national advertising vehicles with which manufacturers could promote their brands. Mass produced magazines emerged to

fill this need. These publications were introduced to the public at affordable prices and were very successful at the time.

Magazines retained their position as the only national media until the advent of radio in the 1920s. They remained the only visual national media until the advent of television in the 1950s. During the 1950s the, magazines were threatened on two fronts. Television offered a comparatively low CPM and advertisers were beginning to demand more targeted media. At the time magazines were of a general interest nature.

Since then, magazines have adapted to this new competitive environment by becoming increasingly specialized. At the same time magazines have watched their advertising base become increasingly concentrated. The top five advertising categories now account for 48% of revenue.¹⁹ Additionally, in 1997, the top twenty-five advertisers accounted for 33% of overall ad revenue²⁰. Magazines have responded to this concentration of buyer power by shifting a greater percentage of costs to readers. Readers now account for more than 40% of revenue for the magazine industry.

Advantages/Disadvantages

Magazines offer many advantages to advertisers. Because of their specialized nature, they offer audience selectivity, which allow advertisers to reach narrowly defined target markets. Magazines also have a long shelf life. A recent study by MRI, a magazine research firm revealed that the average magazine is read by four readers per copy and is accessible for more than 28 weeks.²² Magazines also offer flexibility in terms of content. Advertisers have the option of using color, detailed product descriptions and even product samples. Magazines also have credibility among their readers. Consumers look to magazines more than any other source of media for information and new ideas.

Magazine's greatest drawback is the long lead-time required of advertisers to place ads. Magazines require up to two month's lead-time to place an ad on their pages. Advertisers must plan their ad campaigns far in advance of their printing and may not be able to take advantage of up-to-date events and trends in their advertising copy.

Magazine Revenue Model

Prior to 1980, magazine advertising was sold off a rate card. It was generally viewed as unethical to "go-off-the-card" or to negotiate individually with advertisers for rates because more than one advertiser could pay a different rate for the same space. However, in the early 1980s many publications began to feel the effects of a downturn in advertising revenue and began negotiating rates. By the 1990s the rate card had become a starting point for rate negotiations and individual rate negotiations had become the industry norm. This has had the result of reducing magazine's profitability.

Magazines have reacted by increasing advertising rates at an average annual rate of 8% as opposed to 4%, which was the industry average.²⁴ Other magazines have engaged in merchandising the magazine brand. By branding related products, these magazines hope to increase the recognition of and loyalty to the magazine, by subscribers. Publishers hope that this will translate into an increased subscriber based which will draw additional subscriber and ad revenue.

The Magazine Rate Card

The typical advertising rate card is structured on two axes, one measuring the size of the ad and the other measuring the frequency or dollar volume (bulk) of ad placements. As the advertiser commits to higher frequency or bulk, the effective CPM for the ads decrease.

Advertisers sign contracts at the beginning of each year committing them to a particular advertising agreement. At year-end, advertisers that exceed the agreed upon level of advertising and reach the next discount level are issued a rebate which adjusts all of their ads placed for that year to a lower rate. Conversely, if an advertiser fails to reach the agreed upon contract level, they are charged a short-rate at year-end to adjust their CPM for all ads placed during the year upward to the rate level achieved.

Broadcast Media

Television

Background

The first television ad aired on July 1, 1941 during a Dodgers-Phillies Game. It was seen by approximately 4000 viewers and cost Bulova Watches \$9. Since then, television viewers and advertising dollars have rushed to this medium. Nielsen estimates that the average U.S. household watches 7.5 hours of television per day.²⁵ Television has also grown more targeted, particularly since the introduction of cable. Individual shows and channels target members of society with a particular demographic composition and psychographic profile. In addition, television offers the ability to convey a message using sight, sound and context. Television represents the only true national media able to reach broad cross-sections of the U.S. population. For this reason it is a highly attractive media for mass merchandisers. In fact, General Motors alone spent close to \$1.2 billion in spot and national television campaigns in 1997.

Advantages/Disadvantages

The main disadvantage to using television is its high CPM and low efficiency. Television costs continue to increase due to the limited availability of time and the reach of the media. In addition, there is a perception that television is cluttered with advertising. Advertisers claim that this information overload acts to diminish the effectiveness of the ads being aired.

Television Revenue Model

Television rates are driven by demographics and market share. Advertisers evaluate television based upon its ability to attract a certain target audience. In the case of network television this audience can be broadly defined and in the case of cable can become quite narrow

The measure used within the industry to judge the reach of a television spot is the rating point, which represents the percentage of a given population engaged in viewing the television. Advertising is purchased on the basis of total ratings for all commercial time purchased or gross rating points (GRP). GRP is calculated by multiplying the ratings of each spot by the number of spots purchased.

A second measure, known as share, is also used to measure the popularity of a program. If GRP represents the proportion of total households tuned to a given program,

share is a measure of the proportion of television sets that are "on" and tuned to a particular program. Nielsen is a third party rating agency which uses a randomly selected cross-section of the population to measure viewer habits and assigns ratings and share to programs. These measures are then used to negotiate the CPM charged for each advertising spot.

Advertising is sold by the networks that produce and air nationally televised programming and by local television affiliates that air network programs and produce and air local programs (such as the local news). In both cases, the rate setting process is similar.

No rate card exists for television ad sales. Instead, senior television management sets advertising revenue budgets, and negotiations are struck between ad buyers and national networks. In the event that the program time purchased fails to meet an agreed upon GRP, advertisers are contractually given "make-good" ads which enable them to gain the exposure not attained by the original ad.

Local stations sell ads at a preemption rate and a non-preemption rate. The preemption rate gives the station the right to offer a sold spot to another advertiser who offers a greater price for the spot. Preemption rates are generally less expensive than non-preemption rates. Using preemption rates enable local stations to segment the market by setting a reservation price and instituting an ascending-bid auction for space.

In estimating the overall cost of an ad, the advertiser must factor in the cost to produce the spot. The average 30 second spot cost \$308,000 to produce in 1997.²⁷

Radio

Background

The first radio network, the National Broadcast Company (NBC), was established in 1926. Until, the advent of commercial television in the 1950's, radio was considered the most prestigious mass medium for national advertisers. Celebrity entertainers and news personalities hosted shows, and entire families gathered around the radio to listen. Major advertisers sponsored all programs during that period. The birth of national television in 1951 quickly eroded radios' appeal as a source of family entertainment and its advertising revenue base.

Although radio currently represents only 6-7% of advertising revenue, that fraction represented \$15.41 billion in annual revenue.²⁸ It is estimated that radio currently reaches 75% of the U.S. population on a daily basis and 95% of the population on a weekly basis.²⁹ During the average week, adults spend 21.5 hours listening to the radio.³⁰ Consequently, radio still represents a potent advertising medium.

Advantages/Disadvantages

From an advertiser's perspective there are many advantages to using radio. Radio's strong bond with its listeners allows advertisers to reach specific segments with a personalized message. Radio also has strong reach and frequency among all demographic and psychographic segments. Radio offers lower CPM than virtually any other medium, and the cost of producing radio commercials is sufficiently low that advertisers can create multiple spots for varying segments. The most complex radio spot generally costs less than five thousand dollars.³¹ Radio also offers advertisers physical proximity to the point of purchase, a feature rivaled only by outdoor advertising.

Radio has two limitations, the first of which is the fragmentation of the radio audience. There are currently more than 10,000 radio stations in the U.S. That is more than twice the number of television stations, newspapers and consumer magazines combined.³² Due to this volume of stations, it is increasingly difficult for advertisers of mass-market goods to make radio ad buys that reach a general cross-section of the population. It is equally difficult for advertisers of targeted goods and services to sort through the myriad choices to identify those catering to their target market.

Second, radio lacks a visual element. With the growth of self-service retailing and competitive brand marketing, visual identification is becoming a crucial aspect of the marketing process. In this respect, radio's role has become secondary to that of television which can deliver both audible and visual stimuli for the prospective customer. Because of these two limitations, radio is considered to be an excellent supplementary media buy best used in conjunction with other media (i.e., newspaper, magazine, television).

Radio Revenue Model

Radio programming falls into two categories, spot radio and network. Like television stations, spot programs are produced locally and are not syndicated to other radio stations. Network programming is syndicated and produced by one of fifty national radio networks. Unlike television stations, which are limited to airing the programs of only one network, radio stations can carry network programs produced by a variety of networks. Consequently, radio stations have a larger range of products to choose from to attract and retain a particular market segment.

Radio ads are sold in sixty-second increments and on the basis of day-parts. Each day is segmented by the audience activity occurring during that segment. Day-parts may include morning commute, lunch time, evening commute, night-time and twilight listeners. The size of the audience varies greatly by day-part.

Radio advertisers use a measure known as average quarter-hour estimates (AQHE) to measure both the percentage of the population and the listening audience tuned to a particular station for at least five minutes during a given quarter hour. This measure is then used to calculate the impact of an ad during a given day-part and effects the rates charged for ads.

Rating Services

There are two services used currently to rate radio station usage, Arbitron and Radio All Dimension Audience Research (RADAR). Arbitron rates local radio stations using a diary which is completed on a voluntary basis by a randomly selected member of a listening area. RADAR uses telephone surveys to rate radio networks. The limitations of the methodologies of both of these companies is that they rely heavily on listener recall. Unless participants are methodical in recording their actual habits they are likely to have somewhat distorted recollections of their complex listening habits.

Rate cards

Each radio station creates its own classifications which are published on its rate card. Generally the classifications include day-parts, special feature and package purchases. Radio rate cards also contain dollar volume and frequency discounts. Like television, rates are negotiated using the ratings achieved by the station.

Internet Advertising Models

Presently there are two primary uses of the Internet for the general public, e-mail and the World Wide Web. Advertising models have been developed for each of these uses and are presented below.

Email Advertising

Free Accounts

Forrester Research estimates that approximately 55 million U.S. households currently have email. Forrester also forecasts that this figure will grow to 135 million by 2001. Free e-mail services have emerged on the Internet to facilitate this trend and take advantage of the medium as a source of advertising revenue. Free e-mail providers trade their service with customers for personal demographic information, which they can then use to promote their site to advertisers.

Newsletters and Discussion Groups

Newsletters are produced by commercial organizations and special interest groups and are distributed to subscribers. Discussion groups are comprised of special interest groups who exchange email on a specific topic. All subscribers to discussion groups receive the response and input of all other members. Both formats provide advertisers specific mailing lists and targeted psychographic information.

Direct Emails (Spam)

Many advertisers have experimented with sending advertising message directly to customer's email accounts. Like direct marketing, companies generate lists of perspective customers categorized by demographics and make these lists available for purchase. In many instances, customers who have received these unsolicited ads have responded caustically by overloading the advertiser's server with negative responses (flames). There is currently pending legislation that would ban certain unsolicited advertisements via email (Unsolicited Commercial Electronic Mail Choice Act of 1997, Electronic Mailbox Protection Act of 1997, Netizens Protection Act and the Email Users Protection Act of 1998).

World Wide Web Advertising

Classified Advertisements

Many web portals such as Yahoo! and Microsoft Network offer areas where individuals can place classified advertisements. Visitors are able to select ads pertaining to their region or a broader geographical area if desired. Although classified advertising has long been the bastion of newspapers, as the Internet audience grows, it may become a viable alternative to newspaper advertising.

Banners and Buttons

Banners ads were the first format for web advertising. Banner ads have evolved from static miniature billboard that when selected would transport the user to the advertiser's

web site to stand-alone interactive media that allow prospective customers to obtain information or complete a transaction without ever leaving the site upon which the advertisement appears. Buttons are scaled-down versions of banner ads.

Together, two organizations, the Coalition of Advertising Supported Information & Entertainment (CASIE) and the Internet Advertising Bureau (IAB) have developed a common set of standards for banner sizes which have been adopted by the industry. These standards enable advertiser's to concentrate on ad content as opposed to sizing issues. These standards also eliminate the cost of having to resize banners to fit the many web sites upon which the ad would run.

Currently available software enables publishers to measure the number of visits, click-through rate, most popular usage times, pages viewed per visit, length of visit, domain and host of visitor, user computer platform, browser used, referring URL, user entrance page and exit page.

Push Technology Service Providers

Using push technology means that ads are sent to potential customers without a their request. Services such as PointCast™ and Backweb™ use similar technologies to deliver advertisements to customers. Both products enable customers to subscribe to specific content such as newspapers, news channels, or weather channels. These service providers also allow the user to customize the news and information content that they receive. In return for the service, customers are charged subscription fees for some of the content and are required to complete demographic information. Advertisements tailored to specific demographic audiences are then delivered to the customer's screen in the form of banners and full motion commercials.

Interstitial

Interstitial ads are similar to television commercials in that they interrupt the user's activity to air a commercial. Some interstitial ads are incorporated into the hosts web page and others appear as entirely separate web pages. These ads allow advertisers to use full-motion video to promote their products and services.

Other World Wide Web Advertising Models

Chat Rooms

Like newsletters and discussion groups, participants interested in specific topics conduct chat sessions. While chat rooms appear attractive because of their ability to draw in viewers interested in particular topics, one major drawback is that they are not moderated which can lead to the discussion of inappropriate topics which can undermine the advertiser's goal.

Syndicated Content

One promising area on the Internet is the emergence of syndicated programming. These programs model television soap operas and have been promoted as "cyberseries". Advertisers are able to sponsor all or part of a series and develop running banner ads or full-motion ads within the program. One drawback to this format is the need for high-bandwidth transmission to run the series and the accompanying commercials.

Sponsorships

As the name implies, sponsorships enable an advertiser to gain name recognition by underwriting a portion of a web page. Many sponsorships are associated with specific news stories or upcoming events. They do not contain promotional information. Only the phrasing "sponsored by..." is included near the sponsored item.

Current Internet Pricing Models

As mentioned earlier, the current Internet pricing models have been derived from traditional media models. This is not surprising considering that such companies as Dow Jones, Time Warner, Disney, USA Today and other traditional media companies have provided leadership in Internet publications. One of the clear differences between the Internet and other media is the ability of Internet publishers to identify the consumers who visit and the frequency and duration of those visits. These measurements provide advertisers with a potent resource for valuing the web site's viewer base and, consequently, the advertising space.

CPM

The single most pervasive pricing model on the Internet is based on cost per thousand impressions, accounting for 40% of online advertising revenue in 1998.³³ An impression occurs when an advertisement appears on a computer monitor. Using the software discussed earlier, publishers are able to measure the number of requests made to view a web page, the number of visits, duration of visits, the IP address of the computer visiting, and the number of impressions a given page creates. Publishers are also able to ascertain the number of unique visitors that arrive at the site by examining each user's unique IP addresses. By using unique visitors as a measurement tool, advertisers can know whether the same computer visited the site a thousand times or if one thousand different computers each visited once. Knowing the answer gives advertisers the ability to measure the reach and frequency of exposures and gives them a point of comparison against other media vehicles. In addition, CPM rates are set based upon the demographics and psychographics of the site's audience. As a rule of thumb, the CPM rate is strongly correlated with the efficiency of the media and the purchasing power of the audience drawn to that media.(See Figures 7 and 8 below)

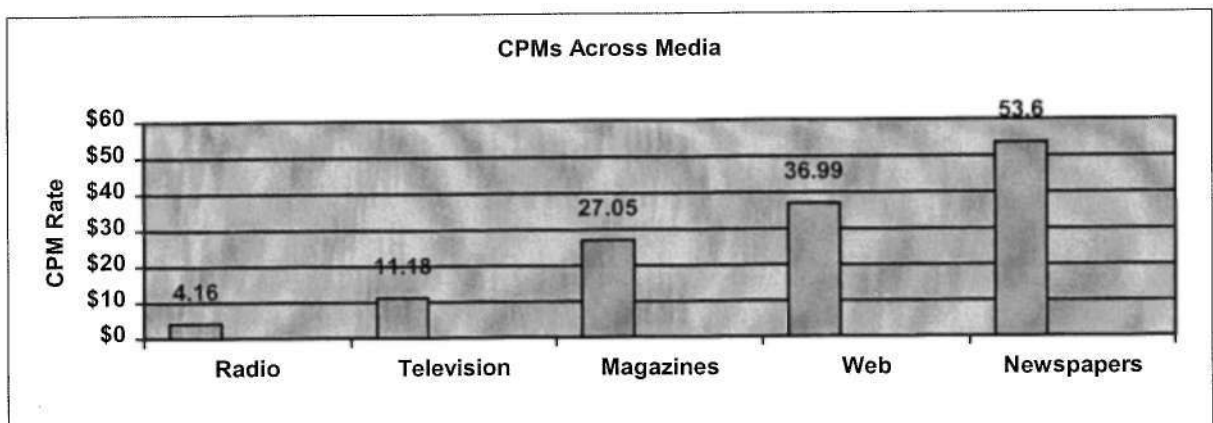


Figure 7

Source: 1998 AdKnowledge

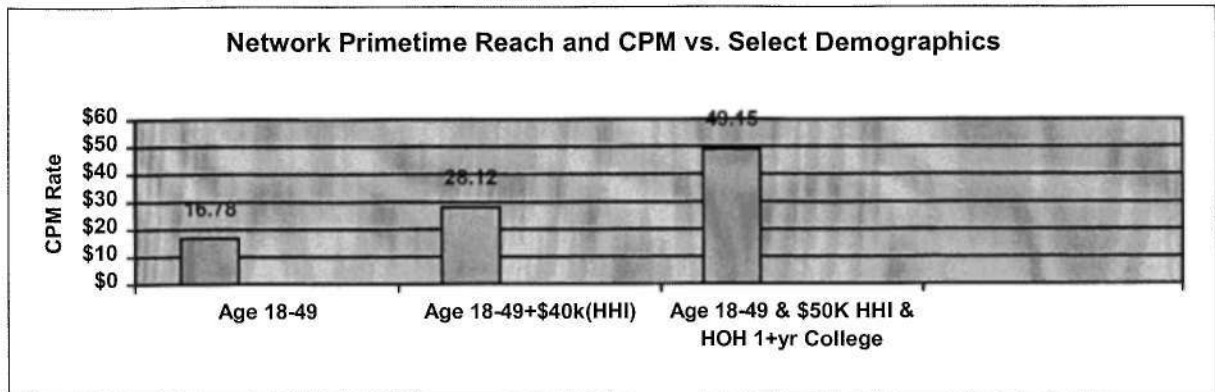


Figure 8

Key: HHI = Household Income, HOH = Head of Household

Source: Nielsen 11/97 Audience Estimates

Click-Through Rates

Click-through rates are a measure of the frequency with which a viewer clicks an advertisement. In order for the publisher to collect advertising revenue, viewers must “click” or select the advertisements run on its site. This pricing mechanism shifts much of the advertisement’s effectiveness burden from the advertiser and their advertising agency to the publisher. Because the click-through is a measure of action taken by a prospective consumer, it is more valuable to an advertiser than an impression. Consequently, click-through rates are higher than CPM.

Publishers have been reluctant to adopt the click-through model for two reasons. Click-through ads shift the burden of creative design and copy from the advertiser to the publisher, adding a level of risk to the publisher. The model dismisses the value of the Internet as a brand-awareness building vehicle and only rewards the publisher for immediate viewer action. As a result, click-through rates accounted for only 6% of Internet advertising revenue in 1998.³⁴

Auction

Auctions on the Internet are conducted as ascending-bid processes with or without a reservation price. Using an auction enables publishers to practice perfect price discrimination by allowing each market participant to determine their maximum willingness to pay for the ad space. Auctions also provide a short-run solution to the issue of measuring market demand and supply for the Internet during its growth period. However, the major drawback to the open bid auction process, assuming that no minimum reservation price is set is that ad revenue becomes even more difficult to forecast than using trend lines and a set pricing scheme, such as an advertising rate card.

Hybrid

Hybrid models combine all pricing models to enable advertisers to accomplish a variety of advertising campaign objectives. Publishers are able to attract more advertisers and ad revenue by offering the flexibility that advertiser’s demand. For example, an advertiser whose goals are to build brand awareness and to convert prospects into sales may

contract with a publisher to pay a low CPM rate to place the ad and an additional click-through rate for action taken by the consumer.

Effectively, the publisher extracts each customer's maximum willingness to pay by setting a two-part tariff. With perfect economic information, a two-part tariff works as follows. Continuing the example above, the publisher would sell banner ad to generate brand awareness for a price equal to its marginal cost (which, as illustrated earlier, is close to zero for Internet advertisements). Consequently, at any price greater than zero, the firm increases its profitability or reduces its loss by selling additional ad space. In addition, the firm would set the maximum cost of click-through activity equal to the advertiser's consumer surplus. At the highest level of click-through attainable, the publisher would realize the sum of consumer surplus and would have maximized economic profits.

Hybrid pricing models have been widely adopted and currently account for 54% of all ads revenue generated on the web.³⁵

Goal and Tactics

As illustrated above, the publisher of an Internet publication must consider a multitude of factors prior to setting goals and tactics for the firm. These factors include a solid understanding of both the external and internal environments and the impact that they have in positioning the firm. MGoBlue.com has adopted the mission of producing the premier web site for University of Michigan athletics and providing the most compelling experience with University of Michigan athletics off the playing field. By doing so, MGoBlue.com expects to attract a large and dedicated audience and advertisers who value MGoBlue.com's relationship with that audience. Ultimately, MGoBlue.com's goal is profit maximization. To accomplish this goal and establish a competitive advantage through differentiation, MGoBlue.com must execute several tactics.

Content and Technology

First and foremost, MGoBlue.com is a content provider. MGoBlue.com should invest periodically in market research to gain a full appreciation of what customers actually desire from the web site. MGoBlue.com be willing to deliver the news and entertainment desired by the fan base.

MGoBlue.com must continually scan the competitive environment to ascertain the best technology. By understanding the available technology, MGoBlue.com will be able to act within its means to deliver the Michigan Experience Online.

Audience Measurement

MGoBlue.com must understand the composition of its audience so that it can market itself to Advertisers. Advertisers buy access to qualified consumers. Advertisers are most interested in consumer's behavior at the cash register. Marketers utilize several proxies for this data including: age, income, gender, education level, marital status, children, domicile location, psychographics and online usage and purchasing behavior. MGoBlue.com has the capability to measure online usage patterns with the use of software but must perform market research to ascertain the other information. By providing advertisers with detailed and reliable audience statistics, advertisers will realize

the purchasing power of the site and will grant MGoBlue.com more of their advertising dollars.

Benchmarking

Once MGoBlue.com understands the composition of its audience, it must then benchmark itself against other media that draw the attention of the same. By understanding the value proposition offered by competitors and substitutes, MGoBlue.com will better understand the alternatives that advertiser have when trying to reach MGoBlue.com's target audience. Armed with this knowledge, MGoBlue.com can set its rates strategically and respond to competitive threats more swiftly. MGoBlue.com should not limit benchmarking to online publications. Instead it should include all media vehicles that attract the same audience, including local and national print and broadcast media. (See Exhibit 5.

Marketing

With the proliferation of online publications, MGoBlue.com competes for the attention of consumers and advertisers alike. MGoBlue.com has positioned itself as the premier site for the University of Michigan athletics and must now deliver on this assertion.

MGoBlue.com plans to reach its affinity based through alumni periodicals, electronic scoreboards at athletic events and merchandising. MGoBlue.com plans to reach advertisers through sales calls and advertisements in local media vehicles. MGoBlue.com is also working closely with Ogilvy and Mathers to develop its marketing plan which will include ad placements in advertising trade magazines and selective press releases.

Pricing Model Selection

As of this writing, MGoBlue.com was in negotiations to be licenses to an independent firm but was still operating under the University of Michigan Athletic Department. Presently, MGoBlue.com offers sponsorship and banner ads. All advertisements that have been sold on the web site have been sold as a component of advertiser's total media buy with the University of Michigan. These ads have been sold at a average rate of \$30 CPM. However, no advertising agreements have been consummated for MGoBlue.com alone. Consequently, for the purposes of a stand-alone operation, the CPM rate charged by MoGoBlue.com ,as it currently exists, may be distorted.

In setting its rates, MGoBlue.com has examined the going rate for sites offering similar content. MGoBlue.com should also examine the rates charged by other media vehicles that attract the same or similar audiences, such as local print and broadcast media. MGoBlue.com should not limit itself to a rate-card based pricing mechanism.

Because MGoBlue.com incurs low variable costs, it should seek to maximize its profits by offering a hybrid-pricing scheme. This scheme should attempt to capture each customer's willingness to pay without compromising the value image of the site. This pricing scheme could take the form of a two-part tariff which was discussed earlier in the section on hybrid ads.

Alternatively, MGoBlue.com could adopt a pricing segmentation scheme based on a rate card and an auction. MGoBlue.com could offer its ad space to the public via a published or private rate card. In addition, advertising inventory which remains unsold

could be offered to the public through an auction process with MGoBlue.com's reservation price set equal to its marginal cost.

Advertisers who value MGoBlue.com most highly would negotiate a rate using the rate card. Advertisers who value lower CPM media, such as radio, could take advantage of the auction process by bidding only up to the amount they would pay for other media vehicles with similar reach and frequency. By performing this form of price discrimination, MGoBlue.com could attract customers to the site who otherwise would not advertise. In addition, by selling ads at any price greater than marginal cost, MGoBlue.com could come closer to selling out its available ad inventory, thereby increasing its economic profits. The data collected by this segmentation scheme could also be used to estimate demand and supply and could lead to more optimal pricing in the future.

Conclusion

Over the past five years, the Internet has grown to encompass 92 million users in the U.S. and Canada. (Exhibit 6 Internet entertainment sites attract 72% of that audience and news site 50%)(Exhibit 7. Meanwhile, MediaMetrix.com, a web research and rating agency tracks the activity of 15,000 web sites.³⁶ All of this points to the popularity of the web among consumers and the proliferation of web sites to accommodate consumer demand.

Evidence indicates that the 80/20 rule for both consumer attention and advertising revenue applies to the Internet. In fact, for the Internet that ratio is closer to 95/1.³⁷ Forrester and Jupiter both estimate Internet advertising revenue to rise to approximately \$8 billion by 2002.³⁸ It is possible that the majority of firms currently on the Internet, who rely on advertising revenue as their primary source of revenue, will not survive long enough to realize any part of that \$8 billion. However, for those who survive, the economic rewards will be substantial. While a comprehensive understanding of the competitive environment and the tactics needed to achieve differentiation and to generate superior value will not ensure survival, they represent the most potent, non-monetary weapons with which a start-up can be armed.

Exhibits

Exhibit 1

Unique Monthly Visitor		
Site	Dec 1998	Rank
ESPN.com	3.949 mil	1
SportsLine.com	2.532	2
NFL.com	2.347	3
CNN.com	1.957	4
WWF.com	1.073	5
FansOnly.com	696,000	6
The Sporting News.com	670,000	7
Fox Sports.com	575,000	8
MGoBlue.com	96,000	*

Figure represents unique viewers after one month of service.
Source: Media Metrix

Exhibit 2

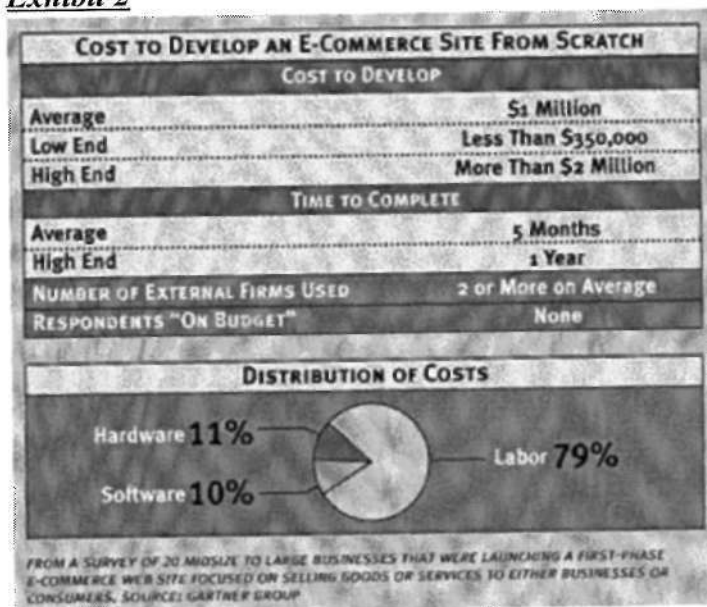


Exhibit 3

Outdoor Advertising Industry Facts and Figures

- Approximately 1000 out of home companies across the country.
- 1998 billboard revenues totaled \$2.330 billion.
- 1998 out of home revenues totaled \$2.080 billion.
- 1998 total industry revenues totaled \$4.413 billion.
- 396,000 traditional standardized billboards on federally controlled roads.

Source: Federal Highway Administration

Exhibit 4

Cost Per Thousand

Medium	1999
<u>Outdoor (Top 100 Markets)</u>	
8 Sheet Posters #50 Showing	\$0.81
30 Sheet Posters #50 Showing	\$1.68
Rotary Bulletins #10 Showing	\$3.68
<u>Radio (Top 100 Markets)</u>	\$5.57
:60 Drive-Time	
<u>Television</u>	
:30 Prime-Time Spot	\$18.90
:30 Prime-Time Network	\$10.40
<u>Magazines</u>	\$9.14
4-Colour Page	
<u>Newspapers</u>	\$11.03
Quarter Page Black & White	

Source: Outdoor Planning Systems-Harris Donovan, Inc., Marketers' Guide to Media, 1996 MRI Spring Report plus rate card, Grey Advertising - 1997 Media Modules, A.C. Nielsen NTI, F.C.C., NAA, MPA, NPTS Analysis

Exhibit 6

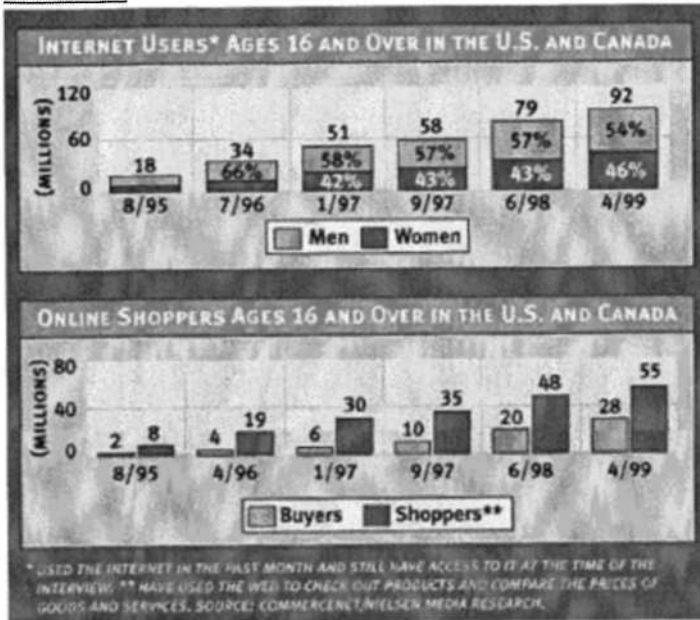
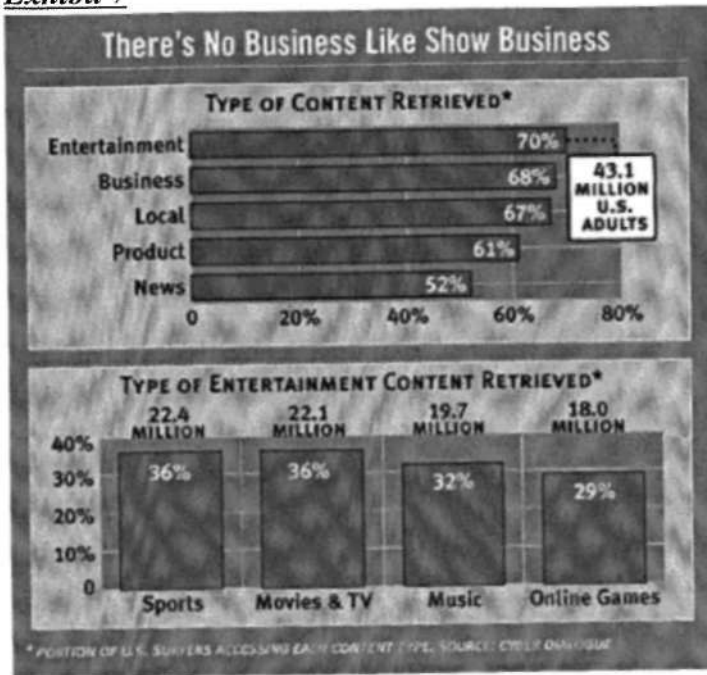


Exhibit 7



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- ¹⁶ J Thomas Russel; W. Ronald Lane, Kleppner's Advertising Procedure, Prentice Hall, 1999, p. 259.
- ¹⁷ J.Thomas Russel; W. Ronald Lane, Kleppner's Advertising Procedure, Prentice Hall, 1999, p. 382.
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- ¹⁹ www.adage.com/dataplace/archives
- ²⁰ www.adage.com/dataplace/archives
- ²¹ www.magazine.org. 1997 Audit Bureau of Circulation Report
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- ²⁴ J.Thomas Russel; W. Ronald Lane, Kleppner's Advertising Procedure, Prentice Hall, 1999, pps. 306-307.
- ²⁵ J.Thomas Russel; W. Ronald Lane, Kleppner's Advertising Procedure, Prentice Hall, 1999, pps. 199-200.
- ²⁶ [adage.com/dataplace/archives](http://www.adage.com/dataplace/archives)
- ²⁷ <http://www.aaaa.org/resources/publications/publications.asp?cl=17>

- ²⁸ Radio Marketing Guide and Fact Book for Advertisers, Fall 1999 to Spring 2000, Radio Advertising Bureau, p. 27.
- ²⁹ Radio Marketing Guide and Fact Book for Advertisers, Fall 1999 to Spring 2000, Radio Advertising Bureau, pps. 1-2.
- ³⁰ Radio Marketing Guide and Fact Book for Advertisers, Fall 1999 to Spring 2000, Radio Advertising Bureau, p. 5.
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- ³³ Peter Petrusky, PricewaterhouseCoopers, Press Release, May 3, 1999.
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- ³⁶ MediaMetrix Press release, March 24, 1999, www.mediametrix.com.
- ³⁷ Beth Cox, Top 50 Web Sites Get 95 Percent of All Ad Dollars, InternetNews.com, June 17, 1999.
- ³⁸ www.emarketer.com, Comparison of Projected Online Spending by market Research Firm.