Communications and Society Program

Changing Rules in the Market for Attention

New Strategies for Minority Programming

Richard P. Adler, Rapporteur

Changing Rules in the Market for Attention: New Strategies for Minority Programming

A Report of the Aspen Institute
Forum on Diversity and the Media

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Foreword

As minorities comprise increasing percentages of the population in the United States, the number of media outlets is also increasing. It is logical, then, to assume that a properly working marketplace would result in increased programming for those minority populations. If that is not the case, as it appears it is not, then what business models would help the market to work better, and what policies should be adopted to bring about a more just result?

To address these issues, the Aspen Institute Communications and Society Program established The Forum on Diversity and the Media in 1996 with support from the Ford Foundation to explore business models for greater media inclusion of socially responsible programming for minority communities. Over the past several years, this Forum has met annually to explore the marketplace for minority programming, in both specialized and mainstream media. The objective each time has been to understand how programming for and about minority audiences can reach minority and majority viewers, ideally without resorting to government interference.

Background

From the beginning, participants struggled as they sought to determine the very parameters of the Forum's deliberations. They wrestled with issues of social capital (i.e., the building of trust through informal associations, and of economics.) In the former category were questions such as how to include more minority roles in mainstream programming, how to improve the image of minorities as presented by majority media, especially the news media, and the role of mentoring in creating more opportunities for minorities. Central to attaining many of the Forum's goals was the development of accurate research on minority viewership. Such research, showing the size and purchasing habits of minority audiences, it was thought, could demonstrate to the industry the value of inclusive programming.

The relevant economic issues were also intricate. How does one overcome the misgivings of advertisers who may shun minority shows as reaching low-income markets? Is a threatened boycott by

minority viewers the only way to get the attention of majority producers? How can poorly funded minority content providers make themselves more competitive in an already highly competitive industry? The Forum addressed the high cost of entering a mature industry by endorsing business incubators as a way of enabling cash-strapped minority content producers to move past the idea stage and into production. Over time, the Forum has come to understand that the social and economic issues are inexorably intertwined and difficult to resolve.

Changing Rules in the Market for Attention: New Strategies for Minority Programming. With this background, the Forum held its meeting on July 16-18, 1999 in Aspen, Colorado, to take this media industry examination into the digital age. What were the benefits and incentives for minority content producers to move into the new media? What obstacles did they face and how were they different from or similar to those faced by traditional media producers?

The ensuing dialogue among twenty participants from the fields of entertainment, digital entrepreneurship, market research, academia and finance tackled issues of both maximizing the traditional media and getting a foothold in the new digital media.

Unintended Consequences. As stated above, participants thought that an improved ability to target minorities through niche marketing would result in more minority-oriented content. Consequently, participants paid considerable attention to various research tools and market statistics that provided media with in-depth information on individual audience segments.

However, findings that indicated that blacks watch more television than other majority or minority groups did not correlate with a larger presence of blacks in either production or talent positions in the media. Apparently, as most broadcasters discovered that minority viewers are already watching there was no need to address them specifically. And while an increased knowledge of demographics and niche marketing allowed new networks such as the WB to focus on smaller demographic markets, these tools also gave the traditional 'Big Three' (now four) networks enough information to ignore them. Ironically, then, the unintended consequence of strategically targeted research, initially thought to support minority efforts in their demand for more media diversity, was that it worked against them.

A New Way to Play the Game. In addition to recommending incubators to support independent producers, participants learned of a completely new concept, Internet Video Storyboard Testing (IVS). IVS is a Forum-generated idea spanning the mature medium of television and the emerging Internet medium. This test, developed primarily by Barry Cook of Nielsen Media Research, uses the Internet as a less expensive method to develop and test television pilots. It allows independent producers of niche-targeted content a less expensive way to produce pilots. Having more of these specifically focused pilots to chose from might result in the acceptance of more niche-targeted shows by the studios. Established studios could use the process as well, because IVS gives them an economic incentive to develop programming for smaller markets at a greatly reduced cost compared to traditional pilot testing. The IVS concept is explained fully in Cook's paper, included in the appendix of this publication.

Different Media, Same Problems? The stakes in traditional broadcasting are high. The entertainment industry generates billions of dollars, reaches all segments of this society, and is the major method of exporting American culture to other societies around the world. There is little doubt that having all media reflect the diversity of the population is a valuable social goal. Content and viewpoint of news and editorial programs also reflect and impact upon minority group interests. There are very good reasons to persist in efforts to push for diversity in the entrenched media, and many Forum participants continue to see this as a worthwhile struggle.

However, other participants doubted that the traditional media would ever be hospitable to the interests of minorities. For reasons that ranged from the high costs of entering the industry, to the long time frame before seeing the results of diverse hiring practices, this group looked to the emerging digital media as providing more opportunities, more control, and the ability to act more quickly than possible in traditional media.

As minorities move into new media formats, however, they face new twists on problems familiar to those in traditional media. While the Internet presents lower barriers to entry than more mature media, participants expressed concern that minorities may lag behind mainstream content developers even here. Funding for minority-targeted Internet startups is difficult to acquire. Minority advertising agencies often lack the multimedia skills needed by Internet entrepreneurs.

Conference participants debated whether, in an environment in which everyone is a publisher, the ability for anyone to provide content on the Internet would be overshadowed by the increasing convergence of traditional media and Internet sources and the tendency to have one-size-fits-all programming. Using the history of television as an example, they asked, would we see the takeover of Net content by large media conglomerates in the same manner in which the nascent television industry was quickly controlled by established radio broadcasters?

This report captures both the intensity and the uncertainty of the current dialogue surrounding the creation of a diverse presence in the media. The report does not advocate a retrenching of activities that focus on mature media, nor does it recommend abandoning previous efforts in favor of new digital media opportunities. Rather, it captures the tension between the two schools of thought in a rather thought-provoking manner.

Following the report are three papers provided as background to Forum participants. The first two, *Online Businesses Models and Strategies* and *Relationship Marketing in the Internet Age*, a set of papers by Professor Allen S. Hammond IV, present an overview of several business models in the digital economy. *Relationship Marketing in the Internet Age* drills down into the specifics of a new model whose existence depends upon technologies that allow media content providers to tailor their message to individual consumers at a low cost. Barry Cook's *Internet Video Storyboard Testing* details the IVS concept outlined above. The Hammond and Cook papers provide the reader, as they provided the participants, with understandable detail about the new technologies and business strategies that are paving the way for minority success in the attention economy.

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I would also like to thank Richard Adler, our able rapporteur, and all of the participants in the 1999 Forum on Diversity and the Media. Finally, I wish to express my appreciation to Patricia Katopol, program associate, for developing this conference and editing the report, Elizabeth Golder, senior program coordinator, and Sunny Sumter-Sana, publications manager, for their help with the conference and this report.

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July, 2000

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Introduction

In July 1999, a controversy erupted that focused public attention on the issue of the representation of blacks and other minorities in the media. It began when Kweisi Mfume, president of the National Association for the Advancement of Colored People (NAACP), expressed dismay that only one of the twenty-six new prime time television programs planned by the four major broadcast networks for the upcoming fall season included a black actor in a leading role. Shortly thereafter, representatives of several other minority groups, including Hispanics and Asians, claimed that their members were also underrepresented in network programming. The controversy generated a good deal of discussion about how television programs are developed and cast. Eventually, the NAACP and the four networks reached agreements that identified a variety of steps the networks would take to increase minority participation in network programming.[1]

Just as the controversy was getting started, the Aspen Institute Communications and Society Program convened the annual meeting of its ongoing Forum on Diversity and the Media to explore "Changing Roles in the Market for Attention: New Strategies for Minority Programming." The Forum's agenda was not focused on the controversy, however; it was designed to explore the fundamental factors that are influencing minority participation in both the "old" and the "new" media. In particular, Forum participants—who came from advertising, entertainment, market research, and academia—addressed the question of whether technological and demographic changes now underway are likely to offer significant new opportunities for expanding minority programming. If so, what are the best ways to take advantage of these opportunities?

Participants represented two substantially different perspectives on this question. One group comprised individuals who have been actively involved in the television industry for several years and have

fought to increase the representation of minorities in the medium. The members of this group believe that despite changes that may be taking place in the environment, television is likely to remain the dominant medium that reaches and influences the perceptions of the largest mass audience for the foreseeable future. They also believe that the medium is too large and too important to abandon the attempt to reform it. Therefore, the struggle to bring about positive change in the medium—however daunting the struggle may be—must continue.

The second group, which comprised individuals who are creating and running new Internet-based businesses, begins from the premise that "old" media such as television are so mature that bringing about any far-reaching change would be difficult, if not impossible. This group also believes that the "old media" are increasingly obsolescent and that there is little point in struggling to bring about change in these old and deeply entrenched systems. Rather, they believe that investing in creating new businesses and developing new kinds of programming in "new" media—where the rules are not yet set and there are, for the moment at least, greater opportunities for innovation and true diversity—makes more sense.

Basic Drivers: Old Media, New Media

The meeting began with an exploration of the basic economic, demographic, and social forces that shape programming choices in the media. Participants examined what has changed over the past twenty-five years—and what has not changed. They also reflected on the impact that new media (initially cable, and more recently the Internet) have had on how programming is created and distributed.

Barry Cook, senior vice president and chief research officer of Nielsen Media Research, reminded the participants that the fundamental economic model for broadcast media such as radio and television is based on "free" programming supported by advertising. Cook summarized the basic assumption underlying much of the media in this country: "If the audience watches the program and the ad is in the program, the audience will see the ad and will buy the stuff that is advertised—and that will justify the advertising expenditure." In the case of the broadcast networks, 100 percent of

the industry's revenues come from advertising, so it is hardly surprising that the needs and interests of advertisers play a critical role in determining programming decisions. Even in the case of media that derive some revenue directly from the audience—such as newspapers, magazines, and cable—advertising remains an important revenue source.[2]

Of course, different media have different economics and deliver audiences to advertisers in different ways. Cable introduced the concept of "narrowcasting," in which advertisers use targeted television programming to reach specific segments of the mass audience. Magazines also have evolved from appealing to mass audiences to tailoring their appeal to a wide range of special interests. The Internet promises to provide even more focus on niche audiences, eventually allowing advertisers to deliver custom-tailored messages through "1:1 marketing."

Jo Muse, chairman and executive creative director of the advertising agency Muse Codero Chen, Inc., provided a perspective on the evolution of advertising and its impact on minority audiences over the past quarter-century. He noted that for many years, most advertisers simply addressed their messages to the largest possible audience. Historically, media such as radio and television, as well as popular print publications, efficiently delivered a "mass audience" to advertisers. Starting in the 1970s, the concept of "market segmentation" arose as advertisers began to understand that some segments of the mass audience were likely to be better customers for their products than other segments. Market research techniques were developed that enabled advertisers to isolate these segments and track the effectiveness of various media in reaching them. Firms such as Nielsen that measured media audiences improved the sophistication of their rating services to account for the demographic characteristics of viewers.

Ethnic groups were among the market segments that emerged in this period. Research showed that minority groups tended to be heavy consumers of media and were responsible for substantial expenditures on the kinds of goods sold by advertisers. At the same time, advocates such as Rev. Jesse Jackson began to argue for the importance of minority involvement in the media—not only in terms of representation in pro-

gramming but in terms of participation in the ownership and control of media outlets. According to Muse, some progress was made during this period, although he concluded that there is still a "sense of inaccessibility" to the places where program decisions are made. Even where ethnically oriented media have emerged (such as radio), minorities continue to struggle to get their fair share of ad revenues. In New York, for example, the two top-rated radio stations are oriented toward Hispanic and black audiences, but their advertising revenues are "below what their audiences should merit," said Muse. There remains, Muse concluded, an element of subjectivity in how ads are placed. The interests of minority groups will continue to be overlooked as long as minorities are not represented in the places where decisions about advertising and programming are made.

As the recent controversy over black and other ethnic group representation in prime time programming illustrates, much of the concern about minority participation in the media remains focused on broadcast television. For many years, network television had a virtual monopoly on the mass audience; that is no longer the case. As Christy Haubegger, president and publisher of *Latina* magazine, pointed out, thirty years ago companies such as General Motors and Procter & Gamble could reach virtually the entire American population by advertising on the three major networks (which collectively commanded a 90 audience share in prime time); today those three networks' share of the prime time audience is less than 50 percent. Even though the networks' position of dominance among the media has eroded over time, they remain a potent force.

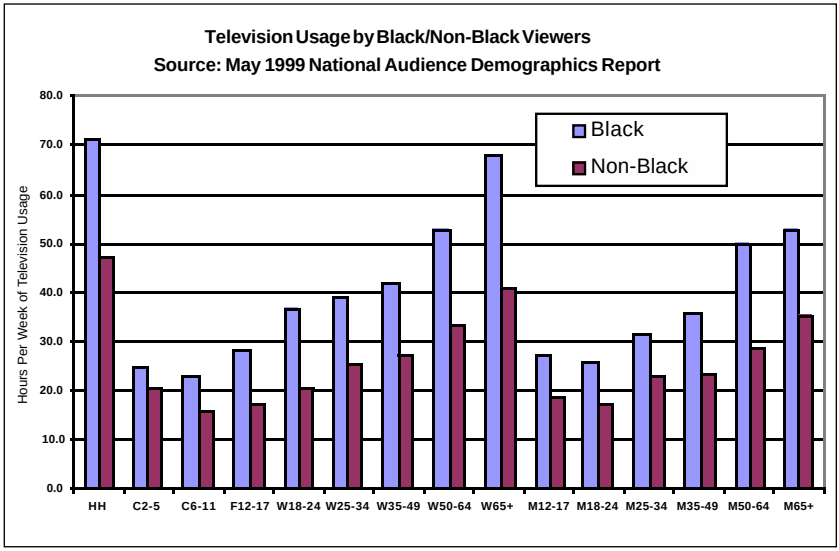
Ironically, the arrival of narrowcasting alternatives to the networks, along with increasing sophistication in audience segmentation, seems to have "backfired" in terms of how the networks address the interests of minority audiences. According to actor and producer Tim Reid, the networks have developed the ability to "segment ethnic groups out" of their audiences. When "everyone" watched network television, the networks provided a "portfolio" of programs that offered something for everybody. As competition for viewers has increased, however, the networks have shifted their strategy and have focused on appealing to the largest, most affluent audience segment—which is predominantly white. The networks fear that they might alienate the mass audience by creating programming specifi-

cally for minority segments of the audience. According to Cook, "In a world of three networks, there was no worry about losing audience—[viewers] had nowhere else to go. But with the rise of alternative channels that targeted underserved markets—ethnic, young viewers—the traditional three [networks] realized that they couldn't effectively compete for the minority audiences with competitors who were focused specifically on these segments."

Frank Washington, president of Frank Washington Enterprises, pointed out that the "new" broadcast networks have followed a similar pattern. Fox and the WB Network began with schedules that included many programs that featured black casts and were explicitly oriented toward black viewers. Once these new networks became more established, however, they also began to shift their programming toward the majority, "mainstream" audience.

Another factor that paradoxically works against the interests of minority audiences is the fact that they are avid television viewers. Blacks watch more television than any other demographic group: Data from Nielsen Media Research shows that black households watch an average of more than 70 hours of television per week, compared to approximately 47 hours per week for non-black households (see Figure 1). Similar differences hold for viewers of either sex and

Figure 1.



at every age: For example, black women age 50–64 watch an average of 52 hours of television per week, compared to 33 hours per week for non-black women of the same age.

Precisely because blacks and other minority groups are such heavy television viewers, broadcasters do not have to worry about attracting them. Moreover, because they are perceived to be less affluent, advertisers generally will pay less for access to minority viewers. (Much the same is true of viewers over age 50, who also watch a lot of television but are generally discounted by advertisers because they are not perceived to be as active consumers as younger persons.)

Another factor that Forum participants identified as working against the interests of minority groups is their lack of involvement with the ownership and control of the mass media. As Mfume pointed out, the person behind the camera is as important as the person in front of it. Many studies have documented the paucity of minorities in the top ranks of major media companies. A study conducted by the NAACP found that "among 839 writers currently employed on prime-time television shows, only 55 are African American, 11 are Latino, and three are Asian American. None are Native American."[3]

Minority representation in the executive suites of the networks is even smaller. As David Ellington, president and chief executive officer of NetNoir pointed out, "Talent is not the power. [What really matters most] is distribution, control, and marketing." Unless minorities have access to these levers, their role in the media will always be marginal, and they will always be on the outside asking for favors, rather than on the inside making decisions on their own behalf.

In fact, minorities are underrepresented across most of the mass media. Steve Chin, principal of Monkey King Media (an interactive design and communications firm) and a former reporter, pointed out that the newspaper industry is still struggling with its relationship to minority groups. Some newspapers are creating special editions targeted at minorities; others are attempting to work with minority media in their communities on joint efforts. Many papers are still struggling with the issue of minority representation in their newsrooms.

Clark Gadsen, vice president of Communications Equity Associates, expressed concern about the quality of programming that is aimed at minority audiences but is produced and controlled by others. What

messages are being given out? How much effort is being made to create programming that truly reflects the interests of the audiences?

Allen Hammond, professor of law at the University of Santa Clara Law School, pointed out that media ownership could be an important source of wealth for minority groups. Yet, even among media outlets that target ethnic audiences, many are not minority-owned.

Breaking into positions of power in the established media has been difficult. Marcelino Ford-Levine, counsel for new media policy at the Federal Communications Commission (FCC), noted that he is frequently approached by minority groups wanting to know how they can buy a radio or television station. He responds, he said, by explaining that broadcasting is a mature industry and that entering an industry such as this requires a great deal of capital. Instead of trying to break into the "old" media, Ford-Levine suggests that minorities focus on getting involved with the "new media," where "the playing field is still more level."

How different are the "new media" from the old media? Internet enthusiasts claim that the Internet is a radically new medium that does not follow any of the rules of the traditional media. Much of the economics of broadcasting is based on the scarcity of channels that resulted from the regulatory framework for broadcasting created by the federal government. On the Internet, barriers to entry are almost nonexistent. Millions of Web sites already are in existence and more appear daily; apparently, just about anyone with a good idea, a modicum of technical skill, and a bit of financial support can get into the business.

Some of the more skeptical observers, however, ask: Will the same pattern of control that can be found in broadcasting be repeated on the Internet? Anthony Wilhelm of the Benton Foundation pointed out that the same people who dominated radio also were able to dominate the "new medium" of television when it arrived fifty years ago—and now these same powerful companies are attempting to extend their control to the Internet. Consolidation has already begun to take place, and establishing a significant presence online now requires substantial capital. Ford-Levine said he is already seeing the gatekeepers from the old media coming in and trying to carve up the new media.

Are we fated to repeat the past, or do the new media represent a genuine hope for achieving greater openness and participation by all

groups in society? The economic structure of the new media—and the opportunities they offer for minority participation—were the subject of the next session.

New Business Models in the Digital Media Marketplace

To help Forum participants get a better understanding of the opportunities and challenges presented by the new online media, Hammond presented an analysis of several emerging business models that are embodied in successful Web enterprises (see Appendix). In particular, he identified two general business types: the "community aggregator" and the "infomarketeer."

- Aggregators are "large, mainstream sites with wide-ranging, often branded content that convene users according to areas of their interests." Aggregators seek to form a "home base" or "e-community" for their consumers online. Once the home base is established and the customer base is secure, aggregators seek to leverage their online presence into a competitive advantage to market products and services. They may market proprietary products and services, or they may enter into "co-branding" agreements with other firms that extend the attractiveness of the aggregators' sites.

- Infomarketeers are firms that use information technology to gather, analyze, and redistribute information. Infomarketeers harvest information from communities or from various electronic sources, then filter and repackage it to meet the needs of a particular firm, group, or individual.

Hammond cited America Online and Amazon.com as prominent examples of aggregators (AOL focused on a broad mass audience, Amazon more narrowly focused on book buyers). He pointed out, however, that both companies have been evolving toward the infomarketeer model. Each has recognized that what it has to sell is not merely "eyeballs" but "customer relationships" that allow companies to learn about the interests of users and create (or provide access to) products and services that are custom-tailored to meet those interests.

Hammond went on to point out that the Web, which was originally dominated by young, white males, is becoming increasingly

multi-ethnic. He cited data showing that "approximately 23 percent of African Americans, 36 percent of Latinos, and 64 percent of Asians are now online" and that Internet use by all of these groups is increasing at a rapid pace.

Given this trend, it is not surprising that businesses have emerged that target these groups. Hammond identified NetNoir as an example of an aggregator that focuses on a specific demographic community: NetNoir "promotes, develops, digitizes, archives, and distributes African American, urban-oriented programming and commercial applications for interactive media." When Hammond wrote his paper, NetNoir's site was attracting approximately 250,000 visitors per month.

One of the key aspects of many aggregators, Hammond pointed out, is their role in "facilitating the building of communities of common interest through shared information." AOL has many forums in which people are drawn together by common interests. Amazon not only sells books; it also allows customers to write and post their own book reviews. Web sites that successfully serve ethnic markets need to tune into the distinctive characteristics of their audiences. In the case of NetNoir, the site developers recognized that "African American online users are more likely to seek out entertainment and relationship-building services than research or news. Information about employment opportunities is another substantial draw." Finally, Hammond noted that, like AOL and Amazon, NetNoir is in the process of moving from a role as a pure aggregator to take on some of the characteristics of an Infomarketeer as well.

NetNoir's Ellington confirmed that his site is evolving. Today, NetNoir is a "vertical affinity portal." That is, it provides access to a range of resources of interest to its target audience, and it provides advertisers with access to NetNoir's active African American audience. NetNoir's goal by the year 2002 is to derive 50 percent of total revenue from e-commerce, 30 percent from advertising, and 20 percent from market research. Ellington noted that potential advertisers are "excited that he intended to get revenue directly from his users, not just from third-party [advertisers]."

Ellington argued that the Internet and the Web represent a fundamentally different model from traditional media. They support the building of communities of interest through user-generated content. The next step in enhancing the value of the Web, which is just now

emerging, is "personalization—the ability [for users] to find their own specific interests." The technology of the Web allows each visitor to the site to customize what he or she sees into "My NetNoir."

Washington pointed out that the success of NetNoir helps to dispel two enduring fallacies that helped to discourage investment in minority-oriented media. The first is the "fallacy of the monolithic minority community." In fact, he said, there are great differences among those who may share a common ethnic background. Whereas broadcasting has little ability to fine-tune its messages to accommodate this range of interests, that capability is one of the hallmarks of online media.

The second fallacy is that "content has to come from a third party." NetNoir and other, similar sites demonstrate that the most valuable, compelling content can come from the community itself. The Web has provided a mechanism for people to express themselves and share their ideas with others who have common interests.

In many ways, the development of NetNoir mirrors that of many other emerging "e-communities" on the Web. In building the business, however, Ellington encountered some additional challenges that stemmed from the ethnic orientation of his site. For example, although many of the large, established advertising agencies have set up interactive divisions whose mission is to work with Web sites, few of the black-oriented agencies have done so. As a result, he has had to put additional effort into educating black-oriented advertisers about the value of the medium and convince them of the site's effectiveness in reaching their target audiences.

Sandy Close, executive director of the Pacific News Service, argued that ethnic media already are more far-reaching and effective than traditional media. Close described her experiences in building New California Media, a coalition of more than 100 ethnic media organizations. She noted that "their combined audiences now surpass those of the mainstream media in many urban areas," although they remain largely invisible to the general public and to the mainstream media. As with other ethnic media, one of their most significant challenges is raising their visibility with advertisers and convincing them that they represent effective channels for reaching "multibillion dollar ethnic markets."

Wilhelm described another model that supports the development and dissemination of minority voices. The Benton Foundation (along with British Telecom) has helped support the creation of OneWorld.org, a Web site that aggregates content from more than 350 nonprofit, nongovernmental organizations in more than 120 countries around the world. The hope is that although any single site may be unable to attract significant traffic, aggregating them into a single "supersite" may enable them to attract a significant audience for their messages.

Youth as Drivers of Change

It is still too soon to tell which models will survive and which will fall by the wayside. The total online audience is still small compared to television—but it continues to expand rapidly. We do know that young people are spending less time watching television or reading newspapers than their parents did. They will have a large role to play in shaping the new media environment.

Close agreed with this assessment, arguing that the needs and interests of the next generation are not being well served by traditional media—and may not be any better served by the new media as they are currently evolving. Among youth of all ethnic groups, there is a strong desire to connect with others that current media are not addressing. In addition to "vertical" communication within ethnic groups, she sees a desire for "horizontal" communication among young people across different ethnic groups. The media that will serve their interests are "grassroots and global" at the same time. A concrete example is YO!—Youth Outlook, a newspaper written by young people and published bimonthly by Pacific News Service. Another example is On the Line, a forum on America Online for teenagers produced by a multi-ethnic group of young people based in East Palo Alto, California. The site, which is operated as a nonprofit organization, is one of the three most popular teen sites on AOL.

Omar Wasow, executive director of BlackPlanet.com, described the current media environment as "chaotic": full of promise and opportunities, but immature and rapidly changing. The new environment has the potential to allow a much broader range of voices

to be heard, providing minority groups with a valuable new platform for self-expression that none of the older media provided. Will this happen as part of the natural evolution of the new medium, or are some interventions needed to ensure that minority groups are not again excluded? If so, interventions from whom?

Strategies for Increasing Diversity in the Media

The remainder of the Forum was devoted to exploration of strategies that would promote greater diversity in programming in traditional and new media.

Internet Video Storyboard Testing

Cook proposed a new technique for testing new television program concepts: Internet Video Storyboard (IVS). IVS combines aspects of traditional video and new digital media to enable producers to test ideas for new programs at lower cost than by current methods (see Appendix).

As Cook noted, television programming—especially the kinds of comedies and dramas that compete for the prime-time viewing audience—is expensive to produce. Most new programs fail to attract a large enough audience to survive. The occasional hit pays for all of the failures. Even developing a new idea to the point that it can be considered by the networks for inclusion in their schedules is complicated and costly. Producing a full-blown pilot that can be tested with an audience is especially expensive. Experience has showed that hit series are rare; even though pilot testing is a strong predictor of success, many pilots must be tested to find one or two potential hits.

Pilot testing, though expensive, is the best means currently available for gauging the probable success of a new program. Although concepts for new programs also are tested with samples of viewers, Cook noted, there is "little overlap between the results of concept testing and actual ratings of series that reach the air." Currently, according to Cook, "the only way to know how an audience will react to a fully executed television program is to show them an episode—which means commissioning a pilot. Because pilot testing is costly, networks tend to commission only pilots that they have rea-

son to believe will be successful. Often this means that program concepts that get a chance to be tested are those that are similar to programs that were successful in the past. Thus, the barriers to introducing a risky or truly innovative program are high."

If lower-cost pilot testing were possible, it might encourage the networks to be more adventurous in the types of programs they are willing to consider. IVS testing, Cook said, is based on the use of currently available multimedia authoring tools to create a "slow-scan, full-length video program with synchronized voiceovers" that—though not identical to a full-scale production—would "present the essential experience of a new television program to a test audience without expensive production." This content could then be made available through the Internet via "streaming media" to a scientifically selected audience sample that would watch the IVS program and provide feedback.

Cook noted that validating the predictive power of IVS will be critical to its adoption. Initially, networks would use IVS testing in parallel with conventional pilot testing to generate data on the reliability of IVS to predict the ultimate acceptance of new programming.

Assuming that IVS proved to be a viable alternative, it could substantially reduce the barriers to the introduction of a greater range of program types. Although there is no guarantee that the technique would lead to greater diversity in the programming that reaches the air, it would at least provide greater opportunities for producers to propose unconventional program ideas and have them tested with actual viewers. In addition, because the cost of IVS testing would be so much lower than the cost of pilot testing, program producers would have an opportunity to test multiple concepts for a program to determine the "strongest combination of programming elements."

Muse found the proposal so sensible that he wondered why the networks are not already using the technique to test new programs. Reid—who commented that he had "appeared in so many pilots that [he] should be qualified to fly an airplane"—questioned whether IVS would capture enough of the critical elements of a program to be useful. What matters in a pilot, he said, is not just the concept or the story but the actors, writers, and producers who will be responsible for the program. Reid noted that pilots often have been completely re-shot to include a different actor or another set. Because actors are

a critical element of a series' appeal, Reid argued that any form of testing that is meaningful will have to expose audiences to the actors who will appear in the series—and once actors are used, the cost of even an IVS-based production will be high.

Others were more optimistic. Ginger Lew, chief executive officer and managing director of the Telecommunications Development Fund, observed that lowering the cost of developing new programs should create greater access for new ideas and more opportunities for minority participation. In fact, she urged the proponents of the concept to form a "dot com" to develop the idea into a business and seek venture funding to launch it. Gadsen stated that IVS testing made so much sense that it will definitely happen; yet simply lowering the cost of entry will not by itself assure greater minority participation in television. Many other factors are at work in determining what programs get on the air and who gets cast in these programs. Gadsen reiterated the point that who makes program choices is as important as how these choices are made.

Dan Brenner of the National Cable Television Association found the idea of IVS testing intriguing but wondered if it would matter in the long run. It would be, he said, like doing triage on a very sick patient. In a world of rapidly proliferating media channels, broadcast television as we know it may not survive. In fact, the major impact of new digital technologies on television is to further fragment the audience while dramatically increasing the costs of production. Broadcasters are under mandate from the FCC to move from conventional analog transmission to all-digital signals by 2006. Broadcasters will be able to program up to six digital channels in the same bandwidth that they now use to provide just one analog channel. At the same time, the networks' share of the total viewing audience is continuing to decline. The result is likely to be even greater pressure on broadcasters to come up with reliable hits rather than experimenting with nontraditional forms of programming.

Gadsen suggested that even if IVS did not pan out as a means of testing potential network programming, it could emerge as a new form of low-cost entertainment in its own right. As the ability of the Internet to support rich multimedia programming increases, it may become a viable medium for distributing low-cost acted stories that can be supported by targeted niche audiences.

Incubators

The second concept that Forum participants reviewed was the creation of "incubators" that would encourage minority entrepreneurs to establish new media enterprises. Several existing ventures were identified as models for this kind of undertaking:

- Mario Morino, founder of the Morino Institute, has been working on creating a "virtual incubator" in the Washington, D.C., area for new media businesses.
- Garage.com is a Web-based company that takes promising business plans and makes them available to potential funders over the Internet. If any of these ventures do receive funding through their exposure online, Garage.com gets a piece of the action.
- The First African Methodist Episcopal Church of Los Angeles, with support from the city government and local corporations, has established the FAME Renaissance Business Incubator in south central Los Angeles—a 48,000 square foot building designed to support the development of new businesses by local minority group members. With more than $4 million in funding, the Renaissance Center is building a facility that will provide new businesses with a range of services—as well as a place to operate (see Table 1, next page). Among the services to be provided are editing facilities and other resources that are particularly valuable for media companies.

Several Forum participants expressed enthusiastic support for the value of incubators, although Ford-Levine noted that would-be entrepreneurs need basic business planning skills even more than a convenient place to set up a new company. Setting up a building is one thing, he noted; getting a new company launched and viable is another.

Wasow also expressed skepticism, arguing that "real entrepreneurs don't need an incubator." Universities, not incubators, have been the most important force in the creation of innovative new companies.

In this economy, the real secret of success is not just the availability of capital but access to knowledge and experience. Jan Dates, dean of the School of Communications at Howard University, reminded Forum participants of the important role that the historically black colleges and universities (HBCUs) have played in improving the eco-

Table 1.

Services Offered by FAME Renaissance Business Incubator

- Central reception
- Conference rooms
- Secretarial assistance
- Technical assistance
- Bookkeeping and accounting services
- Computer, copy, and facsimile services
- Telecommunications services, including voice mail
- Sound, visual, and special effects studios
- Film editing room
- Tape room
- Marketing services
- Entrepreneurial training
- Business planning
- Loan services
- Seminars
- Business referrals

nomic status of blacks. Forty-one HBCUs now have programs or schools of communication that are providing the kind of training that minority entrepreneurs need to develop new businesses.

Reid described his effort over the past two years to establish a television production facility in Richmond, Virginia, that would be available for producing new programs for minority audiences. Reid involved several students from black colleges in building the studio. He recognized, however, that although he is creating a new resource for program production, he still has no greater access to the means for distributing the programming that he produces.

Proposals for Action

The final conference session was devoted to identifying other initiatives that could be undertaken to increase minority participation in media. Charles Firestone, executive director of the Communications and Society Program and executive vice president for policy programs and international activities at the Aspen Institute, challenged the group to identify ways to "get ahead of the curve" to find mechanisms that will secure a place for minorities in the new media as they are being created. Haubegger responded by suggesting that "if you are going to fight a war, you need both a ground war (a grassroots strategy) and an air war (a strategy to address the dominant media)." Forum participants explored both types of strategies. Among the proposals for action were the following:

- *Improve Research.* Jorge Schement, professor of telecommunications and information science and technology at Pennsylvania State University, asserted that what advertisers currently know about minority groups is very "sloppy." There is no authoritative source of good information about blacks, Hispanics, and other minorities as media users and consumers. Schement suggested creating a new quarterly journal that would publish research on these topics.

  Another kind of research would focus on the ethnic composition of senior executives in the media. Forum participants noted that a similar study on the ethnic backgrounds of clerks on the Supreme Court led to an increase in the numbers of minority clerks. Pressure for change also could be brought to bear on the networks by institutional investors, who could use their leverage to call for greater diversity in the employment of minorities in the industry.

- *Create New Distribution Channels.* Dates proposed a plan to interconnect the 106 HBCUs. Such a network could reach as many as 1 million students. It would not only provide a new program distribution network; it also could provide students at these institutions with an opportunity to get experience with distribution as well as with the production of programming.

  Muse commented that when he had worked several years ago on developing advertising that would be aimed at HBCUs, he couldn't

find an effective way to distribute it. He believes that there are at least a "few dozen" advertisers who would be interested in participating in such a network.

Jon Funabiki, program officer for media, arts, and culture of the Ford Foundation, suggested that an Internet-based network might be simpler and less expensive to build, at least as a first step in linking these institutions.

- *Expand Funding for Minority Programming.* If minority voices are going to have a place in the new media, they will need access to capital to build new businesses. Forum participants were convinced that although there are entrepreneurs in minority communities who have the drive and capacity to build viable enterprises, getting access to capital is a major barrier.

  Washington stated that targeting capital to a specific purpose will attract entrepreneurs. It might be possible to approach members of minority groups who have been successful in the media and propose that they participate in a venture fund to invest in new minority-owned media businesses. Ellington, who has first-hand experience in raising capital for NetNoir, commented that when he talks to potential investors, he always emphasizes that he is a businessman, rather than talking about his social relevance.

Conclusion

As a result of public criticism of the lack of minority representation in prime-time programming, the broadcast networks at the beginning of the year 2000 reached agreements with the NAACP on several specific steps to increase minority participation in the program production process behind as well as in front of the cameras (See Attachment A). These agreements are hopeful signs that progress is possible. What remains to be seen, however, is how far-reaching and durable the changes called for in these agreements will be.

In the meantime, the Internet continues to evolve at an extremely rapid rate. Billions of dollars are being invested in thousands of new "dot coms." For the moment, at least, the barriers to entry remain relatively low, and opportunities abound for ventures that serve the needs of specific audiences and specific interests. Perhaps more than any previous medium, the Internet offers the promise of allowing a multiplicity of voices to express themselves.

Eventually the Internet will reach maturity, and entering the marketplace will become more difficult. Competition already is intense for a share of the audience's attention—and it will grow more intense. Not every good idea will succeed. Now is the time for minorities to stake their claim. Minority entrepreneurs need to understand the requirements of the medium. They need access to capital to fund their ideas. They need the business skills required to build successful enterprises. The initiatives proposed at the Forum on Diversity and the Media are intended to provide this kind of support to help increase the odds that minority voices will have a chance to be heard in this new medium.

Attachment A

Minority Participation in Prime Time Television Programming – The NAACP and the Networks

In July 1999, after the four major broadcast television networks announced their new program schedules for the upcoming fall season, NAACP president Kwesi Mfume charged that of the twenty-six new prime time programs that were slated to debut in the fall, only one featured a black in a leading role. Mfume went on to argue that the under-representation of blacks in prime time programming was even more striking in light of the over-representation of blacks in the television viewing audience: While blacks make up 13 percent of the U.S. population, they make up fully 40 percent of the television viewers. Mfume also cited a study commissioned by People for Better Television that found that 62 percent of African Americans "feel that TV entertainment shows do not represent them accurately."[4]

The lack of black faces in prime time is not a new phenomenon, but research cited by the critics of network programming suggests that the situation may have gotten worse in recent years. A study by the Center for Media and Public Affairs found that blacks had been cast in 10 percent of all roles in prime time sitcoms and dramas on the four networks (ABC, CBS, NBC and Fox) in the 1998-99 season, down from 17 percent in the 1992-93 season.[5]

Once the NAACP had raised the question of minority representation on television, other ethnic groups quickly joined the fray. For example, a group of Hispanic organizations, including La Raza, the National Hispanic Media Coalition and the National Hispanic Foundation for the Arts, organized a "Latino Media Summit" to focus on the same issue. La Raza President Raul Yzaguirre noted that "one out of every 10 faces in the U.S. is Hispanic, but only one out of 100 faces on television is Hispanic."[6] Asian American groups also joined in criticizing the networks for lack of attention to minority viewers.

The NAACP and its allies promised to launch an "aggressive, comprehensive, and sustained campaign" to increase the representation of blacks and other minorities on television, especially in prime time programming. Mfume stated that unless some corrective action took place, the NAACP was considering organizing a boycott of television viewing to take place during the "sweeps" when program ratings are determined. He also announced that the organization was opening a new office in Los Angeles that would focus specifically on the policies of the television and film industries. In November, the NAACP along with several other organizations convened a "public hearing" in Los Angeles to bring attention to the issue of minority representation by and in the television industry.

The networks initially responded to the controversy by announcing that minority characters would be added to several new series.[7] In early 2000, each of the four major broadcast networks reached an agreement with the NAACP that spelled out a number of specific steps the network promised to take to increase minority participation both in front of and behind the camera. The key provisions of these agreements are summarized below.

ABC initiatives to increase diversity include:

- Within the next six months, ABC will make grants to minority individuals to discover and support new writing and directing talent.
- The network will also establish grants to people of color in universities and acting schools to increase the pool of actors available for all ABC programs.
- ABC said it would expand the purchase of commercial time for programming in minority media and relationships with minority-owned media placement companies.
- The ABC Entertainment Division will require casting executives to meet, audition, and consider more diverse actors for all programs.
- Each ABC division will be required to devise an outreach plan that includes establishing a working relationship with at least

one minority professional association and recruit at least one university event targeted to expand the pool of available minority applicants.

- The fulfillment of diversity responsibilities by each division will be considered in determining management bonuses.

The CBS diversity initiative includes among other things:

- An expanded minority recruitment program beginning June 30.
- CBS will press the studios with which it does business to integrate their writing staffs for the 2000-01 season.
- Implement by June 30, outreach programs to identify and develop new talent in the television industry.
- Implement by June 30, new programs to train and hire more qualified minority show runners.
- Establish new relationships with minority-owned advertising companies and enhance its use of minority-owned media to promote programming.
- Seek out minority-owned firms for professional services of all kinds.
- Executive compensation will be tied directly to efforts to diversify the workforce.

NBC initiatives include the following:

- Establishment of a policy to seek out and hire qualified people of color as directors for the 2000-01 season.
- Encourage producers to recruit and consider minority writers to fill Writers Guild Association legislated freelance writing assignments.

- NBC will fund an additional writing position on the staff of every second-year show to help achieve diversity—regardless of whether a series is produced by NBC Studios or one of the company's outside program suppliers.

- Inform all executive producers of shows that NBC seeks to have diverse writing staffs on all shows, and beginning with the 2000-2001 television season, NBC will fund an additional writing position on the staff of every second-year show to help achieve diversity.

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- Expand an Associate Program to include 25 training assignments, each lasting a year, within the News, Entertainment, Sports, and Stations divisions.

- The network advertising and promotion department will identify opportunities to increase purchases in minority-owned media, consistent with the audience and promotion goals of NBC.

- Expand the pool of minority job applicants by:
  - ✓ providing six NBC Minority Fellowship scholarships for graduate studies;
  - ✓ supporting 18 positions for students enrolled in the Emma L. Bowen Foundation for Minority Interests in Media;
  - ✓ enhance NBC's relationships with local universities to bring diverse candidates into NBC internship programs;
  - ✓ ensuring that a substantial number of the NBC pages each year are minorities.

- Setting a goal of increasing the amount of products and/or services purchased from minority-owned businesses by 100 percent within the next 18 months.

- Issuing instructions to network creative executives, production studios, and executive producers that NBC does not and will not participate in the practice of racially identifying writing samples for network television series.

The FOX diversity program includes:

- Tying executive compensation directly back to departmental directors;
- An expanded minority recruitment and retention program;
- New minority internship programs at various divisions;
- Greater internal emphasis on minority recruitment when evaluating executive job performance, bonuses and discretionary pay increases;
- Underwrite a minority writer's program with the goal of placing a minority writer on every FOX network production;
- Set a minimum goal of 10 percent minority procurement of goods and services where qualified minority suppliers are available;
- Increase the use of minority-owned media to promote programming;
- Increase the number of production and development deals with minorities.

Notes

1. See Attachment A for a summary of the controversy and the networks' responses to it.

2. Advertising is responsible for approximately 80 percent of total revenues of newspapers; for magazines, advertising accounts for approximately 60 percent of revenues; for cable, advertising provides approximately 50 percent of revenues.

3. Remarks of Kweisi Mfume, President and CEO, NAACP TV Diversity Press Conference, New York, November 3, 1999.

4. "NAACP Blasts TV Networks' Fall Season White Wash," NAACP press release, July 12, 1999.

5. "Why Are So Few Blacks Starring on TV?" *Jet*, August 9, 1999, p. 55.

6. Rick Bently, "Fading Away? Hispanics Demand to See Their Faces on More Network Shows," *Fresno Bee*, August 29, 1999, p. H1.

7. Bernard Weinraub, "Stung by Criticism of Fall Shows, TV Networks Add Minority Roles," *New York Times*, September 30, 1999, p. A1.

Appendix

Online Businesses: Models and Strategies

by Allen S. Hammond IV[1]

Depending upon one's vantage point, there are numerous online or online-related businesses necessary to successfully operate an online business: local telephone companies, Internet backbone providers, Internet service providers (ISPs), portal companies, search engine firms, and Web sites. Of course, access would be impossible without computer hardware and software and modem manufacturers. This essay takes a narrow focus. It examines three Web-situated businesses: America Online (AOL), Amazon.com (Amazon), and NetNoir. These three businesses may be said to have adopted a specific online business model and strategy for competing on the Internet.

Numerous articles address the characteristics, motivations, and models of online businesses. Unfortunately, there is little consistency with regard to the use of the term model or the nomenclature for describing business models. What does emerge is a recognition of at least two general types of information-related online businesses—and at least two corresponding strategies for conducting business on the Internet. The two business types (models) are *community aggregators* and *informarketeers.* The corresponding strategies are a general market strategy in which the firm seeks to be all things to all people and a special-interest market strategy in which the firm seeks to market to a specific set of customer interests.

Aggregators are "large, mainstream sites with wide-ranging, often branded, content that convene users according to areas of their interests."[2] Aggregators seek to form a home base or "e-community" for their consumers online.[3] Once the home base is established and the customer base is secure, aggregators seek to leverage their online presence into a competitive advantage to market products and services. They may market proprietary products and services, or they may enter into "co-branding" agreements with other firms that extend the attractiveness of the aggregators' sites to their consumers.[4] AOL is considered the most prominent general market aggregator.

Amazon and NetNoir, on the other hand, are well-known special-interest marketers. Infomarketeers are firms that "use information technology to gather, analyze and redistribute information."[5] Infomarketeers harvest information from communities or from various electronic sources, then filter and repackage it to meet the needs of a particular firm, group, or individual.[6] Infomarketeers contribute to an efficient online information market by adding value in several ways: researching customer information needs; acquiring relevant information products; managing intellectual properties and copyrights; authenticating information servers; and complementing, processing, and adding value to information products.[7]

Some infomarketeers create online communities of like-minded individuals with similar tastes in products and other interests and provide free collaborative filtering services that make the community's online shopping and searching for products and information easier.[8] Other infomarketeers are "virtual intermediaries" that provide free e-mail, promotional rebates or cash to target online consumers who agree to provide, in exchange, demographic, psychographic, and shopping preference information.[9]

Virtual intermediaries come in two basic models: the community model and the pay-for-performance model. Virtual community intermediaries provide free services such as e-mail, chat groups, news, weather, and online publications. In return, members of the community provide the desired demographic, psychographic, and shopping preference information. The virtual community intermediary then sells advertising opportunities to businesses seeking to reach the community and tailors the ad message on the basis of the demographic, psychographic, and shopping preferences of community members.

Virtual pay-for-performance intermediaries do not provide free services. Instead, upon sign-up, customers provide demographic, psychographic, and shopping preference information in exchange for cash or bonus points for viewing and interacting with ads that are tailored to the customers' preferences.[10] Payments and/or bonus points accrue only when the customer interacts with the advertisement. Accrued cash can be deposited into a bank account, used to buy products online, or used to obtain rebates. Bonus points—which are similar to airline frequent flyer miles or loyalty points—are redeemed

for products or services. Advertisers are charged for all verified responses from users who interact with the ads.[11]

One of the interesting characteristics of AOL, Amazon, and NetNoir is that they are community aggregators that have evolved into infomarketeers as well. One of the tenets of conducting business on the Web in the twilight of the twentieth century is "know your customer." To do this, each of these businesses has had to become an infomarketeer.

The Customer Subscription Model: Old School or New School?—America Online

Some observers regard AOL as representative of the "old school" Internet firm. It is modeled after the cable TV (and telephone) model in which large captive audiences pay subscription fees for access to content and services.[12] The new business model is based on advertising. In this model—which is more akin to traditional broadcasting—Internet firms are forced to invent creative new ways to attract people to their sites, and keep them there. To attract consumers, firms must offer services and content for free. These services and content cost money, however. Hence, the advertisers become essential. In the breakneck race for advertising dollars, Internet firms are increasingly focusing on delivering value to users, building structure out of chaos, and creating a sense of community.[13]

The beneficiaries are Internet consumers, who have experienced an explosion in access to content and services. Firms are offering free e-mail, free Web pages, personalized home pages, and customized news and stock-quote services, as well as an organized structure for getting to the most popular Web content and services.[14]

Just where is AOL, the "old school" Internet firm? AOL portrays itself as the "world's leader in interactive services, Web brands, Internet technologies, and e-commerce services." At present, AOL operates two worldwide Internet services—America Online, with more than 16 million members, and CompuServe, with approximately 2 million members; several leading Internet brands, including ICQ and Digital City; the Netscape Netcenter[15] and AOL.com portals; and the Netscape Navigator and Communicator browsers. Through its strategic alliance with Sun Microsystems, AOL also develops and

offers e-commerce business solutions to companies operating on the Internet. AOL is a diversified company that clearly operates in multiple markets (consumer and business) and pursues multiple revenue streams. The community aggregating activities of AOL and CompuServe are not AOL's sole source of revenue. Yet, those activities clearly are one of the chief revenue sources.

The CompuServe Acquisition

When AOL acquired CompuServe, it received an immediate and much-needed infusion of access lines to reduce the spiraling number of busy signals that subscribers had been experiencing, thereby reducing frustration and customer churn.[16] AOL is particularly vulnerable on these counts because unlike some of its competitors, it charges its subscribers a flat fee for access.

AOL also acquired CompuServe's more than 2 million subscribers. With the acquisition, AOL possesses an audience about the same scale as a modest cable television channel—an audience that is very attractive to advertisers.[17] The CompuServe acquisition epitomized an axiom of the Internet market: "The key to commercial success lies in controlling a large, stable audience."[18] Having the right online offering is crucial only insofar as it delivers the audience; for a mainstream service such as AOL, the name of the game is raw numbers.

Because of its raw numbers, AOL has been able to sell prominent positions on its service to some leading retailers and content providers. The retailers include 1-800-Flowers, Amazon, and home shopping giant QVC. The main content player is CBS Sportsline—the principal competitor to the ESPN Sportszone service. In each case, AOL—an online service provider—is trading its constituency of users to other online service providers.

For example, 1-800-Flowers is paying AOL approximately $25 million to be the exclusive florist in AOL's MarketPlace shopping service. Amazon is buying a prominent presence on the AOL home page and a contextualized link to AOL's Web search engine, NetFind. AOL receives a revenue share over and above the $25 million (1-800-Flowers) and $19 million (Amazon) up-front payments, so it encourages its subscribers to buy books and bouquets. SportsLine obtained

a link to AOL's sports service and has its content integrated into AOL's top offerings; QVC gets prominent promotion on AOL's home shopping services.

From the vantage point of the AOL model, the message from the Internet marketplace is simple: Without traffic, you can't commercialize your online presence. If you can acquire or attract traffic to your site, however, and lock those individuals into your offerings, you have a committed constituency that you and—crucially—others can rely on. Once you own an audience, you can trade it and begin to build revenue streams—not directly out of the pockets of your customers (unless you're AOL) but out of their presence and their latent power to spend. AOL has begun to capitalize on its audience—members with seductively high disposable incomes—by selling advertisers a chance to reach them.[19] Apparently, AOL has learned this lesson well: "Old School," indeed.

AOL's Future?

As the telephone and cable companies, Microsoft, and Netscape enable users to use the Internet's open standards to browse the Web, chat, and send e-mail, AOL may find its market share slipping. AOL's hope may be that the MCI/WorldCom deal provides AOL access to higher-speed access through phone lines. On the other hand, cable and wireless technologies may attract users away from AOL's slower dial-up services. In addition, other customers may bolt because of increasingly intrusive ads, on which AOL's flat-rate business model currently depends.

Moreover, Microsoft still looms in the wings. If Microsoft is allowed to fully integrate its browser, e-mail, Internet access, and content into its Windows operating system, users may find it easier to get to the rich content of the Web that way rather than through the suburban environment of AOL. For the moment, the Justice Department's antitrust suit buys AOL valuable time.

The "Sell-Source-Ship" Retail Model—Amazon.com

Companies that once bought a product, stored it, and sold it when an order came in are adopting the Amazon model of "sell-source-

ship." In this model, a distributor buys as little product as possible; instead, it borrows the product on consignment or tracks it down after receiving an order.[20] For instance, when a book is ordered, Amazon's computer checks with several distributors. If a distributor has the book in stock, it is shipped within two to three days. If not, Amazon orders the book from the publisher.

Amazon's business plan has many attractive aspects. It has the advantages of a central distribution model, a scale business in which costs do not rise proportionately with sales, and an excellent cash-flow situation in which it gets paid by its customers long before it has to pay suppliers.

Amazon succeeds for several reasons—not the least of which is its enormous catalogue. Amazon is able to gather book titles from as many as 12 national wholesalers and 20,000 independent publishers; it offers books in specialized categories that no major physical bookstores carry.[21] Although the database is massive, it is easy to navigate. It allows for the use of sophisticated search strategies.[22] Search results include detailed bibliographic information: title, author, edition, binding or format (e.g., hardcover, softcover, large print, cassette), publisher, publication date, and ISBN. Annotations include synopses; information about the author; comments from publishers, Amazon editors, and customers; blurbs from book reviews; all of the above, some of the above, or none of the above. Search results also include the discounted online price, as well as the number of days it will take to ship the book. Many digital covers are online. Customers are even invited to write a review of the book if they've already read it.[23]

Aside from enabling customers to order books directly, the site allows them to search for books of interest by subject area. Customers also may simply browse instead of search by wandering Amazon's virtual aisles of bestsellers and award winners, as well as staff and customer favorites. Customers can find information about titles discussed in the *New York Times Book Review, Salon, The New Yorker, Wired,* and *The Atlantic* and on National Public Radio.

Amazon offers the personalized assistance of staff who will recommend titles on a continual basis and an automated search agent that alerts customers when new books in their category of interest are published. It promises discounts of up to 30 percent on bestsellers. Shipping charges are $3.95 and up. Customers can pay by credit card,

check, or money order.[24]

In 1998, Amazon posted book sales of $610 million, an increase of 313 percent over 1997 sales of $147.8 million—making it, in just three and a half years, the country's third largest bookseller (virtual or physical), behind Barnes & Noble ($2.7 billion) and Borders ($2.3 billion). In only its second quarter of operation, Amazon's music division became the largest online music seller, with $33.1 million in sales.[25]

Although Amazon probably is best known for its online book business, the company has expanded its operations significantly. To expand its market, Amazon struck a deal with three of the most heavily trafficked search engines on the Web: Yahoo!, Excite, and America Online's NetFind. Amazon supplies book selections based on searches by the search engines' users.[26] In addition to its deal with search engines, Amazon recently entered the person-to-person online auction business and purchased a 50 percent stake in online pet-supplies retailer Pets.com and a 46 percent stake in online pharmacy retailer Drugstore.com. In addition, Amazon has launched its "Shop the Web" merchant referral service.[27]

These recent market forays and acquisitions bring Amazon several steps closer to its goal of being a central hub for electronic commerce. These moves also position Amazon to bring in new sources of revenue such as lead-generation fees and listing fees, which have much higher margins than the company's core retailing operations.[28] In entering these new lines of business, Amazon is leveraging its huge customer base and the brand name it has built in the bookselling operation to establish itself in new online businesses. Apparently, AOL is not the only firm to diversify.

Despite its obvious successes, Amazon still has not made a profit. A retailer such as Amazon must offer the greatest selection and service to remain competitive on the Internet; without an enormous expenditure for marketing and advertising, however, no one visits the site because no one will know it's there. For this reason, in one recent year, Amazon spent approximately $50 million on advertising and doled out at least another $50 million to AOL and Yahoo! and MSN to funnel visitors in its direction. On average, online retailers spent $26 on marketing and advertising per sale in 1998, whereas their physical counterparts spent only $2.50. Until Internet retailers can find a way to attract and keep customers without such an enor-

mous outlay, they will have difficulty making a profit.[29]

Amazon is an extremely customer-obsessed company; this emphasis on customer responsiveness is expensive, however, and is part of the reason it has been spending more than it makes. According to some analysts, however, this scenario was all part of the company's master plan. "Making money on books was almost irrelevant, compared with establishing Amazon.com as the most trusted brand in this new space."[30]

Ultimately, Amazon's primary asset is its special relationship with its customers. Given the increasing pressure to finally justify its valuation and show a profit, its customer relationship is the most valuable thing it has to sell.[31] Amazon already has come up with two lucrative ways to exploit this hard-won goodwill. One is selling, to publishers and others, preferred access to Amazon's customers, via the use of "mass customization" tools. Privacy advocates are critical of this plan because they are uneasy with businesses having and selling so much personal information.[32] Another way Amazon plans to exploit its market position is by earning a commission for directing its army of trusting customers to other retailers. This is the idea of "Shop the Web."[33]

Eschewing direct sale of new products, Amazon is developing the comparison-shopping technology it acquired when it bought Junglee Corp. Junglee is the creator of the Web-based software that powers shopping guides for Yahoo, NBC's Snap, and Lycos's HotBot. The Junglee purchase offers Amazon entry into the comparison-shopping arena.[34] Amazon will share revenue with the selling merchant or receive commissions to direct customers to a particular site (or some combination of the two).[35]

Amazon is willing to refer its customers to other merchants—earning less profit and taking a risk that customers might not return—because it believes that the Internet's retailing power lies in its ability to create a deeper relationship between merchants and customers.[36]

Going "Ethnic"—NetNoir

Ethnic Market Demographic Trends

The traditional picture of the Internet as the province of white males is becoming increasingly inaccurate. As a result of decreasing

computer prices, the number of majority and minority households with PCs and the percentage of online consumers has increased.[37] According to one report, approximately 23 percent of African Americans, 36 percent of Hispanics, and 64 percent of Asians are now online. This growing minority presence is expected to reach 40 percent, 43 percent, and 69 percent, respectively, in the year 2000.[38]

Coupled with the growing minority Internet presence is the growing buying power of minority consumers. The African American, Hispanic, and Asian populations of the United States possess a combined estimated buying power of more than $1 trillion. In addition, these minority populations are rapidly becoming the majority population in many major U.S. markets.[39] This reality, combined with the increasing competitive nature of the marketplace, is prompting corporations to tap ethnic markets for new customers by creating tailored messages. For marketers, seeking out multicultural groups can yield significant results because ethnic consumers can be targeted for fewer messages than mainstream consumers.[40]

The African American Market

The African American population is expected to grow from 34 million in 1996 to more than 45 million in 2020.[41] The combined purchasing power of the African American population is estimated to be approximately $450 billion.[42] As a group, African Americans spend more than European Americans on luxury items such as cars, clothing, and home furnishings. The Internet is considered a new growth medium for reaching the affluent portion of the African American market.[43] It is anticipated that by the end of 1999, 23 percent of African American households will be online. Moreover, their expenditures for online access and electronic equipment are growing.[44]

A critical aspect of the Internet's attraction is its propensity to facilitate the building of communities of common interest through shared information. Marketers are discovering that the Internet facilitates the creation of communities of color as well.[45] Indeed, one of the critical components of marketing to minority online users is developing a sense of community among users and with the sites' advertisers.[46] Another critical component is understanding how a particular ethnic group uses the Internet. For instance, African

American online users may be more likely to seek out entertainment and relationship-building services than research or news. Information about employment opportunities is another substantial draw for this group of users. Many ethnic-oriented Web sites and services include a job bank that caters to these users' needs—and creates a significant source of revenue for the service. Many employers are recruiting in this manner because they know they are more likely to reach educated, affluent members of minority groups.

Despite their successes, many ethnic sites still face skepticism from advertisers—"even though their free content appears to be drawing strong audiences, and seems to offer the same advantage as other minority-oriented media efforts on television and radio."[47] Many advertisers question whether there are a sufficient number of minorities online to justify their investment. Some sites diversify their efforts to generate revenue streams by selling products online, offering consulting services, or pitching corporate sponsors as well as advertisers.[48] Despite the skepticism of some advertisers, others are attracted by the cohesive nature of the ethnic sites market segments. Because ethnic sites do not try to be all things to all users, they avoid the problem of providing broad surface content but little depth. Instead, they "narrowcast" to a core community with whom they bond.

The NetNoir Model

NetNoir portrays itself as a media company that promotes, develops, digitizes, archives, and distributes African American, urban-oriented programming and commercial applications for interactive media. As of this writing, the company has three divisions: NetNoir Multimedia Services (NMS), NetNoir Online (NNO), and NetNoir Market Research (NMR). NMS provides consulting and production services to individuals, companies, and organizations.[49] NNO provides online programming and distribution.[50] NMR conducts market research, develops online focus groups, and carries out data mining of African Americans online.[51]

NetNoir's Web site is marketed as being specifically created for African Americans. It offers news, entertainment, community, chat, and opportunities for e-commerce; it also contains a job bank. The company reports that its Web site receives approximately 250,000 visitors per month. NetNoir's site mostly attracts affluent African

Americans, 36 to 54 years of age.

NetNoir's Web site consists of the following departments:

- People & Culture (PEEPS)—A place for people to meet through chat rooms (Chat House), message boards (Black Boards), Club NetNoir (member photos), etc.;

- News & Information (NEWS)—Daily national and international black-oriented news feed, daily polls/surveys, resources, international, national, regional events calendar (Around Town), etc.;

- Entertainment (FUN)—Celebrity interviews, multi-player games (AC Butler/Roots, Knowledge & Culture), relationships (Ask Heartbeat!), etc.;

- Business & Politics (BIZ)—Networking opportunities, job searching (JOBS), marketing of black businesses/products (NetNoir's Black Pages), business chats and tips, political issues from the Left and Right (Talk Politics); and

- Shopping (SHOP)—Opportunities to patronize black businesses and receive discounts on mainstream items.[52]

NetNoir is positioning itself to become the portal for the provision of a broad array of financial services to the African American online community. Services available through the site include savings and checking accounts, home loans, information about stocks, and insurance products.[53] In this regard, NetNoir supplies banks, insurance companies, and brokerage firms with advertising, consulting, and market research services through its Web site. As part of its strategy, NetNoir recently entered into an arrangement that resulted in the creation of the NetNoir MoneyClub, "a select directory of the Web's personal finance and small business resources for African-Americans, including stocks and investing, mutual funds, retirement planning, taxes, insurance and sources of business funding."[54]

To date, NetNoir has entered into sponsorships or advertising arrangements with IBM, Hewlett-Packard, Bank of America, Chase Manhattan Bank, Wells Fargo Bank, and E*Loan. In addition, at least

one financial institution recently was slated to begin recruiting sales personnel via NetNoir.

Conclusion

Whether one examines the gigantic, general market-oriented AOL; the moderately sized, heretofore specialized-market-oriented Amazon.com; or the emerging, ethnically oriented NetNoir, what is clear is that to be successful on the Web, one must aggregate and maintain a loyal consumer audience. Such an audience may be charged directly for services or be exploited to secure revenues from advertisers seeking to reach that audience. It seems equally clear that whether one employs the subscription fee or the free service and content model business, costs dictate that an online firm must diversify into other markets with higher margins.

Notes

1. ©1999 by The Aspen Institute and Allen S. Hammond IV, Professor of Law, School of Law, Santa Clara University.
2. "Mimicking the AOL Chat Model," *Interactive Content* (October 1, 1997).
3. Ibid.
4. Jonathan Tice, "Partnering for Your Customers," *Ivey Business Quarterly* (September 22, 1997), p. 56.
5. Infomarketeers (information marketers) are also called "infomediaries" or information "intermediaries." See "Agents Who Sift the Information Overload," *Financial Times* (October 29, 1998), p. 13 (infomediaries); P. K. Kannan, Ai-Mei Chang, and Andrew B. Whinston, "Marketing Information on the I-Way," *Communications of the ACM* 41 (March 1998), p. 35 (information intermediaries).
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7. Kannan, Chang, and Whinston, "Marketing Information on the I-Way."
8. Ibid.
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11. Ibid.
12. G. Burgess Allison, "Portalpalooza: The Internet is Fun Again," *Law Practice Management* (April 1999), p. 12.
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16. "Successfully Turning Online Audiences into Profit," *Publishing Technology Review* (October 1, 1997). As part of the deal, AOL sealed a long-term pact with WorldCom, a telephone company based in Jackson, Miss., with scads of capacity, that will help AOL lock in access to phone lines at low rates for the next five years—and probably boost profits. In the three-way agreement, WorldCom bought CompuServe and then handed AOL the online company's

2.6 million subscribers in exchange for AOL's networking and Internet-access division, ANS. See Joshua Cooper Ramo, "How AOL Lost the Battles But Won the War," *Time* (September 22, 1997), p. 46.

17. "Successfully Turning Online Audiences into Profit." According to an analyst at Oppenheimer & Co., "AOL viewership, the number of hours spent looking at the screen, is now approaching that of ESPN, MTV, CNN and a few other cable companies. If you fill that time with advertising, the power of the revenue-generation machine is phenomenal." See Ramo, "How AOL Lost the Battles But Won the War," p. 46.
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22. Thomas Pack, "All About Books—Online," *Database* (February 12, 1997), p. 12. "You can search Amazon's database through four forms-based interfaces. One offers keyword searching, another lets you find books with the names of authors, titles, and/or subjects. The third is a full-featured form with scrolling menus that helps you search author, title, subject, or publication date, and it lets you use Boolean AND, OR, or NOT. The fourth is a form for Amazon.com's search language, which lets you use any combination of the fields in the other interfaces as well as the ISBN number. "
23. Pack, "All About Books—Online."
24. Pack, "All About Books—Online."
25 Peter de Jonge, "Riding the Wild, Perilous Waters of Amazon.com," *New York Times* (March 14, 1999), Sec. 6, p. 36, Col. 1.
26. Amazon's "Shop the Web" service is an online shopping agent that uses technology from Junglee to search for products being sold on the Internet and compare prices and features. The service also directs shoppers to participating online retailers, which pay Amazon for the referrals. Joelle Tessler, "Amazon.com Positions Itself as Hub for Electronic Commerce," *Ottawa Citize*n (April 3, 1999), p. F8.

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31. David Ignatius, "Citizens Cast a Wary Eye on Growing Intrusions on Privacy," *Bergen Record*, February 28, 1999.
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38. Lisa Skriloff and Dawn Cornitcher, "Muticultural Marketing: A Marketing Imperative," *Adweek* (eastern edition) (May 17, 1999), p. 16.
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44. Sharon McDonnell, "The Electronic Rainbow/Despite Financial Obstacles, Minority Web Sites Continue to Spring Up In An Attempt to Build Online Communities of Common Interests," *Newsday* (August 10, 1997), p. A53.
45. Cleland, "Narrow-Marketing Efforts Winning the Internet."
46. McDonnell, "The Electronic Rainbow."
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48. "NMS consults in the areas of digital formatting; database development and management—including back-up, storage, and security systems; Web page design, development, and distribution methods; and appropriate formats and platforms use. NMS also acts as a 'digital black content studio' by providing 'private label' or 'company branded' black programming and/or content for corporate Web sites e.g., Christmas/Kwanzaa, Martin Luther King, Jr. Birthday, Black History Month, etc." "NetNoir, Inc. Creates Three New

Business Divisions; Distributes on AOL and the Web; 'New' NetNoir Features Redesigned Web Site and AOL Channel; Expanded Online Shopping Mall," Business Wire (November 24, 1997).

49. "NNO's [i]nitial distribution of content/information is via consumer online services beginning with America Online (AOL) and the Internet. NNO, in different forms, is also distributed on other new media platforms such as web sites, general ISPs and ISPs delivered through television, (e.g., NetChannel)." "NetNoir, Inc. Creates Three New Business Divisions."

50. "NMR provides research services and data mining to companies and organizations interested in reaching and understanding the affluent African-American online market. Due to the success of NNO, the market research division is uniquely positioned to leverage NNO's traffic/audience data for testing, polls and surveys." "NetNoir, Inc. Creates Three New Business Divisions."

51. Ibid.

52. Cheryl Winkour, "African-American Firm's Web Site Builds Customer Pool, and Banks Are Jumping In," *American Banker* (September 1, 1998), p. 5; "E-LOAN, NetNoir and the L.A. Urban League Launch Program to Promote Home Ownership and Computer Access Among African-Americans and Lower-Income Households and Communities," Business Wire (August 27, 1998).

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Relationship Marketing in the Internet Age

by Allen S. Hammond IV[1]

The Internet is having a substantial impact on the marketing strategies of many companies. It provides access to geographically dispersed customers and customer groupings. In concert with the computers attached to it, the Internet allows for the instantaneous exchange of up to the minute information about products, services, and market transactions.[2] In addition, it facilitates the efficient collection of data on customers' needs, interests, and demographics.[3] As a result, it is evolving into an ideal direct marketing tool for companies.[4]

But what does "direct marketing" on the Internet mean? The vast majority of articles addressing this question have centered on the importance of attracting and maintaining a significant customer/consumer community. The firm both generates and maintains the community by engaging in "relationship marketing."[5] In essence, relationship marketing requires that a firm determine what its customer wants using a number of software enhanced inquiries and then gives the customer what he or she wants faster and more responsively than the firm's competitors. Otherwise, the firm not only loses customers and corresponding sales, but also sales to other firms which would seek to advertise and /or interact with the firm's aggregated, customer community.

While the company's market driven goal and motivation seem clear enough, the manner in which a firm is to achieve this state of relationship marketing nirvana is not. There are at least two underlying issues that also must be addressed in order to better understand the process by which one accomplishes effective relationship marketing. First, for many firms, their preferred customers consist of economically affluent, sophisticated, dual income household baby-boomers, who are technologically literate and interested in making their own decisions about which products and services to consume.[6] Independent, with the ability to transact in a variety of media, these customers are not necessarily easy to attract much less corral. Second, assuming you can get an individual to visit your web site,

how do you get them to stay? The reiteration of the same question from the customer community standpoint is: once you get the members of your potential or actual community to your site, how do you keep them there? This paper addresses the issue of individual and community retention.

Retention can be accomplished in at least two ways. First, the site must be attractive and interactive enough to keep the usually brief attention span of technologically sophisticated individuals who are advertising and retail savvy. Second, the site must deliver service of value to the specific customer and ideally, the community.

Site attractiveness is a function of cost [to the potential customer], interactivity and esthetics. For instance, if access to the site and a host of services are provided free,[7] customers are likely to stay a while–at least to make use of, or download the free goodies. If the site is visually stimulating,[8] easy to use, convenient[9] and interactive, the customer is more likely to remain and may impart valuable information via the virtual interaction.

Site value is a function of the company's relationship marketing competence. For instance, if the company has acquired data allowing it to respond to the likely needs of individuals fitting the customer's profile, and if the site possesses the appropriate software to interact with the customer and process the customer's express wishes, the value of the site to the customer is likely to be enhanced.

There are a plethora of articles opining that relationship marketing is essential to competition on the net, and to retail and financial services competition on the net in particular.[10] Fewer explain in any detail what relationship marketing entails. However, it is suggested that the focused pursuit of a relationship marketing strategy might include: the use of demographic, behavioral and psycho-graphic data; attention to customer specified preferences; the use of personal intelligent agents; and relationship marketing software products; and/or collaborative filtering.

Demographic data includes age, income, marital and family status, address, and level of education;[11] behavioral data consists of the record of a customer's actual purchases;[12] psycho-graphic data includes inter alia a customer's age, gender, geographic location, income level and personal hobbies.[13] A collaborative filtering process

makes use of customer preference data owned by one or more firms to recommend products for a particular customer or to evaluate the suitability of a set of products for a variety of customers.[14] Personal intelligent agents sift through information to find value for the customer. For instance, electronic shopping agents may compare product prices and features to find a customer the best deal.[15]

In addition, various companies have developed software solutions which provide a complete, customer centric, marketing product. For example, IBM announced "DecisionEdge," a product which IBM says allows "banks to analyze customer behavior and use this knowledge to assess the risk of losing a customer; classify customers with seemingly unrelated characteristics into segments; predict demand for products and services and the channels through which they should be delivered; and mange marketing campaigns."[16]

It seems clear that the Internet facilitates the gathering of personal data and improves a firm's ability to link vast amounts of data to a specific individual. As a result, the data is rendered more valuable. In addition, the Internet's networking functionality coupled with the advent of sophisticated software search programs has reduced the cost of information generation and acquisition.[17] Moreover, the clear market imperative to make use of this information or fall to competitors that do, motivates firms to take advantage of the opportunity to acquire and use the information.

The net impact of all this technologically enhanced attention to consumer transactions and desires is that firms will possess an increasing amount of information about many individuals and groups in society. While perceived as a boom by retailers, software manufacturers and marketers, the aggregation of an ever increasing repository of often intimate detail about our personalities, consumption habits, product preferences, and, even the way in which we process information has caused alarm in some quarters.

At least one commentator has suggested that anonymity is an archaic concept in a digital age in which "data surveillance" has become an essential business tool for acquiring and/or knowing one's customers. Nevertheless, the ease of data acquisition, along with concerns about who has access to the data and what use they make of it has civil libertarians, marketers, the government and con-

sumers concerned.[18] In 1996 surveys, about 65% of people said protecting the privacy of consumer information was very important to them. About 24% of consumers said they had personally experienced an invasion of privacy, and 44% said the issue of invasion of privacy will worsen by the year 2000. A majority of those surveyed (64%), felt on-line services should not be able to track the places users go on the Internet in order to send them target-marketing materials. Only 37% see mail offers as a nuisance, and a gradually growing percentage, 12%, regard mail offers as useful. However, if given the option, 73% of consumers said they would have their names removed from some mailing lists.[19] Consumer concerns have not been significantly allayed since 1996. A more recent poll disclosed that a majority of respondents cited privacy as the major reason for avoiding the Internet.[20]

There are several possible ways to address consumer concerns. There are potential legal and legislative proscriptive remedies as well as industry self regulation. While the right to privacy enjoys constitutional protection,[21] at present there is no comprehensive protection for personal privacy in the United States.[22] It is suggested that the tort of misappropriation of name or likeness for commercial purposes might be fashioned into a legal remedy for misuse of personal data.[23] Legal doctrines such as fraud, negligence, breach of confidentiality, breach of contract, unjust enrichment, infliction of emotional distress, and trespass, also may apply under particular circumstances.

Congress responses to privacy concerns include several pieces of legislation designed to protect privacy on the Internet. Recently introduced bills include: the Consumer Internet Privacy Protection Act of 1999 (H.R. 313) (which would regulate ISP use of their subscribers' personal data); the Financial Information Privacy Act of 1999 (S. 187) (which would regulate financial institutions ability to share and sell personally identifiable sensitive financial information); and the Social Security On-line Privacy Protection Act of 1999 (H.R. 367) (which would limit ISPs' ability to disclose a subscriber's social security number or related personal information).[24]

The Internet industry has engaged in self-regulatory efforts to stave off government regulation. Two presently available certification programs are: TRUSTe and BBBOnline. The TRUSTe program is conducted by an independent nonprofit privacy organization

(http://www.truste.org). BBBOnline is run by a subsidiary of the Council of Better Business Bureaus (http://www.bbonline.com):[25] However, neither seal program can take legal action against privacy violators beyond withdrawing the right to display the certification seal, consequently, commentators have labeled these programs inadequate.[26] Meanwhile, in the wake of all the expressed concern over privacy, a contrarian view has emerged as well. It is suggested by one set of commentators that consumer backlash will ultimately arise not due to anxieties and concerns about personal privacy, but due to the fact that they are not compensated for the use of their valuable personal data.[27] These commentators see an increasing role for infomediaries, companies which gather personal information which is then sold to other firms. Infomediaries will broker information to businesses on consumers' behalf. In essence, infomediaries will be the catalyst for people to start demanding value in exchange for information about themselves.[28]

Aside from the Infomediaries, new technologies such as smart cards, World Wide Web browsers, and personal-financial-management software may make it possible for users to obtain much more comprehensive and accurate profiles of their own commercial activities than vendors could collect. Through the use of these technologies, users could choose whether to release or withhold information about themselves.[29] One firm has recently announced a virtual card technology that would specify what information, if any, is given to the sites consumers visit.[30]

It is clear that firms' use of the Internet has caused an explosion in the availability of useful consumer data and a simultaneous explosion in consumer concerns about personal privacy both in terms of its invasion, but also in terms of compensation for it's use. What is unclear, is how these conflicting trends will be resolved in the near future. Litigation, legislative, industry and software "fixes" appear to be on the horizon. Which one or combination of solutions will be favored to facilitate the continued flow of commerce is yet to be determined. Time will tell.

Notes

1. (c) 1999 The Aspen Institute and Allen S. Hammond IV.
2. P.K. Kannan, Ai-Mei Chang, Andrew B. Whinston, "Marketing Information on the I-Way", Internet, *Communications of the ACM* (March 1998): p. 35.
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5. "Many retailers believe it is more profitable to retain current customers than attract new ones. Consequently, to increase their business, they must identify new ways to get their current customers to increase their purchases. To accomplish this, retailers tailor their ad messages to specific customer types. In addition, they seek to reward customers for their patronage via discounts, coupons, rebates, newsletters and special services that say "thank you" and build stronger bonds between seller and buyer." Kristy Meyer, "Targeted Marketing Identifying and Rewarding Your Best Customers," *Do-It-Yourself Retailing* (March 1, 1999): p. 49.
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15. Agents Who Sift Through the Information Overload," *Financial Times* (October 29, 1998): p. 13.

16. IBM Announces Availability of Finance Industry's First End-to-End Relationship Marketing Solution," *Business Wire* (February 22, 1999). *See also*, "Financial Institutions Cash in Using Interactive Technology, Interactive PR & Marketing News," *Business Wire* (June 11, 1999).

17. Personal data can be gathered at a Web site both overtly (e.g., through a registration process) or covertly (e.g., through recording the steps a visitor takes before, during, and after a visit). New technology and more powerful computers now make it possible, without the visitor's knowledge, for companies to record and track information about visitors to their Web sites, including email addresses, which portions of the site were visited and for how long, and from where the visitors came. Psychographic profiles can be made by analyzing a Web surfer's "click stream," or listing of sites visited. Web sites may plant "cookie" files on a visitor's personal computer. (A cookie is a computer file containing coded information that the originating site can read to determine information about user preferences or interests gathered during the last site visit. Some e-commerce sites use cookies to store records of what a particular visitor has bought in the past and what they've said they might like to buy in the future.)" Erika Koster, "Zero Privacy: p. Personal Data on the Internet," *The Computer Lawyer* (May 1999): p. 7.

18. Len Lewis, "Private Lives: p. Database Marketing Programs Have to Deal With What Constitutes Invasion of Privacy or Simple Paranoia," *Progressive Grocer* (February 1998): p. 47.

19. Ibid.

20. *Business Week*, March 16, 1998 at 98 (recent poll showed majority of respondents cited; also see "Privacy, Please," Newsweek.com, April 15, 1999.

21. *Griswold v. Connecticut, 381 U.S. 479, 484 (1965).*

22. *Griswold v. Connecticut, 381 U.S. 479, 484 (1965).*

23. The misappropriation doctrine applies to the use of someone's name or likeness without their consent. Restatement (Second) of Torts § 652C (1977). This tort was recently recognized for first time in *Minnesota. Lake v. Wal-Mart Stores, Inc., 582 N.W.2d 231 (Minn. 1998)* (recognizing the torts of intrusion upon seclusion, misappropriation and publication of private facts but rejecting the false light publicity tort). This tort has been restricted to situations where the subject is not a matter of public interest. The misappropriation doctrine theoretically could provide a basis for liability for the sale of non-public personal information collected by Web sites. While attempts to challenge distributors of mailing lists have not been successful, it is suggested that the courts focused on the seeming lack of value of the information at issue. Whereas, the value of technologically aggregated consumer information is increasing well established. See Erika Koster, "Zero Privacy: p. Personal Data on the Internet, The Computer Lawyer" (May 1999): p. 7. (Discussing *Shibley v. Time, Inc., 341 N.E.2d 337 (Ohio Ct.App. 1975)* and *Dwyer v. Am. Express Co., 652 N.E.2d 1351, 1356*).

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25. Truste licenses a seal of approval to Web sites that adhere to certain privacy principles and agree to comply with Truste's oversight and consumer resolution process. Participants in the BBBOnline program must meet required "core" principles, such as disclosure, choice, and security. Ibid.

26. Ann Harrison, "Better Business Online? Maybe," *Computerworld* (March 22, 1999): p. 10.

27. John Hagel III and Jeffrey F. Rayport, "The Coming Battle for Customer Information" *Harvard Business Review* (January/February, 1997): p. 53.

28. Ibid.

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Internet Video Storyboard Testing: A Low-Cost Predictive Selection Technique for Television Program Development

by Barry Cook

Background

Television programming is an extremely risky business. All programs are expensive to produce; most programs do not draw large enough audiences to break even. The only thing that makes it a viable business is that once in a great while, a hit is born. One hit generates enough profit to offset the losses of ten average shows and still leave a net profit for the business. Hits on a schedule also are a fertile breeding ground because they provide lead-ins that provide audience exposure for new and promising programs, as well as building a franchise for rerun syndcation and new series spin-offs.

Without a few hits on the schedule each year (and eventual replacement of hits that have reached the end of their life cycle), a network will fail. Thus, the search for hits is a matter of survival.

Networks therefore invest a great deal in the search for hits—a multi-method process of program development. Development begins with the pitch of ideas, concepts for programs, sketches of potential casting, and syllogisms of success (A was successful, B resembles A, therefore B will be successful).

A combination of executive judgment and audience research filters a very large number of pitched ideas down to a handful of series commitments. The filtering process moves from pitches to concept testing (paragraph-length descriptions of program concepts that are audience tested through survey research) to scripts, pilots, and series commitments.

Many projects move to the script stage. Scripts may be commissioned, or they may be written speculatively. Television executives review scripts and interact with scriptwriters to develop program ideas. Most often, they “pass” on scripts (decline to pursue them). There is no accepted way to pretest scripts with a sample of potential viewers; program executives must “go with their gut” at this stage.

Why Doesn't Concept Testing Predict Series Success?

Concept testing is a relatively weak predictor of on-air success because a good concept can be badly executed. Conversely, outstanding execution of a mediocre concept sometimes can bring in casting or production strengths that couldn't be conveyed with a concept statement. In other words: How could someone hearing only the premise of "Mork and Mindy" judge it without knowing Robin Williams? Nevertheless, concept testing is worthwhile because it enables networks to very inexpensively gather audience information about the promotability of concepts—and all things being equal, a program that creates interest merely on its concept will draw an audience more quickly than a program with an unremarkable concept. From hundreds (or even thousands) of concepts that have been tested, a database of norms has been created that helps programmers identify strong concepts—those in the same range as concepts that have been associated with successful series in the past.

There is a danger here. Program developers pitch programs in terms of past successes. A program developer might tell a program executive (or a survey respondent) that a new program is an "I Love Lucy Show about Nothing"—a Cuban "Seinfeld," set in Miami. Although this pitch increases the chance of tapping into strong expectations, the program may not be deliverable as a series that doesn't involve Lucille Ball or Jerry Seinfeld. Thus, concepts that are full of hype and favorable associations may achieve strong test scores, but such positive testing may not translate into program success.

Pilot Testing

Currently, the only way to know how an audience will react to a fully executed television program is to show them an episode. A sample of potential viewers is asked to watch the pilot episode (typically, on a special cable channel); then they are interviewed for their evaluations of what they have seen. Ratings from this "in-home screening" are compared to norms established from prior years of pilot tests. Done this way, pilot testing is a powerful predictor of series success: Most of the (relatively few) pilots that test well become successful series, and very few, if any, of the (relatively many) pilots that don't test well succeed when they are brought to air.

Apparently, there is no way to know prior to producing and testing a pilot whether it will test well or not. Pilot episodes may cost a couple of million dollars to produce, and 30 pilots may be required to produce one hit. Test 300 pilots and you might find 10 hits—but the industry does not have the resources to create 300 pilots for each network every television season.

This process is not designed to help independent producers with great ideas bring their series to air; it is designed to maximize the chance that a network will somehow identify at least one rare hit each year.

It is extremely improbable, however, that the concept testing and executive judgment process identifies all potential hits that should be made into pilots. If these pre-pilot stages of selection provided any real clue about the potential of pilots, the networks would not spend so much money producing pilots that test as "weak." Thus, the only way for a network to find the rare hit is to invest in as many pilot episodes as the network can afford and hope that a hit will emerge from among them.

If the number of projects that could be filtered with reasonable predictive power could be increased substantially without great expense, the process would be opened up for independent production companies. Moreover, in the long run such a broadened process would confer the most compelling benefit to the network: It would increase the number of hits.

Why Does Pilot Testing Predict Series Success?

What a test audience experiences in a pilot episode is the full realization of a television program: concept, premise, script, casting, performance, and production values. In this experience, the test audience is not only presented with a fully developed program stimulus; audience members also engage in normal viewing behavior with that stimulus. The test situation does not ask audience members to make critical judgments on the basis of reading a script or thinking about a concept; it asks them to watch a television program. Short of incurring full-scale production costs, how can we create a test stimulus that gives a test audience a viewing experience congruent with viewing a fully produced episode?

Concept: Internet Video Storyboard (IVS) Tests

Internet multimedia authoring tools could be adapted to create slow-scan, full-length video programming with synchronized voiceovers that would present the essential experience of a new television program to a test audience without expensive production. A scientifically selected sample "audience" could be recruited to view a password-protected Web site, where they would watch the video storyboard and then—using the interactive capacity of the Internet—provide information about their reactions. (Depending on the target audience, that sample could be drawn from the universe of persons who have access to the Internet or be recruited from the universe of all television viewers and then invited to a local testing center for a screening.)

Although this system probably would not supplant more expensive pilot tests, it might function as a preliminary and predictive filtering mechanism. IVSs could make it feasible to pretest a much larger number (and wider range) of ideas to receive a meaningful evaluation. Most important, this new testing vehicle has the potential to lower the barriers to entry into full-scale television production for independent producers.

Development Plan: IVS Tests

Creation of a new method for pretesting television series will require significant commitments on the development side and on the user side.

Research developers must design and realize this new research method, refine it on the basis of some practical experience with it, and validate it against proven methods (or actual on-air series performance). If the method has a sufficiently high validity (as measured against a cost of risk reduction criterion), then and only then can it be implemented as an industry practice.

Stage 1: Feasibility

What kinds of products are available to develop and deliver streaming audio with limited video over a 28.8 kbps Internet connection?

See:

- www.videoseeker.com/vlist/animation.html
- www.realnetworks.com
- www.microsoft.com/windows/windowsmedia/create.asp

One possible proof-of-technology project would involve translation of an as-yet-unaired 30-second commercial into several different versions of 30-second IVSs. These versions would vary in their degree of image veridicality and soundtrack literalism.

The production quality of an IVS might affect message communication and emotional response. At low production quality levels, some nuances of the message will be lost, and the viewer may be less likely to "suspend disbelief" and accept the stimulus as equivalent to conventional television. Therefore, the tradeoff between production quality and IVS communication value is an important empirical issue. To explore this issue, production quality could be varied systematically.

Production quality is a direct function of the video and software tools available. These technologies are evolving rapidly toward higher quality and lower cost. With today's low-cost technologies, production quality test versions might include:

- Minimal representation: The test commercial could be rendered in stick animation with a nonprofessional voiceover, no music, and no sound effects.

- Midpoint: The test commercial could be created as a series of photographic-quality "slides," with a professional voiceover, stock music, and rough sound effects.

- Near-video quality representation: The test commercial could be shot and edited in amateur digital video format with soundtrack from the production version of the commercial and translated to 28.8k RealVideo.

These three IVS versions (along with the original, full-production-value commercial) should be pretested in a mall interview setting (among separate groups) to determine the degree to which message perception and emotional reaction to the spot is production-quality dependent (or production-quality transparent).

Network partnerships will be required to support the following stages of development; the IVS created for the feasibility stage could help potential partners visualize the concept.

Stage 2: Pilot Project

Creation and refinement of the IVS testing method is a project in itself. What recruitment procedure should be used to obtain predictive samples? (Projectable samples may be a possibility if sampling is not limited to the 40 percent of the population that currently has Internet access; sampling also could include recruitment of persons without Internet access who would come to central locations to view the IVS under test. Traditional pilot testing on cable systems was predictive when cable penetration was under 40 percent; the universe of homes with Internet access might be sufficient for the selection of television programming for tomorrow's competitive environment.)

Respondents should be asked conventional pilot testing questions (e.g., evaluation of story, principal characters, intention to view). Additional questions about their assumptions regarding what would be changed when the IVS became a fully produced television program could be important diagnostics.

Once procedures for testing are resolved, the IVS testing method must be validated against full pilot tests. Only through full validation can confidence be established in the value of this new type of information.

A plausible research protocol would select a sample of potential IVS respondents from an enumeration of Internet households. (Nielsen Media Research currently conducts such telephone enumerations, although there is nothing proprietary about this procedure.) These potential respondents would be contacted by telephone and asked to participate in a special screening of an upcoming television program; if they agreed, they would be given the URL, password, and dates to view the IVS. Because the IVS is in streaming video format, it can be viewed on demand. To collect information in a timely manner, however, respondents would be limited to a 48-hour window for their personal screening. The questionnaire could be presented online, with respondents submitting their responses directly to the IVS Web site. (Alternatively, data could be collected through a follow-up telephone interview.) Reminder telephone calls, mailed incentives, or e-commerce coupons could be added to the mix to improve the response rate.

The cost of IVS production and online testing (with 400 completed responses) could be under $40,000—2 percent of the cost of pilot production and testing.

Stage 3: Validation

Assume that, for a full development season, IVSs are produced and tested in parallel with fully produced pilot episodes. The output of this effort will be two sets of test scores for every pilot: one set of scores based on the cable testing of the pilot episodes and a second set of scores based on the Internet testing of the video storyboards.

The industry has confidence in the predictive power of conventional pilot tests. Over the course of many years, cable test data have been criterion validated (multiple measurements were taken of the same concept) against subsequent on-air performance of television series. Optimum prediction models differ by program type, but research has showed that within program type (e.g., comedy, drama), pilot test scores account for more than 50 percent of the variance in actual on-air series share. This is a remarkably strong predictor, given that a good portion of the variance in on-air performance is a function of scheduling, lead-in, and competition.

Ideally, we would like to have a large number of IVS tests to perform criterion validation against on-air series performance. Because not all programming that is tested actually makes it to air, we will need several years to gather the criterion information required. What can be done to assess predictive validity in the near term?

With a full season of parallel tests (pilot tests and IVS tests), we will be able to compute a correlation between the two measures. We would expect to see a positive correlation of IVS tests with the corresponding pilot tests; the crucial question is, How strong is that correlation?

If the correlation is nearly 1.0, an IVS test is almost a substitute for a pilot test; thus, if pilot tests predict series success, so do IVS tests. This result would be wonderful—but it is not the most likely outcome.

More likely, the IVS test scores will have a moderate correlation with pilot test scores. One might think that IVS test scores therefore are weaker predictors of series success than pilot tests, but that is not necessarily so. Strictly speaking, IVS test scores could correlate moderately well with pilot test scores and yet have almost no relationship to series success. This could happen if the portion of the pilot test score variance that correlated with the IVS test scores did not overlap with the portion of the pilot test score variance that explained

series success. We can compute the likelihood that IVS test scores could be unrelated to series success given certain correlation values relating IVS and pilot test scores.

Therefore, indirect validation of IVS test scores against one season of pilot test scores is an important beginning. IVS test scores that are moderately correlated with pilot test scores would be a very positive sign because that result would suggest (though it would not guarantee) that IVS test scores will be a useful predictor of on-air series performance. This outcome would encourage the use of IVS test scores in the succeeding season's decisions about which projects should be green-lighted for pilot production. After a few seasons with on-air track records, there will be enough cases to compute a criterion validation of IVS test scores against on-air series performance.

Stage 4: Implementation

Three outcomes are possible:

- On the basis of criterion validation research, IVS tests are found to be strong enough predictors of on-air series performance that they are a cost-effective risk management tool for television programmers.

- IVS test results bear some relation to pilot tests but almost no relation to on-air series performance.

- IVS test results are more like concept test scores (essentially unrelated to either pilot tests or on-air series performance).

If the first outcome obtains, IVS testing could be implemented as a pre-pilot filter for programming and, for smaller networks and syndicators, a low-cost alternative to pilot testing. Both of these uses would vastly increase the access that independent producers would have to potential on-air success.

This scenario presents both risk and opportunity to the incumbent research suppliers of pilot testing; IVS testing might reduce the volume of pilot testing, or it could catalyze the value of pilot testing. It also could threaten the mystique of the television programmer. If IVS

testing is offered to programmers as a tool to improve their effectiveness rather than as a replacement for their judgment, it could gain their support.

If IVS tests are correlated with pilot tests but not with on-air series performance, using IVS tests as a pre-pilot filter might seem counterproductive. If IVS tests explain the part of pilot test variance that doesn't predict on-air series performance, however, the combination of IVS test scores and pilot test scores would be a stronger predictor of on-air series performance than pilot test scores alone. In a nifty way, combining IVS tests and pilot tests in a single regression equation would use the IVS test to isolate the predictive part of pilot test data and improve our predictions of on-air series performance.

Given this outcome, the justification for IVS testing becomes technical and indirect—even though the value of IVS testing in risk reduction might be just as great as if it functioned as a pre-pilot filter. Another obstacle to implementation would be that a multi-year on-air track record would be required.

If IVS test scores are not related to pilot tests (something we would know after the first year of validation research), they probably would not be related to on-air series performance. Nevertheless, IVS tests might be useful as a means of obtaining audience reaction diagnostics to improve a project prior to producing a pilot. Tests of multiple versions of an IVS also could provide a means for the producer to experiment with program alternatives (e.g., changing the voiceover casting or the setting of the story to determine, at relatively low cost, the strongest combination of programming elements). In that sense, it would be akin to episode testing—but at much lower cost and risk.

Thus far, this analysis has assumed that the television programming department would assume the costs of producing and testing IVSs. The relatively low cost of IVS production would also facilitate an alternate model: The IVS, like a script, could be an audition vehicle that is fully funded by the producer. If the testing were conducted by a third party (and accompanied by third-party IVS test norms to provide a competitive context), a tested IVS could be a powerful negotiating tool for producers.

Finally, the IVS could itself be a new mass medium. An entire series could be produced in IVS format and distributed through the

Internet. Like the hundreds of millions of pages on the World Wide Web, any IVS site would face the challenge of developing an audience, but the potential for building viewing habits among Internet users would seem to transcend what non-serialized pages could achieve. As a vehicle for diversity, the IVS could build an audience on the basis of merit—and the most successful IVS properties would have a franchise with a mass audience that would invite translation to television, motion pictures, and other high-budget media.

The Aspen Institute
Communications and Society Program

List of Conference Participants

July 16-18, 1999
Aspen, Colorado

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Law and Regulatory Policy
National Cable Television Association

Steven Chin
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Monkey King Media

Sandy Close
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Adler has written extensively on the subject of new information technologies. His publication credits include *Information Literacy: Advancing Opportunities for Learning in the Digital Age,* (The Aspen Institute, 1999), *Jobs, Technology and Employability: Redefining the Social Contract* (The Aspen Institute, 1998), *The Future of Advertising: New Approaches to the Attention Economy* (The Aspen Institute, 1998), "Wonderful Internet Life" (introduction to the *1997-98 Interactive Sourcebook*, North America Publishing, 1997), *Older Americans and Computers* (SeniorNet, 1996), and *Opportunities in Videotex: A Guide to Communicating and Marketing Through Electronic Services* (ISA, 1989).

Adler holds a B.A. degree from Harvard University, an M.A. degree from the University of California at Berkeley, and an M.B.A. degree from the McLaren School of Business at the University of San Francisco.

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As founder of Nielsen's Methodological Research Department in 1990, Cook is responsible for the development and evaluation of all research, including the methodologies used by Nielsen to measure television viewing. In 1992, Nielsen tested and implemented an enhanced coaching procedure for the people meter, which measurably improved reporting accuracy.

Before joining Nielsen in 1990, Cook was vice president of research at USA Network, where he set up its Program Research department. Prior to that, he was vice president for media and affiliate research for the NBC Television Network. In that position, Cook was also chairman of CONTAM (the Committee on Nationwide

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Hammond has held high-level positions in the private and public sectors including attorney and program manager at the National Telecommunications and Information Administration (1977-79); general counsel for WJLA-TV (1979-82); consultant and lecturer at Howard University (1982-83); visiting associate professor of Law at Syracuse University College of Law (1983-85); senior attorney at the Media Access Project (1983-85); senior attorney at MCI Communications Corporation/Satellite Business Systems (1985-87); and associate general counsel at MCI Communications Corporation (1988-89).

He has written numerous articles on media issues including "Standing at the Edge of the Digital Divide," in *The State of Black America* (National Urban League, 1998); "Universal Access to Infrastructure and Information" (*De Paul Law Review,* 1996); "Regulating the Multi-Media Chimera: Electronic Speech Rights in the Era of Media Convergence" (*Rutgers Computer and Technology Law Journal,* 1995); and "Diversity and Equal Protection in the Marketplace: The Metro Broadcasting Case in Context" (*Arkansas Law Review,* 1992). He co-authored a casebook entitled, *Communications Law: Media, Entertainment, and Regulation* (Anderson Publishing Company, 1997).

Hammond is a graduate of Grinnell College (B.A., 1972), the Annenberg School of Communications at the University of Pennsylvania (M.A., 1977) and the University of Pennsylvania School of Law (J.D., 1975).

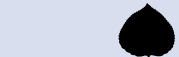
The Aspen Institute Communications and Society Program

The overall goal of the Communications and Society Program is to promote integrated, thoughtful, values-based decision making in the fields of communications, media, and information policy. In particular, the Program focuses on the implications of communications and information technologies on democratic institutions, individual behavior, instruments of commerce, and community life.

The Communications and Society Program accomplishes this goal through two main types of activities. First, it brings together leaders of industry, government, the nonprofit sector, media organizations, the academic world, and others for roundtable meetings to assess the impact of modern communications and information systems on the ideas and practices of a democratic society. Second, the Program promotes research and distributes conference reports to decision makers in the communications and information fields, both within the United States and internationally, and to the public at large.

Topics addressed by the Program vary as issues and the policy environment evolve, but each project seeks to achieve a better understanding of the societal impact of the communications and information infrastructures, to foster a more informed and participatory environment for communications policymaking, or to promote the use of communications for global understanding. In recent years, the Communications and Society Program has chosen to focus on the issues of learning and technology, Internet policy, electronic commerce, information literacy, digital broadcasting, international and domestic telecommunications regulation, and the impact of new communications technologies on democratic institutions and practices.

Charles M. Firestone has served as executive director of the Institute's Communications and Society Program for nearly 10 years. In 1998, he was also named the Institute's executive vice president for policy programs and international activities. In this role, Mr. Firestone oversees the Institute's portfolio of 17 policy programs and guides the Institute's relationships with its international partners in France, Italy, Germany, and Japan. Prior to his position with The Aspen Institute, Mr. Firestone was director of the Communications



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