Time Inc.
New Media strategy update

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December 19, 1994

Overview

Our primary strategy will be to create a line of products, based on our content, for electronic delivery to consumers. These will range from narrowband to broadband services, and we will attempt to share resources and create synergies among the offerings.

In order of increasing bandwidth, these products include:

1. <u>Commercial online titles</u>: Deals between our magazines and commercial services such as America Online and CompuServe.

2. <u>Pathfinder</u>: A package of titles and services offered through the open architecture of the Internet and through private networks that support Internet protocols.

3. <u>Cable-modem front end</u>: An interface, content package and set of navigational tools, created in partnership with TW Cable, that

will link computers to online services and the Internet using a cable rather than telephone connection.

4. <u>Interactive television</u>. News on demand, sports on demand, and advertising for the Full Service Network.

In addition, the New Media group will: coordinate the development of CD-ROMs by individual titles; consider strategic investment opportunities; explore the creation of high-end print and electronic products that would cover new media; and develop journalistic television products.

Commercial online services.

Deals between our titles and the commercial online services, such as AOL and CompuServe, offer some clear benefits: guaranteed revenues, without risk or significant investment, that modestly exceed the cost of the staff time and advertising pages that we provide; the opportunity to create digitized content and services that can have value in other venues; the chance for our editors to practice and learn what is valuable in an interactive environment; promotional and public relations payoffs.

On average, about 65% of the revenue that our titles get is attributable to the subscribers they are able to acquire for the online service; the other 35% represents the value of the use of their content.

The existing online services, and some future ones such as The Microsoft Network, are based on closed architectures and proprietary software. In other words, someone connected to AOL must use AOL's software and can only get content that is packaged by AOL.

The Internet, on the other hand, is an open architecture. Even though people may access it or connect their content to it using private networks, the standardized protocols means that any user can

get to any content or service. Most online services (including AOL and Microsoft), and most major pipeline companies (such as AT&T and MCI), say that they will offer consumers access both to the open architecture of the Internet as well as to their private networks.

It is in Time Inc.'s interest to encourage the Internet model rather than the closed-network model, so that the commercial services do not continue to be gatekeepers, packagers and intermediaries that stand between us and our users.

Consequently, Time Inc.'s strategy toward deals with commercial online services is to:

... split our titles among the different commercial services so that a linked package of our content will be available only through our own service on the Internet.

... resist making deals for longer than a year.

... limit the degree of exclusivity offered.

... reserve explicitly our right to use our content and brands on an Internet-based service of our own.

... avoid aiding Microsoft's strategy of creating a new closed network.

Pathfinder

Pathfinder launched in October on the Internet's World Wide Web. Usage has grown approximately 20% each week. During the first week of December there were 600,000 "hits" (uses of a piece of content) from around the world.

The strategy for Pathfinder is to:

1. Create a package of services on the Internet with enough breadth and depth to support subscription and advertising revenue.

2. Make bundling or marketing deals to deliver Pathfinder or parts of Pathfinder through other networks and distribution systems.

3. Use Pathfinder as a development area for building four or five in-depth services, such as technology, sports, finance, health and entertainment. When ripe, these services can be marketed as premium services within Pathfinder, spun off as separate services, and/or offered through other online networks.

4. Use some of Pathfinder's content as part of the basic front-end of the Time Warner/Time Inc. cable-modem service, and bundle all of Pathfinder as a premium service accessible through this cable connection.

Schedule

By the end of January, Pathfinder users will be asked to give information about themselves to get a password. Our database will track how people use the service and gather demographic information that will be useful to advertisers.

By February, we will begin bringing aboard up to 16 advertisers. We will also have the ability to fulfill credit-card transactions, and we will feature catalogue and shopping services.

During the spring, we plan to make marketing deals with MCI, IBM and/or AT&T to provide easy and speedy access for Pathfinder's subscribers and to bundle Pathfinder with their own online networks.

By early summer, the content areas in Pathfinder should include: Time, Vibe, reviews, the Virtual Garden, Entertainment Weekly, Sports Illustrated, politics, People, Fortune, Money, Health, Parenting, Technology and Media, travel, Catalogue One, and shopping. Some areas will be created and branded by individual magazine, others will be new titles or unbranded areas. These services will include real-time sports and stock-market data feeds, access to important databanks,

and the ability for users to personalize the service to their own specific interests. About 40% of the content will be repurposed from our print publications and archives, 20% created specifically for Pathfinder, 20% gathered from public domain resources on the Internet, and 20% acquired from outside sources through licensing or partnering deals.

Current plans are to begin testing a $5 per month subscription fee in July with premium charges for some services.

Editorial centralization and decentralization

The process we have developed and the budget we have proposed provide for a centralized coordination of Pathfinder content while leaving a large measure of creativity and control (and potential profits) with the individual titles and divisions.

The magazines will oversee the creation of their own home pages and determine ways to feature their content and invent new services. They will be assisted by a small group of technical experts, associate online editors, an online art director and a managing editor of Pathfinder.

Pathfinder's central staff will: create the home page and navigational screens for the service as a whole; develop the common software for searching, navigating, coding, indexing, handling transactions, etc.; create navigational screens and services for subject areas that span different titles, such as the "Reviews" area; create links between related content in different areas; oversee the acquisition of outside content; develop the software for and coordinate the management of bulletin boards; establish a set of common design and navigational guidelines.

In some cases, more than one title or division may be interested in developing the same subject area. We will coordinate these plans centrally. On the topic of health, for example, Health Magazine is taking the lead, and it will create an area that features content of its

own, material from outside sources, and links to content put up by Warner Books and Time.

In our proposed budget, there is money to subsidize the development of certain important areas. This will help us centralize control over our pace and priorities. In these cases, the relevant magazine or division will work with our group to come up with an estimate of costs for developing and acquiring content that fulfills our strategy. We will also jointly assess the potential revenue sources. Then, money from the Pathfinder budget will be used to defray the marginal new costs the magazine will incur. Any revenues will go first toward paying back these central outlays.

Allocating Revenues

It is pointless to fight over how to divvy up the proceeds before we've finished robbing the stagecoach.

Our basic strategy is that any profits from Pathfinder services or from premium products that are developed in this process should accrue back to the individual titles and divisions. The allocation of Pathfinder subscription fees will be based on the usage rate for the content that was created by each title or division.

Among other things, this will give each title an incentive to create more content and services (and an incentive to shy away from expensive endeavors that are not valued by users and advertisers). The magazines will be able to view electronic publishing as a potential growth area for their franchise while having an incentive to work within the framework of the Pathfinder strategy.

The advertising strategy is still being developed. Most pages within Pathfinder will offer advertising availabilities and links that will take users to sponsored information and catalogues. A price will be set for each of these avails and links. These will be sold by a centralized new media advertising person in coordination with the specific titles.

The question of revenue allocation and the use of these avails as part of value-added packages has not yet been determined.

Premium services

It is unclear to what extent consumers will value breadth in an Internet service (i.e., a broad array of subjects under one convenient roof) and to what extent they will value depth in the particular special interest that is their passion. It is important to test this question and begin creating a few high-end premium services.

Our database is designed to track the behavior of each user. We will know in six months what percentage tends to explore a broad array of our subjects and what percentage tends to stick to one or two interest areas and plumb them deeply.

As part of this process, we are planning to create up to five services areas within Pathfinder that will feature deeper, more valuable content and applications. If any of these demonstrate a high consumer demand within the Pathfinder testbed, we may migrate them into stand-alone services.

The five areas we are exploring in depth are:

1. Sports . We already have real-time sports scores and statistics in a searchable and personalizable database through the relationship between Sports Ticker and The News Exchange, and for a test period we can use it on our Internet service. Sports Illustrated is creating a plan that would include fantasy league games, fan clubs, discussion groups, and a daily sports analysis. We are considering a plan suggested by Don Elliman of packaging daily sports stories from major newspapers around the country. Our software developer, Open Markets, is working on ways to allow users to create their own tailored scoreboards and reports based on their favorite teams. There is a window of opportunity for online sports, since no one is doing it well now. Spry Inc., the makers of a leading Internet-access product, have

proposed a joint marketing arrangement if we can develop a sports content area.

2. Business and Finance . Through the efforts of Fortune and Money, we hope to build an area based on our content, archives, lists and databases. It would also include: stock searches and personal portfolio tracking through the deal between PC Quote and The News Exchange; a customized database of SEC filings and other financial disclosure documents; access to Reference Press's Hoovers Handbook of major corporations; access to the database of Market Guide, a company in which Time Inc. has a small investment; application software for taxes and investing either licensed or built with a software partner; a daily money and business watch report building on what Money is already producing for Pathfinder and what Fortune produces for New York One and The News Exchange.

3. Health . Eric Schrier and Larry Kirschbaum are coordinating work on a database and reference service on health. This will include material from 50 disease foundations, such as the Muscular Dystrophy Association, along with bulletin boards for their support groups. These foundations would help market the service.

4. Entertainment and Reviews . This is a surprisingly popular topic on the Internet. Without acquiring outside content, we can package more reviews than any other company. We already have this domain working, using reviews and audio clips from Time, EW, Vibe and People. It also has an active bulletin board area where users post their own reviews. We will soon add charts and statistics. Sponsored links will be sold to movie studios and record companies.

5. Technology and Media . This area would include our own content and also material offered in alliance with IDG or CMP publications. We are also discussing with Denise Caruso and Stewart Alsop ways to build this area into a full service.

Building the Technology and Media website could be the foundation for a family of new products, conferences and publications

that cover this field. We are exploring the possibility of a newsletter, a premium online service, a magazine and a conference- hosting business.

Marketing Strategy

Our business plan estimates a cost of $35 per subscriber acquisition. Currently we are making deals with major Internet- access companies, including Spyglass and MCI, to feature our service as part of their package and to take just $2.50 bounty for each paying customer they acquire for us.

We also plan to work out a deal with a commercial network to provide easy and speedy access to our service, including local access number and dedicated lines. This will allow us to send out disks to potential subscribers.

The service will be marketed initially as the Pathfinder package. But we will soon test market it through our magazines in a more targeted fashion. For example, it can be sold by Sports Illustrated as an online sports service, which happens to include an array of other services. Customers who sign up through this promotion would have the sports home page as their initial screen.

Daily News Summary

In pursuing multimedia, Time Inc. lacks content in two areas: video and daily products.

We are addressing the video issue by our acquisition of the MNN studio; creating content for New York One; Joe Quinlan's operations; alliances with CNN, NBC and ABC for The News Exchange; and the growing ability to buy video footage as a commodity product.

In the online and on-demand world, fresh and timely content is critical. Users must be drawn in on a daily basis.

A few months ago, we launched the Time Daily news analysis, created by three young staffers, and soon added a Money Watch component, written by a staffer at that magazine. Our strategy is to expand these daily summaries, as proposed in our budget, to include other fields, such as sports, reviews, and technology.

This news summary will have many outlets: it is part of Time's offerings on AOL; it is on Pathfinder and includes links that draw users into our other content; it will be oart of the front-end for our proposed cable-modem project; it will be printed out for users of the FSN; it will serve as a basis for the news summary script read by the anchor on The News Exchange; it can be delivered in the future by other methods such as e-mail, fax and to personal communicators.

By testing the cost and value of this product, we can determine whether we should continue to create a summary ourselves or license news feeds from an outside source. At present, indications are that it would be cheaper and potentially more profitable to create a new product of our own that provides the type of summary, analysis, prioritizing and sorting that is not readily available or affordable from either the wire services or news retrieval sources.

The Cable Modem Project

Time Inc. and Time Warner Cable are working together on a project, called "Excalibur," to create a front-end for consumers to connect their computers to online services and the Internet using their cable rather than phone lines. This offers at least 50 times the speed and the opportunity to remain online around the clock.

Many companies have announced beta versions of "cable modems." The Excalibur project will use a hardware solution developed by Hewlett-Packard.

Our strategy is to create an Excalibur division, probably led by Tim Evard, that would be operated as a joint venture by Time Inc. and TW Cable. Other cable companies may be offered a stake in this new entity if it would help assure expansion into their systems.

The Excalibur entity would not own or license the hardware and modem technology, which would be bought by each local system directly from Hewlett-Packard (or another vendor).

Excalibur's role would be to create, and to tailor for each local market, the front-end that users would get when they linked to the system, the navigational tools and interfaces that would guide them to the services they wanted, and some national and local content. This content would draw from the material in Pathfinder, and it would link to the full Pathfinder package, which would be offered as a premium service (along with AOL, , DowVision, etc.). It might also use video or audio material from The News Exchange.

Excalibur would get revenue in these ways: 1) charging cable systems a licensing fee for this front-end package; 2) selling national and local advertising, transactional and classified services; 3) taking a commission for selling premium services ranging from AOL and Prodigy to DowVision and the Encyclopedia Britannica Online.

Time Inc. would get revenue in these ways: 1) from its portion of the profits made by the Excalibur entity; 2) from charging the entity a licensing fee for the Pathfinder and other Time Inc. content that is used; 3) by being the national ad sales arm for Excalibur; 4) by bundling Pathfinder subscriptions with the front-end package.

Interactive Television

The News Exchange will draw from the same technology and resources as the online and cable-online products. Likewise, advertising will be sold across platforms.

The strategy for The News Exchange is to be available by the end of next year on the Time Warner system in Orlando and the U.S. West system in Omaha. From this experience, we will develop a fuller business model for subscriber and advertising revenue.

As with Pathfinder, the Time Inc. content for TNX will be a collaboration between a central staff and the journalists at the individual titles.

Through 1996, we have arrangements to use content from CNN, NBC, ABC and some local stations as a test. At the beginning of 1996, we will have to decide among these options: 1) begin creating a full package of programming on our own, using video acquired from Reuters, Conus or other sources; 2) form a partnership with a network such as CNN or NBC to create interactive television jointly; 3) continue in the role of packager as well as content-supplier and make royalty-sharing arrangements with all of the networks.

Sports Illustrated is pursuing an aggressive television and FSN strategy. Currently the new media group is sharing some facilities and coordinating activities, but we are not managing the SI strategy.

CD-ROMs

CD-ROMs do not represent a short-term or long-term major business for Time Inc.

Our strategy will be to allow most of the creative work and business decisions to be made at the title or divisional level, with coordination and consultation to be managed centrally.

CD-ROMs offer the chance to practice making interactive content, increase our inventory of digitized product, and gain some publicity and promotion. Nevertheless, CD-ROMs should no longer be justified on R&D or promotional grounds. Titles and divisions should

make CD-ROM deals only if the expected profit will exceed the costs and resources required.

Any CD-ROM deal should aim to follow these guidelines:

>> They stand on their own financially.

>> The magazine content is not licensed on an exclusive basis, although the concept of the CD-ROM can be exclusive.

>> The magazines and Time Inc. retain the right to reuse the digitized content created for the CD-ROM in other forms, such as online or on the Full Service Network.

>> Long-term deals should be avoided.

There does not seem to be a compelling reason for Time Inc. to own stakes in software companies or a distribution arm. Different CD-ROMs could benefit from different software and distribution relationships, and we should retain our flexibility. However, John Fahey and Larry Kirschbaum should look into the proposed Time Warner corporate distribution syndicate and decide if it makes sense for Time Inc. to be involved.

All CD-ROM deals should be coordinated by a finance/admin person in the New Media group, who will prepare periodic reports on what was successful and not. The content will also be monitored for editorial quality.

Strategic Investments

Time Inc. should not be an investment bank. In addition, investing in software or technology companies could bind us to technologies that no longer best suit the creative and distribution needs of our content.

Our strategy should be to look at investments and acquisitions with an eye on the following criteria:

>> Software firms we plan to work with closely and want to have some control over. The proposed 10% equity investment in Open Markets, which comes with a board seat, falls into this category.

>> Content companies that fill an important gap in our strategy. Warner Books' investment in Reference Press is in this category. The acquisition of a technology or new media magazine might also be considered.

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