--- Original Message ---

Subject: RE: Consumer Values/Legitimacy
Date: Sat, 28 Feb 2004 22:28:00 -0500
From: Tom Phillips <tomphillips@animiphpartners.com>
To: Joshua Abram <josh@direct-revenue.com>
CC: Tom Phillips <tomphillips@animiphpartners.com>

Joshua,

Here is my preliminary thinking on the issues and possible approaches to the problematic constituencies. It's a bit rough, but I wanted a starting place for our discussion(s), and I needed to write some stuff down so that I can do a better job probing what you already know because you live and breathe this stuff.

I have a meeting in my office until 11:30 on Monday. I'll try to get down there as soon as possible, and perhaps Alan and I can push our lunch back to 1 or later. I know we are going to get into a lot of this with the larger group on Tuesday, but I would like some time with you in advance to surface the key strategic ideas.

Okay? I look forward to digging in. There are such huge possibilities here for having a real impact on media, advertising and communications.

See you Monday.

Tom

--- Original Messages ---

From: Joshua Abram
To: Tom Phillips
Sent: 2/27/2004 7:13 PM
Subject: RE: Consumer Values/Legitimacy

Tom,

Monday AM is great. After lunch also OK. Call me over the weekend if you want to talk.

Ben,

Tom Phillips wrote:

> Joshua:
>
> This week has been crazy. I'm just working on this draft now. I'll need to schedule a post-bedtime tonight to put something together. How about we spend a little time before or after my lunch with Alan on Monday?

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After lots of travel, I'm looking forward to a quiet weekend at home.
Direct Revenue
Constituency Legitimacy
March 1, 2004

There are four at-risk constituencies. Direct Revenue needs a strategy to address each. Here's a recap of the problem:

- **Consumers.** The standard thinking in the industry is that everyone hates pop-up ads. There are two issues regarding consumers. First, the primary delivery vehicle for DR is the much-maligned pop-up ad. Second, the entry to the desktop is accomplished through a bundled download, and the consumer is not always aware of what is being delivered through that bundle. Further, the presence of client software on the consumer’s desktop is something that is distrusted now and will meet increasing resistance as other entities abuse such desktop clients.

- **Press.** Industry rags are full of accounts of consumer loathing for pop-ads. There is grudging acknowledgment that they work (people click on them; marketers get their message through; they exhibit proven ROI), but the statement is never made that a certain segment of the population thinks they’re fine. There is probably no redemption for the term pop-up. The press equates pop-ups with spam, and they’re both invasive and insidious.

- **Regulators.** The only partially successful legal action is a stay against one marketer for targeting a competitor’s site with invasive pop-up ads. Of course, this is the purest form of contextual marketing. But there is a wide perception that public sentiment favors regulation of pop-up advertising. Pop-ups tend to be lumped in with spam as phenomena that undermine the webmail experience of computers by hijacking attention away from legitimate communications and media. Regulators may be paying attention, though the FCC is far from activist and it’s unclear what other organization could take action. The FTC is preparing to take action against sites that use ActiveX controls to create pop-up traps (a confusing nomenclature for an unrelated phenomenon) for web browsers, typically sharing unsuspecting surfers in pornography and gambling sites.

- **Publishers.** Contextual delivery of messages to consumers is the coin of the realm. But as soon as you exhibit advertising relevant to the website currently being viewed by a given consumer, you’re putting yourself directly at odds with the publisher. In a standard pop-up ad execution, the ad is competing for attention with the publisher’s site, and the advertisers reside on that site.

Below are some ideas for addressing the constituency conflicts.
Consumers

1. Contextual advertising is a service to consumers. Delivering an index of options, or even a relevant marketing message from a single advertiser, to a consumer who has exhibited an interest in a particular e-commerce or subject domain can provide an opportunity for that consumer to become better informed and more empowered.

2. Develop a series of income-producing or cost-reducing or entertaining or just plain helpful services that the consumer explicitly opts into.
   a. Coupons
   b. Games with prizes
   c. Survey panel invitations with sweepstakes or other compensation
   d. Videos
   e. Your ServiceStation concept, offering IT support to consumers based on a diagnostic client application

3. The notion that consumers hate ads is an old saw. The conventional view is that everyone hates TV ads. But people put up with them, because they know that they get free (or nearly free) media when the advertisers pay the freight. Despite the advent of TiVo, ads continue to extend into more corners of our lives (movie theaters, shopping carts, sides of trucks) all the time.

4. Work the press to redefine what we’re delivering (see below). Start by setting standards for contextual marketing, and distancing ourselves from the pop-up phenomenon.

5. Use the client to deliver smart media messages in the way that Microsoft attempts to deliver smart operating system messages. Enlist publishers to deliver content on cue, and wrap that content in sponsorships:
   a. Sports scores
   b. News breaks
   c. Weather updates
   d. TV programming cues
   e. Movie and other reviews
   f. Fun and informative polls
   g. Games
   h. Health reminders
   i. Birthdays and anniversaries

Press

1. The contextual advertising industry needs new nomenclature, and the press needs to adopt it. Banner ads started getting a bad name in the late nineties when response rates fell precipitously. Then advertisers and publishers started getting smarter, and they created different kinds of display ads that didn’t look or perform like banners. After years of being dismissed, the website display ad has regained respectability under a new name (even though some of those display ads are banners). Contextual advertising needs to escape the constraints and stigma of the pop-up, and its purveyors need to educate the industry press and pundits about the transition.

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2. Setting best-practice standards for contextual advertising is a key component of the necessary image transformation of this industry. The parties to that standard-setting should be marketers, ad networks, technology companies and publishers. The experience of the IAB should be instructive here. Those standards should be disseminated to industry press, who can then tell stories about those who comply and those who don’t.

3. Someone (Dynamic Logic?) should do a study on exactly what consumers think about different forms of web advertising. Certain forms get maligned, and the press just feeds on itself. An unknown group called Bunnyfoot University did a study in which they claimed that pop-up advertising caused irreparable brand damage with consumers. That study was picked up by dozens of press entities, none of whom questioned the source or methodology. We need a study that demonstrates that consumers like to receive marketing messages that are relevant to them, particularly when they’re delivered in creative and timely ways.

Regulators
1. See best practices standards above.
2. Prove that you are serving consumers’ interests.
3. Keep your nose clean and your head below the radar.

Publishers
1. Existing publishers (and software developers) should be the partners for offering useful and entertaining services for consumers. They need to be convinced that contextual advertising doesn’t steal a piece of the advertising pie from them, but rather it dramatically expands the pie (by increasing the share of marketing dollars claimed by the Internet) for everyone.
2. A few strategic alliances would go a long way toward establishing DR and the contextual advertising companies as collaborative and industry-enhancing partners. I’m not sure what those deals are, but in the abstract, there is enough revenue and growth here to create some attractive shared revenue prospects.