

# The Knot

David Liu, co-founder and CEO of The Knot, peered out his sixth-floor window at the eclectic streets of the Soho district in New York City. It was November 5, 1997, and Liu had just finished proofreading the final version of The Knot's business plan that had been prepared by Schroder & Co. Inc.'s investment banking arm. Liu's "Silicon Alley" company was at a critical juncture in its two-year history. Despite success as one of the early America Online (AOL) Greenhouse companies, a three-book deal with Bantam Doubleday, strong interest from advertisers, and significant traffic at its World Wide Web site, the future of The Knot was in jeopardy. With a forecasted "fume" date sometime in January of 1998, Liu desperately needed cash. The race for scale economies on the Internet also meant that he needed to capitalize on his company's current momentum by increasing investments in marketing and retail operations. Without some or all of the \$10 million sought in the business plan, Liu's dream of building the country's number-one wedding resource would be all for "knot."

## BACKGROUND

The Knot's core management team of Liu, Carley Roney, Michael Wolfson, and Rob Fassino (see Exhibit 2-1 for management biographies) first met in the late 1980s as students at New York University's Film School. The year 1993 proved to be a landmark year for Liu and Roney: the longtime couple married in July and co-founded RunTime, Inc., a CD-ROM development company, later the same year. Wolfson and Fassino were reunited with Liu and Roney in 1995 as a result of a RunTime project. Sotheby's, the legendary auction house, was preparing to auction off various pieces of impressionistic art and wanted to develop a CD-ROM as a promotional item. Fassino and Wolfson, founders of the Digital Media Division for Margeotes Fertitta + Partners, were managing the Sotheby's account. Lacking an internal CD-ROM development capability, Fassino and Wolfson turned to RunTime. The Sotheby's project was a resounding

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Entrepreneurial Studies Fellow Matthew C. Lieb prepared this case under the supervision of Professor William A. Sahlman and Lecturer Michael J. Roberts as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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**EXHIBIT 2-1**

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**THE “KNOT” MANAGEMENT**

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**David Liu, Chief Executive Officer,** has over nine years of digital production and management experience. In 1993 he founded RunTime Inc., a CD-ROM development firm producing award-winning titles for clients such as the Smithsonian Institution and Sotheby's. Prior to RunTime, Liu managed a staff of 40 as Director of Production at VideOvation, a subsidiary of the Reader's Digest, which produced over 300 half-hour video programs annually.

**Rob Fassino, VP of Marketing,** has eight years of experience in the advertising industry. In 1994, he founded the Digital Media Division of Margeotes Fertitta + Partners advertising, producing award-winning Web sites and CD-ROMs for Stolichnaya Vodka, Sotheby's, and Infoseek. Prior to establishing the division, Fassino produced television commercials for clients such as CBS, General Foods, and New York Newsday.

**Carley Roney, VP of Creative Development,** was president of RunTime Inc. before founding The Knot. Prior to forming RunTime, she spent six years as creative director and editor for clients including the National Museum of American history, the McGraw-Hill Companies, Simon and Schuster, Prentice Hall, and Worth Publishing. She has an M.A. in Cultural Studies from New York University.

**Michael Wolfson, VP of New Business Development,** was founder and president of Luna Pictures, Inc., a production company providing creative and post-production services for clients such as MTV Networks, Lifetime Television, and Miramax Films. As a consultant, Wolfson co-founded the Digital Media Division of Margeotes Fertitta + Partners advertising and developed new media brands for clients such as PBS's Trailsides, CyberShop, and America Online.

**Russ Casenhisier, Director of Operations,** was co-founder and president of Bridal Search, Inc., where he developed the industry's largest, searchable database of bridal gowns. Prior to founding Bridal Search, he co-owned La Galleria, a high-end women's apparel store. Prior to La Galleria, Casenhisier, as president of Contractors Resource, grew the company's annual revenue from \$1 million to over \$10 million. He has an M.B.A. from Pepperdine University.

**Becky Casenhisier, Director of Merchandising,** was co-founder and vice president of Bridal Search, Inc., where she procured and maintained relationships with all of the bridal gown manufacturers. Prior to Bridal Search, she co-owned La Galleria, where she managed the buying, sales, and customer service. After significantly increasing La Galleria's sales, she successfully sold the store in 1995. She has an M.B.A. from Pepperdine University.

**Erik Herz, Director of Advertising Sales,** has over six years of sales experience in the publishing industry. As the National Advertising Manager of M@x racks, he oversaw the restructuring of its advertising department and increased sales by 400%. Prior to M@x racks he was an advertising account manager at The Hearst Corporation, where he helped launch the French magazine *Marie Claire* in the American market.

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success and planted the seed for future collaboration among the four entrepreneurs. Liu described the results of the Sotheby's project:

Working together while producing the Sotheby's CD-ROM really opened our eyes to the potential of our team. We each brought different skills to the table, and the chemistry between us was really powerful. We believed that our collective experience gave us the know-how to build a successful media business if we could find an appropriate consumer market niche on which to focus. We founded Element Studios in 1995 to capitalize on our abilities.

Element's founders wanted the yet-to-be-determined consumer niche to offer high advertising revenue, stable demand, and stagnant competition. They began their research by looking at the magazine business. They felt that magazines offered an excellent proxy for the attractiveness of niche markets because there were magazines for nearly every consumer interest imaginable. The wedding industry immediately caught their attention. The 2.4 million weddings that occur each year generate close to \$35 billion in annual sales and services. In studying the dominant wedding magazines (*Bride's*, *Modern Bride*, and *Bridal Guide*), the management team realized that the \$170 in advertising revenue per subscriber for these publications far outpaced the ratios seen in other consumer segments. High advertising rates were explained by the attractive demographic and spending patterns of people who were planning a wedding. Nearly 43% of engaged couples had a household income of \$50,000 or more and an average age of only 26. More important, engaged couples were on the verge of making significant purchasing decisions regarding everything from furniture to investments.

Further analysis supported the attractiveness of the wedding industry. In 1996 alone, *Modern Bride*, *Bride's*, and *Bridal Guide* garnered a combined \$168 million in advertising revenue (see Exhibit 2-2). These three magazines, with an average of 40 years in the bridal business, had developed strong relationships with advertisers and represented the dominant media brands in the wedding segment. Liu described the competitive landscape in 1996:

The three magazines were deeply entrenched, given their long history in this market. Fortunately, the lack of any new competition in recent years had resulted in a somewhat stale and old feel for each of these magazines. They simply lacked a fresh voice and were too married to their old ways to change. We saw an opportunity to really differentiate ourselves in a segment that had seen a good deal of brand blurring.

The decision to build the business's foundation online was done more out of necessity than anything else. Realizing that infrastructure and development costs for a traditional magazine were prohibitively expensive, the founders decided to develop content for the burgeoning online audience. In Liu's words:

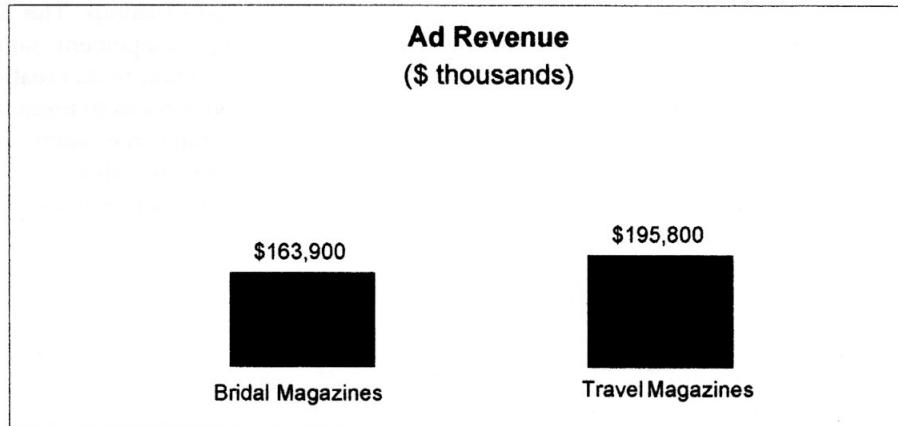
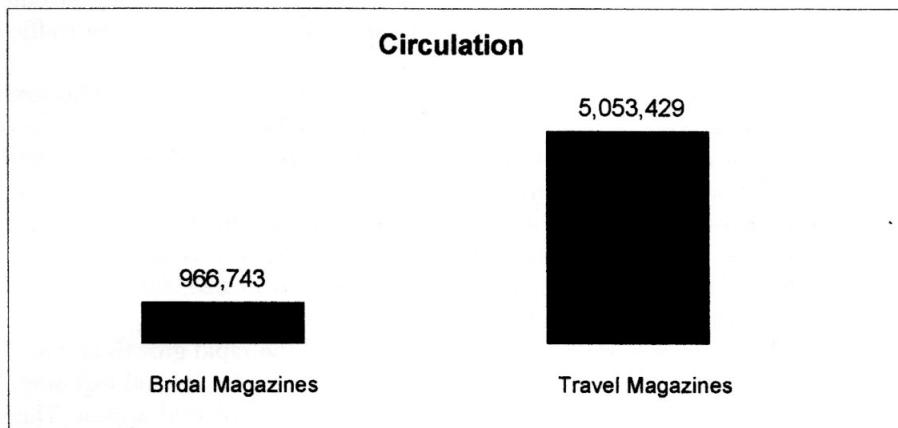
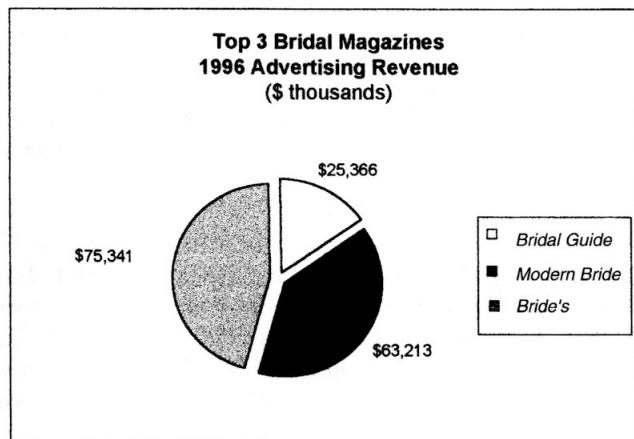
We are traditional media people; the decision to be an online company was really more of an afterthought. We really liked the lower investment cost associated with an online venture and we felt that the online world offered some competitive advantages vis-à-vis our magazine competition. We strongly believed that the possibility of cannibalization to their existing businesses would deter the three big magazines from moving to the Internet in the short term. With these thoughts in mind, we set out to build a branded media company that would initially be online, but would then grow to encompass more traditional mediums. We chose the name *The Knot* instead of something like *Wedding.com* so we wouldn't pigeonhole ourselves in the online world.

In December 1995, The Knot was formed as the first full-time venture of Element Studios. The team immediately began to solicit an initial investment to get the business

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**EXHIBIT 2-2****WEDDING MAGAZINE ADVERTISING FIGURES**

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Source: Company Resources.

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off the ground. Liu and his management team made a calculated bet on the future of online usage. Despite only one million subscribers at the time, Liu firmly believed that America Online would become the commercial site of choice for the developing online consumer base. In Liu's words:

Although we needed the money to make things happen, our real goal was to find a strategic partner that brought more than just dollars to the deal. We felt that AOL would eventually dominate the online consumer space, so we saw their new Greenhouse program as an avenue for eventually garnering a substantial proportion of the online wedding consumer market. We used a variety of business contacts to get a foot in the door in hopes of getting money, exposure, and distribution.

It took only three months to convince AOL's Greenhouse Network to sign a letter of intent outlining a substantial investment in The Knot. In February 1996, Greenhouse began making incremental investments in The Knot as the formal financing negotiations between the two sides moved forward. It was not until January 1997 that AOL formally agreed to invest \$1.85 million in exchange for warrants for up to 45% of The Knot's equity. In addition to the equity stake, the deal called for AOL to receive 20% of the revenue from advertising inventory sold on The Knot's yet-to-be-developed AOL property as well as a percentage of the revenue from advertising inventory sold on The Knot's own web site (based on the percent of The Knot's web traffic originating from AOL).

Since The Knot's initial incremental funding from AOL, Liu and his team had made significant strides toward achieving their goals of becoming a full-service online wedding resource and a recognizable brand in the industry. In September 1996, the Knot appeared on AOL for the first time, becoming the service's sole wedding property. The response was impressive. User figures quickly rose to a total of over 65,000 unique users per month. The attractiveness of The Knot's audience was not lost on advertisers. In the first two months alone, The Knot generated over \$25,000 in advertising revenue from the likes of Nicole Miller and Godiva Chocolates.

The contemporary content of The Knot and the rapid growth of America Online's subscriber base gave the company a great deal of credibility and exposure. The Knot's comprehensive bridal content and services had broad-based appeal. The content attracted couples interested in traditional wedding experiences as well as "to-be-weds" that found themselves in more "nontraditional" marriage situations. The Knot developed content dealing with issues such as second marriages, elopement, same-sex marriages, and premarital pregnancy (see Exhibit 2-3). In addition to its creative content, The Knot made a concerted effort to provide value-added services to users (see Exhibit 2-4). It was not long before The Knot had developed a strong community of users who frequently exchanged information, recommended solutions to other users' problems, and recounted the endless stories surrounding the assorted details leading up to their wedding days.

## Building the Brand

Contributing to The Knot's substantial momentum was a creative promotional strategy aimed at increasing brand awareness. Traditional public relations efforts resulted in news coverage from a number of major publications including the *Wall Street Journal*, *Washington Post*, and *USA Today*. Liu also targeted potential partners to promote The Knot brand. Liu's strategy of creating a large inventory of content to be placed within easy reach of potential users began to pay off. Michael Wolfson, The Knot's vice president

**EXHIBIT 2-3****SAMPLE CONTENT OF THE KNOT'S ONLINE INFORMATION OFFERINGS**

Topic	Title	Description
Wedding Planning	Volumes of Vows	Whether traditional or personal—your vows speak volumes
	Ethnic Customs	Introduce a bit of your background to make your wedding unique
	Eloping 101	Where, why, and how of eloping
	Invitation Issues	Musts to remember for ordering and prepping those invites
Fashion	Dress Talk	Terms you'll need to know to gab intelligently
	Veiled Looks	The latest trends in veils and headpieces
	Same-Sex Wedding	An opportunity for creativity can also mean difficult decisions
Beauty	The 'do for You	Don't let the big day be a bad hair day
	A Tub for Two	A bath is not always a bath . . .
	Many Manicures	Twenty (finger) tips to get a handle on hand care
Advice/Etiquette	Ready or Not	Are you *both* prepared to get engaged?
	Will It Be Different?	What marriage does to your relationship
	Different Strokes	First wedding for one/second for the other
	Fight Right	Correctly confronting confrontations
Grooms/Guys	Sizing Her Up	Tips to sneak her ring size and keep the surprise
	Dance Fever	Don't have a lot of natural rhythm? It's time for some lessons . . .
	Groom's Toasts	Everything you need to know to sound cool when you talk
Attendant/Guest	Fresh Shower Ideas	Themes that'll put a blissed-out smile on any bride's face
	Stifling In-Laws?	When you're getting a bit too much input
	Speak Now	Advice for when you simply *can't* forever hold your peace
Travel	Biking Honeymoons	Roughing it by day, luxuriating by night
	Pack Like a Pro	Tried and true packing tips from a travel-aholic
	The U.S.V.I.	Honeymooning in an American paradise
Gift/Registering	Flatware 101	Making sure your spoons match your forks
	Tooling Around	What a pair of fixer-uppers need in their box
	Want Cash Gifts?	Got enough home stuff? How to roll in the dough
Home/Life	The Electronic Marital Aid	How Sony could save your marriage
	What's Feng Shui?	Use the art of placement for a harmonious home
	Breakfast in Bed	How to pull off this most romantic of capers

of New Business Development, convinced AOL to allow The Knot to create a holiday called "Wedding Day" on June 21, 1996. The results exceeded all expectations. Nearly 1,200 AOL subscribers visited the site, far outpacing sites devoted to more traditional holidays such as Father's Day. The "Wedding Day" chat room was filled with couples exchanging vows before going to their official ceremony in an effort to give guests who were unable to attend the traditional service an opportunity to witness a piece of the wedding.

Liu also looked outside AOL to build strategic partnerships. In December 1996, Rob Fassino, vice president of Marketing launched The Knot's Registry Partner Program with nationwide retailers such as Bloomingdale's. In exchange for The Knot's promotion of registry information kits, the retailers distributed The Knot promotional pieces containing The Knot-branded free-trial AOL disks in their registry kits. Bloomingdale's alone had distributed 10,000 disks since the inception of the Registry Partner Program. Liu signed numerous other partnership deals to continue to build awareness of The Knot brand (see Exhibit 2-5). The significant public relations, advertising, and promo-

**EXHIBIT 2-4****SAMPLE COMMUNITY AND INTERACTIVE SERVICES**

Service	Description
Chat	24-hour chat room with over 70 hours of scheduled chat sessions every week, moderated by one of The Knot's 35 remote chat hosts.
Message Boards	Discussion boards where The Knot's users ask questions, swap ideas, and share advice.
Membership Benefits	Users who join The Knot (subscribing is free) post their wedding announcements, search for other couples in their region who share common interests, and provide information—such as where they are registered—for their guests.
Daily Interactive	Users participate in surveys, polls, trivia; The Knot's experts offer daily advice on everything from etiquette to travel.
911 Hotline	Users post their latest wedding trauma and find the immediate help they need from both experts and other users.
Bridal Gown Search <sup>a</sup>	The only online bridal gown database allowing brides-to-be the ability to search for and view 6,000 gown images, representing approximately 70% of gowns available from major manufacturers.
Big Day Budgeter <sup>a</sup>	An interactive budgeting program that estimates and tracks wedding budgets throughout the planning process.
Countdown Calendar <sup>a</sup>	An interactive calendar program that creates a timeline of planning tasks leading to the wedding date.
Honeymoon Center	Travel reservation service with capability to allow users to bid on unique honeymoon packages in biweekly travel auctions.
Local Listings	A searchable, national database of local wedding vendors sorted by categories such as florists, caterers, and limousines.
Denis Reggie Photographers Network	An interactive national database like Local Listings, dedicated to finding wedding photographers. Denis Reggie is a well-known celebrity-wedding photographer.

<sup>a</sup> The above services are personalized, allowing users to calculate, save, and adjust their personal data throughout their wedding planning period.

tional relationship deals struck by The Knot fueled the growth of the company's user base. The AOL audience alone grew from 65,000 unique users in September 1996 to 260,000 users only seven months later.

The summer of 1997 proved to be the beginning of a series of major achievements for The Knot. In May, The Knot's World Wide Web site was launched (see Exhibit 2-6), garnering over 2.7 million page views per month by July. The Web site encompassed The Knot's first venture into retail sales via The Knot Gift Shop. The Gift Shop began by selling Kodak disposable cameras. Within two months, The Knot had generated \$25,000 in disposable camera revenue alone at an average price per order of over \$150. Other products that addressed specific needs of to-be-weds were quickly added.

In June, The Knot signed an agreement that would lay the foundation for a future acquisition of Bridal Search, Inc., the only comprehensive online bridal gown database. Under the terms of the agreement, Bridal Search agreed to be acquired in exchange for 10,000 shares of common stock issuable upon completion of The Knot's proposed

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**EXHIBIT 2-5**

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**SAMPLE OF THE KNOT PARTNERSHIPS**

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**Online Partnerships**

Partner	Description	Relationship
Excite	Internet Search Engine	Featured partner, Lifestyle channel
Yahoo!	Internet Search Engine	Developing Yahoo! "I Do" weddings
AOL/Web: Digital Cities	Local listings content	Featured wedding resource
AOL/Web: Preview Travel	AOL's exclusive travel agency	Exclusive honeymoon resource
AOL: Net Noir	Largest Afro-centric community	Featured wedding content partner

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**Marketing Partnerships**

Partner	Description	Relationship
Bloomingdale's	National Retailer	Online and in-store marketing
1-800 Flowers	Largest online floral retailer	Marketing and promotion partner
Atlantic Records	Record Label	Marketing and promotion partner
Great Bridal Expo	National consumer bridal exposition	Featured online wedding resource
Museum of the City of New York	Hosts NY's "Get married" exhibit	"The Future of Weddings"
Harley Davidson Café	National chain of theme restaurants	Special promotions, live events
WEDCON '97	Bridal Industry's online conference	Keynote speaker/online partner

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round of financing (see Exhibit 2-10 for ownership information). In addition, Bridal Search had the opportunity to earn up to an additional 32,857 shares of The Knot if certain triggering events occurred. In the meantime, The Knot agreed to cover the operating expenses of Bridal Search in exchange for access to the bridal gown database. Liu commented on the importance of this deal:

Partnering with Bridal Search was a great move for us. The obvious benefit was that it gave us the only comprehensive online database of wedding dresses. This was a service that our customers really appreciated. Perhaps more importantly, the deal allowed us to improve our management team by adding Russ and Becky Casenisher. Not only were they successful entrepreneurs in their own right, but their experience in retail would benefit us greatly as we continued to develop our business model.

The unique services of The Knot coupled with relatively high online usage figures and a targeted demographic continued to attract advertisers. The Knot signed one-year deals with Lord West, Riunite Wine, and JLM Couture (the only publicly traded bridal gown manufacturer). These three deals alone represented a combined \$750,000 in advertising revenue. The Knot was quickly becoming one of the few success stories among advertising-based online businesses.

**Offline Promotional Efforts**

Growing brand awareness and successful publicity efforts motivated Liu to implement The Knot's first offline brand building effort. In August of 1997, The Knot signed a

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## EXHIBIT 2-6

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### THE KNOT'S WORLD WIDE WEB SITE

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The Knot: the #1 wedding resource

Back Stop Refresh Home Search Mail News Favorites Larger Smaller Preferences

Address: http://www.5.theknot.com/registry.htm THU, SEPT 17, 99

# the knot

## bridal search

The biggest and best gown collection online!  
9000 images from over 150 designers!  
Click here.

Choose a Designer

## gift registry

Groovy gifts for couples!  
Great convenience for guests!  
Register at The Knot!  
Click here.

WEDDING GUESTS! Enter last name for list.

## knot tools

NEW! 200 to date The ULTIMATE Wedding Checklist!

\$ The BIG DAY BUDGETER Getwise to wedding \$\$\$\$\$!

## knot features

SEARCH THE KNOT:

- NEW! Create your FREE 3 page wedding website!
- NEW! Divorce & Step Family Divorce Q&A
- NEW! Guest & Guest List Etiquette Q&A

## IDEAS & ADVICE index

ETIQUETTE Q&A  
NEW! DAILY! Over 500 Q&A on over 30 wedding topics!

WEDDING IDEAS  
Accessories, Customs, Themes, Colors, Head

THE DRESS, ETC.  
Dresses, Accessories, Bridal, Bridesmaids, Tuxedos, Tux Details

BIG DAY BEAUTY  
Bridal, Hair, Make-up, Brides, Bridesmaids, USA

GROOMS & GUYS  
Groom, Groomsmen, Wedding, Bachelor Parties

MAIDS & MOMS  
Groom, Groomsmen, Mother, Bride, Brides

PLANNING ADVICE  
Budget, Checklist, Invitations, Reception, Venues, Decorations

HEMLYEDDING  
Wedding, Big Day, Bridal, Brides, Bridesmaids

HONEYMOON ESCAPES  
Caribbean, Europe, Hawaii, Mexico

Wedding Photographers Network  
Wedding Web Pages  
Bridal Search

hot today

A honeymoon in St. Maarten is going for only \$400 per person! Click here.

cliquely

Q & A

My in-laws haven't offered to make any contribution....

LETTERS...

All wet?

click here

TUXES  
click here...  
pierre cardin

CHAT TODAY

TODAY: 09.17.99  
10:00 - 11:00 am  
12:30 - 1:30 pm  
4:00 - 5:00 pm  
5:00 - 6:00 pm  
6:00 - 7:00 pm  
(ALL TIMES EST)  
Go Chat Now!

ALVINA VALENTA

JIM HUELM  
Occasions  
FREE CATALOGUE

WHAT'S HOT!

- Photographers, wed in Spain!
- The car I always!
- What to do when?

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Divorced | Checklist | Vendor Finder

**TABLE A Sample of The Knot Gift Shop Products**

Wedding Accessories	Groomsman Gifts	Bridesmaid Gifts
Kodak cameras	Swiss Army Knife	Swiss Army Knife Key Chain
Bridal Gown Catalogs	Fossil Sport Watch	Handmade Paper Journal/Pen
Ring Bearer Pillows	Cigar Case with Cigar	Glass Perfume Bottle
Toasting Glasses	German Beer Steins	Jewelry Box/Travel Case

three-book deal with Bantam Doubleday. The deal called for The Knot to develop three books over a two-year period, with publishing efforts handled by Broadway Books, a division of Bantam Doubleday Dell. *Just Tie It: The Knot's Real-World Guide to Getting Married; Weddings 202: The Knot's Guide to Re-Marrying; and The Great Escape: The Knot's Guide to Honeymooning* were to be developed by The Knot's editorial team, utilizing content from the interaction of The Knot users with each other and The Knot experts. The intent was to develop "real-world" publications with unique online tie-ins to encourage readers to participate in The Knot's online properties. In exchange for committing to develop the editorial content of the three books, The Knot received a \$350,000 advance and a 7.5% royalty fee.

Liu continued to develop offline promotional deals by signing an agreement in September 1997 with WHYY-TV, Philadelphia's public television station and the second-largest PBS station in the country. The agreement stipulated that The Knot would co-produce a 13-part television program entitled *Weddings for the Real World*. Liu hoped to use the television deal to promote the online service and books. Additional revenue would come from the sale of videos as well as redistribution deals with cable television programmers following the initial three-year programming run on public television.

## GIFT REGISTRY

With numerous partnership deals signed, advertising revenue agreements in place, and ancillary products under development, Liu turned his attention to the enormous potential of the bridal registry business:

There are a lot of things to like about the wedding business. It is recession proof, garners a great deal of advertising revenue, and represents one of the most important times in peoples' lives. We felt that we had developed a model that captured some of the value that existed in the wedding segment, but we knew that if we really wanted our company to prosper we would have to become a player in the registry side of the wedding experience.

Bridal registry alone represented a \$17 billion business—nearly half of all wedding-related revenue. Over 90% of all soon-to-be-weds registered, and 79% of these customers registered at two or more stores. Competition for wedding registry was fierce, dominated by well-established department stores such as Macy's and Bloomingdale's. Department stores alone garnered close to 90% of the gift registering business. Bridal registry merchandise tended to be concentrated in a few areas: china and flatware, crystal glassware, cookware, small appliances, and home electronics. Several aspects of the bridal registry business were unique in relation to traditional retail operations. The current bridal registry business model implemented by retailers called for soon-to-be-weds to visit the retail store and develop a comprehensive list of gifts that the couple desired

from their wedding guests. Because the items were specified by the engaged couple but purchased by the guests, there was a fair degree of price insensitivity. As a result, wedding registry gifts were almost never discounted. The average price per gift was around \$70, and the typical couple received 171 gifts. In addition, because couples registered well in advance of the actual purchase of gifts, and guests tended to follow the protocol of only purchasing gifts from the registry list, sales were extremely predictable once the registration was completed.

Liu saw an enormous opportunity in bridal registry. Not only was the market huge, but the operational and economic aspects of registry boded well for an online solution. Despite well-entrenched competitors, Liu saw a number of competitive advantages for The Knot. Large department stores were burdened by significant investments in “bricks and mortar” as well as legacy computer systems that were not Internet-ready. The fact that gifts were often purchased by out-of-town guests also made the purchasing logistics complicated in the traditional model. Guests would have to find a retail establishment that maintained the engaged couple’s registry in order to purchase an appropriate gift. The majority of retail players in this segment used registry as a complementor to their existing businesses. As a result, these competitors were retailers first and registry specialists second. Liu saw an opportunity to build an online registry function that allowed engaged couples to register, and guests to purchase gifts, through The Knot’s World Wide Web and AOL sites. Liu believed that leveraging The Knot’s existing audience and technological infrastructure would give his company a head start in developing a significantly more efficient and effective method of serving soon-to-be-weds and their guests.

Liu needed to look no further than his existing customers to test the validity of the registry option. User surveys strongly supported his view of the registry potential (see Table B for results of the survey).

Armed with positive consumer feedback, The Knot’s management team developed the model further. To address the most important registry issue, offering a wide variety of products, The Knot developed a comprehensive list of items that covered traditional wedding gifts and more contemporary items such as outdoor gear, home mortgage down payments, and mutual funds. Liu commented on the development of gift ideas:

Most wedding gifts tend to be things that new married couples need. Our goal was to provide gift options that met couples’ needs as well as their wants. We simply asked our customers and ourselves what people really wanted and started putting together a list of responses.

To assist couples through the time-consuming gift selection process, Liu decided to organize gifts into distinctive “registry packs.” These packs served as custom groupings of products and services designed to match the interests of particular lifestyles arranged under the headings “adventurous,” “romantic,” “casual,” “connoisseur,” and “cosmopolitan” (see Exhibit 2-7). In addition to the registry pack option, registrants would be able

**TABLE B The Knot Gift Registry Customer Survey Data**

Survey Topic	Percentage of Respondents
A wide variety of products is the most important factor in choosing a registry	50%
Convenience is the second-most important factor in choosing a registry	40%
Deciding what gifts to list is the most difficult part of the registering process	40%
We would be likely to use The Knot Online Registry	63%

**EXHIBIT 2-7****SAMPLE OF REGISTRY GIFTS**

Romantic	Adventurous
His/her terry cloth bathrobes	His/her mountain bikes
Hammock for two	Tent for two
Wine rack	Roof rack
Candlesticks/holders and candles	Coleman lantern
Case of fine wine	Micro-brew-of-the-month club
Dance lessons	Scuba lessons
Champagne glasses & bucket	Margarita glasses & mix
Massage oils	Compass and road atlas
Breakfast-in-bed tray	Camping cook stove
Picnic basket	Cooler
Espresso maker	Barbecue grill
Formal china settings	Casual china settings
Ice cream maker	Wok and utensils
Coffee/tea service	Sport thermos
Classical CD set	Sony Sport portable stereo
Movie rental gift certificates	Lift ticket gift certificates
Luggage set	His/her backpacks
Double shower head	Snorkel gear

to utilize agenting technology to further hone product suggestions. Agenting technology would allow The Knot to essentially match the tastes of new registrants to those of previous registrants who exhibited similar interests. Couples would also have the option of browsing traditional categories like home appliances by criteria such as price.

Convenience was perhaps the most compelling advantage of The Knot's online registry model. Liu developed a strategy to improve the convenience for both the engaged couple and the gift purchasers. To streamline the process for the couple, The Knot would allow them to modify, monitor, and save their registry selections at any time during the engagement via The Knot Web site. In addition, couples would maintain the option of having The Knot send e-mail messages to guests notifying them of the couple's registration. Additional options such as customized delivery dates and preaddressed thank-you notes that accompanied the gifts would add to the convenience of registering with The Knot. Related services would include registry completion programs for couples who did not receive the requested quantity of a specified gift as well as online chats with wedding guests, contests, and sweepstakes.

To enhance the registry process for guests, Liu envisioned a toll-free phone number, fax, and standard mail service that provided the couple's custom list of desired gifts. For purchasers with Internet access, The Knot's online properties would offer a password-protected interface that provided access to an updated registry list complete with a display of gift items that were not yet purchased. The continually updated registry information would give The Knot a significant advantage vis-à-vis traditional retailers. Statistically, 80% of gifts were purchased within three days of the wedding. As a result, re-

tailers who were unable to update registries with real-time data could not help guests avoid duplicate purchases. The end result was a 40% return rate on wedding gifts, which created an inconvenience for both the newlyweds and the retailer.

While The Knot had little online retail experience, the inventory and customer service characteristics of the registry business appeared to further support Liu's vision of an online bridal registry. Because gifts were selected months in advance, Liu saw an opportunity to efficiently organize drop ship and/or just-in-time delivery arrangements with manufacturers. Dealing directly with the manufacturers, as opposed to working with established retailers, would allow The Knot to maintain more control over its brand, pricing, and merchandising. These arrangements in combination with the extensive listing of products and services that did not require inventory to be held (e.g., mutual funds, mortgage down payments, etc.) would allow Liu to manage his balance sheet effectively. Furthermore, because of the nature of registry purchasing, The Knot's customer service effort would be streamlined by dealing almost exclusively with the registered couple (post-purchase) rather than the guests who actually made the purchases.

## FINANCING THE KNOT

Liu's decision to seek outside financing was the result of both strategic necessity and financial reality. Liu knew that to capitalize on The Knot's momentum, he needed to increase investment to further develop The Knot brand, build out the technological infrastructure, and develop the gift registry business. On a more practical level, Liu needed capital to fund the payroll and pay for day-to-day operating expenses. As of November 1997, The Knot had only enough money in its coffers to sustain operations for another three months. Despite all of The Knot's achievements to date, the financial pressures were beginning to take their toll. Liu desperately needed cash.

Liu and the management team developed a comprehensive business plan outlining the company's successes to date and the significant opportunities for growth. The early efforts to develop the plan raised many questions. How much money did they really need? Who should they look to for financing? How should they value their enterprise? In attempting to answer these questions, Liu sought the counsel of a New York attorney named Alan Siegel who happened to be the father of a friend of Liu and Roney. Siegel assisted in developing an initial term sheet and a rough valuation of the business. Siegel became intrigued with The Knot's business model and introduced Liu to Ivan Lustig, a managing director in Schroder's U.S. Media & Communications Group. Lustig quickly assembled a team of investment bankers to devise a financing strategy. Scott Blankman, a Schroder's vice president, commented on the arrangement:

We were really impressed with the business that Liu and his team had built, and our team of bankers agreed that The Knot would be an attractive investment for both venture capitalists and strategic investors. Given the state of the venture capital industry in late 1997 and the buzz surrounding Internet companies (see Exhibits 2-8a and 2-8b), we recommended trying to get as much capital as possible. In this business, you have to strike while the iron is hot.

Ensuing discussions between The Knot's management team and Schroder's investment bankers resulted in a comprehensive Private Placement Prospectus. The management team and its financial advisors agreed that The Knot would seek \$10 million in exchange for Series B Convertible Preferred Stock (see Exhibit 2-9). The prospectus also included a solicitation to enter into a formal licensing relationship to develop a magazine utilizing The Knot's content and brand name.

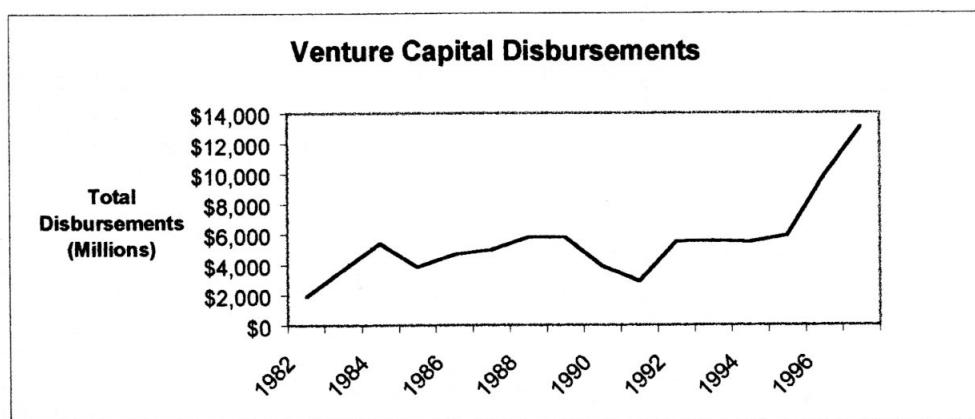
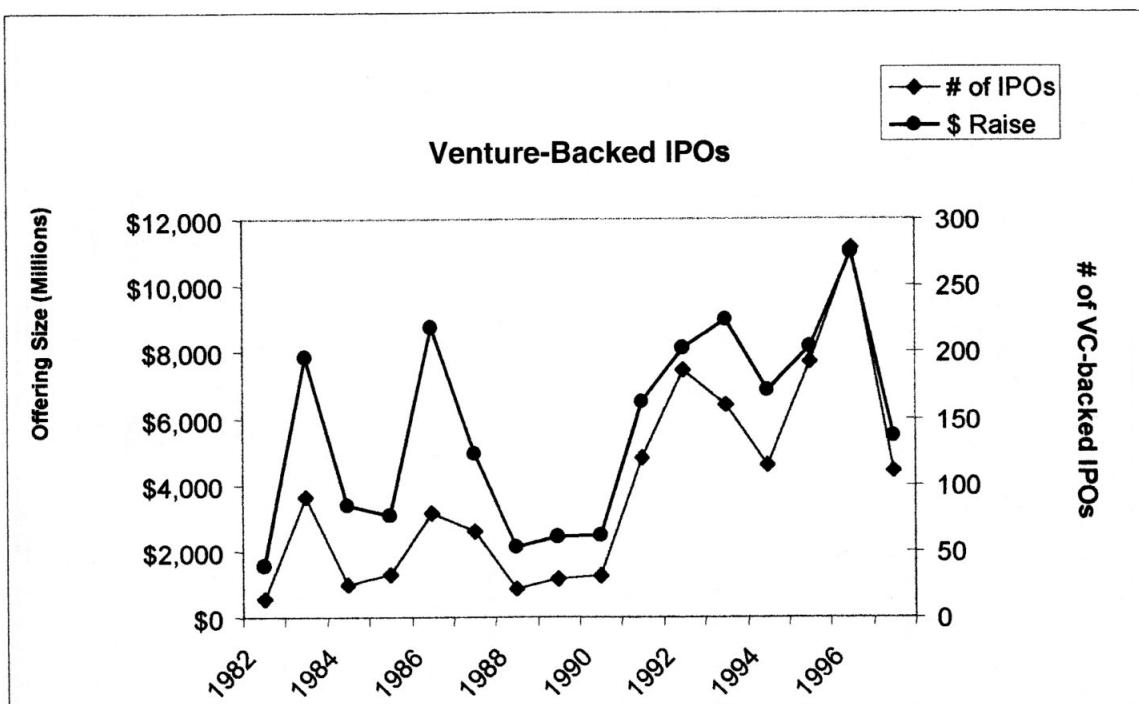
## EXHIBIT 2-8A

### SELECTED INTERNET FINANCING DEALS

#### Venture Capital Investments

Company	Business Description	Round of Financing	Amount Raised (\$millions)	Post Money Valuation (\$millions)	Most Recent Investor	Date
Ticketmaster Online-CitySearch	Provider of Internet content regarding local community activity and businesses	5	40.00	192.00	Washington Post	Nov-97
Value America	Online retailer of branded products	1	0.96	N/A	Individual investors	Nov-97
Salon Internet	Online magazine	2	3.00	N/A	ASCII Ventures	Nov-97
Quote.com	Provider of financial market data over the Internet	3	3.00	53.00	Shawmut Capital Partners	Oct-97
Virtual Vineyards	Provider of gourmet food and wine service over the Internet	3	3.90	N/A	Mitsubishi	Oct-97
Zip2	Provider of Internet directory services	3	25.00	125.00	Hearst New Media and Technology	Oct-97
Internet Gift Registries	Online gift registry services and software for the retail industry	1	0.60	N/A	Individual investors	Oct-97
Total Sports	Online cybercasts for sports events	2	2.50	10.00	Piedmont Venture Partners	Oct-97
GolfWeb	Provider of golf-related information	3	8.20	40.00	Knight Ridder	Oct-97
Baby Center	Online articles and interactive tools focused on pregnancy and infancy issues	1	2.50	N/A	Broderbund Software	Sep-97
Third Age Media	Internet product and service provider for active older adults	2	9.40	22.00	U.S. West	Sep-97
NetBuy	Distributor of standard electronic components over the Internet	1	3.00	8.00	Interactive Services	Sep-97
<hr/>						
Initial Public Offerings		1996 Revenue (\$ millions)	IPO Proceeds (\$ millions)	IPO Post Money Valuation (\$ millions)	IPO Date	Market Capitalization on 11/05/97 (\$ millions)
Company	Business Description	1996 Revenue (\$ millions)	IPO Proceeds (\$ millions)	IPO Post Money Valuation (\$ millions)	IPO Date	Market Capitalization on 11/05/97 (\$ millions)
N2K	Online music retailer	1.66	63.27	310	Oct-97	316
Peapod	Online grocery delivery service	29.17	64.00	337	Jun-97	154
Amazon.com	Online book retailer	15.75	54.00	504	May-97	1,396
OnSale	Online auction house	14.30	15.00	121	Apr-97	523

Sources: VentureSource; Data Stream.

**EXHIBIT 2-8B****VENTURE CAPITAL-BACKED IPO AND DISBURSEMENT DATA**

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**EXHIBIT 2-9**

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**SUMMARY OF OFFERING TERMS**

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<b>Issuer:</b>	The Knot, Inc.
<b>Type of Security:</b>	Series B Convertible Preferred Stock (the "Preferred Stock")
<b>Par Value:</b>	\$ .001 per share
<b>Gross Offering Size:</b>	\$10,000,000
<b>Dividend:</b>	Dividends on shares of the Preferred Stock shall accrue and accumulate on a semiannual basis at the rate of 5% per annum from the date of issuance to the date on which the Liquidation Value is paid on such shares or the date on which such shares are converted into Common Stock. Accrued dividends will be payable in cash or stock, at the option of the Company.
<b>Use of Proceeds:</b>	The Company expects to use the net proceeds of this Offering to develop its registry service and to accelerate marketing and promotion of its online services and ancillary properties.
<b>Conversion Feature:</b>	The Preferred Stock is convertible into an equal number of the Company's Common Stock.
<b>Redemption Option:</b>	Each holder of Preferred Stock may elect to require the Company to redeem all of the shares of Preferred Stock held by such holder on or after the seventh anniversary of the date of issuance.
<b>Voting Rights:</b>	Prior to the conversion of the Preferred Stock into Common Stock, holders of the Preferred Stock will have voting rights as if converted.
<b>Other Agreements:</b>	Each Purchaser will be required to enter into a Subscription Agreement and the Shareholders Agreement between The Knot and its shareholders. Copies of these documents will be provided to prospective investors on request and in any event prior to acceptance of a subscription.
<b>Licensing Agreement:</b>	The Company seeks to enter into a formal licensing relationship to develop The Knot Magazine.

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**EXHIBIT 2-10****OWNERSHIP TABLE****Current Equity Ownership**

	Shares	Percent
Greenhouse Warrants <sup>a</sup>	100,000	30.4%
Series A Convertible Preferred <sup>a</sup>	<u>0</u>	0.0%
Total Preferred Shares	100,000	30.4%
Element Common Shares <sup>b</sup>	165,714	50.5%
Other Common Shares <sup>c</sup>	<u>62,857</u>	19.1%
Total Shares Outstanding <sup>d</sup>	328,571	100.0%

<sup>a</sup> Greenhouse currently holds Warrants on 100,000 shares of Series A Convertible Preferred Stock. The Warrants will be exercised at funding.

<sup>b</sup> Element is the company formed by Liu, Roney, Fassino and Wolfson (each with 25% ownership) which launched The Knot. This figure includes an Element Reserve of 65,714 shares that Element can earn if certain performance goals are met.

<sup>c</sup> Includes shares for the Employee Reserve and the Bridal Search, Inc., acquisition, including 32,857 shares of Common Stock Bridal Search may earn pursuant to a vesting schedule.

<sup>d</sup> Pro forma based on all employee and management stock options and issuance of shares pursuant to the Bridal Search acquisition.

**EXHIBIT 2-11****USE OF PROCEEDS**

The Knot expects to use the net proceeds of this offering to develop its registry service and to accelerate marketing and promotion of its online services and ancillary properties. The proceeds from this offering will be used as follows:

**Use of Proceeds**

Production Expenses	\$ 2,911,000
Marketing Expenses	\$ 2,670,000
Registry Start-Up Expenses	\$ 785,000
Capital Expenditures	\$ 1,040,000
Operating Expenses	\$ 594,000
Working Capital Purposes	<u>\$ 2,000,000</u>
Total	<u>\$10,000,000</u>

**EXHIBIT 2-12A****CONSOLIDATED HISTORICAL AND FORECASTED  
INCOME STATEMENT (\$000S)**

	Year Ending December 31,					
	1996	1997E	1998P	1999P	2000P	2001P
Total Revenue	79	675	2,836	6,638	18,915	49,467
Total Cost of Goods Sold	<u>26</u>	<u>904</u>	<u>2,937</u>	<u>4,613</u>	<u>11,296</u>	<u>29,437</u>
Gross Profit	53	(229)	(101)	2,025	7,619	20,030
SG&A	<u>199</u>	<u>720</u>	<u>4,245</u>	<u>4,565</u>	<u>4,998</u>	<u>5,383</u>
EBITDA	(146)	(949)	(4,346)	(2,540)	2,621	14,647
Dep & Amortization	<u>38</u>	<u>134</u>	<u>291</u>	<u>313</u>	<u>323</u>	<u>305</u>
EBIT	(184)	(1,083)	(4,637)	(2,853)	2,298	14,342
Income Tax	—	—	—	—	580	6,328
<b>Net Income</b>	<b>(184)</b>	<b>(1,083)</b>	<b>(4,637)</b>	<b>(2,853)</b>	<b>1,718</b>	<b>8,014</b>

**EXHIBIT 2-12B****DETAILED REVENUE AND COST OF GOODS SOLD FORECAST (\$000S)**

	Year Ending December 31,				
	1997E	1998P	1999P	2000P	2001P
<b>Revenue</b>					
Advertising	396	1,071	1,738	3,091	4,331
AOL Usage	91	76	76	76	76
Retail Transaction Fees	28	314	800	2,874	6,452
Travel Auction Commissions	18	178	693	2,073	2,371
Registry Revenue	—	840	2,954	10,174	35,034
Book Revenue	137	187	25	—	76
Magazine Revenue	—	—	—	—	—
Mailing List Revenue	<u>5</u>	<u>170</u>	<u>352</u>	<u>627</u>	<u>1,127</u>
<b>Total Revenue</b>	<b>675</b>	<b>2,836</b>	<b>6,638</b>	<b>18,915</b>	<b>49,467</b>
<b>Cost of Goods Sold</b>					
Direct Costs					
Online Advertising	5	271	347	295	377
Retail Transaction	23	251	604	2,025	4,222
Travel Auction	4	45	173	518	593
Registry	—	672	2,225	7,155	22,886
Books	5	60	15	—	—
Magazine	—	—	—	—	—
Indirect Cost					
Production Costs	656	735	180	180	180
Staff Payroll	134	746	883	928	975
Benefits	<u>28</u>	<u>157</u>	<u>186</u>	<u>195</u>	<u>204</u>
<b>Total Cost of Goods Sold</b>	<b>1,055</b>	<b>2,937</b>	<b>4,613</b>	<b>11,296</b>	<b>29,437</b>

**EXHIBIT 2-12C****HISTORICAL AND FORECASTED BALANCE SHEET (\$000S)**

	June 30, 1997	Year Ending December 31,				
	1997E	1998P	1999P	2000P	2001P	
<b>Current Assets</b>						
Cash	529	9,973	4,726	1,967	3,855	14,048
Inventory	—	11	99	343	1,067	2,085
Accounts Receivable	93	58	179	314	543	754
Common Stock Subscription	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Current Assets	623	10,043	5,005	2,625	5,466	16,888
<b>Fixed Assets</b>						
Office Furniture & Equipment	123	168	564	614	664	714
Leasehold Improvements	14	14	414	429	431	434
Less Accum. Dep	<u>(22)</u>	<u>(36)</u>	<u>(221)</u>	<u>(427)</u>	<u>(644)</u>	<u>(871)</u>
<b>Total Fixed Assets</b>	115	146	757	616	451	277
<b>Other Assets</b>						
Deposits	7	7	7	7	7	7
Development/Org. Costs	532	532	532	532	532	532
Accum. Amortization	<u>(82)</u>	<u>(136)</u>	<u>(242)</u>	<u>(348)</u>	<u>(455)</u>	<u>(532)</u>
<b>Total Other Assets</b>	457	403	297	191	84	7
<b>Total Assets</b>	1,195	10,592	6,059	3,432	6,001	17,172
<b>Current Liabilities</b>						
Accounts Payable	87	7	111	338	1,096	3,282
Taxes Payable	—	—	—	—	94	1,065
<b>Total Current Liabilities</b>	87	7	111	338	1,190	4,347
<b>Noncurrent Liabilities</b>						
Notes Payable	<u>1,850</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Noncurrent Liabilities</b>	<u>1,850</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Liabilities</b>	1,937	7	111	338	1,190	4,347
<b>Stockholder's Equity</b>						
Preferred Stock	—	10,000	10,000	10,000	10,000	10,000
Common Stock	1	1	1	1	1	1
APIC	—	1,850	1,850	1,850	1,850	1,850
Retained Earnings	<u>(743)</u>	<u>(1,266)</u>	<u>(5,904)</u>	<u>(8,757)</u>	<u>(7,039)</u>	<u>974</u>
<b>Total Stockholder's Equity</b>	<u>(742)</u>	<u>10,585</u>	<u>5,947</u>	<u>3,094</u>	<u>4,812</u>	<u>12,825</u>
<b>Total Liabilities &amp; Equity</b>	1,195	10,592	6,058	3,432	6,002	17,172

**EXHIBIT 2-12D****FORECASTED STATEMENT OF CASH FLOWS (\$000s)**

	Year Ending December 31,				
	1997E	1998P	1999P	2000P	2001P
<b>Cash Flow from Operations</b>					
Net Income	(1,083)	(4,637)	(2,853)	1,718	8,014
Dep. & Amortization	134	291	313	323	305
Accounts Payable	(150)	104	227	757	2,186
Taxes Payable	—	—	—	94	971
Deposits	—	—	—	—	—
Inventory	(11)	(87)	(245)	(724)	(1,018)
Accounts Receivable	(9)	(121)	(135)	(230)	(211)
<b>Net Cash from Operations</b>	<b>(1,119)</b>	<b>(4,450)</b>	<b>(2,693)</b>	<b>1,938</b>	<b>10,247</b>
<b>Cash Flow from Investing Activities</b>					
Fixed Assets	(74)	(797)	(65)	(53)	(53)
Development/Organization Costs	—	—	—	—	—
<b>Net Cash from Investing</b>	<b>(74)</b>	<b>(797)</b>	<b>(65)</b>	<b>(53)</b>	<b>(53)</b>
<b>Cash Flow from Financing Activities</b>					
Notes Payable	(700)	—	—	—	—
Equity Contributions	<u>11,850</u>	—	—	—	—
<b>Net Cash from Financing</b>	<b>11,150</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Change in Cash	9,957	(5,247)	(2,758)	1,885	10,194
Beginning Cash	<u>16</u>	<u>9,973</u>	<u>4,726</u>	<u>1,968</u>	<u>3,853</u>
<b>Ending Cash</b>	<b>9,973</b>	<b>4,726</b>	<b>1,968</b>	<b>3,853</b>	<b>14,047</b>

**READY OR "KNOT?"**

Liu took little comfort in the fact that the prospectus had finally been completed. The Knot needed capital infusion quickly to build on the momentum of the company and to invest in the future. Complicating matters was the recent news on the competitive front. Internet Gift Registries, an online gift registry and software firm serving retailers, had recently received a venture capital investment (see Exhibit 2-8a) and was turning its attention to enabling traditional retailers to serve newly married couples via the Internet. Further competition came from online businesses that had recently launched Web sites targeting The Knot's current and potential customers. Bride, USA Bride, and the WeddingChannel had all recently begun operations. The WeddingChannel, in particular, posed a formidable threat. The WeddingChannel was the most recent venture spun out of the California-based Idealab, an incubator for Internet businesses that went on to develop eToys, CitySearch, and eTicket among others. Further enhancing the competitive threat of the WeddingChannel was the company's financial backers. Recently, the WeddingChannel had begun negotiations with legendary financier Ronald O. Perelman and his business partner Donald Drabkin for a \$4 million investment. The stage appeared to be set for a race to dominate the online wedding segment. Liu and his management team's current financing efforts would go a long way toward shaping the future of The Knot.