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Demand Media

Until he launched Demand Media, Richard Rosenblatt had been best known for growing MySpace and selling it to Rupert Murdoch's News Corp for $580 million. Rosenblatt explained how he had positioned MySpace to News Corp. "Media involves creating, distributing, and monetizing content. I explained that MySpace was the perfect media company. The members created the content and the Internet distributed it. All News Corp had to do was monetize it."

His most recent venture, Demand Media, was as simple to describe, but as complex to execute. It outsourced content creation, the Internet's search engines brought it readers, and advertising monetized them. In March 2011, a month after conducting the largest Internet initial public offering since Google, Demand Media was worth $1.8 billion. It was one of the largest online media companies in the world. At 75 million unique visitors per month from the United States alone (**Exhibit 1**), it had more online traffic than The New York Times Digital, Fox Interactive, and *USA Today*.

There were five steps to Demand Media's model. First, it gathered data on what queries were being searched on the Internet, and estimated the advertising support these topics would likely receive. Second, it used proprietary algorithms and knowledge engines to determine which queries could be used as the basis for an article or video with a long useful life and a high probability of an attractive economic return. Third, it outsourced the most valuable of these queries to a stable of over 10,000 writers, copyeditors, and videographers, with instructions to produce the articles and videos at a fixed cost or revenue share. Fourth, it placed the content on one or more of the company's websites and used search engine optimization (SEO) techniques to try to ensure that the content/answer would rank prominently when someone entered the query on a search engine. Finally, it sold advertisements to the content's audience.

At a time when print media, particularly newspapers, were under economic pressure, the idea of creating search-friendly media content in response to consumer queries had aroused curiosity and fascination from onlookers. Within the business, however, chief marketing officer Dave Panos (HBS MBA '89) saw it as walking a razor's edge between being right and being wrong. "All the fluff of a traditional media business is squeezed out in the online world. We commission thousands of pieces of niche content every day. For each piece, we invest in its quality and we invest in making sure its audience will find it. We have to decide, at the margin, whether to invest in the quality of the content or in finding new ways to ensure that we will be found." The question took on new urgency as social media and smartphone apps began to change the way people navigated the Internet.

Professor John Deighton and Research Associate Leora Kornfeld prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Origins of the Company

Rosenblatt, born in 1969, had worked in high school as a pizza delivery boy and fitness instructor, and had even sold knives door-to-door. He made his first million dollars while a law school student, discovering and exploiting an opportunity to resell advertising in local newspapers.[1] He obtained his law degree in 1994 and practiced for six months before leaving to create iMall, a venture to offer seminars about eCommerce and starter website packages to small business owners, and to host their websites at the iMall site. After running the business for five years, he sold it to the Internet portal Excite for $565 million. Next, he formed a venture firm that acquired and sold the early web domain registration company, GreatDomains.com, to VeriSign for $100 million in October 2000.[2]

Rosenblatt was then recruited to become CEO of health site DrKoop.com, but the company declared bankruptcy shortly after he joined. He moved on to become CEO of eUniverse.com, later known as Intermix, a public company known for email and online game products. At the time Rosenblatt joined Intermix, it was losing $4 million per quarter and had been delisted from the NASDAQ. But in Intermix's portfolio was a fledgling social networking site called MySpace. Rosenblatt focused the majority of Intermix's resources on growing MySpace and became chairman of the subsidiary's board of directors. In June 2005, he sold Intermix (which included MySpace) to News Corp, with $23 million of the proceeds going to him.[3]

Demand Media took shape through a series of acquisitions. The first was eHow, bought in May 2006. Six months later Demand Media acquired Answerbag, a site that specialized in providing answers to commonly asked questions. Other early acquisitions included Expert Village, a site composed of user-generated "how to" videos. In all, Rosenblatt acquired nine companies in the space of six months. Two were web domain companies Bulk Register and eNom. Bulk Register was folded into eNom, making it the second-biggest player in the domain registration business. (Annual income is shown in **Exhibit 2**.)

Demand Media in 2011

By 2011 Demand Media had two distinct and complementary parts, a domain registration business and a content and media business.

1. The Domain Registration Business

Demand Media's eNom subsidiary was the largest wholesaler of Internet domain names and the second-largest registrar overall behind GoDaddy, with a portfolio of over 10 million domain names under registration, and over 7,000 resellers.

Domain names served to identify websites and link them to unique identifiers so that traffic on the Internet could find them. Assigning domain names to corporations and individuals was ultimately the responsibility of a nonprofit entity, the Internet Corporation for Assigned Names and Numbers (ICANN,) but ICANN accredited VeriSign, a for-profit firm, to manage .com and .net domains. VeriSign, in turn, contracted with about 900 for-profit companies to distribute domain names and manage their orderly use. When a distributor sold a domain name to a user, it paid about $7.00 to VeriSign and $0.25 to ICANN. Prices for plain domain names tended to be bid down almost to cost, but some names commanded substantial premiums because they attracted traffic that could earn revenue through advertising or sales. One sale that achieved notoriety was Sex.com, which fetched $14 million.

Other firms entered the domain registration business to sell ancillary services to the website operators. Network Solutions targeted small organizations that wanted a turnkey Internet presence. The largest domain registrar, GoDaddy, sought to sell web hosting and e-business software and services to registrar customers. In addition to providing the company with subscription revenues and analysis of users' online behavior, Demand Media's domain registration business gave it access to expired domain names, a source of additional data for its algorithms, and the opportunity to license content to third-party website owners.[4]

2. The Content and Media Business

In January 2011 the largest sites in the Demand media portfolio were those shown in **Table A**.

Table A Largest Demand Media Sites, January 2011

Site	Unique Monthly Visitors (U.S., thousands)	Monthly Page Views (U. S., thousands)	Description of Site
eHow.com	60,500	231,000	Information, in article and video form, to make everyday tasks such as basic home repair easier to perform.
LiveStrong.com	12,200	55,000	Providing fitness and nutrition information (in partnership with Lance Armstrong and the Lance Armstrong Foundation).
Answerbag.com	11,300	23,000	Questions and answers posted by readers and responded to by either the site's research staff or other readers.
Cracked.com	4,600	84,000	A comedy site, revitalizing the brand of the now-defunct *Cracked* Magazine.
Trails.com	1,800	6,000	A site for outdoor enthusiasts—in particular, hikers and mountain bikers.
Golflink.com	650	3,000	Described as the most complete online golf resource.

Source: comScore.com.

Technology

Most online publishers (for example, Fox Interactive Media, Turner Network, CBS Interactive, and WSJ.com) operated like offline media: journalists decided what they would report on from among the events of the day in news, entertainment, sports, and other facets of life. Demand Media's model inverted this sequence, and reduced the role of human decision-making. Algorithms determined what people wanted to know about based on their Internet search queries, and solicited content from journalists, professional creators, and other writers and videographers to meet the queries.

The first of Demand Media's algorithms (digital data-driven problem-solving tools) analyzed proprietary data from Demand Media's network of sites and search-query and keyword data that the company purchased in bulk from sources such as search engines, online marketers, and Internet service providers. Commercially valuable search terms emerged from this analysis, which was followed by a process that forecast the rates that advertisers were likely to pay to have their ads appear alongside relevant content about these topics.

The second algorithm, called the Knowledge Engine, performed a more fine-grained analysis of a search term, based on the specific aspects of a topic people were interested in and how ads placed adjacent to them had performed in the past. For example, a search term such as "1978 Corvette" could be analyzed to see if those searching it were interested in the history of the vehicle, mechanical aspects, vehicles of that make and year that were for sale, or something else. The output of this second step was a relative score that was useful in estimating the potential commercial value of the content. Demand Media used this information as a guide to what to invest in producing the content.[5]

Content Production

Demand Media Studios was Demand Media's content creation division. Once the company's algorithms identified a topic for which there was demonstrated demand and an expectation that the content could be created and distributed with an acceptable internal rate of return, the content was commissioned to an appropriate writer or video producer who was a qualified contributor in the studio system. To recruit content creators, the company placed ads online, on properties such as the classified ads site Craigslist, and on sites frequented by media freelancers. Demand Media Studios worked with a stable of 10,000 freelance writers, video producers, and editors who produced over 5,000 pieces of content per day.[6] Rosenblatt emphasized that far from being "robocontent," each piece processed by Demand Media Studios had 14 human touchpoints involved in the creation of each article or video. The latest addition was a categorization community, which was responsible for accurately tagging and indexing each piece of content. "Machines only get it 50–60% right," said Rosenblatt. "Now we can get it about 94% right. I have an adverse incentive to drive quality down. I actually make more money as quality goes up." Better-quality content ranked higher in search results than inferior content, and the top-ranked search results netted the most clicks. "The first search result gets 45% of the traffic," said Rosenblatt, with the bulk of the clicks going to the top three results.

The cost of creating a piece of content in Demand Media's studio varied depending on whether the content was text or video, and the complexity of the piece, and was not publicly disclosed. However, as an approximation, a representative variable cost per article could be taken to be about $25.[a] The company prided itself on employing more copyeditors than the top 10 newspapers combined, and for its punctual and regular payment of freelancers. Checks were issued for approved articles every Tuesday and Friday, and without the need for invoicing.[7]

Customers

Demand Media existed to meet the consumer need for *relevant and specific content*, a term that was defined very broadly to cover information and experience ranging from a question answered, to a laugh, to a tool to help with a challenge like losing weight. As long as the need could be met with

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[a] Demand Media did not disclose this cost, and this hypothetical number is included in the case for the purpose of class analysis only.

evergreen content[b] that met the company's targets for return on the cost of creation, Demand Media was interested. "We found that 10,000 people were interested in starting a hot air balloon business. Who knew?" said Rosenblatt. "The algorithm estimated it as a $40–$50 cost per thousand advertising topic, so we commissioned content." The topic of gluten-free diets attracted enough attention to support 8,000 articles.

The experience of Lori, a 48-year-old homeowner and married mother of two, was representative of how people became visitors to the eHow site. "It began when I used Google to find how to caulk a bathtub. Text wasn't enough, I needed video. Some of the sites started out as how-to sites, then tried to sell you a product, but I found one that gave me basic instruction, nothing fancy or distracting. The person doing the work seemed to know what he was doing and he made it look easy. I didn't pay much attention to the eHow logo at the top of the page, but later when I was searching on YouTube for help on repairing a cement foundation, I noticed the eHow name on one of the search results and chose it, and once again it gave me what I wanted. Today when I am looking for help on home repair, I tend to start at eHow rather than sift through a lot of Google search results or watch 10 YouTube videos."

When traffic related to particular topics reached a significant volume, a branded identity would be given to the topic and a well-known personality would be associated with it. For some examples:

- Content related to fitness and nutrition and endorsed by the cyclist Lance Armstrong was assembled on a website under the name LIVE**STRONG**.
- To serve fashion and beauty, a partnership was formed with the model Tyra Banks and her company Bankable Enterprises.
- A senior executive from NBC Universal was hired to lead the development of typeF.com, a new digital property.
- Food and cooking interests were met by a food channel within eHow.com featuring the television personality Rachael Ray.

Content for branded sites was sourced in the same manner as other Demand media content, with editors commissioning text and video contributions from the company's network of contributors, and adaptations made for the needs of particular genres. Humor for the Cracked.com site, for example, was generated in a virtual writer's room by a process modeled on the process used to write television programs. Would-be contributors pitched ideas, which were voted up and down by other writers and editors and ultimately, by the site's fans.

Traffic By 2011, traffic to Demand Media came from three sources. First, and most significant for sites like eHow, were search engines. When a consumer entered a search term into a search engine such as Google or Bing, an article needed to appear prominently among the organic (unpaid) results. Second, Demand Media received traffic from consumers typing the web address of one of the company's popular sites such as Cracked.com or eHow.com. Third, Demand Media received part of its traffic from links from other websites or content that social media users posted to social media sites and their comment streams. Rosenblatt aspired to a "balanced pie," in which traffic from search would eventually constitute no more than one-third of total traffic, and direct traffic and social media traffic would constitute the other two-thirds as equal contributors.

[b] Content with a long shelf life, such as blog posts or videos about health, finance, cooking, and beauty, as opposed to perishable content such as news and sports.

To have its content found by customers using search engines, Demand Media adhered to the SEO techniques recommended by Google. It ensured that its sites loaded fast, with careful attention paid to site taxonomies, and it endeavored to host content that would satisfy its visitors.

Pluck Rosenblatt acquired a social application server company, Pluck, and with it the founder, Dave Panos, who stayed with Demand Media as its chief marketing officer. Pluck possessed features such as social search, social bridging (linking social networks to one another), and mobile capabilities as well as the core functionality of article comments, ratings and reviews, blogs, photo galleries, and integration with Facebook, Twitter, and LinkedIn. Pluck powered the community sections of over 375 websites, among them *USA Today*, Kraft Foods, National Geographic, British Sky Broadcasting, home maintenance retailer Lowe's, tool and appliance maker Black & Decker, Mattel, and the NFL (National Football League.)

Revenue Generation

Demand Media earned almost all of its article and video revenue from advertising. Revenue contracts were negotiated either directly between the advertiser and Demand Media or through advertising networks such as Google Ad Network. Demand Media was a YouTube partner, enabling Demand Media to share in the revenues generated from advertisements that appeared either before its videos, as overlays, or on adjacent banners. About one quarter of Demand Media's revenues came from its revenue-sharing arrangement with Google.

As an exercise to test the profitability of its model, Demand Media computed what it had earned from all of the studio-created articles posted to eHow.com during the third quarter of 2008. It calculated the flow of revenue from advertising adjacent to these articles from the date published until September 30, 2010, and then computed the discount rate that, when applied to this revenue less direct ongoing costs, produced an amount equal to what was spent to create the articles. On the assumption of no income beyond this two-year window, the internal rate of return on the average article was 76%, a conservative estimate because revenue was likely to persist long beyond the two years. In fact, the company projected a useful life of five years for this kind of algorithm-and-studio generated content.

Sale of Content to Other Media Companies

Concurrent with the growth of Demand Media was an ebbing of the power of newspapers and magazines. In April 2010 the Gannett-owned *USA Today* announced it would be outsourcing its newly created online travel tips section to Demand Media.[8] *USA Today* benefitted on two levels: the convenience of a turnkey content solution from a third-party provider, and the ability to pull in new readers via search, thanks to Demand Media's acumen with search engine optimization. Four months later, Hearst Corporation, another of the country's largest media organizations, announced that it had partnered with Demand Media for online content for two of its properties. Demand Media was contracted to create content for a Homes Guide in the real estate section of the *San Francisco Chronicle's* website SFGate.com and for a small business guide on the *Houston Chronicle's* site. (See **Exhibit 3** for screenshots of *USA Today's* Travel Tips site and *Houston Chronicle's* Small Business site). Revenues derived from advertising that appeared alongside the content was shared between Demand Media and the online publisher. When asked what prompted the *San Francisco Chronicle* to partner with Demand Media, SFGate.com's VP of digital media said: "We took a look at what Demand had done both with LIVE**STRONG**.com and *USA Today* and liked what we saw there. They allowed us to build out an entire content channel. We liked how they were approaching the work, and what the end-product ultimately wound up looking like."[9] Panos likened the arrangement to syndication of content, but with each customer getting original content with relevant advertising attached to it.

The Industry

There was no simple way to specify the industry in which Demand Media participated. It competed for consumers' attention using question-and-answer sites, online encyclopedias, blogs, and topically focused online media. It competed for advertising revenues with these properties and with advertising networks.

Question-and-Answer Sites

Since the birth of the Web, a distinction had been drawn between search engines and question-and-answer sites. The former indexed third-party websites, and took users to the sites that the algorithms anticipated would best satisfy the interests of the users behind those search terms. The latter, question-and-answer sites, were websites, not indexes, and provided answers to questions ranging from things that might ordinarily be found in an encyclopedia or guidebook to suggestions for dealing with the common cold or a clogged drain. These sites were more efficient than search engines when a user's query was well-defined.

One of the first, and in 2010 the largest, of these question-and-answer sites was Ask.com, which had been launched in the mid-1990s as AskJeeves. To heighten its profile and give itself the ability to compete with other popular question-and-answer sites, Ask.com had entered into some key partnerships. To build its brand, it became a sponsor of NASCAR. To improve distribution, it distributed its toolbar through Symantec, maker of Norton anti-virus software that came pre-installed with a 30-day free trial on a large number of PCs.[10] In late 2010, Ask.com launched a mobile app, entitled "Ask for iPhone," which was the first smartphone app to bring together search with a live community of users who could both post and respond to questions on the go. The "Ask for iPhone" app received over 250,000 downloads in its first month in the iTunes store.[11]

Other question-and-answer sites included Associated Content, About.com, Suite 101, Quora, ChaCha, and Mahalo. (See **Exhibits 4** and **5** for web traffic statistics to these sites.) Models for attracting contributors to create content for question-and-answer sites were diverse. Some sites paid contributors per article, while some sites shared advertising revenue with content creators. To identify content, some websites tailored content to observed searches, some let creators propose topics, and some commissioned articles on specific topics in the manner of traditional journalism.

During the mid-2000s, a number of large web publishers acquired content creators. The New York Times purchased About.com; InterActive Corp acquired Ask.com; Yahoo! acquired Associated Content (later rebranded as Yahoo! Contributor Network); and AOL launched Seed.com, a web platform through which writers and photographers could submit their work and have it published on sites on the AOL site.

Wikipedia

Wikis were a class of server software that allowed users to freely create and edit web page content on a topic of their choosing using any of a variety of web browsers. The software let readers of the web content become contributors (and sometimes competitors with each other) who could shape the content within a template, subject to the authority of editors and administrators. The resulting web pages were hosted on servers controlled and paid for (usually) by the administrators. By far the largest Wiki was Wikipedia.

At 78 million unique U.S. visitors per month, Wikipedia attracted its audience without providing economic incentive to content contributors, and without economic reward to itself. Some of its costs, particularly its server costs, were offset by donors, but the bulk came in the form of unrecompensed labor by authors, editors, and administrators bound in a community structure and working collaboratively. It was operated by the Wikimedia Foundation, a nonprofit charitable foundation.

AOL

AOL was a media company whose profile had risen and fallen a number of times since its inception 20 years earlier. In 2009, despite AOL's numerous attempts to diversify its revenue base, 43% of its $2.2 billion in revenues[12] came from dial-up subscriptions and related services such as privacy software.[13] When former Google executive Tim Armstrong took the helm at AOL in early 2009, he started increasing the company's stakes in content creation, content hosting, and content acquisition. AOL Network, the company's content division, owned such digital properties as Engadget, TechCrunch, Spinner, StyleList, and Politics Daily. AOL's advertising business comprised display and search ads on its own sites as well as third-party properties, and accounted for $1.2 billion of revenues in 2009: the breakdown was approximately $500 million from display ads that ran on AOL content, $400 million from search ads that ran on AOL content, and $300 million from AOL's advertising network.[14] In 2009, AOL launched Seed.com. Contributors were encouraged to practice "SEO copywriting," to enhance search engine rankings. On the company blog, a Seed executive wrote: "We'll pay anywhere from $10 to $300 for an article on Seed, depending on the complexity, your experience and the expected interest level. In the future, we may offer a way for you to share in the advertising revenue generated by your work."[15]

In 2010, AOL made acquisitions that helped to move the company away from its revenue base as an Internet Service Provider and cultivate revenue from content and platform services. StudioNow, a company that enabled online video creation and syndication in a cloud computing format, was acquired by AOL in June 2010. Three months later, AOL acquired 5min.com, a company that housed a library of 200,000 instructional videos covering topics such as cooking, fitness, sports, home and garden, technology, music, beauty, and fashion. AOL reached 112 million unique U.S. visitors per month. (see **Exhibit 1**).

New York Times Digital

In 2011, the New York Times portfolio comprised NYTimes.com, Boston.com, and About.com, and third-party sites such as WineToday.com and GolfDigest.com. The family of sites drew 72 million unique U.S. visitors a month. One element of the network, Abuzz, was an interactive software system that offered people across the community of sites the ability to ask or answer questions of each other. In Spring 2011, the market capitalization of the New York Times was $1.4 billion.

Huffington Post

The Huffington Post had been inspired by the early success of the Drudge Report, an aggregator and curator of links to unpaid third-party bloggers on political themes. The Huffington Post copied the principle of assembling unpaid blogs, and added several innovations. It hosted the blogs on its own site, wrapped them in commentary written by staff journalists, allowed for reader commentary, and recruited celebrity bloggers ranging from President Obama to Sean Penn. Many of its readers, particularly before the brand became well-known, found the site when searching for information on search engines.

In January 2011, over one-third of the Huffington Post's traffic came from search engine queries, compared with 20% for CNN.com.[16] This ability to be easily found via search was no coincidence; the site had developed real-time tools that indicated which keywords were being entered into search engines. If a Huffington Post editor saw a particular keyword driving traffic to a story, the headline and/or the story could be re-edited to emphasize the keyword.[17]

In early 2011, AOL acquired the Huffington Post for $315 million. Its traffic was 25 million unique visitors per month, revenue was $31 million, and in some of the months of 2010, the company claimed that it reported profits.

Yahoo!

Yahoo! was a portfolio of owned-and-operated content and community sites, and third-party sites for which it served as exclusive advertising placement services through a wholly-owned subsidiary, Right Media It was second only to Google in traffic, with 167 million unique monthly U.S. visitors. In early 2010, it acquired a question-and-answer site, Associated Content, for a purchase price of between $90 million and $100 million.[18] Associated Content described itself as the People's Media Company, a place to satisfy varied interests by tapping into a massive contributor base of articles, videos, audio, and images on every topic.

Google

Consistent with its mission of organizing the world's information, Google hosted and indexed specialized content on sites such as YouTube, Picasa, Blogger, Google News, and Scholar, among others, and it indexed general content on Google.com. Its Adwords product was the market leader in the serving of text box advertising to Internet search results, and AdSense was the market leader among display advertising networks. Google had historically preferred the role of platform provider to that of content creator, but in selected areas such as the provision of maps, weather, and travel information, it gave preference to its own content over indexed search results.

Glam Media

Described by Crain's New York Business as the "biggest Web outfit you've never heard of,"[19] Glam Media described itself as a vertical media company. The term "vertical" referred to its claim of concentrating on content related to fashion. It had been founded by Samir Arora and was funded by Silicon Valley investors, including Accel and Draper Fisher Jurvetson.

Glam comprised both Glam-owned-and-operated properties such as Glam.com, and a publisher network of more than 1,400 third-party websites that included homework-helper sites, horoscopes, greeting card vendors, and MayoClinic.com, sites that Glam claimed were heavily trafficked by women. Glam required that each site place the Glam logo on their pages, and thereby earned comScore's endorsement as a property, not an ad network.

The endorsement was not entirely unjustified, because Glam performed a service more typical of a publisher than a network. Networks did not guarantee what editorial content would surround an ad unit, but Glam often did. Along with the agreement to carry Glam's logo and display the advertising of Glam clients, affiliates agreed to share their content with the Glam network. This meant that often Glam would embed advertising in content and syndicate the bundle to its network. In this way, Glam could guarantee the content surrounding an ad unit, earning a higher price from the advertiser than the prices paid for run-of-network placement in an advertising network. An incidental benefit of jointly placing advertising and content was that links to content were distributed across a large number of Internet properties, so that search engine algorithms tended to attribute more authority to the properties, and rank them higher in their organic search results, than would have been the case if they had not been interlinked.

Glam paid its affiliates more than the affiliates could make from generic ad networks like Google's AdSense or Yahoo!'s Panama. In general, advertisers liked the model, too. A premium advertiser like Prada could have its ads served in association with premium content or served to affluent prospects. An automotive advertiser like Toyota looking to reach women might accept placement on a broader portion of the network, and Pepsi might accept the whole network. Glam's advertisers included Nieman Marcus, but also Tylenol, Kraft, and Coca Cola. The technology blog TechCrunch estimated that Glam had revenues of $55 million in 2009.[20]

Conclusion

The Demand Media model relied primarily on search to attract new audiences. Customer acquisition costs were negligible because search engines drove visitors to the sites at no cost. And since the customers arriving this way were actively seeking solutions, they were an intent-driven audience that was unusually responsive to performance-driven advertisers buying keywords on cost-per-click advertising networks like Google. On average, Demand Media estimated that the company could make $20–$30 per thousand page views from performance advertising across the broad range of topics covered on a site like eHow.

Advertisers were also using Demand Media's sites for brand advertising. They were attracted by the company's ability to target specific demographic audiences in the act of learning about specific topics and spending money on specific goods or services. In 2010 and 2011, the company invested heavily in building a direct sales force to sell advertising space to marketers and advertising agencies. Early results had been promising from both a revenue and advertising-performance standpoint. The company estimated that it might be able to sell branded advertising for $10–$20 per thousand page views, and what was unsold for branding might fetch $1–$$2 per thousand page views as remnant advertising running on the same pages as the performance advertisements.

While this approach had served the company well over the past few years, the online landscape was rapidly changing. Consumers were spending more and more time on social sites like Facebook, Twitter, and FourSquare, which served useful and interesting content to large audiences through social discovery, rather than search. The kind of content that was shared among members of a social network was different from the content people found on their own with the help of search engines. Content that inspired someone to share it with their social network tended to be newsworthy, intriguing, or funny. It was harder to predict what would be popular and to create the kind of content that drew a crowd through viral means. Additionally, content that was shared among a social network traditionally did not monetize very well via performance-based advertising, because the visitors arrived serendipitously, and often with the intent of quickly returning to the social stream that sent them to the site.

Another development that threatened Demand Media's search-based audience flow was the adoption of applications (apps) for smart phones and tablets. Apps gave consumers another point of content consumption as well as competition for attention. As the iPhone and iPad grew in popularity, mainstream media companies entered the app fray. Enticed by the opportunity to take advantage of these new platforms for content distribution, and hopeful that strong brand recognition would create an advantage that they lost with search, companies like Conde Nast, the New York Times, and News Corp. made substantial investments in app-based distribution. Still, content companies faced considerable uncertainty about both monetization and scale for their apps. Initially, companies were either selling apps for a one-time fee or giving them away for free and selling advertising. *Sports Illustrated* was experimenting with a model where the application was free but each issue was delivered at a price. *The Economist* was experimenting with a freemium model, where part of an issue was available for free and the consumer could elect to unlock the full issue for a fee.

While Demand Media's model had served it well for its first five years, the emergence of social networks and mobile apps represented both a distinctive shift in audience behavior and a new opportunity for the company. Looking to the future, Demand Media pondered the right course to power its growth. Should it continue to focus investment on the search-driven, evergreen content that powered much of its recent success? How would it address the burgeoning world of social media and the rise of Facebook as a new Internet platform? Could it count on app-based distribution to drive future revenue growth for the company? And could the company afford to pursue more than one approach at time when it was just beginning to demonstrate an ability to generate net income?

Exhibit 1 Top Web Properties in the United States

Monthly unique visitors from home, work and university

Property	Unique visitors per month (U.S.) (thousands, January 2011)
Yahoo! Sites	178,864
Google Sites	178,516
Microsoft Sites	176,770
Facebook.com	153,020
AOL, Inc.	110,996
Ask Network	95,719
Turner Digital	91,314
Viacom Digital	89,450
Glam Media	86,533
CBS Interactive	85,573
Amazon Sites	82,608
Wikimedia Foundation Sites	78,563
Demand Media	75,454
Apple Inc.	71,952
New York Times Digital	71,887
eBay	65,913
Fox Interactive Media	62,152
Vevo	56,178
Answers.com Sites	55,467
Comcast Corp.	54,598
Craigslist Inc.	53,570
NetShelter Technology Media	44,697
Technorati Media	44,677
Weather Channel	43,978
Gannett Sites	40,372

Source: comScore Media Metrix.

Exhibit 2 Demand Media Income Statement, 2008–2010 ($ thousands)

	Year ended December 31, 2008	**Year ended December 31, 2009**	**Year ended December 31, 2010**
Revenue	170,300	198,500	252,900
Owned & Operated	62,800	73,200	110,800
Network	22,000	34,500	42,100
Registrar	85,400	90,700	100,000
Operating expenses			
Service costs	98,200	114,500	131,300
Sales and marketing	15,400	20,000	24,400
Product development	14,400	21,500	26,500
General and Administrative	28,200	28,400	36,700
Loss on disposal of assets			700
Amortization of intangible assets	33,200	32,200	33,800
Total operating expenses	189,400	216,500	253,400
Income (loss) from operations	(19,100)	(18,000)	(500)
Net income before interest, taxes	(20,300)	(21,000)	(2,400)

Notes:

For the purpose of case analysis, please use the information below. These definitions are being provided for the case discussion and do not represent disclosures from Demand Media:

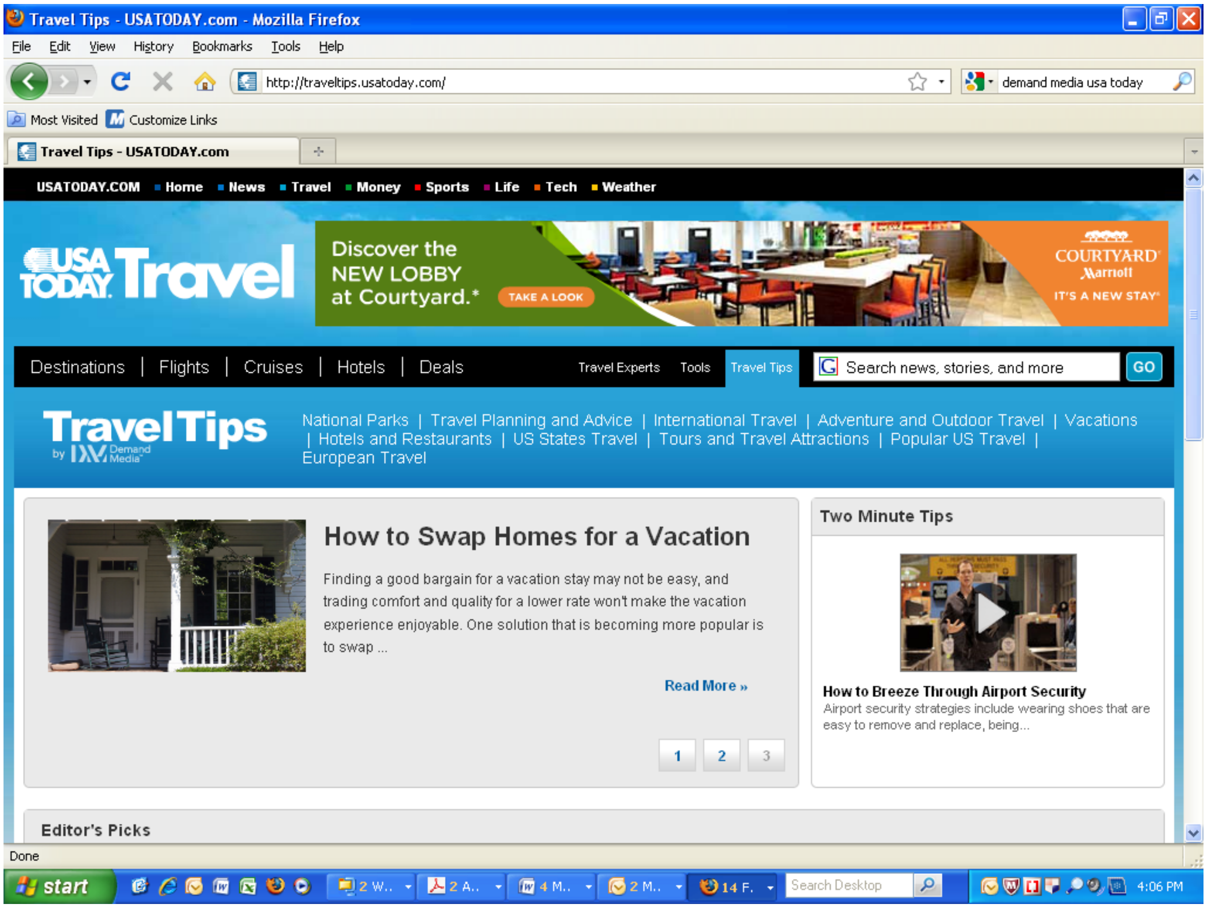
- Revenues from owned and operated sites are revenues from wholly owned properties of Demand Media (for example, eHow).

- Revenues from network sites are revenues from third-party sites to which Demand Media provides advertising services.

- About 60% of Service Costs should be assumed to be payments to freelance writers and videographers.

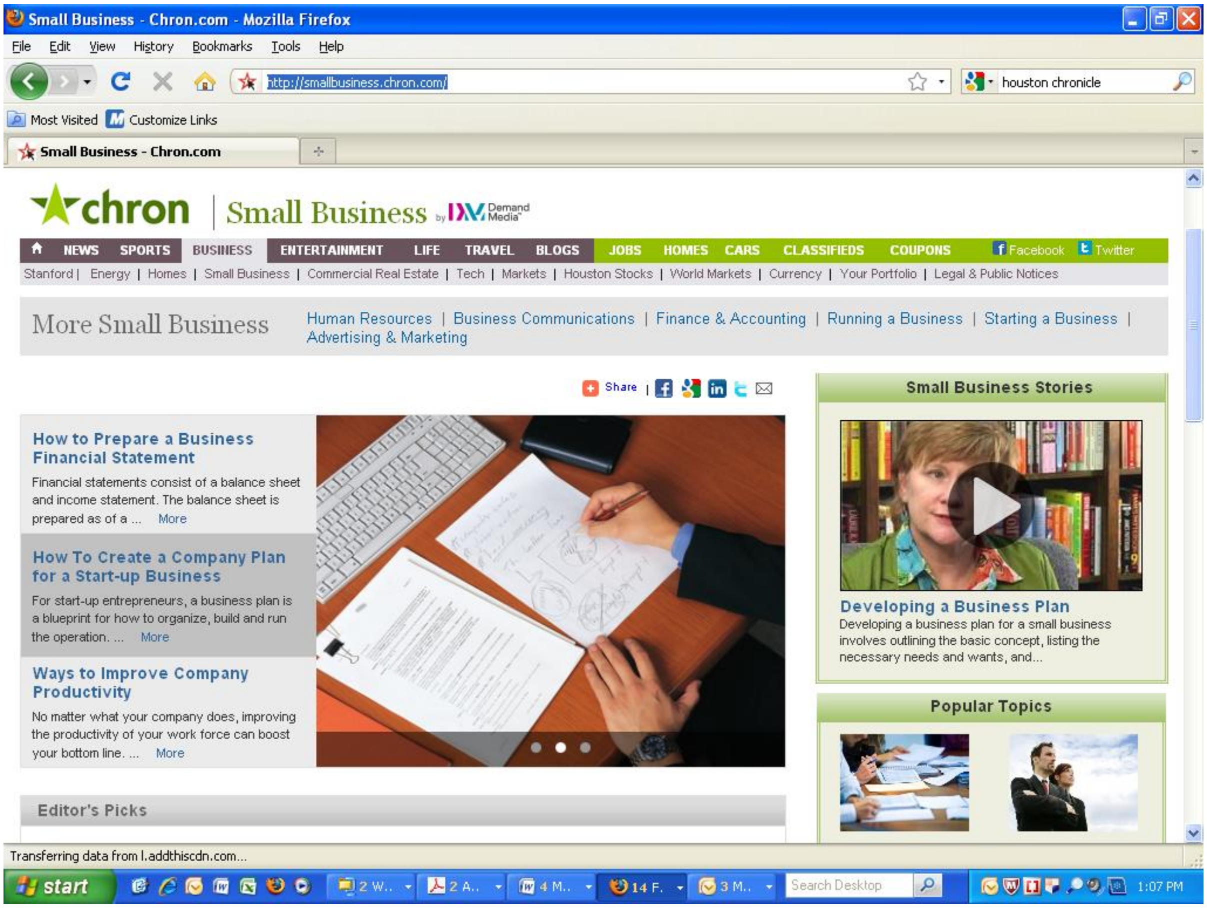
Source: Demand Media Inc., SEC 10-k filing, March 1, 2011 via OneSource database, accessed March 25, 2011.

Exhibit 3 Screenshots of *USA Today's* Online Travel Tips Section and *Houston Chronicle's* Small Business Section



Source: www.demandmedia.com.

Exhibit 3 (continued)



Source: http://smallbusiness.chron.com/.

Exhibit 4 Unique Monthly Visitors to eHow and Competitor Sites (thousands)

	Oct 2008	Oct 2009	Oct 2010
Ask.com (InterActive Corp.)	30,640	45,231	80,200
About.com (NYT)	41,460	49,703	49,074
Answers.com (Answers Corp.)	22,684	32,659	38,190
eHow.com (Demand Media)	12,724	26,567	35,880
Hubpages	3,621	6,709	12,391
Associated Content (Yahoo!)	7,740	11,043	12,307
Squidoo	4,123	5,925	8,805
Suite101.com (Hubert Burda Media)	4,359	8,701	7,871
Examiner.com (Clarity Media)	1,609	6,389	7,577
WikiHow	4,830	6,418	7,574
Mahalo	1,687	4,001	5,081

Source: Compete.com.

Exhibit 5 Monthly Page Views to eHow and Competitor Sites (thousands)

	Oct 2008	Oct 2009	Oct 2010
Ask.com (InterActive Corp.)	579,059	718,526	927,161
About.com (NYT)	313,591	347,736	365,512
Answers.com (Answers Corp.)	100,494	150,187	185,441
eHow.com (Demand Media)	40,631	148,863	127,635
Associated Content (Yahoo!)	n/a	62,584	56,559
Examiner.com	5,387	29,618	44,026
Hubpages	14,369	24,437	43,357
Squidoo	34,163	32,501	38,642
Suite101.com (Hubert Burda Media)	12,750	24,402	31,207
WikiHow	17,839	19,658	18,632
Mahalo	9,526	10,158	11,398
Seed.com (AOL)	1	0.7	79

Source: Compete.com.

Endnotes

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