

# ON-LINE MINISTRIES AND OTHER INTERACTIVE FEVERS

**Our regular money management columnists examine the content side of interactive television and outline the players in the Avalon Content Provider Index.**

By Clara Basile and Ellen Ullman

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In San Francisco, there is to be a preview of interactive TV performance art. In the ad for the show, a man is punching entries into a remote control device, while behind him is a large television screen, glass front broken into shards, still somehow showing the words, "5000 channels, in my hand."

In the newspaper, Mike Doonesbury has all but abandoned his bed. Lately, he has opted for the late night pleasures of vaguely illegal hacking and nearly-extramarital trysts on the Internet. Meanwhile, in the investment world, we see the birth of two new mutual funds for interactive communications. This week brings the New Age Media Fund. Next week it's the New Millennium Technology Series. And PBS, last bastion of non-commercial television, is planning, yes, a home shopping channel. What we have on our hands, it seems, is a frenzy.

When investment themes cross over into the funnies, it is a sure sign of fever. From Doonesbury to the boardrooms of telecommunications giants, we see the same compulsion: interactivity. In these fevered situations, our approach is to stop, take our temperature, and get as much information as we can about our condition. As we did in the August issue, when we looked at the infrastructure behind interactive television, we decided to take another deliberate look at this vast consumer computing project currently coming into being. We went back to our illustration of the public client/server network (Figure 1), and we drew a circle around the "digitized programming storage." This is the content side of the interactive equation -- the movies, television programs, publications, and software that will make the whole interactive enterprise possible. This is the stuff consumers are supposed to interact *with*.

We could write entire publications about each label on Figure 1. Whole tracts could barely cover the issues involved in cable, digitized switches, set-top boxes, consumer electronics, and service providers. But we decided to concentrate, for now, solely on the content providers. After all, this one element is frenzied enough on its own. The recent Viacom/QVC battle for Paramount illustrates the kind of stakes involved in acquiring rights to content. Billions of dollars are being promised, pooled, offered, counter-offered, and dealt for one overriding purpose: to get rights to some movies.

Over the long term, companies participating in interactivity will try to combine delivery services (cable), consumer electronics (set-top boxes and game gear), enabling software (repackaging the content for interactive access) and the content itself -- all under one company's control. That is what is behind all the recent deal making. Already, there are working prototypes of the sort of combined interactive service companies that may result after all the mergers and acquisitions have gone through. For example, GTE's Main Street product includes the set-top box and the programming. Interactive Network combines game-playing gear with the programming support for news, game shows, and sports. For now, however, most content providers are still independent companies, free to sell their rights to delivery companies and content repackagers that include cable companies, phone companies and on-line services such as America Online, CompuServe, and Prodigy. It is these independent content providers that we examine this month.

## **Avalon Content Provider Index**

To look at the content side of the consumer computing project, we constructed an index of 143

publicly traded companies that provide, or potentially could provide, interactive content (see p. 77). The list is not intended to be exhaustive -- the index could hold several hundred companies. We include several cable companies that, for now, are simply service providers, not content owners; but the rate of deal-making in the cable industry is such that we did not feel we should differentiate among the cable companies. Overall, we chose companies that represent the range of interactive consumer applications likely to evolve over the next five years. In addition, we looked at publicly traded advertising issues. Advertising has not been considered a part of technology investing, but, as we enter the age of consumer computing, advertising must play a role, although no one is sure exactly what that role will be.

What we found in the index was a very high fever indeed. Stock prices for the companies in Avalon Content Provider Index have increased nearly 52% since we began charting interactive mania last May (Figure 2 on p.76). Meanwhile, the S&P 500 rose less than 7%. Gains have been broadly diversified across categories, but the greatest advances, and the greatest speculation, have been in the obvious beneficiaries -- cable, home shopping, broadcast TV and motion pictures. The overall gain in cable, for example, was an astounding 140%, but the speculative fever is even more apparent when you consider some individual issues. Silver King Communications went from \$3.75 to \$18.75. Sky Link America, a provider of movies-on-demand to hotels, has advanced nearly an order of magnitude, from eighty-one *cents* to eight *dollars*.

The overwhelming growth in consumer-computing stocks is fueling the generation-long secular uptrend in technology. Capital is flowing into all categories in the Index at a much faster rate than into the overall market. And our measure of negative sentiment (an indicator we discussed in the September issue) gives very low readings, indicating that there are no unloved bargains here. On the contrary, the cable and motion picture stocks have reached the rarefied status of 0-10 sentiment readings, about as adored as stocks can be. Our research tells us that issues this well loved have a high potential for future gains, but at the risk of great volatility along the way.

In this go-go situation, how is an investor to proceed? Overall, the concept of interactivity and consumer computing is still in its infancy. As it was put by Tim Barwick, manager of product development at America Online, many new deals remain to be made, each one unique because "we are birthing an industry." If an investor is determined to participate in this birthing phase, he or she has to understand the overall framework, the application areas already flying high, and those that are still emerging.

### **Consumer Computing Applications**

Movies and television programs are the obvious choices for consumer computing. It is a short leap from movie rentals at the video store to movies-on-demand and programs-on-demand over an interactive cable system. The business model already exists. All that is needed is a change in technology, from sneaker net (walking to the video store) to interactive network (pushing a button or two on the set-top box). And the renter gets the immediate benefit of not having to wind the tape or get it back to the store on time. Because movies and television are candidates for the earliest application of interactivity, the stocks of the companies involved have already soared. There will be inevitable corrections in high-fliers like New Line Cinema, an opportunity for investors to buy.

Home shopping is another obvious part of the interactive enterprise. Like movie rentals, it has proven itself in an older medium -- cable casting, with the telephone used as an interactive auxiliary. All that is needed for home shopping to get started as an interactive project is the marriage of the phone call to the program. As the technology evolves, buyers may be able to upload their images and proportions and "try on" merchandise, or send in a floor plan of their homes to "see" how a new sofa looks in the room. But the initial outline of the interactivity is already in place, no matter how it plays out in new technologies.

In our research, we see great strength in the home shopping/mail order stocks. There is no sign of distribution, no indication that investors are beginning to sell. Mail order companies such as Spiegel, Williams-Sonoma, and Lands End show rapid growth despite slow overall growth in consumer spending.

Computerized games are also candidates for early interactive applications. Again, the model is already in place. Users have been playing interactive games using phone lines, first through simple "chat modes" using simple communication software such as Procomm, later over on-line services such as Sierra Network and Prodigy. Like movies-on-demand and home shopping, we are initially looking at a shift in technology, not an immediately new application. Game stocks, like Electronic Arts, are already very expensive, and an investor should consider waiting for corrections before buying.

The rest of our content provider applications range from somewhat speculative to imaginative. Publishers are now involved in on-line services, offering news services on America Online, CompuServe, and Prodigy, but such projects have been minimally interactive, limited to performing very simple topic searches. Eventually, we can imagine vast on-line libraries with tireless computerized researchers helping students and business search through tremendous volumes of data in newspapers, periodicals and books.

Our list of content providers goes on to include Bible publishers -- and why not? If there are drive-in ministries and TV ministries, why won't there be on-line ministries? And why not on-line Bible studies? (Between the time we researched this article in mid-October and its time of publication, on-line evangelism actually came into being. Billy Graham held a one-hour interactive session on America Online.) We even added one provider of greeting cards, American Greetings. A poem on a card is copyrighted content, after all. We can envision a time when, on your mother's birthday, you call up a greeting card program, compose a card out of available text and graphics, add your mother's name and address, and, when some prompt asks, "Send now?" you hit the Y key and off the card goes, either to your mother's on-line address or, should she be old-fashioned, through the mail.

Figure 2	
<b>Avalon Content Provider Categories</b>	
<b>Percentage Change 5/15/93-10/15/93</b>	
Cable Companies	139.46%
Mail Order/ Home Shopping	72.88%
<b>Avalon Content Provider Index</b>	<b>51.99%</b>
Broadcasting/TV	45.86%
Motion Pictures/Services	41.53%
Software: Games, Ed, Finance	29.54%
<i>THE REDHERRING Tech 200</i>	24.03%
Publishing	18.56%
Advertising	10.00%
<b>S&amp;P 500</b>	<b>6.81%</b>

### **The Backlist Comes Back**

Publishing is an industry that is being revitalized by its participation in the new concept of interactivity. These stocks have not been stellar performers in the past. They have not been imbued with the sexy glow of technology. Now, however, yesterday's copy of the *Times* and the backlists at book publishers are suddenly high tech goods, electronic inventories that can be sold

over and over again. From merely old material, these books, newspapers, and magazines become resources -- databases that can be licensed for access over interactive services. Because extensive interactive publishing applications have not yet emerged, we see the lowest risk investment opportunities here. Capital is just beginning to flow into these stocks; issues that have been dormant are undergoing a metamorphosis. Companies like Dun and Bradstreet, McGraw-Hill, and Knight-Ridder look particularly interesting as companies showing new life due to their participation in interactivity.

The list of possible applications goes on and on: on-line tax preparation (an interactive H&R Block), symphonies on demand (CD quality music on request), virtual travel services ("see" your hotel room before you make a reservation). Virtually anything on paper, on screen, or that occurs on the phone is a candidate for an interactive application.

The biggest question mark in our Avalon Content Provider Index is the advertising category. How will advertising fit into interactive applications? Broadcast television has not been an entertainment medium but a forum for advertising. Without all those commercials, how will interactive applications make money, and how will advertisers make money? We may see the continued convergence of advertising and programming, resulting in some awful hybrid infomercial medium. Perhaps entertainment programs will become wall-to-wall product placements, where advertising is embedded in the program, not shown in pieces surrounding it. Programming for interactive applications could become something like children's programming: an excuse for selling a toy.

In general, a new business plan must emerge for revenue generation in the interactive consumer computing arena. The experience of Prodigy should be cautionary. The IBM/Sears on-line service has not been successful, and many observers believe the reason is the incessant advertising, every Prodigy screen an excuse for a commercial. The appeal of interactivity to the consumer is control - a medium that responds to *my* wishes. It is hard to imagine how advertising, the traditional revenue generator, fits into the me-ism of consumer interactive applications.

On the content provider side, interactivity brings a new business model to existing industries. In some cases, like advertising, it will mean some dislocations. In others, like publishing, mail order, and broadcasting, interactivity will mean new life and growth. For still others, like computer software, the possibilities continue to unfold; we are just beginning to imagine what consumer-oriented computing will look like. We are witnessing an industry coming into existence. The goal for the investor is to ignore the frenzy and get educated.

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## Avalon Content Provider Index

(publicly traded companies)

<p><b>Advertising:</b> Advo Inc (AD) Foote, Cone &amp; Belding Communications Inc. (FCB) Heritage Media Corp (HTG)</p>	<p>Tribune Co. (TRB) Washington Post Co. (WPO) <b>Information Services:</b> Dun &amp; Bradstreet (DNR)</p>	<p>Liberty Media Corp. (LBTYA) People's Choice TV Corp (PCTV)</p>
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<p>Interpublic Group Cos. Inc. (IPG)  Omnicom Group (OMC)  Saatchi &amp; Saatchi PLC (SAA)  WPP Group PLC (WPPGY)  <b>Broadcasting /Television:</b>  Ackerly Communications (AK)  A.H. Belo Corp. (BLC)  BHC Communications Inc. (BHC)  Capital Cities/ABC Inc. (CCB)  Carlton Communications (CCTVY)  CBS Inc. (CBS)  Chris-Craft Industries Inc. (CCN)  Clear Channel Communications (CCU)  Cogeco Inc. (CGO.TO)  Granite Broadcasting (GBTVK)  International Cablecasting Technology (TUNE)  Jacor Communications (JCOR)  Lin Broadcasting Corp. (LINB)  Meredith Corp (MDP)  Multimedia Inc. (MMEDC)  NBC (owned by GE)  NTN Communications Inc. (NTN)  Outlet Communications (OCOMA)  Park Communications (PARC)  Price Communications (PR)  Scandinavian Broadcasting (SBTVF)  Silver King Communications (SKTV)  Turner Broadcast Systems (TBSB)  United Television Inc. (UTVI)  <b>Publishing</b>  <b>Periodicals:</b>  American City Business Journals Inc. (AMBJ)  Enquirer/Star Group (ENQ)  Marvel Entertainment Group (MRV)  Reader's Digest Assn. Inc. (RDA)  Time Warner Inc. (TWX)  <b>Newsnaners:</b></p>	<p>Gartner Group (GART)  Information America Inc. (INFO)  Reuters Holding PLC (RTRSY)  <b>Books:</b>  Franklin Electronic Publishing (FPUB)  Houghton Mifflin Co. (HTN)  Intervisual Book Inc. (IVBK)  McGraw Hill Inc. (MHP)  Nelson Thomas Inc. (TNEL)  Plenum Publishing (PLEN)  Scholastic Corp. (SCHL)  Stek-Vaughn Publishing Corp. (STEK)  Waverly Inc. (WAVR)  Western Publishing (WPGI)  And, our greeting card company:  American Greetings Corp. (AGREA)  <b>Motion Pictures/Services:</b>  Blockbuster Entertainment (BV)  Capitol Multimedia Inc. (CDIM)  Carolco Pictures Inc.(CRC)  Dick Clark Productions (DCPI)  Walt Disney Co. (DIS)  Gaylord Entertainment Co. (GET)  King World Productions Inc. (KWP)  Lancit Media Productions Ltd. (LNCT)  Live Entertainment (LVE)  Matsushita Electric Industries (MC)  New Line Cinema Corp. (NLN)  Orion Pictures Corp. (ORPC)  Paramount Communications Inc.(PCI)  Polygram NV (PLG)  Samuel Goldwyn (SG)  Savoy Pictures Entertainment Inc. (SPEI)  Sony Corp. (SNE)  Spelling Entertainment Group (SP)  Trimark Holdings (TRMK)  Westcott Communications (WCTV)  <b>Cable Companies : Services &amp; Content Ownership Rights</b>  ACS Enterprises Inc. (ACSE)  Adelphia Communications (ADLAC)  BET Holdings Inc. (BTV)  Cablevison Systems Corp. (CVC)  Century Communications (CTY)  Comcast Corp. (CMCSK)  Falcon Cable Systems Co. (FAL)  Future Communications Inc.(FCMI)  International Family Entertainment Inc.(FAM)  Jones Intercable Inc.(JOINA)</p>	<p>Preferred Entertainment Inc.(PREF)  Rogers Communication Inc.(RCIB.TO)  Shaw Communications Inc. (SCLB.TO)  Skylink America Inc. (SKAI)  TCA Cable TV Inc.(TCAT)  Tele Communications Inc. (TCOMA)  Viacom Inc. (VIA)  Videotron Groupe (VDO.TO)  <b>Computer Software Games and Educational:</b>  Absolute Entertainment (ABSO)  Acclaim Entertainment Inc. (AKLM)  Broderbund Software Inc.(BROD)  Davidson &amp; Associates Inc. (DAVD)  Education Alternative (EAIN)  Edunetics Ltd. (EDNTF)  Edusoft Ltd. (EDUSF)  Electronic Arts (ERTS)  Hasbro (HAS)  Jostens Inc. (JOS)  Learning Company (LRNG)  Microprose (MPRS)  Microsoft Corp. (MSFT)  Sandy Corp. (SDY)  Sierra On Line Inc.(SIER)  Software Toolworks Inc. (TWRX)  TRO Learning Co. Inc. (TUTR)  <b>Personal &amp; Small Business Financial:</b>  Chipsoft Inc. (CSFT)  H&amp;R Block (HRB)  Intuit Inc.(INTU)  <b>Mail Order/Home Shopping:</b>  CML Group (CML)  CUC International Inc.(CU)  Damark International Inc.(DMRK)  Fingerhut Companies Inc. (FHT)</p>
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<p>Dow Jones &amp; Co. (DJ)  Gannett Co. (GCI)  Knight Ridder Inc. (KRI)  Lee Enterprises Inc. (LEE)  McClatchy Newspapers Inc. (MNI)  Media General Inc. (MEGA)  New York Times Co. (NYTA)  News Ltd. (NWS)  Pulitzer Publishing Co. (PTZ)  E.W. Scripps Co. (SSP)  Southam Inc. (STM.TO)  Times Mirror Co. (TMC)</p>		<p>Hanover Direct (HNV)  Home Shopping Network Inc. (HSN)  Inmac Corp. (INMC)  Lands End Inc. (LE)  Micro Warehouse Inc. (MWHS)  QVC Network Inc. (QVCN)  Regal Communications Corp. (RCOM)  Sharper Image Corp. (SHRP)  Spiegel Inc. (SPGLA)  Sports Supply Group Inc. (GYM)  Stanhope Inc. (STH)  Tiffany (TIF)  Value Vision International Inc. (VVTVA)  Williams-Sonoma Inc. (</p>
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