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MARKETPLACE

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New PCs Say, 'Let Me Entertain You,' and Sales Get Unexpected Lift

By GARY McWILLIAMS
Staff Reporter of THE WALL STREET JOURNAL

Home-computer sales are staging an unexpected surge, and one big reason is a major shift in how consumers are using them: as stereos, recording studios, high-tech photo albums and other kinds of entertainment centers.

PC makers, who have tried vainly for years to promote their machines as alternatives to television and game players, are now racing to feed the growing new market for entertainment applications.

Dell Computer Corp., Gateway Inc. and Packard Bell NEC Inc. are all tapping into growing interest in digital music with systems designed as recording studios. Packard Bell NEC's offering comes with software for downloading and organizing MP3 music files from the Web, and a

video centered on leisure activities. One package includes a tie-in with eBay Inc. that will include a PC, digital camera and links to create Internet auction pages.

"People used to say, 'It's for the kids' education,'" says Michael J. Larson, Compaq senior vice president for consumer products. Now, he says, "it's not so bad anymore to say you're doing a lot of things that are a little more entertainment-focused."

U.S. unit sales of home PCs are expected to surge 37% this year to 15.8 million machines, says market researcher International Data Corp. The projections exceed even the peak sales that followed the release of Microsoft's Windows 95 software. IDC attributes the growth to falling prices, and rebates tied to Internet service contracts, as well as the boom in entertainment applications.

The latest IDC numbers "show a totally unexpected surge in U.S. home PC buyers," says analyst Roger Kay.

Behind the trend are PC buyers like Bill Conroy, a financial analyst. He has a new Dell model that doubles as the entertainment system in his Houston home. With five speakers, he says, "this is the kind of sound system that when we have people over, I'm not embarrassed to use it for music."

Dianne Scudder of Lakeside, Calif., who has a home-based business geared to cat owners, recently cajoled her husband into buying a souped-up Gateway PC because their old machine wasn't powerful enough to run jukebox software.

"I couldn't tell him I needed it to play music," Ms. Scudder says. "I complained about it so much, he gave in," she says with a laugh.
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On the Web, Gay Sites Start to Click

Some Are Drawing Investors, But a Question Remains: Can They Go Public?

By DAVID BANK

Staff Reporter of THE WALL STREET JOURNAL


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Monday, September 27, 1999

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Who's Who

Gay.com

The flagship site of Online Partners Inc., which also controls Gay.net and OnO. Gay.com was started almost accidentally as a way to test chat software from another Web startup. Now it boasts one of the largest audiences of any gay Web site. Much of the chat traffic is from people seeking dates, which commands lower advertising rates than, say, travel

Breakfast King Agrees to Sell Bagel Business

By ROBERT BERNER

Staff Reporter of THE WALL STREET JOURNAL

At one time, it seemed bagels might help lift Kellogg Co.'s declining share of the breakfast market. That hope just got toasted. Three years after Kellogg paid \$466 million for Lender's Bagels, it agreed to sell the unit for \$275 million and to take a \$170 million charge. The idea

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Can a gay company stage a successful initial public offering on Wall Street?

Demographics aren't an issue. By most accounts, gays and lesbians as a group have higher-than-average disposable income, are more likely to go online and, once there, are more likely to buy stuff.

The sites' business model and the scope of their ambitions don't appear to raise red flags, either. Money is flooding into other "affinity portals," the name given to online collections of chat rooms, news, travel, finance, entertainment—and, of course, shopping and advertising—aimed at nearly every ethnic- and gender-based slice of the population.

But no matter how successful the Web's identity-based businesses are, venture capitalists remain concerned they might not recoup an investment made in a gay Web company. In these Web-crazed days, that concern might seem almost silly, if it weren't for this fact: No gay-based company of any kind in the U.S. has successfully offered shares to the public. It was only last week that an Australian newspaper and real estate company, the Satellite Group, staged what appears to be the world's first "gay IPO."

Charlie Walker, a managing partner at Hambrecht & Quist, a San Francisco investment bank, says he has fielded inquiries from concerned investors. H&Q's view, he says, is: "An openly gay-oriented company can absolutely go public." Still, he says, "you have venture capitalists openly questioning whether a gay company can go public, which tells you there are some residual concerns."

As recently as 1994, the inclusion of a gay area among the first half-dozen "communities" on the GeoCities Web site made it more difficult to raise venture financing, says David Bohnett, the founder of GeoCities, now a unit of Yahoo! Inc. Mr. Bohnett is an investor and board member in Online Partners Inc., which runs Gay.com, one of the most highly trafficked of the gay Web sites.

Only with reassurances is the market beginning to open up. Today, PlanetOut Corp. is expected to announce it has secured nearly \$16.5 million in private financing, giving the company a valuation of more than \$60 million. As recently as the spring, the company had expected a valuation of only around \$20 million. It nearly missed payroll at Thanksgiving. PlanetOut's chairman, Tom Rielly, referring to the popular and well-funded site aimed at women, exults, "We're the iVillage for homos!"

PlanetOut itself had a rocky history. In

PlanetOut

A quirky, content-rich site that runs its own news, movie guide, radio station, travel service and a host of other features, including an advice column hosted by Betty DeGeneres, Ellen's mom. The site has attracted 280,000 members on a shoestring budget. With a new infusion of venture money and management talent, the site has ambitions to become a national gay brand, both online and off.

Gay Financial Network

Aimed at a highly attractive demographic group — gay and lesbian investors — with gay-friendly advice on personal finance, insurance, real estate and careers. Recently allied with Out magazine, the major national magazine, to launch a general interest portal. Founded by Walter Schubert, the first openly gay member of the New York Stock Exchange.

1996, Sequoia Capital, a leading Silicon Valley venture firm, invested \$3 million in the company, only to withdraw its money a few months later following a divisive internal dispute at the company.

The main issue: whether the Web site would explicitly serve "transgendered" people as well as gays and lesbians, even at the risk of

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The site has alliances with the Advocate, the oldest gay magazine, and a number of local gay papers.

GayWired

A garage startup that has steered clear of outside investors, GayWired has staked out an enviable position in gay e-commerce by linking gay small businesses around the country. As the founders court investors and national advertisers, they're ready to ditch the links to erotica, which account for about one-fifth of the site's traffic.

scaring advertisers. The more inclusive approach carried the day, one of the factors that prompted several executives to join Sequoia in walking away. A Sequoia official declined to comment.

"A portal that deals with gay and lesbian lifestyles is controversial in a way that America Please Turn to Page B6, Column 6

Gay Internet Sites Finally Win Notice From Web Investors

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zon.com is not controversial," says Allen Morgan, a general partner at Mayfield Fund in Menlo Park, Calif. It is investing about \$7.5 million in PlanetOut. "But Mayfield is not doing this because we like to take positions on social issues. We think this is a good business."

Indeed, the gay community has recently gained access to a level of financing it hadn't been able to tap in the past when it relied solely on small-business owners, struggling print publishers and philanthropists.

"It's an incredible achievement for gays and lesbians, and for the capital markets," says Lowell Selvin, Online Partners' chief executive. "For the first time, they can leverage the gay market." Mr. Selvin says he is close to closing a financing deal for the Gay.com network.

Business is good because mainstream marketers of airline tickets, automobiles, credit cards and other goods are increasingly eager to reach the estimated 9.2 million gay and lesbian Internet users worldwide. A study by Computer Economics Inc., a Carlsbad, Calif., market research firm, found gay people on average spend more money online than the general population. "When you look at the returns, it's a niche that's been ignored," says Michael Erbschloe, the study's author.

The Web may well turn out to be an unusually effective medium for marketing to the gay niche. The two largest national gay publications, Out and the Advocate, have never attracted more than about 120,000 subscribers, in part because many gay people are reluctant to have the magazines delivered to their homes.

By comparison, several of the Web sites attract more than a half-million unique vis-

Gay Web sites post more readers than print media do by appealing to users sometimes called 'openly closeted.'

itors each month. One reason they can post such bigger numbers: They serve a population of gays and lesbians who may be "out" only on the Web—a group some people are now calling the "openly closeted." "It's the first time in history that you can communicate to the community in volume," says PlanetOut's CEO, Megan Smith.

According to the Web's unique economics, Gay Financial Network, or GFN, is targeting a niche within a niche, specifically gay investors and consumers who want gay-friendly advice on financial and legal matters, such as how to structure a deed to protect one partner if the other dies.

"For a Chase Manhattan, one of our members is worth one hundred times a member of one of the general-interest gay sites, because they know the customer wants financial products," says GFN's president, Jeffrey Newman. He says the company is more like other financial Web sites than other gay sites. "We're kind of a gay Street.com."

But as the market consolidates, Mr. Newman is covering all bets: He recently became chief executive in Out magazine's newly revived Web site, Out.com. (An earlier effort was closed in 1996 for lack of advertising.) GFN has a small stake in Out.com, which will compete directly with the other gay sites.

The sites may appeal beyond gay users. "In San Francisco, the gay community seems to set the cultural trends," says Brewster Kahle, chief executive of Amazon.com Inc.'s Alexa Internet unit. He and other "angel" investors including Nicholas Negroponte of MIT's Media Lab and Rob Glaser of RealNetworks Inc., along with American Online Inc. and Eden Capital of London, have invested in PlanetOut.