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CHAPTER 14 Advertising: The Art of Attracting an Audience

Yahoo! and Pepsi: "Fusion Marketing" in Prime Time

The portal's innovative hybrid online-offline approach to advertising will get a big test on Super Bowl Sunday

by Stefani Eads in New York

The slot most coveted by advertisers this Super Bowl Sunday isn't during the pregame show, or right before the start of the celebrity-studded half-time extravaganza. It won't be during the game at all. This year, the crème-de-la-crème of TV commercial positioning will be those precious three minutes between the end of the National Football League's championship game on CBS and the beginning of the network's second *Survivor* series: *The Australian Outback*.

What better time to make lasting a impression on consumers, than between the Super Bowl and a TV phenomenon like *Survivor*? Small wonder advertisers are salivating. And as one of the lucky few to obtain one of the slots, PepsiCo has decided to break the mold. A glitzy new ad? Nope. Pepsi is asking people to name the product ad they have liked most in recent years. The soft-drink company has invited the public to select their favorite from among five spots that premiered during a Super Bowl over the last 15 years.

Remember the 1987 Michael J. Fox campaign where he sneaks out of his 10th-floor kitchen window to fetch a diet Pepsi for the sultry neighbor waiting in his living room? Or the 1991 Cindy Crawford sketch that introduced a new can design? Until midnight Jan. 27, viewers can log onto www.pepsi.yahoo.com and vote for their favorite. Registered Yahoo members who log on can also enter a sweepstakes to be one of 100 winners of $2,001.

BANKABLE MODEL? By Jan. 25, pepsi.yahoo.com had clocked more than 76,000 votes, and the Cindy Crawford spot had the lead as the favorite ad of the Pepsi Generation. Pepsi is promoting the vote as a way to celebrate 15 years of Super Bowl advertising. Yahoo! gets a plug, too. To be sure, 76,000 visitors for a Web promotion is small change for an event that usually attracts 100 million TV viewers.

But what makes this collaboration interesting is that it represents an integrated marketing strategy that eventually will become the norm in advertising, marketing experts say. And the Yahoo! "fusion marketing" program that's fueling the campaign looks to many to be the kind of bankable online advertising business model that Web sites have been searching.

By encouraging consumers to think Pepsi and Super Bowl ad a week before kick-off, the drinkmaker is trying to both boost brand awareness and refresh Pepsi's image in consumers' minds. Plus, the company saves money by recycling an old ad, builds up the perception that Pepsi is Web-savvy, and gives viewers an incentive to be on the lookout for its ad rather than rivals in the other primo slots.

Yahoo! also wins. It gets to add to a database that already contains 180 million users' aggregate information. Since July, 1999, when Yahoo! officially launched the fusion marketing concept, the company has created some 90 different marketing products. "In general, traditional advertisers have been slow to adopt Net marketing," says Murray Gaylord, director of Yahoo! fusion marketing. "We show them how they can benefit by integrating their online programs with their offline efforts."

THE RIGHT STUFF. Such expertise has made the portal very valuable to its 3,500 advertisers, 90% of which use more than one Yahoo! service. The company's first collaboration with Pepsi was in late 2000, in what Gaylord calls "[Pepsi's] most successful promotional campaign ever." Piggybacking on a 1997 campaign where labels from the inside of bottle caps were mailed in for a catalog of redeemable Pepsi-branded items, the most recent Pepsi Stuff promotion featured caps with codes that could be redeemed for points online. Those, in turn, bought music downloads, CDs, video rentals, and other entertainment-related premiums.

From August to December of 2000, the Pepsi Stuff site registered 3 million users, two-thirds of them in the company's core target market of 13- to 34-year-olds. "Pepsi's sales volume increased 5% compared to the same time period last year, and site maintenance was much less expensive than printing 16 million four-color, 12-page catalogs," Gaylord says.

Long before the online advertising market took a hit from the wave of dot-com dropouts, Yahoo! was looking for a way to unlock the value of its data and lure big-name traditional advertisers to the Web. Value

Lab, Yahoo!'s ad think tank, focuses on Net marketing's macro issues, Gaylord says, such as branding and the value of click-through as an end-all metric.

Yahoo! then takes a harder look at consumer behavior, tracking and analyzing online data to better determine the overall (online and offline) effectiveness of a campaign and how consumers engage with a brand. "Branding is the accumulation of many, many touch points," Gaylord says. "Fusion marketing was not a reaction to the current downturn in online advertising."

JITTERY INVESTORS. For Yahoo, fusion marketing is the future. The ad slump and growing roster of dot-com deceased have been making many analysts nervous about Yahoo!'s prospects of late. The company depends too heavily on ad revenues, most of them from ailing dot-coms, to weather the usual first-quarter downturn in ad sales, is the consensus view. ABN Amro cut its estimates for Yahoo! twice during the week of Jan. 8 and now predicts a measly 5.4% revenue growth for fiscal 2001.

On Jan. 11, Yahoo! posted a fourth-quarter profit of $80.2 million on sales of $310.8 million, in line with estimates. But it says earnings for fiscal year 2001 would only top $1.2 billion to $1.3 billion, rather than the previous estimate of $1.42 billion. Executives also say they expect a 2001 per-share profit of 33 cents to 43 cents, well below the analyst consensus of 57 cents.

Yahoo! stock, which is currently trading at around $43 per share, has taken a beating, tumbling from its 52-week high of $206. The price is right, some analysts say, for investors with a long-term outlook. "The Yahoo! business model is viable and scalable over the long term," says Bear Stearns analyst Jeff Fieler. "That's why I didn't downgrade the stock. Anything under $40 a share is good to buy and hold onto."

DESIRABLE "RECIPE." And it's the nascent success of Yahoo!'s premium services such as fusion marketing, Fieler says, that leads him to believe that "the inherent value in Yahoo! lies in its yet-to-be-monetized global platform." He cites a recent report by advertising outfit Omnicom that says offline advertisers will continue to increase their online budgets "dramatically" in 2001 despite lackluster growth of their overall ad spending.

Fieler calls Yahoo!'s fusion marketing approach "the recipe that major advertisers desire" and adds: "This momentum, plus the growth of online advertising as part of total global advertising spending to 20%, from 1.5% over the next two decades, makes the company a very good long-term prospect."

Goldman Sachs' Michael Parekh reduced his 2000 revenue estimate for Yahoo! to $1.24 billion and says earnings this year will be flat, well below his previous 2001 estimate of $1.46 billion. "But the current Yahoo! period is very reminiscent of the crisis AOL had a few years back as it began its transition from metered to unlimited access at the end of 1996," he writes in his most recent research report. "While there was near-term pain for the first half, the power of the model prevailed" and the shares followed.

NOT GOOD ENOUGH? Parekh is now predicting that a 30% first-quarter dip in revenues will be followed by increases of 16%, 16%, and 30% over the following three quarters, respectively. But Parekh says Yahoo! has a lot going for it, not least of which is its focus on fusion, results-oriented marketing.

Still, it's not enough for some analysts. "Yahoo! is an overvalued, poorly diversified media company," contends Arthur Newman, an ABN Amro new-media analyst who slashed his rating to reduce, from hold. "The advertising customer base, especially among the top 20, is not as diversified as the company seems to indicate. The company should be appropriately valued in the teens." No matter how strong Yahoo!'s fusion marketing initiative, he says, the portal won't be able to match the multimedia strength and cross-leverage opportunities of AOL Time Warner or Disney.

Other critics say Yahoo! delivers an audience too general to be of any value to niche-oriented advertisers willing to pay top dollar for hard-to-reach customers. But it's the portal's general appeal, Gaylord argues, that allows it to accumulate so much data and then analyze it for diverse marketing segments. "Online advertising is still in its infancy," Gaylord says. "But we're convinced that the Net will be used more and more as an integrated part of marketing."

Neither Yahoo! nor Pepsi will discuss pricing of the marketing services. But it won't be the number of votes or new Yahoo! registrations that determine the promotion's effectiveness for Pepsi. "This just gives Pepsi's [Super Bowl] ad buy an extra dimension," Gaylord says. It's a dimension he hopes someday will fundamentally change how marketers use media to get customers' attention.
