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## Demand Media's Inside-Out Path to Clicks

***Rather than using editors to tell readers what's important, Richard Rosenblatt's latest social media venture finds out what consumers want and gives it to them***

By Ronald Grover

Nearly every print media company is struggling to find the right business model in a world where ad revenue is rapidly evaporating and readers are flocking to the Web at an alarming rate. (Full disclosure: Our parent company, McGraw-Hill (MHP), is evaluating "strategic options" for *BusinessWeek*.) But one serial entrepreneur seems to have found a successful model in an industry badly in need of one. Unfortunately for a lot of hardcore journalists, it may not be the one they envisioned when they were starting out as cub reporters.

[Demand Media](#) is a three-year-old company started by Richard Rosenblatt, who launched the e-commerce site iMall in 1999 and is most famous for his stint as CEO of MySpace's parent company—and for priming the social network for sale to News Corp. (NWS) in 2005. As the name of his new company implies, Rosenblatt has turned the traditional journalism model inside out. Instead of editors telling the reader what's important, Rosenblatt has created a media company that produces only what consumers want—articles on such mundane topics as how to stop a runny nose, or videos on how to skateboard, that are then posted on Web sites his company has created. To make it all work, Rosenblatt uses proprietary software that culls search engines to determine the information people are most often requesting—say, on how to make a great margarita (an article Rosenblatt wrote himself).

This isn't *The New York Times* or *The Wall Street Journal*. Rather, Demand Media competes with the crush of specialized magazines that cater to those interested in articles on healthy living, lifestyle, humor, and sports. The company has a handful of topic-specific sites, such as those on how to improve your golf game or camp in the wild. It also owns how-to Web site eHow.com and science fiction site Mania. The sites are designed for the Internet user who typically bypasses traditional print media to get information through Web searches. Each site also offers social communities. This is Media 2.0 for readers raised on search and social media.

### High Search Rankings

What is unique is the way Rosenblatt defines his editorial mission. After mining for popular terms on search engines like Google (GOOG), Demand Media assigns freelance writers and editors the chore of creating the content. The aim is to deliver articles that have a high likelihood of garnering lots of Web traffic, since users are already eager to learn about the topics. The next time a consumer searches for that subject, the results will include a link directing them to a site where Demand Media has placed the article. For example, an article on how to program a remote for satellite TV's Dish Network (DISH) has generated more than 47,000 page views for eHow.com, the company says. That made it the top-ranked search for "how to program a dish network remote" on Google. Another, on how to find pressure points on the body, was also Google's top-ranked article when the term "muscle knots" was used.

The theory, which appears to be working, is that advertisers will pay to reach readers with specific interests. Think of it as part Google, part Home and Garden.

"I started with my background in social networking, and this is the next iteration of that," says Rosenblatt. "The users tell us the content they want us to provide."

What's so impressive about Rosenblatt's model (or scary, if you're a traditional journalist) is that it costs just about nothing to capture those readers.

Demand Media pays writers \$15 to write the article. It pays a copy editor \$3.50. They have fact checkers, as well, to ensure the overall quality of the article. But reporters and editors really make their money by sharing the revenue from ads that Demand Media sells through third parties. Editors and reporters can make north of \$3,000 a month, according to Demand Media. A video producer, who gets paid as much as \$600 for a video, can make even more. One, who created a short video on how to build muscles, took home more than \$106,000. Another earned \$90,000 for a video on how to tango.

### **More Than 1 Billion Videos Streamed**

So far, the 28.9 million unique users who found the company's collection of Web sites made Demand Media the 25th-largest network of sites in June, ahead of heavyweights like NBC Universal (GE), ESPN (DIS) and Expedia (EXPE), according to rankings by comScore (SCOR). That traffic has lured advertisers such as Ace Hardware and Target (TGT), among others. Demand Media recently signed a deal with Sony (SNE) to stream its self-help videos to Sony's Internet-connected Bravia TV sets. The company says it has delivered more than 1 billion video streams overall to its own sites as well as on YouTube.

"Richard is a thought leader," says Hollywood producer and entrepreneur Peter Guber. Guber is not an investor, but he knows Rosenblatt's business model well. "The best thing is that if an interested person likes one of those articles, he might pass it on to someone else. That word of mouth is reinventing media."

The company is said to be generating more than \$200 million in annual revenues. Rosenblatt, who started Demand Media with \$120 million in equity financing from the likes of venture capitalists Oak Investment Partners and Generation Partners, says it's profitable (although he won't provide financial details). Most of its revenues so far come from articles on its own sites, which also include a health and fitness site called LIVESTRONG, created in alliance with cyclist Lance Armstrong. With venture capital in hand, Rosenblatt went about buying up the pieces he needed to create Demand Media, including ExpertVillage.com, a major creator of how-to videos.

### **A Fine Fit for Google or Yahoo?**

There's plenty of room to grow. Demand Media also owns giant Internet domain wholesaler eNom, which gives it access to more potential sites for which it can create outlets for its articles and videos. The company also has deals to provide content to other media outlets, such as Reuters (TRI) and *USA Today* (GCI), and for which it shares ad revenues.

The articles aren't likely to win Pulitzers. The piece on how to remove muscle knots is actually a list of six steps. Among them: "apply heat," "massage the area," and "stretch the muscle." But it gets traffic, and better yet from Rosenblatt's point of view, each reader clicking on that story gets hit with a short video ad for Vaseline. According to one media investor who has a stake in Rosenblatt's company, that ability to target a narrow readership could make Demand Media a natural fit for a company with giant audiences, like Google or Yahoo! (YHOO), that might be trying to beef up ad sales.

Could this be the future of journalism? I'm sure Rosenblatt doesn't see Demand Media as the second coming of *The Washington Post*. But "it's an interesting new model," writes Geneva Overholser, director of the University of Southern California School of Journalism, in an e-mail. "It will no doubt affect journalism," she also points out, "but we can't protect journalism from innovations like this."

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