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Confidential Business Plan

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Summary of Business Plan

EXECUTIVE SUMMARY OF BUSINESS PLAN

ROMANCE - LOVE - SEX - MARRIAGE AND RELATIONSHIPS...
American business has long understood that people knock the doors down for dignified and effective services that fulfill these most powerful human needs. People everywhere have met partners at bars, at sports fields, at work, from friends and through personal classified advertising. Electric Classifieds, Inc. ("ECI") has identified a significant opportunity to fulfill these needs more effectively and rapidly using the "Information Superhighway."

ECI plans to develop a business marketing personal classified ads with vivid color pictures, high fidelity audio and video. ECI's approach overcomes limitations of dating services, printed ads and 900 numbers. Electronic personal ads will be delivered through existing computer networks to personal computers, enabling better privacy, much higher information content and lower cost.

The market potential is large and growing. Over 50 million Americans are single, widowed or divorced. Half to two-thirds seek a substantial relationship. ECI will target the largest demographic group of singles, those who are 25 - 49 years old, focusing on those who already have on-line access. Upwards of 15 - 20 million Americans may eventually fit the target profile; existing spending patterns suggest these consumers spend $ 200 - $ 300 for each periodic search effort. This $ 3 - 6 billion market more than doubles when international markets are included. Thus, a modest 10% market share would result in $ 300 - 600 million sales in the U.S. alone.

ECI will use proven technology to give a rapidly growing number of potential customers a forum for relationship and companion searching; development cost and time will be moderate. We will rollout direct service and plan to develop alliances with channel partners that can provide large numbers of customers. Key factors for success include building sufficient database size for each geographic and interest area, moving fast to build a first-mover advantage and developing an easy and effective questionnaire and search protocol.

ECI believes the rapid growth of electronic mail and Internet users presents a unique opportunity. The Company has developed a plan to leverage existing communications pipelines and technology to build a $ 50 million company in less than five years. ECI seeks $ 2 million investment capital in several stages. In order to immediately begin product development and

market rollout, ECI seeks $ 300,000 initial financing to develop the product and support market rollout.

LARGE MARKET AND ROBUST DEMOGRAPHICS

Current service providers, target singles and on-line access all show extremely strong growth and untapped potential. Over 50 million Americans are unmarried. The affluent, on-line-friendly target segment of unmarried 25 to 49 year olds spends over $ 472 billion annually in the U.S. economy. Yet, many traditional marketers have avoided this segment, focusing instead on "family-oriented" marketing and product development.

Current market size for personal advertising and dating services is well over $ 3 billion with many segments underserved. Total personals classified advertising and dating service revenues have been growing at about 40% a year. An important but less-discussed segment of the market are gay and lesbian people who are estimated to make up 25% of current market revenue.

The total singles market shows continued growth. According to the U.S. Census Bureau, the number of single Americans has grown 85% since 1970 while the number of married couples have grown only 19%. By the year 2000, some market forecasters believe 50% of the adult population will be single.

Missionary selling of on-line usage has been accomplished for ECI by other parties. On-line usage has exploded. The Internet has at least 20 million active users with up to 50 million electronic mail (e-mail) users. World Wide Web traffic is growing exponentially – doubling almost 12 times a year. E-mail is growing at about 65% per year. This growth includes women, who make up at least one-third of current on-line users.

CURRENT PROBLEMS PROVIDE OPPORTUNITY

ECI has conducted extensive formal research and gathered valuable street-level intelligence from consumers and providers. The market is currently defined by two primary alternatives: Print media personals (with and without 900 number type service for responding) and dating services.

There are several secondary alternatives, such as cable companies and small electronic bulletin board services (BBS). Both the primary and secondary services create significant issues in the areas of privacy, information content, matchmaking effectiveness, cost and responsiveness to consumer convenience and emotional needs.

PRINT MEDIA PERSONALS

No longer just the purview of alternative periodicals, even mainstream daily newspapers such as *The Los Angeles Times*, *San Francisco Chronicle*, *The Boston Globe* and *The Chicago Tribune* find that personal ads can be extremely profitable, contributing as much as 10% of total revenue (with classifieds in general contributing approximately 40% to total revenue). Traditionally, the print media classified ad revenue was based entirely on the sale of the advertising space. A typical ad might be $ 20 to $ 120, depending upon the periodical. Two important new technical capabilities emerged in the 1980's: the use of pay-per-use numbers (900 numbers) and voice mail. In the personals, customers call a 900 number to leave voice mail for the advertiser. The caller pays about $ 2 per minute. Because of the call volume, a typical ad can generate $ 300 per month for the newspaper.

These services have proved popular. The number of newspapers offering voice services expanded from 112 in 1990 to over 2,000 in 1993, not including a growing number of other periodicals offering these services.

A host of problems may arise with print media personals and 900 numbers:

Embarrassment and Lack of Privacy. 900 numbers are billed to a telephone bill. This can be embarrassing as it may reveal a private search to others in the household, to an accountant or business colleagues. 900 numbers are often associated with sex talk lines.

Weak Security. Responding to personal ads usually requires giving up anonymity. Respondents must leave phone numbers to get a call returned. Many people fear the unwelcome suitor. Recent media attention to stalkers has fueled this fire.

Minimal Information Content. Many personal ads, especially free listings, are limited to 30 words or less. It's difficult to describe likes, dislikes, interests, personality and physical attributes with so few words.

Unknown Physical Attractiveness. It is difficult to determine the actual physical attractiveness of a potential partner through a classified ad. Customers often develop an imaginary concept of the person's looks which can easily lead to disappointment.

Lack of Search Capability. Classifieds can not be searched or prioritized quickly. All ads must be read in a time consuming, brute force ad-by-ad search.

Long Cycle Time. The cycle time from deciding to place an ad, having the ad run and then receiving responses can be 4 to 5 days for a daily paper and 1 to 2 weeks for a weekly paper. Monthly periodicals may require a cycle time of several months.

DATING SERVICES

Dating services come in two primary flavors: larger, national chains and franchises, such as Great Expectations™ , Together™ and smaller, more personalized match-makers. The market leader, Great Expectations, claims 200,000 members who pay an initial fee and a recurring monthly fee to their local franchise. Annual fees can total $ 2,000 or more for these video-based match making service.

Small personalized match-makers tend to be one person local operations, functioning in the best "Fiddler on the Roof" tradition. They are often niche players serving a certain religious, cultural or economic group. Non-profit ethnic associations operate some low cost services. Otherwise, fees reach as much as $ 10,000.

Several disadvantages keep many potential customers away from dating services:

High Cost and Up-front Fees. Dating services and matchmakers tend to have large front-end fees. If a service is only used a few times, it can cost as much as if it were used extensively. Total fees are beyond the reach of most prospective customers.

Embarrassment. Dating services require third-party participation. Some customers feel embarrassed to work with the staff time and time again after unsuccessful dating. Some desires can be extremely embarrassing to communicate to matchmakers or dating services.

Long Cycle Time. The cycle from deciding to work with a dating service or matchmaker to actual matches can be weeks or months; both parties must show up in-person at different times and the rate of browsing candidate information is slow.

Inconvenience. While personal classified ads can be placed with a simple phone call, matchmakers and dating services require actual visits. The location may be geographically inconvenient or require significant transportation time.

Limited Outcome and Narrow Focus.. Dating services and matchmakers aim at marriage. Friendships, activities partners, traveling companions, etc., are not usually part of this approach. Due to limitations of this overhead-intensive approach and the personal marketing style, these services specialize in narrow segments.

THE SUPERIOR SOLUTION

ECI can provide superior services to the relationships and companionship market by using e-mail or the Internet to communicate. ECI will collect and organize data through extensive questionnaires and personalized options including using multimedia. Listing yourself will be free. Customers can then search and manipulate the database of candidates according to personal preferences. Over time, ECI expects to amass a very large and diverse database to satisfy many different customer preferences.

Customers can reach ECI in familiar and established ways using their existing service provider or channel. ECI plans to develop channel partners which are close and comfortable to the consumer such as newspapers and cable television companies.

ECI SERVICES WILL SOLVE PRINT MEDIA PROBLEMS

Eliminates Embarrassment and Lack of Privacy. Customers use the service at the location of choice. Billing may be to credit card or other appropriate payment of choice. The information displayed, search criteria and results are private to the customer's computer screen. The use of anonymous electronic mail names protects privacy of customers.

Enhances Security. Anonymous electronic mail address protects real identity and location of customers. In addition, a listing customer can prescribe that their listing not be available to certain people such as co-workers or ex-spouses.

Extensive Information Content. Nearly unlimited information storage and multimedia capability will provide great value to possible matches. In addition to an existing questionnaire with over 150 sections, ECI will allow open, unordered and creative "freetext" and multimedia responses to questions. For example, a listing customer could attach a sample of their favorite music.

Accurate Portrayal of Physical Attractiveness. A visual image or multiple images can show physical attractiveness. A customer could choose to show himself in various favorite activities and clothing to give the viewing customer a stronger sense of personality and physical character.

Real Search Capability. Customers could design many different search strategies from simple browsing within a geographic area to ranked or scored preference screens. The customers would review prioritized listings; time-consuming browsing and hunting would be unnecessary.

Short Cycle Time. Initial response times will be reduced to seconds for Mosaic users on the Internet or minutes for electronic mail users.

ECI SERVICES WILL SOLVE DATING SERVICE PROBLEMS

Reasonable Cost and Incremental Commitment. Information listings will be free. Searching customers will pay-per-use, so the customer can control costs at any increment. A typical one month bill might be under $ 50, a reasonable commitment when compared to dating services.

Eliminates Embarrassment. ECI services will not require third party assistance. Even when assistance is required, the customer may be able to remain anonymous.

Short Cycle Time. Weeks or months can be reduced to hours.

Customer-friendly Convenience. The customer can use ECI from her location of choice, 24 hours a day, anywhere in the world.

Choice of Outcome. Listings and customers can easily specify relationship goals or preferences such as marriage partner, steady date, golf partner or travel companion.

Variety of Customers. ECI will reach adults of all types and ages in the United States and across the globe. ECI will not create limits; customer preferences will determine segments within the database.

Neither personals classifieds nor dating services meet critical customer needs. ECI plans to meet privacy needs, provide more useful information, allow flexible searching through more convenient and lower cost means than existing services.

INNOVATIVE SALES & MARKETING STRATEGY

ECI's plans to sell direct and then indirect, through channel partners. Highly automated interaction will make direct sales inexpensive for ECI and easiest to manage during initial rollout. Examples of potential channel partners might include:

- Alternative newspapers such as *San Francisco Bay Guardian*.
- Mainstream newspapers such as the *Boston Globe*.
- 900 service providers such as Brite Voice Systems, Inc.
- Dating services such as Trellis, Heart-to-Heart.
- Cable providers such as Continental Cable, TCI, Times-Warner.
- Pipeline providers such as PSI, UUNET, Netcom.
- Value added Electric service providers such as America Online, Prodigy, O'Reilly & Associates.
- BBS system operators of existing Bulletin Board Systems (BBS) such as Aquila BBS.
- Specialized advocacy organizations such as Digital Queers.
- OEM / private label relationships, when appropriate.

Product Positioning. ECI services will be positioned as removing barriers to finding relationships and solving the five main problem areas with existing service providers: privacy, information, ability to make good matches, cost and responsiveness. We will market aggressively to women and develop a marketing program in the influential gay and lesbian community. We plan to create quality, trademarked brand names - such as Electronic Matchmaker™ to build brand equity and recognition. Two visionary themes will support the overall ECI image: "On-line classifieds with images and audio," and the "The funniest and most useful Information Superhighway application, featuring person-to-person advertising, with a high degree of privacy."

Market Communications. In addition to direct mail campaigns, we plan to employ full-time network marketers. These on-line ambassadors will communicate with members of value-added network providers such as America Online and Prodigy™. Unobtrusive listings will announce and discuss our service on various networks. We plan to have Hyper Text Transport Protocol (HTTP) links to well known private and public World Wide Web (WWW) pages.

ECI will court the press and may hire a public relations firm after rollout. Our story about romance, sex and love on the Information Superhighway will easily make attractive public relations and catchy, short radio and television news stories.

Future Product Directions. ECI's architecture can be adapted to other markets, particularly where vendors wish to display a visually rich product, provide intelligent search or allow private browsing. Examples include specialty auto sales, real estate rental and financial investing.

SUSTAINABLE COMPETITIVE ADVANTAGE

ECI intends to build high entry barriers to new market entrants. The Company may be able to lock up distribution partners and WWW links. As ECI's customer base grows, the Company can spread fixed costs and negotiate deep communication discounts. In addition, local print advertisers and dating services would probably not be able to compete with robust systems able to spread development costs over many customers.

A growing customer base may also present an effective barrier. Existing customers will tend to bring their friends into the ECI service. If competition reaches the market, existing customers would have to consider noticeable switching costs including time filling out a new questionnaire and learning other system protocols. Additionally we will try to differentiate by creating a brand loyalty and trade marks, acquiring image momentum and franchise value that will be difficult to overtake. ECI may garner a significant first-mover advantage by acquiring the cachet of a first viable on-line classified service.

PROVEN TECHNOLOGY SUPPORTS GROWTH

Initial design and system implementation will be accomplished with limited developer time using existing technology. The basic architecture will provide a foundation for future growth of ECI's customer base and domain expansion. Rollout requires only a few developer person-months and minimal support equipment.

Database Engine		Interactor Service Providers (ISPs)	Interactor API	Info-Medium		Interactors
Data-Base Kernel	Object Layer with Search Engine Interface	E-mail ISP		*SMTP*		Mail readers
		HTTP ISP		*HTTP*		Mosaic
BLOBS		Pipe #X ISP		*Pipeline #X Media*	Pipe #X Engine	Pipe #X Channel
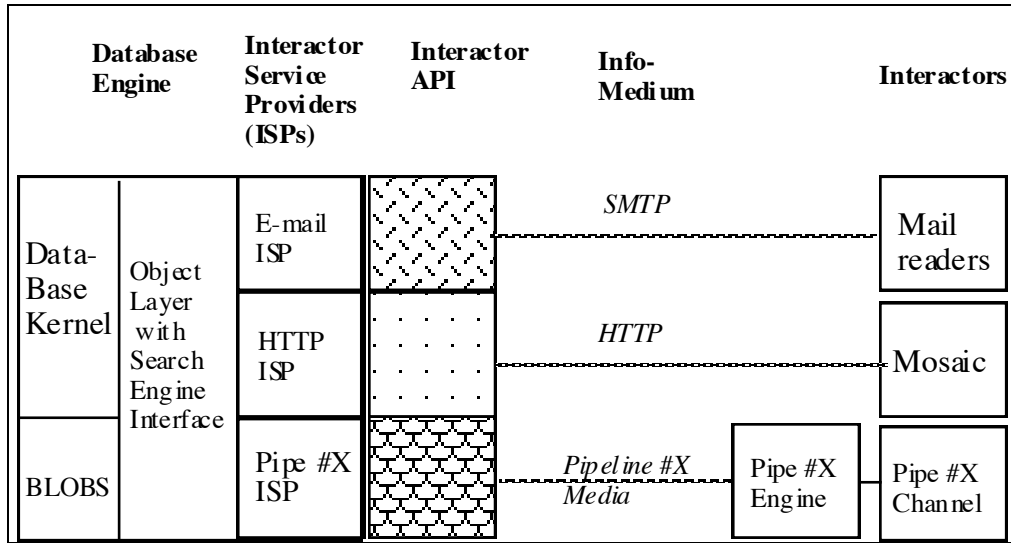
ATTRACTIVE ECONOMICS

This market has very favorable characteristics. The cost of goods is low since the customer provides the information and performs the interactive work; we provide only the tools and the forum. Once entered, information supports revenue many times in many locations.

Pricing will be on a per-use basis with free listings. Key economic drivers include distribution channel costs and mix, average customer tenure on ECI and final per-use prices. Ongoing development costs will be moderate with customer service costs tracking usage.

ECI's business system utilizes existing Internet pipelines and service providers to leverage up high volume on a low incremental investment.

Summary Variable Margin Model

Item per average customer per month	Direct Distribution	Indirect Distribution
VARIABLE REVENUE		
Per match charges	$ 30.33	$ 15.17
Browsing and E-mail charges	10.80	$.40
Other	4.93	2.46
Total average gross revenue	46.06	23.03
VARIABLE EXPENSES		
Communications charge	17.42	8.71
Set-up and technical support charges	0.56	0.00
Total variable expenses	17.97	8.71
MONTHLY ECONOMIC VALUE OF THE CUSTOMER	28.09	$14.32
Average life of customer	12 months	12 months
Total Economic Value of one average customer (EVC) to ECI	$ 337.06	$ 171.85

ECI will require moderate funding to develop the system, fund rollout and initial marketing. Initial seed funding was provided by the ECI's founder. ECI seeks to raise $ 300,000 further seed funding for product development and initial rollout. Costs will include office expense, minimal salaries, technical and communications costs and capital equipment. ECI plans to seek another round of financing at significantly higher valuation.

ECI's Five-Year Projection ($ thousands)

Year	1994	1995	1996	1997	1998
Revenue	$ 93	$ 4,384	$ 15,572	$ 28,726	$ 44,016
Net Income	($ 261)	$ 558	$ 2,253	$ 5,085	$ 7,883
Paid Customers	800	17,513	36,891	68,755	106,489

EXPERIENCED TEAM MEMBERS

Gary Kremen, the founder, serves as President of the Company. An experienced entrepreneur, Mr. Kremen co-founded Los Altos Technologies and provided business consulting to numerous young companies. He has an MBA from Stanford University and degrees in Computer Science and in Electrical Engineering from Northwestern University. Mr. Kremen has personally experienced the many vagaries of the matchmaking business.

The Chief Architect of Technology for ECI is **Peng Tsin Ong**. With over 9 years of software design experience, Mr. Ong has led large software system design of such products as Sybase'

SQL Server release. He holds a Masters in Computer Science from the University of Illinois at Urbana-Champaign.

ECI has recruited a strong team. Two other software developers have joined the Company. **Scott Fraize** brings experience in all relevant environments and credentials from Xerox Corporation and MIT. He has successfully managed complete project teams. **Kevin Kunzelman** has worked at Cornell University and Verity, Inc. a leading text-retrieval company. The Company has retained **Simon Glinsky** of The Glinsky Group to provide marketing and business development services. He brings experience from McKinsey & Company, Stanford University and The Wharton School.

ECI has recruited a Marketing Advisory Board which includes Silicon Valley marketing executives and experienced entrepreneurs from Internet-related services. A Technical Advisory Board includes a leading database architect and a senior developer. The Company has retained the services of established professional firms including the law firm of Wilson Sonsini Goodrich & Rosati and Price Waterhouse, CPA's.

READY FOR ROLLOUT

ECI has established offices in San Francisco's South Park "Multimedia Gulch." Development activity is underway. The Company has also completed acquisition of Electronic Matchmaker, Inc., including valuable questionnaires, technical materials and customer databases.

In the early fall, ECI plans to roll out the service through extended free trials. The Company plans to utilize press coverage, electronic network advertising and mentions, contests and WWW listings to spread the word. The Company may focus on specific geographic areas to build a viable base of listings to begin regular pricing. Success in several metropolitan areas will help build press coverage and momentum nationally. During the first year of service, ECI will target segments which show strong potential and may disproportionately influence market trends.

*   *   *

In this business plan, ECI presents an innovative vision and an attainable mission. We understand customer needs and the gap left by today's service-providers. The market opportunity is large, and we have developed a rigorous and realistic strategy to enter and develop the market. An experienced and dedicated team is poised for success....

Customers and Market Characteristics

1.1 Market Size, Market Value and Demographics

Singles. The market for dating and related services is enormous. There are currently over 50 million unmarried individuals aged 25 and older in the United States including never-married, widowed or divorced people. According to *American Demographics*, "most members of this massive group have one thing in common: an unmet need for companionship."[1]

In recent years, marriages have been delayed for career purposes. Combined with the high divorce rate, many more singles today are professional workers and are financially secure. 37% of the singles population is 25 - 49 year old, and two-thirds of the single baby boomers have never been married.[2] 32% of the single baby boomers have been divorced.[3]

Fewer than a third of the singles (29%) are between 18 and 24 years of age, and virtually all of this group (98%) have never been married. Young adults are the group least likely to use dating services, because they use traditional meeting places. Also, few young adults can afford the fees.[4]

By several measures, singles have more disposable income to spend than other Americans: America's single men spent an average $ 20,000 each in 1990-1991 while the average household of 2.6 people spends $ 29,600 or just $ 11,400 per person. Single men form a $ 238 billion consumer market with 12 million householders. Single women are a $ 234 billion market composed of 15 million households spending an average of $ 15,300 each.[5]

A good portion of the coveted 25 - 49 age group is single, or soon to be single. Even so, many marketers in the 90's have been reluctant to actively target the group. "Americans are very hypocritical and puritanical. They condone violence but won't allow sex. They view being single as equal to something wrong and marketers have steered away. They don't want to be associated with a 'problem' group." According to Mr. Dick McDonald president of McDonald Daving & Associates in Milwaukee "Most of the leadership in business and industry are married... so they're not thinking single or have any perception of it."[6]

Dating Services. Other informal measures show dating services to be a considerable market. The Washington, D.C. phone book has listings for thirty or so dating services, while the

Northern Virginia yellow pages lists eight.[7] The Boston yellow pages list more than 35 dating services.[8]

One successful service, The Patricia Moore Group, provides introductions for singles with "a higher level of affluence" and charges $ 5,000 a membership fee and $ 10,000 for special searches. 98% of clients have college degrees, over half have masters degrees and 43% of men and 20% of women clients have incomes over $ 100,000. Business increased 51% last year.[9]

Market leader Great Expectations charges up to $ 2,000 per year and requires a commitment of one year to three years or until the member is no longer single.[10] They define their customer segment as non-married, non-homosexual people looking for committed marriage, who have the ability to pay $ 1,000 / year and are not just out of college.[11] The Bay Area Great Expectations charges $ 3,895 for a national membership, $ 3,295 for a local three year membership and $ 1,995 for a one year local membership. They also charge $ 264.44 for photos and making the video and a mandatory $ 19.50 a month maintenance fee.[12] Assume that the average person negotiates a discount and pays $ 1,000 / year. At 200,000 members, this is a $ 200 million gross system-wide franchise revenue.[13] This does not include value added services such as relationship seminars, parties, an activities exchange, a membership referral program, image and fashion consulting. There is even a member's Yellow Pages for new business contacts and networking.[14]

Great Expectations claims to be the world's largest dating service and may hold around than 10% of the market.[15] Thus, the total size of the dating service market probably exceeds $ 2 billion.

Published Personals. Traditional voicemail-related advertising is dominated by the age groups most-likely to consider on-line services.

Age Group	Share of Voicemail Advertising[16]
18-24	5%
25-35	34%
35-44	38%
45-54	17%
55-64	5%
65+	1%
Total:	100%

What was once a small, obscure "lonely hearts" listing in many newspapers has become major business. For example, personal ads in *Boston Magazine* jumped from two and one-third pages

in March 1986 to 11 pages in August 1990. Volume remained undiminished through the recession including a substantial proportion of ad services costing about $ 150.[17]

After carrier fees and gross commissions are deducted, newspapers typically receive 80% of the voicemail revenue.[18] The value of personals to a newspaper depends upon the size of the paper:

Newspaper Circulation[19]	Monthly Call Minutes
Over 1 million	45,000 - 50,000
175,000 - 500,000	15,000 - 35,000
75,000 - 174,000	10,000 - 35,000
61,000 - 74,000	5,000 - 10,000
38,000 - 60,000	1,000 - 5,000

This translates to a yearly net revenue of between $ 6,000 and $ 540,000, depending upon the individuals newspaper's circulation and price structure. Media companies using 900 numbers includes Newhouse, Scripps-Howard, Tribune, Knight-Ridder, Cox, Thomson, Gannett, Singleton, McClatchy and ABC / Capital Cities.[20]

A 100,000 circulation paper can expect about $ 300 per month per ad. For example. the Evansville, Indiana *Courier*, has a circulation of 117,000 with 20 to 25 ads per week. These ads result in over 2,300 calling minutes which translates into over $ 70,000 per year after AT&T (or other carrier) gets its share.[21] A few papers such as the *Washington Post*, get over 800,000 calls per month.[22]

According to Link Resources, the 900 business has grown from $ 27 million in 1987 to a projected $ 515 million in 1990.[23] The number of newspapers offering voice services rose from 112 in 1990 to 2,000 dailies, weeklies and free community papers last year.[24] 33% of major newspapers are now "audiotext" suppliers.[25] For newspapers, personal classifieds have become material contributors to net income.

At New York City's *Village Voice*, classified advertising accounts for 35% of overall earning and nearly half of total advertising revenue. Personal ads at the *Village Voice* have done so well that it has introduced a new separate outlet called Person-to-Person-Classifieds.[26]

The marketplace for voice processing systems including 900 numbers was almost $ 2 billion worldwide in 1990 and should grow to nearly $ 5 billion by 1995.[27]

Personals and the Gay Market. The gay and lesbian market makes up a substantial proportion of total sales:

Newspaper	Gay & Lesbian Share of Personals[28]
Atlanta Journal and Constitution	40%
Buffalo News	20%
Tampa Tribune	25%

Yet, some newspapers do not publish gay and lesbian personals, leaving the gay and lesbian market underserved in many locations.[29]

Gays and lesbians have become increasingly important as a distinct consumer group, utilizing strong disposable income to meet their needs. According to Mr. McDonald, self-identified gays and lesbians total between 3% and 10% of the population and have an average income of $ 36,800, compared with the average single American's income of $ 19,082.[30]

Electronic Mail. Electronic mail, one of the two primary media for the ECI system, has become more and more common. The Electronic Mail Association, a trade group based in Arlington, Virginia, says that one estimate puts the number of total electronic mail users at 30 million to 50 million.[31] According to a study by Carnegie Mellon University, more than 40% of electronic mail traffic comes from extracurricular groups formed to trade information about movies, gossip and other special interests.[32]

More women are becoming active e-mail users. According to Ms. Ellen Pack, President of South San Francisco based Women's Information & Resource Exchange (WIRE), between 10 percent to 15 percent of on-line users are women.[33] According to Link Resources, a New York consulting firm, if women who use accounts of male friends are counted, about 35% of on-line users are women.[34] According to Prodigy, 40% of their customers are now adult women, with only 10% of all customers under age 18. Prodigy users sending between 3 and 4 million electronic mail message a month.[35] Another service, Echo Communications Group indicates that about 40% of its 2,000 customers are female with their women-only conference, *Women in Telecommunications*, being their sixth most popular board, while the men's conference board rates somewhere below the top 10.[36]

The Internet. People are flocking to the Internet, the second virtual medium for ECI. The Internet has over 20 million active users, growing at rate of 1 million users per month, and over 50% of users are commercial as opposed to the technical and university-based users.[37]

Mr. Lyman Chapin, former Chairman of the Internet Architecture Board, estimates Internet size more than doubles every year when measured by host computers and connected networks. Traffic volume on just the U.S. National Science Foundation NSFnet backbone portion of the Internet exceeded 10 terabytes per month at the end of 1993. The same is true at CERN, which maintains one of the largest Internet exchanges in Europe. Over 10% of this traffic is a single interactive game; this usage demonstrates the heavy use of the network for informal purposes.[38] Electronic mail extends the reach of the Internet to users in over 137 countries. Electronic mail use of the Internet is projected to grow from 11.5 million in 1993 to 31 million users by early 1995.[39]

Among other services offered on the Internet, Gopher usage grows at 997 percent per year with WWW traffic growing at an incredible rate of 341,634 percent per year.[40]

On-line Services. On-line connections are booming, creating more customer access to ECI services. According to Simba Communications / Trends, worldwide on-line service revenue including information services was approximately $ 10.1 billion in 1992. This represents an increase of 9.2% over 1991 sales. Sales of U.S. consumer on-line services increased by 25% to more than $ 600 million in 1992. The number of consumers using on-line services has increased from less than 1.0 million in 1988 to over 4.2 million at the end of 1992.[41] Outside of the U.S., examples of on-line service demand include Minitel with access devices distributed by the French Government; a controversial dating service soon became one of the biggest services.[42]

Computers. The installed base of on-line users is past a critical phase as enough people have access, including women who are not reached well by existing relationship services. About 100 million personal computers are installed in the U.S.. 29% of homes currently have computers, increasingly with modems, and 30% of homes will have fax machines by 1995.[43] Women materially participate in this base. According to Link Resources, 26% of households with computers count women as their primary users. That comes to out about 8.3 million households, up sharply from 4.4 million reported in 1989. Moreover, the next generation of women is much more computer literate.[44]

1.2 Market Growth

Key market drivers indicate strong and sustained growth in ECI's market segment and customer platforms:

Marketplace Growth Factors

Factor	Growth Proxy
• Growth of the World Wide Web and electronic mail	• WWW traffic growing at an incredible rate of 341,634 percent per year.[45] • E-mail is growing at approximately 65% / year[46]
• Growth of the personals and dating services	• Growing at over 40% / year.[47]
• Growth of the singles market	• Defined as over 25 years old and never married, divorced or windowed, the ranks of single Americans have grown 85% since 1970 according to the U.S. Census Bureau. The number of married people has grown only 19%.[48] By the year 2000, some market forecasters believe that 50% of the adult population will be single.[49]

Market horizons have also expanded beyond political borders. "Businessman trips" to Russia and Southeast Asia to find mates have appeared, and people have become more adventurous crossing borders and culture.

Market Need - The Opportunity

Despite recent growth in personals advertising, many potential customers stay away. Current users of newspapers personals, dating services and similar content providers also desire new approaches and features that meet their needs effectively. Unmet needs include privacy, desire for information, good matches, cost and responsiveness.

2.1 Desire for Privacy

Higher Levels of Security and Trust-building. Recent media attention on stalking by unwelcome suitors highlights fears of meeting strangers and divulging personal information to new acquaintances. Most people need a process of incremental communication which builds trust and rapport. Existing services do not provide clear, incremental paths to building trust or exchanging information. For example, newspaper-related personal voicemail generally requires that the interested party leave a telephone number. Using a commercially available telephone number directory, a would-be harasser could easily find the address or other personal information. The customer must take this risk before trust has been established and can lose a feeling of security.

Security and privacy are so important that according to the Survey Samplings of Fairfield, Connecticut 28.2% of U.S. households had unlisted numbers, up from 21.8% in 1984.

According to Ms. Julia Loftis, Classified Manager for the active personals section in the *San Francisco Bay Guardian*, "Safety is important [to the customer]."[50] Yet, most dating services use only rudimentary screening. Typical screens include self-disclosure such as "do you have a credit card?" or "let me see a personal check so I can see that you are not currently married." Mr. Kenneth Keegan, CEO of the franchisee owning the Bay Area Great Expectations says: "It's mainly for identification purposes"[51] This informal screening can be offensive, and these non-rigorous approaches provide minimal security to the customer..

Complete Privacy. Many people prefer to keep their dating interests and explorations to themselves; they want complete privacy in their partner search process. For example, some people feel embarrassed to use a dating service. Some people feel they should be able to find dates without such assistance and may feel badly about themselves for using impersonal services. They want to share successes with friends, but they may not want their dating ups-and-downs to

be visible for all to see. For example, a 900-service charge appears on telephone bills in its own highlighted category. This can raise invasive questions from friends, roommates and family members.

While 900 numbers are now used by legitimate heavyweights such as American Express, Clorox, Kimberly-Clark and the American Red Cross,[52] they still have a negative connotation to many people. They should be worried; lists of those who use 900 numbers can be purchased.[53]

Even though customers do not know the other customers, they can become embarrassed being open to them in print, by voice or video. Many people fear judgment from others including strangers. This fear can especially occur at dating services where in-person interaction with staff and other customers always occurs.[54]

More Control over Access. Customers often do not want certain people, such as an ex-partner or classmates, to know they are searching for partners. With dating services or the newspaper personals, it can be difficult to use the service privately; your voice may be recognized or heard by a roommate while a printed ad may be read by anyone.

Because many people are embarrassed if their personal ad is recognized by people they know, they may not give the level of self-disclosure that is needed to find the best match. If they were assured a higher degree of separation, answers might be more truthful.

2.2 Need for Information

More Information. Typically, the more information the better. More and better quality information helps qualify matches and increases comfort level. The newspaper personals give you a very minimum amount of information, usually under 30 words of text in a typical ad. Dating services give more, but usually place limits on time or content.

In the personals, people placing ads are advertising themselves in a short amount of space, so they tend to put their best foot forward, many times by embellishing their attributes.[55] Some important characteristics are difficult to describe in an short space. Subtle personal characteristics include emotional history, childhood experience, medical history, etc..

Detailed questions on such issues are not asked at most dating services; customers do not want to spend long hours at a service. They may also hesitate because of the potential judgment of

individuals at the service. Women sometimes refer to this set of subtle characteristics as screening for the "dads" over the "cads." A female dating service customer sums it up by saying "It is very difficult to meet good quality men."[56] Another customer reemphasized this by exclaiming "Using the personals can be nerve-racking because you don't know who placed the ad or why."[57]

"Seeing is Believing." Physical attraction is the *most* important attribute to many. Yet, print ads and 900 numbers rely exclusively on descriptions which create misconceptions. The reader or listener often draws an incomplete picture in the mind influenced heavily by personal preferences and concepts. Thus, showing an actual physical image remains the main draw of video dating services.

Many people do not want to meet without seeing a picture. Current customers must leap into chance when it comes to actual physical appearance.[58] Men are more openly concerned with appearances: 40% of their personal ads ask for photos compared with only 15% for women.[59] If a photo were available, more men and women would benefit from such a screen and feel increased comfort making match decisions.

Limited Format and Media. Most dating services have standard questions that do not allow for extensive creativity or special situations. People can show some creativity in newspaper personals. The ads are fun to read. However, they lack the common framework that might appeal to an analytical person.

2.3 Ability to Make Good Matches

Ability to Search. Information at dating services and in the newspaper personals is unordered and unindexed, yet a customer probably does not do not want to look at everyone in the database. The customer usually can not search for people by rudimentary attributes such as age, distance from home, let alone rank desired attributes. Many customers absolutely require certain attributes in a partner such as physical stature. Looking at anyone not meeting these requirements is a waste of time and money. Thus, at the leading dating service, 80% of the customers are immediately rejected by the people that they select.[60]

A dating service user said: "A man can easily spend $ 199 on three dates and still not have anyone intelligent to talk to. For ladies, the expenses are different. The cost may be baby sitting or a new dress, so it may take five or six dates to reach the cost of joining."[61]

Prioritization of Contacts. People often want to prioritize possible matches to avoid the "feast or famine" problem. For example, if 50 people meet their criteria, they want to know which of the 50 people are the best fit. Conversely, if there are only 2 people that meet their criteria, they might want to know which other 3 people in the database are the "closest" to the criteria. With newspaper personals and dating services, prioritization is time-consuming and difficult.

People have a limited amount of time. A dating service user said "...there is the time factor. Today men and women both work. At the end of the day they go to the gym, and by the time they get home they're exhausted." [62] With what time they have, they want to prioritize. If 50 people are interested in you, you need a way to screen them quickly and efficiently.

Multiple Preferences. Many people desire the ability to easily search for more than one type of person. In newspaper personals, the customer can change their attributes in response to a specific ad, but this is not realistically possible with dating services. Dating services, for the most part, have what the customer is looking for as part of their public survey. Customers can not tailor their profiles to a specific type of person.

For example, a man might be attracted to two types of women: a quiet, intellectual woman from the East Coast and an outdoor-seeking, vivacious woman from California. In traditional dating services, these women would look at the man's profile - which lists what he wants. For one of the women, those "wants" would be inconsistent with their attributes. The man would not easily meet these two women through a one-profile dating service.

Ability to Vary Personal Profiles. Many people want to show different aspects of themselves at different times. For example, a customer might want to show outgoing, gregarious characteristics and other times show the inwardly focused scholarly characteristics of his personality. This is possible in the newspaper personals, but impossible at a dating service. Dating services do not usually allow you to have multiple profiles.

Many times in the beginning of a relationship you want to market yourself in response to a person who you think is attractive. If that person is a business type you might want to show your business side. If that person is an artist type, you want to show your artistic side. In no way is this inconsistent with who you really are: it is just a marketing spin that is in response to the environment. With traditional dating services, this is impossible. These disparate types might be all "you," but at different times you might want to emphasize different aspects.

Large Installed Base of Customers. If sorting through the information is convenient and fast, customers could select from a large number of potential mates. The more possibilities the more selective people can be and the better the chance that they find the right person.

Nearly half of single women and 1 in 5 single men say they never date. Of those who date, 3 out of 4 single women and more than half of single men say "it is very difficult these days to find new people to date." According to the 1989 Virginia Slims American Women's Poll, two-thirds of single women and 43 percent of single men, say that "most of the single men [women] I meet are unwilling to make a serious commitment."[63]   Without search, it is extremely time inefficient to look through a large number of unordered and unindexed ads, yet customers need a large pool of possible partners to find good matches.

Appropriate Reach and Scope. Most dating services and newspaper personals are local or they are only convenient to use locally. This is not appropriate if you travel extensively or if you are looking to find "the best person in the world."

It might appear that scope affects a small set of people, but if people could find the best person in world and could communicate with them first, they might be willing to expend the scope of their search. It becomes a personal choice to broaden or narrow the scope of your search. While many people doubted that there would be value in a national newspaper with national classified ads, *USA Today* has been wildly successful.

According to Paul Saffo, Director of the Institute for the Future in Menlo Park, California, "Ultra-long-distance romances are just the next step." Dual-career couples made bi-coastal marriages part of the culture of the 1980's. But now, coaxed by fax, electronic mail and the telephone, ultra-long distance romances seem to be flourishing. Although no one knows the exact figure, as people travel more by air and on the information superhighway, an increasing number of romantic liaisons ignore previous geographic limitations.[64]

Variety Of Outcomes. People are looking for different outcomes in relationships: pen-pals / friends / partners / marriage, etc.. For the most part, dating services only address one market at a time, usually marriage. Newspaper personals also do a poor job of sorting by outcome.

2.4 Reasonable Cost

Lower Cost. Many students, young people, middle-income parents, seniors and others can not afford expensive dating services. However, many of these people have free or low cost access to e-mail and the Internet.

Some people would like to use a dating service, but feel uncomfortable paying a over $ 1,000 a year. A person using dating services summed this up with "I don't have three or four grand basically to buy a young lady or a relationship."[65]

Only Pay for What is Used. People want to pay for value received, but most dating services use front-loaded pricing. If you do not find matches, you must still pay. The person who infrequently uses the dating service pays the same as the person who uses it every day, and partial refunds are hard to obtain. When joining Great Expectations, the customer to signs a 34 provision contract that says, among other things, that the customer can not get a refund on 2/3 of their money because "that money was earned getting you in the door."[66]   They also have many restrictions on deferring use of the service when you begin a relationship.

Government regulators regularly receive complaints on sales-driven dating services. For example, at any time the Montgomery County (Maryland) Office for Consumer Affairs usually handles about six complaints against dating services which collect payment up-front. According to Mr. Eric Friedman, an investigator at the office, "with the "pay as-you-go system, [the element] of mistrust is greatly reduced because the customer has less to lose."[67]

2.5 Responsiveness to Customer

Short Connection Cycle. Many people want instant gratification. Yet, dating services require several weeks turn-around time between selection and an actual date. Newspaper personals usually have a turn around time of at least a week, and other periodicals may require months between submission of an ad and actual personal contacts.

Many people do not want to wait after spending time or money, they want results or the possibility of result *now*. Many successful businesses of the last two decades have focused on this desire rapid response by improving and redesigning existing services.   Companies such as Federal Express and Domino's Pizza capture an existing market and go on to expand the traditional market.

High Level of Convenience. Existing services do not provide the convenience busy people want. Newspaper personals are relatively convenient from a time perspective, but somewhat inconvenient from a location perspective, and 900 number calls are prohibited or inappropriate in most work environments. Dating services require customers to show up during set hours at their location. These hours may not be flexible to day-to-day needs and feelings of a client.

The value of time to many people is clear. According to the 1989 Virginia Slims American Women's Poll, more than one-third of singles say that their jobs give them little time for a social life.[68] Time is money; the minimization of hassle and inconvenience is very valuable.

High Level of Excitement. People are told the partner selection process will be exciting, but typically it causes stress and anxiety. The need for support from others is almost universal. Dating services do not allow friends to accompany you because friends could then use the service under the guise of helping the customer use the service. This is why dating services are going to have significant problems bringing the service to the home.

Customer-oriented Ethics. Dating services are well known for their unappealing hard-sell tactics.[69]   In Washington, D.C. city officials recently filed a legal action on behalf of 27 customers of Great Expectations. Great Expectations is accused of misrepresentation, "unconscionable sales terms" and other legal violations. For example, a Peruvian native signed a $ 1,695 sales contact even though he could not read English. Several people say they were told they could cancel memberships at any time, only to find out they could not. Another dissatisfied customer summed it up by saying, "There was a pretty girl in front of me and next I knew she had my credit card." Even in small cities such as Huntsville, Alabama, the Better Business Bureau receives more complaints about dating services than most other businesses. [70]   Within the industry, competitors criticize each other for their methods, their advertising and their broken promises. "[They] lie about the number of people in their database as well as the number of marriages that they facilitated."[71]

Many potential customers stay away from dating services because of adverse publicity and ethics dominated by sales goals.

Solutions to Meet Marketplace Needs

ECI can provide superior services to the relationships and companionship market by using e-mail or the Internet to communicate with customers around the world. ECI's database, delivery and distribution strategies will meet market needs and develop opportunities. *Database* entails developing a flexible and extensive multimedia database of partnering data. *Delivery* means making that database accessible from office and home through existing electronic mail, Internet Mosaic and cable television. *Distribution* means using vehicles closest and most comfortable to the customer including direct and through newspapers, cable companies and others.

ECI will collect and organize data through extensive questionnaires and personalized options such as multimedia files. Customers will be able to list for free. Customers can then search and manipulate the database of candidates according to personal preferences. Over time, ECI expects to amass a very large and diverse database to satisfy many different customer preferences. The Company has begun development of the questionnaire based initially on the Company's recent acquisition of Electronic Matchmaker.

ECI's business system may help customers feel freer and less fearful. Search results may improve with more people allowing themselves to try and find relationships using ECI's services.

3.1 Desire for Privacy

Higher Levels of Security. Until trust is established, anonymity can allow people to exchange useful personal information more freely. ECI would allow anonymous communication by virtually untraceable electronic mail messages, Internet access, interactive cable decoder and other potential services, thus eliminating many security issues such as fear of stalking.

In electronic mail, "anonymous re-mailers" strip out the return address from an incoming electronic message so that the recipient does not know where the electronic mail came from. Customers can use anonymity until they feel secure enough to exchange real electronic mail addresses or telephone numbers. Internet, interactive cable and other services can also be designed to provide anonymity.

Complete privacy. Delivery of information at the office or home using electronic mail, Internet access, interactive cable and other services, will allow private access.

In most situations, electronic mail and Internet Mosaic access is completely private. This access will be implemented by sending questionnaires and receiving responses through e-mail, allowing people to use Internet Mosaic to access questionnaires and responses, or use other interactive pipelines such as interactive cable television.

ECI may offer public key encryption as a higher-level security measure for the more security-conscious segments. Unlike 900 numbers, ECI does not plan to sell lists of customers or customer attributes.

More Control over Access. ECI plans to allow proactive filtering to prevent certain people from even knowing a certain person exists in the database. For example, "if certain words, phrases or names appear anywhere in a person's profile, do not show my record to them."

This will be done by allowing people to specify *who* or *what* they do not want to view their information, or even what *type* of people they do not want to view their information. This will be done by checking a stop list against a potential match: if such a match is stopped, it will not be shown or noted. An example of such a stop list is "94024, Harvard University, John Smith."

3.2 Need for Information

More Information. Server storage on the ECI database will allow a large amount of easily modifiable information. The 150+ part questionnaire owned by ECI will capture broad and deep information for each listing. We will be able to change the questionnaire dynamically as new attributes arise.

"Seeing is Believing." ECI may deliver multimedia images using Multipurpose Internet Mail Exchange (MIME) electronic mail, Internet Mosaic, interactive cable decoder and other delivery systems. By using existing communications pipelines, ECI can deliver vivid color pictures, high fidelity audio and full motion video directly to the customer's desktop.

Mixed Media Format. ECI interactions will allow standard questions, freetext, hypertext and multimedia responses to questions, when appropriate. Customers get to reply to questions in the standard format along with non-standard replies that highlight personality and creativity.

Creative and revealing responses might include on-line freetext or a favorite video or speech. If the customer could attach a picture of their favorite garden, or a sound clip of their recent musical discovery, or a short video of them working at their favorite task, people could be much more engaged in a fun and informative search. As different people prefer interacting in different media, more customer preferences will be accommodated.

3.3 Ability to Make Good Matches

Ability to Search. ECI will provide ordered and indexed storage of attributes within a relational database and will also develop protocols for fuzzy searching. We can also put relevance ranking into the system.

Prioritization of Contacts. Return all queries as ordered searching using ordering data. Allow for responses to questions such as "like," probably" and "never," while at the same time using sophisticated matching algorithms.

This will minimize the "feast or famine" problem. Customers will receive a set number of potentials matches, that represent the best, in rank order, matches that exist in the database given their criteria. For example, ECI can perform agent-like operations: ECI can automatically send the customer the best matches every week as new appropriate matches appear.

Multiple Preferences. ECI's services will allow multiple queries and may provide each match with a tailored profile of the customer.

Ability to Vary Personal "Profiles." Multiple profiles will be only known to ECI's billing system. Customers can automatically prevent those that select you under one profile from even seeing you under another profile. To the receiving customer, this will appear as completely separate anonymous electronic mail addresses.

Large Installed Base of Customers. After a period of trial operation, ECI will build a base of customers rapidly through aggressive pricing, channel partnering and geographic targeting. Customers may eventually access the system from a multitude of pathways such as e-mail, Internet Mosaic, interactive cable television, the telephone, fax, PersonaLink, modem, CompuServe, America Online, Prodigy, BBS's and well as other services. It will be easy to come-in to ECI!

Appropriate Reach and Scope. The system will be usable world-wide with a single point of main control. Customers can tailor searches appropriately.

As all the information goes to the customer in a central place, accessible from anywhere, the ECI service is geographically transparent to use the system to find matches in a different geographical area. You can now select based on travel schedule and both home and work addresses. This will facilitate finding the best matches in the world.

Variety of Outcomes. ECI will facilitate a variety of relationship outcomes. For example, a customer might be interested in a pen-pal that could turn into a marriage partner. Customers will be able to specify or describe different types of relationships they desire.

3.4 Reasonable Cost

Lower Cost. ECI plans to have an average total outlay of under $ 50 per month per customer. Because ECI will have low fixed data communications and other costs, ECI can offer their service at a low cost.

Only pay for what you use. ECI plans to use measured-use billing. This will allow ECI to keep the life cycle price reasonable, make compelling marketing comparisons versus other competitive offerings and give the customer control over total cost.

3.5 Responsiveness to Customer

Short Connection Cycle. By using a direct connection to the Internet, we can have response times in milliseconds for Mosaic users, response times in seconds for those using electronic mail and response times in minutes for other delivery services such as interactive cable television. For example, it might be Friday at noon: a customer can get a list of everyone who is ready for a date in the next 6 hours, screen potential dates according to preferences and communicate with those potential dates!

High Level of Convenience. 24 hour private access using electronic mail, Internet, interactive cable television and other access methods.

By using existing electronic mail networks and gateways, anyone who has external connections and electronic mail on the Internet can access this service 24 hours a day. Our electronic mail is indirectly interconnected to pipeline providers such as AT&T and MCI and other value added providers such as America Online, CompuServe, Prodigy and GE Information Systems. With interactive cable, anyone can access the system 24 hours a day.

Delivery systems from ECI to the customer are already in place; this infrastructure is often paid for by other parties. ECI may also be able to use existing graphical user interfaces (GUIs) and delivery systems thereby enhancing ease-of-use and customer comfort.

High Level of Excitement. Since usage is measured, we can allow friends and other people to use the service. Why not sit around and browse the database for potential mates with your friends? This could be a great party activity.

Customers will enjoy interacting across e-mail. Studies have found that language people use on a computer is spontaneous and uninhibited with moments of surprising self-revelation. Words turn up in unusual contexts. Jokes are common in both text and graphic formats.[72] An typical e-mail user said "...when we both got on e-mail, I started receiving long, self-revealing messages: we poured our hearts out to each other."[73] The same e-mail user also said "... I got hooked. E-mail draws me the same way the phone does: It's a souped-up conversation."[74]

Acceptable Performance by Service Providers. We plan to automate the service, allow free trials and set behavioral expectations correctly. We can limit overselling and help potential customers set realistic expectations by allowing free initial scanning of the Company's customer listings. The Company may allow potential e-mail customers to receive sample data without addresses and allow potential customers on Internet WWW to browse in a random manner. At ECI, on-line service fees and terms will be standardized, incurred incrementally and based on actual services provided. We believe customers will pay for a service that has customer-oriented ethics.

3.6 Legal Benefits of ECI's Model

For the last several years, personal ads have operated free of virtually all liability claims. ECI believes potential liability stemming from matching activities will also be nearly nil and certainly no greater than that of dating services or personal ads. In fact because of our extra level of anonymity, any liability might even be less than the personal ads. Customers will agree to Terms

of Service and make their own choices to reveal personal information, remove anonymity, communicate directly and pursue dating or other activities.

3.7 The Psychology of Electronic Communications

Ever since electronic mail became available in the 1960's, computerized communication has been seen as a medium as revolutionary as the telephone. Norms of behavior appropriate to letters, telephone and face-to-face meeting, do not necessarily apply and old rules have to be revised.

Research suggests that many people feel freer when talking electronically than they do talking face to face. According to Mr. John Jenson, a Seattle-based investigator, "There is no question whatsoever that people write and put things in the computer that they would not put anywhere else. People are excessively blunt. People have conversations that they probably would not have had if they had been together in a room."[75]

Mr. Harriet Wilkins of Indiana University found a striking feeling of intimacy between e-mail users even though correspondents were spread across the country and knew little about each other's lives. Mr. Wilkins found that informal, vivid and innovative language along with frequent use of personal names contributed to the bonding. People came to feel that they knew each other quickly in those first few months of the conversation.[76]

"Is it weird to communicate about shared interests, share some history and then meet after?" asks Mr. Howard Reingold of Sausalito, editor of the *Whole Earth Review* and author of *The Virtual Community*. Mr. Reingold describes the information superhighway as a door that "You can walk through, and you're in Australia or Tokyo."[77] Growing interest in sex and the superhighway is shown in such popular press articles as "Where Love Has Gone: Who Needs Singles' Bars? In the 90's, Romance is Just a PC away"[78] and "Men, Women and Computers."[79]

Sales & Marketing Strategy and Tactics

ECI's key marketing goals will be to build a large customer base, to create long-term alliances with key channel partners, to establish us as a dominant technical player with a sustainable cost advantages and mind share and to capture the first mover advantage.

4.1 Direct Sales and Distribution Strategy

ECI plans to sell direct at first by reaching customers through network message boards, chat rooms, e-mail and Internet-related organizations. Our service is initially free, so this network advertising should not violate accepted norms of conduct ("netiquette"). Electronic Matchmaker, the company ECI purchased, was a successful network advertiser.

Highly automated ECI architecture will not require employee hand-holding of customer interaction. E-mail and Internet access will be low cost; for existing users of electronic mail (other than those at value add on-line services or BBS's) and the Internet, ECI can be as close as the potential channel partner.

We plan to tag content with its source using unique e-mail addresses and marked surveys. With pooled WWW links, we will know what WWW link was utilized to get to our home page. This automatic tracking by source allows us to track effective marketing programs.

ECI may use direct mail in the future to market to specific groups or locations. The Company could also have an electronic magazine, free to our customers. This magazine would contain helpful hints on using the service, customer success stories, cross-selling and discussions of other relevant topics.

4.2 Channel Partners Sales Strategy

ECI plans to sell through selected channel partners when appropriate. In certain cases, potential channel partners have a closer relationship with the potential customer than ECI. The business model is similar to some highly successful 900 numbers which share revenue with newspapers and other content channels. We plan to tag our content with its source using unique e-mail addresses, marked surveys and pooled HTTP links. This automatic tracking by source allows ECI and our channel partners to allocate revenue and expenses. Channel partners could include:

Alternative Weekly Newspapers. Typical alternative newspapers include *San Francisco Bay Guardian*, *The Los Angeles Weekly* and *The Chicago Reader*. Alternative weeklies traditionally have younger and more open minded readers than the mainstream newspapers. These papers also tend to have readers that are more on-line oriented. We have found only one weekly, the *Palo Alto Weekly*, currently accessible using Internet Mosaic. Several alternative weeklies do have e-mail addresses.

Mainstream Newspapers. Typical mainstream papers include the *San Francisco Chronicle* and the *Chicago Tribune*. Certain mainstream papers are starting to be accessible though services such as America Online (*San Jose Mercury News* and the *Chicago Tribune*). None of these papers are currently on the Internet although some are starting to have e-mail addresses. As we saw before more and more of these mainstream papers carry the personal classifieds. The mainstream papers desire the lucrative personals revenue, but lack the knowledge to develop the service well and sometimes shy away from perceived image problems of personals ad sections. ECI could be a great solution towards participating in this market.

Most newspaper ad revenue is derived from resulting voice mail service fees. Billing providers such as AT&T typically charge about a third of voice mail service revenue for billing and transportation.[80] The newspapers get the major part, with the rest going to the provider as a service bureau fee.[81] ECI plans to cut out billing provider charges, retaining the one-third portion in the economic flow. Our global scope and professional service level may allow us to negotiate better arrangements with newspapers. Once we have several newspaper channel partners, we plan to hire a sales force to focus on selling to them.

900 Service Providers. 900 service providers would be ideal to have as master distribution partners because of existing relationships with alternative and mainstream newspapers.

Due to industry concentration, ECI could make a large impact with just a few initial contracts. The apparent leader in 900 service providers, Tele-Publishing of Boston, Massachusetts (a unit of the *Boston Phoenix* an alternative newspaper), claims a 44% market share. Their 1993 estimate is approximately 35% higher than 1992. Another leader is Brite Voice Systems, Inc. of Wichita Kansas. Brite claims to have the largest share (29%) of the voice personal market among the top 25 U.S. daily newspapers.

Dating Services. These include Great Expectations, Heart-to-Heart™ and many non-profit ethnic-oriented dating services. Specialty dating services include Friendship Exchange™ , a dating service for those with severe mood disorders or schizophrenia[82], Science Connection, Inc. for men and women in science[83], VeggieMates™ (for herbivores), Stargazers™ (for astrology buffs) and even Unattached Smokers of America.[84]

Our sales proposition to these dating services is simple: "you can get additional revenue when using our system from your existing customer base. You can also still control customer interactions." We plan to hire a sales person to target the larger dating services directly and reach the rest by telemarketing to them.

Cable Companies. Interactive cable will allow extremely rapid data transmission, allowing for easy multimedia interaction. This high-speed future is attracting the on-line networks: "We would tell all of our customers, 'get off the phone system and get on the cable system,'" said Mr. Scot Kurnit, Executive Vice President of Prodigy Services.[85]

When our system is ready for interactive cable, we plan to pick a group of large cable companies as our marketing partners and market the service through them directly or hire a sales force to sell directly to the top 20 or so operators. These top 20 cable operators control two-thirds of the nation's nearly 58 million cable homes.[86]

Value Added Service Providers. Customers to value added service providers such as America Online, CompuServe, Prodigy and GE Information Systems can reach us using their electronic mail. We plan to market our questionnaire on their services using guerrilla marketing with marked questionnaires including message board listings, chat rooms and other methods.

We also plan to work directly with the largest of these providers to have ECI appear as a "door" or "room" for ECI service. The benefit to these providers would be shared incremental revenue. With other specialized value added service providers such as O'Reilly & Associates, we could advertise on their WWW page / Global Network Navigator (GNN) service as well as conduct business under their existing marketing programs.

Pipeline Providers. We plan to be interconnected with general large pipeline providers such as AT&T, MCI and Sprint and also specialized pipeline providers as PSI, UUNET and Netcom through electronic mail. We plan to work with the specialized pipeline providers by conducting joint marketing programs to their customer base through electronic mail and login messages.

BBS System Operators. We intend to sell the service through BBS system operators soon. Many desire additional revenue, and they are easy to reach. For example, Ms. Ellen Pack, President of Women's Wire says "Women's Wire would be very interested in carrying the ECI service as it is an additional source of incremental revenue to us and also a benefit to our customers." We plan to reach BBS system operations by telesales, direct mail and advertisements in trade publications such as *Boardwatch Magazine*.

Specialized Advocacy Organizations. We plan to give away our service to influential advocacy organizations such as PeopleNet, a disabled peoples organization, or Digital Queers, a gay and lesbian high tech organization. These marketing channels can expand our market and provide valuable early adopter consumers at low cost. We may sponsor events or provide free trials.

OEM / Private Label Relationships. We do not plan to search for these opportunities initially. However, we will investigate OEM relationships with vendors wishing to demonstrate a visually rich product or provide intelligent search.

4.3 Pricing Strategy and Business Economics

We intend to charge on a per use basis, while allowing free lists. The majority of revenue will come from per match and browse charges with remaining revenue coming from e-mail, match information, multimedia and special service charges. Net variable contribution margin after indirect distribution costs may top 60%, before subscriber acquisition costs.

Variable Margin Model

Item per average customer per month	Direct	Indirect	Assumptions
			Indirect Distribution is through using channel partners
VARIABLE REVENUE			
Fixed monthly charge for being on the service	0.00	0.00	Assumes that people can post for free
Per match per full browse	30.33	15.17	Assume average is 3.5 matches per week at $2 per match
Receiving a matched listing's full database entry	5.00	2.50	Average is 5 matches per week at $0.25 per match
Charge per e-mail message sent	5.80	2.90	$.29 * 20 messages per month average
Per additional picture, video or sound.	0.14	0.07	$5 per update with 25% updating once, 10% twice during customer life
Charge for changing your information	0.63	0.31	$25 per update, 25% charge each month
Charge per additional profile	0.50	0.25	$5 per profile, 10% have two profiles
Charge per Kbyte for on-line storage for pictures	1.00	0.50	Assume $1 per month for now
Net revenue per flowers - other services used	0.42	0.21	$25 value per usage. 20% do this once over lifetime per hour
Charge per e-mail cancelled	0.25	0.13	$5 per cancel (5% use this once per month)
Charge per special human matchmaker search	0.42	0.21	$100 per hour (5% use this once over life)
Net revenue from customers events (metro areas)	0.08	0.04	$20 per customer per life of customer. 5% use this
Charge for accessing our chat line services etc.....	0.25	0.13	$.25 average per month (guess)
Charge for accessing our consultants, etc..	0.25	0.13	$.25 average per month (guess)
Charge for 800 or 900 number access	1.00	0.50	5% of customer base. $1 per minute. 20 minutes total per month
Total Average Revenue	$46.06	$ 23.03	
VARIABLE EXPENSES (before acquisition costs)			
Communication charges - Cost of Revenue	17.42	8.71	Using 1992 and 1993 AOL averages (of all revenue)
			92,93 COR=12036, 18542. 92, 93 Net service revenue = 26226, 38462
			Assuming 20% Free Internet / E-mail access
			Fixed costs approximately $1,800 / month (255 connections)
Set-up and technical support cost per customer	0.56	0.00	Estimate (10 min. set-up+10 min. tech supp.). $20 hour over lifetime
Total Average Variable Expenses	$ 17.97	$ 8.71	
EVC (Monthly)	$ 28.09	$ 14.32	
Average life of customer - months	12	12	Estimate based on people's experience with personals
TOTAL EVC	$ 337.06	$ 171.86	
Customer Acquisition Costs	$ 7.85	$ 0.00	Using 1992 and 1993 AOL averages
			92,93 Amort Costs =3991, 7038, 92,93 Net service revenue = 26226, 3
Lifetime Customer Acquisition Costs	$ 94.24	$ 0.00	Fraction of Average Gross Revenue

Actual funds may be collected from direct customers by credit card or auto-withdrawal. We plan
to bill channel partners on a net 30 basis.

4.4 Market Positioning

We plan to position the service as solving the five main problems areas with existing service
providers: privacy, information, good matches, cost and responsiveness. We will target
significant marketing to women; our competitive advantages over both dating services and
personal ads tends to benefit women more than men, and women tend to be harder to sign-on to
relationship services. Our sustainable competitive advantages can also benefit the substantial
gay and lesbian market. Gays and lesbians sometimes lack meeting places for partners and have
traditionally been very open to new methods of personal interaction. By marketing to these
groups, we can lower marketing costs and gain leverage. Additionally we plan to use quality
trademarked brands such as Electronic Matchmaker™ to build brand equity.

4.5 Rollout Strategy

ECI plans to rollout direct service by free trials to build a critical mass of customers. ECI may focus on specific geographic areas to build a viable base of listings to begin regular pricing. ECI plans to utilize press coverage, electronic network advertising, contests and WWW listings to spread the word. Success in several metropolitan areas will help build press coverage and momentum nationally. During the first year of service, ECI will target segments which show strong potential and may disproportionately influence market trends. For example, ECI may perform demonstrations at professional graduate schools and ethnic and community fairs or events.

Before the paid rollout starts, ECI plans to refine the questionnaire acquired with Electronic Matchmaker. ECI plans to use focus group testing, and we may have a review by professional behaviorists. Their input would improve the product and support marketing.

We plan to market the image of ECI, stressing these two vision themes: "On-line classifieds with images and audio," and "The funniest and most useful Information Superhighway application, featuring person-to-person advertising, with a high degree of privacy." ECI's vision and services will make great material for media news coverage.

4.6 Possible Future Products and Services

ECI can easily change our database to serve other markets. Potential markets include used and specialty autos, real estate rental, antiques and collectibles, financial instruments and other services that would benefit from private, efficient searching. Derivative applications could include escrow services to facilitate such brokering. ECI may seek industry partners to develop certain markets but does not anticipate developing these additional markets soon.

Assessment of Competitive Advantage and Potential Market Entrants

In this section, we will discuss barriers that will discourage competition and new market entrants. We also look at how existing service providers can change to compete.

5.1 ECI Sustainable Competitive Advantages

We believe ECI's system will have sustainable competitive advantages and support barriers to new entrants once the customers base and channel partners reach a critical mass.

Access to Emerging Distribution Channels. ECI plans to sell its service indirectly through channel partners with exclusive or restrictive contracts. After these channel partners are locked up, potential competitors may have difficulty selling into these channels. The same may be true of ECI WWW links.

Switching Costs. Once a customer has filled out our extensive questionnaire and uses our service, the customer would have to fill out another questionnaire and learn another system to switch. This considerable time and effort forms a switching cost barrier to competition.

Economies of Scale. New entrants may be discouraged by economies of scale in data communications and spreading fixed support and development costs over a large customer base.

Capital. We expect that most new entrants will be mom-and-pop shops. To create a service equal to ours, they will probably have to spend $ 250,000 just to duplicate the technology and marketing effort, especially after we have customers' mind share. This barrier may increase as our customer base increases.

Product Differentiation. We plan to differentiate our service by selling at lower price points. We do not believe that most existing dating services will be able to match us on price. Additionally we will try to build brand loyalty, with trademarks such as "Electronic Matchmaker" and an innovative electronic mail address (such as `match.com` or `personals.com`).

First Mover Advantage. By being one of the first viable WWW services on the net, we hope to get a leading proportion of customer mind share. We'll also learn about operating such a business on the net before others. Because of the vagaries of netiquette, it would take potential entrants some time to learn to market a service on the Internet and through electronic mail.

Intellectual Property Protection. ECI may be able to register patents on some of our technology and architecture, more specifically those relating to HTTP / 900 number interaction.

5.2 Alternative and Mainstream Newspapers

Newspapers have valuable assets. They direct customer contact. Customers are accustomed to looking in the personals and are accustomed to using newspapers. Newspapers are actively looking at how they can become part of the "information superhighway." A good example of this is the Mercury Center, the electronic offering of the *San Jose Mercury News*. Newspaper and media groups are well funded so they can explore the best information offering or mix to attract customers to their electronic outlets. They already have a direct installed base of customers to assist them in these efforts.

However, ECI can become the "best of breed" by focusing. We can focus while newspapers must work on their entire system. We can apply learning with one customer or channel to technology, marketing and distribution in other areas. Few newspapers operate their own personals (they contract service bureaus for the process).

ECI plans to have a larger, more global base than most newspapers. We can garnish more possible matches to attract new customers. Local customers can now reach beyond traditional newspaper localities. ECI revenue will be global and may be less sensitive than local newspapers to locally competitive markets.

5.3 900 Service Providers

Existing 900 service providers and service bureaus have a big advantage in that they are already working with newspaper distribution channel. They know how to sell to newspapers and know exactly to whom to sell at newspapers. They are already funded and they are most likely exploring new distribution methods as well. 900 service providers would be able to provide picture delivery by adding fax servers. Some have also provided innovative voice mail services such as call forwarding and targeted call blocking.

However, most 900 service providers would find it difficult to establish well-integrated WWW / electronic mail servers. Additionally, marketing and setting up distribution channels in the relatively uncharted and quirky world of on-line communications would be new to them. ECI's global reach will also provide advantages to combating competition from 900 lines.

5.4 Dating Services

Dating services have focus and a good understanding of what customers want. Many people like working face-to-face with a "counselor."

ECI believes that it has several sustainable competitive advantages over existing dating services. The first advantage is price. Our target price point is about $ 50 per month. At Great Expectations and similar dating services, pricing varies with a street price of approximately $ 1,000 for a one year membership. Many other dating services are at even higher price points.

Dating service cost structures will not be able to compete on price, because costs typically include ample local customer-ready office space, counselor personnel costs and franchise fees. According to Kenneth Keegan, CEO of the franchise that owns the three Bay Area Great Expectations, "the [high] fees are necessary to cover the firm's lofty overhead, much of which stems from its direct-mail advertising and maintaining a staff of 85 people."[87] They also suffer from legal constraints on their fees. For example, Great Expectations can not currently enter New York because cost exceeds the state's $ 250 ceiling on fees. [88]

ECI's flexibility such as at-home use or availability of different search goals can not be easily matched by dating services.

Additionally, dating services are skittish about utilizing technology. "Great Expectations is ambivalent about automating a business that hinges on emotions. I'm both intrigued and terrified" says Great Expectations founder and president Jeffrey Ullman. "The potential detriments are that it may overemphasize the visual in-lieu of other qualities."[89]

5.5 Interactive Cable Providers

Cable television companies have ample cash flow and good customer contact through billing and channel space. However, interactive cable television is still experimental with national rollout

several years away. In addition, some cable companies have poor service reputations with consumers. Most cable providers have not been technical pioneers and they often grow by acquisition rather than building a new service from the ground-up.

5.6 Pipeline providers

Pipeline providers, such as AT&T, have low cost structure and good cash flow, but will probably remain in the data-hauling business. Pipeline providers usually have relationships with the system administrator, and their operation is usually transparent to the customer.

5.7 Value-Add Service Providers

It seems that value add service providers are in good position to compete with the ECI. They know how to market on-line services well. They control the customer's graphical user interface (GUI), select content available to the user and maintain accurate records of service and billing. They also have physical infrastructure in place. Because of their success, they are cash rich and well able to build or purchase most any information provider they want. The networks' "chat" services have led to numerous relationships between people. [90]

However, value-added on-line services tend to resell services that content providers, such as ECI, manage and offer. For example, rather than own and develop a travel reservation system, on-line services offer SABRE and other third party reservation systems. This allows the on-line service to focus on network management, customer service and marketing while choosing the best content available from vendors.

ECI would provide a diverse and open environment for singles. However, most value added on-line services market themselves as family oriented entertainment; freedom to market wide-ranging ad content to singles may not be consistent with overall image.   Some feel that Congress should legislate acceptable modes of operation [for on-line services].[91]   Recently America Online hosted a forum with Mr. Bob Guccione, publisher of *Penthouse*. According to Pam McGraw, a spokesperson for America Online, "It is a concern [where the chat might lead]". Another spokeswoman, said no sexually explicit discussion would be allowed.[92]

Local BBS chat services have led to many relationships between people and have loyal niche-oriented customers.[93] However, they also are much more sexually explicit and less family

oriented than the value added on-line service providers. Local BBS's probably do not have the critical size to compete with ECI and provide satisfactory match possibilities.

Technology Strategy and Product Development

6.1 Technology Goals

ECI intends to lead the application of proven technology in new areas:
- Develop the premier delivery architecture for person-to-person classifieds.
- Develop seamless systems integration which allows pipelines and direct access routes to interact with ECI services.
- Minimize customer support costs by using existing communication pipelines and clients.

The initial architecture and system implementation will be accomplished with several months of developer time. The basic architecture will provide a foundation for future growth of ECI's customer base and domain expansion. This up-front design will help ECI avoid the common pitfall of ad hoc system building which results in a patchwork of software.

6.2 An Architectural Overview
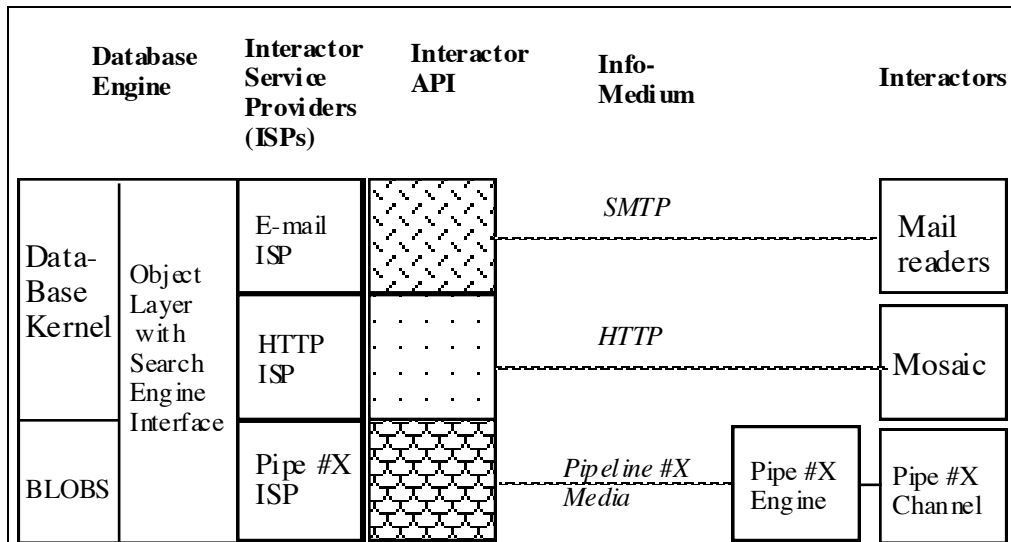
The architectural outline is based on the client/server model. The user of ECI's information is a set of Interactors (such as a electronic mail reader, a Mosaic program, information pipelines like interactive cable television). There is a set of Interactor Service Providers (ISP's) sitting on top of the database engine's Object Layer. These ISP's have a set of well-defined interfaces (Interactor API's) for talking to the interactors across an info-medium (like the telephone or the Internet).

Examples of ISP's are: a Hyper Text Transport Protocol (HTTP) server, an e-mail list server and a login-shell replacement (The Interactor API's will be realized in these programs.). Corresponding interactors are: Mosaic, a MIME e-mail reader and a terminal emulator hooked to a modem. There will also be other specialized interactor API's for value add service providers and other service providers to communicate with.

6.3 The ECI Database Engine

The ECI Database Engine is the core of the ECI architecture. It is the repository of not only information of the details of ECI's customers, but also billing and support information. All documentation and database forms may be also stored in this database. In effect, it is the place where all of ECI's information and interaction rules are stored.

We plan to use a high performance database kernel. The ECI database engine is planned to be designed as an *abstract datastore interface* on top of this database kernel, via the Interactor Service Providers (ISP's) and the Object Layer. All applications, including those which interface with outside entities such as interactive cable television providers, should go through this abstract datastore interface, as implemented through the ISP's. This interface can be realized initially on the traditional relational databases (e.g. Sybase, Informix, Oracle).

Searching. Relevance ranking allows ECI to perform fuzzy searching and match prioritization. Thus, the ability to execute relevance rankings algorithms is needed to perform intelligent searches for customers. A more brute-force method will support initial rollout of search functions.

Binary Large Objects (BLOBs). The storage and retrieval of images (and information in other non-text media) is an essential component of the ECI architecture. We do not see the need for initial embedded intelligence in these BLOBs.

Security and anonymity. Security is essential to providing ECI's customers with a sense of privacy. Furthermore, anonymity may be mandatory for all customers. Thus, security should be built into the core of the Object Layer— no customer retrieves any unauthorized information without going through the security layer. Anonymity will be achieved with an anonymous alias corresponding to the actual electronic mail address.

Billing. Because of the use of commercial off the shelf (COTS) databases, interface to existing billing and accounting packages are possible. These COTS databases have many available and tested third party billing packages. We plan to e-mail an itemization of all charges directly to the customers as well as channel partners.

Server Hardware. We are using upgradeable Sun SPARCservers running UNIX as development and production platforms. Using UNIX allows easy electronic mail and Internet access. ECI will probably need only one machine as the initial production server.

6.4 Communication with the ECI Database Engine

The ECI Database Engine can be reached by several transport protocols. The first two transport protocols will probably be Simple Mail Transport Protocol (SMTP) and HTTP. These common industry standard protocols are in the public domain and include excellent development tools.

Initial Support for MIME and HTML. Initially, the Company plans to support (a) plain text mail and MIME (Multipurpose Internet Mail Extension) on SMTP for e-mail clients and (b) HTML (HyperText Markup Language) on HTTP for Mosaic clients. If the customer has MIME available, ECI should support standard multimedia formats (JPEG, MPEG, PICT, TIFF, QuickTime) from within MIME. ECI also plans to be accessible as an Internet WWW server in both character-based Lynx mode and HTML Mosaic mode.

Interactive Cable Television. The interactive cable television access most probably will be in native format of those services. This will probably be done with their API's linking into our media independent API layer. This will be fully investigated when the time is more appropriate.

Value Add Service Providers and BBS. Accessing these services will probably be performed through their own native API's. Third party service providers such as American Airlines have implemented this approach. Several commercial packages used by BBS operators facilitate access.

6.5 External Communication Links

Initially, ECI plans to be linked to the outside work by a 56KB line growing to a T1 bandwidth. This should allow for e-mail, WWW access, FTP, Gopher and Archie access. Future access may

include direct telephone access or direct integration with 900 numbers. Other possibilities include TeleScript, PersonaLink and other agent technologies.

Interactive cable television (ICTV). Access can be accomplished over the Internet using rpc calls or by using dedicated lines. ECI's system would appear as an ICTV channel accessible through a customer's decoder. Interfacing with ICTV requires a careful design of an ICTV ISP and work with the ICTV vendor to design the interactor.

Value Added Service Providers / BBS. ECI plans to establish real-time links to value-add service providers and to commercial BBSs. The connections to BBSs may be similar to those to ICTV vendors. For those using a value add service provider or commercial BBS ECI's system would appear as a "door" or "room" in which their customers could access the ECI service.

6.6 Interactors and the Customer Experience

Interactors' ease of use and functionality will be important to customers. Initially, ECI plans to use interfaces that people are comfortable with such as existing e-mail readers and Internet Mosaic. We want to avoid requiring customers learn a new application or interface.

In the beginning most customers likely will use ECI in two ways: as an ASCII questionnaire to fill out or as a HTML page on Internet Mosaic. Soon afterwards they will, if they have MIME, likely be able to use the questionnaire in their native MIME reader. The MIME questionnaire might run automatically contingent on their local system attributes.

If customers are using an ASCII mailer, they will use their local editor to complete and send ECI the data. Sending or receiving multimedia objects will be more complex—the customer would either need a MIME reader or be knowledgeable about cutting, pasting and decoding SMTP-encoded BLOBs. Even initially, the ECI system will probably be MIME-aware; the ECI system will pass MIME information through without destroying the formatting information. If customers have MIME, filling out the questionnaire and transporting multimedia should be even easier.

If customers are using Internet Mosaic, they will probably get to the ECI home page using links set by ECI. We plan to mark these links; lead sources will be tracked for marketing and revenue sharing with channel partners. They can browse in real time with the ability to drill down on information. They will also be able to transparently upload and download multimedia objects.

Interactive cable television customers may be able use their remote control to move between images and customers. Functionality may depend on the decoder provided by the ICTV company.

6.7 Multimedia Input

Although the entire system is designed to work with plain-vanilla ASCII text, ECI believes that relatively few customers can input the multimedia themselves. For those that have scanners or other input equipment, ECI plans to allow popular formats to be stored in files to be uploaded for one-time-only transmission. We are also considering using automatic format converters so, for example, one customer can store her picture in TIFF format and another can retrieve in JPEG format. ECI plans to use a 800 or 900 number to leave audio for those with no audio recording devices. Audio playback can be done also by using the same 800 or 900 numbers. However, this does not stop customers from storing audio format files for others to access.

Many customers could use a network of service providers, such as Kinko's Copies, for data input. When customers send ECI their zip codes, we can send them a list of the five closest Kinko's to scan in their pictures. Customers can also send their picture to ECI for scanning. Pictures can also be input by increasingly common high resolution fax machines.

6.8 ECI Software Methodology

ECI's approach to realizing the architecture is similar to one a systems integrator would take. ECI expects to find many components available as either public domain software (such as an HTTP server) or purchasable modules (such as the database). We plan to use an object-oriented, modular approach to system design and building. To facilitate rapid development, the glue planned to hold ECI's modules together will be standard Borne Scripts or Perl Scripts. Modules that need higher performance will probably be built in C or C++, as appropriate.

6.9 Technology Summary

The Company's technological approach is conservative and reasonable. The technology needed to build the ECI system is well-understood and readily available. We believe we have an architectural design which will support ECI business needs and grow with the Company. Development timelines appear in the milestone section of this plan.

Management, Directors and Advisors

7.1 Current Management Team

ECI has assembled an experienced management and engineering team to lead the Company to growth and profits. The team includes:

Gary Kremen, *President -* Mr. Kremen has over ten years experience raising small companies and developing information technology. He was a principal founder of Los Altos Technologies, Inc. (LAT), a leader in UNIX security. At LAT, Mr. Kremen was directly responsible for marketing, business development and finance, primarily authoring the first and second round business plan that raised over $ 1.2 million from private investors, negotiated all principals' employment relationships including equity allocations and initiated or negotiated strategic company partnerships. He remains one of LAT's largest shareholders. He was a Member of the Technical Staff at The Aerospace Corporation where he worked as a software engineer in the areas of computer security and software metrics. Later he founded a consulting practice which focused on strategic planning and operational finance for emerging growth technology companies. Mr. Kremen's education includes both degrees in Computer Science and in Electrical Engineering from Northwestern University and an MBA from the Stanford Graduate School of Business.

Peng Tsin Ong, *Chief Architect* - Mr. Ong has over nine years of software design and project leadership experience. Mr. Ong's first software job was implementing a prototype for a field logistics system for the military. From 1991 to early 1994, he was a senior software engineer at Sybase, where, amongst other projects, he designed parts of the next-version SQL Server release. He was at Gensym Corporation for several years, first as a software engineer and then as a manager of ports and releases in the Development Group. He has demonstrated abilities for designing large software systems. Mr. Ong has a Bachelors in Electrical Engineering from the University of Texas at Austin and a Masters in Computer Science from the University of Illinois at Urbana-Champaign.

Scott Fraize, *Lead Developer* - Mr. Fraize has led software development in UNIX, X-Windows, OI, C++, Oracle, PostScript and Perl environments. At Xerox Business Systems Development, Mr. Fraize managed a work team on a complex financial modeling application. He designed and implemented a GUI which successfully supported novice users, and he created an intelligent

UNIX distribution that eased support of remote sites. While earning a Bachelors of Arts in Computer Science at the University of Rochester, Mr. Fraize developed a consumer banking expert system from prototype to delivery. Mr. Fraize has also been a teaching assistant in computer sciences and served as principal UNIX developer of TechInfo, a public information system developed at MIT.

Kevin Kunzelman, *Systems Integration Engineer* - Mr. Kunzelman worked at Verity, Inc., the leading text retrieval company. He is a Ph.D. student in Cornell University's Applied Mathematics Program. Mr. Kunzelman is the primary developer of the Cellular Device Machine Development System (CDM-DS) at the University of California at San Diego and PSTool, a particle system simulator at Cornell University. While at UCSD, he served as Chief Software Architect at the Lab for Biological Informatics and Theoretical Medicine.

Simon Glinsky, *Marketing and Business Development Consultant* - As founder and Principal of The Glinsky Group, a business and organizational development firm, Mr. Glinsky has successfully developed and implemented organization and marketing at both start-ups and established companies in software and other industries. Mr. Glinsky has also been an instructor in Stanford University's MBA Interpersonal Dynamics Program. He serves as an officer on the Board of Directors of the STOP AIDS Project and is Chairman of the Philomathean Endowment Trust at the University of Pennsylvania. Mr. Glinsky received his Bachelors Magna cum Laude as a Benjamin Franklin Scholar at The Wharton School and holds an MBA from Stanford University. He was formerly with IBM, Radius and McKinsey & Company.

7.2 Board of Directors

ECI intends to have an effective and useful Board to assist management on substantive issues. The Board of Directors currently includes:

- **Steve Farber**, Senior Vice President of Sales & Marketing at Summit Data Systems, a system integrator. He was formerly Vice President of Strategic Sales at Vantive Corporation and before that he was the salesperson at Informix Corporation.

- **Gary Kremen**, President of Electric Classifieds, Inc..

- **Peng Ong**, Chief Architect of Electric Classifieds, Inc..

7.3 Advisory Teams

Marketing Advisory Board

- **Steve Farber,** Board of Director's of Electronic Classifieds, Inc..

- **Marc Fleshmann**, President of Internet Distribution Services, the company which led the market by placing the *Palo Alto Weekly* on-line.

- **Simon Glinsky**, Marketing and Business Development Consultant to Electronic Classifieds, Inc..

- **Steve Harari**, President of Enterprise Integration Technologies, recently awarded the CommerceNet government contract. He was formerly a senior manager with Schlumberger Technologies.

- **Eric Klien**, Founder of Electronic Matchmaker and Internet Guru.

- **Ellen Pack**, Co-founder of the on-line network WIRE, Women's Information & Resource Exchange.

- **Richard Yanowitch**, Corporate Vice President of Marketing at Sybase. He was formerly with The Santa Cruz Operation.

Technical Advisory Board

- **Ben Dubin**, Co-Founder of Los Altos Technologies. He was formerly with Sun Microsystems as a software developer.

- **Ken Ng**, Database Architect at Oracle Corporation. He was formerly with Borland International and Informix.

Service Providers

- Accounting: **William Pfann**, Partner, Price Waterhouse

- Banking: **Ken Brenner**, Executive Vice President, Cupertino National Bank

- Legal: **Aaron Alter,** Partner, Wilson Sonsini Goodrich & Rosati

Corporate Milestones and Operational Plans

8.1 ECI Accomplishments Since Inception

- Identified and analyzed a valuable, poorly tapped market.
- Performed research on market potential, competitors and technology.
- Developed initial technology plans including architecture, platforms and transport media.
- Developed business plan that may enable ECI to reach $ 50 million revenue within 5 years.
- Completed acquisition of Electronic Matchmaker, including questionnaire and customers.
- Recruited experienced team members and exceptionally strong advisory panels.
- Opened Company offices at 340 Brannan Street in San Francisco's Multimedia Gulch.

8.2 1994 Corporate Milestones & Operational Plans

By April 1, 1994 (Q1)	By July 1, 1994 (Q2)	By October 1, 1994 (Q3)
~~Investigation of who sells 900# st to the classifieds market~~	First marketing / administrative person hired	Conversion of database to paid started
~~Extended market research in process~~	Start of CEO search	Sales representative hired
~~Investigation of E-mail server / OORDB technology start~~	First close of first financing round	Business plan for second financing in circulation
~~Investigation of other relevant technologies started~~	Network comm./ SA expert on board	PPM for second financing in circulation
	Purchase of production SUN	General marketing rollout plan written
By May 1, 1994 (Q2)	56KB line up and running	Release of phone audio recording and access system
~~Close on Electronic Marketplace transaction~~	Beta testing of E-mail server / database in progress	HTTP server working
~~Presentation second draft in circulation~~	Beta testing of E-mail lead tracking software	MIME mail working
~~Business plan first draft in circulation~~	Beta test of test environment	Beta tests of modem and Telnet access in process
~~Additional Market Research and customer contacts~~		
~~Start search for office space~~	**By August 1, 1994 (Q3)**	
~~Start interviewing for developers~~	E-mail server accessible to subscribers	**By November 1, 1994 (Q4)**
~~Purchase of development SUN~~	E-mail lead tracking software running	CEO hired by this date
~~Architectural development plan for 1994 in place~~	Network marketing rollout launched	Communications developer search started
	Marketing person #1 search started	Start of general marketing rollout
By June 1, 1994 (Q2)	Enhanced e-mail beta testing in process	VT100 Modem access working
~~Start search for marketing / administrative person~~	Archie, gopher, veronica testings started	VT100 Telnet access working
~~Company moves to office~~	Search for telephone audio recording and access	
~~PPM in circulation / funding meetings~~		**By December 1, 1994 (Q4)**
~~Network marketing rollout plan written~~	**By September 1, 1994 (Q3)**	Close of second round funding
~~All help texts for e-mail access written~~	Marketing person #1 hired	Communications developer hired
~~Start of Network comm. / SA expert search~~	Sales representative #1 search started	Start investigation of Modem / Telnet / e-mail clients
~~Developer #1 hired~~	Pricing / paid subscriber plan in process	
~~UUCP up and running~~	Enhanced e-mail working	
~~Investigate test plan and test environment~~	Beta test for telephone audio recording and access	**By January 1, 1995 (Q4)**
~~Search for E-mail list server / anonymous software~~	Viewers for enhanced e-mail available for access types	Begin beta tests of Modem / Telnet and e-mail clients
~~Search for E-mail lead tracking software~~	HTTP / WWW beta testing in process	
	MIME mail beta testing in process	
	Archie, Gopher, Veronica access working	
	Hookup to credit card company working	
	Testing of billing system	
	T1 line up and running	
	First beta at marketing partner site	

Financial Projections, Use of Proceeds and Exit Routes

9.1 Forecast Summary

The Company's projected financial position are based on timely funding, variable margin and other assumptions described in the forecast. The forecast reflects management's judgment as of the date of this forecast based on expected conditions and the Company's expected course of action. Events and financial assumptions may not occur as expected. These differences may be substantial and material and may cause actual results to differ from forecast results.

ECI's Five-Year Projection ($ thousands)

Year	1994	1995	1996	1997	1998
Revenue	$ 93	$ 4,384	$ 15,572	$ 28,726	$ 44,016
Net Income	($ 261)	$ 558	$ 2,253	$ 5,085	$ 7,883
Paid Customers	800	17,513	36,891	68,755	106,489

9.2 Use of Funds

ECI is seeking to raise $ 300,000 of additional funds to fund product development, the initial product rollout, offices, salaries and capital equipment. ECI plans to seek another round of financing at a higher valuation in 1995. For more information see Appendix B.

9.3 Exit Strategies

There are several logical and achievable exit routes for investors:

Purchase by a newspaper and media group. Many newspapers and newspaper groups are quite interested in on-line information services as a logical extension of their missions. Newspapers and media groups understand the economics and operations behind ownership of content. For example, the largest 900 number service bureau provider, Tele-Publishing, is a subsidiary of The *Boston Phoenix*, one of Boston's alternative newspapers while The Tribune Publishing Company (*Chicago Tribune*) has large holdings in America Online. Potential acquiring newspaper and media groups include: Newhouse, Scripps-Howard, Tribune, Knight-Ridder, Cox, Thomson, Gannett, Singleton, McClatchy and ABC / Capital Cities.

Purchase by a 900 or audiotext provider. Existing 900 providers share and understand many of the business models that may lead ECI to success. They do not understand emerging on-line markets. ECI technology, market knowledge and certain unique untapped distribution methods would be synergistic to their existing operations. Potential acquiring 900 or autotext provider could include: Brite Voice Systems, Inc., Tele-Publishing or MicroVoice Applications.

Purchase by a value add on-line service. Partnerships and alliances between value add on-line services and information providers are common. For example America Online has strategic partnerships with Time Warner, Knight-Ridder and *The Chicago Tribune*.[94] They may desire further vertical integration. Potential acquiring value add on-line service provider could include: America Online, Delphi, CompuServe, Prodigy and GE Information Services.

Purchase by a cable provider. Cable companies have been integrating backwards into content for the last several years. Strong cable industry valuation of content can be seen in the recent Viacom / Paramount takeover. Such cable companies might be very interested in ECI especially if our systems supports interactive cable television. Potential acquiring cable providers could include: TCI, Continental Cablevision, Comcast, Cablevison Systems, Cox Cable Communications, Jones Intercable, Cablevision Industries or Century Communications.

Purchase by vertical content provider. Existing privately held vertical content providers might desire to diversify into other area. For example, a business-to-business information provider such as American Business Information might be interested in acquiring a person-to-person technological platform and marketing company. Potential vertical content providers could include: Primark, RR Donnelley, American Business Information or Auto Info.

Initial Public Offering (IPO). ECI may decide to provide liquidity through an IPO such as a small-cap IPO. For example, Touchstone Software with 1991 sales of $ 3.7 million completed a small-cap IPO.

Recapitialization. A partial or total recapitialization might be available to investors through stock purchases by other investors or corporate stock repurchase. This options may become more viable when ECI reaches positive cash flow.

Cash Distributions. Depending on available cash flow, other potential uses for such cash flow and market conditions, it is possible that investors might see early returns in the form of cash distributions.

[1]Footnotes

[1] *American Demographics*, April 1992.
[2] *Marketing News*, July 6, 1992.
[3] *American Demographics*, April 1992.
[4] *American Demographics*, April 1992.
[5] *American Demographics*, November 1993.
[6] *Marketing News*, July 6, 1992.
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Appendix A - Resumes of Key Team Members

1.   Gary Kremen, President

2.   Peng Ong, Chief Architect

3.   Scott Fraize, Lead Developer

4.   Kevin Kunzelman, Systems Integration Engineer

Gary Kremen #1

Gary Kremen #2

Peng

Scott

Kevin

Appendix B - Past Financial Results, Assumptions and Projections

1   Assumptions used in ECI financial projections.

2.   1994 - 1998 ECI projected unit sales, contribution margins, sales metrics and
           equivalent headcounts.

3.   1994 - 1998 ECI projected direct customer acquisition costs, indirect sales &
           marketing expenses, and research & development expenses.

4.   1994 - 1998 ECI projected administrative and operations expenses, summary
           income statement and income analysis.

5   1994 - 1998 ECI projected expense analysis, capital investments, cash flow
           analysis.

6.   1994 - 1997 ECI cash flow statement and balance sheet

1   Assumptions used in ECI financial projections

2. 1993-1994 ECI financial actuals and projections #1

1.1993-1994 ECI financial actuals and projections #2

2. 1993-1994 ECI financial actuals and projections #3

1 1994 - 1997 ECI financial actuals and projections #4

2. 1994 - 1997 ECI financial actuals and projections #5

Attachment I - ECI Mosaic Home Page

Attachment II - Internet Facts from the *San Francisco Chronicle*

Attachment III - Excerpts from E-mail Questionnaire