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The Rise and Fall of CyberGold.com

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EXECUTIVE SUMMARY

This case study describes the lifecycle of CyberGold, a start-up "Dot Com" firm that rose to prominence in the world of online currency and micro-payments. The case describes the inception of the firm, the talent base of its senior executives, and its innovative and patented business model, known as "Attention Brokerage." The case focuses on a specific decision problem faced by CyberGold's team of senior managers early in its lifecycle: how to modify the company's business model and communication with its members in order to encourage repeat visits to its site and to provide a clearer understanding of where CyberGold credits may be spent by members.

BACKGROUND[1]

CyberGold, founded in 1995 (Bank, 1998), was an internet marketing firm created to harness the power of the World Wide Web to profile user demographic information and provide targeted marketing services to advertisers. CyberGold aimed to add value to the web advertisements of its clients by allowing the client to offer small cash payments for viewing their ads. Along with collecting these payments in individual members' CyberGold accounts, the company built profiles of web surfers that it sold to its

advertisers in order for the advertiser to more directly target its audience. It also enabled CyberGold to more precisely target client advertisements shown to its members.

It was the fall of 1997. Nat Goldhaber stood up with a look of concern when his co-founders, Regis McKenna and Jay Chiat, presented recent news articles from the press during the morning's board meeting about the firm's performance. Goldhaber, as CEO and co-founder of pioneering internet marketing company, CyberGold, took a personal interest in public perception of his company at a time when perception influenced stock market valuation as much as or more than actual performance. The company had gained attention, but not all the press the company received was good. Jay read aloud from an article by Kenneth Hein (1997): "There were only two problems. The advertisers weren't biting and consumers were unclear as to what the points could actually be used for." Responding to the assertion about advertisers, Goldhaber observed "I want 2,000. And I want at least as many small merchants as big ones. One of the reasons I started this business was to help the little guys" (Hein, 1997).

As the discussion continued, the group began to explore other ways to make the company more competitive and to increase revenue as Internet usage continued to grow exponentially. Chiat, recruited to the company primarily for his marketing expertise, suggested that because stock prices were being affected more by user count than by profit, the company should consider offering web surfers more money to view ads — by doubling or tripling the amount the client company contracted to pay per click. Since most clients agreed to pay each user for just one viewing of an advertisement, the increased expense would be directly tied to new user harvesting. Goldhaber told the group that his vision of the company involved web surfers (customers) returning to CyberGold for more frequent visits, and involved the company branching out into the electronic currency market before other players captured the market share.

CyberGold's revenues were drawn from its advertising partners only. The advertiser offered CyberGold a set amount per ad viewed (or "click through"), and CyberGold kept a portion and offered the rest as an incentive for the web surfer to view the advertisement. Surfers who registered for CyberGold accounts were able to accumulate CyberGold points and spend the value at a participating merchant or convert the points to frequent flier miles (Glasner, 2001). As consumers learned, the companies using CyberGold for advertising services were not necessarily the same as the companies accepting CyberGold as a form of payment. The value that CyberGold attempted to add to the advertiser's business was to lower customer acquisition cost – which was especially high for start-up Internet firms (Hoffman & Novak, 2000). CyberGold proposed that it could lower any business' cost of acquiring new customers by about 25% (Garber, 1999). The consumers themselves paid no fee to be a member of CyberGold, but were required to allow their web surfing habits to be tracked and, in some cases, they were required to complete surveys to demonstrate their attention before being paid for viewing an ad.

Advertising rates peaked in the late 1990s, before the realization that it would take more than just being "first mover" to establish a successful business overtook the Internet euphoria on Wall Street. Even during this time, a strictly Internet-based business founded upon providing incentives for online advertising was not winning over the Wall Street analysts. Drew Ianni of Jupiter Communications observed "We haven't seen any positive case studies in [providing incentives for] online viewers to look at ads" (Borland, 1998).