

Supply Lowers Demand

In 1996, Bill Gates looked out over the then new Internet and came to a surprising conclusion. "Content is where I expect much of the real money will be made on the Internet, just as it was in broadcasting," he said in a speech titled "Content Is King."

"Content is king" is a nugget of golden wisdom, simple and pure. Yet Demand Media of Santa Monica never wanted to pick up that nugget.

The company's core business plan was to cheaply produce how-to articles that were engineered to show up near the top of search engine queries. Demand cashed in by selling ads around all those clicked-on articles.

Demand's plan is described thusly: "The company employs an algorithm that identifies topics with high advertising potential, based on search engine query data. ... These topics are typically in the advice and how-to field. It then commissions freelancers to produce corresponding text or video content."

Get that? The freelancers produced "text" that was "corresponding." The company didn't necessarily want the freelancers to produce an "article" that was "compelling." Or meaningful, or interesting. In Demand's world, it was the algorithm, not the content, that was king.

A company is willing to pay for what it deems important, and Demand clearly didn't think its content was very important. For a time at least, it paid \$15 a story; most publications would pay 20 or 30 times that much. That meant it was foolish for a writer to spend much time researching a topic, reaching out for dissenting views or cre-

atively crafting an explanatory metaphor. No, the freelancer was incentivized to move quickly and crank out another hastily composed piece.

Demand's plan might have been too clever by half, but it worked spectacularly well financially – for a time. In 2008, Yahoo reportedly offered up to \$2 billion to buy Demand, but Richard Rosenblatt, the co-founder and chief executive, spurned the overture, saying he wanted more like \$3 billion. In early 2011, Demand went public for \$17 a share. There was a buying frenzy, and its stock soared up over \$24 a couple of times. Demand at one point was valued more than the New York Times.

But the good times ended shortly after the company went public. Google – apparently remembering that content should indeed be king – changed its algorithm to screen out junky articles from so-called content farms. The change lopped about one-third off the volume of Demand's page views. Google over the next two years further refined its searches, which continued to whack Demand.

Demand responded by improving its articles. And, to be fair, the quality of Demand's content is better. But, to be honest, it still is pretty lame. For example, its eHow advice-oriented website last week had an article headlined "Avoid Halloween Retail Traps" in which it counseled shoppers not to be sucked in by in-store displays and to consider buying used costumes for kids – or even making them – instead of paying \$20 or \$30 for a new one. The good news: You'll only waste two minutes of your life reading that gem.

Go ahead. Check out Demand's eHow website

and its others, including Livestrong (for health) and Cracked (for humor), and you'll probably conclude they still are not prime destinations if you want to be truly informed or entertained. The content just isn't kingly.

As Demand's stock continued to swoon – it briefly dipped below \$5 earlier this month – and with the company's direction seemingly aimless, it was announced a couple of weeks ago that Rosenblatt would step down as CEO at the end of this month. He may have wished he'd taken that \$2 billion offer a few years ago; the company was worth \$440 million last week.

The new CEO, whoever that may be, will inherit a diversified portfolio of challenges. Because of the shift to mobile, Demand's page views are up, but mobile views are worth less. Livestrong's association with Lance Armstrong is an albatross, and the company's decision to split off its domain registration business will take attention, as will the company's recent move into e-commerce. Of course, outmaneuvering Google may well be an ongoing issue. For the sake of Demand's 700 or so employees, let's hope the new CEO can work some magic.

Here's what's really disappointing: L.A.'s burgeoning tech community needs a Big Daddy. There is a sizable collection of tech companies but there's no Facebook or Google or Twitter here for them to rally around. A few years ago, local folks believed Demand could fill that important role, that it could be the one that spawns a small army of tech spinoffs. Now, alas, that appears unlikely. And all because it wouldn't pick up that nugget of golden wisdom.

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COMMENT

CHARLES CRUMPLEY

LABJ FORUM

Go Westwood Angelenos?

► LISA JURADO

Owner
Kupcake Kitchen

It used to be great. Back in the day, Westwood was the place to be. Cruising down the boulevard, record shopping, eating at cool restaurants and hanging out with friends. The streets were crowded with people. Not anymore.



Jurado

► STEPHAN ROTH

Principal
OutThink Partners

The village has a great, pedestrian feel – which Angelenos really crave – but the last time I wandered through there, I noticed a number of empty

Urban Outfitters has just leased two Westwood storefronts that have sat empty for years. So the Business Journal asks:

storefronts. If they could do a bit more to fill in those retail spaces with cool restaurants, shops and galleries, Westwood could be really hot again.

► IAN IMRICH

Chief Executive
Law Offices of Ian J. Imrich

I've been working in Westwood for a decade and it's not the cat's meow it once was. But artsy culture and hip



Imrich

What's your impression of Westwood?

foodies should make it cool again. If not, at least I won't have problems getting a table for lunch.

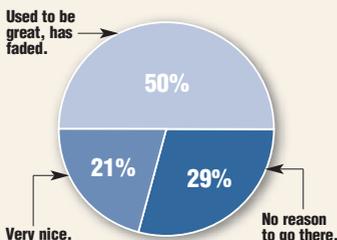
► KRISTEN BERGEVIN

Vice President
PHELPS

I don't know Westwood very well, since I am a Trojan, but I know a lot of great developments are happening. I look forward to rediscovering that part of the city once the 405 freeway construction wraps up.

Los Angeles Business Journal Poll

What's your impression of Westwood?



Online results for week ended Oct. 23



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