

## Incube8 Portfolio Company: INNX, Inc. Featured in The Wall Street Journal, March 7, 2001

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### In Effort to Use Internet More Effectively, P&G Will Use Plugs in TV News Stories

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In a move that could further blur the line between news reporting and advertising, **Procter & Gamble** is expected to announce as early as Wednesday that it will use plugs in television-news stories to market P&G brands more effectively over the Internet.

Under the deal, P&G will sponsor 90-second features produced by a San Diego-based TV production company called Innx on such topics as health care, parenting and nutrition. The Innx segments will be distributed free for use by local television stations nationwide. At the end of each segment, the reporter, anchor or narrator will tell viewers they can learn more by going to the TV station's Web site and clicking on an icon for a related P&G product. For a feature on diaper rash, for example, the icon might say Pampers, and a mouse click would whisk the consumer to a Pampers Web page.

P&G, the first major advertiser to sign up for the spots, will probably sponsor about one segment a day from March to December. Innx will seek other sponsors for news stories that don't relate to the brands P&G has signed up for.



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P&G plans to sponsor segments that dovetail with such brands as Crest dental products, the fiber-laxative Metamucil and the cold medicines NyQuil and DayQuil. The Web site experience will be designed to seem more like an informational brochure than a marketing pitch. The site might, for example, feature questionnaires to help assess a viewer's risk of contracting a particular malady.

Innx and P&G insist the consumer-products company won't have a say in the editorial content of the programming. But P&G will be able to pick which features it wants to sponsor. The consumer-products company has asked not to be associated with stories that could hurt consumers' image of its products. For instance, it has requested that Crest plugs come at the end of stories about oral care and dentistry but not about oral cancer.

The whole idea troubles Bob Horner, president of NBC News Channel, an internal NBC service that distributes content to the roughly 200 NBC affiliates that carry newscasts. News Channel has offered Innx programming for about a year and a half, and NBC affiliates have used it regularly. But Mr. Horner says that while he hasn't seen the new advertiser-sponsored segments, if there's a close link between the content and the plug, he may not distribute them. He says he would be concerned both about actual advertiser influence and viewer suspicion of advertiser influence. "If there was a piece on diet pills, we wouldn't want that to be sponsored by a company that makes diet pills," he says. "We don't want the reality of a problem or the appearance of a problem."

Mr. Horner adds that he probably would distribute segments whose plugs are unrelated to their content -- say a Merrill Lynch plug at the end of a story about gum disease. But he says that local affiliates may not want to air any news story with a plug embedded in it.

Keith Connors, executive news director of WCNC in Charlotte, N.C., an NBC affiliate that is owned by **Belo Corp.**, says he is also concerned. WCNC airs Innx stories that refer to Innx's own HealthSurfing site every weekday, but "if and when this product is introduced to us, we're going to have to take a long hard look at it," he says. "We certainly

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don't want people to think we're only providing them with this information because we're trying to sell them a product. That's not journalism. That's advertising."

Jak Severson, Innx's chief executive, says he's confident Innx can resolve such worries. "TV stations are always jumpy about third-party content," he says. "We're sensitive that we have to demonstrate a level of ethical purity that far surpasses the networks' own and certainly that of the local stations."

And not everyone is critical. Michael Kubin, co-chief executive of Leading Web Advertisers, a closely held New York company that tracks Internet advertising, says combining the Internet with other media is "exactly the way the Internet should be used."

Marissa Gluck, an analyst at Jupiter Media Metrix, an Internet research firm, notes that "when an announcer says, 'Please go to our site,' it's much more effective than just having a 30-second spot in the commercial break." But she cautions that "the value is really whether the consumers go to the Web site. And even if they do go to the site, it's questionable what the real value is" in terms of actual product sales.

Innx has produced nearly 500 segments for about 200 TV stations since the company was founded in April 1999. It currently refers TV viewers to an Innx-created Web site called HealthSurfing.com, which it uses to measure viewer-response rates. It has found that nearly 0.5% of viewers go to the site. Innx expects big-name brands like P&G's to generate even more clicks.

In Vancouver in fall 2000, Mr. Severson says, Innx asked the members of a focus group how they would react to a product plug instead of a HealthSurfing mention. They said they wouldn't mind at all, he says. "What we came away with was that the audience perceived no influence over the content by the advertiser."

The move is an experiment for P&G, which essentially invented soap operas to hawk its wares. Like most major U.S. marketers, the company is under pressure to find a more effective way to use the Internet to create brand awareness and increase sales. P&G is betting that news reports will get better results than banner ads, whose click-through rates overall hover at around 0.25%.

P&G and Innx both declined to disclose financial terms but said P&G's investment is small in dollar terms. Mr. Severson says the agreement could bring Innx up to "several million dollars." P&G will get a hefty discount over other advertisers, whom Innx plans to charge \$11.50 per thousand homes reached by local TV stations. At about nine million viewers reached by Innx programming a day, says Innx Chief Executive Jak Severson, the cost will be roughly the same as the price of a general-replacement 30-second ad on local television news.

Eventually, Innx hopes to get a slice of the increased ad rates that TV stations may be able to charge if its segments make the station's commercial time more valuable.

"We're still in a learning mode on how the Internet fits into our overall marketing strategy," says Bryan McCleary, a P&G spokesman. "The goal is always to have more than just advertising on Web sites. It's got to really provide useful information that people are going to want to come back to."



***Innx created the demonstration clips above to show Procter & Gamble what a typical product plug would look like at the end of a news feature story.***