The Delphi Deal

Why would Rupert Murdoch purchase a relatively small online service with a mere hundred thousand subscribers?

By Simson L. Garfinkel

We were the only financial play left," says a smug Robert Young, the energetic vice president of business development at Delphi Internet Services. Indeed, three of the nation's five major online services – Prodigy, GEnie, CompuServe – were relatively minor divisions of large, publicly-owned companies. The fourth, America Online, was already public, and in the process of being taken over by one Microsoft founder, Paul Allen. That left Delphi as the only easy play for The News Corporation, one of the world's largest media conglomerates, to get into the online services business.

The company that owns *TV Guide*, the Fox Network, *The Boston Herald*, *The Times* and *Sunday Times* of London, Europe's Sky TV, Asia's Star TV, and more than US$10 billion worth of other media properties bought into a profitable and ongoing concern that already knows the ropes – thus avoiding the risks and potential embarrassment of a high-profile debacle similar to what Sears and IBM are experiencing with a still unprofitable Prodigy (see *Wired* 1.6, page 98). But what clinched the deal, according to John Evans, News Corp.'s vice president of development, was Delphi's staff.

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"They are all exceedingly smart people," says Evans, who made the technical evaluation of Delphi for News Corp.'s flamboyant chair and CEO, Rupert Murdoch.

Delphi's management had put together an online service on a shoestring, and slowly expanded it throughout the 1980s. What Delphi was missing, Evans realized, was media know-how. "For the most part, [they are all] engineers. We have the media knowledge, they have the engineering knowledge. It is a good fit."

Delphi was also the smallest player in the market – so small that articles and surveys of online services spoke about the Big Four and not the Big Five. Despite the fact that Delphi was one of the oldest online services, its lack of capital prevented it from marketing and expanding as quickly as its rivals. In early 1993, the company decided to do something it had never done before – seek outside funding to go head-to-head with the online giants.

By midsummer, Delphi had parlayed its unique position into offers for millions of dollars in cash from several top-tier venture capital firms. When Delphi initiated discussions with News Corp., "we were not looking for a buyer," says Young. Indeed, the only reason that Delphi had approached News Corp. in the first place, Young claims, was that they were a large media company.

Soon it became apparent that a deal with News Corp. would bring more than just cash: It would grant the online service access to one of the largest producers of news and entertainment in the world. In addition to its tremendous $5.3 billion in newspaper holdings, Murdoch's empire includes such properties as 20th Century Fox, Fox Television, and book publisher HarperCollins. Delphi's 150 public forums stored on a VAX Cluster in Cambridge seem insignificant in comparison. An alliance with News Corp. would give Delphi a competitive lever that Prodigy, GEnie, and CompuServe could never equal.

The problem was choosing which News Corp. property to strike a deal with first: Delphi potentially wanted to make deals with them all. After a few months of negotiations, News Corp.'s negotiators "suggested that we shift the paradigm of our discussions [from licensing] to one of acquisition," says Young.

But The News Corporation is more than just another billion-dollar media company. It is a conglomerate controlled by a single man – Murdoch – who has a vision for creating an integrated global empire for the production, distribution, and dissemination of what that emperor cold-bloodedly refers to as "copyright." This vision has already led Murdoch to purchase or create television stations, cable firms, and controlling interests in two direct satellite broadcasters. The goal is simple: global domination through vertical integration and synergy between competing media.

With the sale of all Delphi stock to News Corp. in late October of 1993, Delphi became another element in Murdoch's vision, joining the ranks of Etak, which has developed an automobile-based navigation system and mapped out most of the roads, streets, and highways in the United States; News Electronic Data, which plans to offer reservation and news services aimed specifically at business travelers; and News DataCom, which has developed a smartcard-based scrambling system for direct broadcast pay-per-view television. But among its sisters in News Corp.'s News Technology Group, Delphi is unique, Evans says, in having a ready base of customers eager to lap up data from the info stream.

Nobody at either company is willing to disclose the terms of the deal – except to say that News Corp. purchased every share of Delphi's stock. Joshua Harris,
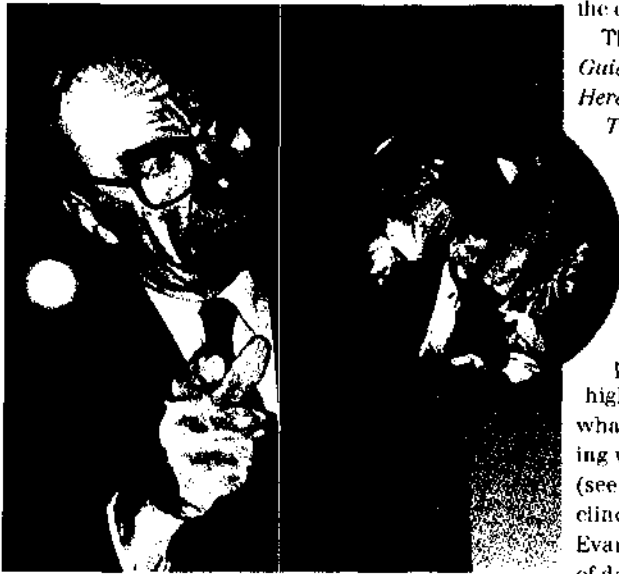
president of New York-based Jupiter Communications, which follows the market for online services, estimates that News Corp. "paid between $3 and $5 million, and probably the lower part of that. John Evans likes getting bargain-basement products."

Delphi got its start in 1983 with a bunch of engineers who were trying to sell the world's first online encyclopedia door-to-door. "Obviously, there wasn't enough [of a market] to support the business," says Rusty Williams, VP of sales and marketing. In a shoeleather-saving move that salvaged the company, Delphi switched marketing techniques and decided to focus on other online services: electronic conferencing, special-interest forums, and downloadable software.

Since then, Delphi's emphasis has been on member-to-member communication. Although today's Delphi is a gateway to online shopping services real-time stock market quotes, and 67 news wires, the real action is in the 150 special interest groups. Delphi is the only major online service that allows its subscribers to create, and control the membership of their own special interest groups. One of the most popular groups is a forum devoted to Jimmy Buffet fans.

Delphi leveraged its communications technology by producing "branded" derivatives of itself – Biotech Net, Performing Artist Network, International Business Network, and others – each designed to create an individualized electronic meeting place for a different group of professionals, complete with electronic mail to the outside world and a gateway to the rest of the Delphi services. In February 1992, Delphi also picked up Bix, *Byte* magazine's online service, from McGraw-Hill. Ironically, says Williams, the computer magazine had decided to abandon its online service and "focus on print."

Delphi hopes to exploit precisely this experience in producing and marketing specialty online services as the newest member of the News Corp. family. For example, says Young, Delphi can team up with Fox Broadcasting to offer online services specifically targeted to fans of popular shows like *The Simpsons* and *In Living Color*. Online forums would let Delphi's subscribers communicate directly with the writers, producers, and actors of their favorite television shows.

Once the necessary bandwidth is available, such services might include clips from the shows and backstage tours from the sets of successful 20th Century Fox movies like *Home Alone 2* and *Alien 3*. They might show scenes cut from the movies, or make available a "blooper reel." A deal with HarperCollins could bring the Book-of-the-Month-Club online, letting subscribers make selections electronically after reading reviews and excerpts.

Another intangible benefit of the deal could be access to News Corp.'s vast array of trademarks and copyrighted characters. It's probably only a matter of time before Bart Simpson graces the screens of Delphi users. And it's a two way street: Delphi might crop up in a 20th Century Fox movie if a director needs to depict a computer network.

Delphi's management also seems committed to the idea of fostering virtual communities, in marked contrast to the Big Four. For example, GEnie acquired The Source several years ago, shut down the service altogether, and forced a migration of The Source's users to GEnie's own system. Delphi, in contrast, has kept Bix alive with its own unique groups and user interface. "Bix is a thriving community in itself," says Williams. Similarly, while Prodigy's

management refines and redefines its censorship policy almost monthly in order to maintain a "family-oriented" service, Delphi is committed to preserving free speech to the limit allowed by federal law – even if that means running forums that contain infamous pornographic treatises such as "Cindy's Torment" and "Cindy's Revenge."

Nevertheless, Delphi has some catching up to do. Indeed, with a subscriber base estimated at between 60,000 and 100,000 subscribers (company officials decline to provide the actual numbers), Delphi has only one twentieth the subscribers of Prodigy. And Delphi's user interface is stuck in the 1970s, with a character-oriented menu structure that would make a teletype user feel right at home. Although Williams claims Delphi will have a graphical user interface ready by next summer, "they will still be way behind," says analyst Harris. "By the end of the year, AOL, CompuServe, and Prodigy will have downloadable sound and full-motion video." CompuServe is also developing multitasking software which will allow users to download one file while doing something else with the command line.

Another big problem, says Harris, is a round of nascent industry-wide price wars. Right now, Delphi's two plans – $10 per month for

four hours of connect time, or $20 for 20 hours, makes it among the cheaper of the online services, but its limited online services makes it among the least useful. "You get more for your buck from AOL," says Harris. "CompuServe has a more extensive array of services. Prodigy is easier to use."

If Murdoch's reputation as a hands-off CEO is any indication, Delphi's management will probably be left to its own devices to cut deals with the other News Corp. properties. Being part of the News Corp. family will make it easier to approach the other properties, but it won't guarantee exclusive, sweetheart deals.

"I think it's a great deal for them," says Bob Smith, president of Interactive Services Association, a Washington-based trade group. "It gives [Delphi] potential resources and access to an international media company. The financial [aspects] are certainly important, but the relationships with many of these companies under the Murdoch corporation" will probably be more valuable in the long run, Smith says.

Another thing that Delphi has going for it is profitability. Although Delphi is small, it is not losing money, which is likely to keep it on stable ground as it expands. Much of the expansion, at least in the short term, will likely be overseas, owing to News Corp.'s international presence and the lack of overseas competition. Delphi's Internet connection makes it possible for its European subscribers to telnet to the US for next to nothing. Nevertheless, says Williams, only five percent of Delphi's current subscribers are in countries other than the US and Canada.

Delphi will also have to change its marketing thrust. Lately, the service's main selling point has been low-cost access to the Internet. But Internet connectivity is increasingly a commodity, says Evans. It is only a matter of time before the other services offer telnet, ftp, gopher, and WAIS in addition to simple e-mail. In the '90s, content is where the action will be. For the users of Delphi, the purchase by News Corp. may well open up the floodgates. ■ ■ ■

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Having Fun in Fifth Place: How Delphi Stacks Up

	America Online	Delphi
	Public (for now)	The News Corporation
	400,000	60,000–100,000