ALLOY.COM: MARKETING TO GENERATION Y

On May 12, 1999, Matt Diamond, James Johnson and Sam Gradess were visiting San Francisco for a last round of meetings with West Coast investment analysts. They were just days from the initial public offering (IPO) of shares in Alloy.com, the catalog and Internet merchant of teen-oriented clothing that they had founded on Diamond's graduation from Harvard Business School in 1996. Snarled in freeway gridlock, Diamond was on his cellphone discussing the IPO's pricing with analysts back in New York City.

An analyst urged Diamond to respond to an invitation by the world's largest Website and portal, America Online (AOL), to make Alloy an anchor tenant on its teen shopping site. AOL wanted $2 million per year for the rights. "Matt, if you say yes, that will be big. If you announce tomorrow that AOL's partner in the Generation Y market is Alloy, it will put Alloy on the map. It will definitely affect the IPO price."

Diamond sighed. A headline deal with AOL today could be worth perhaps 10% on the stock price. But AOL was asking rich terms. It was widely rumored that AOL preyed on startup companies in the weeks before they went public, tempting them with star billing on its portal at the very moment when the publicity was most valuable. He estimated that he'd be paying a $45 cpm (cost per thousand exposures) to anchor the AOL teen shopping site. Nobody paid more than $30 for Web eyeballs. In the three years that he had been running Alloy, Diamond had prided himself on doing deals that made sense. If he could not anticipate a profit to Alloy from a promotional deal, he reasoned that Wall Street would not anticipate a profit either.

"It won't pay out," he told the analyst firmly. "We only do deals that produce value." To his colleagues in the limousine, he wondered out loud, "Am I right?"

Professor John Deighton and Visiting Scholar Gil McWilliams prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The contribution of Ann Leamon, Manager, Center for Case Development, is gratefully acknowledged. Certain sensitive information in this case has been disguised and should not be regarded as informative as to the prospects of the company.

The Generation Y Market

Termed the "hottest demographic of the moment," Generation Y came to the attention of marketers in the late 1990s. This "echo of the baby boom" was made up of children and teenagers born in the United States between 1975 and 1989 and therefore aged between 10 and 24. They were estimated to be a 56 million strong group of actual and potential consumers, some three times the size of their immediate predecessor, Generation X.[1] The U.S. Census Bureau projected that the 10 to 24 age group would grow from 56.3 million to 63.1 million by 2010, growing faster than the general population.

Although Generation Y matched its parent's generation in size, in almost every other way it was very different. One in three was not Caucasian. One in four lived in a single-parent household. Three in four had working mothers.[2] "Body glittered, tattooed, pierced, they're a highly fragmented, unpredictable group of teenagers who, while tottering around on five inch soles, voice conservative opinions about sexuality,

[1]Neuborne, Ellen and Kathleen Kerwin. "Generation Y," *Business Week*, February 15, 1999, Cover story.

[2]Neuborne, Ellen and Kathleen Kerwin. "Generation Y," *Business Week*, February 15, 1999, Cover story.

government, the American dream and an end-of-century commitment to spirituality."[3] They were computer literate: 81% of teens used the Internet, according to Chicago-based Teenage Research International (TRI), which also noted that over a 3 month period on AOL, they posted more than 2 million Leonardo Di Caprio related messages.[4]

According to Lester Rand, Director of the Rand Youth Poll, they had money to spend and an appetite for spending it.

> They have a higher incremental allowance from their parents, and with the growth in our service economy, they are able to secure jobs easily and at rising minimum wages. They're exposed to so many different products on TV, in the mall and through their friends. It's a generation who grew up with excess as a norm.[5]

In 1999 Jupiter reported that 67% of on-line teens and 37% of on-line kids said they made use of on-line shopping sites, either buying or gathering information about products.[6] Generation Y was expected to spend approximately $136 billion in 1999, before accounting for the group's influence on purchases made by parents and other adults. (See Exhibits 1 and 2 for this and other estimates.)

On-line Competition for Generation Y Spending

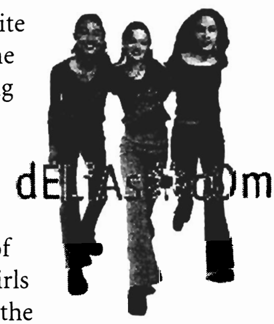
Generation Y's size and spending power had not gone unnoticed. Many conventional and on-line retailers courted them. Alloy viewed its most significant competitors as dELiAs and the on-line magalog mXg. The neighborhood mall was also a threat.

dELiAs Inc.[7]

The largest on-line and catalog merchant serving Generation Y was New York-based dELiAs, with 1998 sales of $158 million. Founded in 1995 by two 33-year-old former Yale roommates, Stephen Kahn and Christopher Edgar, dELiAs sold through print catalogs mailed to more than 10 million recipients, of whom 6 million had bought within the past year. It managed its own order fulfillment from a warehouse complex, and operated twenty conventional retail stores. Most of dELiAs' 1,500 employees were under 30. Its phone representatives were often high school and college students, and they frequently offered fashion advice as well as taking orders. In November 1998 dELiAs Inc. paid $4.75 million for the trademarks and mailing lists of bankrupt Fulcrum's 5 catalogs (Zoe for teenage girls, Storybook Heirlooms, Playclothes, After the Stork, and Just for Kids), giving them 5 million names which nearly doubled their database. It also paid $2.4 million for merchandise from Zoe and Storybook.

By 1999, dELiAs went to market with a complex set of brands and marketing methods:

- The dELiAs brand marketed to teenage girls as a catalog through the mail and as dELiAs*cOm on the Web.
- The gURL.com Website was an on-line magazine for girls and young women, carrying articles as well as free e-mail, free homepage hosting and publishing tools, and links to a network of third-party sites for girls and women. gURL was the only property that was not engaged in commerce.



- The droog brand marketed apparel to 12-to 20-year-old males through the mail and on-line.
- The TSI Soccer catalog sold soccer gear by mail and on-line.
- Storybook Heirlooms retailed apparel and accessories for girls under 13 by mail and Web catalog.
- Dotdotdash sold apparel, footwear and accessories for girls aged 7 to 12 by mail and Web catalog.
- Discountdomain.com was a subscription Website selling discounted close-out merchandise.
- Contentsonline.com offered unusual home furnishings, light furniture and household articles to females aged 13–24. While predominantly a Web catalog, the property appeared intermittently as a print insert in dELiAs' print catalog.

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[3] O'Leary, Noreen. "Marketing: The Boom Tube," *Adweek*, Vol. 39, No. 20, May 18, 1999, pp. S44-S52.

[4] Brown, Eryn. "Loving Leo Online," *Fortune*, April 12, 1999, p. 152.

[5] BAXExpress, July/August 1999, http:baxworld.com/baxexpress/0799/consumers.html.

[6] Sacharow, Anya. "Shadow of On-line Commerce Falls on Postmodern Kids," Jupiter Communications report, June 7, 1999.

[7] Information drawn from company website: www.dELiAs.com

In April 1999, dELiAs Inc. spun off its Internet properties in an IPO, selling shares in a company called iTurF which earned revenues from all of the above on-line elements. In terms of the deal, these on-line businesses could advertise in dELiAs' print catalogs at a rate of $40 per 1,000 catalogs. The dELiAs catalog, 60 million of which were printed in 1998, had the largest domestic circulation of any publication directed at Generation Y. The on-line magazines also shared the parent company's 354,000 square foot distribution center in Hanover, PA. Because iTurF did not take ownership of inventory until a customer's order was placed, the risk of obsolescence and markdowns remained with the parent company. ITurF shared offices with the parent company, enjoying a sub-market rent for New York metropolitan space.

In May 1999, iTurF announced record quarterly sales of $2.6 million (up from $0.69 million in the first quarter of 1998). Gross profit was $1.3 million, or 49.1% of revenues, up from $0.34 million or 49.3% of revenues 1998 (see Exhibit 3). However, dELiAs reported that it expected its iTurF unit to report a loss for the fiscal year. By April 1999, the number of people who had ever bought at the iTurF Websites was 66,000 (up from 35,000 at the end of December 1998), and the number of unique visitors was 731,000 in April 1999 alone. Analysts estimated that each customer cost $26 to acquire.[8] Private label merchandise accounted for 40% of iTurF's sales, in line with dELiA's ratio.

iTurf entered into agreements with RocketCash Corp. and DoughNET, companies that had been established to let parents control the on-line spending of their children. For example, RocketCash let parents establish a credit card account and set each child's access to specific merchant sites, times of operation, and the option to set up an auto-allowance to periodically replenish the account. DoughNet was a virtual debit card that parents could set up for their children. Parents could customize DoughNET's site to guide teens through all aspects of managing their money.

In April 1999, dELiAs' decision to spin off iTurF seemed shrewd. The market capitalization of dELiAs Inc. was $90 million, on sales of $200 million annually. ITurF was capitalized at $200 million on a sales run rate of $12 million annually.

mXg Media Inc.[9]

Hunter Heaney and Stuart MacFarlane graduated from the Harvard Business School in 1996. MacFarlane joined Bain & Co. and Heaney joined BancBoston Robertson Stephens. Heaney told how he got the idea for mXg while Christmas shopping at Nordstrom's for his then girlfriend. A saleswoman had told him that the "Y" necklace featured on the "Friends" sitcom was in style. "I knew there had to be a more direct way to find out about fashion trends influenced by entertainment," Heaney said.[10]

In 1997, Heaney and MacFarlane quit their jobs and moved to Manhattan Beach, CA, to be close to Hollywood and surfers and skaters. Using the pay phone while staying at a local motel they raised $250,000 in increments of $5,000, and launched mXg, styling it a "magalog," a hybrid of catalog and magazine, aimed at teenage girls. Unlike a conventional magazine, mXg reported exactly where to go to buy the fashion items that it featured on its pages. MacFarlane recalled their early lean times: "Typically, retailers order inventory in sixes (one small, two medium, two large, one extra large). But instead of saying 'We'll take 2,000 sixes' we said 'We'll take six'—literally one of each." They could fund a circulation of only 20,000 for the magazine's launch in the fall of 1997, but it did well. Some 5% of the recipients bought from it. The numbers were good enough to induce Urban Outfitters, a retail fashion chain, to invest $5 million for 40% of the company, incorporated as mXg Media, Inc.

Merchandise accounted for most of mXg Media's revenues, but advertising revenue was doubling each issue. The company used newsstand distribution (150,000 issues per quarter at $2.95 each, refunded with a purchase), as well as distribution in bookstores like Barnes & Noble, and B Dalton Booksellers. The magazine had a pass-along rate of almost six readers per copy.

Sensitive to the tastes of their target audience of female teenagers, they hired teens, paying them $7 per hour to work after school answering letters, doing interviews, and writing copy to make it sound authentic. "No printed word goes out without a teen girl checking it . . . being

[8]CIBC World Markets, Equity Research, June 2, 1999.

[9]Information drawn from company website: www.mXgonline.com

[10]Waxler, Caroline. "Guys with moxie," *Forbes*, May 31, 1999, pp. 130–131.

uncool is the kiss of death in this business."[11] At the start of each fashion season mXg recruited 30 "Moxie girls" to spend a hypothetical $150 each. Their virtual purchases determined which items appeared in the next issue. The magazine paid staffers to model clothes and invited would-be teen celebrities to pose free to gain recognition.

A Website, mXgonline.com, was established in the summer of 1997. It comprised a magazine, chat rooms, and community sites, and sold clothes and accessories. mXg Media pursued other access points for their on-line magalog, featuring it in on-line fashion malls such as fashionwindow.com. In 1999, mXg sponsored concerts featuring acts like Gus Gus which were favored by Generation Y. Yahoo produced a series of Webcasts of the concerts for teens. The company described its mission as cross-media publishing, targeted exclusively at teen girls. It planned to add mXgtv, an Internet video site, to its media portfolio later in the year.

A Crowded Marketplace?

Other companies vied for the attention of Generation Y. Bolt.com was a content-based magazine-type site skewed towards a market slightly older than that of the Generation Y market, but into which the older end of the Y market might eventually fall. Bolt.com included sections titled jobs, money, movie reviews, music, news and issues, sex and dating, and sports. It had a chat room and free e-mail, and sold branded merchandise. It boasted that 5,000 people joined it every day.

The magazine *Seventeen* had an on-line version, offering chat rooms and message boards, as well as its regular articles, quizzes and features. Indeed many magazines were now launching on-line versions of their magazines, and new print publications like *Twist* and *Jump* had appeared to compete for generation Y advertising revenues.

Broader on-line retailers served this market, such as bluefly.com selling discounted brands on-line. Strong competition came from mall-based stores such as The Buckle, Gadzooks, Abercrombie & Fitch, The Gap, American Eagle Outfitters, and Guess, all of whom sold merchandise on- and off-line. Apparel and sportswear manufacturers were developing on-line sales sites. Nike and Tommy Hilfiger planned to launch e-commerce sites with broad product offerings.

[11]Waxler, Caroline. "Guys with moxie," *Forbes*, May 31, 1999, pp. 130–131.

Alloy.com

As a Harvard MBA student in 1996, Matt Diamond wrote a business plan proposing the idea of marketing 'extreme sports' clothing by catalog to young people in Japan. The premise was that the popularity of this style of clothing among American youth might generate demand abroad, and that catalogs would be able to tap that demand faster than would store distribution. On graduation, Diamond implemented the plan. He and a friend, Jim Johnson, used seed money from friends and family to design and print a Japanese-language catalog, which they branded Durango Expedition. They mailed it in January 1997, and at the same time they went live with Japanese and English Websites, as alternative channels.

The venture flopped. The mailing generated no significant sales. However, they discovered to their surprise that they were receiving hits on the English Website from American youths. Within a month they had reconceptualized the business to serve American teen girls through catalog and on-line channels, under the name Alloy. Diamond and Johnson each contributed $60,000 in cash and another friend, Sam Gradess, added $150,000 in cash when he joined six months later from Goldman Sachs. In November 1997, the first issue of the Alloy catalog, 48 pages in length, was mailed to a purchased mailing list of 150,000 teen names. At the same time Alloy's Website became active. The intention at that time was to reduce the number of catalogs mailed as on-line sales grew.

Organization

Diamond became president and CEO of the fledgling company. Johnson took the title of chief operating officer. Gradess was chief financial officer. Neil Vogel joined from Ladenburg Thalman & Co., a consumer and Internet investment banking group to be the chief corporate development officer. Fellow Harvard sectionmate Andrew Roberts left PricewaterhouseCoopers to join Alloy in January 1999 as VP of business development. Another Harvard MBA, Joan Rosenstock, was hired as marketing director, having held positions in marketing at the National Basketball Association as well as in advertising account management. Erstwhile music editor of teenage magazine *Seventeen*, Susan Kaplow, became executive editor and Karen Ngo, who had been a feature editor and fashion stylist at *Seventeen*, was hired as creative director.

Alloy outsourced as many of its operations as it could. Working with mostly domestic vendors who could produce and ship within a 2–8 week timeframe, Alloy purchased only 50% of its featured products and relied on a quick order and re-order ability so as to control inventory levels. Telephone orders and order-processing were outsourced to Harrison Fulfillment Services, based in Chattanooga, TN. OneSoft Corp., based in Virginia, handled on-line ordering and fed its orders to Chattanooga for fulfillment. Alloy personnel concentrated on marketing and merchandising issues.

Target Market

Unlike dELiAs, Alloy opted for a single-brand strategy targeted at both genders. "Rather than dividing our marketing resources across multiple brands and Websites, we seek to maximize the impact of our marketing efforts by promoting a single brand. We believe this allows us to attract visitors to our Website and build customer loyalty rapidly and efficiently."[12] Indeed Diamond considered that Alloy's key differentiator lay in being gender neutral, believing that a successful Generation Y community depended on dynamic boy-girl interaction. He thought of their community site as an MTV-like interactive distribution channel. "It's an opportunity for girls to talk to boys, boys to talk to girls, to deliver music, to deliver fashion, to deliver lifestyle." Diamond conceded that the majority of the visitors to its Website were girls, and the print catalog was even more skewed towards girls. However, it was the intention to attract boys to the Website by other means. There was some evidence that this strategy was working, as the percentage of female Website visitors declined from 70% in early 1999[13] towards a desired 60/40 ratio. Boys tended to be drawn by music, extreme sports, and games, while girls appeared to be more responsive to chat and browsing. Diamond felt, however, that just as both teen boys and girls hang out in shopping malls, watching each other as well as chatting, the online presence of both boys and girls was important.

Alloy's target was teens making buying decisions with parents "somewhere in the background." The target group ranged from 12-20, but the median age was 15. Alloy was careful not to aim too young, partly for regulatory reasons, but also because they felt that by targeting 15-year-olds they reached a group at an important buying point in their lives. About 35–40% of teenage purchasing was on apparel and accessories, and Alloy monitored what else this group bought. As owners of a "piece of real estate" they did not see themselves as limited to selling apparel and accessories, and had moved into soft furnishings.

The Offering

It was standard practice among catalog retailers, such as Land's End and L.L. Bean, to sell products under the catalog's brand. Even at dELiAs, private-label sales accounted for about 40% of the mix. Alloy, however, emphasized recognized teen brands such as Vans, Diesel, and O'Neill, both to attract buyers and to offer reassurance of quality. Only 20–25% of Alloy's sales came from labels that were exclusive to Alloy, such as Stationwagon and Local 212. Diamond was philosophical about the pros and cons of private label, "There's no denying you get better margins on own-label goods. But running with your own labels leaves you vulnerable to ending up as a skateboard brand."

The Alloy site aimed to build what Diamond termed the 3 Cs of on-line retailing to this generation: Community, Content, and Commerce. He noted that constant communication was key to understanding this generation. They had a strong need to chat about movies, television, music and what was happening at school, and to seek advice from one another, sound off about pet hates, and occasionally shop.

A small team of in-house editors created editorial content on the site, supplemented by syndicated content. The audience also contributed content, receiving in exchange a sense of community, in chat-rooms and message boards, and by submitting their own letters, poems, drawings and articles. Poems and drawings would be voted upon interactively. Chat rooms in particular were popular and frequently full (in contrast to some of the chat rooms of competitors). The chat rooms were moderated from end of school-time until midnight on a daily basis, with software employed to spot offensive or obscene language. Advice columns were a dependable magnet. (See Exhibit 7 for a sample of user-generated content.)

Andrew Roberts remembered vividly the moment when he knew that Alloy was really "onto something." In the aftermath of the Columbine High School shooting tragedy, one of the editors knew that Alloy had to respond and fast. She worked all night creating the appropriate spaces in chatrooms, and editorial content.

[12] IPO Offer Document May 1999.

[13] Chervitz, Darren. "IPO First Words: Alloy Online CEO Matt Diamond." Interview at CBS MarketWatch.com, June 14, 1999. http://cbs.marketwatch.com/archive/19990614/news/current/ipo_word.htx?source=htx/http2_mw&dist=na

By 8:30 a.m. the day after, 15 hours after news of the tragedy broke, Alloy had received 7,311 postings related to the events at Columbine. Roberts explained that it wasn't so much the number that impressed him, but the content of the postings. "These kids were really anxious. We had kids who followed the goth fashion who were really scared about how others would treat them. Other kids were reassuring them and saying "Don't worry, we know it wasn't you or the goths who made these guys do what they did." They just had a desperate need to talk with each other, and be reassured by each other."

Building the Brand

Alloy built its brand, and with it traffic to the Alloy site, in several ways. It undertook traditional advertising in print media (*Seventeen Magazine, YM, Rolling Stone*, and *Snowboarder*). It used hot-links from sites such as seventeen.com to advertise promotional deals. It had special co-promotional deals with, for example, MGM Entertainment, Sony Music, Burton Snowboards, MCI and EarthLink/Sprint, who provided free products and services that were used as special promotions for the Alloy community (such as private movie screenings, exclusive music give-aways, and celebrity on-line chats). Finally, it bought banner advertising on gateway sites such as Yahoo Shopping, Fashionmall.com, CatalogCity.com and CatalogLink.com.

The Business Model

There were two revenue streams: merchandise sales, and advertising and sponsorship. An agent had been retained to sell advertising on the Website, and the longer-term intention was to build an in-house sales force to sell sponsorships, banner-ads, targeted advertising (segmented by Website area, time of day, user location, or age), and combination print and Website advertising. To this end, Samantha Skey, who had been responsible for commerce, advertising and sponsorship for Disney Online and Family.com and had worked for Buena Vista Internet group, was hired in 1999 as VP of e-commerce and sponsorships. In 1999, about 10% of revenues were generated by sponsorship and advertising deals, and the proportion was expected to rise to 20% in year 2000. Alloy was aware that it would never meet all of its customers' requirements. It was happy to offer links to other sites that could be seen as competitive, such as Gap's on-line site. "Look, we figure they're going to go there anyway," noted Roberts. "If they go via us, we at least get something for it. We're happy to have such complementary deals. Probably not with dELiAs, though," he grinned.

Exhibits 4 and 5 report annual fiscal year performance 1996–1998, and quarterly performance between last quarter 1997 and first quarter 1999.

To hear Diamond describe it, running Alloy was, at least day-to-day, like running a production plant. "We know what it costs to get a customer, and we know what a customer will spend. We just have to keep the two numbers in balance. We could make a profit today, but in this investment climate there's no reward for beating your loss numbers."

By April 1999, Alloy had a database of 2.6 million names and addresses, comprising 1.7 million previous buyers and 900,000 visitors to the Website who had registered their names and addresses but had not yet made a purchase. It was mailing monthly to the most responsive of the names on this list, supplemented by purchases of new names, and it hoped to mail 20 million catalogs over the course of 1999.

Alloy's catalogs cost $450 per thousand to design, print and mail. If Alloy mailed catalogs to names from the database who had bought from it before, it received an order from about 3% of the names each time it mailed. If Alloy bought a list of new names, for example a list of American girls who owned personal computers, at a cost that was typically $100 per thousand names, the response rate on the new names[14] was about 1.5%. Alloy would often exchange some of the names of its customers for the names of customers of similar firms, if it could count on a response rate on the swapped names of close to its own 3%. By blending names from these three sources, Alloy could choose whether a particular mailing would yield a high rate of orders or expand its customer base. Over the year, Alloy's mailings comprised 10% swapped names, 70% past customers and 20% new names. Diamond found that some people in the private investment community were not well informed on the ease with which response rates could be manipulated. "Analysts ask me, why is your response rate down last month? I say 'you want a 10% response rate, I'll give you one. I'll just mail to my very best customers.'"

[14]List brokers typically sold names on a 'deduplicated' basis, meaning that the buyer had the right to delete and not pay for any names that it already owned.

Most orders were received by telephone, and orders from all lists ranged from $65 per customer in spring to $85 in winter. The gross margin on an order was about 50%. Alloy paid its fulfillment company $6.00 to handle each telephone order. Customers paid the shipping charges.

Traffic to the Website, as measured by Media Metrix in the quarter ending March 1999, comprised 263,000 unique visitors[15] per month. While about half of the visitors eventually registered themselves with the site by entering a name, address and e-mail information, the proportion of unique visitors in a month who registered in that month was about 8%. In addition to catalogs and Web visits, Alloy interacted with Generation Y by means of a weekly broadcast e-mail, Alloy E-Zine, sent to 850,000 site visitors who had asked to receive it.

When a visitor to the Alloy Website registered, the name was added to the print catalog mailing list. Names gathered in this way, although they had not previously bought from Alloy, tended to respond to the catalog at a rate close to the past-buyer rate of 3%. Calculating the cost of attracting someone to become a registered visitor was difficult, because Web traffic resulted from many actions: banner advertising, listings on search engines, and Alloy's print advertising in media like *Seventeen Magazine*. The catalog was a significant driver of traffic to the Web. On the day that the catalog reached its audience, traffic to the site would jump 40%. It would continue to rise to about 180% of pre-mailing levels for a week, and slowly fall back. Possessing a copy of the latest Alloy catalog conferred significant prestige in a junior high school lunchroom. And then there was word-of-mouth. Many visitors to the Website, and many who decided to register, came at no cost to Alloy because a friend had mentioned the site, had e-mailed a chat room story, or had asked for an opinion on an item of clothing shown on the site.

Less than 5% of Alloy's revenues came from orders placed on the Website. When an order was submitted online instead of by phone, Alloy paid its fulfillment company $3.00 instead of $6.00 to reflect the saving of telephone handling charges. Alloy's e-mailed catalog, termed Alloy E-Zine, was another small element of the business. Because Alloy had no way of knowing whether a recipient's e-mail system was able to view graphic displays or color, it used only text in the E-Zine. Only 25% of those who indicated willingness to receive it ever opened it, and of those 1% placed an order in the course of a year. These orders were fulfilled at $3.00 each if they were placed by return e-mail.

Sponsorships and banner advertising were a small but rapidly growing source of revenue. As Alloy's base of registered visitors and catalog recipients grew, both became assets that interested advertisers.

The AOL Deal

Diamond reflected on the AOL deal. It was not a question of finding $2 million. If the IPO went ahead at the planned price of $15, it would generate $55.5 million and Alloy would be awash in cash. Diamond tried not to be annoyed at the idea that AOL would offer this deal on the eve of his IPO. "I've been talking to AOL for a year about opening a teen shopping area, showing them what a big revenue opportunity it could be. Now suddenly they get it, and they think it's worth $2 million."

He thought to himself, "What else can I do with $2 million? That's over 4 million catalogs, which means more sales, more site visits, more registrations, and more E-Zine registrations. Alternatively, it could buy us exposure on television, and that would build a stronger brand." Alloy's budget for 1999 included a line item of $2.5 million for production of two television spots and $2.5 million for air time. Then again, he could buy banners on other portals and Websites at prices in the range of $20 to $30 per thousand exposures. Industry norms suggested that he could expect about 0.5% of these exposures to 'click through' to the Alloy site.

Yet AOL was Alloy's most important source of traffic to the Website. More than a third of visitors to the Alloy site used AOL as their Internet service provider. Would a competitor on the AOL site be able to intercept them? Would the announcement of a competitor's deal with AOL on the eve of the IPO be as bad for Alloy's share price as an Alloy deal would be good?

The cellphone rang again. It was his partner, Neil Vogel. "Matt, Wall Street would like it if you would do that deal. They don't want iTurF to pick it up. This is valuable real estate on a really important teen property."

[15]Many of the visitors to a site came more than once a month. Media Metrix used the term "unique visitors" to emphasize that they were counting visitors, not visits.

Exhibit 1 Total Teen Spending in 1996

	$ billions	%
Apparel	36.7	34
Entertainment	23.4	22
Food	16.7	15
Personal Care	9.2	9
Sporting Goods	6.7	6
Other	15.3	14
Total	108.0	100

Source: Packaged Facts via InterRep Research, in MSDW Equity Research: "Fashions of the Third Millennium," June 1999.

Exhibit 2 Estimates of Teen Spending

	Rand Youth (Adweek May 18, 1998)	Morgan Stanley Dean Witter's report "Fashions of the Third Millennium," June 1999	Teen Research Unlimited (quoted in Alloy press handout)
1996		$108 billion	
1997	$91.5 billion		
1998			$141 billion
1999		$136 billion	

Exhibit 3 Consolidated iTurf Income (in $ thousands)

	1st Quarter Ending 1 May 1999	1st Quarter Ending 30 April 1998
Net revenues	2615	69
Cost of goods	1332	35
Gross profit	1283	34
Selling, general and admin.	1753	109
Interest income (expense)	(112)	11
Loss before tax	(358)	(86)
Income tax (benefit)	(161)	(33)
Net loss	(197)	(53)
No. of unique visitors	Apr 99 = 731,000	Feb 99 = 635,000
No. of page views in April	50 million	4 million
Size of mailing database	11 million names	

Source: IPO Filing

Exhibit 4 Alloy Online Annual Fiscal Performance

Fiscal year	**1996 (thousands)**	**1997 (thousands)**	**1998 (thousands)**
Net merchandise revenues	$25	$1,800	$10,100
Of which on-line order placement accounted for:	-	$40	$710
Sponsorship and other revenue	-		$125
Gross profit %	32.5%	41.7%	46.3%
Selling & Marketing expenses	$98	$2,000	$9,200
Web pages views (Month of March)		1,500	25,000
Weekly e-zine registrations			480

Source: Company records

Exhibit 5 Alloy Online Quarterly Performance ($'000)

	1997 Oct 31	1998 Jan 31	1998 Apr 30	1998 Jul 31	1998 Oct 31	1999 Jan 31	1999 Apr 30
Net merchandise revenues	401	1396	1353	2082	3215	3436	2391
Sponsorship, etc.	-	-	1	5	46	73	163
Total revenues	401	1396	1354	2087	3261	3509	2544
COGS	263	783	906	1200	1665	1715	1249
Gross profit	138	613	448	887	1596	1794	1305
Gross profit % of revenue	34%	44%	33	42.5%	49%	51%	51%
Operating expenses	903	1437	1782	2992	3396	2679	3529
Net loss	(749)	(806)	(1312)	(2165)	(1901)	(985)	(2302)
Number of registered users						400,000	800,000

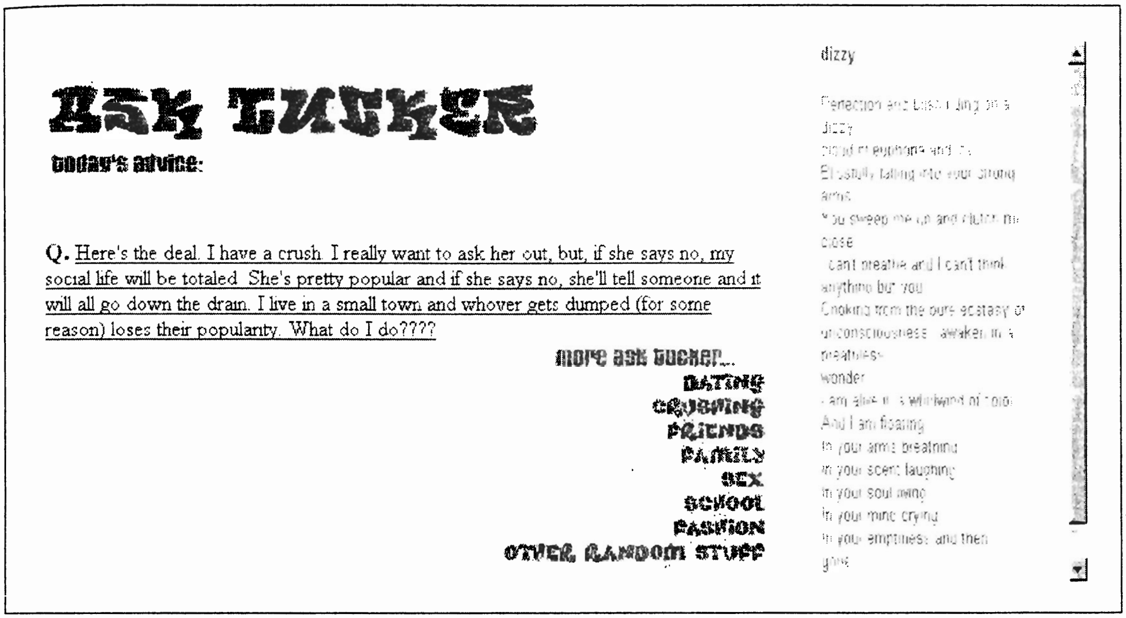
Source: Company records

Exhibit 6 Circulation of Leading Teen Magazines

Publication	Publisher	Circulation as of 1998/99
Seventeen (monthly)	Primedia Consumer Magazine Group	2,400,000
Teen (monthly)	EMAP	2,400,000
YM (10 x year)	Gruner & Jahr	2,200,000
Teen People (monthly)	Time Inc.	1,300,000
Jump (10 x year)	Weider Publications	350,000
Twist (monthly)	Bauer Publishing	265,650
Girl	Lewitt & LaWinter/Freedom	250,000

Source: Various

Exhibit 7 Examples of consumer-generated content on Alloy Website



Source: Alloy Website