

Barry Diller's Internet Empire (Drawn from articles in Business Week, The Economist and The Times)

InterActiveCorp is an \$11 billion internet company. It is run by Barry Diller, longtime Hollywood mogul and deal maker turned internet junkie. "Everyone thinks Hollywood is it. If they understood anything about the internet, they would realise that Hollywood ismostly a pain in the ass. Building internet businesses is a hell of a lot more fun than arguing over which actor should play what part in some movie."

"The key to successful internet business is a combination of aggressive marketing to capture the eyeballs, faultless websites that are easy to use and aggressive supplier management to capture margin", explains Diller. His portfolio of businesses includes, the world's largest web travel agency Expedia, an on-line general retailer HSN, hotels.com, ticketmaster, etc. (see exhibit).

InterActiveCorp was started by Diller in 1996. Since then he has been buying internet brands and helping them build share and profitability. The deals have accelerated in the last three years as many promising internet brands have run into profit and cash flow problems.

Diller, who made \$10 billion by selling his cable and entertainment business, USA Networks to Vivendi, has plenty of cash. But he is also a micro manager, as comfortable leading negotiations with Radisson over the price of hotel rooms for hotels.com as he is closing his next deal, likely to be realestate.com (an on-line real estate middle man).

"The most successful internet businesses are middle men. The net is a cheap way of finding customers. Once you have customers, you can negotiate discounts with suppliers." Consider the Radisson. Customers normally pay \$219 for a room. At hotels.com the same room sells for \$189 and Radisson only receives \$151.

Diller has found that many internet companies are not tough enough in their supplier negotiations. "At the beginning, they are begging suppliers to sign up with them. This sets a tone for future negotiations. The law of the market is that once you have customers you can shop around for suppliers." And this is what Diller is prepared to do. His businesses are known for giving top promotion to those suppliers offering the biggest discounts. They are also prepared to punish suppliers who do not negotiate, by giving them low billing or dropping them from the site.

"Simple sites" is another Diller theme. "Many internet managers dream of being able to do everything for everybody. They are also often in love with web technology. Yet success is about simplicity – look at Google's home page. A Hollywood training is helpful here. What's the message? What's the story? Will the average viewer get the message?"

Diller has also benefited from the dot.com bust. Gaining eyeballs is vital, but was expensive in the late 1990s when all competitors had big marketing budgets and there were only a few customers. However, in the period 2000 – 2005, few companies had the funds to spend on marketing at a time when marketing spend was generating much better returns due to the increase number of internet users.

How important is synergy between the businesses? Significant, but not the driving force. "The link between mortgage lending and real estate will be valuable. There are cross promotion opportunities. Also, having more than one business selling hotel rooms (the travel businesses and hotels.com), strengthens our negotiating position. But this is icing – not the cake."

DILLER'S INTERNET EMPIRE

IAC CEO Barry Diller says he's putting together Internet companies that will help sell one another's services and boost one another's performance. Here's how:

Companies	Forecasts	Synergies	Prospects
Expedia Web travel agency	\$8.2 billion sales*	Expedia sells event tickets for Ticketmaster , and it's offering time shares from Interval International , an exchange for time share owners that IAC bought last year.	Already the largest online travel player, it's rapidly gaining market share as it extends its technology leadership and pours fast-rising profits into marketing. A
	55% growth*		
HSN TV and Web general retailer	\$2.2 billion sales	Not many. HSN may promote IAC's travel businesses on the air.	A slower-growth business that has boosted profits, partly by moving 14% of its business online. It also churns out cash so Diller can acquire Net companies. B
	14% growth		
Hotels.com Discount hotel-reservation Web site	\$1.4 billion sales*	Hotels.com hopes for up to \$100 million in annual sales from putting hotel coupons in Entertainment Publications' local-discount books.	It's strong now, but problems loom . Hotels.com's bare-knuckle tactics have angered hotel chains, which may play hardball when the economy recovers. B
	45% growth*		
Ticketmaster Telephone and online ticket sales	\$719 million sales	Sells tickets to ball games, concerts, and other events to vacationers through Expedia , but the joint effort got off to a slow start.	Solid, but not flashy. Ticketmaster has upped profitability by shifting 51% of its business online. Next up: Online auctions for tickets. B
	10% growth		
Hotwire.com Discount travel Web site	\$700 million sales*	Limited, at least at first, for Diller's newest acquisition. Expedia and Hotels.com will likely have links to Hotwire.com.	Solid, but Diller paid a relatively high price considering that Hotwire.com is growing slower than Expedia or Hotels.com. B
	25% growth*		
CitySearch/EPI An online city guide, plus entertainment coupons	\$269 million sales**	Diller has high hopes for cooperation, since Entertainment Publications' discount coupons are a natural fit with CitySearch's restaurant listings.	CitySearch has lost about \$270 million since 2001, but paid search ads are boosting results . EPI will add \$25 million to operating profits in 2003. C
	5% growth**		
LendingTree Online marketplace for bank loans and realtors	\$167 million sales	Execs hope to bolster CitySearch , Diller's online local entertainment guide, by referring LendingTree customers to restaurants and events. But the link is tenuous.	Well-positioned as a middleman , directing customers to banks and realtors. Could take a hit if mortgage refinancings fall off. B
	50% growth		

*Gross bookings **CitySearch results for 2003 include nine months of Entertainment Publications Inc., acquired March 25. Data: U.S. Bancorp/Piper Jaffray, Goldman Sachs