Blogging for Dollars

It's not just a hobby -- some small sites are making big money. Here's how to turn your passion into an online empire.

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(Business 2.0) -- Michael Arrington is a partying kind of guy. While showing off his home in Atherton, Calif., he boasts about how he crammed 500 people into his one-acre backyard at a bash in February. Then there are the official parties, like the one he threw in mid-August at August Capital, a nearby venture firm. Arrington posted an open invitation on his website at 3 a.m. By sunrise, all 500 spots were taken; the onslaught of traffic crashed his site. "I knew it would be fast," says Arrington, who houses so many out-of-towners in his ranch home that he often isn't sure who's crashing on which mattress on which floor in which room.

Arrington, a 36-year-old entrepreneur behind a long list of unrecognizable startups, has suddenly become one of the rising stars of Silicon Valley. Why? The answer lies in TechCrunch, Arrington's blog about new technologies and companies. In the year since he launched the site, he has amassed such a strong following that he's become a go-to person for VCs and tech execs looking to leak corporate tidbits or announce news. More than 1.5 million readers regularly check out his site. But here's what gives Arrington real distinction: He's pulling in $60,000 in ad revenue every month. That's 10 times what the site was making earlier this year, which was when Arrington, convinced of the potentially monstrous riches ahead, quit his day job as president of a startup to blog full-time.

With Internet-like speed, blogs have gone from self-indulgent hobbies to flourishing businesses. Real businesses, with real revenue streams from real advertisers--not overhyped next big things with pick-a-number valuations based on selling out someday to some
overenthusiastic big-media sugar daddy. Boing Boing, a four-person operation that bills itself as a directory of wonderful things, is on track to gross an estimated $1 million in ad revenue this year. The digital-media news site PaidContent.org, headquartered in the second bedroom of a Santa Monica apartment, is set to post even more than that. And Fark.com, a site packed with sophomoric humor run by a lone guy in Lexington, Ky., is on pace to become a multimillion-dollar property. In short, some of the most popular blogs, long the bane of the mainstream media, are themselves becoming mainstream.

What has changed? For starters, blogs today benefit from what might be termed uneconomies of scale: They are so cheap to create and operate that a lone blogger or a small team can, with the ever-expanding reach of the Internet, amass vast audiences and generate levels of profit on a per-employee basis that traditional media companies can only fantasize about.

At the same time, advertisers--shunning old-line media in favor of the Web--are discovering the unique power of blogs. Blogs offer a personal touch in the mediascape; small sites have become our guides to a content-saturated world. As such, their recommendations are highly valued by readers--which naturally has made advertisers take notice. In recent months, big-name companies like Banana Republic and Coca-Cola (Charts) have for the first time run campaigns on blogs, in the belief that blog communities often consist of concentrated numbers of the passionate and influential people all marketers want to reach. Intel bought its first blog ad in March; now all its ads run on blogs as well as traditional outlets. Says Thom Campbell, head of media strategy for Intel (Charts), "The audience on blogs is the cream of the crop."

But before you quit your day job, consider that this isn't easy money, nor is it guaranteed to last. For one thing, the market is small right now: Web ad agency Organic puts ad spending on blogs at $40 million this year. Bloggers are typically selling only about a third of their available ad space at top rates. (The rest goes at heavily discounted prices.) And as with any business dependent on the mercurial ad market, prone as it is to sudden skids, the threat of crashing and burning always looms.

Still, the blogging-for-dollars phenomenon is only in its infancy, and already blog ad spending is roughly twice what it was last year. With overall Web advertising expected to grow by 50 percent to $23.6 billion in 2010, it's certain that more and more ad dollars will land on blogs. For a growing cadre of bloggers, the opportunities to score fat profits from pumping out posts on whatever their particular passions might be are widening--and one consequence could be a radical reshaping of our notions of how to build a successful media company.

The monetization of blogging can trace its roots to late 2002, when Google (Charts) created a revolutionary system that allowed anyone with a website to run ads. The technology, called AdSense, matched ads with a site's content. Each time a visitor clicked on a linked ad, the site's owner got paid (a model now referred to as cost-per-click advertising). For the first time, anyone could be a real publisher with real advertisers, with no need for the big sales forces that...
magazines, newspapers, and other traditional media employ.

For do-it-yourselfers, however, the revenue stream created by AdSense in its early days was for the most part simply beer money. At the same time, display ads—the banners, buttons, and skyscrapers that had fallen into disfavor with the bursting of the Internet bubble in 2000—began to make a comeback on major destination sites such as Yahoo (Charts) and MSN. Marketers pay for those kinds of ads based on a formula known as CPM, which stands for cost per 1,000 impressions.

The promise of these two Web advertising models whet the whistles of wannabe publishers, and among the first was Nick Denton. He bet that he could run sites as low-cost one- or two-person operations and offer advertisers ready-made, easily targeted niche audiences. He reasoned that he could eventually one-up automated systems by handselling display ads for his sites at premium CPMs. But to lure advertisers into uncharted blog waters, he initially gave away ad space for free.

Denton launched his company in New York in 2002 with the media gossip site Gawker and the gadget blog Gizmodo. Gawker Media now runs 13 sites, including such edgy titles as Defamer and Wonkette. Denton recently announced that he's "battening down the hatches" and selling two sites, but his core properties are on a tear: Gawker Media sites clocked 66 million pageviews in June, more than double the traffic they saw a year earlier. Denton won't discuss financial details, but industry experts estimate that Gawker Media will bring in as much as $3 million in revenue this year. Gawker Media's average CPM is between $8 and $10; CPM rates on Google AdSense and competing automated systems are estimated at anywhere from 50 cents to a few bucks.

Another pioneer, Jason Calacanis, provided a big shot of momentum to the blogging-for-bucks phenomenon last October when he sold Weblogs Inc., his conglomeration of 85 sites, to AOL for a reported $25 million. "Everyone in the ad industry took notice after that deal," says Mark Kingdon, CEO of Organic.

All the while, big-picture changes have been unfolding in the background, contributing to today's blogging business sweet spot. By constantly improving its algorithms, for instance, Google engineers have made AdSense a far more powerful placer of more-varied and better-targeted ads; AdSense alone is expected to generate sales of $4 billion this year.

At a more fundamental level, the Web has become deeply embedded in our daily lives, for business and pleasure, in ways no advertiser can ignore. Today 71 percent of American households have Web access; Americans ages 13 to 24 now spend more time online than they do in front of the TV.

As for blogs, they've exploded: There are 50 million of them, and two new ones are launched every second, according to blog search engine Technorati. To some experts, all these developments mean but one thing. "This time, Web advertising is for real," concludes Karen Francis, CEO of San Francisco-based ad agency Publicis & Hal Riney. "And marketers are all looking for new opportunities online."

Trying to provide those opportunities has become the mission of a host of would-be blog entrepreneurs. John Battelle, a founding editor
of Wired magazine and the creator of the now-defunct Industry Standard (as well as a freelance columnist for Business 2.0), was working on a book about Google when he had an epiphany: Where mainstream publishers were spending a fortune buying subscriber lists and shoving subscription cards into magazines, bloggers were building huge audiences for free. Yet even popular bloggers couldn't make a living full-time; existing networks like Google and BlogAds weren't paying enough.

Unlike Denton, Battelle had no interest in owning sites. He figured he could simply peruse the blogosphere and analyze Web tracking data to find out which bloggers were already generating heavy traffic, and then serve as a middleman between them and advertisers. He launched his startup, called Federated Media Publishing, last fall with seed money from the New York Times Co. (Charts) and eBay (Charts) founder Pierre Omidyar.

Battelle compares FM's model to a record company. He and his team are the band managers; the bloggers are the bands. The key difference is that bloggers own their content, earning 60 cents of every ad dollar. Like a band manager, FM works closely with its acts, yet ultimately it's up to the bloggers to keep pumping out material. "If they stop writing, the ads go away," Battelle says.

He has signed about 75 of the most popular bloggers of various stripes and hopes to land a few hundred in all. His authors range from tech-oriented guys like Arrington and Om Malik, who writes about telecom on GigaOm and just left his full-time gig with Business 2.0, to Heather Armstrong, whose deeply personal Dooce site is bringing in enough money to allow her family to live comfortably. Her enterprise has a staff of two: Armstrong and her husband.

FM's eight-person sales force has been aggressively approaching big marketers, armed with detailed and persuasive demographics. The data has helped FM steadily boost ad rates on its sites. The average CPM doubled in the past six months to roughly $8. The aim is to get rates between $20 and $30, which, Battelle says, would put his blogs on par with sites like CNET and NYTimes.com. But thanks to the uneconomies-of-scale twist, overhead at FM sites like Boing Boing, Battelle's top act, is almost invisible compared with that of any mainline media concern.

Journalist Mark Frauenfelder founded Boing Boing, then a paper-based cyberpunk zine, in 1988 and took it online in 1995. Four years later he accepted a freelance assignment to write what became one of the first stories about blogs—and afterward decided to turn his zine into one. He discovered the power of building traffic by "deep linking" to specific stories or items on other sites. Other bloggers would return the favor, and the community grew. "I was getting a thousand visitors a day, and I thought, 'Oh, that's fun,'" Frauenfelder recalls.

Eventually he discovered that the more posts Boing Boing put up, the more traffic grew; he recruited three friends to keep the posts coming hot and heavy. By 2004 the site had 20,000 visitors a day, rivaling many mainstream magazine sites. But the team was spending about a thousand bucks a month in Web hosting fees. That's when Frauenfelder called Battelle, a former colleague, and began selling ads for the site. Today, Boing Boing's roughly 325,000 daily visitors make it the most lucrative property in Battelle's stable.
Though not all of Boing Boing’s ad inventory is sold, the site will gross more than $1 million this year, based on CPMs and traffic. "It's turned out to be a good business," Frauenfelder says.

But Battelle believes an eccentric blog called Fark.com, a collection of reader-submitted links to amusing videos, jokes, and curiosities from all over the Web, could become the most profitable site in mainstream blogdom. Already it vies with FM stablemate MetaFilter for the top spot in blog traffic rankings. Fark founder Drew Curtis made up the site's offbeat name as code for the real F-word when posting in chat rooms in the early 1990s. In 1993, while a student in England, Curtis began sending e-mail messages to friends back home with weird items he found in the news. In 1999 he decided to post them on a webpage.

Fark is incredibly cost-efficient: Almost all of its content is generated by its readers, and aside from Curtis it has just two contract employees, both tech guys. Fark devotees post links to news items accompanied by rubrics like "spiffy" and "dumbass," annotate them with blurbs of text, and open them up for comment. Controversial items about politics, religion, or sex ignite all-out flame wars--and, naturally, boost traffic, which overall stands at 40 million pageviews a month. The beautiful part is that virtually none of the content (pictures, videos, etc.) is hosted on Fark, which simply links to the goodies. This means that, despite its huge traffic, Fark doesn't incur the crushing bandwidth fees that eat into profit at sites like video trove YouTube.

Without a dedicated sales force, however, Curtis had trouble drawing mainstream advertisers. That changed after News Corp. (Charts) purchased MySpace and AOL bought Weblogs, moves that only boosted advertiser interest in blogs. "That hit like a hammer," Curtis says. Within days of the Weblogs sale, Curtis inked a deal with his first major advertiser, the National Hockey League. Curtis recently signed on with Battelle's FM and cut a side deal with Dennis Digital, a division of Maxim magazine's publisher. Dennis approached Curtis because Fark's audience demographic matches Maxim's. Curtis won't disclose his current revenue but insists that he can soon log monthly ad sales of $600,000 to $800,000. Battelle expects Fark to become the first indie blog to earn a million dollars a year in profit. "Fark's going to get there," he says.

Arrington also stumbled into the blog business. He was tossing back drinks at a bachelor party in Belgrade in 2005 when another Silicon Valley entrepreneur called with an idea for a startup based on the new technologies that have come to be lumped together as Web 2.0. Arrington began doing research about the emerging tech trend. He couldn't find one comprehensive source, and as he compiled his information, he decided to post it on a blog. "It was purely a hobby," he says.

People began reading. People began posting. Traffic grew. In addition to building many startups, during the 1990s Arrington had been a lawyer at the Valley's prestigious Wilson Sonsini Goodrich & Rosati, where he worked on IPOs and mergers, and his sources from those days began feeding him information. In March, for instance, he published screenshots of Google’s new calendar application before its release. He was quickly contacted by a Google attorney, who asked that he reveal the source of the leak. (He refused.)
More and more people started to flock to TechCrunch to read scoops and analysis about new ventures. Arrington's big financial boost came a couple of months ago when he redesigned the site. He created six small boxes and announced that he was selling ad space. They sold out in a few days.

That's no surprise, considering how affluent and techie his readers are. Thirty-six percent say they spend more than 40 hours a week viewing online content, and even better, they check out TechCrunch multiple times each day. More than a third earn salaries topping $100,000, with 12 percent making more than $250,000. It's a coveted group for some advertisers.

"Sixty percent of our business is from startups," says Jeff Kearl, chief marketing officer for software maker Logoworks, which recently bought a TechCrunch sponsorship. "Arrington's blog is the epicenter of the startup community."

Big brands also want in. Apple and Hewlett-Packard just signed on to advertise on TechCrunch. Intel is planning to run ads on the site, complementing ads the chip giant has already placed on sites like Boing Boing and Gizmodo. A major appeal, Intel's Campbell says, is that a blog's unique interactive properties can vastly increase the reach of an ad, as it bounces around the Web and triggers comment on myriad sites.

Intel's current campaign for its Core 2 Duo chips brags about performance measures, something Intel hasn't done in its ads in years. By running these ads on blogs occupied by tech fanatics, Campbell expects that people will test the company's claims and write about them. "We're going out on a limb," he says. "But I'm always looking for integrity where we advertise. And these authors are passionate about their subjects."

Success stories like Arrington's have helped spur a gold rush-style stampede into the blogosphere. One of the most ambitious efforts comes from Sugar Publishing, founded in April by 32-year-old San Francisco software entrepreneur Brian Sugar with $250,000 of his own money.

Sugar Publishing's mainstay property is PopSugar, a fast-growing celebrity gossip site with 12 million monthly pageviews, an audience that took sites like Boing Boing and Fark years to build. Sugar Publishing doesn't expect to earn a dime until the end of next year, but just two months after it was founded, a Boston-based VC offered to pump in $2.5 million, valuing the company at $10 million.

PopSugar and a new generation of blogs, like Egotastic and PerezHilton.com, have built massive followings in just the past few months by devoting themselves to celebrity gossip. "We create editorial for an ADD culture," Sugar says. His ambition is to drive traffic from his gossip blog to 12 ancillary sites he'll launch during the next two years, all of them aimed at women younger than 35. The projections that Sugar shows investors claim that his small blog empire will bring in $15 million in revenue in 2008 and $40 million in 2009.

Far-fetched? Maybe. But consider this: Sugar hasn't even hired a sales staff yet, but Banana Republic already approached Sugar Publishing and bought out its entire ad inventory for a week in July. The campaign, called "Drop Your Pants," offered customers a discount if they donated pants to charity. It was the company's first
"People who read blogs are more likely to recommend products," says Chris Nicklo, Banana Republic's vice president for brand management. "There was an amazing viral explosion."

The rapid march into the blogosphere isn't limited to entrepreneurs and advertisers: Investors are moving in too, including some with lofty pedigrees. Alan Patricof, a highly regarded VC who early on bankrolled the likes of Apple (Charts), AOL, and New York magazine, recently invested in ContentNext, the publisher of PaidContent.org and other blogs run by journalist Rafat Ali. Ali's blogs are logging about 5 million pageviews a month, and he's on pace to generate revenue of more than $1 million this year. And VC firm Softbank Capital just invested $4 million in Arianna Huffington's political and news blog, the Huffington Post, a site also backed by $1 million from Patricof's firm.

Despite all the ferment a critical question remains unanswered: Do blog ads work? Sure, readers can click on ads and view an advertiser's website, potentially even making a purchase, but that rarely happens. Intel's Campbell says the industry standard is a click-through rate of less than 1 percent.

But major advertisers aren't just looking for click-throughs; they're looking to get in front of the right audiences. "Blogs are very targeted, so one would project that ROI is very good," says Publicis & Hal Riney's Francis. "But it's still early. What may get ad dollars today may not get them tomorrow."

Any downturn in the economy and ad market will, of course, hurt bloggers. The sheer numbers of blogging-for-dollars artists charging into the game could also muddy the market and put pressure on ad rates. And profitable blogging is hard work; a solo act like Dooce's Armstrong must post constantly to keep her traffic and ad revenue up. "There are days when I panic," she says.

Still, in some ways the lean, do-it-yourself ethos of blog businesses makes them ideally equipped to deal with business cycle blows. It's far easier to weather a downturn when your costs are next to nothing. Plus, many players are diversifying, even within the blogosphere. "I know that I'm riding the Web 2.0 wave," says Arrington, who points out that he turns down frequent VC offers, some in the $5 million range, because he doesn't want to give up editorial control. Now he's preparing for a day when the wave crests.

He just launched a gadget site and staffed it with a former writer for Gizmodo, which is part of Denton's network and is packed with big-name advertisers such as Nokia and Sprint. He has plans for a gaming site and a site devoted exclusively to analyzing heavy-duty enterprise software. Even as he expands, however, he expects to keep his expenses--now about 12 percent of revenue--at no more than 30 percent.

And occasionally there are bonuses. With little effort, Arrington got dozens of sponsors, mostly Web 2.0 startups and VCs, to bankroll the party he held at August Capital. So after a night of revelry, Arrington had pocketed an extra $50,000. Now that's something to blog about. ■

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