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PRODIGY BUSINESS SERVICES:
AN "INSTRUCTIONAL CASE" STUDY
OF MARKETING TACTICS
FOR A COMPUTERIZED
ELECTRONIC INFORMATION SERVICE

by

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Submitted to the Department of
Management in Partial Fulfillment of
the Requirements for the
Degree of

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in Management

at the

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ABSTRACT

Prodigy Business Services (PBS) is a spinoff from Prodigy Services Corporation (PSC). PSC is a joint venture between IBM and Sears which created an information services computer network targeted towards individuals ("retail" focus). PBS was created as an effort to utilize excess capacity of the network during times in which the network was underutilized (i.e. during the day).

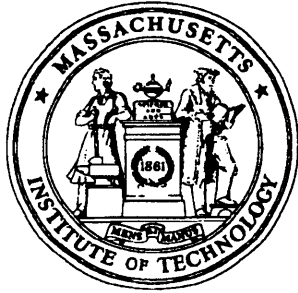
PBS focused its initial marketing efforts on public relations targeted towards the "influential infrastructure" of businesses, academia and publishing persona. These efforts had produced limited results.

PBS' marketing manager was interested in improving the effectiveness of their marketing strategy and was therefore exploring various alternatives.

This thesis in the format of an "instructional case," a format intended to be used by management instructors as a basis for class discussion. The case describes the business environment facing PBS' marketing manager. It also gives relevant facts about the product, PBS' desired customers and past marketing strategies. The case closes with a description of the decision which currently confronts the marketing manager.

Thesis Supervisor: Dr. William Qualls

Title: Associate Professor of Management Science



MIT Sloan School of Management

Prodigy Business Services

In January 1990, Judith Blackwell, Marketing Manager, was evaluating her experiences marketing Prodigy Business Services (PBS), and was wondering how she should proceed from this point.

PBS was a spinoff from the "retail" oriented Prodigy Services Company (PSC) — a joint venture between IBM and Sears. PBS' mission was to increase the utilization of the extensive computer network that PSC had developed. Whereas PSC's focus was to reach individual users, PBS sought to market to businesses, customizing the system to meet their needs. PBS had successfully attracted several firms, which used it to facilitate marketing and communications. However, it was proving difficult to attract additional commercial customers.

Since PBS' "parents" had "deep pockets," PBS could operate (even at a loss) for quite a while. However, top management would not allow this to go on forever. At some point, PBS would have to pull its own weight.

Up to now, PBS' marketing tactics had focused on direct sales and "PR" (public relations) efforts. Judith wondered what strategies (if any) would be more effective. A group of consultants were investigating some new potential markets, but she was unsure if they would be able to come up with anything significant.

In any case, the onus for PBS' success was on Judith and her staff.

This case was prepared by Antonio M. Parham, second year Master's Degree student, under the supervision of Professor William J. Qualls, as a basis for class discussion, rather than to illustrate either effective or ineffective handling of a management situation. Data was obtained from both primary and secondary sources.

Company Background

PBS' Retail Services Parent

Prodigy Business Services developed as a spinoff from Prodigy Services Company (PSC). PSC began its corporate life in 1984 as Trintex, Inc. Trintex - a joint venture between CBS, IBM and Sears - was created with the hopes of legitimizing the videotex industry.¹

The idea behind videotex was intriguing: provide consumers with easy, inexpensive, electronic ways to get information, buy goods and services, and pay their bills. The growing popularity of personal computers seemed to indicate that services such as home banking and shopping would be quickly accepted by consumers who were becoming increasingly sophisticated.

Trintex Competitors

Other competitors had already jumped into the market and were pouring millions into a market for which no clear demand yet existed.

Qube Cable Network, owned by Warner Communications and American Express, operated from 1977-1984. It required an estimated \$20M investment and provided polling services, games, viewer

conferencing and limited access to information banks.

Times Mirror invested \$10M into a service called Gateway which provided news, weather, sports, entertainment, data, games, education services, mail, shopping and banking.

Knight-Ridder, another publishing firm, had, from 1983 to 1986, invested approximately \$40M into its Viewtron, which provided banking, shopping, news and entertainment listings.

CompuServe, one of the original computer networks, offered its subscribers news, information, financial data, brokerage services, "Electronic Mall" shopping, mail, conferencing and travel services. However, CompuServe's clientele were mostly computer professionals or technically oriented persons. CompuServe had been operating since 1969 and was currently owned by H&R Block. Its annual revenues approached \$103M in 1986.

The Source, purchased in 1987 from Reader's Digest by Welsh Carson, Anderson and Stowe was created in 1979. It offered databases, financial services and electronic shopping through its "Comp-U-Store." 1986 revenues were \$14M.

By 1986, Trintex had absorbed an estimated investment of \$250M. However, by this point CBS had already pulled out, seemingly unwilling to wait for the potential

¹ Trintex was named after its three founding partners ("Trin-") and its targeted videotex industry ("-tex"). [CBS used a similar naming convention for Tri-Star Pictures, its 1983 joint venture motion picture studio, created with partners Columbia Pictures and Home Box Office.]

return.² At the point of its departure, CBS had already poured an estimated \$40M into Trintex.³ By 1988, it was estimated that Trintex had invested up to \$450M in development costs.

Other players had also decided that the Videotex industry was more sizzle than steak and had pulled out. Time, Inc., the publisher of Fortune Magazine, spent \$25M experimenting with a teletext system using home TV screens, but decided not to proceed. It also aborted its 5% participation in Covidea, a joint venture with AT&T and Chemical Bank, that was to deliver banking services and entertainment listings.

Trintex's product, dubbed Prodigy, was to differentiate itself from its competitors and invigorate the videotex market through two major initiatives: (1) its use of jazzy, colorful graphics, and (2) its flat subscription rate of \$9.95 per month.

Graphics / User Interface

Many of the older computer networks, such as CompuServe, were designed to provide pure text output to a computer's monochromatic display screen. Prodigy was designed to be different. Extensive efforts were invested to

give it a colorful, dynamic interface which would captivate its users. As stated by Theodore Papes – a former boss of IBM's European operations and CEO of Trintex – "We're creating something so compelling that you'll say, 'I've got to have it.'"⁴ (See *Exhibit 1* for sample Prodigy promotional material.)

Prodigy was an attempt to reach the mass market. Unlike on-line companies, such as the Source, CompuServe, Quantum Link and Dow Jones News/Retrieval – which sold their services to "information junkies" (journalists and investors) and "computer nerds" (who love to play games, write programs and talk to fellow "nerds") – it was hoped that Prodigy would be the first service to appeal to the common consumer. As such, a graphical, "user-friendly" interface was thought to be essential.

Prodigy's user interface was designed to be easy enough such that any person off the street could operate the system with only 30 seconds of instructions. In addition, subscribers could customize the system such that, with a push of a button, Prodigy would automatically show them a preselected series of screens.

Factions: Sears vs. IBM

The format chosen for the Prodigy system's hardware and software was forged via an intellectual battle among the troops

² CBS' stated reason for pulling out was because of a redefinition of and reorganization of their business units. Their new strategy was an effort to "stick to their knitting" (i.e. focusing on their core businesses).

³ Staffers joked that the venture should have been renamed "Twintex" at this point.

⁴ *Fortune*, September 28, 1987.

that created it. Sears saw Prodigy as merely an electronic catalogue. It could foresee the changing retail patterns that would be created by consumers who demanded increasing amounts of information in a decreasing delivery time. In addition, Sears was interested in ensuring that its other subsidiaries could also sell products via Prodigy. This included insurance from Allstate, financial services from Dean Witter, and real estate from Caldwell Banker.

Sears, therefore, was always insisting that the product, while making shopping easier, should embrace as many consumers as possible. The hardware system suggested by this approach might include very low end computers, or even a television-phone link, like the Telaction product that J.C. Penney was experimenting with in Chicago.⁵

IBM's minions, on the other hand, pressed for more serious hardware. The group from Big Blue insisted that nothing less than a full featured PC would do.⁶ In addition,

⁵ Telaction, a shopping service, was envisioned to operate as follows: Customers would view products by calling Telaction on the phone and turning their televisions to a specified cable channel. By touching digits on their phones, they can stroll through the catalogue as it appears on their home television screens along with descriptions and prices. Penney had invested \$40M into the system by 1986.

⁶ Said Chuck Kushell, a former Trintex marketing director who is later moved to Hill Holiday, an advertising agency in

Prodigy should be designed so that it could be adapted, if necessary, to work with the future generation of "smart" television sets. The disadvantage of IBM's emphasis was that it would require a more significant investment on the part of the consumer to acquire a system powerful enough to use Prodigy.

Flat Subscription Price

The other aspect of Prodigy that was hoped to make it attractive to consumers was its flat subscription fee. Older services, such as CompuServe, charged subscribers a multi-tiered fee, which consisted of (1) a basic membership fee, (2) a charge which was calculated based on the amount of time that the user was logged on, and (3) a charge based on the number of files that a user accessed.⁷

Prodigy's designers felt that these usage oriented fees discouraged subscribers from using the system, since people would structure their interaction with the system to minimize their usage charges. In order to become accepted as an information utility, it was felt that Prodigy's pricing, like its snazzy graphics, should be designed to encourage frequent usage.

Boston: "The joke was that it was going to have to be a water-cooled PC, they were trying to push so many mips (millions of instructions per second) into it." - *Fortune*, September 28, 1987.

⁷ Different prices were associated with different file types.

Since it was also desired for Prodigy to appeal to as broad an audience as possible, the fee should be kept to a minimum. Initial plans called for a \$149.95 start up kit (including a modem, software and three months of free service). The subsequent fee charged would be \$9.95 per month, which was less than the basic membership fee alone of some services. Prodigy was able to offer this price because (1) the number of people PBS hoped to sign up would result in significant economies of scale⁸ and (2) it designed the system to allow for advertising to Prodigy users on every screen. The advertising revenue would partially subsidize the system thus allowing a lower fee.

Advertising: "Infomercials"

Prodigy made innovative use of a reserved portion of its screen to advertise products or services to its users. The bottom fifth of the screen was set aside for this purpose. Each advertisement was designed to be as graphically appealing as the information screens.

Other innovative aspects of these "infomercials" took advantage of the sophisticated computers that were

controlling the system. Advertisers paid fees based on the actual number of customers who viewed their messages. In addition, the ads could be specifically targeted for users who were members of specific demographic groups. This targeting was facilitated by a personalized profile that resided in each user's PC, giving names, ages and sexes of all household members.⁹ The system could also monitor purchase/usage patterns and use this information to further narrow a target audience.

Technology Driven or Market Driven?

Although many visionaries were predicting that the PC would become the new focal point for all kinds of transactions and information, some were more skeptical. Martin Nisenholtz, director of interactive media for Ogilvy & Mather, said, "Videotex was born of technology, not of any particular need. The challenge is, and has been, to provide a service that is attractive to consumers."¹⁰

A spokesperson for Trintex, however, insisted that Prodigy eliminated the three main barriers to success of the videotex industry: difficulty in using the services,

⁸ Prodigy was designed to handle 10 million users. By contrast, at the time of its design, all the other computer services together had only about one million users. Prodigy needed several million subscribers to break even. Trintex believed that it would have a good chance of getting that many subscribers when the price of a computer, modem and color monitor dropped under \$1,000, and that a true mass market would develop when the price dropped below \$500.

⁹ Users had incentive to enter this information onto their PCs because doing so facilitated their ordering process. They only had to enter this information once, and it was subsequently automatically transmitted to a vendor whenever they made an order or a purchase using Prodigy.

¹⁰ Fortune, September 28, 1987.

unattractive pricing and a lack of appropriate services.

Robert Smith, executive director of the Virginia-based Videotex Industry Association, suggested that Prodigy's market penetration could be augmented if it provided local services, such as listings for restaurants, plays, movies and sporting events.

There were two marketing tasks for Prodigy. The first was to convince existing personal computer users that they would benefit by signing up. This was a fairly limited market. Of the estimated 15 to 20 million PCs in homes in 1988, only about 5 million were powerful enough to run Prodigy's software.

The second task was more important: to convince consumers who did not own PCs that they needed Prodigy's services.

Renaming

In June of 1988, Trintex was renamed "Prodigy Services Corporation."

Product Introduction

Prodigy realized that they would have to "advertise like crazy" to build the market. Prodigy was to be rolled out in select cities as the network infrastructure was established. The product was introduced in 1988 in Atlanta and San Francisco. It was made available with a bundled offering of a 1200 bps Hayes modem that was developed

specifically for Prodigy.¹¹ This "Hayes Personal Modem 1200" was designed specifically for the home user. It required no internal installation, thus simplifying its use for the non-technical user.

Prodigy planned to spend \$20M to \$30M in advertising in the first 15 months. Media used would include television, magazines and newspapers. It also had a direct-mail campaign to reach computer buffs. Joint marketing campaigns were established with retailers to support expansion.

Prodigy Business Services Launched

By the time that Prodigy was actually introduced in 1988, management realized that (1) it needed to do everything it could to expand the customer base in order to reach its break even point, and (2) since Prodigy was a consumer/mass market oriented service, the usage time of the system would correspond to the times that people were available with free time. This meant that the heaviest usage times would be in the evenings and on weekends. During the business day, usage would be much lower.

To utilize this "excess capacity," Prodigy Business Systems (PBS) was formed. PBS' charter was to develop business clients that would utilize the system during these non-

¹¹ Hayes was the leading manufacturer of modems at that time.

peak consumer periods. However, business clients would have completely different needs than consumers. Businesses would not be interested in the financial services, home banking and electronic shopping functions that were being promoted to the consumers. Businesses needed computerized information networks to distribute information among various parts of their organizations.

Although many firms had already invested in computer networks, it was felt that there were still a significant number of firms that had not exploited this type of technology to its maximum because of the large investment required to develop such a computer network.

It could easily cost several hundred thousand dollars and a fair amount of expertise to develop this type of system. Prodigy planners reasoned that since they had already created the technological infrastructure, they may be able to offer these computer services to businesses in a fashion which would be much more cost effective, from the point of view of the investing firm.

In addition to the cost advantage which such a service would offer to businesses, it was also felt that the significant R&D investment that Prodigy had made into designing the user interface would also be an attraction. Speaking disparagingly of

the "green screen"¹² design that typified many consumer systems, Prodigy felt that many applications could benefit from having a dynamic, appealing interface.

A system could also be implemented via Prodigy much faster than could be done by building an entire system from scratch.

Services Customized for Businesses

PBS catered to business customers by customizing the system to provide access which appeared as if it were completely dedicated to the business customer. Utilizing a feature on the system known as a "closed user group," persons would dial into a pre-assigned Prodigy phone number. The screens that would then be displayed would be completely customized for the business client. Each screen would have the client's name on it.

PBS saw Prodigy as being most useful in:

- automating the marketing, sales and distribution functions
- leveraging traditional marketing activities, and
- providing electronic channels of distribution

Information Technology in Sales & Marketing: "Off-the-shelf" vs. Internally Developed Systems

Currently, Information Technology (IT) was used in sales and marketing functions for:

¹² Text-only output on a green monochromatic display screen.

Prodigy Business Services

- order entry systems,
- planning and budgeting applications,
- sales database management,
- electronic communication, and
- market research.

These systems could traditionally be implemented by using off-the-shelf applications or by internally developing proprietary marketing systems.

The advantages of off-the-shelf systems were their:

- low cost, and
- quick availability.

However, off-the-shelf applications frequently had the following problems:

- they were piecemeal solutions,
- they had limited flexibility,
- they had limited applications, and
- their "pieces" were poorly integrated.

Internally developed, proprietary marketing systems, when successfully implemented, were powerful because they:

- set up barriers to market entry, and
- created sustainable differentiation from competitors.

Examples of successful, internally developed IT systems were: American Airlines "Sabre" Computer Reservation System, American Hospital Supply's "ASAP" system, and Federal Express' parcel tracking system.

Although internally developed systems were often the most powerful, competitive IT tool, they could require enormous resources of cash, technical infrastructure, national network, and the following human resources: systems specialists, trainers and maintenance personnel.

Prodigy Business Services was thought to be able to provide some of the best aspects of both the off-the-shelf applications and the proprietary systems, while having fewer disadvantages than either. As PBS literature stated, Prodigy Business Services "have the look and feel of proprietary, 'home-grown' systems without the inordinately high development or maintenance overheads."

PBS could be used in three broad categories of marketing and sales applications: electronic order entry, product or service information," and "communications." *Exhibit 2* summarizes the functions which fall in each category.

Early PBS Customers

PBS was successful in getting several business customers to purchase its services.

- Artec, Inc. was one of the largest distributors of pre-recorded video cassettes in the northeast. Prodigy is used to perform order entry, distribute new release information, check order status, promote product "specials."

Prodigy Business Services

- Inforum, Inc. owned a 1.5 million square foot facility in Atlanta which technology firms use to solve their business problems. Six floors of permanent showrooms are combined with a comprehensive convention center. Prodigy is used to provide directories, event scheduling, technology news, advertising, bulletin boards, and airline/hotel reservations.
- An office supplies distributor used Prodigy as a reaction to the introduction of a PC-based ordering system by Quill, a major competitor.
- A distributor of medical supplies and generic drugs also used Prodigy in reaction to the introduction of PC-based ordering system by a competitor (Schein).
- A regional insurance association used Prodigy to provide timely information to its agent members.

Exhibit 3 gives brief descriptions of initial customers and their uses of Prodigy. *Exhibit 7* gives a more in depth description of Artec and its adoption of Prodigy.

Order Entry

PBS could function as a firm's order entry system. To do this, PBS was used as a "gateway" between the personal computers and the firm's computers which contained the inventory information. PBS provided all the user interface necessary, while the firm's

computers held the actual inventory data.

PBS as an advertising tool

One of the functions of a customized PBS network would be to serve as an advertising tool. For example, Artec Express — the Prodigy system as customized for Artec, Inc — would primarily be used by a retail store to order new video tapes or to check on the status of previous orders. However, as the retail user would browse through the screens on the system, ads for products which Artec wanted to promote would appear on the bottom fifth of the screen.

Initially, this feature was only used to promote the products or services of the system owner (e.g. Artec). However, as time went on, system owners began to sell the advertising space to outside vendors who were interested in reaching system users (mimicking the strategy of PSC). PBS began to promote this practice by assisting system purchasers to find advertisers. By helping them to find advertisers who would provide a revenue stream, PBS made the system more "affordable."

Marketing Tactics

PBS' marketing tactics had focused on the use of a small, direct sales force. The marketing vice president began slowly building the sales force in 1986, resulting in 5 salespersons by 1990. Salespersons were assigned by industry (e.g.

insurance, banking, catalogues, foods, office supplies, etc.).

In comparison to the ad campaign used for the retail side (PSC), PBS had done very little advertising. They questioned the cost-effectiveness of using advertising to reach customers who were scattered across many industries. (Each industry may only contain a small number of potential clients.)

Instead, PBS had engaged in public relations efforts aimed at the "influential infrastructure," consisting of various business, academic and publishing persona.¹³

Recently, however, PBS had begun to use other forms of marketing. In early 1990, they sent a 20 thousand piece direct mail campaign, designed to hit a large variety of industries. A draft of the cover letter and collateral material used in this mailing is shown in *Exhibit 10*

Finding good customers

Based on experience and analysis, PBS developed a list of attributes which characterized a good Prodigy prospect. This list is shown in *Exhibit 8*. The minimum size criterion of \$40M was specified because it was believed that firms below this

size would not be sophisticated enough or have sufficient resources to use Prodigy successfully. The "dynamic" attribute sought to identify prospects for whom information was very time sensitive. "Innovators" were sought because they would be more willing to invest in a system like Prodigy. Non-innovators may be more inclined to stick with the status quo.

Pricing

PBS pricing varied greatly, depending on the customer's needs. There was an initial, "up-front" fee to customize the system, which ranged from \$15,000 to \$1 million. Then there was a *usage fee* of \$13 to \$15 per hour. Subsequent fees were charged if the client wanted additional services (such as creating new screens).

For a few early customers, such as Artec, the price granted an exclusive arrangement to be the only firm in that industry who could use Prodigy.¹⁴ However, PBS moved away from this exclusive arrangement and was now looking to accept any and all comers. PBS hoped that this would enable them to get more customers.

Distribution

PBS would only be useful to clients if the system were operational in their geographic area. As of May, 1990, the system was "up" in the metropolitan areas listed in

¹³ Publications included *CIO* magazine and *PC Week*. ("CIO" = Chief Information Officer.) Academics met included a prominent industrial marketing professor at a top-tier business school. The encounter with this professor led to the consultant study.

¹⁴ Artec received this arrangement partially as inducement to become a pioneer on the system.

Exhibit 11. The order in which the network was "rolled out" was affected by the ranking of metro areas by ADI (Area of Dominant Influence), according to the population density of those areas.

More cities were targeted to be "live" in the near future as the roll-out plans were implemented.

Market Research

To get some feedback regarding its marketing efforts, an outside consultant team performed a marketing study for PBS. They sought to determine what would be the most likely type of firm that PBS should pursue as prospects.

They focused on wholesale distributors, targeting those between \$40M and \$1B in annual revenues.¹⁵ The \$1B was used as an arbitrary "ceiling," indicating a level, beyond which a prospect was more likely to develop their own system, rather than using a system such as Prodigy.

After examining various industries, three industries were selected as attractive, based on the number of firms which fell within the above revenue range, and which matched PBS' initial "Good Prospect Characteristics."¹⁶ These three industries were Automotive Parts

Distributors, Electronic Parts Distributors and Pharmaceuticals Distributors.

After further research, Automotive Parts Distributors were deemed unattractive since (1) those firms above \$40M all seemed to have their own internally-developed systems, and (2) those less than \$40M were too unsophisticated to be ready for a system like Prodigy.

Exhibits 4,5 & 6 show the firms identified in the three selected industries.

Focus Group

The consultant team held two focus groups to get feedback regarding Prodigy. One focus group included MBA students who had worked in firms related to the target industries. The second focus groups included professionals from various industries that were familiar with the distribution or sales functions.

The feedback is summarized in *Exhibit 9*.

The Situation

Judith had several issues to address:

- 1) What target markets / industries would be most profitable for PBS to focus its marketing efforts on? What are the characteristics of the firms that would be the most likely prospects (annual revenue, number of employees, type of product or service, type of business)?

¹⁵ Their search was also limited to public companies, since information was more readily available on them. Once a particular industry was identified as attractive, further study could be done of the private firms within that industry.

¹⁶ Shown in *Exhibit 5*.

Prodigy Business Services

2) What marketing tools should be used to reach this audience?

- Direct mail?
- Advertising in trade journals and/or business publications?
- Direct sales?
- What percent of the marketing budget should be allocated to each?

3) What would be the best methods to make the selected marketing tools most effective?

- What should be the copy of direct mail pieces or advertising inserts? Should

they be benefits oriented?
Feature oriented?

- What type of presentations should be given? Slide presentations? Actual product demonstrations?
- How can PBS be positioned to compete against the other alternatives which a customer had? (Internal MIS produced products; external, custom made products)

4) What should PBS' pricing strategy be?

Exhibit 1
PSC (retail) Promotional Brochure

**Finally,
what the
PC was
invented
for.SM**



Join the **PRODIGYSM** interactive personal service

- Just \$9.95** a month for up to 6 members of your family
- Easy to use—just press a few buttons
- Friendly and colorful graphics
- Hundreds of features—and more coming

The PRODIGY service makes your personal computer a personal resource for information, shopping and entertainment.

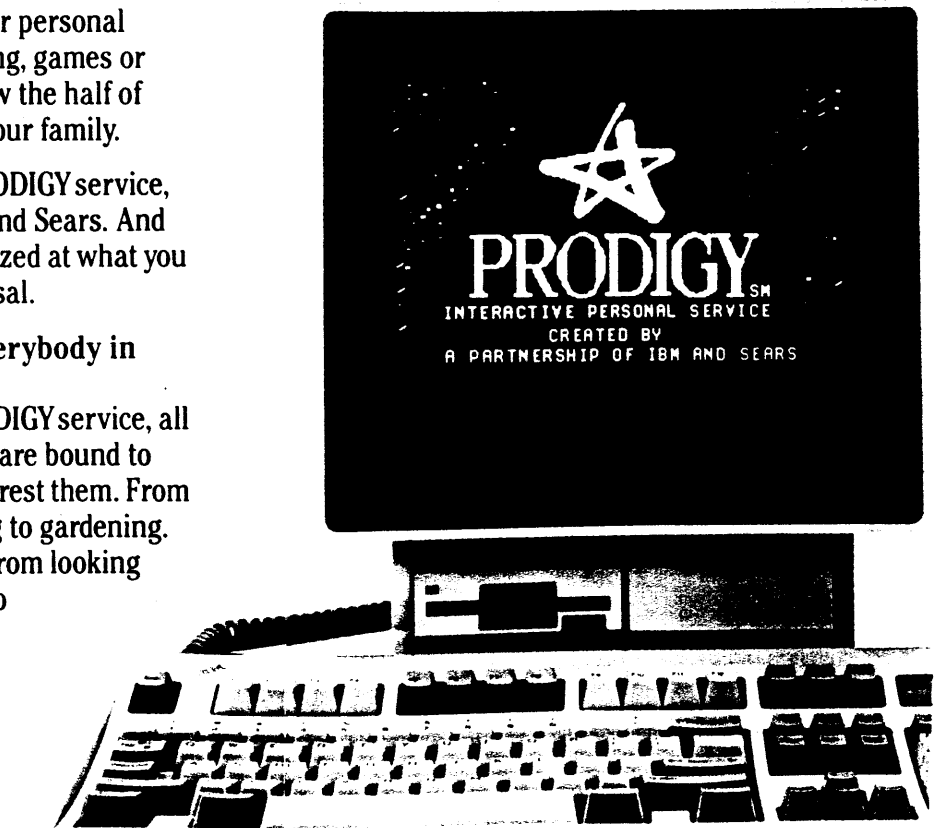
If you've just been using your personal computer for word processing, games or spreadsheets, you don't know the half of what it can do for you and your family.

Because now there's the PRODIGY service, from a partnership of IBM and Sears. And once you get it, you'll be amazed at what you suddenly have at your disposal.

There's something for everybody in your family.

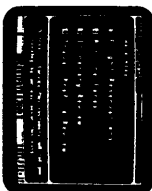
There's so much on the PRODIGY service, all the members of your family are bound to find lots of features that interest them. From finance to travel to shopping to gardening. And you can do everything from looking up a specific movie review to messaging other members to ordering merchandise and having it delivered to your door.

Read on...and discover all that the PRODIGY service can do for you.



INTRODUCING THE SERVICE THAT TURNS YOUR PERSONAL COMPUTER INTO...

...YOUR PERSONAL TRAVEL GUIDE...



EASY SABRE lets you check airline schedules, find the lowest fares and actually book your seats on over 200 airlines — online. And with Service Plus, you can book hotels and rental cars, too!



Whatever kind of vacation your family enjoys, the Official Recreation Guide can help you pick one you'll love. There are over 100 choices, and you can reserve online.



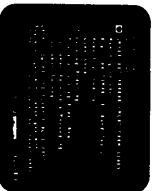
Join the JET discount travel club and save up to 65% on flights, cruises, hotels, and four packages for your next vacation.



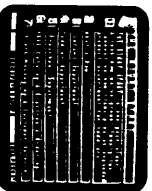
Our Travel Club Bulletin Board has tips and recommendations from experts, and lets you exchange travel ideas with other service members.



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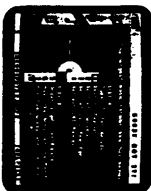


Imagine being able to order thousands of items electronically from dozens of stores, and major catalogues.

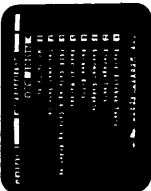


The Right Start has that just-right item for each of the little ones in your life.

...YOUR PERSONAL SHOPPER...



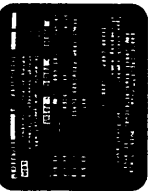
Discover the latest and hottest in music and video—then have it delivered to your door from Sam Goody.



Order great gifts and wonderful kitchen accessories from The Wooden Spoon.



Order great gifts and wonderful kitchen accessories from The Wooden Spoon.



Dow Jones News/Barrister tracks your stocks throughout the day on a minimum 15-minute delay basis.

...YOUR PERSONAL FINANCIAL ASSISTANT...



The PRODIGY service has an online discount brokerage, so you can buy and sell investments and save on commissions.



In home banking lets you transfer funds, check balances—even pay bills without writing checks!

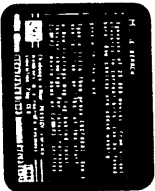


Want to get more from your investments? Pay less in taxes? Our Money Talk Bulletin Board is a great way to get good ideas.

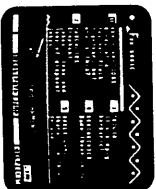
...AND MUCH MORE (fold down)

You're seeing just a few of the hundreds of features on the PRODIGY service.

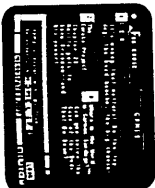
...YOUR PERSONAL ENTERTAINER...



Our Movie Encyclopedia is a big help in deciding what movie to rent, with synopses of over 25,000 films.

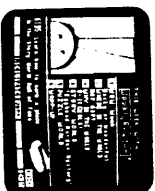


Win one of our many daily and weekly contests, and you'll see your name posted on the service.

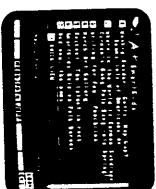


Here are just some of the online games that provide hours of entertainment.

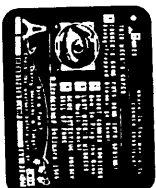
...YOUR KIDS' PERSONAL TUTOR...



Weekly Reader offers many entertaining options, including features that encourage kids to read and write.

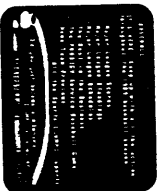


The SmartKids Quiz lets kids test their knowledge, and learn about everything from astronomy to zoology.



The popular whodunit game, "Where in the World is Carmen Sandiego?" may be the world's most enjoyable way to learn geography.

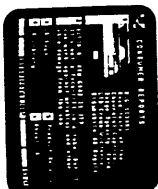
...YOUR PERSONAL NEWSROOM...



The PRODIGY service covers the big league teams in your area—with scores, standings and stats.

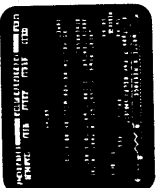


Get the AccuWeather forecast for your area—or for a city to which you're traveling.



Don't buy anything until you check Consumer Reports. You'll have a better chance of getting better value!

...YOUR PERSONAL MESSAGE CENTER...



Your PRODIGY service Mailbox lets you send and receive private messages from other members all over the country. And messages arrive at their destinations within minutes.



Our Food & Wine Bulletin Board lets you exchange recommendations and recipes with other members, and get tips from experts John Mariani on restaurants and Robert Parker on wines.

...AND STILL MORE!

And we're adding features all the time.

We added dozens of features to the PRODIGY service last year, and there's even more planned.

For instance, we've already added grocery shopping in some areas. Just imagine how much time it will save you to be able to do that errand from home—and have groceries delivered right to your door.

And our roster of merchants and local banks is constantly growing. We'll also be adding more special interest bulletin boards that let you communicate with other service members and experts about the topics that are important to you.

And not all the benefits of PRODIGY service membership are online. You'll receive a free subscription to our monthly PRODIGY Star newsletter, with details on new features and much more. And, periodically, you will receive notice of special offers from our merchants, available to members only.

How do you use the PRODIGY service? Easily.

Using the PRODIGY service isn't much more complicated than turning on your computer. You'll have your own ID and personal password so that only you will have access to any personal information

you may want to input—your stock portfolio, for instance. The graphics are friendly and colorful, and getting around the service is simply a matter of pressing a few buttons. There's even a handy "GUIDE" function that shows you where you are and helps you get where you want to go.

And there's an online "HELP" function and a toll-free phone number you can call anytime during service hours.

What do you need to run the PRODIGY service? To start, a telephone...

Your computer accesses the PRODIGY service over regular phone lines, using a modem. A 1200 or 2400 bps Hayes* or compatible modem to be precise (if you don't have one, you can get a special PRODIGY Service Start-up Kit that includes a Hayes Personal Modem 1200 or 2400).

In the near future, the PRODIGY service will be available for Apple* Macintosh* (watch for it). Right now, you need a personal computer that fits this description:

- IBM* PC, XT™, AT*, Personal System/2* family of products or one of the many available compatible computers* with
- at least 512K memory and DOS version 2.0 or higher
- VGA/MCIIA/EGA/CGA/Heracles™ or compatible graphics capability

- at least one disk drive

The PRODIGY service is displayed in color. If you have a CGA or Hercules graphics card you will see the service in monochrome.

How much does the PRODIGY service cost? \$9.95 a month. Period.

Unlike some other online services, the PRODIGY service does not charge you for the time you spend on the service. You pay just \$9.95 a month, plus applicable state and local taxes. It doesn't matter how many people in your family (up to 6) use it, or how often, or for how long. You pay \$9.95* for all the features described in this brochure. And, of course,

you'll need to purchase an inexpensive PRODIGY Service Start-up Kit, which includes all the software and instructions you need to enroll as a member and use the service.

The only other expense is a telephone charge which, for most people, will be at local calling rates.

What are you waiting for?

With so many informative, entertaining, and time-saving features waiting for you

in one place, at one low price, isn't it worth your while to at least see a demonstration of the PRODIGY service? Your local dealer will be glad to show it to you, and to answer any questions you may have.

And then, when you take home the PRODIGY Service Start-up Kit and enroll on the service, you and your family can experience what it's like to have such an incredible source at your fingertips.

And, finally your computer will be living up to its full potential.

*See your local dealer if you are unsure about your computer's capabilities. If you have questions about the PRODIGY service or where you can get it, call or toll free at 1-800-822-6322, Ext. 313. *Some merchants may charge for shipping of their hardware ordered from banking is an optional feature available for an extra fee charged by the bank.

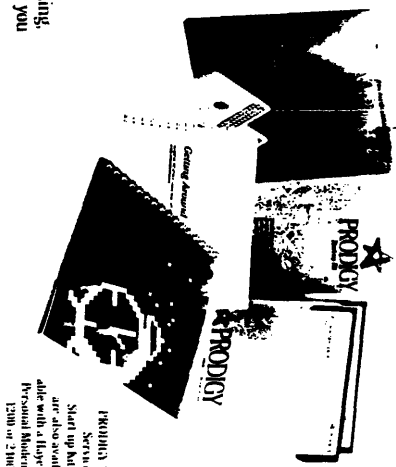


Exhibit 2

PRODIGY Business Services Marketing & Sales Applications

Electronic Order Entry

- Order blank
- Inventory status
- Confirmation
- Shipping information
- Order status
- Add-on & trade ups
- Catalog fulfillment

Product or Service Information

- Features
- Functions
- Prices
- Promotions
- Q&A

Communications

- Announcements
- General business & industry news
- Bulletin board
- Messaging
- Sales information
- Market feedback
- Expert advice

Exhibit 3 - (Page 1)
Brief Descriptions of Early Customers

BUSINESS SERVICES CUSTOMER PROFILE
INFORUM
A SPECIAL INTEREST GROUP ON THE PRODIGY SERVICE

PROFILE:

INFORUM IS A 1.5 MILLION SQUARE FOOT HIGH-TECHNOLOGY
"MARKETING SOLUTION CENTER" IN ATLANTA, GEORGIA. INFORUM IS
A JOINT VENTURE BETWEEN THE EQUITABLE AND JOHN C. PORTMAN.

MARKETING ISSUES:

- NEED TO REACH BUYERS/INFLUENCERS OF TECHNOLOGY
- PROVIDE VALUE-ADD REASON FOR BUYERS TO GO TO ATLANTA
SOLUTION CENTER
- NEED/OPPORTUNITY TO EDUCATE THE TECHNOLOGY BUYER

APPLICATIONS:

- PRODIGY ADVERTISING
- ENROLLMENT Q & A
- TECHNOLOGY NEWS
- TECHNOLOGY BUYER BULLETIN BOARD
- EVENTS CALENDAR
- PRE-REGISTRATION Q & A
- INFORUM AND VENDOR ADVERTISING

Exhibit 3 - (Page 2)

**BUSINESS SERVICES CUSTOMER PROFILE
AN OFFICE SUPPLIES DISTRIBUTOR
A CLOSED USER GROUP ON THE PRODIGY NETWORK**

PROFILE:

ONE OF THE LARGEST DIRECT MARKETERS OF OFFICE AND COMPUTER
PRODUCTS WITH SALES OF \$125 MILLION

MARKETING ISSUES:

- TIMELY REACTION TO COMPETITOR, QUILL, AND THEIR
INTRODUCTION OF PC-BASED ORDERING SYSTEM
- DESIRE ENHANCED SERVICE LEVELS TO BUILD CUSTOMER
LOYALTY
- SEE OPPORTUNITY TO BOOST SALES THROUGH "DYNAMIC"
PROMOTIONS

APPLICATIONS:

- MONTHLY SHOPPING "SPECIALS"
- CATALOG ORDERING
- IMPRINT ORDERING
- DISTRIBUTOR AND INDUSTRY "NEWS"
- MESSAGING
- ADVERTISING

Exhibit 3 - (Page 3)

BUSINESS SERVICES CUSTOMER PROFILE
MEDICAL DISTRIBUTOR
A CLOSED USER GROUP ON THE PRODIGY NETWORK

PROFILE:

ONE OF THE LARGEST NATIONAL DIRECT MARKETERS OF MEDICAL SUPPLIES AND GENERIC DRUGS WITH SALES OVER \$250 MILLION. TARGETED AUDIENCE IS GROUP MEDICAL PRACTICES.

MARKETING ISSUES:

- TIMELY REACTION TO COMPETITOR, SCHEIN, AND THEIR INTRODUCTION OF PC-BASED ORDERING SYSTEM
- DESIRE ENHANCED SERVICE LEVELS TO BUILD CUSTOMER LOYALTY
- SEE OPPORTUNITY TO BOOST SALES THROUGH "DYNAMIC" PROMOTIONS

APPLICATIONS:

- MONTHLY SHOPPING "SPECIALS"
- CATALOG ORDERING
- DISTRIBUTOR AND INDUSTRY "NEWS"
- MESSAGING
- ADVERTISING

Exhibit 3 - (Page 4)

**BUSINESS SERVICES CUSTOMER PROFILE
A REGIONAL INSURANCE ASSOCIATION
A CLOSED USER GROUP ON THE PRODIGY NETWORK**

PROFILE:

A REGIONAL INSURANCE ASSOCIATION WITH OVER 2,000 MEMBERS AND 3,000 NON-MEMBERS TO WHOM THEY MARKET THEIR SERVICES. THEY ARE ONE OF THE LARGEST PROVIDERS OF INSURANCE AGENCY EDUCATION.

MARKETING ISSUES:

- NEED TO REACH AGENTS ON MORE TIMELY BASIS TO PROVIDE:
 - EDUCATION
 - SPECIAL RISK INSURANCE PROVIDERS
 - NEWS
- PROVIDE VALUE-ADDED REASON FOR NON-MEMBERS TO BECOME MEMBERS
- MORE AGGRESSIVELY MARKET THEIR FEE-BASED PRODUCTS

APPLICATIONS:

- INSURANCE NEWS
- PRODUCT AND EDUCATION DATABASE
- ELECTRONIC ORDER BLANK
- BULLETIN BOARD
- MESSAGING
- VENDOR DIRECTORY
- ASSOCIATION AND VENDOR ADVERTISING

Prodigy Business Services

Exhibit 3 - (Page 5)

BUSINESS SERVICES CUSTOMER PROFILE
ARTEC DISTRIBUTING, INC.
A CLOSED USER GROUP ON THE PRODIGY NETWORK

PROFILE:

THE LARGEST WHOLESALE DISTRIBUTOR OF PRERECORDED
VIDEOCASSETTES IN THE NORTHEAST, PRIVATELY HELD.

MARKETING ISSUES:

- DESIRE TO ENHANCE LEVEL OF SERVICE WHILE MANAGING "COST
PER CONTACT"
- NEED TO STRENGTHEN RELATIONSHIPS WITH CUSTOMERS AND
STUDIOS
- NEED TO DIFFERENTIATE PRODUCTS/COMPANY

APPLICATIONS:

- PRODUCT AVAILABILITY
- PRODUCT ORDERING
- ORDER STATUS
- NEWS/NEW RELEASES/ANNOUNCEMENTS
- PRODUCT CATALOG
- MESSAGING
- ADVERTISING

EXHIBIT 4: TOP PUBLIC ELECTRONIC MANUFACTURING FIRMS BY SIC GROUP

(Page 1 of 4)

SIC: 3674 - SEMICONDUCTORS AND RELATED DEVICES

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	Texas Instruments Inc	12/31/88	6294800	366300
2	Intel Corp	12/26/88	2874769	452922
3	National Semiconductor Corp	5/28/89	1647900	-23200
4	E Systems Inc	12/31/88	1439012	74570
5	Advanced Micro Devices Inc	12/25/88	1125855	19316
6	Western Digital Corp	6/30/88	768320	43429
7	M A Com Inc	10/01/88	424201	18375
8	LSI Logic Corp	12/31/88	378908	24702
9	Augat Inc	12/31/88	320987	-22822
10	Micron Technology Inc	9/01/88	300499	97981
11	Everex Systems Inc	7/31/88	266730	10504
12	VLSI Technology Inc	12/25/88	221157	6703
13	Monolithic Memories Inc	9/30/86	204880	8905
14	Integrated Device Technology Inc	4/02/89	180730	17942
15	International Rectifier Corp	6/30/88	178606	-12125
16	Burr Brown Corp	12/31/88	176673	11549
17	Unitrode Corp	1/31/89	163297	1375
18	Cypress Semiconductor Corp	1/02/89	139388	20829
19	Adams Russell Electronics Co Inc	10/02/88	138023	208
20	Siliconix Inc	12/31/88	128526	1221
21	Silicon Systems Inc	10/01/88	120848	12685
22	Data Switch Corp	12/31/88	113825	3281
23	Hutchinson Technology Inc	9/25/88	113714	4267
24	Titan Corp	12/31/88	104923	-11162
25	Xicor Inc	12/31/88	90138	13999
26	Microsemi Corp	10/02/88	83708	2973
27	Komag Inc	12/31/88	83618	8628
28	Exar Corp	3/31/89	75270	4949
29	Standard Microsystems Corp	2/28/89	71631	-5925
30	Domain Technology Inc	6/30/88	61448	3954
31	SEEQ Technology Inc	9/30/88	61219	8667
32	International Microelectronics Prods	3/26/89	52548	169
33	Linear Technology Corp	7/03/88	51325	8916
34	Irwin Magnetic Systems Inc	6/26/88	49199	1473
35	FSI International Inc	8/27/88	45214	1106
36	Solitron Devices Inc	2/28/89	36308	-9786
37	Weitek Corp	12/31/88	35200	4000
38	GTI Corp	12/31/88	32602	1864
39	California Micro Devices Corp	6/30/88	28569	1960
40	Chronar Corp	12/31/88	28148	-12759

EXHIBIT 4: TOP PUBLIC ELECTRONIC MANUFACTURING FIRMS BY SIC GROUP

(Page 2 of 4)

SIC: 3679 - ELECTRONIC COMPONENTS, NOT ELSEWHERE CLASSIFIED (nec)

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	TRW Inc	12/31/88	6982000	261000
2	Carlisle Companies Inc	12/31/88	567385	17383
3	Westmark International Inc	12/31/88	365278	10775
4	Kollmorgen Corp	12/31/88	344787	14080
5	KDI Corp	12/31/87	314367	18778
6	Veeco Instruments Inc	10/02/88	260317	12793
7	Flextronics Inc	3/31/89	201927	-11267
8	Rogers Corp	12/31/88	162476	1015
9	Park Electrochemical Corp	2/26/89	146913	7633
10	Hadco Corp	10/29/88	144344	4488
11	Diceon Electronics Inc	9/30/88	140685	9858
12	Avantek Inc	12/31/88	123544	-30037
13	Technodyne Inc	7/30/88	122934	-4907
14	Electro Audio Dynamics Inc	7/30/88	122934	-4465
15	Computer & Communications Technology	12/31/88	107350	-15898
16	Sheldahl Inc	8/31/88	83884	1020
17	Advance Circuits Inc	8/27/88	83322	-8550
18	Technitrol Inc	12/31/88	68890	5672
19	Brajdas Corp	2/28/89	62862	2034
20	Eeco Inc	1/01/89	60863	-13163
21	Labarge Inc	7/03/88	59664	1635
22	Odetics Inc	3/31/89	54821	1055
23	Plexus Corp	9/30/88	53150	393
24	International Power Machines Corp	12/31/88	49343	1155
25	BTU Corp	12/31/87	48133	483
26	Octel Communications Corp	6/30/88	48006	6910
27	T Bar Inc	12/31/86	43513	-21982
28	Altron Inc	12/31/88	42024	26
29	Video Display Corp	2/28/89	40576	2567
30	Andersen Group Inc	2/28/89	40176	3612
31	Synoptics Communications Inc	12/31/88	40102	5881
32	National Micronetics Inc	6/25/88	38789	930
33	Bel Fuse Inc	12/31/88	37643	3136
34	Parlex Corp	6/30/88	36626	249
35	Spectrum Control Inc	11/30/88	29788	-2723
36	Silicon General Inc	7/03/88	28820	-15281
37	Certron Corp	10/31/88	28490	149
38	Koss Corp	6/30/88	27473	2712
39	HCC Industries Inc	4/01/89	26584	993
40	Westronix Inc	12/31/88	26216	-8066

EXHIBIT 4: TOP PUBLIC ELECTRONIC MANUFACTURING FIRMS BY SIC GROUP

(page 3 of 4)

SIC: 3671 - ELECTRON TUBES, RECEIVING TYPE

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	Printron Inc	09/30/88	N/A	-83

SIC: 3673 - ELECTRON TUBES, TRANSMITTING

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	Varian Associates	09/30/88	1170558	27752
2	Dotronix Inc	06/30/88	40830	1508
3	Display Components Inc	12/31/87	4051	-604

SIC: 3675 - ELECTRONIC CAPACITORS

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	AVX Corp	12/31/88	408939	27563
2	Maxwell Laboratories Inc	07/31/88	66104	3431
3	SFE Technologies	10/29/88	36182	-4268
4	American Technical Ceramics Corp	06/30/88	23746	942
5	Kyocera Corp	1987	N/A	N/A

EXHIBIT 4: TOP PUBLIC ELECTRONIC MANUFACTURING FIRMS BY SIC GROUP

(Page 4 of 4)

SIC: 3676 - ELECTRONIC RESISTORS

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	CTS Corp	01/01/89	275588	-3920

SIC: 3677 - ELECTRONIC COILS AND TRANSFORMERS

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	Kearney National Inc	12/31/88	158327	7766
2	American Precision Industries Inc	12/31/88	49245	6571
3	Corcom Inc	12/31/88	32948	-2588
4	Kappa Networks Inc	09/30/88	10691	-1051
5	Torotel Inc	04/30/89	9107	305
6	Patlex Corp	12/31/88	7715	996

SIC: 3678 - ELECTRONIC CONNECTORS

RANK	COMPANY	FYE	CORPORATE SALES (\$'000)	NET INCOME (\$'000)
1	AMP Inc	12/31/88	2669661	319123
2	Amphenol Corp	12/31/87	226860	-3437
3	Methode Electronics inc	04/30/89	122174	2165
4	Robinson Nugent Inc	06/30/89	52730	3953
5	Industrial Electronic Hardware Corp	04/01/88	11525	543
6	ADI Electronics Inc	07/31/88	4186	-9197

Exhibit 5: Public Pharmaceutical Companies with 1988 Annual Revenue above \$40M

Company Name	1988 Revenue (\$M)
Baxter International	\$6,861
Baxter Travenol	\$6,223
Bristol Myers	\$5,973
Merck & Co.	\$5,940
American Home Product Corp	\$5,501
Pfizer	\$5,385
Abbott Laboratories	\$4,937
Smithkline Beckman	\$4,749
Eli Lilly & Co.	\$4,070
Warner Lambert C.	\$3,908
Schering Plough	\$2,969
Upjohn Co.	\$2,754
Squibb Corp.	\$2,586
Sterling Drug	\$1,990
Syntex Corp.	\$1,272
Rorer Group	\$1,042
AH Robins Inc.	\$934
Marion Laboratories Inc.	\$752
Cooper Companies Inc.	\$611
RP Scherer	\$351
AL Laboratories Inc.	\$236
Glaxo Holdings Plc.	\$206
ICN Pharmaceutical Co. Inc.	\$166
Bolar Pharmaceuticals Inc.	\$127
Lymphomed	\$128
SPI Pharmaceuticals Inc.	\$116
Forest Laboratories Inc.	\$101
Par Pharmaceuticals Inc.	\$100
Mylan Pharmaceuticals Inc.	\$88
Biocraft Laboratories Inc.	\$85
Vitarine Pharmaceuticals Inc.	\$82
EZ Em Inc.	\$78
Chattem Inc.	\$63
Barr Laboratories Inc.	\$57

Exhibit 6

Public Companies in Automobile Parts Distribution Industry with Annual Revenues Between \$10M and \$1B

<u>Company Name</u>	<u>1988 Sales¹ (\$M)</u>	<u>Corporate HQ Location</u>	<u>Comments</u>	<u>Research Method</u> ("AR" = Annual Report "DB" = Database search)
Sealed Power Corp.	\$774.1	Muskegon, MI	Computerized	AR, DB
Cardis Corp.	\$214.0	Cerritos, CA	Computerized	AR, DB
Myers Industries, Inc.	\$183.8	Akron, OH	Computerized	AR, DB, Inference
Lawson Products, Inc.	\$166.0	Des Plaines, IL	Computerized	AR, DB
Coast Distribution System	\$134.7	San Jose, CA	Computerized	AR, DB
Coast R. V. Inc.	\$109.7	San Jose, CA	Computerized	AR, DB
Curtis Industries, Inc.	\$87.4	Eastlake, OH	Computerized	AR, DB, Telephone
Republic Automotive Parts, Inc.	\$85.0	Brentwood, TN	Computerized	AR, DB, Telephone
Mid America Industries, Inc.	\$84.9	Fort Smith, AR	Computerized	AR, DB, Telephone
Amertek, Inc.	\$39.7	Ontario, Canada	Canadian	DB
Venturian Corp.	\$36.5	Hopkins, MN	No NE sites	DB, Telephone
Seaport Corp.	\$16.0	Sacramento, CA	No NE sites	DB, Telephone
Tesco American, Inc.	\$11.3	Salt Lake City, UT	No NE sites	DB, Telephone
Amalgamated Automotive Industries	\$10.4	Harrisburg, PA	Too Unsophisticated	DB, Telephone

¹ Sales figures for Sealed Power Corp and Mid America Industries are for 1987.

Exhibit 7

Detailed Description of Artec, Inc.

In 1987, Artec, Inc. was the eighth largest distributor of video software in the nation. From a video sales figure of close to zero in 1979, it had skyrocketed to \$76 million in 1986, and had expected to reach \$127 million by 1987. One of the reasons for its success was the fact that it paid a lot of attention to the underlying foundation of the company and less to marketing.

"We focused on developing the tightest systems and procedures, things such as data processing and financial control," said Martin Gold, Artec's president. "The distribution business is a low margin one, in the neighborhood of 12 per cent gross profit. Each point in incremental expenses has a significant impact on our ability to effectively compete."

In 1987, Artec employed about 210 people and serviced 5,000 specialized video stores, supermarkets, convenience stores and other mass merchants in the eastern U.S. It bought its movies from 80 video software vendors — from major studios, such as Paramount and MGM, and from almost every independent video manufacturer in the country.

Artec utilizes 4 warehouses, plus a showroom adjacent to its home office in Shelburne, Vermont. A smaller warehouse attached to the showroom only distributes point of purchase (POP) advertising merchandise (such as life size standups of Rambo). POP is described as being one of the keys to their business. Artec planned to add two more branches in '88, including its first west of the Mississippi.

Branch facilities feeding into Shelburne's VAX computer system are completely interactive sending \$4M to \$5M of inventory where it is needed. Williston, NY contains the largest inventory, equaling 100,000 to 200,000 videos comprising 20,000 titles. Overnight delivery service (usually UPS) is used to ship product.

Artec adapted a drug distribution software package to tie together its warehouses, showrooms and customers. An order is called in to Shelburne via an 800 number, where a computer does a credit check. A "pick" ticket is then issued to the warehouse which packages the video and sends it out.

Showrooms deal with retailers on a walk-in basis and use various methods to create excitement about the products.

(continued)

Exhibit 7 (cont'd)
Detailed Description of Artec, Inc.

The two most important things in video are acquiring new releases and quickly getting them to retailers.

In 1987, telemarketing was Artec's predominant marketing method. "We sell campaigns," Ken Miller, Sr. VP of Sales stated. "We push Aliens one day and Platoon the next. When the studio says Platoon is coming out in eight weeks, the 25 people on our sale staff get on the phone and tell the hundred or so dealers they handle what the price and advertising package will be for each campaign."

Artec planned to offer ARTEC EXPRESS in spring of 1989. ARTEC EXPRESS was an online service which would enable retailers to check Artec's inventory and order cassettes through their personal computers. It would also provide movie synopses, new release information and other product and industry news, as well as provide electronic mail, enabling retailers to communicate with one another. It would automate Artec's order-taking operations, which were, until then, being done through telemarketers and field sales reps to about 4,000 retailers throughout New England.

ARTEC EXPRESS was developed by Prodigy Services Company as a customer tailored network. Retailers would need an IBM or compatible personal computer with 640K of memory, a monochrome or color graphics card and a 1200 or 2400 baud Hayes compatible modem. According to statistics from VSDA, an industry organization, about 70% of all video retailers had personal computers in June of 1988.

Greg Castro, Artec VP of Information Services, said it would be "nice" if Artec could sign up about half of its retail accounts. He also indicated that Artec may develop a second order-entry service which would suit the needs of Artec's larger, mass merchant customers.

In 1987, Jack Schember, managing editor of Video Store magazine, indicated that growth of specialty retail stores had slowed because of a saturated market. He anticipated that the new clientele for video distributors would be the mass markets (drug stores, chain stores and super markets). These outlets, which catered to impulse buying, made up 12 to 15 percent of the market in 1987 but had a growing representation, partly because they could offer videos without additional overhead.

-From Vermont Business Magazine, March, 1987; Home Video Publisher, June 27, 1988.

Prodigy Business Services

Exhibit 8

PRODIGY BUSINESS SERVICES

CHARACTERISTICS OF A GOOD PROSPECT

- REVENUE OVER \$40 MILLION
- IN COMMODITY BUSINESS - - SEE/NEED OPPORTUNITY TO DIFFERENTIATE
- SOME INFORMATION IS DYNAMIC
 - PRODUCT
 - PRICE
 - PROMOTION
 - NEWS/INDUSTRY NEWS
- DISTRIBUTE MANY PRODUCTS/SERVICES
- ENOUGH PC PENETRATION IN CUSTOMER BASE
- MARKETING ORIENTED - - CAN SEE VALUE OF MARKETING RICH CHANNEL
- INNOVATOR
- DESIRE TO STRENGTHEN RELATIONSHIP WITH CUSTOMERS/MEMBERS

Exhibit 9

Summary of Findings From Focus Groups

1. PBS should focus its marketing efforts on two major groups
 - a) \$40M-\$1B revenue distributors
 - b) Larger manufacturing and distribution houses who could service their smaller secondary accounts using PBS
2. PBS should offer training, support and "handholding" to their less sophisticated customers in order to familiarize them with the use of information technology.
3. PBS should begin to address the manufacturer-distributor link within their target industries (in addition to the distributor-retailer link).
4. PBS should focus their marketing programs on the three aspects of their service which we found to be most important to potential users:
 - a) Real time capabilities of PBS
(Focus group participants did not believe that Prodigy could actually do real-time processing of product orders.)
 - b) Assurance of complete security of proprietary information
 - c) Potential for PBS to expand the market in an industry as opposed to creating a competitive advantage for any particular firm within the industry.
5. PBS should tailor their marketing program differently for larger and smaller customers.
6. PBS should explore the possibility of having several pricing options. Each of the options should offer a different proportion of the total price as an installation fee vs. transaction fees.
7. Focus group participants did not believe that Prodigy could provide them with a sustainable competitive advantage, since PBS would sell it to anyone.
8. Prospective customers could be attracted to the system if there were respected industry pioneers who were already using the system. (One of the focus group participants, a marketing manager from Polygram Records, was extremely impressed by the fact that Marty Gold from Artec was using the system, describing Marty as "one of the greatest entrepreneurs I've met. ... For him to be using [Prodigy] is good enough for me to become very serious about it, because margins aren't that great in our business.")

The Focus groups also revealed that the marketing and communications aspects of PBS were enthusiastically received by the potential customers, while the administrative features (such as order processing capabilities) were not embraced as readily. This seemed to stem from the existence of other less costly systems that are as able as PBS to perform these administrative functions.

Prodigy Business Services

Exhibit 10
Direct Mail Cover Letter (draft) & Collateral Material

Prodigy Business Services
Post Office Box 791
White Plains, NY 10601-9917

<Date>
<Name/Title>
<Company Name>
<Address>

Dear <Name>:

You're faced with the increasingly urgent need to harness your rising cost of selling goods and providing services...

... at the same time you work to increase sales and gain new customers.

Sound familiar? It's not an easy problem to solve. That's why IBM and Sears joined together and developed a revolutionary new personalized selling system. *It can increase your sales dramatically, improve the level of service you provide, and help you cut costs throughout your sales, marketing and service operations.*

The system is called PRODIGY Business Services... the personalized selling system of the 1990's.

PRODIGY Business Services links your computer to our customers' personal computers in a very sophisticated yet remarkably simple, easy-to-use system that far surpasses in efficiency and productivity any selling system of the past.

PRODIGY Business Services lets your customer be instantly and continuously in touch with your company, 18 hours a day in every time zone. Every day.

Whenever they want to see your product line, it's on *their* computer.

Whenever they want to order, they can do so immediately, using *their* computer. They do the work and they love it because it's easy and fun.

Whenever you have a new product to announce, or special values to offer, you can let them know on *their* computer.

Prodigy Business Services
Exhibit 10 - Page 2

You can advertise, promote, inform, educate and sell, all on their computer.

You can also sell advertising space to others who want to sell to your audience.

PRODIGY Business Services can link you to your customers more closely than any other selling system, including one-to-one sales calls, telemarketing or direct mail.

PRODIGY Business Services can help you increase sales and profits while reducing your sales and service costs.

You owe it to yourself to read the accompanying brochure. In it you'll learn more about PRODIGY Business Services and why the system can help you.

Then, give us a call on our toll-free number 1-800-874-6839. We'll answer any questions you may have and arrange for you to see a live demonstration of several of our customers' services.

Once you see PRODIGY Business Services in action I believe you'll recognize immediately the powerful impact it can have on your business. Why wait? Call today.

Sincerely,

J. M. Pugliese

**The Number One
Business Problem
Of The 1990's
Is The High Cost
Of Sales And Service**

**The Number One Solution Is
The Personalized Selling System™**



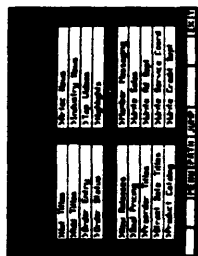
"PRODIGY Business Services combines the communications capabilities and ease of use of the telephone, the storage capacity, logic and speed of the personal computer, the shopping opportunities of direct mail and a newspaper's ability to provide information and carry advertising messages. The range of goods and services that can be offered on the system is practically limitless."

J. M. Pugliese, Vice President
PRODIGY Business Services

PRODIGY Business Services Case Study: Artex Distributing, Inc.

"We've never seen anything like it. PRODIGY Business Services has opened a new channel for doing business that expands our marketing opportunities. While our competitors are closed for the evening or weekend, or when their phone lines are busy, we're taking orders, advertising to our customers, releasing product information, distributing news our customers want, and handling customer service questions just."

Marty Gold
Artex President

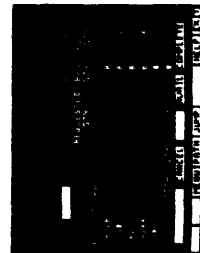


Artex Express Directory

Artex Express Directory is an electronic table of contents. It lists all the sections of the service, from special promotions and order entry to late-breaking news. The Directory also lists JUMP-words that enable video dealers to access any section in the directory. All they have to do is type in the JUMP-word that pertains to the section they want. It's the enter key and the selected section is on the screen and ready for use.

Order Entry

Artex Express serves many functions. One is an electronic catalog and order entry system. Video dealers may browse through the catalog at their convenience, looking for the product they want. At the same time, the new releases, the current hits and decide what they want. Then, using this screen, they enter their orders. It's easy, fast and convenient. Best of all, Artex doesn't have to be open for business for the dealers to do business.



Personalized Selling System Overview

Highlights Screen

- The screen first seen when your members log onto your system
- Shows timely "bursts" of information important to your audience
- Directs your audience to other areas of your service that interest them
- Offers you unique, high-visibility promotional opportunities

Data Base and Ordering

- Lets you showcase products, services, catalogs, training materials, educational pamphlets and other literature
- Your opportunity to feature special promotions to drive orders
- Easily accessible without computer training through convenient, logically organized menu choices

Electronic Order Blank

- Permits your members to order products and services which are offered in your printed catalogs. Of course, they can order at their own convenience, whether you are actually open for business or not

Directory

- Lists important information for your members, including vendors, meetings, coming events, bibliographies, etc.
- Menu choices provide easy access to the listed data
- Selected data may be printed at your members' locations

Information

- Gives you a vehicle for delivery of late-breaking news independently of your print vehicles. You can offer your members industry news, advice and expert opinion on important issues, including insights on legislative developments

Messaging

- Electronic messaging provides your members with the capability for one-to-one communication with anyone else in your system
- Send messages to designated recipients within your system with pre-addressed "electronic envelopes"

Bulletin Board

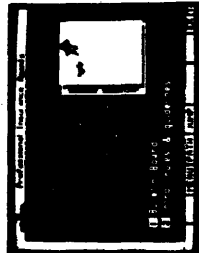
- An open forum for members to discuss critical issues, share information and swap advice
- Organized by topics of your choosing
- You are the editor and you control what gets posted

Advertising

- Almost unlimited opportunities to promote your products and services to those within the system
- "Sell space" on your system to others who sell products and services to your audience

Customer Survey/Quiz

- Survey your audience on line to find out about levels of satisfaction, interest in products and services - whatever you need to know
- Can be used to generate leads



PIA Spectrum Highlights

When insurance agent subscribers of the PIA Spectrum service log on, the first thing they see is the Highlights Screen. One of PIA's important functions is to be a source of timely information for subscribers. The Highlights Screen offers the latest breaking industry news bulletin and other information critical to agents' professional activities. The Highlights Screen also lists additional sources of information, educational opportunities and special promotions being offered by the Association.

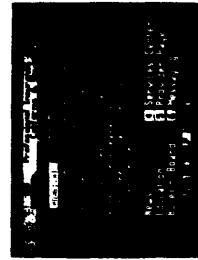
Bulletin Board

PIA Spectrum's Bulletin Board allows subscribers to communicate with each other. They can post questions that others can read and answer, alert others to information and developments that are of interest, and offer services such as specialized insurance coverage. Here's the reality good news: no special computer expertise is necessary. Anyone who can use a typewriter and a telephone can use the Bulletin Board and any other aspect of PIA Spectrum.

PRODIGY Business Services Case Study: Professional Insurance Agents of California and Nevada (PIA)

"We'd been kicking around the possibility of a computer interface with our members for about two years - we're already known as a great communicating organization and we were looking for ways to do more, better. More information for our members, faster. A tool that could educate as well as inform. An on-line hot line for our members. A way for our members to talk not only with us but also with each other. PRODIGY Business Services offers us all that and more in PIA Spectrum."

James Johnson
Executive Vice President
PIA of California and Nevada



**Here's The Critical Business Question
Of This Decade:**

**How Will You Sell More Products
Deliver Greater Service
More Often
To More Customers
For More Profit
At Less Cost?**

**Introducing The Personalized Selling System
Of The 1990's.**

PRODIGY Business Services harnesses the technology of the 21st century to give your organization a competitive edge in today's marketplace.

The Personalized Selling System is an interactive communications and distribution channel that can increase your sales dramatically and improve the level of service you provide, while cutting your costs in the traditional areas of expensive one-to-one sales calls, ordering desks, catalogs, telemarketing, direct response, newsletter programs and customer service desks.

Your customers or members can buy from you 18 hours a day in every time zone in the continental U.S., seven days a week, using personal computers they already own, even when no one is in your office to take their orders.

You can increase sales and service to customers or members even while you save time, manpower, printing and mailing costs.

You can actively address service issues, improve information flow and sharply improve customer satisfaction.

How Does The Personalized Selling System Work?

Your customers either own or have easy access to inexpensive personal computers. PRODIGY Business Services connects *your* business to *their* computers with a very sophisticated, easy-to-use system that allows *people who are untrained in computers* to:

- Order from you 18 hours a day in every time zone in the continental U.S., seven days a week – without your company having to man the phones. Your customers do all the work, and it's easy and convenient. They know what they'll get, when they'll get it and how much it will cost. How? They see it all right on their screen.
- Read through *your* catalog on *their* screen – completely updated any time you wish. No special reprints; no problems with changes, out-of-stock, or misprints; no need to mail special offer information or revised price lists.
- Review information on your products or services – even ones you haven't regularly promoted. When it's important to deliver critical information, whether simple or complex, you can provide it.
- Ask questions on screen, which you can answer quickly, person-to-person. You can also ask questions which your audience can answer on their computers.
- If you wish, your customers can even share ideas through the Personalized Selling System.

Plus, You Can . . .

- Announce new product introductions, with no waiting for regular direct response programs to be developed, mailed and received by your customers.
- Advertise your product or price specials quickly. You will see sales spike the day you make the announcements. This inventory-balancing ability saves you time and money as well as increases your sales.
- Sell electronic advertising to businesses who want to sell to your audience. This could be a new source of revenue for you.

Who Can Use The Personalized Selling System?

Any company that sells to or services other businesses. Any organization that services a membership.

You've seen how the facsimile machine has changed the way business is done. But the fax is limited. You cannot, for example, fax each of your customers a 60-page catalog, or a 20-page newsletter, or even frequent product information sheets or updated price lists economically. And fax is a passive medium.

The networked personal computer is to the 1990's what the facsimile machine was to the 1980's, and more, because the networked computer is interactive.

PRODIGY Business Services has the computer-based selling system designed to meet the business challenge of the decade in organizations such as:

- Distributors • Pharmaceuticals • Financial products • Business supplies • Audio and video software • Associations and member organizations • Market research
- Medical supplies • Insurance

There Has Never Been A Personalized Selling System So Advanced And So Easy To Use.

Your customers' or members' personal computers are a resource that can be put to work for you, 18 hours a day in every time zone throughout the continental U.S., seven days a week.

- Whenever they want to see your product line, it's on *their* computer.
- Whenever they want to check educational offerings, late-breaking industry news, even sign up for a conference, they can do it on *their* computer.
- Whenever they want to order, they can do so immediately, using *their* computer.
- Whenever you have a new product to announce, you can do so on *their* computer.
- Whenever you have a price special or excess inventory, you can run a promotion on *their* computer.

PRODIGY Business Services links you to your customer or members as no other selling system can. And it benefits both you and them.

They want to buy more conveniently and efficiently, taking advantage of specials and optimizing inventory to minimize their invested capital.

You want to forge a special relationship with your customers, leading to the sale of more products and the delivery of greater services, more frequently, at less cost to you.

PRODIGY Business Services does it all.

Exhibit 11
Metropolitan Areas Served by
Prodigy Network
as of May, 1990

California

Anaheim
Los Angeles
Sacramento
Santa Barbara

Colorado

Boulder
Ft Collins

Connecticut

Fairfield County
Hartford

Delaware

Newark

District of Columbia

Florida

Boca Raton
Ft. Lauderdale
Miami
W. Palm Beach

Georgia

Atlanta

Illinois

Chicago
Joliet

Indiana

Indianapolis

Maryland

Annapolis
Baltimore
Silver Springs

Massachusetts

Boston
Worcester

Michigan

Detroit

Missouri

Kansas City

New Hampshire

Manchester

New Jersey

Mt. Holly
Princeton

New York

Bronx
Dover
Edison
New York City
(all burroughs)
Rochester
White Plains

Ohio

Cincinnati
Columbus
Dayton

Pennsylvania

Philadelphia

Virginia

Everett
Fairfax

Washington

Seattle
Tacoma

Wisconsin

Milwaukee

End of Case

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