AN IN-DEPTH LOOK AT THE BUSINESS VIABILITY OF WEBCOMICS

BY

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This paper represents my own work in accordance with University regulations.

Acknowledgements

Chapter 1

Regrettably, our editorial board has decided we are unable to distribute your material at this time. Please understand that this does not reflect on your talents but rather on our needs at present.

Because the cost of launching a new feature is so high, only a few of the thousands of submissions received each year by syndicates can be accepted.

--Excerpted from a letter of rejection from Creators Syndicate to *Goats* creator Jon Rosenberg.[1]

Printed comic books are slowly dying, along with many forms of print publishing. Newspaper comic strips are shrinking in popularity, and the syndicates are taking fewer new features each year. The internet has become the new source for written media, from online news services to e-books. In the following thesis, I ask if comic books and daily comic strips can be moved onto the internet as a viable, profitable enterprise. My research is original work, including interviews and surveys of currently active webcomic artists. I will endeavor to create a business plan for a successful webcomic, and do a feasibility analysis on its possibility of success.

Above: A common feature on www.sinfest.com, Tatsuya Ishida tracks the number of times he has been rejected by the comic syndicates.

During the 1930s, purveyors of popular culture offered escape to the American people in the form of comic strips such as "Tarzan," "Buck Rogers," and "Prince

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[1]Jon Rosenberg, "Goats: Rejections." http://www.goats.com/features/rejection/creators.html

Valiant." Along with more realistic humor strips like "Gasoline Alley," black-and-white comic strips offered a brief escape in a newspaper otherwise filled with grueling reality.

In the mid-1930s, publisher M.C. "Max" Gaines thought that compiling a collection of newspaper comic strips in a magazine might work well as a premium giveaway with other products. When they proved popular, new material started being produced in book form and the "golden age" of comic books began. Super-strong crimefighters became the hot topic, beginning with the creation of Superman in 1936.

Over the years, comics changed with the times. During World War II they were vehicles for propaganda. When the demand for superheroes waned after the end of WWII, the publishers and authors expanded into crime comics, western comics, war comics, horror comics, and romance comics. In the late 1950s, the superheroes were brought back for another try, with the introduction of characters like Spider-Man—a boy who had superhuman abilities, but all-too-human problems. In the 1970s, comics moved into socially relevant topics, with superheroes combating problems like drug abuse. In modern times, comics include a wide variety of different genres: From autobiographical comics like Art Spiegelman's MAUS to adaptations of popular cartoon shows; and from grim, realistic graphic novels to bright and colorful superhero comics.

With changes in technology come changes in art forms. Early comics went from black-and-white to the popular slogan "All in color for a dime!" In the early 1990s, improvements in computer technology allowed color separations to be done electronically. Comics were previously limited to 108 colors that printers could make by combining 4 colors of ink printed in various-sized dots. With the advent of computer separations, printed comics could now contain millions of colors. Newspaper comic strips

started printing color Sunday strips, and now some newspapers print daily strips in color as well.

The internet explosion in the late nineties created another big change. Suddenly, you didn't need a printing press or a lot of money—all you needed was a computer and a modem, and you could put your thoughts online for the entire world to see. Could an enterprising artist, unable to get syndicated for a newspaper strip or passed over by the major comic book publishers, publish their comic online? And, for that matter, could such an artist create for him- or herself a profitable career as a webcomic artist?

The first webcomics started hitting the internet in 1997, first as online versions of printed comic books, then later as daily strips. As cheaper hosting became available, more and more comics appeared. The advent of hosting services exclusively for webcomics, such as Keenspace and Top Web Comics, has made becoming a webcomic artist easier than ever.

In 1998, Scott Kurtz launched *PvP*, an online comic that has run continuously through the present. In June of 2000, Kurtz quit his day job to work on *PvP* full time. Since then, he has had strips published in print and online magazines; he founded Dork Storm Press with two other webcomic authors as an independent company to print comic books; and set up a "sponsorship" program for the advertising on his site. At times, his creativity in his work has been seriously outmatched by his ability to find new ways to make money from it.[2]

In March of 2000, Chris Crosby and Darren Bleuel founded the online comic network Keenspot. They wished to provide one steady place for readers to find webcomics, and to attract large advertisers and get them to sponsor Keenspot (and

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[2] Scott Kurtz, "About the Author." http://www.pvponline.com/bts.php3

therefore each cartoonist under the Keenspot umbrella), with the goal of every Keenspot cartoonist eventually making a living through such sponsorship. Since then, it has grown into an online entertainment network comprised of more than forty of the higher-quality comic strips and cartoons on the web. In June of 2000 they launched Keenspace, a free webhosting service that has since become home to over 1,000 up-and-coming cartoonists and their strips. While Keenspot was designed to provide a host for the best webcomics around, Keenspace is open to anyone who wants to produce a comic. In the last year, Keenspot generated almost forty million page views per month and has drawn in nearly two million unique monthly visitors. Originally supported entirely by advertising revenue, Keenspot Entertainment has recently started a subscription service for "premium" comics, begun publishing print books, and opened an offline comic book store in Temple City, CA.[3]

The medium itself continues to evolve, as new technology is introduced. Emulators, which allowed older console video games to be played on computers, began appearing on the internet in 1999. On April 1, 2000, David Anez put together a series of comic strips that used screen-captured images from the Nintendo video game *Mega Man*. Anez didn't know it then, but he was a pioneer into a brand-new genre of comics: the "sprite comic." Breaking the stereotype that comics must be hand-drawn, Anez inspired an explosion of webcomics using video games sprites, including one of the most popular and successful webcomics currently running, *8-bit Theater*.[4]

On March 2, 2002, an entrepreneur named Joey Manley and a gathering of about thirty top web cartoonists launched a site called Modern Tales. The goal was simple:

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[3] Chris Crosby, "Keenspot Company Info." http://www.keenspot.com/companyinfo.html
[4] Brian Clevinger, "Sprite Comics." http://www.nuklearpower.com/webcomics.php

build a small but viable business around the idea of selling webcomics directly to an audience on a subscription basis. They attracted many of the readers of the artists' free comics, and in just a few months, they've built a network of several hundred subscribers, and their fan base continues to grow.[5]

At the same time, Brian Clevinger announced to the readers of his comic, *8-bit Theater*, that he would "be undertaking the great webcomic = job experiment." Since then, he has supported himself from the site through selling t-shirts, advertisements, and a "donation" service by which readers can voluntarily send him money. Many other webcomic artists have also set up "donation" buttons on their sites, usually offering a screen saver or computer wallpaper as a bonus to anyone who donates.

Some artists take commissions for custom artwork; others sell their own originals of their strips, either through their site or on eBay. Greg Dean, who writes Real Life Comics, makes his comic entirely on computer, and came up with the idea of selling "limited edition originals" of his comics.

A hosting service called Top Web Comics was created in February of 2002 by Pierre-Luc Brunet. It began simply as a "Top 150" listing of webcomics, then added a hosting service later that year. The industry is quite young, but has proven itself to be fast-growing as more and more people realize how easy it is to create a webcomic, and more entrepreneurs realize that there is money to be made in the industry.

But really, what are "webcomics"? The word is actually used to describe two different art forms. Scott McCloud, the author of *Understanding Comics*, creates webcomics that are essentially comic books, presented in an online form. These comics are complete stories, told in sequential panels of artwork, usually spanning a number of

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[5]Joey Manley, "About Modern Tales." http://www.moderntales.com/about.php

pages. These comics have a number of advantages over their printed brethren, among them a freedom from space limitations. A printed comic book has 22 pages, each page is exactly 10 inches high by 6 ½ inches wide, and all of that space much be filled in every issue. The freedom of a webpage gives creators the ability to spread over as many or as few pages as they want, to utilize "white space" on a page, or to add sounds, hyperlinks or even animations to their story. The webcomic artist has a far more versatile medium than the print comic artist. One might even consider them to be completely different products—though they similar art forms and generally are marketed to the same groups.

The other type of webcomic is the daily comic strip. These comic correspond more to newspaper strips than to comic books. Rather than tell long stories, most opt for a "gag-a-day" format. Whereas "book" webcomics are usually posted once, "strip" webcomics are updated with a new strip daily (or less often, depending on the artist in question). These comics have many of the same advantages as the "book" webcomics—they do not have to fit into the same space in a newspaper every day, so the comic can be four panels one day, eight the next, three the day after. It can run horizontal one day, vertical the next, or be a single-panel Flash animation.

However, while the differences between comic books and newspaper strips are significant, both in business models and format, these differences shrink when the comics are online. Someone running a webcomic site faces most of the same hurdles, whether they are posting a new strip every day or a new book every six months. Authors like Michael Poe and R. K. Milholland have actually done both—posted a daily comic strip and a one-shot comic book featuring the same characters. But in either case, they still

have to attract an audience in an online environment, pay hosting fees, and find ways to

collect revenue from their endeavors.

In early 2001, Scott Kurtz earned the ire of numerous other members of the

webcomic community by asking the question, "Could success soon kill your webcomic?"

Advertising revenue was dropping off following the bursting of the internet bubble, and

as more readers were attracted to a webcomic, bandwidth charges increased. Later in this

work, I will explain my research into bandwidth costs and ways that various

webcartoonists have offset them (some of which are briefly mentioned above). In chapter

two, I will go into depth about my research methods and present the raw data. In chapter

three, I will examine that data in a more theoretical context, and discuss a number of

related economic articles on internet commerce. In chapter four, I will use the results of

my research to present a formal business plan for a successful webcomic. And in chapter

five, I will draw conclusions about the industry and the feasibility of a business venture

within it.

Chapter 2

In this chapter, I will look at some articles written by people in the webcomic community, and present the "gory details" of my personal research. I will detail my interviews with various artists and industry professionals, and outlining the basics of my findings. In the next chapter, I will deconstruct this into a more theoretical form, and then use this information to form a coherent business plan for a webcomic in chapter four.

Essays By Those In the Field

Beginning with the published writings, Scott McCloud did a series of online graphic essays called *I Can't Stop Thinking*.[6] In a two-part article included in the series, called "Coins of the Realm," he discusses the concept of micropayments. McCloud, like most authors who publish online, would like to see some monetary reward for his work. He builds his plan out of the idea of e-books and services like CDNow that sell online albums, the idea to transfer both the good being purchased and the payment over the internet, with no physical shipment at all. However, in the case of something like a webcomic, the optimal price for consumers (perhaps a few cents) is grossly distorted by transaction costs. Filling out a credit card form is a time-consuming hassle for the buyer—which they may view as unsafe as well, often rightfully so—and the credit card companies can charge several dollars in fees for a transfer of several cents. McCloud foresees a system by which, with only a few mouse clicks, a consumer can safely and easily transfer small amounts of money over the internet. The example he gives is how such a system would revolutionize the music industry: By cutting out all the middlemen,

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[6] Scott McCloud, http://www.scottmccloud.com/comics/icst/index.html

consumers would pay fifty cents for an album, and the musician would receive virtually all of it. Webcomic artists would benefit in exactly the same way.

But as Jerry "Tycho" Holkins says in his response to McCloud,[7] this is currently wishful thinking. While Paypal and similar services are making inroads in this area, there's still a long way to go. A Paypal account is an online "debit account" that is safer than a normal credit card, and involves much less form-filling. The FTC refers to these as "stored value" or e-wallet" accounts, and explains that they can be much safer for consumers, because of the limited liability attached to them.[8] But that is still a lot of "clicks" to donate a quarter, and most people see it as too much of a hassle. And it is also, by necessity, a voluntary action on the part of the webcomic reader to donate. An optimal micropayment system would charge readers something like a penny per comic, exploiting a case of marginal irrationality: If something costs very little with no extra work required, consumers will treat it as if it costs nothing.

Inspired by McCloud to think along the same lines, Scott Kurtz posted an article called "Could Success Soon Kill Your Webcomic?"[9] I will talk further about bandwidth costs and advertising revenue when I discuss my personal findings later in this chapter, but Kurtz nails the problem on the head: Bandwidth is expensive, and ad revenue has dried up significantly since the internet bubble burst. McCloud points out that, in many cases, the best way to make money off a web site is to sell "eyeballs"—to charge your advertisers depending on the number of people who come to look at your site. Kurtz

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[7] Krahulik / Holkins, "Magic: It's What's For Dinner." http://www.penny-arcade.com/news.php3?date=2001-06-22
[8] Federal Trade Commission, "A Consumer's Guide to e-Payments." February 2002. www.ftc.gov
[9] Scott Kurtz, http://www.pvponline.com/rants_success1.php3

gives real-life examples of his comic, *PvP*, and the fact that, by advertising revenue

alone, he can't offset the cost of bandwidth for the number of people who visit the site.

My Research

My research centered around a series of personal interviews with webcomic

artists and professionals in the comics industry. In the interests of an accurate sample, I

attempted to contact as wide a variety of artists as possible—some working

independently, some under the Keenspot umbrella; some with hand-drawn comics, some

with computer animated comics, some with sprite comics, and even one with a 3-D

rendered comic; some professionals, and some hobbyists.

My interviews were mostly conducted on a one-on-one basis over AOL Instant

Messenger, as text messaging was an easy, low-hassle way to contact these authors. In

several other cases, I sent questions to people via email and received their answers the

same way.

I asked a series of questions about costs and revenues of their comics, and

everyone I spoke to was remarkably helpful. This extended to them giving me permission

to use their comics as examples (See Appendix A). For a sample of the survey questions I

asked, see Appendix B. As a note, monetary values are fairly well interspersed in this

chapter; for a more organized view of cost and revenue streams, see the financial

projections in chapter four.

The questions are organized as such: First I will discuss the quantitative aspect of

my survey—the costs of running a webcomic site, including the ways of promoting it;

followed by the revenues one is able to draw in. Second I will go through a bunch of

qualitative questions I asked, about the time-intensity of the comic, competition, reader demographics, and their advice to new artists starting out.

I. Costs

The first question I asked each artist was, "What kinds of costs do you encounter in creating your webcomic?" The number one answer was server and bandwidth (hosting) costs, though many of the artists avoided paying those costs in several ways. Those who are members of the webcomic hosting service Keenspace receive hosting for free, in exchange for running Keenspace-provided banner advertisements. Aaron Willams (*Nodwick*) receives hosting from Gamespy, an online magazine, in exchange for running their ad banner and providing weekly content to ensure traffic at his site. For those who pay them themselves, these prices are a function of site traffic.

On that subject, I will note that I also received pageview and unique viewer statistics from each of the artists I spoke to, which provide a pretty a good idea of the popularity of a comic, in addition to being related to bandwidth costs and advertisement revenues.

In general, the cost of hosting averages $1.50 per gigabyte of transfer. How much this adds up to per month depends on the number of pageviews and the size of the files that are being provided. For a comic like *Diesel Sweeties*, which has very small file sizes due to art style, one million pageviews would be significantly less expensive than for a rendered comic like *Dragon Tails*. High-traffic comics can cost $500 or more per month in hosting costs, while newer ones without much readership could be as low as $5. Some artists have made deals with their hosting providers, getting cheaper bandwidth in

exchange for free advertising; while others own their own servers and T1 lines, and provide all the pieces themselves. Like many other markets, these prices can go up or down with volume, and it may oftentimes be profitable to switch service providers after readership increases significantly.

Other costs included art supplies, estimated at $30 or less per month by several artists; computer hardware and software; their domain name, which costs less than $20 a year through a service like Dotster; and advertising costs. And as Brian Clevinger (*8-Bit Theater*) pointed out, "The intangible cost is everything I can't do because of the comic. It cuts into my writing and editing and Generic Other Project time every week." I will go into greater detail about the opportunity costs of creating a webcomic in the next chapter.

Placing advertisements on other websites or in offline publications can be a major cost, but the comic artists I spoke to generally did not advertise much. R. Stevens of *Diesel Sweeties* was the only one who advertises offline, as he said, "I advertise my shirts in *Bust* magazine from time to time. It's about $225 for 1/9 of a page in their shopping section and seems to help me find smart female readers." Stevens knows his audience and serves a somewhat different market from the majority of webcomics, but seemed to have a sound idea. Jeff Rowland's (*Wigu*) take on the idea was, "I've paid for a few ads, but I find the most effective form of advertising is word-of-mouth. 'Street teams.' People see a link in someone's online journal way more clickable than some flashing banner ad."

I also asked them about banner-swapping, or exchanging links with other sites and webcomics. This is another form of advertising, and generally is effective, with the additional advantage of being free. Again, the established artists said no, they only linked to sites that they liked and did not go out of their way to get others to link to them. The

newer and less popular artists were far more eager to try to spread the word about themselves. Tim Dawson commented, "I'm actually rather antisocial, which is probably something I should work on." And Jeff Darlington (*GPF*) said that his biggest hurdle starting out was, "Self-promotion. Artists are notoriously bad at this, and it can be quite disheartening to throw your work out there to literally thousands (if not millions) of potential readers, and then find out only 50 of them are visiting your site per day. It takes a lot of elbow grease and networking to get your site noticed, as well as going some of the traditional Internet routes such as getting your site listed in the search engines." Perhaps this is why popular comics like *8-Bit Theater* and *Mac Hall* receive a significant portion of their ad revenue from new webcomics trying to build an audience. As Clevinger put it, "There are hundreds if not thousands of crappy webcomics out there. The most difficult thing is separating your crappy comic from the pack."

Though favored by a few, several artists responded vehemently when asked if they used "Top 100 Webcomics" sites. Jeff Darlington responded, "They do more to promote the central hub site (the host of the exchange or top 100 list) than they do the participating sites. They're main purpose is to draw people to the hub, not promote peers, which I consider both deceptive and ineffective." And one need only glance at the statistics on Top Web Comics to see that only the top three or four comics are showing an increase in traffic from being part of the list.[10]

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[10] Top Web Comics, http://www.topwebcomics.com/top.php

II. Revenues

Next, I asked what sort of revenues the artists took in through their webcomic sites. There were a number of sources of revenue, including:

1. Advertising

2. Corporate sponsorship

3. Sales of t-shirts and similar merchandise

4. Sales of independent comic books

5. Sales of compilation books or CDs (of the online strips)

6. Special subscription programs

7. Donations.

When I say advertising, I am referring now to outside companies paying for ad banners on the webcomic site. Not all webcomics make money from advertising; in fact, some do not run ads at all. Tim Dawson described the standard online advertising as such, "The way it worked was there were run of the network ads, which everyone could have, therefore they paid very little. You were supposed to make your income by getting targeted ads - either an advertiser would decide they wanted to put banners on your site in particular, or they'd decide they wanted to say, advertise on webcomic sites." This sort of advertising (and the revenues from it) dried up about the same time as the dotcom crash, in mid-2000. When Dawson was down to 25 cents per day in advertising revenue, he had enough and switched to a donation-based, ad-free site.

As I mentioned above, the more popular webcomics attract up-and-coming new comics as advertisers. Online roleplaying game companies, online games, and other internet-based businesses also tend to favor advertising with webcomics. Depending on

the popularity of the comic, and sometimes on luck, the artist may have to approach potential advertisers, or they may approach him.

Penny-Arcade creators Mike Krahulik and Jerry Holkins have recently taken the initiative and begun approach large companies (such as Sega and Nintendo) for advertisements. To make their site more attractive, they encouraged their readers to click on the ad banners, so that their site had a high click-through rate. The average click-through rate for ad banners is about 1%, so a site that can get a 7%-12% click-through rate (which they apparently did) has an excellent selling point to attract advertisers with.

Revenues from advertisements vary wildly, dependant mostly on how aggressive the creators are at attracting companies to advertise with them. In general, the best advertising revenues beat out bandwidth costs slightly, offsetting them but not creating significant profits beyond that.

Corporate sponsorship is essentially advertising revenue in a slightly different format. Several comics, including *Nodwick* currently, are hosted by Gamespy.com, and Scott Kurtz has set up a program by which different companies sponsor his comic *PvP* from month to month. In the former case, Williams gets free hosting in exchange for running ad banners and putting up regular content; in the latter, Kurtz is paid to run special ads featuring his characters.

The amount of revenue that can be made from selling hats, t-shirts, tote bags, and similar items is entirely dependant on the amount of time the artist wishes to invest into it. Most artists choose to use an independent retailer, such as Cafepress, for their designs. This method only earns them about $1 per sale, but requires virtually no effort on their part.

Artists like Rowland see it differently: "The only money *Wigu* takes in is from merchandising. From a business standpoint, the comic itself is an advertisement for the merchandise it is associated with." He uses a local company to produce the shirts, and mails them himself. Stevens takes the same approach, and they both turn a significantly larger profit on each shirt. For merchandise that is produced in-house and sold through the webcomic site, the profit margin can run from $4 to $15 per item.

Williams takes the same approach with his printed comic books. Of webcomics and printed comics, he says, "They can be of great assistance to each other, as the website can promote the comic and vice-versa. Both myself and my colleagues have concluded that both need to provide content to really help one another. I don't think the synergy would be there for me if I wasn't providing weekly cartoons and news along with my book. Plus, the net is GREAT word-of-mouth. I can announce upcoming books and get people to go to their local comic store to pre-order books." Bob Greenberger, of DC Comics, agrees that they are, "Very useful as promotional tools."

The business model at CrossGen Comics applies that idea that webcomics are an effective compliment to printed books. One book from each series in their line is available online for free, and then the rest are accessible for a small monthly membership fee. Their aim is to attract new readers, so online comics (in addition to compilation trade paperbacks that the other big companies produce as well) give the new reader a way to "catch up" to the stories in the printed books.

On the subject of printed books, Jeff Darlington told of his success with printed compilation books, which he produced through Plan Nine Publishing. Josh Phillips (*Avalon*) concurred, "just because many people prefer reading a book over a website."

Compilation books have a profit margin on the order of six dollars per book, but they require a significant initial outlay. $6,500 for a run of 4,000 books through a professional printer is not unheard of, and that is an impressive sum of money for an independent artist to lay out.

Maritza Campos (*College Roomies From Hell*) has released CD-ROMs with compilations of strips found online. These carry some of the advantages of a compilation book—no download time, for one; and additional advantage of being cheaper to produce and ship, with no initial outlay. However, the downside is that the reader is still tethered to a computer and reading off a screen. The *CRFH* CD compilations have been made more attractive by the addition of new content, in the form of extra strips that are only available on the CD.

Donations were a shaky topic, but a few things became clear: The artists who actively asked for donations and "rewarded" the readers who donated earned significantly more. (They are also based on the popularity of the comic, of course.) Rowland does nothing to promote donations, therefore he takes in very little. Clevinger offers a computer wallpaper or similar "incentive" to donators and actively solicits donations; therefore a fair portion of his site's income comes from them.

Donations are not a reliable source of income, though, as they tend to fluctuate wildly from month to month. Below is a chart of the average monthly donations over a twelve-month period (February 2002-January 2003) received by several artists, who were kind enough to provide me with this data.
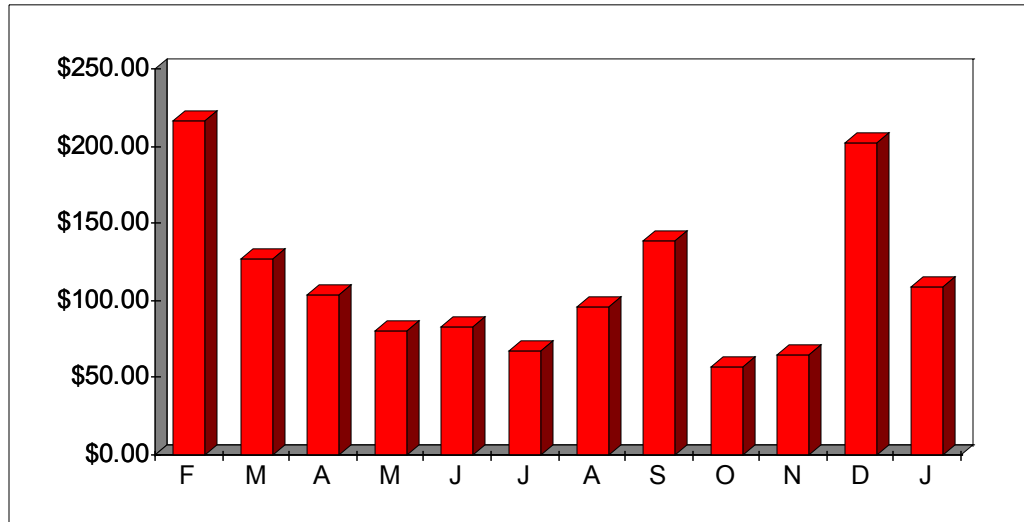
These data were taken from several artists who only passively solicited donations, and did not give "donation gifts" or rewards of any kind. As you can see, donations peaked over $200, but dropped as low as $60 in some months. It would be an interesting study to look for patterns in donation habits over several years, but due to the age of the industry, such data is not available. As such, all we see is that donations are highly variable.

Stevens found that donations to his comic were few and far between, so he abandoned them in favor of a subscription program called the "Clango Club." Members of the club pay $5 a month for "goodies" and extra comics. Jon Rosenberg of *Goats* has set up a very similar program, called "Premium Goats," and Keenspot runs an ad-free version of itself called "Keenspot Premium." Both programs require members to pay a fee, and then gives them access to password-protected extra content without ad banners.

III. Qualitative Data

I asked the artists how many hours they spent working on the comic each week, and how much outside help they received. The general answers were "As many as I can, and not much." While some artists get their friends to help them with coding their site or mailing out their t-shirt orders, virtually all of them considered the comic itself a solo project. Several of them worked as two-man teams, with one handling the comic itself, and the other dealing with the business end of site—shirts, ads, and the like. These teams seem to be a very effective distribution of labor. Hours spent per week averaged around thirty to forty, as much as any full-time job.

Josh Phillips commented that a lot of the time creating the comic depended on, literally, how fast you could draw it. Fred Gallagher (*Megatokyo*) has noted on numerous occasions that his Japanese amine-inspired style is the reason the comic is so time-consuming to produce. He both penciled and inked his comics when he first started the strip, but realized soon after that he could opt not to ink them without a serious loss of quality, but with a considerable time savings.

When I asked artists who do they thought were their major competitors, I received a number of funny looks. Stevens sums it up, "I try not to look at it that way, as my entertainment is free and not time-based like TV. I think that people can read as many web comics as they like and my place in their hearts are undiminished if they like me already." Except for Williams, who sees himself competing with major comic companies in the printed market, webcomic artists see their products as non-rival—their theory is that there is no limit to the number of webcomics someone can appreciate.

Pete Abrams of *Sluggy Freelance*, however, realized the point. He admits that he is not sure who he is in direct competition with, but, "There are certainly only a limited number of eyeballs out there; on the other hand, just because someone reads another web comic doesn't mean they won't read Sluggy." I believe that different webcomics are competing for both consumer "eyeballs" and dollars, though to less of a degree than most businesses. There is a limited amount of money that can and will go toward donations, purchasing t-shirts, and the like. Also, they are competing with each other for ad revenue—advertisers cannot afford to pay for ad banners everywhere. I will go into greater detail about this in my discussion in the next chapter.

But while the artists were virtually united in their answer to the previous question, I received the most different answers when I asked about their audience demographic. While male college students were the most common theme, *Diesel Sweeties* showed a primarily female audience, and *Wigu* has readers ranging from ten-year-olds to geriatrics. I take this as evidence that I chose a good sample of webcomics, as I found ones that appeal to so many different audiences.

Though how deliberate these audience demographics are is debatable. When asked, "What is your target audience?" Most replies were similar to Matt Boyd's (*Mac Hall*), "We try to crack ourselves up, and assume that it will work on other people too." Clevinger echoes the sentiment, "I write comics that make me laugh and trust that someone else out there will get a kick out of them as well. Most of my gags are engineered to confuse/alienate 95% of the populace just to make that other 5% laugh. But I cycle through which 5% gets the laughs. It seems to be working so far."

Finally, I asked the artists for their suggestions to someone new starting out. I took this advice to heart when I put together the business plan (see chapter four).

Jeff Rowland commented that his biggest hurdle starting out was money, because he was paying very high hosting fees. An artist starting a new webcomic now would probably want to find a free hosting service, such as Keenspace, at least until the comic has established an audience and is producing some revenues.

Jeff Darlington said, "It takes a lot of elbow grease and networking to get your site noticed, as well as going some of the traditional Internet routes such as getting your site listed in the search engines." As I mentioned above, Brian Clevinger agreed that standing out was the biggest issue. He pulled in a lot of readers by being one of the first sprite comics, but as he puts it, "…a gimmick like that can only take you so far. And usually it takes you to a lot of first time visitors with no repeat traffic." They heavily emphasized the importance of networking and getting the comic noticed early on, as having a dedicated audience is crucial to your ability to produce revenue through the site.

Hot Soup of *Lethal Doses* told me, "But if there's one major hurdle I've encountered with webcomics, it's devotion. I never really take into account that people latch onto comics and rely on them to be there, whereas I just update when I feel like it. It's caused some serious clashes in the past, and earned me a very colorful reputation." Pete Abrams (*Sluggy Freelance*) echoed that sentiment, "…just keeping stuff going every day, every week, every month, every year ... is quite a lot of work!" A lot of readers develop a sense of entitlement, feeling that if the comic is not updated on time, that they have somehow been cheated. A new artist should get himself into a routine of regularly producing comics, if for no other reason than to keep his audience satisfied. Also, the

more often the comic updates, the more pageviews the site will get, which in turn can produce higher advertising revenues.

Very few artists support themselves on the proceeds from their comics, and generally, those that do are the most popular, the cream of the crop. I will discuss this in the context of "superstar" theory in the next chapter. The information gathered here will be further discussed in the context of various economic articles, and then translated into a full business plan in chapter four.

Chapter 3

In this chapter, I will take a closer look at economic articles on web commerce in general. Using this information, I will talk on a more theoretical level from the last chapter, and build on the details and data gleamed from the interviews I have done.

Overview of Internet Commerce

Baily and Lawrence ask the question, "Do we have a new E-conomy?"[11] They question the dotcom bubble-era idea that society had been totally revolutionized, along with the post-bubble burst notion that nothing had changed at all. Their conclusion is that, yes, things have indeed changed and that an economy with an internet is different from what came before, but this is because of a wave of real innovation based on information technologies that drives better economic performance.

This leads into Litan and Rivlin's discussion of how the internet really effects economic growth.[12] They name three ways that the internet can increase productivity growth: By reducing transaction costs to produce and distribute goods and services; by increasing management efficiency; and by increasing competition, thereby forcing suppliers to make cost-saving innovations. The greatest impact of the internet, they say, will be in "old economy" sectors. Companies can use web-based technology to manage their supply chains more efficiently, reduce inventory, cut customer-service costs, and add both convenience and a wider selection to the customer.

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[11] Neil Baily and Robert Z. Lawrence, "Do We Have a New E-conomy?" *The American Economic Review*, Vol. 91, No. 2, May 2001.

[12] Robert E. Litan and Alice M. Rivlin, "Projecting the Economic Impact of the Internet." *The American Economic Review*, Vol. 91, No. 2, May 2001.

Those companies which are formed for online business should take full advantage of these innovations the web has to offer. Their competitive advantage comes in the form of increased consumer convenience and choices, not necessarily from higher productivity or lower prices.

In her book, *e-Volve*, Rosabeth Kanter discusses offline companies that make a token effort to put business online.[13] These companies, which she calls "wannadots," are essentially "putting lipstick on a bulldog." They are making a cosmetic change to the face of their business, but nothing about its fundamental nature is changing, so there is little or no additional revenue from the attempt. DC Comics, one of the major print comic companies, has made several token attempts at translating their comics into webcomics, and has abandoned them all as unprofitable. I spoke to Bob Greenberger at DC, who was responsible for one of these attempts, and he expressed the difficulty of getting people to pay for things online, especially in the "mainstream" comics market. Kanter also indicates that pure dotcoms have a distinct advantage in such situations, which should come as no surprise.

Kanter goes on to give a number of examples of problems that offline wannadots have in moving to online business. Given DC's usual track record for business change— They have lost their target audience over the last two decades, and upper management seems unconcerned with finding a new one; they have refused to act on business ideas that their competitors at Marvel and CrossGen have used successfully, dismissing them as fads; and they generally have worked hard to remain a niche market, rather than try to appeal to mainstream consumers—they probably will not be the trendsetters in this industry. If Kanter's conclusions are accurate, the revolution will come from the "little

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[13] Rosabeth Moss Kanter. *e-Volve*. Harvard Business School Press. Boston, MA. 2001. p.71.

guys" who started out online; who know how to work in an online environment and who are willing to put in the time and money required to make the platform work.

What makes a successful web site? In late 1999, Paul Kipling and T.D. Wilson did a survey of various publishers and booksellers, looking at their websites and the sales they were making over the internet. Many of their predictions about the direction e-commerce was growing were accurate, and among the information they gathered was a list of key ingredients for a successful site. A few of them are:

- Something new or unique
- High level of customer service
- Swift and personal email response
- High quality products at a reasonable price
- Effective promotion on the internet
- The site should be updated very frequently
- It should offer club-type membership
- It should provide links to other sites and encourage others to link to it
- The pages should be quick to download, and compatible with all browsers and systems in common use[14]

These suggestions are still accurate for a successful website today, and from first glance, it appears that the most successful webcomics are the ones that have them all. Comics that do not offer new and interesting content will not pull in new viewers (likewise, without promotion and "link-trading," new comics will simply remain unknown); sites that do not update do not see repeat visitors; and because most webcomics are run by one or two people, the personal level of customer service is unparalleled. By that logic, charging a "reasonable price" for these products seems fair—and many visitors to webcomic sites seem willing to donate to the artist, even if they are

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[14] Paul Kipling, and T.D. Wilson, "Publishing, bookselling, and the World Wide Web." Journal of Liberianship and Information Science, 32 (3) September 2000. p. 147-153.

not required to. The popularity of "premium" webcomic programs fits under this theory as well, but why then can't we just set up a pay-for-comics site?

Webcomics, like music, movies or TV shows, are an information good. As Shapiro and Varian[15] explain, "Information is an experience good." In order to know the quality of the good—or even simply to identify the good—you have to experience it. The consumer cannot accurately predict the value of the information. This is the first half of what makes selling information on the internet difficult. The pay-for-comics site shows potential buyer what is essentially an opaque wall and says, "caveat emptor." That buyer, having no reason to take the risk, opts not to.

Many companies work around this problem by creating a "preview" of some sort, such as movie trailers; by allowing customers to browse, such as in-store headphone systems in music stores; through reviews, such as book reviews on sites like Amazon.com; or simply through their reputation. All of these methods transmit some information to the consumer about the value of the actual product.

The other problem features in many other industries as well, but is biggest on the internet: The fact that information is costly to produce, but cheap to reproduce. It is costly to an artist to make a comic and put it online. However, once the comic is posted, the marginal cost of each viewer is essentially zero. There is a great deal of free information available on the internet, and this is because that information, as is always true in a competitive market, is selling at marginal cost: Nothing.

This problem exists with movies, software and music CDs in a similar manner. Producing the product requires serious sunk costs (That is, costs not recoverable if

[15] Carl Shapiro and Hal R. Varian. *Information Rules: A Strategic Guide to the Network Economy*. Harvard Business School Press. Boston, Massachusetts. 1999. p. 5.

production is halted), but once the first copy is made, producing more extremely cheap, which leads to high profit margins if the company has a monopoly on those copies. I will discuss copyright protection and webcomics later in this chapter.

But the difference with information on the internet is that, while videocassettes or compact disks are physical goods, information on web pages is not. A physical object is usually a private good—it is rival, in that if you are enjoying it my enjoyment may be decreased, and it is excludable, in that I can be prevented from having it at all. Internet free information behaves more like a public good, being non-rival and non-excludable. If you view a web page, it has no effect on my enjoyment of that same web page. Likewise, it is very difficult to block some viewers and allow others entry. (This latter feature can be solved by password protection, but that brings us back to the problem of information goods discussed about).

Since the product we are selling is a different type of good from most products on the market, how will this affect our ability to collect revenues for it? I will now present several cash flow diagrams to illustrate the different ways money flows with a webcomic or other site and a typical good.

Cash Flow Diagrams

For a normal retail good, such as food, clothing or a textbook, the cost stream looks like the diagram below.
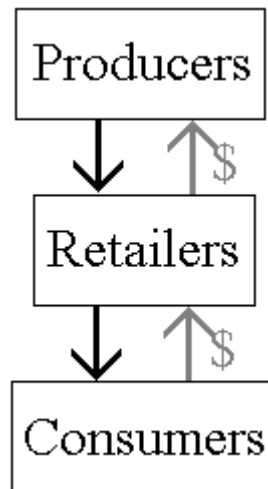
The producers provide the goods to retailers, who in turn sell them to consumers and receive cash in exchange. The retailers then pay the producers a share of the profit. However, in order to sell an information good online, such as a webcomic, this setup is unworkable. Like I said above, the consumer must experience the information good to know what it is, which generally makes him unwilling to pay for it.

Based on the research detailed in the previous chapter, I have created the following diagram detailing the flow of goods and money for a typical webcomic.
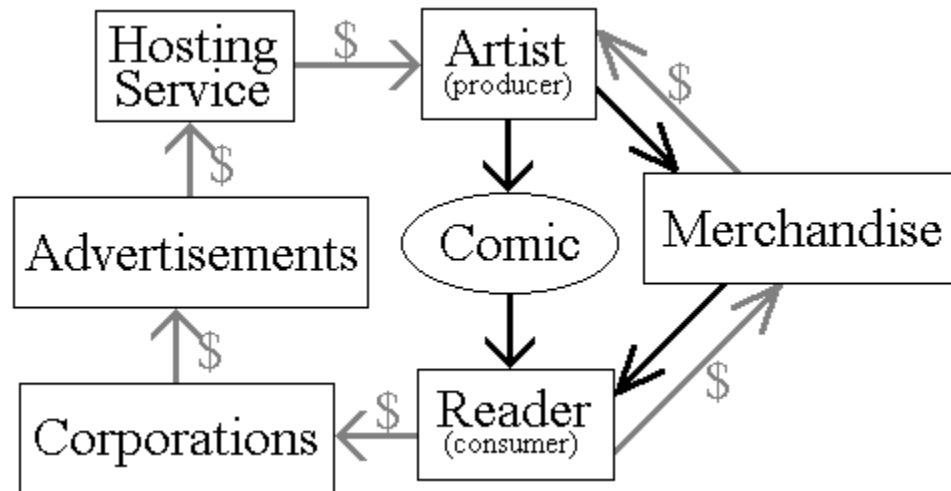
The reader is not directly sending money to the artist; the comic is available to him free of charge. He may choose to buy merchandise from the artist (in which case, the setup looks exactly like the typical one above), but this has no effect on the flow of comic to him. Along with the comic, however, this reader is seeing advertisements on the site. His money flows to the corporations that produce those advertisements. In turn, they pay the artist's hosting service (or the artist himself), which shares those profits with the artist.

As a note, this sort of model is nothing new to the web. Barbara Fraumeni notes that, "Free services, particularly information provision, seem to be a hallmark of the web." She discusses the fact that ad revenues are often the only source of revenues for free search engine, content or email companies.[16]

Esther Dyson suggests that you treat online content as if it were free, a comment that Shapiro and Varian refer to as "Dyson's Dictum." You should endeavor to create a online product that is a compliment to, not a substitute for your other products. The diagram above shows that many webcomic artists have done just that: They have a

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[16] Barbara M. Fraumeni, "E-Commerce: Measurement and Measurement Issues." *The American Economic Review*, Vol. 91, No. 2, May 2001.

business selling merchandise, and the comic is an advertisement for it. Also, they have a business selling "eyeballs" to corporations in the sense of advertisements, and the comic compliments this by providing the "bait."

In building a successful webcomic, we will want to take Dyson's Dictum to heart and provide our online content (or at least the primary portion of it) for free. This content will add value to other products we produce, by creating a market and increasing demand. These products can include t-shirts featuring our characters or printed books of the strips that are online, which are easier to read and a far more portable format.

Opportunity Cost

In the previous chapter, I quote Brian Clevinger's comment about how making a webcomic eats into time he could spend on other projects. This is the concept of opportunity cost: What someone gives up in order to undertake a project. Oftentimes, artists can derive utility simply from putting their work out and knowing that other people are enjoying it. This is why there are so many hobbyists in the webcomic community. However, webcomic artists, like everyone else, eventually want to be paid for their work and will only put so much effort into a webcomic before they expect a reward. There is also the matter of some monetary reward eventually being necessary because webcomic artists need to eat, as well. When putting together the business plan, it must be structured so that the artist's workload is limited as much as possible until he can be rewarded. The more enjoyable tasks (writing the comic, responding to fan mail, communicating with other webcomic artists) can be safely assigned to low- or no-revenue periods, while "heavy lifting" should be left until there can be a monetary reward.

Superstar Theory

In the last chapter, I mentioned that only a few of the thousands of webcomic artists are able to support themselves with the proceeds from their site. These artists have huge followings and tend to get the majority of the word-of-mouth "buzz." This concept is known as the Superstar phenomenon, in which a relatively small group of people earn significantly more money than most in their field, and, in fact, dominate that field in general. Sherwin Rosen discusses this in his article, "The Economics of Superstars."[17]

"In certain kinds of economic activity there is concentration of output among a few individuals, marked skewness in the associated distributions of income and very large rewards at the top," Rosen writes. Performers, writers, and sports players of the first rank command huge incomes, and there is a large gap between their salaries and those of people of the second rank—though the difference in skill between first and second rank may be minute. He describes the problem with trying to examine this with the standard competitive model, that it assumes that products are undifferentiated—one is as good as any other. What is missing is an account of "box office appeal," or the ability of a single person to attract a large following.

Part of this can be explained on the demand side by the idea of imperfect substitution. For example, ten mediocre performances do not add up to one excellent one, so the excellent one can command a significantly higher price. A doctor whose exceptional ability gives patients a 10% better chance of survive can expect to command more than a 10% premium. But as the doctor attracts more patients, and the time he can

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[17] Sherwin Rosen, "The Economics of Superstars." *The American Economic Review*, Vol. 71, No. 5, December 1981.p. 845-858.

spend with each one decreases, his competitive advantage disappears. So something else has to explain the great discontinuity found in other industries.

In industries like film, music and professional sports, the cost of production (for the actor, artist or player) does not depend on the size of the market. The performer puts in the same effort whether ten or ten thousand people are watching. Furthermore, technology, such as a printing press or a video recording, makes it possible for a very large audience to receive the same high-quality good, or at least a better substitute in many respects. Marginal cost, as it were, is extremely low.

It follows from this that everyone wants the best, and in addition, everyone can have the best. Rosen builds a complicated mathematical model, which it is beyond the scope of this paper to reproduce here; suffice it to say that he shows that, due to the demonstrated increase in quantity and price with quality, talent has a multiplicative effect on reward.

Moshe Adler takes this even one step further, and says that there need not be a significant difference in talent.[18] His model indicates that luck (if all consumers choose preferred products randomly) determines who becomes a star. His model depends highly on word of mouth in creating a star—the general rule being that the "biggest" performer grows larger, owing to the increase in popularity. This is known as "positive feedback," wherein the middle ground disappears as the weak get weaker and the strong get stronger.

This superstar theory is the principle that I observed in the data I collected on webcomics and summarized in the previous chapter. The best among webcomic artists attract huge audiences and make enough money to support themselves, while the vast

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[18] Moshe Adler. "Stardom and Talent." *The American Economic Review*, Vol. 75, No. 1. March 1985. p. 208-212.

majority—even those who are only marginally less talented—earn a pittance. The internet magnifies the economies of scale and allows the artist to produce a product with a marginal cost of virtually zero, so millions of readers can get the same product for no additional cost.

Donations

On the subject of donations, they seem from a theoretical economic standpoint to be unlikely—the incentive to "free ride," so to speak, is strong. Especially in the case of the internet, where anonymity is practically assured. In that vein, I looked at an article by Daniel Houser and Robert Kurzban, in which they looked at public goods experiments in which all subjects were given incentive to free ride, but often cooperated anyway.[19] They built on the theory that such cooperation is based on two things: confusion, and social factors (such as altruism, reciprocity, or fairness). They based their work off an experiment done by Jame Andreoni in 1995, which tested subjects' willingness to pay into a public-goods "pool." Houser and Kurzban performed two sets of tests: One with four human players, and one with one human and three pre-programmed computers. Assuming that all contributions in the computer game were based on confusion, they were able to determine that approximately half of the contributions in the all-human game were based on confusion, and half on social factors. What's more, the confusion contributions decreased over several rounds of the experiment, while the contribution from social factors essentially did not.

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[19] Daniel Houser and Robert Kurzban, "Revisiting Kindness and Confusion in Public Goods Experiments." *The American Economic Review*, Vol. 92 Nov. 4, September 2002. p. 1062-1069.

Given the current state of webcomics, that people do donate to what is very similar to a public good, we can use this experiment to make assumptions about the future of donations: That they will remain, if not necessarily in a steady manner. There is little confusion in the game of webcomic donations; the comic remains whether a random player donates or not. He has every incentive to free ride. If he does not, then it must be because of social factors: Altruism, a desire to "give back" to the artist, a willingness to pay compounded with the desire to encourage others to pay, etcetera. Houser and Kurzban showed that contributions due to these factors tend not to decrease over time, so most webcomic artists who keep all other things the same can probably look forward to donations.

However, even if the existence of donations is assured, the amounts are highly volatile, as my research showed in the last chapter. If a more secure way to produce a steady stream of income could be found, it would most likely be preferable.

Intellectual Property

Another issue that comes up is that of intellectual property. Webcomic artists are creating copyrighted material—is piracy of their work a concern? I looked at several articles that took different perspectives of whether copyrights were a good idea in general. Klein, Lerner and Murphy argue that Napster-type services that allow for large-scale copying and distribution decrease copyright value.[20] While Boldrin and Levine argue the intellectual property laws, especially those governing downstream licensing, are

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[20] Benjamin Klein, Andres V. Lerner, and Kevin M. Murphy. "The Economics of Copyright 'Fair Use' in a Networked World." *The American Economic Review*, Vol. 92 Nov. 2, May 2002. p 205-208.

unnecessary.[21] Klein, Lerner and Murphy look at the value of copyrighted material (in this case, music), and the effects that the existence of Napster has on the copyright values. Though some uses of such technology, such as portable mp3 players, are "fair use" and make the value of the copyright increase; many uses, such as unrestricted sharing of files, are not. In that case, the value of the copyright was decreased by the existence and use of the system. Boldrin and Levine argue that a patent is not the only way to reward innovation, and that in general, costs can be recouped even without an artificial monopoly and downstream licensing rights.

Both make strong points, and indicate what is not currently a major issue, but could become one: piracy of webcomics. There is no currently-existing technology that can make an image available over the internet but prevent it from being copied to other computers or web sites. Such an image also cannot truly be made read-only, so an unscrupulous person could take a comic, change the byline to his name, and re-post it, claiming it as his own work. Also, a script can be written to find the latest version of a comic and post it on a different website daily, directly linking from the original site. This steals bandwidth from the artist, and takes away his audience.

Currently, most webcomic artists deal with this problem through a combination of technology and audience participation. Internet service providers and hosting services can tell if an image is being remote-linked from their site, and can ban the offenders. Hand-copying and reposting is more difficult to track, so the artists ask their readers to report offenders to them. Large-scale copying of webcomics is generally not a problem because of the logistics of it—each comic is a picture file imbedded into a web page. To copy an

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[21] Michele Boldrin and David Levine, "The Case Against Intellectual Property." *The American Economic Review*, Vol. 92 Nov. 2, May 2002. p. 209-212.

entire run of a comic, a pirate would have to go through every page and download each image by hand. The reward they would get for this—especially since the comic is free to begin with—makes it essentially a worthless gesture and waste of work.

As long as the cost to obtain the intellectual property (in this case, the webcomic) is lower than the cost to obtain it illegally, then piracy will not be a serious concern. Plagiarism is harder to prevent, but an army of loyal readers may prove more effective than a legion of copyright lawyers.

Conclusions

So, what does this all tell us about creating a business model? We have to set up a plan that does not depend on being paid directly for our comic, but following the different cycles shown in the model above. Taking Dyson's Dictum to heart is important, in that we must make sure that the webcomic compliments our products that are for sale.

We cannot blend in with all of the other webcomics: In order to make money, we have to be one of the superstars. It is crucial that our comic be in the top tier, because the second tier has significantly lower revenues. Therefore, advertising the comic and attracting large numbers of readers must be our main priority, long before we try to produce revenue.

Giving people the opportunity to donate to the comic, especially before we can set up a more stable revenue source, seems sensible. However, since significant revenues from donations are unreliable, I will not consider that as a revenue source in my business plan. (If donations come in, they will simply be "gravy," so to speak.) Piracy will not be a major concern, and plagiarism will simply be dealt with on a case-by-case basis.

Chapter 4

In this chapter, I will use the information outlined in chapters two and three to form a coherent business plan for a webcomic. This plan assumes that two [fictional] people will be taking part in the venture. The biographical data (that is, the requirements for someone looking to utilize this plan) for these people, referred to as "Joe Artist" and "Tom ShirtGuy," are contained in Exhibit 2 at the end of this chapter.

The webcomic itself is central to a much larger business model. A successful webcomic, by itself, will not pull significant revenues; but merchandising deals and advertisements will. In one respect, the comic is the advertising and promotional tool for our business of selling books and t-shirts; and in another, it is the lure in our business of selling "eyeballs."

The early stages of this plan are the set up, when there is no revenue coming in and costs are kept low. In stage three, we capitalize on the effort expended in the first two stages to produce a number of revenue streams.

As a small side note, just to reiterate my comment from last chapter, nowhere in the plan is donation revenue included. This is deliberate, as donations are notably unreliable as a source of revenue. The comic may conceivably receive donations, but they will not be solicited and do not figure into any of my financial projections.

I. The Company

Two people, Joe Artist and Tom ShirtGuy, are the only employees, and as the owners as well, they will receive all net profits. The principle starting assets are a

computer, various pieces of software, and a variety of drawing tools. The main offices are in Artist's home. In addition, at the outset, both employees are also gainfully employed at other posts, and will essentially be working on the comic part-time until stage three of our plan.

II. The Plan

The creation of our webcomic site will be a three-stage process. It is designed to require as small an initial cash outlay as possible, and major financial decisions begin after the team and the comic have had a chance to stand on their own and prove their viability. Costs are delayed so as to occur once there are revenues to offset them. There is no need for outside funding at any point during this venture, so there will be no discussion of it.

Stage 1 – Startup

In the first stage, we will first create the comic and post it online. The goals of this first stage are to perfect the comic itself (both improving the art style, and making sure that the concept is viable and can continue to be interesting after all the obvious jokes are used), and to start building a fan base. The work for this stage is almost exclusively the province of Joe Artist; it is not necessary for Tom ShirtGuy to even be on board yet. This stage should last for the first six months to one year. (The financial projections below assume it lasts for the full first year).

At this stage of the game, the webcomic will not be producing any revenue, so it is assumed that everyone involved in its creation also has some other means of supporting

themselves. To keep costs down, we will use a free hosting service, such as Keenspace; and because we have low- or no-cost advertising options, we will not be purchasing any ad space.

This first stage is for the author to work out the bugs in his creation. Below is a list of questions that we should concentrate on during this stage, when deciding if the comic can be taken to stage two or if we should return to the drawing board, so to speak.

- How time-consuming is the comic to produce in its current form? Could a change in art style make it less so without a significant loss of quality?

- Can the writer/artist produce enough work to handle regular updates? What is the most often updates could be scheduled and still be feasible?

- What format is the comic being posted online in? Is this file format small enough to download quickly on any connection? Is it compatible with all web browsers our target audience might use? Can we change to a different format without a significant loss of quality?

- Are the comics easy to get into in the middle, or do you have to start reading from the beginning to understand them? What aids can we add (short character biographies, a plot synopsis, links to comics that are good starting places) that will make the comic more accessible to new readers?

- Will the comic pull readers back day after day? Can a reader appreciate a single strip on its own, or do the need to read several to reach a punch line? Have we struck a balance between giving them content today and anticipating content tomorrow?

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- Can the characters grow and evolve, or are they one-dimensional, one-joke wonders?

- Does the story leave room for expansion, and for open-ended storytelling over the course of several years? If this first story ends, can the setting and characters be used in a sequel?

The other major goal for this stage is building the fan base. Once the site is up and running and a few comics have been posted, we start the long and continuous process of attracting new readers. In this first stage, we will be looking for the audience that we know like webcomics already: Readers of other webcomics. The three ways to attract these readers are to get them to link you in their newsposts, to do full-scale banners swaps, and to do guest comics.

We will email the authors of other webcomics, asking them to check out ours and, if they like it, present the idea of swapping links. Most likely, a few smaller, less popular comics will be interested in a permanent link swap, and the bigger, more popular webcomics will only give a mention in the newspost, and that will only happen if our comic is up to their standards. (This also works as a double-check on the viability of our concept. If none of the other webcomic artists like our comic, then perhaps they know something we do not.)

The comics that are closest to ours genre-wise will be our target for guest comics in this stage. Some authors take guest comics year-round, others specifically ask for them at certain times. A good guest comic can get readers interested in Joe Artist's work, and it is far more effective than an ad banner because it is, in effect, a free sample.

Finally, we have to encourage word of mouth. The most powerful form of advertising in almost any media, whether it be movies, television or comics, is word of mouth. As soon as we attract even a single reader, we have to encourage him through the newsposts and by responding to email feedback to tell his friends about our comic.

We are attempting to create a brand name in this stage, so having a unique domain name is important. There are few expenses at this stage, by design, but this is a necessary one. Having a domain name that is intuitive, descriptive, easy to remember and easy to find is immensely important. In addition, we will brainstorm a list of appropriate keywords (webcomic being one of them, of course) and submit the site to the most popular search engines. Not only can this pull in readers that would not find our comic otherwise, but it allows previous readers to quickly and easily find their way back.

Stage 2 – Expansion

In the second stage, we will continue the process of attracting readers and improving the comic, but in addition, we will be beginning focusing on creating sources of revenue. Whereas the vast majority of the goals of stage one had to be accomplished by Joe Artist, most the "heavy lifting" in stage two is done by Tom ShirtGuy. This stage will last approximately one year.

The audience-attracting steps from stage one continue during stage two, though we will expand our efforts to comics outside of our exact genre. Now that we are "established" to some degree, we can be a little more adventurous with our marketing. We should continue submitting guest comics to as many sites as is feasible (without sacrificing the quality of the guest comics or our regular ones).

To get a better idea of our reader base and their feelings about the comics (besides what feedback we get over email), we will add a forum to the website. Though we may want to do a survey of the readership at a later time to get an accurate demographic, for now this will give us insight as to which characters and strips were the most popular, and therefore are the best choices for merchandise.

Now that we have a reasonable number of comics in our archive and a fan base, we can start making products to sell, such as t-shirts and compilations. Though it is more time-consuming and labor-intensive, we will be handling t-shirt orders ourselves instead of outsourcing to a company like Cafepress. The first one or two t-shirt designs will be unveiled during this stage, the designs being the strips or characters that have proven the most popular through email feedback and forum discussions.

After a full year of comics has been produced (whether this occurred during stage one or stage two), we have enough material to produce a compilation CD. This, like the t-shirts, are the province of Tom ShirtGuy, and will be produced by us, rather than outsourced.

The advantage to having a fan base and getting a certain number of "hits" per day, is that it allows us to start looking for advertising. Online advertising is down, and will most likely continue to be low until more effective forms of it are found, but it never hurts to try. Our targets at this stage are small, internet-based companies in an industry that relates to our comic. (Video game manufacturers for gaming comics, companies that cater to college students for college-based comics, etc.) Presumably this revenue will be split with the hosting provider, but, as it is unlikely that we can earn enough ad revenue

to offset bandwidth costs, this is still a bargain for us. With any luck, we can create a relationship with advertisers and maintain it until stage three.

Stage 3 - Maintenance

In the third stage, we have established ourselves and our comic in the webcomic community, and are poised to see real revenues. In this stage, we will leave the hosting service, beginning attracting and managing advertisements on a large scale, set up a "premium" program for dedicated readers, and produce additional merchandise for sale. This stage will continue through the foreseeable future.

One of the major changes in this stage, as opposed to the other two, is that we will leave the free hosting service, in favor of setting up our own server. This gives us greater freedom to approach advertisers of our choice (without having to split revenues) and set up premium programs. We will retain the domain name we set up in stage one, and the only difference the readers will notice is the removal of the hosting service's banners.

In addition, because we should be able to generate significant revenue during this stage, Artist and ShirtGuy will be able to quit their day jobs and concentrate solely on the comic, which gives them the time to undertake the tasks detailed below.

This will create a new cost for us that had not existed before, that being bandwidth. While it is generally thought that the marginal cost of a webcomic is zero, the addition of bandwidth costs (which increase as readership increases) make that supposition not entirely accurate. Hopefully, this cost will be offset by the additional advertisement revenue we take in during this stage.

Advertising will grow by leaps and bounds during this stage. We formed relationships with smaller advertisers in stage two, which we want to capitalize on now that the revenues will not be split. By encouraging our readers to click on these ad banners, we can demonstrate a high click-through rate with which to attract larger firms. Early in this stage, we want to prove that advertising on our site is effective. Once this has been achieved, we will parlay this into a selling point to attract bigger companies that will pay more to advertise with us.

The other source of advertising we will court in this stage is other webcomics. As an established webcomic, we can sell advertising space to comics just starting out, who are looking to attract people from our audience.

While the comic and archives will remain available free of charge to all visitors, we will also create a "Premium" section of the site. For a nominal fee, available at a monthly or yearly rate, the reader will receive access to an ad-free version of the site, and additional content not available to non-subscribers. This will be a password-protected, "behind the wall" system, that users will need to sign in to when they access the site. Streamlining the billing system for this will limit the amount of time Artist and ShirtGuy will have to put into it, and logging IP addresses and sign ins will allow us to minimize password-sharing and abuse of the system.

Subscribers will also get a discount on merchandise they buy through our site, so as to create an incentive for them to buy more. In later years, if this program becomes exceptionally popular, then more aggressive and time-consuming strategies to attract advertising will be dropped in favor of further expanding the program. Within the bounds

of this plan, however, the subscription program will never totally replace the free strip, as the free portion of the site is necessary for attracting new readers.

With several years of strips available, we can produce additional compilation CDs, and printed compilation books as well. Our first book will be a small run through a print-on-demand publisher, and we can use that to gauge demand for additional printings and other books. We will sell the books through our site, but the primary venue for them will be our attempt to secure a relationship with a professional distributor, such as Plan Nine Publishing, for the purpose of selling them through other channels. (There is only so much that can be done in-house, after all.)

One final revenue source during this stage will be more merchandise. We will use feedback from our first t-shirt and additional email and forum feedback to create new t-shirt lines. In addition, we can market other comic-related products, such as plush toys of characters, character-specific hats, imprinted tote bags, and the like. What form this merchandise takes is dependant on the type of comic we are producing and comments from the forum on what people will be interested in buying.

The other cost of this stage, besides the bandwidth cost mentioned above, is the cost of goods sold. Obviously, we will need to pay to produce and distribute the books, CDs, shirts, and toys. For a full account of costs and revenues, see Exhibit 1 below.

III. The Market

The market for our comic is, conceivably, the entire online community. Our first target, however, will be people who have already been "sold" on the idea of webcomics. Estimates based on data from popular webcomics indicates there are between three and

five million people on the internet who regularly read webcomics, and this number is constantly increasing.

Because of time limitations, each of these potential readers can only read a certain number of comics each day. As the plan emphasizes above, we need to stand out from the crowd in order to attract an audience of significant size.

Once we are an established feature of the webcomic community, we can start reaching out to people who are unfamiliar to the medium. (If we do this before we become popular, it is likely that we will lose readers who we attract to webcomics to the big comics that are already entrenched, as they have strong word-of-mouth advertising).

IV. The Competition

The primary competition in this market is other webcomics, who are competing with us for "eyeballs" and advertiser dollars. There are literally thousands of comics in existence, but only a handful of them have a significant readership. The vast majority of comics are done by hobbyists who make no effort to go after advertiser dollars, are not aggressive about attracting an audience, and generally are abandoned before the end of the first year.

The true threat comes from those comics that take a professional approach similar to ours. Many of them have the advantage of being firmly entrenched after several years of existence, and understand the importance of being aggressive in pursuing readers and advertisers. We have to learn from these companies and make our product better and more accessible than theirs if we hope to compete.

Exhibit 1 Financial Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Average monthly pageviews	500,000	3,000,000	10,000,000	27,000,000	40,000,000
Average regular readers (month)	5,000	30,000	100,000	270,000	400,000
Average bandwidth usage (gigs/month)	5	30	100	270	400
Bandwidth and Hosting costs (total)	$0	$0	$1,800	$4,860	$7,200
Domain Name Rental	$20	$20	$20	$20	$20
Donations	$0	$0	$0	$0	$0
Advertising Revenue	$0	$0	$2,400	$6,480	$9,600
"Premium" Program Revenues	$0	$0	$7,920	$21,384	$31,680
Net shirt profit	$0	$3,000	$10,000	$27,000	$40,000
Net CD profit	$0	$1,800	$6,000	$16,200	$24,000
Net book profit	$0	$0	$3,600	$9,720	$14,400
Total Profit Available to Creators	**($20)**	**$4,780**	**$28,100**	**$75,904**	**$112,460**

Assumptions: Growth in monthly pageviews and number of readers retained based on estimates of growth from recently-established webcomics. Bandwidth stays steady at $1.50 per gigabyte per month. Advertising revenue is a function of pageviews and assumes all revenue will go to hosting service until the third year. Premium program assumes approximately 0.33% of readers will pay $2 per month for membership.

Merchandise Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
T-shirts sold	0	750	2,500	6,750	10,000
Cost of shirts sold	$0	$9,000	$30,000	$81,000	$120,000
Gross shirt revenue	$0	$12,000	$40,000	$108,000	$160,000
Net shirt profit	$0	$3,000	$10,000	$27,000	$40,000

This assumes that approximately 0.25% of regular readers will purchase shirts and similar merchandise selling for $16 per unit, with an average cost per unit of $10.

	Year 1	Year 2	Year 3	Year 4	Year 5
Compilation CDs sold	0	180	600	1,620	2,400
Cost of CDs sold	$0	$900	$3,000	$8,100	$12,000
Gross CD revenue	$0	$2,700	$9,000	$24,300	$36,000
Net CD profit	$0	$1,800	$6,000	$16,200	$24,000

This assumes that approximately 0.05% of regular readers will purchase compilation CD-ROMs for $15 each, and our per-unit cost (including shipping) is $5 per unit.

	Year 1	Year 2	Year 3	Year 4	Year 5
Compilation books sold	0	0	1,200	3,240	4,800
Net book profit	$0	$0	$3,600	$9,720	$14,400

This assumes a successful deal with a publisher, earning us $3 in royalties per unit sold. Approximately 0.1% of readers will purchase a book each month.

Exhibit 2 Background Sketches of Key Staff

Joe Artist, writer, artist and site designer

Artist is responsible for the actual production of the comic; the characters and storyline are his creations. His other duties include creation and maintenance of the web site. He has a great deal of artistic talent, and a creative mind geared toward the visual medium. In addition, he has knowledge of HTML, experience with web design, and either knowledge of servers or a willingness to learn to run one. Finally, his ability to sell ideas is very important, because he is responsible for attracting an audience for the comic and attracting companies to advertise on the site. Education may include a degree in art and design, or possibly creative writing.

Tom ShirtGuy, business manager, merchandise director, forum moderator

ShirtGuy is responsible for the merchandise, producing and distributing (either himself or through subcontractors) t-shirts, compilation CDs, printed books, and similar products. He may occasionally serve as the assistant writer or site designer, but this is not his primary function. He is highly organized, good with numbers and intimately familiar with the US Postal Service. He may also have knowledge of server systems, web design and marketing. Education may include a degree in finance or accounting.

Chapter 5

In this chapter, I will discuss my conclusions about the viability of webcomics and the feasibility of the business model presented in the last chapter. In the language of entrepreneurship, "Can this dog hunt?" Afterwards, I will look at the future of webcomics, and make some conclusions about the industry in general.

Features and Feasibility of My Plan

The major limitation of my plan as it is presented is it is intended for two people. This is not a model that could be used by a large company looking to get into the webcomic business. The free advertising strategies are generally not open to big companies, as established webcomic artists are far more likely to support a "fellow entrepreneur" than a "faceless corporation." Also, the marginal revenue increase for each additional employee is minute, at best. A feasible could be constructed for a large corporation (CrossGeneration Comics has one, for instance), but that is beyond the scope of this work.

Someone endeavoring to use this plan would have to realize that he or she is not entering the business of producing art for money. They need a willingness to get into what is essentially the t-shirt and reprint publishing business to make money as a webcomic artist. Likewise, they need to see the necessity of the webcomic to maintain the audience for the other products.

There are a number of things that can go wrong during the implementation of this plan. For one thing, I made a lot of assumptions about sales and sales revenue, and advertising revenue as well. Even though my estimates were conservative based on what

webcomic artists are currently finding, they are very much dependant on the size of the audience and the market for webcomics remaining the same over the next four to five years. Given that the industry is only five years old, it is difficult to predict where it will be in the future.

Another problem is the dependency on only two people. ShirtGuy is relatively replaceable—since he is not the creative force, someone else able to produce and ship merchandise can undoubtedly be found. However, if Artist leaves (or is incapacitated in some way), the venture will fail.

There are also a number of things that can facilitate the success of the webcomic. Many webcomic artists are able to make deals with their hosting providers to receive bandwidth for a lower price. Also, I did not include donations in the business model, but it is conceivable that Artist and ShirtGuy would receive them anyway. I assumed bandwidth prices and advertising revenues remaining a constant function of traffic, while it is likely that bandwidth prices will decrease as technology improves and advertising revenues will increase as the economy picks up.

Through everything I presented in chapters two and three, it is obvious that one has to be a "superstar" to really make money. Time and effort spent on creating a high-quality product and networking to market it do help, but it will eventually come down to chance whether our webcomic catches on, spreads through word of mouth, and becomes a superstar.

In general, most webcomics fail to make money, or at least never grow beyond the minor revenues of stage two. In this model, that is the purpose of stage one—to make sure that the comic and the team are viable before years of effort are put into the project.

Artist and ShirtGuy have to be willing to recognize that they might not have a winner, and shelf it in favor of something that can potentially become a superstar.

Where Are Webcomics Heading?

The state of webcomics in the future is most dependant on the state of the internet. Given that, in just a decade, the web has become an essential source of information and a significant aspect to business, it is likely to become further ingrained in our culture. As people become more and more used to getting news on the web, they will continue to become more receptive to other former staples of the printed world, such as comics, on the web. The more potential readers there are, the more actual readers there will be.

Bandwidth costs are the most significant cost to a webcomic artist, but as technology improves, bandwidth will become cheaper. As companies who advertise online learn to focus and make their ads more effective, webcomics artists—especially those who target a specific demographic—will see an increase in ad revenue.

Finally, as other entrepreneurs find new ways of selling things over the internet, their efforts will make consumers more willing to pay for things over the internet. Online payment services such as Paypal have made transaction costs lower and commerce easier, on the web in general and for webcomic artists in particular.

Ideas for Further Research

Like I said above, the major limitation to my business plan is that it is designed as a small enterprise. Someone wishing to build on this may want to make a plan for a larger business, such as a major comic company. Such an enterprise would face a completely

different set of challenges, including the needs for paid advertising, to build an audience faster and larger, and additional methods of supplementing the revenue streams.

Because the industry is only five years old itself, a study like this could be done in another five years, to see where the industry and "community" have gone. Had I done this research before the internet bubble burst, there would have been far fewer webcomics out there, and advertising revenue would have been more plentiful. The increase in competition and loss of an "easy" source of revenue has led to many webcomic artists inventing new and creative ways of producing revenue with their work.

My interviews with webcomic artists gave me a rough idea of what sorts of advertising were most effective at promoting a webcomic. Another study on this topic might look into the exact direct impact of different types of advertising on traffic levels. The cost-benefit ratio of free advertising is obviously better than with paid advertisements, but can paid advertisements have a significant enough impact to be worthwhile? If it was, this idea would fit into my plan in the later years, when revenue streams are high enough to justify such an outlay, and free advertising has been exhausted.

As a side note, America Online Instant Messenger is an excellent medium for conducting an interview. It is safer and cheaper for the person being interviewed, as they neither have to provide a phone number nor make a long distance call. The interviewer need never worry about misquoting, or needing to taking dictation. The conversation can simply be saved as a text file and referred to whenever necessary. Finally, the person being interviewed feels less "on the spot," and more comfortable, which makes the entire experience more pleasant and makes future interviews more likely.

Conclusions

Webcomics function well as a compliment to a bigger business. They can function as a lure for advertisers, or an effective advertisement for another product. Putting some amount of content behind a password-protected "wall" may be profitable for an established artist, but free content is still necessary to draw in new readers and serves to give the consumer an idea of what he is paying for when he signs up for the password-protected service. While not a moneymaker by themselves, webcomics can facilitate the flow to money to the author through other channels.

Appendix A

AVALON

http://www.avalonhigh.com   3:38 - NOVEMBER 14, 2001
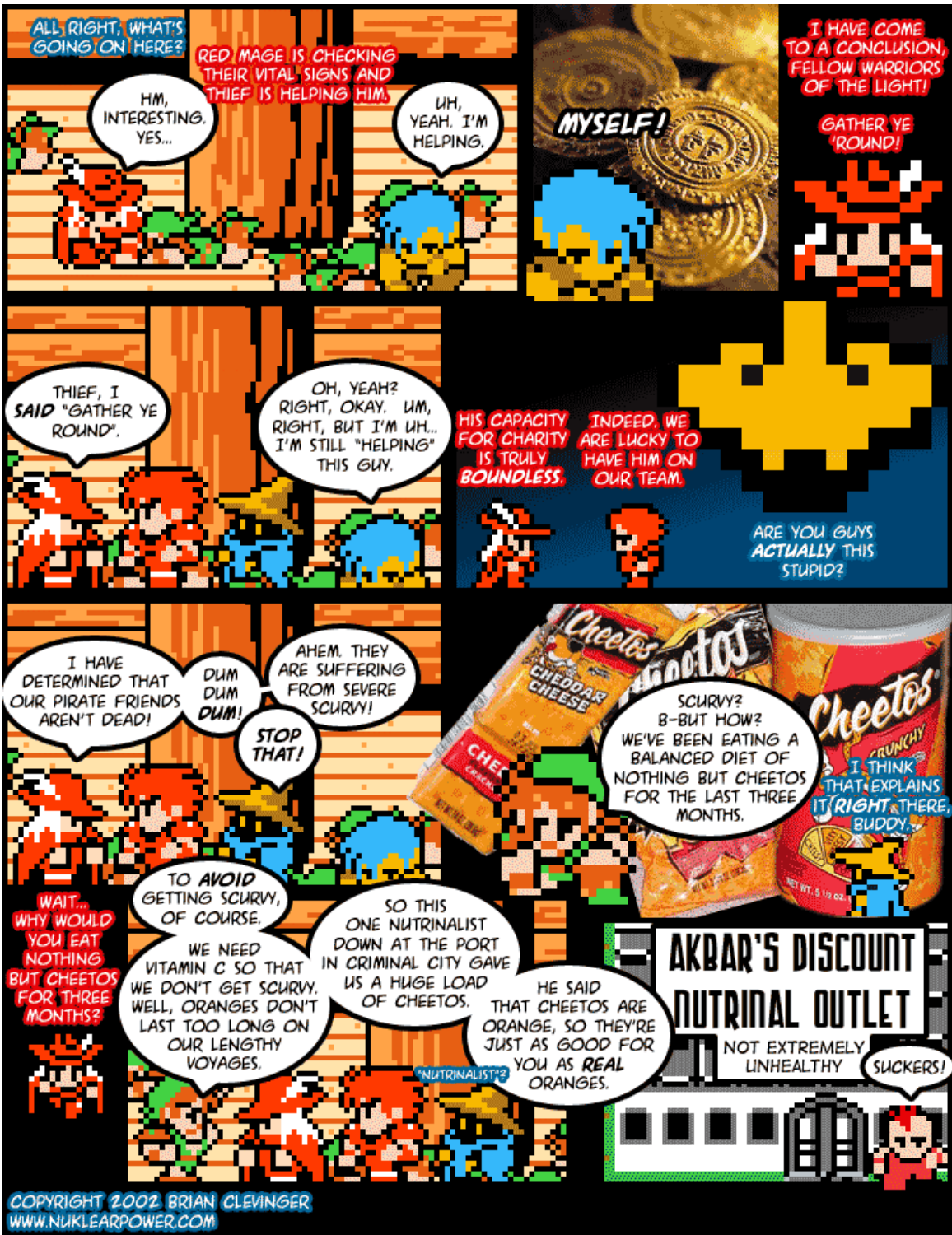
http://www.gpf-comics.com/
03/31/2003

Goats, *Avalon* and *GPF* could fit in on any newspaper page. Some hand-drawn strips feature "cartoony" characters, while others are more realistic.
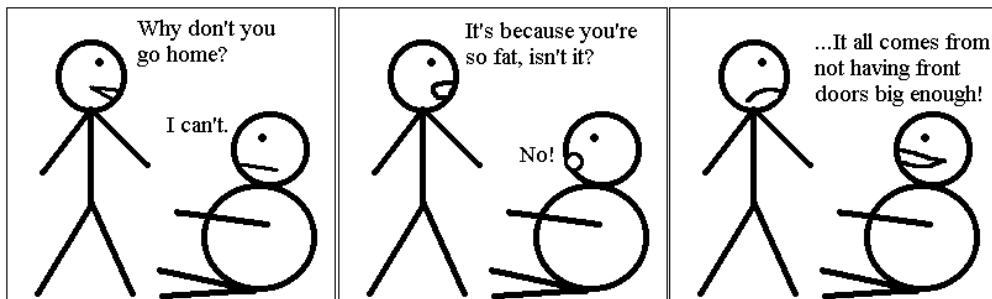
Several artists do "stick-figure days" when they are feeling run-down. This is a homemade example.

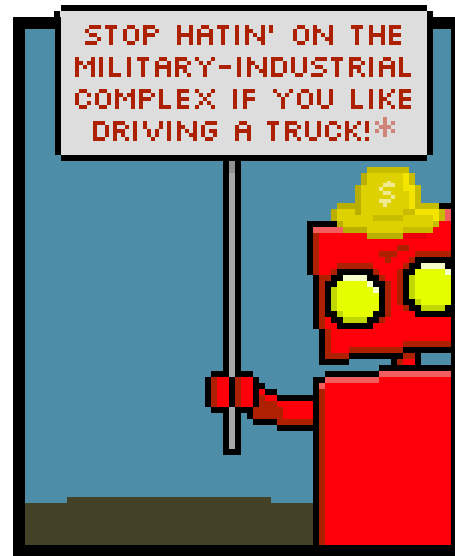*Mac Hall,* a comic based on college life, may change art styles mid-strip.

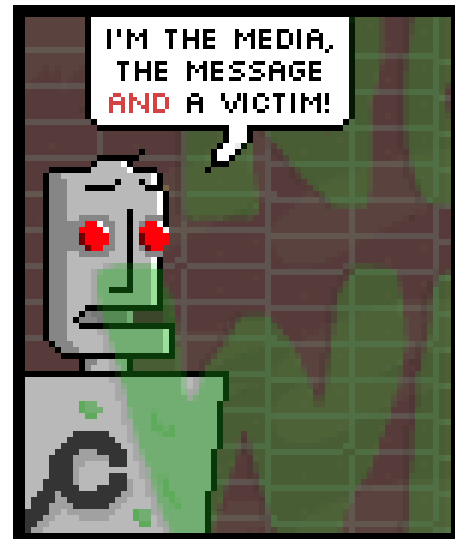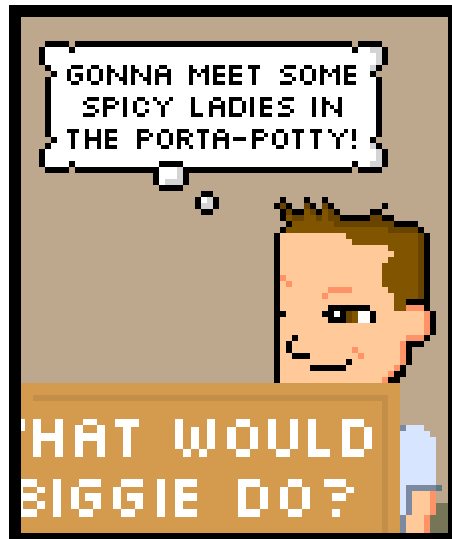An example of a sprite comic, courtesy of *8-Bit Theater*.

Dragon-Tails, a 3-D computer rendered comic.

Diesel Sweeties is done in a unique pixilated style.

Appendix B

The follow are a sample of the questions I asked various webcomic artists that I interviewed. For reasons of space and readability, the transcripts of these interviews will not be included with this work, though my findings are summarized in chapter two.

- Do you mind if I quote you directly, and/or use one of your strips as an example in my finished thesis?
- What kind of costs do you encounter in creating your webcomic? Approximately how much do you pay, on a monthly basis, for:
  - Server costs
  - Bandwidth costs
  - Supplies (art supplies, computer hardware and software)
  - Advertising
- What sort of revenues do you take in, again on a monthly basis, from the following sources:
  - Advertising
    - On the subject of banner ads, if and when you were getting them, what kinds of companies advertised with you?
    - About when did it drop off?
    - Did they come to you, or did you approach them?
  - Sponsorship
  - Selling hats, t-shirts, tote bags, etc.
  - Selling original artwork or commissioned art
  - Printing comic books (If through a professional comic label, which one?)
  - Printing compilation books (If through a professional publisher, which one?)
  - Selling compilation CDs
  - Subscription program
  - Donations
    - About how much is each individual donation?

- Do people generally give around a dollar or five, or does it fluctuate wildly?
- Do you work a "day job"?
- What kind of traffic does your site get?
  - How many pageviews does your site average in a given month?
  - How many unique viewers?
  - How is this related to bandwidth costs?
- Do you do a lot of banner-swapping?
- How many hours do you work on the comic per week?
- How much outside help do you receive?
- What do you think was the biggest hurdle starting out?
- Who do you think are your major competitors?
- What is your target audience? Who are your major buyers?
- What product segment do webcomics occupy and what are the substitutes/complements?
- Any thoughts about the webcomic community in general?
- Do daily comic strips and comic books online face the same hurdles? Are they different products?

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