

# AOL and Yahoo take lead in putting price on e-mail

By **Saul Hansell** The New York Times ... SUNDAY, FEBRUARY 5, 2006

**NEW YORK** Companies will soon have to buy the electronic equivalent of a postage stamp if they want to be certain that their e-mail will be delivered to many of their customers.

America Online and Yahoo, two of the world's largest providers of e-mail accounts, are about to start using a system that gives preferential treatment to messages from companies that pay from a quarter of a cent to one cent each to have them delivered. The Internet companies say this will help them identify legitimate mail and cut down on junk e-mail, identity-theft scams and other scourges.

The two companies also stand to earn millions of dollars a year from the system if it is widely adopted.

AOL and Yahoo will still accept e-mail from senders who have not paid, but the paid messages will be given special treatment. On AOL, for example, they will go straight to users' main mailboxes and will not have to run the gantlet of spam filters that could divert them to a special bulk e-mail box or strip them of images and Web links.

Yahoo and AOL say the new system is a way to restore some order to e-mail, which, because of spam and online scams, has become an increasingly unreliable mode of communication, even as it has become more important in people's lives.

"The last time I checked," said Nicholas Graham, an AOL spokesman, "the Postal Service has a very similar system to provide different options." He pointed to services like certified mail with return receipts.

But critics of the plan say the companies risk alienating both their users and the companies that send e-mail. The system will apply not only to mass mailings but also to individual messages like order confirmations from online stores and customized low-fare notices from airlines.

Richi Jennings, an analyst at Ferris Research, which specializes in e-mail, said, "AOL users will become dissatisfied when they don't receive the e-mail that they want, and when they complain to the senders, they'll be told, 'It's AOL's fault.'"

As for companies that send e-mail, "some will pay, but others will object to being held to ransom," she said. "A big danger is that one of them will be big enough to encourage AOL users to use a different e-mail service."

In a broader sense, the move to create what is essentially a preferred class of e-mail is a major change in the economics of the Internet. Until now, senders and recipients of e-mail each covered their own costs of using the network, with no money changing hands. That model is different from, say, the telephone system, in which the company whose customer places a call pays a fee to the company whose customer receives it.

The prospect of a multi-tiered Internet received a lot of attention recently after executives of several large telecommunications companies, including BellSouth and AT&T, suggested that they be paid not only by the subscribers to their Internet services but also by companies that send large files to those subscribers, including music and video clips. Those files would then be given priority over other data, a change from the Internet's basic architecture, which treats all data in the same way.

On Tuesday, the U.S. Senate Commerce Committee will hold a hearing to consider legislation for what has been called "Net neutrality," which in effect would ban Internet companies from giving preferred status to

certain providers of content. The concern is that companies that do not pay could find it hard to reach customers or potential customers, threatening the openness of the Internet.

AOL and its parent, Time Warner, which also owns a large cable system offering high-speed Internet access, have not taken a public stand on the principle of Net neutrality. Neither has Yahoo, which has close relationships with AT&T and Verizon. The issue of e-mail "postage" has not yet come up in the debate over Net neutrality.

In the next two months, AOL will start accepting e-mail processed by Goodmail Systems, a company in Mountain View, California, that will collect the electronic postage and verify the identity of the sender.

Goodmail has tested the system with messages from a few companies, including the American Red Cross and The New York Times Co., which owns the International Herald Tribune.

Paying senders will be assured that their messages will be delivered to AOL users' main inboxes and marked as "AOL Certified E-Mail." Unpaid messages will be subject to AOL's spam-filtering process, which diverts suspicious messages to a special spam folder. **Most unpaid messages also will not be displayed with their original images and links.**

Yahoo will start testing Goodmail's system in the coming months, but it has not decided how paid mail will be differentiated from unpaid, said Brad Garlinghouse, vice president of communications products at Yahoo. Goodmail will charge a quarter of a cent to 1 cent for each message, with high-volume mailers getting the biggest discounts. It will give more than half of that amount to the e-mail service provider.

When AOL started to explain the details of its plan last month to companies that send a lot of e-mail, many quickly raised objections.

"No one wants Goodmail or any other provider to set up a tollbooth that makes it cost-prohibitive for legitimate mailers to reach the inbox," said Matthew Moog, chief executive of Q Interactive. The company runs a marketing service called CoolSavings that sends e-mail to 10 million people a month who have requested it.

Moog said he strongly favored systems that helped distinguish the mail he sent from spam. But he added that he wanted AOL and other Internet providers "to offer several competing services to ensure that innovation continues and there is a competitive market to drive fair pricing for the service."

For example, he said CoolSavings already worked with Bonded Sender, a company used by Microsoft's Hotmail service and other providers to identify sources of legitimate mail. Bonded Sender charges a flat fee of no more than \$20,000 a year to the highest-volume senders, a fraction of what they would pay through the Goodmail system. Moog said the Goodmail system would at least double the cost of an e-mail campaign. "I don't think the economics work," he said.

Matt Blumberg, chief executive of Return Path, the New York-based company that runs Bonded Sender, said there was no need for the Goodmail price to be so high. "From AOL's perspective, this is an opportunity to earn a significant amount of money from the sale of stamps," he said.

"But it's bad for the industry and bad for consumers. A lot of e-mailers won't be able to afford it."