



E-commerce

business. technology. society.

Third Edition

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Chapter 14

Online Content Providers: Digital Media

The Wall Street Journal Online

Class Discussion

- Why did the *Wall Street Journal* succeed with a subscription model when other newspapers have been unable to charge for their content?
- Would you pay to read a daily newspaper online? Why or why not?
- Would you pay for access to online archives of newspapers and/or magazines?
- Do you think newspapers can make the transition from “print on paper” to “news on screen?”

Trends in Online Content—2006

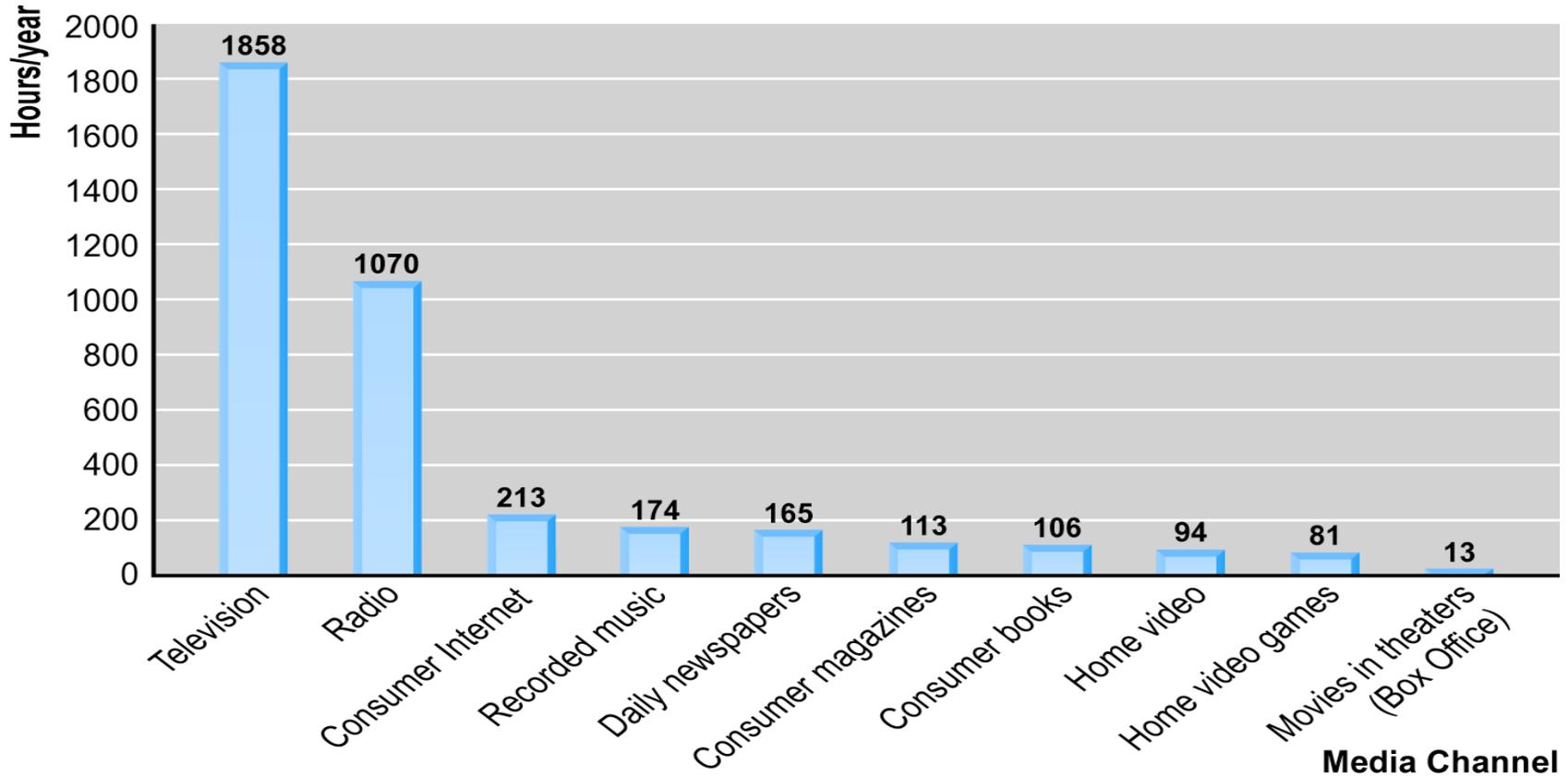
- Increased media consumption
- Internet media revenues fastest growing
- Internet advertising revenues rapidly expanding, driving interest in content that attracts eyeballs
- Paid content becoming more commonplace
- Convergence increasing
- User-generated content explodes in popularity
- More and more entertainment content finds its way onto the Web

Content Audience and Market

- Average American adult spends over 3,900 hours each year consuming various media
- By 2008, expected to increase to 4,000 hours a year (about 11 hours a day)
- Most popular medium: television, followed by radio
- Internet third, but growing fast

Media Utilization

Figure 14.1, Page 815



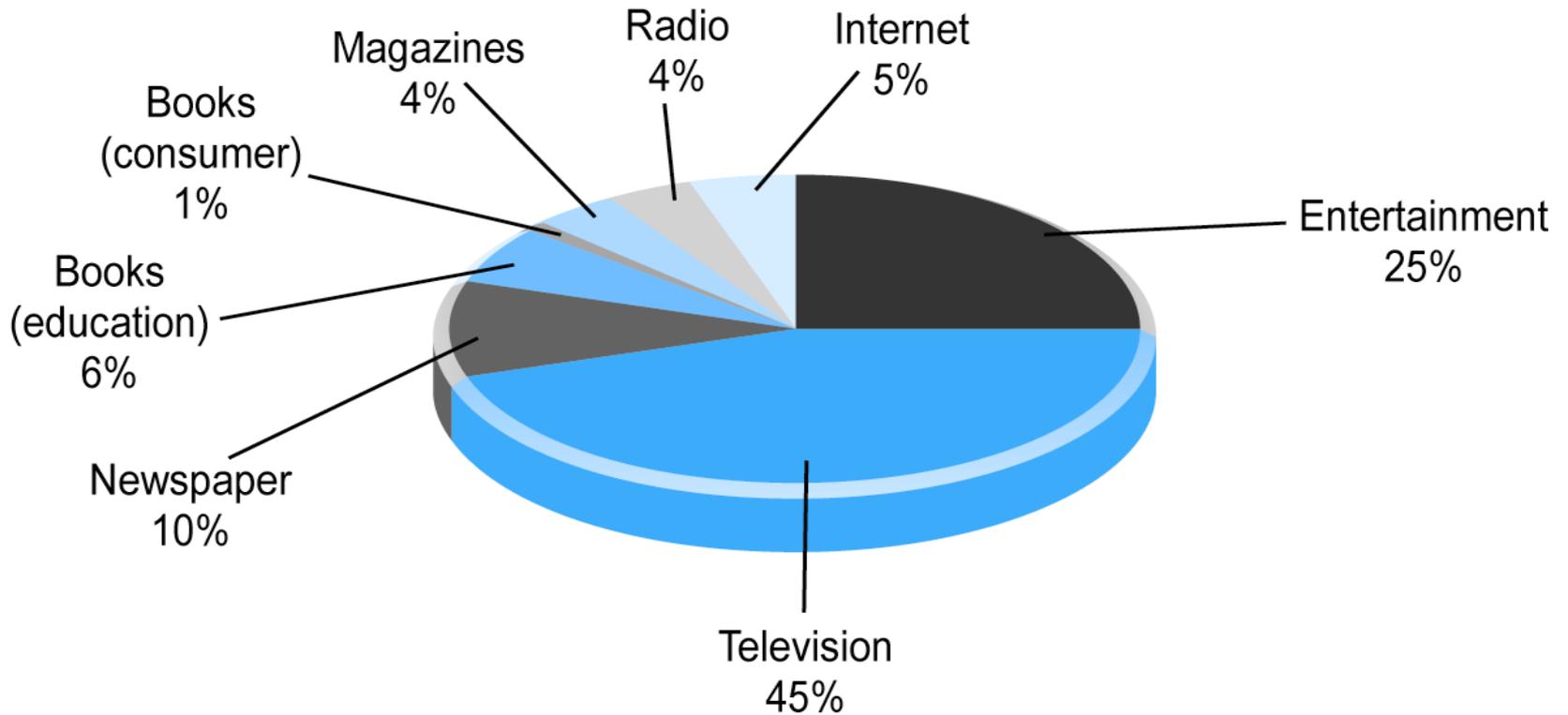
SOURCE: Based on data from U.S. Census Bureau , 2006.

Internet and Traditional Media: Cannibalization versus Complementarity

- Time spend on Internet reduces consumer time available for other media
- Internet users view television only 11.2 hours per week, compared to 16 hours per week for non-users
- Internet users spend 15% to 20% less time reading books, newspapers and magazine, and less time on phone or listening to radio
- Conversely, Internet users consume more media of all types than non-Internet users
- Internet users also often multitask, using other forms of media at same time as using Internet

Media Revenues by Channel

Figure 14.2, Page 816



SOURCE: Based on data from U.S. Census Bureau, 2006.

Growth of the Online Content Audience

- Online content: digital information for direct consumption made available over the Internet
- Includes both free and paid content
- Differences between consumer content (B2C) and business content (B2B) markets
- 2006: Total direct consumer paid online content revenues in U.S. should reach about \$5.8 billion
- Expected to grow to \$12.9 billion by 2012

Fee or Free?

- Major challenge facing online content industry
- Most content on Web is still free, and most Web users still expect it to be free
- Movement toward paying for content will require significant enhancement to content providers' customer value propositions

Media Industry Structure

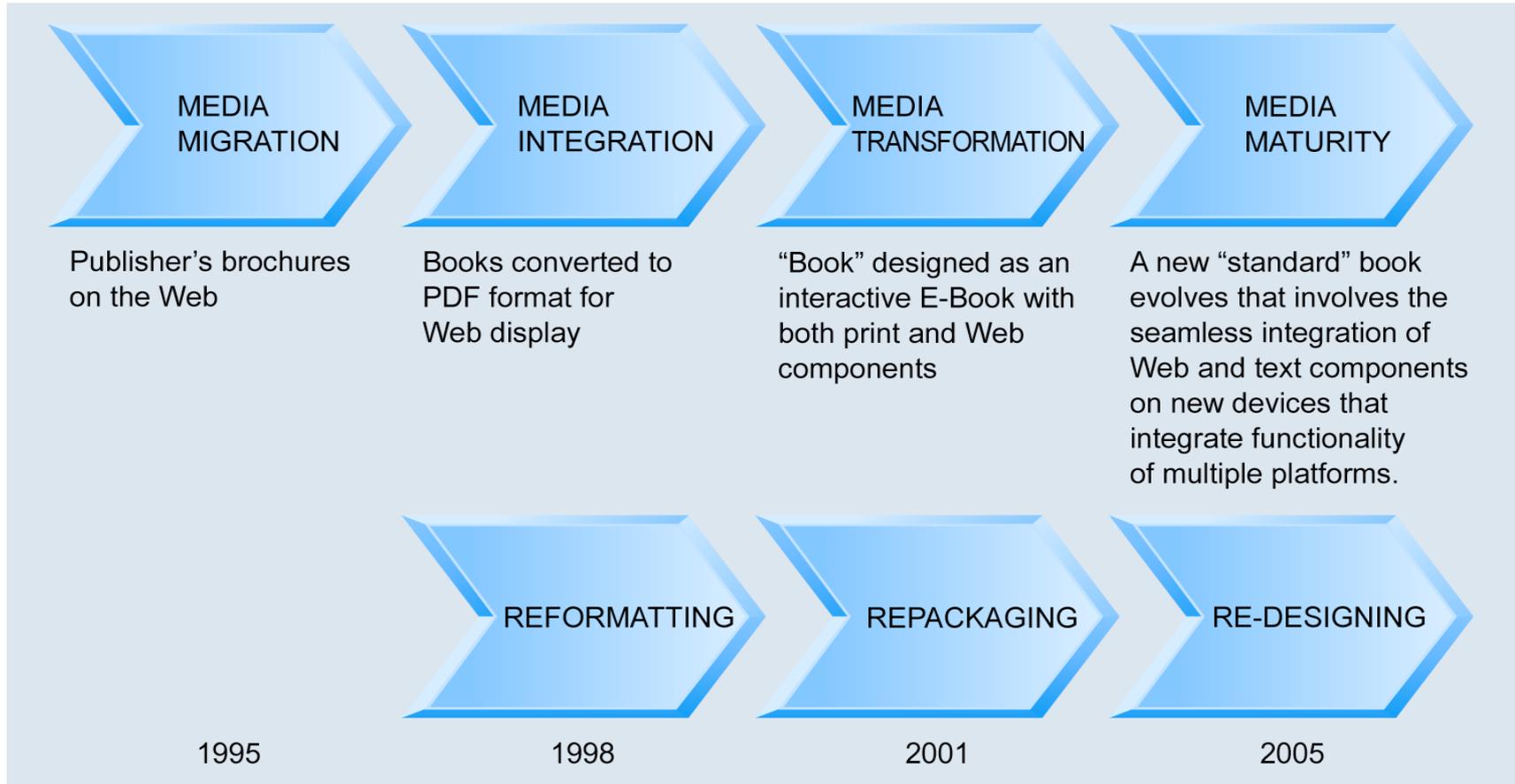
- Media content industry prior to 1990 was composed of many smaller independent corporations specializing in content creation and distribution in separate industries
- Still organized largely as separate vertical stovepipes, with each segment dominated by a few key players
- Growing use of digital creation tools and growth of Internet as delivery vehicle offer promise of convergence toward a more unified creation and distribution platform

Media Convergence: Technology, Content, and Industry Structure

- Three dimensions of media convergence:
- Technological convergence: Development of hybrid devices that can combine the functionality of two or more existing media platforms into a single device
 - Example: PDAs that can also be used as cell phones and book readers
- Content convergence has three aspects
 - Convergence in design
 - Convergence in production
 - Convergence in distribution of content
- Industry convergence: Merger of media enterprises into synergistic combinations that create and cross-market content on different platforms
 - Best known example: AOL/Time Warner

Convergence and the Transformation of Content: Books

Figure 14.3, Page 821



Challenges and Risks in Media Convergence

- Consumers still prefer traditional media
- Technology is not quite ready to distribute content effectively and conveniently
- Content creators (artists, writers, producers) do not yet know what features consumers are willing to pay for and are still creating content for each of the separate media types
- Profitable business model has not yet emerged

Online Content Revenue Models and Business Processes

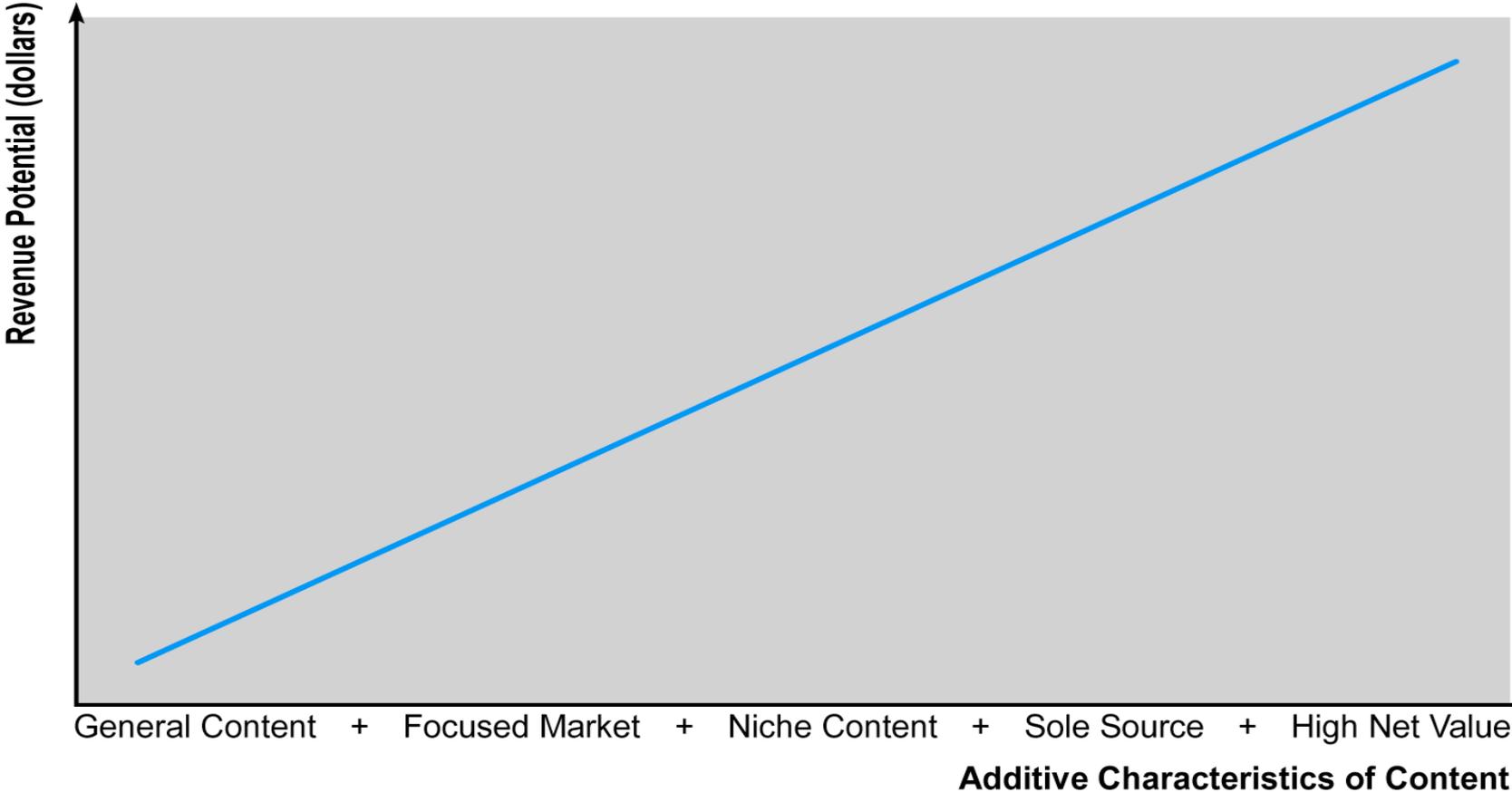
- Basic content revenue models
 - Marketing
 - Advertising
 - Pay-per-view/Pay-for-download
 - Subscription
 - Mixed

Making a Profit with Online Content: From Free to Fee

- Many content firms have decided that there is more to be gained by offering either all free content or a mix of free and for-free
- Four factors required to charge for online content
 - Focused market
 - Specialized content
 - Sole source monopoly
 - High perceived net value (portion of perceived customer value that can be attributed to fact that content is available on the Internet)

Revenue and Content Characteristics

Figure 14.4, Page 826



Key Challenges Facing Content Producers and Owners

- Technology challenges
 - Bandwidth issues
 - Client platform
- Cost challenges
 - Internet distribution more costly than anticipated; media companies face substantial costs in migrating, repackaging, and redesigning content for online delivery
- Consumer attitudes
- Cannibalization of existing distribution channels
- Digital rights management challenges
 - Theft of copyrighted material
 - Royalties paid to artists and writers

Insight on Business: DRM: Who Owns Your Files

Class Discussion

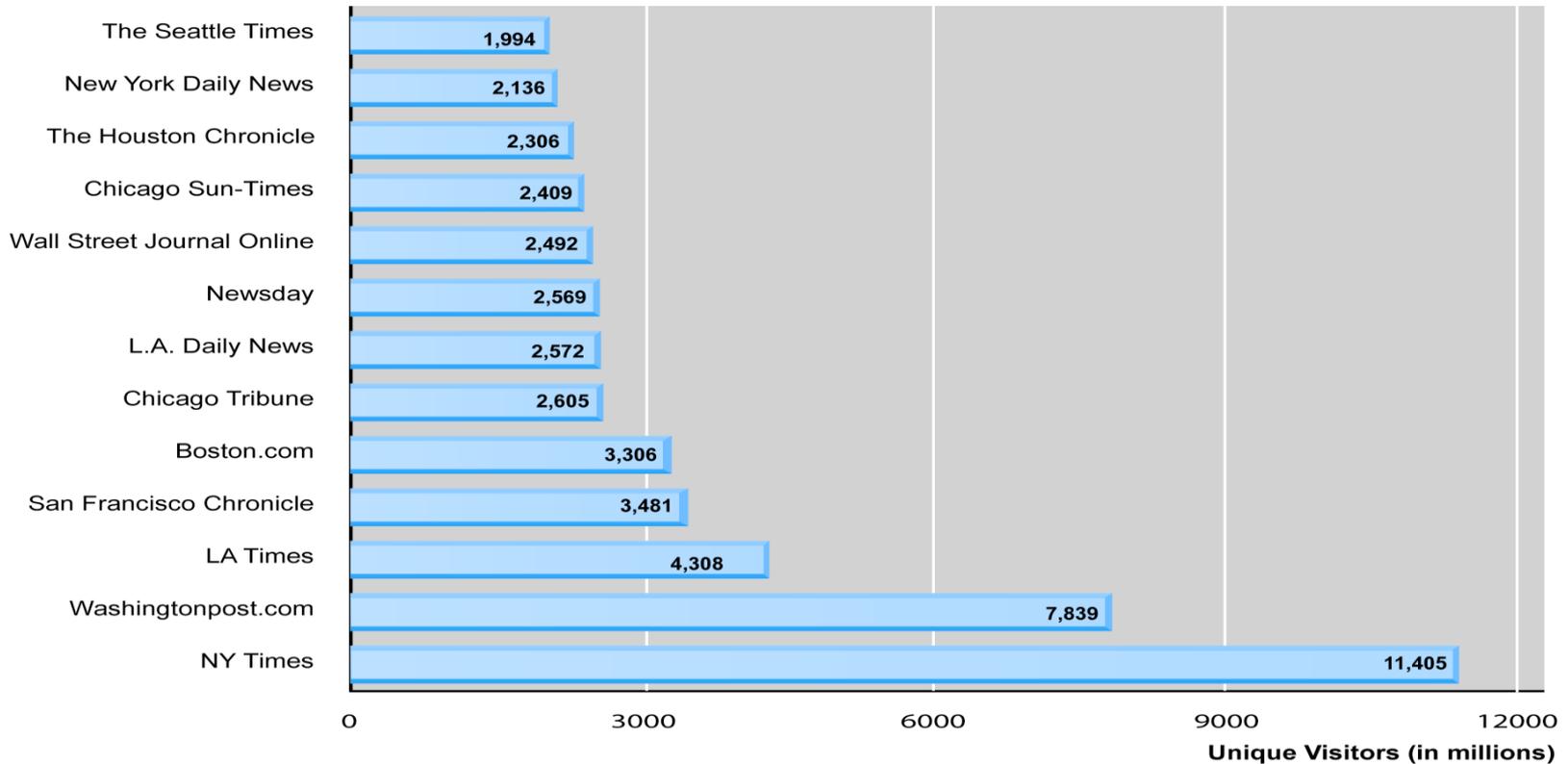
- Why does digital content need any more protection than analog content stored on records and tapes?
- What is DRM software? Have you ever encountered digital content that is protected with DRM?
- How does Apple's iPod and iTunes use DRM?
- In what way did DRM make iTunes possible?
- How does DRM potentially interfere with "fair use" of copyrighted material?

Online Newspapers

- More than 5,000 online newspapers worldwide
- About 1,300 online newspapers in the United States
- Online newspapers one of most successful forms on online content to date
- Impact of Internet on content
 - Enables premium archived content
 - Enables fine-grained search
 - Extends reach
 - Extends depth of content

Monthly Unique Visitors at Major Online Newspapers

Figure 14.5, Page 832



SOURCE: Based on data from Newspaper Association of America, 2006b; comScore Networks, 2005; eMarketer, Inc., 2005c.

Online Newspaper Revenue Models and Results

- Predominately rely on advertising model, with varying success
- Supplement revenues by using a pay-per-view/pay-for-download model for premium or archival content and/or subscription fees
- Only a few newspapers with strong offline brands such as *Wall Street Journal* have been able to successfully use subscription model

Convergence in the Online Newspaper Industry

- Technological convergence in infancy with only published text moved to Web
- Content convergence has occurred in areas of production and distribution
- Industry structure has not seen much movement to cross-media convergence

Online Newspapers: Challenges

- Developing wireless mobile delivery platforms and micropayment systems to provide low-cost mechanism for selling single articles
- Consumer attitudes have remained intransigent on issue of paying for content
- Some online newspapers have experienced cannibalization of main distribution channel
- Digital leakage, where paid for and downloaded content is redistributed via e-mail or posted for free viewing on a Web site

E-books

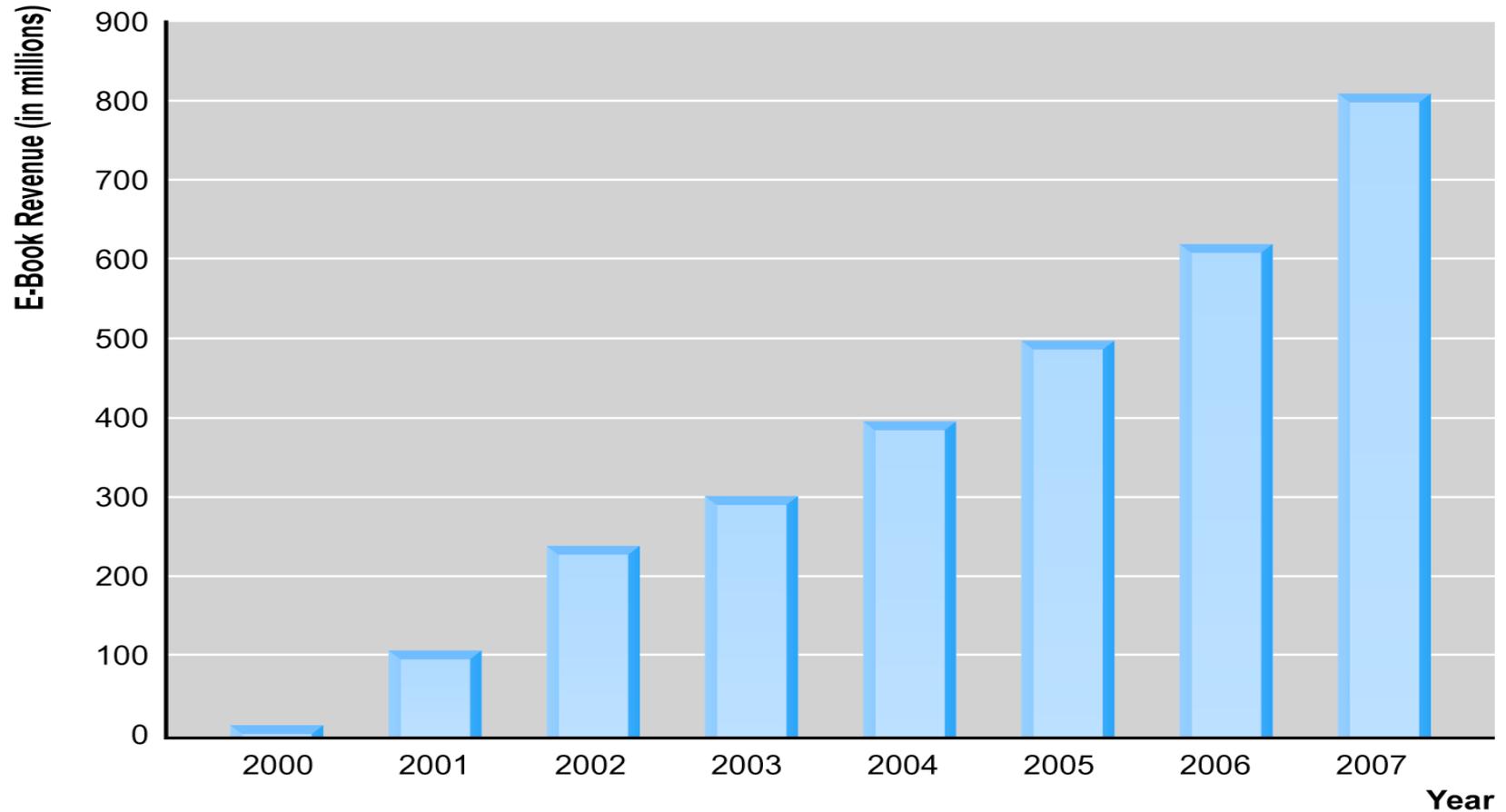
- Many different types of commercial e-books
 - Web-accessed e-book
 - Web-downloadable e-book
 - Dedicated e-book reader
 - Print-on-demand books

E-book Audience Size and Growth

- Reading books on Internet is not a popular activity
- Online e-book sales generated about \$500 million in revenues in 2005
- Expected to generate about \$800 million in 2007
- Future market for e-books depends greatly on how rapidly traditional trade book and academic textbook publishers move existing and new works to e-book format

The Growth of E-Book Revenues to 2007

Figure 14.6, Page 841



SOURCE: Based on data from International Digital Publishing Forum, 2005; eMarketer, Inc., 2005d, authors' estimates.

Advantages of E-books

- Instant downloading reduces transaction costs for user
- Increased accessibility to entire libraries from home or office
- Text is searchable and easily integrated with new text
- Content can be modularized down to sentence and word level
- Easy to update and change
- Lower production and distribution costs
- Increased opportunities for writers to publish
- Increased availability of out-of-print and increased value of book archives
- Reduced cost of library functions

Disadvantages of E-books

- Require expensive and complex electronic devices to use
- Less portability than print books
- Reduced quality of print on screen
- Multiple competing standards
- Uncertain business models
- Copyright management and royalty issues with authors

E-book Industry Revenue Models

- Primary model is pay-for-download
- Second e-book revenue model involves licensing of entire e-libraries of content
 - Similar to subscription model
 - Exemplified by NetLibrary
- Neither model is profitable at this time

Convergence in the Book Industry

- Technological convergence has been slowed by:
 - Poor resolution of computer screens
 - Lack of portable reader devices that can compete with the portability of a published book
 - Absence of digital rights management technology
 - Lack of standards to define cross-platform e-books so they can be viewed on different devices
- Potential solutions
 - Sub-pixel display technologies help enhance resolution of e-book reader display screens
 - Digital rights management software helps prevent illegal distribution of paid content over the Web

Convergence in Book Industry (cont'd)

■ Content

- Little progress toward content convergence from a design standpoint
- More progress on production and distribution dimensions
 - XML and large-scale online text/graphic storage systems has transformed book production and made it more efficient

■ Industry structure

- Still dominated by a few titans
- However, Internet has created new opportunities for authors, publishers and distributors

Insight on Society: The Evolving E-book

Class Discussion

- How has the concept of e-books changed over the last 15 years?
- Do you think Prentice-Hall's "Active Books" are an answer to the high cost of college text books?
- How might online books evolve into multimedia events? Would you be interested in books with sound and video?
- Why is it unlikely that the content of college textbooks will appear on the Web for free someday?

Magazines: Online “Zines”

- Began appearing in 1995
- Today, all of top 50 offline printed magazines have Web sites to extend brands to Web
- As with newspapers and books, few have turned a profit
- Challenge is to become profitable
- Most common form of online content, next to newspapers and books
- Primary motivation for visiting is exclusive content and convenience, not low cost
- Consumer Reports example of successful online magazine

Online Magazines: Content

- While content often repurposed from print editions, some advantages:
 - Searchable archives
 - Breaking news
 - Exclusive content
 - Chat groups and bulletin boards
- Typically articles are short and can often be printed for free

Online Magazine Revenue Models

- Original model focused on advertising revenue, but this originally failed
 - Not enough online readers; cutbacks in online advertising
 - However, is reviving as online advertising expenditures are growing at about 25% a year
- Mixed model also enjoying some success: charging for premium content and/or subscriptions

Convergence in the Magazine Publishing Industry

- Not much convergence from technology standpoint
- Some convergence in areas of creation, production, and distribution
- Industry structure has not changed significantly

E-commerce in Action: CNET Networks

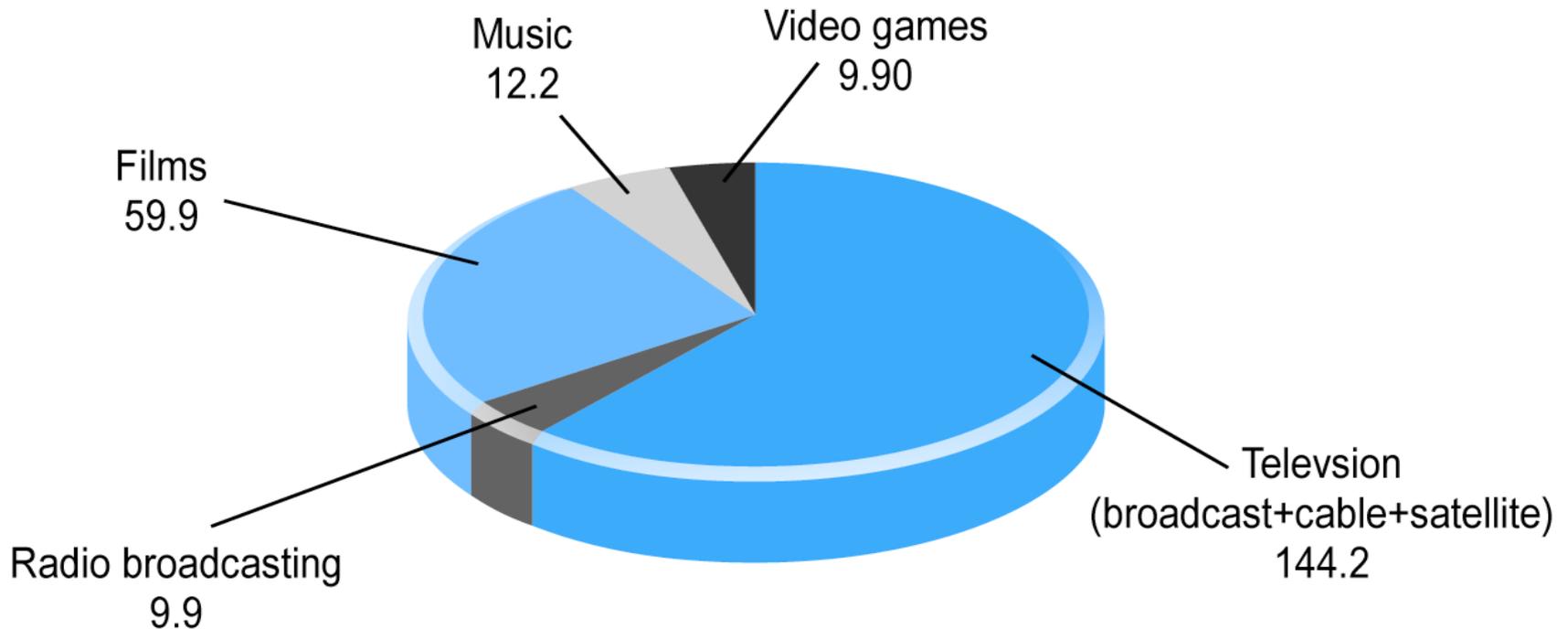
- Vision to be a global source of technology and commerce-related data, exchanges, and services
- Has been successful in attracting Web's largest information technology audience, but not in achieving profitable operations
- One of few Internet content companies that has "successfully" built business on advertising revenues
- Suffered significant early losses, but has been profitable since 2004

Online Entertainment Industry

- Defining Internet entertainment audience a complex task due to:
 - Difficulty defining entertainment
 - Different ways of measuring audience size and intensity
- Current and projected growth of “traditional” entertainment (films, music, sports, games):
 - Music downloads lead the list, followed by online games and film

The Five Major Players in the Entertainment Industry

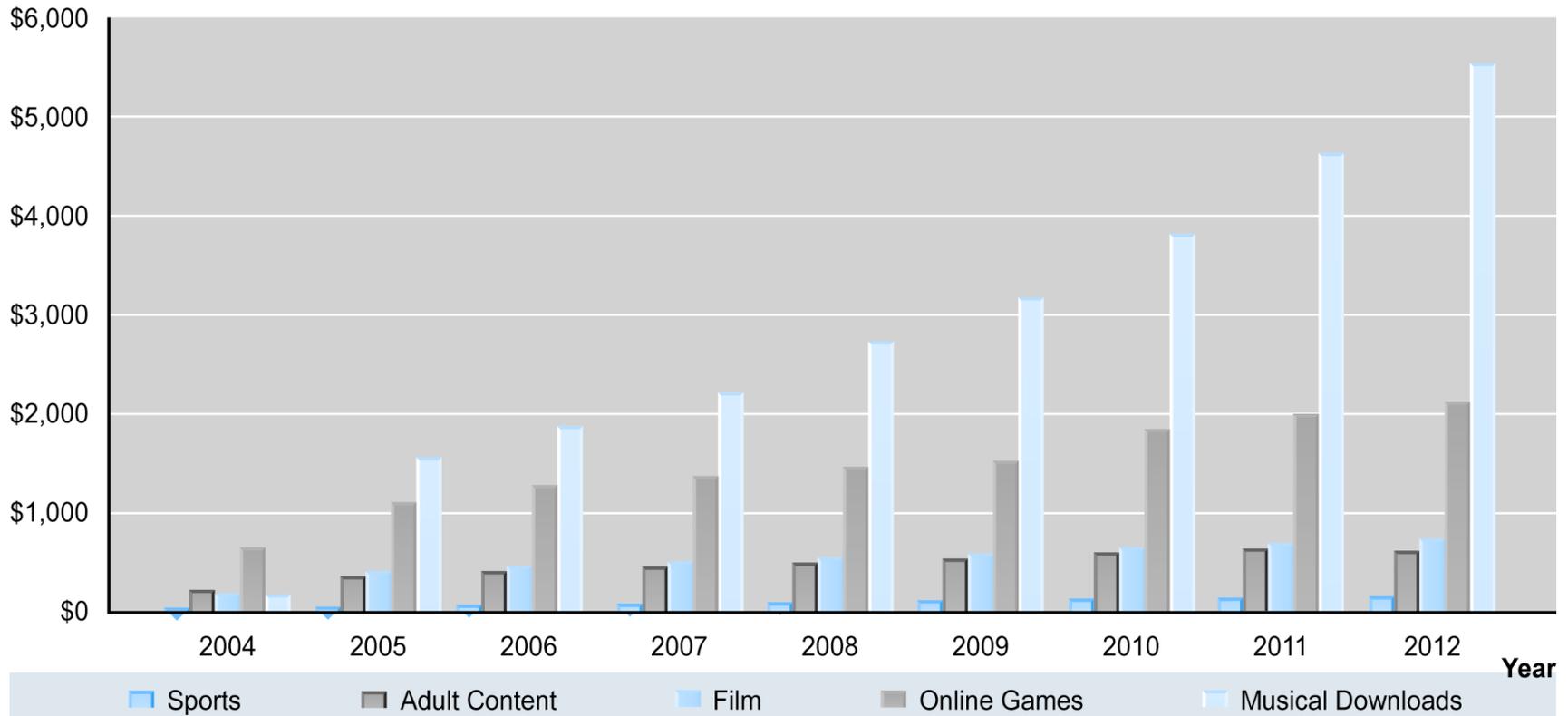
Figure 14.7, Page 857



SOURCE: U.S. Census Bureau, 2006; authors' estimates.

Projected Growth in Traditional Online Entertainment (In Millions)

Figure 14.8, Page 859



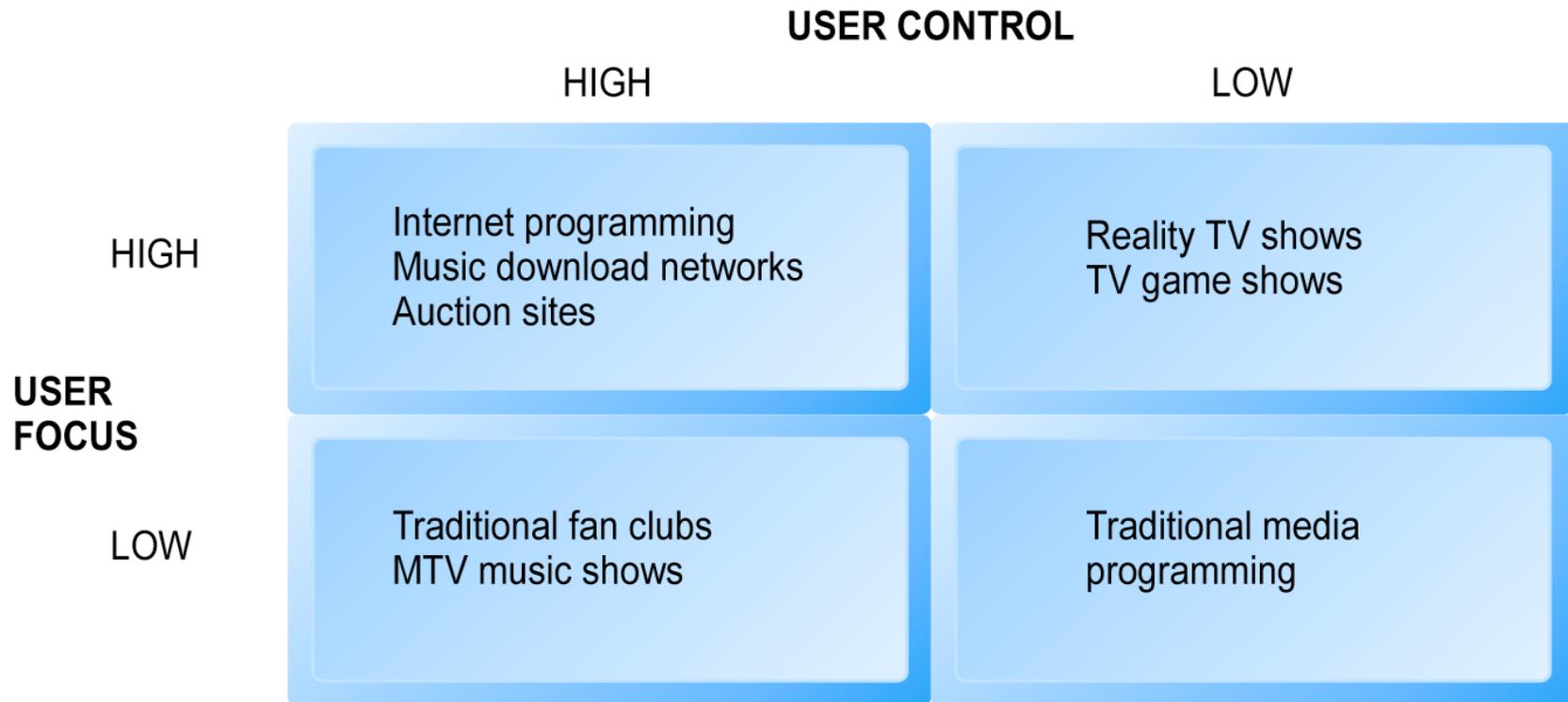
SOURCE: eMarketer, Inc., 2005a, 2005b; Apple Computer, 2005; Online Publishers Association, 2005, authors' estimates.

Nontraditional Online Entertainment

- Includes hobbies, games, surfing Web
- Web entertainment can be characterized along two different dimensions:
 - User focus
 - User control
- Popular Internet entertainment sites offer users high levels of control and user focus
- In absence of Hollywood films and TV on Web, consumers are defining new forms of online entertainment that do not involve traditional media titans

User Role in Entertainment

Figure 14.9, Page 860



Online Entertainment: Content

- Internet has greatly changed packaging, distribution, marketing and sale of traditional music tracks
- Is transforming consumer experience by providing premium archives, efficient search mechanisms, timeliness and enormous reach and depth of content
- Music sites and networks allow users to become their own music packagers and distributors, creating a new musical experience for the consumer

Online Entertainment Industry Revenue Models

- Television and movie sites typically use a marketing model, attempting to extend their brand influence and audience for their offline product
- Some entertainment sites now moving toward a subscription model

Convergence in the Entertainment Industry

- Technology convergence:
 - In music, technology platform has converged as PCs and handheld devices become music listening devices, PC has become a game station
 - For movies and television, technology convergence unwillingness of movie industry to make its products available on a wide range of Internet-enabled devices due to concerns about piracy.
 - Movielink and CinemaNow the only sites currently supporting Internet downloads of feature length films

Convergence in the Entertainment Industry (cont'd)

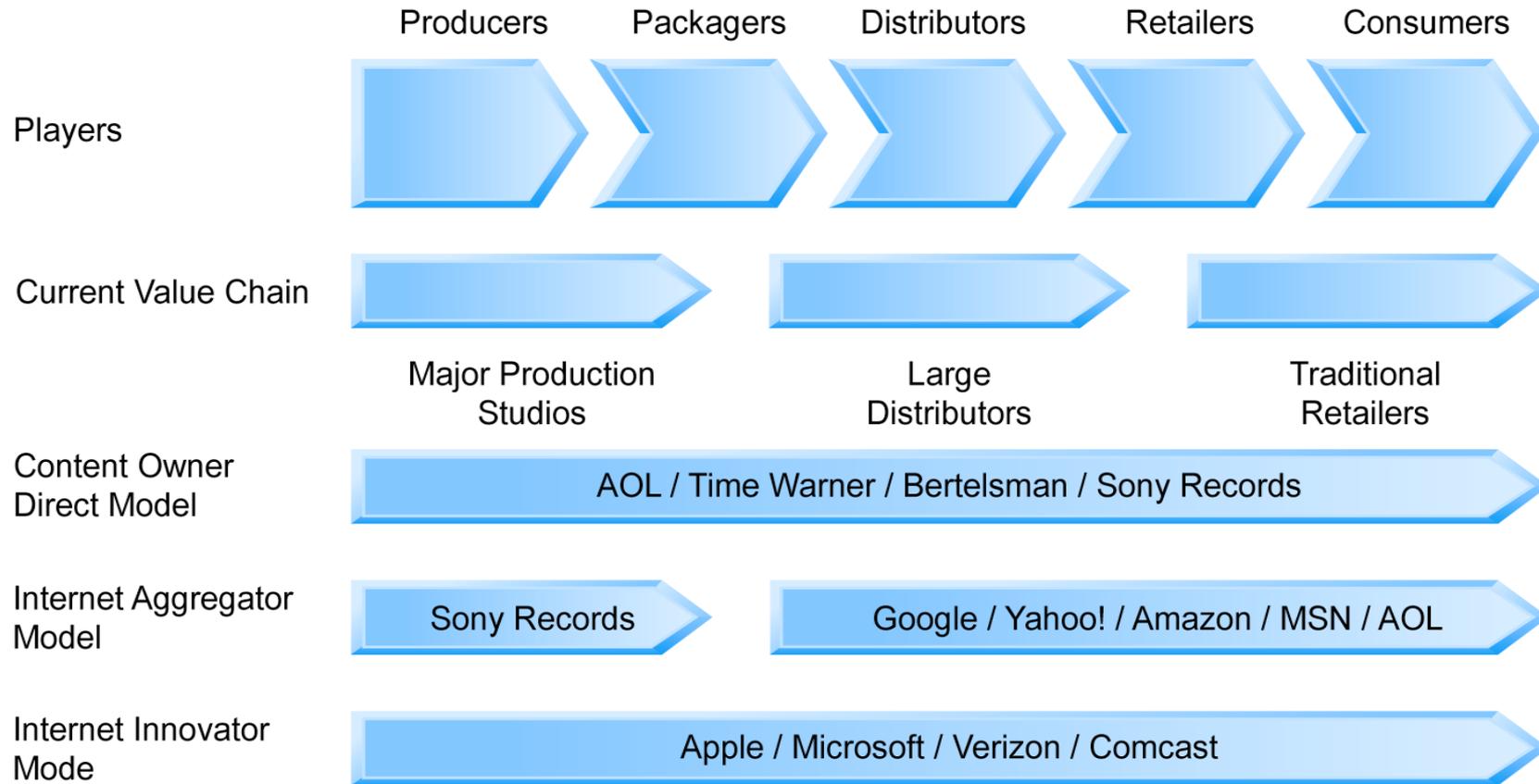
- Content convergence
 - Significant progress toward digital tools in areas of content creation and production
 - Filmmakers and television studios increasingly using digital cameras
 - Film editing done on digital computer workstations
 - Distribution channels, not as much
 - Television and feature films still primarily use analog delivery vehicles

Convergence in the Entertainment Industry (cont'd)

- Emerging corporate model appears to be merger of content and distribution
- Many players and forces (including government regulators and courts) that shape entertainment industry
- Internet offers entertainment content providers opportunity to dominate industry value chain by eliminating distributors and retailers and selling direct to consumer

Entertainment Industry Value Chains

Figure 14.10, Page 864



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Insight on Technology: Hollywood Needs a New Script

Class Discussion

- What is BitTorrent and how might it increase the illegal distribution of movies?
- How is the illegal online market in videos changing the industry system of distribution windows to stage release of new films?
- Do you think Hollywood is doing a better job of protecting its content than the music industry?
- What is the “Gotcha” strategy for dealing with illegal videos on the Web?
- Are there legitimate ways that videos can be distributed on the Web?