



E-commerce

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Fifth Edition

Kenneth C. Laudon
Carol Guercio Traver



Chapter 10

Online Content and 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?”
- What do you think about Rupert Murdoch’s plan to change to a free content model?

Trends in Online Content, 2008-2009

- Increased media consumption
- Internet media revenues fastest growing
- Growth of Internet audience outpaces other media
- User-generated content growing, inverting traditional production/business models
- Content moves to mobile devices
- Internet advertising revenues expanding rapidly, driving interest in content that attracts eyeballs

Trends in Online Content (cont'd)

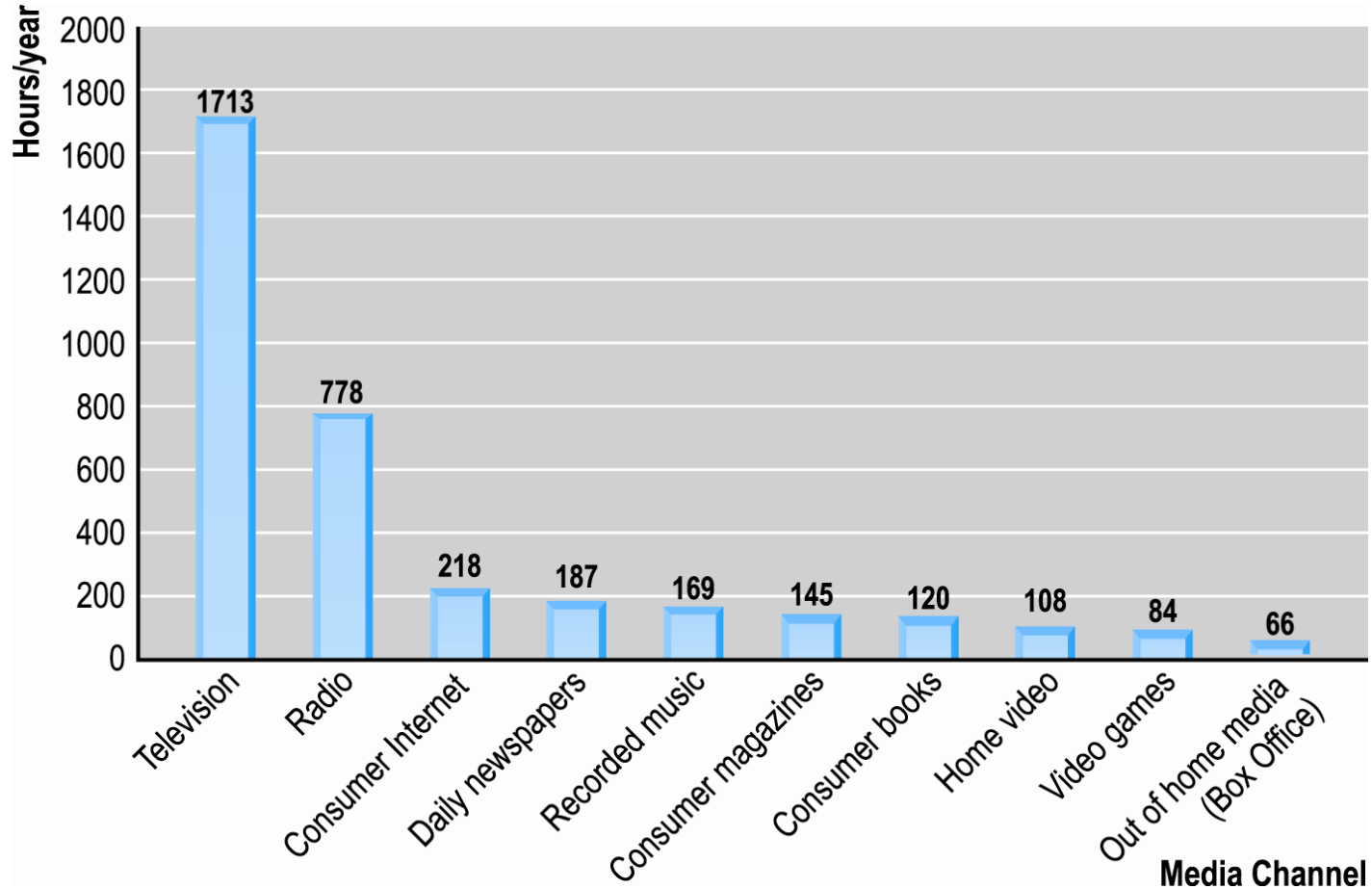
- Mixture of advertising, subscription, and ala carte payment proves to be most successful business model
- Paid content and free content coexist
- Convergence increasing with newspapers, magazines, studios
- Newspapers, magazines in painful transition to online models
- Web becomes entertainment powerhouse
- Consumers increasingly support time-shifting, space-shifting in media consumption

Content Audience and Market

- Average American adult spends over 3,800 hours each year consuming various media
- By 2010, expected to increase to 4,000 hours a year (about 11 hours a day)
- 2008 media revenues: \$654 billion
- TV, radio, Internet: Over 80% of hours spent
- Most popular: TV followed by radio
 - Internet third, but fastest growing

Media Utilization

Figure 10.1, Page 634



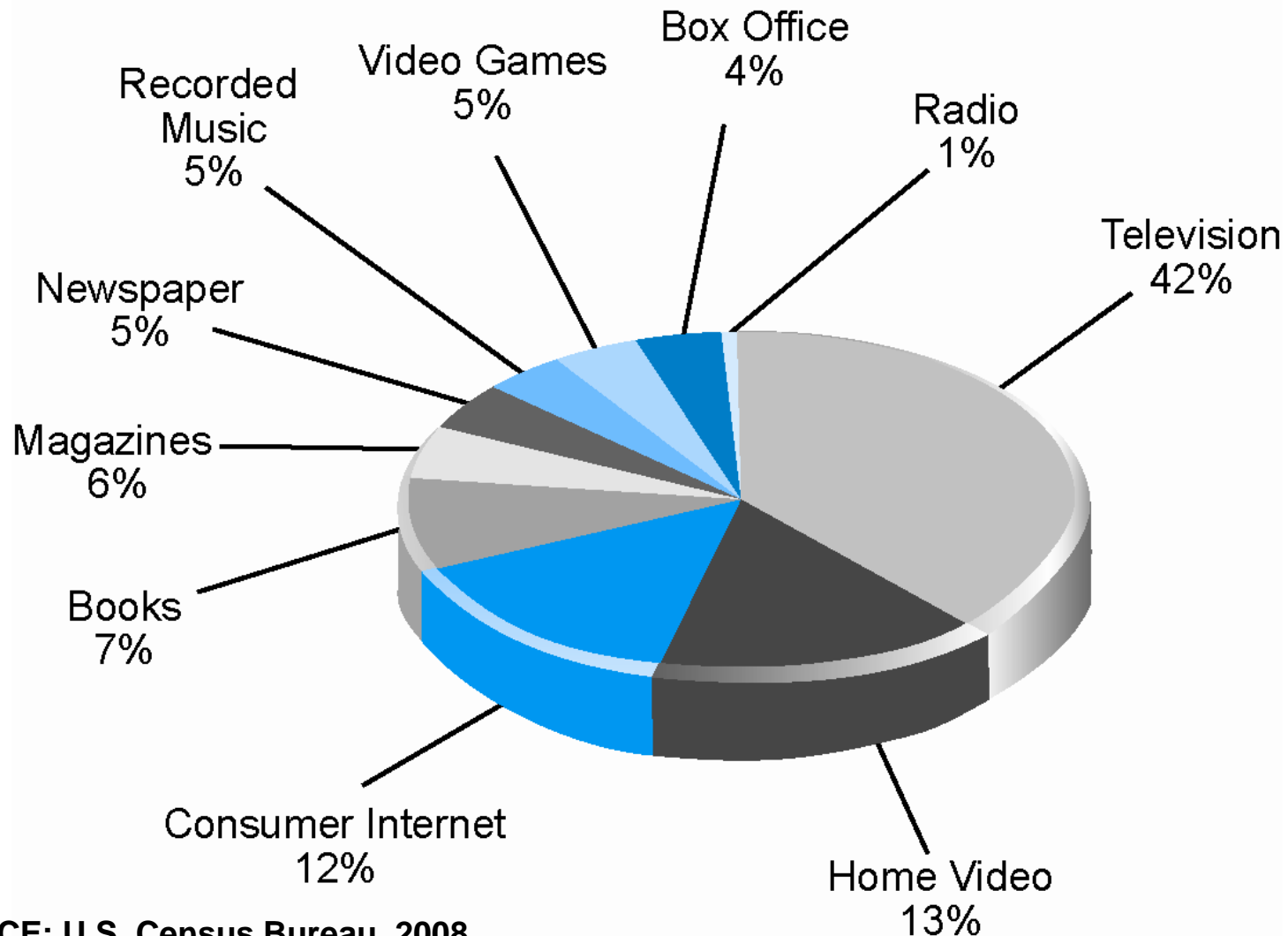
SOURCE: U.S. Census Bureau, 2008

Internet and Traditional Media

- Cannibalization vs. complementarity
- Time spend on Internet reduces consumer time available for other media
- Internet users spend less time reading books, newspapers, and magazines, 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

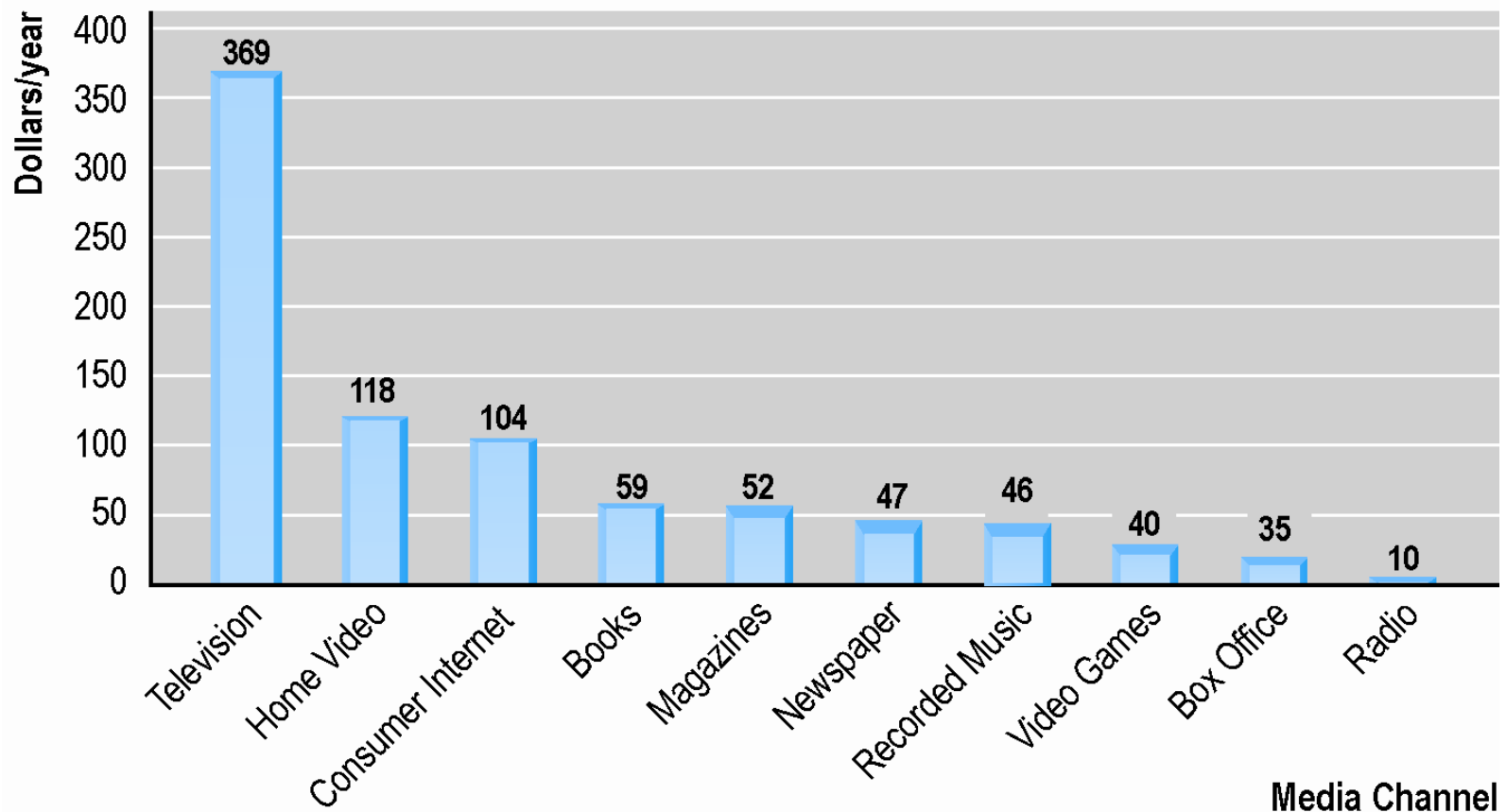
Figure 10.2, Page 647



SOURCE: U.S. Census Bureau, 2008

Relative Size of the Content Market, Based on Per-Person Spending

Figure 10.3 Page 648



SOURCE: U.S. Census Bureau, 2008

Paid and User-Generated Content

- Commercial content business models
 - Paid (mostly music)
 - Free with advertiser support
- Free content can drive users to paid content
- User-generated content
 - Over 60 million users have created, 70 million have viewed
 - Typically free, advertising supported
 - YouTube the leading video site

Fee or Free?

- Web users expect/tolerate
 - Advertising support for free video content
 - Advertising support for news
 - Fees for high-quality media (iTunes, movies)
- 63% U.S. Internet users would agree to watch advertising before and after quality video
- 6% would pay monthly fee of price of DVD

Media Industry Structure

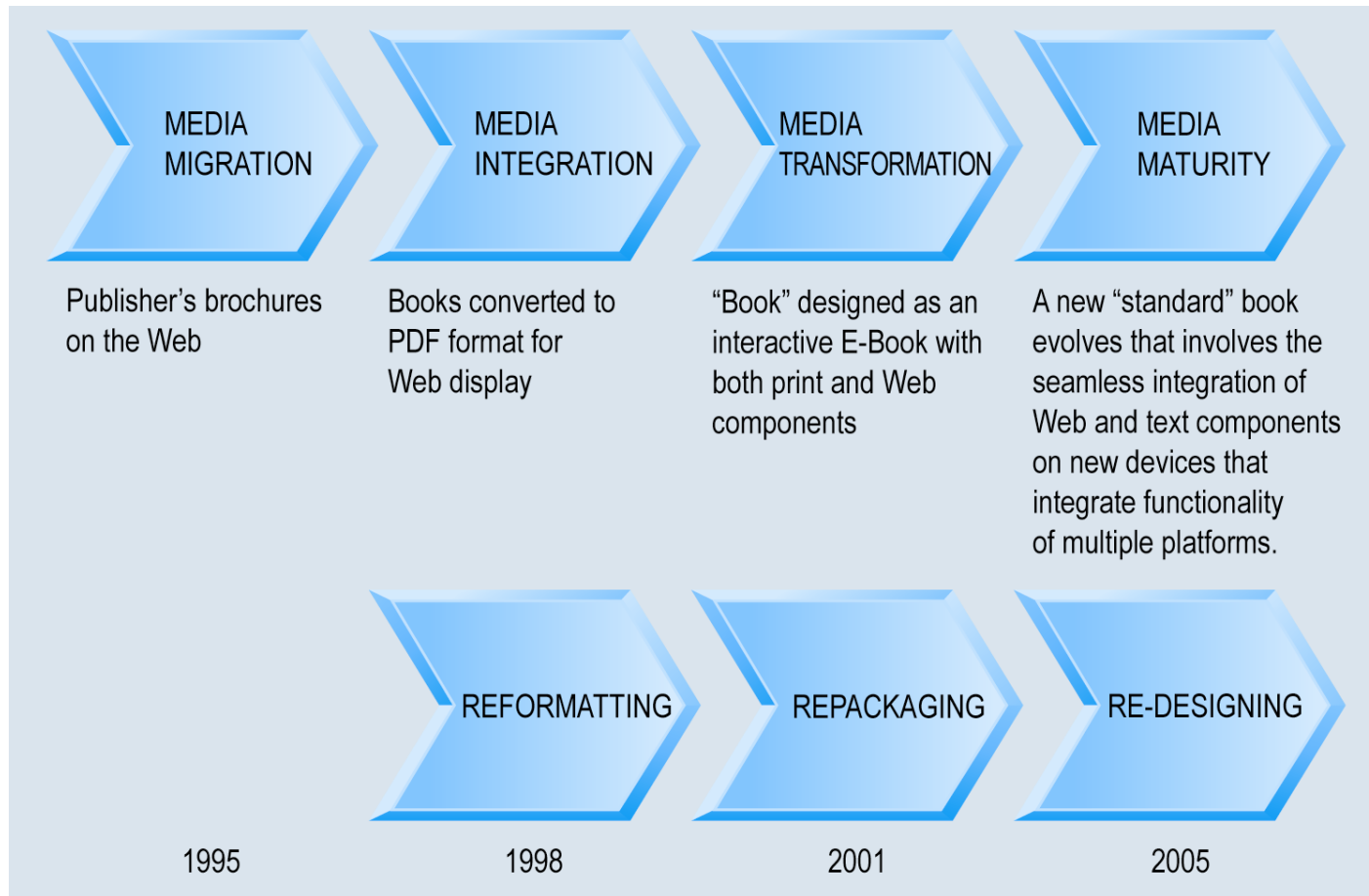
- Media content industry prior to 1990 was composed of smaller independent corporations specializing in content creation and distribution in separate industries
- Today organized largely as separate vertical stovepipes: Publishing, newspapers, entertainment, with each segment dominated by a few key players and little crossover
- Larger media ecosystem includes millions of individuals, entrepreneurs (blogs, YouTube, independent music bands)

Media Convergence: Technology, Content, and Industry Structure

- Technological convergence:
 - Development of hybrid devices that combine the functionality of existing media platforms
 - e.g. PDAs that act as cell phones and book readers
- Content convergence:
 - Three aspects: Design, production, and distribution
 - Today, new tools for digital editing and processing are driving content convergence
- Industry convergence: Merger of media enterprises into firms that create and cross-market content on different platforms
 - e.g. AOL/Time Warner, News Corp.

Convergence and the Transformation of Content: Books

Figure 10.5, Page 654



Online Content Revenue Models and Business Processes

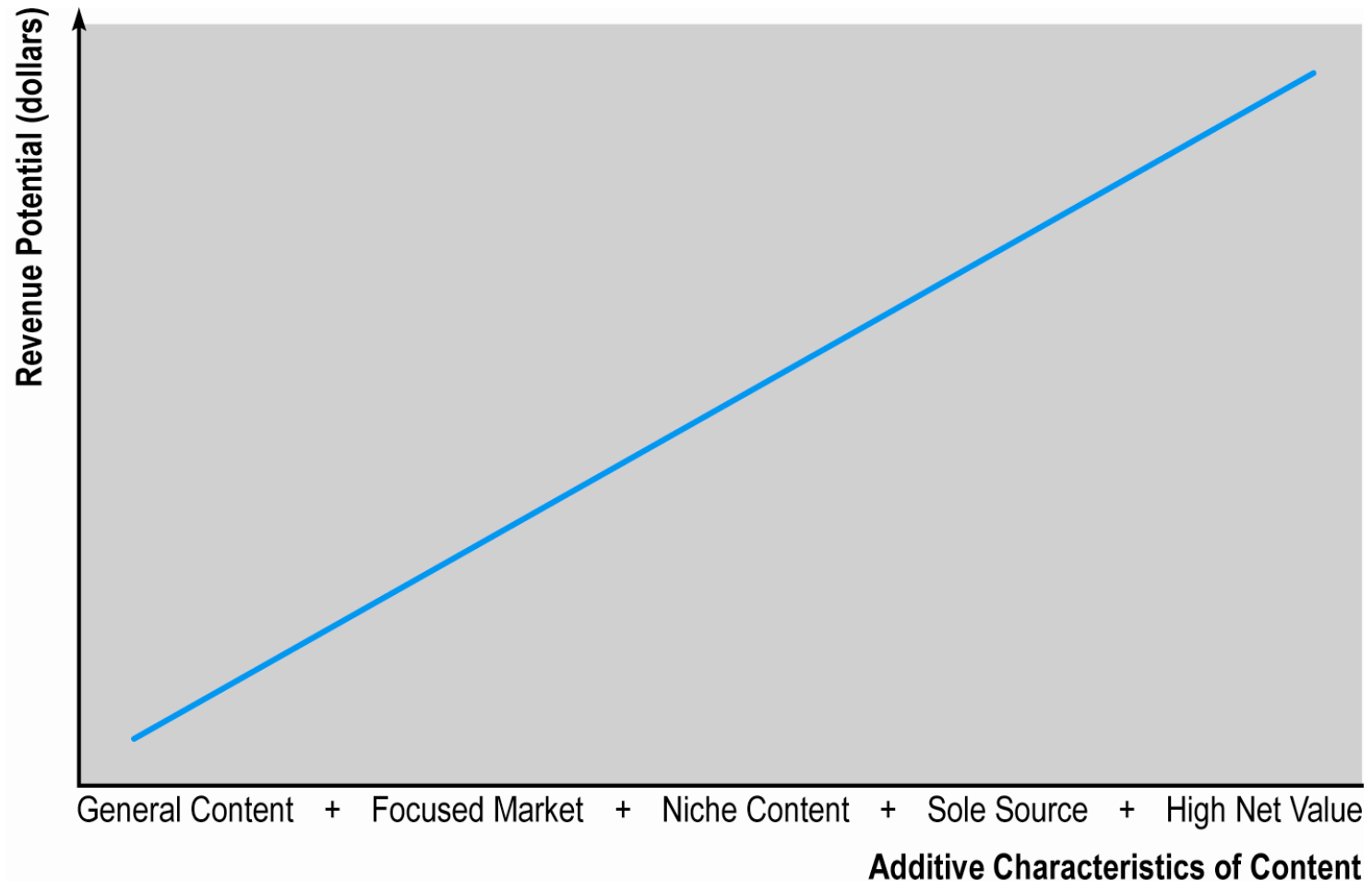
- Basic content revenue models
 - Marketing
 - Free content drives offline revenues
 - Advertising
 - Fee content paid for by advertising
 - Pay-per-view/pay-for-download
 - Charge for premium content
 - Subscription
 - Monthly charges for services
 - Mixed

Making a Profit with Online Content

- Many online users (25%) will pay for some content
- 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 10.6, Page 659



Key Challenges Facing Content Producers and Owners

- Technology challenges
 - Bandwidth issues for high definition video, CD-quality music
- Cost challenges
 - Internet distribution more costly than anticipated, for migrating, repackaging, and redesigning content
- Cannibalization of existing distribution channels
- Digital rights management (DRM) challenges
 - Use of technology to circumvent DRM
 - Interests of content creators versus technology companies that profit from illegal downloads



Insight on Business

DRM: Who Owns Your Files?

Class Discussion

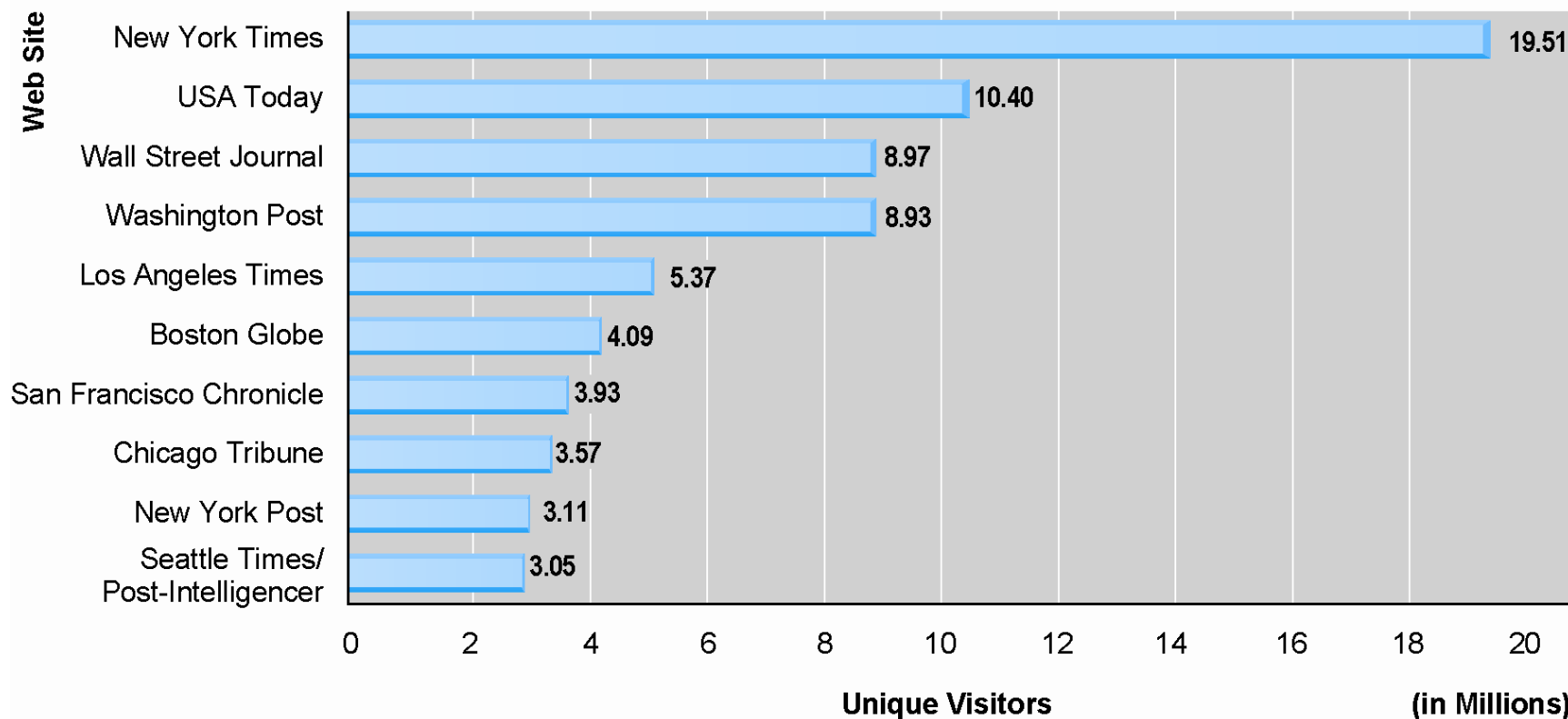
- Why does digital content need any more protection than analog content stored on records and tapes?
- What is DRM software? Have you ever encountered digital content that is protected with DRM?
- How do Apple's iPod and iTunes use DRM?
- In what way did DRM make iTunes possible?
- How does DRM potentially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

Online Newspapers

- More than 10,000 online newspapers worldwide
- Online newspapers one of most successful forms of online content to date
 - However, few have reached break-even
- Entrepreneurs have used Web to take away part of newspapers' content/business – classifieds (Craigslist), weather, news, etc.

Monthly Unique Visitors at Top 10 Online Newspapers

Figure 10.7, Page 665



SOURCES: Newspaper Association of America, 2008; authors' estimates

Online Newspaper Revenue Models and Results

- Predominantly rely on advertising model, with varying success
- Some supplement revenues by using a pay-per-view/pay-for-download model for premium or archival content and/or subscription fees
- Newspapers have sought industry-wide alliances in response to pure-play online classifieds sites
 - CareerBuilder
 - Open Network

Convergence

- Technological convergence in infancy with only published text moved to Web
- Content convergence:
 - Four content changes
 - Premium archived content
 - Fine-grained searching
 - Videos reporting
 - RSS feeds
 - Timeliness allows competition with TV/radio
- Industry structure: Has not seen much movement to cross-media convergence

Challenges: Disruptive Technologies

- Classic case of disruptive technology?
 - Online news destroying existing business model based on physical goods, distribution
- Industry still in flux
 - Newspapers have significant:
 - Content assets
 - Readership
 - Local advertising
 - Audiences
 - Wealthier, older, better educated than YouTube audience
 - Online audience will continue to grow in numbers and sophistication

E-books

■ Evolution

- Project Gutenberg (1970s)
- Voyager's books on CD (1990s)
- Adobe's PDF format

■ Types of commercial e-books

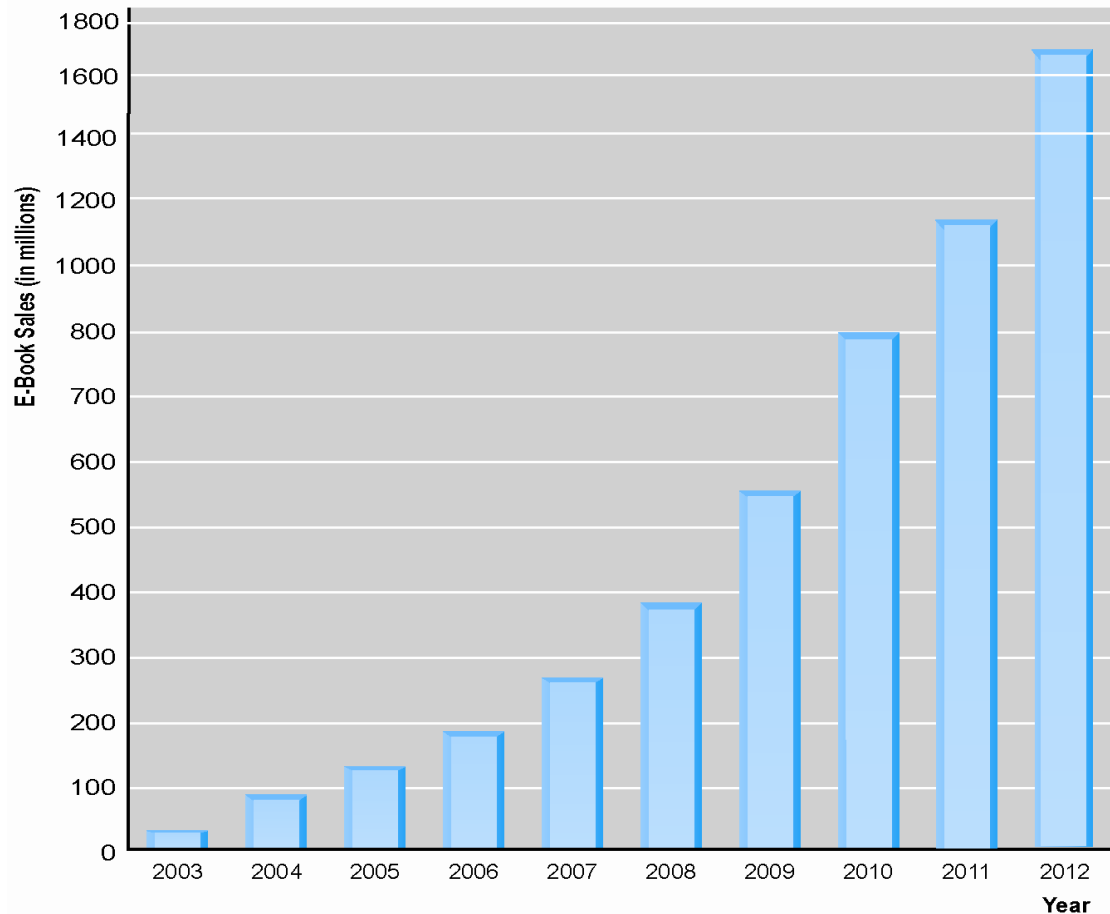
- Web-accessed e-book
- Web-downloadable e-book
- Dedicated e-book reader
 - Kindle, Sony Reader
- Print-on-demand books

E-book Audience Size and Growth

- Reading books on Internet is not a popular activity
- 3% Internet users read books online
- E-book sales: \$500 million in 2008
- Fastest growing delivery platform for text content
- Potential market depends on users willing to read electronic editions of books, how much they will pay

The Growth of E-Book Revenues 2003-20012

Figure 10.9, Page 673



SOURCE: Association of American Publishers, 2008; eMarketer, Inc., 2007f; authors' estimates.

Advantages of E-books

- Reduced transaction costs, retail costs for user (downloads)
- Increased accessibility to entire libraries
- Searchable text
- Modularization of content, to sentence and word level
- Easy to update
- Lower production and distribution costs
- Longer lasting
- Increased opportunities for writers to publish
- Increased availability of out-of-print titles
- Reduced cost of library functions
- Reduced weight for book bags

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
 - Publishers selling electronic versions of print books to online intermediaries such as Barnesandnoble.com and Amazon
- Second model involves licensing of entire e-libraries of content
 - Similar to subscription model, monthly or annual fee
 - Customers typically major institutions, libraries
 - Exemplified by NetLibrary

Convergence

- Technological convergence slowed by:
 - Poor resolution of computer screens
 - Lack of portable reader devices that can compete with portability of a published book
 - DRM concerns
 - 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
 - DRM software to help prevent illegal distribution of paid content over Web

Convergence (cont'd)

■ Content

- Little progress toward content convergence from a design standpoint
- E-books in media integration stage
 - XML and large-scale online text/graphic storage systems have transformed book production and made it more efficient

■ Industry structure

- Still dominated by a few titans
- Challenges from Google, Microsoft in indexing copyrighted books
- Barnes & Noble move into publishing



Insight on Society
The Future of Books
Class Discussion

- What technologies are changing the concept of what a book is?
- Do you consider Wikipedia a “book,” and if so, what type of book?
- What qualities makes Unigo.com a threat to traditionally published college references?
- Are some types of traditional books more threatened by Internet technologies than others?

E-commerce in Action: CNET Networks

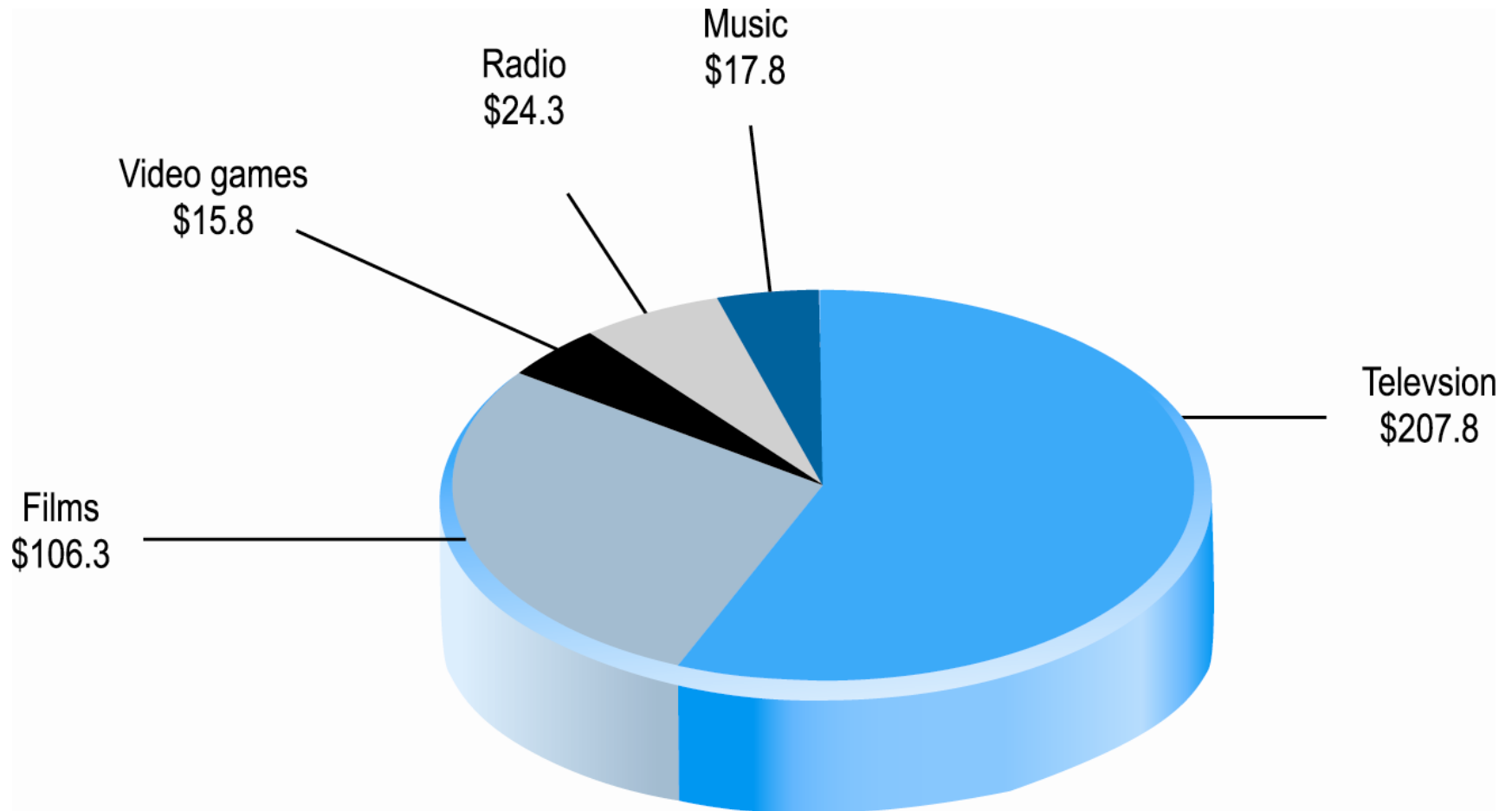
- Vision: To be interactive media company building niche brands (Gamespot.com, mp3.com, chow.com, etc.)
- Financial Analysis: Profitable since 2004; purchased by CBS in 2008.
- Strategic Analysis/Business Strategy: Build audience, diversify out of niche technology market, expand foreign markets
- Strategic Analysis/Competition: General and IT content producers, e.g. United Business Media, Internet.com
- Strategic Analysis/Technology: Developed scalable global content platform to achieve economies of scale
- Strategic Analysis/Social and Legal: No significant challenges
- Future Prospects: Potential synergies for content; CNET gives CBS opportunity to expand Internet platform

Online Entertainment Industry

- Major players:
 - Television
 - Radio
 - Hollywood films
 - Music
 - Video games
- Undergoing a transformation brought about by Internet, aided by:
 - iPod and digital cellular networks
 - Social networking platforms
 - Widespread growth of broadband
 - Development of DRM

The Five Major Players in the Entertainment Industry

Figure 10.10, Page 687



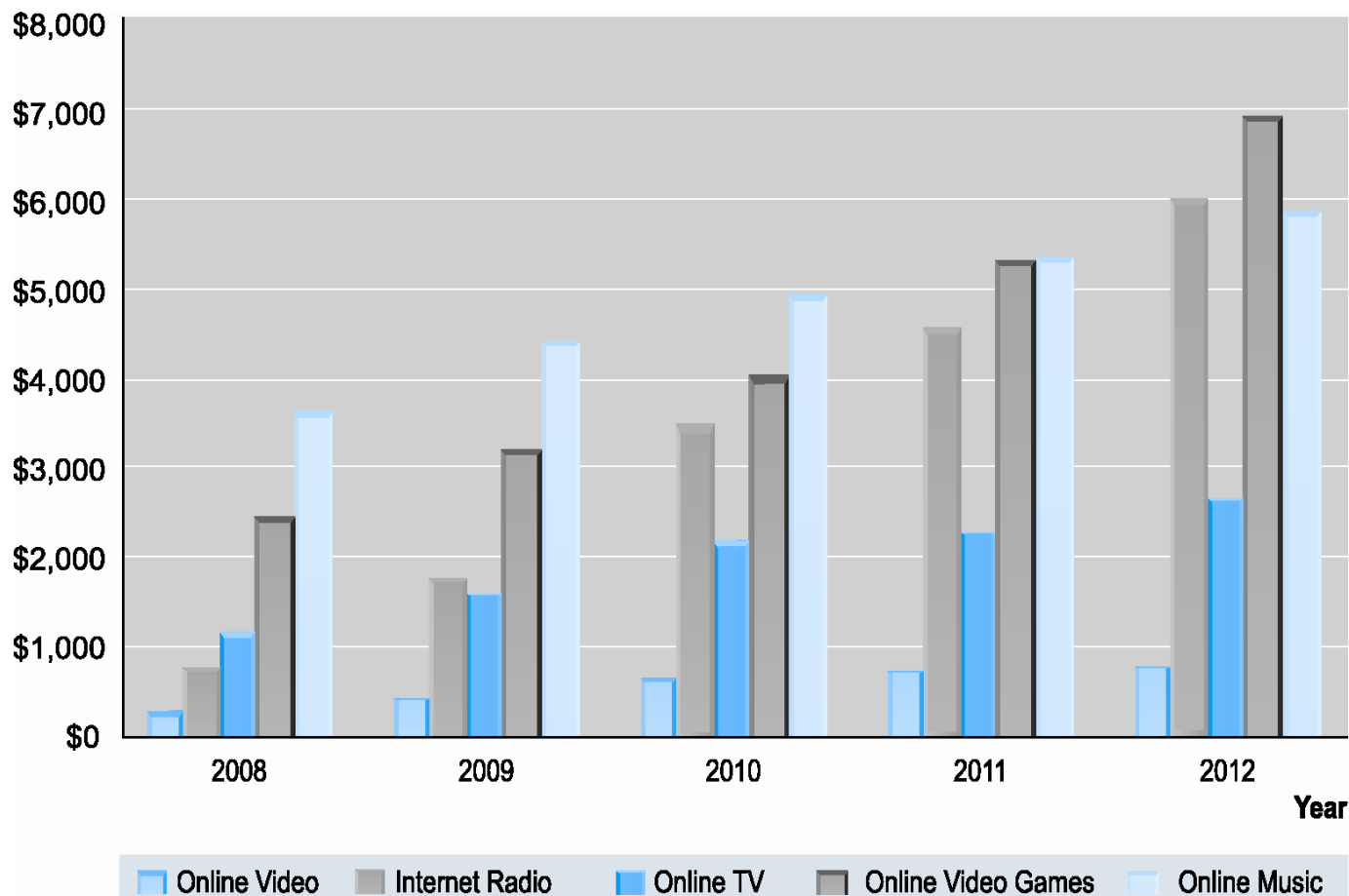
SOURCE: U.S. Census Bureau, 2008; authors' estimates.

Online Entertainment Audience Size

- Growth of “traditional” entertainment (films, music, games):
 - Music downloads lead the list, followed by online games and TV, radio
- User-generated content:
 - Both a substitute for and complement to traditional commercial entertainment
 - Two dimensions: User focus and user control
 - Popular social networking sites offer users high levels of control and user focus
 - MySpace: High user focus and high user control

Projected Growth in Traditional Online Entertainment (In Millions)

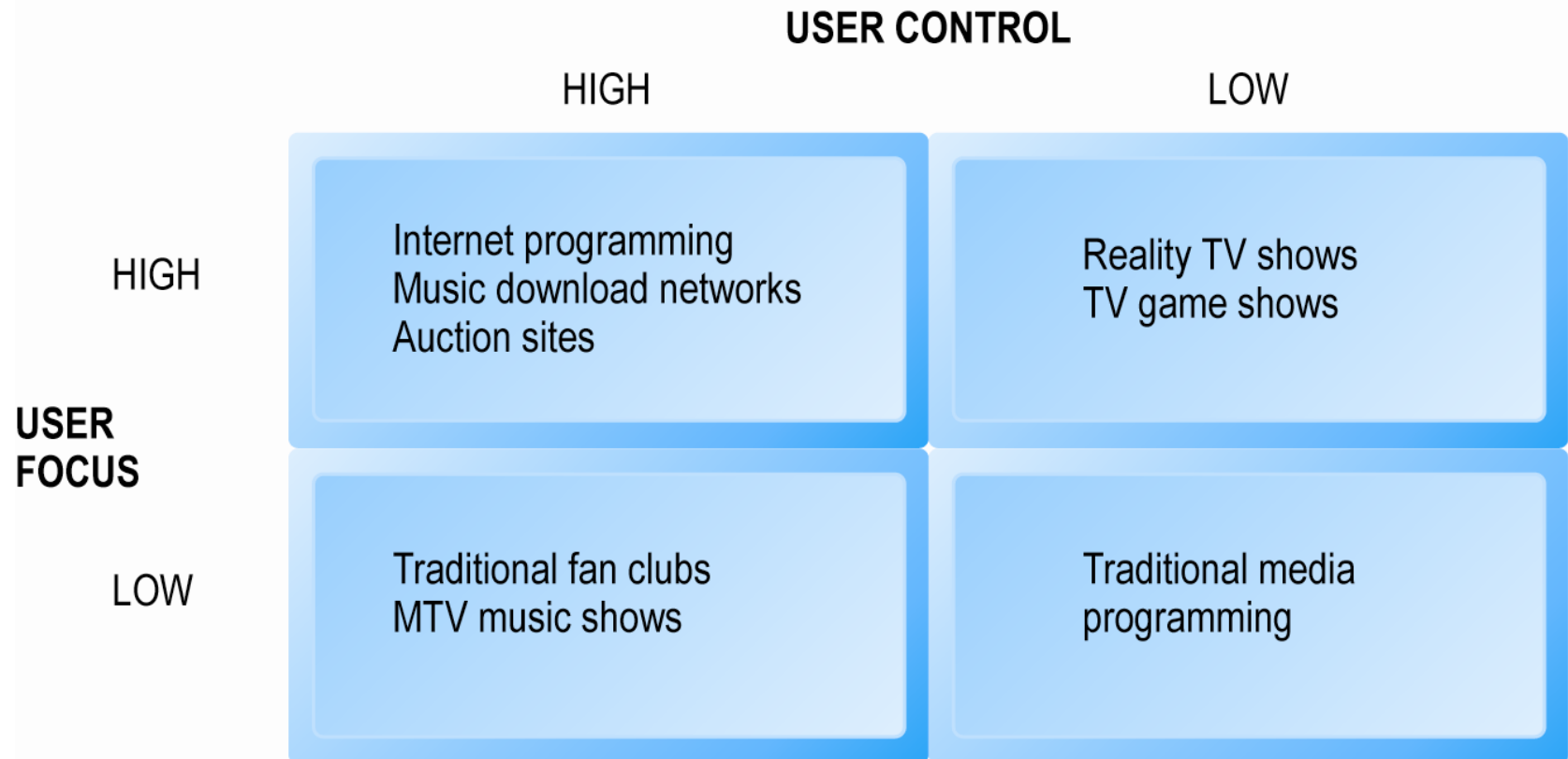
Figure 10.11, Page 688



SOURCES: eMarketer, Inc., 2007a, 2007g, 2007h; authors' estimates.

User Role in Entertainment

Figure 10.12, Page 690



Convergence

■ Technology convergence:

- In music, technology platform has converged as PCs and handheld devices (iPods) become music listening devices; PC has become game station
- For movies and television, 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 only sites currently supporting Internet downloads of feature length films

Convergence (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
 - Music recording and production highly digitized; some distribution direct to Internet, bypassing CD production stage
- Distribution channels
 - Television and feature films still primarily use analog delivery vehicles; however content moving toward Internet delivery platforms

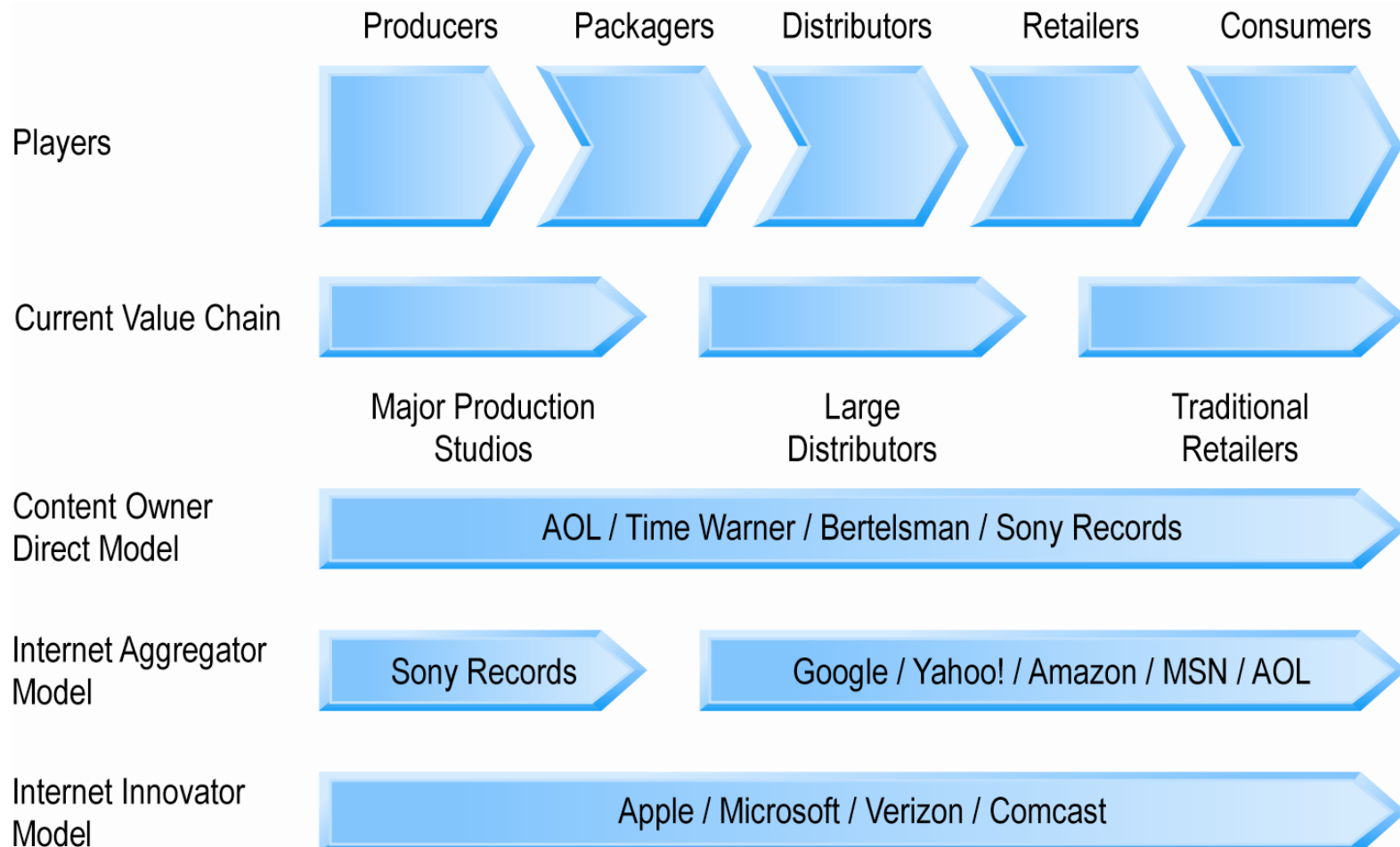
Convergence (cont'd)

■ Industry structure

- Fractionated: Many players and forces (including government regulators and courts) shape entertainment industry
- Possible alternative models:
 - Content owner direct model: Internet offers entertainment content providers opportunity to dominate industry value chain by eliminating distributors and retailers and selling direct to consumer
 - Aggregator model: Web intermediaries enter into alliances with content owners
 - Internet innovator model: Successful technology companies who develop platforms begin creating own content for proprietary platforms

Entertainment Industry Value Chains

Figure 10.13, Page 679



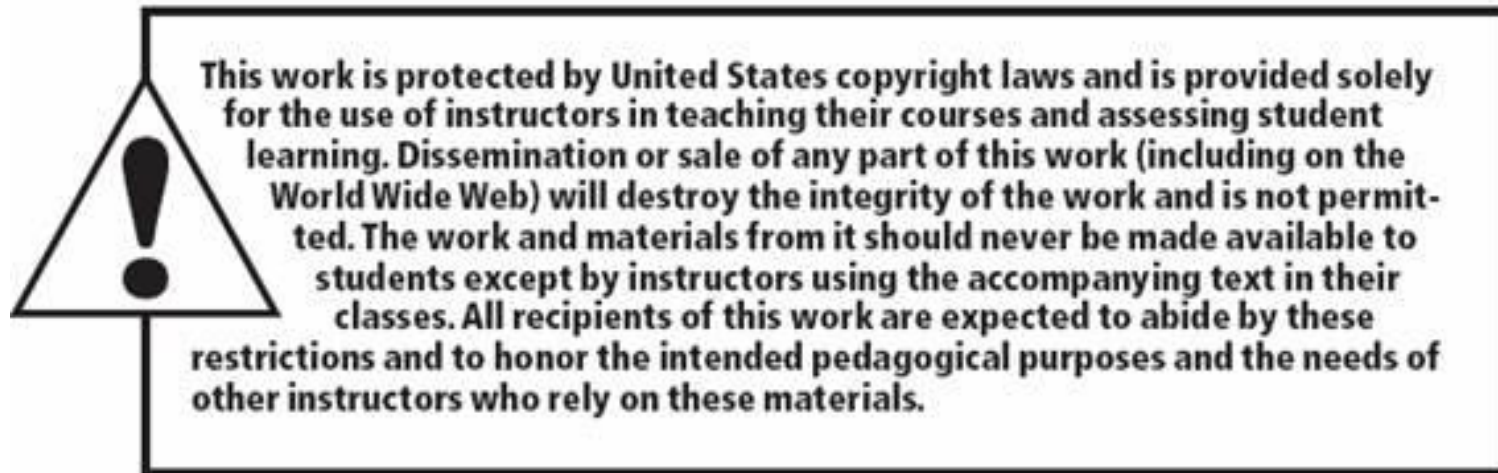


Insight on Technology

**Hollywood Needs a New Script:
Pass the Cash Cow Please**

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?



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