THE NETWORK
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CRITICALEYE

Getting Media Business Models Right

Discussion Group

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Chair

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This article is based on the proceedings of a recent meeting of members of the Criticaleye community. To encourage open debate, the meeting was held under the Chatham House Rule. This article, therefore, identifies no names or companies, but presents the distilled insights and conclusions from the session.

Introduction

Media organisations migrating their businesses to digital need to consider how to best monetise their offerings, as well as differentiate themselves from new media incumbents who have already secured leading positions.

In this Criticaleye Discussion Group, chaired by Matthew Blagg, participants examined both traditional and new media organisations, how companies operating in both have commercialised their respective businesses and what model is needed in the new media world to be successful. The discussion questioned the economics of the media world and the strategies that organisations should adopt to succeed.

Key take-aways

- Technology has to lead as it's all about the user experience
- Understand your market position, drop the grandeur and be realistic
- Be braver – big media brands don't experiment enough; they need to catch up or they will fail
- Know your audience well. Be excellent at capturing and making use of user data.
- Focus yourself and your board on the future and not on reviewing the past

- Take risks and be prepared to fail

- Get the right people on board

- Rigorously rejuvenate the culture – it's expensive but necessary.

- Don't let your staff get bored or they will leave

- Replicate the brand strength on different platforms. Create new brands that are better tailored to what you are communicating and their channels. Newspapers might want to consider satellite brands

- Think very hard about long-term business strategy and understand why there is need for sustainability

Media industry

The media industry has a conundrum. The business models of the past no longer work as new forms of media and new players have entered onto the scene. Five key dynamics, highlighted by one Member of the discussion group are affecting this:

1) The rise of the internet as a place to network (socially and professionally)

2) Increasingly new platforms that can be monetised, with Google being the most prominent example

3) The nature of the media itself transforming and becoming much more participative

4) The shift away from simple advertising to complex models, that are based on a clearer understanding of customers as individuals and niche groups

5) The democratisation of the media with free or 'good enough' content occupying viewers time and attention, eg, watch YouTube rather than television programmes

It is imperative to identify and build around these dynamics. Much of today's media leadership is too focused on the present and the past when they should be looking to the future and developing medium and long-term strategies.

Transitions

"We are at the very beginning of a major transition," said a Member. "People are very focused on the Twitters and the MySpaces, but these are the Betamax of the future. It is telling that all ten national papers combined only get 1.5 million unique hits a day. The challenges that print is facing, are not merely due to a shift to digital."

There has been a rapid shift towards algorithms and intelligent search engines which point users directly to the information they need. This provides interesting opportunities for structuring tailored advertising and recommendation models. One Member thought this meant that content will soon be free.

For many regional and local papers, the focus has been on the transition to web publishing; that is, until the recession hit. The economic climate has put pressure on the existing issues of investment, migration and an obsolete advertising revenue model.

The downturn is making the migration more of a challenge. "It's a fundamental time for UK newspapers – but no one is clear on the direction they will take," observed a delegate.

Traditional and transitional models

The traditional media are struggling culturally. For newspapers and magazines, the established audience still exists in regional localities, but this makes the transition to the web more challenging.

One delegate felt that if you want to attain effectiveness in the advertising market, 'pure play' is really the only feasible path to take. But this requires a long-term outlook and many traditional organisations are much too focused on short-term wins. What can be done to create the patience and time-scale to be able to come up with something that can deliver a transitional model? What is interesting and frustrating, thought a Member, is the inability to decide which camp to jump into – (pure play or traditional) and the fact that the underlying question is whether or not it's too late.

"User time is going up, but use of *your* site is going down," said a Member, explaining: "This is due to the sheer number of channels for people to go to. It is therefore crucial to spend time understanding how your users tick and use this to develop a model that maximises monetisation of their attention and time."

Television

The traditional television industry is dominated by Sky and the BBC, making it very difficult for smaller competitors. The BBC has become more commercial over the last decade and surpasses its state broadcaster counterparts across Europe. But, it has a £150 million online budget, which is more than everyone else (private and public) combined. It is difficult for any media business to establish a working model against that huge presence. The BBC has been able to morph itself through investment, both in human capital and technology. Sky, of course, is very commercial, but is going for the pay-tv marketplace, where it has market leadership.

People forget that it's the audience that defines the product, not the staff. For example, during the recent Olympics (Beijing 2008) American television network, NBC found that 40 per cent of television viewers were simultaneously accessing content online.

One Member worked for a television network that had lost significant investment. He felt that it should have digitised its archives sooner and quicker. There was also a cultural issue. "It's hard to integrate those from the traditional parts of the business, who pay lip service to the transition but don't really want it to succeed because it diminishes their power." In hindsight, he would have installed a younger, 'fleet of foot' management team to change the cultural set. He also stressed the importance of investing in new areas and getting shareholders to understand this.

A 'young' culture is something that many media companies seem to strive for. Ebay bought Skype because it wanted the young and aggressive culture that came with it. But, said a Member, ended up sucking it into the traditional model and it's only just getting on its footing.

Models

What is a sustainable model for media businesses of the future? How do you balance cost control, migration and delivery to shareholders? Shareholders can pose a challenge to media industry leaders looking to innovate. Their understanding of new media strategies is limited.

Investors

The downturn has revealed to investors that long-term, slow but sustainable growth and maintenance of control is preferable. Basing IRRs on five-year terms has become a 'crazy' notion. Channels like YouTube, which have great success today, might be obsolete in a few years.

If, like many are saying, this downturn is marking the death of private equity, then it could be a great opportunity for other funders like venture capitalists and 'business angels' who are greatly attuned to the new media landscape.

Although in the past investors may have looked at market expansion when placing their bets and expected sufficient growth/return in three to seven years – the IRR has now diminished. The focus must therefore be on exciting and innovative businesses that have room for long-term growth. There is growing pressure for investors to take less money over a longer period, especially if they believe in the model on an international scale.

The downturn has put many investment decisions on hold. Business models must be flexible and have the ability to survive. Concluding, a Member said: "It is about having a plan for the future and deeply considering the audiences. It is absolutely imperative to ask your users what they want, and observe their activities through statistics."

Advertising

Traditional advertisers, ie, the big brands, have found their own ways of using the internet to directly target customers, bypassing the conventional media channels. This will have another transformative effect on the industry in the next ten years in terms of ad-supported revenue. By investing in understanding their customers, many companies are way ahead of the media and ad agencies that they'd normally deal with.

Branding

Do media brands still have meaning? Are the audiences still committed to the titles they once were?

Delegates lamented the leadership in many media entities that assume traditional brands can be transferred to new media. Is it even worth attempting? Perhaps media organisations should consider creating new, online-friendly brands.

Different industries require different periods of time to develop brand loyalty. Chocolate, for example, is said to take 30 years – enough to pass from one generation to the next. Media brands will have to think this through as consumers today seem more fickle.

The brands have value, but the younger the user, the less the loyalty. The young are loyal to the experience. "I haven't used Hotmail for five years," said a Member, adding: "They had one chance to beat Gmail and they lost it."

Display advertising will continue to exist for premium brands, but it will never be enormous again. The opportunity for publications is to further adopt the early innovator, by introducing the customer to the new ecosystem.

Consumers and new media

Consumers are increasingly web-savvy, and should not be underestimated. "If my mother can clearly point out the superiority of Kayak.com to Teletext Holidays' website, then Teletext is missing something," said a Member. This clearly illustrates the consumers' web proficiency. The Yellow Pages is another example. Why are these giant yellow books pushed through people's doors when the majority of the public uses Google local and yell.com? It is, in the opinion of the group, an insult to the consumer.

"I use Twitter for information-sharing in my industry, Facebook for my personal life and LinkedIn for networking," explained a Member. These channels will play increasingly important roles. He added: "So much is about word of mouth these days that the supplier will inevitably be involved in the dialogue of recommendations, alongside user reviews and advertisers." He went on to explain how when buying a car online, he was able to vet the vendor by discovering they had mutual friends on Facebook. The models need to take into consideration that the advertisers are only going to be part of this network and that word of mouth endorsement will be very strong.

Ideas for the future

With so many print publications shutting down, and/or moving to pure web format, delegates wondered, how do you become a multi-platform publisher?

The UK, commented a delegate, has yet to experience the 'Kindle effect', ie, the hype driven from Amazon's wireless reading device, the Kindle, which allows users to download books and features a special screen that resembles ink on paper. They are great for books and magazines and the take-up in the US has been enormous. In fact, they're sold out three months in advance.

In the US, magazines are also looking at print-on-demand solutions because the distribution business has dried up. It's controlled by the mafia and hasn't changed since the 1920s.
