THE NETWORK OF LEADERS
CRITICALEYE

Media Scene Breakfast – February 2009

Discussion Group

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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 nevertheless presents the distilled insights and conclusions from the session.

To instigate or to be part of future discussions in this area, to initiate a connection with other interested members or to request research from our affiliate and academic partners, please contact your Relationship Manager.

Media service providers, publishers and investors from the Criticaleye community gathered over breakfast at the central London offices of Reed Elsevier to discuss the issues of the day. This Write-up offers the key outtakes from the discussion.

Summary Points

Traditional versus digital - The transition from traditional to digital media will slow as a result of the downturn. Any investment in next generation technology is only worth its return. Discussions with Ofcom are necessary to establish where the limitations will be.

Monetising the web will be more and more of a reality, but it needs to pay for content.

Advertising versus pay model

Unlike traditional forms of media, such as television and newspapers, the space on the web available for advertising is infinite. The model must change, bringing to fore the idea of whether a service fee or advertising will emerge as the main funder for content.

Print to video content

Newspapers and other news sources like the BBC are increasingly using video to complement their written copy online. Again, this indicates a growing need for a steadfast internet provision. This brings up the question of who is to pay for the required infrastructure.

Digitisation

Many great media innovations have come from the BBC's non-commercial standpoint. But although the BBC does an outstanding job as an icebreaker, it doesn't know when to make way for the private sector. It also distorts the market by attempting to cover too much ground.

Modelling and budgets

Where advertising and marketing budgets were once focused on search engine and CPM, they are now being driven towards sophisticated channels like tailored websites where direct consumers of certain products can be targeted. This has the capability of bringing in direct return and excluding the 'middle man'.

Audience

Individuals have much more power today and advertisers, marketers and publishers all need to realise this in order to succeed in today's market.

Traditional versus digital

Impacts

The transition from traditional to digital media will slow as a result of the downturn. Lord Stephen Carter's Digital Report (accessible here) will have a significant impact on everyone in the media, whether they are publishers, advertisers or service providers (such as those in telecommunications).

Any investment in next generation technology is only worth its return. Discussions with Ofcom are therefore necessary to establish where the limitations will be. There is no sense in having a great digital service if the content isn't there. Telecommunications is a service provider to the media industry (content) and enable the industry, but need the industry to start making decisions. How will content and services be made available?

Is there a need for government intervention to ensure that there is the requisite investment?

The BBC iPlayer or ITV Player aren't the solutions because the commercial/distribution model hasn't worked. The ISPs get overloaded with traffic and have to pay more in transit charges. The issue with this model is getting content into homes via broadband.

Why is it such a problem down the line? Monetising the web will be more and more of a reality but it needs to pay for content. With magazine and newspapers it was a very simple advertising model, but it seems that the costing of the web hasn't been done properly to this point. It's been difficult to pinpoint where the payback is from customers.

The music industry is a good example where there is no money in it for service providers. The end-user consumes content at a rate that it is not prepared to pay for, reflecting a problem in the value chain. The big question seems to be, how to fund content when nobody is willing to pay for it?

Advertising versus pay model

Unlike traditional forms of media, such as television and newspapers, the space on the web available for advertising is infinite. The limit comes in the capacity to carry traffic. The model obviously must change then, and bring to fore the idea of whether a service fee or advertising will emerge as the main funder for content. It will be interesting therefore to see if platforms like Spotify or Netflix in the US will succeed.

Any publisher must battle with the distribution pipeline, whether it's through telecommunications, retail, or postal subscription – each and every channel has a different margin structure. The problem is with monetising a full distribution channel. How long can broadband sustain the growing traffic?

Infrastructural investment is needed to sustain the growing traffic. One member thought that broadband is today what the railways were in the post-WW2 United States as President Barack Obama has made suggestions of investing in fibre optics. It is the government's responsibility to make regulation clear so that companies can be sure about their investments.

Print to video content

Newspapers and other news sources like the BBC are increasingly using video to complement their written copy online. Again, this indicates a growing need for a steadfast internet provision. This brings up the question of who is to pay for the required infrastructure.

The public's view of things being 'free' on the web has blemished the model, in this sense. Some felt that publishers tend to take the distribution channel for granted, showing more concern for losing control over the value between the creator and the end user.

One blockage to a change in models has been the orthodoxy of traditional advertising executives who have been slow to accept change. These are pivotal players in this industry who must accept the generational shift in media consumption, ie, that those under 30-years-old operate totally online. Those who subscribe to this orthodoxy will suffer if they don't get on board with the changed landscape.

One delegate felt that the shifts to different channels or methods of consumption (DVD, digital, television, online etc.) would not be relevant for his business. He felt that the real danger to return on investment for producers of content is those individuals/organisations that exist between the producer and the end user. “The money is disappearing in this part of the chain,” he said.

Data collection is another growing issue. The media consumption of 12-year-olds, for example, is now being tracked. Brussels and the US government will have to make decisions on the collection of child media consumption.

Digitisation

There was a general consensus that many great media innovations had come from the BBC’s non-commercial viewpoint. It was also generally agreed that the BBC does a great job as an icebreaker, but doesn’t know when to make way for the private sector. The BBC can also distort the market by attempting to cover too much. BBC.com, for example, is too ambitious, trying to cover education among many other things.

Last year, the BBC’s income was larger than the commercial sector and it keeps growing. Its success has been to its strong global brand with local editorial staff, which is similar to the Economist’s model – it has gone international without taking on too large a staff.

A top slicing of the BBC’s license fee will rebalance the circumstances. There has been a public shift of opinion and the next negotiation of the licensing fee will see it get cut.

Modelling and budgets

Many companies don’t have the budget this year to go for traditional advertising deals in tried and tested publications. Therefore using search engines for marketing was suggested in the downturn. Another suggested tactic was developing partnerships with media organisations that have had the foresight to develop clever packages that appeal to advertisers.

A close look at advertising budgets over the past nine years reveals that search engine marketing has incurred the most growth in terms of investment. However, this is starting to flatten out and performance based services, such as LinkedIn are now receiving investment. CPM in this period has remained flat, but looks like it’s now receding slightly with more budgets being focused on more sophisticated channels.

Micro sites

An example of one of these sophisticated channels was given. One company had developed a mirco-site that had been very successful in bringing in traffic and excluding the ‘middle man’. The risk is in the site itself, which helps to drive users researching medical conditions to advertising by pharmaceutical companies that directly provide remedy to the sought health issues. In order for a microsite like this to work, it must be very close to its market.

The new power of the audience

There are two aspects of the web that large companies are currently missing. Firstly, they fail to realise the role of people in the value chain. People are now aware of their power; it's a people-driven economy where individuals have more choice and more control. There are many tools to analyse purchases now.

In the past, the AIDA model (Attention, Interest, Desire, Action) was used for marketing and communications. A delegate however, added two stages to the framework, now AIDRAR, to include Research and Review. Information isn't scarce anymore, so it can't be monetised. Today, people's attention is the ultimate currency. The internet shows the value of this currency and this is exactly what Facebook has got right.

Secondly, people are willing to pay for service over products. With iTunes, for example, the customer isn't paying for the songs; he or she is paying for the ability to have the song in ten seconds. These concepts and products such as Spotify are changing the models with which the media and advertising industries are operating. Those who tap into this now will succeed in the future.
