The future of content in a connected economy

WHY PAY WALLS, THE IPAD, AND BRILLIANT CONTENT may not be the saving grace of the newsmedia industry. What will people pay for? Context, social connections, and access, among other seemingly non-intuitive commodities and experiences the content industry should be more focused on. **by gerd leonhard**

Some tough questions are currently plaguing the content industries worldwide.

How can you make money with content when "the copy" is free and ubiquitously available (legally or not)? How can you generate strong and recurring revenues with digital content if you can't control who gets to access, read, view, watch, or share it? And if, as many pundits are saying, access to content-in-the-cloud is indeed becoming the new mode of consumption, where exactly are those new revenue streams that will support content production, marketing, and distribution in the future — and make it a profitable business, as well?

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CONTROLLING DISTRIBUTION — A KEY ISSUE AND A RAPIDLY FAILING PARADIGM. The concept of controlling distribution seems like a key issue across the board, whether it's in the music, book, news, magazine, publishing, TV, movie, or software industries. The fear, of course, is that once a piece of digital content has been obtained by a user, it can be easily cut and pasted or forwarded to anyone else, assuming it is in an open format such as PDF, HTML, MP3, or simply delivered as a feed. This instant and unrestricted ability to share digital content seems to be totally at odds with traditional thinking, which is that someone else should actually pay cash for that same piece of content.

"How can we compete with free?" is the question that summarises this sentiment.

Even worse, the music industry's disastrous experience with DRM (Digital Rights Management software) has taught us that the same rampant sharing takes place with supposedly locked or protected digital content as well — it just takes a tiny bit longer. Technical protection measures (TPMs) for digital content have, by and large, proven to be expensive and cumbersome, hinder or actually prevent large-scale adoption, curtail or kill social sharing (which defeats user-to-user marketing and therefore increases costs), and are largely useless when trying to thwart the real pirates such as those who have malicious, criminal intentions of stealing content to sell physical copies to others for a profit.

Regardless, the prevailing assumption still is that less control over distribution equals declining revenues. Therefore, the thinking goes, controlling distribution is what it's all about. Pay walls are being touted as a solution to "get people to pony-up," and bizarrely, DRM is still a big topic for most publishers selling e-books.

And let's not forget that technical protection measures play a major role in pretty much everything that Apple — once again positioning as the much-lauded savior of the content business — does. Indeed, it is fair to say that Apple is all about control — a good fit with the publishing industry's ongoing quest for getting it back. Here comes the iPad to "appify" the content business and solve all problems with a single piece of genius hardware!

But hold on a minute.

The stark reality is that no matter how much we would like this to work and how much money we spend on snake-oil technologies or savvy lawyers, we have to concede that controlling distribution of digital copies simply is not working — and will not work. Look at the music industry where free streaming is becoming the new freeloading. Look at what is happening with online video, with links, RSS feeds and APIs, and with those very cool content-scraping tools such as Flipboard and Pulse. Copies of content are ubiquitous, and the internet is a giant copy machine. So unless we shut it down or resort to Chinese means of control, that's all there is to it. And it's going to get a lot worse with the other three billion users in the developing countries quickly coming online as well.

Control — and the tired over-emphasis of copyright as the sole driver of value — as a central pillar of monetising content is a fundamentally flawed concept. In an open, digitally networked economy, content publishers can, and indeed must, offer their goods and services in a way that no longer centers on distribution being the key factor.

INTERACTION FIRST, TRANSACTION SECOND: THE NEW CONTROL IS TRUST.

Therefore, I propose that our thinking — and then, our actions — must urgently head in a different direction. Here is why: transactions are *always* a consequence of attention and attraction, interaction, communication, engagement, and trust. It is never the other way round.

First a fan, then a consumer; connect with the fan, and give a reason to buy, as Techdirt's Mike Masnick likes to summarise. The other way around (buy first, then become a true fan) was really only feasible in the unconnected content ecology of the past, back in the days when big conglomerates had total control of *all* pieces of the ecosystem such as production, marketing, distribution, and pricing. This is the past, and we must let it go if we are to invent a new logic.

Think about it. Spending money on something you really like, something you value, something to which you have become accustomed — or better yet, addicted — to is never a problem. Being asked to pay before you have become a loyal and engaged user, a true fan, a friend, or a follower (or whatever social media phrase you want to use) is not what any of us will really appreciate or respond favourably to. In today's mobile and always-on world, consumers are being exponentially empowered at every turn. And, like it or not, the game has changed. Control over who defines the perceived value that will drive a purchase has shifted. Now publishers must, at all times, engage not enrage to monetise their audience. There is no other choice.

PAY WALLS ARE ATTENTION WALLS: 4 WAYS TO GET TO THE MONEY. Any plan to monetise content must start with *first* attracting faithful users and enamored followers (to use the Twitter moniker) by constantly providing a stream of

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A crucial shift in the content industries:

Content 'Pre-Web'
Presenting – and selling – professionally produced content.

Content 'Web-Native'
Presenting – and selling – context, people, relevance, packaging, timeliness ... and many different kinds of content.

attractive, relevant and timely, targeted values, and to *then* convert this attention into money. Looking at it this way, pay walls are essentially attention walls — and therefore deadly in most cases.

The time-honoured approach — "if you want this content you'll have to pay, first" — is collapsing and won't come back no matter how much we liked it. The new paradigm is: "It seems like you like my content. Here are a few options to have an even better experience."

I see four ways to make this all-important conversion from attention and audience to generating real money:

1. Subscriptions (mostly bundles and flat rates, micro-payment options, virtual currencies), many of which will start with a free level and then move into multiple levels of up-selling.

2. Advertising (not CPMs or anything like that, but next-generation, web/mobile/social reselling of attention).

3. Taxes and other, compulsory or public payments (such as blank-tape and CD-R levies, the TV/radio license fees such as they have in Europe, news media funds as proposed in France); hopefully less so over time.

4. Voluntary payment scenarios such as donations, patronage, crowd-funding, and web sites like Flattr.com and Kachingle.com, which allow a reader or content user to contribute payments to the content producers he or she likes.

Think of yourself as operating a blender that will create your revenue mix based on the ingredients you have available, and you'll get the picture.

NO RECIPES AND WELCOME TO PERMANENT BETAS. Depending on the particular socio-cultural context of one's business or publication, the local windows of opportunity, and the speed and price of internet connectivity within a given target group, every individual revenue model is likely to be unique — and a constantly changing as well.

Most publishers and media companies will likely need to proceed in some sort of "permanent beta" approach. This will be a fact of life for the next five to 10 years. This is something many incumbents may want to learn from the likes of Twitter, Google, Amazon, and Facebook: it's more important to try new concepts than to plan to perfection and never launch anything.

FEELS-LIKE-FREE PLUS UP-SELLING.
My hunch is that we will see a lot of models that are based on what I like to call a "feels-like-free" approach. This means providing a vast stream of value — but at a very low cost — to a quickly growing number of users that become loyal followers, principally supported by next-generation advertising (i.e., mobile, social, interactive, location-aware, brand-sponsored), and then up-selling them to as many other levels of service and options as one can plausibly present.

This is a similar model to cable TV, albeit with starting at a '"feels-like-free" or fully subsidised level. I think it will first become the new standard in the music industry, which will, kicking and screaming as usual, morph into ad-supported "free streaming" as the new standard — and then sell many premium options on top.

While some publishers may initially not like having to bend to what two billion-plus connected users really want, the "feels like free + up-selling" trend is not reversible. And in my view, it will provide for some juicy revenue opportunities at much lower costs going forward. The challenge may be not so much a financial one as primarily one of clearing out those old assumptions, conquering the deep-seated fears of losing control, dealing with the internet speed of innovation, and accepting the lack of solid plan-ability.

IPAD ILLUSIONS. This is also why I think the current hopes for the iPad are largely illusions, albeit inspiring ones. Yes, some people will buy a few US$5 apps with the latest edition of a magazine they love, such as Wired or Popular Mechanic. Yes, they may try some paid subscriptions and dabble with the cool sweep and read interfaces. But just like iTunes, not every consumer will spend the money on the expensive hardware — and on always-on wireless data connectivity — nor will they keep on spending money per unit, such as copies of digital content. Let's remember that almost 95% of the content on people's

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changes in the content industries

Content 1.0		Content 2.0
Distribution	→	Attention
Shelf Space	→	Mind-share
Mass Marketing Monolog	→	Niche Marketing Dialog
Control	→	Influence & Reputation
Control	→	Attention & Trust

iPods is not purchased on iTunes but has been obtained elsewhere, and that iTunes's growth rate in digital music is stalling.

The idea of simply transferring the offline pricing logic (US$1 per song, US$5 per magazine) to a mobile device application — and then charging the same just because I can use my fingers to navigate around a glossy screen — is fundamentally short-lived and even more short-sighted. It only works during its short honeymoon of novelty.

Despite the global success of iPods and iPhones, look at what has happened to the music industry. It has shrunk 65% in the past decade by hanging on, come heaven or hell, to the model of selling copies and buying into Apple's tantalising promise of being able to retain total control and make money at the same time. I admit it: I love Apple's devices, but their pitch to the content industries is barking up the wrong tree.

THE MISSION: SELL MORE THAN CONTENT. The bottom line is that in a connected world, you can't just sell copies of files. You also have to sell context, community, convenience, and connectivity. And this where the iPad will either sink or swim. Kevin Kelly, the co-founder of Wired magazine, summarised this years ago: when copies become free, you have to sell things that can't be copied. The future is in selling things around the content, not just the content itself. This, to me, is the true magic formula. And if the iPad and other tablet device can do that, even better. But to do this, the ecosystem must be opened up — not remain tightly closed.

Clearly, the next big opportunity is in selling bundling and packaging access and in providing an attractive menu of added-value services and timely, content-related experiences. Cross-media storytelling will become a standard since many users who used to be mere readers will now expect to be able to listen, watch, play, and interact. Convergence is finally here, and it's forcing us to take new roles or become irrelevant.

The news and publishing industries need to embrace the fact that the users — the people formerly known as "consumers" — can no longer be reduced to being mere buyers of copies and recipients of irrelevant marketing messages. Instead, imagine a digital newspaper that provides me with great insights penned by their expert writers and editors but that also curates hundreds of other great sources that provide additional — and highly filtered — opinions and insights. One that quickly references what people in my social "tribe" (Buzz, Twitter, Facebook, Orkut, Mixi, QQ, LinkedIn, Xing) are saying on this topic. One that provides a powerful interface that allows me to quickly browse and scan the latest updates on any screen available (think Google Fastflip, Flipboard, Pulse Reader, Twittertimes). This kind of news organisation — or what we used to call "magazine" — can become a unique platform for experiences, a digital home, a valued guide. And a service I will pay for. Remember, we have always paid for packaging, for interfaces, for embodiments — not really for the words. And what's more, advertising is likely to become content, too, because it must be meaningful, relevant, and targeted.

THE CROWD AND THE CLOUD: NEW MONETISATION OPTIONS ARE IMMINENT. Increasingly, content hosting is moving from my own computer, my hard drives, or my mobile device, to the cloud. Many kids and the so-called digital natives (news, music, films, books, or magazines) are now clicks, not downloads. Pretty soon, if your content can't be clicked-on and viewed instantly, it basically won't exist. Just go to a party of 17 year olds. The music won't come from the hard drive. It streams from countless sources on the web led by YouTube, DailyMotion, or Metacafe.

I think this increasing disembodiment of content is good news for everyone, be they authors and content creators, publishers, rights holders, or media companies. Once most content resides "in the cloud" and once the crowd can always connect to it, it will be much easier to engage with the individual user, to find out who they are, to — with explicit permission — measure their usage and to up-sell them, individually and with their full cooperation.

I am confident that selling access will be much more profitable than selling copies. Don't worry about competing with free. Compete with value, meaning, relevance, trust, and packaging. ✦