Instructor’s Manual: Chapter 10

Online Content and Media

**Learning Objectives**

After reading this chapter, your students should be able to:

* Understand the major trends in the consumption of media and online content, the major revenue models for digital content delivery, digital rights management, and the concept of media convergence.
* Understand the key factors affecting the online publishing industry.
* Understand the key factors affecting the online entertainment industry.

# Key Terms

agency model, 689

binge watching, p. 694

content convergence, p. 669

digital rights management (DRM), p. 668

Electronic Sell-Through, p. 698

industry convergence, p. 670

Instant Articles, p. 673

Internet Video on Demand (iVOD), p 698

linear TV, p. 694

magazine aggregator, p. 686

metered subscription, p. 679

over-the-top (OTT), p. 695

paywall, p. 680

release window, p. 699

social TV, p. 694

technological convergence, p. 669

walled garden, p. 668

wholesale model, 689

# Brief Chapter Outline

*Cord Cutters and Cord Shavers: The Emerging Internet Broadcasting System (IBS)*

10.1 Online Content

Content Audience and Market: Where Are the Eyeballs and the Money?

*Insight on Society: Are Millennials Really All That Different?*

Digital Rights Management (DRM) and Walled Gardens

Media Industry Structure

Media Convergence: Technology, Content, and Industry Structure

10.2 The Online Publishing Industry

Online Newspapers

*Insight on Business: Vox: Native Digital News*

Magazines Rebound on the Tablet Platform

E-books and Online Book Publishing

10.3 The Online Entertainment Industry

Online Entertainment Audience Size and Growth

Television

Feature-Length Movies

*Insight on Technology: Hollywood and the Internet: Let’s Cut a Deal*

Music

Games

10.4 Careers in E-commerce

10.5 Case Study: *Netflix: How Does This Movie End?*

10.6 Review

Key Concepts

Questions

Projects

References

# Figures

Figure 10.1 Annual Media Consumption in the United States, p. 661

Figure 10.2 U.S. Media Revenues by Channel, p. 665

Figure 10.3 Online Content Consumption in the United States, p. 666

Figure 10.4 U.S. Online Entertainment Content Revenues, p. 667

Figure 10.5 Convergence and the Transformation of Content: Books, p. 671

Figure 10.6 U.S. Newspaper Revenues 1981–2016, p. 673

Figure 10.7 Online Newspaper Models 1995–2017, p. 675

Figure 10.8 Unique Monthly Visitors at U.S. Online Newspapers, p. 677

Figure 10.9 Where People Get News Online, p. 678

Figure 10.10 Unique Monthly Visitors at Native Digital News Sites, p. 682

Figure 10.11 E-book Sales in the United States, p. 687

Figure 10.12 The Five Major Players in the U.S. Entertainment Industry, p. 691

Figure 10.13 Projected Growth in U.S. Online Entertainment Revenue, p. 693

Figure 10.14 U.S. Online Movie Viewers, p. 697

Figure 10.15 U.S. Home Movie Entertainment Revenue by Format, p. 698

Figure 10.16 Major U.S. Online Movie Distributors, p. 699

Figure 10.17 U.S. Music Revenues: Digital vs. Physical, p. 704

Figure 10.18 U.S. Digital Music Revenues by Format, p. 705

Figure 10.19 Pokemon Go, p. 708

Figure 10.20 U.S. Online Gaming Audience, p. 709

# Tables

Table 10.1 What’s New in Online Content and Media 2017–2018, p. 660

Table 10.2 Native Digital News Sites, p. 681

Table 10.3 Streaming TV Devices, p. 695

Table 10.4 New Digital TV Subscription Services, p. 696

# Teaching Suggestions

This chapter summarizes the various businesses that are based on the delivery of online content. Table 10.1 provides an overview of the major trends for 2017–2018. The chapter then begins with a review of the overall size, growth, and structure of the media industries in the United States, and then focuses on publishing (newspapers, magazines, and e-books) and entertainment (movies, television, music, and games).

The content industries have been challenged by the Internet simply because the Internet is, at its heart, a media network distribution platform of extraordinary power that has the capability to disrupt traditional media distribution and business models. The Internet has disrupted media industries like music and newspapers, cutting revenues and employment in half over the course of a decade. For other media industries, such as book publishing and entertainment (movies, television, and games), thus far, the Internet has proved challenging but not devastating to revenues, and in some cases, has added to revenues by making it more convenient for consumers to consume more content. Even for these content industries, however, the Internet has had a significant impact and has created entire new business models. The overall pattern is that physical products are being replaced by digital versions delivered on computers, tablets, and smartphones. Even as consumers reduce consumption of traditional physical content products, they maintain and often increase their exposure to content on digital platforms. What’s changing is how people consume media.

The key point students should take away from this chapter is that one of the primary challenges facing online content companies is how to achieve profitability when so much content on the Web is free, especially when many consumers still have an expectation that content should be free. To achieve profitability, content providers need to create high-perceived value products that can be uniquely delivered over the Web. Content companies need to develop new types of content products, encourage new delivery technologies, and agree on industry platform standards. This process of change is well underway, but will still take many years. Fortunately for the media industry, Apple’s iTunes store platform succeeded while charging for music, videos, and books. Other platform owners such as Google and Amazon followed suit. Firms like Netflix, Hulu, and YouTube generate significant new revenues for television and movie producers. The concept of paying for online content has become acceptable, even cool. This has become especially critical as the advertising business model, supporting online content like music or news through advertising, has become less successful, and media companies need to rely on paid subscriptions to survive and profit.

*Cord Cutters and Cord Shavers: The Emerging Internet Broadcast System (IBS)* case is a good way to begin the discussion about the issues raised in this chapter. The case illustrates the blurring of lines between traditional television and movie distribution and online content distribution, and the impact of changing viewership habits on traditional business models. Some questions you might pose include:

* Do you subscribe to any online video streaming services? If so, which ones?
* What sites have given you the best overall viewing or entertainment experience, and why?
* What advantages does watching traditional television have over watching online TV and films?

**Key Points**

Section 10.1 provides an overview of the audience for online content and the online content industries in the United States. The average American consumes various media for about 4,400 hours each year. The focus of many advertisers today is the demographic known as “Millennials,” or the generation of people born between 1980 and 2000. The *Insight on Society* case, *Are Millennials Really All That Different?*, takes a closer look at Millennials and their importance to the online media landscape. Questions for discussion might include the following:

* What are some of the defining socioeconomic and behavioral patterns of Millennials?
* In what ways does the hard evidence about Millennials not fit stereotypes about them?
* Why are Millennials so sought after by advertisers?
* Do students self-identify as Millennials? Why or why not?

Today, there are three primary revenue models for delivering content: subscription, a la carte, and advertising-supported (both free and freemium). Media convergence, covered on pages 669 to 672, is a key factor in achieving profitable online content businesses.

*Online Publishing****.*** Section 10.2 covers the online publishing industries.The publishing industry is an $80 billion industry that has an opportunity to move toward a new generation of online newspapers, books, and magazines. However, achieving profitability has proved difficult.

The newspaper industry faces four challenges. Increasingly, consumers use mobile devices to view news and ads, which detracts from newspaper print ad and subscription revenues. Alternative online sources and portals of news that challenge the exclusive content of newspapers have emerged. Newspaper management has failed to adjust to these changes in a timely manner. The growth of social media has meant that consumers discover news on social media sites, not by browsing newspapers. Newspapers have become increasingly dependent on social media platforms to direct consumers to news articles, bypassing the front pages of newspapers, and reducing advertising revenue for newspapers. Newspapers are struggling to develop a digital centric model of the newspaper.

The *Insight on Business* case, *Vox: Native Digital News,* provides a closer look at these efforts. Questions for class discussion on this case might include the following:

* How do you read the news online? Which sites do you prefer, and why? Have you visited any Vox sites?
* How are all-digital news sites changing journalism?
* What unique qualities have made Vox Media being regarded as the future of digital news publishing?

Magazines, which had been written off as basically dead, have received new life with the advent of the tablet computer and magazine aggregator apps.

E-books continued to be a hot topic in 2017. E-books have finally arrived and are a major profit center for the large players. The iPhone and iPad, Kindle, Nook, and other e-reader devices and software have received much media attention and may heighten student interest in this topic. Book publishers and Amazon are increasingly at odds over the pricing of e-books, and this conflict is likely to remain for many years. Amazon and Apple dominate the e-book market, together accounting for a 92% share, while the top five book publishers produce over 80% of new book titles in a year.

*Online Entertainment.*Section 10.3 takes an in-depth look at the major entertainment industry groups: television, movies, music, and games. Students should have little trouble relating to these topics, given how much time they typically spend consuming online entertainment! The section begins with an overview of these entertainment industries and then looks at audience size and growth. Then it drills down into each of the industry groups, starting with television. You can ask students about their own television and video viewing habits, and how they have changed over their lifetime. Are they cord-cutters or cord-shavers? How many tweet or engage in other social media experiences while viewing television? How many watch TV shows on mobile devices? Which online distributors have they had experience with, besides YouTube? The following subsection looks at the movie industry, which has many parallels with the television industry. The *Insight on Technology* case, *Hollywood and the Internet: Let’s Cut a Deal* examines Hollywood’s continuing efforts to deal with the issues posed to its business by the Internet. Class discussion questions for this case might include the following:

* What challenges has the Internet posed to traditional Hollywood movie distribution? What is the biggest challenge?
* Can Internet distribution work with the “release window” strategy?
* Do you think Hollywood is doing a better job of protecting its content than the music industry?
* What is the most realistic and profitable path forward for the Hollywood film industry?

The chapter concludes with reviews of the music industry, where streaming services such as Pandora and Spotify have gained a foothold, and the gaming industry, which is also experiencing explosive growth.

In Section 10.4,we offer students information and tips about how the concepts they’ve learned in this chapter can help them prepare for an interview for an entry-level position as a digital audience development specialist.

The chapter-ending case study on Netflix in Section 10.5 provides further information about the online video industry.

# Case Study Questions

*1. What are three challenges that Netflix faces?*

The cost of content is very high and growing faster than revenues. The risk of creating new popular content is high. Netflix has limited experience creating content. Netflix has very powerful competitors in technology (Google and Apple), content creation (HBO), and content distribution (Amazon).

*2. What are the key elements of Netflix’s strategy today?*

The elements of Netflix strategy are (1) strike deals with Comcast and other ISPs to deliver high-speed Internet service to its customers, (2) reduce content costs by producing their own content, (3) expand offshore where opportunities for growth are higher than in the United States, and (4) expand its offerings of high-quality television series.

*3. What are the implications of Netflix’s new strategy for the cable television systems like Comcast?*

The success of Netflix in developing original content, and having access to a different distribution medium (the Internet) is a direct threat to cable television providers because Netflix will not require customers to buy a bundle of TV shows, but instead will stream individual shows on a demand basis, with payment in the form of a modest monthly fee.

*4. Why is Netflix in competition with Apple, Amazon, and Google, and what strengths does Netflix bring to the market?*

Apple, Amazon, and Google all provide substitute products and services by providing Internet consumers access to movies. The strengths of Netflix are its differentiating factors like brand recognition, algorithms to help consumers find movies and TV shows, and a growing list of production studios supplying it with original content. Competitors could develop these attributes as well, but only with considerable effort, expense, and time.

# End-of-Chapter Questions

*1. What are the three dimensions in which the term “convergence” has been applied? What does each of these areas of convergence entail?*

The three dimensions where the term *convergence* has been applied are technology platform, content design, and industry structure. Technology platform convergence refers to the integration of previously separate platform functionalities into a singular digital device. It refers to the development of hybrid devices that can combine the functionality of many different existing media. Content convergence includes three dimensions: design, production, and distribution. Content design convergence has occurred when the design becomes measurably different due to the new skills that have been learned from fully exploiting the new technological capabilities. Content production convergence drives content design convergence as new tools are developed for economically producing content for delivery to multiple platforms. Content distribution convergence occurs when the distributors and consumers have the new devices needed to receive, store, and experience the product. Industry structure convergence is the merger of various enterprises into powerful synergistic combinations that can cross-market content on many different platforms and create works that use multiple platforms.

*2. What are the basic revenue models for online content and what is their major challenge?*

There are three revenue models for delivering content on the Internet. The two “pay” models are subscriptions (usually all you can eat) and a la carte (pay for what you use). The third model uses advertising revenue to provide content for free, usually with a “freemium” (higher price) option. The major challenge is that consumers still expect much content to be available for free and are not necessarily willing to pay for online content.

*3. What are the two primary e-book business models?*

The two primary e-book business models are the wholesale model, in which prices are determined by the retailer, and the agency model, in which the retailer is an agent and prices are set by the manufacturer.

*4. What effect is the growth of tablet computing having on online entertainment and content?*

The growth of tablet computing has led to an explosion in reading of newspapers, magazines, and books, but digital versions, not the printed versions. The television and movie industry are also in the midst of a transition to a new delivery platform, which includes tablet computers. The number of gamers who play mobile games on their tablet computer is also rapidly increasing.

*5. What techniques do music subscription services use to enforce DRM?*

Most music firms with subscription services use technologies that limit the time that a song can be played without re-subscribing. For instance, songs downloaded from Rhapsody, the largest music subscription service, will not play after 30 days unless the user pays the monthly subscription fee. And if you don’t pay, you will lose access to all your songs.

*6. What type of convergence does the Apple iPad represent?*

The Apple iPad represents technological convergence.

*7. What are the three different business models that newspapers have used to try to adapt to the Internet?*

The three business models are: Print-centric (1995–2000), Integrated Print/Web (2000–2007), and the most current model, Digital First (2007–present).

*8. What are the different revenue models that newspapers have used?*

Newspapers have used a number of different revenue models. In 1995, when the first newspaper websites appeared, newspapers offered their content for free, with registration. The hope was that advertising would support the website’s operation and provide a new revenue stream for the print edition content. But new ad revenue from digital publication did not cover the cost of digital production, and was completely unable to replace the drastic fall in print ad revenues that occurred beginning in 2000. Charging for general newspaper content was an obvious answer, but publications that tried this during the 1995–2005 period were punished by an Internet culture that expected online content such as music and news to be free. However, the introduction of the iTunes store in 2003 and the iPhone in 2007 changed the public perception of paid content. Newspapers and online magazines have benefited from this change in popular culture. An estimated 78% of newspapers with circulations of over 50,000 now charge for online access. These plans have three key elements: a paywall for heavy users; considerable free content for casual or link traffic (visitors from social media sites, for instance, who stay for a few moments and then move on); and a bundled price for both print and digital subscriptions, in some cases offering the digital version free with a print subscription, allowing users to read the paper on any digital device.

*9. What advantages do pure digital news sites have over print newspapers? What advantages do traditional newspapers have over pure digital sites?*

Pure digital news sites have many advantages over print newspapers. They don’t have the cost of printing papers; they can create new work flows and business processes that are more efficient and timely; they have a lower cost structure, often relying on user-generated content and minimal payments to reporters and bloggers, with lower pension costs; and they can take advantage of newer technologies for producing the news. Although the quality of journalism on these pure digital sites is not as good as traditional print newspapers, this situation is changing rapidly as the pure digital sites hire talented journalists and editors from print newspapers that are experiencing financial difficulties. However, traditional newspapers have an advantage over pure digital sites when it comes to credibility and trust. Without trust and quality, online news sites are simply distractions filled with celebrity photos, and there is significant competition for this kind of content.

*10. How has the book publishing industry’s experience with the Internet differed from the newspaper and magazine industries’ experience?*

The book publishing industry’s experience with the Internet is very different from the newspaper and magazine industries. E-book editions of fiction and non-fiction books (so-called trade books) have been very successful, yet printed book sales have not collapsed and have remained about the same over time. Professional books, which include college textbooks, remain almost entirely printed for a variety of reasons. Book publishing revenues have been stable over the last five years.

*11. How has the Internet changed the packaging, distribution, marketing, and sale of traditional music tracks?*

The recorded music industry has suffered more than any other content industry from the onslaught of digital devices and Internet distribution. Since the 1950s, the physical music product was an album—a collection of bundled songs that sold for a much higher price than singles. The Internet changed all that when, in 2000, a music service called Napster began distributing pirated music tracks over the Internet to consumers using their PCs as record players. Despite the collapse of Napster due to legal challenges, hundreds of other illegal sites showed up, resulting in U.S. music industry revenues falling from $14 billion in 1999 to an estimated $7 billion in 2015, though they have risen slightly from that point in 2017. Beginning in 2011, the appearance of powerful mobile media players that could be connected to the Internet, like Apple’s iPod, and later the iPhone and iPad, further eroded sales of CD albums. With the growth of cloud computing and cloud-based music services, the very concept of “owning” music has begun to shift instead to “access” to music from any device, anywhere. Today, it’s a different industry from what it was, no longer totally dependent on highly profitable physical products, less able to sell bundled music as albums, but with a rapidly growing demand for its high-quality, popular products from a variety of Internet distributors who are competing with one another to buy musical content. The explosive growth in smartphones and tablets has further driven demand for cloud-based streaming music access.

*12. How has streaming technology impacted the television industry?*

Streaming television shows over the Internet poses a direct threat to the cable TV industry, which wants to be the sole source of television shows and sports events. Cable channels like HBO create their own content and are loath to share with their Internet competitors like Netflix, Apple, Google, or Amazon. The streaming companies are, therefore, making costly deals with the television producers to get access to popular TV series. They are also seriously considering creating their own TV shows.

*13. Why is the growth of cloud storage services important to the growth of mobile content delivery?*

Mobile content delivery is only possible if the content is stored on cloud servers simply because smartphones do not have the storage capacity for movies and TV shows. The only exception to this is e-books. Smartphones can store thousands of e-books. But even here cloud storage is important because users may switch among their various devices, and have a need for a copy stored on a cloud server that they can access from anywhere on any device.

*14. Has the average consumer become more receptive to advertising-supported Internet content? What developments support this?*

In general, yes. Consumers are used to television advertising, and Internet advertising is often seen as no worse, or not as annoying, as television ads, which are often raised several decibels from the background television shows. Yet Internet advertising is a source of annoyance insofar as users perceive it as something they cannot control—for instance, video ads that cannot be skipped or animated graphics that cannot be turned off. Internet advertising also generates popular resentment when users believe the ads being shown to them are targeted, and in some sense, a violation of their privacy.

*15. What factors are needed to support successfully charging the consumer for online content?*

Content needs to be focused, exclusive, high value, and unique before users are willing to pay for it. Content that is focused attracts a highly intense consumer who is deeply interested in the topic and willing to pay. High-value content generally refers to content that has some financial value but a limited period of utility (old news is no news). High-value content more generally might be thought of as content that can be used to help make a decision in the near term. Unique (exclusive) means the content can only be found at one website, and is not generally or freely available elsewhere.

*16. Why are apps helping the newspaper and magazine industries where websites failed?*

News and magazine apps provide users much faster access to content, and a wider variety of effects that improve the user experience such as smartphone features of zooming, list scrolling, and sliding screens. Content publishers like apps because users cannot be distracted by ads or other websites when using an app.

# *17. What alternatives do magazine publishers have for online distribution channels?*

They can create their own newsstands. The magazine industry is highly concentrated, and the publishers have sufficient brand power to open online newsstands that can display all their branded magazines on a single site or single app. On the other hand, the publishers do use third-party newsstands when the economic terms are satisfactory. Third-party newsstands offer additional audiences to the publishers.

*18. Why did the Justice Department sue major publishing firms and Apple?*

In the e-book marketplace, the large publishers started out using a wholesale modelof distribution and pricing, in which the retail store pays a wholesale price for the book and then decides at what price to sell it to the consumer. In the past, the wholesale price was 50% of the retail price. With e-books, publishers discovered that some online retailers like Amazon and Apple began to sell books below their cost in order to encourage customers to purchase their e-book reader devices or to sell them other goods. The real value in e-books for Amazon and Apple is selling digital devices. While the publishers were expecting e-books to sell for $14, Amazon began selling them for $5, reducing the publishers’ revenue by at least half. Amazon not only sold millions of Kindles but also sold 90% of all e-book titles on the Web in 2011. Amazon had a de facto monopoly on e-books. In response, the top five publishers, along with Apple, introduced an agency modelof distribution in which the distributor is an agent of the publisher and can be directed to sell e-books at a price determined by the publisher, around $14.99 and higher for certain titles. In return for a 30% commission, Apple agreed to support this model, as did Google, neither of whom were comfortable watching as Amazon dominated one of the hottest areas of web content sales. Amazon’s prices rose to this level, and its market share fell to 60%. As a result, however, the Justice Department sued the five publishers and Apple for price fixing in violation of antitrust laws. The case was settled and Apple paid a fine of $450 million. The settlement created a public relations storm for Amazon as writers, journalists, politicians, and publishers decried Amazon’s use of its market power to sell books that would bankrupt the established publishing industry. Today, each publisher (and not an industry consortium) makes an agreement with Amazon about the price of their books (agency model), but the book publishers pay a “listing fee” to Amazon. Today, e-book prices from major publishers are variable, but generally sell for around $15.

*19. What are some of the challenges currently facing the book publishing industry?*

The biggest challenge facing the book publishing industry is control over pricing on the digital e-book platforms of Amazon, Apple, and others. Currently, Amazon controls the largest market share, about 70%, which, while not a total monopoly, nevertheless gives Amazon extraordinary market power. For critics, Amazon threatens to decimate the traditional book publishing industry, replacing the old print world of a small number of publishers, limited numbers of titles, independent bookstores, elitist editors in New York, and newspaper book critics, with a new digital world of publishing where content is shaped by algorithms identifying what the consumer wants to read about, writers are their own editors, critics are replaced by reader comments, and distribution is controlled by one or a few online stores..

*20. How are mobile devices transforming the gaming industry?*

The rapid growth in the number of people playing mobile games is a sea change for the gaming industry that was previously dominated by closed-platform console games and hardware firms like Microsoft, Nintendo, and Sony, and software firms like Activision and Electronic Arts. The growth of smartphones, tablets, and mobile games has catapulted Apple’s App Store and the Google Play store into the leading merchants of digital games, which, of course, use Apple and Google Android hardware and software. Apple and Google take 30% of game sales and also benefit from the sales of the hardware and software needed to play the games. Mobile games appeal to a younger demographic, offer lower prices, and initially are often free. You can play mobile games anywhere you can use a phone, which is nearly everywhere. Console games take much longer to develop, have very large budgets, and are expensive to purchase. The mobile platform is a more open platform that allows thousands of developers to create entertaining games on much smaller budgets, as well as new and innovative games on a faster schedule. Although console, PC, and online social games will continue to grow their audience size slowly, the fastest audience growth in the future will be in mobile games that can be played anywhere and anytime, such as Pokemon Go, which has tens of millions of players and has generated hundreds of millions of dollars in revenue.

# Projects

*1. Research the issue of media convergence in the newspaper industry. Do you believe that convergence will be good for the practice of journalism? Develop a reasoned argument on either side of the issue and write a three- to five-page report on the topic. Include in your discussion the barriers to convergence and whether these restrictions should be eased.*

Students who believe that convergence will be good for journalism may present arguments that the ability to deliver news across many platforms will lead to a better-informed public. They may believe that reporters working more closely together will lead to more objectivity in stories than was previously the case. Furthermore, stories that are presented in one medium may drive readers to another medium to find out more information. These viewers/readers will not be satisfied with simply a rehash of the same story but rather will want in-depth coverage of particular stories that interest them.

If, indeed, as some convergence advocates are claiming, increased advertising will result from higher ratings and increased website traffic, students may argue that additional resources will be available for developing news stories more fully. More visibility for a story may increase interest and consequently result in an increase in more in-depth reporting. Students may believe that they can do more together than they could as separates units (i.e., that the sum will be greater than the two parts alone). They may even go so far as to posit that convergence is the economic foundation upon which a resurgence in journalistic standards can be built. On the other side, students who argue that convergence is bad for journalism might posit that less objectivity, less aggressive reporting methods, and less editorial integrity will result with industry convergence into the hands of a few big oligopolies.

Overriding corporate issues can easily dampen journalistic zeal. Students may argue that if the goal of convergence is to cut costs and produce news more cheaply, the quality of news stories can’t help but be harmed. Instead, a dumbing-down of journalism will occur as “print” journalism takes on the entertainment values and aspects of television journalism. Furthermore, a homogenization of journalism might occur as fewer voices are heard and less variety of opinion is expressed. News stories might increasingly be used to promote large corporate partners either in their endeavors or more menacingly their viewpoints. These students will likely believe that the foundation upon which a resurgence of journalistic standards can be built is competition, and that trends toward industry and media convergence are going to decrease competition and damage the likelihood that controversial stories will be covered, especially stories that will reveal problems in the boardrooms and business practices of corporate partners. Another possible problem students might discuss is protections for unnamed sources when multiple parties are working on a story and it is being shared across platforms.

There are barriers in federal law to cross platform ownership and concentration in television and other media that are enforced by the Federal Communications Commission (FCC). The FCC recently completed its quadrennial review of ownership rules (as part of the Telecommunications Act of 1996, the FCC must do a review of broadcast multiple ownership rules every four years). The FCC voted to keep in place its rules that generally prohibit media companies from owning newspapers and television or radio stations in the same market. However, a new exception allows a failed or failing newspaper to receive investment from a broadcast business.

Students should discuss the issue of the possibility of lifting the ban on cross-platform ownership within the context of their arguments.

*2. Go to Amazon and explore the different digital media products that are available. For each kind of digital media product, describe how Amazon’s presence has altered the industry that creates, produces, and distributes this content. Prepare a presentation to convey your findings to the class.*

Amazon sells three types of main digital media: e-books, music, and video. It sells e-books only for its proprietary Kindle platform. In music and video, it has both a la carte purchase of physical products (CDs and DVDs), a la carte downloads of single tunes or shows, and also streaming of music and videos. Amazon’s e-books business has had a significant impact on the publishing industry and book distribution market, with the Kindle platform unleashing a torrent of self-published works, and e-book sales now constituting over 25% of all consumer book sales. Amazon’s physical products business played a role in the demise of physical record stores. Its streaming video service involves older movie titles and television shows as well as original content. Titles that it licenses from movie and television networks support revenue to the movie and television industry, whereas its original content poses a threat to those revenues.

*3. Identify three online sources of content that exemplify one of the three digital content revenue models (subscription, a la carte, and advertising-supported) discussed in the chapter. Describe how each site works, and how it generates revenue. Describe how each site provides value to the consumer. Which type of revenue model do you prefer, and why?*

Three online sources of content that exemplify the three digital content revenue models are Netflix (subscription), iTunes (a la carte), and Pandora (advertising-supported). Netflix is a video streaming service. The value to the consumer is access to older movies and TV shows, and some very popular original TV shows, on demand for a small monthly fee. iTunes primarily sells its content on an a la carte basis via individual downloads (it is also a cloud storage site), and sells more current movies and TV shows, and of course millions of individual single music titles. All sales are through an Apple account with a customer credit card. Pandora is mostly ad-supported (90% of revenues) and provides curated radio programs reflecting customer choice of singers and musicians. Service is free for 40 hours, and then a $36 per year subscription for unlimited listening. The future of each type of service is best approached by looking at what works now. Currently, iTunes is very profitable (although not as profitable as Apple’s physical device products), Netflix is marginally profitable, and Pandora loses money every year. Although this could change in the next five years, prospects for Pandora appear limited. Student opinions will vary as to their own preferences for revenue, but they should explain why they prefer one model compared to another.

*4. Identify a popular online magazine that also has an offline subscription or newsstand edition. What advantages (and disadvantages) does the online edition have when compared to the offline physical edition? Has technology platform, content design, or industry structure convergence occurred in the online magazine industry*? *Prepare a short report discussing this issue.*

Perhaps the best place for students to start is to identify newsstand magazines first, and then find their online counterparts. Many online magazines have a free first month offer. The online editions will likely have video, music, and interactive elements that users find captivating and entertaining. The online photography is also excellent but perhaps not quite up to the level of physical print magazines. There are few advantages for the newsstand versions of magazines, except for the physical look and feel of turning pages. With respect to convergence, until recently, there had been very little convergence in the online magazine industry. This is changing, especially in the fashion industry as fashion websites take on many of the features of slick fashion magazines (Cosmopolitan.com). Content convergence in the areas of creation, production, and distribution has begun to occur. Online editions of national news magazines increasingly use streaming video, social network links, and user comments (Time.com). *Newsweek* has merged with the *Daily Beast* and no longer publishes a print version. Many magazines now have e-reader editions or apps that enable magazines to be read on smartphones and tablet computers such as the iPad. In some instances, the print versions of magazines have disappeared entirely, and now only a web-based version is available. The Web and e-readers have created the opportunity to leverage print content to the different distributions channel. Increasingly, magazines are developing online content developers, as well as leveraging their star reporters. Industry structure convergence has not occurred, although in the early days of e-commerce it was believed that an entirely new set of online zines would rise to challenge the old giants.

*5. In 2014, Amazon purchased Twitch, which lets users stream their video game sessions, for almost $1 billion. Why would Amazon spend so much money on Twitch? Create a short presentation either defending the purchase or explaining why you think it was a bad idea.*

Student answers may vary, but some rationales for defending the purchase might include the following:

* The acquisition bought Amazon a significant audience (young, male, technophiles, wealthy) for a decent price. At the time of its acquisition, Twitch had an online audience of about 55 million. Amazon paid about $18 per viewer. Twitch is a large source of Internet traffic, which could be valuable to Amazon.
* The acquisition helps Amazon’s push into online video. Amazon is trying to develop video content delivery infrastructure, and Twitch has this.
* The acquisition was a defensive move to prevent Google from buying Twitch.

Rationales for criticizing the purchase might include the following:

* Because Twitch was a private company, it is unclear if it was profitable or not at the time of its acquisition, or will be thereafter.
* The acquisition might detract from Amazon’s main line of business, which is online retailing. Amazon has little management experience as a creator or broadcaster of video content.
* It is unlikely that Twitch will ever generate enough revenue to make a difference for a company the size of Amazon. Twitch, in the best case, will be a rounding error in the financial statements of Amazon.

**Companion Website, Learning Tracks, and Video Cases**

You can also direct your students to the Companion Website for the book, located at [www.e-commerce2018.com](http://www.e-commerce2018.com). There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and revenue models; information on careers in e-commerce, and more. Learning Tracks that provide additional coverage of various topics and a collection of video cases that integrate short videos, supporting case study material, and case study questions are also available for download from the book’s Online Instructor Resource Center at [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc). Video Cases for this chapter include:

* Video Case 10.1 YouTube: Secrets of Successful Content Creation
* Video Case 10.2 Vox Media
* Video Case 10.3 ESPN: Sports Broadcasting Evolves