Online Content and Media

YouTube and the Emerging Internet Broadcast System (IBS)

- **What types of online videos have you watched online, and on what devices?**
- **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?**

Trends in Online Content

- Vertical integration: Distributors enter content production business
- Netflix transitions to TV show distribution
- The mobile platform accelerates the transition to digital content
- E-book sales grow rapidly
- Digital music sales top physical sales
- Console games stagnate as online, social, casual games soar

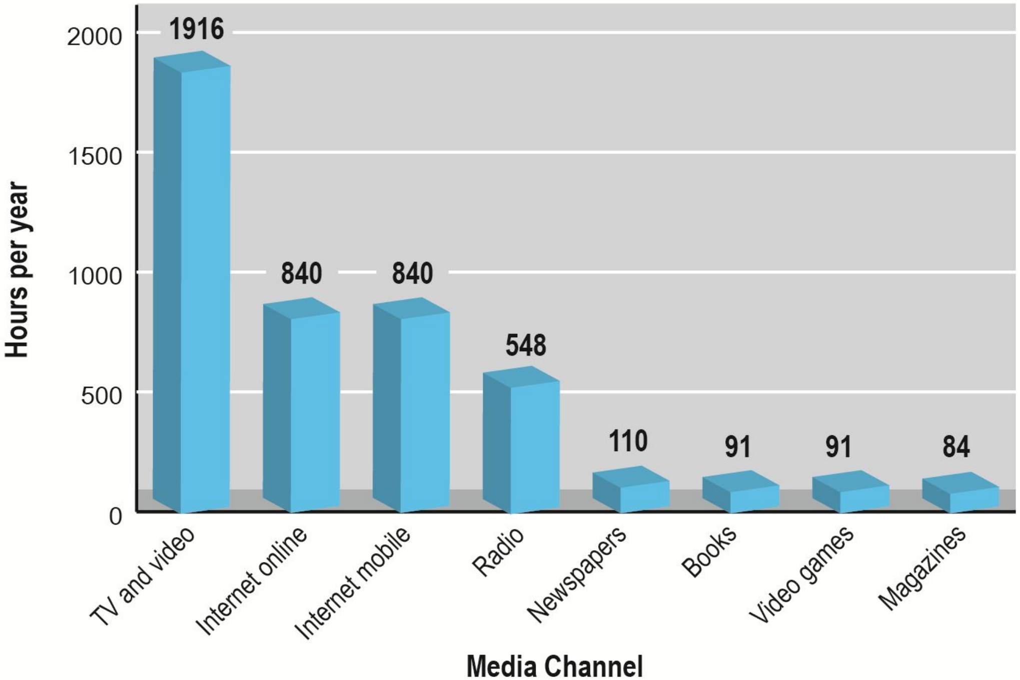
Trends in Online Content (cont.)

- Four Internet titans compete for ownership of online content ecosystem: **Apple, Google, Amazon, and Facebook .**
- YouTube launches 100 entertainment channels
- **Internet** content **challenges** cable **TV** for home viewing
- **Revenues** from **online** media are the **fastest** growing **media revenues**

Content Audience and Market

- Average American adult spends 4,500 hrs/yr consuming various media
- 2013 media revenues: $526 billion
- More than 77% of the hours spent consuming TV, radio, Internet
- Desktop and mobile use: 4.6 hrs/day
- Internet usage doesn't reduce TV viewing

Media Consumption



SOURCE: Based on data from eMarketer, Inc., 2013a, authors' estimates

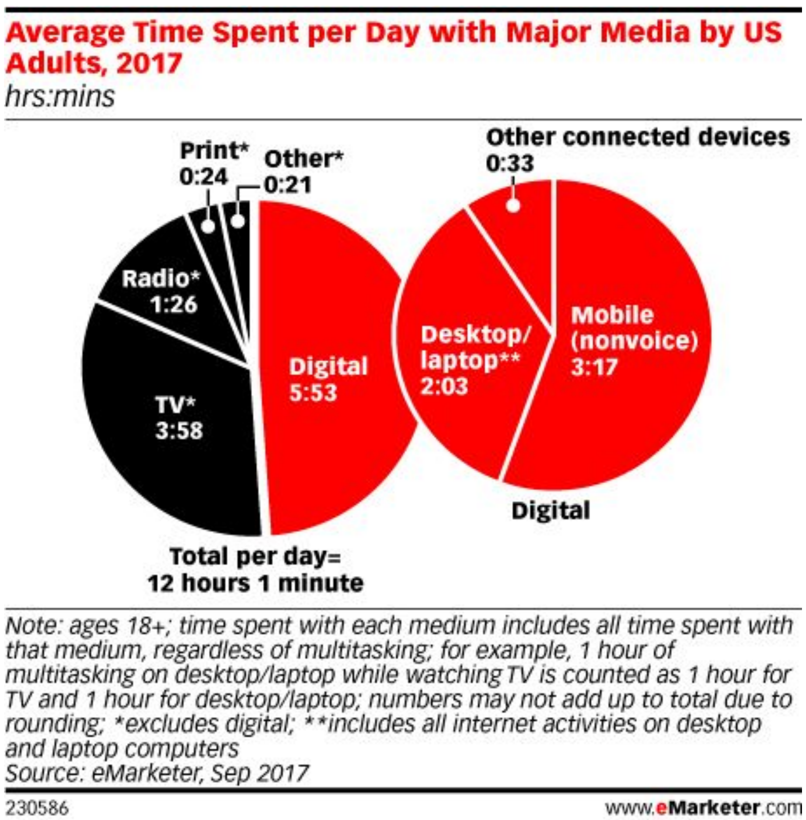


Figure 10.1, Page 632

Internet and Traditional Media

- **Cannibalization vs. complementarity**
  - Does time on Internet reduce time spent with other media?
  - Books, newspapers, magazines, phone, radio
- **Internet users**
  - Spend relatively less time with traditional media
  - Consume more media of all types than non-Internet users
  - Often "multitask" with media consumption
- **Multimedia—reduces cannibalization impact for some visual, aural media**

Media Revenues by Channel

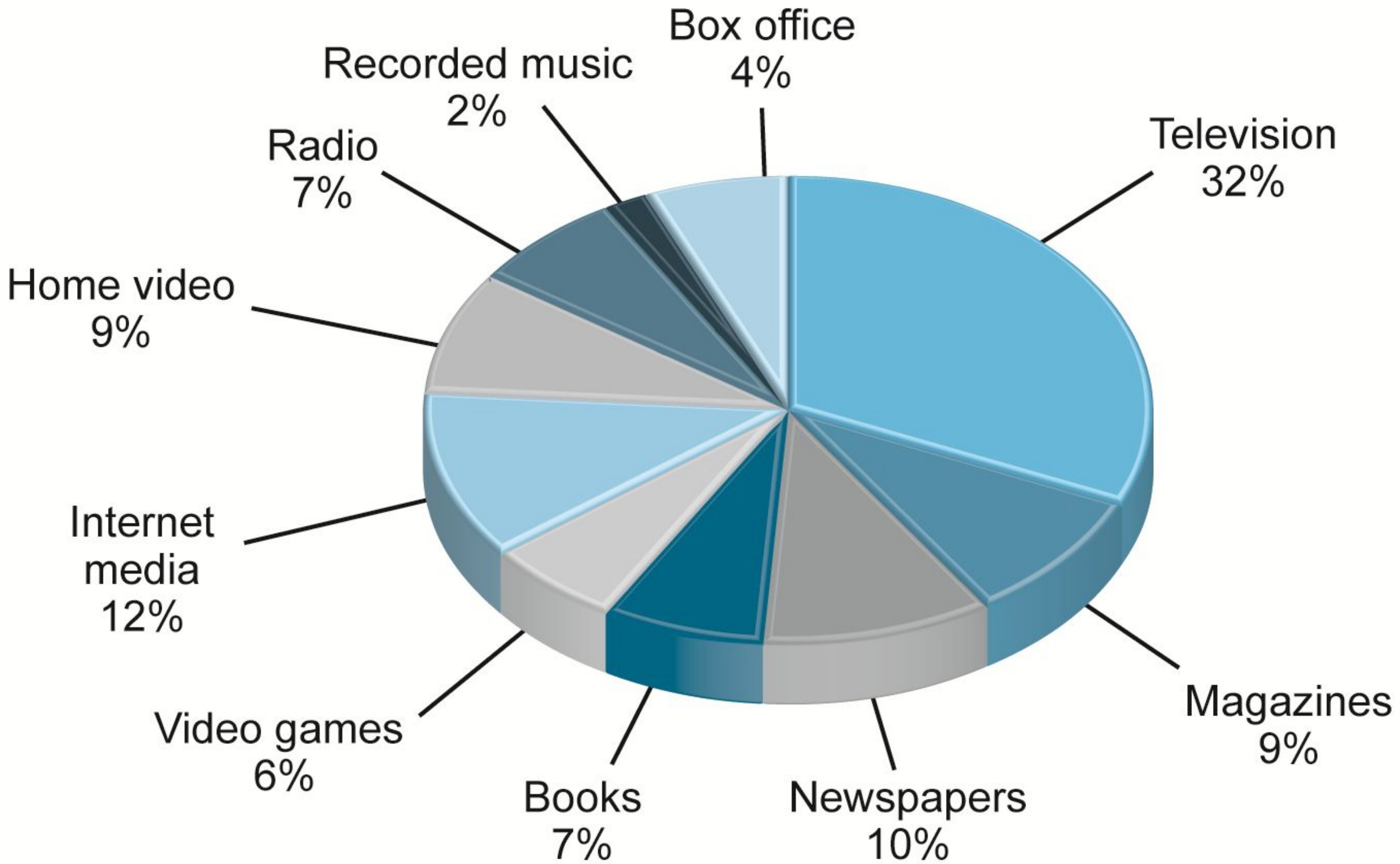


Figure 10.2, Page 634

SOURCE: Based on data from industry sources; authors' estimates.

Digital Content Delivery Models

- **Online content delivery revenue models**
  - Subscription
  - A la carte
  - Advertising supported (free/freemium)

- **Free content can drive users to paid content**
- **Users increasingly paying for high-quality, unique content**

Online Content Consumption 2012

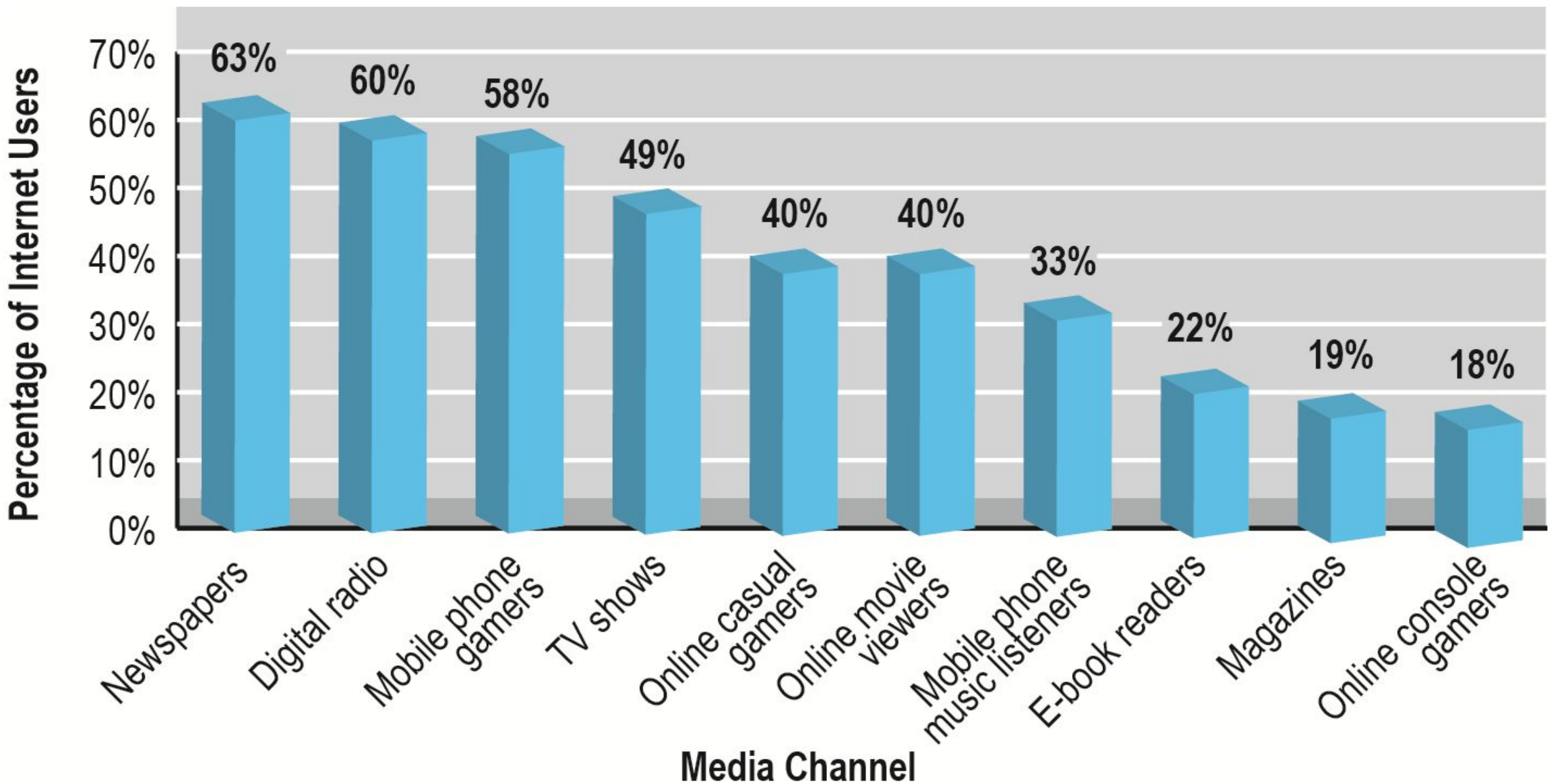


Figure 10.3 Page 650

SOURCE: Based on data from eMarketer, Inc., ; industry sources; authors' estimates.

Free or Fee

- **Early years: Internet audience expected free content but willing to accept advertising**
  - Early content was low quality
- **With advent of high-quality content, fee models successful**
  - iTunes
  - 80 million buy from legal music sites
  - YouTube cooperating with Hollywood production studios

Digital Rights Management (DRM)

- **DRM: Technical and legal means to protect digital content from unlimited reproduction and distribution**
- **Issue often cast as moral contest**
- **Telecommunications and device industries benefit from increased traffic**
  - 23% of global Internet traffic is stolen material

Media Industry Structure

- **Three separate segments**
  - Print
  - Movies
  - Music
- **Each dominated by few key players with little crossover**
- **Larger media ecosystem**
  - Millions of individuals, entrepreneurs
  - Blogs, YouTube, independent music bands, and so on

Media Convergence

- **Technological convergence**
  - Hybrid devices
- **Content convergence**
  - Three aspects: Design, production, distribution
  - New tools for digital editing and processing
- **Industry convergence**
  - Merger of media enterprises into firms that create and cross-market content on different platforms

Convergence and the Transformation of Content: Books

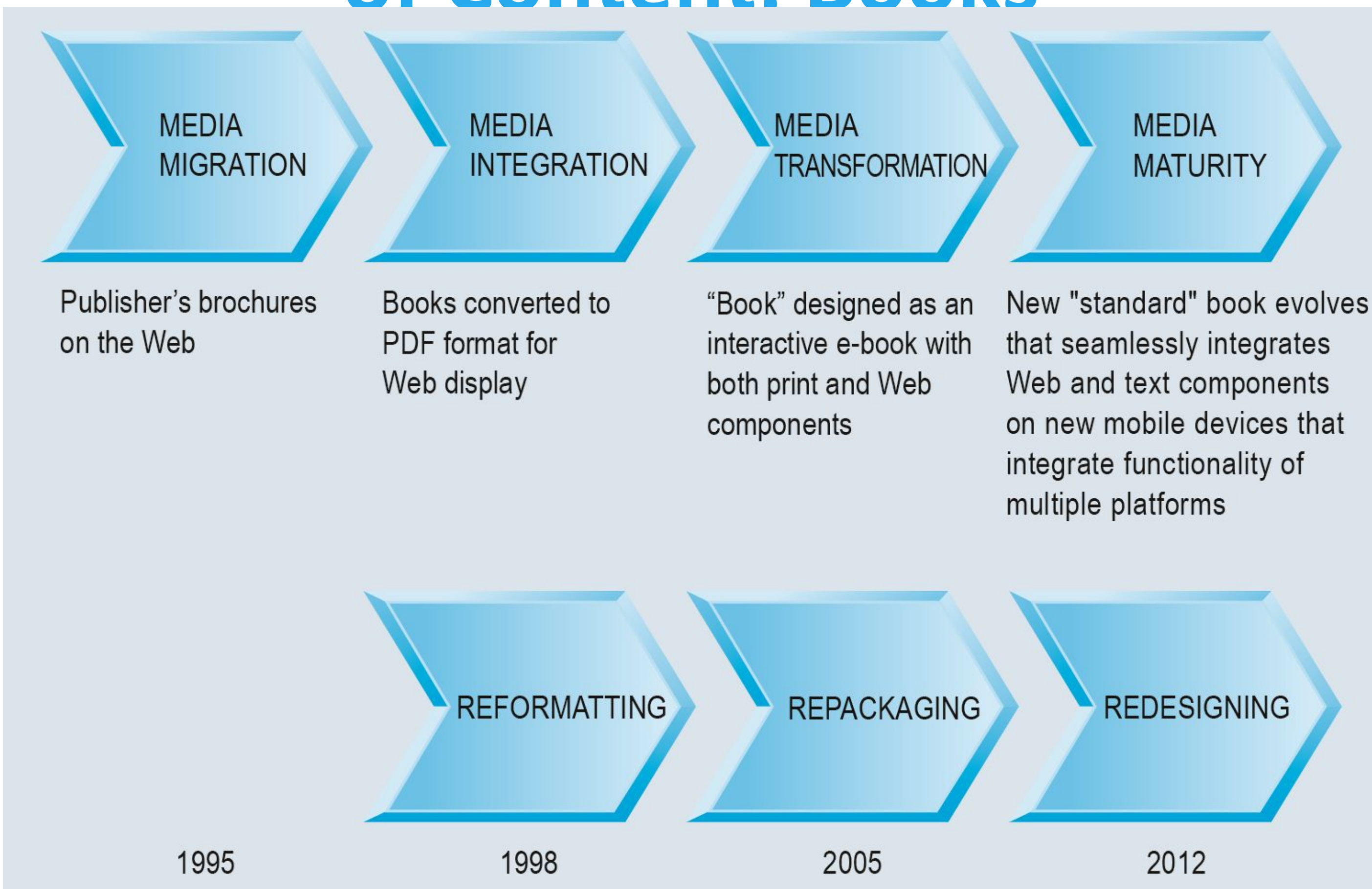


Figure 10.6, Page 641

Making a Profit with Online Content

- **25% users 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

Online Publishing Industry

- **$92 billion based originally in print, moving rapidly to Internet**
- **Three segments**
  - Online newspapers
  - E-books
  - Online magazines

Online Newspapers

- **Most troubled segment of publishing industry**
  - Failure to protect content from free distribution
  - 60% have reduced staff
- **However:**
  - Online readership growing at more than 10%
  - Mobiles, e-readers, tablets provide new avenues
  - More users willing to pay for premium content
  - Aggregators are recognizing need for high-quality content to distribute and use for advertisements

Daily Unique Visitors at Online Newspapers

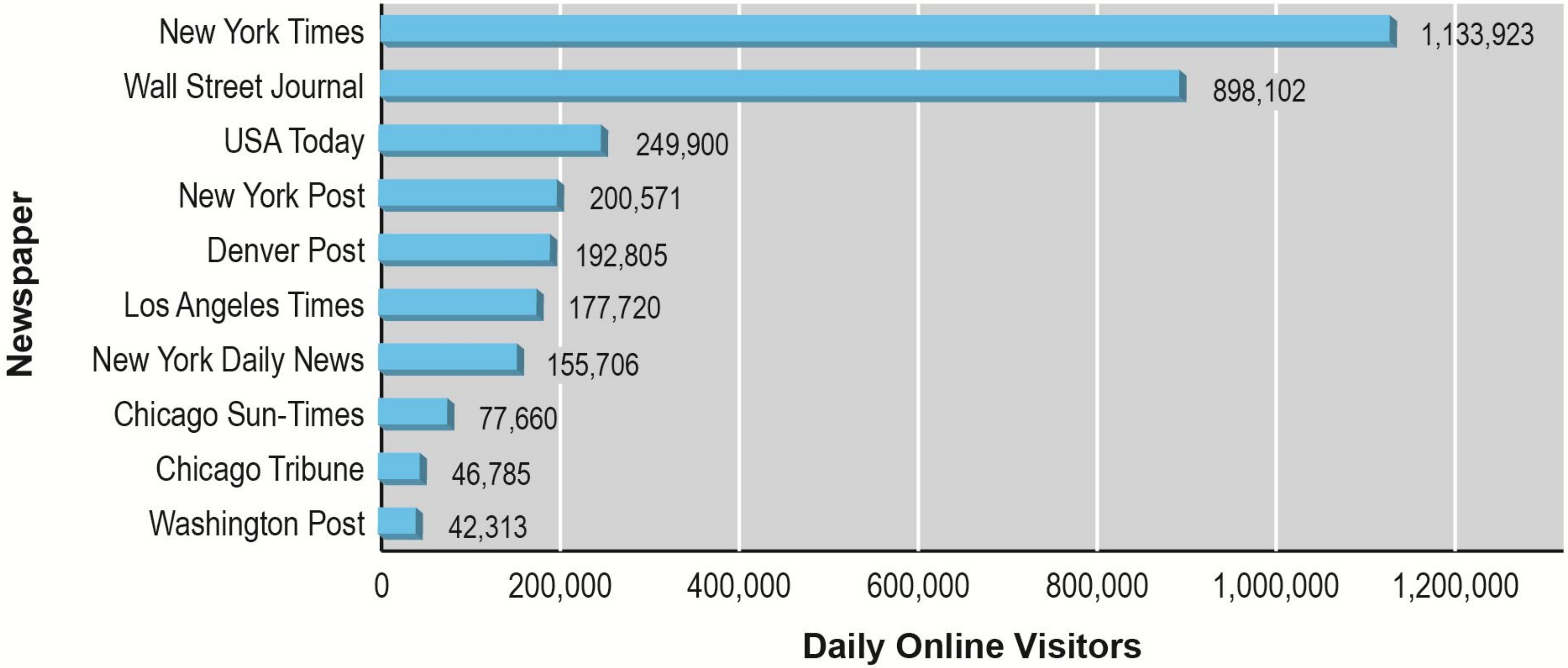


Figure 10.8, Page 646

SOURCE: Based on data from Alliance for Audited Media

Newspaper Business Models

- Initially fee-based, then free, and now beginning a return to fee-based
- Newspaper headlines are primary content on Google News, Yahoo News
- *New York Times* now charging for premium access
- Newspaper efforts to ally with Internet titans
- New reader devices with reader apps

Can Apps and Videos Save Newspapers?

- Have you read a newspaper using an app?
- Have you paid for any online newspaper or article? How much would you pay for a single article?
- Would you prefer to watch online news videos produced by a TV station or by a newspaper such as the *New York Times*?
- What other opportunities could help the industry recover from the decline in print sales?

Challenges: Disruptive Technologies

- **Newspapers: A classic case of disruptive technology?**
- **Industry still in flux**
  - Newspapers have significant assets:
    - Content
    - Readership
    - Local advertising
    - Audience (wealthier, older, better educated)
  - Online audience will continue to grow in numbers and sophistication

E-books and Online Publishing

- **E-book sales have exploded in recent years—$5.8 billion in 2013**
  - 30% of all consumer book sales
- **New channel for self-publishing authors**
  - Amanda Hocking's *My Blood Approves* (2010)
- **Evolution**
  - Project Gutenberg (1970s)
  - Voyager's books on CD (1990s)
  - Adobe's PDF format

New Digital Ecosystems

- **E-book hardware, software, combined with online megastores**
  - Amazon Kindle: Linked to Amazon store and cloud storage
  - Apple iPad: Multipurpose tablet, linked to Apple stores
- **Authors able to bypass traditional agent, publisher channels**
- **DRM more effective for e-books than music industry**

Challenges of E-book Platform

- **Cannibalization**
  - Fewer physical sales
  - More e-book sales, more purchases of readers
  - Book publishing revenues same in 2012 and 2011
- **Finding the right business model**
  - Wholesale model
    - Retailers pay wholesale price and establish retail price
  - Agency model
    - Distributor as agent must charge publisher's retail price
- **Converging technologies**
  - Interactive books, iBook Author, iBook Textbooks

E-book Sales

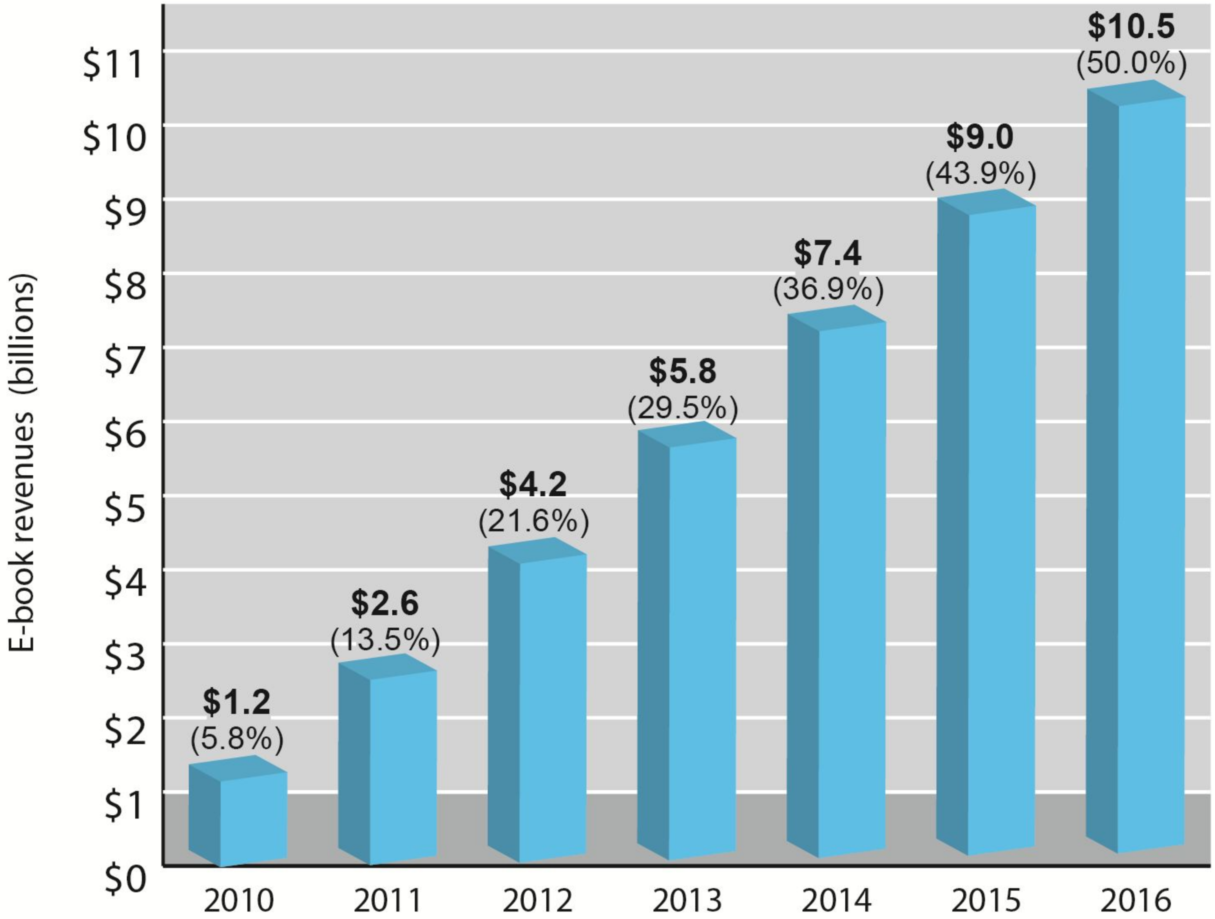


Figure 10.9, Page 651

SOURCE: Based on data from eMarketer.

Magazines Rebound

- **Magazine circulation plummets 1980–2012**
  - From 22 million in 2001 to 10 million in 2012
  - Special interest magazine sales remained stable
- **Magazines are making up for loss in print readership**
  - One-third of U.S. Internet users read online magazines
    - 35% of tablet users
  - Apple's iPad subscription service
  - Popular Web sites (Pinterest, Facebook) drive traffic to online magazines
  - Social reader apps
  - Magazine aggregators

Read All About It: Rival Digital Newsstands Fight

- What advantages and disadvantages do digital newsstands offer to publishers?
- Do you use an app or digital newsstand to read magazines? Which ones?
- How does the experience of reading a magazine on a tablet or smartphone compare to reading a physical magazine?

Online Entertainment Industry

- **Four traditional players, one newcomer**
  - Television
  - Radio broadcasting
  - Hollywood films
  - Music
  - Games (new arrival)

Online Entertainment Industry

- **Internet is transforming industry:**
  - Platform development:
    - Smartphones, tablets, music platform
    - Online streaming and cloud storage
    - Social networks as distributors
  - Viable business models
    - Music subscription services
    - Closed platforms that eliminate need for DRM
  - Widespread growth of broadband

Online Entertainment Audience Size

- **Online "traditional" entertainment**
  - Online video has largest audiences, followed by music, games
- **User-generated content:**
  - Substitutes for and complements traditional commercial entertainment
  - Two dimensions:
    - User focus
    - User control
  - Sites that offer high levels of both will grow

Projected Growth in Online Entertainment

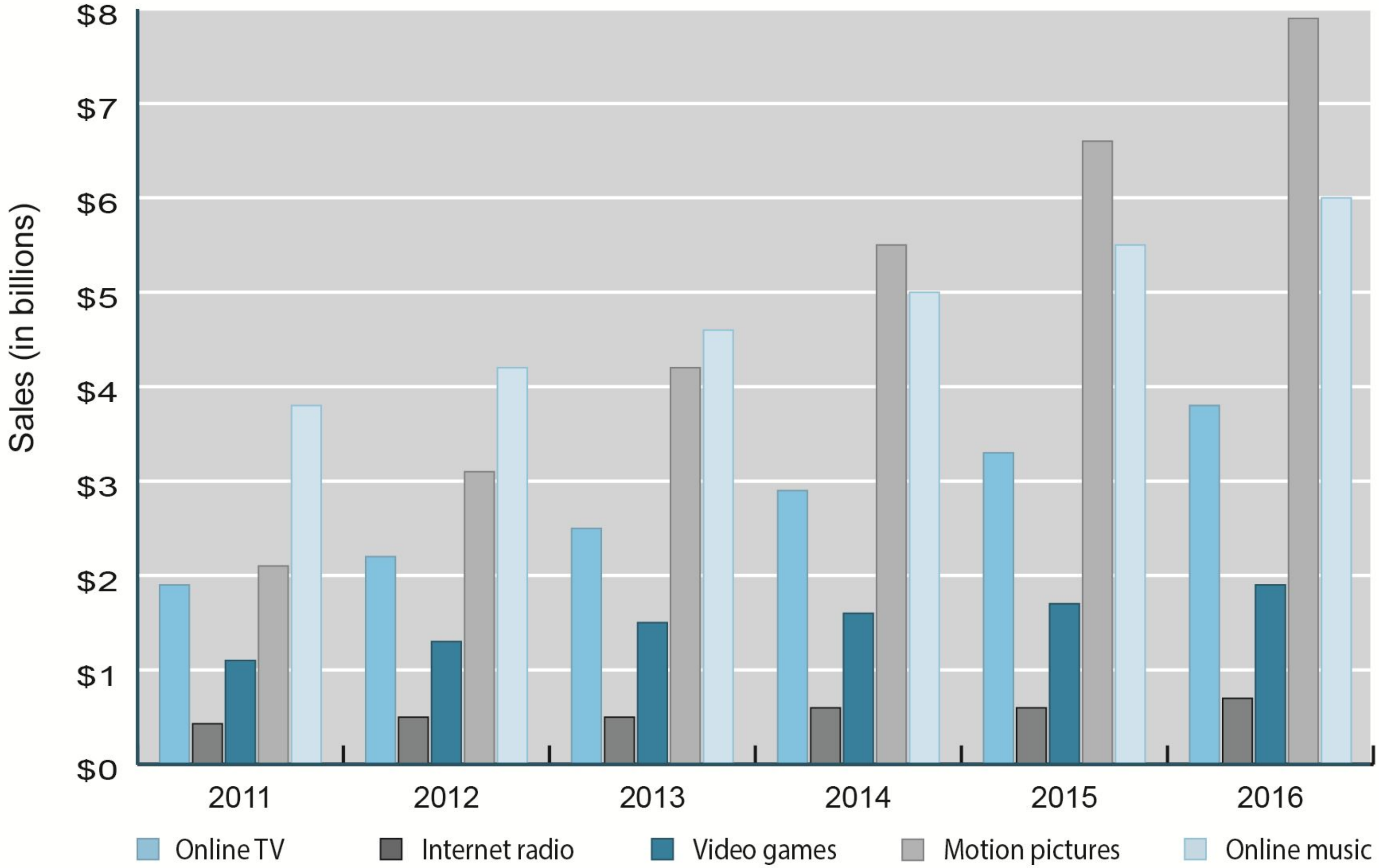


Figure 10.11, Page 662

SOURCES: Based on data from industry sources; authors' estimates.

Television and Premium Video

- Television: Largest provider of high-demand content
- TV industry transitioning to new Internet delivery platforms
  - Expansion of broadband networks
  - New mobile platforms and cloud servers
  - OTT: Over-the-top (Internet) delivery
- Impact on cable TV industry
- Social network influences
- Hulu: Joint venture of industry players

Movies

- **Difficult transition from DVD-reliance to streaming distribution to PCs and mobile devices**
  - More Americans bought online movies than DVDs in 2013
  - Many alliances and competing interests between distributors and creators
- **Piracy, cyberlockers**
- **Two types of online movie sales**
  - Internet video on demand (iVOD)
  - Electronic sell-through

Online Movie Business
Share of Movie Revenues

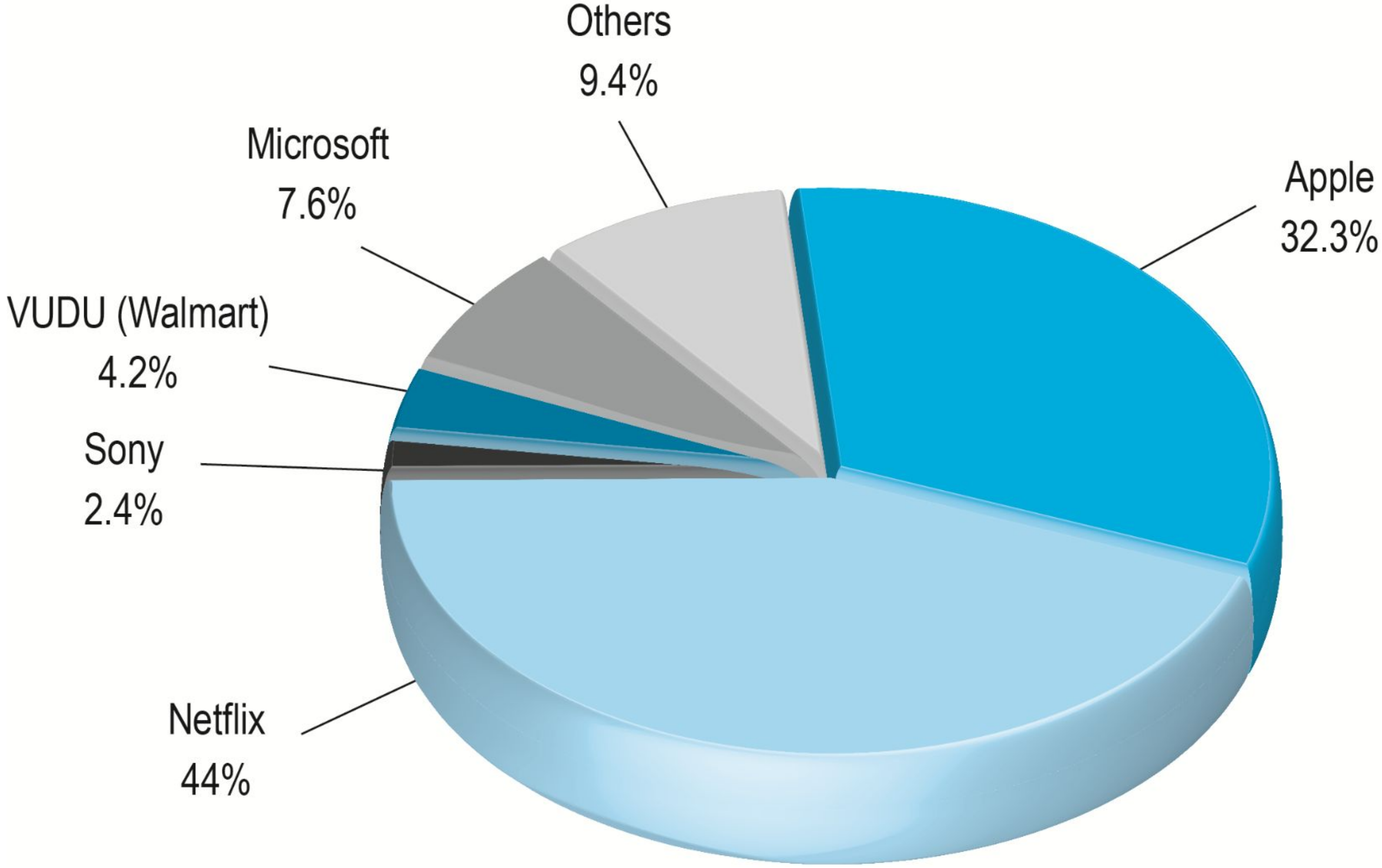


Figure 10.14, page 669

SOURCES: Based on data from NPD Group, industry sources.

Music

- **Most changed of content industries**
  - Move from physical to digital product
  - Unbundling of single songs
  - Distributor market dominated by Apple
- **Digital revenues account for more than half of all revenues**
- **Two types of digital music services**
  - Digital download—90% of digital music revenue
  - Streaming subscription services—fastest growing

Consumer Spending on Digital Music

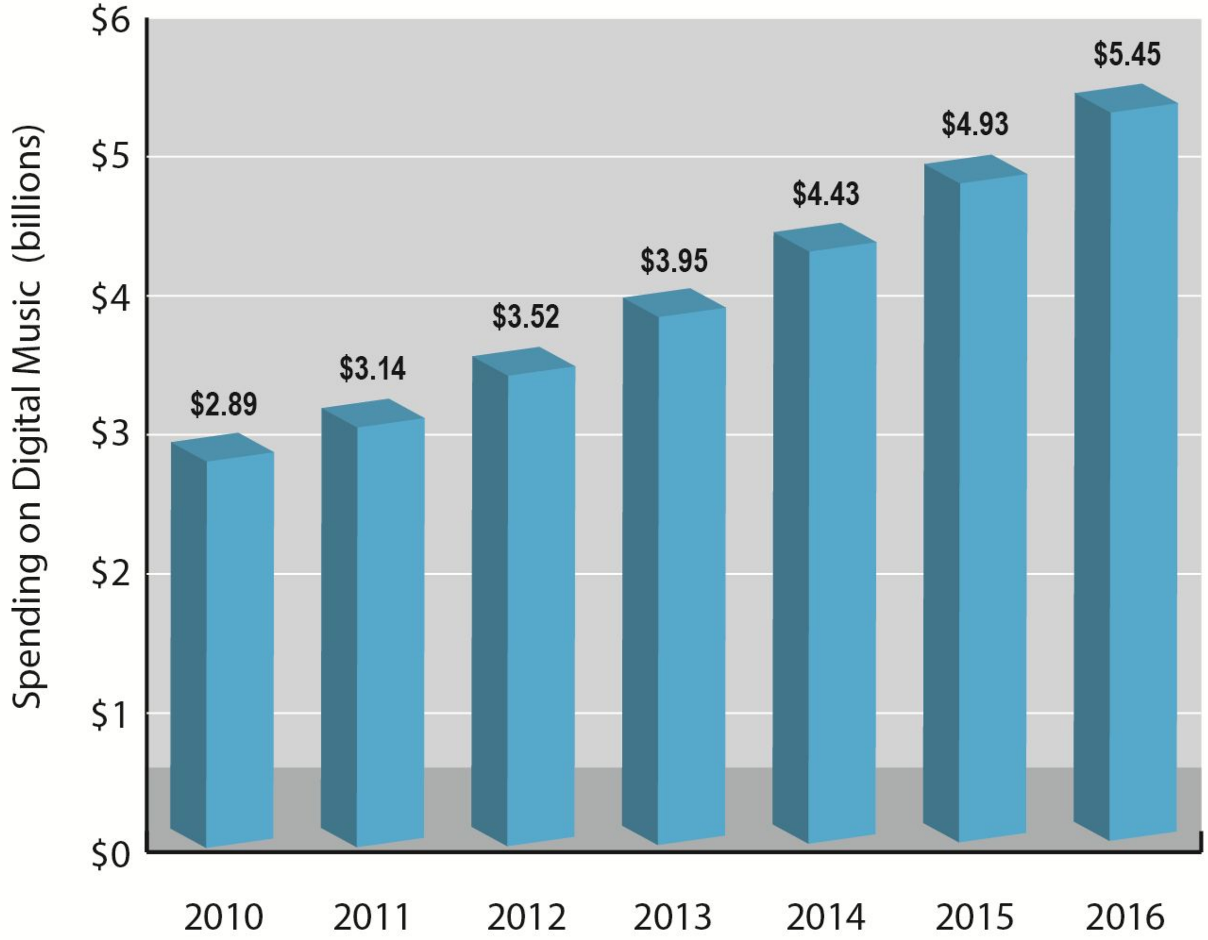


Figure 10.15, page 674

SOURCES: Based on data from the Recording Industry Association, 2013, eMarketer, Inc.,.

Games

- **Online gaming has had explosive growth**
- **Types of online gamers**
  - Casual
  - Social
  - Mobile—fastest growing market
  - Console
- **Business models in flux**
  - Most online/mobile games offered for free

Online Gaming Audience

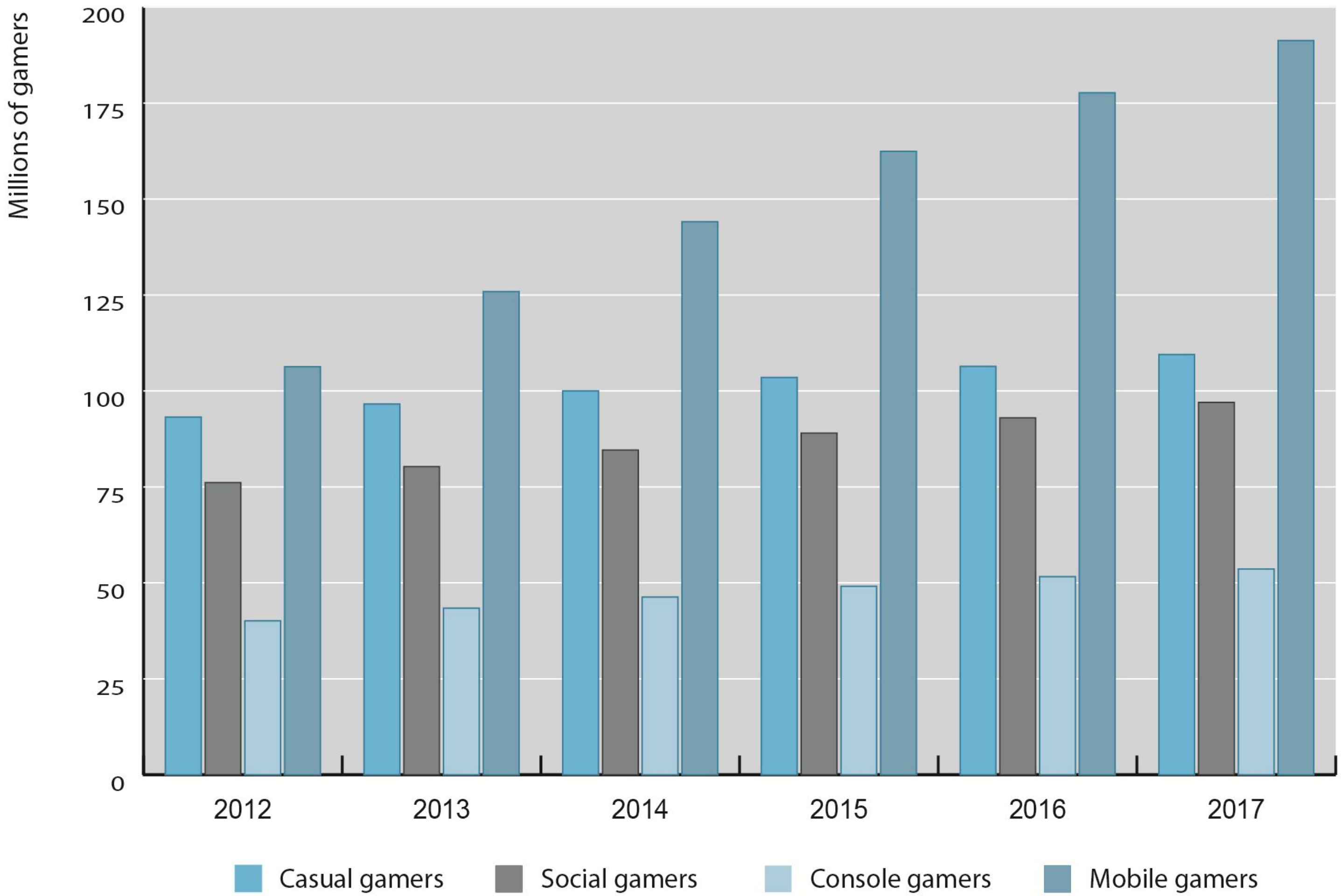


Figure 10.16, page 675

SOURCE: Based on data from eMarketer, Inc.,

Online Entertainment Industry Structure

- **Inefficient, fractured:**
  - Many players and forces shape industry
- **Reorganization of value chain needed for aggressive move to Web**
- **Possible alternative models**
  - Content owner direct model
  - Internet aggregator model
  - Internet innovator model

Hollywood and the Internet: Let's Cut a Deal

- 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?