User-Produced Content and the Future of the Media Industries

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1. Introduction (1 of 2)

The evolution of the Internet is often regarded as a mystery and economics often appears to be of little help

A conspicuous exception to this observation was the publication of Varian and Shapiro's excellent work *Information Rules.* Its messages include:

- -- Positive network externalities create hyper-rapid selection and winner-takes-all competitive markets
- -- High first copy costs for information ensure price differentiation and stimulate product differentiation including 'mass customisation' (user-co-production)
- -- One means of reducing the risks of market exclusion is to join in a common 'standards-defined' platform

Varian and Shapiro's focus on winner take all markets leaves some important features of the Internet unexplored

1. Introduction (2 of 2)

The WWW and Internet also support:

1. Hyper-differentiation in information products because of the low costs of entry which gives rise to phenomenon like ‘the long tail’

2. Collective production activities based on people’s interests and drive for self-expression (e.g. Wikipedia)

3. Co-production activities that are more significant than participation in mass-customisation (e.g. choosing a ‘look’ for iGoogle vs. My Football Club).

4. Social activism in the form of micro-finance initiatives and other forms of person to person support

All of these (and more) are processes that ‘deconstruct’ the mass media market, creating a substitute that is more personal, less profit oriented and of smaller scale – the nature of ‘scaling’ is called into question

2. About Theory 1: Schumpeterian Pyramids (1 of 2)

Schumpeter's theory of creative destruction was that all accumulations of market position were temporary – subject to being eroded by new ideas and 'new men'

Over an extended time we have seen marked changes in the composition of media including the rise of a specific form of communications associated with the industrial era – the mass media

Books
Newspapers
Magazines
Radio
Television
And now the WWW—Internet (hereafter just WWW)

What are the likely disruptive effects of the WWW on existing media?

2. About Theory 1: Schumpeterian Pyramids (2 of 2)

The potential for such disruption or creative destruction is indicated by the history of some of the disruptive effects of past 'new media'

-- Commercial radio in the US was strongly affected by the growth of television

- **-- Network advertising levels peaked in 1949 and fell steadily until 1961 (in nominal terms by 75%) when they began a slow recovery**

-- It has also been claimed that mass market monthly magazines in the US such Look, Life, and Saturday Evening Post were the victims of the growth of television advertising

- **-- However, it is important to note that overall magazine advertising continued to grow as commercial television expanded**

3. About Theory 2: Transition and Techno-Economic Paradigm Shift (1 of 3)

Recent thinking about the process of moving towards greater environmental sustainability has produced several lines of thought about 'transition' – how older regimes give way to newer ones

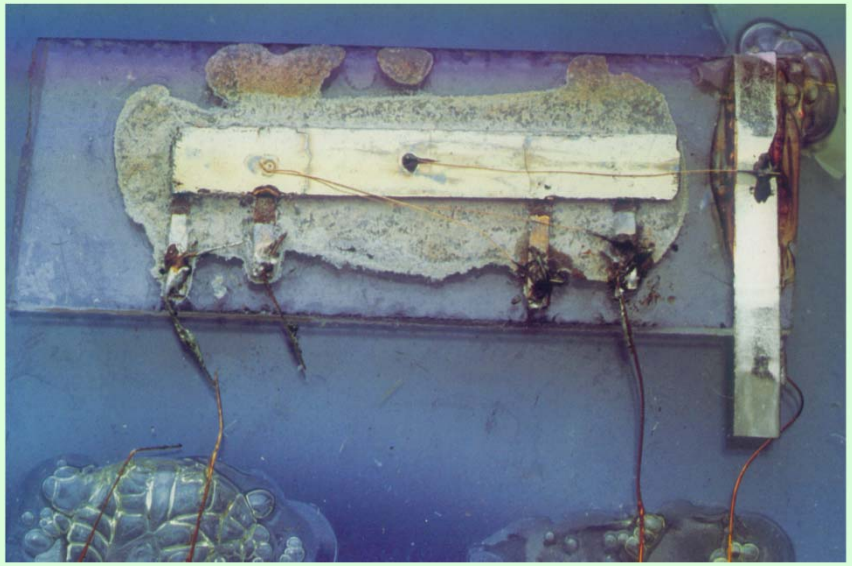
Some key elements:

1. The formation of apparently unconsolidated niches
2. The growing perception of instability in existing practices
3. Questioning of the existing methods of judging performance

3. About Theory 2: Transition and Techno-Economic Paradigm Shift (2 of 3)

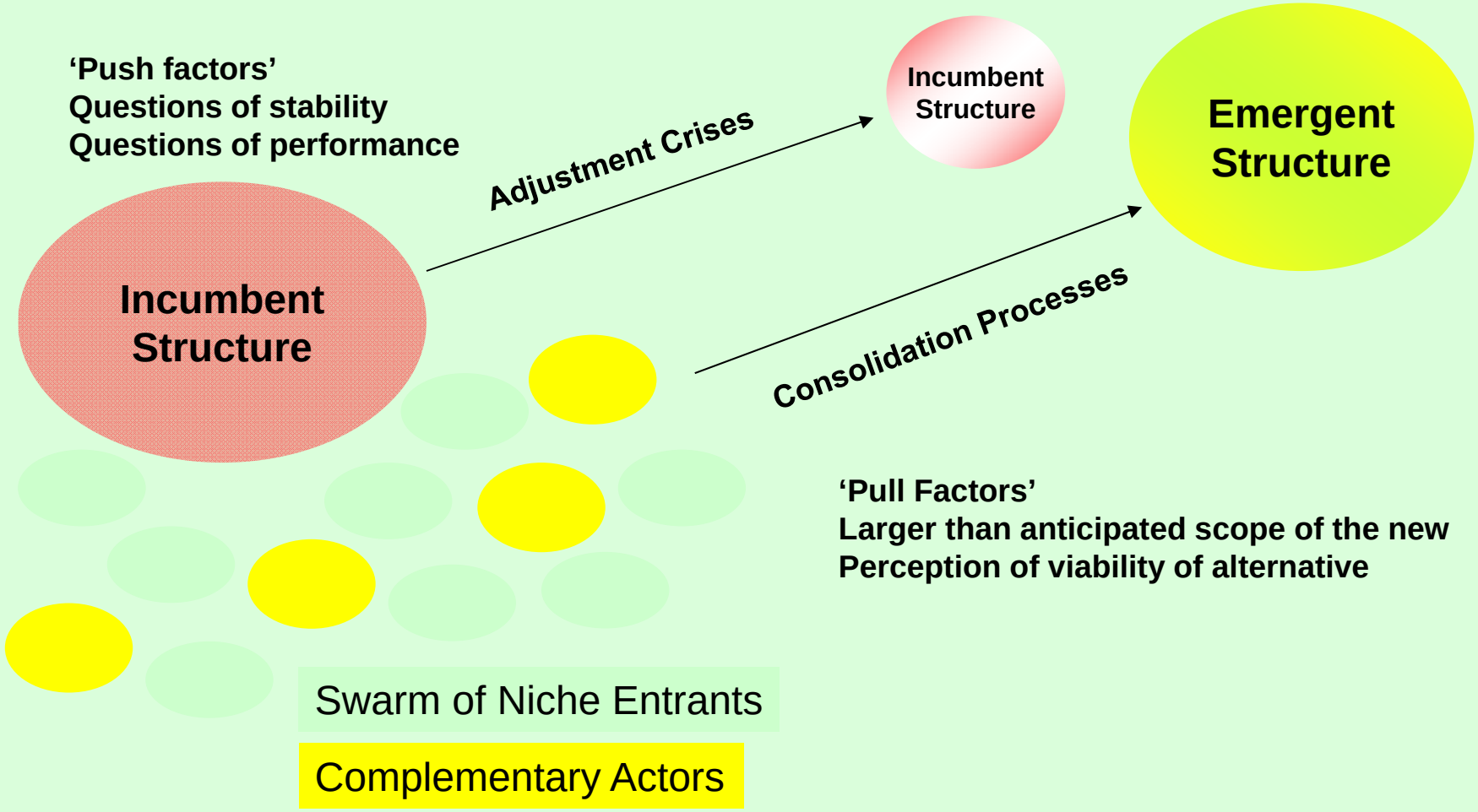
Theories of large-scale change have also benefitted from the Perez and Freeman's historical examinations which observe that

1. Adjustment to change is usually accompanied by structural crises
2. A number of complementary elements must be assembled for the new paradigm to gather momentum
3. Change occurs across a much broader range of activities than is suggested by initial developments



The First Integrated Circuit 1958

3. About Theory 2: Transition and Techno-Economic Paradigm Shift (3 of 3)



4. About Practice: Old and New Roles of the Media User

Mass media is traditional thought of as one to many (publisher to audience)

- Economies in amortizing first copy costs
- Attracting audience to sell advertising

Media fragmentation is result of successful product differentiation

- More focussed demographic implies higher advertising (and possibly subscription charges)
- Fragmentation can be technologically enabled (cold type, cable/satellite, Internet)

Fragmentation engages the ‘push factors’ – stability and performance questioned

To engage ‘pull’ factors it is the user that has to change…

Specifically, the user is becoming a producer (70 million blogs) and co-producer (14 million Twitter, 91 million Facebook ‘uniques’ – different users per month) Source for latter figures: GetKlickz http://www.getclickz.com/2009/04/09/twitter-explodes/

5. About Practice: Media Producers and Intermediaries (2 of 2)

It is not obvious that the transition (if it is one) is about replacing a one to many with a many to a few (extreme fragmentation)

--e.g. There are many blog ‘aggregators’ who create synoptic content (content produced by others and gathered for a larger audience)

Google is the most successful aggregator so far but it remains to be seen whether it will persist in this dominant position (perhaps this is like Zhou En Lai’s remark about the French Revolution)

The main point is that growth in new intermediation is a key element of the complementary services in media content that might help drive the consolidation of the swarm of new entrants

- -- such a development would also be consistent with continued growth in independent voices
- -- however, there are questions about ‘quality’ of this candidate for an emerging industry structure

6. The Quality Quandary (1 of 3)

Your life story would not make a good book. Don't even try.
--Fran Lebowitz (1950 -)

While user-produced content is prolific there is a question of what business models might support those who choose to make their living from producing such content

One answer: The Cult of the Amateur (Andrew Keen) in which user-produced content bears responsibility for crowding out quality by surrounding it by an ocean of rubbish

A retort: Can you bear to watch television in your country. I can say yes for the UK, but not for the US.

Another answer: It is precisely the production of variety that opens opportunities for new voices and 'new people' (Schumpeter's 'new men') who accumulate reputation and eventually find ways to monetise this reputation

For example, faced with declining revenues from music publishing, many bands are extending their live performance schedules and encouraging their fans to share recordings of their music

6. The Quality Quandary (2 of 3)

Perhaps we see co-existence for an extended period with the ‘head’ of the distribution still favouring the mass media market even if the two areas are (as in this diagram) equal in size.

Suorce: http://www.novelr.com/2008/02/08/the-long-tail-and-online-fiction-how-to-get-read

6. The Quality Quandary (3 of 3)

Robbie Van-Adib's question: 'what percentage of the top 10,000 titles in any online store (iTunes/Amazon) will rent or sell at least once a month?'

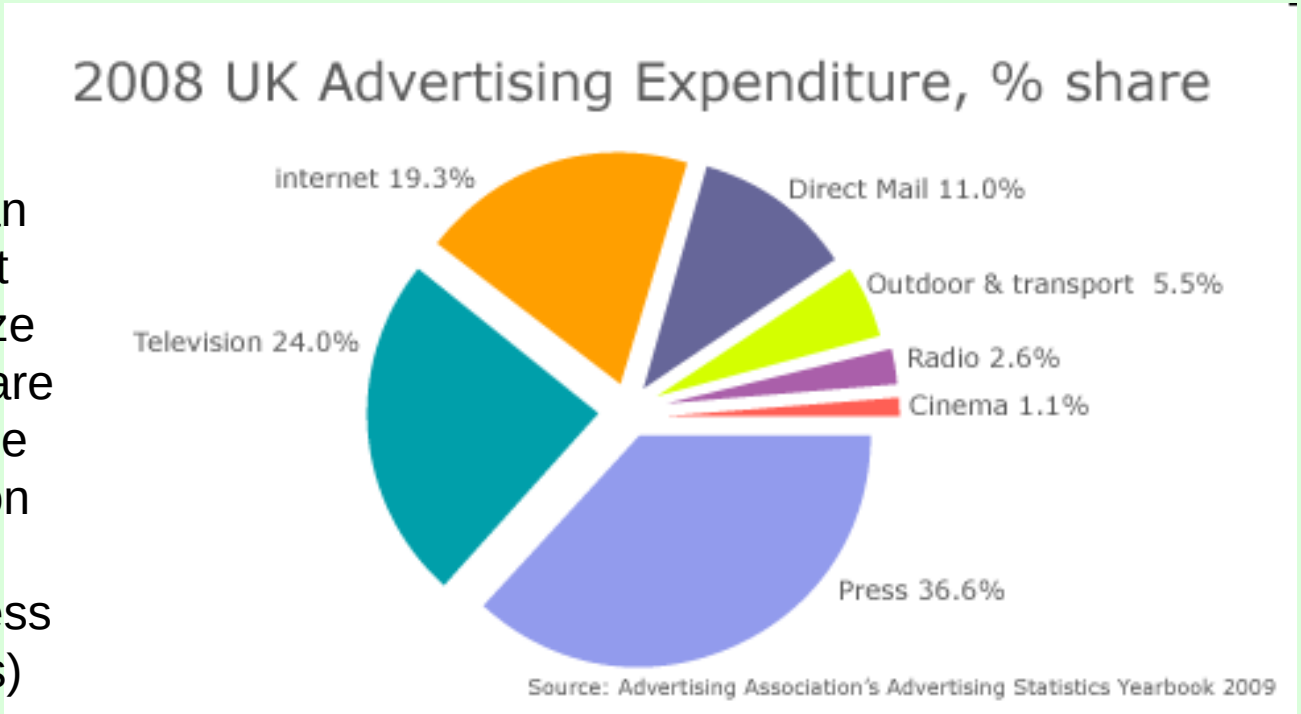
The answer? Not 80/20 like many people suppose – it is 99%.

He then concludes that if an inventory is unhindered by **space**, **profit margins** (it is very cheap/free to make) and **time** (there is only 24 hours in a day – which means radio stations are limited in their product offering), user demand will continue to exist for very obscure products. These products then earn the company money, and totalled up may even surpass the sales of the hits.

http://www.novelr.com/2008/02/08/the-long-tail-and-online-fiction-how-to-get-read

7. Signposts of Change (1 of 4)

Over a little more than a decade the Internet has been able to seize almost as large a share of advertising revenue in the UK as television and half the share of advertising of the press (including magazines)



http://www.adassoc.org.uk/aa/index.cfm/adstats/

This share is composed of both mass media type advertising (Google) and more dispersed advertising (ironically, often Google as well through AdSense™)

7. Signposts of Change (2 of 4)

7. Signposts of Change (3 of 4)

7. Signposts of Change (4 of 4)

The Impact Of Online Advertising Circa 2005

All Respondents	Positive	No Impact	Negative
Customer acquisition	66%	20%	1%
Sales	70%	18%	1%
Intent to purchase	67%	20%	0%
Brand Effect	63%	24%	0%
Brand awareness	63%	24%	1%
Brand/product attributes recall	60%	24%	1%
Advertising recall	57%	27%	%
Profitability	44%	36%	5%
Market Share	40%	41%	4%

Q53. What impact has online advertising had on the following for your business?

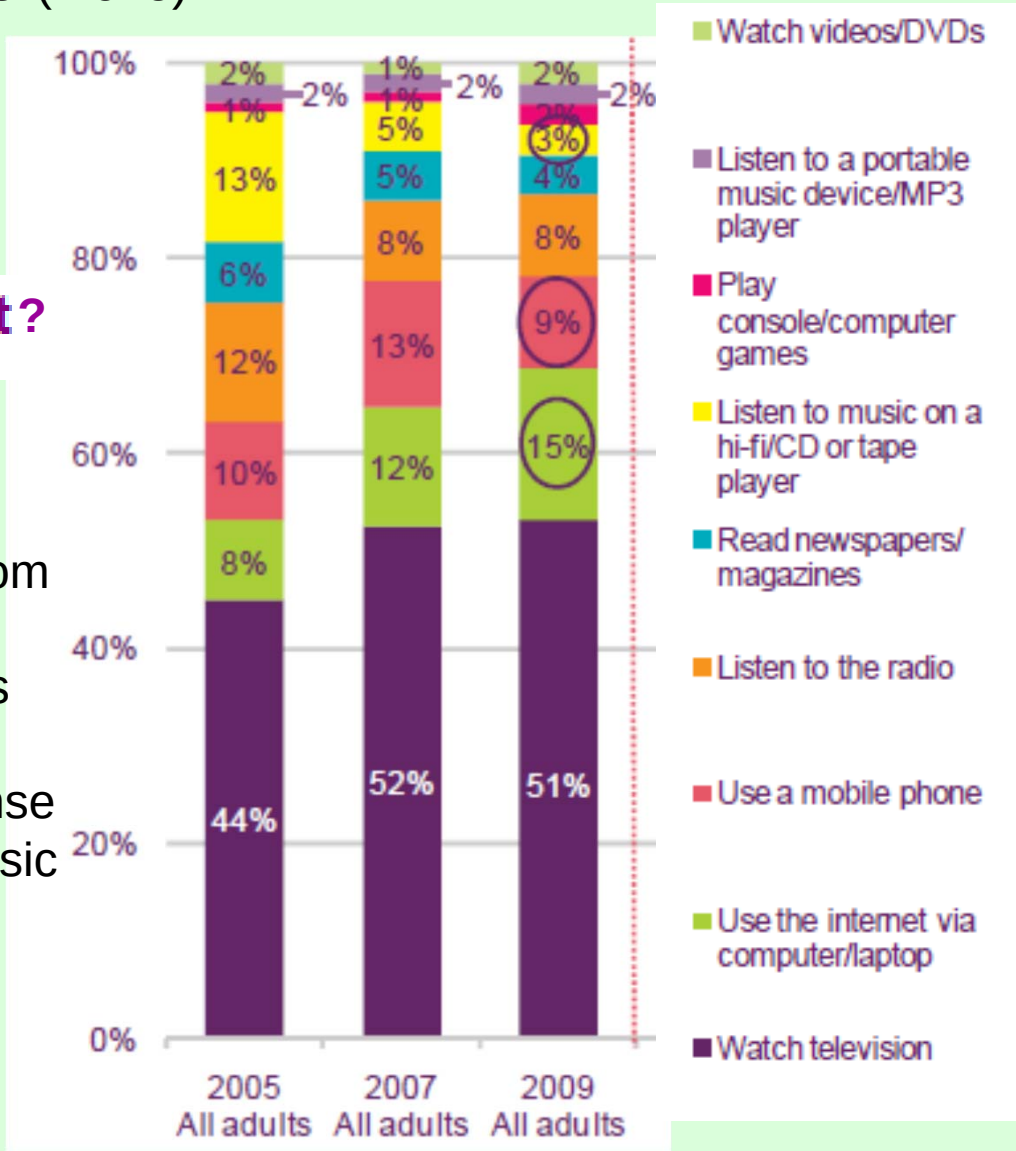
Source: European Interactive Advertising Association

8. Distinguishing ‘False Comings’ (1 of 5)

8. Distinguishing ‘False Comings’ (2 of 5)

In the UK

Which media activity would consumers miss the most?



1. Note the persistent dominance of television
2. Of concern is the decline from 6 to 4% in reading newspapers and magazines and 12 to 8% in radio
3. Internet Is growing at expense of these and listening to music on a hi-fi music system

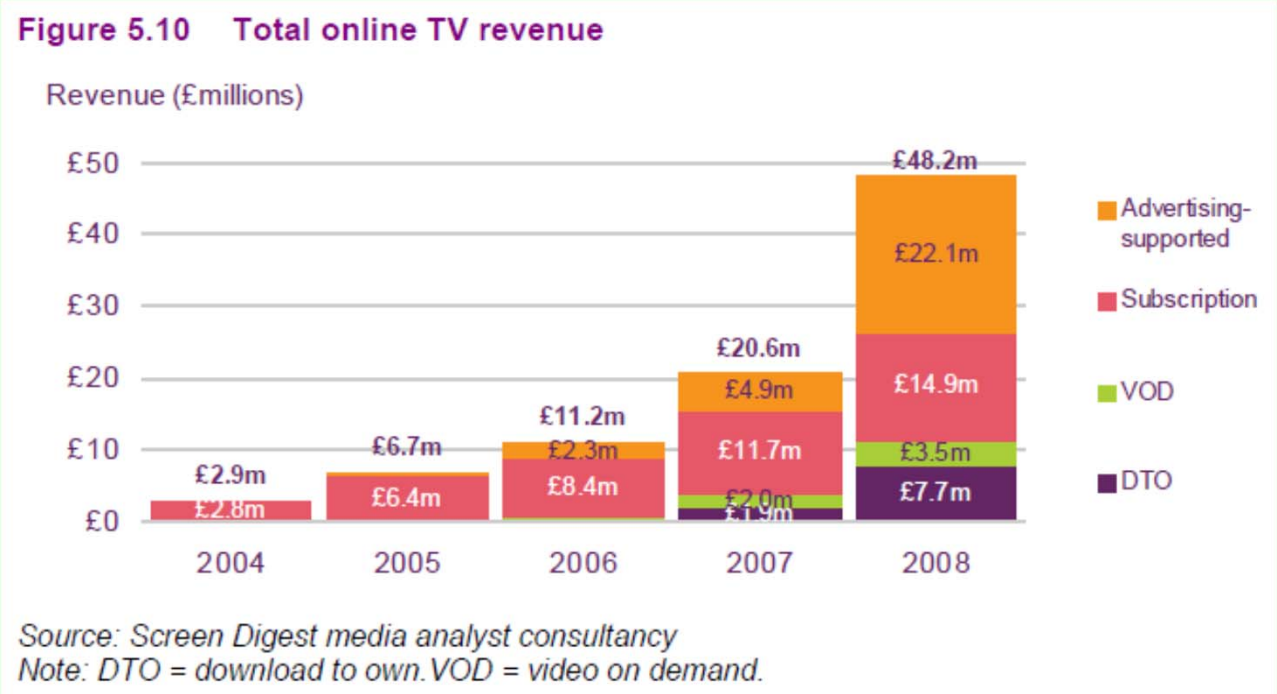
The last is ironic since MP3 is small and slow growing

8. Distinguishing ‘False Comings’ (3 of 5)

Figure 1.37 Daily TV viewing in *Sky+* homes, live and recorded, adults 16 - 34, Jan-May

Source: BARB, (January – May 2007 - 2009, base: adults 16-34 in Sky+ homes. Viewing by the Sky box, average hours, all)

8. Distinguishing ‘False Comings’ (4 of 5)



In the UK, whilst online TV ad revenue is growing rapidly, it has a very long way to go to challenge airways TV ad revenue at £3.47 billion (although down 3% on a year to year basis)

8. Distinguishing ‘False Comings’ (5 of 5)

Summarising the issue of ‘false comings’

Clearly, the threat to other media is relatively gradual

- The long term trend away from newspapers has a bigger impact than the Internet
- Television remains robust and the direct threat from online TV is (so far) very small
- Not shown, but book publishing is very robust in most European markets and e-books are still a distant threat
- Radio is more problematic and a strong public broadcast of radio in the UK makes life difficult for commercial radio

Nonetheless…

- Many of the features of the ‘entry swarm’ are present
- There are some early indicators of consolidation (e.g. iTunes)

9. Summary (1 of 2)

To return to the elements of theory I introduced at the beginning

Hints from Transition Theory

1. The formation of apparently unconsolidated niches
   - The Internet continues to spawn new advertising opportunities that are increasingly in advertising strategy
   - Collectively Internet advertising is similar in scale to 1950s television in the leading countries (e.g. UK)
2. The growing perception of instability in existing practices
   - The future of all advertising supported media except the Internet is being questioned
   - User produced content challenge mass media production and audience models (including paying first copy costs with mass media distribution)
2. Questioning of the existing methods of judging performance
   - Size of audience vs. ever more precisely targeted advertising
   - User produced media raises questions about the audience model of mass media

9. Summary (2 of 2)

Hints from techno-economic paradigm framework

1. Adjustment to change is usually accompanied by structural crises
   - -- Newspapers are on the verge of structural crisis
   - -- Traditional music distribution models have entered structural crisis
2. A number of complementary elements must be assembled for the new paradigm to gather momentum
   - -- New ‘intermediary’ models such as iTunes suggest one path
   - -- Synoptic approaches including Google appear very successful
3. Change occurs across a much broader range of activities than is suggested by initial developments
   - -- The larger implications of user production involve what people do to entertain, inform, and communicate with one another, activities subject to dramatic innovation
   - -- Developing new business models for valorising creative content creation is a major frontier for innovation in which the issues of scale and scaling are central