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Where is the Content Economy?

Come out, come out, wherever you are!

We've all heard that the Internet is making profound changes to the way we conduct business, and we've also all heard the predictions of further massive changes yet to occur that will be fuelled by the Internet. Some predictions about Internet-induced change have been realized at frightening speed, while other predictions languish as a recalcitrant reality moves onward in an entirely different direction. One of the more challenging tasks has been to predict the longer term stable economic model of content provision on the Internet. In this month's column we'll look at some of the models of content provision, and how these models have fared on the Internet.

The Medium is the Message

The classical content provisioning models, or if not classical, at least one of the oldest, is that used by the book publishing industry. Here the consumer purchases the medium, or in this case the book. The consumer's payment is used to compensate the retailer, the distributor, the publisher, and with luck, ultimately the author gets a percentage. The book world has proved remarkably resilient to technology-induced change so far. It's difficult to reproduce an entire book, even with a scanner or a photocopier, and unauthorized redistribution by a consumer is more difficult as a result. The publishing industry is dominated by the costs of paper, printing, warehousing, distribution and marketing. The impact of the Internet on this activity has been concentrated on competing with the retail sector, creating virtual bookstores with greater inventories and discounted pricing.

The much younger recorded music industry followed a similar path of using the medium as the means of pricing content. However, in this case, a combination of technology advances in consumer electronics and the Internet have made it relatively easy to duplicate and redistribute music content. The problem with this model, as highlighted in the court action involving Napster in the United States, is that such redistribution may occur without the due recognition of the rights of the copyright owner of the music. Until appropriate licensing arrangements and associated copy limitation technology is deployed to prevent wide scale redistribution of content, content provision in the music industry, and related medium-reliant content industries, are reluctant to abandon the paper or the CD and move away from their established business models. In such a circumstance, the Internet does not rewrite the economy of content publication or distribution, but takes on the more traditional role of a being a competitive retail channel. We are going to have to look elsewhere for an Internet-based content economy.

This Message is bought to you by our sponsors...

Another economic model for content is commonly used when distribution is essentially unlimited and redistribution is relatively easy.

Instead of attempting to limit distribution of content to those who have purchased the content, the content is interlaced with paid advertisements. The advertisements compensate the content creator and the content distributor. To maximize the advertising revenue, the wider the distribution of the content, the better.

Here the Internet appears to offer some potential. The ease by which content can be circulated so as to be accessible by tens of millions of potential viewers is without precedent in any other content distribution system. The cost of reaching each potential viewer is also at an unprecedented low point. This would appear to be the answer to the content economy, replicating free to air television and radio in its model of advertiser-paid content distribution.

However its not quite as seamless as some would hope, and cracks have emerged in the application of this model to the Internet. For the interlacing of advertisement and content to operate effectively, the interlacing must not be filterable by the viewer. It is possible to take a compound web page and alter the interlacing of advertisement and content. To be effective, the demographics of the viewer should be known to the content distributor, so that the advertisements with the greatest relevance and interest can be directed towards each viewer. The banner ad model of advertisement has not been so effective. The ads can be readily stripped from the remainder of the page. More importantly, the attention levels obtained by these ads, the so-called 'click-through rates' where the viewer actively follows the reference embedded in the ad, is extremely low and declining. And, most critically, the Internet is too unconstrained as a distribution network, and has no reliable targeting demographics that are accessible to the advertiser. For advertisers the Internet, as an advertising channel, has lost its sheen of novelty, and now the traditional methods of measuring advertising effectiveness come into play. For content providers who are using an advertiser funding model of revenue generation this is not welcome news, as the effectiveness outcomes for Internet advertising are much lower than many other advertising channels. At present it appears that the advertiser-funded model of content distribution will not flourish as the dominant model of the content economy on the Internet.

This Message will cost you...

Necessity, they say, is the mother of invention, and the need to derive a revenue stream from the provision of content on the Internet has fuelled other approaches. One of these is the online subscription model.

Here the consumer enters into an ongoing relationship with the content provider, and is granted access to content that would otherwise be inaccessible. This arrangement has some obvious attractions in that there is no significant additional overhead in distribution of the content: no print, no distribution and no retailing requirement. The consumer pays the content originator directly for the content itself, without the added impost of the cost of distribution of the medium of the content. But this model has also failed to really take off on the Internet. Consumers are reluctant to enter into a myriad of individual content access relationships, and, for the content provider, the consideration is that once the content has been passed to the consumer digitally the content provider loses control over any consequent redistribution of the content. The digital content can be readily saved and redistributed, depriving the content provider of further revenue. The international nature of the Internet also implies that seeking legal remedies to such unauthorized redistribution is often unwieldy and expensive, even when successfully prosecuted.

This Message is bundled with your Internet service

The original concept, of a separate and distinct content economy as an overlay on top of the underlying connectivity of the Internet is one that has not been realized so far. Yet, paradoxically, every day tens, if

not hundreds, of millions of individuals spend tens, if not hundreds of millions of hours viewing content downloaded from billions of web pages published on the Internet. Most of this content is free to the viewer, and this raises the issue that if all content on the Internet is to remain free of consumer charges then we are going to have to work out some other way to compensate the original author or creator of the content.

We are not quite in that dire position yet, as there is one other consumer relationship in the Internet economy that may be used to sustain a viable content economy. This relationship is the provision of Internet access, where the consumer pays the ISP, or access provider, for access to the Internet. The line of argument here is that without content there would be no demand for Internet access and no access market, and, bearing this in mind, the case is made that the access provider should use some of the access revenue to compensate content providers.

Admittedly its a line of argument which has a number of weaknesses, but the reality is that the access point is the point at which consumer revenue is injected into the Internet, and the case made is that this revenue should fund the entire Internet service, and not just the network elements that deliver packets to the user. What this is doing is attempting to rewrite the access market to encompass a broader domain of an internet service, where access and content are bundled into a single retail offering.

Of course convincing access providers that they should share their revenue with various content brokers is not an easy task, and while the concept of greater levels of customer revenue is always welcome, the requirement to share this revenue with content providers is not viewed as enthusiastically. Perhaps it is now up to the content providers to demonstrate to access providers that such an arrangement will lead to greater commercial opportunities for all parties, and that such an arrangement is the most effective path to provide valuable and valued content on the Internet.

There is little doubt that the model of the consumer entering into many hundreds, or even thousands of micro-payment relationships with thousands of content providers is one that is not attractive to consumers. Bundling content into a smaller number of larger relationships is the right direction, but getting consumers to separately value and pay for the content they use to the Internet access service they use is a path of very high resistance. It may be that its the next step to bundle up the two services and offer both access and content within a single consumer relationship.

The Message and the Internet

In looking at the various options for the development of the Internet content economy, the overall observation is that perhaps we are simply too impatient for the right answer. The Internet is a broad and highly efficient communications system, and by virtue of this alone it already undertakes a massive proportion of the global content distribution workload. This is in spite of the fact that we have yet to latch onto an enduring and stable mechanism to ensure that all participants in this content distribution network are duly and properly compensated for their efforts.

So the prediction remains that the Internet content market will be a robust and highly valued market. Its just that we've yet to reach that particular reality where this prediction becomes established fact.