LIVING NETWORKS

ANNIVERSARY EDITION

LEADING YOUR COMPANY, CUSTOMERS, AND PARTNERS IN THE **HYPERCONNECTED ECONOMY**

ROSS DAWSON

Living Networks

Leading Your Company, Customers, and Partners
in the Hyper-Connected Economy

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Living Networks is being relaunched in its Anniversary Edition five years after its original publication by Financial Times/ Prentice Hall in November 2002, to revisit the foundations of our networked age.

Free chapter downloads of *Living Networks*:
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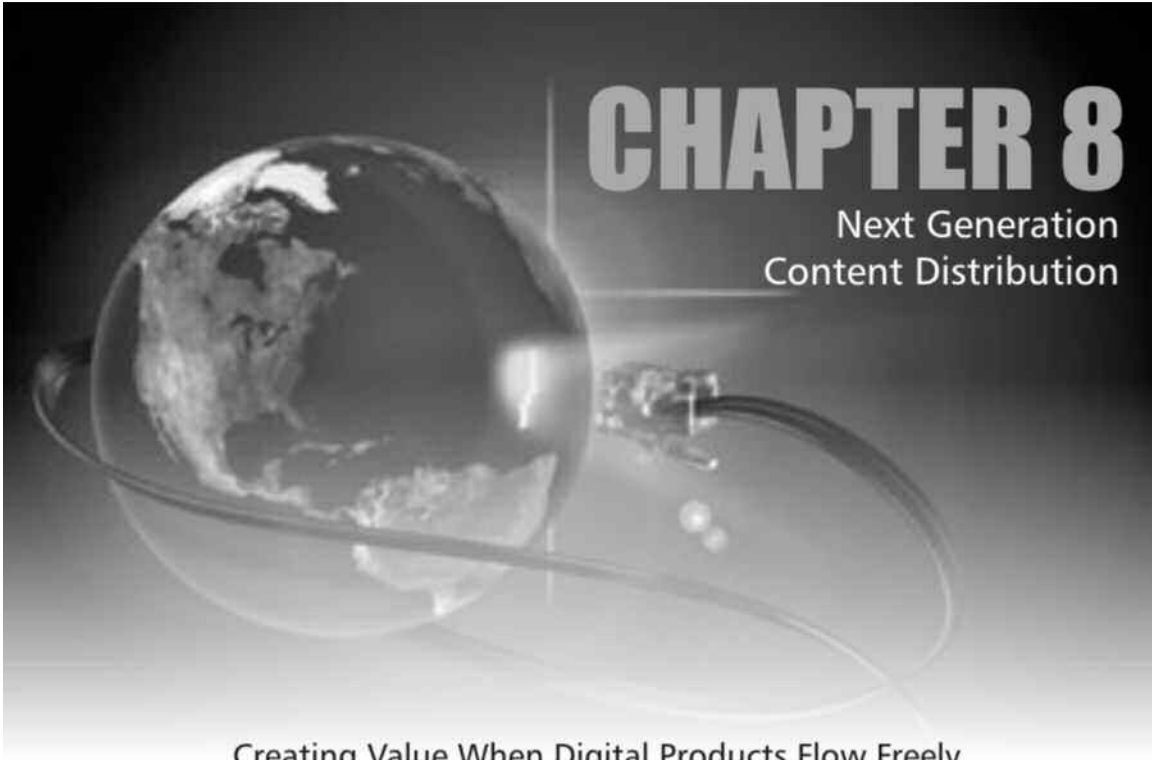

CHAPTER 8

Next Generation Content Distribution

Creating Value When Digital Products Flow Freely

In a hyper-connected world digital products flow freely, unless safeguards are put in place. Providers of content—including entertainment and high-value information—must balance protection and promotion to maximize value. All content industries are in a state of massive flux, and evolutionary strategies are required to succeed in this time of transition.

One of the early digital devices that gave consumers greater control of their entertainment was TiVo, the digital video recorder that allows viewers to easily search for and record multiple shows, and pause and rewind live programs. In 2000 TiVo developed an advertising campaign featuring a television network executive being thrown out of a window, but for some reason CBS felt the commercial was inappropriate, and declined to show it.[1] When SONICBlue released ReplayTV 4000, a next generation digital video recorder that not only allows users to delete commercials automatically during playback, but also to share recorded programs with friends, apoplectic broadcasters petitioned a federal court to stop sale of the device.[2]

The content and entertainment world is perhaps the aspect of today's economy that is the most dramatically impacted by the advent of the digital networked world. The vast content industry—including music, film, software, books, market research, images, and more—is undergoing a seismic shift that will eventually result in a very different landscape. Throughout the extended transition period, powerful vested interests in existing industry structures will battle hard to slow the pace of change. There will be many winners and losers along the way, as the business of content—which is increasingly the business of distributing digital products—reshapes itself.

There are five core drivers that are transforming content distribution:

- **Lower distribution costs.** It is no longer necessary to manufacture and distribute physical goods such as CDs, books, and packaged software. Digital distribution can be done at almost negligible cost. Distribution currently accounts for 60% and sometimes far more of the total cost of creating and delivering content.[3]

- **Ability to tap a far larger market.** Any digital product can easily be made available to a global market. The value of controlling physical distribution channels is eroding, and companies of any size can now access either large or niche markets effectively.

- **Benefits to customers.** The many advantages of digital products include immediate availability, the ability to quickly search for and find anything you want to purchase, instant access to anything on your entertainment system without having to handle CDs and tapes, and the availability of customized products.

- **Digital products can be copied, protected, and cracked.** Digital products can be copied indefinitely, with every copy equal in quality to the original. Rights management software can make it difficult for users to copy content, but it currently appears that all content protection can be cracked.

- **Products and messages flow in the networks.** Today's communication networks mean not only that products can be delivered digitally, but also that they can readily flow both to friends, and your millions of acquaintances on peer-to-peer networks. In addition, information about what is worthy of attention flows ever-swifter.

Perhaps the most important single factor in determining the new landscape—and the least predictable—is consumer attitudes and behaviors. During the initial boom phase of the Internet, people grew to expect to get things for free. A multitude of free services such as e-mail accounts, news, and share portfolio analysis were quickly taken for granted. Then Napster and its successors made high-quality music available for free to all comers. Not only is a whole generation growing up knowing nothing other than free music, but a broad swathe of their seniors have swiftly adapted to downloading tunes at will. At the same time, many still get a little niggling in their conscience, and would prefer not to steal from the artists they admire. The problem is, the only alternatives are at best immensely inconvenient. Going to a music store and sorting through racks of CDs seems like a waste of time if you're just going to rip the songs and transfer them onto your portable MP3 player, and it's hardly any better to have to download an array of different types of software and scour through a range of online music services to find which one has the songs you want. The future landscape for the distribution of music—and all other forms of digital content—will ultimately depend on how consumers' behaviors evolve in response to the range of choices of differing convenience and legality that are available. This is very difficult to forecast in detail, and many firms have foundered on bold—and inaccurate—predictions of their customers' responses to changing technologies.

The other vital issue is the development of legislation on content protection. As you will see later in this chapter, major content companies are pushing for legislation to be embedded into technology. The decisions of lawmakers may have a dramatic impact on the future of the flow economy.

Despite Napster and its contemporaries, the promise is that content industries can make more money—maybe even a lot more—than they have in the past. The simple reason is that they have the potential to provide far more value to consumers. Total demand increases if consumers can easily access a broader selection of entertainment. Amazon.com has increased the total size of the book market by 15%, partly through making it very easy to buy almost any

Collaborative filtering means that consumers are becoming aware of many things that they like and want to buy

published book.[4] Back catalogues of music, film, and books can become big money-spinners. "Alternative" content may be a small proportion of the total market, but it can become far bigger if its audience can access it easily.

The ready flow of messages through the networks means that people are getting more recommendations from friends than before. Even more importantly, collaborative filtering means that consumers are becoming aware of many things that they like and want to buy, but didn't know about before. We have been living in a world in which music labels, film studios, book publishers, and their peers act as the filters that select what consumers are able to choose from. We are now shifting to an era in which everyone can access all creativity. Clearly this results in a massive excess of choice. MP3.com alone gives access to over 800,000 songs. Part of the continuing value of the major distribution firms will be to help people select what is outstanding from an overwhelming range of choices. However they overstate their case when they assert that this is an essential function. Plenty of people will want to find quality beyond what is approved by these self-appointed arbiters of taste.

The immense value of the collaborative filtering systems described in Chapters 1 and 4 is that they bring the highest quality material to the fore. This broadens the spectrum of what is available, and increases demand as people find what they like far more easily. The recommendations features of Amazon.com, Yahoo!'s Launch.com, and their peers are already playing an important role. As more sophisticated collaborative filtering systems are developed and widely used, we will be able to tap the collective experience of the many people that have similar taste to us, but we will never meet. Collaborative filtering company Media Unbound asks users to answer questions about their music taste, rate music, and give ongoing feedback on the music it plays them.[5] Major music website Pressplay, among others, has implemented Media Unbound's software as part of its service.

These twin powerful trends of greater access to content, and increased awareness of quality content, can result in greater revenue for these industries, but new business models are required. For example, US music consumers currently spend on average $60 a year on CDs—equivalent to perhaps four albums. If each of those consumers were given the option to pay $10 per month, and in return get all the music they wanted, it is safe to predict that most would take it up, feel they are getting great value, and the industry would double in size.[6] Unfortunately, implementing this attractive vision is easier said than done. Let us examine first the impact of digital rights management on the world of content, and then move on to how the content distribution landscape is evolving, including the action firms should take to shift their business models and approaches.

Rights, rules, and balance

You would have to search long and hard to find someone who has never made a cassette or digital recording of a CD for a friend, used unregistered software, photocopied a magazine article, or otherwise broken copyright laws. While in many cases these acts are trivial, in others they are theft, pure and simple. However it would be wrong to see the issue in stark black and white terms. If copyright holders sometimes benefit when people copy or pass on their content, by gaining more sales, earning revenue from other sources, or increasing market presence and awareness, should they demand that the law be enforced regardless?

Copyright owners can sell the right to use their content in specified ways. For example, if you buy a physical book, you are given the right to read it as many times as you like, to lend it to others, and to sell it, but not to copy or store it in any form. Purchasing a CD is understood to give you the right to make a copy for your own use, but not for others. Those are your legal rights, however even if you happen to know the specific boundaries of those rights, there is nothing stopping you ignoring the law and copying at will.

However now that content is becoming largely digital, everything changes. When you purchase a digital product, it is possible to control down to the minutest detail what rights you do or don't have. You may be given the right to read a document on your PC only, use software for 30 days, watch a film three times, or listen to music only at a low quality level until you pay more. Suddenly content distributors can specify to whatever degree they wish the "business rules" of how their content can and cannot be used. This gives them incredible flexibility in how they approach distribution and pricing. However as Lawrence Lessig eloquently points out, in some cases the digital rights given to consumers do not even match their legal rights, such as copying for personal use.[7]

Digital rights management (DRM) is the domain of using software to give customers specified usage rights to digital content. A plethora of vendors, from IBM and Microsoft to endless start-ups, are competing vigorously in this space. There are significant direct revenues at stakes, but far more importantly, whoever owns the standard DRM system in a content market has the potential to leverage that to control a very broad space in the flow economy. Later in this chapter you will discover why firms like Microsoft are so aggressively pushing their DRM offerings, in its case Windows Media.

The reality is that most DRM systems are a pain in the ass to use. Let's say you have a choice in how you access content. You can be forced to hunt around a variety of sites to find everything you want, and have to download and familiarize yourself with a range of unwieldy programs in order to

access the content. On the other hand, you can go to one site and get everything you want with no hassles, with the additional upside of it being free and downside of it being illegal. In the case of digital music, many people are choosing the latter option—that is downloading files from the peer-to-peer music file sharing systems. The inconvenience of many DRM systems is tipping the balance to make people choose the easier option. There is a clear trade-off between protection and customer convenience.

The other key factor is that no digital content protection system is fully secure, as you saw in Chapter 5. The very fact that entertainment needs to be converted to sounds or images in order to be used means there is always a point at which encryption can be broken. If hackers can break DRM to create unprotected content, then it's back to having to compete with alternatives that are far easier to use, and free to boot. However if consumers need to use software or systems to crack protected content, not only does it become inconvenient, but it also emphasizes to them that they're indulging in illegal activities, meaning far fewer are likely to do it. As many industry executives have noted, most people prefer to think that they aren't pirates, and are willing to pay for what they use, as long as the prices are reasonable and the systems are easy to use.

The turning point in how content industries are trying to protect their goods was perhaps the cracking of the so-called Secure Digital Music Initiative, discussed in Chapter 5.

Given that software doesn't seem to do the job, the industry is trying to implement more draconian measures. For example, they suggest that if every CD player, PC, and other consumer digital device manufactured were equipped with mechanisms to prevent them playing protected content, everything would be fine. These proposals are deeply flawed, and not only because many perfectly legal activities would also be prevented and consumers would ultimately bear the costs. Technological innovation on many fronts would be stifled, and more importantly, the entire flow that the emerging economy is based on would be dampened. These industries must realize that their future is based on richer and faster flows of information, and not stagnation.

Of course the issues with DRM and distribution depend strongly on the nature of the content. If content is very high-value, for example research reports, then customers will download them infrequently, usually be happy to go to a particular site for what they need, and is unlikely to be worried about minor access requirements. For instance TechSearch International produces reports on semiconductor packaging trends, priced at $4,000 apiece. Its clients wanted the convenience of receiving reports in digital format rather than on paper, so TechSearch has chosen to use DRM protection on the files it sells. This works perfectly well for both the content provider and its customers.

The yin and yang of content marketing

When Radiohead released its album *Kid A* in October 2000, it went straight to the top of the Billboard charts, despite there being no promotional video or big tour. EMI label Capitol Records, three weeks before it released the album, launched an iBlip, an interactive mini-site that fans could host and forward to their friends. It contained access to the entire album in streaming form, an MP3 track download, content on the band, and the ability to add other content. The more than 900 Radiohead fansites—not to mention radio station websites and online retailers—were eager to host the pre-release album and other features, as it was cool and drew people to their sites. The iBlip allowed Capitol Record to syndicate content from its own sources and the many very professional fan sites, so it was continuously updated wherever it was accessed, also allowing local sites to add their own content. On average the fans forwarded the iBlip to two friends, astounding when at a time when a 5-10% pass-on rate was considered good. Another part of the campaign was the Googly Minotaur custom buddy, which fans put on their instant messaging lists to receive updates on the band and album. Over 300,000 messages were sent to the buddy on the day after it was launched, with the chatter of instant messaging pals around the world sparking almost instant global awareness. For the promotion, Capitol Records became the first from the five major record labels to collaborate with the loathed music file-sharing networks. It offered to Aimster users a Radiohead "skin", or interface design, which gave them access to the Radiohead website. At the same time, Capitol knew that the album's tracks were readily available for free download on Aimster, Napster, and other services, yet understood that this could boost sales rather than dampen them, as indeed turned out to be the case.[8]

If you go too far either way—in protecting content at the expense of promotion, or promoting it without generating revenue—your returns will suffer. What is required is a mentality of not just balancing promotion and protection, but integrating the two sides.

Many content owners' inclination is to protect at all costs people from stealing what they see as rightfully theirs. Unfortunately this is not necessarily the best way of making the most money, which is probably what copyright holders really want. In an economy based on the flow of information and the scarcity of attention, focusing too much on protecting digital products can greatly hinder promoting them effectively. In Chapter 6 you saw how positive awareness is increasingly developed through the flow of messages in the networks. This requires both offering something of value that people want to pass on to others, and making it as easy as possible to purchase the product and let others know. Of course we must also keep in mind that the dot-com experiment has shown us that giving everything away for free is rarely a sustainable business model.

If you go too far either way—in protecting content at the expense of promotion, or promoting it without generating revenue—your returns will suffer. What is required is a mentality of not just balancing promotion and protection, but integrating the two sides. To whatever degree possible, you need to make them complement rather than conflict with each other. The old Chinese yin-yang symbol, shown in Figure 8-1, represents the balance and harmony that marketers must seek. Capitol Records' Radiohead campaign illustrates how not being afraid to experiment with reduced protection, and integrating that into effective promotion, can result in more dollars in the door. Capitol uses similar approaches with those of its artists that are willing to try new approaches. When you log onto rocker Dave Navarro's website, an audio streaming of all tracks on his latest album automatically pops up.

Figure 8-1: The yin and yang of content marketing

It's not so long since Disney was all but unknown in China. When a few Disney cartoons started airing on Chinese television in the mid-1980s, it coincided with the birth of VCRs, and pirated and often dubbed copies of Disney's classics flooded the Chinese market, with Disney none the richer. The rampant unlicensed production of Disney merchandise in China was a thorn in US-China relations throughout the 1990s, with constant threats of economic reprisals for China's blatant disregard for intellectual property. Now that China is seeking to open its economy internationally, manifold opportunities are opening for Disney. It has cut a deal for Mickey Mouse to reach 225 million Chinese television-viewing households in kid's prime time, is opening a theme park in Hong Kong in 2005, and considering opening another park in Shanghai. It is also reviewing its merchandising

opportunities on the mainland, especially now that it can more readily apply pressure on the government, given China's role as the largest legitimate producer of Disney branded goods and a proud new member of the World Trade Organization.[9]

Disney executives would probably never admit it publicly, but its current business opportunities were only made possible by the rampant pirating of the previous two decades. If every Disney product ever sold in China was legally licensed, the pricing would have been prohibitive, people wouldn't have been exposed to Disney's lovable characters, and Disney's brand in China would be worth a fraction of what it is today. The strategy was hardly deliberate in the early days, but now more firms are recognizing that over-protection of intellectual property can be counter-productive.

The world of the digital affords many opportunities to integrate promotion and protection. *Superdistribution* may sound like something out of a comic book, but it simply means people sending digital products on to others. If people like a song, video, or book, they can easily forward it to their friends and contacts, who can in turn pass it on. This is a type of viral marketing, however it uses DRM to incorporate a way of generating revenue as each person along the chain uses the product. This works by putting the product in a "wrapper" that encrypts it, gives specific access rights, attaches an identifying code, and can also include free material such as low-quality previews or video clips. This means that when people send this package, recipients can look at the free material, and perhaps listen to or view the product once or twice, but must pay in order to keep it. The identifying code means that the vendor can tell who originally sent the product. They can reward them, for example by giving them the product for free if 10 people they forwarded it to pay for it, or even establishing a multi-level marketing plan in which people get small commissions for everyone that pays for a product along an entire global chain.

The evolving landscape of content distribution

Ten years from today, how will the total book market be shared between paper books and their digital counterparts? How about in twenty years? These questions are guaranteed to spark lively—and often heated—debate among book lovers. Without tempting fate with a specific forecast, we can safely say that a large proportion of books will be digital, certainly within twenty years, and probably within ten years. This will be driven largely by the development of ebooks that mimic many of the useful characteristics of paper books, while providing additional advantages afforded by digital products, not least of which is packing hundreds or thousands of books into a single handy volume. What is far harder to predict is who we will be buying these ebooks from—be it authors, bookshops, online vendors, or others—and what the landscape of standards and ebook devices will look like.

As the shift to the digital reshapes the content distribution landscape, it is worth distinguishing what we can say about the future with some assurance, and what is less predictable. The reality is that we are in the early stages of what will be a breathtaking shift in the world of content. In each content industry, we can actually get a reasonable idea of what will drive the market once the majority of the transition is through, be it in five years, ten years, or more. What is far harder to discern is the results of the jockeying for position in the meantime. There will be big losers, as some of the current giants fail to adjust effectively, and there will also be massive winners, as existing and new players position themselves to take a large chunk of the value in the new market. Without being able to pinpoint who will win or lose, we can at least understand what will drive success and failure as intense battles are waged to stake a claim to riches.

Let us first consider what we can foresee in the longer-term future:

- **Almost all content will be digital.** In software, music, and high-value information first, then in images, films, and books, almost all content will be distributed in digital form over networks. In some cases the complete transition will require wide availability of high bandwidth access, in others better interfaces. In time, these will be available, heralding the final arrival of the digital content world.

- **Content will be largely available on demand.** As the next generation of broadband becomes available in both the home and through wireless, there will be less reason to store most forms of digital content. Content will be accessible wherever you are, through whatever device you are using at the time. Internet radio is a predecessor of that nirvana, allowing anyone with an Internet device to listen to any of thousands of radio channels around the world, wherever they are.

- **Content creators will have more choices.** Musicians, artists, authors, and film and game-makers will no longer be beholden to publishers and studios. Publishers will often have to offer more value to attract star creators to work with them, including financing and promotion. The implications from the perspective of creative individuals will be covered in detail in Chapter 10.

- **Physical retailers will exist, but in a different form.** It's an inescapable fact that people like shopping. However as content becomes increasingly digital, retailers will have to rely on providing fun experiences and useful ways of finding good content to entice consumers through their doors.

- **Industry revenue and profitability will depend on the adoption of standards.** The actual benefits gained by consumers and producers of digital content will depend on the widespread adoption of standards for technology and interfaces. The potential value of controlling these standards will lead to bitter battles, but if no consensus or clear winners emerge, everyone will lose.

Studying the longer-term future of content distribution is an exercise in exploring how value will be reallocated between participants. There will be a different array of participants, including both existing and new players, and how each creates value will change. The high degree of uncertainty means that scenario planning is a very useful tool to explore the long-term dynamics of any particular industry. However the reality is that many strategic decisions today will be driven by short-term considerations, as firms jockey for position in a rapidly evolving space. Dealing with issues such as evolving standards and changing control of customer relationships requires tactical expertise as well as long-term vision.

Applying the flow economy framework

The flow economy framework presented in Chapter 7 provides a valuable approach to analyzing the content distribution landscape. The six flow elements are at the heart of how the content distribution landscape is changing. Considering these in the context of a particular industry can enable the development of refined strategies. Firms must examine in detail how they should position themselves within each of the flow elements, how the flow elements combine and interact, and especially how to reposition themselves by leveraging strengths in one element into others.

The music industry is the case study for digital content distribution that everyone is watching. While there are many different factors at play in other industries such as film, TV, and books, the evolution of digital music distribution is still highly instructive for all content providers. The five major record labels have demonstrated they have essentially a two-pronged strategy: stamp out all other attempts to distribute music online; and establish their own online music distribution.

The recording industry's immediate response to the stunning rise of Napster was to strive to destroy it. Having succeeded at stopping it in the courts, the established players then looked up to see other peer-to-peer networks mushrooming on all sides, some of them distributed networks with no central server to shut down. After realizing that they had to respond to consumer demand or lose a large part of their revenue, the major labels finally took action. Vivendi Universal and Sony joined to create online retailer Pressplay to sell their music, while Warner, EMI, and BMG established MusicNet, along with RealNetworks and Warner's parent, AOL

Time Warner. Later in this chapter we will examine some of the issues in this creation of two separate alliances to aggregate content to customers. The biggest problem the two alliances and their consumers face is that they have adopted different standards for their music distribution. Pressplay has established a broad-ranging agreement with Microsoft, that entails providing their music through Windows Media technology, and includes distribution through the MSN Music website. In the other corner, Microsoft's arch-rivals RealNetworks and AOL Time Warner are using their own incompatible streaming and encryption technologies. While these giants posture and feint at each other, Napster—backed by its part-owner BMG—is still endeavoring to rise from the ashes to establish itself as a legal subscription service that will cover all music. At the time of writing, both Pressplay and MusicNet were finding business very slow, perhaps even to the extent of putting their future into question. By the time you read this, the next chapters in the saga will have been told.

No single business model is likely to be effective indefinitely, as technology progresses and consumer behaviors and attitudes unfold.

This very brief case study shows many of the dynamics at work in the evolving content distribution landscape. Microsoft's positioning—as always—is intriguing. It aligned itself with Pressplay largely as a means of promoting its Windows Media platform, which encompasses both DRM and audio and video streaming. Microsoft recognizes the potential power of dominating DRM standards, which it could leverage into receiving ongoing licensing revenue for all content. In addition, by gathering customer information and providing customized offerings from other parts of its substantial and growing empire, it could controlling customer relationships.

There are four key steps that content distribution firms must take to position themselves effectively as the new industry landscape evolves in the coming years, as shown in Table 8-1.

POSITIONING FOR CONTENT DISTRIBUTION

1. Build evolutionary business models
2. Define and refine strategies for standards and interfaces
3. Develop and implement aggregation strategies
4. Enable versatile syndication models
5. Rework your product versioning

Table 8-1: Action steps to positioning for content distribution

1. Build evolutionary business models

By 2001 analysts were growing concerned that Microsoft's revenue stream could falter, as the IT managers at large corporations began baulking at upgrading the software on all their PCs every time a new version of Microsoft Windows or Office was released. The software titan was finally galvanized to implement the strategy it had been musing about for years—switching to licensing its software as an annual subscription instead of a one-off purchase. Its new Software Assurance program gives users the right to receive all upgrades released during their subscription period, and includes support services. It seems few customers were delighted by the change, partly because for many their licensing costs increased, and Microsoft was forced to backtrack slightly, including extending the initially planned five month transition period to well over one year. Microsoft is already thinking of how it will further shift its business models to accommodate its .NET strategy, which will be described in Chapter 9.

Business models must be engineered to evolve in response to shifts in the landscape. As the flow of information and ideas grows ever-more fluid, the balance between protection and promotion will change. No single business model is likely to be effective indefinitely, as technology progresses and consumer behaviors and attitudes unfold. There are two key steps to building evolutionary business models: actively experimenting; and considering not just how to manage the transition into the new business model, but also how that model can later transition into another.

The truth is, no one can accurately forecast what will and won't work in content distribution. Firms must experiment, try variations, see what consumers do and don't respond to, and do it in a way that allows them to readily shift and try other possibilities. Pressplay, established by Vivendi Universal and Sony, in its initial launch offered four different pricing options, each offering a different combination of music streaming, downloads, and CD burns. As they monitor consumer response to this array of options, they can establish what pricing mix is most attractive.

One of the marking experiments for content business models was made by novelist Stephen King. He offered his book "The Plant" in installments, bypassing publishers completely and selling directly to readers from his website. People could freely download each installment, but were asked to pay a small amount for each part. King said he would continue writing the book if sufficient readers paid. By the fourth part, just 46% of readers paid for the download, and in November 2000 the author announced he would stop working on the book indefinitely, having reportedly earned almost a half million dollars after costs in the process.[10] As an independent author, Stephen King had the latitude to experiment more than large firms might, however by stopping mid-stream he has made it harder for others who want to try variations on his experiment, for example using DRM to protect

content. He probably also had not fully thought through the consequences of stopping the experiment. Many of those who have paid $7 for the first half of a thriller probably no longer consider themselves Stephen King fans.

2. Define and refine strategies for standards and interfaces

Imagine, as you watch a video being able to click on the actors' clothes to buy them, to zoom in when you want, or to get further information on locations in the film. No doubt you've read about this marketer's dream. This can in fact be done today on the Internet, enabled by MPEG-4, the compression technology that is intended to succeed earlier standards including MP3. But the technology hasn't taken off yet. In early 2002 MPEG LA, the licensing body formed to represent the 18 firms holding the patents that underlie MPEG-4, announced its pricing plans. The proposed fees—that included per-minute fees for all streaming video—created an uproar as market participants struggled between wanting to use a powerful technology, and not wanting to pay what they saw as excessive ongoing fees for its use. The Internet Streaming Media Alliance (ISMA)—an industry body seeking to establish open standards in the field, and representing over 30 major firms including Apple, Cisco, IBM, and Philips—weighed in with their concerns over the pricing scheme. Taking advantage of the brouhaha, On2, a small video compression firm, offered the use of its technology to ISMA for free.[11] In the meantime, the primary competitor to MPEG-4 is Windows Media, with Microsoft carefully steering clear of alliances in this field.

This snapshot of intrigue demonstrates many of the key standards issues in the world of digital content. Reflecting the basics of standards strategy outlined in Chapter 2, it is clear that firms can choose between establishing and profiting from standards, or promoting fully open standards that benefit the industry but level the playing field. Those who play little role in standards setting, but use standards in their business (as do all content businesses), have to decide whether a particular standard is likely to succeed, the costs of implementing and using it, and whether to back just one horse or several. Firms that wish to offer full-featured video over the Internet need to consider whether to invest in aligning their efforts with MPEG-4, Windows Media, or the other alternatives available. Firms need not only to place their bets judiciously, but also to make sure they are able to switch courses mid-stream if necessary.

There are similar issues with the interfaces that enable access to content. As with standards—and indeed all of the flow elements—controlling these can allow firms to reposition themselves in the content distribution market. Gemstar eBook is now one of the major players in the ebook market, with two of its early moves acquiring Nuvomedia, which makes the Rocket eBook, and Softbook Press, the maker of the Softbook Reader. The original Rocket eBook worked by transferring ebook titles from PCs by serial cable

after they had been downloaded from the Internet. Gemstar eBook redesigned the next version of the Rocket eBook to include a modem, which enabled users to get dial-up access to an interactive catalog, and and purchase books directly from the device maker. Gemstar eBook had neatly shifted from controlling the interface to moving into the content distribution business.

Content providers and interface makers are often involved in intricate mating dances. Content firms generally would like to make their offerings available through all devices, but sometimes they can benefit by aligning themselves with a particular interface. In order to help establish standards, companies will offer lucrative deals to get exclusive content.

3. Develop and implement aggregration strategies

No doubt Mark Getty was thinking of the awesome riches accumulated by his grandfather—oil monopolist J. Paul Getty—when he set out with the intention of buying and building a business. He openly admits he was searching for a fragmented industry that he could come to dominate. What he found was stock photography. Today Getty Images is the largest player in a $2 billion industry, the product of 17 acquisitions made since 1995.[12] Getty and his colleagues had realized the value to its media, advertising, and corporate clients of being able to go to one source for their images rather than having to scour through many suppliers. The advent of the Internet and high-quality digital photography has vastly simplified the process of searching for and obtaining images, but the same simple dynamic applies: if you can go to one source rather than many you can dramatically reduce your transaction costs.

One of the greatest boons of the Internet to business and consumers is the ability to bring together information in one place. At the same time as buyers have gained access to many more suppliers, they are now able to consolidate and compare information on all offerings, and go to just one place for all their purchasing activities in any area. That's the theory, anyway. Certainly B2B exchanges such as Free Markets allow purchasers to access global suppliers for complex offerings, AOL's shopping channel brings together retailers of all stripes, and websites like mySimon.com compare the prices of any given product across all online retailers. However because the position of aggregator is so powerful—in many cases essentially controlling the relationship with the end-customer—the battle to become the predominant aggregator in any market is often fierce, reflecting many similar dynamics to standards wars.

The Pressplay and MusicNet case provides a great illustration of the issues. The reality is that all the five major labels would benefit if they provided one site for consumers to access all music. They have split into two competitive camps, even though consumers will never settle for music

from just one group of labels. This is different from other markets, for example cable TV, in which customers are likely to choose the set of channels they prefer rather than needing to access everything. When these aggregators were being formed the question for each label was whether to participate, and if so which group they wanted to join. Each of the major labels is powerful by right of representing top artists that people want to listen to, thus forcing consumers to come to their aggregator site. EMI, a member of MusicNet, has hedged its bets by also making its music available through Pressplay. This means that it is potentially diluting the value of its stake in MusicNet, but accessing a broader market. Independent labels that wish to distribute through these sites may choose to go through both—depending on exclusivity negotiations—but if so must bear the cost of providing their content under multiple formats.

In the meantime, the peer-to-peer file sharing networks are effectively aggregating music from all labels, thus making them attractive to users. Napster is now seeking to position itself as a legal subscription service providing access to all content. The major labels want to avoid licensing their content to others, so that customers are forced to go to their online retail units, however this raises antitrust issues. Aggregators have the potential to combine market power to the detriment of consumers, and the Department of Justice has investigated numerous B2B exchanges as well as the music labels' online efforts.

4. Enable versatile syndication models

In 1865 the young newswire started by Paul Julius Reuter got its first big scoop when it broadcast news of Abraham Lincoln's assassination before anyone else in Europe. Today, when you point your browser to AOL, Lycos, MSNBC, Yahoo!, or almost any of the other top new sites on the Internet, and you will see news provided by Reuters. The global information provider feeds multimedia content to more than 1,000 client websites, packaged to target specific regional and industry audiences.

The Reuters content is delivered in NewsML—an XML format that allows its clients to select and present the information however best suits their websites. Part of the power of NewsML is that it allows stories to be reformatted for different situations, for example using shorter titles for display on mobile devices, or changing references if used in different countries.

Syndication is one of the best-established business models for content. By the early 1900s there were over 150 comic strips in syndication,[xiii] and the business model is central to newspapers, radio, television, and just about every other form of content and media. However, in a hyper-connected world, the drivers and nature of syndication are changing. The global scope of distribution means it is difficult to negotiate with all end-users yourself,

so syndicating intermediaries like iSyndicate, ScreamingMedia, and Factiva have a vital role to play. The key role of customized content in relationships—as you saw in Chapter 4—is making access to useful, regularly updated content critical. The increasing cost of developing high-value content means syndication must be a core component of the business model. CBS Marketwatch.com makes close to one third of its revenue from licensing charts and articles to other websites, as well as newspapers and wireless networks.[14] Salon.com has reversed the traditional flow of content by syndicating its material to print newspapers and magazines.

The variety of content formats and breadth of distribution possible today means that technology is at the heart of effective syndication. Ad-hoc solutions will not scale effectively. In order to provide content in ways that can easily be used and customized by customers and different media, XML formatting such as that used by Reuters is almost essential. Companies that have a wide range of existing content need to convert it to common formats so it can be used in many forms of distribution. EMI Music Distribution has established a system in which 135,000 items, including songs, videos, lyrics, and cover artwork have been digitized as master copies, which can be converted for use in any media from CDs to mobile phones. These kinds of enabling infrastructure provide a foundation for firms to be flexible in implementing syndication business models as the environment shifts.

The scope of syndication is rapidly broadening. Providing information such as product catalogs to distributors and exchanges is effectively a syndication process. As we will see in Chapter 9, syndication is increasingly relevant to services as well as content.

5. Rework your product versioning

One of the essential excursions for any youthful visitor to London is the Ministry of Sound nightclub, established in 1991. The owners have parlayed the nightclub's success into one of the premier youth brands in the UK and worldwide, encompassing the world's bestselling dance CD, around 200 dance events annually around the globe, a popular monthly magazine, a radio station, merchandise and more. In its latest addition to its portfolio of businesses, it is launching a digital music store in conjunction with Peter Gabriel's OD2, offering a massive library of dance recordings and videos from major record labels. It provides three services to its subscribers. They can purchase and download individual tracks that can be kept, burned to CDs, or transferred to portable devices. In another service, top DJs compile the latest sounds into monthly music programs that provide unlimited access to streams and downloads, but the music files can only be used for 30 days. Finally, a personal play list gives users each month unlimited access to streams or downloads of their choice of tracks. Again, these can be played for just 30 days.

Versioning—releasing content in a range of versions with different features or at different times—is one of the core strategies in the business. Books come out in hardcover before they are released as paperbacks. Major films are released first in movie theatres, then in turn on DVD, video, cable programming, and free-to-air TV. Financial market quotes are free if they're delayed 20 minutes, but you can pay hefty subscription fees to receive real-time data. Software is often available in both a full-featured version, and one with reduced functionality that is cheaper or sometimes free.

As the content distribution landscape shifts to the digital, versioning becomes if anything more important. However the old approaches are often not the best suited to the new environment. Most importantly, both promotion and protection have become more important, and the balance between them is shifting.

Clearly the ability for users to pass on digital copies, sometimes after cracking the protection, has become a dominant factor. Film and TV content owners are often reluctant to release their programs onto digital TV, because they can be readily copied and shared. The entire economics of the film industry are built around the staged release of movies in different formats, with the premium revenue movie-theater release going first. For now, film studios are doing everything they can to maintain their current system, partly by avoiding any form of early release that could possibly be cracked and made available on the illegal market. However if consumer attitudes to file sharing and broadband technology advance faster than copy protection technologies, it is possible that content owners will have to rethink their versioning strategies.

Vital Connections: Chapter 8

Digital content flows freely, so in a hyper-connected world, content industries including entertainment and high-value information are being transformed perhaps more than any other. They must balance protection and promotion, and implement new strategies to maximize the value of their products.

One of the primary driving shifts in the economy for over a century has been the move from products to services. In Chapter 9 we will examine the rapidly expanding world of online services, and the new strategies required for professional services providers.