Selling Content Online

What success factors will make Internet content a sustainable and profitable business?

By Georg Tacke and Frank Luby

Making money from content on the Internet is the business world's equivalent of cold fusion: a really fun idea which - while theoretically possible - has yet to be proven.

Media companies, publishing houses and portals - currently struggling with the broad-based downturn in the market for advertising - would love nothing more than to find a way to sell their content profitably to the vast online audience. Music publishers, film producers, sports teams, game designers and other entertainers face the same challenge, though their situation is less precarious. The task sounds so deceptively simple: Get the product right, and get people to pay the right amount for it. But so few have succeeded in doing both, in part because the answers to these questions are quite complex. A wide range of psychological, technical, legal, creative, and marketing barriers currently hamper attempts to make money from content on the Internet.

Curiously, Old Economy companies have become quite adept at overcoming the same kinds of barriers. Just as the New Economy did not change the laws of economics and the nature of financial markets, they have also not changed the fundamentals of product development and marketing. This offers a glimmer of hope, and a wealth of expertise to draw upon, for companies looking to sell content online.

Over the last year we have conducted numerous projects related to these issues. This work provided us with the unique opportunity to conduct extensive interviews in Europe and the United States with competitors, customers and observers in the market where Internet communication, mobile communication and ”premium content” are starting to meld together. The result is a more thorough understanding of the difficulties in selling content online, and the concrete steps companies can take to resolve them.

The elusive market for premium content: Why is it so difficult?

The frustrating thing about ”premium content” is its simplicity. Our lives revolve around the content we buy. Depending on where and when you were born, it begins in childhood with comic books, baseball cards, Panini stickers, Pokémon cards and Harry Potter novels and never stops. Nearly all of us can name a movie we’ve seen a dozen times, a book that changed our lives, or an unforgettable moment marked by a song. Their physical manifestations become keepsakes or even collectibles with considerable emotional and monetary value.

So why can’t the Internet do that? There are three reasons.

The Internet and mobile phone have turned *Homo Contentus* into a publishing powerhouse.

First, the Internet has become synonymous with communication, not content. Revenue generated by the activity of the Internet’s largest global content provider, a species called *Homo Contentus,* dwarfs the revenues earned by selling pre-packaged ”premium content”. What used to be called ”correspondence” and ”conversation” in simpler times is now referred to as ”user-generated content”. The Internet and the mobile phone have turned *Homo Contentus* into a publishing powerhouse. He writes countless e-mails and sends over one billion SMS’s every day. Like his very name, his writings show a high tolerance for grammatical mistakes and word invention. He maintains his own homepage, where he publishes his own photos, videos, jokes, art and music for the whole world to see. He chats tirelessly and he sends instant messages to people he’ll never meet personally. He posts his personal opinions on message boards and sends his criticisms to the websites of booksellers and auction houses. He can’t remember the last time he licked a stamp. Keeping *Homo Contentus* happy and empowered will always be a crucial revenue source for ISP’s and mobile phone carriers. Their growth and in some cases their survival depends on him.

Second, this focus on communication has relegated content to little more than a loss leader, which has fed an "everything-for-free" mentality. The Wall Street Journal, the Economist, Playboy and Disney are high profile exceptions, because they have charged for proprietary content in various forms and with various degrees of success. Companies in highly specialized and sensitive areas, such as personal dieting, have also entered the market. For most other companies, content has become their giveaway, available to all comers. This has fostered an expectation and, even worse, an appetite for free content which will take considerable time and effort to change.

Third, the market for premium content on the Internet is a vast, unexplored territory. For those who dare to try, pricing in the market currently depends more on gut feeling and guesswork than hard data. Product development is also driven by trial-and-error. On the creative side and technical side, we experience every day that the commercial Internet is still in its childhood, not even 10 years old. Television and radio have had decades to develop, film and phonograph a whole century, and modern print media even longer. While they are capable of delivering high art in their own way, the Internet is struggling with the media equivalent of cave paintings and crude carvings.

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Would-be content sellers will need to shift their thinking if they want online users to start shelling out money. *Homo Contentus*, who is already active online and who enjoys having high quality information at his fingertips for free, earns his name not only because he creates his own content, but because he is also quite happy with the current arrangement. To get online users to buy content as well as generate it, providers will need to understand and meet a handful of success factors. They will need to know how to get the content product right, then understand what role they want content to play in the business model. They need to describe and quantify their target market, and find the right pricing models and price levels to serve it profitably.

If that sounds very Old Economy, it is. But that should be seen neither as a setback nor as a surrender. Realizing whatever potential the Internet has to sell content will require not just vision and creativity, but also discipline and rigor.

Success Factor 1:

Motivation

Give the customer a clear reason to buy. Tap a basic motivation.

Getting the product right: Motivation matters

Content providers must tap into a basic customer motivation. The best way to get people to pay for content online is to give them a clear reason to do so. Leaving the sex industry aside, the main motivations of Internet users fall into two categories: money and fun.

Money itself encompasses two areas: saving it and making it. While not directly offering content for money, AOL has already worked these aspects into its communication to customers. The pop-up window which described AOL's recent price increase for unlimited service in the United States stressed that AOL plans to offer more "valuable benefits which help members save time and money." Right behind money on the list come "fun" aspects such as playing, laughing, and curiosity. NTT DoCoMo's i-mode service demonstrates that content does not need to be sophisticated or broadband to compel people to open their wallets. Simple games, ring tones, wallpaper or logos, and silly jokes are all unsophisticated, cost little, but can generate significant revenues. They are the ornaments that *Homo Contentus* uses to spice up his own communications. Customers in i-mode generate higher revenues than conventional mobile phone users, which can amount to a rather large pile of money when you have 25 mill. customers under contract. Germany's D2/Vodafone has learned from this and has introduced a range of downloadable games for mobile phones. Their high-profile advertising campaign shows they mean business.

A third but more nebulous aspect is community. Before its commercialization the Internet was essentially a loose network of niche communities - largely academic ones - exchanging their own content. Today the Internet is ideal for satisfying our basic need for interaction with other people and helps us discover others who share our interests. These niches can embrace many millions - such as people who want to lose weight - or thrive well outside the mainstream, such as people who collect snakes. The challenge is to define when such groups are large enough to have commercial potential, and when managing the community and providing its content generation is best left to the passions *of Homo Contentus*, who does the job for free.

Success Factor 2:

Form

Content does *not* need to be exclusive. It needs to be compelling.

Form also matters: content must be compelling

If we wanted to merge the sentiments from observers in Europe and the United States into one sentence, it would sound like this: ”To charge a fee for content, you need new products with entirely new content that is truly compelling, and that means things people have never seen before, never expected, or never assumed would be free.”

The word ”compelling” came up much more frequently in our discussions than the word ”exclusive”, which people generally consider to be the most important success factor for premium content. To develop *compelling* content, providers need to look well beyond the current spectrum of free content and discover the shades and wavelengths we have not yet seen: new formats, new programming ideas, similar to CNN and MTV in the early days of cable television.

Much of this content can be drawn from forms of content we are already accustomed to paying for, but which have not yet been adapted to the online world. These include music concerts, which obviously lose their ”live” character when shown on the Internet. The challenge is to use the clear advantages of the internet - networking, nearly instantaneous two-way communication, low distribution costs - to make the online concert a unique product, not just a lame one-to-one copy of the transmission we would have seen on TV or in the arena. This kind of content reflects one important aspect of compelling, namely, the ”wow, you've got to see this” feeling.

This feeling is rare nowadays. Who gets goosebumps on the Internet? We currently have as much emotional attachment to the open Internet as we do to our encyclopedias or old school books. That will change when these new forms emerge. Extra bandwidth will help, but this will remove only technical barriers, not creative ones. Content providers need to take advantage of this extra power to develop new forms and surprise us with compelling content, not just send bigger files faster through bigger pipes.

Success Factor 3:

Practical

Make it easy to find and easy to buy.

A book is more than words on a page: Just ask Stephen King

Stephen King's failed attempt to sell a novel online as a text file demonstrates why form matters as much as the actual content itself. When you only get Mr. King's words - a simple typed manuscript converted into a PDF file - you lose the comfort and ease-of-use of a printed book, a communication form perfected over centuries. Without this form, the novel is for most people no longer worth reading, much less paying for. The lesson in Stephen King's book is not that people are unwilling to pay for premium content. Rather, the lesson is that form is essential and that compelling content forms on the Internet are rare things indeed.

Form must also have practical side. Premium content on the Internet must be easy to find and easy to buy. Charging for content can still work even if the content is not exclusive and also available elsewhere on the Internet for free, as long as the content provider can place that content prominently before the right audience. Like people who drive 20 miles out of their way to buy gasoline because the price is a few cents cheaper, there will always be Internet users who bypass websites that charge them for content. Some enjoy the sport of surfing for that very reason, because the free stuff is only a click away. This pervasive "free-of-charge" culture will not disappear overnight. It will take time to teach people to make the tradeoff of convenience and quality in exchange for money and perceive that surfing is more work than it's worth.

How we access and pay for this content matters as well. Even in the Google era, surfing for content is work, and paying for it is often even more difficult. Oliver Samwer, a successful Internet entrepreneur who currently heads the company Jamba, estimates that at every time potential customers need to click on another icon or fill out another form on the Internet, around 30 percent of them give up and go elsewhere. If you're billing process requires lots of clicking and typing, you can be glad that anyone has the patience to make it to the end. Easy payment goes hand in hand with making content on the Internet a positive experience, which is easy to enjoy and easy to appreciate.

Success Factor 4:

Business model

How will content fit into your business model? Keep expectations realistic.

What role should premium content play in your business model?

The first step to a realistic approach to premium content is to determine its role in your company's business model. For most companies, this model invariably involves some combination of access charges, usage, commissions, licensing, advertising revenue and content sales. The balance between these elements is always shifting. Five years ago AOL depended on access and usage for more than 90 percent of its revenues. That amount has been reduced to under 70 percent. Despite its unrivaled access to film, music, news, and other content forms, AOL actually still realizes much of its revenue by helping *Homo Contentus* let his creative juices flow, either through e-mail or instant messaging. In contrast, Yahoo traditionally earns more than 90 percent of its revenues from advertising, and companies such as EarthLink or T-Online still depend on access and usage charges for the bulk of their revenues, as do most mobile phone companies.

How the focus shifts can depend on a conscious decision or on external forces. When the downturn in online advertising revenue began last summer and intensified in early 2001, portals and other suppliers of content on the Internet learned something their colleagues in the ink-and-paper world have know for years: revenue from fees and subscriptions tend to be more stable than revenues from advertising. The never-ending boom in advertising that was promised by the forecast factories two or three years ago never materialized. Even America Online's cross-selling muscle through the other AOL Time Warner properties was not enough to prevent their revenue from advertising and e-commerce from falling to $706 mill. in the second quarter of 2001 from $721 mill. in the previous quarter. The pain was greater at Yahoo! and was fatal for *The Industry Standard*, Germany's *Net Business*, and other colorful commentators of the dot.com era, who have closed their doors because the advertising money has dried up. The authors of this article miss *The Industry Standard* newsletters and would have eagerly paid for them. We've always wondered why nobody ever asked.

The upshot is that companies who want to survive need a broad revenue basis. A company's vulnerability is a direct function of its dependence or a narrow focus on a small number of revenue sources.

Success Factor 5:

Target market

Don't confuse interest with willingness-to-pay. Content is a hard sell.

Critical mass and market size: There is, in fact, a way to estimate these

There seems to be support for a few conclusions about the market for premium content. First, creating the market will not involve simply charging money for the exact same content that used to be free. Restaurants would face a backlash if suddenly charging a few cents apiece for napkins and straws. Mass circulation magazines have learned that their websites serve as an effective trial subscription and they will likely continue offering high-quality content free of charge. This means that topics with a "mass" following - general news, sports, weather, finance - will be supported by a large amount of familiar and free content. Earning money in these areas with today's content will be particularly difficult.

But earning money with content has never been easy, because interest in a particular theme or subject is hard to translate into cash. Germany has an estimated 35 mill. who describe themselves as football fans, and a few million of them watch the weekly Bundesliga recap on television. The latest time-slot shift notwithstanding, this show attracts advertising money but costs the individual viewer nothing. However, the leading football magazine *Kicker* has print run of only around quarter million, according to data from the circulation tracker IVW. Asked to pay for football-only "content", only a tiny fraction of interested people actually part with their money. The website draws even fewer visitors, and the estimated market for premium football content online will be even less than that.

Similar relationships prevail for existing premium content. WSJ.com, the six-year-old online version of the Wall Street Journal, claims nearly 600,000 subscribers, while daily paid circulation of the paper is around 2 million. The company charges either $29 or $59 per year for the online version, likewise a small fraction of the price of the paper version. Major League Baseball claimed it had over 25 million visitors to its website in May 2001, but only around 80,000 paying customers for its new GameDay radio service, which makes all 2,430 games for the current baseball season available online - whenever you want them - for just $9.95.

Success Factor 6:

Pricing model

Pricing is a dangerous lever. You have little room for error.

Getting the price right: a question of the right model and the right level

Is $9.95 for 2,430 radio broadcasts an optimal price? You can't park your car at a ball park for $9.95, never mind watch a game or have a meal there. Even one actual baseball itself costs more than $9.95.

The lesson is that compelling content in the right form requires more support before it makes the cash register ring. You still need to determine how - and how much - to charge people for that content. There is no clear-cut recipe in this area. The choice of revenue model is both a strategic question for the individual company as well as a direct result of customer input and reaction. As we have said over the last year in many different forums, pricing is a dangerous lever, and companies have little room for mistakes. This encompasses both the form and the price level.

In terms of form, the dimensions are numerous. Should companies offer a subscription model, pay-per-use, or a combination? Should they offer a prepaid or postpaid model? Should they charge by time or volume? Should they subsidize hardware purchases? Because the market for premium content is so new, it lacks the anchor points and benchmarks that have accumulated over time in more mature markets. This does not mean, however, that content providers can feel free to ignore the knowledge from these mature markets.

One such insight concerns when to offer subscriptions and when to offer products on a per-use basis or with another kind of pricing model. While there is likewise no strict rule in this area, experience and common sense show that subscriptions are better suited for experienced users, not for those who are either beginning or who have had poor experiences in the past.

Success Factor 7:

Information

Why rely on guesswork when your customers are ready to tell what they want and how they want it?

Let's say you want to watch a movie or play video games in a hotel room. Hotels will generally offer a teaser period of two to five minutes before asking you to commit to paying for a certain period of usage, usually 24 hours. Some charge for the period, others charge by movie.

Now imagine that hotels abandoned their successful pay-per-use model and opted to follow the prevailing pricing wisdom for online premium content. Instead of a teaser and a one-time charge, we would be asked to commit to a whole year of hotel-movie-watching. Does that make sense? No, it doesn't. Nor would it make sense if sports teams offered only season tickets, but no tickets to individual games. But this is exactly what online content providers do when they confront their potential customers with subscription-only deals.

To optimize pricing means to optimize first the price structure and then the price levels. For the price structure, which offers many opportunities for differentiation, companies need to answer several questions: what pricing elements matter most in the perception of the customer? Where will the customer's eye be drawn when he or she examines the offer? Would they pay more attention to one-off charges, a monthly fee, or a price per download, a hardware subsidy, or some other element?

Those elements which are in the customers' focus will require attractive prices to draw them in, while those outside the customers' main focus can be maintained at higher, less attractive levels. The colorful mix of pricing elements in mobile telephony - which range from one-off installation charges to monthly fees to per minute charges (peak, off-peak, weekend) to billing intervals (full minutes, 10 seconds), etc. - shows how many degrees of freedom such a complex pricing challenge can present. In principle there are four alternative price structure, each with certain advantages and disadvantages: a variable price per unit, a flat rate, a combination of the two, or a flat rate with capped usage to keep costs under control.

In many cases, neither per-download nor subscription - the two most obvious pricing structures - is ideal on its own. A more intelligent pricing structure is required. Both components – subscription fee and pay-per-download – could be combined into a multidimensional tariffs to avoid uneconomical usage while strengthening the relationship with the customer. Other pricing alternatives include bundling and multistep discounts, all of which are designed to both manage and guide demand while optimizing profit.

Success Factor 8:

Price Level

Content is a product like any other. Determine how customers perceive its features, and what they are willing to pay.

None of these issues can be resolved without customer input. No matter how glorified content may become as a potential or revolutionary revenue source, it is still nothing more than a product. These products need prices which reflect their full value in the customer's eyes. Right now, pricing for online content is extraordinarily difficult because it is unexplored territory. There are few benchmarks, even fewer success stories, and hardly any empirical information to build on. It does seem clear that consumers are reluctant to commit to a subscription for online content before they have a positive experience with the content on a pay-per-use basis. All other information must be acquired on a product-by-product basis. In this constellation, input from customers - especially their views on value and price - give companies a firm basis for pricing decisions. Leave that part out, and the only other available method is trial-and-error.

Setting the right price level involves understanding how the customers perceive the features you are offering, and how much they are willing to pay for them. The benefits from many content forms we know disappear when they go online, as the example of Mr. King's novel showed. The words are still there, but the convenience and portability are gone. But all of these features and benefits can be described in money terms.

When car companies determine whether and how much consumers will pay for more horsepower, more comfortable seats, telematic services or certain styling features, then compare that information with the cost of developing them, is that any different than the challenge companies like Napster, Major League Baseball, AOL Time Warner or Vivendi Universal face if they want to charge money for online content? Of course not.

Success Factor 9:

Act !

The market is waiting. Exploit it with discipline and rigor, not wishful thinking.

Summary

We are now at a critical turning point in understanding what features need to be built into online content to make it valuable to customers and encourage them to buy it. The downturn in the New Economy over the last 18 months has made the need for Internet companies to adopt old economy discipline and rigor all the more urgent. At the same time, content is poised to penetrate our lives to a greater degree than ever before - in our palms, in our cars, in our houses - as soon as somebody finds a way to make it compelling, make it useful, and make paying for it a no-brainer. The entire technical revolution of the last 20 years has been driven not by customers who bought things because they were possible, but because they were practical.

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