THE CHANGING VALUE OF CONTENT

The creative destruction at work in the media industry today is without precedent. Changes in consumer media consumption, enabled by digital technologies, have wrecked havoc in industries as varied as music, newspapers, magazines, catalogs, and many are asking whether TV content and movies are next. Incumbent management teams have largely been incapable to respond adequately to these changes, destroying billions of dollars in wealth. There are many reasons, but one in particular is a failure to challenge mental models about the value of content, namely the belief that what used to be valuable in the past will remain so in the future, and vice versa. Note that this belief also assumes away the emergence of entirely new forms of content that may not have existed before.

The obvious problem with this belief is the risk to be lulled into the false sense of security of "what my media company produces has been valuable for a long time and therefore we will be fine no matter what happens in the future. All we need are good copyright protections and we we'll be in business in digital".

The assumption that content <u>should</u> be equally valuable in the 'old" and the "new" media environments is wrong. For clarification, let's agree that the principal difference between the 'old" and the "new" media environments is a change in consumer behavior. Obviously, this change is enabled by technology, but to focus on the technology instead of the consumer behavior obscures the real issues and leads to a lot of secondary definitional debates (e.g., what is a platform? Is IP TV the same as digital TV? Is WIMAX better than 3G?). In consumer terms, I believe the key change between the "old" and the "new" media environment is that consumers used to consume media primarily on one medium at a time (which I call mono-modal consumption e.g., read newspapers on papers, listen to music on CDs, watch a show on TV), whereas they now consume content across multiple media at once (which I call multimodal consumption e.g., read newspaper content online <u>and</u> on paper, watch a show on TV <u>and</u> on the web)

Why wouldn't the value of content change as consumer behavior in the media industry evolves from mono-modal to multi-modal consumption? Let's use TV as an example. Despite many attempts, no meaningful business has emerged from distributing TV content online in any form i.e., streamed, on-demand, subscription. The typically explanation has to do with rights issues and technological issues – but assumes, of course, that any self respecting consumer should <u>want</u> to consume TV content online.

But what if the real reason for the lack of success is not technological, but related to the content itself? What if TV content simply has less value online than its creators believe? In the transition from a TV-centric to a multi-platform media consumption environment, why wouldn't some content gain value, some lose value, and new content altogether emerge that didn't exist before?

The answers to these questions are not clear at all, but they should matter greatly to investors in either new or established media business because, if we believe that not all existing content retains value equally, we have to question the business models that monetize content in the mono-modal environment, and whether they transfer to a multi-modal environment.

Based on what we can observe in the industry, here are four provocative hypotheses about IP content and content-centric business models that could have large influence on our investment decisions:

1. Narrative TV content has a lot less value in a multi-platform environment than most people anticipate. In fact, the emerging multi-platform environment will dramatically exacerbate the long-tail differentiation between content types, with a small percentage of it (1-2%) capturing most of the value across platforms and the rest getting very little of it. A very small percentage of content will get even more valuable, and most other content will get dramatically less valuable. Because of this, the economics of competing in the TV programming industry will deteriorate significantly and the financial markets will realize that most TV content companies are overvalued

2. Conventional ways of thinking about content (i.e., by genres like sports, comedy, reality, movies) will not be able to explain the shifting value of existing content types and emergence of new content types. For example, every legacy media company except News Corp. has completely missed the emergence of web 2.0 content. Perhaps this tells us that we need a new way to think about why content has value, and what drives that value. For example, we may be able to agree that different content has value for different reasons, and that some forms of value will "transfer" better than others from a TV-centric to a multi-platform consumption environment. What kind of different value could there be for content? Here are 3 possible sources of value:
    - Intrinsic utility (for content that people value inherently and are willing to pay for directly like porn or NFL games)
    - Audience aggregation value (for content that derives value because it aggregates audience)
    - Social value (for content that is an enabler of social human interaction i.e., most of the user-generated content).

   The emerging web content businesses may illustrate that very little IP content has intrinsic utility (because nobody has been able to make consumers pay for it), and that most of the value creation comes from the exploitation of content not for its own sake but for its social value (i.e., Myspace). As a result, investors should include “social value” as a new criteria for assessing and selecting content (TV and web).

3. Reach-based TV content aggregation models will be aggressively challenged by vertical online advertising networks. What may really be happening in the transition from a TV-centric to a multi-platform consumption environment is the unbundling of the traditional media business model. You could argue that it is the economics of bandwidth scarcity in the TV environment that have allowed for the emergence of audience aggregation businesses, both on the audience and the advertiser side. It is pretty clear that this model is breaking down, or unbundling, online. Let’s look at women’s networks as an example. There has been much focus on NBC and iVillage. iVillage has the same business model as Lifetime or Oxygen, it just happens to exist on the web, not on TV. Perhaps the glee about NBC’s misfortunes obscures a bigger issue, namely that Glam has emerged out of nowhere and is hurting iVillage, with a completely different business model, yet still an ad-supported one. If we accept that Glam has a better business model than iVillage, then how long before Glam has a better business model than Lifetime? If Glam can deliver 2-3x the same audience as Lifetime, and sell TV-quality ad-units at a fraction of the Lifetime CPMs, how long before ad-dollars shift from Lifetime to Glam? If we believed the content on Lifetime, like the content on most cable networks does not have much intrinsic utility and derives its value from its audience aggregation potential, then we should question the competitive sustainability of the Lifetime business in a multi-platform consumption environment. I think a case could be made that NBC just doubled down on yesterday’s game by buying Oxygen.

4. While narrative content will see its value diminish, other forms of content will see their value increase. For example, we all agree that the value of sports content should increase relatively to other types of content. What other types of content are there that resemble sports? Would, for example, artistic performances, concerts, tournaments, exhibits, be “content” types that should get more valuable in a multimodal consumption environment? The recently announced Live Nation arrangement with Madonna may be indicative of this trend – live events and tours appear to be becoming more valuable “content” in the music industry. Perhaps investors should take a new – and different – look at music and other forms of artistic “content”, or take a broader scan of all sorts of live content (i.e., Cirque du Soleil, BodyWorlds) with a view towards taking advantage of potential value shifts across types of content. Similarly, perhaps content owners should be more diligent in examining user-generated online content in areas that are relevant to their brands today or could be relevant in the future.

Howard Stringer was recently quoted as saying “the media industry is very fragile right now”. Some could say that this does not even begin to describe the creative destruction that is unfolding in the TV business. But most people would agree that media is undergoing a profound change, and that this could present attractive wealth creation opportunities for investors. However, depending on our views on hypotheses like the ones above about what it all means for “content”, our investment focus would change radically.

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