Is content king after all?

An analysis of the emerging power of platforms in Media and Entertainment – and implications for content publishers

US EDITION

OC&C Strategy consultants

uncommon sense

> And in this third age of media, is content still King?

Is content king?

With the next wave of platform-based digital disruption imminent for the media industry, we examine the pattern of platform insurgence, the likely impacts on brands and how traditional news businesses should respond.

THE THREE AGES OF MEDIA

The last decade has not been a good time for traditional media businesses. The story – of rapidly declining core revenues, sluggish digital growth and audience loss to nimble digital natives – is well documented and has claimed a number of high profile victims (see Case Study 1 – news example).

In the **traditional age**, media publishers (e.g. TV broadcasters, newspaper groups, music majors) had three important roles: financing content creation, marketing the content to generate an audience, and distribution. In the **digital age**, power shifted to content creators as the barriers to distribution and mass audiences were eroded.

Those that have survived the first stages of this transition have invested significantly to reinvent themselves. However, OC&C research shows that the media industry now stands at the cusp of a third era – the **platform age** – which has the potential to be every bit as disruptive as the digital transition.

So exactly what is a platform, how will this disruption manifest and how should media businesses respond? And in this third age of media, is content still King?

We set out to shed some light on these questions for traditional news businesses by examining the pattern of platform disruption across other industries.

CASE STUDY 1:
A DECADE OF DIGITAL DISRUPTION IN NEWS

Traditional news businesses have faced a challenging trading environment for the last decade. The transition from the **traditional** to the **digital age** has cost the US newspaper industry $5bn in lost revenues (15%) since 2012 – as digital revenues have failed to compensate for lost cover price revenues and print advertising, and as new online competitors have taken share.

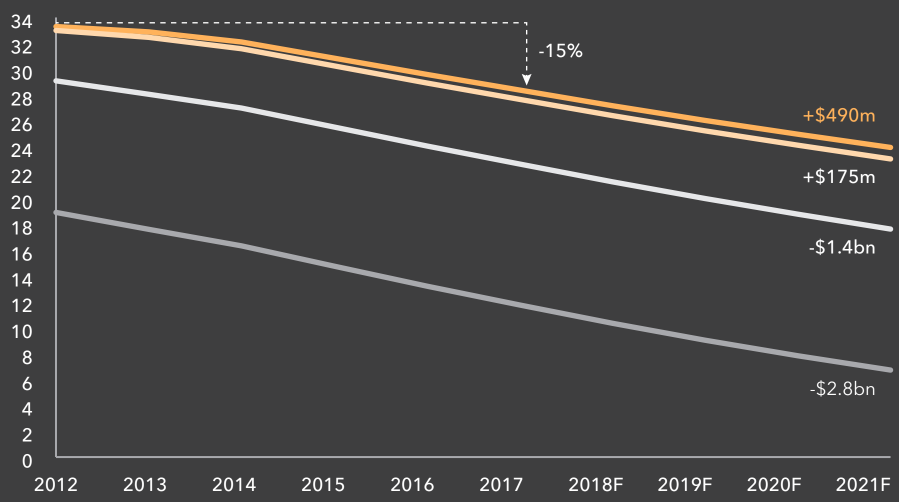
A small number of traditional businesses have had some success with their digital transition; digital revenue at The New York Times increased from 10% of total revenue in 2010 to c.30% in 2016. Its goal is $800 million in digital revenue by 2020, which would be enough to fund its global newsgathering operation independently of the print edition.

However, these success stories are rare. A combination of declining revenues and the investment necessitated by digital has left many players loss making.

This article examines what might happen across media industries in the **platform age**.

FIGURE 1:
NEWSPAPER PUBLISHING MARKET, US

$bn



Circulation (bn copies)

Digital subscription | Digital advertising
Print subscription | Print advertising

Currency conversion with average exchange rates in given year.
Digital Circulation refers to digital subscriptions and payments for newspapers delivered direct to connected devices, inc fees to access online content Online Ads includes advertising on newspaper websites, tablet apps and mobile apps.

Source: PWC, Mintel, Enders Analysis, WARC Adspend Data, OandA, OC&C analysis.

What is a platform?

The term is broadly used, with many potential definitions. For our purposes, we are defining platforms (also sometimes labelled as aggregators or networks) as online services that aggregate multiple sources of content, and provide access to a large audience – but do not take inventory risk on the product being sold. As an illustration: retailers commonly buy goods or services at wholesale and sell at retail prices, often taking risk on the stock they buy. If the stock does not sell, the retailer is out of pocket. Platforms provide a way to match sellers and buyers but do not buy or sell goods or services themselves.

There is a further nuance to consider. Although platforms do not buy and sell, they do sometimes set pricing. A good example is the taxi service Uber: the drivers on the platform are not employees so Uber takes no direct financial risk on their utilisation, but it does dictate the price that is charged to consumers. We refer to these platforms with price control as 'Hybrid Platforms' whereas those that leave pricing to sellers are described as 'Pure Platforms'. Finally, there are also differences in the services offered on-platform vs off. Some platforms are effectively 'lead generation' referral sites, whereas others host the transaction or consumption experience within their own environments.

Platforms have grown rapidly to play a major role in many of their industries. For example, OC&C research shows that roughly 70% of new car insurance policies are sold to customers who began their purchase journey on a price comparison website such as Compare.com. 30% of delivered takeaways are ordered through platforms like Seamless and Grubhub. There are wide variations between industries: until recently, news has remained disaggregated, both consumed and found directly on news sites.

FIGURE 2: PLATFORMS VS MERCHANTS: SELECTED EXAMPLES

	Merchant	"Hybrid" Platform	"Pure" Platform
Illustrative	✓ Takes product risk ✓ Sets pricing	✗ Does not take product risk ✓ Sets pricing ? May host transaction	✗ Does not take product risk ✗ Does not set pricing
Taxi	Dial 7	Uber Lyft	Via
Travel	American Airlines	HomeAway	Airbnb Skyscanner
Food Delivery	Domino's	Seamless	Grubhub
Insurance	Axa Direct General		Compare.com
Cleaning Services	Contracted Cleaners	Handy	Task Rabbit
Ecommerce	Amazon Asos		Amazon Marketplace Ebay
Music		iTunes Spotify	YouTube
TV / Video	Netflix	iTunes	YouTube

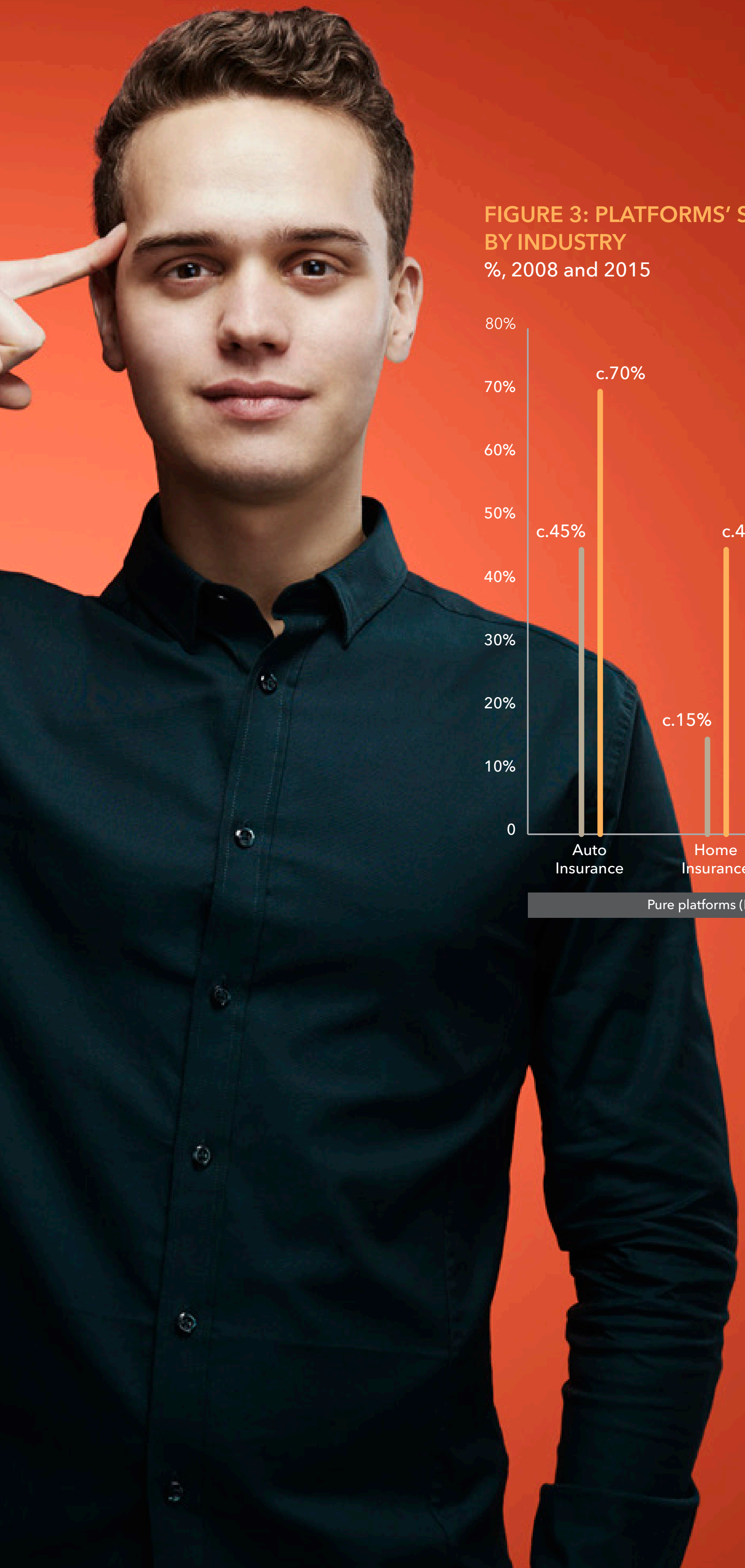
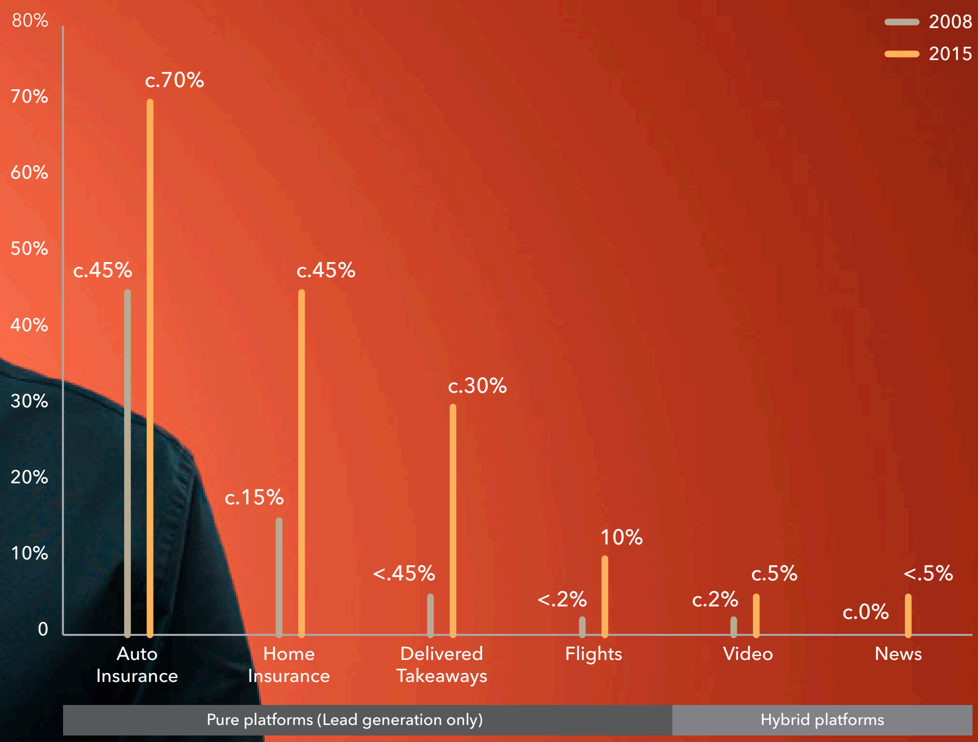


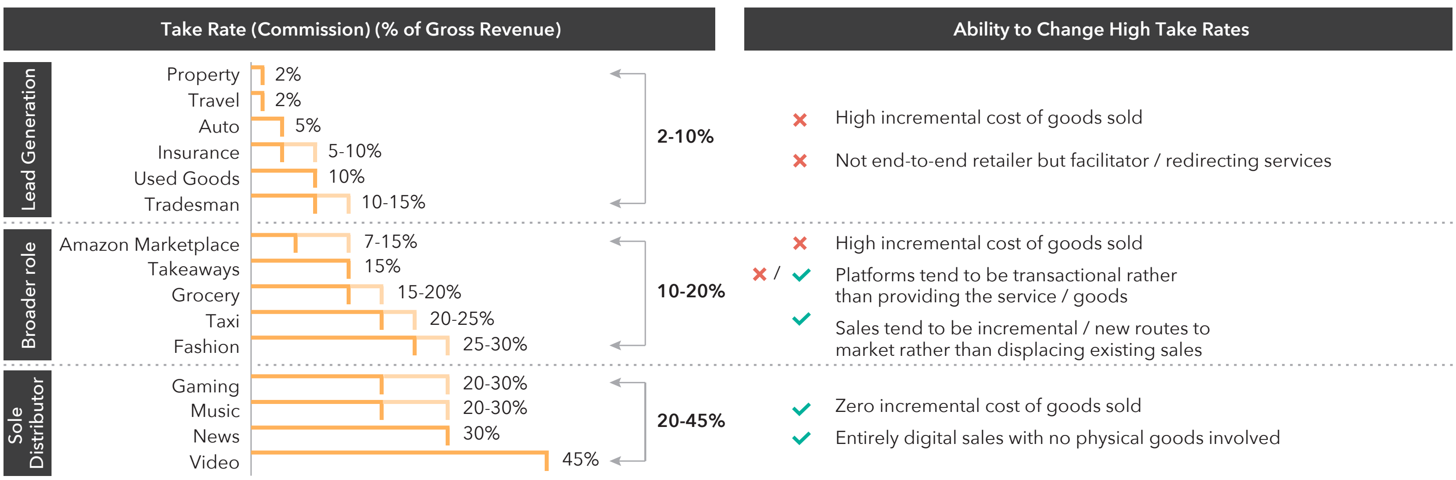
FIGURE 3: PLATFORMS' SHARE OF MARKET TRANSACTIONS, BY INDUSTRY

%, 2008 and 2015



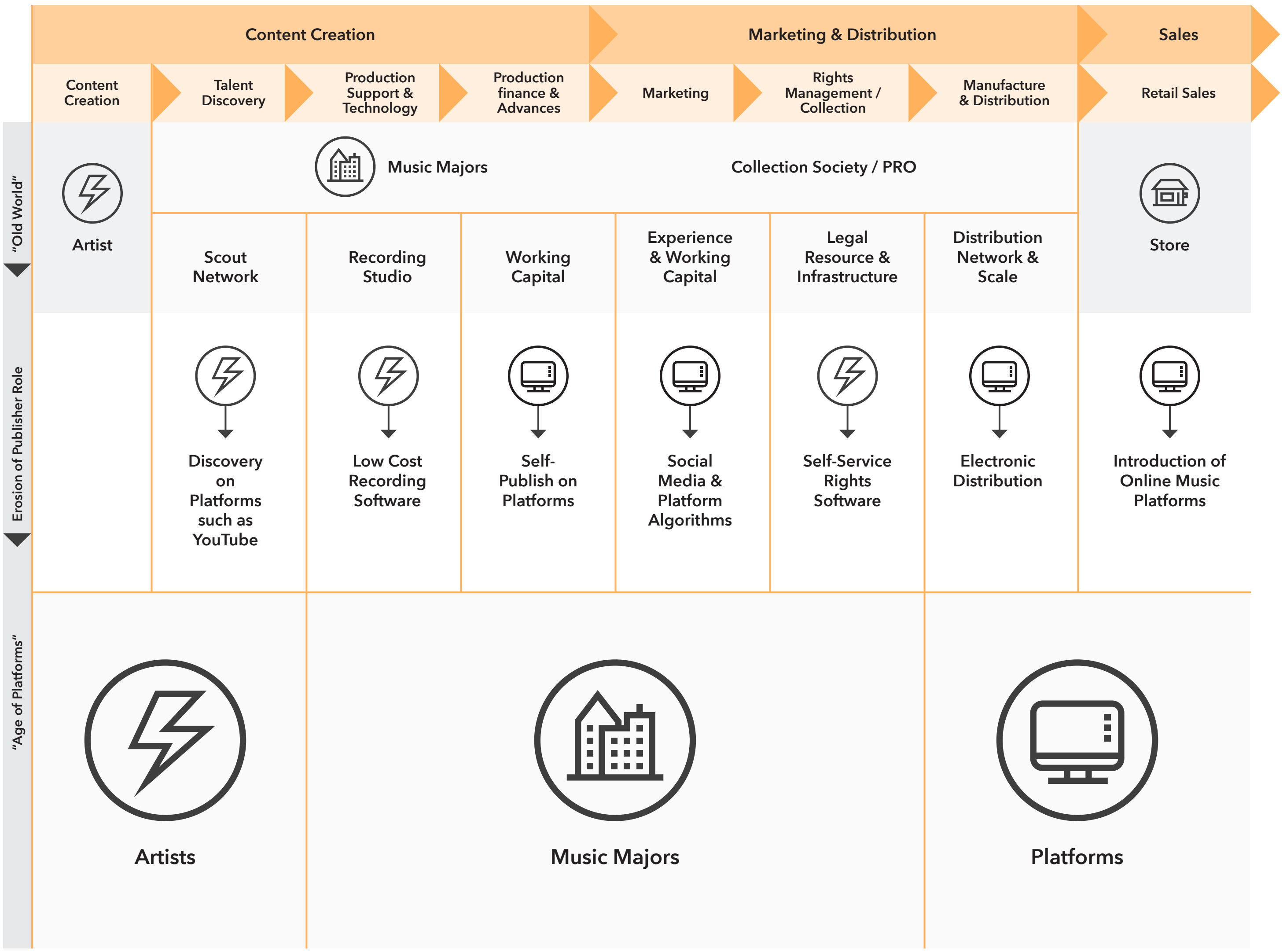
Financially, the impact can be dramatic. Media platforms typically take a large cut of gross revenues relative to other industries, in the 20–50% range:

FIGURE 4: PLATFORM 'TAKE RATES' ACROSS DIFFERENT INDUSTRIES, US



Music provides a useful example of an industry where platforms have come to dominate. Here a well-trodden story combining weak strategy from the incumbent music industry, and strong tech and software innovation from outside, have resulted in the music majors (record labels + publishers) being outflanked by platforms, such as iTunes, which have collectively dominated the market. The Majors now have a diminished role across the activity chain:

FIGURE 5: THE EROSION OF THE PUBLISHER ROLE IN MUSIC



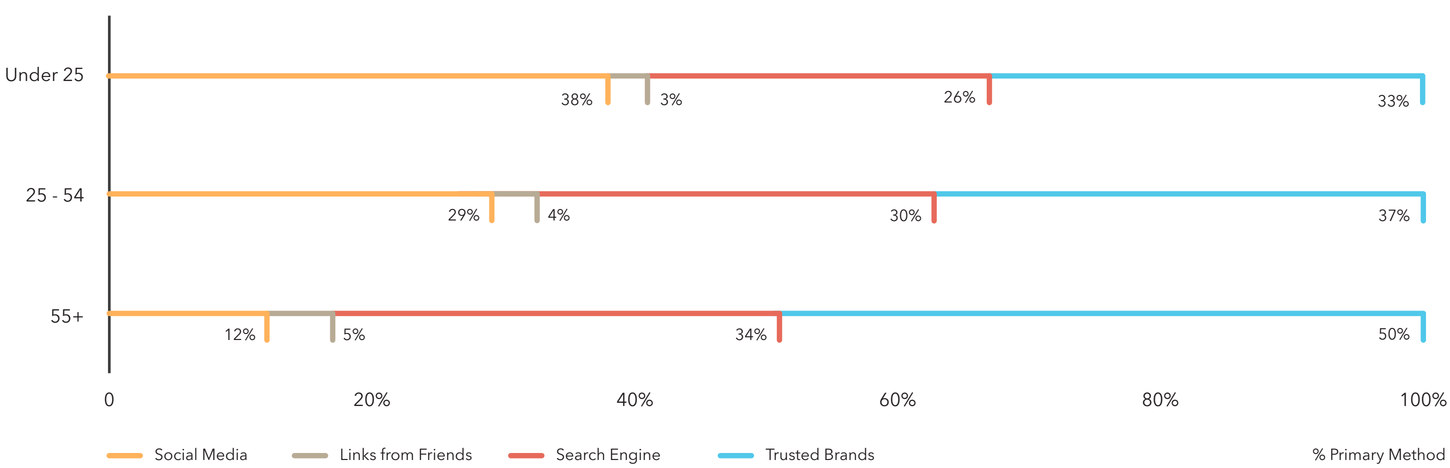
A Deep Dive into News

A complex set of criteria determine whether an industry is likely to be disrupted by platforms.

A low cost of content production and a digitised activity chain are key product characteristics indicating potential for disruption – when content can be produced cheaply, compared against set parameters, and predominantly digitally distributed, the need for publishers as financiers, marketers and distribution managers falls. Disruption is not solely about the product however: consumer loyalty to publisher brands and the fragmentation of the incumbent supply base are also key factors in how significant an impact platforms have. As a result, we see the threat of platforms being most acute in more fragmented and 'digitisable' media sectors such as news, books and magazines (with music already disrupted). Higher investment sectors that require larger sunk costs such as film and TV should be more protected.

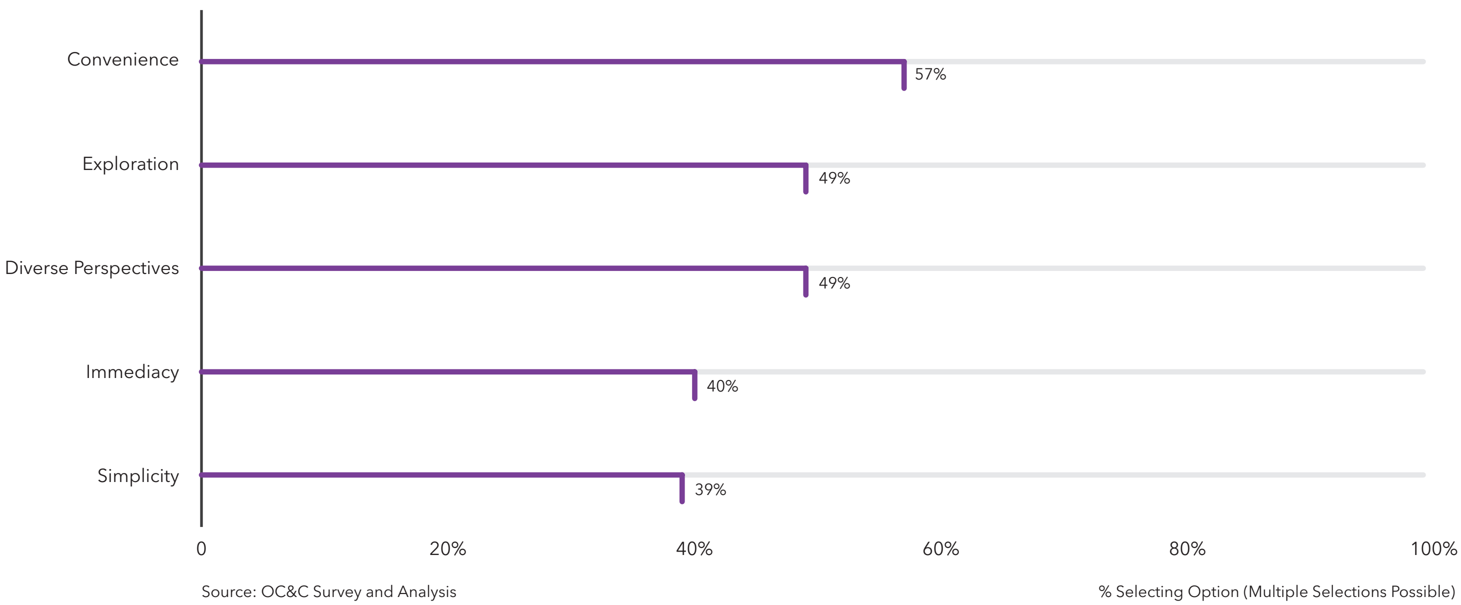
Within news, trusted brands have hitherto been the most effective way of matching content with consumers, but there is evidence from an OC&C survey across multiple markets that this is changing. Older generations still consume news much as they have done for decades, with 50% of US baby boomers seeking out their trusted brands directly. However, younger people are behaving very differently: Social Media is the primary way of discovering news articles for 38% of under-25s in the US (41% in the UK). These stark generational differences suggest a future in which platforms displace trusted brands as the key link between news content and audiences. More worryingly for news brands, our research shows that those who use platforms do so for a variety of reasons including the ability to digest a diverse range of perspectives and to discover new sources of content.

FIGURE 6: METHOD OF FINDING NEWS, LIFESTYLE AND INFORMATION, US



A low cost of content production and a digitised activity chain are key product characteristics indicating potential for disruption

FIGURE 7: WHY DO YOU USE AGGREGATORS RATHER THAN GOING DIRECT?



Source: OC&C Survey and Analysis

In reality, platform-based disruption of news is already well underway. In the first instance, this has taken the form of social media accounting for an ever-greater share of news traffic. A typical news site today receives around 20% of its total visits from social media sites, although this can be as high as 50% for some digital native brands. In 2016, Facebook contributed 16% of all traffic to news websites. More recently, however, we have seen the trend go one-step further with news aggregators such as Apple News, Google News, and Facebook Instant Articles (see Case Study 2) driving a re-emergence of the walled garden, where publishers lose control of the consumption experience, the data, and in some cases the advertising sales. Indeed, in several countries, news aggregation platforms already play a dominant role. For example, in South Korea, home-grown portal sites such as Naver (64%) and Daum (36%) are the most popular destinations for news, with greater penetration than Facebook as well as the websites of newspapers and broadcasters. In Japan, Yahoo is the most popular news destination.

CASE STUDY 2:
FACEBOOK INSTANT ARTICLES

After testing the technology in 2015, Facebook made a full launch of Instant Articles in April 2016, allowing publishers to optimise their content for reading on Facebook's own platform. This aims to improve the user experience but also keeps users within the platform, eliminating traffic flow to the publisher's own site.

Facebook do not charge publishers to post Instant Articles, but can make money by advertising around content. There are currently two commercial options available: 1) The publisher sells ad units around its content, keeping 100% of the associated revenue 2) Facebook sells ad units around the publisher's content, keeping 30% of the associated revenue and passing through 70% to the publisher.

Questions have been raised over the value to the publisher of instant articles. The New York Times, Wall Street Journal, Financial Times, and Vice have all removed or reduced their use of Facebook Instant Articles due to a lack of monetization on the platform, amidst complaints that they are giving up direct traffic to their own sites:

> "Tracking Instant Article content is much more difficult than a traditional link, so brands and publisher are likely finding it hard to gauge traction of the platform."
>
> TechCrunch

"Publishers including The Washington Post, New York Times and littlethings.com are finding it difficult to extract as much revenue per article from instant articles as they do from pages on their own websites."

THE WALL STREET JOURNAL.

Potential Implications for News Players

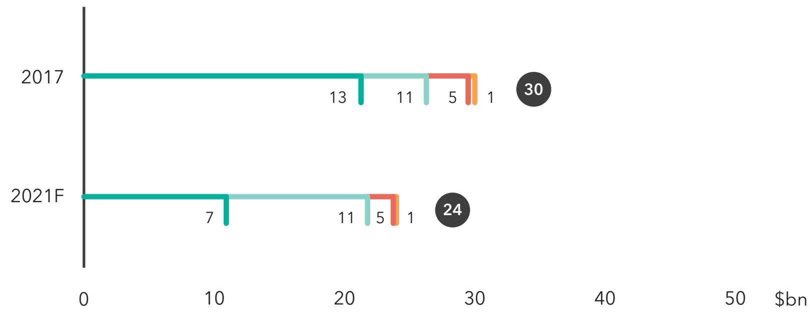
The impact of platforms is by no means always negative (see Case Study 3).

However, the emergence of platforms in the distribution landscape does present a serious threat to publishers. Our research shows two key risks.

Firstly, the industry would have up to $1.5-2bn per year revenue at risk in a worst-case scenario if platforms achieve 100% penetration of digital news consumption and take the level of commission seen elsewhere. Most of this would hit the bottom line directly, presenting another challenge to the industry's finances – and could force brands that have been household names for decades to close or radically reinvent themselves. After years spent cutting costs, another 10% cut is unlikely to deliver the efficiencies required.

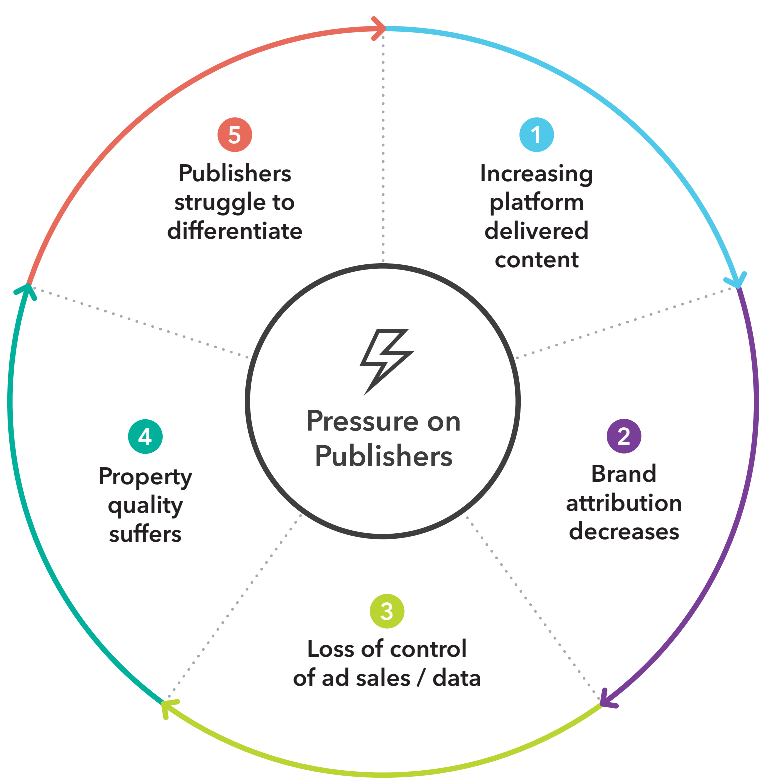
Secondly, as stated earlier where distribution and production no longer require physical assets, and marketing / audience generation can be more efficiently provided by a platform, there is a more fundamental threat to the importance and role that publishers have within the industry. At its extreme, the publisher's role is reduced to a financier – and the need for financing varies by industry. In news (outside of e.g. investigative journalism) content is cheap to produce. In music increasingly so. TV and film content (outside of user generated short form) is more expensive, and hence the role of the publisher is more protected.

FIGURE 8: US NEWSPAPER REVENUE ($BN)



Source: PWC and OC&C

FIGURE 9: THE BROADER IMPACT



CASE STUDY 3:
PLATFORM IMPACTS GOOD AND BAD

On the supply side, players can gain advantage from increased reach and improved utilisation. For example, small, local sellers of homewares / vintage products get access to a vastly expanded market through Etsy, restaurants can utilise spare kitchen capacity to generate incremental revenue through Grubhub or Seamless and talented performers have easy access to a global audience on YouTube.

News is not an exception – many digital native news players have seen substantial traffic growth by engaging effectively with around social media platforms.

> "The hope was that we would see an increase in reach and ad inventory (in using facebook instant articles), and we saw way more than we were expecting."
>
> – **Tedd Northcutt**, IGN's VP of Product, quoted in Digiday

On the demand side, consumers typically reap enormous benefits from platforms – mainly around convenience (one-stop-shop, ubiquity), transparency (of pricing), and range (access to more products & services).

However, there may also be drawbacks. Platforms potentially make it more difficult for consumers to identify and trust the original source of their news content. In addition, some people are concerned by the prospect of a world where news flows are directed by the algorithms of a small number of tech giants. Platforms also result in direct competition for clicks between players with asymmetric cost bases/models. Some sites collate stories from other sources and add their own take, whilst other organisations have extensive networks of journalists originating stories. This will add weight to concerns around the attribution of revenues to the primary originators of news stories.

The platforms themselves are keen to allay these concerns, and reassure the community that their aims are benevolent – or at least not aggressive. In 2015, Google pledged €150m to help European newspapers adapt to the digital world, partly in response to allegations over abusing its dominant search position. There is still concern in the News Industry that Facebook and Google have too much power. The US newspaper industry trade group News Media Alliances plans to ask Congress for antitrust exemption to allow for collective bargaining like trades unions to provide leverage against these powerful web platforms.

> “Pushing for stronger intellectual-property protections, better support for subscription models, and a fair share of revenue and data would grant media organisations the flexibility to expand innovative digital models of news distribution, while also giving them more ways to sustain high-quality journalism”
>
> - **David Chavern**, CEO, News Media Alliance

Potential Actions: How Should News Players Respond?

The growth of platforms will force publishers to consider two key strategic questions.

Firstly, publishers will need to understand how to win on platforms. Industry disruption always creates winners and losers. Successful incumbents in other platform-dominated industries have developed entirely new products, capability sets and brands to address the challenges and opportunities created.

For example, platform dominance in the insurance market increasingly requires incumbents to build new capabilities in online risk pricing, data enrichment and e-commerce, a substantial departure from winning strategies in the pre-platform era that focused on above-the-line marketing and offline sales and service. In some cases, insurers have developed separate brands targeted at winning with on – and off-platform customers

So what will the winning platform playbook look like for publishers? A holistic view of platform strategy will be required, encompassing everything from editorial, to user experience, to data sharing:

FIGURE 10: INDIVIDUAL ACTIONS

EDITORIAL & BRAND STRATEGY (1)

- Strong and distinct editorial voices will become even more important to achieve 'cut through' in the platform-era
- Likewise, publishers will need to consider what their hero platform products will be and whether sub-brands are required to carve out these niches

USER JOURNEYS (2)

- Seamless user journeys - both from the platform to the publisher's site and back - will become more important as platforms' share of traffic grows – **As covered in our paper, Friend or Foe, on how TV players can use YouTube to their advantage**

PLATFORM PARTNERSHIPS (3)

- As platforms develop their news offers it's likely that they'll develop an increasing role in categorising and curating content
- Publishers can partner to help them to this, whilst ensuring that their content is utilised effectively. This will become increasingly important where platforms act as walled gardens

DATA (4)

- Making the right choices about what customer data to share (and what not to share) with the platforms will be key for publishers to retain power with advertisers
- Building the technical capabilities to share data and leverage it effectively will be key

AD SALES (5)

- Advertisers will need to develop new capabilities to sell inventory around their platform based content, encompassing everything from insight ("who reads our content on platforms and why are they valuable to advertisers?") to ad operations ("how do we deliver on platform campaigns and report on the results?")

SECONDLY, PUBLISHERS WILL NEED TO CONSIDER A COLLABORATIVE, INDUSTRY WIDE RESPONSE TO THE GROWTH OF PLATFORMS.

Publishers have already demonstrated an ability to collaborate around digital disruption. For example, the growth of programmatic display advertising has led to the launch of The Pangaea Alliance, a tie-up between The Guardian, CNN, Financial Times, Reuters and The Economist to sell advertising inventory as a single, high value package to advertisers, keeping control of their first party customer data 'behind the scenes'.

The News Media Alliance (NMA) – the trade association representing approximately 2000 newspapers in North America, including digital and multiplatform products – serves as a catalyst for industry growth. This includes evaluation into how newspapers could co-ordinate for greater commercial leverage with advertisers and improve their advertising proposition.

The growth of platforms should be top of the agenda for these collaborative efforts if publishers wish to retain greater control of their market. Other industries have seen a variety of collaborative strategies employed, from lobbying against disruptor platforms, to launching alternative incumbent-owned platforms:

FIGURE 11: INDUSTRY-WIDE ACTIONS

		Description	Examples
Prevent 'Aggressive' Platforms	Coalesce Support Against Platform	**Public criticism: Harness popularity to stir consumer resentment towards platforms**	• In 2014, a group of well-known authors, "Authors United" used their gravitas to support Hatchette, a major French publishing house in their dispute with Amazon over royalties • Similarly in music, Thom Yorke, Taylor Swift and others vs YouTube
		Limit content: Block the distribution of content to a particular platform	• Several major artists in the music industry (eg. The Beatles, Taylor Swift) have refused to allow their music to be streamed on Spotify • In 2015, a number of major US banks fought against personal finance management websites (eg. Mint), by restricting their flow of customer data to the site • However, this is subject to 'prisoners' dilemma' resulting in suppliers commonly breaking rank
	Appeal for Regulation	**Fight disruption through legal intervention**	• Uber has faced extensive regulation in numerous markets, driven by pressure from local cab drivers eg. since late 2015, Uber and other ride-hailing apps have been banned in Rio de Janeiro • In 2011, three major investment banks in the US launched a law-suit against an internet subscription stock news service (theflyonthewall.com), over the misappropriation of "Hot News"
Create Alternative	Support "Preferred" Platform	**Limit distribution of content to platforms with favourable terms; incentivises platforms to act in producer interest**	• Over 100 (mainly) Dutch and German publishers have made agreements with Blendl, an on line news platform that works on a payper- article basis • Publisher respect for the platform is high: - Supports high-quality journalism ("clickbait" is punished) - Original article design is preserved - Compensation is transparent
	Launch Alternative Platform	**Launch rival platform with producer control (commonly an industry JV)**	• Many attempts to launch publisher owned platforms with variable success (see table overleaf)

CASE STUDY 5: **HULU**

Hulu is an example of a relatively successful industry-driven intervention to mitigate the dominance of third-party aggregators. It is a joint venture owned by 21st Century Fox, The Walt Disney Company, Comcast and Time Warner, which carries current and past episodes of series from its owners' television networks. Close ties to content providers gives it an advantage over other VOD services; like the ability to launch a live-streaming service in 2017 which includes premiere sports and broadcast channels such as ESPN, ABC and Fox. Hulu reportedly has 12 million subscribers currently and a projected predicted 36 million viewers by 2020.

Although it remains significantly smaller than Netflix, it still represents a success for the channels in retaining control of their content & data, maintaining a direct relationship with viewers and generating incremental revenue. Joint ventures, therefore, are a strategically logical solution to creating a compelling consumer proposition, although the failure of many JVs implies a very real risk in execution.

Hulu reportedly has 12 million subscribers currently and a projected predicted 36 million viewers by 2020

FIGURE 12:INDUSTRY INTERVENTION: SUCCESSES AND FAILURES

	Year	Industry Intervention	Level of Success	Description
TV	2009	• Major content-producing media conglomerates (21st Century Fox, Walt Disney and NBC Universal) launched Hulu, a streaming and video-on-demand service as a challenger to Netflix	**HIGH**	• Hulu has grown rapidly with an estimated 12m subscribers (although Netflix has c.4x more in US)
Books	2012	• Tolino, a digital alliance of German booksellers, was founded as a rival to Amazon e-books • In 2015 they launched "neobooks", a selfpublishing platform	**HIGH**	• Hulu has grown rapidly with an estimated 12m subscribers (although Netflix has c.4x more in US)
Property	2015	• A consortium of UK estate agents launched "onthemarket.com"; agents can use the site and become part owners if they agree to advertise only on one other platform (to break Rightmove / Zoopla duopoly)	**MIXED**	• See Case Study 5
Music	2014	• Jay-Z launches the first artist-owned streaming service in the world; consumer benefits include exclusive artist content and superior streaming quality	**LOW**	• Tidal has widely been hailed as a failure; it has struggled to gain subscribers and the support of the artists/ music producers as a whole
	2010	• Sony, partnering with the world's major record labels, launched "Music Unlimited", a music streaming service intended to rival iTunes	**LOW**	• Music Unlimited suffered limited uptake; In 2015 it is replaced by Sony with Spotify partnership
Finance	2014	• UK banks launch Paym P2P mobile payments service (under the Payments Council); industry-wide collaboration to defend against technology companies entering their markets	**TBC**	• PayM is still a marginal payment method; an estimated 17% of mobile users are registered yet transactions are more limited
Law	2015	• A consortium of UK legal software suppliers launched their own conveyancing software platform, in the wake of the failure of the Law Society to launch their own ("Veyo")	**TBC**	• Strong early uptake of the platform but performance tbc

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