Communic@tions Management Inc.

The end of the Century of Mass Media, 1912-2012: What happens next?

Presentation by
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The Media School / Bournemouth University / May 22, 2008

A context for current changes – some important questions:

- Will we come to regard the period from 1912 to 2012 as the "century of mass media"?
- Will the future evolution of the media mean that the "century of mass media" was an anomaly?
- Is "fragmentation" the new "normal"?
- Will we have to "unlearn" many of the "accepted wisdoms" about the media?

How the "century of mass media" started:

- High speed printing press … mass circulation newspapers and magazines
- Early days of radio – "wireless" gained influence after the sinking of the Titanic in 1912
- Uncertainty about the business model for this new medium
- RCA formed in the U.S. – despite anti-trust issues – originally focused on point-to-point with profits to be made from the sale of hardware
- Sarnoff's vision … radio broadcasting – content (software) as the key driver of growth

We are at a fundamental turning point in the history of the media:

- In 1920, radio was "new media"
- In 1950, TV was "new media"
- In 1995, the Internet became "new media"
- So why is the current transition different than the past?
  - *Convergence is eroding traditional borders – not just geographic borders, but also business borders*
  - *The basic notion of media as intermediaries is being challenged*
  - *Multiple digital devices and changes are being introduced at the same time*
  - *The sheer volume of choices available to consumers leads us to a "tipping point" in how media operate … and that "tipping point" may be even more apparent by 2012*

The way we view media has to evolve as media themselves evolve:

- In the 20th Century, media were intermediaries, connecting content, consumers and advertisers
- Media's role as intermediary was shaped in part by the limited number of media players – a function of capital costs in print and regulatory/"spectrum scarcity" considerations in broadcast
- As those limitations disappear, barriers to entry fall – not just for competing media that are based on the "intermediary" model, but for anyone who wants to send media-like content to consumers
- ***So the fundamental reality about media in the 21st Century is that technology now threatens to challenge media's role as intermediary – because content-producers, other consumers, and advertisers will all be able to send media-like content directly to consumers***

Advertisers are changing:

- Greater targeting
- Multiplexing of commercials
- Moving away from demographic measurements
- Looking for cross-platform strategies
- Taking on media-like characteristics … producing programs … streaming video that competes with broadcasters
- ***Challenging our current concept of "media" as intermediaries that link content, consumers and advertisers***

Advertisers are developing competitive media:

- Procter & Gamble has an online magazine called "HOMEmadesimple"
- Anheuser-Busch has introduced "BudTV" – an online video network
- Amazon and Wal-Mart are selling ads on their Web sites
- Canadian toy manufacturer Ganz created Webkinz – an online extension of its merchandising of toys
- Bands are signing with brands instead of labels

HOMEmadesimple …
an online home and lifestyle magazine …

… published by Procter & Gamble

TIMESONLINE

From The Sunday Times
May 4, 2008

Bands are getting into bed with consumer brands

As record labels lose their way, bands are getting into bed with consumer brands. Is this the way of the future?

"… the industry still appeared shocked when the dance duo Groove Armada gave into the siren call of Bacardi last month.
"Their decision to leave Sony BMG and sign with the drinks giant sent a clear message to labels and brands alike that Bacardi saw a big future in taking its partnership with music beyond mere sponsorship. The one-year deal has the drinks giant releasing the band's music through its own label and download platforms, as well as paying for a series of 'parties' that GA will curate and headline."

Advertisers are developing competitive media:

- In the U.K., Land Rover has launched a broadband video channel; according to the agency executive in charge of the project:

"Instead of using traditional media outlets like TV networks to distribute programming with TV commercials embedded in it … increasingly broadband will become the source of content for channels that advertisers distribute directly to consumers"

Is this new? Or are we actually going back to "pre-media media"?

- Consider Or San Michele, a church in Florence, Italy
- About 600 years ago, the guilds were given an opportunity to erect statues in niches on the outside of the church, to help advertise their wares

Consider the contribution from the Guild of Armourers and Swordmakers:

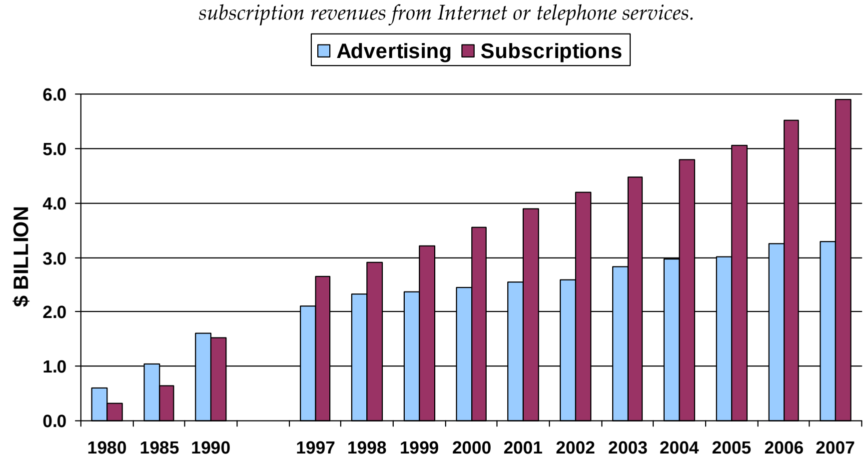
- Statue of St. George, by Donatello
- Presumably, if you, too, wanted to slay a dragon, you were encouraged to get your supplies from that guild
- Is this really very different from what Land Rover or Bacardi are doing 600 years later?

Television's revenue sources are changing:

- Current principal media revenue streams – advertising and subscriptions
- In Canada, in TV, subscriptions passed advertising in 1991 … long term trend toward direct payment
- In the U.K., in TV, subscriptions passed advertising in 2003
- In the U.S., in TV, it appears that subscriptions passed advertising in 2004

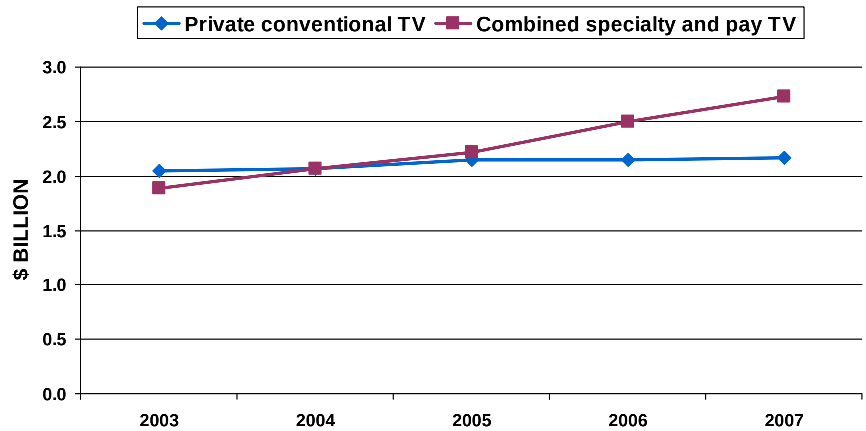
Advertising and subscription revenues in the Canadian TV system (including conventional TV, specialty services, pay TV and BDUs*), 1980, 1985, 1990, and 1997-2007:

NOTE: Subscription revenues are for programming services, and exclude subscription revenues from Internet or telephone services.

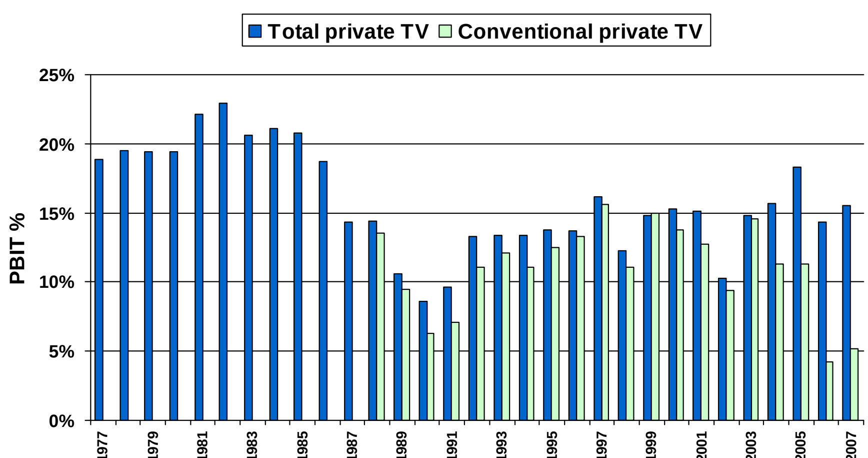


** "BDUs" refer to broadcasting distribution undertakings, which include cable and direct-to-home satellite services.*

Total operating revenues, private conventional TV, and combined specialty and pay TV services, Canada, 2003-2007:



Profit before interest and taxes (PBIT) as % of total operating revenue – combined data for private conventional TV, specialty and pay services, Canada, 1977-2007:



Revenue sources in the TV industry in the United Kingdom, 2000-2006:

Source: Ofcom estimates and broadcasters

The nature of the viewing experience is changing:

- “Small screen” used to refer to television; “big screen” used to refer to movie theatres
- We now are redefining those terms, so that both of them refer to television
- In fact, it can be argued that television is becoming a “three-screen” world – the TV, the PC, and the cell phone or other hand-held device
- How will we have to change and modify content to accommodate multiple screens and sizes?

How will small screens affect the TV viewing experience?

How will large flat panel TVs affect the viewing experience?

- Will consumers be more willing or less willing to support pay-per-view for pro sports?
- What about movies?
- Or ... will the teenagers hog the screen to play increasingly-realistic video games?

A couple of additional thoughts on screens … and sizes:

"What is the role of the screen in our life? It is becoming our principal connection to information. We spend more time in front of a screen than in front of a page. The three screens – TV, personal computer and mobile phone – share, on the average, about a third of our waking life."

– *Professor Derrick de Kerckhove, Director, McLuhan Program in Culture and Technology, University of Toronto, 2005*

Joe Gillis (William Holden): *You're Norma Desmond. You used to be in silent pictures. You used to be big.*

Norma Desmond (Gloria Swanson): *I am big. It's the pictures that got small.*

– ***Sunset Boulevard***, 1950

Consumers are changing:

- We consume more – and different – media than in the past
- "Baby boomers" = TV generation
- "Generation Y" = Internet generation
- Generation Y is the future, and the future is a multimedia consumer
- **Video games are emerging as a competitor for TV time**
- The Internet generation understands, and is comfortable with, new media "tools"

Consumer-generated media (CGM), user-generated content (UCG), and social networks:

- The ability of consumers (particularly younger consumers) to use new media tools has given rise to CGM, UCG, and social networks – blogs, vlogs, MySpace, YouTube, Facebook, etc.
- An important alternative media stream for those consumers
- In 2005, News Corp. bought MySpace for US$580 million
- In 2006, Google bought YouTube for US$1.65 billion
- Not only compete for attention with traditional media, but also raise copyright issues as consumers meld content delivered by traditional media with the content they create themselves

Video games:

Competing for time and attention … and creating another device-based platform for content:

- Video games compete for consumer time, and compete for advertising – in online gaming and on a stand-alone basis
- Video game consoles may become important linking devices to bring Internet video to the television set:

"… the video game is the set-top box and the set-top box is the video game." – Bill Gates, January 7, 2007

The emerging multimedia consumer:

- Are people watching more? Watching less?
- No, they're watching **different**
- Led by Generation Y, an increasing number of people are consuming multiple media at the same time
- For media, it's no longer just about attracting people for a set period of time – it's about how to function in relation to other media in an increasingly overlapping manner
- **The battle for attention has become continuous**

The Internet generation has added a new category of media:

- **C2C – consumer to consumer** (or **peer-to-peer**). *The new category – file-sharing, chat, blogs, podcasts, vlogs, and who knows what's next? – has been added to …*
- **B2C – business to consumer.** *The category in which consumer media currently operate, and*
- **B2B – business to business.** *The category that could be transformed by e-commerce marketplaces*

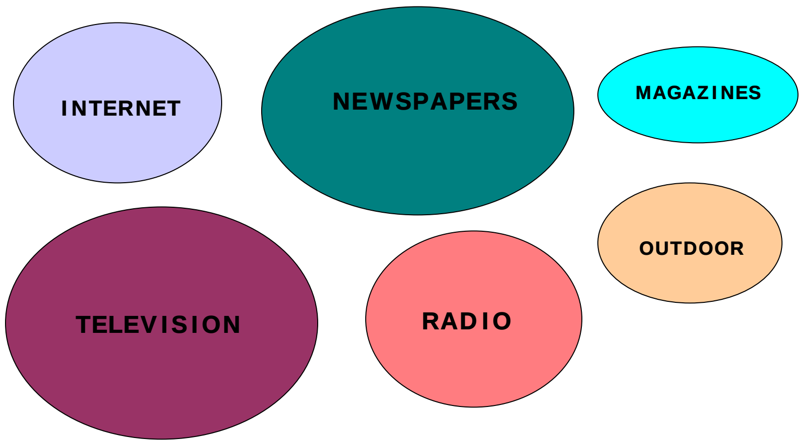
A fundamental change in the media:

For the first time in history, on a mass scale, the means of production and distribution for information and entertainment products are finding their way into the hands of the consumers.

Higher quality Internet audio and video coming from three directions:

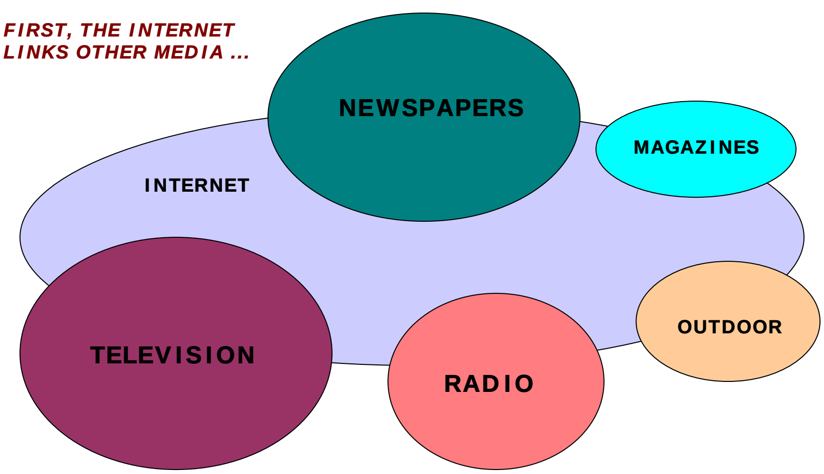
- Improved transmission speeds – cable modems and telco DSL
- Improved compression techniques – getting more information into a smaller space
- Improved storage devices – for example, Personal Video Recorders (PVRs)
- ***The result of these improvements: More use of streaming media – both audio and video***

Is the Internet just another medium …



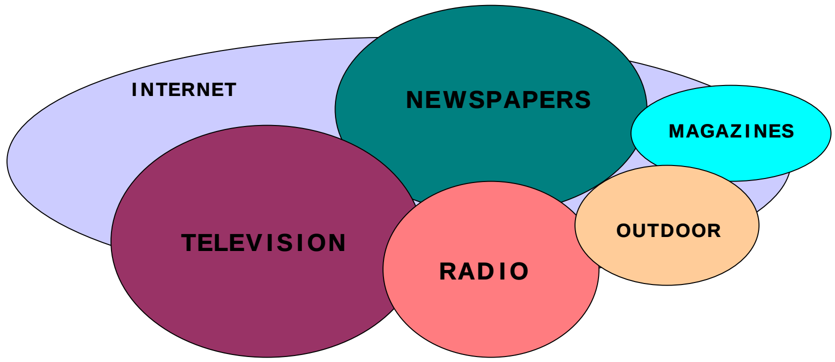
… or is the Internet an overlay – a platform for, and extender of, other media?

FIRST, THE INTERNET LINKS OTHER MEDIA …



… or is the Internet an overlay – a platform for, and extender of, other media?

… THEN DRAWS THEM CLOSER TOGETHER



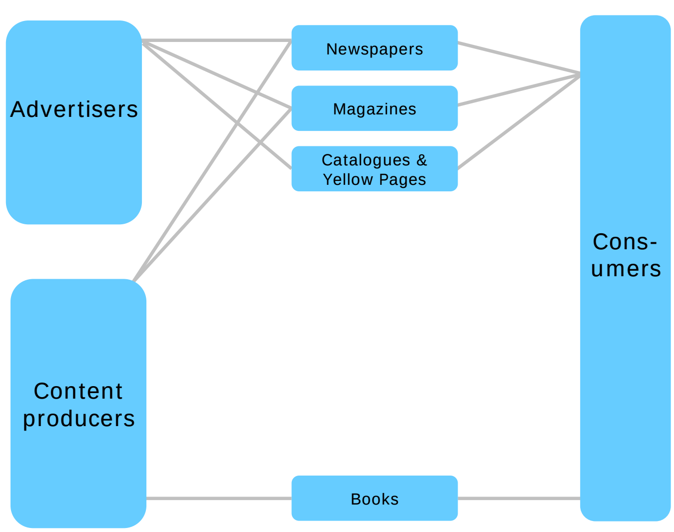
Clearly, it is no longer "business as usual" for conventional media:

- Internet has the effect of eroding borders and increasing the volume of competitive sources of information and entertainment
- Internet adds interactive elements to media
- Internet allows advertisers to compete with media
- Internet allows consumers to compete with media
- ***In the future, media will have to learn how to operate across multiple layers of activity:***
- Three categories – B2C, B2B, and C2C (peer-to-peer);
- Multiple platforms – broadcasting, print, the Internet; and
- Multiple business models

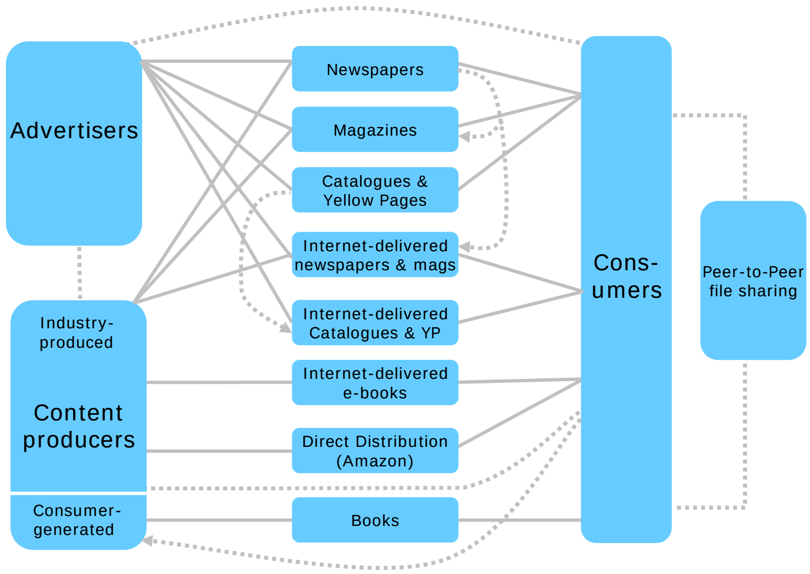
Within these multiple layers, media will have to adjust to ongoing changes that affect the value chains in which they currently operate, and the value chains in which they may operate in the future.

Media will also have to plan for a future in which competitors can use technology to bypass current value chains to deliver content to consumers.

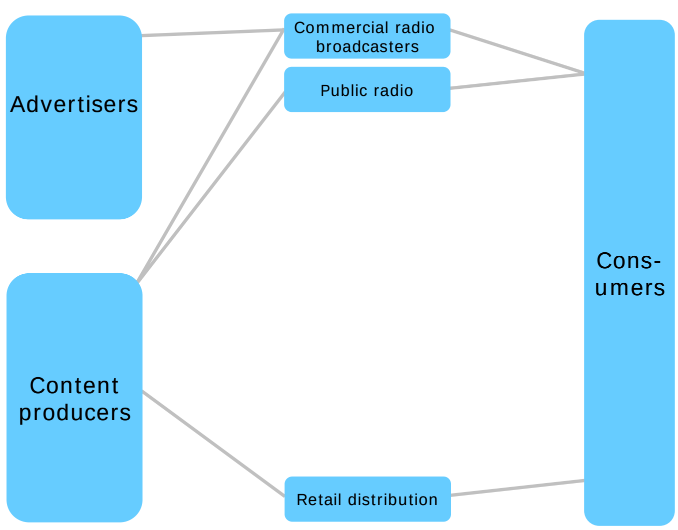
The print continuum value chain, 1975:



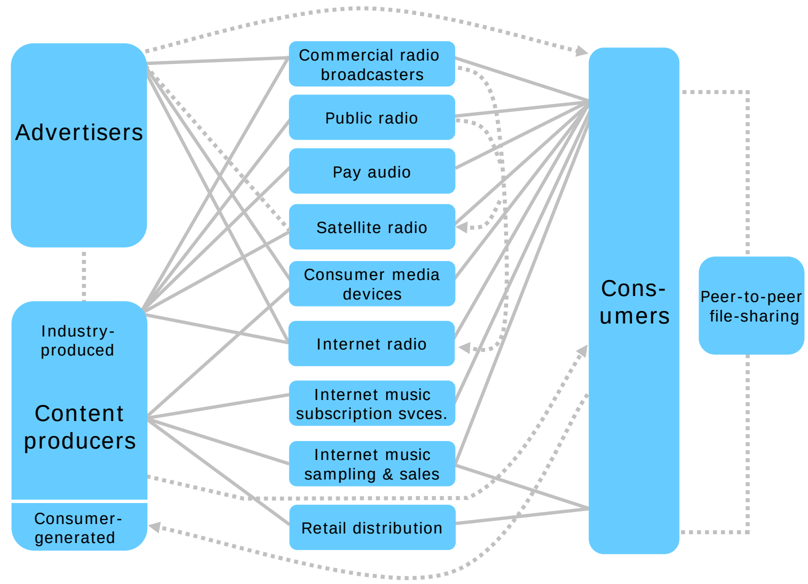
The print continuum value chain, 2008-2012:



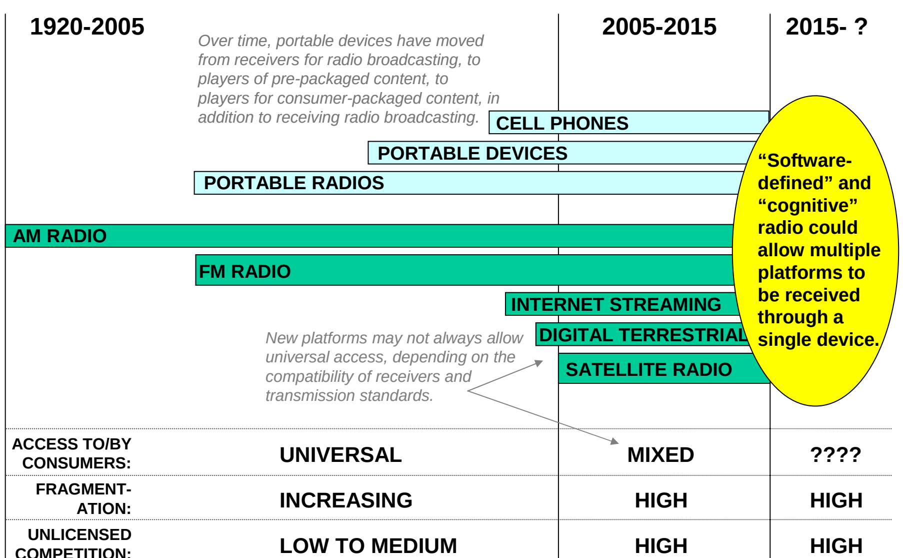
Radio and the audio continuum value chain, 1975:



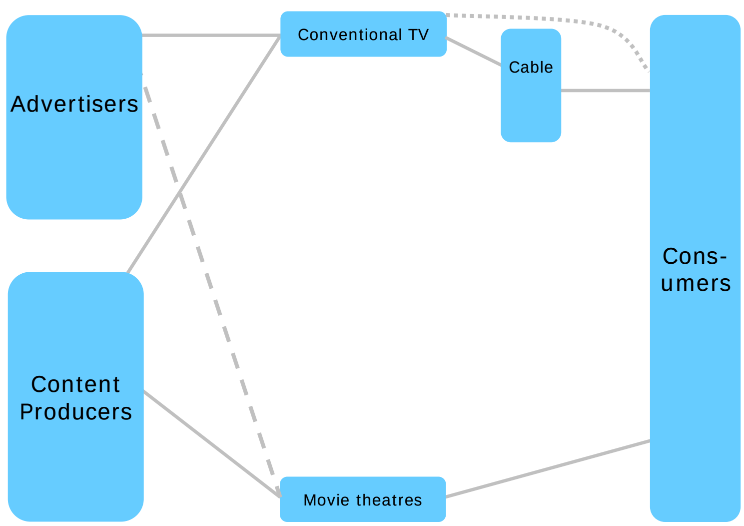
Radio and the audio continuum value chain, 2008-2012:



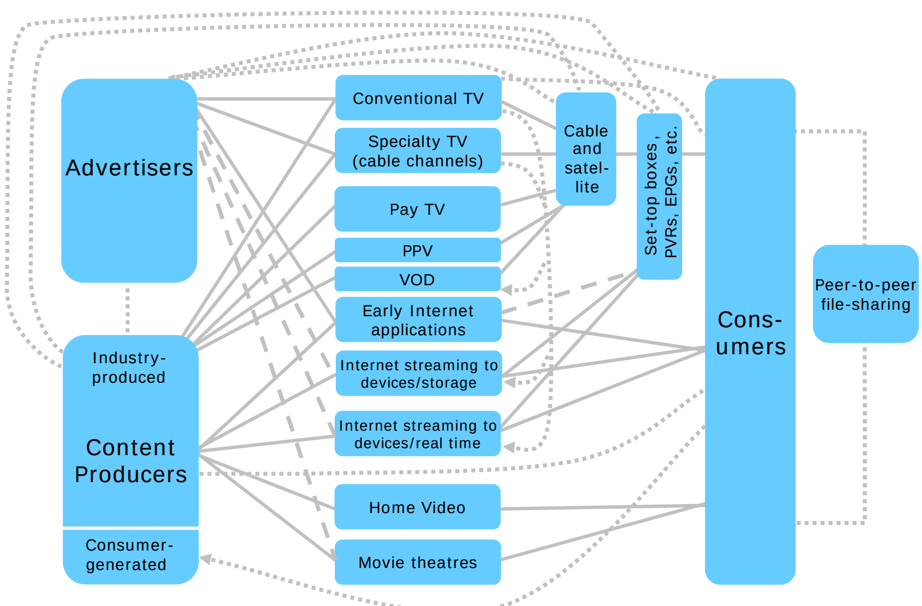
As technology changes, radio's business and regulatory models must respond to new challenges:



Television in the video continuum value chain, 1975:



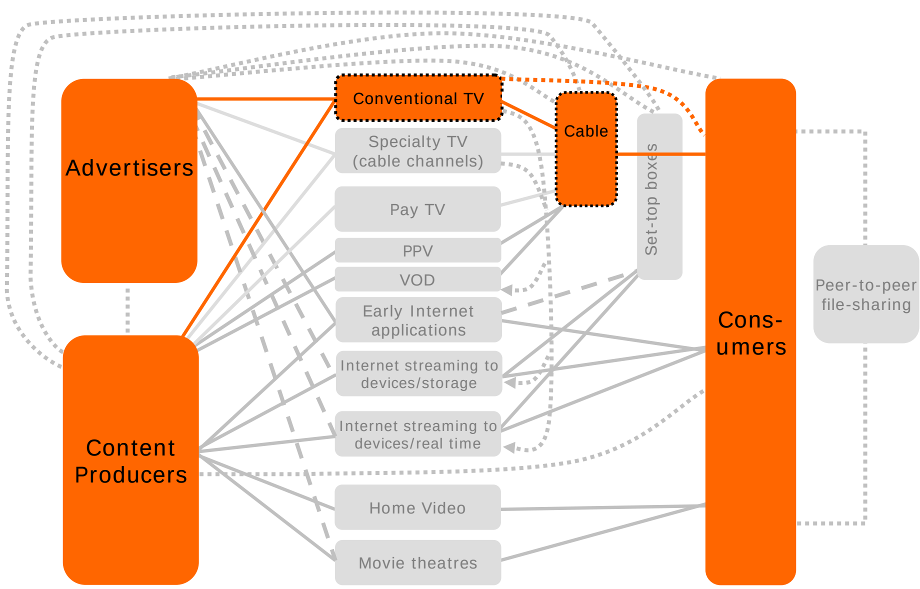
Television in the video continuum value chain, 2008-2012:



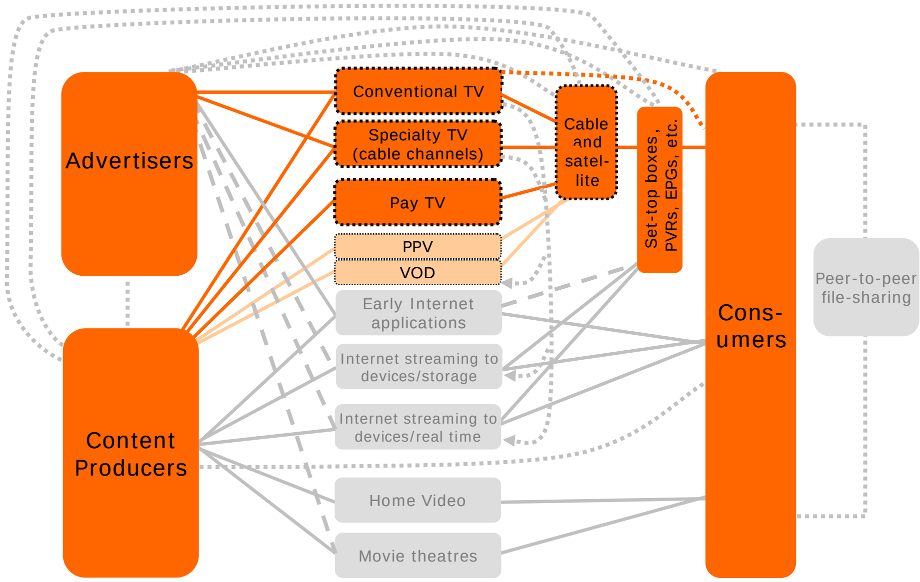
The traditional TV model, and the potential for bypassing that model:

- The next slides indicate the evolution of the traditional TV model – in 1975 and today
- Those slides are then followed by six examples of how technology might allow the traditional model to be bypassed:
  - ❑ *An advertiser-centric model*
  - ❑ *A cable/satellite-centric model*
  - ❑ *A content-producer-centric model*
  - ❑ *A device-centric model*
  - ❑ *A search-centric model*
  - ❑ *A consumer-centric model*

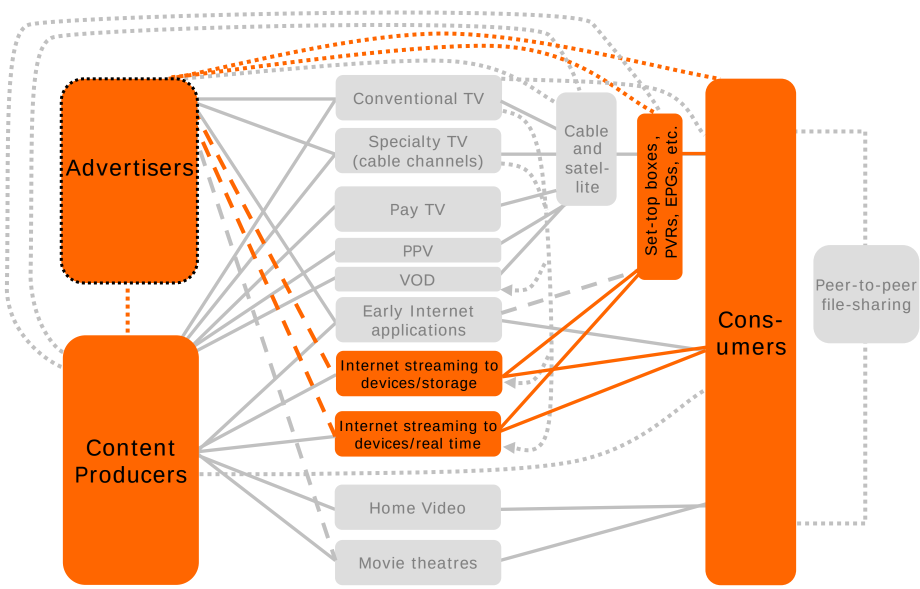
The traditional TV model, 1975:



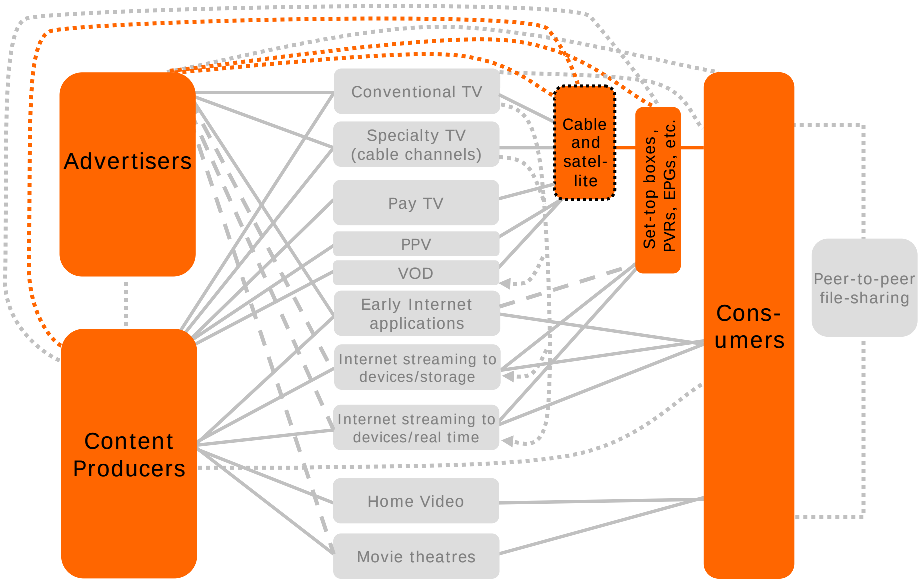
The traditional TV model, today:



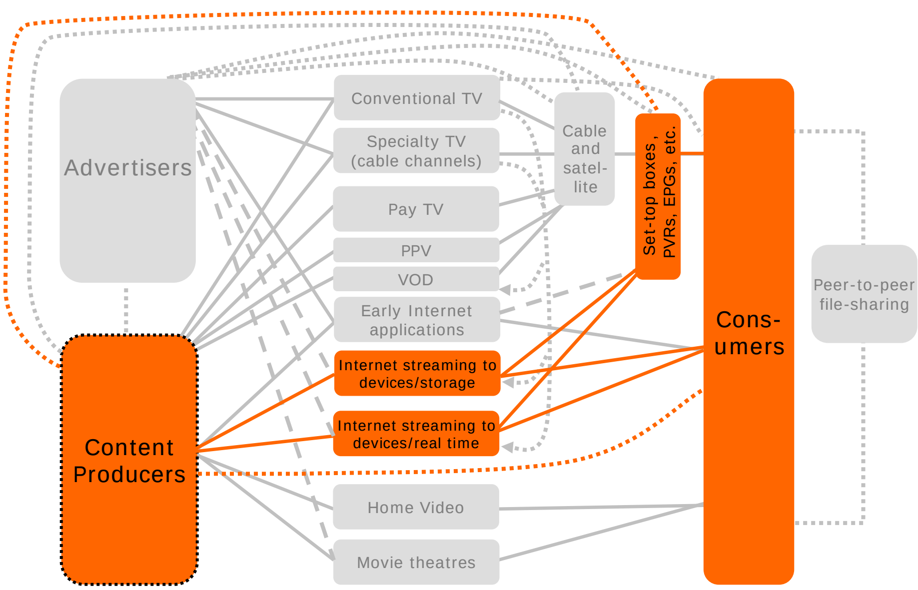
Bypassing the model – advertiser-centric:



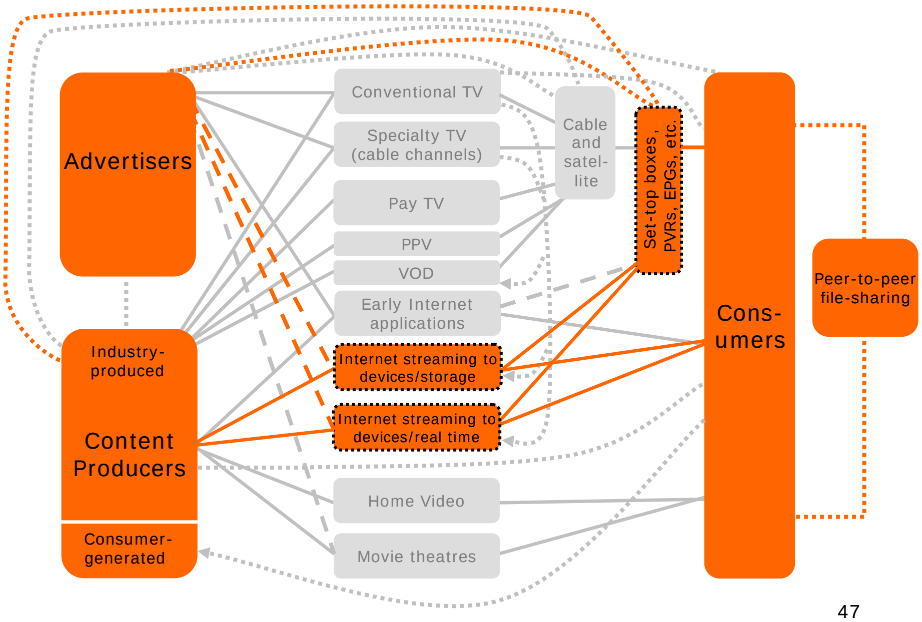
Bypassing the model – cable/satellite-centric:



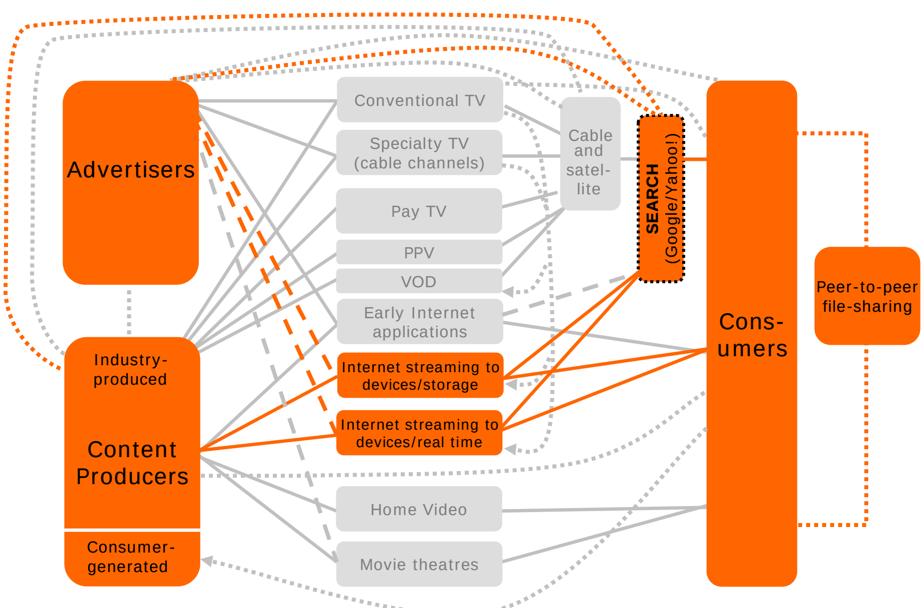
Bypassing the model – content-producer-centric:



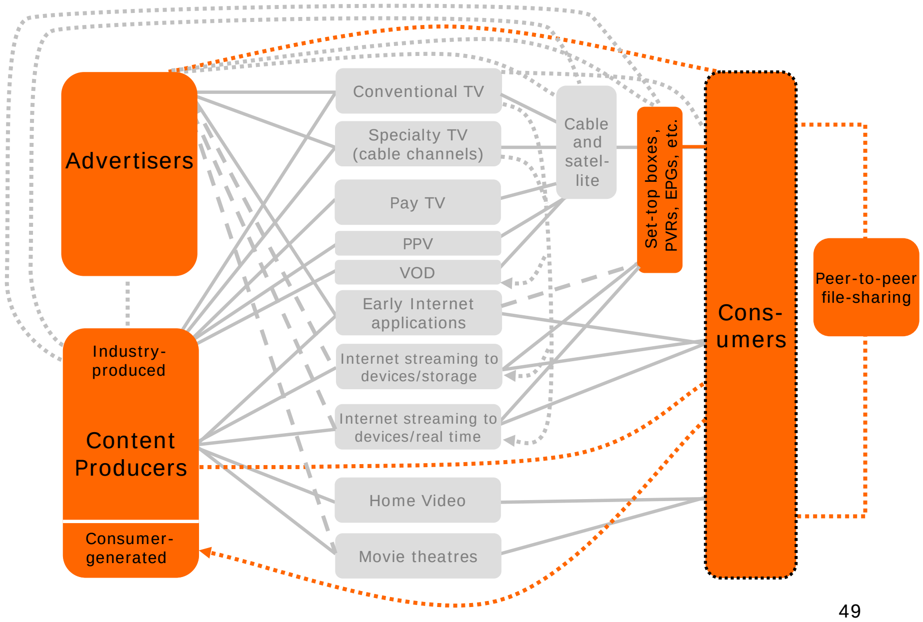
Bypassing the model – device-centric:



Bypassing the model – search-centric:



Bypassing the model – consumer-centric:



Fragmentation – the new "normal" – and its economic impacts:

- More content from more places than ever before
- The system is no longer closed – erosion of traditional borders compounds the problem of fragmentation
- New communications technologies play havoc with geographic borders and also blur the borders between media and advertisers, and between media and consumers
- Fragmentation profoundly changes the economic nature of the market that is being fragmented
- ***Fragmentation puts downward pressure on unit costs***

Innis, 1950:

- "As the costs of navigation declined, less valuable commodities emerged – precious metals … timber … and finally wheat ..."

Television, 2008:

- "As the costs of channels declined, less valuable programs emerged – long-form drama … variety programs … and finally reality-based shows ..."

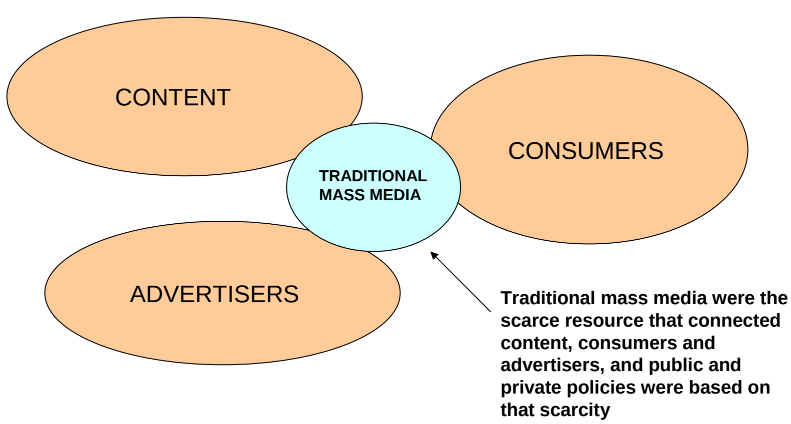
Some consequences of fragmentation and the downward pressure on unit costs:

- More difficult – and more risky – to invest in expensive drama programs
- More difficult to do local programming
- Media consolidation – a response to fragmentation, as media seek economies of scale by re-aggregating fragments
- Fragmentation at the root of current public concern about risqué content
- And ... fragmentation lowers the threshold for celebrity … helps to fulfill Andy Warhol's prediction that everyone would be famous for 15 minutes

Local programming is under pressure from fragmentation and "verticalization":

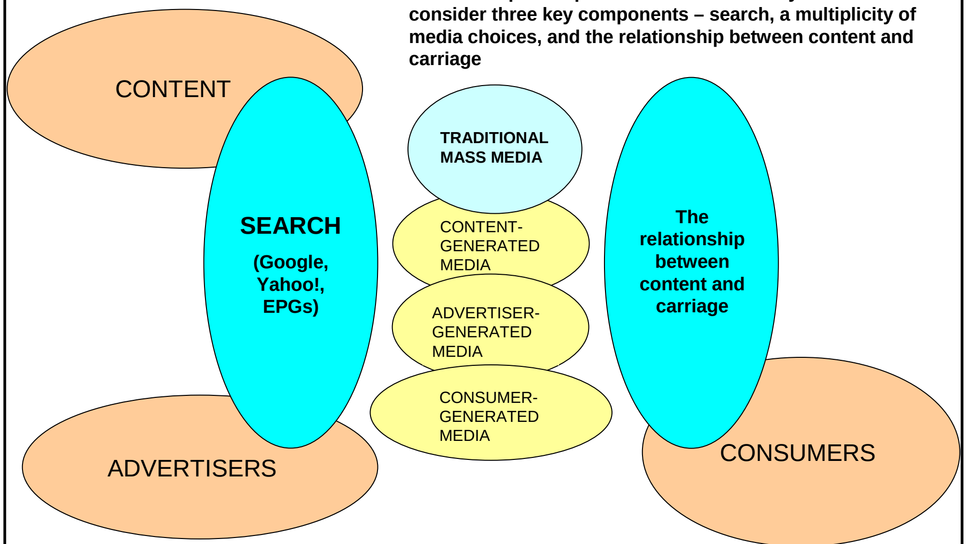
- Some fragmentation is through additional "horizontal" channels (conventional)
- Most fragmentation is through "vertical" (specialized) channels
- Vertical channels take some programming, some audience and some advertising revenue from horizontal channels, thereby making it more difficult for conventional channels to continue to do as much local programming

The traditional media model:



The emerging media model?

Public and private policies in the future may have to consider three key components – search, a multiplicity of media choices, and the relationship between content and carriage



The traditional media model was based on a "coincidence of oligopoly" and the ability to achieve "protectable scarcity":

- In the traditional media model, media were intermediaries, connecting content, consumers and advertisers
- Media's role as intermediary was shaped in part by the limited number of media players (the "coincidence of oligopoly") – a function of capital costs in print and regulatory/"spectrum scarcity" considerations in broadcast
- At the same time, it was reasonably possible to protect borders and protect copyrighted content
- So, in the 20th Century, the media business evolved as a business based on "protectable scarcity"
- But both scarcity and borders are being challenged by technology, so the survival of the media will depend, in part, in finding new ways to define and create protectable scarcity

The key drivers in the emerging media model:

- As the new media model emerges, most of the attention has been on consumer-generated-media
- ***While consumer-generated-media will be important, they may not have as important an impact on the economics of the traditional media as will advertiser-generated-media***
- Taken together, the media alternatives – from content, consumers, and advertisers – may have the effect of reducing both the relative and actual size of the market for traditional mass media

New issues and old issues in the emerging media model:

- Old issues – carrier ownership of program services, concerns about favouring own channels
- "Net neutrality" – a new version of an old issue?
- Other new issues are emerging – including what might be called "economics interruptus" for television broadcasters:
- Targeting and multiplexing commercials need carrier technology (e.g., the set-top box), so new advertising tools may be in the hands of the carriers, not the program services
- ***While issues relating to search and fragmented media may be regarded as new, the relationship between content and carriage is an issue that goes back over 150 years … to the early days of the telegraph***
- Additional attention may have to be paid to "friction points" – the places where broadcasting meets search and carriers

Are we ready to undertake a fundamental re-thinking of the way we approach the media?

- Are we ready – at both the public policy and private operating level – to make the fundamental changes that the emerging media model will require?
- Or will we be distracted by mythology?
- Unfortunately, there is considerable evidence that too much mythology is being introduced into the debate about future public policies related to the media

Perhaps we should heed these words from President John F. Kennedy in 1962:

" … As every past generation has had to disenthrall itself from an inheritance of truisms and stereotypes, so in our own time we must move on from the reassuring repetition of stale phrases to a new, difficult, but essential confrontation with reality.

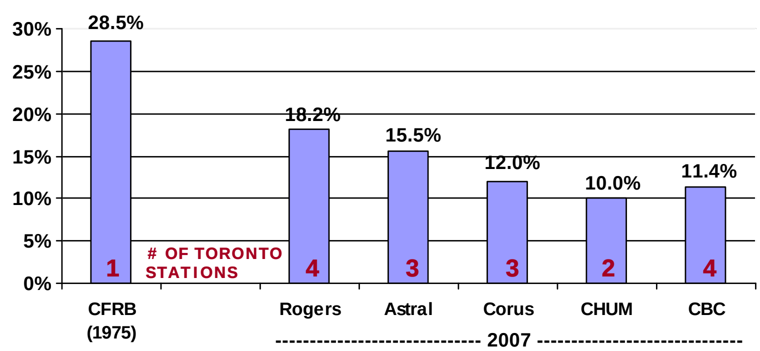
" For the great enemy of truth is very often not the lie – deliberate, contrived and dishonest – but the myth – persistent, persuasive, and unrealistic. Too often we hold fast to the cliches of our forebears. We subject all facts to a prefabricated set of interpretations. We enjoy the comfort of opinion without the discomfort of thought.

" Mythology distracts us everywhere … "

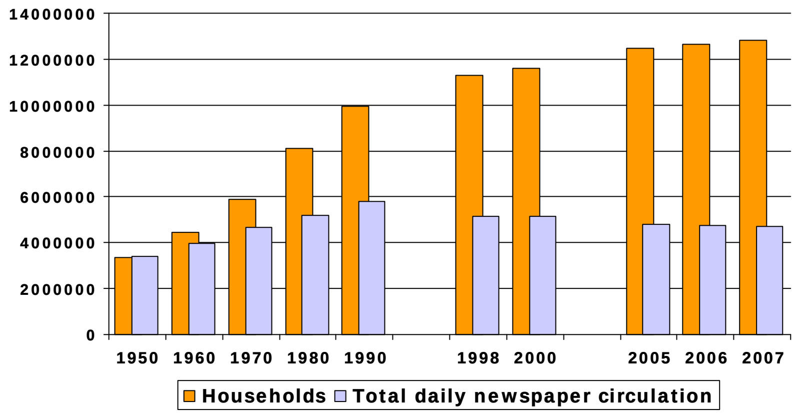
Two of the myths – "spectrum scarcity" and media "concentration":

- The concept of spectrum scarcity is at the root of public policies and institutions for broadcasting in almost every country … goes back to the 1920s and 1930s, and the early days of radio
- But the assumption pre-dates current knowledge on using the radio frequency spectrum, and pre-dates cable, satellites, the Internet, video over phone lines, and cell phones as content devices
- **And media "concentration" is one of the first great myths of the 21st Century:**
- *Media see markets getting more fragmented, and seek to re-aggregate fragments in order to compete and to maintain economies of scale*
- *BUT … consolidation rarely creates market shares as large as they were before fragmentation*

Comparison of radio tuning shares in the Toronto CMA (all persons), CFRB in 1975, and selected station groups, Fall 2007:

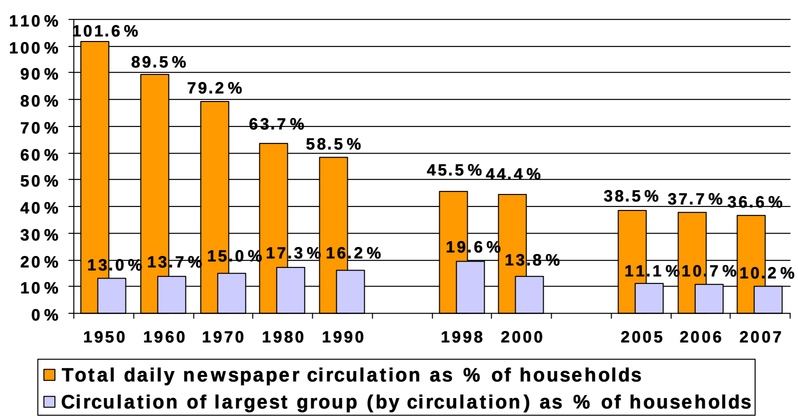


Combined average daily newspaper paid circulation, and total households in Canada, 1950 to 2007:

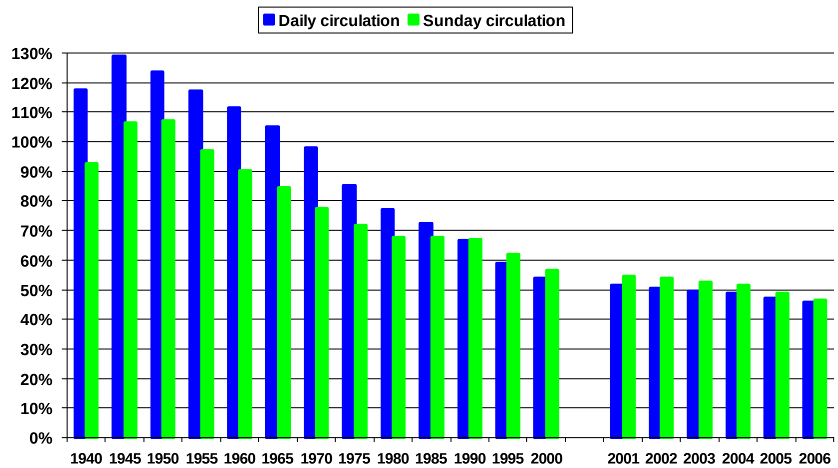


Total daily newspaper circulation, and circulation of largest newspaper group (by circulation), as % of households in Canada, 1950 to 2007:

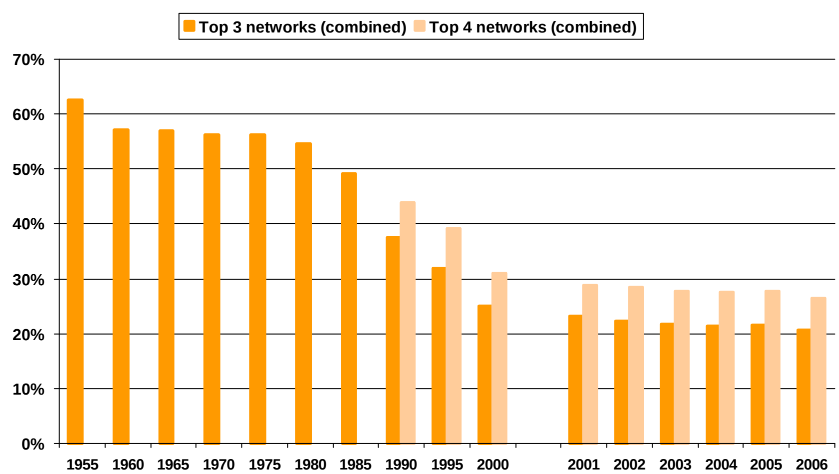
(Data are based on paid circulation)



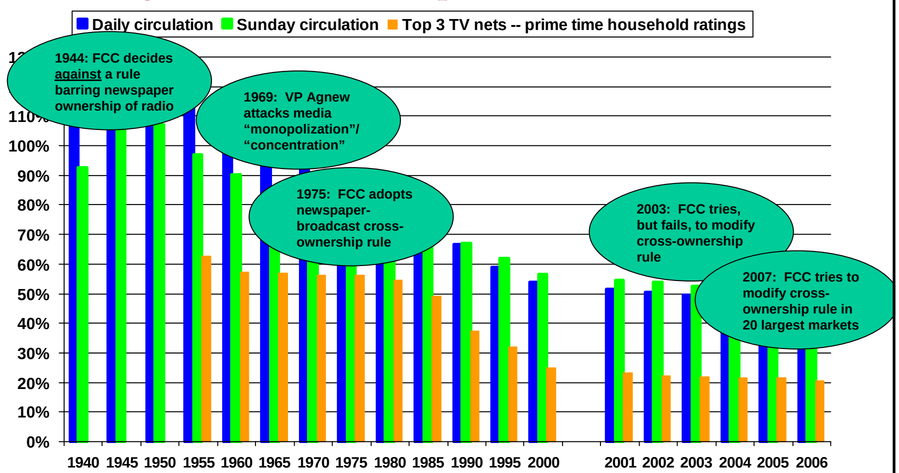
Total daily and total Sunday newspaper paid circulation as a percentage of households, U.S.A., 1940-2006:



Broadcast network household ratings, for top 3 or top 4 TV networks in prime time, U.S.A., 1955-2006:



Media trends* and selected public policy events relating to media ownership in the U.S., since 1940:



** Total newspaper paid circulation as % of households and top 3 TV network household ratings in prime time.*

The media “concentration” argument has multiple flaws:

- It is essentially elitist – the critics of “big media” tell us that the media are not telling some “truth”, but the critics themselves appear to have had no difficulty finding the information; indeed, the critics appear to be immune from a problem that they assume is affecting everyone else
- It ignores actual trends in media use by consumers, which indicate that fragmentation means that traditional media have less influence than they had in the past (in the U.S. in particular, the rhetoric against cross-ownership of newspapers and broadcasting appears to have gone up as the actual influence of those media has gone down)
- It takes a “deterministic” view of media – in which media are assumed to be the key shaper of public opinion, rather than a more realistic “environmental” approach, in which media should be seen as one of many influences, along with home, family, work, community, and places of worship

If we recognize that fragmentation is a cause, and consolidation is one of the effects, of current changes in the media, we will have a more informed debate:

CAUSE	EFFECTS
• Fragmentation	• Consolidation • Downward pressure on unit costs • Harder to do local • Content-sharing • Stretching the boundaries of taste

"Mythology distracts us everywhere":

- Although the media "concentration" argument is flawed, both conceptually and statistically, it has become a serious distraction for public policy
- But that distraction carries with it a great risk for the future of the media
- By distracting public policy from dealing with reality, the media "concentration" argument may actually hamper the development of new policies that would support public service broadcasting in the new economic and technological environment in which media will have to operate

Public and private policies have to bypass the mythology and respond to the realities of the emerging media model:

- Private players will have to re-think business models that were based on the coincidence of scarcity
- The search for "protectable scarcity" will become a key focus for "traditional" media companies
- Government will have to re-think traditional approaches to broadcast regulation

New media rarely completely replace old media, but new media do limit the growth of old media:

- The introduction of television:
  - *Changed the nature of radio content*
  - *Drastically reduced movie attendance*
  - *Impacted mass circulation magazines, and*
  - *Started a 60-year decline in daily newspaper subscriptions as a percentage of households*
- We now are in the early stages of an equally far-reaching set of impacts, as today's new media challenge current media business models

Re-inventing media's private business models (1):

- The very nature of fragmented markets means that "one size fits all" won't work
- One useful approach – make a check-list of the changing elements in the system:
  - ❑ *Fragmentation*
  - ❑ *Scheduling and bundling*
  - ❑ *Revenue sources*
  - ❑ *Value chain issues*
- To what extent is your business model linked to the old version of each element?
- How do you plan to have your business model evolve so that it may also be linked to the new version of each element?

Re-inventing media's private business models (2):

- How will you answer these four key questions:
  - ❑ *How will you extend to new platforms?*
  - ❑ *How will you change your current platform as a result of extending to new platforms?*
  - ❑ *Is it possible for you to find some element of the "guide/search" function and make it your own?*
  - ❑ *How will you find your "community" (or "communities")?*

The changing revenue sources for television are part of a broader question: How will all media "monetize" in the future?

- The question of "monetization" is not only a question for online media – all media must deal with this issue
- There is a growing disconnect between two of the elements that made up the traditional media model – summarized in this recent comment from the Project for Excellence in Journalism:

" … more and more it appears that the biggest problem facing traditional media has less to do with where people get information than how to pay for it – the emerging reality that advertising isn't migrating online with the consumer. The crisis in journalism, in other words, may not strictly be loss of audience. It may, more fundamentally, be the decoupling of news and advertising."

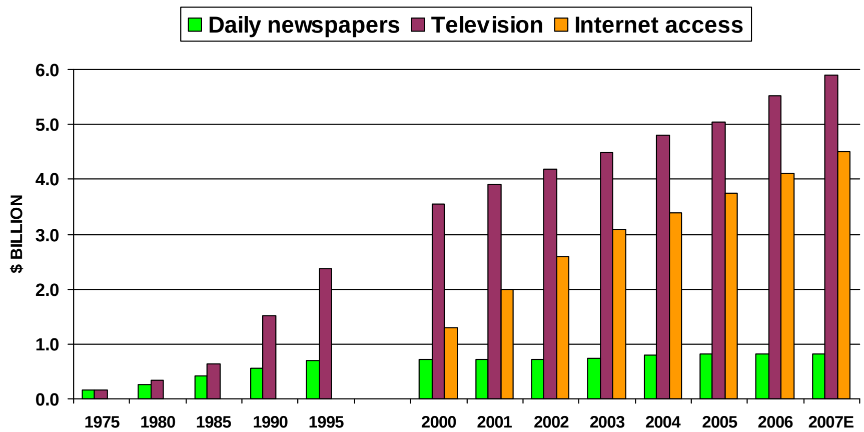
- And that "decoupling" may be accelerated by the emergence of "advertising networks" that sell ads on Web sites and in media separately from the content providers for those sites or media

"Collision courses" and "ripple effects"?

- The trends outlined above indicate the potential for both "collision courses" and "ripple effects" as the media evolve
- We have seen the increased reliance on subscriptions in television, at the same time as Internet content providers are choosing a mainly advertising-supported model (over and above the basic access charges)
- As content comes to be delivered across multiple platforms, does this put TV and the Internet on a "collision course" in terms of how content will be paid for?
- We have also seen the decline in daily newspaper circulation, as hard news is increasingly received through other channels … leading dailies to become, in many ways, more like magazines – more interpretive, less breaking news
- But, is there a possible negative ripple effect here for the newsmagazines like *Time*, *Newsweek*, or *Maclean's*?

Subscriptions for TV and Internet access outpace daily newspapers:

In 2007, for every $1.00 spent on daily newspapers, Canadians spent $7.25 on TV and $5.54 on Internet access.



Broadcast regulation may be increasingly ineffective … and counter-productive:

- Three tools have commonly been used in the past – regulation, public spending (subsidies/"pump-priming") and facilities-based forms of intervention (a common form for public broadcasting)
- Regulation and facilities-based forms of intervention may be increasingly ineffective (and even counter-productive)
- Public spending may continue to be necessary in some countries, but it will have to be more targeted at actual market shortfalls

The future of public broad-casting is being deba-ted in many coun-tries:

Some public policy/regulatory issues that need to be discussed:

- In 2003, the Australian Broadcasting Authority published a discussion paper titled "Trading the Regulatory Obligations of Broadcasters" – is this something that should be given more consideration?
- In the United Kingdom, Ofcom has discussed the idea of a "public service publisher" – a body without facilities of its own, but with funding and a mandate to get public service content distributed to consumers – is this something that should be given more consideration?
- Are facilities-based forms of intervention the most efficient use of taxpayer resources, or would the "public service publisher" model work better?

Three key questions for the future of government institutions in broadcasting:

- **First:** Given the realities of today's broadcast marketplace, if our current public institutions did not exist, what would be missing?
- **Second:** To what extent are we prepared to use public spending to supply what would be missing?
- **Third:** What is the best way of spending that money to achieve the goals we have set?

Is it time to re-invent the way we use public funds to support television?

- In many countries, public support will likely still be required to deal with size and threshold issues
- As regulation changes, more emphasis may have to be placed on public spending
- BUT … the choice of tools for public spending should not be automatic
- One useful area for discussion – should we require public institutions to compete for incremental funding?

The impact of media fragmentation on our shared experience (1):

- In a number of countries, broadcasting may already have passed its peak as a shaper of our shared experience
- While broadcasting will continue to be a major influence on our experience, the fragmentation of the media may at the same time be reducing the amount of that experience that is common or shared
- Our common knowledge base on public affairs will be different
- It will tend to focus more on major events that can cause people to move out of their customized media streams, and less on smaller events that are part of the day-to-day conduct of public affairs
- The "global village" may not turn out exactly as planned – we may have conquered separation based on geography, only to replace it with a separation based on narrowly-defined programming niches

The impact of media fragmentation on our shared experience (2):

- For those in politics and government, the new communications challenge will be to find a way of balancing the ability to speak to narrow segments and the need to communicate broader messages to all of the participants in our democratic society
- ***To put it even more succinctly: How will a modern democracy function if we all have less in common?***
- As we start to ask the fundamental questions about our public institutions, we need to keep that in mind as well
- We are not likely to go back to three channels of television or give up the Internet
- But we must still try to find a way to continue to build shared experience in a fragmented environment.