IS CONTENT KING AFTER ALL?

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

OC&C Strategy Consultants

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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 (eg 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

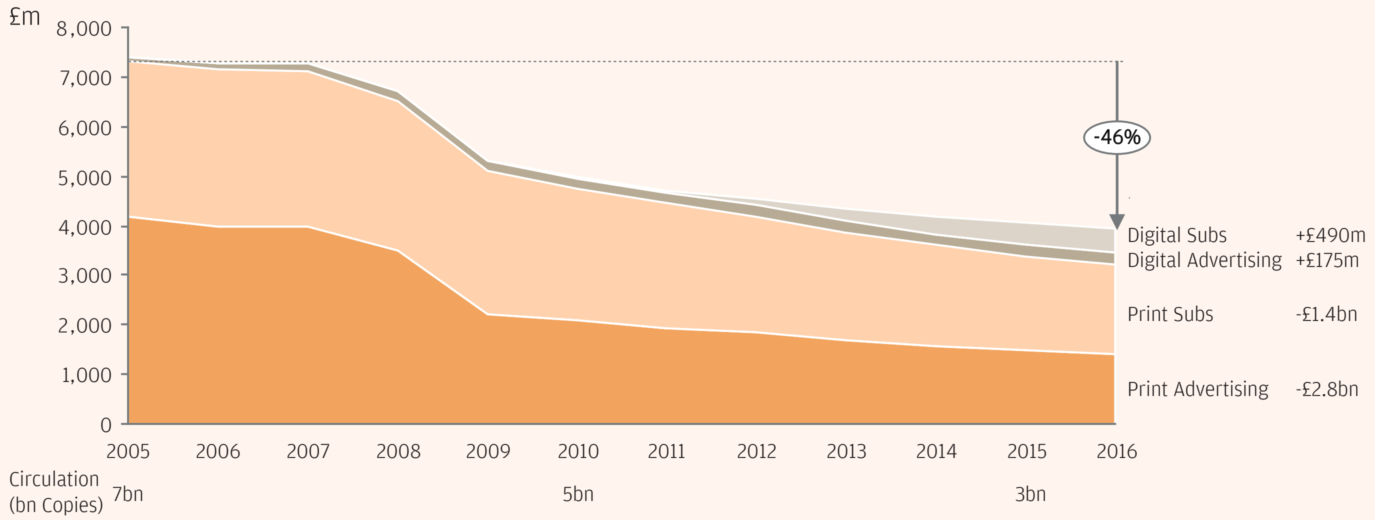
Traditional news businesses have faced a challenging trading environment for the last decade. The transition from the **traditional** to the **digital age** has cost the UK newspaper industry £3.5bn in lost revenues (46%) since 2005 – as digital revenues have failed to compensate for lost cover price revenues and print advertising, and as new online competitors have taken share.

A small number of traditional businesses have made the digital transition successfully; The Financial Times, for example, saw its circulation grow by 20% between 2013 and 2015, driven primarily by digital subscriptions with now account for over 70% of total circulation.

However, these success stories are rare. A combination of declining revenues and the investment necessitated by digital has left many players loss making. The latest victim of this trend has been the Independent, which closed its print edition in May.

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

Newspaper Publishing Market, UK



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 used broadly, with many potential definitions. For our purposes, we are defining platforms (also variably 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 doesn't 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 don't 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 UK car insurance policies are sold to customers who began their purchase journey on a price comparison website such as Compare The Market. 30% of delivered takeaways are ordered through platforms like Just Eat and Deliveroo. There are wide variations between industries: until recently news has remained unaggregated, consumed and found directly on news sites.

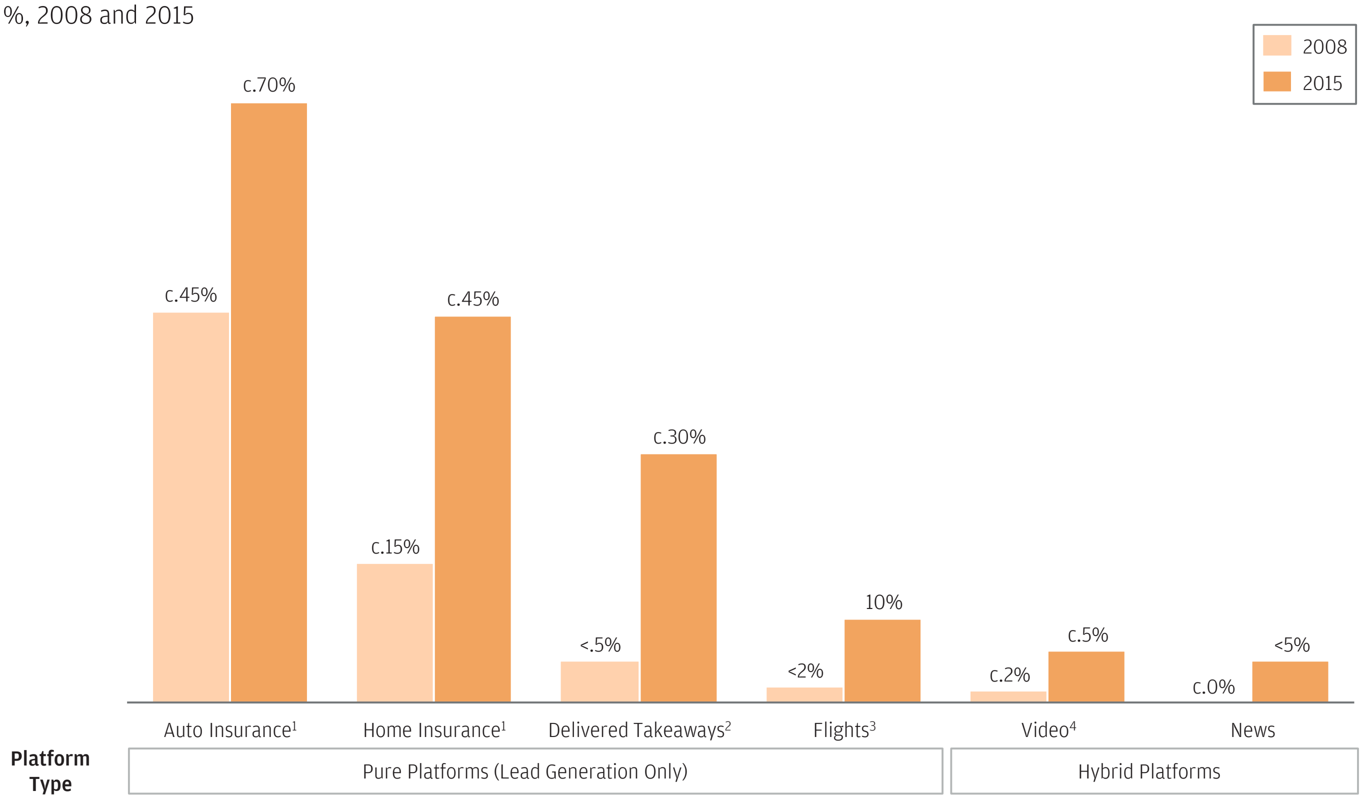
Platforms vs Merchants: Selected Examples

	Merchant	"Hybrid" Platform	"Pure" Platform
Illustrative	✓ Takes product risk ✓ Sets pricing	✗ Does not take product risk ✓ Sets pricing ? May host consumption / transaction	✗ Does not take product risk ✗ Does not set pricing
Taxi	Addison Lee	Uber Lyft	Bla Bla Car
Travel	OnTheBeach Easyjet		Airbnb Skyscanner
Delivered Takeaway	Domino's Deliverance		Just Eat Deliveroo
Insurance	Axa Direct line		Compare the Market Money Supermarket
Cleaning Services	Contracted Cleaners	Handy	Task Rabbit
Ecommerce	Amazon Asos		Amazon Marketplace Ebay
Music	Rough Trade Records	iTunes	YouTube
TV / Video	Netflix	iTunes	YouTube

Source: OC&C analysis

PLATFORMS' SHARE OF MARKET TRANSACTIONS, BY UK INDUSTRY

%, 2008 and 2015

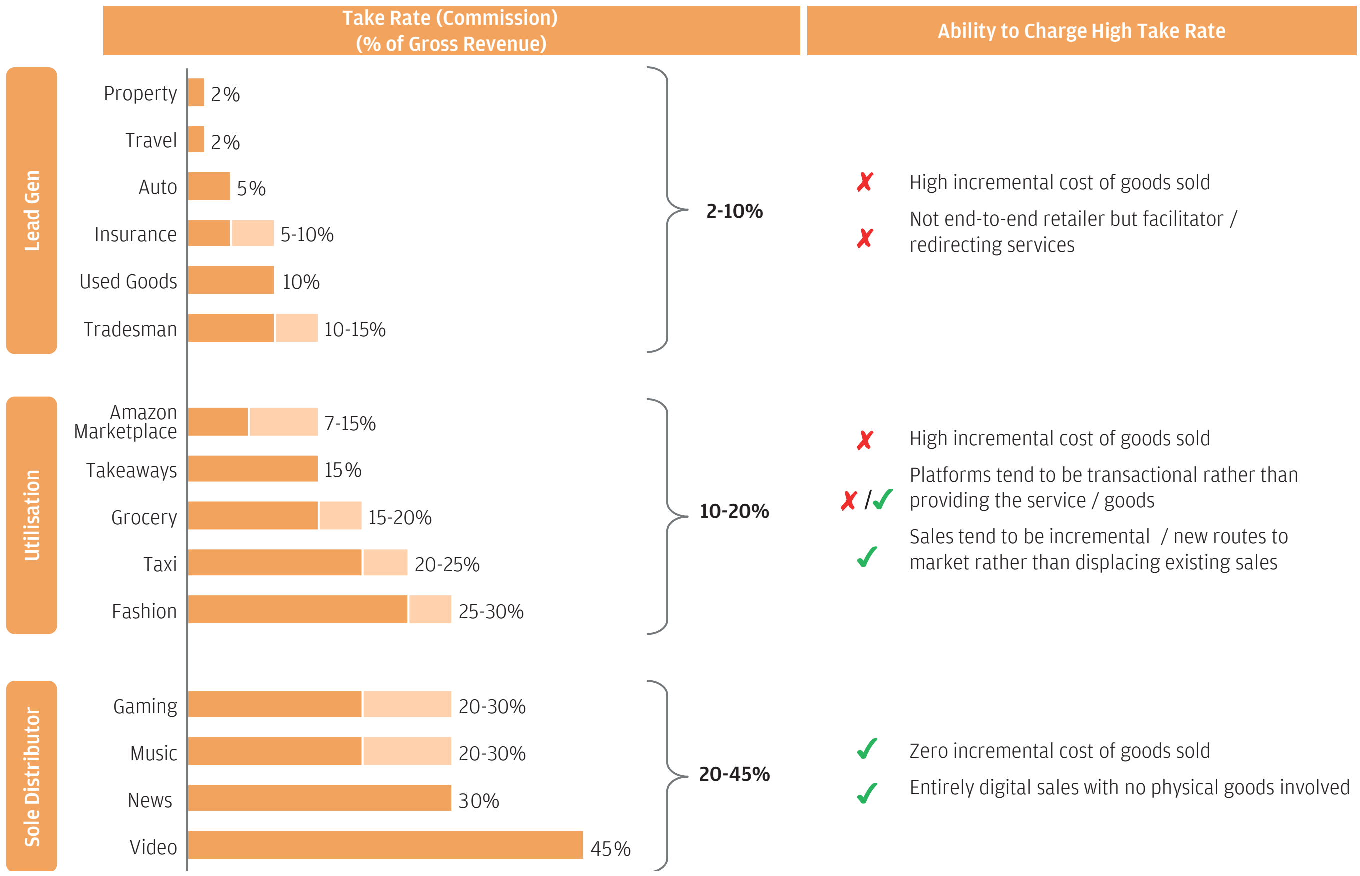


1. Percentage of switchers who use a PCW
2. Estimated combined share of delivered orders for Deliveroo, Just Eat and Hungry House
3. Volume share of metasearch sites such as skyscanner
4. Percentage of video consumed through online platforms such as YouTube. iPlayer and other channel catch-ups excluded. Majority still consumed through linear TV. Does not include Facebook instant views

Source: OC&C analysis

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:

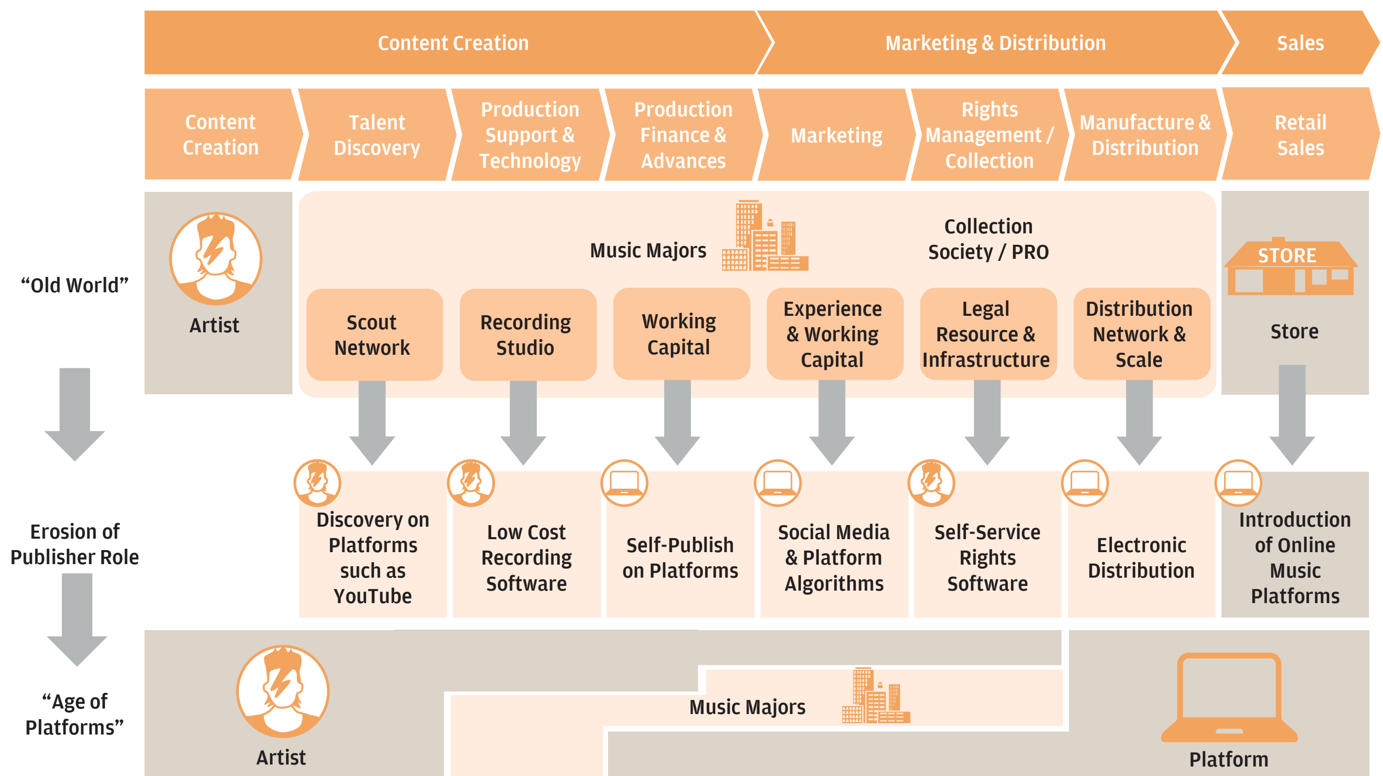
PLATFORM 'TAKE RATES' ACROSS DIFFERENT INDUSTRIES, UK



Source: OC&C analysis

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:

The Erosion of the Publisher Role in Music



A Deep Dive into News

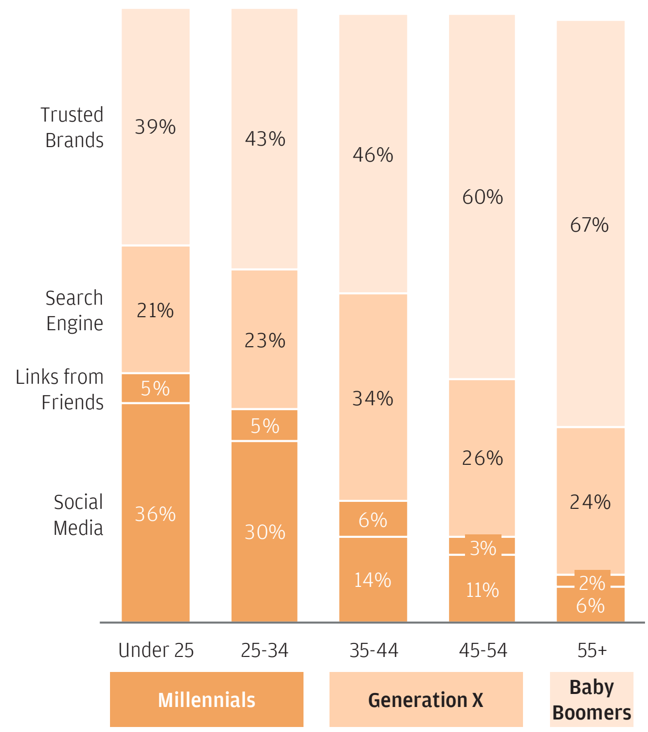
A complex set of criteria determine whether an industry is likely to be disrupted by platforms. A low cost of content production and a digitised activity chain are key product characteristics indicating potential for disruption – when content can be cheaply produced, compared against set parameters, 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 material 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 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, there is evidence from an OC&C survey across multiple markets[1] that this is changing. Older generations still consume news much as they have done for decades, with 67% of UK baby boomers seeking out their trusted brands directly. However, younger people are behaving very differently, with Social Media the primary way of discovering news articles for c.41% of UK Millennials. 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.

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. 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 Korea, the news aggregator "Naver" is the most popular destination for news, with a weekly reach of 66% of the adult population. In Japan, Yahoo is the most popular news destination.

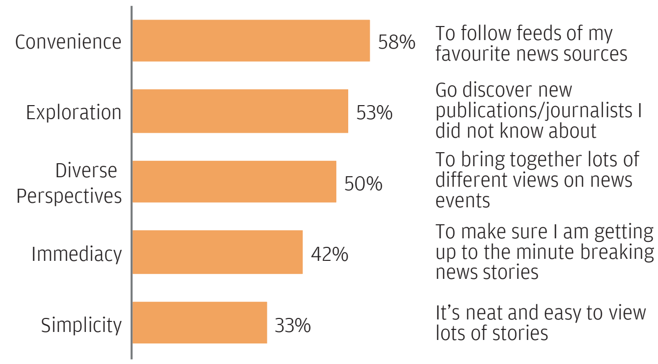
METHOD OF FINDING NEWS, LIFESTYLE AND INFORMATION[1]



1. "What is your primary method for finding news, lifestyle and information articles? [UK Consumers]"
Source: OC&C survey and analysis

Why Do You Use News Aggregators Rather Than Going Direct?

% Selecting Option (Multiple Selections Possible)



Source: OC&C survey and analysis

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.

It's too early to judge the overall impact of Instant Articles on the industry. However, feedback from publishers that have adopted the technology suggests that identifying the right content to run and effective monetisation are proving challenging:

"THE ATLANTIC IS TAKING A WAIT-AND-SEE APPROACH BEFORE CALLING INSTANT ARTICLES A SMASHING SUCCESS DESPITE PUSHING 98 PERCENT OF NEW CONTENT THERE. WHILE SOME CONTENT, LIKE ITS HEALTH FARE, HAS GAINED TRACTION, OTHER STORIES – LIKE ITS RECENT COVER STORY ON PRESIDENT OBAMA – HAVE NOT."

- DIGIDAY UK

"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."

- WALL STREET JOURNAL

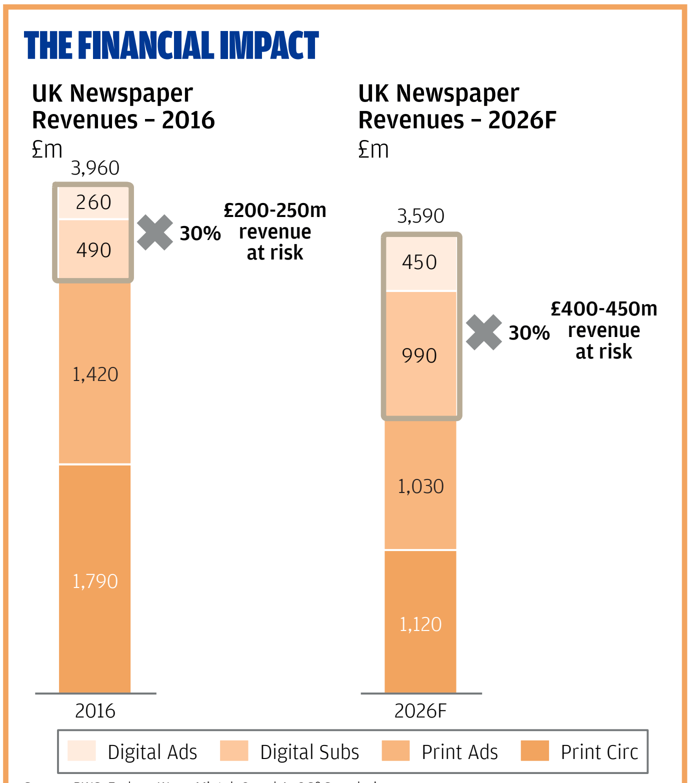
1. OC&C conducted a survey of 10,000 consumers across UK, US and Germany in July 2016

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.

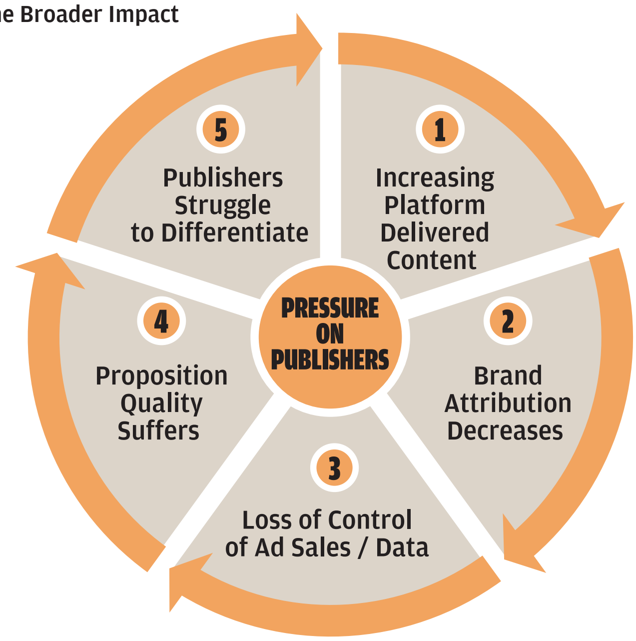
Firstly, the industry has £200-250m per year revenue at risk in a worst case scenario if platforms achieve 100% penetration of digital news consumption and take the level of commission seen elsewhere. Based on the latest industry forecasts for the growth of digital revenues this would rise to £400-450m by 2026. 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 or even centuries 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 eg. 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.



Source: PWC, Enders, Warc, Mintel, O and A, OC&C analysis

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 Deliveroo 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 identify and trust the original source of their news content. And in addition, some people will be 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.

> **"GOOGLE'S RELATIONSHIP WITH NEWS AND THE NEWS INDUSTRY HAS OFTEN BEEN MISUNDERSTOOD... WE WANT TO PLAY OUR PART IN THE COMMON FIGHT TO FIND MORE SUSTAINABLE MODELS FOR NEWS".**
> **– CARLO D'ASARO BIONDO, GOOGLE'S HEAD OF STRATEGIC RELATIONSHIPS IN EUROPE**

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 UK domestic insurance market has required 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 (see Case Study 4).

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

CASE STUDY 4: ON AND OFF PLATFORM BRAND STRATEGY AT DIRECT LINE GROUP

Direct Line Group is one of the UK's largest domestic insurance players, encompassing a number of well-known brands with a history in telephone-led insurance sales. The growth of price comparison websites (PCWs) in the UK over the last 10 years has forced the group to adapt. It retains the Direct Line brand as a direct-to-consumer proposition selling both online and overt the phone, but has re-purposed other brands within the group to focus on PCWs: Churchill operates a mixed direct-to-consumer and PCW customer model, whilst Privilege focusses almost exclusively on PCW customers.

Individual Actions

1	EDITORIAL & BRAND STRATEGY	• 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
2	USER JOURNEYS	• 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
3	PLATFORM PARTNERSHIPS	• 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
4	DATA	• 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
5	AD SALES	• 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'.

Further collaboration has recently been announced: Project Juno, a feasibility study into how newspapers could co-ordinate for greater commercial leverage with and improve their proposition for advertisers. The study is sponsored by Trinity Mirror, Telegraph Media Group, The Guardian, News UK, Daily Mail & General Trust and Northern & Shell.

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:

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 an 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 online news platform that works on a pay-per-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 below)

CASE STUDY 5: ONTHEMARKET.COM

Onthemarket.com (OTM) is a notable example of a relatively successful industry-driven intervention to third-party aggregator platforms. It was launched in January 2015 by a consortium of UK estate agents as a rival property listing platform to the Rightmove / Zoopla duopoly. From the supplier perspective, it is attractive for the greater control over portal costs, whilst consumers benefit from the more "premium service", with the release of available properties onto the site 24/48 hours prior to other platforms.

Through an aggressive strategy, agents having to agree to advertise on only one of the other major platforms, OTM was highly effective in inflicting early damage on competitors. Zoopla lost an estimated 25% of its agents in the first year. However, the project has been set back by legal challenges from agents – arguing that its rules are anti-competitive. Zoopla has started to recover and Rightmove has continued to deliver strong performance. Part of OTM's struggle has stemmed from the fact that Zoopla and Rightmove are very well-established, and many agents resent having to limit their exposure to 2 of the 3 platforms.

The publishers are unlikely to find regulatory allies with the UK typically favouring platforms as innovators and growth drivers; witness the reception of Uber in London vs. Paris. It will also be challenging for publishers to create their own news platform as a credible competitor to Google, Apple or Facebook. This strategy has been tried in many other industries with mixed results (see table).

We believe that leveraging their collective bargaining power as content owners and originators, and playing “preferred” platforms off against each other for the best commercial terms are the optimal routes for publishers.

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 self-publishing platform	High	• Tolino has grown considerably - In the third quarter of 2014, Tolino accounted for 45% of e-book sales in the German market (compared to 39% on Amazon's Kindle store)
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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For further information, please contact:

Toby Chapman, Associate Partner
toby.chapman@occstrategy.com

Mostyn Goodwin, Partner
mostyn.goodwin@occstrategy.com

OC&C Strategy Consultants