

The New Media Economy and thestar.com

Slide 2. A fundamental shift has occurred over the past 15 years as we have moved from media 1.0 to media 2.0.

Slide 3. It is a shift from scarcity to abundance. Media supply has exploded in the digital space the barriers to entry are down and anyone can become a publisher.

Slide 4. The Internet has not only exploded media supply, it has also “atomized” it. Media is now consumed in smaller chunks across a variety of media sources as the average size of a media “good” has shrunk. The average online video is 3.5 minutes long vs. the average TV program. Blog posts are 2 or 3 paragraphs vs. 20 or more in a newspaper or magazine article.

And, this new micro-media is now unbundled from traditional media products. It can be aggregated and reconstructed as we’ve seen on sites like the Huffington Post and the Daily Beast.

Slides 5 & 6. The economics of this new media world are the inverse of the old media world. Where content was once scarce and attention was abundant, now content is abundant and attention is scarce.

Slide 7. The economics of media, like the economics of any product or service are based upon supply and demand. Where supply is low, demand is high and where demand is low, supply is high. Where the two curves intersect determines the balanced market – the quantity produced and the price it sells for.

Slide 8. This is what supply and demand for media looked like before the Internet. Because there were significant barriers to entry as a media company, i.e. you needed a printing press or a TV studio or movie camera, supply was relatively limited and demand was relatively high. Thus prices were high. In our case, that meant we were able to charge high rates to our advertisers.

High barriers to entry meant that it was more efficient for mass media companies to invest in marketing than to invest in content. That isn’t to say the quality of our content wasn’t high, but it was more efficient to create a product that was good for everyone rather than perfect for everyone. For example, I would like daily Travel and Movies sections, but no Sports. We remained mass so that we could please the most readers most of the time, and used marketing to attract them to read our newspaper.

Slide 9. This is Umair Haque. He’s a young Oxford-trained economist who is currently a writer for Harvardbusiness.org and leader of the Havas Media Lab, an economic think tank based in London. Haque has been studying the impact of the Internet on various industries and defines this Media 1.0 world as *the age of the blockbuster*. The blockbuster resulted in very high revenues and profits for media companies for decades.

Slide 10. Media 2.0 has changed all that. We are now in a time where media supply is abundant and attention is scarce. This has affected both the supply of and demand for media. Because the barriers to entry have been eliminated, supply has increased exponentially, shifting the supply curve out substantially. Demand has also increased. It is easier for me to find the content I like online so I will consume more of it. However, the demand curve has not shifted out as much as the supply curve. And the result is hyper-deflation of media prices.

Applying Media 1.0 strategies in a Media 2.0 world, i.e. investing in marketing, will result in failure, as costs will spiral out of control. We've seen our own promotional costs increase over the past 10 years. One-third of our circulation is promotional. In Europe, we saw these strategies spiral completely out of control, as newspapers were giving away free DVD's, china settings and cheap vacations all in the quest to increase single copy sales. These strategies are not sustainable in the new media world.

Slide 11. We are witnessing the end of the Blockbuster age.

Slide 12. And the beginning of the age of Snowballs.

Slide 13. Snowballs are pieces of micro-content: a blog or single blog post, a niche content website, a YouTube video or even an RSS feed from a mainstream media company.

This is where the Internet has become such a game changer. If a new media product is high quality, its popularity within a niche will grow as it is consumed. It will be linked to, tagged and aggregated.

In media 2.0, media becomes highly personal. I can create a media experience perfect for me by visiting a multitude of sites. Where mass was once king, we now have a mass of niches. And with more than a billion people online, the niches can become huge – mega niches. Gaia.com, a site devoted to manga attracts millions of unique visitors a month. It's bigger than most newspapers.

Slide 14. And there are three types of online entities will help create the snowball effect:

Smart Aggregators – where content from around the web is grouped either manually or automatically by topic or area of interest.

Micro-platforms – Sites that enable users to become publishers like YouTube, Typepad, Blogger, Facebook and now Business Exchange on Businessweek.com.

Re-constructors – Sites that take the micro-media chunks and reconstruct them into something of new value. My favourite example of this is We Feel Fine, but there are also iGoogle, doodlebuzz.com and many more.

Slide 15. The snowball effect happens when niche content is of high quality, and it gets linked to, tagged and aggregated thus creating value.

Slide 16. In the blockbuster economy, supply explodes immediately and then smaller gains are made later by extending core products. For a movie, this product extension might be through DVD sales, TV licenses and related consumer products like t-shirts or toys.

Slide 17. At the Star, we are still very much a blockbuster company in the Media 1.0 world. The printed newspaper provides the initial explosion, followed by extensions through Metro, thestar.com and other specialty products.

Slide 18. In a snowball world, the value curve is the complete inverse of the blockbuster world. Content starts small and then grows bigger as it gets linked to by a greater number of increasingly larger sites.

Slide 19. A real life example of this is the blog site jumpinginartmuseums.com. A 26-year-old woman who loves art and loves to jump for art started a blog to display photos of her adventures. Soon, she was linked to by other bloggers. Then coolhunting.com showcased her work. Finally, nypost.com and nytimes.com featured the blog.

Slide 20. Tim Ferris, author of *The Four Hour Workweek* has figured out how to use the snowball effect to promote his book.

His philosophy is PPC: phenomenize, polarize and communitize. Tim claims he invented the term "lifestyle design" and watched as it grew across the Internet. He didn't get upset when others took on the term; it was in his plan to create a phenomenon. Next, on the day his book launched, he posted a completely unrelated blog post on how he gained 35 lbs of muscle in 4 weeks. The story was weird and he comes off as obnoxious in the post, thus managing to polarize and it got picked up on Digg and several other sites. The blog post linked to his book on Amazon. Next, he went on sites like Ning.com and invited users to create their own 4HWW network groups thus creating a community around his blog that was turning into a movement.

While the PR firm was talking about "exposure and awareness", Tim was able to generate measurable results online. If you still doubt the power of the blogosphere, here's how he knows that the PR firm was useless: his appearance on the Today Show pushed the book up to number 25 on Amazon for 3 hours. Being "front-paged" on Digg put him at number 3 for a day. Being front-paged on Digg can generate 15 to 30 visits per second. It's a powerhouse.

Slide 21. The secret ingredient underlying the growth of all of these snowballs is user engagement and community. Users, and especially those under 30 and those who are very Internet savvy are no longer satisfied with a one-way media experience. They are increasingly expecting to interact with, contribute to, organize and share the media they consume. The result is more publishing – by both professionals and amateurs – in a new media ecosystem where content is linked, tweaked, reshaped, cut, aggregated, sorted and distributed.

Slide 22. This is Clay Shirky. He wrote *Here Comes Everybody*. He is a professor at NYU and an expert on the effects of media becoming global, social, ubiquitous and cheap. Clay tells us that the Internet is less a source of information and more a site of coordination. As such, digital natives expect to interact with, contribute to, organize and share the media they interact with.

Slide 23. And that's because there are many different digital mindsets. In print, our readers are just consumers. Back when you needed a newspaper to find out where a movie was playing or to buy a used car, find a job or rent an apartment, we also had users. But that utility has dwindled over the past 10 years leaving us with consumers. Online, we see ourselves as part of a community. The war between users at Digg and Reddit is evidence of this. We are also participants as we vote content up and down, engage in commenting or answer poll questions. We are producers on our blogs and Facebook and Twitter pages and we are consumers buying music at iTunes and shoes at Zappos.

Slide 24. All this happens through influence ripples created by users. A video of Susan Boyle on YouTube creates a massive ripple and then many smaller ones are aggregators and bloggers pick up on it and eventually, individuals link to her video on their Facebook pages and personal blogs adding their own commentary to the mix.

Or, this pattern can happen in reverse with bloggers starting the ripples and larger sites picking up on it like the "David after the dentist" video on YouTube, which has been viewed over 23 million times.

Slide 25. The snowball effect shifts the Media 2.0 demand curve. It reduces demand for blockbusters and increases demand for niche content. This new s-shaped curve increases prices, thus regaining some of the value lost from Media 1.0.

Slide 26. You are likely thinking that this is chaos. Well it is. But something is starting to emerge out of the chaos.

Slide 27. In a recent blog post, Steven Johnson, author and founder of the hyperlocal blogging site, *Outside.in*, described the current world of media abundance as a rich and thriving ecosystem of professional and amateur content and data that can be completely overwhelming for the average person to navigate. What's good? What's crap? Where can I find X?

Slide 28. Steven thinks that the ecosystem looks like this.

Slide 29. And here is Clay Shirky's take on it.

Slide 30. And Umair Haque thinks it may look like this. Finding the right pictorial model isn't as important as the fact that the top thinkers of the new economy are all talking about it.

Slide 31. So where being a closed, dominant portal once created value, value is now created by being open to aggregators, micro-platforms and re-constructors. Being open provides economies in distribution, coordination and production that enable the snowballs to grow. Haque believes that failing to understand this will be the single biggest cause of fatal strategic errors committed by mass media companies.

Slide 32. Haque also says that there are two competitive strategies that will give market advantages in the ecosystem. Both are about curation.

Quantity – aggregate more than our competitors. We need to let the outside in.

Quality – micro-differentiate more narrowly than competitors. Andrew Heyward, online media consultant and former president of CBS News says that “In a fractured world, horizontals lose and verticals win. “

Slide 33. How do we operate in the Media 2.0 economy? Two ways: First, enable the snowballs. Steven Johnson believes newspapers are perfectly positioned to become the curators of the ecosystem. And I believe he’s right. Next, ensure our own sites are exploiting the new economies and create snowballs.

Haque describes three sources of media 2.0 value:

Slide 34. The first is Revelation. Discovering which content is valuable. This is good old-fashioned editing and filtering. This could be called publishing 2.0. We see this on sites like Digg and Reddit, Stumble Upon and the Daily Beast. We need to think about how we can be the place users look to find what’s good be it links to competitors, blogs or other types of content. If it is relevant to our audience, we should be providing it.

Slide 35. The next is Aggregation. This means centralizing micro content and organizing it. This could be called distribution 2.0. We see this on the Miami Herald’s new blog aggregator powered by blognewsnet, another blog-aggregation site called Outside.in, and USA Today’s Cruise section, which is powered by Daylife.

Slide 36. Finally, there is Plasticity. This is creating value by modularizing, standardizing or extending content so consumers can have their way with it. This is infrastructure 2.0. We see this in the Guardian’s new API, Google Maps and video games that come with “mod tools” which allow users to customize the game.

Slide 37. How does that play out for us? With some significant changes in strategy.

Slide 38. We need to shift from thinking Inside Out where Star staffers are the only voices on the site, we have one-way conversations and are the authority to thinking Outside In. Thinking Outside In means that we see the site as a community and listen well to our users. Users and editors collaborate to create the site experience and there is commenting, discussion, polling, user suggestions on story ideas, questions for interviewees etc.

Slide 39. Marketers are already learning this lesson. Starbucks has launched mystarbucksidea.com where users suggest how to make the Starbucks experience better. The result of user suggestions and discussion was the invention of the green swizzle stick thingy which prevents your coffee from splashing on your shirt while you are walking to work.

Slide 40. Already unpopular for their poor customer service, US cable company Comcast found themselves in the middle of a PR nightmare when this video of a technical sleeping on a customer's couch was viewed over 1.3 million times on YouTube.

Slide 41. Lucky for them, they have a smart customer service guy – Frank Eliason. Frank hit the issue head on by starting the Comcastcares Twitter page where customers can speak to Frank directly and he answers their questions and solves their problems. And Frank is a great guy. It's easy to be mad at Comcast, but really hard to be mad at Frank. The strategy has been so successful, Frank now has a team of people helping him manage the questions on the site.

Slide 42. Best in class for Outside In in the media world is Businessweek.com where they are experimenting with numerous ways to invite their audience or "former audience" to help create the site experience.

Slide 43. 5Q4 is an invitation for users to send in questions for upcoming interviewees.

Slide 44. "What's your story idea" is a place users can suggest stories to the Businessweek.com professional editorial team. If their idea is chosen, the user gets a profile on the article page.

Slide 45. If a commenter is particularly eloquent, they are invited to contribute an essay.

Slide 46. Journalists are encouraged to respond to user comments, thus extending the life of the story and increasing the sense of community and collaboration on the site.

Slide 47. The boldest experiment at Businessweek.com is BusinessExchange, which is a combination social networking site and social book-marking site. Members can follow content topics, create new topics and submit links to content. Other users can vote the content up on the page. Users can link to each other to form networks and the most active users are featured by topic.

Slide 48. We need to move from Ownership, where all content on the site is produced by Star editors and freelancers, to Curation. Mark Zuckerberg, founder of Facebook says that media companies need to bring "elegant organization" to information on the web. Becoming the curators of the ecosystem also requires us to understand our particular part of it. We need to study our analytics and understand why our users are coming to our sites and what their behaviour is once they are

there. We need to make tough choices about our own content. Steven Johnson says that we need to stop creating content that the web is already generating for us. Jeff Jarvis says it simply. “Do what we do best and link to the rest”.

Slide 49. We need to move away from a closed mentality where it is “us against them” with other sites and become part of the news ecosystem. This means linking to competitors, community bloggers, government sites and data and map sites. It could even mean working with smaller local sites and blogs to form advertising networks. If we help them succeed, we make the experience for our users richer; drive ROI for our advertisers and profit from a percentage of their advertising. Jeff Jarvis calls the collaborative hyper-local news network the “holy grail of online newspapers.

Slide 50. Glam.com is the proto-type for a distributed content ad network. This chart is complex so bare with me. The two large circles actually have no relationship to the graph underneath them. The circles represent the total traffic to the Glam network and the destination site iVillage. The yellow circles show content the sites produce themselves. The purple circles are content they link to. Glam’s strategy is to invite bloggers to become a part of their network. Bloggers apply, Glam evaluates them and if approved, begins linking to that blog and selling advertising onto it. This strategy enabled Glam to grow their traffic at an exponential rate, eclipsing the established iVillage in less than 2 years. iVillage is suffering. The president of NBC, which owns iVillage recently stated publicly that he regrets the purchase of that site. It serves as a warning of the consequences of being closed in a Media 2.0 economy.

Slide 51. We need to stop thinking about the site as a Product where stories, articles and listings are professionally produced and packaged for delivery to an audience and start thinking of the site as a service. As a service, data, tools, and content serve as a platform for discussion and interaction and applications are created to allow for the syndication and distribution of the content across the web.

Slide 52. And, we need to move from being one site for all content and all audiences to thinking vertically.

Slide 53. Why verticals? Umair Haque says that smart aggregators will consolidate horizontally and fragment vertically.

Slide 54. This is the strategy we are using with the verticals. Separate brands will enable us to attract new audiences (i.e. non-Star readers) and to even take them nationally.

Slide 55. The verticals are not advertorial sites. They are designed to be the ultimate resources for homes, health and parenting information in the GTA. Each site has a combination of news and information, blogs, data, list, and local, national and classified ads.

Slide 56. Data available on the sites includes: every school in the city and its EQAO scores, every daycare in the province and its capacity by age group, a searchable database of healthcare providers, listings of every pharmacy in the city including the ones in grocery stores and the hours they are open, a listing of every clinic in the city including a database of walk-in clinics and their hours and finally, a way to find a plumber or contractor a resale home or to rent an apartment.

Slide 57. Advertisers prefer contextual environments because they provide a higher return on investment.

Slide 58. A featured advertiser text link will get a click through rate of 0.02% on thestar.com and 0.17% on parentcentral.ca.

Slide 59. A display ad will get double the click through rate on parentcentral.ca as it would on thestar.com.

Slide 60. And a catfish ad for the Home Show did a click through rate of 4.3% on yourhome.ca vs. 0.5% on Toronto.com.

Slide 61. Which is why on average, our vertical content sites have much more advertising then our thestar.com sections.

Slides 62-75. In Short:

The economics of media have shifted. Scarcity and abundance have flipped. This has caused hyperdeflation in media value and the end of the blockbuster era. Hyperdeflation can be countered by creating snowballs. The old media blockbuster economy was built on exclusion. The new snowball economy will be built by being open to aggregators, micro-platforms and re-constructors and capitalizing on economies of distribution, coordination and production. In media 2.0 there are 3 sources of value creation. Revelation – what’s good. Aggregation – bring elegant organization to the huge amount of data I’m exposed to and Plasticity – let me get my hands on your content to see how I can add my own value to it. This new economy requires radically different product strategies: letting the outside in, curation rather than ownership, becoming a part of an ecosystem, moving from mass to vertical content and viewing the site as a service instead of a product.

Thank You