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CAN TRADITIONAL MEDIA AND THE WEB COEXIST?

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The conventional wisdom is that all media companies need to figure out how to take their business model and transform it to the web – Almost all of them have heeded the late Harvard Professor Theodore Levitt's famous lesson of what killed the railroads: "They thought they were in the railroad business, not the transportation business."

But after ten years of following Levitt's advice, it's not at all clear that the traditional media model works on the web – that model where a company provides content – stories, news, music – to build a community of similarly interested people that it then sells to advertisers. It worked brilliantly on radio, in newspapers and magazines and on television – but it is not working on the Internet.

Web advertising alone may never be able to support content.

Even the start-up web-only companies have shown the limitations of advertising – both niche player Gawker Media and behemoth Yahoo! have had to lay off employees. Yahoo's market cap is stalled, and it appears that they do not make a profit on their paid content based businesses (as opposed to their scraping, search and subscription businesses).

The legacy media companies have similarly failed to convert their content into viable web businesses. The newspaper companies have created enormous traffic to their local web sites—this week they announced that almost half of American web users use newspaper sites and they generate over 3 Billion page views per month. Unfortunately that's not nearly enough. Even if they were able to sell advertising at slightly over $10 per thousand – a very high average -- they would generate a total of $450 Million per year – or about 10% of the cost of running newspaper newsrooms. Now, it is true that newspapers report more than that in internet revenue – but that is the result of the "upsell" of classified revenue which has really nothing to do with monetizing the content of newspapers and is more about leveraging their sales forces.

Ted Levitt's mantra is wrong

For television, the story is even worse. All of the news networks have been able to create substantial web presences – and are investing heavily – but even there it appears the web does not come close to sustaining the cost of their global news gathering operations. Local TV stations are starting local web news operations – but the combination of competition and a late start have prevented them from getting traction with either audiences or advertisers.

Ten years ago, there were some signs that the web advertising business would grow sufficiently fast to make content viable but increasingly it is clear that web display (as opposed to search) is not the compelling marketing medium that it once appeared to be.

Web advertising is likely never to be able to support content businesses on its own. Legacy media companies were able to demand high prices for three reasons – the popularity of their content created audiences so large that they were the only vehicles to reach such large audiences (television); the economics of their businesses created monopolies (newspapers);

or the nature of their content created attractive demographic or interest-based audiences (radio and magazines).

In the web 2.0 environment, there are too many ways to either identify target audiences (through search, behavior, and IP addresses) or create mass businesses (Social networking, portals) that do not require investing in content – and too many ways for advertisers to build their own communities – and as a result there is little place for content to have appeal for advertisers. Moreover, a web content company can only monetize actual page views as opposed to the totality of their print or video product. The 3 Billion monthly page views of newspaper web sites is tiny compared to the 2 Billion *daily printed* pages that they continue to deliver. The legacy media companies may be able to build web advertising businesses around their existing and underleveraged sales forces, but they can't build advertising businesses around their content creators.

Content creators need new revenue sources to be viable on the web.

The web would not be the first medium to realize that it cannot support content creation solely from advertising. Back in the 1980's cable networks (non-pay) realized that they were not going to be able to support themselves through advertising alone – and they turned to the cable operators to demand license fees to enable their viability.

Just as they did on cable, content creators should seek other revenue sources if they are to make their web businesses viable. There are three possible areas of new revenue beyond advertising, each of them needs to be considered – and the successful web businesses will likely be a combination of all of them:

- Subscription models: Yes, they are very hard to create, but content makers have no choice but to figure out how to make them work. It seems telling that Rupert Murdoch gave up on his initial desire to get rid of the pay wall at the Wall Street Journal.

  The bigger players are the most advantaged in creating subscription models, but some of them could wind up creating aggregation efforts that would share revenue among other content players. For example, Yahoo!, the web portal that most clearly seeks to build a content-based model may be very well positioned to create a subscription business that funnels subscription fees across a host of content providers.

- eCommerce models: For certain types of content – movie & book reviews, fashion, etc. it may be possibly to link closely to e-commerce businesses selling the products that the content is covering.

- Loss-leaders – many viable web businesses actually make very little money from advertising, but use their content to create ancillary profitable businesses either in conferences or in building the brand of their contributors to enable them to build speaking fees and the like.

Finally, there is also the possibility of accepting that the web will not be a place where content will create value. In fact, there's just one unfortunate thing about Levitt's compelling mantra about railroads and the transportation business.

It's wrong.

Transportation may have been a wonderful business on rails and sea, but it has proven a dreadful business in the air. Even today, the market cap of Burlington Northern is $22 Billion; the market cap of Carnival Cruise is $14 Billion while the market cap of American Airlines is less than $1.5Billion. The railroads may have done many things wrong, but avoiding the airline business was not one of them.

On the web, we think the answer is likely to be a combination of all four revenue models, including advertising. But, in order to get there, the folks who create content need to think differently about their businesses – and how to work across companies to build the kind of scale required for success.

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