

THE CONTENT TRAP



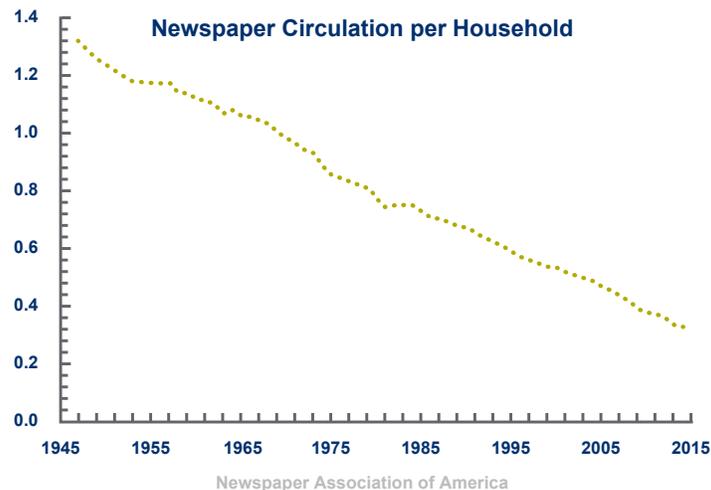
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 The Content Trap: Strategy and Digital Change

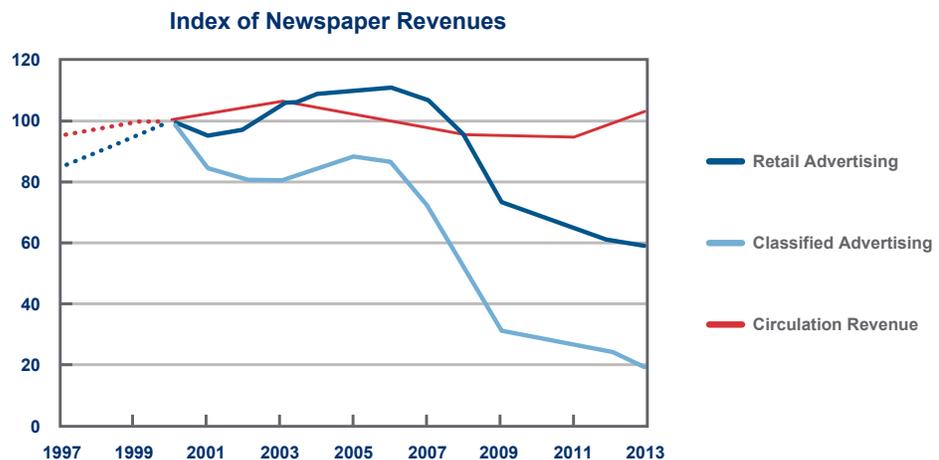
Many stories characterizing digital media are wrong

- Print newspaper circulation decline started about 70 years ago; the impact of the internet is almost indistinguishable
- Online classifieds – once 50% of profits - are the digital story
- Classifieds went online, where they were searchable and instantaneous
- Declines in classifieds revenue was massive compared to declines in circulation, ad revenues

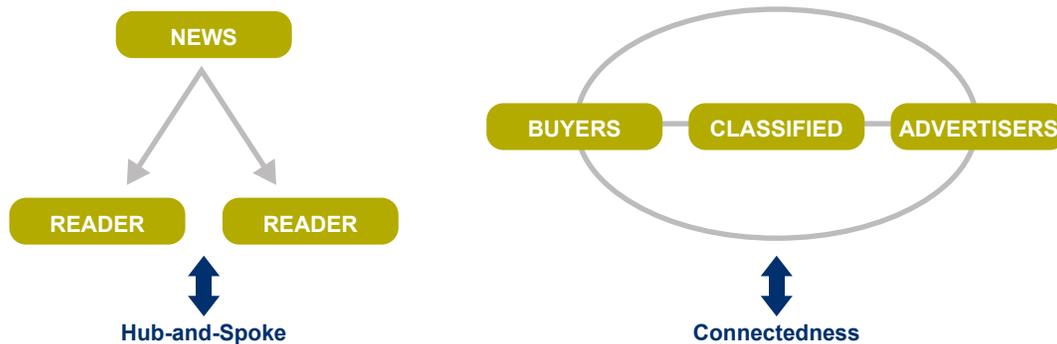
Diagnosing the Problem: Newspaper Circulation



News versus Classifieds



News versus Classifieds: A Digital Metaphor



In the content and delivery world, we produce in the hub, distribute for consumption in the spokes

- We make decisions on classic product features
- How do I decide which classified site to go to? I'll go where there are the most listings. More buyers, more sellers, more sellers, more buyers
- Even if I like Site A's presentation, I'll choose B because it's where everyone else is

We are in a horserace between strategies built around content and strategies built around connectedness – the differences between the two are profound

First expression of the Content Trap:

- If we see a problem with our business, we think it's the content
- If we get the diagnosis wrong, pretty much everything else follows
- Thus, newspapers rushed to build news sites when the real driver/dynamic was classifieds

Digital change:

Phase 1: Great impact - more spokes, more people reached, low cost advantage in existing facilities

Phase 2: We realize spokes can talk back to us - interactivity, personalization, big data

Phase 3: We realize the spokes can talk to each other

Connected choices are pervasive, making the economics of the connectedness model completely different from those of the hub and spoke model, including winner-take-all or winner-take-most outcomes (not competing for share but for WHOLE pie)



vs.



vs.



Microsoft vs. Apple's 7% share with a better product (in fact, Apple's stock price increase is all from non-computer devices)

Facebook vs. Google+ (the power of connectedness: "There's no one playing in the sandbox but me")

Once you win in a network market, even a free competitor coming in does nothing since people decide where to go based on where everyone else is

- Norwegian media company Shibsted saw the classifieds problem early, invested aggressively to get 95% of market share in real estate, jobs - they have 115% market share in auto classifieds because site is so liquid, people in other countries post on their site
- About 90% of Shibsted's market value is in featured listings, banner ads, price discrimination (charging businesses, not consumers)
- Shibsted has extended this philosophy to the newsroom – How can we help readers help each other? – building Hitchhiker Central in 7 hours to address transportation disruption after the Eyjafjallajökull ash cloud

HBX was not immune to The Content Trap in reimagining online case-based education

- 3 months into development, students revealed, “We don't just learn from the faculty, we learn from each other” prompting a pivot to focus on peer-to-peer learning
- Once the course starts, no live faculty: Peer-to-peer takes over
- 2nd platform created: Professor and 60 students, “spoke-to-spoke”

HBX Live



Digital end-game is not the problem, fixed costs are:

- How do book publishers make money with a retail price decrease from \$25 book to a \$9 book?
- Physical costs of books go away in the e world
- Retailer and publisher profits are preserved at retail price of roughly \$10
- When half are in e world and half are in print, there are fixed costs for BOTH structures
- Fixed costs connect users - problem is during the TRANSITION from one model to another

Strategy and User Connections: Small triggers can have a large impact

- Do you face “networked competitors in your business?”
- Can you create “user connections” for your product?

How to recoup money in transition? Complements

- Blank CDs and CD burners in the early days
- Live concerts have outpaced rate of inflation 3-5x since advent of piracy
- Artist made \$1 of \$15 on CD, but make \$0.70 on \$1.00 of concert ticket paid
- Value was redistributed, but the music industry has never been in better financial shape

Content vs. Complements and Customer-Centricity

- A customer values your product more when s/he has the complementary product than when s/he has your product alone
- A decrease in the price of a complementary product makes your product more attractive to customers
- Examples: Cars and roads, dogs and carpet cleaners
- Substitutes should be expensive, complements cheap

The Kindle succeeded 1.5 years after Sony’s e-reader failed (at the same price) – the difference? A complement: Wireless downloading

Complements vs. Substitutes: We always think connection is negative, but it’s almost always positive.

- Mindset: Product vs. Customer
- Language: Disruption, threats, substitutes – our words reek of negative connections
- Data
- If you give same content, you are telling customer “treat these as substitutes”
- Fantasy Sports: People who play fantasy sports are watching more TV (outside area teams, blowouts and not just close games, etc.)

We framed bundling logic as bad for consumers, removing choice

- If consumers had same preferences, no advantage to bundling
- Magic of bundling is for a small incremental price can make both consumers look identical
- That we are losing consumers to a la carte does NOT mean the world is going to go a la carte.
- To what extent do you actually KNOW what these preferences are?
- In a la carte world, some will be better off, some will be worse off (average is a net zero)
- Consumers don’t hate bundles, they hate that we never gave them choice

Prioritize what’s most important to YOUR customer:

- Strategic success comes from “saying no”
- Choose the three things that matter most to your customers

Digital Success is not content and product, but customers and connections:

TRADITIONAL MINDSET	DIGITAL SUCCESS
Offer the best quality product	Networks: User connections
Narrow product focus, core competence	Complements: Product connections
Best practices and benchmarking	Context: Functional connections