PAID CONTENT

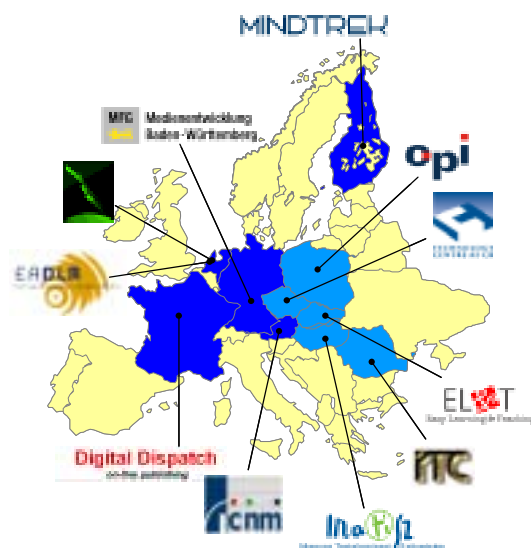## E-Content Report 2

an integrating report by

ACTeN
Anticipating Content Technology Needs

Author of this report: Jak Boumans (VOF Electronic Media Reporting)
Editor in charge: Zeger Karssen (Digital Dispatch)
Published in a series of E-Content Reports by ACTeN (www.acten.net)
January 2004

About this report

This report is an E-Content Report delivered in the context of the EU-funded project **ACTeN** (Anticipating Content Technology Needs).

ACTeN aims at stimulating the development of a European e-content industry by **monitoring the digital media market** and by **transferring know-how in Europe**. As such, ACTeN detects new developments in e-content research and industry and disseminates them to interested parties working in the e-content industry or in related research.

ACTeN disposes of four "instruments" allowing for this transfer:
- continuously monitoring market innovations and publishing them in a **monthly newsletter**,
- facilitating expert discussions in **18 business roundtables** Europe-wide,
- demonstrating best practices in **10 scouting workshops** Europe-wide and
- looking into the future in **2 international scholars network conferences**.

As a result of these activities and together with the help of a number of experts ACTeN provides with its E-Content Reports an overview and analysis of several e-content areas which emerged to be of significance for the e-content industry across Europe. Among them are E-Learning, Mobile Content, Cross Media and the Internationalisation of the content industry.

If you want to stay abreast of EU-wide trends in the e-content industry then subscribe to ACTeN's newsletter at **www.acten.net** which informs you about the upcoming E-Content Reports. They are available in printed form as well as electronically from the ACTeN website as downloadable texts. For your convenience, the electronic versions of the E-Content Reports are also linked up with relevant other information sources on the ACTeN site, thus providing an as broad coverage of the area at stake as possible.

PAID CONTENT
E-Content Report 2
by ACTeN-Anticipating Content Technology Needs
Author of this report: Jak Boumans

Table of content

Introduction

Paid content has become a hotly debated issue since the dotcom crisis on Internet started in 2000. The predicted new economy did not come around; Internet departments started to weigh heavily on the budgets of content creators; advertisements, of which the volume just had started to grow, decreased dramatically. These developments were acerbated by the lack of proper micro-payment methods and technology to protect illegal copying.

Yet it is rather remarkable that the issue of paid content is limited to Internet. Before Internet paid content was not an issue for professional and consumer online services. For the operators of mobile content, there has never been a question of to pay or not to pay. It looks like the Internet industry has created a ten year interbellum in paid content, before the pendulum returns *from free to fee*.

The report will have some history, look into the issue of what valuable content has as characteristics, make a categorisation, dive into content technology related issues and show developments in the field of content.

In this report the issue of paid content will be treated along two lines: paid content on Internet and paid content for mobile services. This comparison is intentionally chosen as some content items such as newspapers and magazines, music, television broadcasts of sports are fighting to get hold of the two platforms.

The reader should keep in mind that there has never been a discussion about paying for scientific, technical and medical content as well as certain trade information. The issue of paid content concentrates now mainly on trade information and consumer content such as music, games and movies. The figures presented in this report are concerned with new Internet sites and not with existing information services such as Lexis-Nexis and Thomson Dialog.

Paid content has become an issue in the Internet world and concerns the payment for online forms of usually copyrighted content such as text, graphics (drawings, photographs, animations) as well as of downloads, streaming video and audio.

Illustration 1: Paid Content
Source: Electronic Media Reporting, 2004

Some history

Internet has a background in the military barracks, where the military network Arpanet was developed as a means of communication. In time, university libraries and research institutes were allowed to link up to this network. When

the military network turned into a mass medium, the ISPs blandly copied network, its infrastructure and its habits. So no fees were paid for interconnection between networks; ISPs only had to put up a server, link it to the net and get a rack of modems connected. They had a free ride. Then they started to compare themselves to media companies and started up editorial staffs. But this did not last long, as they discovered that creating content was expensive with no revenues coming in. So they started to accept the content offered by content providers for free or bought it at bulk prices; principally they do not care how the creation of content is paid for.

This Internet start was a break with the tradition of paid content. Since the start of online information distribution in the beginning of the seventies in the last century, payment for professional, mostly textual content was normal. Besides access fees, depending on the speed of the modem, and fees for connected time levelled by vendors of ASCII databases such as Lexis-Nexis and Dialog, a copyright fee was cashed for the information provider. The introduction of Videotex around 1980 gave rise to a mixed business model. Not only was it possible to consult text electronically but also graphics, be it very crude ones. So, charging a fee for a frame/page was possible, while on the other hand it was also possible to have a page without a charge to be paid for by the advertiser. The French Minitel service with a lot of consumer content for example had free pages and pages bearing a fee, which was added to the telephone bill.

So, when Internet moved out the military barracks and the university libraries to become a mass medium, the problem of unpaid content started to show. For scientific and trade publishers like Elsevier this free content phenomenon became a dilemma. Besides having to adapt to a new technology, their Lexis-Nexis model of paid content came under pressure. In the end, Elsevier nor other professional information vendors gave any scientific information for free. So they did not have to re-educate their customers. The same goes for Thomson and for example Ovid Technologies. The financial daily newspaper *Wall Street Journal*, which never gave the paper in electronic form away for free, chose for a subscription model from day one.

So, Internet up to 2000 basically worked at best on the principle of the advertisement revenue model and with free content. But this started to change after the dotcom blow-out. In order to keep sites alive money was needed and advertisements did not support these activities sufficiently. Publishers and other content providers started to valuate and monetise their content at last. Due to the harsh economic times, the movement CONTENT FROM FREE TO FEE has gained speed.

Compared to content on Internet, content for mobile services has never been free. Mobile operators have asked money for all services to the extent that it is even hard to distribute content for mobile telephones for free.

> The issue of paid content or rather the problem of unpaid content arrived, when Internet, with its tradition of free circulation of content, moved out the military barracks and university libraries to become a mass medium.

Valuable content

Before the rise of Internet, content, regardless whether it was text, graphics, music or video, in analogue, digital or online form, had a price. Content was bought by payment or by subscription or content was paid for by advertisements. For print there was a value tier starting with STM content as most expensive and without any advertisements, trade content as less expensive mixed with advertisements, consumer niche content and mixed with advertisements, but more expensive as consumer content. For movies there is the exploitation window: movie theatres first, then broadcast stations and last distribution to consumers on tape and DVD. Music does not have a value tier or exploitation window.
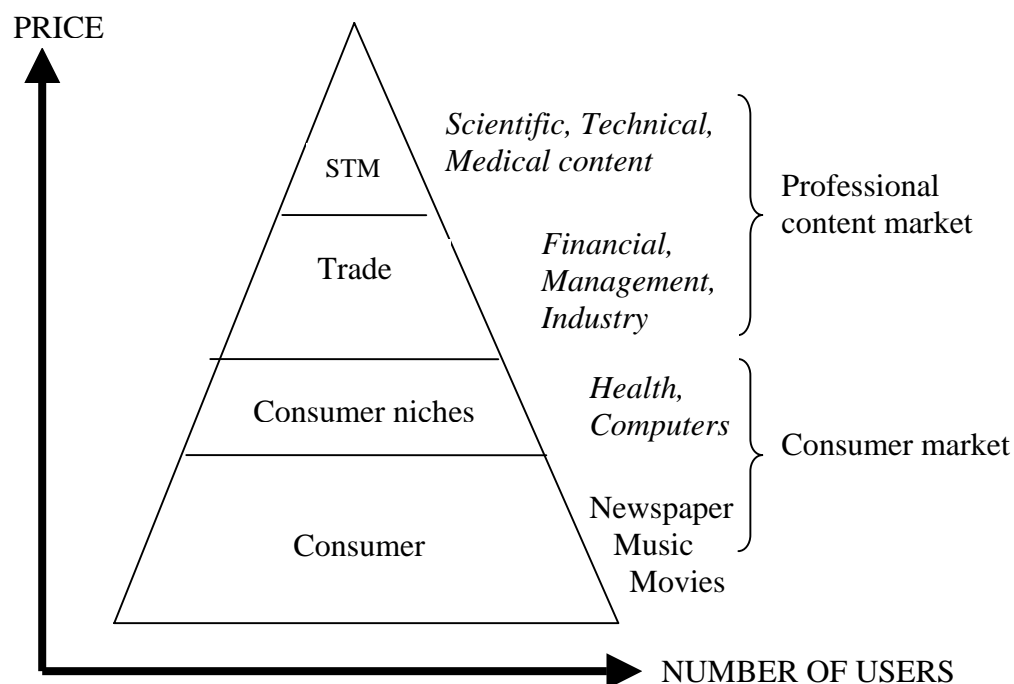
Illustration 2: Content value tier
Source: Electronic Media Reporting, 2004

With the introduction of Internet, the notions of content "need to know" and "nice to know" disappeared as the users considered all content to be available on the Internet and for free. With the monetising of content three critical successful factors for content return:
-   uniqueness: this factor rests on the example, that the content service which can predict the price of gold, will be the champion;
-   usability: this factor is often overlooked by the content provider as they have been squeezed into technical concept; the look and feel are important as well as the payment system processes payments;

- exclusiveness: in order to sell content an exclusive proposition has to be made.

> With the introduction of Internet, content was seen as a free commodity.

Content services segmentation

The term content became en vogue in the nineties of last century. Up to that time content was usually covered by the term 'information'. The term content was specifically used for digital content, online or offline

Content on Internet

Content on the Internet started mainly as text information. However, the mono mode information changed rather speedily to multimedia content, rendering text, graphics, audio and video and combinations of these types.

Recent surveys by the Online Publishers Association (OPA) and Jupiter Research show two completely incompatible categorisations. Only General news and Games in the categorisation of ComScore/OPA and General news and archives as well as Online games in Jupiter Research appear to come close.

Category (ComScore/OPA)	Category (Jupiter Research)
Personals/Dating	General news and archives
Business/Investment	Audio/video entertainment
Entertainment/Lifestyle	Adult entertainment
Research	Financial and business news
Community-made Directories	Other content (e.g. horoscope, sports, health, kids)
Personal Growth	Digital music
General News	Online games
Games	
Credit Help	
Greeting Cards	
Sports	

Illustration 3: Categorisation of conten*t*
Sources: resp. ComScore/OPA, 2003 and Jupiter Research, 2002

The categorisation of ComScore/OPA looks comprehensive as it takes in amongst others Research, but has strange categories such as Personals/Dating, Community-made Directories and Personal Growth. The Jupiter Survey categorisation is too specific on one hand with Adult entertainment split out from audio/video entertainment, while on the other hand using 'Other Content' as a waste paper basket including important categories such as sports and health.

The variety of these categorisations makes clear that a standard segmentation would make market research easier. It is clear that the segmentation should not be based on changing technology such as streaming audio and video or PDF

downloads. On the other hand a more general category such as Community Content, including Personals/Dating and personal weblogs should be included. Also, a category of public sector content should be considered, as not all public sector information will be free.

Content for mobile services

Mobile services have two limitations in comparison to fixed line Internet, regardless whether it is dial-up, cable or ADSL. The speed of the mobile network is rather low, even in the GPRS mode; the speed might improve with UMTS/3G. The screen size is variable, ranging from a small screen to one for a PDA or one for a portable computer. Portable computers can be considered as comparable to stand-alone computers. In case of Wi-Fi, the speed might be comparable or faster than the fixed line connection. While the speed issue is similar to the portable computer, content destined for PDAs has to be adapted to the screen size.

For the portable computers and PDAs the same content services of fixed line Internet can apply. However for the mobile phones the services are different due to the size of the screen. Basically, frames can be distributed of maximally 160 characters. The new telephones ready for MMS can display a photograph plus some text.

Communication services (pull)	**Transaction services**
Loyalty programmes	Discount tickets
Promotional campaigns	Payment via SMS
Marketing campaigns	Ordering via SMS
E-mail	Ticketing systems

Information services (push)	**Entertainment services**
Personalised news	SMS quizzes and sweepstakes
Notification services	SMS games
Stock exchange information	Voting
Sport- and health information	Dating and chat services
Reminder services	Horoscopes and jokes
	MMS soap series
	Ringtones and logos

Illustration 4: Mobile services
Source: Adapted from Golden bytes (2002)

No workable segmentation of digital content for market research is available yet. This makes it difficult to distinguish pre-Internet segments, Internet-segments, mobile segments and new upcoming segments.

Content related technology

Payment and digital rights management are two technologies interlinked with online content. The easier money can transferred from the buyer to the content provider, the more content will be sold. But just payment systems are not enough. Providers will also want the guarantee by digital rights management that the content is not bought once and copied many times.

Payment systems

Payment systems have so far held up the sales of content. Individual newspaper or magazine articles, songs or movies require small payments. But payment by credit card is expensive for such a small sum, while on the other hand micro-payment systems are not yet matured nor trusted enough.

Internet

Billing and payment services have not been a strong point of Internet. So far only few banks have become involved in the payment process on Internet; so a direct charge to the account is hardly made. The most successful means for payment is still the credit card. Of course, there is hesitation about the use of the credit card and for a user the secure transaction methods are not always sufficient. Besides, regional habits of using plastic money will influence payments online. With the credit cards subscriptions to online content can be bought.

But payments for an article from the archive or a music or video download are small. So micro-payments would come in handy. It mostly works with a debit account. The user transfers money from the bank to an account at the micro-payment service. Whenever the user buys an article, a song or a movie the sum of the account at the micro-payment service will go down and the user will have to transfer money again, when the amount has been used up. Another method of micro-payment uses a code and puts the charges on the telephone bill. In some countries a scratch card has come into use: the user pays for the scratch card and enters the code when asked to pay for a song.

Up to the year 2000 micro-payments looked promising. In 1994 D. Chaum, an American working in the Netherlands developed a trustworthy and non-reputable system for anonymous (micro)payments, CyberCash, but it never got the confidence of the banks. IBM developed the micro-payments system MilliCent, but this never became the standard system in the consumer market. It is only now that micro-payment systems hit the markets with Switchpoint from the telecom operator KPN in The Netherlands, Firstgate in Germany, BT-Click&Buy in the UK and PayPal in the USA. In the USA micro-payments under the $5 have steadily increased over the last 18 months; but they form a minority among the payments, which mainly consists of subscription and mid-range payments (up to 50 percent). Other methods for small payments are reverse billing by mobile (you order a song through the Internet and pay by mobile phone), e-wallets and scratch cards. So, one can say that the appliance

of micro-payment systems is a matter of time. But it is not only the user that has to get used to them, but also the content providers.

> **Subscriptions continue to be the dominant online content pricing model.**
> - 89% of paid content revenues came from subscriptions in the first half of 2003. This was up from 86% for FY 2002.
> - Monthly subscription revenues were up to 46% of total subscription revenues in the first half of 2003 versus 44% for FY 2002; annual subscription revenues were down from 47% in FY 2002 to 44% in FY 2003.
> - Among single payments, mid-range payments (between $5 and $50) accounted for 68% of revenues in Q1 2003, and 71% in Q2.
> - The growth of micro payments (under $5) has been dramatic over the past 18 months. Micro payments have steadily increased from 2.6% of total single payment revenues in Q1 2002 to fully 8.0% in Q2 2003.
> -
>   the first half of 2003 relative to Q4 2002. This rebound is of particular note because Q4 2002 was the first quarter that this revenue figure declined.

Illustration 5: Paid content habits in the USA.
Source: ComScore/OPA, Online Paid Content: U.S. Market Spending Report, September 2003

Mobile content

Given the attitude towards paid content mobile companies have various ways of payment. One can pay through a pre-paid card or with the monthly bill of a subscription. But also the charging can be different: by item, by bundle (which is basically by the amount of Ks and not by the quality of the content) or by subscription, promising you regular updates.

Technically there are a lot of developments. In The KPN Switchpoint software, a payment system for content on Internet, has been readied for mobile and is now active as Switchpoint Mobile. But whether this local system will be able to stand the systems from big companies is questionable. The German market for mobile payment is already dominated by Vodafone and T-Mobile and the foundation of the Mobile Payment Services Association with members as Telefonica Moviles, T-Mobile and Vodafone can be seen as a sign ahead. The objective of the new association will be an open solution for payment via mobile telephones across networks and across countries.

Digital Rights Management (DRM)

Internet

But payment is not the only technical issue involved in the issue of paid content. Closely related is the issue of digital rights management. To the content provider DRM is a means to protect the copyright of the content and

the opportunity to sell the content over and over again. To the buyer DRM means that measures have been taken against piracy.

DRM is intended to secure rights during the production phase, as video and music clips get often stolen before the release, and the distribution phase. The distribution phase is complex as buyers might want to use the content on multi-platforms: the buyer might want to read an article on a PC as well as a PDA or want to listen to a song on their PC, CD player or iPod.

DRM has proven to be difficult to apply. When in 2003 the music group BMG applied the SunnCom's DRM software to audio CDs, the superficial technology solution was broken in a matter of days. More serious is the DRM work on watermarking and fingerprinting. Sony is developing a watermarking technology for video under the name Sony's Signet Screener. The German research institute Fraunhofer has developed the Light Weight Digital Rights Management (LWDRM) technology; content files (for example, AAC or MP3-coded music files) protected by LWDRM are initially locked to the PC at the download stage, but users are then able to transfer the tracks onto portable music players or to share them by digitally signing them, thus making LWDRM protected tracks traceable. Fingerprinting technology is presently of interest for broadcast monitoring.

But even if harmony has been reached over DRM, different file formats used by the music companies will pose a problem. However music companies and DRM developers have recognized this and are set to solve this technical problem.

But it is no longer the article, the song or the movie which has to be protected. The next DRM frontier will lie at home networks. IBM has already shown xCP, a laboratory technology for authentication of device identities on home networks. Also Philips and Sony announced that their joint-venture InterTrust will provide a new DRM interoperable technology across PCs and consumer electronics devices.

Philips and Sony carry enormous clout in the consumer media electronics marketplace and have demonstrated that clout in bringing new media formats such as CD-ROM and DVD to market successfully several times in the past. The release of this upcoming technology will likely trigger a platform war between Philips and Sony on the one hand and Microsoft on the other, with a handful of third parties, such as Apple and RealNetworks, also participating. Another group consisting of five electronics manufacturers, including Matsushita, have also announced to tackle this area.

Mobile devices

The mobile sector has decided not to attack content safety individually. Four members of the Open Mobile Alliance (OMA) have published technical guidelines. The technology, named OMA DRM 2.0 Enabler Release, will be embodied in the operating system of the new generation of mobile devices. Nokia, Intel, Matsushita and Samsung offer media companies to disclose their

content on mobile devices. A company has been set up to handle the licenses on the anti-copying technologies.

> Content related technologies of digital rights management and (micro-) payment have not matured yet nor has the technology been accepted by Internet users.

State-of-the-art of paid content

Internet

The first question is: which paid content is hot on the Internet? Roughly three sections of content are at the centre of attention: music, online newspapers and e-magazines, games as well as movies.

Music

Music is the most interesting section with regard to paid content. There is a long struggle by the music industry to stem piracy and it is far from over. The music industry recently had some judicial set backs as the peer-to-peer software of KaZaa was not ruled illegal; a view also supported by the Copyright Board of Canada and concurring with the US decision in favour of Grokster and Morpheus. So, the music industry and collecting society will have to go after the uploaders personally and/or opt for a levy on PC and other memory devices such as iPods.

Although legitimate online paid music services have been around since 2002, it was only with iTunes of Apple that people started to take these services seriously. Although the success might have come from trust in Apple on the one hand and fear for persecution by the music industry on the other it hand, it is more the usability of the service (pricing, method of payment – credit card or micro-payment-, use on more than one platform – Internet, CD-ROM, iPOD) that impressed users.

The lesson to be learned from the music industry is that a trustworthy and usable online content service must be offered in order to replace illegal copying. Recently the International Federation for the Phonographic Industry (IFPI) announced that the fight against online music piracy has "turned a corner" as a result of the increase in the number of legitimate online services now available and legal action against illicit downloading. According to the IFPI, sales of music downloads in the US exceeded $30m in 2003, outselling traditional singles by three to one in the last six months of 2003. The IFPI also reported that the number of online music tracks available in Europe has increased 30% to 300,000.

Online newspapers and e-magazines

For the print world it has taken a long time in order to figure out a paid content offer. Newspapers were given away for free, magazines hoped to be supported by advertisements and e-books struggled with proprietary software and single

function devices. The stand taken by the Wall Street Journal to ask money for its content was not followed by the rest of the newspaper world. Only after the dot-com blow-out newspaper owners started to realise that advertisement would never pay for the production costs and bring in extra revenues. From that point onwards the newspaper sites turned their sites into sites, for which people have to register or to pay by subscription or pay per article and started to distribute online newspapers themselves or through an electronic kiosk such as NewsStand.

The e-magazines have taken a longer time to get around to paid content. But now magazine publishers start to understand the game. Besides subscriptions by the publishers, third parties such as Zinio and Adobe have taken to the digital version of the old-world kiosk.

E-books have so far been a continuous promising phenomenon with proprietary hard-and software. The reading devices did not work so far. But electronic files might be a road into the future. For the time being Adobe is making hey out of this trend with its book and article shop.

Games

Online gaming has been a promising content segment. Already with packaged broadband (CD-ROM), games were a favourite pastime. Now that long awaited consoles (PlayStation II, X-box) with online connections have arrived, online services such as gaming portals spring up. Another development in the gaming world is the multi player gaming, allowing a user to play against more than one user online. Also in this case DRM will be essential as piracy by means of cables and chips will be an issue.

Movies

Movies have not been much of an issue yet. The long downloading times have so far scared off illegal copying to the scale of music. However, with ADSL and fibre optics download times for movies have decreased dramatically. And as with music peer-to-peer software for movies will come about, unless the film industry has found an answer to the demand in a movie download service. Presently MovieLink, CinemaNow and MovieFlix have licenses from the major studios and offer movies in the formats of Microsoft Windows Media and RealNetworks.

Sports

Sports is a promising area, certainly with the rise of broadband. Using Internet to bridge time and space, certain international sports, e.g. cricket, hockey or American college football, draw already a loyal crowd of paying users.

Adult entertainment

Adult entertainment has been part of the state-of-the-art (or better: -misery) of Internet. The providers of adult entertainment have perfected the notion of sticky sites and creeping pop-ups. They were also the first ones to accept credit cards and have now introduced micropayments.

Mobile services

Content for mobile services is developing slowly. Text-oriented content in the form of SMS is enjoying a certain degree of interest. Its successor WAP appears to be a failure as the service was presented as mobile Internet, but turned out to be a dressed down version of it. MMS has become a new feature recording and distributing photographs with texts and short movies. With the new technologies of Wi-FI and mobile WLAN connection with portable PCs content hardly needs to be adapted for screen output. For PDAs and smart phones screen outputs have to be adapted. PCs with cards for mobile services can download music, newspapers and e-magazines, games, (sports) broadcasts and movies.

> Internet content services are now on the trajectory from free to fee. The music business presently serves as a paradigm for copyrighted content.

Acceptance of paid content

Paid content is in the middle of the acceptance process. On the one hand buyers of high quality STM and trade content are used to paying; usually the university or the company will pay. But on the other hand, Internet users have never had a tradition of paying for content. The process of accepting paying for content among this group can be measured by the resistance to pay and by the amount of piracy of content. The resistance is most clear in the music sector at the moment.

The acceptance of paid content is best measurable by the resistance. And resistance there is. Three market research studies point in this direction. AMR Interactive did research in Australia in 2002. It showed that 72 percent have never paid for content on the Web and 57 percent of the respondents do not understand why they should. This study is supported by the Pew Internet report in the USA in 2002. This study comes up with 12 percent of the respondents willing to pay, while 36 percent will stop getting the information once they have to pay. An extensive German market survey is on the other hand rather optimistic. It predicts that in 2005 content will be sold in Germany to a tune of 127 million euro. And more than 50 percent of the respondents are willing to pay for professional services such as financial content, databases and news archives; unclear is whether the actual user pays or the company he/she works for.

Looking at content segments, some trends might be discovered. In the case of newspapers and magazines, many sites have experienced a dramatic drop in unique visitors and page views as by moving from an open site to a closed site. But instituting payment for access to the site or for a download of the newspaper or magazine has shown a similar picture as Ireland.com has shown.

Ireland.com is the website of The Irish Times of Dublin. The newspaper started up the website in 1994 and has enjoyed much interest from all over the world, especially from Irish emigrants and their offspring. When the site converted to a paid access model in mid-2002, Ireland.com's monthly page views dropped from 30.4 million to under 7.1 million. As a free access site Ireland.com had 2.3 million unique visitors a month. But when articles were placed behind the paid content gate, less than 10.000 users signed up, which is a conversion ratio of hardly one percent. Due to the drop in unique visitors and page views, the newspaper also lost revenues on its banner advertising.

Resistance to paid content can also be noticed with music and movies. Here resistance translates into copying songs and films, mostly through peer-to-peer network services. Once bodies such as Recording Industry Association of America (RIAA) and the collecting society BUMA/STEMRA started court cases against downloading without payment, the amount of download started to come down. In June 2003 still 35 million unique users downloaded music from the peer-to-peer music service KaZaA. By January 2004 with the RIAA having announced court cases against private downloaders, the number went down to 26 million. Against this down turn, the legal music sites of iTunes Musicstore from Apple and Napster.com clocked up 5,9 million downloaders in November 2003.

Another interesting aspect is the use of broadband. From a survey by ComScore/OPA (Online Paid Content, 2003) it appears that broadband is a likely driver of increasing paid content revenues. Again the ISPs hope that broadband will offer them the opportunity to sell fast, faster and fastest internet and a share in content (e.g. Tiscali with OD2 in a music service).

- 59% of paid content purchasers have broadband access.
- Purchasers of paid content are 14% more likely to have broadband access to the Internet
- 66.7% of Sports, Games & Entertainment category purchasers have broadband access.
- Paid content purchasers in all four major categories (Personals/Dating, Business Content/Investment, Entertainment/Lifestyle, Research) in this report exhibit greater broadband penetration than the total Internet audience.

Illustration 6: Broadband and paid content
Source: ComScore/OPA, Online Paid Content, 2003

Illegal downloading of digital content will not be stopped by court cases only. A decent legal service with a wide assortment, user friendly technology, and multiple platform use will need to be offered.

Revenues of paid content

Having demonstrated the problem of categorisation, it is difficult to compare revenue statistics and project them over years. For Internet the first statistics

start to be published. For content for mobile services a projection has been given.

Internet revenues

Yet the available statistics present only an indication of global parts of the market. Since 2002 OPA has published statistics about the USA market. OPA has since held quarterly surveys among its members. In 2003 OPA has started a European chapter, which also is going to hold quarterly surveys, most likely according to the same methodology developed in association with ComScore. So far no report has been published on the European market by OPA.

Category	2002	2003	change
Personals/Dating	$121.5	$214.3	+$92.8
Business/Investment	$139.0	$168.9	+$29.9
Entertainment/Lifestyle	$110.2	$102.5	-$7.7
Research	$50.3	$47.3	-$3.0
Community-made Directories	$44.2	$46.3	+$2.1
Personal Growth	$20.8	$41.4	+20.6
General News	$34.5	$39.2	+$4.7
Games	$35.9	$34.8	-$1.1
Credit Help	$20.6	$20.4	-$0.2
Greeting Cards	$18.3	$18.8	-$0.5
Sports	$13.9	$14.4	+$0.5
Source: ComScore/OPA, 2003			

Illustration 7: Content spending in the USA
Source: ComSCore/OPA, 2003[1].

On the basis of the 2002 and 2003 first half year reports, the USA market can be projected to deliver at least $1.5 billion in paid content revenues in 2003.

As said before the categories are dubious and it almost represents two quarters of the sales revenue in a year. It should also be noted that Business and financial information is also good for almost a quarter of the sales revenue. With some 17 percent entertainment is trailing in third place.

But the report shows more. Monthly subscriptions overtook annual subscriptions. This points to the fact that subscribers do not want to be bound by annual subscriptions and the almost automatic renewals. Subscribers like to shop. So, the subscription model will have to be adapted with incentives. The average monthly subscription rate is $10.

An intriguing remark in the report is that micro-payments represent less than one percent. Of course a critical note is needed here. Either there are few

---

[1] Online content spending in the USA by category of content, Q1 & Q2 totals (in millions). It should be noted that these figures are the total sum of the screened companies/OPA members. The revenues for the category Research for example are far in excess of the $50,3 for a half year; e.g. the revenues from the Science Direct Service of Elsevier are already higher.

companies with micro-payments in the portfolio of screened companies or the content is not interesting enough. Other research from IDC indicates that 62 percent of individual content buyers worldwide produce only 8 percent of the content sales revenues, while companies and institutions generate 92 percent. Although the statistics do not corroborate with each other, the trend is clear:

a. professional content still accounts for the majority of revenue;
b. subscriptions bring in the load of the content sales revenues, while companies and institutions cough up the money for content acquisition;
c. payment for consumer content is still at the beginning of its revenue stream.

Jupiter Research published in January 2003 a forecast for paid content revenues in Western Europe from 2002 to 2007. The survey was held in Germany, Austria, Switzerland, UK, Ireland, Sweden, Denmark, Norway, Finland, Netherlands, Belgium, Luxembourg, France, Italy, Spain, Portugal and Greece.

Content revenues (x mln. Euro)	2002	2003	2004	2005	2006	2007
General news and archives	6	19	32	46	61	78
Audio/video Entertainment	5	38	88	162	277	424
Adult entertainment	266	297	330	363	393	422
Financial and Business news	22	41	61	82	101	121
Other content (e.g. horoscope, sports, health, kids)	10	27	53	84	127	183
Digital music	9	26	65	136	285	550
Online games	43	96	176	285	418	589
Total content revenues	361	544	806	1158	1662	2366
Source: Jupiter Research January 2003						

Illustration 8: Forecast paid content in Western Europe
Source: Jupiter Research, Paid content revenues in Western Europe,
2002-2007, January 2003

When one compares the two tables, it is clear that the revenues of paid content in Europe are far behind the USA. This is due to the amount of Internet users, but also to the attitude of Americans towards paying for information.

Adult entertainment is by far the leading category of paid content, receiving payments by credit cards and since 2003 also through micro-payments. However the category adult entertainment will diminish in importance as audio/video entertainment, music and video will overtake.

Mobile content services

Many of the difficulties about paid content on Internet do not exist for mobile services. From the beginning of mobile services onwards people have learned to pay, whether this is a SMS, WAP, I-mode or MMS service.

But having said this, mobile services are also hampered by some features. One of the most important handicaps is that too many mobile technologies develop in too short a time. SMS has received competition from WAP, I-mode, MMS, Wi-Fi and WLAN within the time span of less than five years. And this while 3G/UMTS is about to be rolled out. Despite this technology offensive, SMS might turn out to be the Teletex of the mobile world: primitive, easy to use and effective; this while the new technologies do not get time to mature. And last but not least, the lack of transparency in the mobile services sector with content creators, content packagers, platform providers, transaction providers and network providers.

What will be the share of mobile content for the mobile sector? In relative terms it will not be much. A study performed by Andersen in 2002 for the European Commission indicates that a network operators will earn their money in 2005 by voice (67,7 billion euro), personal data services such as SMS 44,6 billion euro and only 5,4 billion euro from content. For the content provider mobile content will yield some 6 percent of his total income. Still the European market is estimated at a media forecast of 18,9 billion euro in 2006. Major categories are: news, games and youth fun (ringtones, logo's). Mind you even financial info is relatively low on the scale, most likely as only stock quotes are interesting to know when one is on the move.

Having said this in the light of the present mobile services, 3G/UMTS is about to be rolled out loaded with promises for content such as music, video, television and games. Will people have it? A TNS market survey in Europe said that 42 percent of present mobile users are interested in 3G and more than 50 percent of this group is willing to pay more for 3G; for MMS, High-speed Internet and e-mails they were willing to pay 6 to 10 euro more per month.

The crucial question remains whether personal communication such as SMS, MMS and e-mails will win it from content. In the same TNS survey, 77 percent of the respondents want to forward and receive e-mails and 77 percent wants video phones. As for content 47 percent of the respondents look for downloading video and music. These data point into the direction that personal communication will win it from content.

> The revenue stream for Internet content is only now picking up. Statistics on the streams are fragmented as for example statistics on professional information is lacking. However it is clear that the revenue streams for Internet content will outperform the global economic indicators.

Business model

The term 'business model' is a much misused word. Quite often the term 'revenue model' would fit better, but this depends on the scope. A business model for paid content concerns itself with payment for digital content. As such a business model has a set of components which is part of what people perceive as the business proposition.

1. Content: what type of content (text, audio or video or combinations); how unique is the content on the web; how valuable is the content.
2. Infrastructure: how is it presented on the web; can the user see a lead; is the content well-protected, but can it be transferred to other platforms (portable PCs, iPods, eBooks); how easy is the payment; how is the usability.
3. Revenue: is it an acceptable price for the content; are there bundles possible; is there a subscription and a pay-as-you-go facility.
4. Cooperation: are you listed in search engines; do other (usually unpaid) sites refer to your site; have a set of valuable links.
5. Growth: do not show all content straight from the beginning: build up the introduction in steps.

A standard business model for paid content does not exist. What works for the Wall Street Journal does not necessarily work for the Financial Times. So, whenever setting up a paid content site, one should look at comparable site and the components in the model and formulate a own model with the five components in mind.

A good example of the fight for the right business model can be found in the digital music business. With many illegal downloads of copyrighted music via peer-to-peer connections, music companies like Sony and EMI started their own download services. The business model restricted amongst others transfers of songs from Internet to other media such as CD-ROM and play-back devices like iPOD; also their prices were hardly differentiated between a single song and an album of songs. When Apple marched in with the service iTunes in April 2003 another business model was presented. In conceiving and launching iTunes, Apple did two things right. First, it talked the major recording companies into licensing music to its service on less restrictive, more user-friendly terms than usually applied. So, users could now create unencrypted MP3 versions of music tracks, for maximum portability, but they had to go through the trouble of burning a CD first. By putting up a speed bump for pirates, it avoided barriers that hampered legitimate users. Second, Apple turned the service iTunes a traditional record store. By doing so iTunes changed the paradigm, due to:

- No need for subscription to the service;
- the availability of single songs or an album;
- an acceptable price under $1 a song;
- the portability to other devices;
- a wide variety of songs, not limited by the offer of one company.

The business model is such a success that it is copied by many music services.

Newspapers have basically two business models. One model is to present headlines and have the user to register and to buy a subscription or to buy an

article. Other newspapers like the Washington Post and the Dutch Telegraaf have now a digital edition like a pdf which can be bought by subscription or by the edition.

Games online require other business models. Through several games portals participation in a multi-player game can be bought. This can be on the basis of time spent gaming, payment for a particular game or (micro-)payment for downloading a game. In all three models the conditions differ.

> There is no such thing as a standard business model in digital content. However, the new iTunes model has proven to be very successful and could serve as an important example.

Conclusions

Paid content is an issue for Internet and most likely a temporary issue. Before the introduction of Internet there was already a tradition of payment for online content. But when Internet came out of the military barracks and university libraries, the ISPs were not paying for interconnection fees and hoped to compete with media companies. This led to an interbellum of non-payment based on an advertisement business model. After the dot.com blow-out ISPs scaled down their content services. However paid content services are on the rise again due to the efforts of content providers; paid content services seem also to be helped by broadband, offering new opportunities..

Measuring the growth is rather difficult as there is no standard segmentation of online content requiring payment. But the few marketing research reports indicate that the resistance to paid content is decreasing. In fact, as the developments in the music recording industry show, payment for content will be accepted by the availability of a legal, user-friendly service in combination with legal action. However legal action without a legal, user-friendly service is a waste of money.

Paid content is still growing ahead of global economic indicators. This can be seen as a catching up phase. With the growth of services with proper payment and micro-payment facilities as well as digital rights management facilities paid content will keep increasing ahead of the economic indicators.

Paid content has never been an issue in mobile content. From the first SMS services payment has always been required. In comparison to content on Internet, the opportunities for paid content on mobile look smaller than paid content on Internet.

EU and paid content

Paid content and the EU programmes

5th Framework Programme

Paid content has never been an explicit topic of EU projects. In the fifth Framework programme, some projects have dealt with payment methods for Internet and mobile devices, digital rights management and e-commerce. Interesting was the project OPELIX (www.opelix.org). The objective of Opelix was to develop such a business model by providing tools to create personalised information offerings, taking into account *copyright* protection of information, *certification* of data, *timely delivery* of the data and with *payment schemes* that apply to this type of business. Opelix proposed an eCommerce solution, which would provide all the means to deliver digital content and services matched to individual's or group's preferences and actions.

The *Opelix* infrastructure provides a set of services that enable:

- An **intermediary** to establish a virtual marketplace where information provided by sellers are offered to customers or other sellers and possibly ameliorated or integrated with other information (value-added services).
- A **customer** to easily find and buy the data he/she is looking for.
- A **seller** to delegate the sale of his/her products to intermediaries still maintaining the control on the trading transactions. The combination of the roles and the way services are provided turn into manifold business models.

INFO2000

The INFO2000 programme started in 1996. It set out to stimulate development of the European multimedia content industry and to encourage the use of multimedia content in the emerging information society. The programme mainly focused on the clearance of rights towards the owners and not in protecting illegal copying by digital rights management. Ten priority projects for a total support of EU funding of 2.2 M€were selected. Nine projects successfully completed their work by the end of 2000.
The projects addressed:

- the networking of existing collectively managed multimedia rights clearance systems in six Member States (VERDI);
- interoperability of digital content identification systems and rights metadata within multimedia e-commerce (INDECS),
- sector specific multimedia rights clearance systems for book publishing (EFRIS), audio-visual (TVFILES, PRISAM) and music ([ORS](ORS)) rights,
- integration of electronic copyright management and multimedia rights clearance systems (BONAFIDE),
- best clearance practices for educational multimedia (COMPAS)
- protection of creative contributions in a collaborative networked multimedia title development environment (*[b©](b©)*).

e-Content

The e-Content programme of the European Commission has looked more specifically into content with studies on economic indicators of content on Internet and a study on content for mobile devices. Also, a study was performed on the feasibility of a multimedia and content observatory. Despite the recommendation that a Digital Content Observatory is very much needed, as it would prove of great benefit to Europe's digital content industry this study did not get a follow-up. The closest in statistical data in the content field is the publication of EITO, European Information and Telecommunication Observatory, however it provides no data on content services and paid content.

Recommendations for future work

At the ACTeN's Business Round Table on Paid Content in Wiesbaden (Germany) in February 2003, a manifesto was published for the digital content industry, spelling out general actions:

1. The digital content industry needs to acquire a detailed understanding of the market.
2. The digital content industry needs to acquire a detailed understanding of the user. Users differ in their readiness to pay for content. Surveys should just be conducted alongside real existing products with real existing users.
3. The digital content industry needs to ensure the quality of content, an exclusivity of content, and a usability of content provision.
4. When wanting to charge for content, the digital content industry needs to select specific content. Not just any content is sellable. It is recommendable to start first with very qualitative and exclusive content.
5. The digital content industry needs to allow for simple and intuitive access and use. A lot of purchases are terminated while they are carried out! A user-friendly shopping process allows for quick access, enough transparency for the user to judge the value of the content on offer as well as safe and easy payment.
6. The digital content industry needs to create a good technical infrastructure. It should support different modes of payment and digital rights management which is of particular importance for websites that offer content from third parties.
7. The digital content industries together with the help of banks needs to establish confidence in the payment process.
8. The digital content industry need to promote paid content - not just on the website but also outside in the offline media and other websites. The industry needs to focus on the way we package and distribute content.
9. The digital content industry needs to use flexible payment systems that favour 'a-la-carte' consumer purchasing habits in addition to subscription models.
10. The digital content industry needs to apply a time-slot strategy (so-called day-parting): thinking where we fit into a user's day and tailoring our service according to that.

In order to charter online content as a growing economic factor in the coming years, specific actions will have to be taken. In order to follow the stream of revenues a number of specific actions should be taken:
- a proper segmentation of paid content categories should be set up;
- a metrix methodology should be instituted (e.g. in co-operation with EITO) to follow the development of paid content sites in the European countries and in Europe.

Further information

For further information, please refer to the websites below:

www.acten.net: on the location Home > Business Roundtable > Reports > BRT Report3

www.cordis.lu: EC database containing policy statements, project calls, project descriptions

www.cordis.lu/fp5: projects in FP5

www.cordis.lu/ist: programme on Information Society Technology

www.cordis.lu/fp6: FP6 programme

www.cordis.lu/econtent/: section on the e-content programme

http://www.cordis.lu/econtent/mmrcs/home.html: section with a multi-media rights clearance system

www.cordis.lu/econtent/studies/stud_mobile.htm: Anderson study on mobile content (2002)

ftp://ftp.cordis.lu/pub/econtent/docs/executive_summary_content_indicators2.pdf: study on content indicators

http://www.cordis.lu/econtent/studies/observe.htm: study into setting up a content observatory

www.paidcontent.org: site plus daily newsletter on paid content, run by Rafed Ali

www.online-publishers.org: site of the Online Publishers Association (OPA)

www.jupitermedia.com: site of the research bureau, active in the field of content

www.forrester.com: site of the research bureau, active in the field of content

www.andersen.com: site of the research bureau, active in the field of content

About the author

Jak Boumans BA, MDiv. is principal consultant with Electronic Media Reporting in Utrecht (The Netherlands, which is specialised in content strategy. He worked previously for TNO Centre for Technology and Policy Studies, Wegener, VNU and Kluwer. He brought the first European daily newsletter online for the computer industry on behalf of VNU BPL in London in 1984. He was part of the team which produced the first commercial legal CD-ROM for Kluwer and other primers of Dutch CD-ROMs.

Mr Boumans is author of several books and has written many articles for national and international trade magazines. He has been a jury member in several juries for multimedia competitions (EUROPRIX, Gouden Z, World Summit Awards). He is General Secretary of the European Academy of Digital Media (EADiM).

Mr Boumans has been an evaluator, reviewer and rapporteur with the EC. In 2002 he became a WP leader in the ACTeN project (accompanying measure). In 2003 he became part of the X-Melina project, a cross-media project, for the MEDIA programme.

Links:
www.acten.net
www.europrix.org
www.europrix.nl
www.eadim.net
www.wsis-award.org
www.xmelina.com

Jak Boumans can be contacted at jak@euronet.nl.