



model **behavior**

Considerations for Profitable Business Models

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Until April 2000, it didn't really matter whether a dot com had any profit prospects. April 2000's dot com stock market crash changed all that. By December 2000, most publicly traded dot coms had lost roughly 90% of their market capitalization. Abandoned by investors, many dot coms are likely to vanish.

Today's desiccated capital markets pressure Web content firms to scramble for cash. The short-term fix is to cut staff—a tactic likely to lead to more short-term cuts. To prosper long-term, Web content firms need operating profits.

An analysis of content-related business strategies reveals a simple insight—people will pay for content that helps them make better purchase or investment decisions. Web content firms willing to reshape themselves appropriately have the potential to create profitable businesses.

HISTORICAL CONTENT BUSINESS MODELS

During the last 500 years, there have been at least six significant content distribution technologies—paper (e.g., newspapers and books), telephony, radio, movies, TV, and the Internet. An analysis of these technologies reveals that successful content business models vary depending on the content providers' ability to control which individuals get access to specific copies of the content and the source of value for which content providers can charge fees.

Some content business models (e.g., books and magazines) are able to count with some precision how many people gain access to copies of original content. (These business models do not track 'pass alongs'). Other content business models, such as TV, radio and most Web content sites, cannot count content consumers.

In addition, content business models can be characterized by the way they create value for which they can generate revenue. Content business models may combine any of four revenue sources:

- Access: Charging for access to content distribution
- Content: Charging for copies of original content
- Advertising: Charging to transmit messages to content consumers
- Commerce: Charging for transactions which result from content consumption

Books, the oldest content distribution model, were able to charge people for their personal versions of original content.

The ability to publish daily versions of content—newspapers and magazines—led to new business models. Annual subscriptions to newspapers and magazines were sold for up

to 365 annual versions of content. The time-sensitivity of the content made it possible to introduce a new source of revenue—advertising—in which individuals and companies paid to reach content consumers.

The notion of advertising revenue introduced a powerful tension into the content business models. With the introduction of advertising, content lost its primacy. Newspaper and magazine executives were often forced to make decisions that pitted the interest of content creators against the interest of the advertisers. For example, journalists were told not to write stories that embarrassed advertisers.

Telephony introduced a new content business model. The connection between individuals on a network—in the form of a telephone conversation—created content which was not salable. Telephony revenues were a function of the amount of network time rented to create the “content.”

Radio further devalued content. With radio, content was free in the station’s broadcast area. Based on the number of listeners likely to be tuning in to a show, radio stations charged advertisers for timed access to those listeners.

By contrast, movies reverted to charging people to sit in a room with others to view the content produced by the director, actors, and other professionals. While this viewing fee was the primary source of revenues, movies also generated some advertising and commerce revenue as well.

TV reverted to the radio model—giving away content for free and offering time to advertisers whose fee would vary based on the popularity of the specific programs during which advertisers’ messages were broadcast.

A REVIEW OF SOME WEB CONTENT BUSINESS MODELS

Many Web content business models are losing money because they entertain or inform rather than help content consumers make purchase or investment decisions.

An analysis of CNET and ConsumerReports.org reveals a set of common characteristics that present important principles for managers of content businesses.

CNET is the most popular Web site for news and information about technology and technology products. CNET has earned a profit from operations in eight of the last ten quarters. Most of that money comes from advertising revenue. Roughly 14% of CNET’s revenue in the third quarter of 2000 came from a mixture of advertising and ecommerce: CNET generates a fee every time its readers click to an advertiser’s site to investigate a product, even if the reader does not make a purchase. CNET earned \$6.2 million in the third-quarter of 2000 on an operating basis, and had revenues of \$56.4 million, nearly double the comparable figure for 1999.

Consumer Reports magazine and its Web operation accept no advertising. ConsumerReports.org has been earning a profit on subscriptions alone. Executives say ConsumerReports.org earned a \$5 million profit for the year-ending May 2000 on \$10 million in revenue from 502,000 subscribers.

ConsumerReports.org’s content is an archive of product reviews from *Consumer Reports* along with some original content. Since the content needs little updating, ConsumerReports.org, which charges a fee of \$24 a year or \$19 a year with a magazine subscription, operates with only 30 employees. People trust the content and use it to make decisions that involve as much as tens of thousands of dollars.

By contrast, let’s consider two money-losing content sites: TheStreet.com and WSJ.com.

TheStreet.com offers financial news and analysis, but it has serious competition from CBSMarketWatch and WSJ.com, the *Wall Street Journal* online. Most of TheStreet.com’s information is valuable for only a short time. TheStreet.com is spending \$20 million on sales and marketing, which includes commercials on TV networks and advertisements in magazines. TheStreet.com charges from \$199.95 to \$400 a year and has 93,000 subscribers. Its lack of financial success is evidenced by its recent decision to layoff 20% of its staff in an effort to become profitable by the second-half of 2001.

Similarly, WSJ.com’s lack of profits is due in part to high overhead expenses. WSJ.com, which charges \$59 a year, or \$29 with a newspaper subscription, has attracted 500,000 subscribers. WSJ.com employs 200 staffers to keep its news and analysis fresh. *Journal* executives expect WSJ.com will eventually make money, however, they claim that WSJ.com is now investing in its editorial product and marketing.

These examples suggest a simple finding—people are willing to pay for information that helps them lower the risk of making a bad purchase or investment decision. By contrast, people expect information that entertains or informs them about current events to be free (or, at best, priced very cheaply).

IMPLICATIONS FOR MANAGERS

If managers of content businesses want to profit from this insight, they must take the following initiatives:

- Pick a class of assets (e.g., products or investments) on which to focus
- Analyze the decision-making process and the customer purchase or investment criteria for these assets
- Hire and motivate staff and build a network of sources that can provide objective analysis of the purchase or investment decisions
- Develop a Web site and related content that is organized to facilitate decision-making and is kept accurate and current
- Build and sustain a brand among decision-makers as the quality leader

Taking these initiatives is difficult because it involves such a significant change in mindset, particularly for journalists who like to think of themselves as immune from commercial considerations. Unfortunately, the survival of their employers could depend on it. [E]

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