March 2021

Content Monetisation in the Digital Economy - Is there a Holy Grail?

by Kiki Ikhisemojie

The intersection of technology and contemporary cultural expression is a confluence of monetisation opportunities. Innovation and the drive for competitiveness in this landscape are shaping the evolution of the economics of content creation, production, publishing and the platforms that enable them, as well as modes of consumption and audience engagement.

The Drivers

The key drivers of new consumption models are primarily audience preferences, not just for the actual content being consumed but also the mechanisms of presentation, messaging and the overall experiences associated with an interaction with the content itself. This presents ample opportunity for content providers to employ complex algorithms to target specific users based on set parameters, encourage interactive engagement and to deploy clean, highly useable interfaces that enhance the user experience.

Second, digital capabilities have opened up a vast runway of opportunities for improved accessibility to content through smart devices and of course, connectivity promoted and consistently enhanced by infrastructure investments in faster broadband and internet capabilities. Digitalisation has enabled content to be more readily and easily accessible to vast audiences across cultures and geographies. Statista estimates that approximately three billion people worldwide have access to a mobile phone, on top of which OTT providers offer access to applications and smart, micro services that enable audiences to access and interact with content, even if at a most rudimentary level.

Thirdly, the age of popular celebrity culture which finds expression and accessibility across the internet enables creators to connect with their fan base across geographies and cultures due to the preponderance of technologies (devices, platforms, connectivity) that enable access. This has a self-reinforcing effect for the digital content ecosystem.

Consequently, there is now a wide array of content providers, offering an equally vast plethora of content in different types and formats, across platforms. The philosophy of approach of each of these providers or the platforms that host them is equally demonstrated by the variety of commercial models available to users and participants across a rich and diverse ecosystem.

The Landscape

Who / What are Content Providers?

Content providers enable content to reach and be shared between users. They range from the digital natives such as Spotify, Netflix, Instagram, Twitch, Tic Tok to broadcasters, big block buster movie studios (Disney) and the big technology companies such as Google (via YouTube), Apple (Podcasts, TV Series) and Amazon (Prime, Luna), that have diversified into this space by extending their existing business propositions, products and device capabilities through various Apps that deliver content.

What distinguishes the players?

The main distinguishing factors among this array of providers are in the mechanics of how content is acquired, the type of content, delivery mechanisms and the economic models that are used in buy and sell side transactions. The primary distinctions are between the User Generated content available on social media platforms such as YouTube, Instagram, Tic Tok and Twitter for example, and the streaming platforms that predominantly carry curated content, narratives and documentaries aggregated from a variety of sources.

In the latter case, the economics vary in that asset rights are held by the Platform, which invests in production and distribution, allowing them to back off commercial terms with revenue share arrangements in order to recover positive returns on their investments in production and talent. The Netflix model is an example of this, while the Amazon Prime / streaming offering, with its Originals line can be best described as a hybrid of this model joined up with the library of studio produced content offered to subscribers for viewing and rental transactions as well as downloads for offline consumption.

Netflix, which began its journey as a DVD rental service in 2007 before going digital on the other hand, invests in content production and retains intellectual property asset rights to most of it. Amazon Prime offers a broader set of product (sub)categories and employs similar content rights and co-creator revenue share arrangements for streamed content. Much like Netflix, Amazon also invests in content production for its streaming media that include its Amazon Originals, available to subscribers alongside unscripted (podcasts), videos, movies, series - i.e. content from third party premium networks - and live events, particularly sports, which rely heavily on engaged fan following. A component of its offering is a library of content for rental and purchase.

Juxtaposed against this, the spectrum of social media content varies by format, ranging from text posts, images, videos and comments to network platforms. Users - known as Creators - who generate content on these platforms, can be individuals (Influencers) on one end of the spectrum to corporates, monetising their brands through merchandise sales, sponsorships, programming and fan funding. They own the content rights so that the platforms themselves, under revenue share arrangements with the Users, serve as vehicles for consumer access and as distribution mechanisms for the content rights owner(s), that may be an individual or a corporate brand.

Content Distribution Models

Content is distributed either directly (B2C) or through a network of partners, growing audience and/or user reach and expanding an ecosystem that continues to evolve and at pace. It is however, a fragmented landscape and the new entrants that have emerged in the last decade have grown very quickly due to the insatiable appetite for shared content, consumption patterns across content platforms and the enabling technologies that underpin these interactions.

As a result, there are a variety of options available to the end customer and the growth seen across the sector is mediated by how efficiently these companies access, acquire and structure the commercial relationships on the basis of which assets are procured, how effectively they compete for audience engagement on the one hand and the ability to maintain the captive audiences which spur innovation and enable them grow their revenues through various monetisation techniques, on the other hand. Revenues are typically derived from advertising and revenue profiles are shaped by the construct of the revenue share models that underpin content acquisition.

The Regulation and the Policy Imperative

It would not be complete to examine this space without discussing the role and impact of regulation. Communications and Media organisations have traditionally been regulated sectors and this has fundamentally not changed. In the United States, the sector is regulated by the FCC and the equivalent body in the United Kingdom is OfCom. Aside from licensing, these agencies, and similar organisations in other countries, set the standards and policies that govern broadcast and content within their respective jurisdictions. The internet however, which is the platform and vehicle for new media distribution is not explicitly regulated. This is the major point of divergence.

In the context of equivalence and substitutionality brought to the fore by the convergence of these sub-sectors, it could be argued that the playing field is uneven as there is a clear dichotomy in the regulatory frameworks to which content providers and platforms owned by established, closely regulated players that provide content such as Sky (owned by Comcast), CBS, Disney are subject, juxtaposed against the internet streaming giants (YouTube, Instagram, owned by Facebook and Facebook itself), which are not governed by the same traditional media regulatory regimes.

For the latter, their business models rely not on scripted, curated content, but on self publishing contributors ranging from individuals to organisations who own the rights to their media and the content they upload. This positioning inadvertently permits the dissemination of content and other information that is both desirable and at other times, undesirable because content is mostly unmediated. These platforms view themselves predominantly as vehicles for self expression, which poses a dilemma for policy makers - until regulatory bodies can legislate for self expression and code of conduct, policy-making in this arena will remain more a negotiation of, or appeal to ethics and sensibility, requiring self-policing.

The impact this has had on the self-publishing platforms is that they have increasingly attracted criticism for indiscriminately monetising harmful and unpalatable content because advertisements, historically their traditional revenue sources, can be served in proximity to the type of content that others or civil society in general might find distasteful, sometimes, outright dangerous. The challenges of navigating this and other emerging threats posed by self-published content sometimes disseminated across platforms remain a thorny one for regulators and policy makers, as well as the platform owners in every jurisdiction across the globe. To add a further layer of complexity, value systems also differ.

The challenges and opportunities in an increasingly mobile landscape

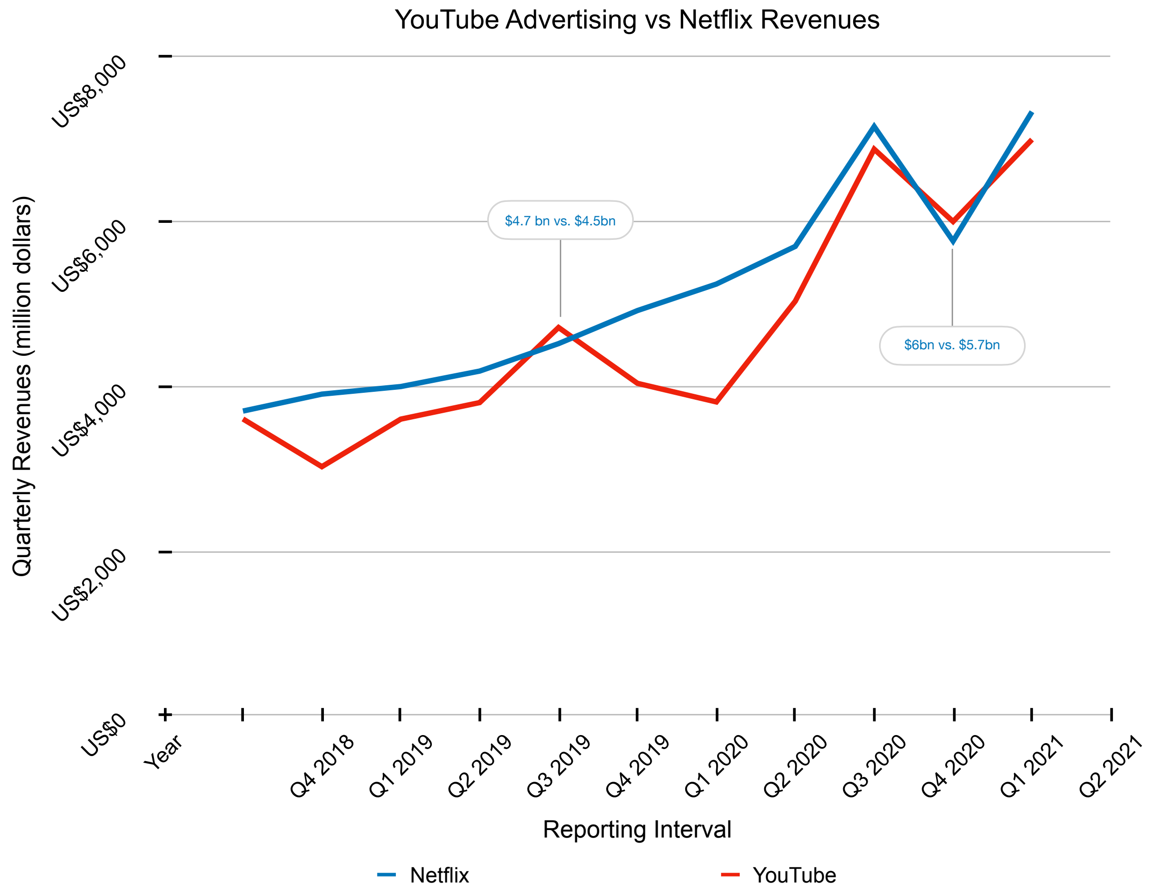
Although there are several options for end users to access, view and consume content, it is also the case that content providers all compete for broadly the same audiences and at any given moment in time, a finite , albeit rapidly growing addressable global population that is increasingly mobile. For the analogue / traditional content providers, digital content products and distribution options have tended to evolve from their traditional formats and the opportunities are an extension of a core existing business. Product innovation and diversification to evolve their portfolios from analogue formats to digital streaming platforms without cannibalising their existing business revenues are a point of strategic tension for many traditional players in this space, sometimes, critical to survivability in a fast evolving landscape. This is not dissimilar to the challenge faced by many telecommunications services providers (CSP/s) for which deregulation and the liberalisation of markets heralded the arrival of integrated CSP/s and content providers in their spaces, providing both fixed and mobile communications infrastructure, voice and data services, in addition to content mostly via cable networks.

For most Communications Services Providers and TV / Cable entertainment networks (AT&T, BT, Comcast / Sky Group, Virgin Media), the big blockbuster movie studios (Disney, Warner Media) and OEMs, such as Apple that fall into this bracket, finding innovative ways to continue to adapt to an evolving landscape in order to compete effectively is an ongoing strategic challenge. The point of divergence lies in the primary revenue sources and the philosophy of approach i.e. the business model and monetisation techniques employed by open platform content vehicles / providers versus incumbents across the spectrum of opportunities available, are central strategic considerations.

The US $85 billion AT&T hard-fought acquisition of WarnerMedia, which it is now unwinding and divesting into a direct to consumer streaming giant with Discovery Communications in the space of two years, illustrates the pace at which this landscape is shifting, and crucially, the direction of that shift. From this paradigm to the Apple TV Series and Podcasts, these players are reshaping their business models to take advantage of streaming media growth in the direct-to-consumer space, enabled by digital platforms on a global scale.

The agility, growth and reach of these platforms drive a corresponding growth in advertising content. Globally, the advertising market is worth approximately US $1 trillion, of which the circa 40% that is digital (US $464 billion) is expected to grow to approximately US $632.7 billion by 2025, with much of this growth dominated by mobile advertising (at just above 68%), and specifically, the video segment, which is expected to reach about 82% of global mobile advertising spend in the same period.

Notwithstanding the amount of diverse content available on core digital native platforms owned or backed by the powerful big technology companies, Google (Alphabet) and Facebook respectively, advertising also remains the primary source of revenue. This is as true for YouTube (Google's video platform) as it is for other social media platforms, such as Instagram and Twitter, for which other content is predominantly user generated. In 2020, the global penetration for this type of media was approximately 54% and the user base is projected to grow to approximately 4.4 billion by 2025 (*Statista*), presenting further opportunities for innovation, competition and co-opetition.



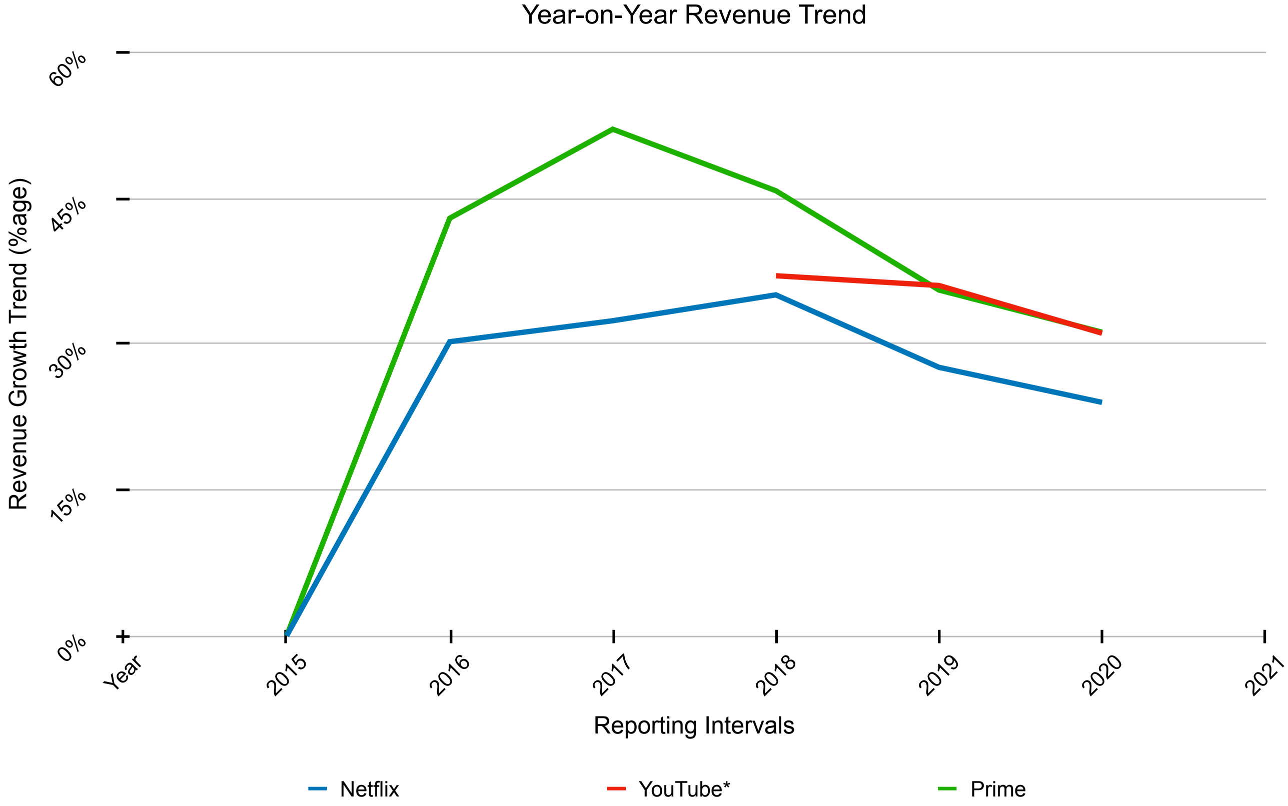
To reinforce the point, drill down further and put these numbers into perspective, YouTube emerged as a primary advertising growth driver for Alphabet during the 2020/21 reporting period. Posting a 50% year-on-year subscriber growth, its advertising sales revenues outpaced the 30% growth achieved by Google's other advertising business - made up of search, display and other formats - and the 34% growth across the entire business.

Juxtaposed against content performance for the streaming natives, Netflix, Prime, Apple TV and Podcasts, for which monetisation techniques are primarily paid DTC subscription offerings of curated, creative and studio produced content, revenues are almost comparable to advertising revenues on the social platforms, as the chart above further illustrates. Between Q4 2018 and Q2 2021, YouTube advertising revenues - bar relatively slight dips during Q1 2019 and Q2 2020 - alone and Netflix's total revenues reveal a similar trend and scale, with YouTube advertising actually surpassing Netflix in Q4 2019 at US $4.7 billion versus the latter's US $4.5 billion in the same period and again in Q1 2021 at US $6 billion versus US $5.7 billion, respectively.

While in the five years to 2020, Prime grew substantially in comparison to its peers, YouTube and Netflix, that figure is approximately 4% less between 2017 and 2020.

Annual Revenues	YouTube (Google)	Netflix	Prime (Amazon)
CAGR (0,5)		29.8%	41.3%
CAGR (0,3)	34.7%	28.8%	37.4%

On a macro level, the challenges that lie ahead are stark for each of these content providers. In the midst of increasing digital convergence and growing competition characterised by fleeting consumer attentiveness, the combination of these forces is likely to continue to exert a downward pressure on revenue growth. This is already evident in the slowing revenue growth trends on three of the major streaming platforms as the chart below shows:



* YouTube Advertising revenues only. Note - no granular revenue data was reported by Google in previous years

In order to arrest or reverse these trends and drive continued growth for any of these platforms, they must re-think their business models. Those platforms that are able to pre-emptively hedge available options with creativity and agility, while positioning and deploying propositions that straddle both sides of the content revenue generation and economic model arrangements effectively, are most likely to thrive.

Given this context and with such an array of options available to consumers across this landscape, the strategic imperative for players is whether they have clear, yet agile strategies to continue to innovate, evolve and grow sustainably in the medium to long term.

Looking ahead: the future is now

What are the potential sources of growth across this vast, fast evolving ecosystem? There are five key areas in which content platforms can further diversify their products

Content providers will need to strategically diversify, evolve their business models and differentiate their content offerings in order to grow both subscriber and average per user revenues sustainably, in the medium term. A fundamental lever in this objective will be to further deploy calculated investments in capabilities that enable connectedness in virtual spaces and promote experiences that engage communities. Content must be both compelling and immersive in order to achieve this objective.

Here are four strategic levers content providers and platforms must leverage to grow its audiences and revenues:

Games

Previously the preserve of the “geeks”, games and players are gaining a wider social acceptance. Digitalisation has enabled the evolution of this previously, mainly vertically integrated space, paving the way for the gaming industry to open up to wider participation and experiences, which go beyond games consoles and individual players, playing against a machine. The global gaming market is estimated to be worth about US $160 billion. Having grown by about 25% to 30% in 2020, there are some 2.7 billion video game players worldwide (approximately 44.32 million in the UK, more than video and music combined), estimated to grow to over 3 billion by 2023. In the United States, games are the fourth largest content category behind Cable TV (US $114 billion), Music (US $170 billion) and Film / Television (US $181 billion). Specifically, mobile games revenues in the United States amount to US $20.45 billion, with a total user base of 15.6 million and an ARPU of US $131.2.

Given this size, the pace of innovation and potential runway of growth opportunities, e-games or e-gaming will provide further opportunities for players to build and grow community interactions and connectedness, creating virtual spaces that can span geographies. It will also give content providers and games publishers the opportunity to scale an already robust user base on their platforms, while content platforms themselves must re-define the gaming experience in order to broaden communities and the ecosystems, especially of developers and co-creators, that enable them to flourish.

From the Facebook Virtual Reality product, Oculus to Amazon Luna and Google's Stadia, which was designed to stream games cross-platform on the Cloud, the big internet giants are extending product categories to tap into this vast and fast evolving space. The providers that excel in this race, will re-define gaming for a mobile audience, enabling them to tap into the younger demographic, particularly in developing markets where mobile broadband connectivity and mobile phones have a relatively high penetration and users are accustomed to micro-transactions, the paradigm of which is increasingly adapted for add-on(s) and personalisation monetisation on gaming platforms.

Re-define *premium* content

Content platforms such as YouTube (Alphabet) and Facebook must also re-define premium content in order to maintain the relative stickiness of paying subscribers. To be effective, this must go beyond the basic dichotomy between paid-for versus free content, to encapsulate content which meet and pass a minimum set of acceptability criteria, adhere to socially acceptable standards and take the social good into consideration, in addition to the revenue and wealth creation prerogatives of these businesses. The two propositions are not mutually exclusive and are a contemporaneous strategic imperative that content providers must consciously place at the core of the value systems that are central to their business operations.

For some of them, the tension between these forces calls for a complete shift in philosophies as well as product innovation that will apply machine learning and artificial intelligence to segment content such that it is broadly cognisant of and balanced against the challenges already outlined above.

An eye to sustainability

Gaming, the data that integrates the ecosystem, content consumption itself and devices consume vast amounts of energy, contributing to global warming. Content providers must demonstrate that these challenges are adequately reflected in their strategic considerations. Some examples of this approach already exist, demonstrated by game authors such as Alba and Subnautica that consciously build SDG and ESG messaging into the narratives portrayed in the games they ship. This is achieved by simulation of dystopian landscapes interwoven with real world experiences of climate change in order to provoke their players to not only make climate-conscious choices but also to raise an awareness of issues relating to global climate crises. In the United States alone, gaming uses approximately 34 terawatt hours (2.4% of residential) electricity. How sustainable will this be in the current climate, if the number of gamers continues to grow at the current rate and as predicted?

A step further, is a deliberate focus these platforms must begin to direct towards broader sustainability considerations across their entire values chains. These, for example, can range from energy usage / consumption awareness and measures to enable device recycling - approximately 75% of electrical components found in old devices is recyclable - at one end of the spectrum, to packaging. In practice, ethical sourcing imperatives can also be anchored in making conscious choices that promote the sustainable mining of minerals used for components, at the other end of the manufacturing supply chain.

Subscriptions

A mode of distribution dating back to the seventeenth century, subscriptions provide an enduring mechanism to experience and monetise content, thereby bridging content and commerce.

Gleaned through the lens of revenue models, it offers an explicit alternative to advertising as a primary commercial proposition for these platforms, allowing them to structure and package products for consumers. This landscape has been typified by blanket offerings, broadly defined either as premium, free or hybrid free(mium) offerings available to subscribers. For a US $10 / UK £9.99 subscription on Spotify, a user can access music, download content for offline listening, listen to music and podcasts in high quality audio and without advertising. In doing this, the emphasis is on *the experience,* which in this instance, is both the quality of the sound, omnipresence and the flexibility offered to the end consumer to exclude any interruptions inserted advertisements force upon their listening experience.

To successfully prevail with this paradigm, Providers must offer compelling content to promote uptake, increase stickiness and improve Monthly Recurring Revenue / ARPU.

Vertical play

Another potential growth avenue for content platforms is to explore the opportunities provided by the growth and pervasiveness of digitalisation, particularly in the wake of covid-19 lock downs, to tap into value propositions that address the needs of particular segments that present unique opportunities. This takes the model explicitly beyond entertainment to other content forms, an important example being e-learning, which is another fast growing sub-sector in the content streaming arena. To achieve this, content providers will need to apply various levels of mediation to existing content, while also encouraging learning providers to push content out through / over their platforms, under new or existing commercial models.

Organisations such as Facebook and Alphabet, which already have substantial platform user numbers and online community collaboration tools are uniquely placed to do this. This is yesterday's imperative and in light of the challenges ironically opened up by the Covid-19 pandemic, there is no better opportunity to put technology to good use, globally.

Partnerships

In order to scale and grow revenues, content streaming platforms must develop a diverse and robust range of partnerships, aligned to their optimal portfolio of products. Commercially, they must construct revenue share models that allow them to extend their subscription offerings particularly in the DTC arena, and further attract content contributors, game developers / publishers and other ecosystem partners that will give them access to the end customer and enable them to bring fresh content to audiences.

Strategy, Innovation, Transformation, Operations, Gaming, Content Streaming, e-learning, Business Models, Competition, Growth, Adoption, Product Management, Digital, Digitalisation, Public Policy, Regulation, Communications, Media, Entertainment, Technology, Revenue Models, Subscriptions, Media Distribution, Bundled Products & Services, Platforms, Monetisation, Target Operating Model, Sustainability, ESG, EDG

| By: Kiki Ikhisemojie, PhD, Executive MBA |

Kiki is a senior strategy and operations executive, advising cross sector clients on strategy, innovation and execution and has a track record of leading the implementation of some the most pivotal and effective strategies to advance board room and policy objectives in the UK and internationally. She holds a PhD and an Executive MBA from the London School of Economics, NYU Stern School of Business & HEC Paris (TRIUM)