

Chapter 3

WHO ARE THE INTERNET CONTENT PROVIDERS?

Identifying a realistic taxonomy of content providers in the online news sector

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Abstract: The Internet continues its growth as a medium for the sale of goods and services – and yet, although it would seem that digital content was one of the most obvious products for sale, content providers continue to struggle to find business models which will bring in adequate revenue. In this paper we initially review the literature on business models for digital content providers and note the wide variance in perspective amongst those writing in this field. Building on our work for the European Commission SimWeb project, we then consider the ways in which content providers in the online news industry actually operate and the ways in which they contribute to the content value chain, suggesting a framework of our own which suggests a continuum of business model types for content provision – ranging from “pure” content provision at one end to an extension beyond content itself to the provision of the technology needed to read content at the other end. We then elaborate on this framework, discussing the ways in which companies are making money from content provision in the online news industry, on the basis of a number of cases within the European market. Finally, we discuss the possible directions other content providers might wish to take in this environment.

Key words: Internet content providers, business models, value chain, online news

1. INTRODUCTION

Despite the continuing growth of the Internet as a commercial environment, online content providers are still looking for successful ways to sell their content over the Internet. The initial hope, that advertising would finance most of their business, simply did not eventuate – Gaffney (2001)

notes, for example, that click-through rates for banner ads are averaging only 0.3%. Advertisers are also cutting their marketing budgets in response to tight economic conditions, both in terms of products and of job advertisements and, since advertising is a major source of revenue for both print and online newspapers, a decline in advertising volume and value has a serious impact on newspapers' profitability. As an illustration of this decline, the regional and local job advertising market in Germany declined by 45%, the real estate advertising market by 18.4% and automotive advertisements by 10.8% between 2001 and 2002 (Die Zeit, 2002).

Although this loss of advertising revenue affects newspapers and magazines of all types and sizes, from the news agencies to national dailies to the smaller regional papers, those which wish to be successful must adapt their business model(s) to make use of the new technologies (Schneider, 2001). Some content providers concentrate on their core business, while others try to widen their business activities and endeavour to gain expertise in neighbouring fields such as technology – and thus have evolved from being content providers in the narrow sense of news and associated information, to being the providers of content in a much broader sense.

In this paper we suggest an appropriate taxonomy for content providers on the Internet, with a particular focus on the online news sector. This taxonomy covers the full gamut of content provision – from the narrowest sense in which “only” digital content is provided, to the widest sense in which the provider does everything, from the creation of content to its digital distribution. We begin with a survey of the literature on existing Internet business models for content providers, and then investigate the ways in which the providers of news make use of these models. Are the Internet business models described in the literature used by online news providers? Or can we find other, perhaps more successful, types of business models for this industry sector by studying the models our case studies have adopted? Finally, we discuss the advantages of content provision in the broader sense.

2. BUSINESS MODELS FOR ONLINE CONTENT

Afuah and Tucci (2001) define an Internet business model as “the method by which a firm plans to make money long term using the Internet”. Research into appropriate eBusiness models has grown significantly over the past few years, with authors taking both theoretically and empirically-based approaches to the development of definitions and taxonomies of business models suitable for the New Economy.

Timmers (1998) is one of the earliest and most widely cited of the authors writing on B2B eBusiness models and, like Schuster and Weiss

(2001), he points out that business models in general can be based on fragmentation and combination of the value chain, or on value chain de- and re-construction. The value chain is decomposed into components and, by means of new contact points and new markets, these parts are recombined in different (and often more profitable) ways. A variety of potential inter-organisational architectures can be constructed by combining interaction patterns with value chain integration – Rappa (2002), for instance, points out that a business model shows how a company makes money by identifying its place in the value chain.

Picard (2000) believes that a business model includes the concept of the value chain, that is, the value that is added to a product or service at each step of its acquisition, transformation, management, marketing and sales, and distribution. Porter (1999) had earlier divided value chain activities into “primary” and “supportive” – and pointed out that limited resources, increasing competitive pressure and a shorter innovation cycle led to a concentration on particular value chain processes and to a combination of these processes with other companies’ complementary processes. Such an emphasis on inter-organisational complementarity in turn can lead to the evolution of a value “network” (Parolini, 1999), from the traditional value chain, as more and more cooperating business partners, at every possible level, become involved. One goal of such a value net could be to offer new or more broadly-based products, another to create economies of scale. A characteristic of value networks is the fact that each member company is responsible for its own part of the value creation process, but planning and organisation of the value chain activities occur overall (Loos/Scheer, 2002).

In applying value chain concepts to the digital media industry, it is clear that the nature of the product (essentially information-based) lends itself particularly well to the idea of a value net and, indeed, many media producers made use of a network of resources which relate very neatly to the value net concept. Nonetheless, for the purposes of this paper we retain the value chain terminology because of the ease of distinguishing the stages of product development which it offers. Woessner (2001) differentiates the media products value chain from the more general B2B eBusiness value chain, noting that it relates to the generation of ideas, the editing of those ideas in order to obtain utilisable content, the production of media products, the copying of these products and their distribution. Content providers, he adds, are: “those firms that provide users access to content of interest including news, information and entertainment, leisure activities, and other material”. Overall we can break the value chain as it currently exists in the online content market into four component parts: the creation of content, the adding of value to content, the distribution of content, and its consumption (figure 1).

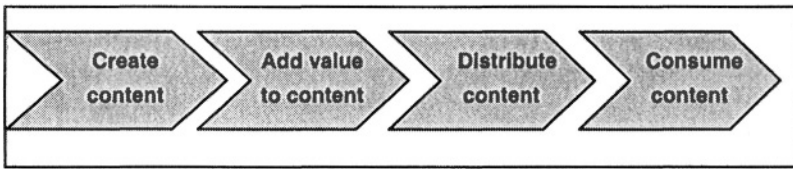


Figure 1. The content market value chain (Krueger et al. 2003)

This chain appears comparatively simple at first glance – but the definition of a content provider within this industry sector is not quite as simple as it might appear. Content providers are currently defined in a variety of different ways by the major authors in this field. Table 1 summarises the best-known of these approaches, and provides a foundation for our later discussion of business models in the context of online news provision.

Table 1. Comparison of business models for content providers

Authors	Catchword	Value chain	Critical success factors	Sources of revenue
Bartussek	Newsfilter	Producer and Intermediary	- Identify and serve customers' needs; - Traditional strengths; - New income resources	Selling product Advertising
Farhoomand/ Lovelock	Content Provider	Intermediary		Subscription fees
Niewiarra	Content Network	Network	Networks	Revenue sharing
Rayport	Content Business	Network	Revenue sharing between content provider and online service	Revenue sharing
Weill/Vitale	Content Provider	Producer	Branding; Recognised as best in class; Network	Fees from third parties or allies
Wirtz	E-Information	Intermediary	Differentiation	Pay per transaction; Subscription

Bartussek (2001) calls content providers “newsfilters” and argues that newspapers need to recognise and extend their existing core competency as filterers of real-world news into the digital world; and use this to create a competitive advantage. He sees providers as being simultaneously producers of content and intermediaries which add value to content (whether home-

grown or purchased). For Weill and Vitale (2001), by contrast, content providers are purely producers of content. According to these authors, content providers are firms which create and provide content in digital form to customers using third party intermediaries. The physical world analogy of a content provider is a journalist, recording artist, or stock analyst. Typical offerings include software, electronic travel guides, digital music and video. A content provider offers expertise and leadership in a niche market and it is clearly important that such a provider understands customers' needs and wants, so that s/he can create and price content appropriately.

Both Farhoomand/Lovelock (2001) and Wirtz (2001) position the content provider in the value chain as an intermediary. Farhoomand/Lovelock (2001) describe a business-to-consumer (B2C) eCommerce business model which they call "content provider" – a "web-based data host and electronic publisher of newspapers and magazines". Web-based data hosts gather a variety of information and organise them into electronic databases, with revenue coming from subscription fees. Online newspapers and magazines seldom charge for general content, but rather charge small fees for archived news and special services. Wirtz (2001) has a slightly more production-line approach, describing a content business model which consists of collecting, selecting, systematising, packaging and providing content on a company-owned platform. The user must have ready access to the content required, which may (or may not) be personalised. The E-Information business model depends on the content offered, for example E-Politics, E-Economics, which is focused on political, economic or social content.

For Niewiarra (2001) and Rayport (1999) only network can be successful in the content market. According to Niewiarra (2001), networks are the key to success in content distribution. Content is used cross- and multi-media. The increasing fragmentation of the market demands new preparation and new ways of offering content to the customer. Rayport calls his model "content business". He believes that the period in which everything on the Internet was free is now over. Users are increasingly accustomed to paying for Internet access and this revenue should be shared between the content provider and the online service provider previously, the way in which such revenue was shared had to be negotiated).

What is clear about the majority of these views of the online content-creation sector is that the authors take a value-chain oriented approach to identifying the roles and responsibilities of the content providers. Rayport alone has a customer-oriented view of the content creation process, seeing the days of free Internet access as numbered (a very farsighted view for 1999).

3. RESEARCH APPROACH

The Internet continues to change the way content providers are positioned within the value chain and, with each new technology innovation, the opportunities available to content providers becomes more complex (and potentially more interesting). The literature overview in the previous section shows that although there is a fairly general agreement on a value-chain orientation as the appropriate standpoint for viewing the digital content market-place, there is no consensus about either the definition of a content provider, or about the role of the content provider within the value chain. This lack of unanimity led us to consider the following research questions:

- Is there a single definition of the term “content provider”, or can a content provider enlarge its business model according to its needs – especially as the Internet itself evolves?
- How do content providers develop their business models?
- How do content providers position their company in the content value chain?

Our interest in these questions stemmed from our involvement in the European Commission project SimWeb (Exploring Innovative eBusiness Models using Agent Simulation), which is building multi-agent simulation models of the online news and online music markets to assist companies in making informed strategic decisions. As the group developing “sector surveys” of these market-places, we have spent considerable time trying to understand the business models of online content providers in both these sectors, although in this paper we focus on the online news industry.

Our data gathering has thus far been concentrated on the German experience, but we also wanted to understand the situation in the US and in other European countries (such as Portugal, Spain and Italy). We have made use of ‘secondary data research’ (Jarvenpaa 1991; Neuman 1997), which involves the synthesis of existing data collected for other purposes than the specific research project concerned; and with drawing inferences from those data. This has meant our scanning the Web for information related to online content provision in the news industry, and using data from interviews undertaken as a part of our SimWeb data gathering activities.

As part of our work for the SimWeb project we interviewed several stakeholders in the online news market, including: ddp, the second largest news agency in Munich/Germany; RZ-Online, a very innovative regional newspaper in Koblenz/Germany; FAZ.net, the online company of a national German high quality newspaper; and Publico.pt, a very well regarded Portuguese online newspaper.

We also analysed the Web sites of a number of newspapers and magazines which had interesting business models, most of which restrict

their “charged for” content to specific foci. These newspapers include: The Wall Street Journal (public.wsj.com), the New York Times (www.nyt.com), Il Corriere della Sera (www.rcs.it) and El Pais (www.elpais.es).

Finally, we analysed the Web sites of some of a new type of content provider. These companies offer newspapers and magazines a technical platform through which they can sell their online editions to their Internet customers, and include: Newsstand (www.newsstand.com), Tecnavia (www.tecnavia.ch) and In a Daily (www.inadaily.com).

4. FINDINGS FROM THE CASES

Wössner (2001) suggests that the value chain for media products such as online news can be divided into different stages: The party which generates an idea, the party which adds value to this idea, the party which turns the idea into a product and, finally, the party which multiplies and distributes the content.

The positioning of online content providers along this value chain, according to the literature analysed in the second section of this paper, however, differs greatly from one author to another. Bartussek (2001) sees the content provider as being both a producer of content and an intermediary. For Weill and Vitale (2001) the content provider is solely a producer, while for Farhoomand/Lovelock (2001) and Wirtz (2001) s/he is only an intermediary. Niewiarra (2001) and Rayport (1999) see content providers primarily as part of a network. Such a divergence of views suggests that there may be different way of viewing this marketplace.

What does the online news market itself say? Can one say that a content provider merely produces or adds value to digital content? Our research shows that it is important to differentiate the content value chain more accurately. Figure 2 illustrates the different types of content providers existing in the Internet market-space today:

Content Creator

These are the firms which concentrate on producing content, such as the big news agencies or even journalists. Production is their main focus. For example journalists create and deliver content for Web sites. They can either work as freelancers, or as employees of a news agency or a media company or a portal, etc.

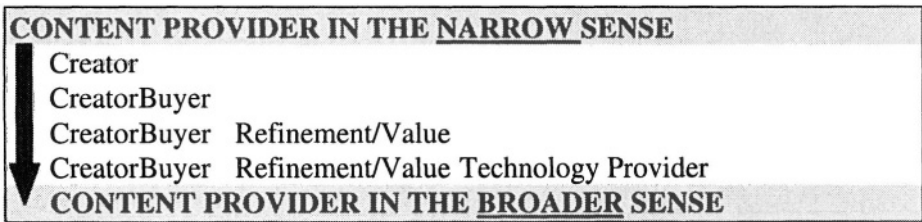


Figure 2. Taxonomy of Internet content providers

Content Creator and Buyer

These are the companies which create and buy content to sell through their Web presence. This is the case for smaller news agencies which create, for example, national, business and cultural news but have to buy sports news in order to make their offering complete. News agencies like ddp purchase articles from journalists or other news agencies, but also produce articles and content in-house.

Content Creator, Buyer and Value Adder

This could be a portal that is creating, buying and adopting content for their customers. Most newspapers and magazines fall into this category (for example, Publico.pt or the Wallstreet Journal). They create some of their content in-house with the help of employees and/or freelancers, and most of the time this is also where their core competence can be found. Then they buy specialist material to round out their offerings – for example the Wallstreet Journal purchases sport news (Dutta, 2002) because this is something a full-service newspaper must have, but it would be too expensive to produce it in-house. Finally this group also adds value to both the content they have purchased and the content they created in-house, for example by offering a daily newsletter to customers containing personalised information, or by offering premium services such as financial news analysis, as ft.com does (Dutta, 2002).

This group of online content providers does not offer Internet access or application services, but cooperates with companies which supply these services to the newspaper's or magazine's customers. A good example of this is RZ-Online, which creates regional and local news in-house as its core competence. To increase its income the company not only sells advertisement space and produces a facsimile version of the print edition but, in cooperation with an Internet service provider, it has created a subsidiary company which sells ISP and ASP services (Krueger and Swatman, 2002).

These examples make it clear that the boundaries between Content Creators, Buyers, Value Adders and Internet service provision are not well defined. The digital distribution of content and the changing market-place

forces telecommunication companies, Internet providers and media companies to work together. Only those with a good understanding of their customers' needs and those who choose the right partners will be successful (Gregg, 2001).

Content Creator, Buyer, Value Adder and Technology Provider

Media companies have the choice of purchasing technological infrastructure, finding a technology partner or becoming a technology provider themselves and simultaneously offering appropriate technological infrastructure and content to their own customers. They can even go a step further, as the New York Times did with its NewsStand (www.newsstand.com) subsidiary and offer their technology platform to other newspapers and magazines worldwide such as The Australian, The Harvard Business Review, or Le Monde (Figure 3). NewsStand makes use of a proprietary, Acrobat-based reader to present the Quark Express print-ready output of 36 (as at the date of writing) newspapers and magazines. The NYT has developed a highly successful new business model out of technology which is intrinsic to the newspaper, together with a modification of one of the world's most widely-used presentation platforms.

NewsStand (www.newsstand.com) is typical of a development which is already very well known in other industry sectors such as music, and which has now been adopted by entrepreneurial companies in the news industry. In a bid to get to know the customer's habits ever better, the music industry makes use of software like Windows Media Player, Real Player or Liquid Audio which the user needs to stream or download music from a Web site. This concept is itself not original to the music industry, which has copied the idea from Internet Access Providers who place their software on new PCs prior to purchase. The music subscription service Pressplay is now bundling its software with new Gateway computers (www.spiegel.de, 2002) and, although the online news industry has not yet started to bundle modified browsers with PCs, such a move cannot be far away. Newsstand's use of a modified version of the Acrobat viewer can readily be compared to Liquid Audio, for example. The online newspaper reader must first download the software before s/he can actually download, for example, the daily edition of The Boston Globe. The software provides online companies with an efficient tool to acquire customer data and to analyse customer behaviour – as well as to promote their latest offerings. Customers can easily be segmented and can be targeted with customised offerings (Preissner, 2001).

NewsStand is not the only company using a mixture of technology and content provision, of course. Other good examples of this combination include Tecnavia and inadaily.com. Both make use of software which must be downloaded before the reader can get to the content of the newspapers II

Corriere della Sera and El Pais. Inadaily.com states frankly on its Web site that it is aiming to sell its Premium News Service after a 1 month free trial.

The really innovative feature of inadaily.com’s offering is that the customer can “cherry pick” among the content of all the partner newspapers offered through this delivery portal, which include major European dailies such as El Pais, FAZ, Le Figaro etc. That means the reader can combine the sports news from El Pais with the business news from FAZ and the political news from Le Figaro and avoid all the other news s/he isn’t interested in. This not only attracts readers who see the benefits of this selection facility, but also shifts the work of customising the product from the content provider to the customer him/herself.

The technological extension of the business model of a content provider has a lot of advantages for both the customer and the media company, as Table 2 shows:

Table 2. Effects of the technological extension

Advantages for the content provider	Advantages for the customer
Independence of Internet providers	Customer can be mobile
Customer Data of high quality	Customer doesn't have to be online
Customised/personalised offers	Customer only needs one software for different content providers
Network => greater potential customer base	Customer chooses his/her own offer
Technological platform can become a portal	

5. CONCLUSIONS

Earlier in this paper we identified three research questions which we believed were relevant to online content provider business models:

- Is there a single definition of the term “content provider”, or can a content provider enlarge its business model according to its needs – especially as the Internet itself evolves?
- How do content providers develop their business models?
- How do content providers position their company in the content value chain?

We have shown that the existing literature is taking such an eclectic (and, indeed, contradictory) view of content provision than no consistent theme emerges from the many authors working in the definition of business models for this group. Our work with the SimWeb consortium has, however, given us the opportunity to study content provision in the online news and online music industries in perhaps more depth than is normally possible. In this paper, we have shown that the online news sector content providers, at least,

can be classified in a logical fashion from those who offer content in the narrowest and most literal sense of this term, through to those who are combining technology and core news-provision competence to create a new form of content provision.

It is obvious that not every content provider can afford to set up its own technological platform, of the sort offered by Newsstand or inadaily. But such a step is not necessary. By joining one of the existing platforms, any company can profit from the advantages mentioned above.

Even though content provision in the broader sense seems to be the most promising online business model for content providers at the moment, each of the other categories also offer possibilities for survival. But the closer companies come to the narrow definition of content provision, the more they must concentrate on their core competency in order to achieve a competitive advantage. It would therefore appear that there are two types of promising Internet business models:

1. Those Internet business models which integrate the creation, the acquisition, the value-adding and the digital distribution of content with the help of a software platform and therefore profit from the network effect of linking all these offerings.
2. Those Internet business models which concentrate on what the news providers know best, their core competence, and where the companies concerned can find the right partners to support this strategy.

Perhaps it is even possible to combine those two ways successfully. But this would need further research. We plan to extend this investigation to the online music industry and, through our on-going investigation of both sectors across Europe, to further enhancing our understanding of online content provision.

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