VIN CROSBIE:
“The Three Phases of Information Revolution”

Below is an essay from Vin Crosbie, an invitee who is in Spain. Vin and his family own a small Connecticut daily, but Vin has been involved for at least 15 years, since working with two wire services, in advising on the future of journalism and media. He's done so recently as a consultant, and earlier as a key part of a couple of dot-com startups. More on Vin at the end. I guess I'd quickly title this: "The three phases of information revolution." You'll note that Vin refers to a few of the readings to which we earlier pointed. -- bill densmore

---------- Forwarded message ----------
Date: Mon, 18 Jun 2007 00:30:57 -0400
From: Vin Crosbie <crosbie@well.com>
To: 'Bill Densmore' <densmore@densmoreassociates.com>
Subject: RE: RSVP/INVITATION: June 19 at MIT: Internet information payments

Bill:

I'm sorry that a prior commitment prevents me from joining you at MIT on Tuesday. Please pardon any odd characters or artifacts in this e-mail. I'm using a Spanish-language copy of Word and keyboard. Ben Compaine tells me he'll join you, which I think is great.

Cheers,
Vin
Las Palmas de Gran Canaria, Spain.

As a former journalist and newspaper publisher, I realize that authors and artists want to be paid for work published online. They will, but not in this year or the next or this decade. There are fundamental reasons why, and why attempts to solve this problem in the next few years won't work.

Hegel was never a newspaperman, but I think he'd understand the nature of the change underway. The world is now some 16 years into what will likely to be a 30-year transition between Industrial Era and Informational Era media. The transition can rather conveniently be divided into three phases. In the first, the nature and force of the change underway surprises and overwhelms all the traditional constituencies (authors, artists, publishers, broadcasters, retailers, wholesalers consumers, etc.) During the second phase, each constituency fights to preserve whatever role and economic advantages it traditionally had. In the final phase, the surviving constituencies realize that the change has ineluctably forced rearrangements, reshufflings, or even destruction (the so-called 'creative destruction') of the traditional roles and economic advantages, and the survivors begin working together to build a functioning market infrastructure.

The second phase clearly began around 2003, when broadband access reached more than half of American homes and offices. Once consumers began to expect 'always-on' instant access to content (text, music, or video) no matter the file size, all the traditional constituencies have finally had to acknowledge that change is underway. Even those who still denied it earlier this decade acknowledge it now.

So now that creators of intellectual property know that the Internet will be how they sell their work, it's no surprise that they're rather desperately revisiting how to get paid for it online. It's no longer an incidental or ancillary means for their businesses. I read Doug Clifton's lament. I was amused by Walter Hussman's (anecdotal and statistically erroneous) attempt to preserve his newspaper's traditional economic value. But as much as you and I or they would like to jump directly to the third phase of the transition and build a functioning market infrastructure for online paid content, we've still got to endure the second phase because there's still too much competing vested interests among the constituencies, and also still too misunderstanding of the change, to plant a foundation for a functioning market.

ELIMINATING THE MISUNDERSTANDINGS

Eliminate the misunderstandings first. I'm still hearing publishers lament that consumers have gotten 'used to' or 'habituated to' free content and need to be 'educated' back into paying for it. Or some other Industrial Era, mass marketing lament about how will we get 'the dogs to buy the dog food.' All those laments are oblivious to how the awesome change in the supply & demand balance of information has irrevocably shifted the economics, values, and power equation between producer and consumer, so that many, if not most, of the traditional strategies and marketing tactics of mass media have become moot.

Hussman's lament was a variant of those. He claimed that newspapers should never have begun offering their content online for free-as if the American newspaper industry could do anything in concert (remember New Century Network?), as if broadcasters or others wouldn't have jumped in with free news content, as the supply could have been held back while the global spigot was opened, etc.

Another common lament among publishers is that news cost money to produce and that consumers must understand this and sympathetically agree to pay. That's a wonderful notion that might work for PBS or NPR, but isn't going to get for-profit companies very far. It belies that fact that almost all the for-profit companies that produce news have woefully misunderstand how the supply & demand balance has changed and how they've failed to re-price or change their products accordingly. Let's look at how it has changed.

NEWS: FROM SCARCITY TO SURPLUS

The balance in the supply & demand equation for information has marked changed during the past 30 years and radically so during the past ten. It's shifted from scarcity to surplus for consumers. Take the economics of selling news, as an example. Thirty years ago, the American consumer who wanted international, national, and local news, business news, and sports had access to only a few sources. He could watch the evening newscast on up to three networks. He could read his local daily newspaper, or perhaps one or two neighboring towns' newspapers that were distributed from local newsstands. Or he could wait for a few weekly or monthly magazines to appear to on local newsstands (which probably sold no more than two dozen magazine titles). Although access to the three TV networks' newscasts was free, that consumer's relatively scarce access to daily news gave his local daily newspaper a certain economic value (perhaps 50 cents per day, corrected for today's inflation).

Then the rises of cable television (and later satellite) systems during the 1970s gave that consumer access to 24-hour channels of news, sports, business info, lifestyle, entertainment news, etc. Breakthroughs in offset lithography during the 1980s made the publication of niche magazines economical and, as dozens or hundreds appeared on his local newsstand, gave the consumer much more frequent coverage of his favorite hobby or topic than the occasional newspaper story had. And then in 1992 the Internet was opened for public usage and today that consumer has instant online access to every newspaper, magazine, and broadcaster website in the world.

Moreover, this cornucopia of access means that this consumer no longer turns to his local newspaper for all international, national, business, and sports news. He's more likely to access NYTimes.com or CNN.com for international and national, WSJ.com for business, and ESPN.com for sports, etc.

This radical change in the supply & demand of information has radically reduced the traditional local newspaper's value and relevance to its consumer. Even the consumers who still pay 50 cents daily for a printed edition won't pay that same amount for access to that traditional package of news content online. The actual market value of a traditional daily newspaper's product when placed online is much less.

WHAT IS THE VALUE OF NEWS ONLINE?

It has value, and most consumers are probably willing to pay for it, but just not the price that the publishers want to charge. Thus, there isn't much of a market for it. A survey conducted earlier this decade by researcher Mike Donatello (formerly with NAA, Washington Post, and Borrell, and now with Gannett) found that the median amount most consumers were willing to pay for online access to daily newspaper content was about $1 per month. Unfortunately, publishers are demanding that they $4.95 to $9.95 per month. (The Audit Bureau of Circulations requires that the publishers charge one-fourth of the printed edition's price for the online subscriptions to be listed in circulation reports). With such a large gap between the price that the sellers demand and the buyers' are willing to pay, the market doesn't function. (The Wall Street Journal is often bandied as an exception, but it is a business journal, not a general interest newspaper. If you think otherwise, check out its sports or local coverage).

And now that most consumers have broadband and can access video news from television and cable news networks as easily as they can access newspaper texts, I'd estimate that the medium amount most consumers are willing to pay for access to local daily newspapers' content online is even lower than the $1 per month that Donatello's reported five years ago.

Unfortunately, most newspaper publishers continue to operate oblivious to this change, as if their product is still a scarce commodity and as valuable as it was a dozen or decades of years ago. They see that more and more people are using online to get news, so they assume that if they just offer their printed news online then they can get nearly the same price for it as their printed edition. In reality, they're unlikely to get more than about two or three cents per day from the average consumer.

CONSIDERING A SYSTEM FOR SMALL-FEE AGGREGATION

So, why can't we now building a system capable of processing and aggregating such small fees? Let's look at what such a system would involve.

Ideally, every website would have to work with the same micro-payment processing software (i.e., a universal system). Yes, it's possible that micro-payment markets might become viable if consumers were required to use more than one system to utilize all websites, but that is unlikely. For example, the Mastercard and Visa consortia did not become viable until retailers could process both as if those two consortia were a single system. American Express, and particularly Discover, are somewhat handicapped in the credit card markets by requiring different systems that the Mastercard/Visa consortia.

Clickshare and other startups or recently started companies in the transaction-processing business might hope that websites will turn to them for micro-transaction processing rather than to the Mastercard/Visa consortium, but that too is unlikely. A specific reason why is that most non-North Americans do not possess other types of credit cards and also that most bank debit cards are from the two consortia.

It's true that the Mastercard and Visa consortia systems do not currently process micro-transactions and do not want to deploy any such systems now, but I do specifically know that the consortia are rather frantically developing such systems for when they have no other choice. Mastercard, Visa, American Express, Discover, Japan Bank Card, and other charge transaction processing constituencies are spending and lobbying hard to become the 'winners' to preserve whatever role and economic advantages in micro-transaction charges that they've traditionally had in macro-transaction charges. At least during the second phase of the transition, the deck is stacked against Clickshare and other startup or recently started companies.

WHAT'S NEEDED: COMMERCIALLY NEUTRAL SYSTEM

Moreover during the second phase and possible the third phase of the transition, any winning system for micro-transactions will likely also have to deal with digital-rights-management (DRM) restrictions (if only the 'do not sell this content to my competitor' type). That means any winning system will not only have to handle the transaction but lookup and administer rights. Frankly, the best proposal I've seen for handling that isn't Clickshare but the commercially neutral Document Object Identifier (DOI) proposal of a few years ago [http://www.doi.org/]. DOI essentially is a parallel to the DNS (Document Name Server) by which URLs are resolved on the Internet. When a consumer accesses a URL, DNS tells his computer where that URL is located and DOI tells it that document's price and associated rights.

I believe that a commercially neutral micro-transaction system such as DOI, if managed the way that the early (1979-2000) DNS system was managed by the then independent and not-for-profit (i.e., pre-Verisign) Network Solutions was, will have a much greater likelihood of acceptance, particularly by the credit card companies, than any immediately commercial company, such as Clickshare, will ever have.

Otherwise and even so, we're very likely to see Mastercard, Visa, American Express, Discover, JBC, and other of the existing credit card charge transaction processing constituencies fight amongst themselves and against any startups during this second phase of the transition, which I think will last through 2010 to 2015.

NEED WILL BECOME OBVIOUS

By then, it should become apparent to everyone (i.e, the third phase) that a universal system should become deployed it any of the traditional constituencies in media, nonetheless charge transaction processing, are to survive in this century.

INDIVIDUALLY-TAILORED PACKAGES

By the way, deployment of a universal micro-transaction system won't save all traditional media constituencies, such as traditional newspapers. Those constituencies must instead discern why their usage (as measured by household readership) has been declining for more than 30 years and formulate what other type or package of content that will reverse those declines. Specifically, the key concept that newspaper publishers must understand about online is that they must stop trying to find ways to charge online for all or portions of their traditional package of one-to-many content and realize that each consumer would instead be much more willing to pay for an individually tailored package of content. For example, any major newspaper company should stop trying to sell to consumers only their own newspaper's and syndicate's package of content and provide to each consumer an individually tailor package from all providers' content. It's time that traditional mass media publishers realize that all consumers don't want the same package but that 'owning the consumer' means deliver to each the exact package that each wants.

Vin has been called "the Practical Futurist" by Folio, the trade journal of the American magazine industry. Editor & Publisher magazine, the trade journal of the American newspaper industry, devoted the Overview chapter of executive research report Digital Delivery of News: A How-to Guide for Publishers to his work. His speech to the National Association of Broadcasters annual conference two years ago was one of 24 orations (including speeches by President Bush, Secretary of State Rice, and Senators Clinton and Obama) selected by a team of speech professors for publication in the reference book Representative American Speeches 2004-2005. Crosbie keynoted the Seybold Publishing Strategies conference in 2000, co-chaired and co-moderated last year's annual Beyond the Printed Word the digital publishing conference in

Vienna, and regularly speaks at most major online news media conferences. He is managing partner of the media consulting firm of Digital Deliverance LLC.

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