New media technology and new business models: Speculations on ‘post-advertising’ paradigms

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New Media Technology and New Business Models: Speculations on ‘Post-Advertising’ Paradigms
Jing Wang (MIT) 1


Abstract

This article offers some speculations on the challenges that new media technology poses to the concept and practice of advertising, particularly the impact of open-content technology. It canvasses a number of globalizing trends, notably Web 2.0 technology and culture, user-generated content, and the industry buzz about emerging business models enabled by 2.0. As digital marketing has taken shape and become more technologically driven than ever, advertising is no longer the only, nor even the primary, source of revenue for new media. Apart from mapping the new terrain, the paper examines some 2.0 revenue models for the purpose of inviting researchers to think beyond the parameters set by plain old advertising. On the methodological front, the paper argues that keeping ourselves abreast of new revenue strategies brings to the fore a number of key areas of investigation hitherto understudied by academic advertising researchers, in particular media technology and digital copyright protocols.

The impact of open content technology on advertising is an unchartered territory which I propose to explore here. My goal is to offer some speculations on the challenge that new media technology poses to the concept and practice of advertising as we have known it. On one hand, my interest in undertaking this inquiry has been motivated and enriched by my year-long field work (between August 2008 and August 2009) at OgilvyOne in Beijing, an interactive marketing division of the global agency Ogilvy & Mather. I participated in a variety of team projects, learning how to build digital strategies for clients who were daring and curious enough to experiment with new media. On the other hand, I have also been involved, since 2006, in the volunteer work of promoting Creative Commons (CC) licenses in mainland China. As a Web 2.0 protocol, CC enables creators to share, reuse, and remix each other’s content legally on line. CC is one of the many examples that bear witness to the grassroots power of p2p (peer-to-peer) networks. Content is now easily downloadable and sharable across device, application, and platform. At an escalating pace, Web 2.0 technology has given rise to new forms of user participation, such as collective authoring (as seen in closed and open wikis); new platforms of
social interaction (notably MySpace, Facebook, and Kaixin.com); and new business models (such as music aggregator Magnatune in the US and ideas trader Witkey in China, both to be examined below).

Little academic research was undertaken on new business models born from Web 2.0 culture and technology. Those models came into existence because Web 2.0 offers new opportunities for the growth of a creative culture online that is no longer dependent on big music labels, monopoly publishers, or other creative industry conglomerates for dissemination. User-generated content now aggregated en masse on the internet and is utilized for commercial purposes inconceivable to traditional advertisers and advertising agencies. From a more critical perspective, it will become apparent that the open, public and participatory character of social networking also rendered itself for commercial exploitation. The liberatory potentials of any new media are always susceptible to appropriations and problematic engineerings that are driven by private gains.

I would like to proceed under these key headings:

• New media technology (especially Web 2.0 and peer-to-peer networks);
• Online consumers (the millennial generation and user-generated content);
• New business models (driven by new technologies on the one hand and by the demands of a new type of online consumer who is at the same time a grassroots content creator).

This essay is, in short, about the globalizing trends of a number of things, namely 2.0 technology and culture, user-generated content, and the industry buzz about emerging business models enabled by 2.0. As digital marketing has taken shape and become more technologically driven than ever, advertising is less and less not the only game on the mind of business strategists. All of a sudden, it seems more feasible to talk about the impact of new media technology on advertising, rather than the other way around. Apart from mapping this new terrain, I will examine a few 2.0 revenue models for the purpose of inviting researchers to think beyond the parameters set by plain old advertising, but at the same time
raise some concerns about the status of user-generated intellectual property involved in the new modes of content aggregation.

New media technology

We have gone through a number of stages in the historical development of the internet. At the beginning - the period from 1980 to 1991 - it had a primarily academic focus. The advent of browsers for the World Wide Web in 1992 immensely expanded the number of users internationally, and laid the ground for the internet’s subsequent commercialisation in the second half of the 1990s. Having survived the dotcom crash of 2000, ‘e-commerce’ entered a less frenzied period of growth and consolidation, while by 2005, we entered a stage in which the internet has become more than ever a worldwide accessible network, at the same time as advertising revenue has been abandoning traditional media and migrating rapidly towards it.

A few technological advances are pivotal to the rise of our networked society today. Firstly, broadband and wireless technology yielded a host of new applications and services. Broadband has also made possible the easy transfer of large files. Secondly, the growing popularity of XML, a general-purpose markup language with no predefined tags and a tool that separates the content of a document from its formatting, has facilitated content syndication and data transmission between different applications (Harold and Means, 2002). XML has become a universal enabler for a number of Web applications: for example, it supported Really Simple Syndication, a 2.0 Web feed format which distributes and aggregates content, and publishes frequently updated blog entries, videos, audio files, and news headlines. Thirdly, and perhaps the most important development of 2.0 has been the breakdown of the traditional client/server model and the rise of p2p networks. Gone is the era when a central server had to take care of all incoming requests. The p2p network today ‘primarily relies on the
computing power and bandwidth of its participants and is typically used for connecting nodes via mostly ad hoc connections” (Talwar, 2006). Nor does a p2p network have any notion of a client; as any participant in the network can function as either a client or a server to the other nodes on the network, as needed by the task at hand.

**Online consumers**

The technological breakdown of the client/server model is mirrored in the blurred boundaries between content provider and content consumer. As we know, the most obvious impact of the 2.0 technologies on media is the proliferation of grassroots media. To take video consumption for instance: YouTube illustrates well the efficacy of the-consumer-as-producer paradigm. 23.05 percent of YouTube’s top 100 daily most-viewed clips are UGC (which is also ad-free) (Kafka, 2009). Indeed, the rule of thumb for advertisers today is not to “discipline” the consumer but to put him or her at the steering wheel. This consumer has quite different expectations to those of preceding generations raised with traditional media. These are the generations of the millennials, those born from the mid 1982 to early 2000s. Neil Howe and William Strauss have characterized the millennials in global terms as “better community builders” who have “zero tolerance” for disciplinary measures (Howe, Strauss, et al., 2000) – and I may add, that includes consumer discipline.

I can talk about the millennials with great affection. They are the students we teach today, whose structures of feeling and patterns of communication are remarkably different from those whom we taught ten or even five years ago. They expect their professors to be magicians who will entertain them with constant surprises and who will stimulate their jaded senses with round-the-clock improvisational multi-media presentations. Those kids take multi-tasking in the classroom for granted and are not shy about checking emails and surfing online right under the professor’s nose while absorbing her lecture word for word. In fact, in my experience, giving lectures that last longer than
twenty minutes is the fastest way to alienate them. The traditional broadcast model of instruction no
longer works. They love video sharing, but not the ones you, the professor, have discovered and
recommended. They get energized only if you ask them to share with the class the YouTube links of
their own choice. The mavericks among them create content themselves. And they also expect that they
can watch programming on multiple devices and platforms. Teaching is most effective if it is
completely interactive from the beginning of the class to the end. Better still, meet them on Facebook
after class, and write on their walls instead of sending them emails.

The millennial generation is the biggest consumer base for UGC (user-generated content). The
smallest among them were also the motor that set off the outburst of grassroots creativity which was in
part accelerated by the growing popularity of camera phones. With a smart phone in hand, every user
can now become a potential amateur media producer without having to master the audio and video tools
that sophisticated ‘prosumers’ use to turn out quality productions. However, there are interesting
differences to note between the West and China when we look at the circumstances in which the
millennials engage with the new technologies.

The rise of video consumption by this generation is well supported by statistics. Yet in the West,
where the broadcasting laws of UGC video films are quite loose, grassroots content can be posted
effortlessly and viewed through YouTube and other video sharing portals. A young American Web
surfer need not turn to UGC ad campaigns such as J.C. Penny’s karaoke contest ‘Rock Your Look’ in
order to access quality amateur videos. The situation in China is quite different, as the best user-
generated content – especially the audio-visual content— is found on advertisers’ platforms rather than
on the Chinese video-sharing sites like Tudou or Yoku.
The difference is legally grounded. Because of Chinese government-imposed regulations on the broadcasting rights of grassroots creative content (yuanchuang) – especially video films – new video-sharing businesses are off-limits for medium-sized and start-up websites except for a small handful of state-sanctioned portals like Sina.com. The “content” posted on those legitimate sites looks predictably pale and dull. Even the editorial picks, or what is called the “most frequently clicked” films are poorly executed and not engaging. Sites like Tudou and Youku are peppered with pirated content and videos of mainstream productions. Does that mean China does not have its own premium UGC content? No. You just have to turn to UGC advertising campaigns to find it.

While American marketers are still debating whether the catch phrase “user-generated content” is a mere passing fad or a viable new strategy (Klaassen, 2007a), marketers in China can afford little time to discourse about the vices and virtues of UGC integrated campaigns. Multinationals in China, joint venture companies, and the major domestic companies have all become involved with UGC because their millennial targets are leapfrogging stages of technological development and the most effective way for marketers to reach them is to engage the new media head on.

Let me give three examples of the convergence of marketing and grass roots creative content in China. In December 2007, Hewlett-Packard launched a new website www.hpmystage.com to kick off a campaign called “My Computer My Stage.” During the first stage of the campaign, Chinese web surfers could take over a digital page on the website, where they could create their dreams, achievements, and goals in writings or illustrations. H-P rounded up the best contributions and published them in a volume they claimed to be the “largest collection of youth culture in China.” By January 2008, the mini-website already gathered a million visitors and registrations for page ownership.

UGC is not limited to video content. In 2005, China Mobile held a music talent contest designed to highlight the do-it-yourself (DIY) trend. Mobile phone users were invited to compose songs. Over
half a million people responded and their music submissions appeared on China Mobile’s portal. 
Audiences, of course, texted their votes for their favorite singers, and could download the songs or use them as ring tones.

A much more elaborate, multi-platform example is PepsiCo’s 2008 7Up campaign launched through a partnership with online and offline media such as Tencent (the operator of QQ, China’s most popular instant messaging service) and a Chinese satellite TV station. A travel-themed website was rolled out with Tencent - 7up.qq.com – on which internet users, specifically members of Q-zone (one of China’s most popular blog sites), could create a social network, and post and share travel experiences. Simultaneously, a Chinese-language travel Wikipedia site was established. Web users were also invited to create personalized e-travel ‘passports’ and send their most liberating travel pictures to Qzone. Online user voting on favorite entries was part of the campaign’s attractions, and the top ten winners were invited to appear on a reality show created by Zhejiang Satellite TV (Madden, 2008).

There has clearly been a lot of hype about UGC, both in the West and in China. In fact, most grassroots content creators were so dazzled by the instantaneous fame brought to them by those flashy UGC campaigns that they were likely to ignore a crucial question - ‘but whose content is it anyway?’

Generally speaking, the advertisers reserve the rights of commercializing UGC in China although increasingly, copyright co-ownership for non-commercial purposes increasingly has become the norm on a large number of Chinese video- and audio-sharing sites. In some cases, however, the minute you submit your content (e.g., 7up.qq.com or www.hpmystage.com.cn), you have relinquished all ownership rights. This is not always made clear – for example, while it is explicit on the Hewlett-Packard site, there is no mention of copyright on the 7Up site. Some portals like Tudou.com share revenue (from 10 to 30 per cent) with original creators, but the trade-off there is that Tudou enjoys the exclusive right of being the creator’s commercial agent. More often than not, the drive to commercialise
uploaded materials has led content portals to hijack peoples' creative output without compensation. Yet the real peril for amateurs in relying on a commercial platform for distributing UGC lies elsewhere: your account on Facebook or Youku may be eliminated altogether for what is perceived as a major or even just some minor offence. And you risk losing all your content. So, is Web 2.0 truly all about the celebration of individual creativity and the democratisation of grassroots media production? Pessimists like Michael Zimmer proclaim the opposite: Web 2.0 exploits free labor for commercial gain (and the UGC campaigns outlined above serve as clear examples), and increasingly, it drives the ‘corporatization of online social and collaborative spaces and outputs’ (Zimmer, 2008).

Nonetheless, one of the fundamental assumptions that has made the UGC model tick for amateur creators is that they get a free ride to gain maximal exposure of their work through viral channels. The luckiest of them, like the 28 year-old Chinese schoolmaster who won the best scriptwriting award for Pepsi’s Creative Challenge campaign, could get his spot filmed and aired and become a five-minute celebrity (Madden, 2007). Creators imagine they get a good bargain, and advertisers look cool in jumping on the DIY bandwagon. But to what extent has advertising been changed by UGC campaigns?

Not much. What I have showcased above is more or less new wine in an old bottle – professionally produced content is replaced with amateur content (i.e., UGC), but we are still given an advertising campaign in the conventional sense. What appear to be new media platforms such as H-P and 7 Up’s mini-websites (which combine UGC and online community building) are not only not independent, third-party sites, but they are built on the centralized structure characteristic of the ‘walled garden’ model. Some industry observers have cited these campaigns as examples of how big businesses have used new media to revolutionize their marketing strategies. But is it a real revolution? Those corporate clients are still advertising toward consumer targets that remain more or less passive even though they are actively creating content with an assigned theme, and at the advertisers’ bidding.
Moreover, the user content is aggregated in a walled-in manner that stands opposed to open communication, the true spirit of Web 2.0. Until the day arrives when they shift to a model of an open repository with content and data made available to anybody via open application programming interfaces (APIs)—that is, until they allow content to be transported to multiple websites and intermediaries—YouTube, Facebook and other copycats will just be adding more features to their walled garden and making false claims about how they are revolutionizing business models (Farmanfarmaian, 2006; Lunn, 2008). Some advertisers are closer to the mark when they argue that the new social space on the internet ‘should be used less like a paid media vehicle and more like a customer-relationship-management tool’ (Klaassen, 2007b).

**New business models**

It is at this juncture that I wish to make a U-turn in my argument. Two action items are on the table: First, I will delink the concept (and practice) of revenue making from advertising and break our old habit of linking business with advertising and paid announcement alone. Once that triple equation (client—Advertising—paid announcement) is broken down, we can look beyond the models provided by big business. As we have already seen in the examples above, the clients are only creating limp new media platforms whose radical look is quite deceptive. We can now shift our analytical scope—my second action item—to experimental, start-up media companies and ask how they make profits. The Web 2.0 influence will stand out. And we will get a step closer to the central question of my present concern—to what revenue models can cool technology lead businesses?

This is also the only viable approach we can take to think outside the box and to explore revenue models for the internet other than that of CMP (cost per thousand) and CPC (cost per click) based on traditional media. Turning away from big mainstream corporations such as Pepsi and Hewlett-Packard,
and mega service providers like China Mobile, I will examine three experimental UGC-driven new media platforms—two in the United States (Magnatune and ccMixer), and one in China (Witkey). They share one thing in common: advertising does not form an essential part of their revenue-making strategies. Each of the three platforms utilises the 2.0 technology in a more imaginative manner than their big brothers.

**Magnatune**

Magnatune is an open music platform based on the premise that an audience would willingly pay for music ‘if they morally supported it,’ in founder-CEO John Buckman’s own words (Buckman, 2007). When it was first launched, visitors could listen to every album on the platform in its entirety for free before purchasing it. Consumers were thus offered a unique mix of free and paid music. Although Magnatune changed its streaming policy later, visitors can still download music not only completely free of DRM (digital rights management), but also in quality formats. Every buyer is also given the legal right to share the music with three other people who are allowed to download the music directly from Magnatune, which can be seen as a built-in viral marketing feature. Working directly with a growing number of up-and-coming independent musicians worldwide, about 260 of them currently, Magnatune ‘shares with them a flat 50% of gross proceeds (before any costs)’ from sales and commercial licensing (ibid.). It is also one of the first for-profit companies to adopt Creative Commons’ copyright licenses.

Giving things for free in the 2.0 fashion may sound like an unlikely business strategy, but the grassroots music label has gained huge fanfare in major national and international news outlets, while the business itself has gone ahead in leaps and bounds. When asked where most of his revenue came from, Buckman answered, ‘selling downloads to consumers and licensing music for commercial use’ (Brown, 2005). This is an internet business for which advertising is *hardly* in the picture. The model of
sustainability rests primarily on music licensing to trade shows, film productions, and radio and television commercials. More than 1,000 films have licensed their music. One film was even nominated at a film festival for best movie soundtrack. Buckman was intent on ‘crack[ing] into Hollywood, where music licensing is a billion-dollar business’ (Buckman, 2007). Would such a strategy compromise the edgy slogan of Magnatune ‘we are not evil’? It’s hard to tell how fans would respond. But the open-content aura revolving around Magnatune gave them such cachet that their pioneer status as ‘the Linux of the music world’ has met no challengers.

One of the most novel features of Magnatune is their pricing strategy. When a user clicks to buy, a suggested price of US$8 pops up, but a minimal payment is set as little as $5, or as much as one chooses to pay. Contrary to common expectations, the income from sales is averaged at $8.93 (Maney, 2004), further validating Buckman’s premise about the moral strength of today’s music consumers. The ‘try before you buy’ model, a catching trend rooted in the Web 2.0 culture, has had many copycats. The immediate lesson Magnatune teaches us is that businesses in the 2.0 era have revenue options other than advertising. Replenishing the digital commons can turn itself into a lucrative business in its own right. Indeed, once Magnatune reached a critical mass of membership, they started charging a monthly fee of $9 for unlimited streaming and $18 for unlimited downloading. Despite its recent transformation, the music platform has established itself as a milestone of the burgeoning sharing economy built on the notion of giving content away now for profit later.

ccMixter

Not everyone is convinced of the profitability of open business models. But there is no shortage of daredevils eager to try out the new formula of gifting economy. I will cite another example that is directly related to Creative Commons itself. In June 2008, a news release announced that ccMixter, a
music remixing tool then being provided for free by this global non-profit organization, was up for grabs. Lawrence Lessig, the founder of CC, laid out the specific terms of sale for prospective buyers: the new owner of ccMixter had to ‘keep the site both free and ad-free’ (Moran, 2008). Why would any company be interested? From where can they extract revenue? Well, the answer lies in the music branding opportunities for any interested company who could figure out a 2.0 business model to take advantage of the 120,000 traffic flow on the site—the key to Lessig’s sales pitch.

These two examples show that business 2.0 as a concept has had purchase in post-affluent societies where artists can afford to contribute to the Creative Commons and where consumers can support their favorite artists altruistically. What about China? Those banking on the business ideology that ‘the more you give, the more you get’ will definitely flounder in the Chinese market, where consumers expect to get content for free and not pay. And yet, in China, 2.0-driven internet businesses have mushroomed at a frantic pace. The most successful of them subscribe to business models that run counter to some of the dearest assumptions of the sharing economy illustrated above. Knowledge seen as tradable merchandise caught on, and gave rise to a vibrant knowledge market in China. The best example is the Witkey model.

**Witkey (威客)**

Witkey websites, first introduced to me by my research collaborator Rongting Zhou, are Chinese community-driven knowledge management forums where tasks are posted and netizens offer solutions for cash rewards. Originated from the bulletin board system’s interactive quiz format, popular Witkey portals like k68.cn and zhubajie.com provide third-party services that match the buyers and sellers of knowledge and charge commissions for each deal with percentages running as high as 20 percent. Most tasks posted through Witkey have to do with the trading of creative ideas on a small scale between
freelancers and small- and mid-sized creative industry businesses in the categories of advertising, logo and interior design, Web and software design, and the naming of stores and even newborns. How different are they from popular online Q&A services like ‘Baidu Knows,’ ‘Google Answers’ (which was shut down in 2006), ‘Sina’s ‘iASK’ and ‘Yahoo Answers’? These latter publish questions from the trivial to the serious and function less as a market than knowledge-sharing communities with an incentive infrastructure built on a points system. Little expertise is required for respondents to be active on those public service platforms. In contrast, although anybody can try their luck, Witkey sites publish tasks that have real stakes. Knowledge is sold through a system of public bidding. Creative talent and the spirit of innovation are the name of the game.
Witkey is a fascinating business model that has violated some of these basic premises held by Western 2.0 enthusiasts –

• It won’t work if it feels like work.
• For many of today’s successful Web 2.0 systems, making money has been second to attracting attention.
• The human impulse to create is not driven by economic reward—indeed, it is the preoccupation with economic reward that can often stifle creativity (iCommons Witki, 2007).

Witkey faithfuls are dedicated moonlighters who are keen about actual returns. The success of the model has had little to do with open content. Apart from the fact that its platforms are built on the c2c (consumer-to-consumer) model and have thus acquired some grassroots flavor, Witkey bears little resemblance to the Western conception of the 2.0 business model that supports content commons. Quoting its founding theorist Liu Feng, Witkey ‘represents a breakthrough with Chinese characteristics in the usage of the Internet’ (Liu, 2007). What matters most to Witkey users—600,000 in China—is not gratis content or intangible ‘reputation’ seen as capital, but the convertibility of their creativity (i.e., content) into hard cash. The model is so powerful that it has stimulated the emergence of a flexible workforce that seems to enjoy problem solving as much as the reward itself.

Although Magnature and Witkey embody different approaches to profit-making in the 2.0 era, neither has turned to advertising as a primary means of generating revenue – which is the main argument I promised to deliver in this essay. It is much too early, and perhaps even naïve, to postulate that we are witnessing the budding of a post-advertising era. Nor can we romanticize the social and commercial consequences of what Web 2.0 could bring. ‘Crowdsourcing’ peer production is but one area of interrogation to which media critics have called our attention. And the numerous failed attempts of social media to create sustainable revenue models (the Beacon program of Facebook comes to mind) may indeed prompt us to scrutinise the proposition of the coming of a 2.0 ‘business revolution’. This
said, the new business models discussed above are symptomatic of the impact of new media technology on how we conduct innovative businesses today.

On the methodological front, keeping ourselves abreast of the development of new revenue strategies has brought to the foreground a number of key areas of investigation hitherto understudied by advertising researchers in academia, particularly media technology and digital copyright protocols. There is no better way of pushing the methodological envelope than getting engaged in examining the online business sector. Surprisingly, academic critics and business analysts may find a common ground in exposing the false claims of Web 2.0. For me at least, the case of Magnatune and Creative Commons should warn us against throwing the baby out with the bathwater. And if I allow myself to play devil’s advocate, I may even resist my impulse to condemn platforms like Witkey. Who could blame the young, entrepreneurial Chinese millennial generation who got thoroughly sucked into the whirlpool of moonlighting? This is an interesting time. We have yet to confront and study the legal questions that have emerged since the dissolution of the boundaries between consumer and producer, consumption and participation, amateurism and authority, let alone the ethical ones.

To conclude, this article has explored the opening up of new modes of commercialising the internet, made possible by the advent of social media technology. As they are still very much in flux, it remains to be seen whether these new business models will prove more successful in creating revenue than the traditional media model of aggregating audiences for sale to advertisers. What is certain is that successful players on such a new digital frontier will all heed the fundamental rule of the game: that the producer, user-consumer and third parties co-create value. Grassroots prosumers are smart, to say the least. They will reward those businesses that acknowledge the intellectual property rights of user-generated content supplied in good faith as a form of social communication.
References


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