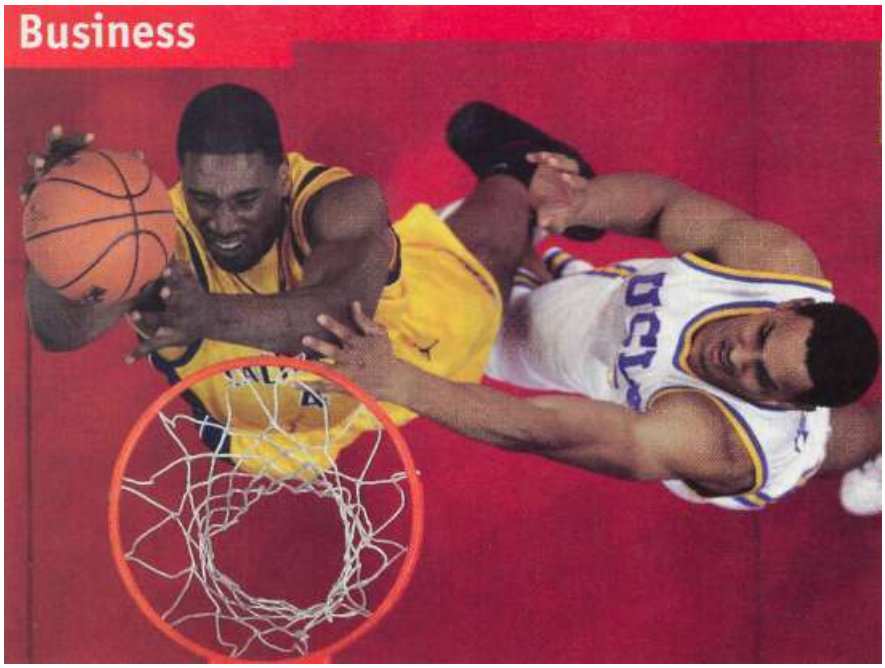

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Big media and the internet

Net dreams

Traditional media companies are making a huge push onto the internet

MARCH Madness starts this week in America, and for the rest of the month millions of basketball fans will watch the country's college teams dunk on each other, until the final of the men's national championship on April 3rd. CBS, a broadcast-television network, has shown the event since 1982-but this year it is conducting an experiment. As well as broadcasting the games on TV, it is streaming them live over the internet free of charge, accompanied by advertisements.

CBS'S move is one of many recent efforts by traditional media companies to try to develop "new media" revenue streams. Music firms have sold their material online for a while. Newspaper and magazine publishers are busy trying to attract readers on the internet. But now the world's largest entertainment companies are rushing to distribute their video content online and, to a lesser extent, to the users of mobile phones.

Old media companies are also snapping up internet firms as fast as they can. Most of these are profitable, in contrast to the dotcoms of a few years ago-but only just. On March 6th NBC Universal, a media firm owned by General Electric, spent $6oom on iVillage, a website for women which had a profit of $9.5m in 2005. Last year Rupert Murdoch's News Corporation spent more than a billion dollars buying barely profitable internet companies.

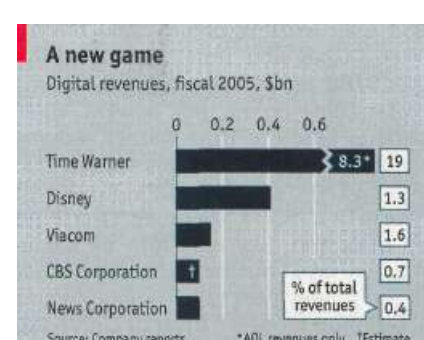
Has the industry gone as crazy as basketball fans in springtime? The answer is that traditional media companies have no choice but to experiment. They are in mature businesses, many of which are endangered by the internet and other technologies. Investors have sold down their shares. This week, Mr Murdoch warned in a speech in London that changing technology means that "power is moving away from the old elite in our industry—the editors, the chief executives and, let's face it, the proprietors." Old media companies badly need to persuade the stockmarket that the digital era brings them opportunities as well as threats.

Desperately seeking digital revenues

"Everyone's got a digital tsar now, or if they haven't, they're frantically searching for one," says Peter Kreisky, a media consultant. Many large media firms have recently formed separate digital divisions. With the exception of Time Warner, which in 2000 merged with AOL, an internet-access firm, most of these contribute only a tiny slice of their parent company's revenues (see chart). But they are growing rapidly. Jessica Reif Cohen, a media analyst at Merrill Lynch, reckons that profits from online advertising and paid content could represent up to 8-9% of total earnings for Disney, Viacom and News Corporation in 3-5 years and considerably more for Time Warner, courtesy of AOL. The most obvious opportunity is to put the content they already own on new platforms. Media companies can charge people directly, or sell ads around it. In October last year Disney took the big step of allowing two of its hit dramas—"Lost" and "Desperate Housewives"-to be downloaded from Apple's iTunes download service on to iPods for $1.99 an episode. Programmes from NBC and from Viacom's cable channels soon followed, and CBS has put two of its hits, "csi" and "Survivor", on Google Video Store, the search firm's new video service. Time Warner, Disney and Viacom have all started broadband channels.

Only a fraction of the media firms' video content is online, certainly, but every few weeks another slew of popular programmes makes the leap. In just a few years, says Michael Wolf, president and chief operating officer of MTV Networks, almost all the company's content will be available online and on several platforms. Because people in offices will be able to gain access to it, he says, "daytime will become the new primetime." (For people watching March Madness at work, CBS has thoughtfully provided a "Boss Button", which at a moment's notice calls up a fake spreadsheet.)

Shifting onto the internet will take time, because powerful forces are lined up



• against changes to video distribution, says Josh Bernoff, a television analyst at Forrester Research. Most important are huge concerns about digital piracy, although Apple and Google do seem to have eased those with digital-rights-management technology, which guards against unauthorised copying. Content owners also worry that putting their video online might mean that fewer people would watch programmes on TV, which is where they earn most of their advertising revenue.

And none of the conglomerates want to jeopardise the phenomenal profitability of DVDS. So far, Hollywood has barely allowed its films onto the internet, and certainly not before their release on DVD. But even that taboo may soon be broken. Amazon, an online retailer, is reportedly in talks with three Hollywood studios about a service that would allow people to download new movies at the same time as they come out on DVD.

Which of the big entertainment conglomerates is furthest ahead? That, of course, is fiercely debated by rival executives. Many were jealous of Mr Murdoch's purchase of MySpace.com, a social-networking site, because its soaring popularity has pushed News Corporation up among the giants of the internet by page views. Viacom is believed to have wanted to buy the site, but it lost out to News Corporation at the last moment. Now, however, after a furore over men lying about their age on MySpace.com so as to meet under-age girls, competitors are feeling a bit less envious.

Nevertheless, there is no doubt that News Corporation has moved most vigorously among large media firms. Viacom, on the other hand, has missed some opportunities, perhaps partly because it has spent the last year or so concentrating on splitting from its sister company, CBS Corporation. As well as missing MySpace.com, it has still to launch the music download service it has talked of for years (it is planning a music service called URGE with Microsoft for later in 2006) and in the meantime Apple has seized the online music market.

Each of the firms has a different strategy for the internet. Viacom and News Corporation want to build or acquire brand new online businesses as well as to expand their existing brands onto the internet. Disney and Time Warner, on the other hand, are mostly putting their own programming online. Jeff Bewkes, chief operating officer of Time Warner, reckons that one-off download deals such as Disney's and NBC'S with Apple's iTunes will prove to be merely a beginning. "These are fine trials and they may turn up something," he says, "but the evidence says that the real money goes to ad-supported and subscription models." Vivendi Universal, a French media firm, is being more cautious than the American firms. Its chief executive, Jean-Bernard Levy, says it will exploit the internet to distribute its content, but not as a general-purpose advertising medium. There is still plenty of doubt over whether traditional media companies have the right stuff to prosper on the internet. But now no one can accuse them of not trying. Perhaps the most promising change is that executives at all levels are fully aware that succeeding online means personal reward. As one manager explains: "In 2002 it was career death to be involved with the internet, now it's a career priority." •

Fonte: The Economist, v. 378, n. 8469, p. 61-62, 18 Mar. 2006.