

**The Future Digital Economy
Digital Content – Creation, Distribution and Access**

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**Presentation by Yossi Vardi, Chairman International Technologies / Member
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Old-Line Entertainment Producers Miss the Net's Edgy Message

The medium is the message when it comes to the Internet - this is why traditional entertainment producers are finding it so difficult to stake a substantial claim in cyberspace.

The Internet is a spanking new medium, in which the success of any entertainment is severely limited by its form. The form defines the experience: Walt Disney could not simply transfer printed pages onto the screen. In order to create his special magic, he came up with animation - suitable to the platform and the environment. Similarly, people today don't want to go to the theater to watch the news. They want to see it from the comfort of their sofa, which is part and parcel of the total television experience.

When the user approaches a certain platform, he or she already has expectations as to how it can best satisfy. Any deviation from his or her expected optimal experience will be a disappointment.

The traditional media companies have done a wonderful job in packaging experiences and delivering them to their audience. They also have had a lot of success extending, recycling and repositioning their wares: Successful movies are shown in movie theaters, on television, cable, video and DVD. But, so far, when those images have migrated to the Web, the magic has stopped working.

In the traditional entertainment model, the creator of the content is in the middle and the audience is at the edge. But the Internet offers a totally different mode of entertainment, with all the action taking place at the edges.

The Internet platform has created a new hegemony: Instead of producers and advertisers dictating to the public what entertainment they should be consuming, Internet users are making the demands and acting on their own needs. The Internet gives the individual the tools to produce microentertainment without risk.

This has turned the traditional economies of scale of large media around, making it possible to publish for audiences of just a few hundred people. And if those few hundred users are compelled enough, the effect will be viral. Tens of millions of users have already been entertained by grassroots Internet offerings such as ICQ, Slashdot, Geocities, Blue Mountain and Napster. All these sites appeared from nowhere and grew rapidly because of their power to attract and entertain users.

Over and over again, we have seen that if it's not out there, whoever wants it will probably create it and put it out there in the time it takes to string together a few lines of HTML code. "I publish, therefore, I am," has become the *raison d'être* of millions of youngsters riding the Internet wave.

Internet entertainment satisfies the human need for social intercourse and has provided that through interactive and entertaining channels of communication. It has fulfilled the urge for exploration with the challenge of browsing the Web for novel, exciting sites.

To see what makes great entertainment on the Internet, all we have to do is look at what the users are doing, what keeps them engaged, what gives them pleasure.

The Internet has taken one of television's most popular forms, the talk show, and turned it inside out, putting the user at the center of the experience. The talk show was one of the first traditional offerings to hint at the tremendous potential popularity of interactive entertainment - such potential is being realized on the Internet. In chat forums, users can participate without revealing their true identities, allowing them to create their own fantasy fiction without being found out. The user doesn't watch the fantasy any more. He or she creates it, playing a role in a personal soap opera.

This is where traditional entertainment comes unstuck. Hollywood is used to dealing with an entertainment medium that is as different from the Internet as shopping in an air-conditioned Madison Avenue boutique is from roaming through the crowded, turmeric-scented alleys of a bazaar. This is slowly dawning on those who are finding it difficult to migrate into this new medium. The giants are treading around in this uncharted territory, and the small operators are dancing circles around them in the race to find the right entertainment formula.

Every now and again, some young, creative genius comes up with something wonderful, something that he would have had no chance of putting into action in a conventional media company. Users embrace such mavericks and, in almost no time, millions follow them on whatever unique path they have blazed.

It happened with ICQ; it happened with Napster - two sites that never spent a penny on attracting audience. ICQ was snapped up by America Online Inc., when it realized the massive following the instant messaging application had garnered. Napster became so popular that it caused the recording industry unprecedented concern, resulting in the most sensational lawsuit yet involving the Internet.

The history of ICQ, which has more than 94 million users worldwide, illustrates the empowerment of the individual by the Internet. ICQ was developed by my four young partners, Yair Goldfinger, Sefi Vigiser, Amnon Amir and Arik Vardi. In 1996, they recognized the biggest lacuna in the Internet: Computers could find other host computers online, but they didn't enable individual people to find each other.

So the four created peer-to-peer architecture with a central server that provided users with other users' Internet addresses. This humanized and changed the nature of the Internet forever. This architecture, recently embraced by the likes of Microsoft Corp., Intel Corp., Sun Microsystems Inc. and International Business Machines Corp., is now the basis of most peer-to-peer offerings. Various "people servers" today maintain the addresses of 200 million individuals, compared with the 45 million computer domain names currently maintained.

But while the big studios and networks are still trying to figure out the winning formula on the Internet, more Napsters and ICQs will slot into their natural places, and without too much fuss, investment or hype, have millions of users glued to their PCs. All of this will continue to happen at the edges of the networks, where the users live, breathe, create and interact.