

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

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**Comments by Professor Leonard Waverman, London Business School
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**Rapporteur, Session 4B and 5B:
Session 4B: New user habits and social attitudes
Session 5B: Enhanced access to research and public sector information.
A new growth driver?**

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Introduction

I was surprised to be asked to comment on digital content because I am probably on the wrong side of the “generation divide”. However, when Donald Johnston quoted Keynes that we should “examine the present in the light of the past”. I understood why I was chosen – I have “more” past than many people at this conference.

It is also a “recent” past - liberalization of the sector Telecoms began eight years ago this month – Jan. 1st 1998. Then broadband was not even part of our lexicon.

I will comment on two sessions – 4B and 5B.

Session 4B

Session 4B was entitled “New User Habits and Social Attitudes.” We began with some intriguing statistics.

1. 2/3s of active Internet users have broadband. But is it broadband that drives usage or vice versa. In economics, this is the endogeneity or “the chicken and the egg” problem. The presentation by the Korean minister suggested that the rapid deployment of high bandwidth does generate usage i.e. to re-coin a phrase: “Familiarity breeds content”. But we need research here and that is the role of the OECD. We know little of usage patterns – a theme I will return to.
2. There is not one “killer” application for the Internet. This is not surprising; searching for “killer apps” is the domain of dying and new industries. More mature industries do not look for a “killer app”. The business model supports millions of different uses. Think of electricity today – there is no killer application.
3. There is increasing use of “new” online sources by the young to the detriment of older established platforms. The young rely more on online news and far less on print. This begs the question of what is news and who reports it. The explosion of blogs is quite amazing. 4 of the top 30 media sites are blogs; one of these four has been in existence for just one year. The emerging issue is how to monetize this new explosion. I return to business models as a main theme below.
4. The Encyclopaedia Britannica began in 1768 and today has 120,000 articles. Wikipedia began in 2001 and has 3 million articles. What does this mean?

Meanings

- a. Speed of change and scalability are clearly profoundly different.
- b. The business models are in flux. Total ad revenue for 24 million blogs is \$50 to \$100 million. Are phenomena like blogs short-term expressions of personalization, or long term new media phenomena? We need to know more – can the OECD help?

- c. Are we changing to the “Participant Economy” where “amateurism” is a driving force? Two counterpoints to the suggestion of societal change. First – Twenty-six million blogs represents a minute share of the world’s population. Are we new media savvy technocrats overwhelming ourselves with the evidence? Second, entry costs into this so-called “participant Economy” are large – computer, literacy, broadband, skills, education. These early adopters look very different from the average world citizen. Here the “digital divide” is real and large – becoming a “participant” is costly. While the \$100 computer of Negroponte will help, shouldn’t we be less PC centric in our analyses? I urge the OECD to be more device neutral.

Session 5B

Session 5B was “Enhanced Access to Research and Public Information – A New Growth Driver? The emergence of digital libraries is a growing phenomenon. Governments have access to huge reservoirs of information, culture, art, entertainment and research. This treasure trove is too little researched and catalogued. Here we need the OECD to do two things – first, to inventory the holdings/information across member countries. Second, and importantly we need a careful political economy analysis of the appropriate business model for government. The session included near universal acceptance that government “information” should be distributed at the marginal costs of distribution (zero) and be IPR free. This may well be the correct answer for society. But it may not be, perhaps governments’ changing for such digital information would be superior - it would not crowd out privately generated information and revenues generated might allow tax decreases or fund additions to collections. We need this type of analysis.

Back to the past

If we go “back” to the past, remember that electricity, the telegraph/ radio and television did a lot of what new media does today –information, social connectivity, and democratisation. Society did change somewhat because of the new forms of information/communication and new business models did emerge. I stress the “somewhat” and the “new” business models.

The Internet is a disruptive technology. It is an enabler and destroyer of business models. In the end the change in business models is a major element of disruptive technologies. How do firms and individuals earn the revenue to pay for the costs of the goods and services produced? That basic fact of life never changes, no matter how disruptive technology is – someone has to pay for the costs incurred. I heard too much about how the Internet etc. has to be “free”. I agree –free- in terms of unencumbered by regulation. The Internet is however not “free” in terms of its resource costs. Someone must pay ultimately for servers, bandwidth, broadband etc. This analysis can be aided by considering the phrase: “Free over - the air Broadcasting” (FOTAB). FOTAB was “free” to viewers – in the sense that advertisers paid the full bill for the content and the distribution platform if the viewers bought the viewing device, in two sided markets. These are many possible divisions of the costs for the parties involved. Now, 50% of television revenue is from subscription so that the FOTAB business model is changing.

Business Models are Key

So if something is “free”, it is either being cross-subsidised (usually poor economics) or another party with something to gain is footing the bill. There was a lot of discussion as the conference on technological neutrality. I would like us to consider another important neutrality – “**Business Model Neutrality**” – government should determine whether policies bias business models or are “neutral” – so that the best business model emerges.

We are seeing companies attempting to discuss appropriate business models. Sony has been bombasted, twice for incorporating new DRM. But I view Sony's attempts as deciphering the demand conditions for new goods and services. The 'old' product was a CD. We knew how to price that. The new products are multi faceted goods and services – stream, single play, download and keep etc. What are consumers willing to pay, and for what?

Here the OECD could do serious valuable research by placing far more attention to consumers and not just content producers. And by consumers I mean analysing the demand side and not just the big policy questions.

So the big two questions are:

- What are user habits?
- What are winning business models?

Too often the business models appear not to have been discussed properly and as a result public policy prescriptions are not business model neutral. The panel on Government Information had 3 of 5 speakers discussing Open Access models for scientific publications. Like all IPR issues, this one is a potential mine field as well. Open Access can exist alongside the traditional scientific press but mandating open access might be wrong. We need to carefully analyze the political economy and incentive effects of different models. It is not that Open Access is "free". Someone has to pay for the platform and the dissemination. In the "old" world it is libraries and readers of scientific press that pay these costs. In the Open Access model it is the researchers – the producers of the new papers who pay the costs. I am not convinced that forcing producers to pay provides better economic incentives or lowers entry barriers – think of researchers in poor countries who wish to publish. Nor do we know the impact of open access on the brand names we need. In economics, tenure is generally partially based on publication in a certain number of "Brand Name" journals. Those journals denote quality. As yet no online Journal in Economics has broken into that group. Mandating Open Access then has effects on established Brand names that are important for the scientific profession. We do need evidence of the costs and benefits of Open Access and alternative business models in scientific publishing and elsewhere before mandating changes.

Finally, economics is the study of decision making under resource constraints, i.e. goods and services are not "free". In two sided markets the questions is simple – who will pay the cost?

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