Monetising Digital Content Requires Focus

By , INSEAD Adjunct Professor of Strategy

It's better to stick with one approach to monetise digital content, rather than spread yourself too thin and confuse the customer.

Sometimes it seems as though a day doesn't go by without an announcement heralding an amazing new app or technological breakthrough. While new digital services are being launched at a lightning rate, it's interesting to note that the revenue models for these services remain depressingly constant. This is especially true for digital content services.

There are three set approaches to monetising digital content today: pay-per-view, subscriptions, or advertising. On the whole there is nothing new here. In fact these were the standard methods to earn money in the analogue era. What has changed, however, is the use of multiple methods to capture customers and grow revenues.

At the start of the internet era everyone assumed that businesses would give away content and services free of charge and monetise their site through paid advertisements. It soon became clear that this method wouldn't work for all, as revenues from digital advertisements were lower than from traditional advertising and the majority would go to the large pure internet players, such as Google and Facebook, rather than the media companies.

With the advent of iTunes, unit sales became increasingly popular, despite consumers' initial reluctance to pay for individual online download services and their difficulty in navigating the payment process. However this business model never really took off.

Lately, we have seen a rise in subscriptions, with streaming sites like Spotify, Netflix, HBO , and various newspaper portals, all seeking a one-off payment to gain access to their services.

Different revenue streams require different focus

For many digital companies, however, the quest for a successful revenue stream remains elusive, leading them to experiment with all three revenue models in parallel, abiding by the motto "every euro is a bonus".

While it seems logical to spread the risk, this can also work against you. What is often forgotten is that these three revenue models all have fundamentally different factors for success.

With the advertisement (or lead) model, the primary objective is ensuring that your reach to the advertisers' relevant target groups is as large and stable as possible. The advertisers have limited interest in the type of digital content you offer, as long as it does not damage their brands. In this situation taking risks does not pay.

Targeting revenue through selling individual pieces of content is a different matter. Here money is primarily earned by generating blockbusters. 80-90 percent of films, songs or books barely contribute to the profit of a publisher – or they may even run at a loss. Profits are made from the success of one or two major hits. In this scenario taking risks with the content you publish and being able to live with high volatility are prerequisites for hitting the jackpot.

It is a different situation with subscriptions. Here it is not about the time people spend with you (i.e. the absolute visiting or viewing figures) but the satisfaction per customer. As a pay per view TV station you don't necessarily want viewers to watch every programme. What you aim for is to include at least one programme a week that they like so much they are prompted to extend their subscription at the end of the year. In this context it is better not to measure the success of the subscription business by absolute viewing figures (important for advertising revenues) but rather by satisfaction levels.

Focus on one model

Each revenue model requires a company to focus on very different factors for success. In many cases trying to butter your bread on both sides can be counter-productive and is apt to cause confusion within your company and weaken your value proposition to the consumer.

Successful businesses will take one model and work it. Netflix consistently opts for the subscription model, and possibly walks away from extra revenue from the separate online sale of episodes or films, to keep customer satisfaction as high as possible. Meanwhile Facebook does everything to extend its reach as far as possible and to acquaint itself with its selected audience to better target advertisements.

Thus it seems analogue wisdom still applies. In the digital world, when it comes to monetising services “to each his own”.

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