Paid Content - Paid Services

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Abstract. *The Internet market for paid content and paid services continually grows in significance, adding new meaning to the word "e-commerce". Business models regarding the range of premium digital contents or digital services, which, solely financed through advertising, were not possible or broke down in earlier times, can now be realized economically through "Paid Content" or "Paid Services".*

This study provides insights into "Paid Content" and "Paid Services" gained through empirical analysis of provider-, client- and revenue data. Results are presented from one of the first studies which predicts online market development, market features and business models for "paid content" and "paid services" not only on the basis of consumer interviews but also on the basis of actual data on revenue.

1. Introduction[1]

The WWW can be perceived as a huge information market where supply and demand meet. If content obtains high value to certain demand sides, economics predict that it will generate market prices. This kind of content is generally termed "paid content" as a special form of information goods and is viewed as a digital product [1]. The term "paid service" is used if content is provided in an interactive mode that is embedded in execution environments,

[1] This article is based on a study that has been conducted in 2003-04. Detailled results can be found in: Stahl, Siegel, Maass 2004: Paid Content - Paid Services: Analysis of the German Market and Success Factors of 280 Business Models, (study access: www.mcm.unisg.ch/im). We are grateful for the co-operation with FIRSTGATE Internet AG (www.firstgate.com).

such as online game services. Shapiro and Varian [2] define the term *information good* very broadly. "Essentially, anything that can be digitised - encoded as a stream of bits - is information. [....] Baseball scores, books, databases, magazines, movies, music, stock quotes, and Web pages are all information goods". Based on the definition of Shapiro and Varian [2] anything one can send and receive over the Internet has the potential to be a digital product. "Information is a primary example of a digital product, for example knowledge-based goods that can be digitised and transferred over a digital network" [2]. The term paid content is in this article used as the non-free sales and distribution of information-based content products.

The sale of digital goods and services has become reality. By 2003 a market for digital contents and services had emerged, one which did not exist in 2000. By this, according to a study of the "Verband Deutscher Zeitschriften Verleger" (VDZ), up to 5% of the proceeds of online-publishing-offers on the sale of digital contents and services are generated. The difference of 30% in comparison to the revenue-mix of the offline publishing business suggests a potential for further growth. Nevertheless, the publishing industry is only one of many branches which have discovered the medium internet as a new sales channel for digital products and services. The paid acquisition of digital contents and services is becoming more and more accepted by information consumers. A few years ago, in the frame of the paradigm of the "for-free-culture", this was considered impossible. However, over 50% of the

interviewees in a current study of the University of Karlsruhe IZV6 (2003) regarding consumer behaviour indicate that they bought digital contents or services via the Internet. If one compares this with the fact that over 90% of the interviewees had already bought physical goods via the internet, one might assume the existence of considerable growth potential. In Allensbach's (ACTA 2003) current computer- and technology analysis, in which 15'000 people were questioned about their willingness to pay for digital contents and services, the increase of payment readiness within one year has clearly been proved. The readiness to pay for interesting information grows selectively in certain areas. According to ACTA 2003 it is the preparedness to pay for travel information, product tests, services which investigate particularly cheap product offers, and information about drugs, which is the most developed. In comparison to that the willingness to pay for financial information is relatively small. A particularly strong increase has been registered in the willingness to pay for travel, weather- and medical information. The share of the population which is prepared to pay for the routing for journeys has risen from 10% to 15%. The circle of people prepared to pay for product tests has risen from 11% to 14% and the part of the population willing to pay for information about new drugs has risen from scarcely 9% to 12%. The question is no longer whether but how paid contents and paid services can be sold over the Internet. Technical problems have been generally solved through the availability of adequate payment systems. Nevertheless, only a little empirical data regarding the market for digital

contents and services and their consumers is available. A current VDZ study shows that in 2008 about 45% of online revenue of professional journals will originate from paid content and content syndication. This target can only be reached if business models and decisive parameters are not defined on trial & error principles. The development of successful sales strategies for digital products and services has to rely much more on an empirically ascertained database as well as on solid economic analysis.

2. Market Development

Germany is one of the leading countries worldwide in the field of “Paid Content” and “Paid Services”. The number of offers it provides, the revenue it generates and the number of customers it serves shows the biggest growth rate worldwide. The number of offers increased by more than 72% during the period between July 2002 and July 2003. In the individual categories, the growth rate was to be seen in three digit figures in some cases. In our study we clustered the market into 14 top categories:

Category	Examples
1. Arts and media	Movies, TV, music
2. Business	Jobs, real estate, investing
3. Computers	Internet, software, hardware
4. Games	Video, games, gambling
5. Health	Fitness, medicine
6. Home	Family, cooking
7. News	Newspaper, weather
8. Recreation	Travel, food, outdoor, humor
9. Reference	Maps, education, libraries
10. Science	Biology, psychology, physics
11. Society	People, religion
12. Sports	Baseball, football, basketball
13. Adult	Eroticism
14. Shopping	Car, gifts

A possible reason for the growth in the number of offers of “Paid Content” and “Paid Services” is the increasing readiness of consumers to pay for contents and services. Because of this increasing consumer willingness to pay, new sellers (providers) of digital contents and services enter the “Paid Content” and “Paid Services” market, since the revenue model suggests prospects for great success and a profitable future. In addition to the increase in the number of offers, the change in revenue is important for assessing the development of the “Paid Content“ and “Paid Services“ market. figure 1 represents the percentage change in revenue for main categories during the period from July 2001 up to July 2002 and from July 2002 up to July 2003.

In the first period, the growth rate is significantly higher than in the second – on average more than twice as high. Between July 2001 and July 2002, the market grew on average by more than 400 %. During the period July 2002 up to July 2003, the growth rates were still higher than 120%. The difference in

growth rates is mainly due to the fact that the market was in a development phase in the first period and therefore a high growth rate was possible due to its low-key start. The growth rate in the individual market segments shows that the market for digital contents and services is not yet saturated. Despite the significantly high volumes of revenue during the second observation period, almost all the market segments here also grew by three digit percentage figures.

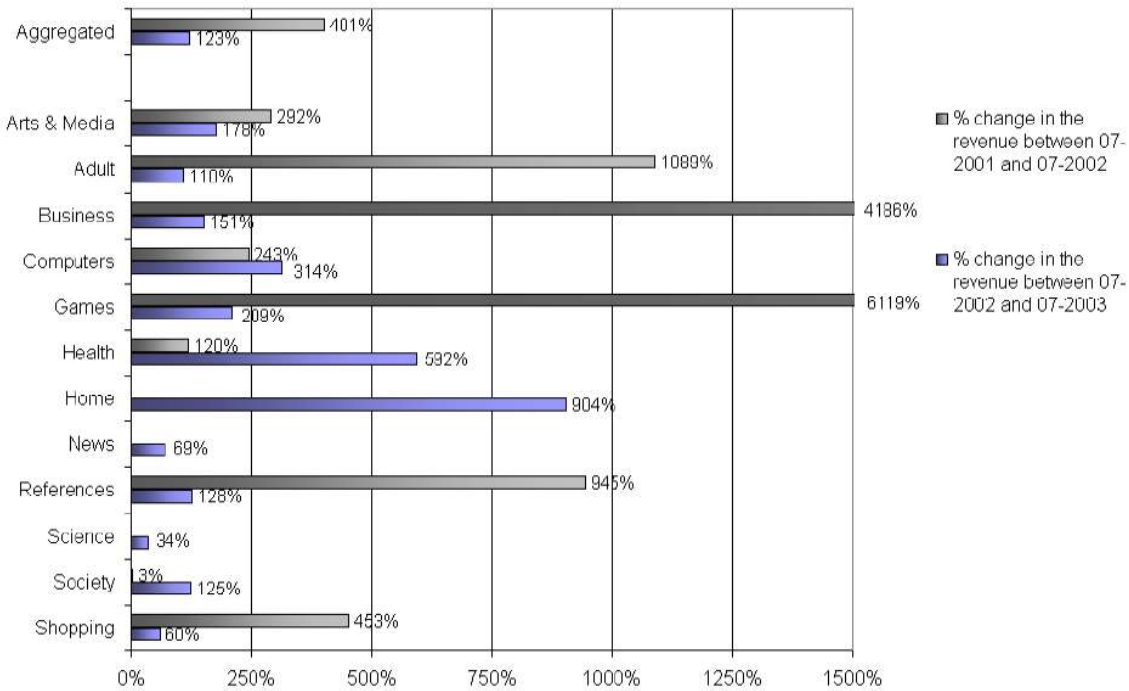

figure 1: Percentage change in revenue between July 2001 and July 2003

For the period between July 2002 and July 2003, the growth of the seven strongest (in revenue) categories was calculated for each month. The month of July 2002 is thus the starting point of the growth rate at 100%. In figure 2, an above average growth of the revenue of digital contents and services can be observed in the market segments ”Arts & Media“, “Business“, “Computers“ and “References“. Along with the growth of offers and revenues, the percentage

change of the number of customers between July 2002 and July 2003 is introduced as a further characteristic of market development. In the market for “Paid Content“ and “Paid Services“, the number of customers grew around 56.7% within a 12-month period.

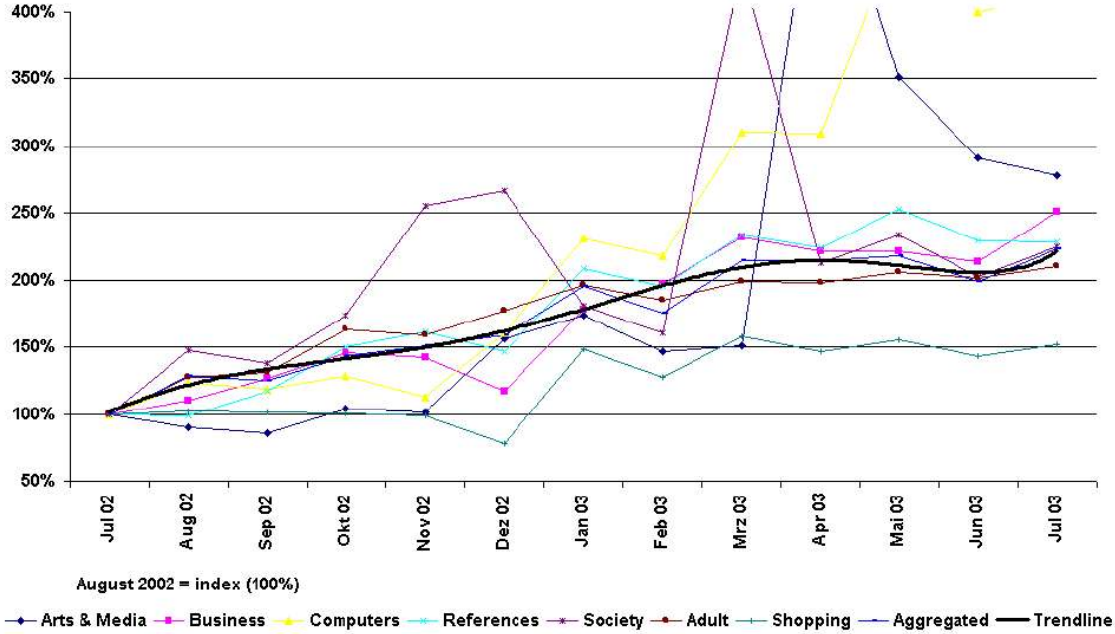

figure 2: Relative growth of the seven strongest (revenue) categories between July 2002 (= index 100%) and July 2003

The growth of the number of customers is lower in comparison to the growth of the revenue. From this it can be derived that the increased revenue is not only to be ascribed to an increased number of customers but also to an increase in the average willingness to pay of the existing customers. Thus, the results of other studies, which investigate the growth of the willingness to pay, were clearly substantiated. Within the individual market segments, the number of customers grew in the market segments “Home" (226,7%), “Arts & Media" (143,8%), “Computers" (140,9%) and “References" (100,9%), with three digit

growth rates at their highest but with quite low rates in the market segments “Society" (11,2%), “Games" (9,1%) and “Recreation" (0%).

In the last two years, the German market for “Paid Content“ and “Paid Services“ has grown strongly regarding offers, revenue and customers. On one hand, the growth rate has decreased and the growth of the market has slowed down, on the other hand, the growth rate of customers and offers is still in high two-digit figures and that of revenue in the three-digit area, despite bad economic fluctuations in Germany, a lull in E-Commerce and, currently, a significantly high level of the sum of offers, revenue and customers.

On the basis of this market development, a prognosis can be established for the revenue model “Paid Content“ and “Paid Services” that, compared with the revenue model financed purely by advertisements for the offer of digital contents and services, it will become more and more important. The small revenue of the “Paid Content“ and “Paid Services“ – initially greeted by a smile - will reach company relevant size.

2.1. Market Characteristics

Following the presentation of the development of the German market for “Paid Content“ and „Paid Services“ in the preceding section, a few central market characteristics will be introduced and explained in this section. The statistical distribution of offers, revenue, purchase transactions, number of customers to the individual market segments within the classification schemes

of “Theme/Context” and “Format”, as well as the average revenue per sale/customer, account for the characteristics examined.

For this study 550 websites from 280 hosts (providers) were analyzed. The highest number of offers are provided within the categories “Adult (26%)” and “Business (23%)”. Furthermore, many above average offers exist for “References (11%)” and “Computers (10%)”. Observation of the percentage distribution of revenue (in the individual categories according to the classification scheme “Theme/Context”) of the aggregate market for “Paid Content“ and “Paid Services” helps us, at first sight, to perceive a similar picture as in the distribution of the number of offers. On the other hand, the two biggest categories of “Adult“ (18,49%) and “Business“ (15,73%) are comparable to the market share of offers, the dominance of which, however, in terms of revenue is significantly smaller. A clear distinction between the categories with the third and the fourth biggest market shares can be identified in figure 3.

They are the categories “References” and “Computers” in relation to the offers, but at a distinct distance from the top two categories of “Adult“ and “Business“. With reference to revenue third and fourth are the categories “Shopping” and “Games“ (12,07%) - the difference of their market share from that of the top two categories is again notably smaller.

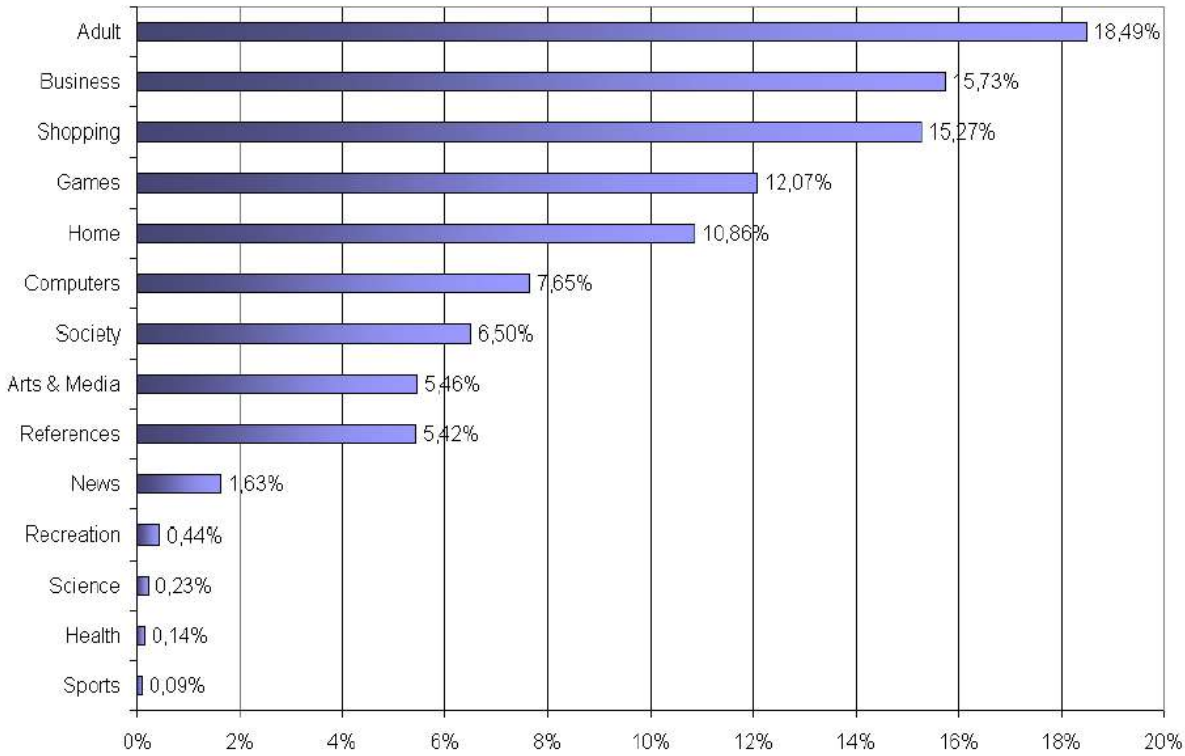

figure 3: Relative distribution of the (aggregate) revenue amoung the individual categories

A further central characteristic is the number of transactions, i.e., the number of sales that take place in the individual market segments. In the market segment "Shopping", it involves mainly cost-obligatory digital services for the offer of goods e.g. cars. In contrast, in the market segment "home", cost-obligatory digital content e.g. studies about product tests lead the field. Both categories are small in market share for offers, and belong to the medium wave of revenue. From this it can be concluded that low-price models rule in the mentioned market segments. Following the presentation of the relative percentage distribution of the number of offers, revenues and (sales) transactions, the distribution of the number of customers among the individual categories of the classification scheme "Theme/Context" can be shown as a

fourth market characteristic. The market segments (with reference to the number of customers) “Home” (23%) and “Shopping (17%) have the biggest market shares. Consequently, in those segments not only are the numerous (sales) transactions relating to digital contents and services proportionately active, but also, at the same time, the sellers in these market segments succeed in getting numerous customers to buy what they are offering.

Under the assumption that the customer’s interest in digital contents and services in the market segments “Home“ and “Shopping“ is not bigger than in the other market segments, e.g. “Adult” or “Business”, the relatively large number of (sales) transactions and the relatively large number of customers in these two market segments can be interpreted to the effect that the difference between the customers’ willingness to pay for digital contents and services and the given market prices in these market segments is relatively larger than the difference in other market segments. In other words, very few sellers in these market segments offer fee-required digital contents and services, which is beneficial for large numbers of customers and thus they are being demanded repeatedly. This observation can also be interpreted to the effect that the price level of the cost involved in acquiring digital contents and services in these markets lies within the scope of many customers’ willingness to pay. All the four described market characteristics “Distribution of Offers”, “Distribution of Revenue”, “Distribution of (Sales) Transactions” and “Distribution of Customers” in relation to the classifications scheme “Theme/Context” are given

in figure 4. As can be understood from figure 4, the biggest differences with respect to the market characteristics are those between the market segments “Adult” and “Home”. In the market segment “Adult”, the biggest share of the revenue (18% market share) belongs to relatively many sellers (27% market share) although only a small share of the customers (7%) in this market segment acquire digital contents and services.

In the market segment “Home”, big revenue is made by very few sellers (1 % market share) with relatively many customers (22% market share) in comparison to other market segments through a high volume of (sales) transactions. Having observed the market characteristics until now mainly in percentages and relations between the individual market segments, at this point a comparison of the average value in absolute terms shall be carried out. In our study we found that the biggest revenue per (sales) transaction has been made in the fields of “Society” (€ 10,55) and “Science” (€ 6,05). This relates to the fact that very high value digital contents (e.g. studies) or digital services (e.g. astrological analysis) are being offered here. The revenue per customer in the market segment “Adult” is quite clearly the biggest. The proportionally large numbers of sellers of “Adult Content” are able to incite their proportionally fewer customers, (compared to other segment’s customers) to repeated purchases (a customer buys 4.16 times on average from an “Adult” seller).

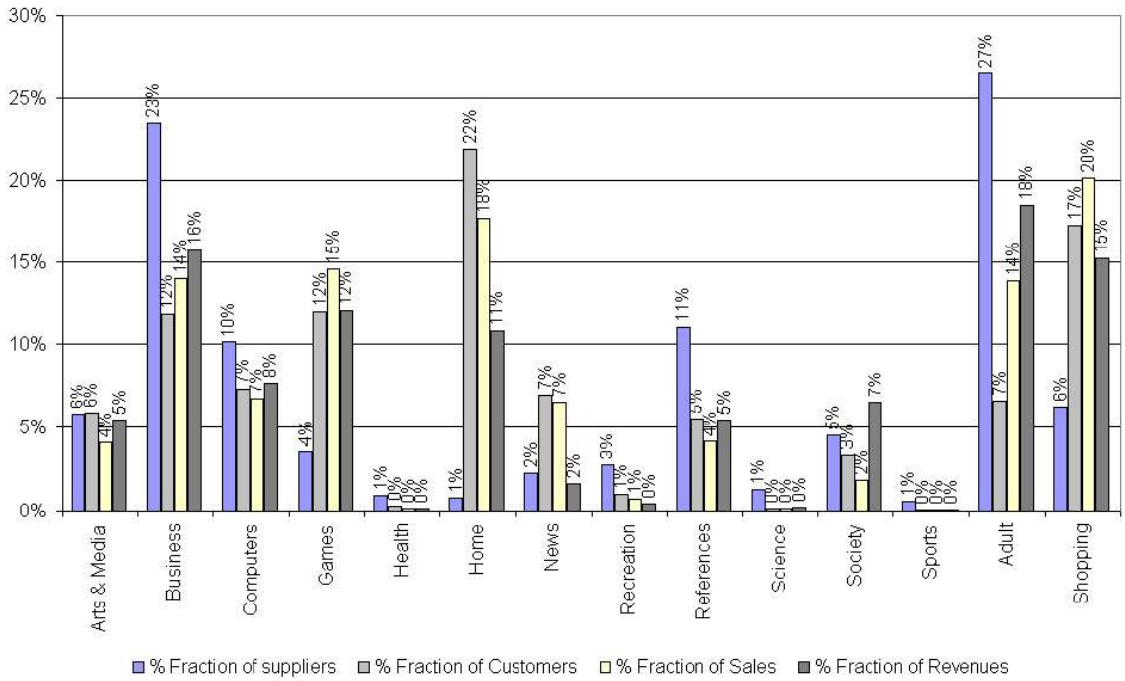

figure 4: Distribution of offers, customers, sales, transactions, and of revenues among the individual categories

When one interprets the average number of transactions per customer as customer binding, then this is the biggest in this market segment. It indicates that the adage “Sex sells” is valid also for “Paid Content“ and “Paid Services“ . On average, each (sales) transaction yields € 3.05 and each customer spends an average of € 5.99. The average purchase rate of the customers is around 1.96 purchases from the same seller.

3. Summary and Outlook

We have presented an overview of results that came out of an empirical investigation of businesses based on online paid content and paid services. It can be concluded that the market for paid content and paid services has left the early development stage in almost all categories. We found differences in

consumer behaviour for different categories and gave tentative explanations. In our study we related development within different categories with their adpoted pricing strategies. We could show that active management of pricing strategies principally result in higher revenues.

For the future, it can be expected that the market for paid content and paid services will sustainably grow. On the functional side, innovative product development, pricing strategies, content and service syndication are main instruments for the development of businesses while branding and trust strategies will target wider acceptance and enhance customer loyality.

4. References

[1] Choi, S.Y., Stahl, D.O., Whinston, A.B. 1997: The Economics of Electronic Commerce. Macmillan Technical Publishing, Indianapolis.

[2] Shapiro, C., Varian, H.R. 1999: Information rules - A Strategic Guide to the Network Economy. Harvard Business School Press.