Business of New Media

On October 25, 2006, SDForum held its first conference on The Business of New Media in Santa Clara, CA exploring how blogging, video casting, and other new medias are changing the advertising and media industries.

by Mark Duncan, askmar, www.askmar.com

Executive Summary

Advertisers, media and technology companies are mindful that consumers have migrated away from the traditional carriers of their messages and have begun to find new ways to reach them: podcasting, blogging, media content delivery, social networking, wikis, mobile marketing, video games and more.

SDForum's first Business of New Media conference explored the new age of participation and the technologies and strategies behind these new tools.

Wikipedia and Beyond

Larry Sanger, co-founder of Wikipedia explained the key reasons why viral websites are successful, and explained how he sees experts being given special roles in improving the quality and reliability of collaborative sites such as wikis.

New Media Investors

Unlike broadcasting to the masses, new media narrow casts to self-selecting small groups of people. Typically it is focused on a particular demographic or common interest that like to hang out together.

Partnerships

Small companies are perceived as being flexible and very fast to respond. It is important to research a partner before approaching them, and provide a tightly focused, tailored pitch that focuses on their needs and priorities. Multiple meetings over 6 to 12 months are typically needed to do a deal.

Future Technologies

Wikis, podcasts, and video are all seen as growing in importance, but all could benefit from better tools. Similarly, opportunities exist for making it easier to do live webcasts and facilitating Internet access by mobile handsets.

Advertising

Advertising on the web is in its infancy. While we have a good understanding of how to influence, motivate and form brand relationships, we are only beginning to understand how best to leverage the ability of the web to both measure and enable immediately acting upon an advertisement.

Citizen Journalism

Newspapers exist as monopolies in most regions whose revenues have been obtained from advertising. Their monopoly profits can not be sustained due to competition from EBay, Google, and craigslist. At the same time, journalism quality is being impacted negatively. The challenge is how to educate and foster good journalism practices in new media creators and users.

About the Author

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Wikipedia and Beyond

Larry Sanger, Founder of Citizendium Project and co-founder of Wikipedia shares his thoughts on viral websites and how they may evolve by adding roles for experts, editors, and community mangers.

Viral Websites

Wikipedia, MySpace and YouTube are examples of viral websites that create loads of useful content, virally. There are five reasons why these sites are successful:

- They have a clear purpose and attractive reason for existing and fill an understandable role that can be described in one or two sentences. In contrast, there are many still-born projects as a result of unclear and murky reasons for their existence.
- The sites are simple to use and contribute to. Sites that are complex simply do not work.
- The sites are open to use and reuse. There are no limits to their freedom.
- The previous three reasons result in the development of a quorum of developers and users.
- The site develops a bottom-up organization in which contributors determine how, when, and what they contribute. There is no need to ask for permission and as a result, work gets done very efficiently.

These factors feedback and drive further growth and expansion of the sites.

We see this same behavior in Slashdot.org where it hosts a story that people than discuss, where the value comes from this commentary. There is a similar development of community when someone creates a website, Google spiders it, and it starts to appear in searches.

Eric Steven Raymond's book, *The Cathedral and the Bazaar*, documents how open source software is developed and why, despite a seemingly great babbling bazaar of differing agendas and approaches, a coherent and stable system occurs.

This same behavior explains why RSS, Linux, Wikipedia, MySpace, and YouTube have become adopted so successfully.

Where Next?

The problem with these efforts is that most projects don't enable experts to have preference given to their contributions. Clearly experts can add special knowledge and expertise, the challenge is how their input can be used to improve the overall quality and reliability of the project, without threatening its overall health.

The Citzendium attempts to solve this problem by adding gentle, expert guidance to the Wikipedia environment that is able to make binding decisions. It makes two premises:

- Some topics are directly in the expertise of one or more experts.
- For such topics, insuring decisions to these experts is more likely to result in correct decisions.

It follows that an encyclopedia will benefit by giving special roles to experts where they are trusted to make certain decisions.

Common objections to this that are raised include:

- Who decides what is an expert
- Is the wisdom of experts really needed?
- Is expert culture compatible with Web 2.0?

One way of evaluating experts is the elaborate system used by Slashdot to rate moderators. It is unclear that this is system is reliable for professional work.

While the Web 2.0 culture is viewed as being egalitarian, in fact it is rather exclusive. Real world accomplishments are not highly regarded. The wisdom of the crowd comes from those who contribute frequently and vora-

ciously, sometimes drowning out more expert and knowledgeable input.

Many feel that experts quickly organize into a bureaucracy. If you give them power, they will seize control and ruin a project by making it too complex. To these people,the simplicity, openness and bottom-up characteristics of Web 2.0 seem contrary to their view of experts who they view as thriving on adding complications to complexity.

In retort to these arguments, it is observed that thousands of experts are currently contributing to Wikipedia, helping to make it an invaluable resource.

Citizendium attempts to address these problems by separating editors from community managers who act as constables. Editors are experts who verify content before it is published in the weekly updated Citizendium. Constables monitor specific violations that are not content dependent such as libel, self-serving advertisements, and commercial endorsements.

The current status of Citizendium as of October 2006 is that it has recruited 180 experts to act as its editors.

Reasons for opposing expert collaboration are due to existing cultural and philosophic view points. In fact, there is no reason to think that limited expert oversight would break sites such as Digg or Wikipedia. In summary, we believe that expert led collaboration and aggregation result in more reliable results, and we hope to prove this with the Citizendium project.

How will you deal with bias, who decides who has biased knowledge? Currently the process is transparent. Expert decisions will be done in public. A lot of experts can't explain quickly to non-experts, why they believe what they believe. It is easily to seem elitist and dismissive. We will require that experts provide an indication of why they make decision. We will also have a neutrality policy. We are getting experts from all around the world from a diverse set of cultures, and hope this reduce the problem of bias.

How do you allow new controversial theories to be allowed? The neutrality policy will allow for this. We want to be able to explore the frontiers of science, as long as it is minimally credible. Consider Zero Point physics, a perfect example of a theory that is on the cutting edge of science, yet still is regarded as being respectable. But if some crank has their own idiosyncratic theory, we won't have articles on that. Over time, we hope to be able to do a pretty good job of distinguishing between them.

We all have different needs and viewpoints, how do you insure that there will be information that is relevant to me? While openness is essential for Web 2.0, this doesn't imply that there is no place for experts.

What is your opinion of companies like Netscape, Paperpost, and others that are looking to corral experts? Seeding Web 2.0 communities with experts is a potentially valid idea. There will always be leading contributors in any community., so paying experts to lead isn't necessarily bad. However, in Netscape, experts are just being paid to be regular contributors, helping it gain momentum, but they don't have any special rights to enable it to improve quality, which is what I'm interested in.

In any community, a hierarchy gets formed. In Amazon you can vote on reviews and collectively define who is an expert. What are your thoughts on this type of system? The question boils down to, "does dynamic selection really map on to a useful assessment of what is an expert?" Slashdot has an elaborate system of selecting the best moderators. While this provides useful information, it is unclear that this can be relied upon for professional and research work. Expertise really needs to be something that is measured in the real world.

New Media Investors

What are the business opportunities in new media companies and where is the investing going to take place? Which strategies are best for companies? Firsthand advice from investors and their portfolio companies.

Panel Members

The moderator for the investor panel was Michael Copeland, Senior Writer, Business 2.0.

Srivats Sampath is president of Mercora, a company with 2.5M users, about 75% in Europe, that is the largest contributed music radio network in Europe with over 5M tracks. It contains all kinds of music, speech, and recordings.

Keith Teare is the founder and CEO of Edgeio. He was a political science major has considerable interest in the dynamics of how the new media industry is evolving. They are a six month old firm that just completed a $5M A round with Intel Capital and others that is trying to be the Google for listings, helping people make money from them.

Jim Lussier is a general partner at Norwest Venture Partners, a firm having eight partners in Palo Alto. They have 50 companies in their portfolio, 12 of which are in the media space. They have investments in chips and software companies, and have invested in Moviebeam, Jigsaw, Gallop, a cragislist for India, Turn (advertising network), VideoTV, Mobile (India content syndicator).

Jeff Clavier is the founder and managing partner at SoftTech Venture Capital. They do angel investments in the $25K to $200K range, mostly in Web 2.0 companies doing search and social media, with Edgeio and Dogster being two of their investments.

Discussion

What is new media? Typically it is a site that attracts a particular demographic and appeals to one of the seven vices — pride, envy, wrath, avarice, sloth, gluttony, and lust. People with a common interest, be it pets, food, or railroads, like to hang out together and share information. It doesn't require tens of millions of users like YouTube.

You can categorize new media in five major categories:

- Content (audio, video, syndicated)
- Community
- Advertising (it is a form of media, and often is the primary revenue)
- Search and navigation (new metaphors for navigating the Internet)
- Mobile (going from wired Internet to wireless Internet)

What do you look for when selecting a venture capitalist? As background, at Edgeio, we did a lot of soul searching in trying to make peer to peer legal. We proved the concept and our lawyers said it looked right.

At that point, we started talking to venture capitalist. We wanted to see hunger in their eyes, did they want the deal? Second, what wisdom did they have to offer? Third, they had better be someone we wanted to spend a lot of time with, because we're going to be living with them until they sell out or you go under. We selected Norwest because the entire partnership resonated with us, got engaged, and said we looked cool.

New media has a completely different business, financial, and organization model from other companies. It is night and day from anything else I've done. We test new concepts like in a Petri dish, coming back the next day to see if it worked, or killed everything around it.

How have media audiences changed? From the 1930s to 1980s, media was all about broadcasting, it was one to many. But with new media, there is an evolving model of narrow- and micro-casting to self-selecting groups of small people. If I'm a big fan of flamingo dancing, I'm not going to see it on television, but I can see it on YouTube. It benefits advertisers by giving them audiences with specific characteristics that allows better targeting.

Media is what people spend their leisure time watching, and advertising and subscriptions are how this is

monetized. It is all about time and people — with new media, what people do with their time is changing.

What are the steps you take in doing a startup? Starting a company is a bit like a love affair. First, you have to fall in love with an idea, otherwise why will you put your heart and soul into it, or convince others to join in? This may mean that you move from one idea to another while refining your concept.

Next, you have to bring your concept to reality. While you can do a presentation on a concept, in many cases you can't get funding until you have something you can show, so you give stock as payment for people working part-time to develop it.

Choosing your investors is one of the most important choices you have to make. You're going to have to live with them for a long time. Big ideas are hard to do, and tend to require investment. A good lead investor enables the CEO to focus on their business, people, and product; they do much of the work in bringing in other investors. Once funded, you launch your product.

How do you value a company? Companies are worth whatever someone will pay. Everyone is talking about the premium Google paid to buy YouTube, a company that was started 16 months ago. But they spent less than one percent of their market capitalization to get Google into video in a very aggressive way, the leading video property of today, with its reach and distribution, the Flickr of video. At the same time, they kept competitors from acquiring YouTube. It seems like a small price to pay in this context.

YouTube gives us a lot of optimism that they are still many other big ideas out there. Who would have believed that you could build a large business out of showing short clips of video?

It is very difficult to figure out the ingredients of success. It is really going against the mainstream and on your guts that provides the home run, the very risky, but high reward strategy.

A different view is that the sale of YouTube was a diving, saving catch; they knew when to get out. It is estimated that 75 to 80% of their content is unauthorized, putting them on the same path as Napster. They were playing it without permission, without paying the rights holders. They had no barriers to prevent unauthorized content from appearing on their site. To avoid getting sued, they gave stakes to the labels, since everyone knew they were going to get acquired. If they hadn't gotten acquired, they would have been dead.[1]

YouTube was lucky. There was someone willing to pay $1.65 billion, god bless them, and these guys were smart enough to know when was the time to sell. They were smart people that were lucky.

Yet another view is that one can make a case that they were nuts to sell for such a low price. They became the largest Internet video portal in 12 months. Think of Flickr being sold to Yahoo for $50M. In retrospect, that seems a very low price today. In fact, there will be bigger deals in the future, since each new generation is going be larger than the last as the Internet user base grows.

With Napster, the attitude of media companies was kill, kill, kill! With YouTube it was, "give me some stock." New media takes users away from old media, an user only has a finite amount of time to view media. Old media has to deal with new media, or they will die a death of a thousand cuts.

In the dot com era, all we needed was eyeballs. After the bubble burst, we went to needing a revenue model. Now we have YouTube without a revenue model being worth an incredible amount!

There are 260 or 270 video sharing or editing sites today. A venture capitalist firm was funding a new company every two weeks at one point. But the wave has passed. The problem has shifted to trying to find the content we want to see.

As a parting thought on valuation, on a pragmatic basis, we recognize that a first time founder of a company who is age 25 to 35, with a wife, kids and mortgage, won't be able to turn down an acquisition offer that will put $10M in their pocket.

What makes for a great startup? Every company started with a feature, a germ of a seed of an idea. This is where the best companies start. You want to avoid people that say they are going to boil the ocean. Never stop yourself just because it is a feature. The context in which something is used means everything when you are defining a feature. Once you have one feature, you do another feature, and build upon it. Is it something that solves a problem, and do I get a decent return on it?

There are killer shareware products where someone, somewhere in the world has sat down and created something really innovative. A venture capitalist probably wouldn't fund it, but the guy may be making $10M a year on it. It used to be you needed Ingram Micro to distribute it, but today you only need a web site, get it high on Google search results, and go to town!

On the other hand, the traditional mantra of a venture capitalist is that we team with entrepreneurs to build

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[1] Author's note: Another opinion is that as long as YouTube promptly removed copyrighted material as soon as they were notified, that they were protected by existing legislation.

great companies. We look for concepts that can fundamentally change the way we work, play, or do things. We avoid god box efforts that take millions of dollars and likely eventually have the plug pulled on them. You don't have to boil the ocean to make a huge change in how things are done. A fundable startup needs a great idea to drive its features. How otherwise will you get a $50 to $100 million business in 4 to 7 years?

How have traditional media companies changed? When Napster was around, all the media companies wanted was money. With YouTube, they all wanted stock instead.

What is getting funded today? We surveyed the investments of 25 venture capital firms over the past 6 months. They made 250 new investments, of which 60 were media deals. Of these, 16 were for content, with only one for video. By and large, the venture community has moved on from video. That said, there is always room for a new business model, e.g. a new Google that does something unique with video search.

In 1999, there was never going to be another search engine, yet that is when Google came into being. We predict that there will be something huge that will eclipse YouTube within three years.

Any words of wisdom? If I can't think of something that will change the life of everyone, I don't want to do it. The harder it is to do something, the more it will be worth if you can do it. This is why Google is successful, they said, we want to redefine how search is done. People forget that Google tried to sell PageRank for $1M in 1999 and were told to go pound sand. No one was clear at that time whether or not they had a big idea.

There is no shame in failing if you gave it your all. When dealing with a new idea or market, you often have the chicken and egg problem that until you have your first success, it is difficult to get any traction, and of course, venture capitalists always want you to show traction in order to get funding.

At the same time, you need to recognize when your idea involves boiling the ocean, or that all your efforts are simply pounding sand.

What metrics do you use to evaluate new media companies? How does the company get to its users? What does it cost to acquire these users? What does it take to get to a million users? (We figure that if you can get to a million users, you can monetize it.)

Fundamentally, a startup needs to be doing some disruptive. Does it leverage from what we learned from the dot com boom? Not that a venture capitalist can tell you what the next YouTube will be; rather, they will recognize it when they see it.

How is investing changing? We're seeing companies like Vinod's Khosla Ventures, Google and Microsoft doing social investing. There is a lot of attention being given to clean technology and new sources of energy. The problem of global warming has been identified, and Silicon Valley is very good at solving problems.

What do venture capitalist bring to the table besides money? It is very difficult to come up with the right technology, the right people, the right product, the function of the venture capitalist is to do a bit of magic to help reposition things and add the additional people and resources necessary to make it successful.

We haven't seen anyone making money on mobile wireless. Why? The Internet is an open, free market, while mobile is a captive market that requires the blessing of a carrier who typically take a chuck of your flesh to use it. As an example, Verizon takes 40% of your revenue, so you end up with a 20% gross margin. If you want to play in the mobile market, you have to walk in with your eyes wide open.

What are business plans looking like? We read 2 to 3 page executive summaries, we don't bother reading 30 to 50 page business plans. The true value of a business plan is to the entrepreneur, since it teaches you about your business. But beyond the plan, you focus needs to be on continually making your product better, having fewer bugs, with the expectation that eventually magic or shit will happen, and you either start making money or fold up shop.

Are we still looking for three and five year plans? We all do them for the A round, but things can fundamentally change between rounds. If you get adoption of your site, you'll get a sizable increases in B round valuation. Traction is the key. We only look at financial projections when the company has revenues. In any event, with most projections, nothing can be trusted beyond the first 12 months.

New Media Partnerships

To successfully grow a company, it's critical to partner with the big players. Does this mean a company is poised for success? What do they need to know to succeed?

Chris Shipley of Guidewire Group was the moderator for four panelists: Michael Adelberg, strategic partner development manager at Google, Anne-Marie Roussel from Microsot's Strategic and Emerging Business Group, Dan Connors, CEO of TellTale, and Brad Vettese, VP of Business Development at Limbo 41414.

When you dance with elephants, you have to have a thick skin and need to be able to innovate quickly.

At Google, we want to know whether they can deliver what they say? Do they have the necessary resources? We deal with everyone from a 10 person company to a Fortune 500. The advantage of a small company is that they are flexible and are very fast to respond. We also try to determine if they will survive without us, since things change quickly at Google.

At Microsoft, the Strategic and Emerging Business Group acts as the liaison to the various business groups within Microsoft. With 60,000 people at Microsoft, it is very difficult to find the right person to talk to. Our group of 14 people assigns each person to a given portfolio group. For example, Anne-Marie Roussel works with startups and venture capitalists in interfacing to the XBox, Zune, Media Center, and iTV product groups.

At Microsoft, our group is approached either as a partnership (80-90%) or as a possible acquisition (last year we were the most active company for acquisitions) for an exit strategy.

Anne-Marie cites the following Golden Rules for having successful meetings with Microsoft, but they apply for interacting with many other companies as well such as Google and Sony:

- Make your message simple, preferably in a single sentence.
- Provide a quick overview of what you do (size, funding, market presence)
- Do not provide confidential information on a first meeting
- Do not give us a standard pitch, focus on what we do. Check out our web site for our strategy on a given business unit.
- Understand our top priorities
- Have a measured and focused approach, have realistic expectations, we're not going to save your life or make the deal of your life. If we turn you down, don't walk away disappointed, you may be way too good for us.
- Learn to cooperate and compete with us. Do your legwork. Are you working with people that are in competition with?

Michael Adelberg also noted that people at Google are pretty busy. Do your homework first. The best pitches come when a company, before they try to meet with a manager, have met their direct reports first and understand the priorities of the group, and tailor the pitch accordingly. When you do have a meeting, do research before you walk in so you can provide a very focused pitch.

Relationships tend to take 6 to 12 months to form, and require working your way up the food chain. This sell cycle requires you to be incredibly patient. You have to make a friend first, and demonstrate how you fit in with them. You need to explain why your product / technology is valuable and how it fits into their business.

Microsoft every four months, presents 10 startups with disruptive technology to Steve Ballmer and the heads of his three business units, the three group vice-presidents, with the next one being on December 7th. They're startups that we find interesting. We bring up to the top, things that otherwise they would never seen. Three days of the year, they look at nothing other than innovation. It results in the phone ringing the next day, "how come you haven't looked at this?"

You can pitch yourself as a vendor or a partner, but you can't do both, or change during the engagement.

You can starve to death, waiting for that return phone call, burning through your A and B rounds. The more you can establish your business model and get some momentum, the more people want to work with you.

YA CEO has to figure out when a deal is real, and when you're just being flirted with. A startup needs options. If they need what you are doing, there is demand. If they don't, you have to go back to the drawing board and figure how to provide something that the customer wants.

You can get someone's attention if you say, "we're working with a competitor, and you have a window of opportunity to get in before we close." It certainly can move things along. All the leverage isn't to the big guy.

There is the myth of the rainmaker striking a deal with the CEO. In Microsoft, the executives just refer such approaches to our emerging business team of 14 people. We'll get a brief message, "please look into this." Similarly at Google, the top executives pass it on to us, and we do our analysis. At Google, you can touch anyone, we're a bit more open and informal, and it'll eventually get to the right person.

At Microsoft, the corporate development group does M&A with most deals being small, under $20M. The exception is the deal that moves fast. By and large, it is better to do your due diligence up front.

What tips the scale in deciding to do an acquisition when dancing with elephants? We ask, is the company interested in being acquired? Does this acquisition makes sense for us? What is the business proposition? It is all case by case, there are no rules. Most acquisitions are small, with great people that have done something very interesting, that will have to be rewritten to fit in. We're get to hire a great team of people with a demonstrated talent.

At Microsoft, our group doesn't do acquisitions, they are done by our corporate development group. Most acquisitions are small, under $20M.

From the standpoint of a startup, the question you have to ask is how long can you wait for the partner to help realize your vision, versus cashing out immediately by an acquisition?

How do you deal with IP and trade secrets in your valuation? Don't know the answer to that question. It is dealt with by the M&A team.

Will my angel or investor help me find a partner? We have two great investors, they don't get any smarter. They help guide us, and provide guidance, but they only step in when we indicate we need it. They provide a lot of coaching, but don't push us per se.

We work with the venture and investor community at Microsoft. They come to us, saying we have a portfolio company that needs some help. Its all a question of connections, who you know.

What are you doing to stimulate contact with entrepreneurs that don't already have the connections? There are many good people who don't have the networks or contacts. But this is why we are fortunate to have organizations such as SDForum that serve this function.

How many people get involve in making a decision? It is difficult to answer. Deals that move quickly are the exception. It most cases, it is best to work things up front, than try to resolve them after the deal is done. Big companies are often not aligned with the priorities of a small company.

Wave of the Future

What are the new can't-live-without technologies, who is behind them and what are these companies bringing to the table?

The moderator for the Wave of the Future panel was Steve Bengston, Managing Director of ECS at PricewaterhouseCoopers LLC. The panelist were: Ramneek Bhasin, CEO, Mobio Networks; Theresa Carey, Contributing Editor, Barron's, "The Electronic Investor"; Anil Dash, Vice President of Professional Products, Six Apart, Ltd.; and Dylan Tweney, PC Magazine.

Dylan Tweney of PC Magazine cited four new media areas needing better solutions:

- **Wiki**. It has great potential but is counter-intuitive. There is a need for better wiki tools.
- **Podcasts**. While there is a nice Flash tool for recording audio and uploading it by Odeo (who also did Blogger), there is still a need for better tools.
- **Video**. There are 230 video sharing sites. It is really difficult to find good content, thus there is a significant opportunity for a good video search engine. Blinkx and Dabble.com are trying to fill this need.
- **Live content**. Right now it is incredibly hard to do live webcasts and podcasts, we lack the necessary and sufficient infrastructure to distribute live content to tens and hundreds of thousands of users.

Perhaps the most important factor driving success is to be passionate about something. Anil Dash, VP Professional Products at Six Apart, notes that they have gone from 3 employees in 2003 to 215 employees in 2006. They are the largest independent blogging company in the world. When they started, there were less than 100 blogs in the world, and they thought they were late to the game. There was no funding to be had in the dot com era for a couple of kids that were charging for a hosted product. But this turned out to be a really useful constrain. They created a family of blogging tools for everyone from individuals to the enterprise. Our products have been driven by fun, love, and passion. It lets us compete with Google, Apple, and other big companies. Our success has come from building a community.

Theeresa Carey, Contributing Editor at Barron's "The Electronic Investor" noted that her interest in new media is on things that have money in them, like online brokerages and regulatory changes in how online sites offer their products i.e. understanding where financial technology is going. She's seeing things like brokers that offer "free" trades, where when you dig down deep, finding that the broker is taking quarter of a point, costing you $500 or $600.

Security is another major issue. Hackers are penetrating E*Trade, Meritrade and other brokers and are being successful in stealing money. This is becoming an increasing problem as it scares people off from using web services. Increasingly, data needs to be presented in realtime, as opposed to legacy systems that provide overnight data. New SEC regulations are requiring realtime processing.

She noted an interesting product, TimerTrac that tracks what would have been the effect is you had placed a trade at a recommended time, and uses this technology to rank investor advisors.

Ramneek Bhasin, the CEO of Mobio Networks focuses on the mobile web, something that is virtually non-existent today. They are working to enable the relevant portions of a web page to be used by a mobile phone when you need it the most. They believe that the way people are trying to deliver the web onto phones is fundamentally broken.

Clever user interfaces don't work since you only have a small 2" screen on a phone. You can do simple things like ring tones and games, but when you want to do something sophisticated, it is practically impossible to be done on an ordinary feature phone. Even on smart phones, there is too much latency, there are few sites that have been formatted to be viewed by phones, and the 14.4 Kbps SMS bandwidth isn't sufficient.

In the United States, carriers like Sprint and Cingular are becoming more progressive and open, i.e. the garden

walls are gradually coming down; but we are still way behind how cellphones are used in Europe, Japan, and Korea. Europe is also starting to get into the next generation of GSM phones very quickly.

Looking at the market, there is an installed base of 1.25B phones, of which over 550M of these phone users have a computer, while the other 700M users use their phone for everything, including as a compute device. This will cause a fundamental change in how people view their cellphones 2, 5 and 10 years from now. We are not even in the tip of the tip of the iceberg, in terms of what we are going to see in cellphone compute usage.

The mobile web is going to go through a significant transformation with Korea and Japan leading the way, with India and China following closely behind.

You won't get rid of laptops as we know it today, they'll become sleeker, lighter, thiner, and continue shrinking; but there comes a time where you need a minimum amount of real estate for a QWERTY keyboard and the screen, you can't make it any smaller. At the same time, you have the trend of higher bandwidths with WiMax and 2.5G converting to 3G and beyond, providing 1.2 to 1.5 Mbps.

This is where carriers and content providers are scratching their heads. Consider Fon, who is the WiFi version of Skype. Companies like them will force carriers to fundamentally rethink their business models.

Most people in their 30s around the world use text messaging, while most people in the United States over 30 don't send text message. This disconnect represents a great opportunity that is being frequently overlooked.

The other important trend is how consumer usage is starting to influence the enterprise. The 18 to 25 year old consumer is a very active cellphone advocate that is getting into the workplace that is used to a very different web experience of wikis and blogs. As these young people enter the workforce, they are going to start demanding wireless services that aren't available today. In turn, this is going to cause the personal computer experience to become very different.

The enterprise is somewhat resistant to these trends. Remember when there was one email for a department, and they would print out an email and bring it to your desk? Similarly, we find companies trying to prevent instant messaging, forcing you to use a proprietary network that doesn't let you talk to the people you need to communicate with. Voice IP is another example. How many companies allow Skype to be installed? Almost none. Yet people started using Skype at home, and now it is migrating to work. In the same manner, blogging started as a personal means of expression, and now companies are actively having workers blog about their work.

What this means is that the belief that YouTube is only for consumer video is completely false, it will be used for business applications both on the web and mobile.

Phones can be more efficient than PCS. In some cases, even when you are sitting at your desk, using a Blackberry to find something out can be done in two clicks, whereas it will take 30 keystrokes on your Windows desktop.

Theeresa noted that in the financial space, it is common at lunch, to find people checking on trades and placing orders using their Blackberries. Some big brokers are really going after this market, while others are pretending that it doesn't even exist. She feels that the latter group will be in big trouble in a few more years.

This brings up another issue on financial transactions that most people don't trust doing them online. They have much more trust in their phones, even though it isn't justified. Hearing a voice makes it more real to them than using a browser that they perceive can be faked in many ways. In part, this is because your phone is your personal identity device.

What is slowing Internet adoption on cellphones in the United States? In the United States, carriers have been very effective in preventing people from doing text messaging by imposing high fees. This technology would have been a multi-billion source of revenue, that has been killed by the desire for control and pure greed. This is what happens when you don't have phone neutrality, and why we're fighting so hard for Internet neutrality.

SMS is a case study on how not to market new media in the United States. In the rest of the world, everyone has SMS by default. In the United States, you first have to check to see if someone has it. A second factor is that carriers do no advertising promoting SMS and its interoperability. There are a lot of times that you would rather text message someone to tell them your going to be late, than to make a call.

Sprint is the best of the worst. They are doing a fantastic job with EVDO, it is the first time an US carrier has done the right thing by saying, you want high speed data, pay us $40 a month. But the other US carriers have nothing similar, it is an embarrassment.

In contrast, in Japan, cellphones are much cheaper than having a land line. On a train, you'll hear beeps from 50 phones around you from people playing games and sending messages on their phones.

In trying to get on to Mobio Networks, I'm finding that your web site is terrible for accessing on a phone. This seems odd, given that your company's mission is to optimize this. How come? (laughter) Thank you for sharing that with me. We're in stealth mode and we're a startup. We hope to have our real site

up in January 2007. We will be delivering a mobile experience to you, not a web site per se. Your point is well taken, and we'll put WAP on our roadmap.

Where are peripherals headed? We listen to music on speakers and headsets. There is a market for peripherals if they could be made to work. My personal experience is that Bluetooth pairing only works 30% of the time. Carriers often disable Bluetooth on phones or restrict its functionality. What carriers have failed to realize is that the freer the handset, the more useful it becomes. WiMax can't come soon enough, if only because it promises to put pressure on the carriers to support peripherals more uniformly. In other countries, phones with music integrated into them are slowly catching up to the iPod.

One would like to be able to start watching a HDTV show in your living room, move to your PC, and than to your phone in one seamless continuum. We're starting to see the early beginnings of this, marked with pockets of brilliance, most notably in Korea and Japan. At some point there will be convergence, where all these gems come together to give you a new experience. But keep in mind, some of the necessary communication can happen by WiFi and the Internet, it doesn't all have to be over the carrier network.

What is the danger of a carrier starting to block Skype or other new media? This has been going on for a long time at the corporate level, for example, blocking pornography and E*Trade to prevent employees from accessing it online. At the ISP level, they're blocking spam and phishing. Over time, media companies tend to get more restrictive, trying to lock you into their sites and services. There are a lot of people that stayed with AOL simply so they didn't have to change their email address.

How are the business models changing? The United States has led the way. You raise $5 to $15 million and over 3 to 4 years, with a team of 100 to 150 people, do a startup. This is similar to how Hollywood makes a film where you take $100M, 9 months of time, and hire 2,000 to 5,000 people to make and market a film. It is a dynamic business model.

Similarly, the Internet business models that have been pioneered in the United States by Google and Skype are migrating to Europe and Asia. The idea of home delivered groceries (WebVan) works in India, because labor is so cheap that you can have the groceries delivered later the same day they are ordered. Similarly, ad based services are starting to happen in these areas. In essence, any business model can be adopted and modified to work in any country.

What types of applications will depend on mobile data networks? Give me a new way to connect to my friends and family that I will care about. I already have voice, but I can't multitask without being rude. I need things with persistence and with rich media integration. I need things that synchronize with the rest of the user experience, both on- and off-line. I want a toy, not a game. By that, I mean toys have infinite usage that remains entertaining whereas a game has a finite usage, you score and you become bored with it after a while. But what it is, I haven't figured out.

A thought on international sales. We have a product called TypePad, that we launched in Japan at the same time as the United States. It took off immediately in Japan, because there was less aversion to paying for a subscription service. We have a variety of models from ad-support to subscription in Japan, and everyone of them has taken off. Anything that works in the US, can be adapted to work in another country. The lesson to be learned is don't become so enamored with the ad-model, that you ignore a subscription model as well. Having diverse business models facilitates success in different and diverse markets.

Some advice for carriers. Carriers should realize that if they give us the bandwidth and platform, we'll figure out how to fill it up in ways that may shock you. Let us hack it up. While today, voice is 85% and data is 15%, the expectation is that in five years, the split will be 50/50. We're guessing that what tips users into using a new data service may be something really dumb, like a viral game or video that everyone starts sending around. It is hard to predict what that might be. Consider how people starting buying virtual clothes for their online avatars. We're not cool enough to know. You can't predict innovation, it takes a leap of faith.

Today, I can't make software easily for mobile devices, the way that I can for the web. You're not going to get valuable data services until you have the necessary software. Everything on a phone is more cumbersome and complex than doing it on the web, the barriers are way too high. The leap from building a web site to creating an application is very small. But you can't view source on the phone, which means that no one hacks it, and thus there are few new applications.

Where are we going with security and surveillance? Information is becoming more ubiquitous. The biggest problem with security and surveillance is that the information is one-way. The person that controls the camera has the power. The way to address privacy concerns is to make information available to all, while recording thumbprints of all who view it. For example, you should be able to identify everyone who has looked at your credit report. Information needs to be distributed, not centralized.

What's the Advertising Business Model?

How are you going to make money? What's the best advertising approach? Who's done it right, and where's the market going?

The moderator for the Advertising and IP panel was Allison Tilley, Pillsbury Winthrop. The panelists were: Konrad Feldman, CEO, Quantcast; Mitchell Linden, VP of Business Development, Reality Digital; James Ryan, CEO, Mobileplay, Inc.; and Dr. Ramesh Sarukkai, Group Manager, Yahoo! Video Search & Publishing.

Konrad Feldman's company, Quantcast, enables small sites to identify their audience and help them obtain more revenue for it.

Clearly Google is the most successful at ads. With search based ads, the user has expressed intent in wanting to buy and/or learn about a product or service. In contrast, we spend $70B a year in the United States on TV advertising for trying to influence the viewer in a future purchasing decision.

As a result, advertisers are rethinking their campaigns, getting to the fundamentals of what are they trying to accomplish. In traditional print and broadcast media, you seek to motivate and form brand relationships. But the Internet enables you to act immediately, and enables measurement on a per-click basis.

Ultimately, you would like to have measurement tools that are media-format agnostic, enabling you to differentiate between click through and display ads.

For phones, you should be able to click on a phone number and buy something now. As phones become equipped with GPS, location based advertising becomes possible. For example, when you approach a Starbucks, your phone might flash a coupon for buying a latte there. While there are privacy issues, it does provide an innovate way to drive traffic to brick and mortar stores by providing the ability to interact with the real world.

Much of the video websites found on the Internet today contain either tasteless clips or ones that violate copyright. But one can see targeted sites, for example a community of musicians with videos ranging from lessons on playing to promotional clips. The unknown question is how to best show ads with video.

Ten years ago, ads had to be simple text, doing animation was a no-no. But today, interactive ads such as "shoot the monkey" have much greater pull and click through. However, the problem is that the leads provided are not of very high quality.

Increasingly ads need to both educate and entertain while branding.

Everyone is talking about Google's recent acquisition of YouTube. They are paying for its audience. Google was far behind in video and had been unsuccessful in building a community. What we expect is that YouTube will have a totally different look in 2 or 3 years.

We are only 10 years into advertising on the web compared to over a 100 years of print advertising. Interactive ads are not well understood, and we don't know how to quantify the value of branding on a per click basis. At a human level, we relate better to TV ads than to text ads.

We are just starting to monetize blogs. They offer repeated audiences with good industry verticals.

Creative ads on the web need to learn from Superbowl ads, BMW making short films, and the VW GTI interactive video flash ad.

Citizen Journalism: The Future of Media?

Power blogging, citizens media, the future of print, and syndication. Where are they going?

The moderator for the citizen journalist panel was Gary Byrd, Principal and Co-founder, FortyThree. The panelist included: Dan Gilmore, the director at the Center for Citizen Media. Mark Pincus is a recreational social networker who recently took Tribe back from its investors. Len Brody of NowPublic has 37,000 reporters in 132 countries, and Eric Case is responsible for the Blogger tool at Google.

Technorati notes that their bloggers are making 1.2M posts each day. At Stanford, students are online 4 hours each day. We are seeing a state change in how people interact with media.

The first blog occurred 10 years ago, podcasting was the first rich media, and video blogs have exploded with YouTube having 70,000 new videos posted each day. The dilemma for a global publisher is how do you filter and sort through this content to find the good stuff?

Traditional media has been targeted at mass audiences. But bloggers typically have small audiences in mind, such as friends and family. Services such as Twitter enable people to quickly ask questions like, "did you feel the earthquake?"

The challenges raised to traditional news media are that:

- Blogger content has a higher value per reader to its audience.
- EBay, Google, and craigslist are going after their classified advertising revenue; they are focused on revenue, not journalism.

The revenue that classified advertising providing newspapers enabled funding in-depth investigations. For example, the criminal justice articles on how innocent people are railroaded by our legal system by Fredric Tulsy at the San Jose Mercury News took him three years to complete.

During this time, Fredric reviewed the records of five years of criminal jury trial appeals decided by the California 6th District Court of Appeal — 727 cases in all. In addition, the newspaper uncovered about 200 cases of questionable conduct that were not part of the study period, by reviewing files and interviewing lawyers.

The question is who will do non-trivial investigations like this?

In talking to an investment banker about newspapers, the feeling was that 50% of newspapers will go down with the ship, and the other 50% will do what is necessary to survive.

An audience member observed that part of the reason why traditional media is losing its readership is that newspapers have no balls. They are unwilling to run stories that might cause them to lose access to government officials, or advertising from corporate clients.

One can argue that the quality of the San Jose Mercury suffered as Tony Ridder, president of Knight Ridder, cut staffs and budgets to achieve a profit margin of 20%. With the sale of Knight Ridder in March 2006, Tony is not covered with glory. But fundamentally, if he attempted any dramatic change, the result would have killed its stock. They jumped the shark and here they are.[2]

In contrast, the music business has done a phenomenal job of reinventing itself, if only because almost everyone in the industry is under 40 years old. The music industry sells stuff, in contrast the newspaper obtains its revenues from advertising that is steadily diminishing.

Newspapers simply can't sustain monopoly profits when there is competition. Many are simply clueless about what people really want.

[2] Jumping the shark is the defining moment when something has reached its peak, and everything from now on is downhill.

The newsroom culture doesn't want to take chances, they are timid. When you visit a newspaper, you get the sense they are dying and that there is no freedom.

Dan Gillmor noted in talking to journalism students in classrooms across the country, he would ask how many of them blog? Typically only one person would raise their hand. Similarly, none of the students had any interest in working for a newspaper. Yet a newspaper acts to help build trust and provide a framework for finding facts.

Some publications like VillageVoice have lost all of their classified advertising to craigslist. SF Weekly in contrast has formed a clone of craigslist called Backpage.com.

Journalism is taking new forms. The ability of anyone to act as a reporter is enabling a virtual farm system where the bar for participation has been let down. For example, during the London subway bombings, a grainy picture taken by a camera phone quickly made its way out into the world, the first time, and probably the only time, that person would act as a reporter.

We need ways to teach online the fundamentals of journalism: writing the lede paragraph, summarizing the most newsworthy element of a story, and communicating the 5 W's (who, what, where, when, and why) and how of a story.

We need to educate people about the need to record events when they are present in a form that will let reporters make sense of the information later on.

We need better search tools that combine human and machine intelligence to enable us to find the good stuff. We need aggregating technologies that know what you want to see and know what particular viewpoint you are interested in.

Adrian Holovaty became the editor of editorial innovations for the Washington Post in August 2005. He has been pushing the boundaries of how journalism is done online, finding new ways of presenting information.

As an example of this, chicagocrime.org is a great mashup allowing you to see where various crimes have occurred on a Chicago map over a given time period. Or for that matter, you can see the areas of town in which the most tickets are issued.

Journalism has been called the fourth estate. But the disruption caused by new media is impacting journalism quality negatively. At the same time, blogging is enabling massive numbers of people to have free speech that can be massively heard.

Now you have issues like Wendy McCaw, the owner of the Santa Barbara News-Press suppress news and stories, and interfering with columns resulting in mass resignations of its staff. You also have companies publishing fake blogs. But fundamentally, the function of journalism is to keep corporations and government honest.

Journalism is in a time of transition. It saw its zenith while Kathryn Graham headed the Washington Post, but reaches its nadir with one-sided, deliberate slash and burn character assassination journalism that goes for the jugular, putting a massive spin on the news, acting to make the news, as opposed to reporting it.

The under 25 demographic views journalism differently. They are more accustomed to speaking and not being spoken too. While they don't read newspapers, they communicate very well. Media literacy education needs to start very early. The most important skill is to learn to be knowledgeably skeptical. We need to ask ourselves:

- Who created the message?
- What techniques are being used to attract my attention?
- How might different people understand this message differently from me?
- What lifestyles, values and points of view are represented or missing from this message?
- Why was this message sent?

We live in an age where not too long ago, the number one story in July 2005 was about a Seattle man who died having sex with a horse (he was being fucked by the horse).

We have the ability to shape the media the way we want it. ThinkProgress.org is an organization devoted to providing research and analysis that you can't find anywhere else. It polices the media and keeps politicians honest. In India, citizen journalism has become so important over the past 3 or 4 years that CNN frequently uses it as a source.

The New York Times doesn't understand new media. While it is making money by putting its archives and editorials behind paywalls, this is a counterproductive tactic that is resulting in selling off its future by making it increasingly irrelevant in the new media world by preventing bloggers from pointing at its content, and more importantly, causing many bloggers to not even mentioning it.

Why do people visit a news site? About half will cite that they obtain information of good quality, but the other half will note that they obtain a window to the world that lets them just find stuff out.

This points to a new model for media. We have those who generate content, those who write about the content, and editors who edit the content. This hierarchy helps us find out what's important.