

The Dynamics of Disruptive Innovation: How will content-based businesses succeed?



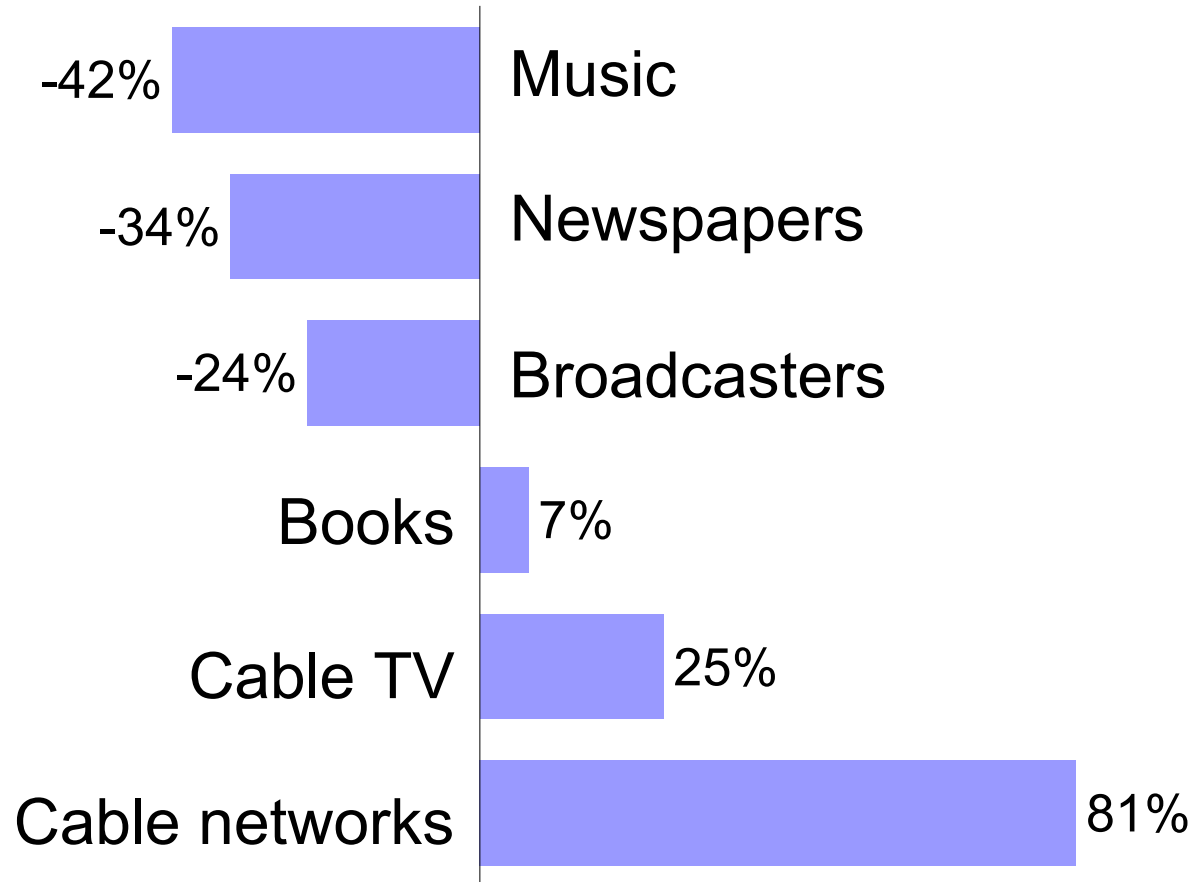
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Disclaimer

Personal opinions only, don't reflect the views of the FCC, other Commission staff, or any Commissioner.

Wide variation in recent performance of different content business models

Change in U.S. revenues, 2003-2009



Three disruptions challenging content business models

1. Dematerialization

Ownership of things → Access to bits

2. Defocusing

Attention → Fragmentation

3. Disaggregation

Infrastructure-driven bundles → Platform-based à la carte

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Dematerialization means...

Lower invested capital so
easier to make a return at
constant profit



Good for
business
models

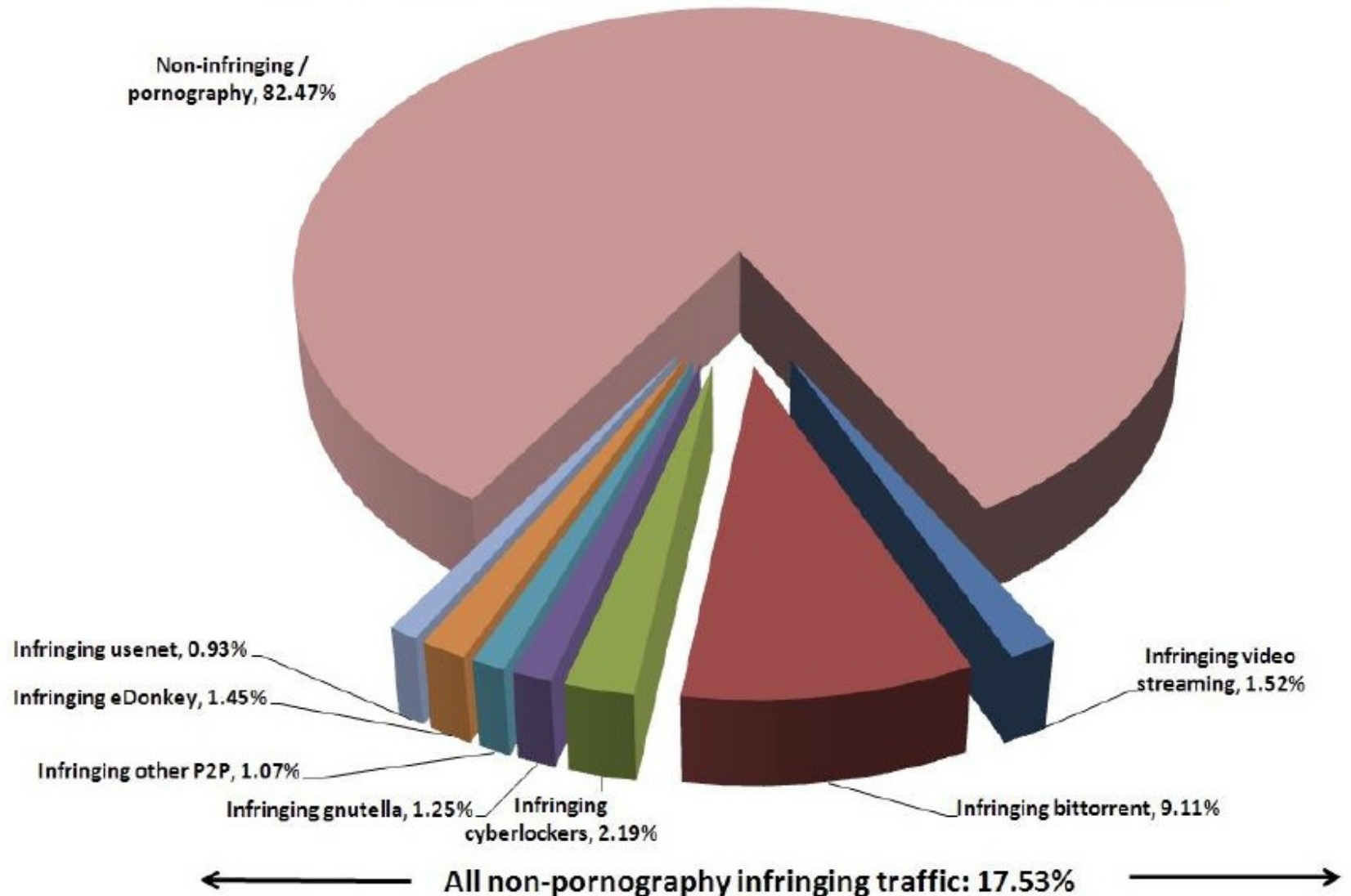
Lower willingness to pay
when objects turn into bits,
reducing unit revenue



Bad for
business
models

How many of these people would steal things? How many would buy things if they couldn't pirate bits?

Estimate of infringing use of United States internet bandwidth



Source: Envisional/NBCU (2011)

Necessary to align post-disruption capital and revenue models

Music



Newspapers



Books



DVDs



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NEWS

Report: 90% Of Waking Hours Spent Staring At Glowing Rectangles

JUNE 15, 2009 | ISSUE 45-25

PALO ALTO, CA—A new report published this week by researchers at Stanford University suggests that Americans spend the vast majority of each day staring at, interacting with, and deriving satisfaction from glowing rectangles.

Enlarge Image



Robert Horton spends a quiet night at home with his favorite entertainment rectangles.


"From the moment they wake up in the morning, to the moment they lose consciousness at night, Americans are in near-constant visual contact with bright, pulsating rectangles," said Dr. Richard Menken, lead author of the report, looking up briefly from the gleaming quadrangle that sits on his desk. "In fact, it's hard to find a single minute during which the American public is not completely captivated by these shining...these dazzling...."

"I'm sorry," Menken continued. "What were we discussing again?"


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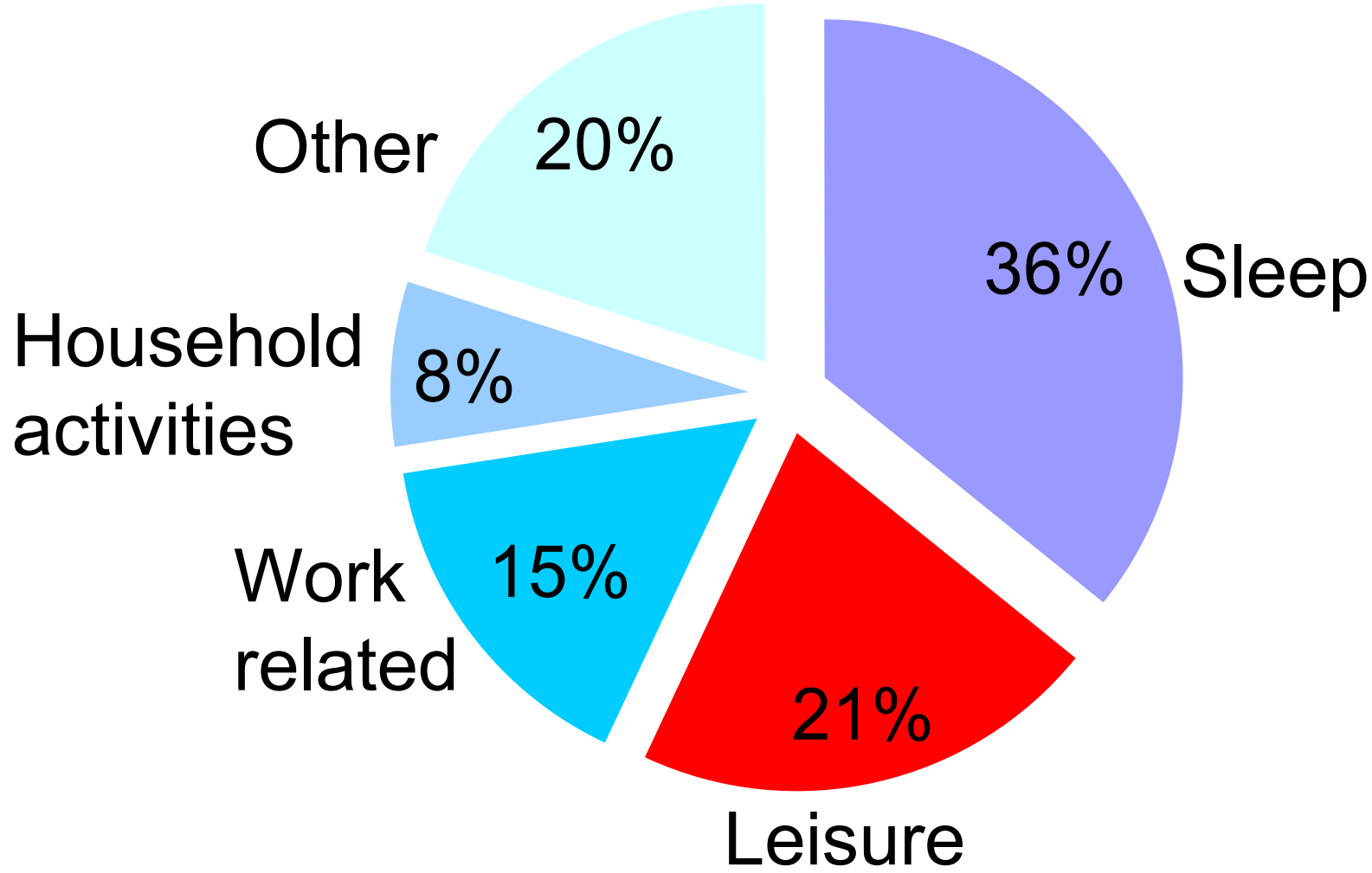
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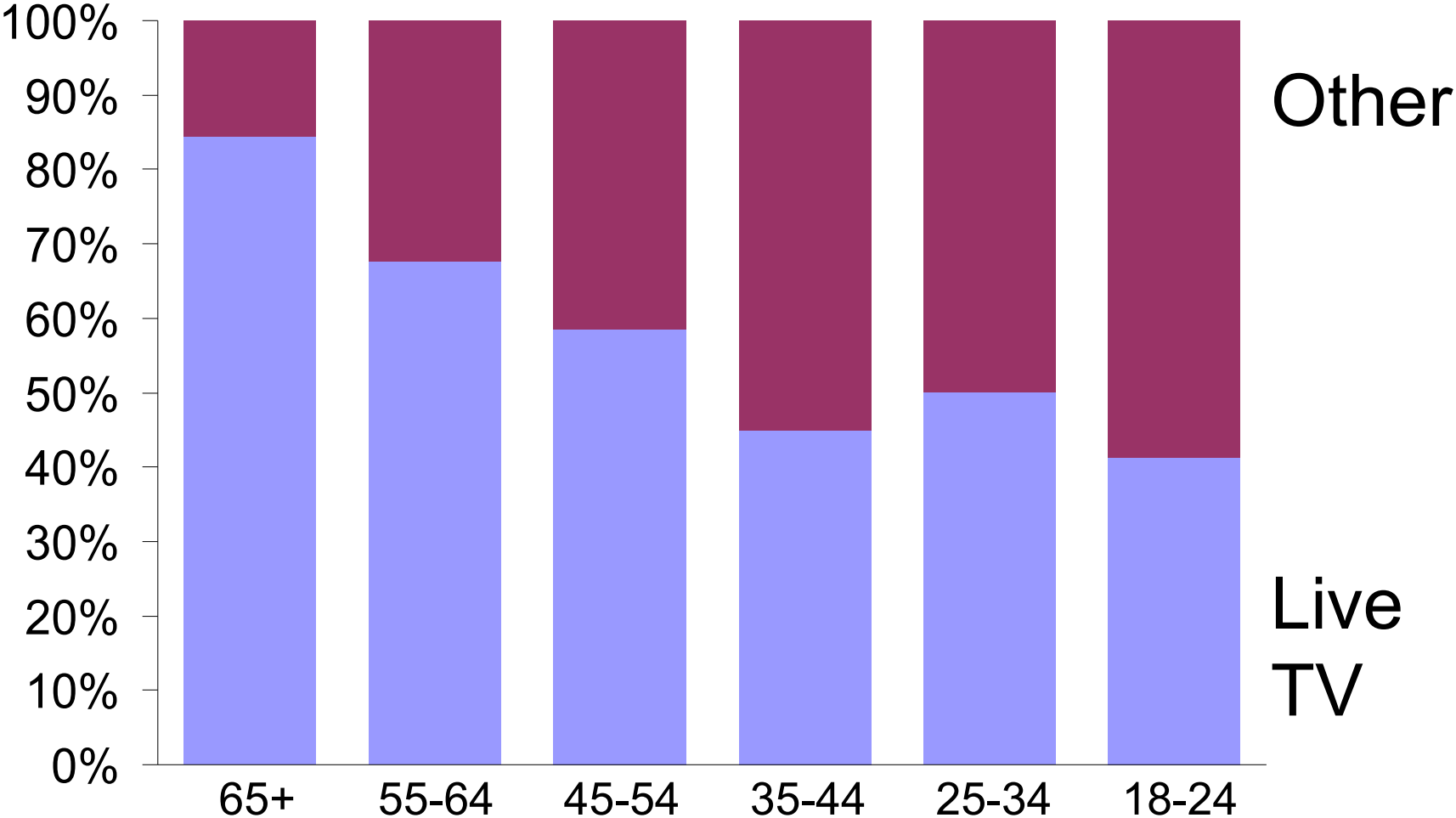
Average American day hasn't changed between 2003-2009



Source: Bureau of Labor Statistics

But less attention to live TV...

Percent of screen time



Source: Council for Research Excellence/Nielsen (2010)

...and much more fragmentation

Rank	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
65+	Live TV 421min	Web 19	Software 16	DVD or VCR 11	Email 11	Playback via DVR 7	GPS Navigation 4	Environm ental/ Other video 4	Mobile Talk 3	In-Cinema movie 2	IM 0.3	Console games 0.3	Computer Video 0.2	Mobile Text 0.06	Mobile Other 0.05	Mobile Web 0	Mobile Video 0
55-64	Live TV 346min	Web 42	Email 38	Software 36	DVD or VCR 14	Mobile Talk 12	Playback via DVR 9	Environm ental/ Other video 4	GPS Navigation 4	In-Cinema movie 3	Mobile Web 1.3	Computer Video 1.2	Console games 1.2	Mobile Text 0.4	Mobile Other 0.2	IM 0	Mobile Video 0
45-54	Live TV 336min	Software 52	Email 51	Web 46	DVD or VCR 21	Playback via DVR 19	Mobile Talk 18	IM 15	Environm ental/ Other video 5	Console games 3	GPS Navigation 3	Computer Video 2	Mobile Text 1.3	Mobile Web 0.7	In-Cinema movie 0.6	Mobile Other 0.5	Mobile Video 0.13
35-44	Live TV 230min	Web 74	Software 62	Email 47	DVD or VCR 27	Mobile Talk 25	Playback via DVR 17	IM 15	Console games 5	In-Cinema movie 3	Computer Video 3	Environm ental/ Other video 3	Mobile Text 2	Mobile Other 0.6	Mobile Web 0.6	GPS Navigation 0.3	Mobile Video 0.06
25-34	Live TV 256min	Web 56	Software 51	Email 45	DVD or VCR 35	Mobile Talk 19	Playback via DVR 16	Console games 14	Environm ental/ Other video 5	Computer Video 4	IM 3	Mobile Web 2	Mobile Text 2	In-Cinema movie 2	GPS Navigation 1.2	Mobile Other 0.6	Mobile Video 0.02
18-24	Live TV 210min	Web 67	Software 62	DVD or VCR 34	Mobile Talk 29	Console games 26	Email 20	Playback via DVR 17	IM 15	Mobile Text 12	Environm ental/ Other video 9	Computer Video 6	In-Cinema movie 1.2	Mobile Other 1.1	Mobile Web 0.8	Mobile Video 0.1	GPS Navigation 0

Fragmentation
enables some
business models

- Consumer-cloud based
- Multi-platform
hardware/software

But can disrupt
others

- Single-platform based
- Channel conflicted

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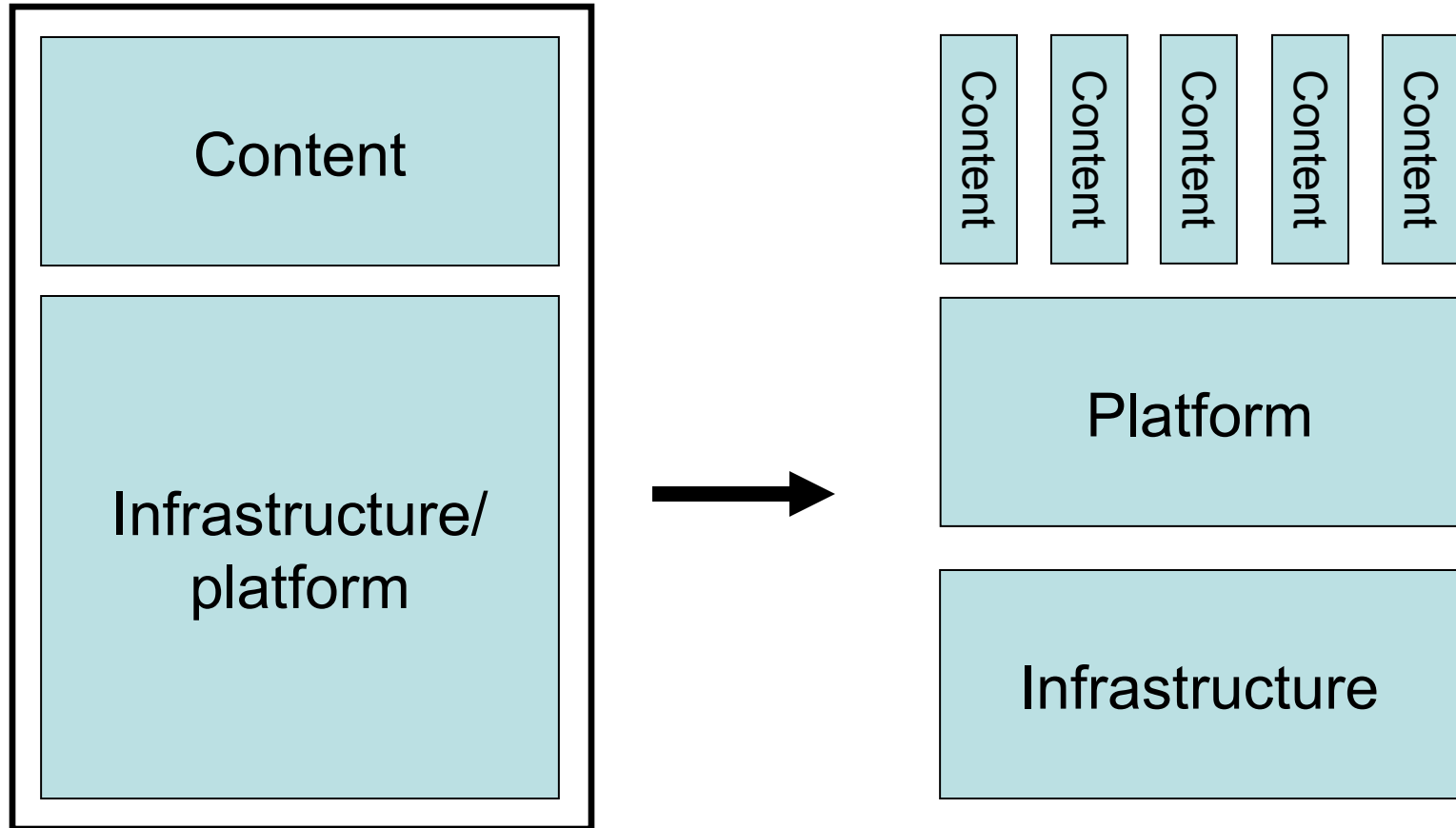
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Attention → Fragmentation

3. Disaggregation

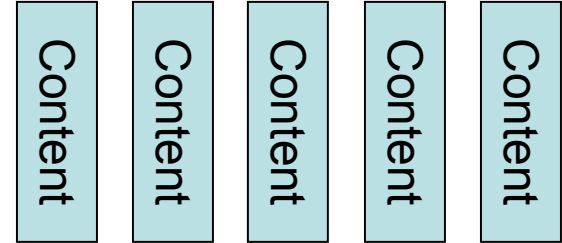
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Disaggregation disrupts integrated content business models

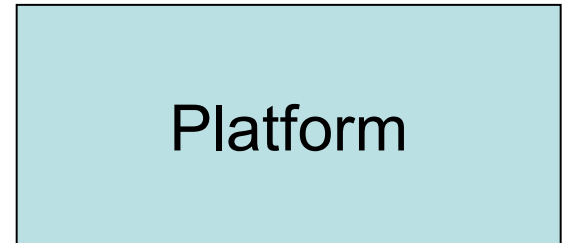


Disaggregation creates opportunities for new business models

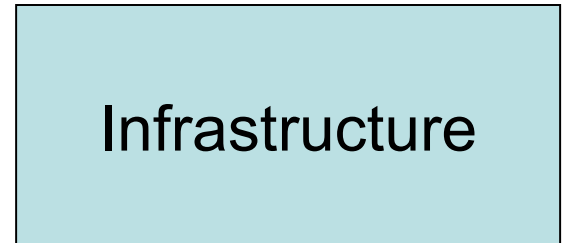
New content models (à la carte, user-generated, niche, non-profit,...)



Capital-light platform businesses (Kindle, iTunes, Netflix, Facebook,...)



Smart-pricing of “dumb pipe”



Thank you



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