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How Demand Media Is Redefining Content

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EXECUTIVE SUMMARY

While traditional media companies agonize about how to charge consumers for expensively produced content, other providers are approaching the challenge of the post-Media Meltdown content market differently. Demand Media's disruptive model uses technology to ascertain what consumers want to read or watch. It then calculates the potential revenue each piece of content can generate before tapping into a network of writers and filmmakers to create large volumes of cheap and, theoretically, profitable content. Other companies can learn from Demand Media's model, which also relies on and exploits the changing concept of what online content is for. When content is commoditized, it needs to be cheap, useful, and targeted to an existing audience. Companies should explore how technology can bring new efficiencies to their content creation and distribution.

DEMAND MEDIA'S DISRUPTIVE MODEL CHALLENGES TRADITIONAL CONTENT CREATORS

Traditional content businesses, thanks to the Media Meltdown, are facing challenges on many fronts.[1] Audiences are fragmenting, as is advertising revenue, and users are spending an increasing amount of time on social networking and gaming, among other distractions. Yet a new threat to publishers comes from an online model that seems to do what they have always done — create and distribute content — only more cheaply, more efficiently, and more profitably. By January 2010, Demand Media was creating and distributing more than 4,000 pieces of editorially curated content — text and video — every day. Its video service, eHow, is the second most-watched channel on YouTube, and it has created a network of thousands of writers, copy editors, and filmmakers who are paid to produce content that appeals to both consumers and advertisers. Demand Media is neither the first nor the only company to produce relatively cheap content on such a disruptive scale, but for good or bad (and it has its critics), Demand Media is now indisputably on the radar of every media executive.[2] So what is Demand Media doing? How does it challenge existing players? And what can others learn from its model?

Demand Media Uses Search To Create Content Opportunities

Once you consider how Demand Media goes about sourcing its content, the question is why bigger media players didn't do it earlier. Instead of attempting to second-guess what their readers or viewers might be interested in, as a team of journalists and editors would do, Demand Media uses search algorithms to identify the questions people are already asking and then creates new online content to answer those questions. So far, so Google. But unlike Google, where softer skills such as marketing, editing, or curating are apparently subservient to an overriding faith in engineering solutions, Demand Media has combined the power and ubiquity of search with more traditional curating skills.[3] Google's core business imperative — mining data to create valuable information — is also at the heart of content creation at Demand Media, the company described by one YouTube executive as "the Henry Ford of online video."[4]

- **Search can be a tool for content strategy, not a challenge.** For all the focus on rapidly growing online activities, such as online video and social networking, search is still by far the most popular online activity. Among US adult Internet users, while 50% regularly visit social networking sites and 55% regularly watch video from other users, 93% regularly visit a search engine.[5] Not surprisingly, many users consider their search engine site as their online portal: Among frequent UK internet users, for example, 39% set a search engine site as their homepage.[6] While all media companies have been trying to work out how to deal with Google in particular, few before Demand Media have so effectively embraced search as the central driver of their content strategy.

- **Demand Media combines search technology with human skills.** In mining data on what users are looking for online, the company's Demand Studios division uses a series of algorithms to generate thousands of keywords. But an army of human editors shapes these into meaningful articles that are inherently optimized for search engines. If they meet the lifetime value criteria, the company assigns them to an even bigger army of writers. Sometimes technology alone cannot +deliver what a combination of algorithms and human intervention can.

- **Demand Media calculates the lifetime value of every piece of content before it is created.** To the consternation of some media professionals whose concept of value in content is very different, Demand Media assesses every piece of content to see whether creating it will generate a profit. It calculates keyword rates to estimate what advertisers will pay to appear next to any particular title and aims to provide evergreen content that will continue to appeal in the future. Demand Media claims that the lifetime revenue of content created using algorithms is 4.9 times that of content suggested by creators alone.[7] That's a hard lesson for old media to absorb.

- **Demand Media extracts value from the whole life cycle of the product.** Demand Media's business is not just about generating content titles that will appeal to advertisers: Its focus is on monetization through the lifetime of the content by controlling both the creation and the distribution. Demand Media, rather than pinning its future success on untested models such as paywalls, is focused on maximizing existing revenues from advertisers. There may be opportunities for other companies in this space (such as Thoora) to offer a white label service to traditional media providers, but those companies will still struggle to compete with Demand Studios' low-cost model.

- **Demand Media has created a new model for content creators.** Most controversially, Demand Studios' creation of a vast network of content creators and editors (where a writer, for example, earns $15 for an article) has unleashed a tsunami of content in a way old media companies could not (and perhaps would not). Critics say Demand Media's system, typically described as a content farm, creates content that is merely good enough, not a maxim officially adopted by the newspaper industry, for example. But do the media companies have a sustainable model for continuing to provide content that meets more traditional notions of quality? While online ad revenues remain low, search is still the defining activity online, and consumers prefer free content to paying for it, Demand Media's supporters might argue that, online, the traditional media content creation model (typically dependent on cumbersome infrastructures) is no longer fit for purpose.

Demand Media's Disruptive Model Highlights The Changing Notion Of Content

Critics of the Demand Media model deride the content it generates, arguing that with such scale, quality will inevitably suffer. Ultimately, that's a call for consumers, not media companies, to make. If the content does not meet their needs, they will go elsewhere. But because the content originates in real searches, it stands a chance of finding both consumers and advertisers. Demand Media's model is clearly disruptive, but it also exemplifies the changing nature of online content in a number of ways.

- **Content as commodity.** Frankly, for most consumers (and most advertisers), most content just isn't worth much. Yes, consumers are willing to pay for access to content, but why would they pay for individual pieces of content when so much is freely available?[8] Commoditization has already devalued content. But rather than bemoan relatively low ad yields for online content, or rage against consumers' pesky reluctance to pay for the stuff, Demand Media has responded by matching the cost of generating and distributing content more realistically to the value it can generate.

- **Content as marketing.** Demand Media's eHow channel on YouTube also creates new opportunities for brands to create their own search-optimized content to engage consumers — Gillette's sponsored series of clips on male grooming, for example — and therefore creates new revenue opportunities for content aggregators. We have addressed in previous reports the opportunities for brands in a post-Media Meltdown universe to use content: Brands should consider working with content aggregators such as Demand Media (or others in this space) as part of their wider content strategy.

- **Content as utility.** Content is now, for many, a utility in both senses of the word: an essential service, similar to water, electricity, or telephony, and also something that is useful to the user. Indeed, a key lesson from the popularity of Demand Media's content is the value that users ascribe to content that is helpful and actionable. In traditional newspapers, star columnists and op-ed writers are at the top of the hierarchy. But online consumers (and advertisers) prefer content that is inherently useful for consumers with an immediate need, whether they are making a soufflé or buying a digital camera. Demand Media's calculations support their belief that "How To" or "Ten Best" articles will invariably generate more lifetime revenue than reflective pieces. Interestingly, this lesson is also being learned by media companies using paywalls: One major European publisher has found this useful content to be the most popular among its paying subscribers.

- **Content as community.** Demand Media's business incorporates not only Demand Studios, but also Pluck, a social media platform that a number of high-profile media companies use to manage their community interaction. The company, therefore, has a keen sense of how social media tools can create communities around particular passions or topics, communities that are valued by consumers and advertisers. Others may crank out content, but knowing how to create and monetize communities is an overlooked ingredient in Demand Media's secret sauce.

WHAT IT MEANS

CONTENT CREATORS WILL HAVE TO EMBRACE NEW MODELS TO SURVIVE

Demand Media's success so far can be attributed to its clear sense of how to construct new models for content creation and distribution. In the medium term, others in the content value chain will adopt some of these disruptive models as the current media models become increasingly untenable. We can expect, therefore, to see the following becoming mainstream trends:

- **Content creation will become significantly cheaper.** More new models will be developed for tapping into a knowledgeable, willing, and cheap network of collaborators. For example, the kind of content we see now in *The Guardian's* compelling blog section, "Comment Is Free" (powered by Demand Media's Pluck) , where the community of readers contribute more than 200,000 comments each month, will become more central to traditional news providers' sites.
- **Content creators will evaluate the return on investment of content.** As the focus on monetization becomes more intense, evaluating the potential return from every piece of content created will become the norm, however much it offends the sensibilities of traditional media companies.
- **Brands will increasingly offer useful content to their consumers via content aggregators.** Branded content won't just focus on replicating existing formats such as 30-minute TV slots or dedicated TV channels. Short-form content with a focus on utility rather than creativity will be an important tool for engaging consumers.
- **Successful media companies will do what they do best and "technologize" the rest.** In other words, media companies will increasingly use technology to reduce cost and increase effectiveness in content creation and distribution.

ENDNOTES

[1] The Media Meltdown — where traditional media business models based on scarcity and control are fundamentally challenged by the new realities of digital media consumption — is creating huge problems for media companies that create and distribute content to users. Users want more and more content for free, and advertisers are struggling to engage fragmented audiences. But as we move from a distribution paradigm to a consumption paradigm, the meltdown is also creating opportunities for non-media companies — including telcos, hardware manufacturers, and fast-moving consumer goods (FMCG) brands — to increasingly use content directly to engage users. In other words, they can become media companies — and, as such, they have to embrace new ways of thinking. See the July 7, 2009, "We Are All Media Companies Now" report.

[2] Other players in this space include About.com, Associated Content, Suite101.com, Howcast, and VideoJug, for example.

[3] This is certainly the impression given in Ken Auletta's book. Source: Ken Auletta, *Googled: The End Of The World As We Know It*, Virgin Books, 2010.

[4] Jordan Hoffner, at the time director of content partnerships at YouTube, was quoted in Wired.com. Source: Daniel Roth, "The Answer Factory: Demand Media and the Fast, Disposable, and Profitable as Hell Media model," Wired.com, October 19, 2010 (http://www.wired.com/magazine/2009/10/ff_demandmedia).

[5] The Media Meltdown has fundamentally changed the way consumers access content. As traditional media companies struggle with their business models, their content is now just a component of a more fragmented and interactive landscape — one in which social media and content are, for many users, increasingly intertwined. For non-media companies using content directly to engage consumers, the barriers to entry have never been lower, but with so many Web sites competing for eyeballs, the competition has never been fiercer. While paid media remains vital to marketers and strategists, owned media — content created to engage directly with their consumers — is an increasingly important tool and is part of a wider content strategy. For many marketers and product strategists, this is pioneer territory. But how can those tasked with creating, packaging, and distributing such owned content ensure it will be successful? By measuring and evaluating their offerings using Forrester's Digital Content Review. Those without a content strategy heritage must quickly learn and adopt media product strategy expertise. See the March 4, 2010, "Evaluating Owned Media" report.

[6] Source: Forrester's Q4 2009 UK Internet User Study. This is the representative of 37,719 UK frequent Net users.

[7] Demand Media mentioned this in a briefing with Forrester in January 2010.

[8] Forrester argues that users are willing to pay for access to content (happily paying for broadband access, pay-TV or mobile data packages, for example) but are broadly unwilling to pay for content per se.