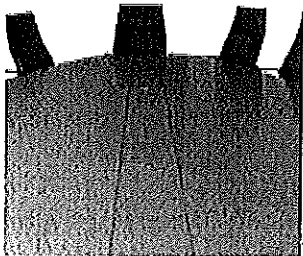


VC Roundtable: What Media Models Work?

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Alloy Ventures Azure Capital Canaan

PartnersMayfield Fund



Today, at the first PaidContent conference taking place in New York, stakeholders in the content industry have gathered to debate the latest business models for digital content.

Of course, many of these new media models will get launched thanks to venture backing, so I thought I'd ask four veteran investors the question: In today's volatile media environment, which models are working, and why?

Ammar Hanafi, general partner of Alloy Ventures:

When we look back, 2009 will be seen as a watershed year for the U.S. media industry. The economic downturn created enormous pressure for traditional media models, and the increase in online audiences pushed every type of media organization to the Web. What was "new media" is now simply "the media."

In this world of profuse media outlets and huge audiences, the winners will be the ones who develop deep relationships with their segment of loyal consumers. These loyal consumers are not only an attractive advertising target, but they will also pay for premium content from their trusted media sources. They may buy this content via subscription or "by the drink." They may consume it via a browser, iTunes or a Kindle, or an iPad. They may be sitting at their desk, on the couch or on the move, but consumers will pay for what they perceive is valuable.

Whether it's GigaOm Pro subscriptions, Netflix streams or Kindle e-books, premium content delivered electronically will have a banner 2010.

Mike Kwatinetz, general partner of Azure Capital:

Azure is focusing on three different media models that seem to work quite well.

First, we are interested in destination sites that target an appealing demographic for advertisers—like women or parents or foodies—and that are able to create very compelling professional content at a fraction of the cost of traditional media. By keeping the cost low, long-tail content can be profitable.

The second type of site is what we refer to as "powered by" players. Such players are able to increase the monetization for destination sites by offering a partnership that drives incremental monetization. The best known example of this is Google with AdSense, but a newer model would be someone like BlogHer that offers a community and advertising network to bloggers and gives them much better monetization than Google.

Bill Me Later, an Azure company, helped companies increase monetization by about 5% through adding another payment option.

Cooking.com and EzRez, also Azure-backed companies, enable other sites to increase monetization through adding a store to

the partner site, such as Cooking.com, or adding additional products to an existing store, like EZRez.

The final type of media model that can be quite successful is a company that creates and syndicates content to others. This is especially effective when the partner can monetize additional content very well. A good example of this is Rooftop Comedy, which has the largest library of professional comedy content. Partners like Yahoo and others can add this content to their site and monetize it, sharing revenue with Rooftop.

John Balen, general partner of Canaan Partners:

There are several media models that are working extremely well to generate revenue. First, there is iTunes, which revolutionized the music industry at a time when everyone was saying music was dead. No one would ever make money on it again, etc., but iTunes got it right in several ways, with broad content library, low prices, and iconic proprietary hardware players.

Kindle, Hulu, Netflix, and Pandora are the other media models that fundamentally have changed the way we consume movies, books and music.

But which media models are set to emerge as the next game-changers? The media models of the future will be social in nature, like Associated Content, which has compiled over 1 million unique pieces of content from over 250,000 contributors, who are compensated for their work as it's syndicated across the Web.

Blurb allows anyone to create and publish a book, then sell it themselves through community-driven marketing. By making the media experience social instead of individual, media companies become the glue between communities.

Rajil Kapoor, managing director of Mayfield Fund:

Two models work well in this environment—either a very large-scale, mass market social service, such as social games, or a targeted vertical media property with a network effect that drives e-commerce or service transactions.

An example of a large scale services is Tagged. It is a social network that is focused on social discovery, enabling the mass market to meet new and interesting people and play games online, whereas Facebook is focused on communicating with people you already know. Tagged has grown to 80 million users.

A targeted media property example is Fixya, which is now the largest tech support community in the world, with over 20 million users per month and profitable. It drives both product sales related to the products that have issues as well as premium service revenue from its consumers tapping into its army of crowdsourced experts.

The more users, the more content gets added to Fixya, which in turns attracts even more users, enabling a virtuous cycle and network effect.