

The Digital Media Economy

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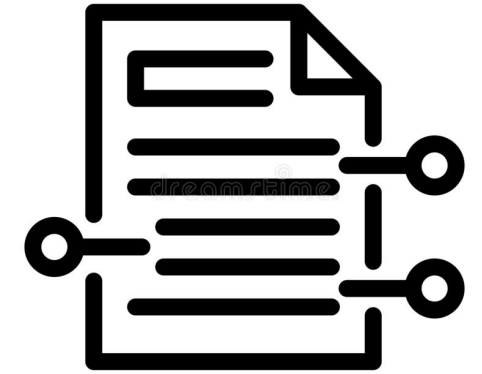
Lecture 10

DGM 711
Introduction to Digital Media



- **Power relations** are now also systematically organized around **digital media** and the **networked public sphere**
- There has been an **increase** in the number of **citizens** who **access information and participate in political debates through digital media**.
- **Digital divide** is the **difference in access to network technologies** that occurs **between rich countries and poor countries**, which depends on **the type of society** **Policies** related to **access to and transparency of information** .
- Several **Western governments** operate **surveillance systems** that allow them to **record** all **phone and online interactions**.
- **Web corporations** capture **users' data** to **improve their services** or provide **personalized advertising**.
- **Individuals** can choose specific **strategies** to **resist surveillance**, such as **encryption** or **refusal** of participation in the commercial web services

- I. The Digital Capitalism .
- II. Digital Media Economic Models and Actors.
- III. The Startup Economy .
- IV. The Sharing Economy .
- V. Conclusion.



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I. The Digital Capitalism :

- The **success of companies** that produce and manage **digital technologies or services** is immense.
- The magnates of the **digital economy**, such as **Microsoft's Bill Gates**, **Amazon's Jeff Bezos**, and **Facebook's Mark Zuckerberg** are among the **wealthiest** individuals in the world, and in some cases the **value** of their **companies** has exceeded even that of **global oil corporations**.



- According to estimates, in early 2018 **Google, Amazon,** and **Apple** had a **market value** of **more than \$700 billion** each, followed by **Microsoft** and **Facebook** at respectively about **\$600 and \$400 billion**.
- Web giants are so **rich** as to **influence the development of global capitalism** through their **investments**.

Google

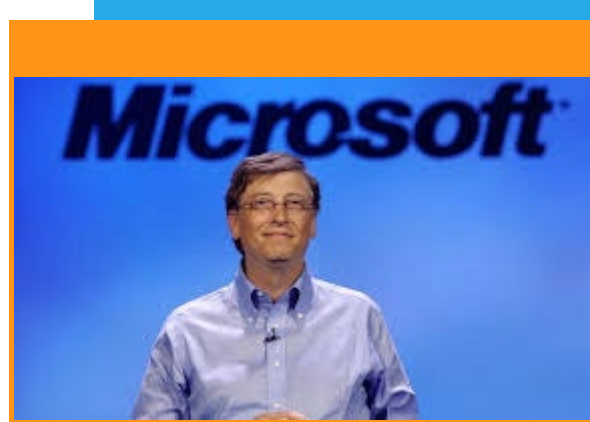
amazon

Apple

Microsoft

facebook

- This **economic power** is combined with the ability to participate in the evolution of the dominant **ideologies** that underpin **Western societies**.
- **Bill Gates** himself talked about a “**frictionless capitalism**” mediated by **digital technologies**, in which **free flows of capital, information, goods, and labor** are not hindered by regulations or borders.



I. The Digital Capitalism :

- In a sense the **kind of capitalism** advocated by **Bill Gates** would be based on the fusion of technocratic and liberal ideals, and corresponds to the **project** of a **fully capitalist information society** in which barriers to **free enterprise** are overcome through the **deregulation of labor and financial markets**, the **weakening of nation-states**, and the **evolution of digital technologies**.
- The **theories** on the **transformation toward digital capitalism** represent an attempt at explaining the **evolution of information societies**



I. The Digital Capitalism :

- Scholars have depicted the birth of a **communicative capitalism** in which affective and **communicative skills** are the main elements of **capitalist production** (Dean 2005).
- In this model, **communication activities** are **commodified** and their main feature is the **circulation in spaces mediated by digital technologies** rather than their **content**.
- Yet the **technologies** developed by **digital capitalism** are **not neutral** but rather designed and adopted to tame and **control human labor** and **extract value** from it.



- **Digital capitalism** evolves out of older forms of **industrial capitalism** and **media industries**.
- But it has also shown it has the ability to **change** by **co-opting** forms of **alternative production**.
- **Non-profit institutions** such as **Wikipedia** would thus provide a “**cultural infrastructure**” that represent a kind of **social and cooperative production** which takes place in **web enterprises** .



- **Countercultures** are **co-opted** too, as **alternative technologies** or organizational practices developed by **hacker communities** provide a source of ideas for **digital capitalism** .
- For example, **hackatons** are design-centered events traditionally used by **hacker groups** to collectively write a piece of **software** or an application.
- **Independent hacker media** such as **Internet Relay Chat (IRC)**, an early **text-only chat technology**, have inspired commercial social media such as Twitter .



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II. Digital Media Economic Models and Actors :

- **Digital media** have a great **economic** relevance.
- **Digital technologies**, such as **personal computers**, **smartphones**, **digital televisions**, or **tablets**, are part of a **global market** for consumer products.
- This **market** supports the **economies of areas** that produce **hardware** components, such as **East Asia** , and others that manage **innovation and marketing** processes, such as the **United States** .



- In addition to the market in hardware, **digital media** have given rise to an **economy** that is directly **based on web services**, such as **search engines, social media, or platforms for content distribution**.
- Since the mid-**1990s**, mass consumer access to the internet has unleashed **successive waves of investments** and **new business models** that support these **companies**.
- On the other hand, **technological innovation based on digital technologies** has introduced new **possibilities and constraints** for all **companies** that produce and exchange **information**.



- In many case, this means a **deep change** in terms of **models** of **production, commercialization**, and **funding**.
- While the **wealthiest companies** of the **information economy**, such as **Google, Amazon, Apple, Facebook, and Microsoft**, tend to be the **most visible** in the press and public discourse, **digital media** have a broader **impact on contemporary economies**.



Chapter 10

II. Digital Media Economic Models and Actors :

- We will analyze some of the most common **business models** of **digital capitalism**.
- Some **companies** simply **sell content** distributed through digital networks.
- This was the idea behind the so-called “**dot-com**” **companies** of the **1990s**, that is that the web was a “**content library**” that could be accessed by a mass of customers.
- In **the content distribution model**, customers can be **charged** for accessing online content.
- This **business model** still exists in some sectors but has become less and less sustainable in others.



• **com**

- The arrival of **services** such as **YouTube**, or **social networks** such as **Facebook** and **Instagram**, has given **users** new ways to **distribute content** that they **produce themselves**.
- This is an **alternative** to **content** produced by **cultural industries**.



- Other sectors, for example **television**, have seen the emergence of new successful actors such as **Netflix**, which sells **subscriptions** to a portfolio of TV content.
- Companies such as **Netflix** have been described as working “at the **intersection**” of **content distribution**, **advertising**, **technological evolution**, and **finance** .
- In fact, while most of their **revenues** are based on **subscriptions**, they also play a role in **advertisement** and in **financial markets**.



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II. Digital Media Economic Models and Actors :

- Many **newspapers**, such as **The Globe and Mail** in **Canada** or **the Corriere della Sera** in **Italy**, do not charge for access to their websites via computers but are able to **sell content** to users of their **smartphone app**.
- Indeed, **accessing content via applications** for tablets and phones adds value to the content and is perceived as worth a **subscription fee**.



- Since the rise of the **collaborative web** in the early **2000s**, platforms which foster **user participation** through their technological architecture and **business models**, such as **wikis**, and **social media**, have emerged.
- Platforms based on **user generated content** facilitate user creation and sharing: **WordPress** makes it very easy to create and maintain a personal **blog**, **YouTube** allows **video sharing**, and **TripAdvisor** gathers **reviews** of hotels and restaurants.



- **The economic model** of these **companies** is based on **user co-creation**.
- **TripAdvisor** asks **users** to create the bulk of the **content** of its website, such as **reviews** and **ratings**, that is, votes on the quality of a service or business.



- Many **services** based on **user-generated content** have recently adopted a **hybrid model**.
- For example, **YouTube** has increasingly been “**institutionalized**” through the inclusion of **content** produced by **professionals**, such as **music video clips or commercials** .



- Most **services** for **user-generated content** are **free** to the **user** and rely on **advertising** as their main source of revenues.
- This is the case for **social media services**, but also for **search engines**.
- Both tend to generate and analyze **data** from **user** behavior and communications, and use it to provide **targeted advertising**.





- **Social media services** such as **Facebook** follow similar patterns: they invite **users** to **create content** that will make the website enjoyable and the user experience interesting, and then **sell targeted ad services to advertising agencies**, based on surveillance and data analytics .
- This makes **online services** similar to **traditional broadcast media**, as commercial **radio** and **television** also depend on **advertising**.
- However, the **advertising market** that supports the **web economy** is **different** from older ones.

- Initially, **websites** were publishing **ads** the **cost** of which depended on the **number of visitors** to the site, just as in **broadcast media**.
- Publishing an **ad** in **The New York Times** is **more expensive** than publishing it in **The Toronto Star**, given that the first newspaper has many **more readers** than the second.
- Today, however, more sophisticated **models** have emerged.
- With **click-through systems**, **advertisers** pay a **fee** based on how many **visitors click on an ad** and actually access its content.



- In sum, the provision of **free services** made possible by the collection of massive **advertising** revenues represents one of the prevailing **economic models of the web**.
- But is it a **sustainable model**?
- So far only a **few companies** have managed to attract **sufficient advertising revenue** to underpin their **market valuations**.
- At the same time, other partially **different models** are at play.



- **LinkedIn**, a social network for professionals, requires the **payment of a subscription fee** only to **users** who want to have access to its “**premium**” **services**.



- Major **web companies** such as Twitter are the result of the **startup economy**, i.e. an economy based on new emerging companies.
- The phenomenon is closely linked to the development of **Silicon Valley** since the **1970s** and has consolidated around a few **shared characteristics**.
- Most **startups** are launched by **young people** and are based on a **product**, often digital, or on the **application** of a technology, such as an **app**.



- Many are based on a combination of **ecommerce, social media, smartphones, and big data**.
- **Startups** often pass through an **incubator**, that is a place that provides a **training program** in which the **company** is assisted in the realization of its idea, the design of a business plan, and the preparation of a pitch – a brief narrative that presents the idea to potential **investors** in a concise and attractive manner.
- At the end of the **incubation phase**, **startups** are ready to compete for **investment**.



- Some **small startups** make use of **Kickstarter** and other **crowdfunding platforms** to accumulate a small initial **capital**.
- In addition to providing **financial assistance**, a successful **crowdfunding campaign** contributes to the **intangible value** of the **startup** by making it **appear attractive** to **investors**.
- Instead, venture **capital funds** bet on **high-risk** private **investments**, particularly in the **hi-tech** sector.



- Usually venture capital “**participates**” in **startups** by acquiring a share of their capital, which can be sold in case of **success**.
- Because of this logic, a **startup’s success** is not measured in terms of growth on the market, but on its **financial evaluation**.
- This **value** can be monetized in **two ways**:
- **Acquisition** by a larger company (e.g. **WhatsApp** was acquired by **Facebook** for **\$19 billion**) or on the **stock exchange**.



- The **startup system** is organized around **two key concepts** that illustrate its **position** in the **digital economy**.
- The **first** is “**ideas are cheap**,” that is, the **success of a startup** does not depend on the quality of its core idea but rather on its **team**.
- This is why the **incubation** and **training process** is focused on giving a **desirable cultural** form to ideas, teaching **teamwork**, and **brand building**.
- The challenge is not to find the best idea, but rather to **handle complex forms of collaboration** within a calculable risk.



- **The second** key **concept** is “**disruption**,” which suggests that **the best innovations** are not cumulative or incremental, but possess the ability to **turn entire industries upside down** .
- This is the **model** followed by **Amazon** with bookstores or **Uber** with taxis.



amazon

Uber

- In fact, truly disruptive **companies** are able to **create new needs** from scratch: no one needed **Facebook** before its launch.
- But **many startups** tend to favor the **replication of successful models**.
- We are witnessing the birth of the **Uber for take-away food**, the **Uber for laundry**, etc.

facebook

Uber
Eats

UBER FOR
LAUNDRY

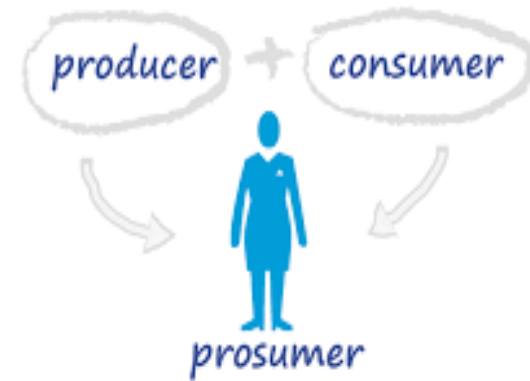
- The **flexible forms of production** have been adapted to interact with the **market economy** and large **multinational companies**, for example through phenomena such as the so-called **sharing economy**.
- This expression emerged in the course of the **2010s** to describe a series of **platforms** through which **people** can establish processes for the **exchange** of **goods** (such as homes or tools), **services** (such as car rides or senior care), or knowledge.
- As a result of the **technological success of social media** platforms and, above all, of **mobile apps**, the **sharing economy** gained strong public visibility.



- This form of “**collaborative consumption**” has been presented as a possible driver of **economic development**, as it generates **new businesses** and **new forms of employment**, and as a solution to the social alienation of contemporary societies, as it creates new forms of **solidarity** and new **relational networks** (Hamari et al. 2016).



- This is not an entirely new phenomenon, but rather part of a trend toward a progressive intertwining between **productive and consumption activities** that people undertake in their daily lives.
- Since the **1980s** the term **prosumer**, which combines the words “**producer**” and “**consumer**,” has been used to define individuals who have an active role in processes of both creation and consumption of goods .



- By stating that “**markets are conversations**,” in **2000** the authors of the **Cluetrain Manifesto** provided an understanding of this convergence based on the idea that the internet gives **individuals** the opportunity to enter into **virtual markets** where they can actively **discuss** products, for example by **reviewing** a book on **Amazon**.
- **Companies** must take these **informed customers** into account and stimulate and **participate** in their **conversations** .



- A more radical approach to this **transformation** refers to the **prosumer** as the **individual** who, while **consuming** or **socializing** through commercial web platforms, **produces free information** that **companies** can use and appropriate.
- Interacting with friends on **Facebook** or reviewing hotels visited during a vacation on **TripAdvisor** can be seen a form of **unpaid work**, since Facebook and Trip Advisor's value and revenues depend on the **wealth** of this **user-generated content** .
- This model has been criticized as **exploitative** .



- For example, in many cases **the intellectual property rights policies** used by these **companies** do not protect the **creators** who contribute to collaboratively producing content through their platforms.
- By **agreeing** to the **copyright clauses** they accept when signing up to an online service, **users** give away many **rights** to the **information** they **create**.
- In this way, **web companies** are **legitimized** to **extract revenues** from production processes they promote and manage.





- The **information economy** is a dynamic economic sector, dominated by **new players**.
- Microsoft's **Bill Gates**, Amazon's **Jeff Bezos**, and Facebook's **Mark Zuckerberg** are among the **wealthiest** individuals in the world.
- They **influence the development of global capitalism** through their **investments**.
- The **global market** supports the **economies of areas** that produce **hardware** components, such as **East Asia** , and others that manage **innovation and marketing** processes, such as the **United States** .
- Some **web companies** simply **sell content** distributed through digital networks.
- Most **services for user-generated content** are **free** to the **user** and rely on **advertising** .
- **Startup economy** is based on new emerging companies often pass through an **incubator**.
- **Prosumer**, which combines the words "**producer**" and "**consumer**," has been used to define individuals who have an active role in processes of both creation and consumption of goods .

Thank you for listening

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