Some Free - Some Fee: the Emerging Business Model for e-Content Web Sites

By Meg Murray, Ph.D., and Ravi Narayanaswamy, MSIS Kennesaw State University, Kennesaw, Georgia

Email: mcmurray@kennesaw.edu

Dr. Murray is an Assistant Professor of Information Systems specializing in e-business systems and healthcare information technology.� Ravi Narayanaswamy is a doctoral student at the University of South Carolina, Columbia, South Carolina

Abstract

The rapid emergence of E-commerce with its competitive characteristics has transformed the business landscape. In its short lifespan of little more than a decade, the Internet marketplace has already seen a dramatic cycle of high peaks and low valleys. E-content sites, whose primary product is information, have had the most difficulty sustaining profitability.� The central proposition is that a firm�s business model is an important locus of innovation and a crucial source of revenue creation for its stakeholders.� Consequently, the question has become how can an Internet business and e-content Web site, in particular, support a sustainable business model.�� There is a definite trend occurring away from the totally free content site to the hybrid model of charging for some e-content fittingly termed the �some free - some fee� model. The �some free - some fee� model is one approach that will enable online e-content businesses to create revenue while still offering free content to which many Web users have become accustomed.� Understanding the underlying principles of, and the movement towards, the �some free - some fee� model will assist e-content organizations in the transformation of their business model to ensure their survivability in the volatile Internet marketplace.

Introduction

The rapid emergence of E-commerce with its competitive characteristics has transformed the business landscape. The idea of e-business, business conducted via the Internet, is a relatively new phenomenon.� It was just a little over a decade ago when many business experts argued that the Internet would not become a medium for business.� While the argument has subsided, the true value of the Internet and the e-business model as a primary driver for business success is still being scrutinized.�� With the dot-com burst in 2000/2001, the concept behind the e-business model has been undermined and discredited (Osterwalder & Pigneur, 2002). A report from Webmergers.com (2001) on reasons that lead to the failure of dot-com companies revealed that many Internet companies did not have a sustainable business model.

One of the most popular types of Web sites that emerged from the very beginning of the dot-com era was the e-content site.� The primary purpose of these sites is to provide information (i.e. content) in a digital format and deliver it electronically.� E-content sites encompassing a multitude of areas of interest from those providing technical information to those focused on entertainment quickly arose and in keeping with the spirit of access to �free� information espoused by the Internet, most of these sites offered their content without a fee.� However, the truth is that there are costs associated with creating, collecting and disseminating content and businesses providing content as their primary product must have a way to not only recover costs but also to generate a profit.� As Mark Glasser (2002) succinctly points out, �Information on the Internet wanted to be free� but was imprisoned by �bad business models.�

The early e-content sites, rather than having a multi-faceted business model or even a long-term revenue generation strategy, relied heavily on advertising revenue.� When advertising revenues plummeted, many e-content sites became victims of the dot-com bust and many that have survived are struggling to stay in business.� While online advertising remains pervasive, the industry is pretty much in agreement that the traditional banner ad medium no longer provides the revenue needed to run most sites.� As banner ads become less effective among consumers and less desirable among buyers, there is urgency in the search for new revenue models acceptable to Web publishers and Web users alike (Baatz, 1996).

The opposite end of the spectrum for e-content sites is to offer no free content but instead implement a fee for service usually based on a subscription model with fees assessed annually, monthly, weekly or daily.� Subscription models have come in and out of vogue on the Internet with few success stories. In late 1990�s, many companies who tested the subscription model deserted the model in favor of advertising. At the same time, the number of Web sites offering content increased dramatically increasing competition in the quantity and quality of information freely available.� Further, many major e-business companies and e-business portals began to use content as a bargaining chip�they exchange content, or provide it for free to attract consumers hoping to boost sales of tangible goods. These events make it hard for e-content companies to return to a pay-for-content revenue stream even though there is a growing voice in the online publishing industry that believes profitability requires breaking the Internet's great taboo, charging a subscription to enter a site (Gates, 2002).

Some Free - Some Fee Model

In this increasingly dynamic and uncertain business environment, e-content sites must gain a firm understanding of the e-business models that facilitate success.� E-content sites must move away from what Miller (2001) pointed out as a source of failure for many dot coms, shoveling existing business models onto a Web site - or copying another company that did it.�� According to Raapa (2001), a business model is �a method of doing business, by which a company can sustain itself - that is, generate revenue�.�� A company through its business model spells out the way it makes money by specifying where it is positioned in the value chain. Most importantly, then, the components of the business model must deliver some unique value to the consumer.�

Generating that unique value is a challenge for the e-content site.� On the Internet, the consumer wants the content to be free.� However, the question in today�s �New Economy� is how can e-content companies survive while recognizing that keeping free content off the electronic market does not make a good long-term strategy. Today�s market needs ways to generate revenue that do not rely on a �free-for-all� marketplace (Winder, 2001).� The model that is emerging lies between the extremes, a model where some content is provided free while other content or services related to that content are provided for a fee.� The trend towards a hybrid model of charging for content is rapidly being adopted by many Web sites. The model represented by these sites can be termed the� �some free � some fee� e-business model.

E-content sites are caught between a high risk of failure and an unproven track record of successful business models.� There is movement towards the fee based Web site but not enough evidence is available to ascertain whether consumers are willing to pay to access Internet-available content.�� Migrating to a �some free � some fee� model mitigates the risks of the unknown behavior of the consumer.� Further, the �some free - some fee� model opens the door to experimentation in ways the model can be operationalized as demonstrated in the following examples.

The classic example of cable television supports the movement to a hybrid model. The original business model for television broadcasting was free programming paid for by advertisers. During the 1960�s, the evolution of cable television lead to the emergence of new model, which charged a monthly fee for delivering programs to remote households that could not receive them over the airwaves (Winder, 2001). The changes in the technology ushered in Home Box Office, the first movie pay channel touting no advertising.� People�s willingness to pay a monthly fee in return for better content and ad-free movies proved the success of the pay-for-content model. In short, this changed the free-content model forever and paved the way for expansion of the pay-for-content model (Winder, 2001).�

Britannica.com went online with their encyclopedia in 1994 offering a subscription service, ranging from $5 per month to $50 a year, that grew to reach 75% of all US college students (Reibstein, 2001).� As with many other e-content sites, Britannica.com opted to abandon these models and began offering free content on the bet it would draw advertising and sponsorship revenue. When the free Britannica.com debuted, a surge of 10 million visitors forced the site to temporarily shut down. That popularity did not translate into monetary success and the move to free content cannibalized the company�s online business with college and university libraries. By 2000, the economies of the model changed triggering the need for Britannica.com to diversify their sources of revenue (Reibstein, 2001).� Today, Britannica.com offers access to a limited amount of free information and charges a subscription fee for access to an expanded collection of information resources. In addition, they still offer their products, at a fee, on CD-ROM. Don Yannias, Britannica.com's CEO, stated, "We are out there in the marketplace, however, and we're convinced that a diversified business model combining free and fee-based subscription-supported products is the road to success."

Ars Technica is a technology content-subscription service provider that offers information on IT technologies. Initially Ars Technica offered all services for free. When Ars Technica lacked monetary resources to run the site, they began asking users to voluntarily donate funds to keep the site going. Today, however, the �some-free-some-fee� business model Ars Technica is employing is a value-added services subscription model.� Two subscription levels are available which include such services as access to a PDF repository of content, image hosting space, specialized topic forums and unlimited postings in all Ars Technica sponsored forums.� Ars Technica commits that �the main content they offer is, and always will be, free.� But with a basic subscription fee, Ars Technica promises to deliver a richer content to its consumers (ArsTechnica, 2002).

Conclusion

As e-content sites rely on the Internet as a source of revenue, it will become imperative that they identify and employ sustainable business models. The Internet marketplace has been fertile ground for experimentation of creative revenue generation schemes. The Internet was designed to promote information exchange and the majority of that information was provided free of charge. Even the earliest business models on the Internet supported free content by generating revenue through advertising. For many reasons, the early business models employed in the Internet marketplace are no longer generating sufficient income to cover expenses. However, the consumer expectation of free content remains. The challenge for e-content Websites will be to find a way to transform their �give-it-away� business models to a �some free - some fee� based model. The way they must do this is to define the term �value� to the consumer and continuously offer value when it comes to electronic content-based products. Value here simply means anything that enhances productivity; in this case it means improving the access or use of digital content. A �some free - some fee� transition is one way to acclimate consumers to the realities of the new economy of the Internet marketplace.

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