The Pricing of Content

A report on the behavioural economics of content, what readers will pay for it and how to collect their money

Leigh Caldwell

1. Introduction: A challenge to the media sector

Among industry sectors, media faces unique challenges in the face of Internet distribution:

- the difficulty of controlling access and therefore defending a price
- the fact that it is increasingly consumed in small chunks, which individually may be worth giving away but collectively are a valuable product
- the evolution of the advertising sector towards search engine advertising and the growing power of Google to control the consumer

But it also has unique opportunities to counter this:

- as the economy grows, media comes to encompass an ever greater part of daily life and consumption
- in the richer economies, media and information are a crucial component of economic productivity
- media as a product can be a powerful promotional tool for itself or related media, and customers are happy to pass it on to others for free

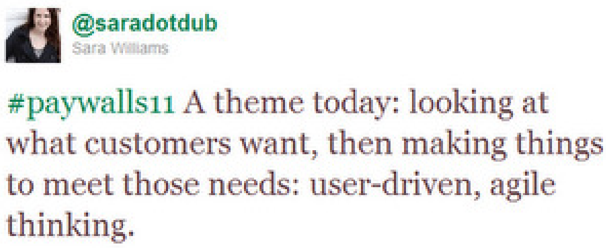
The pricing models for media, publishing and other intellectual property-based industries will remain a major strategic question for most companies over the next few years. Behavioural economics can help answer them, as outlined in this report.

2. The basic pricing problem for media

In a survey recently, 13% of people said they would be willing to pay for content online. And yet only 4% of Internet users actually do. Why the gap?

The first point is that there's a difference between what people say they'll do, and what they will actually do. But normally this gap would be in the opposite direction: that is, people might say they would not pay for a service, but when it's marketed correctly they can be persuaded to pay after all. Therefore, if publishers choose the right approach, they should be able to convert more than 13% of users into paying customers online – over three times as many as are being won at present.

One of the common ways to approach this question – you can see this in conversations on twitter or online – is to take the route of "What can we offer that consumers want to pay for?" This tweet is typical:



But despite appearing to be a reasonable question, this is a trap. Of course there's some truth in it: the quality and features of your product will have an influence on the price that readers will pay. But to make people willing to pay in the first place, it's not what you offer – but how you offer it.

From your basic economics class a few years ago you may remember a key concept: the demand curve. In economics, the cheaper a product gets, the more of it people are meant to buy. But with content, below a certain point, when price drops, quantity demanded does not rise. In fact, the actual price level is not really the force that the seller is working against. Instead, there are two distinct cognitive barriers to purchase, neither of which is directly related to the price level as such.

The first barrier is the inconvenience of making payment. It's a hassle to enter your credit card number, register an account with your email address, or whatever it is they make you do. In fact, people who are quite willing to enter their credit card details for a £1.50 purchase become unwilling to do so for a 5p payment. In conventional economics this makes no sense. But what if individuals are using the price of an article as a cue to its value? The cheaper the article gets, the less valuable it looks; and the less worthwhile it is to bother with entering their details. Consumers are quite logical, sometimes.

(A secondary consideration here is on the supply side - publishers may incur credit card processing costs which are greater than the revenue received from each transaction. But that kind of problem is easier to overcome, if a genuine revenue stream exists.)

The second barrier is an issue of principle: many people simply refuse to pay for online articles, having grown used to getting them for free. In this regard, the difference between free and 1p is far greater than the difference between 1p and 5p - or 50p. And this psychological and behavioural barrier is the most important thing for online publishers to overcome.

Many people are trying to lower the first of these barriers: a constant stream of new micropayments schemes have entered the market over the last fifteen years. Until recently I expected Facebook credits to have the best chance of success, but Google OnePass looks like it might also be a competitor. Each of these two has the benefit of universality: many people are logged into both sites all the time already, meaning there is no need to log in to yet another system in order to trigger a payment. I am sure that, sooner or later, this will stop being a problem.

The second is harder to bypass. Ingrained assumptions are notoriously hard to shift, especially when there is competition out there who are happy to pander to them. One way to do this is to reframe the product as something different. With the launch of new platforms - notably the iPhone and especially the iPad - publishers have had the opportunity to start afresh, with few existing expectations working against them. Since there is no history of free news content on iPad, there are lower barriers for many people to the principle that they might have to pay for it. The drawback of this approach is that by changing the nature and name of what you offer, you risk losing the momentum and loyalty of the 20-50 million unique users which several of the top news sites each have. The more seamless the migration from standard web use to any new access method, the more people will expect it to remain free.

Digital media producers would also benefit from making their products more tangible – consumers tend to resist paying for physical objects much less than digital ones, on the (flawed) assumption that most of their payment covers the physical cost of manufacture. This is why readers resist paying for ebooks – they think that the savings in distribution and printing should be passed onto them. In fact, if they knew that those physical costs represent only around 10% of the cost of a paperback book, they might start objecting to paying the standard price for those!

But apart from "make an iPad app", what more can behavioural economics tell us about how to improve takeup and increase revenue from selling news?

3. Behavioural economics: can it solve the problem?

We were motivated to apply behavioural economics to this area for two reasons. First, it's all about pricing, and one of the most interesting and important new phenomena in pricing at that. And second, because the argument can only be resolved with a deep understanding of cognitive incentives (and disincentives).

In fact, the area of micropayments for online content was one of the earliest case studies that motivated Inon's work in behavioural economics. It's one of the clearest departures from conventional supply and demand dynamics.

Classical economics has always been based on a set of assumptions which are OK for commodity traders but not that useful for the rest of us. Every decision in conventional economics is based on the material incentives that people face, and assumes they are rational and can calculate every consequence of their decisions. But if the world were really like that, we wouldn't see people taking jobs they don't like, buying products they don't use, or spending hours of their lives on twitter.

Behavioural economics combines elements of psychology and behavioural science with the methods of economics. It shows why people don't always behave in the way that was once considered rational. It explains why and how people do things today which they might regret tomorrow; what kind of offers and prices make consumers most likely to buy; shows how defaults and social norms can make us act without thinking; and generally provides insight into how consumers behave.

The way people consume media presents a big challenge to the theories of rational economists. The value of time for most consumers far outweighs the cost of the media they consume. A person earning the average wage who listens to an album twenty times has spent the equivalent of about £200 worth of time on it. So it should hardly matter whether they are asked to spend another £10 for the album instead of downloading it from the Internet.

Similarly, if someone spends 15 minutes a day reading the news, that's £3 of time – or £21 a week. Conventional economics can't explain why they are so resistant to paying an extra £6 each week for a subscription to the Times. But behavioural economics can.

Read on to find out what behavioural economics tells us about how people relate to content and their attitude to paying for it.

A note: many readers may be familiar with a particular application of behavioural economics: the use of "nudges" to influence people's behaviour in a way that is distinct from the usual model of rational incentives. This report will touch on those approaches occasionally, but it uses behavioural economics in a deeper sense. That is, as a way of understanding how people think and how they make decisions; and then using that understanding to develop products and a consumer choice environment which supports the behaviours you want to achieve, and can generate profit.

4. How consumers think about content

The starting point for anyone who wants to earn money from a product or service is to understand how their consumers perceive their product – and more broadly, their whole category. And the relationship of consumers to content, media and publishers is subtle.

Content plays a natural background role in the lives of most people. Different kinds of content are present all around us throughout the week. The integration of content into our lives is a great advantage for media providers, because it is habit-forming – we come to rely on our daily news fix on the tube to work, or weekly trade magazine, or the next episode of the TV series we watch every week. Content is so omnipresent that it becomes transparent: instead of thinking about "buying a paper" or "turning on the TV" we tend to look through that and focus on the actual intellectual product we want to consume – whether it's the next episode of Doctor Who or a copy of Metro in the morning.

This transparency is not complete – of course we do sometimes set out to buy "a book for the beach" or to "see what's on telly" with no specific product in mind. And there are multiple levels of transparency which partly depend on the strength of brand versus individual author: we may buy the FT, or we may specifically want to read Lucy Kellaway's column. This multi-level nature of media is one of the key factors to understand when thinking about how consumers buy.

The pervasive nature of media is also a disadvantage. Media is so available that there is nearly always some kind of alternative to whatever you offer. The Evening Standard found it impossible to maintain a cover price in the face of free competitors. Earlier attempts at charging for online news foundered against those who were willing to offer it for nothing.

Consumers may not even be consciously aware that they are choosing between two alternatives. Media is often consumed passively, as the consumer's eyes and attention wander over the landscape of information that is available to them. If any overt barrier is placed in the way of the wandering consumer, they may simply steer around the obstacle without even thinking, ignoring what lies behind it and choosing a different alternative. Thus it's important to know the role a given piece of content is playing in the consumer's mind: is it just to distract them, to fill a moment; or is it providing a specific piece of information which they have sought out? The answer is different for different people in different situations – the Cognitive Profiling section below explains the three key modes of content consumption.

This dilemma does not apply to every kind of content. In some categories, consumers make a more conventional decision about gaining access to a product and then watching, listening to or interacting with it. Video games, apps, songs, and films are more likely to fit in this category. However, even here there are grades of deliberation and attention. TV shows, famously, are often consumed passively in the background while we do other things. Music, once it has been purchased, is often played in the background too – or in the case of radio listening, even before purchase.

5. Existing approaches: successes, failures and reasons

This section cannot hope to be a comprehensive survey of existing attempts to create a business model for content. But we'll identify several examples and discuss why, and under what circumstances, they do or do not work.

Paid content, pay-per-view

I include in this category pay-per-download (such as for songs or software) even though a consumer may "view" those items many times.

In some markets this model works quite well. Traditional recorded media have generally been run on this basis – records, CDs, VHS tapes, video game cartridges and the like. These industries have always had the problem of unauthorised copying. But it was just difficult enough, and the media industries attached just enough of a stigma to it, that most consumers paid for what they used. Various industry lobbying bodies have always published figures for the amount of potential revenue "lost" through copying, but many copies were made by people who would not have paid, or would not have paid much, for the content. It's impossible to know the extent of the losses but those industries managed to make a good return for many years.

The era of digital downloads presents two distinct problems to this model. The first is that unauthorised copying is, in most cases, much easier than before. Digital rights management (DRM) systems are available and now installed in most computers, which gives content providers a reasonably strong tool to slow down copying, but they are not perfect and probably never can be. Ease of copying is not by itself a critical problem for the industry but it is a contributing factor to the second problem.

That second problem is the more fundamental of the two. It is the challenge of getting consumers to pay for individual items of content when there are free alternatives. Those free alternatives include free (illegal) copies of the same piece of content, as well as different, competing content. For instance, if I am considering buying the Berlin Philharmonic's recording of Beethoven's Ninth Symphony, the free alternatives include a Youtube video of another orchestra playing the same music, or even a different symphony or a different composer. As with any economic product, there are a range of substitutes, some very similar and others not so much, but some consumers may be happy enough with a Haydn concerto if they can't get the Beethoven symphony they started looking for.

The barrier presented by pay-per-view has two parts. The payment itself is one of them. The other is the mental effort of engaging in the transaction. Let's examine each of those.

The payment is simply a matter of the consumer choosing to spend their resources on this content rather than something else. Content is quite cheap compared to many of the alternative uses of the same money: for the price of a takeaway lunch, I could buy an album which I might listen to fifty times, giving me dozens of hours of pleasure. But consumers usually do not compare distinct categories of product in this way – the comparison is too intellectually difficult. Instead, types of content have their own benchmarks. iTunes has set one of the standards with its 79p songs (and now 99p); this amount of money seems to be small enough that consumers no longer regard price as a major barrier to purchase.

But undoubtedly the money to be spent is still a factor, especially for more expensive items such as software.

The other and more subtle barrier is the various forms of cognitive effort involved in making the purchase. One of these is the hassle of filling in your personal details or credit card number in order to make the payment. Another important one is the time to estimate how much you'll enjoy or benefit from whatever you're buying. This is a surprisingly complicated task and one we are not very good at. Often consumers will turn away from buying an iPhone app, despite a price of only 59p, because they do not know whether it will be any good. Even though the time it takes to try it out may outweigh the value of 59p, people still don't want to feel they have paid for something they don't like.

The phenomenon of *risk aversion*, one of the key biases of behavioural economics, can explain this. Even though the risk of making a wrong decision is minimal, most people focus too much on this risk and miss out on experiences they might benefit from.

Paid content, subscriptions

Subscription-based business models for accessing content overcome some of the drawbacks of the pay-per-view models. The FT has done well with this model, attracting about 200,000 paying subscribers at a typical monthly fee of between £12 and £20. The Times, Sunday Times and New York Times are following a similar approach, though interestingly the Economist has partly moved away from this model in recent years.

The consumer only has to make one buying decision in order to access many items of content. This reduces the overall barriers at the expense of creating a higher one-off barrier. The content provider also benefits from continuing monthly revenue after the first purchase is made. To reduce the initial barrier, providers often offer the first month free or at very low cost and hope that the consumer will continue paying by default.

The main drawback is that the consumer will think harder about spending £20/month than paying 50p for a one-off purchase. It is almost always necessary to provide some form of trial content to give the reader something to evaluate before choosing to buy. This, combined with the higher monthly price, creates a risk that the consumer will be motivated to find a way around the paywall.

A secondary drawback is that paid content is harder for people to share with each other via social networks, which reduces the word-of-mouth effect that successful publishers can benefit from. To combat this, the New York Times allows free access to articles which are shared via twitter or Facebook; however, this creates another opportunity for readers to cheat and get free access to content.

The behavioural economic rationale for subscription models is motivated by four effects:

1. the advantage of reducing the number of decisions to be made by the reader
2. the fact that distant payments (subscription payments in future months) feel less painful than payments today

3. the status quo or inertia effect, which makes people somewhat likely to continue a subscription once they have started one
4. the sunk cost phenomenon – once a person has paid for something, they are more likely to use it, meaning that paying subscribers will read a publication more often than non-paying subscribers. This is good for advertising revenue and deepening brand loyalty.

Free content with premium version (freemium)

This model can take two forms. One is essentially quantity-based: the free version of a publication allows a limited number of article views or downloads, while the paid version is unlimited. The other is quality-based: free versions of an iPhone app or a song are lower quality, while the paid version is better in some way.

In both cases the idea is that if people try the free version, they will come to value it and will see the value of the higher quality option, and some at least will be willing to pay to upgrade. The drawback is that many customers will stay with the lower quality option – perhaps even some who would have paid for the full version if there were no free one.

Moving from a free to a paid product is a big step for most people. Despite the fact that the free version still has some kind of cost to the reader – in time and attention at least – adding a monetary cost creates a high additional barrier. For the reasons discussed above (under pay-per-view) consumers find it more difficult to pay for things than they perhaps should. Having a free version to try first does reduce the perceived risk of paying for a premium version, but it does not remove it.

A rule of thumb from the software sector is that out of ten users of your free service, one will upgrade to the paid version. However this certainly does not hold universally, and that one in ten ratio could just as easily be one in three or one in a hundred.

The behavioural phenomena at play here are:

1. Asymmetric attribute evaluation: consumers put more importance on the monetary aspects of a decision than the other aspects, meaning that a free offer is much more attractive than it should be.
2. Category versus incremental distinctions: the difference between paying 5p and paying £5 for a product is psychologically smaller than the difference between paying nothing and paying 5p. The step up to paying something from paying nothing is a leap.

Free content – funded by advertising or sponsorship

Content funded by advertising has been one of the major business models of the twentieth century but some now feel it is at risk because of a more fragmented, personalised content market combined with consumer cynicism. We feel instead that the important question for the viability of this model is about the nature of consumer attention.

The advertising model traditionally relies on a clear separation of editorial content from advertising – which is near it in space or time, but not simultaneous. Advertising is sold independently of editorial creation, though over time advertisers and content producers often grow into a mutual expectation of how their interests relate.

Sponsorship is a relative of the advertising model, but one in which the sponsor may have a closer relationship with the origination of the content itself. Sponsorship can be a lower-risk model for the producer, because sponsorship is often arranged in advance. Examples include sponsored TV programmes or the iPhone game Nightjar, which was sponsored by Wrigley's chewing gum (though with no editorial input).

From the consumer's point of view, the visibility of a sponsor's or advertiser's brand is usually the implicit price paid for the otherwise free content. Barriers to consumption are likely to be low – it is usually not in the sponsor's interest to create barriers as they want their message to be seen by as many consumers as possible. Sometimes, though, a registration process of some kind is required, so that the sponsor can gain information about their readers or contact them later with commercial offers.

Thus there is a secondary cost to the user: the portion of their attention which is diverted towards the sponsoring brand. Most consumers are unaware of this, at least at the time they consume the content, so the price will implicitly be paid without a clear decision to do so. Consumers generally undervalue their time and attention in comparison to money, perhaps because it is illiquid and hard to "spend" deliberately on other things.

Attention is often a wasting resource anyway – meaning that if the sponsor doesn't grab it, there is no way it can be stored – it will disappear as time passes. In this scenario, it is not the reader who pays the cost of the sponsor holding their attention, but the sponsor's direct or indirect competitors – companies that the consumer would otherwise have spent money on.

Sponsorship is often an ideal model for both content provider and consumer, because it offers content to consumers at minimal cost, and lets providers reach a high number of consumers and be compensated accordingly – if a sponsor can be found. Sponsors are themselves a limited resource, and must be persuaded that the consumer's attention will be of sufficient value to them to be worth subsidising the consumer's experience.

Thus, to make this work the provider needs to balance several cognitive factors:

- Consumer trust – the sponsor may not benefit if the consumer is cynical about the nature of the relationship between sponsor and provider
- Structure of attention – the provider must have sufficient influence over the consumer's attention to be able to point some of it towards the sponsor's brand
- Quantity of attention – the consumer must engage with the content for long enough to make the sponsor's investment worthwhile
- Preference match – the consumer's preferences must be sufficiently close to the product offered by the brand for the attention to be potentially converted into revenue

- A non-commoditised or uncompetitive market – the sponsor must have the ability to increase the price of their product to consumers whose attention has been gained by this mechanism, by enough to at least pay for the sponsorship.

Free content, state-funded

I include this not because it is a business model that's available to most media providers but because it plays an important role in some markets, especially the UK. The BBC is a state-funded content provider which on many measures is the most popular and successful media organisation in the country.

The economic argument for this has changed over the BBC's lifetime. Originally, broadcasting met the classic definition of a public good. That is, it was non-rivalrous – meaning if one person consumes it, it doesn't stop others from doing so – and non-excludable – it is hard to stop people from accessing it if they haven't paid. Products which meet these two conditions – like public parks or lighthouses – are thought to be viable candidates for state funding.

At least the second part of this is no longer the case. Broadcasting is no longer non-excludable – technology is now easily available which can restrict access to paying subscribers only. Instead, the argument for the BBC implicitly rests on the idea that some kinds of content have *positive externalities*. It is of benefit to society if individuals become more educated, if the population becomes better-informed or gains an improved understanding of cultural products. Therefore, individual viewers may not be willing to pay the full cost of creating this content, because third parties gain some of the benefits.

The cognitive relationship of consumers to state-funded media is a little more complex than that for content they pay for themselves. It is free at the point of consumption, which simultaneously can reduce its perceived value and increase it at the same time. Free items are often more highly valued than cheap items; if a song on iTunes costs 5p consumers may well assume it is terrible; but if it's free, the price signal is removed entirely and the listener will use other cues to estimate its value. Similarly, state-funded media is often regarded as high quality in a way which a small charge might displace rather than strengthening.

However, consumers do of course pay for this content through their taxes or TV licences, and this creates an understandable sense of entitlement and expectation of control. A taxpayer will typically feel more entitled to criticise the BBC's output (for which they pay about £12/month) than that of Sky TV, which could cost them £30/month. The fact that a payment is made is more salient than the actual amount of money charged.

6. Cognitive profiling

Consumers differ. This is one of the most basic and important insights of marketing, and it helps us to develop messages and channels that are a better fit to each different kind of consumer. Traditional segmentation is based on demographics: age, sex, geography or marital status. But these segments are crude and rely on conventional behavioural patterns which have broken down over time.

A more powerful way to understand the differences between consumers is to look at the different ways they think. How people make decisions and what they believe is a much more accurate guide to their behaviour than are simple demographic variables.

In the case of digital content, people play different roles at different times, though some roles are more prevalent in particular individuals. But let's look at the three primary modes for consuming online news content.

We apply decision theory to this question. The goal is to understand the whole lifecycle of a person's decision to consume, and/or pay for, news and the influences on it. So consider the cognitive process of a person who is about to show up at a page on your online newspaper's website.

A consumer can arrive at a newspaper website in one of three ways: through searching for something specific; browsing in an undirected way and happening upon it; or checking the page as a part of an ingrained newsreading habit. Each of these involves its own behaviours and motivations.

1. Directed Searchers

Those searching for something specific are the most purposeful and "rational" group - the most likely to be willing to accept a conventional offer to pay for something. They have a goal in mind, they are carrying out a specific strategy to achieve it, and a financial transaction - at least potentially - can form a legitimate part of that strategy. This model works well for many types of specialist content - clip art, legal documents, iTunes, or films. But the challenge with news is twofold: one, most people probably don't look for news in this way; two, there are lots of free competitors out there who will be found just as easily as your paid content.

To convert directed searchers, you have to make salient why your offer is different to all the others they are seeing next to it on Google. Here's the challenge. Almost any form of words you could use to do this; any format of news page you could design, or any keyword strategy, can be copied by the free people too. There's one exception. They will never copy the phrase "You must pay for this article".

My suggestion would be, in this case, to make a virtue of the paywall. Emphasise that this is a paid-for article - put it in the title tag so it shows up right in the search results - and is correspondingly higher quality than the free alternatives. Higher quality could be on a number of dimensions. It might mean "better checked". It might mean "more personalised". It might mean: news, analysis and opinion, balanced and all in one page. That hardly matters. The point is that price is a signal of quality, and at least some people are going to be willing to pay for it.

What NOT to do is get people into the page in the belief that it's free and THEN ask them to pay. If you let people know up front, conversion will be much higher. Yes, many people will be put off clicking on the link. But those people are unlikely to pay anyway. The people who might pay, will be _more_ likely to click; and (subject to testing, as always) I'd predict this approach would significantly increase revenue.

2. Undirected Browsers

A different approach altogether is required for people who browse semi-randomly. This behaviour occurs on twitter, on Facebook, and when people are looking around the Web for one thing, but get distracted by another. There's no explicit goal here, so you are relying on mini-goals created by the individual in the moment of browsing. These provide short-term motivation when there is no conscious goal.

The most common mini-goal is satisfaction of curiosity. So you must pique curiosity, and then tease them, holding back fulfilment until the reader coughs up. This picture from @ilana highlights a clever way to do this: show the article comments but not the article itself. An excellent way to build curiosity is to read what other people have been saying about something.

Other mini-goals are revisiting a forgotten goal, affiliating with a friend and various time-management goals such as one more click or getting back to work. Each of these calls for its own pricing mechanisms, but this short article isn't the place to go into them. I'll be publishing something longer on this if you're interested, so leave a comment below or email me (leigh@inon.com) and I'll send you a copy.

3. Habitual Readers

For many people, reading the news is part of a regular habit. They may do it once or twice a day at certain times, or on a Sunday morning (that particular tradition is already well monetised by printed Sunday newspapers, of course) or when there's a break, a boring moment or a tricky task at work they want to distract themselves from.

For these people, satisfying the habit triggers reminders of certain previous happy events (or deflection of negative feelings such as hard work) and that is the value being provided. Anyone who regularly satisfies a specific need is likely to develop specific strategies for doing so. The publisher's job is to become the habitual starting point of the reader; and to achieve this you need to:

- achieve trial
- make payment acceptable
- make payment automatic

The FT's strategy for this looks effective: offer a little for free, persuade people to sign up very cheaply (4 weeks for just £1), then once they are in the habit of reading, bill them regularly. The habit-forming behaviour is embedded further by regular email reminders of articles that might be of interest.

Some people think the FT can only do this because it has a distinctive business-oriented product; if its news were the same as the Guardian's, or Telegraph's, or Times, it would be very difficult to get people past the first point of payment. But many news outlets have sufficient personality to get people into regular reading habits, and that's an important part of consumption too. Guardian readers certainly see themselves as Guardian readers - it's a badge of identity. (Indeed, Guardian readers probably have a stronger sense of the identity of Daily Mail readers than do the Mail readers themselves). The Times is experimenting to see whether the same principle will work for them.

7. Mixing it all together

Trying to capture all three of these different newsreading behaviours in one business model is not so easy. This is a different version of the marketer's traditional problem of price discrimination. Can you separate audiences into different levels of demand and charge each of them the appropriate price? In this case, it's about segmenting by behaviour instead of by willingness-to-pay.

It's certainly possible to present different versions of an article according to whether the user approaches from Google (directed searcher), Twitter (undirected browser) or direct from a bookmark or as a registered user (habitual reader). And as long as the price structures are not directly comparable, the segmentation should work. Charging a Guardian reader a sub of £7.99/month does not stop occasional visitors from paying 50p for an authoritative update on what's happening in Libya today; nor vice versa. And the type of articles of interest to directed searchers are probably (mostly) different to those which stimulate the curiosity of browsers.

So identifying key user behaviours should give you the ability to sell to all of them, with a business model that works for each group.

So what is the ideal business model for selling content?

It would have free elements, to let people try without the risk of buying. It would have subscription elements, which let you defer some of the payment into the future. It might have some advertising, to allow third parties to make a rational decision on behalf of consumers who are too distracted to do so.

It would support habitual readers by providing rewards for loyalty and offering a familiar (to regulars) but distinctive (from other media) experience. It would provoke curiosity when discovered serendipitously, and reward further exploration with a satisfying payoff. It would be well-organised and accessible to search engines, to attract directed searchers.

It would be recognisable and appealing on multiple levels – the individual item, the author or director, and the publication's, publisher's or studio's overall brand. And it would be easy to access, easy to move up to consuming more, and easy to remember and return to.

Could any single model possibly achieve all of these objectives? It might be hard to do for a general audience, but once you restrict your aim to a particular segment, solutions come into view.

8. Different approaches for different segments

There are five broad media segments which require somewhat different commercial strategies. These are:

- Consumer news
- Consumer lifestyle & entertainment
- Consumer analysis
- B2B news
- B2B in-depth features

Consumer news

As outlined above, this is a tough market because it involves trying to simultaneously satisfy three key cognitive profiles of consumer. However, it's also perhaps the most lucrative and influential sector when done right – the major consumer news organisations do have huge power in society and can make a lot of money.

This is a segment where, counter to most conventional marketing strategy, niche segmentation may not be an especially successful approach. The power of a single national (or global) conversation, and the ease of a choosing a broad default option for consumers mean that general media have an advantage here.

However, there is potential for specialist media to license their content to the general publications, or to group together under a single-branded masthead and take advantage of this consumer inertia and habit-building.

The best charging approaches for this are suggested above within the cognitive profiling chapter.

Consumer lifestyle and entertainment

Understanding the reasons why your readers choose to consume your content is the first step to understanding their decision process while doing so.

An escapist gossip magazine (*Closer*, *Reveal*) is probably purchased for a break at work, to indulge in during a relaxing evening at home, or to while away time on a long journey. Stress relief is a typical motivation. The pricing structures that are appropriate will take advantage of this: either by bundling with suitable complementary products, or by anchoring to the price of a train ticket, or by including an online component which delivers updated content just in time for lunch on weekdays.

An aspirational lifestyle magazine (will have different reasons for purchase. It may be about technology or a particular hobby, and what the consumer gets from reading is to feel closer to the achievement or ownership of the luxury products or high-end experiences within the category. Pricing in this world should be about a link to the products being aspired to: though this may be easier to achieve through advertising than through a cover price. To increase revenue from existing subscribers, promotional contests and experiences could be a key route, as consumers tend to overweight the small probability of achieving a prize, or to put greater weight and value on their proximity to an experience than it costs to provide it.

Much TV also falls into this category, and as practical payment-on-demand mechanisms become available, the TV sector could more easily generate revenue direct from viewers by linking their products with the physical media that consumers are already comfortable paying for.

Consumer analysis

Consumer analysis (*The Economist*, *The New Statesman*) is a category which is also influential although not so lucrative as it tends to apply to a niche market. That niche market is valuable to advertisers because the cognitive traits connected with an interest in these subjects are correlated with traits which lead to career success, high income and high consumer spending.

Instinct might suggest that *Economist* readers are more likely to make a rational, considered decision about media purchase and to be less influenced by cognitive biases and psychological factors. However, if a person does have high income, the purchase of a magazine or a subscription to a website represents a small decision for them and is likely to receive less conscious attention – making it more, not less, susceptible to cognitive bias.

This explains the success of the *Economist*'s 12-weeks-for-£1 trial subscription policy; the inertia of a busy subscriber is a powerful tool to stop them cancelling a subscription once started. The low starting price also helps capture a key *Economist* market – students, whose reading behaviour is malleable and ready for a habit to be formed.

The bundling tactic would suggest tying consumer analysis products in with professional subscriptions and even with workplace deals – for instance, a management consultancy or law firm might be able to buy subscriptions for its employees as a tax expense, and the high volume would permit a mutually beneficial deal to be struck between firm and publisher.

High-quality analysis can also be incorporated into other intellectual products, and that same management consultancy might find it useful to link together selected *Economist* and *Spectator* articles (for a suitable licence fee), along with their own writing, into a report for clients and other interested parties.

B2B news

In some sectors, news is so critical as almost to be the currency of the sector: financial markets, the communications and marketing industries, and the law.

In these sectors, you might be surprised at the low prices charged for some of the key publications – the FT costs only £20/month online, *Campaign* just £4/week and the legal trade press a similar price. Until you realise the real business models: conferences and specialist products.

Specialist products such as those sold by the FT are covered under the next heading. The trade events and conferences business highlights one of the real reasons why people buy trade publications: networking. It's important for people in advertising, and the law, and many other sectors, to keep in touch with each other. And the weekly magazines are in part a stalking horse to attract an audience and create a *Schelling point* around which the industry can congregate.

A Schelling point is a focal point which – without being explicitly coordinated – a population will form. The classic example is this: if two people are told to meet in New York City tomorrow, but have no other information, it's quite likely they will both choose the point they think is the most famous place and time in the city: under the clock at Grand Central Station, at noon.

Similarly in an industry sector, there is usually one particular conference where nearly everyone goes, and this is where new products will be launched, mergers announced and so on. The fact that these things happen makes it even more likely that everyone will choose this conference as the one they want to attend.

So the business model for B2B news is about becoming the default destination – which may mean underpricing one of your products – the weekly magazine – in order to attract people to your real profit centre – the conferences.

There are, however, other models. High-speed and personalised news delivery could be one – though if you want to sell that, you should call yourself a "media monitor" or "research agency" as it will be easier to get people to pay a premium rate for those categories than for something they regard as just slightly-better-news.

In every case, habit formation rather than impulse decisions should be your key psychological route-to-purchase.

B2B in-depth

This is where the edges of the media world blur with those of the consulting sector. When content is produced for just one client, it ceases to be media and becomes custom research. The business model of media is all about creating one piece of content which can be purchased by many people, so that the value you create is multiplied by the readership. B2B in-depth analysis – which includes the FT's industry reports, the Economist Intelligence Unit's country reports, or any number of research publications by analyst firms – tend to focus on a small group of potential readers, diluting this multiplication but allowing the content to be more accurately focused on the needs and interests of the individual reader.

As a result, the price that must be charged is high, and this acts as a barrier to trial purchase. Creating an effective trial programme is therefore one key success factor. This could be a free issue of the publication, perhaps a few months old, or a personally requested trial which is controlled by your salespeople.

Another important factor is price differentiation. At the top of any industry will be some highly successful businesses which can use your content to create a lot of value. These will be willing to pay more for what you do than those smaller firms which might benefit from the content but don't have the margins to pay as much. You should still serve this low-end market – there are probably a lot more of them, for one thing – but ensure that you give them a limited product which does not tempt your high-end customers to trade down.

Finally, it's worth taking advantage of those blurred boundaries to link media and consulting services. Some clients will pay a lot for consulting which can use your existing research skills and data, and the nature of the work is not that different from creating detailed research reports. Consulting firms are always trying to move into the media sector, so why not play them at their own game?

9. Case study: Formula 1 racing fans

To illustrate how the above techniques can link together, we look at a case study: followers of Formula 1 racing.

Within this segment the same three cognitive profiles exist: habitual readers (those who always want to be up to date with the latest about the sport, and are willing to regularly visit a site to find out), directed searchers (who want to know a specific fact and go looking for it), and undirected browsers (whose attention may already have been caught by a particular race or story, or who may be reading unrelated content but willing to browse to a Formula 1 item if it catches their eye).

The model that behavioural economics suggests for this market looks like this:

- Create a curiosity-provoking headline for each item. “Find out what Michael Schumacher has said about his future after 2012”. “Can Lewis and Jenson still drive together after the Canadian Grand Prix?”
- When a user clicks on a news story, use cookies to determine whether they’ve visited before. If not, show them the story but surround it with prominent graphics establishing the brand of your publication (not your advertisers). At this point, it’s more valuable to attract people to return to your publication than to sell their attention to sponsors.
- Also, show them your top-clicked headlines of the day in order to get them to click further. The Daily Mail is a great exemplar of this approach – they use headlines and pictures to drive readers to read just one more story, and they have built this approach into one of the, if not the, most popular news sites in the world.
- Make your brand distinctive and visible, especially to new users. Ensure they remember they’re on your site.
- As the reader clicks on more articles, offer them more and more prominent registration options. Start with a free registration requirement (as the FT does), which lets them see a few more articles but does not give them unlimited access to everything on your site. When they sign up, do not ask for any personal details *except for their* email address *and* which team or driver they support. The last piece of information is critical in this genre as it lets you target them with highly effective attention-grabbing headlines.
- Create some in-depth content relating to each possible answer to the personalisation questions. A feature section on each driver and team, with interviews, is a good example for this market: use your editorial judgment to design speculations on where the drivers may go next, or predict their likely position in this season’s rankings.
- Use user-generated content to stimulate debate and create return visits. Michael Schumacher fans will be happy to argue endlessly on an online forum with those who can’t stand him. Lewis Hamilton is starting to establish himself to inherit Michael’s mantle as the polarising figure in the sport.
- Use user predictions as a tool for inviting additional visitors. Most F1 fans know other fans and many of them enjoy sharing news, forecasts or competitions (predict the qualifying order or

race result at the next grand prix). In this way, you benefit from the *social capital* of your readers to attract new ones.

- Approach team sponsors as potential advertisers. If you know which team or driver your readers follow, you can use their devotion as a currency for the advertisers who are trying to build their brand image around the reputation of those teams.
- When you do finally ask people to pay (only after they've registered and returned to the site at least twice after the initial visit), tie in offerings beyond the digital. Instead of asking people to subscribe just to see more articles, offer them an annual subscription which includes a grand prix ticket, promotional merchandise of their chosen team, or a coffee-table book reviewing the events of the last season. Offer distinctive categories of premium content to paying subscribers – for instance a column written by Martin Brundle or technical insights from Adrian Newey.
- Search engine optimisation is easier in a narrow segment than in general. Of course there are many existing websites devoted to the sport and you will be competing with them, but Google's search results are now personalised and point people towards sites they have used before, so at least your loyal readers will be more likely to come back. Thus, people who have been habitual readers but are currently in a directed search mode will be more likely to visit you again. Make sure the curiosity-stimulating headlines are what shows up in the search results.
- Use the email addresses you've collected to send curiosity-provoking alerts, but not on a predictable daily basis (people will become insulated and start to ignore them). Instead, send them in realtime when a new and relevant news item is posted, or wait until five stories are accumulated and then send them. Use your provocative article titles in the email subject.
- Use multiple price options to capture the higher willingness-to-pay of premium customers. For example, offer a 20p one-off price to access premium technical content for first-time buyers, followed by a 99p regular price and a £4/month subscription (a higher basic subscription price is unlikely to be successful in a consumer market of this kind. Compare it to the price of a monthly magazine to demonstrate value). Offer a premium £9/month subscription which includes the book or other offline promotions suggested above. And a £19/month subscription which includes an exclusive British Grand Prix ticket (you should be able to buy a group ticket of some kind in a location which is not available to ordinary buyers; this also allows habitual readers to meet up with each other in person and strengthens the social aspect of your offering).
- Offer readers the ability to get a subscription for free (at least for a period) if they participate in market research surveys and similar interactions for sponsors. This kind of involvement is valuable to sponsors as it solves some of the attention problems described above. And it brings readers who might otherwise not consider themselves as candidate subscribers into the orbit of the paid subscriber world.
- Choose a charitable cause which is relevant to the sport (perhaps one supported by one of the drivers). Allow readers to dedicate a portion of subscription revenues to this cause. The revenue you give up is likely to be more than made up for by the additional loyalty and subscription takeup you get in return.