

Executive Summary

The past two years have been a turbulent time for the New Economy generally – and for the digital content industry in particular. In the wake of the dot.com and telecoms crashes, smaller companies are finding it increasingly difficult to obtain the advice they need to make strategic decisions (such as, for example, whether to modify their business model, or whether to buy or sell a subsidiary). The SimWeb project was funded by the European Commission's Fifth Framework to explore the possibility of developing a multiple-agent simulation as a strategic decision-making tool for SMEs in the online market-space, in the hope that this would provide an effective, but relatively inexpensive, alternative source of expert advice to companies unable to afford consulting services. Clearly, the SimWeb consortium needed to restrict the domain within which it would work – since fully grasping the underlying business models of even one online sector is a major task – and, in the first instance, we are working with the online news and music sectors.

These two online markets have changed significantly and fundamentally over the past few years, as more and more new players – many of them originally from other sectors – enter the market space of the original media companies. Although these new entrants provide the media companies with the possibility of adapting their business to the new demands of the Internet, they are also competitors who are themselves able to offer music and/or news over the Net. A good example is T-Online, the Internet subsidiary of Deutsche Telekom, (the former German PTT). T-Online provides the technical infrastructure for many online content providers, enabling them to compete in cyberspace. But the T-Online Web site also offers a wide variety of content which can be found on the Web sites of national newspapers or on music portals. "Coopetition" of this sort, when agreed in advance and effectively managed, can provide benefits to both parties. But in many cases larger and more technically-proficient companies simply adapt their business model to take the maximum advantage of each situation, leaving their smaller partners with little room to manoeuvre.

In this Interim Sector Report we describe the current state of play in the online news and music sectors in ten European countries as at the end of April 2003. The outcomes are based on the first two phases of a three-phase market study, which included "expert talks", an online survey and which, in the third phase, will include a series of face-to-face interviews. In the report we consider three levels of the environment in which online news and music stakeholders operate: the macro, business (meso) and the specific business models (micro) environments. We discuss the macro and business environments rather more generally and consider in greater detail the Internet business models of the companies working in these areas. The macro environment includes basic economic data and the issues of Internet diffusion and use in the countries under investigation. The business (meso) environment deals with the changes to the value chains in these sectors, the technological development and the digital rights issues which are important for online music and online news. At the micro level, when considering the business models we found, we started by analysing the literature relevant to this field and then analysed the business models we found in the real business world to reach an understanding of the components which the SimWeb consortium needed to build the multiple agent simulation of these two markets (although this report is not described at the level of granulation needed by the programmers themselves – being designed for a more general audience). The report concludes with an identification of the key driving factors for these two industries.