HML
HAVAS MEDIA LAB
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THE NEW ECONOMICS OF CONSUMPTION

USER GENERATED CONTEXT

SUMMARY:
0 – THERE IS NO CONSUMER
1 – CONTEXT > CONTENT
2 – LISTENING > TALKING
3 – ADVANTAGE IS IN THE DNA

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The New Economics of Consumption: User Generated Context

The numbers are dramatic. More than **50%** of connected consumers create content – and more than **80%** of them rely on the content other connected consumers produce to make consumption decisions. Youtube serves billions of video streams, and people spend vast amounts of time on Myspace and Facebook.

Yet, user-generated content is a story that the media industry can't seem to quite get right. Business models and strategies that rely on it are floundering – many community-focused business designs, encompassing ideas like citizen journalism and virtual worlds, such as Second Life, are failing in droves. And, of course, it seems impossible to capture value from social networks. Why this disconnect?

Because focusing purely on the numbers has obscured real insight. It's only by understanding the new economics of consumption that we can begin thinking strategically about how connected consumption redefines value creation.

Let's take a look at Techmeme: a next-generation **attention market**, which ranks and reconstructs discussions across the vast universe of blogs. The Techmeme Leaderboard is a ranking of the sources that bloggers are discussing the most actively and frequently. And that ranking, in turn, reveals the production and consumption preferences of connected consumers in stark detail.

What does the Leaderboard tell us?

Techmeme Leaderboard

RANK	SOURCE	PRESENCE	FEED	URL
1	TechCrunch	7.09%	Link	techcrunch.com
2	CNET News.com	4.40%	Link	news.com
3	New York Times	3.86%	Link	nytimes.com
4	ReadWriteWeb	2.97%	Link	readwriteweb.com
5	Silicon Alley Insider	2.76%	Link	alleyinsider.com
6	Ars Technica	2.60%	Link	arstechnica.com
7	InfoWorld	1.81%	Link	infoworld.com
8	VentureBeat	1.66%	Link	venturebeat.com
9	GigaOM	1.62%	Link	gigaom.com
10	The Register	1.55%	Link	theregister.co.uk
11	Gizmodo	1.39%	Link	gizmodo.com
12	Engadget	1.28%	Link	engadget.com
13	Reuters	1.21%	Link	news.yahoo.com/i/578
14	Associated Press	1.21%	Link	news.yahoo.com/i/528
15	Valleywag	1.05%	Link	valleywag.com
16	TorrentFreak	1.01%	Link	torrentfreak.com
17	Wall Street Journal	1.00%	Link	online.wsj.com/public/us
18	paidContent.org	0.99%	Link	paidcontent.org
19	Webware.com	0.95%	Link	webware.com/ 8300-1_109-2.html
20	Google Blogoscoped	0.92%	Link	blogoscoped.com

Crucially, that most discussions across the blogosphere are focused on professionally produced content. The top sources are all professional news organizations – whether newer ones, like TechCrunch, Silicon Alley Insider, and Gizmodo, or traditional ones, like the New York Times, Reuters, and the AP.

The Leaderboard is a microcosm of **a larger tectonic shift rolling across the consumptionscape.** Though the media industry has, for the last few years, been enthralled with "user-generated content", in fact, boardrooms have been chasing a mirage: there's very little of that's around.

Most user generated content, is, in fact, context. The bulk of what connected consumers create isn't content: its context – information about the value of goods and services. Context, in turn, lets connected consumers search and navigate the exploding universe of media more effectively, and massively amplifies incentives for quality.

There's a more intuitive way to think about this distinction. The vast majority of blog posts are context for newspaper articles. Connected consumers at Myspace spend much of their time discussing and connecting with bands. People join Facebook to find friends, classmates, colleagues, and dates. At ThisNext, consumers aren't creating content: they're creating context for goods.

Why has it taken the industry so long to understand these dynamics? In large part, the **hidden assumptions** underlying the term "user-generated content" are bullets to the heart of true, deep, meaningful understandings of the new economics of consumption. The very term masks a basic lack of insight about why and how consumers connect.

What are these hidden assumptions, and how do they lead to strategic error?

First, what connected consumers create isn't junk elongating an already Long Tail of content. Rather, from an economic point of view, user generated *context* is an entirely different good from content: a complement. Demand for one amplifies demand for the other. The tail of content is lengthening – but that supply curve is made up of new content players like PaidContent and RocketBoom. By conflating the content and context, we mistakenly assume that what connected consumers create is inherently worthless –when, in fact, it's by letting connected consumers contextualize content that tsunamis of new value can be unlocked (just ask Google).

Second, context isn't created by users, but collectively, by markets, networks, and communities. A naked rating, ranking, or review on its own has little value or meaning – but millions of them, in the aggregate, weave complex and multilayered webs of meaning. Put another way, context is the result of the complex, multilevel, network effects that happen when millions of consumers connect.

Third, context isn't truly "generated" – a term which implies something algorithmic, substitutable, mass-produced. Rather, **it's often deeply culturally specific and socially bound:** often, outsiders can't even make head or tail of what's really deeply powerful context, because they don't understand the signs or language connected consumers have evolved.

Though the term is still deeply wrong, we'll stick with a minor modification for now – **user generated context** – until we explore it more deeply in forthcoming notes.

Why is **reframing the agenda around user generated context**, rather than content, vitally important? It affects every player in the industry in different ways:

- **For content players and publishers**, user generated context means that connected consumers aren't their competitors – but are vital, essential complementors, who create very real value for them. The more context there is, the greater demand for their content is likely to be. That means that it's vital for content players to explode the amount of context connected consumers create about them.

- **For advertisers**, user generated context means that today's focus on finer and finer targeting must reach diminishing returns fast. The context connected consumers create, share, and trade is, in a very real, a powerful substitute for orthodox advertising. Who believes a brand's elaborate web of often conflicting messages, when ten thousand connected consumers agree that the company behind the brand sucks? Advertisers must stop fighting user-generated context with traditional ads, and learn to leverage it to explode the possibilities for seeding and joining discussions.

- **For investors**, user generated context means rethinking media investment strategy. Most user-generated content investments have failed because they've devolved to traditional advertising focused business models. But, as we've pointed out, user-generated context is a substitute for traditional advertising – so by trying to marry the two, a massive strategic contradiction destroys potential value creation. Rather, investors in user-generated context must focus actively on using that context to radically redefine traditional advertising.

- **From the perspective of orthodox DNA**, learning to leverage user-generated context is difficult because it requires firms to, at minimum, cede control to connected consumers. Second, it requires firms to listen more than they talk. Third, it often requires firms to rethink how and why they create value – it requires them to retool existing business models, develop entirely new capabilities, and acquire entirely new kinds of resources; those focused not on treating connected consumers as active, vital, coproducers, rather than as sources of free content and an easy path to a (valueless) cost advantage.

About the Lab

The Havas Media Lab is a new kind of strategic advisor that helps investors, entrepreneurs, and firms experiment with, craft, and drive radical management, business model, and strategic innovation. We incubate revolutionary ideas at the interface of production and consumption, and seed them across a network of top-tier partners.

For more information, or to discuss joining the network, please contact us: info@havasmedialab.com.