



## Engage or die

what the rise of user-generated content means  
for traditional media giants and their advertisers





## Media sector profile

<b>Name</b> ▼
The 3i Media sector team – 20+ highly-experienced media investors based in Europe, North America and Asia.
<b>Groups</b> ▼
Part of the 3i Group – a world leader in private equity and venture capital for 60 years. Each year, 3i invests over €2.7bn supporting people who start, grow, change and buy businesses.
<b>Networks</b> ▼
Deep relationships with a unique network of media businesses, entrepreneurs, owners, commentators and thought leaders across three continents.
<b>Friends</b> ▼
Contributing to this report: <a href="#">Jeff Henry</a> Managing Director, ITV Consumer <a href="#">Heather Hopkins</a> Vice President of Research, Hitwise UK <a href="#">Peter de Monnick</a> Chief Strategy and Internet Officer, Reed Business <a href="#">Jeffrey Revoy</a> Vice President of Search and Social Media, Yahoo! Europe <a href="#">Richard Rosenblatt</a> Former Chairman of MySpace and now Founder, Chairman and CEO of 3i-backed Demand Media <a href="#">Timo Soininen</a> CEO of 3i-backed Sulake Corporation
<b>Blog/Comment</b> ▼
<a href="http://media.3i.com/page/comment">http://media.3i.com/page/comment</a>



<b>Investment news feeds</b> ▼
<b>In the last five years alone, the Media sector team have invested in more than 20 businesses, including:</b>
<b>Boxer</b> ▼
Sweden's leading digital television broadcaster
<b>Chorion</b> ▼
UK-based brand management business that is revitalising classic literary assets
<b>DATEM</b> ▼
French CRM specialist, sold to software company Team Partners Group in 2006
<b>Demand Media</b> ▼
US-based internet enterprise with a unique blend of domain services and niche content websites
<b>Malmberg</b> ▼
The leading educational publisher in the Benelux region, sold to Finnish media group Sanoma WSOY in 2004
<b>Nimbus</b> ▼
An Indian media company with a strong position in sports rights, television and films
<b>Pinewood Shepperton</b> ▼
The largest film and television studios in Europe, floated on the London Stock Exchange in 2004
<b>Precise Media</b> ▼
The UK's fastest-growing major media monitoring agency, sold to Phoenix Equity Partners in 2006
<b>SeLogger</b> ▼
The most widely-read online property site in France, successfully listed in 2006
<b>Sparrowhawk Media</b> ▼
Operator of an international pay-television business, including The Hallmark Channel outside the US, sold to NBC Universal in 2007
<b>VNU Media</b> ▼
The market leader in online and print recruitment advertising in The Netherlands
<b>YBR</b> ▼
A pan-European telephone directories business, sold to a Macquarie-led consortium in 2005 for €1.8bn

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## Executive summary



In a world where content is king and attention is scarce, no media company – and no advertiser – can afford to ignore the millions who are avidly consuming text, pictures and films.



**With a membership of 200 million, the population of MySpace is greater than all but a handful of countries. Its peers, Facebook, Bebo and LinkedIn, are expanding rapidly, confirming the huge global appeal of social and professional networks.**

Chatting to friends and customising profiles aren't the only ways in which users are seizing control of the web's growth hotspots. Whether sharing videos on YouTube, contributing articles to Wikipedia or writing reviews, ratings and blogs, the rise of user-generated content is unmissable.

In a world where content is king and attention is scarce, no media company – and no advertiser – can afford to ignore the millions who are avidly consuming text, pictures and films created not by media professionals but by 'people like me'.

Over the last three years, the phenomenon has sparked a series of high-profile acquisitions, both by pure internet players and by traditional media. Blockbuster deals have seen News Corp buy MySpace for \$650m, CBS purchase Last.fm for \$280m, ITV acquire Friends

Reunited for \$240m, Google snap up YouTube for a mouth-watering \$1.65bn and Microsoft purchase a stake in Facebook – which still has less than half the active members of MySpace – valuing the company at a staggering \$15bn.

As a longstanding global investor in media and internet businesses, 3i has a wide network of contacts and a deep understanding of the market. Our 2002 investment helped start-up photo-blogging site Fotolog grow into one of the top 20 places on the web, with over 11 million accounts.

We've been talking to some of the leading thinkers in pure-play internet companies and long-established media giants. As well as sharing their views on the impact of current trends on audiences and economics, they look over the horizon to identify the next wave of growth.

**Daniel Waterhouse**  
Sector Partner, 3i

# The rise of user-generated content

## As social media come of age, they're increasingly driving the way we access news, share interests and take business decisions



**Why do people spend so much time creating and uploading content for the internet? In the view of MySpace guru Richard Rosenblatt, the answer is age old. "People like to express themselves, and they want to be famous. Those are two things we saw from the very beginning of MySpace. Five years ago MySpace didn't even exist; in 2008 it's going to do \$800 million in revenue, and generate more page views than anything on the web."**

### Making the news

As the Vice President of Research for Hitwise UK, Heather Hopkins is close to the statistics: "Four of the most-visited sites in the UK are social media sites. Bebo, MySpace, YouTube and Facebook are all in the top 20. Given how new this category is, that's pretty remarkable."

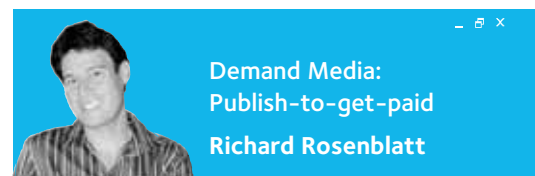
Heather also sees user-generated sites making a major impact in the news arena: "Earlier this year, we looked at three major news events: Saddam Hussein's hanging, Zinedine Zidane's head-butt during the World Cup, and the Israel-Lebanon conflict. When we looked at how people were searching for those events, and where they

went after they'd searched, we found Google News, Wikipedia and YouTube figured more prominently than the sites of mainstream media news companies."

### Not just teenagers in bedrooms

Social networking and user-generated content were once the province of IT geeks and teenagers in bedrooms. Not any more. Rosenblatt has seen a huge change: "Over 50% of MySpace users are over 35, which is a statistic that nobody even believes. Social networks started as a way for teens to express themselves, but the tools have gotten so much better and the demographic has really expanded. That has profound effects, because you're now talking about people of 25- or 35-plus who are interested in producing content."

Rosenblatt's latest 3i-backed venture, Demand Media (see box), plays to the internet's changing demographics. As users age, he foresees a fundamental change in their relationship with the internet, with less focus on general connections and more on shared interests: "We think the next wave is



Richard Rosenblatt helped to transform MySpace from a little-known website to one of the most visited places on the web. Here he talks about his new, 3i-backed venture, Demand Media.

"We're moving into publish-to-get-paid. Put an article or video on one of our sites and our system tracks how much that piece of content is worth and pays a percentage to you. It's the next step from MySpace – going from free publishing of content to content that is targeted and paid-for.

"What gets everyone so excited is that we can predict, on average, what an article's worth before we even publish it. We use proprietary technology that we've built based on our experience of search, domains and ads.

"We generate titles we know will be popular, provide platforms for users to create those titles (www.ehow.com for text and www.expertvillage.com for video) and offer distribution through our 50-plus websites and 1.5 million domains.

To listen to the full interview podcast, view the transcript or join the debate on User Generated Content, visit: <http://media.3i.com>





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Heather Hopkins, Vice President of Research, Hitwise UK



Richard Rosenblatt

Peter de Monnik

Jeff Henry

Jeffrey Revoy



Reed Business:  
Trusted B2B brands  
Peter de Monnik

social media in verticals – like golfing, hiking, gaming or airliners. If you go to our site [www.airliners.net](http://www.airliners.net), it's a community that generates 80 million page views a month just putting up pictures and talking about planes."

### Building B2B communities

But if the wave of user-generation has well and truly taken hold in the consumer space, what about the vast B2B market? Peter de Monnik, head strategist at Reed Business (see box) expects rapid growth: "Currently, the user-generated content on most B2B websites is relatively small but it's gaining strong traction. Whenever we change the platform so users can interact, the traffic goes up. That's good, because once we have the reach, we can start to build engagement. And once we've built engagement, we can monetise the traffic."

"User-generated content is imperative for community building. If titles and brands in the B2B space don't interact with the communities that they serve, the brand gravity lacks a certain element and will be harder to monetise."

"It's also essential to develop a brand which has both an online and offline presence. Print publications with a strong, community-driven presence online are more valuable than B2B communities that aren't supported by print publications. A print publication shows that you have experts in the field, who are able to generate content."

### Democratising expertise

In the B2B market, the distinction between expert- and user-generated content may be vital. But in the wider world, it's a distinction that Richard Rosenblatt questions: "I think the line between independent content creator and expert is starting to blur more and more. Clearly someone with a PhD in Biophysics is an expert but who's really an expert in the best way to cook jambalaya?"

"Our tools are getting better and better at letting users determine whether you're an expert. If you are, you'll get paid handsomely because people will click on your ads and read your articles more. The web is great at letting people decide for themselves what's quality content and what's not."

Peter de Monnik is the Chief Strategy and Internet Officer for Reed Business, one of the four divisions within Anglo-Dutch publishing giant Reed Elsevier. He focuses on the value of longstanding, highly-trusted brands in the B2B sector, illustrated by the rise of user-generated content in the UK farming community.

"In Farmers Weekly Interactive, which is the prominent website for farmers in the UK, we see strong audience participation. They discuss when to harvest their crops and what the weather will be. People actually take business decisions based on what people in their region say. As you can imagine, that is extremely valuable."

"A brand is a set of associations, and it's very difficult to build a set of associations around a community. That is where powerful B2B print brands have been successful for the last 100 years and it's a big advantage when gaining access to a community and encouraging them to produce online content."

To listen to the full interview podcast, view the transcript or join the debate on User Generated Content, visit: <http://media.3i.com>



# The entry of traditional media giants

Rumours of the death, or even ill health, of traditional media companies may be greatly exaggerated

“Take youth magazines as an example. They used to be trendsetters but are now increasingly vanishing from the face of the earth.”

Timo Soininen, CEO, Sulake

“Offline, content is driven by surprise – surprising readers with quality content in a magazine.”

Peter de Monnik, Chief Strategy and Internet Officer, Reed Business

In the UK, at least, Heather Hopkins sees some hope in the numbers: “The Telegraph, The Guardian, The Times and The Sun are seeing strong growth in visits to their websites year on year, so although they really need to figure out how to compete in this new environment, it’s not curtains for these brands yet.”

## The battle for attention

Timo Soininen leads Sulake, the 3i-backed Finnish company which owns Habbo – a virtual world that attracts over 7 million teenage users a month world-wide. He understands the challenges facing traditional media players: “All of the big companies want to be where their target audience is, which is why some of them have been making acquisitions. Good content will always play a big role but the fact is that certain forms of broadcast media will suffer a lot.”

“Take youth magazines as an example. They used to be trendsetters but are now increasingly vanishing from the face of the earth. They’re being replaced by virtual communities, where you can tailor-make your environment and it’s much more interactive and immersive than a weekly magazine.”

## Learning to let go

Richard Rosenblatt recognises the challenges traditional media companies face but foresees a bright future – if they learn to let go: “Traditional media companies have got the assets to make very successful online media businesses. The problem, typically, is they hold their content so tight and put so many restrictions on it, like the music industry did, that people just go away.”

“Provided traditional media companies embrace the true democratisation the web creates, I think they sit in a pretty



▶ Habbo – a virtual world that attracts over 7 million teenage users a month world-wide.



Richard Rosenblatt

Peter de Monnik

Jeff Henry

Jeffrey Revoy



ITV: Deepening audience involvement  
Jeff Henry

strong position. Everyone I talk to from traditional media is very focused on it, which is a huge difference from a few years ago where they thought it would never really take off.”

### A continuing conversation

For Jeff Henry, who is Managing Director at ITV Consumer (see box), the adaptation to user-generated content is a change of gear, not a switch of mindset: “For ITV, user-generated content is not new. Probably one of the most famous brands in this area is home-video show You’ve Been Framed. The idea of people being given a window by a broadcaster has existed for a long time.

“What’s changed is the explosion of delivery mechanisms and the ease of people’s ability to voice their opinions. That’s allowed us to remain a creator of guided content while also facilitating a new conversation with viewers. It’s very

much something that is integrated: it doesn’t overpower what we do, but it does capitalise on that new conversation, which is now an essential part of what a modern broadcaster does.”

### Building skills and engagement

At Reed Business, preparations for the online battle go back to the turn of the century. Peter de Monnik recalls: “Six years ago, it was obvious to us that the game will be online and you can only win if you understand online. So we massively improved our competency level and our focus in the online space.

“Offline, content is driven by surprise – surprising readers with quality content in a magazine. Online, content is more driven by user intent, so we make sure they can find what they’re looking for. Ultimately, we skew our content creation towards that dynamic, to make sure our engagement metrics are favourable for the brand and therefore for the user.”

Hugely-popular UK soap opera Emmerdale celebrated Christmas Day 2006 with the murder of patriarch Tom King. This didn’t just pull in high viewing figures on the day – it also enabled ITV to learn a lot more about its audience.

Viewers flocked to the website to assist in solving the crime. 120,000 people registered in the first week alone, each of them providing ITV with a significant amount of personal information – now used to help target highly-relevant content and advertising.

In the view of Jeff Henry, Managing Director at ITV Consumer: “That deeper involvement from our audiences is clearly an essential part of what we have to do.

“We also see that in our Friends Reunited database, which has 15 million entries – again, information that people have freely given.

“This is about people’s entertainment, their enjoyment. As long as we make sure that there is relevance for them, they’re happy to share their data.”

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# Advertisers: Taking the plunge

The vast audiences being built by social media are increasingly irresistible to advertisers – but the best model for engagement has yet to be found



**\$500m**

advertising revenue  
in 2007 for MySpace

**\$800m**

expected advertising revenue  
in 2008 for MySpace

**\$4bn**

expected ad revenue being  
generated by user-driven  
sites in the US by 2011

**In summer 2007, Vodafone withdrew its advertising from Facebook when it discovered its brand nestling alongside groups supporting a far-right political party. The company had bought bundles of advertising space across a number of sites but didn't expect to find its name sitting next to extremist views.**

This illustrates the key concerns for advertisers when engaging with user-generated spaces: predictability and control. Despite these worries, over \$1bn in ad revenue is being generated by user-driven sites in the US this year – a figure expected to exceed \$4bn by 2011, according to eMarketer.

## **Stop advertising: start engaging**

In Heather Hopkins' experience, many potential advertisers are keen to interact with user-generated content but aren't sure how: "I think we're still at the point where we haven't found the advertising medium that works for social media. But smart, creative brains will be put to it, and I'm sure we'll come up with the right models. I expect to see multiple forms – including sponsorship, which is a model that's being tried, and seems to be working."

As advertisers grapple with new ways to reach audiences via social media, they don't just need fresh technological tricks. They also need a change of mindset.

Timo Soininen often finds himself explaining this to advertisers who are keen to enter the Habbo world: "We say 'stop advertising, start engaging'. It's all about going into the environment and not just displaying your message but being part of the environment. That will get you massively better results than just shoving display ads on a site."

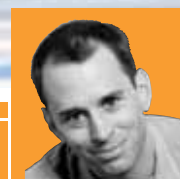
## **Overcoming fear: opening new opportunities**

Alongside its sponsorship programme, Yahoo! is also giving advertisers a way to get more actively involved through Yahoo! Answers (see box). Even so, Jeffrey Revoy sees plenty who are hesitant about taking the plunge: "A lot of traditional advertisers are standing on the side, wondering if this is one of those times where they have to jump, even though it makes them feel uncomfortable, or if it's something that will evolve, so they can participate later on, when the risk is significantly lower."

Sites that host user-generated material need to think through the level of protection they're able to offer



Richard Rosenblatt   Peter de Monnik   Jeff Henry   **Jeffrey Revoy**



Yahoo! Answers:  
Opportunities for  
advertisers  
**Jeffrey Revoy**

advertisers against rogue content. For Jeff Henry, this is a vital issue: "All our forums are moderated and we act swiftly when notified of anything which could be inappropriate. For us, this is not the Wild West: the brand reputation is paramount.

"But if I look at what's happening in ITV Local – which already has nearly a third of a million people providing content – we're finding that there isn't a huge problem."

Indeed, ITV's online presence enables it to service advertisers that it never expected to reach by opening up markets that were once inaccessible to a mass broadcaster. Since the introduction of ITV Local, the group can now offer ad contracts ranging from £10 to £10m, covering multinationals like BMW right through to small businesses like the local BMW dealership.

#### Where the action is

Richard Rosenblatt feels that big brands will ultimately have little choice but to embrace social media: "Maybe it is true that some advertisers are still nervous, but MySpace took \$500m of advertising revenue in 2007, and it's set to do \$800m in 2008. And MySpace is all user-generated content – there is nothing else on there.

"I'm sure advertisers in a perfect world would prefer to pick the exact content they want, but that's not how the world works. The number of pages generated by social networking is a huge percentage of the overall web and growing. If you build the audience, the advertisers will come because the audience is leaving everywhere else – they're not reading newspapers, television's down, radio's down – the web is where the action is."

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Yahoo! Answers is one of the fastest-growing social communities in Europe, providing a forum for people to post and answer questions, ranging from the practical ('How do you care for a Venus Flytrap?') to the obscure ('Why do dogs bury bones?').

As the Vice President of Search and Social Media for Yahoo! Europe, Jeffrey Revoy, was responsible for launching the service – which not only satisfies users' curiosity but is also providing new opportunities to advertisers:

"Yahoo! Answers is different to Wikipedia, which is very much about facts and figures. Yahoo! Answers has elements of that but it's also about tapping into people's experience. You may have a passion around cooking but it's not necessarily something you can contribute to Wikipedia, because you can't cite three references for your favourite recipe."

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# Over the horizon

There's little doubt that user-generated content is going to continue its exponential rise, pulling in vast audiences and attracting an increasing share of advertising dollars.

**100 million**

YouTube views per day – enough to convince anybody that video is here to stay

**120 million**

online video viewers in the US

**160 million**

expected number of online video viewers in the US by 2010



**The big questions relate to the models that are going to succeed and the 'killer applications' that will deliver content-hungry users in ready-to-spend mode.**

**Helping businesses see around the corner**

With a strong track record in both the media and internet spaces, 3i is experienced at working with bold operators to seize the opportunities offered by user-generated content.

Daniel Waterhouse has led 3i's global internet investment activities for two years, spanning the outstanding success with Fotolog and the exciting investment in Demand Media.

In Daniel's view, there are few absolutes: "One feature of many emerging platforms is their hybrid nature. They blend online and offline presences, and mingle professional- and user-generated content – all in a highly-targeted way.

"At the same time, they play strongly to real-world trends, so web content is bite-sized, conversational and relevant, meeting the needs of time-poor consumers.

"Because 3i invests in traditional media companies and pure internet players, we have a breadth of understanding that makes us an ideal partner for both. In essence, it's about seeing around the corner and devising effective new ways to distribute content and attract audiences that advertisers will value.

"We can help businesses do that, whether they have a history going back decades or are just starting out."



“As soon as someone figures out the Google AdSense for video, it’s just going to explode.”

Richard Rosenblatt,  
CEO, Demand Media

### Video: An explosion waiting to happen

As organisations ponder which area of content is set to make the biggest impact, a strong consensus is emerging: video.

Already there are over 120 million online video viewers in the US and this is expected to approach 160 million by 2010, according to eMarketer.

Jeff Henry places immediacy at the heart of video’s unique appeal: “It’s particularly relevant for news events like the 7/7 bombings and the floods.

With the growth of video capture in devices, I can see a place within a news environment for more and more user-generated content.”

With user-produced videos already a key component of the Demand Media stable, Richard Rosenblatt strongly agrees: “We think video is extremely valuable and clearly the next wave.

“The views on YouTube are over 100 million a day, so that’s enough to convince anybody that it’s here to stay.

“When we integrate video into our sites, we find that people are consuming it and it’s growing like crazy.

“We’re seeing the most growth from the video assets that we put up. I think that there are still a lot of challenges that people have to understand on how to create valid video content, how to distribute it, and more importantly, how it gets monetised. But I think we’re helping to lead the pack in figuring that out.

“Google AdSense fuelled the tremendous growth of the long tail of media – all those websites that couldn’t exist before Google found a way to monetise their niche content.

“As soon as someone figures out the Google AdSense for video, it’s just going to explode.”

“It’s about seeing around the corner and devising effective new ways to distribute content and attract audiences that advertisers will value.”

Daniel Waterhouse, Sector Partner, 3i

## About 3i

3i is a world leader in private equity and venture capital, offering a comprehensive range of funding solutions: from early stage Venture Capital to Growth Capital, Buyouts, Quoted Private Equity

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