

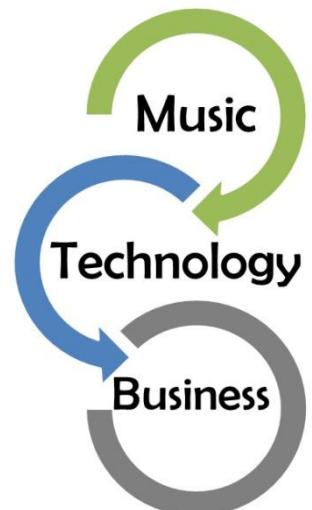
The Socially Integrated Web

Facebook's Content Strategy and the Battle of the Ecosystems

By Mark Mulligan

October 2011

MusicIndustryBlog



About The Author

Mark Mulligan

Mark Mulligan is an independent music industry analyst and consultant. For 11 years Mark was a Vice President and Research Director at Jupiter Research (later acquired by Forrester Research). In his role as a music analyst and senior research manager, Mark worked right across the digital music value chain, with all the leading digital music services and technology companies, the major record labels, rights bodies, retailers, hardware companies and telcos.



Mark is routinely quoted and interviewed by top tier media (TV, radio, print and online) and speaks at leading music events such as Midem, Popkom, Canadian Music Week, London Calling, In The City.

In addition to following the music industry professionally, Mark lives and breathes music. He is a classically trained musician and is in the third generation of guitar players in his family (he is currently working on gently prodding his children to becoming the fourth). Mark also has a small, fully digital, recording studio which he uses to make lots of not so subtle bleeps, beats and squeeks. 'Back in the day' he had a three single record deal and had his music played on BBC Radio 1.

Mark is author of the leading music industry blog, aptly named MusicIndustryBlog:
<http://musicindustryblog.wordpress.com>

You can contact Mark on Twitter: http://twitter.com/#!/Mark_Mulligan
And by email: musicindustryblog@gmail.com

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The 20,000 Foot View

Change is afoot in the Internet. Facebook's new Socially Integrated Web strategy is set to make Facebook one of the most important conduits on the web. Facebook is pushing itself further out into content experiences in the outside web while simultaneously pulling more of them into Facebook itself.

The Timeline announcements at f8 saw Facebook establishing itself as a universal content dashboard – a 21st century cable company for the Internet - establishing its own content ecosystem to compete with the likes of Apple and Amazon. While traditional ecosystems are defined by hardware and paid services, Facebook's is defined by data and user experience.

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Setting The Scene

Joining The Digital Dots

The **Socially Integrated Web** is the strategic architecture of Facebook's digital content strategy. It is a strategy that others' are following too but that Facebook is currently doing best. Facebook has been quietly putting many of the building blocks of the Socially Integrated Web into place over the last year or so, but the most dramatic moves were announced at Facebook's f8 conference in September. It was there that we heard about Facebook's controversial Timeline feature. This - along other functions such as Likes on websites across the web - are Facebook's attempts to join the dots in our increasingly fragmented and cluttered digital lives (see figure 1).

Figure 1

The Socially Integrated Web: Facebook's Digital Content Strategy



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Analysis

Preparing For Long-Term Competitive Strategy

Facebook wants to insert itself at the centre of as much our digital lives as it possibly can. It wants to, nay needs to, because it is entering its adolescence as a company and needs to start planning for life as an adult:



- **Guarding against competitive threat.** Mark Zuckerberg knows all too well that no company is invincible in the face of competition. There was after all a time when MySpace had the social networking world at its feet and almost overnight crumbled into a curious footnote. The odds of Facebook following such a rapid path to obscurity are small, but it will some time or another face a serious challenge from a would-be Facebook killer. Google+ might yet prove to be that challenger.
- **Building consumer lock-ins.** To better protect against competitive threat Facebook needs to be as deeply integrated into as many parts of our lives as it can. Currently it has a great communication lock in (how many of our outer circle of friends have we lost phone numbers and emails for so that Facebook is our only means of contacting them?). But Facebook wants to have similar lock-ins across our digital lives, especially our content experiences. It is pulling more of our content experiences into Facebook and simultaneously pushing itself outwards into more of our content experiences that happen in the outside web.

Facebook, The Early Follower 21st Century Portal

Facebook wants to become a 21st century portal, and is already a long way to becoming one (see figure 2). The term 21st century portal is one that was first penned by a former Jupiter Research analyst David Card.¹ The basic premise is that the late 20th century originated portals such as AOL, MSN and Yahoo! created content in a traditional media company manner: they paid for it and they created it. 21st century portals though have their audience create the content themselves, whether that be from the users directly or from the users plugging their content experiences from other sources into the 21st century portal. Facebook is building version 2.0 of the 21st Century Portal concept:

Figure 2

21st Century Portals, Both Google and Facebook Want To Strengthen Their Unique Places In Our Online Lives



Google is the doorway to the parts of the web we don't yet know.

Facebook is the doorway to the parts (and people) of the web we do know.

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- **The integrated co-existence approach.** MySpace, the first mover, tried then failed. Facebook is following an Apple-like early follower strategy, letting the bleeding edge make a market and then coming in to clean up, empowered by the lessons learned at the pioneers' expense. Thus Facebook's 21st Century Portal approach is more integrated and places co-existence with other content destinations its heart. Facebook's story for the content companies is that it is one of the two key doorways that consumers use to enter the web: Google is the doorway to the places on the web we don't yet know; Facebook is the doorway to the people and places we do know.
- **The 21st Century Portal as a content ecosystem.** Facebook's 800 million users make it a direct conduit to the world's most engaged web audiences. As Facebook begins to draw more content companies into its socially integrated web strategy so it begins to create an ecosystem, one that is defined not by a device or store but by a unique collection of user data and by user convenience.

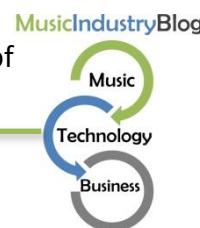
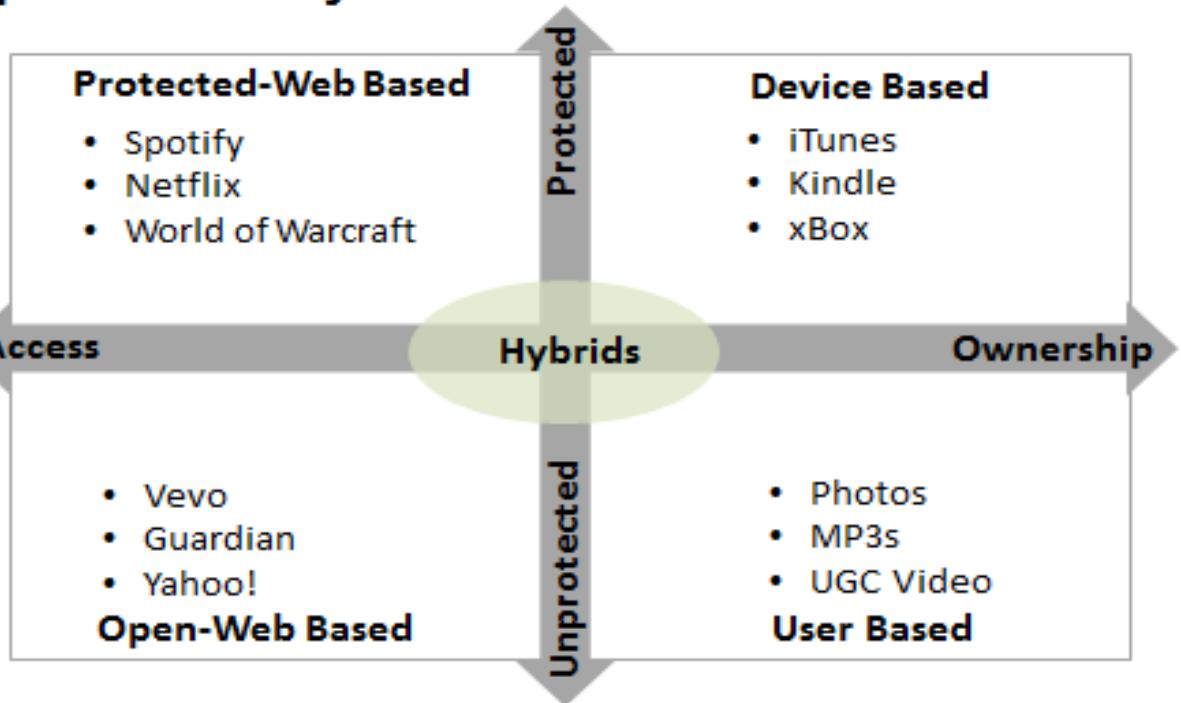


Figure 3

Digital Content Is Becoming Defined By Four Types of Ecosystems



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Four Ecosystems Now Define The Content Landscape

It was not so long ago that content ecosystems were the domain of device manufacturers like Apple, but all of that is changing. Indeed now it is possible to view the entire digital content landscape through the lenses of 4 different types of content ecosystem (see figure three). If we think about content along two axis, one of ownership and one of openness we end up with four key groups of content types, each of which in-turn leads to a different form of content ecosystem:

- **Device Based Ecosystems.** The traditional territory of content ecosystems, these are defined by consumer devices such as the iPad, the Kindle and the xBox. They revolve around device based consumption of owned content that is either purchased from an integrated store (and typically is tied to the ecosystem with some use of DRM) or is sourced from a user's own collection.
- **User Based ecosystems.** These are based upon users' own content collections. The photos and videos we create ourselves and all of the unprotected professionally created content we have either ripped or purchased. We create our own ecosystem walls around this content by choosing who we share this content with and where.
- **Open-Web Based ecosystems.** These are the least structured of ecosystems, based around openly accessible web content destinations. At first sight these might look anything but like ecosystems, yet there are numerous tactics that open-web sites increasingly use to create virtual ecosystems. For example a video destination might define a narrow

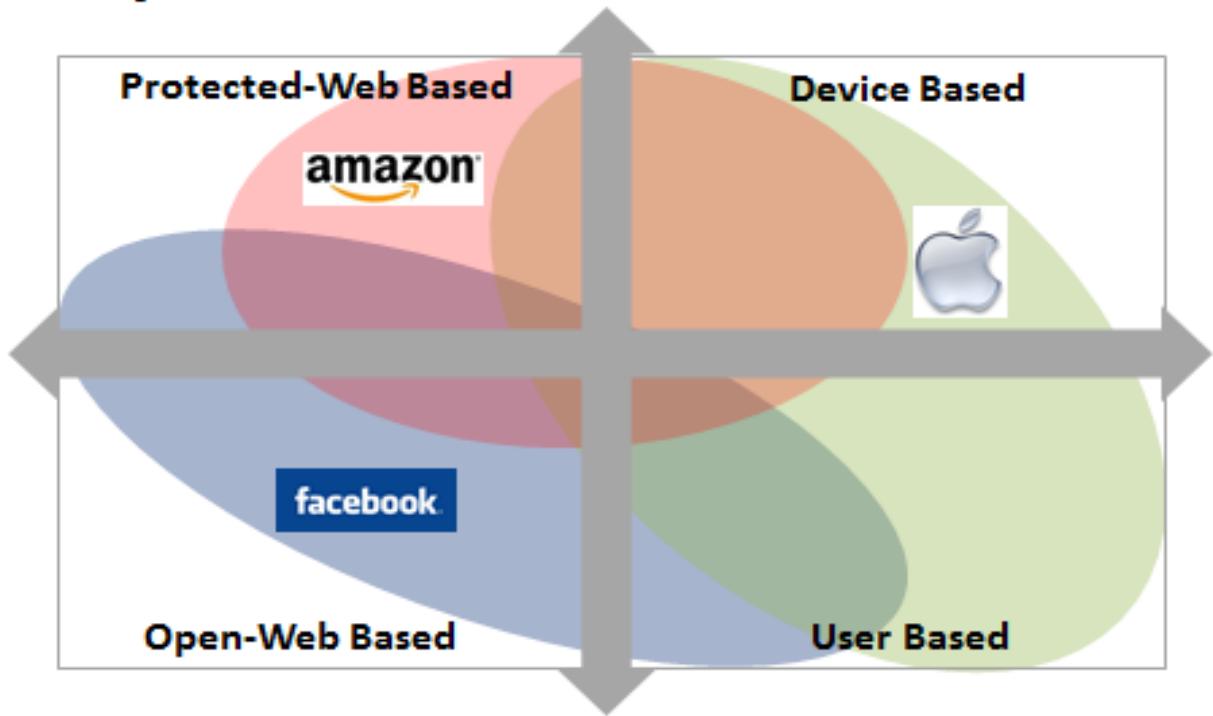


set of partner sites where it will make its content available, forcing the user to stay within that ecosystem of sites in order to access that content.

- **Protected-web based ecosystems.** Here content companies pull walls down around their content. Sometimes these walls are paid, sometimes they are free but password restricted, sometimes they are created by making content experiences app based, ensuring the content experience can only happen within the app.

Figure 4

Co-Existence Exists Because Even the Closed Eco-Systems Have Cracks in Their Walls



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Ecosystem Co-existence And Competition

What is perhaps surprising, considering how closed some of the content ecosystems are, is the degree to which overlaps and coexistence occur:

- **Ecosystem and the Frenemy strategy.** Frenemy dynamics – i.e. partnering and competing with the same companies – are intrinsic to content ecosystems. To a degree it is a pragmatic recognition by content owners, and device companies in particular, that much of their customer's digital life will exist outside of their inner sanctums and that failure to support this activity will limit their appeal. There is also the less altruistic intent to fish for customers outside of their inner sanctums, to sink their hooks so deeply into other parts of our digital lives so that the value of those other content ecosystems eventually weakens.
- **Integration, recommendation and curation.** This is where Facebook and its socially-integrated web strategy comes into play. The walls of Facebook's ecosystem are user data and user convenience.

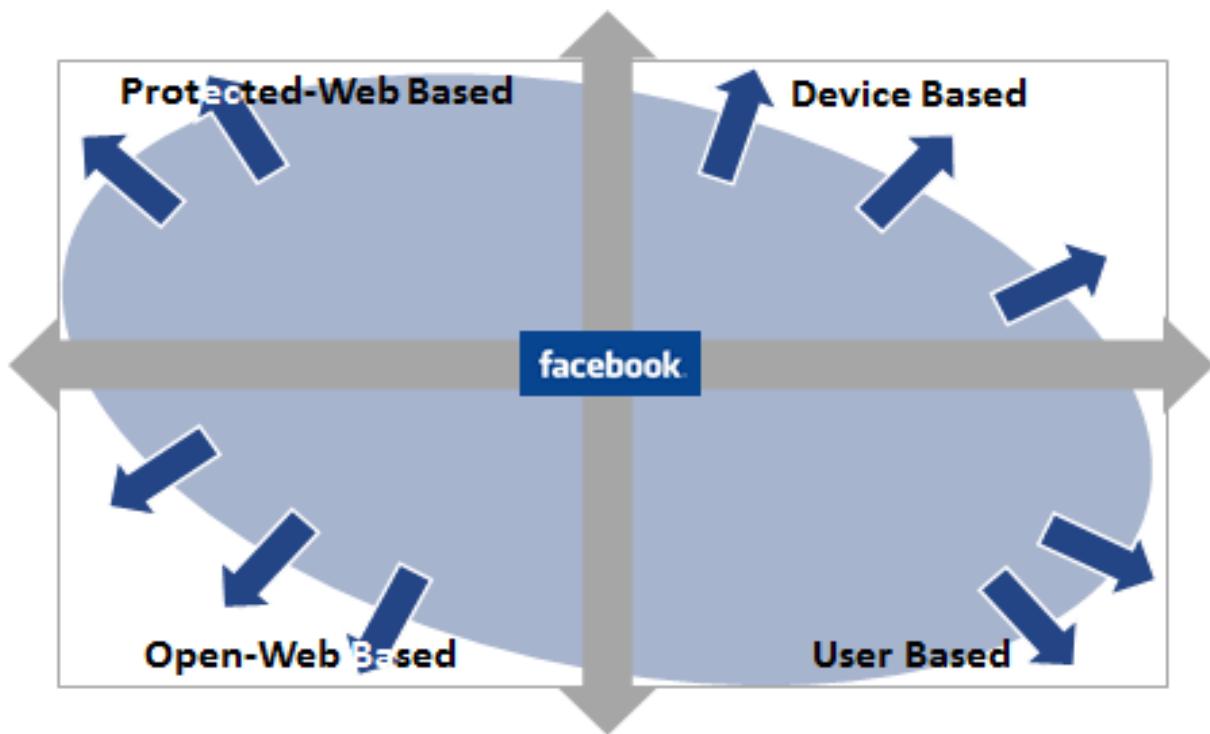


The more Facebook integrates – internally and externally – with our digital lives, the more value Facebook is able to deliver us in terms of recommendations and curation and the less convenient it is to stop using this new functionality.²

- **The universal content dashboard.** Imagine a day where Facebook becomes your digital content dashboard, where you can access and manage all of your favourite digital content experiences. Where Facebook can help you actually figure out what your favourite content experiences actually are. Where a universal player will let you playback music from any one of your music services, on-demand TV shows from any of your video providers, read digital books from anyone of your digital stores, catch up with feeds from all of your newspaper and magazine subscriptions, play any one of your favourite games.

Figure 5

Facebook Wants to Push Deeper Into All Ecosystems to Become the Universal Content Dashboard



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The Reach And Risks Of Facebook's Universal Content Dashboard

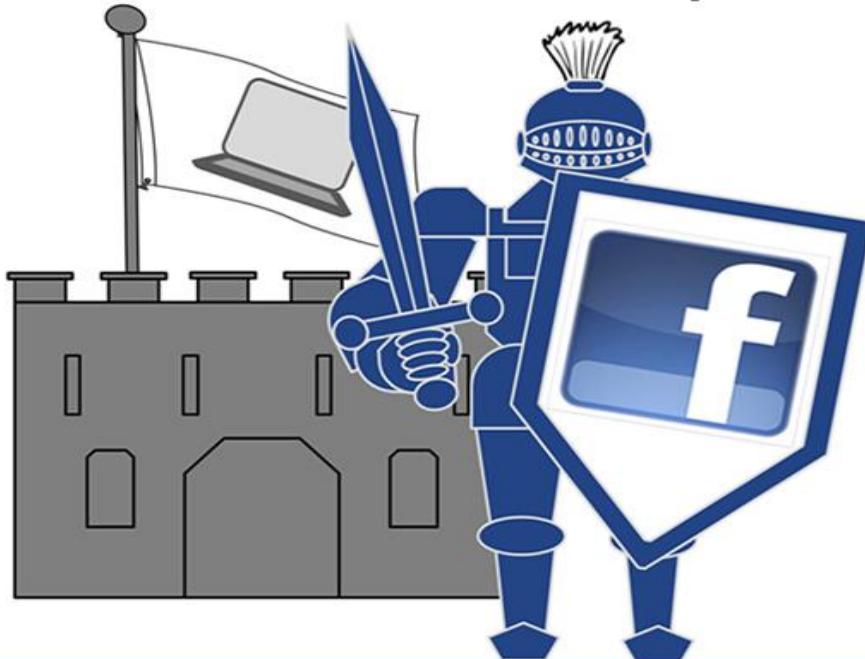
The all-encompassing universal content dashboard may be some way off yet, but Facebook has already taken some sizeable steps towards it. Spotify's scrapping of its own login in favour of a universal Facebook login is simply illustrative of one content company being a step further along Facebook's socially integrated web path than others:



- **Pushback will only slow the inevitable.** Facebook will undoubtedly continue to get push back from users and content providers alike, especially from the device based ecosystems, where there is most to lose from increased openness. But the pull of Facebook's 800 million users will prove too much for most content providers, and indeed already is. 800 million users means having the majority of the most valuable portion of the world's most engaged internet users at your fingertips. 3
- **There are big potential benefits for users.** Data and privacy issues aside there is a huge amount of upside for consumers. If the right balance is struck between privacy protection and functionality, Facebook users should find themselves with highly convenient, richly curated content experiences that enrich and enhance their digital content services.
- **But content owners risk disintermediation.** The short to midterm story for content owners is also strong, long-term though, there are question marks. Think through the logic of deep integration of content experiences into Facebook: eventually the content brand gets subverted and subsumed by Facebook's. Also, a convenience-lock-in effect emerges, where the convenience of accessing a diversity of content experiences in one place makes users less and less inclined to spend time with those content experiences outside of the Facebook ecosystem. This is when Facebook's hooks are sunk firmly in and the line is slowly but surely reeled in. Of course content companies have tools with which they can push back, such as placing restrictions on the Facebook-integrated content experiences. But by doing so they will risk looking less compelling than their direct competitors who will be positioned directly alongside them in Facebook's universal content dashboard.

Figure 6

Facebook: Guardian or Gatekeeper?



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Conclusion

The Socially Integrated Web is already irrevocably changing our digital content experiences. As the strategy progresses questions will continue to arise about Facebook's role in the digital content landscape:

- **Gatekeeper or guardian?** By deepening its role in our digital lives and effectively becoming a 21st century cable company for the Internet, Facebook will acquire increasing influence and power. What Facebook's content partners must help ensure is that they do not cede too much power. That they let Facebook become a gatekeeper rather than a guardian of their audiences.
- **The battle of the ecosystems.** The Socially Integrated Web is just one ecosystem strategy among many. What will be just as impactful and far reaching in its implications will be the evolving relationship between all of the digital content ecosystems and their respective strategies for competition and co-existence. At Apple's recent iPhone 4S launch the focus was on Apple's software ecosystem more than it was the hardware. Tellingly, despite much trumpeted deep integration with the likes of Twitter and Wikipedia, Facebook was the elephant in the room, highly conspicuous through absence. At some stage Apple and Facebook will need to pursue mutual co-existence strategies, but until they do their competition and its impact on consumers' digital lives will be just one example of how the effects of the battle of the ecosystems will be keenly felt.
- **Valuing all consumer currencies.** The paid content sector lives in the permanent shadow of the free content market. The collapse of traditional analogue media business models has heralded a collapse in consumer spending on content. This will change, slowly, but one of the keys to success lies in recognizing that money is not the only currency consumers transact in online. In fact an argument can be made that it is not even their most valuable currency. Of the three main consumer currencies – money, time and data – it is the latter two that have been most successfully monetized to date. Facebook's Socially Integrated Web Strategy is building a content business that transacts in data first, time second and money a distant, distant third.

There is no question that a role exists for a curator of our fragmented and cluttered digital content experiences. There is also no question that Facebook is uniquely well placed to play this role. What is in question is whether content companies and consumers end up as strong winners as Facebook will.

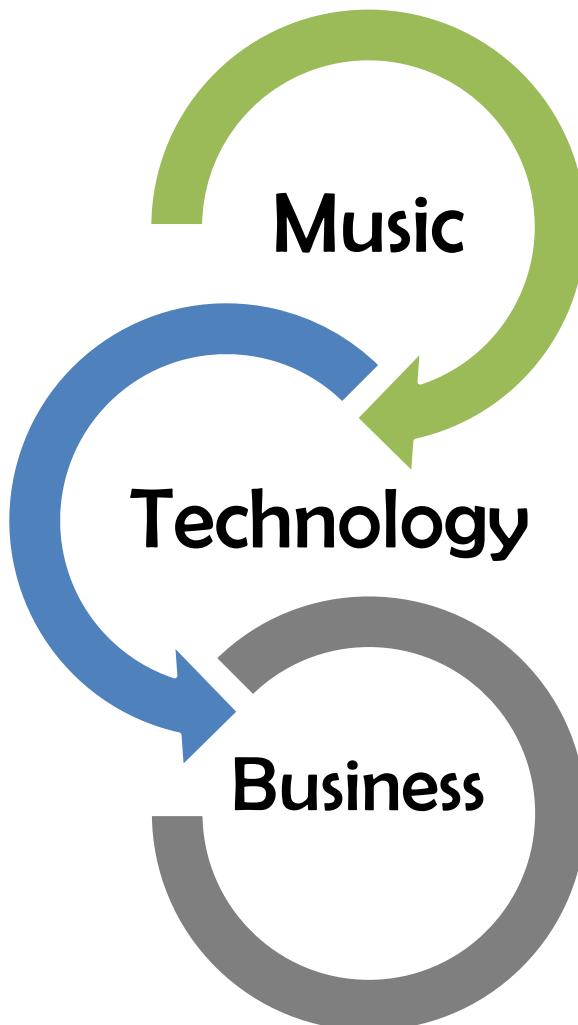
The content of this report first appeared as a Music Industry Blog podcast which can be viewed here: <http://musicindustryblog.wordpress.com/2011/10/03/the-socially-integrated-web-and-facebooks-content-strategy/>



Notes

1. David Card is now an analyst at Giga Om Pro. You can view his profile here
<http://pro.gigaom.com/members/davidcard/profile>
2. It also of course delivers just the same value to advertisers but that's a whole further discussion beyond the remit of this report.
3. Facebook presents advertisers with consumers closer and more easily accessible than any traditional interactive ad campaign could get them. Musical artists were among the first to recognize the value, with many closing down their own websites or deprioritizing them in favour of their Facebook pages. Facebook is so universal in reach that the fans of just about every single artist are on Facebook, in a way that any amount of SEO and marketing would not get them to an external artist web site. Of course then getting them to find you on Facebook is another challenge entirely.

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