

## Beyond the Book

A Podcast Series on the Business of Writing and Publishing

### **Interview with Ned May, Vice President and Lead Analyst, Outsell Inc. For podcast release Friday, February 18, 2011**

KENNEALLY: One year into the iPad era, publishers, application developers and device makers remain in search of the holy grail monetization of content. Two announcements earlier this month from Apple and Google put the question on two divergent tracks. And to tell us more about all of this, joining *Beyond the Book* right now, is Ned May, Vice President and Lead Analyst at Outsell.

Ned, welcome to *Beyond the Book*.

MAY: Thanks for having me back, Chris.

KENNEALLY: Well, it's good to have you back. You've talked to us in the past about a variety of issues related to content and copyright. And this is all about something that you sort of caught and pulled together I thought in a really nice way. Which were two announcements that happened on the same day. One on the east coast with Apple and News Corp. The other on the west coast from Silicon Valley and Google.

Tell us what those two announcements were. And then we can dive into why they were telling us something about this very new marketplace around the tablet computer.

MAY: Sure, I'd be happy. And it may be relevant, may not be relevant, but both of those announcements were made on Groundhog Day, so perhaps we'll touch on the significance of that.

But the one on the east coast was really a News Corp. announcement. They were unveiling a new product, an iPad only product in one of the first certainly big companies to do that. They had Apple up there on stage because of it being the device that they were launching this on. But it was a news product that was not first on the web, that was not first in print, but was really designed for this new content medium that's the iPad.

We talk about it being the tablet market and it's in process of becoming the tablet market. But to date it's really the iPad market that we're looking at.

KENNEALLY: I keep reminding myself, Ned, that this is a market that has only emerged within the last year. Although even frankly less than a year's time.

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MAY: Less than a year. It was announced just about a year ago, a little more. But it didn't hit consumer's hands until April. So it's really six to seven months of a market. And it's moved very rapidly.

KENNEALLY: And because the publishers have reacted to it and they're trying to get ahead of the consumer, it seems to me. But what was it that News Corp and Rupert Murdoch are trying to do with this new publication they call *The Daily*?

MAY: Well, great question. What are they trying to do? I mean, in some ways I think the name of it, excuse me, captures that they're trying to do. They're hoping to recreate kind of this time where we sat down and we consumed, we leaned back and we consumed content. And we took the content that someone had curated, typically in the form of a newspaper, and brought together for us. And we took that and we kind of browsed through it and we gathered our insight into the day for each day.

It's named *The Daily*, there's no coincidence there. They're looking to capture a reader's attention and hold it in a world that is increasingly being bombarded with content all the time from all directions. The links on the web, and friend recommendations on Facebook, and we're seeing content consumed in a much different way than these print containers used to provide. This is an effort, taking advantage of a new medium of a tablet and the iPad to recreate that container.

KENNEALLY: Well, not to defend Rupert Murdoch, and that would certainly be the first time, maybe the last time I would do that. (laughter) I have read that there is already some statistics on iPad usage that puts it in the primetime area, between eight and ten. So it's really beginning to compete with television and other media. And so maybe he's on to something there, if in fact, *The Daily* is more than just text or sort of alternative to print.

MAY: It's – certainly it's a beautiful production. It's well done. It's well supported. He has invested a significant amount of money. And it's a polished product. There's still some technical challenges, it crashes more than it should. But it's a new field as well.

But there's some new aggregators out there that are doing similar, but not actually creating the content themselves. But they're using this device to produce a new form of aggregation that pulls in multimedia, that pulls in print content, image content, video content. But also is doing this driven by individual networks and linkage such as Twitter and Facebook.

So the one that really stands out is the as one that's talked about is Flipboard, although there are others. That have an iPad app and allow this kind of aggregated

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news experience. But the editor is ultimately yourself, rather than someone who could be across the country or across the world and doesn't know you as an individual that well.

KENNEALLY: Right, and it's an editor who has, if not unlimited resources, at least the web at his or her fingertips. In the case of *The Daily*, they've committed to producing 100 pages of new content a day. That's an achievement on a daily basis, on a daily basis day after day after day, that's going to be an expensive achievement.

MAY: It is. And it's a great number, too. It's a tremendous accomplishment to produce that. But then you look at the volume of content that's produced across the web, and it pales in comparison. So if someone can aggregate that and filter it, it's quite a challenge on News Corp.

Now, you know there are other publications that are making this move. And it's possible that *Daily* will succeed in capturing a significant enough audience to justify it. As compared to kind of the *USA Today* of the recent era, which is a new approach to news done in a way that's interesting enough and it could catch on and gain a successful piece of the market.

KENNEALLY: Right. And the thing about Rupert is that he is very much a newspaper man. He loves news and newspapers. And I think that someone with that spirit and commitment may well be able to come to a place that will be successful.

But the path he's taken and this is where we're going to sort of pivot to the other announcement, is essentially a closed one. And sort of explain to the audience what that really means.

MAY: Well, it's one where they are producing their own content and selling it, and not looking to aggregate the content that's generally out there on the web. But it's really their voice, and their product, and it's being pushed out to the individual who is then able to open it and consume it.

But in this world of the open web and instant communication we're seeing a lot of work around aggregating content, really pulling it off the web from different sources that have spent – and there's challenges and issues and concerns around that. But we're seeing technology driven companies produce these tools that allow you to gather the content and do it in a way, as I mentioned, that's filtered based on your preferences and your network and your likes and even dislikes.

KENNEALLY: Right. We are talking on *Beyond the Book* today with Ned May. He's Vice President and Lead Analyst at Outsell, a research firm looking at the

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publishing and information industries, and his coverage. And we've had him on *Beyond the Book* in the past. Ned takes a look at search engines and portals and content aggregators and subscriptions and syndications and all of this.

And that's why he's telling us today about these two very important but contradictory announcements that came out February 2<sup>nd</sup>. One from News Corp. and Apple, and the other, Ned, from the west coast and Google.

MAY: Yes. And you know there was – as you saw in this piece, Chris, there was a lot of different parts that I was pulling together.

So comparing the efforts of *The Daily* on the iPad in a fairly closed environment with what Google was announcing on the west coast which was a new operating system – or not a new – a new iteration of the Android operating system that was specifically targeted for the tablet device market.

So as we talked about at the outset of this call, tablets have not been around for long. It's really primarily when we speak of the tablet market to date we're speaking of the iPad market. And it's less than a year old. There has been a lot of attention and efforts to build other tablets into crack what is just an absolutely dominant market share of Apple.

And Google coming out with its Android operating system and targeting that market specifically is extremely significant when you look at the uptake that they have had in the smart phone market in the last year or two. And the share that they've taken away from Apple and the iPhone and the share that they've stopped Apple from taking away from others in the smart phone.

So along comes Google. It's got Android. It's done very well. It's proven that it's able to get that operating system out there and on devices in an open approach saying here, take this, run with it. We're not going to keep it locked down and closed and demand that you play by all of our rules. But we just want it out there and we want to support the device market. They've done that with smart phones, now they're targeting tablets.

And the market is hungry for this. They're hungry for a competitor in the tablet space to Apple. And Google obviously has the resources that could likely drive success here.

KENNEALLY: Right. And what's interesting here, and you noted in your insight, Ned, is this has happened before. In fact, I think it's happened to Apple before where the beauty of the device, whatever it might have been, was exquisite and everyone

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appreciated it. But then things came along that were so called inferior products, that really won out as far as consumer adoption.

The iPhone the iPad, these are devices that people really do, I think, appreciate for their style as well as for their function. But what the Android system and Honeycomb would be making possible is something perhaps less elegant, but more diverse, more capable.

MAY: Yes. So, the parallels there to what happened to Apple and Microsoft are fairly uncanny. It brings us back to that Groundhog Day piece that I was mentioning. Where in the movie that was built around Groundhog Day, the protagonist had to keep relive the same painful experiences over and over again.

So, I found it interesting that Apple was going down a path of closed, which may lead it to be competing with Google, and is setting it up to face a very similar situation that it did with Microsoft. Which is if Google puts its operating system out there for relatively almost free, it's support is required, but it's a lot cheaper for a manufacturer to get this, and it's impossible for them to produce something with the iPhone operating system, that even though it's clunky, even though the elegance of the Apple device may be superior, there's just market driven behavior that will push the adoption of Android driven devices. And so we could see a pretty significant competitor coming on the marketplace quickly. We saw that in the smart phone market, and it is likely that we'll see it in the tablet market.

Apple, to date, has been playing pretty tough with publishers. They're making waves that some dispute of whether they're saying this or not. But they're talking about restricting content sales to only being done through the iTunes platform. And so if you have Google coming along supporting a tablet market that manufacturers want to build to, and having an open approach to allowing publishers to sell the content any means that they want, we could see some pretty significant changes quickly.

KENNEALLY: Right, because the point there is that Apple wants 30% of each one of those transactions, I think, is the figure. And so if you can not have to pay that out to Apple over time, all those little raindrops will add up.

MAY: Yes. Those can be big raindrops. And Apple's doing just fine, thank you, on the device sales. It certainly makes revenue. But it looks to be getting a big greedy here. And that could come back to bite them.

KENNEALLY: Well, as a last question, Ned, what's in this for Google?

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MAY: Well, great question, Chris. It's not entirely clear there's something in it for Google. I think their reasoning is that as we move from doing a lot of our computing from on the desktop to these mobile devices, our searching is moving from the desktop to these mobile devices. So they need to be out there, and they want to own that platform that we're doing the search on. So they want it to be a Google experience. And that they can control the search through that. And that is Android and Honeycomb moving on to these platforms.

But Google is tremendously successful company. We all know this. And it has had a huge impact on publishing and other industries. And it spins off billions of dollars in cash a quarter. But it's really to date been a one trick pony, if you will. It's something that's been said before. It's been a fantastic trick, it is moving to mobile, it's doing search on mobile devices, but it's not clear that they are going to be able to replicate this. But they are spending and investing and exploring and creating new opportunities by using that cash to build new things.

So there's not a direct revenue stream that they're looking at to date for the Honeycomb operating system. But I think their thoughts are if we can build it and migrate and be part of that, we'll benefit when it happens.

The comparison that I threw out there in this piece is looking at Xerox and the tremendous impact and disruption that company created. And then what happened afterwards. They were targeted, they were put under pressure by the government to break the monopoly. And as that happened, they also continued to generate a lot of cash and a lot of tremendous research, but they were never able to monetize those things that they discovered in kind of the aftermarket of that first big win.

So we could be seeing a similar story unplay there. It's certainly an interesting one. They're still the leader today, but what's in it for them? We're going to have to wait and see.

KENNEALLY: Well, some really thought provoking ideas there. Something to think about as we consider the iPad and tablet market one year on. We've been chatting with Ned May, Vice President and Lead Analyst at Outsell Inc. And Ned, thank you very much for joining us today on *Beyond the Book*.

MAY: Thanks for having me, Chris, and hopefully having me back.

KENNEALLY: Well, in fact, I know we will want to have you back, because I understand you're working on a survey on the eBook market that will be coming out soon.

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MAY: Yes. That'll be coming out next month. We're looking at the growth of digital eBooks across really three segments. The consumer and trade segments, the professional segment, as well as the education segment. A lot happening there. And we'll be releasing that research next month.

KENNEALLY: Well, we'll hope to have you back on. Those are areas, of course, that Copyright Clearance Center is also very interested in.

So, again, thank you Ned May from Outsell, and thank you all for listening. If you would like to know more about *Beyond the Book* and want some information about the publishing industry across the board, we enjoy sharing information with you at [Facebook.com\BeyondtheBook](https://www.facebook.com/BeyondtheBook). Just like that, and you'll see what we've got. In all of our updates we give special previews for our programs. And just otherwise enjoy talking with the audience.

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Again for everyone at Copyright Clearance Center, this is Chris Kenneally wishing you a great day.

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