

Boulders and Pebbles

Twenty years ago looking at the media industry was like looking at a large open beach strewn with a few very large boulders. These boulders were the big media companies.

High fixed costs, industrial relations, regulation, limited spectrum - all created the conditions for high barriers to entry. Anyone trying to set up a significant new media business could be seen from a long way off.

In the early 1980s Eddie Shah tried to roll a boulder onto the beach by setting up a national newspaper, which caused a national strike.

Rupert Murdoch caused controversy by moving his boulder – production of his newspapers – from Fleet St to Wapping.

Channel 4 caused a stir by becoming a new boulder on the beach, one which spawned several others in the form of independent production companies.

Then Vivendi came along with a bold plan to merge a lot of the boulders together. That didn't work.

Later several separate boulders – Granada and LWT joined together to create a single very large boulder ITV.

Media regulators were mainly concerned with restricting how large the boulders got, restricting their market share and power, rationing access to scarce resources like spectrum. The media was a boulder business: running boulders, reorganising them, refinancing and regulating them.

Now imagine the scene on this beach five or ten years from now.

A few big boulders are still showing. But several have been drowned by a growing tide of pebbles.

People are coming to the beach in droves leaving pebbles. Some are very small pebbles: a post on a blog. Others are larger: a video on YouTube which attracts millions of hits.

More pebbles in different sizes, shapes, colours are being laid down the whole time.

This is the new media business: a beach of pebbles. The big new media companies – Google, YouTube, Facebook, MySpace – deal in pebbles: they aggregate them, navigate you through them, link them together.

So what does that mean for the job of investors and advisors in media and creative businesses like Ingenious?

Well there might still be quite a lot of business in serving the boulders that remain, providing them with content, finance, advice and ideas. But the growing business is in the pebbles.

The commercial trick is to work out how to make money from pebbles rather than boulders. The pebbles on the beach (the long tail) cumulatively may be as large as the boulders. The trouble is that pebbles are often too small to need much investment nor do they offer investors big returns. Money may still be made on the beach but it will be in smaller, more distributed pockets as well as few, smaller number of large pockets.

The role of specialist investors and advisors such as Ingenious should be to know the beach as it changes and grows better than anyone else to find just the right pebbles.

You have to be beachcombers.

There might be individual pebbles that are particularly beautiful, brightly coloured, finely shaped that are difficult to find. High value pebbles, like specialist production companies.

Some investors might be interested in pebbles that do a particular job – skimming stones – these might be like digital rights management companies or music software. These are pebbles that are like tools: Sibelius. Garage Band.

Then you might be able to spot patterns or links in the pebbles : only you might know that in one part of the beach there are five pure white pebbles that could be brought together to make something special. Bringing these pebbles together in the right way might create value that others cannot spot.

Or you might be particularly skilled at putting together packages of pebbles – all brown pebbles – which people might be interested in investing in – (a slate of films, games.)

And finally there are a few people who come to the beach with large containers and gather pebbles together to form very large objects which, from a distance, look rather like boulders.

These containers – YouTube – are platforms for people to pool their content. From a distance they look very big; it's only up close that you can see they are actually made up of lots of pebbles. Ingenious needs to know the people who create these containers.

You need to become the best beachcombers in the business.