

**THE
CHAOS
SCENARIO**

**by
Bob Garfield**



The Chaos Scenario
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For Milena

“If you don’t like change, you’re going to like irrelevancy even less.”

— *General Eric Shinseki, 2003*

“Perhaps if the existing community would take now and then the trouble to pass in review the changes it has already witnessed, it would be less astounded at the revolutions which continually do and continually must flash before it; perhaps also it might with more grace accept the inevitable, and cease from the useless attempts at making a wholly new world conform itself to the rules and theories of a bygone civilization.”

— *Charles Francis Adams Jr., contemplating the transcontinental railroad, 1868*

“Garfield, will you ever finish that book?”

— *Milena Garfield, 2005, 2006, 2007, 2008, 2009*

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THE ART AND SCIENCE OF LISTENOMICS

TODAY, MAY 3, 2009, as I sat in a Philadelphia chemistry lab conducting my final interview for this book, The New York Times Co. announced it would file a notice commencing the shutdown of its second largest news property, the *Boston Globe*.

After 137 years.

We shall see whether this was just a corporate gambit to win more union concessions, but anyway the typewriting is on the page. Sooner or later (most likely sooner), the thrumming presses of another great newspaper — this one arguably the democratic lifeblood of the whole of New England — will grind to a halt. So where to place the blame?

No mystery there. They were the same brutes responsible earlier in the year for bankrupting the *Chicago Tribune* and the *Minneapolis Star Tribune* and the *Philadelphia Inquirer*. For shuttering the *Rocky Mountain News*, and *Portfolio* magazine and *Playgirl* and *Domino*. For ravaging the music industry. For decimating the broadcast industry. And for throttling the advertising industry to within a column inch of its life.

The culprits: zeros and ones.

See, the thing is, “The Digital Revolution” isn’t just some news-magazine cover headline. It’s an *actual* revolution, yielding revolutionary changes, thousands or millions of victims and an entirely new way of

life. It's not just that you can talk to your refrigerator or bank online or E-ZPass your way through the toll booth while those other suckers in the right lanes are backed up clear to that horrible rest stop with the price-gouging Sunoco and ammonia-scented Sbarro. Those are just minor conveniences afforded by the very same binary code fueling the real conflagration. Maybe you've been too busy fiddling with your smart phone to notice, but the mass media and mass marketing structures that have more or less defined your connection with the world for more than a century are in flames.

As you shall see in the first chapter, "The Death of Everything," the times they are a changin'. Traditional media are in a stage of dire retrenchment as prelude to complete collapse. Newspapers, magazines and especially TV as we currently know them are fundamentally doomed, as they shudder against three concurrent, irresistible forces: 1) audience shrinkage with consequent advertiser defection, 2) obsolete methods — and unsustainable costs — of distribution and 3) competition from every computer user in the whole wide world. What you call articles and TV shows and songs, and what the media industry calls "content," will never be the same again. This will change your media environment in dramatic ways. It will change the advertising industry in melodramatic ways.

Madison Avenue, after all, exists to create ads to subsidize the vast expense along the vast expanse of old media. It has footed the bill for *Gilligan's Island*, *The New Republic*, *The Family Circus*, *Rush Limbaugh*, *TRL*, and *The Wall Street Journal* not for the fun of it, but because marketers depended on those media to reach mass audiences. Indeed, they've paid increasing premiums for the opportunity as audiences have shrunk, because even in a fragmented media world, the largest fragment — network TV — is the most valuable. Now they realize that they are losing not only mass but critical mass. When that is gone, marketers have no reason to advertise, no remotely similar place to spend that \$47 billion a year. Therefore, as culturally improbable as it may sound, the days of Madison Avenue dictating messages to you are all but at an end.

Goodbye, Mr. Whipple. Fondle all the Charmin you want, but do it on your own time.

Mind you, I'm not talking about the death of marketing and media. I'm talking about a dramatic rebirth in marketing and media, in approximately the way the end of the last Ice Age yielded exponentially more species, and more advanced species, than had ever prospered on earth. When the TV Age finally succumbs to the Digital Age, we will be living a different world. And (mainly) a much better one. But for those entrenched in the status quo, involuntary change can be a difficult concept to accept. Titans of the Old Model have spent the past five years wallowing in various forms of hubris and denial. You'll see some examples in Chapter 2 ("The Post-Advertising Age") but for the moment let me just share the 2007 comments of Sir Martin Sorrell, chairman of the WPP Group, the world's largest advertising agency holding company:

"Slowly, the new media will cease to be thought of as new media; they will simply be additional channels of communication. And like all media that were once new media but are now just media, they'll earn a well-deserved place in the media repertoire, perhaps through reverse takeovers — *but will almost certainly displace none.*"

The italics are mine. The absurdity was Sir Martin's. Does he not see that the internet is not just some newfangled medium — like TV displacing radio? No, it is a revolutionary advance, along the lines of fire, agriculture, the wheel, the printing press, gunpowder, electricity, radio, manned flight, antibiotics, atomic energy and, maybe, Listerine breath strips. The digital revolution is already having far-ranging effects on every aspect of our lives, from socialization to communication to information to entertainment to democracy, and these Brave New World effects will only be magnified as the Cowardly Old World collapses before our eyes. Not that this *will* happen.

This *is* happening. Right now.

So, here's a thought: why not spend the better part of four years documenting the destruction of the old mass-media/mass-marketing

business model, while simultaneously envisioning the micro-media/micro-marketing world that will succeed it? Splendid idea. Two! Two! Two books in one!

The Chaos Scenario is about the historic re-ordering of media, marketing and commerce triggered by the revolution in digital technology. It will explore five continents for examples of adaptation to what is literally a new age of human endeavor. It is about the cutting edge, which is sometimes a laser scalpel but, of course, also sometimes a guillotine. It is, in short, about crawling from the wreckage of the old order to establish a new one. So let us therefore begin in that notable crucible of apocalyptic disruption — Billund, Denmark — at a company that makes plastic toy bricks.

Billund (pop. 8697) is a squat patch of agricultural land square in the center of the Jutland Peninsula, which does its jutting forlornly northward from Germany. In the springtime, after the thaw, stepping off a turbo-prop produces an instant reminder of how rural the place is. The earthy perfume of manure shoots right up your nose, as if you'd thumbed past a *Vogue* ad sampling Merde from Estée Lauder. Let's just say Billund isn't Bangalore or the Silicon Valley. It does not immediately announce: "technology."

From the airport it is but a mile to Hotel Legoland., which itself will remind nobody of, say, the Taj Palace Dubai. It's more like a sprawling, Lego-themed Best Western, at the driveway to which visitors are greeted by a gigantic animatronic bellman made of Lego bricks, grinning and saluting, grinning and saluting, like a fascist Big Boy. In the hotel, corridors with such fanciful names as Fairytale Road and City Avenue are lined with other colorful Lego constructions. The hallway to my room was guarded by a 4-foot-tall gnome wielding a sign that announced, a bit hyperbolically, "Castle Street." If you were little Dorothy, you would turn to your dog and say, "Toto, I don't think we're in Kansas anymore."

But you would be wrong. Billund is very much like Kansas, only with herring for breakfast. The natives are hardy and stolid, kind but

reserved — and maybe even a bit flinty. Rural Denmark is not a place given much to effusion or showing off. It is a place where folks get out of bed in early morning and go about their business, then return in mid-afternoon to their families, whom presumably they feel no need to impress with worldliness or thought leadership. In fact, if you were to just stroll around this eccentric Polymer Motor Inn taking in the various remarkable examples of plastic-brick statuary, you might even be struck by a further hint of backwardness. In a world of “World of Warcraft” and Second Life, the Lego figures — no matter how elaborate — are nonetheless quaintly retro. Whether assembled as bellboys, gnomes, Darth Vader, cheerful workmen or — as in the lobby art — the Mona Lisa, their constituent rectangular bricks are like 3-D plastic pixels. Everything is just so. . . . low-resolution.

So, yes, Billund is the birthplace each year of millions upon millions of old fashioned, low-tech building blocks molded in a cow pasture. It is also where I began my journey as a chronicler of revolution. For here the future of commerce is being forged.

Various Kinds of Omics

First for its line of robotic toys called Mindstorms, and now expanding to its Lego Creator and Lego Factory lines, this company has pioneered the notion of consumer involvement — not only soliciting ideas from its most loyal and enthusiastic customers, but actively recruiting them for product design. Mindstorms, which first appeared in 1998, was itself a forward-looking enterprise for a company that began in 1932 selling wooden pull toys, transitioned to colorful plastic bricks in 1949 and basically stood pat for 50 years. But the original Mindstorms technology was complicated and sales slow. That is, until 2002, when the Mindstorms User Group stepped off their turbo-prop, sucked in some methane, and got to work on the product’s second generation. For 14 months, between Billund and their own home computers, these volunteers reinvented the brand — which now is a soaring success. And not only did they fly to Jutland at their own expense for the privilege

of being unpaid consultants, they turned right around and evangelized the resulting products to the greater community of fans, geeks and Lego freaks. Internet fan sites, in no way contributed to or controlled by the company, represent virtually the entire Mindstorms marketing program.

The Mindstorms experiment took place in the midst of a crisis at Lego. After the millennium, as electronic toys and internet games increasingly usurped their customers' attention, sales flattened and profitability disappeared. In 2004, losses were so steep, the company was in danger of liquidation. That crisis, perhaps combined with revelations about the passion and commitment of the core audience emerging from the Mindstorms project, led management to rethink every aspect of its business, from dumping extraneous product lines to trimming the workforce to institutionalizing the consumer-participation concept. Under the new management structure, "community education & direct" is one of only four lines of authority within the company — co-equal with administration, supply-chain management and sales & marketing. Its function: to deal directly with consumers, whose collective wisdom, enthusiasm and judgment — as demonstrated in forum after forum online — exceeds that of the company itself.

What this enlightened organization is doing, in other words, is listening. To loyal consumers, to dissatisfied consumers, to employees, to suppliers, to any faint echo in the marketplace that may help it sell plastic bricks to the world. This exercise doesn't necessarily have to take place by flying people to headquarters. It can go on every second of the day, on an organization's own websites and on the websites of others. And it will create connections, data and insights such as you never enjoyed before, or perhaps even imagined before. Because it turns out that all those guys with the PowerPoint presentations you've been sitting through for the past three years — you know, the ones insisting that "the consumer is in control" — are absolutely right. The consumer (and voter and citizen) is in control: of what and when she watches, of what and when she reads, of whether to pay any attention to you whatsoever or to

make your life a living hell. This might be an excellent time, therefore, to listen to what she has to say. And it sure wouldn't hurt to make her your friend.

This is the future of everything. In fact, if you wish to survive for long in media, marketing, politics or any other institution accustomed to managing its affairs from the top down, it is the *right now* of everything. Survival means institutionalizing dialogue with all of your potential constituencies and sometimes total strangers for the purpose of market research, product development, customer relationships, corporate image and transactions themselves. The last of those benefits is especially important, because when you sell goods or services, you get money.

That is the essence of "Listenomics," my term for the art and science of cultivating relationships with individuals in a connected, increasingly open-source environment. It is also what this book probably should be titled. Unfortunately, I was pre-empted by *Wikinomics* and freakin' *Freakonomics*, two fine books that went all -omic on the publishing world before I got a chance to. So while it may not be such a unique coinage, it is a fitting discipline for the most extraordinary world in which it will flourish — a world very unlike anything we've experienced before.

"The era of the creepy blue light leaking out of every living room window on the block is now officially at an end," says my pal and occasional colleague Steve Rosenbaum, founder of video-sharing startup Magnify.net and arguably the inventor a decade ago of citizen video. "The simple, wonderful, delirious fact is that people like you and me can now make and share content."

Steve refers to blogs. He refers to consumer-generated commercials, such as the Doritos ads that appeared on the Super Bowl. He refers to pop songs self-produced and distributed by garage bands, who suddenly have as much access to an audience as Madonna. But mostly he refers to video.

Think about YouTube. In 2005, it did not exist. Now it hosts millions of video clips of every description, many created out of whole pixels

by ordinary civilians. It feeds 200 million clips a day, most to MySpace, Facebook and other social networks, and has supplanted MTV as the prime media destination for the Short-Attention-Span Generation. Google bought it for \$1.65 billion and Viacom is suing it for \$1 billion — and both for the same reason: it has utterly disrupted the status quo of audience behavior, content distribution and Hollywood’s hitherto impregnable monopoly on making stuff people get to watch. But here’s a fun fact. YouTube (Chapter 3. “The World’s Most Successful Failure?”) doesn’t sell enough advertising to cover even 20% of its bandwidth bill, because 1) online ads don’t fetch much money, and 2) the audience doesn’t want any part of them.

Bear in mind, as decades of data prove, consumers have never much cared for advertising. They accepted it only because, apart from being their part of the deal for cheap or free content, it was basically unavoidable. Now, however, an entire generation has grown up getting free content online without much advertising interruption, and they consider it their birthright to do so. Moreover, they now have the technology — such as TiVo, spam blockers, etc. — for avoiding advertising, which is exactly what they do. For that reason, and because of the collapse of the mass-media yin bodes poorly for mass-marketing’s yang, advertising does not have a very bright future. This most likely spells a protracted nightmare for the ad-agency business, which at the moment expresses equal parts panic and Sorrellian denial. But if you happen to be in the business of flogging goods — or policies or laws — fear not. All is not lost. Salvation is within your grasp. Just listen.

The Great Mississippi Reverses Flow

Can you hear it? In the distance? It’s a crowd forming — a crowd of what you used to call the “audience.” They’re still an audience, but they aren’t necessarily listening to you. They’re listening to each other talk about you. And they’re using your products, your brand names, your iconography, your slogans, your trademarks, your designs, your goodwill, all of it as if it belonged to them — which, in a way, it all does, because,

after all, haven't you spent decades, and trillions, to convince them of just that? Congratulations. It worked. The Great Consumer Society believes deeply that it has a proprietary stake in you. Remember New Coke fiasco? Epic "fail." Having spent millions of dollars developing a new formula, and millions more doing consumer research that proved beyond dispute that consumers preferred the sweeter formulation compared to the classic, century-old Merchandise 7X, in 1985 the Coca Cola Co. sprang New Coke on the world only to discover — to its astonishment and horror — that the world wasn't amused. Yes, the company had done blind taste tests to a fare-thee-well, but "Which do you prefer?" was not the right question. The right question was: "Do you want us to change the Coke formula?" Had they bothered to inquire, they would have discovered the answer to be an emphatic no. The consumers not only were emotionally attached to the old flavor, they regarded themselves as having a proprietary interest in the product. They had drunk so much Coke, they believed it in a very real sense belonged to them. And like stakeholders everywhere, they let their voices be heard.

That was a quarter century ago. Now imagine that phenomenon, magnified exponentially, via the internet.

"I think it's going to be more and more of an open conversation, as opposed to dictation," says internet guru Battelle, a founder of *Wired* and *The Industry Standard*. "Marketers are increasingly going to have to adopt the principles of the environment in which they find themselves."

Why? Because, as I've been explaining, the information society is reversing flow. We are increasingly inhabiting an open-source world. What began as an experiment among a few software nerds has, thanks to the internet, expanded into other disciplines, notably media and law. But it won't stop there. Advertising. Branding. Distribution. Consumer research. Product development. Manufacturing. They will all be turned upside down as the despotism of the executive suite gives way to the will and wisdom of the masses in a new commercial and cultural epoch. As the people at Lego have figured out, and Sir Martin Sorrell evidently has

not, is that the post-advertising age is The Listenomics Age. Its defining characteristic: the herd will be heard. If you do not listen carefully, you are a fool. Not because the crowd is a threat (although, of course, it is) but because it is your greatest resource. What if its wisdom were harnessed and its power unleashed, unfettered by outmoded intellectual-property laws and uninhibited by the dictates of Management? Here's what: payday.

And this, too, is already in progress. For example, as augured by the New Coke fiasco, the number two Facebook fan page — after Barack Obama's — is for Coca-Cola. It wasn't created by the company; it was created by two fans and joined by 3.3 million more while the brand stewards in Atlanta just watched from a distance with their jaws agape. In this book you will be introduced to many ways in which the simple exercise of listening enhances and even replaces business disciplines that have undergirded commerce since time immemorial. In Chapter 4 (“Talk is Cheap”) you'll learn how the oldest communication channel in the world — word of mouth — has been supercharged by the internet, rendering much traditional marketing irrelevant on credibility grounds. You'll travel to Tel Aviv, where a young mathematician/psychologist writes algorithms to plumb the meanings, and influence, of words he will never lay eyes on. Chapter 6, “Comcast Must Die,” discusses how mobilized consumers have used their newfound leverage to embarrass, shame and potentially even cripple vast corporations — including the woeful cable giant who made the fatal mistake of pissing me off. In that chapter, I'll also discuss the proliferation of product reviews, on such sites as Angie's List and ePinions.com, and hate sites where all the hatred is targeted at a commercial brand. In Chapter 7, (“Guess”) I'll discuss how monitoring the data of online transactions — a la Netflix and Amazon.com — can become the core of a business. In Chapter 9 (“Off, Off, Off Madison”), you'll learn about consumer-generated ads like those you've seen on the Super Bowl. Then, of course, there is Chapter 8 (“Sometimes You Just Gotta Lego”); about Danish toymakers whose colorful plastic bricks, like so many Homeric sirens, lure fan-

boys and their unbridled passions. You'll encounter equally revolutionary examples from journalism to encyclopedias to religion to electoral politics to political revolution, each demonstrating a hitherto unimaginable means of getting business done. This book is about all the many ways Listenomics can and must be incorporated into every organization — from Unilever to the United States government — that depends on the public for its sustenance.

Not that it will all be a bed of roses, of course. When you listen carefully, sometimes you get an earful. For every enthusiast who comes up with a new design for a Lego ferry boat there are millions of unenthusiasts who wish to weigh in:

VWsucksass.com, to cite one vivid example. .

Or, to pick on the same unfortunate marketer, one of the first consumer-generated ads was: a spoof commercial for the subcompact Polo. It featured a Palestinian suicide bomber trying to blow up a café. But the bomb causes no damage because Polo is "Small but tough." The fake ad got 12 million hits, but VW did not send a thank-you note. It threatened a lawsuit. Nothing much came of that. You can rattle lawyers all you want, but you can't take away everybody's computer. Once again, you are not in control of your message, your image or your reputation. The Consumer is — and there are a lot of her.

Note the capital C. Because, after all, the Consumer is everyone — which gets to a rather chilling aspect of Listenomics: the disturbing fact that it can only exist in a Brave New World. As Aldous Huxley predicted, the digital universe is essentially a total surveillance society. This can and will produce a number of chilling and undesirable effects, from Chinese info-fascism to cyber vigilantism and online reputation destruction. (Chapter 11. "Nobody is Safe from Everybody.") That phenomenon is a classic demonstration of the digital age's double-edged sword. Some of those caught in web of the web are innocent. Some are perhaps guilty of private indiscretions, but suddenly exposed to public opprobrium. Some are bona fide villains, like the sexual predators snared by the group Perverted Justice. And some are politicians, who

will learn the hard way that the bully pulpit can suddenly expose them to the ire of the bullied.

For the ultimate lesson on that subject, we need look no farther than the plight of George Allen (Chapter 10. “The Powers That Be 2.0”). Not long ago, he was among the frontrunners for the Republican nomination to be president of the United States. Now he is the former senator from Virginia. He achieved this dubious distinction in the midst of his own putative exercise in Listenomics. This was his “Listening Tour” of Virginia, the centerpiece of his 2006 re-election race against Democratic longshot James Webb. At one stop on his tour, in rural Breaks, Virginia, candidate Allen paused from his listening to start running his mouth. In particular, he was blathering about a young man videotaping his every word with a digital camera — a young man Allen well knew to be in the employ of the Jim Webb campaign. He had been shadowing Allen from stop to stop along the tour, on the off chance that Allen would do or say something controversial and give the struggling challenger a straw to grasp in the race.

Of course, nobody being filmed for that purpose would be stupid enough to provide ammunition for the opponent — nobody, that is, except George Allen. Instead of ignoring the video pest, Allen made direct reference to him. “This fellow here over here with the yellow shirt: ‘Macaca,’ or whatever his name is...” Then he called him Macaca a second time. Then a third.

Nobody knows exactly why Allen should have chosen to call the guy such a name. What we do know is that the young fellow was a very dark-complected Indian-American, and that in North Africa, where Allen's mom is from, *macaca* is an epithet against black people. Oh, yeah, we know one other thing: Allen blew a 16-point lead and lost the election.

Because, see, here's the thing about Listenomics: Other people are listening back.

THE DEATH OF EVERYTHING

IT'S A SUMMER EVENING IN MONTENEGRO. The skiffs in the marina sway gently as the sun prepares to set on the Adriatic, the salt water lapping against the ancient stone. The encircling mountains are mere shadows in the gloaming. On the quay, a lonesome cello plays a melancholy love song. I've come here for the sea, but I've blundered into a metaphor.

And several dizzying paradoxes. This is Budva, a medieval port in a brand-new country, thick with Serbian, Italian and Russian tourists for the August high season. Here worlds and ages seem ever to overlap. Narrow cobbled streets clogged with BMWs. A brazenly corrupt tax haven rising from the ashes of Communist Yugoslavia. Weary poverty mingling with splashy new money. Across the crescent harbor, hard by the *Citadela* — the fortress that guarded this Balkan paradise for centuries — bolted to an 800-year-old wall is a 600-square-foot LED tele-screen. It is showing advertisements, one after, another, 24 hours a day. But, as somebody once said, wait — there's more. On the far side of that wall, atop a shale cliff that plunges 50 feet to the sea, sits *Izmedu Crkava* — “between churches” — a public square nestled among the worshippers. On this spot, in a few hours, will commence *Noc Reklamozdera*.

The Night of Advertising. Tourists will buy tickets to see 90 minutes of TV commercials. It's the brainchild of a Frenchman named Jean Marie Boursicot, who's been staging such events all over Europe for years: a reel of ads followed by a dance party with a DJ. So there's another strange contrast for you. We can assume that some percentage of the audience has a DVR at home, with which they fast forward right through the very commercials they are now spending cash money to see.

But never mind even that little irony. Listen. Here at the harbor, I'm struck by that haunting cello, played by a pale, pretty busker to her indifferent passersby. What is that mournful melody? Ah, it's "Katyusha," the Russian "Lily Marlene." It's about a young girl crying for her lost love, while all around her everything blossoms. It's also what Russian armor soldiers sang as they they stuffed their tank barrels with shells and fired destruction through the sky. More fitting notes have never been bowed. Here in Budva, amid the perpetual clash of civilizations, they have only just buried the Communist revolution, yet they will celebrate "The Night of Ads" utterly oblivious to the fact that they are in the midst of a capitalist one. A love affair is over, and shells fly through the air on their way to destroy even the most fortified structures of the analog universe. This is a going-away party for commerce's old world order. Never mind the DJ's pounding techno. Listen to the cello. It is right there. Listen, and face the music.

Mass Exodus

Why, all of a sudden, is it so important to listen? Here's why: Because hardly anyone anymore is listening to you.

There was a time, essentially the six centuries since Gutenberg gave the world moveable type, when various political, clerical and commercial elites could speak to the masses and feel confident of having an attentive audience. For the past four centuries, mass media were funded or at least subsidized by mass marketing, which piggybacked on what we now call "content" to issue messages of its own.

Like the eternal co-dependence of flowers and bees, this was an

extremely convenient symbiotic relationship for those involved. Or if you prefer a more spiritual analogy, imagine the media yin coupled snugly with the advertising yang, a transcendent oneness yielding cheap or free content for all. Well, that's over — or damn near. In the digital age, that time-honored symbiosis is coming apart. It's happening slowly enough that most consumers haven't really noticed. But it's happening quickly enough that media and marketing are in big trouble — trouble that I believe will send the world spinning into a postapocalyptic post-advertising age. In this chapter and the one following, I intend to prove that to you. Meantime, just think about what's happening all around us.

Have you given any thought, for instance, to the attack of the pod people?

Surely you've noticed them, on the subway or at the gym, all those folks milling about with little white buds in their ears. This is not a hygiene problem. This is *prima fascie* evidence of the ongoing revolution. These people may seem placid enough, but as they pump away at the elliptical machine or stare into the middle distance avoiding eye contact with their fellow straphangers, they are actually storming the Bastille. As they privately groove to digital recordings of U2 or Lil Wayne or *Ella Sings Cole*, they are simultaneously dismantling the Old World Order. Thanks to the iPod, the record business and commercial broadcast radio are *in extremis*.

Let's think about radio for a moment. Not only has satellite radio siphoned off audience from terrestrial stations, iTunes, et al, have rendered the random, maddeningly limited play lists generated by Z104 very pale competition. Those pod people are storming the Bastille essentially by virtue of bypassing three entire industries: radio, recording and advertising — the latter of which till now has underwritten almost everybody's music-listening desires. See, you don't have to listen to ads on your iPod. Even public radio is at risk, because it no longer holds a monopoly on programming and distribution of in-depth audio news and information. Sure, NPR now sends out much of its content via podcast, but so can anybody else. What NPR has that Joe Citizen

doesn't have is hundreds of millions of dollars of increasingly unnecessary costs — because nobody needs transmitters and gigantic broadcast towers to receive a stream or podcast. More nettlesome still, as broadband penetration approaches universality, nobody will need a radio to hear what NPR feeds. Yet local stations, in their pledge drives, generate 95% of the network's money. Hmm.

Newspapers are in an even more precipitous downward spiral. They, too, are losing audience rapidly, and will never replace those readers, because just as young people no longer listen to the radio, they simply don't buy newspapers. Circulation declines mean loss of display-advertising revenue, which, of course, is linked directly to audience. Meantime, classified advertising — hitherto the most profitable segment of the entire media industry — has been rendered irrelevant by Craigslist, Monster.com, AutoTrader.com and eBay. The *Minneapolis Star Tribune*, acquired by McClatchy in 1998 for \$1.2 billion, was sold to private investors in December 2006 for \$530 million. In January 2009 it declared Chapter 11 bankruptcy. In the year 2000, the Chicago-based Tribune Co. was valued at \$12 billion. It then bought the Times-Mirror Co. for more than \$8 billion. Then, in April 2007, real estate developer Sam Zell charged in as a white knight, and commenced wholesale retrenchment, including layoffs, bureau closings and the sale of *Newsday*. Worked like a charm. Within 20 months, the Tribune company was in bankruptcy.

At this writing, A.H. Belo, owner of the *Dallas Morning News*, has laid off 25% of its workforce in the past year. The *Rocky Mountain News* folded in March 2009, and the *San Francisco Chronicle* and *Seattle Times* were on death's door. In 2008, Rupert Murdoch plunked down \$5.5 billion last year for a \$3.5 billion paper, the *Wall Street Journal*, and nobody knew whether he was a genius of synergy and valuation or a sucker. The recession obscures the answer, but in February 2009 News Corp declared a write-down of \$8.4 billion in assets — about 40% of it attributed by Wall Street analysts to the *Journal* deal. Murdoch declared that his empire “may never return to record levels.” Did he say

“may?” The word is “will.” And then there is the sad tale of *The New York Times* — yes, *The New York Fuckin’ Times*. In early 2009, it was a deer in the headlights of an oncoming cement-truck: a May 2009 \$400 million debt payment which it had insufficient cash to satisfy. So first the company announced plan to sell, then lease back, 19 of the 25 floors in its brand-new headquarters. Then it suspended its stock dividend and borrowed \$250 million at usurious rates from Mexican oligarch Carlos Slim, whom a *Times* editorial not long ago condemned as a “robber baron.” And if not Slim, who — Loanshark.com?

All of this pain is going on, curiously enough, as the overall audience for newspaper content is dramatically expanding. Many readers, young and old alike, are logging on to newspaper web sites, but they don’t pay for the privilege. Because they’ve never had to. Nor will they even put up with advertising to underwrite their news Jones, because they don’t like that, either. The unspoken compact between media and consumers — having to endure commercial messages as the *quid pro quo* for free or cheap content — has never applied to Generation Y and will be difficult to *impose ex post facto*. Never mind that the generation’s intellectual-property ethos — “All Content Wants to be Free” — is stupid and criminal on the face of it. They truly believe that malarkey, and aren’t apt to change their minds.

How about magazines? Rivers of blood there, as well. In 2008, newsstand sales — i.e., the profit engine of the industry — fell 12%. According to the newsletter *MIN*, gross ad pages in the first part of 2009 dropped a staggering 22% — that coming off of a dismal 2008. Conde Nast has folded *Domino*, Meredith has folded *Country Home*, Ziff-Davis has folded *PC Magazine*, Hearst has folded *Cosmo Girl* and *O at Home*, The New York Times has folded *Play*, Hachette has folded *Home. Playgirl* is gone. *Radar* is gone. The formerly weekly, formerly bi-weekly *U.S. News* is now a monthly. Time Inc. magazines reduced headcount — mostly by layoffs — by 1400 employees — since 2004. And *TV Guide* magazine, the erstwhile 17 million-circulation goldmine, was sold in October to OpenGate Capital for \$1, or \$2 less than a copy at the supermarket

checkout. At the Magazine Publishers Association conference in May 2008, Time Inc. Chairman-CEO Ann Moore told colleagues, “If you’re sitting on your five-year plan, you’re delusional.”

Down the Tube

Naturally, I save the most shocking old-media victim for last: the extraordinary travails of TV. After nuclear fission — and possibly, though not certainly, the automobile — television has been the most powerful force of the 20th century, our principal form of entertainment and our window to the world. Oh, well. Nothing is forever. Without being overly simplistic or melodramatic, the state of the Old Commercial Broadcasting Model can be summarized as follows: a spiraling vortex of ruin.

According to Nielsen, in the new millennium, the U.S. TV audience eroded an average of 2% a year — even though, in the same period, the population increased by 30 million. According to Swivel, in 2000 Americans devoted an average of 793 hours to broadcast TV and 104 to the internet, a ratio of just under 8:1. By 2008, with broadband penetration in the U.S. tripling, the TV/internet ratio had gone to 675 – 200, or 3.4:1.

The cost to advertisers of reaching 1,000 households with a 30-second spot in prime time, according to Media Dynamics, has jumped from \$8.28 in 1986 to \$22.65 in 2008 — but effectively more like \$32, because between 150 and 200 of those 1000 households use TiVo to skip past the ads. As of 2009, according to Magna Global, 30% of U.S. homes were equipped with TiVo or other digital video recorders. Not only does time-shifting of favorite programs render network schedules irrelevant, between 50% and 70% of DVR users skip past TV commercials. By 2012, DVR penetration is projected to be at least 40%. Cable’s long-term prospects are no better. Though it has swallowed much of the networks’ audience, it’s no more DVR-proof than broadcast. And it is also a victim of a sort distribution auto-immune disease, wherein the body attacks itself. The very co-ax it the industry been stringing for the past

50 years is now the pipe for broadband, which households increasingly are using to bypass pay-cable entirely. As Verizon CMO John Stratton told the 2009 *Ad Age* Digital Conference, “As customers find new ways to acquire content, habits will form, and those habits will be very difficult to break.” At which point, he warned: “the business is going to gradually slip out of the back door.”

Meanwhile, there is the sword of Damocles called “cost.” The reality-TV fad has enabled networks to fill their ever-more-irrelevant schedules, and blindly cast for hits, with cheap programming. But how much longer will they last? Westerns and spy shows, superheroes and hospital dramas all once burned bright. Then they burned out. Yeah, for some inexplicable reason, Americans seem to love *Dancing With the Stars*. But once upon a time, they also loved Vaudeville.

In short: So long boob tube, hello YouTube.

Rolling your eyes, are you? You aren’t alone. At the 2007 Bear Stearns Media Conference, CBS CEO Les Moonves protested, “We’ve been hearing this for years: ‘The network is dead. The network is dead.’ . . . All four networks are going to get CPM increases, in the [pre-season ad-sales market called the] upfront. The business is extremely healthy.”

Maybe you think so, too. Maybe you believe that vast structures on which vast societies and vast economies depend do not easily lose their primacy. Perhaps you believe that the TV commercial and magazine spread, and radio spot and newspaper classified, are forever and immutable, like the planets orbiting the sun. Good for you.

Now, say hello to Pluto — the suddenly former planet. Immutable, it turns out, is subject to demotion. But to dramatize the idea of fundamental reordering, we needn’t go back 5 billion years to the origin of the solar system. Instead, just think back to approximately the day before yesterday. Remember how they used to talk about “the MTV generation?” It was shorthand for the post-Baby Boomers who couldn’t be stimulated unless you basically jammed kaleidoscopes in their eyeballs. They had cut their teeth on the rapid-fire editing and visual noise of music video, so all media were obliged to pick up the pace or lose

the attention of an entire generation. And just in case the symbolism escaped you, don't forget the first song that ever played on MTV:

“Video Killed the Radio Star,” by the Buggles.

An ironic debut spin, eh? But not as ironic as this: the latest thing the MTV Generation has begun losing interest in is MTV, where ratings have fallen sharply. Short Attention Span Theater has changed venues, and is now housed on YouTube. Online video is killing the video star. Over at MTV Networks, the layoffs began in February 2007. And no huge surprise there. At least, not to me. It was way back in 2005, in *Ad Age*, that I first floated “The Chaos Scenario,” predicting that the pillars of the old media would soon come tumbling down. That the MTV pillar had Public Enemy and George Michael and *NSYNC posters plastered all over it, and was deemed the last word in modern television, makes it especially noteworthy — but by no means unique. Since that essay was published:

- In December 2005, Viacom spun off CBS, the so-called Tiffany Network, lest the broadcast business impede growth and depress shareholder value.
- In October 2006, NBC announced a \$750 million cost cutback, including 700 jobs and a moratorium on scripted programs in the first hour of prime time. In the spring of 2009, it replaced its entire 10 pm schedule of dramas and comedies with *The Jay Leno Show*. At about the same time, Fox announced plans to cut four hours from its Saturday kiddie schedule, returning two hours to affiliates and selling infomercials on the other two. *Infomercials*, on network TV.
- In November 2006, Clear Channel — the left's favorite boogeyman of democracy-destroying media consolidation — sold to private-equity owners and declared that it wants to unload its TV and small-market radio stations. The sale fetched \$35 per share. In the year 2000, the stock sold at \$100 per share. The new owners managed to sell their 56 TV stations, but the radio sales were held up in the credit crunch, and with debt default in the

offing, S&P in early 2009 rated its corporate paper five grades *below* “junk.” The harbinger for all this came in 2003, when stations started adding ad slots to generate cash, and then quickly undercut their own rate cards to unload the inventory. “When you start devaluing your product” says Marci L. Ryvicker, vice president for equity research at Wachovia Capital Markets, “your business model is broken.”

- Nationwide, according to Bernstein Research, 2009 TV-station ad revenue is projected to fall 20% to 30%. The market value of stations has also plummeted. According to Ryvicker, broadcast groups whose stocks in 2003 traded at 16–20 times cash flow now sell at a multiple of only 8. For asset sales, the falloff has been even worse: multiples of 18–24 times cash flow now reduced to 6.
- In 2008, the total U.S. media spend was down — despite the Olympic Games and the most extravagant election campaign in U.S. history. It was the first time overall spending declined in an even-numbered year since 1970. 2009, with its crippling recession, promised to be much worse.
- For broadcast networks, in the 2008/2009 season steady erosion became a mudslide. According to Nielsen Media Research, CBS: down 2.9% in primetime. ABC: down 9.7% in primetime. NBC: down 14.3% in primetime. Fox: down 17.5% in primetime. In the week before Christmas, 2008, CBS’s *The Mentalist* was the top-rated network drama of the week. Yet the odds are quite lopsided that you didn’t see it. In leading all other shows, it drew an audience of 10.7 million people, or 3.2% of the U.S. population. Fifty years earlier, despite the star power of a young Clint Eastwood, the western *Rawhide* could manage no better than 17th place among TV dramas. Yet its audience was 11.4 million viewers, then representing 6.5% of the population. The top-rated drama back then was *Guns, Smoke*, with 17.4 million viewers. As a percentage of the population, Marshal Dillon and Kitty and Festus outdrew *The Mentalist* by 3-to-1.

How's that for a fusillade of bullet points? Nor does the disruption end there. If DVR does, indeed, reach 40% in 2012 or thereabout, that is exactly the threshold at which 40% of advertisers say they will dramatically reduce their TV buys. I know that's a tough bit of arithmetic to absorb, so I'm going to repeat it: The U.S. penetration of ad-avoiding DVRs will soon reach the point at which 40% of advertisers say they will dramatically reduce their TV buys. If they do as they say, and nothing more, the broadcast TV business is over. Because the advertisers will flee. And, already, slowly but surely, they are doing just that. After years of steady growth in spite of steadily declining audiences, the broadcast upfront market in 2006 was down five percent. Coca-Cola, never a big upfront player, pulled out altogether. So did Johnson & Johnson, which then shifted \$250 million online. And that was before the 2008–2009 depression, the dust bowl economy that finally frightened advertisers in a way that the Law of Diminishing Returns mainly had not. They fled in droves. By February, 65% of national advertisers had slashed spending. The automotive and banking sectors, traditionally worth \$20 billion to the media economy, all but disappeared from the equation.

Not to put too fine a point on it: Told you so, told you so.

The Long Arm of Economic Law

Mass media, of course, do not exist in a vacuum. They have a perfect symbiotic relationship with mass marketing. Advertising underwrites the content. The content delivers audience. Audiences receive the marketing messages and patronize the advertisers, and so on in what for centuries was an efficient cycle of economic life. But, as I've demonstrated, as the mass-ness that fed the symbiosis disintegrates, each organism loses the sustenance of the other.

"It's a very different kind of world," says Adam Thierer, senior fellow at Progress & Freedom Foundation, and author of *Media Myths: Making Sense of the Debate Over Media Ownership*. "The problem is, the expectations are there to capture that mass audience that long ago disappeared. We are witnessing the gradual death of the business models that thrived in that age of scarcity."

The value of television, like the value of anything, is built upon the economics of scarcity. For decades, the source of highly-produced entertainment was limited to three or four distributors, i.e., the major networks. Cable expanded the options 10-fold, then, with digital cable, 100-fold. Now the internet promises to do so infinitely. Strictly speaking, as a distributor of goods, broadcast's revenue structure should have collapsed long ago. But TV isn't really in the program-distribution business. It's in the audience-selling business, and there the economics of scarcity still stubbornly reign. Because no other medium offers the scale or reach of TV, advertisers have continued to pay more and more per thousand viewers — which is why right up to the recession Les Moonves was commanding higher CPMs, why the upfront market had not yet plummeted and why video advertising on the internet, according to the IAB, amounted in 2007 to a paltry \$324 million. On TV, it was \$80 billion. But economics will have its due. The law of diminishing returns will eventually prevail. Those who have perennially spent more and more for less and less will finally say “No more” and take their money online (although, as we shall see in the next chapter, not necessarily to online *advertising*).

“I still love and enjoy TV and believe it is very effective for advertisers,” says Association of National Advertisers President Bob Liodice. “But we're killing it. We're gradually killing it with cost increases, the level of clutter, the quality of the creative that is out there.”

Or, to put it more simply, consider the verdict of Jim Stengel, the recently retired Chief Global Marketing Officer of Procter & Gamble, a man who had a \$6 billion marketing budget and no clear idea of where to spend it: “The old model is broken.” It is that. Just to recap: fragmentation has decimated audiences, viewers who do watch are skipping commercials, advertisers are therefore fleeing, the revenue for underwriting new content is therefore flat-lining, program quality is therefore suffering (*The Biggest Loser*, Q.E.D.), which will lead to ever more viewer defection, which will lead to ever more advertiser defection, and so on. And here's one more harbinger of doom: increasingly, broadcast networks are bypassing their own affiliates to deliver programming online.

This began in 2006, when CBS, madly trying to cultivate new online distribution channels, put fall premieres of shows like *Smith* and *The New Adventures of Old Christine* on Google Video. NBC used Yahoo to premiere *Heroes* and AOL to offer sneak previews of its *Twenty Good Years* and *Studio 60 on the Sunset Strip*. And the brand-new CW Network celebrated its debut by posting free episodes of *Runaway* and *Everybody Hates Chris* on MSN. The state of the art has since advanced thanks to Hulu, a joint venture of NBC Universal, Fox Entertainment Group and Viacom (Comedy Central, MTV), which delivers current programming free online — notably with limited, but unskippable advertising. The networks first said these were measures to promote the broadcast versions of their shows. But that story never washed. These were experiments in post-broadcasting distribution — experiments the industry would soon come to regret. In March 2009, Jeff Bewkes, CEO of Time Warner, complained to *The New York Times* that TV “went out and did deals to put content on broadband without a whole lot of thought about the long-term financial model.” Not that there is one, to speak of. In any event, by that time previous network-executive pronouncements about “audience building” had already been exposed as, um, “inoperative” in December 2008, when the heads of both CBS and NBC publicly acknowledged contemplating life beyond broadcast.

“Do we want to be what we’ve been?” asked Jeff Zucker, CEO of NBC Universal. This was a rhetorical question — one that boded poorly for those invested in the status quo. Zucker’s weak schedule and Incredible Shrinking Audience had already forced him into huge spending cut-backs (spun, a bit unconvincingly, as “NBC 2.0”), yielding cheap, even-less-popular programming (no dramas or sit-coms in the first hour of prime time and, later, *The Jay Leno Show* only in the last hour) leading to still more viewer defection and so on towards oblivion. Thus Zucker’s public musing about a previously unthinkable proposition: once affiliate contracts and pro-sports deals expire, his company ceasing to be a network at all. NBC: the cable channel.

The obvious immediate victim would be local affiliates, which get a

big chunk of their revenue from selling commercial space within network programs. The internet, needless to say, bypasses them. But here's the thing: it doesn't bypass you. Until about five minutes ago, remember, almost all video-entertainment content was produced and distributed by Hollywood. Period. That time is over. There was a time when advertisers could count on mass audiences for what Hollywood thought we should be watching on TV. That time is all but over. There was a time when broadband penetration was too slight and bandwidth costs too prohibitive for video to be watched online. That time is sooooo over.

As my handy bullet points above amply demonstrate, both print and broadcast — burdened with unwieldy, archaic and crushingly expensive means of distribution — are experiencing the disintegration of the audience critical mass they require to operate profitably. Moreover, they are losing that audience to the infinitely fragmented digital media, which have near-zero distribution costs and are overwhelmingly free of charge to the user. Free is a tough price to compete with. As documented by Woodward and Bernstein, Deep Throat's advice to unraveling Watergate was to "Follow the money." To understand the current predicament, you must follow the no-money. And when you do, you'll have taken The Chaos Scenario one step farther: to a digital landscape in which content is nearly infinite, in which marketing achieves hitherto unimaginable effectiveness, but in which display advertising will no longer dominate.

"I always found Marshall McLuhan annoying," says Bruce M. Owen, senior fellow at Stanford University and author of the seminal *Television Economics*, "but the medium conditions the message. It's already happening."

Denial and Other Bold Action

So what's it like to face your economic mortality? There are some clues in a February 2007 speech by Timothy Balding, CEO of the Paris-based World Association of Newspapers: "What we are seeing completely contradicts the conventional wisdom that newspapers are in

terminal decline. . . . The fashion of predicting the death of newspapers should be exposed for what it is — nothing more than a fashion, based on common assumptions that are belied by the facts.” Balding’s set of facts comes courtesy of the proliferation of skimpy freebies, like *Metro*, which are to newspapers what Skittles are to cuisine. Meantime, the Swedish daily *Post-och Inrikes Tidningar* dropped its print edition to publish online only. That might not seem too significant, except that the paper had been printed on paper for the previous 362 years. Balding, somehow, didn’t mention that development.

Such rosy outlooks, however, are not unusual. For the longest time, even as the structures of their businesses were swaying before their eyes, the captains of the industry professed optimism — even militant optimism. Jack Kliger, then-president-CEO of Hachette Filipacchi Media U.S. and chairman of the Magazine Publishers of America, declared in spring 2007 that “We are no longer threatened by digital media.” Perhaps he didn’t notice the precipitous drop in readership, what with the industry-wide circulation fraud and all. Or perhaps he was busy killing *ElleGirl* and *Premiere*, but never mind. He was dug in: “I’m not ready to end up my career watching our industry get marginalized and fade away.” (Yes he was. The following year, 2008, newsstand sales of magazines — the profitable side of the business — plummeted by 12% and Kliger’s French bosses made him a non-executive chairman and started slashing away at costs, including withdrawal from the MPA).

Likewise David Rehr, President and CEO, National Association of Broadcasters, who greeted the National Press Club in October 2006 as follows. “Ten months ago, when I took this position at the NAB, I knew that joining the broadcasting industry would be exciting. But after seeing the dynamics of this business first hand, it is 20 times more exciting than I could have ever imagined.” Naturally he’s excited. Ratings are plummeting. The networks are bypassing his members via the web. The cash value of stations is in decline. What’s more exciting than piloting a plane in a tailspin?

As for Les Moonves of CBS, who bragged about charging his custom-

ers more for less, please note that pride goeth before the fall — just as, in Elizabeth Kubler-Ross’s stages of death, before bargaining and acceptance goeth denial. (At another media conference only year and a half later, Moonves was more accepting, floating the idea of CBS converting to a cable channel.) But at the Bear Stearns confab, unreality ruled. Protesting that DVR ad-skipping isn’t so menacing, Time-Warner’s (then-COO) Bewkes trotted out perhaps the most absurd rationalization ever proffered: “When you fast forward, you get a quick visual version that is three seconds instead of 30, you could get the same message anyway.”

The :30 is dead! Long live the :3!

How could such a high-priced talent offer such a plainly defensive and idiotic argument? The key words may well be “high” and “priced,” if you know what I mean. “It’s the cash cow scenario,” says Bob Greenberg of the IPG interactive agency RG/A. What CEO will risk his share price, his job and personal compensation package to cut the cow in half? They’d rather just wait, Greenberg says, and hope nothing too disruptive happens too soon. “It’s like Bush,” he says, “turning the war over to the next president.” In the interest of full disclosure, I should acknowledge that the rejection of traditional-media doomsday scenarios is not limited to those with a proprietary stake in the Old Model.

For instance, when asked if he felt like the last nail in broadcast TV’s coffin, YouTube’s Chad Hurley reacted as if he were facing a space cadet from the Planet Moron. “Why is that?” he asked. Shelly Palmer, of Advanced Media Ventures Group, says, yeah, the consumer is in control ... and the consumer wants to watch TV. “There’s no way that changes while we are alive, no matter what anybody thinks. As long as Americans are paid on Friday, then Thursday night from 8 to 11 is going to be the most important time to reach a major audience. It will be incumbent on broadcasters to deliver that audience, and they will, because that’s what they do.” Then there was that other fellow.

Me: “Do you buy the Chaos Scenario?”

Bill Gates: “No ... You’ll see a little bit more turmoil, in terms of

who succeeds and who doesn't, but it's not some overnight cataclysm."

Me: *"Is it fair to assume that the advertising people actually permit into their lives will be more informational and less, let's just say entertaining and creative and whimsical than advertising we've seen in the past?"*

Gates: *"I wouldn't say that."*

On the other hand, of the \$500 million Microsoft allocated to the introduction of its Vista operating system, 30% went online. If every national advertiser did the same tomorrow, Madison Avenue and Hollywood wouldn't be chaotic. They would be Pluto, immediately and forever relegated to some barren, subordinate outer orbit of the economy. And a lot of people would be singing a different tune. Maybe it would be "Katyusha," as rendered in a Montenegrin harbor. Or maybe this:

*And now we meet in an abandoned studio.
We hear the playback and it seems so long ago
And you remember the jingles used to go.

Video killed the radio star.
Video killed the radio star.
In my mind and in my car,
We can't rewind; we've gone too far.*

— The Buggles, 1979

THE POST-ADVERTISING AGE

DOVIĐENJA, BUDVA, MONTENEGRO. *Olá*, São Paulo, Brazil. Here, for most of the past 60 years, advertising hasn't been so much an industry as a cult — a cult of glitz and celebrity, not to mention sex, drugs and rock and roll. What Hollywood is to the U.S.A., advertising is to Brazil. Its practitioners are superstars, household names, gossip and paparazzi fodder. And their output is — along with Ipanema Beach, the Amazonian jungle and *Carnaval* — part of the national identity. If this odd cultural fact were lost on the foreign visitor, it wouldn't take long to figure it out. A visit to São Paulo, Brazil's largest city, was like a journey into an advertising funhouse. By 2006, the city had amassed 13,000 billboards, one flashier than the last. To stand in a high-rise overlooking Avenida São João and Valle Anhangabaú — the confluence of seven streets and avenues into a vast plaza — was to see cityscape as pinball machine, a hurly-burly of images and typefaces, blinking lights and irregular shapes, logos and exposed flesh writ very, very large. Today, the same view yields a tableau of streets and buildings, passing cars and pedestrians, but not a single ad. No semi-nude models, no light shows, no logos — as if an expanse of a square mile had be digitally retouched and scrubbed clean by Naomi Klein.

One of the architects of this transformation stands at a 15-story

window and approvingly regards the scene. Matilde da Costa is Director of Projects, Environment and Urban Landscape, for the city of São Paulo. Since 2006, her office has presided over the complete de-billboardification of the city. So inundated had São Paulo become with commercial messages, the administration decided that local color had mutated into blight and, in the space of a few months, under the penalty of heavy fines, it all came down.

“It’s marvelous,” says da Costa, with a shiver. She’s sleeveless in linen and white sandals on a chilly day in the waning days of March summer, so it’s hard to tell if she’s emotional or just cold. But she certainly seems pleased with herself. “Now I again see the postcard beauty of Avenida São João.”

Maybe so, but what about Brazil’s self-image as a mecca of advertising creativity? Of all places, how could Sao Paulo dismantle the cult’s idols? This wasn’t merely removing objects of worship; it was phlebotomizing the life’s blood of the national culture! Desecration! Sacrilege! Murder! Eh, no problem. Polls showed 65% of the population was delighted with the whole thing. So much for the public love affair with advertising.

“Now we can see the city,” says de Costa was quiet satisfaction. “Before, we couldn’t feel. We could only read.”

An advertising-free landscape. What a curious idea.

Here’s a *Quarterlife*. Call Someone Who Cares

The first element of The Chaos Scenario, as we’ve seen, creates an inexorable death spiral, in which the fragmentation of audience and DVR ad skipping lead to an exodus of advertisers, leading in turn to an exodus of capital, leading to a decline in the quality of content, leading to further audience defection, leading to further advertiser defection and so on to oblivion. The refugees—audience and marketers alike—flee to the internet. There they encounter the second, and more ominous, Chaos component: the internet’s inherent limitations. For all the revolutionary impact it is having on humankind, the web cannot precisely replace the media it is helping to destroy. It comprises more

“content” than has ever existed since the dawn of man, but it will not likely be a channel for newspapers of the scope we’ve come to take for granted, nor for the sort of highly-produced TV programs that have so saturated our culture and shaped our lifestyles for 60 years. At least, not anytime soon.

No, those institutions evolved as a direct manifestation of the mass-media/mass-marketing symbiosis. In an aggregated micro-media/micro-marketing universe — in the absence of direct payment by consumers — there is no business model to sustain them. Ask Marshall Herskovitz. He’s one of Hollywood’s most admired producers. His film credits include *Traffic*, *The Last Samurai*, *I Am Sam*, *Blood Diamond* and *Legends of the Fall*. On television, he and partner Ed Zwick created and produced *thirtysomething*, *My So-Called Life*, *Once and Again* and, most recently, *Quarterlife*. On that project, a drama about seven young artists in the throes of uncertainty about their lives and careers, he had hoped to have a successful television show, a successful web series and a social network built around the whole synergistic thing. At this writing what he has is a withering social network, ranked 107,403 by Alexa, no TV show and a lot of dearly won cocktail-party conversation.

Oh, there was a powerful coming-of-age drama, all right, but most of it took place in his offices.

“I have proven your theory correct, much to my dismay,” he tells me. “The Chaos Scenario?” I am living it.”

Quarterlife was originally envisioned as an ABC series, but the pilot, by Herskovitz’s own admission, just didn’t work. After he and the network disagreed over the rewrite, they parted ways. That’s when Herskovitz experienced a producer’s epiphany. This was the 21st century, after all. YouTube was soon to be invented. What if “you could create and distribute stuff on the internet and own it yourself, and no network, no distributor?” The number of viewers would be smaller, but so would production costs, and many fewer fingers would be in the pie. Furthermore, no network meant no network interference, no

“notes,” no casting demands, no schedule shuffling and, of course, no cancellation.

But Hollywood is still Hollywood, and established producers simply don't fund experimental programs with their own money. So after a flirtation with Disney (that ended when Herskovitz and Zwick objected to demands for Disney-style cross-promotion), they wound up cutting a deal with MySpace. Though the idea of a social network built around *Quarterlife* represented a potential conflict, MySpace still agreed to host 24 webisodes — and to help fund the four hours of total content — in exchange for half the ad revenue.

Then something else wonderful happened. NBC jumped in, too, script unseen, seeking neither ownership nor control. Just a share of the ad revenue. This is what they call “the best of both worlds.” Or so it seemed. Herskovitz called in every chit he'd ever accumulated and shot four hours for a song.

“We premiered on MySpace in November 2007,” he says. “We were very, very successful on the internet. Within 6 months, we became the most successful scripted internet series ever. We ended up with 300,000 views per episode.”

That is a large number of people in internet terms. It is not a large number of people in advertising terms — especially advertising that is asked to underwrite Hollywood content, no matter how frugally produced. Even the 9 million views it accumulated over three months did not constitute a profitable audience. But, hey, no problem: this was also going to be a TV show, which would draw more people online, which would feed the social-networking aspect of the website, which would create more awareness for the TV show, and so on.

“We were the first web series that graduated into a television series,” Herskovitz fondly recalls, “which was very exciting.”

Then came the network premiere, February 22, 2008. Despite three months of web previews and a built-in audience, *Quarterlife* the TV show drew but 3.9 million viewers — the worst in-season performance in the network's 10 p.m. slot in at least 17 years. In the demographic

most coveted by advertisers, adults 18–49, the show had a 1.6 rating. Then, as Herskovitz understates, “All hell broke loose, basically.” Basically, the show was cancelled after one episode.

The remaining episodes were immediately dumped, without promotion, on NBC’s Bravo cable channel and that was that. The TV life of *Quarterlife* was over — and that’s when the synergy kicked in. The webisodes soon ran their course. In the face of the network belly-flop, MySpace wasn’t interested in ponying up for more production.

“Without a television partner there was no way to finance the episodes,” he says. “The advertising revenue from MySpace was not enough to finance production.”

Yeah. That. Herskovitz and Zwick had run headlong into the economics of online media. Even when CPMs are high (let’s say the \$23 peak network primetime averaged in 2008), and even if you could run three ads with an 8-minute webisode, a show with an audience of 300,000 can generate but about \$20,000. That doesn’t make the nut in Hollywood. That doesn’t pay the bottled-water bill in Hollywood. Still, Herskovitz harbors hope.

“I think this is doable. I think this eminently doable. A million viewers per episode, then it would become a viable business.”

Of course, that presumes somebody would bet on the come. Without the entrenched system of TV upfronts, which generate ad guarantees to finance production, producers would be reduced to going door-to-door, hat in hand, as in movie projects. And movie projects sometimes take a decade to finance. Which is why, as the pioneer of online Hollywood ruefully observes, “Nobody’s done it yet.”

In a post-advertising age, very possibly, nobody ever will.

Supply and . . . Even More Supply

In the good old days of minimum choice and maximum audience, ad revenue generated vast sums of money for a handful of content distributors. In the ultra-fragmented world of the internet, that critical mass of revenue will be available to Google and, for the foreseeable future,

nobody else. This would be the case even if online ads offered marketers the same intrinsic value as the traditional-media counterparts. But, for several fairly obvious reasons, they do not. The first is, as mentioned in the previous chapter, that annoying Law of Supply and Demand.

“It couldn’t be more straightforward,” says Randall Rothenberg, president and CEO of the Internet Advertising Bureau. “Today the average 14-year-old can create a global television network with applications that are built into her laptop. So from a very strict Econ 101 basis, you have the ability to create virtually unlimited supply against what has been historically relatively stable demand.”

So big publishers, whether MSN or the *Washington Post* or CNN, with all their vast overhead, have no more access to audience than Courtney the 8th grader. And there are hundreds of millions of Courtneys, millions of them on Google AdSense, driving the price of ad space down, down, down. This was all too apparent in my conversation in January 2009 with Brian Tierney, publisher of the *Philadelphia Inquirer* and *Daily News*, who noted that one third of his 60 million page views a month generated no ad revenue whatsoever. “Clearly a free internet model online — if you build it, they will come — I don’t think is working for media like ours. . . . I think we’re going to have to start to find a way to charge for it and not just rely on advertising.” Unfortunately for Tierney, he was a day late with the idea, and several hundred million dollars short. Three weeks later, his Philadelphia Media Holdings filed for bankruptcy.

Or think about Yahoo. At about 3.5 billion daily page views, it is the most visited website in the world. In 2008, it had profits of \$424 million on \$7.2 billion revenue. Not too shabby, unless you compare it to 2005, when the company had profits of \$1.9 billion on revenues of \$5.3 billion. Last spring, after a prolonged game of chicken, it finally rejected Microsoft’s takeover bid at \$33 per share. That would have amounted to \$50 billion. As of March 2009, Yahoo traded in the range of \$12, for a market cap of \$17 billion. Microsoft has an outstanding offer for Yahoo’s search business, but nothing else. What does it mean when

online usage soars, yet the most popular publisher's value is cut by two thirds? It means that Wall Street sees Yahoo's margins headed steadily down — not just because it gets trounced by Google in search, but because its CPMs — the prices it fetches per thousand page views — are going in the wrong direction.

So supply and demand: it's maybe online's biggest problem, but not the only one. Randy Rothenberg is painfully familiar with all of them. In addition to being an old pal and former *Ad Age* colleague, Randy is not only as smart as anyone in the business but disarmingly candid. For instance, he is quick to acknowledge his industry's second boogeyman: ad avoidance, evidenced by average click-through rates below 3%. Drives him up a wall. Yet, for all his brains and economic realism, Randy's constituency is the online-ad industry, and he stubbornly insists there's a solution: "Better advertising. More informational. More entertaining. More beautiful." A latter-day Creative Revolution, that is. Just as Volkswagen and Avis and Alka-Seltzer and Benson & Hedges overthrew the hegemony of the hard sell back in the 1960s, he believes, inspired online advertisers can learn to engage users on the web.

"I'm happy that the interactive industry is finally and belatedly beginning to see that the way we built our sites, based on the direct-response foundation, infused the environment with ugliness and clutter. But direct-response is really the one area in the advertising business that has no institutional concern for aesthetic, regardless of what the long-term effect on the brand is."

Beauty and ingenuity trumping indifference and naked hostility? He's not alone in that fantasy, either. When you ask David Jones, CEO of Euro RSCG, how his agency network is equipped to deal with the atomization of audience, here is what he has to say: "The huge thing for our industry is that actually, what we have been great at for the last fifty years and what we will be great at for the next fifty years is developing and delivering entertaining, engaging, short-format content."

Huh? Content? And all this time we thought advertising is the crap that interrupts content. Yet it's easy to see why Jones might actually

believe that bill of goods. When every September at Advertising Week in New York your ad characters draw a parade crowd on Madison Avenue, or when Adriatic tourists pay for a Night of Advertising in the middle of their seaside vacations, of course you feel like you've got a kind of mini-Hollywood going. You might even feel loved. But, sorry, David, you aren't, especially. In fact, your advertising is mainly resented. A 2006 Forrester Research survey found that 63% of respondents believe there are too many ads, and 47% say ads spoil their reading or viewing enjoyment. This isn't just talk. Depending on whose numbers you believe, between 50% and 70% of DVR users skip past ads. The historical *quid pro quo* — acquiescence to advertising in exchange for free or subsidized content — is yet another casualty of the revolution.

“The more access people have to technology,” says consultant and social-media entrepreneur Peter Kim, “the more they will use it to skip advertising. When you as a consumer want content, you just want content. You don't want to be interrupted.”

Nor is there any reason to think interruption is better tolerated online. On the contrary, Forrester reports that only 2% of consumers trust banner ads, and 81% of broadband users deploy spam filters and pop-up blockers. Have you ever clicked on a banner ad? Ever? Nobody else has, either. Not to sound negative or anything, but all ads are spam.

Hard to see, then, how David Jones' spiffy “content” can much alter those attitudes. Granted, fewer dancing silhouettes and pop-ups and cutesy IQ tests might be nice, but if you need to trump Econ 101 and basic human behavior, better creative might not do the trick. The job calls for something a bit more valuable and elusive. Like a magic beanstalk. Keep in mind that the three most widespread internet phenomena — Facebook, Twitter and the \$1.65 billion Google acquisition called YouTube — haven't among them earned enough ad revenue to get a sailor in trouble on a three-day liberty. The laws of economics are not easily violated. In early 2009, Wenda Harris Millard, then co-CEO of Martha Stewart Living, told a conference audience that the glut of supply is depressing prices for publishers both online and off. “Advertising

simply cannot support all the media that's out there," she said. And at which conference did she say that? Randy Rothenberg's IAB, where she is chairwoman. Her previous gig? Head of sales at Yahoo.

And the Lord said ... Nothing About "Reach"

Hey, this isn't just me calling the emperor naked. The world's biggest marketer, Procter & Gamble, has been talking about this for 15 years. When CEO Chairman A.G. Lafley says "We need to reinvent the way we market to consumers," he doesn't mean "We need to find a place to amass 30 million people at a time so we can tell them not to squeeze the Charmin." As his CMO Jim Stengel told the American Association of Advertising Agencies media conference in the spring of 2007, "What we really need is a mindset shift, a mindset shift that will make us relevant to today's consumers, a mindset shift from 'telling and selling' to building relationships." And he did not specify media advertising as a way to do so. In fact, his examples — from word-of-mouth to social networking — mainly had nothing to do with advertising. And why should they have?

Mass advertising flourished in the world of mass media because they were — by a happy economic accident — mutually sustaining, not because they were part of God's Natural Order. You've read the Ten Commandments; not one of them is "Thou Shalt Finance Hour-Long Dramas," nor is there a word in there about "reach" or "scale." So why assume that these must transition to the new model? Not only is it economically nonsensical, it squanders the very nature of the digital universe, the ability to speak with — not to, but *with* — the narrowest communities and individuals themselves. Thus the third problem with the future of online advertising: in a connected world, ads are a kind of crude and clumsy means of creating relationships with consumers. After all, people may not much care for commercials, but they like goods and services just fine and are in constant search of information about them. Oddly, in its obsession with not repelling audiences, advertising over the past two decades has provided more and more production spectacle,

more and more belly laughs but less and less actual information. Very quickly, because information is at its very core, the online world will soon enough fill the vacuum.

Once again, it is not merely my hunch but history itself demonstrating that display ads will not be the principal means of communication. The annual online-ad spend in 2008 was \$23.4 billion. Of that sum, according to Randy's own IAB, 33% was spent on display, while 44% went to search. Why? Because search is contextual, measurable and information-rich. The double-edged sword of search, of course, is that it captures shoppers in the process of shopping, but does little to build brand awareness for the general population. On the other hand, building brand awareness for the general population is wildly inefficient. As online display advertising itself becomes more targeted and measurable, it will be best deployed as a sort of street signage — posted on extremely vertical social networks or served based on user profiles — directing the audience to where the real information is: brand or third-party websites, or embedded in highly utilitarian content.

"I guess the most important thing that I would be asking myself," says media economist Bruce Owen, "is 'How can I make advertising something that people are not only willing to put up with but actually have positive willingness to take?'"

Considering the statistics you've just been reading, that sounds almost preposterously naïve — like asking commuters to vote for traffic. But not only is there an answer to his musing, that answer presages a Golden Age of marketing. The fact is, people care deeply — sometimes perversely — about consumer goods, from Tag Heuer to North Face to Tab. What they don't like is being dictated to about what they should care about or when they should be caring. Forrester's research reveals that 48% of consumers believe it is their right to decide whether or not to receive ad messages. Opt-in emails were deemed twice as trustworthy as TV commercials and 10 times more trustworthy than banner ads precisely because the consumer chooses whether to engage. This may be culturally difficult for advertisers to accept, having spent two centuries

trying to browbeat/seduce captive audiences. But take heart. Once the consumer is in the driver's seat, he or she will often cheerfully drive right in your direction.

"I'm amazed that anyone would go online to the American Express site to learn about credit cards," says Ted Shergalis, founder and Chief Product Officer of [x+1], a web optimization firm. "but they do. By the millions every day." Yet the same consumers may TiVo right past Ellen DeGeneres in an Amex TV spot, because, "They want the information on their terms."

No, brand advertising will not disappear. It will, however, be less ubiquitous, and its very nature may well change. As *Wired* editor-in-chief and Long Tail proponent Chris Anderson likes to observe, "Brands are a proxy for information." In other words, brandedness itself conveys to consumers a minimum assurance of quality, reliability and distribution. Obviously, brands convey other things as well — things like values, status and personality. But branding's most basic function will be usurped by the information readily available at a mouse click, or an instant PDA scan at retail. One particularly eye-opening application, from Vancouver, Canada, is VideoClix, a hypervideo tool that lets the user roll over any part of the image — a car in the background, for instance — and click for information about make, model and so on. A second click directs the user to the manufacturer, retailer or whatever. It's like VH1's old "Pop-Up Video" show, only the user alone controls what to pop up. Thus it exploits the online third dimension, beyond audio and video: info-depth. "It's a layer of information," says founder Babak Maghfourian, "that people will demand."

Or consider Nike Plus, the joint project of Nike and Apple in which the iPod becomes a tool for monitoring your running pace and style, and for fitting a custom pair of shoes. The Nike Plus website combines utility, community, information and, of course, online sales. It is the marketing program, the CRM engine and the store. The sole function of the TV commercial — which is an elaborate demo notably devoid of celebrities and narrative and jokes — is to drive traffic to the site.

Now, multiply that formula times the Leading National Advertisers plus the entire Long Tail of trailing advertisers. What I'm describing is the democratization of the information economy, simultaneously destroying fortunes and creating them. When order is someday restored, surviving marketers will be in clover. Others will be entirely left behind.

To some of those "others," the reality is finally beginning to sink in. When the yin is shriveling up and dying, after all, this should hardly be lost on the yang. For instance, listen carefully to Jan Leth, executive creative director of OgilvyInteractive North America, as he tells a funny little story about an agency assignment for Six Flags.

"They had a promotion for their 45th anniversary. They wanted to give away 45,000 tickets for opening day to drive traffic. So we got a brief to do whatever: ads, microsite, whatever. But our interactive creative director just went off and posted it on Craigslist. Five hours later, 45,000 tickets were spoken for. No photo shoot. No after-shoot drinks at Shuttlers," he adds, with faux regret. Then, with somewhat less irony: "Now, the trick is, how do you get paid?"

That cute little anecdote represents something between grim news and total doom for the advertising-agency business, which continues its erratic Pluto-like orbit around marketing budgets as if unaware that it has lost its stature. Circumstances have conspired to threaten its place on the cosmic map altogether. Ad agencies are simply not organized in a way to profit from modern means of connecting with consumers. So they pay lip service to the digital future while digging their heels into the 30-second-spot present. In case you skipped past this book's introduction, listen to this from a June *Times* of London op-ed by Sir Martin Sorrell, chairman of WPP Group, the world's largest marketing-agency holding company:

"Slowly, the new media will cease to be thought of as new media; they will simply be additional channels of communication. And like all media that were once new media but are now just media, they'll earn a well-deserved place in the media repertoire, perhaps through reverse takeovers — but will almost certainly displace none."

No need to panic, he says. The internet's just a new channel, like gas-pump video or checkout-aisle coupons. It's just a question of managing the transition. Yeah, sure it is. If Sir Martin were being honest with his readers, he'd admit that in terms of culture, organization, expertise and compensation structures, a global ad agency can no more easily transition from a Gross Ratings Points mentality to a world of aggregation, information, optimization and Customer Relations Management than Young & Rubicam can transition from English to French. It's two entirely different grammars and vocabularies. Not to mention revenue models. The Brave New World, when it fully emerges, stands to be far better for marketers than the old one — but not much thanks to display advertising. As we shall see in the next eight chapters, they won't need much of that to connect with consumers. Which is why most existing ad agencies and some media agencies will be left behind. And the reason they will be left behind is their stubborn notion that they can smoothly transition to a digital landscape.

An ominous episode occurred in 2007 when Nike — the multi-billion-dollar brand that emerged and dominated thanks to the advertising genius of agency Wieden & Kennedy — decided that, when it comes to fulfilling all of its digital marketing needs, Wieden just couldn't do it. *Wieden & Kennedy!* It's probably the greatest independent agency in the world, but, by Nike's lights, too invested in old thinking to suit the brand it almost single-handedly built.

Note, too, that while Sir Martin is publicly spewing happy talk, he's also been reconfiguring WPP's portfolio so that less than half of the business — on the way to only 1/3 — derives from advertising or media services. No wonder. Agencies make money making spots and ads, and buying the media for them. Furthermore, in order to exploit the internet's phenomenal capacity for targeting and optimizing messages in ads and on websites, advertisers will have to invest vast resources in information technology infrastructure — hardware, software and flesh-and-bloodware — to crunch the vast amount of data that will be pouring in every second of every day. In the aggregate, this will amount to many

billions of dollars. Much, if not most, of the money will come from existing ad budgets. That cannibalization will only further accelerate the destruction of mass media/mass advertising symbiosis and unlock the very power of aggregation, information, optimization and Customer Relations Management that will render most image advertising impotent and superficial.

In other words, Madison Avenue has problems out the yin-yang.

So Where Do We Get New Episodes of *The Mentalist*?

So, in the post-advertising universe, who pays for content? Ah, *the* question. One reason it is so difficult to imagine The Chaos Scenario is the sense of entitlement we have come to harbor about free access to the finest (or, at least, most expensive) output Hollywood has to offer. The sub-prime crisis takes away my house, we've got a problem. The Chaos Scenario takes away my *House*, and we've got a revolution. Alas, I can offer no especially reassuring answer. The best thing I can say is that the world's gravitation online to YouTube, et al, already reflects mutations in our entertainment DNA. Obviously, the internet alone offers more content — instantaneous and free — than mankind has ever had at its disposal in all of history. Though 99% of it is unwatchable, unlistenable, unreadable *dreck*, the 1% still represents an astonishing cornucopia of brilliance — including some material far cooler than anything television has ever had to offer. Aggregation websites such as Fark, Boing-Boing, ebaumsworld, CollegeHumor and Digg, and the sheer filtering efficiency of social networks, do a pretty good job of refining the gold from the ore. Others actually combine the functions of aggregation and social-networking. Magnify.net hosts thousands of vertical video-sharing communities and Ning.com thousands of equally vertical social networks — from “American Idol Fans” to “Asthma Parents.”

Marc Andreessen, founder of Netscape, is co-founder of Ning.com. “People are interested in what they are interested in,” he says. “The magical part of social networking is the people [specific category] advertisers are interested in are magically coming together.” Other sites, such as

Will Ferrell's FunnyOrDie.com, combine professional and user generated content to cobble together something like a cumulative mass audience — and the theoretical possibility of ratcheting up the revenue to sitcom levels. Still, as Marshall Herskovitz can sadly attest, that's the longest of long-shots. But what if in the near future most content is paid for by the user, either via subscription, like HBO, or a la carte, like pay-per-view or iTunes? This would eliminate advertising from the equation. If micropayments ever become practical, pay-as-you-go would allow users to seamlessly buy, for instance, newspaper content on an edition-by-edition or even article-by-article basis. As media economist Bruce Own puts it, "The willingness to pay by consumers is far greater per eyeball than the willingness of advertisers."

In 2008, citing the pioneering efforts of Wal-Mart, Amazon.com and iTunes, Adams Media Research projected that paid streams and downloads will quickly overtake advertising as the revenue model for video content. "By 2011," according to the report, "advertiser spending on internet video streams to PCs and TVs will approach \$1.7 billion, but movie and TV downloads will generate consumer spending of \$4.1 billion." Another 2008 report titled "The Digital Consumer: Examining Trends in Digital Media," this one from the investment firm Oppenheimer & Co., concluded the same: content "is not likely to be ad-supported."

Such a revenue model would suit content producers, as well. In their life-and-death struggle against piracy, no digital-rights-management technology offers the awesome impact of price. As download costs are pushed inexorably downward — say \$1.99 compared to \$25 for a DVD — the incentive to steal is pushed down accordingly. Why bother shoplifting from the dollar store?