Media IS the Message, Now More than Ever

Speakers:
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Frank Speiser, SocialFlow
Tom Bedecarré, AKQA

Moderator:
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Morgan: So we're going to jump right in here and talk about media. And we're going to try to have a pretty wide-ranging free conversation. We certainly welcome you all to jump in.

To the extent there are any mics—there's the mics, so before you start speaking, just wave and try to get that.

I may also want to call on people, because there are people in here that could say things. And I'll try to get the mic to the person being called on.

The first thing I want to do is have each of the panelists quickly introduce themselves.

Susan, why don't you start.

Athey: Hi, I'm Susan Athey. I'm an economics professor at Harvard and I'm in the process of moving to Stanford's Business School. I also consult for Microsoft in the role of chief economist, and there I work mostly on the search advertising platform.

Speiser: I'm Frank Speiser, the cofounder of SocialFlow.

Bedecarré: I'm Tom Bedecarre, chairman of AKQA, innovation and ideas agency, and recently named president of WPPVentures.

Morgan: We're going to go down the row again and then not be so predictable in the future.

What I want each person to talk about is relative to this topic, what do they believe in, what to do they believe in in their person, in their gut, and their heart; and, two, what are they doing about it.

Susan?

Athey: Great. So I want to talk about—I believe in the getting the right information to the right people when they need it. That's one of the reasons I have been working on Internet search for the past five years.

I believe it is critically important that people be able to find information, and that information isn't just static, but rather the information is created by people in response to economic incentives. So websites and news is created because they get an economic return, and that return comes from advertising dollars. So it's very important for them that advertising—advertising revenue generated is high.

It's also really important that the products that people want to buy are out there and created. So all of the Internet entrepreneurs that create things, that create new, innovative products for people. Those are created. For them, it's very important that advertising prices are low, and that advertising is very efficient; that they can reach the right consumer at the right time.

What does that require? That requires a middleman who is fantastic in terms of algorithms and using data to get the right information to the right people. It also requires that that middleman doesn't take all of those surplus themselves, but rather it gets shared out with the people that are trying to be matched.

Where does that come from? It comes from competition. So that's why I worked for Microsoft search engines, because they're the young upstart innovative competitor in the area of search that helps create that pressure.

So if you do have that competition, you get the innovation, and you get the surplus distributed, that helps create the incentives for all of the content that we know and love on the Internet. And it helps the incentives continue for venture capitalists to fund the next Kayak, the next Yelp and so on, knowing that they'll get the best return on their investment and their innovation.

I also believe in particular, in the importance of news for democracy and for keeping governments honest around the world.

So with the Internet there has been so transformative. It has made it so easy for people all around the world to make information available for citizen reporters to get information out. And, of course, it's been hugely disruptive to the traditional media.

So I believe that it is extremely important to preserve somehow the incentives for the expensive investigative journalism beyond what will be created by all of the citizen reporters out there.

But we don't have easy answers out there. This is a very intractable problem. So in this area, what am I doing about it? I'm doing research to try to study the impact of social media and news aggregators on the supply and demand of news, showing how on the one hand these forces are helping people discover sources of information that they never would have found and causing people, therefore, to consume more news than they would have. Because when the discovery costs are low, they can find what they are interested in. That increases incentives for people to create news.

But, on the other hand, the news outlets are losing their role as the curators of journalism. Because of that they have recent control, they have less incentive to create a reputation for quality and to cultivate the curation of high quality news across a range of topics, showing people things they didn't think they might be interested in. Giving them the news is like their broccoli, about maybe international news, topics that are a little hard to digest.

My concern is the incentives to create those types of news may diminish over time.

Morgan: Great. Frank?

Speiser: Those are great points. We're working to solve some of them as SocialFlow. What I believe, as a company, we're in the middle of one of those moments in human history when everything does change. There's never been a point in time like this where you could have access to so many people for so little cost at such an immediate interval, and we're sort of entering this time where you're having the traditional, you know, pay-to-play access-based networks being disrupted by things that—there's no friction to get the message out there, no cost to really get it distributed. But the currency of the exchange is priced in terms of attention.

And to your point, you know, we are at one of those points where we can consume, you know, fluffy, pop-based, easy-to-consume messages, and sort of distract ourselves. Or we could use this time to sort of build trust and cooperation into these networks where they take the message and do something with it to make life a little bit better.

How do you do that? How do you get the conditions right for a network where you can have things that entertain you and keep you distracted? But then also get the things you want when you need them, to do the things you want to do.

And it's a pretty complex problem. Because you have, you know—you can model off how well you'll compete now, but there's so much novelty and variance coming into all of media, but social in particular, where you know, you can't predict an earthquake and what will happen after the earthquake if it happens; or if somebody gets assassinated. All of these things disrupt the way you allocate your attention. And as you get further into the future, you know, the confidence of which you can predict how well you can compete for that sort of falls off.

It's not a typical problem where you just look at the process and how things get distributed and then you can sort of build risk into certain finite things happening.

You actually have to take into account the fact that there will be a point in time when uncertainty takes over and you have to look at how well you'll compete now and model off of that. And just look at building worth into the distribution systems based around trust. And that's—you know, that's a function of what you expect the information to be used for.

So, you know, to summarize, we could use this time to waste a lot of time and we could solve these problems so that we get worthless news out faster and we don't help each other as much.

Or, as people are self organizing into groups and networks, we could find a way to communicate the information effectively so that people can then put some utility behind that. It's a pretty interesting time to be working on the problem.

Morgan: Okay, Tom?

Bedecarré: So something I believe in and what I'm doing about it?

Well, I'm a big believer that Silicon Valley and innovation is a more important force in the marketing and advertising business than maybe a power lunch on Madison Avenue. And that's why I live and work in Silicon Valley.

And one of the things I'm doing about that is working with Sir Martin Sorrell, of the WPP Group, now to try to identify the next generation of entrepreneurs and innovations that can add value to our clients. So we're launching WPPVentures in Silicon Valley to make investments in those kind of companies.

I guess another thing I believe in is that the advertising industry, when I think of that I think specifically of big advertisers and big agencies. Just like New York City maybe found out it wasn't ready for Hurricane Sandy, I don't think the ad industry is really ready for the next big tidal wave of change that's coming with mobile and social media and big data.

Although, it's certainly a topic that everyone is talking about. I'm not sure that they're thinking about it or ready for it in a way that our company is.

One of our big clients is Nike. And the Nike chief marketing officer, Trevor Edwards, had a comment a while back that Nike is not in the business of supporting dying media companies. The role of advertising is not about financial support for the media industry.

What he's interested in is finding deeper connection engagement with Nike consumers. So a lot of what we do for Nike isn't advertising. It's something that might create utility, like a mobile app like the Nike Training Club. So I think we're frequently working more on apps than ads.

The most recent example of that is something called Nike Plus Connect Training for the Xbox 360. It's a whole training program based on, you know, your own personal progress and your own workouts, and having the system giving you feedback and creating a better training—personalized training program for you. And a lot of what AKQA talks about with our customers is storytelling through software.

For us that means having a software engineer as an integral part of the team as a copyright editor might be on Madison Avenue. Those things are important and some of the things we're doing about it.

Morgan: Great. Just for disclosure of bias, I should probably very quickly tell you what I believe in. I believe that it's absolutely atrocious that the most consumed media in the world, television, is just loaded with irrelevant redundant ads, and that someone's got to fix it.

And what we've been doing on the web should be able to fix it by better leveraging data and technology, and so I left digital marketing after about 17 years to try to work on that.

But I'm interested. I want to come back to you, Tom, and I want to make this more freewheeling a bit. So you founded, built, and now have sold largest digital advertising and marketing businesses ever created on the buy-side, or on the—supporting the marketers.

You're now part of the world's largest holding company in marketing services. What do you see are some of the critical issues when you go from being the entrepreneur attacking the citadel from outside to now sort of up in the top of the—one of those towers looking out to the others being part of defending or growing the citadel?

Bedecarré: Well, I think we'll probably always have more emotional resonance with David than Goliath. I think it's more trying to bring a voice to the key clients within the group. Some of which we work with, like Unilever, that are among the largest advertisers in the world. Johnson & Johnson, clients that we have that are big WPP clients. But I think that's helping us navigate the changes that are coming in terms of what you take a look at.

The big famous chart was how much money was spent on digital advertising versus how much time was spent online.

Mary Meeker's big analysis of a $50 billion opportunity to close that gap, well, I think that whole clock is being reset on mobile, for example. If you think about how much time people spend with their mobile phone and how much interaction they have on that, versus the tiny, tiny amount of advertising or marketing support that's going through mobile, I certainly get a lot of questions from people as to when is mobile advertising going to start kicking in, and when are people going to get that?

I think for a lot of big advertisers, they're still just catching up with online advertising, search advertising, social media, and mobile is something that is just—it's gotten so big, so fast, I haven't had time to keep up.

But a lot of what we are trying to do is being the voice out there of talking about—looking beyond that and looking towards how to create utility and information and entertainment in media, screens and experiences that are what people are looking for, and less about supporting those media channels through advertising, as the "be all and end all" solution.

Morgan: Susan, how do you see having a role with the underdog in search, Microsoft, you know, how do you see the issues from the smaller player trying to dislodge a larger player with an extraordinarily well-established business and whole ecosystem that's built around it, arguably a whole industry, with Google? You as well say names.

Athey: Exactly. One of the things about search advertising, it's so data driven, and the economies of scale are so, so important. You have this huge long tail of advertisers and this huge long tail of key words.

Almost about a third of the words that come in from users are queries that you've never seen before, and many, many more are very rare. So you have to have enough data to understand what people want, and you have to have enough scale to make it interesting to the advertisers. So that's been a challenge. One that Microsoft has been sort of chipping away at, through huge amounts of investments. And the deal with Yahoo and so on, that brought more traffic to the platform that got it to be more interesting to advertisers.

The big challenge on the horizon is mobile. Mobile is sometimes even more needful of scale because you have not just the query, but where are you entering that query. So you need to now understand even more people want to type in a smaller number of characters and so on.

And then for the advertisers, you know, this is huge long tail that needs to come on board. So, you know, Google has about a million advertisers, something like that. You know, There's tens of millions of small businesses out there who haven't really needed to engage with the Internet so far. But now people are finding them through the mobile devices.

So the new challenge coming up is that the mobile devices—you know, the mobile search is going to cross PC search probably in, you know, two years or less. So, you know, for your marketers --

Morgan: When you say "cross," you mean volume of searches?

Athey: Volume of searches, queries will be greater coming from mobile devices than PC, you know, in about two years, plus or minus. Depending on how they --

Morgan: So if we created a new Mary Meeker slide, where would our lines be on volume of search versus the monetization of search?

Athey: This is where a big challenge is. First of all, even your business advertisers who are spending large amounts of money, they haven't fully grasped the PC. And, here, this mobile form factor is extremely different.

So on the one hand, you may access them through the apps, which in some sense may be more comfortable to them. But on the other hand, you still have all the search queries, you have the people trying to find the local stores, so you have this new tail of advertisers that is that much less sophisticated that will have that much less volume. So it's going to be very hard to give them return on their investment if they're getting, you know, a small number of searches. But there's millions of millions of them that, in aggregate, are important for an advertising platform.

Bedecarré: I'm just not sure that search is a net that marketers haven't cracked. I think they get it.

It took marketers a long time to understand television advertising and to have studies that said you needed to have 75 percent at 3-plus effective reach to be able to get your message across. And then that became a way to measure whether TV buys and campaigns were successful or not. And I think search is something that marketers get. they get, you now, if I put a dollar in, I get what I'm getting back.

I think the challenge is with social media, you know, what does a dollar spent get to me, what does—what is Twitter or Facebook, or what do these platforms get back to me?

And when you take that back to mobile advertising outside of search, then it's even more of, I think, a question mark of what's inside that black box and how do I, you know, evaluate those investments?

But I don't think search, from a marketers' standpoint, is a challenge for rationalizing money that they spend on --

Athey: So I guess maybe my point is that on the mobile side, I don't think anybody has come close to achieving the potential, even within search. and I agree that search, in some sense, is the easiest to get. You have the most sort of direct connection between your dollars and the action the consumer is taking because it's right on the end of the funnel.

But even sort of on the easy thing, we're sort of selling the same product in mobile that we did on the PC when, in fact, you know, what the consumer is actually doing is quite different. So the attribution isn't there.

A lot of the major firms haven't fully developed their ability to help advertisers understand the consumer moving between the different media. And they haven't figured out how to actually do the attribution in the mobile space.

And you're going to have this whole new set of customers, these millions of customers, who come on board who haven't been part of the ecosystem so far. So I think this is an opportunity. I want to emphasize it for the folks out here who are in the investment community and so on. I see a lot of untapped potential right now.

Speiser: I would say the mobile side of marketing is not really a search problem. It's—you know, there's mobile search, of course, and there's things based on the local context of where you are. But it's—the device lives with you. And it's probably more like social than it is like search. Because there's so many things you can do, and there's a radius of things around you that you can interact with. And it's more of an ordinal ranking matching problem than—based on things you already know and things you're already inclined to do.

And so there's the "I'll go find it" the aggressive search based direct marketing model, but there's probably way more opportunity in the fact that there's passive discovery and services that can be presented to you and really the tiebreaker in those things is how much do I want them and I didn't know about them and now you're offering them to me.

So it follows people-based rules, social rules. Because you're a person and you're out living. Instead of following these mechanical completely algorithmic and, you know, routing problems. What You want to do is find ways to improve people's lives by introducing these things, but also having enough novelty so there's new things to discover and things get better.

So you get more effective at introducing things into the platform.

Morgan: If you can move us to a little different bend here, move to the bigger picture on the media industry. We didn't prepare for this one.

So, clearly I think we're all hearing and understand that there's really significant disruption affecting the media industry and media—right now I will talk about media owners. So the people producing content and distributing content; news, information, entertainment.

One of the things that's struck me that's become quite obvious over the last few years, how many of these businesses, even the most successful ones, have been largely held up or propped by a subsidiary division that may not have seen been core to their business when they acquired it but kept funding them to keep going.

I'll use the example of the Washington Post company has been fueled by certainly the last decade by Kaplan.

Disney, you know, all you have to do is look at the earning reports to realize the power of ESPN, you know, is supporting a lot of the Disney Company. Actually, the Hurst company was able to support its newspaper much more robustly and longer because of its investment in ESPN.

I want to put that out there because I would like to hear some predictions on what kinds of things you think might happen to companies that we see as incumbents today that might have a difficult time surviving tomorrow.

And, B, what might be some the kinds of areas that the media companies—if we think some of these content owners may own adjacent businesses that become fuel for them to continue their business because they are adjacent, may be looking to invest going forward.

Bedecarré: You were talking about television. Anything that I've read says that the amount of time that people consume video, if you think more broadly, is growing not shrinking.

And when you think about it, devices that you can watch video are multiplying. And as more and more people have smart phones and as bandwidth increases, the idea that you have to be sitting in front of the television set to watch television is going out the window.

So I wonder about the extent of the fact that people are going to have so much more freedom and choice about video content and 24/7 availability. How is that going to further interrupt what has been the bedrock of the advertising business in terms of broadcast television and all the advertising dollars into broadcast television, how is that going to shift when Netflix and Amazon and Xbox and everyone else is streaming all kinds of video content 24/7?

You know, so that's something I don't think people necessarily would think about, because people see television budgets and revenue still going up.

Morgan: So where should the video companies be making their bets and investments with that anticipation proliferation of screens, fragmentation of audience, more digitization and distribution.

Bedecarré: Well, there was this big rumor Microsoft was going to buy Netflix. Maybe it should be Hurst or ABC, or somebody like that, should buy Netflix instead because, you know, that's going to be an installed base that is used to watching streaming content that may not be tied to advertising revenue.

Speiser: That sounds right. Anybody that has a business model based off predictable access to the consumer, they're in trouble.

I'm 36 years old, and I don't know a single person in my peer group that watches an episode of anything at the time that it aired. They're moving away from these predictable places to reach people, and you just have to compete basically on merit and where you can fit into people's lives.

So having a content company that then gets the method of distribution, where you can reach people when they want to be reached, that makes sense. But relying on people to pick up something for a subscription or to watch something when it airs, that's—and to the point earlier, I think it's not—as a prediction, it's not going to move linearly. There's going to be a dam that breaks and all of a sudden it will fall off the other side.

I don't think that—once people realize there's no predictable future value in the method of advertising that way, you're going to see dollars shifting out to find new homes that have a potentially bigger upside.

I think probably eventually the people buying ads look more like a venture capital firm than they do a typical media buying outfit.

Morgan: What does the economist think of that?

Athey: Hmm. I think you guys covered a lot of the issues. Going back to the sort of traditional news industry, we are going to see just an inability to support the cost structures that were there in the past, the revenue streams, you know, falling. And, again, without the—with the consumers switching more and more across media outlets, a lot more competition, and, therefore, lower advertising prices. And even the efficiency of the targeted advertising won't necessarily see the kinds of revenue streams that outlets have had in the past.

So consolidation and losing some of those fixed costs.

Morgan: Pushing this a little bit. Let's just think about the election we just went through. You know, certainly most of my friends, peers and people I know around the business, were probably following the election as much or more in their Twitter feed as opposed to let's say CBS.

So if—the future may not be supporting Scott Pelley of CBS and his $10 million a year contract, but, actually, you could follow Nate Silver for free, you could actually then read a little bit more about it on the blog for $70 a year, you know, through the New York Times company. Might that be a different model.

One of the things I'm struck by, and this might be interesting to think about it, we talked about it a little ahead of time. The analog media world was where distribution was scarce, but attention was plentiful. If you put a message out there, it was seen. But in the digital media world, distribution is plentiful, but attention is scarce.

Let's look at Tumbler. Tumbler reaches about 700 million people in the world every month, and it generates about 5 billion page views, I think. I don't have the exact number per month. And it does that with about 130 employees. Half of those employees were only hired in the last nine months, so they're not even productive. So probably 75 productive employees.

Now, I ran strategy at AOL when we had 11,000 people, and we only had 2 or 3 billion page views across our properties. Maybe you don't have the monetization, but you don't have the cost either. How do we see that play?

Bedecarré: Except maybe trying to follow monetization is the wrong rabbit hole to go down. the conversations this morning was about if it's free, you can't measure it.

I think the fact that Twitter is free freaks out advertisers because it's like where am I going to put my advertising dollars? How can I monetize tumbler? How can I monetize social media?

So the influence of social media is huge, the reach is huge, and the amount of time people spend is huge. But the dollars are small, and somehow, as an industry, we're saying it must not be that important. It must not work. Because where's the dollars?

That's one of the ways where I think change is coming faster than we can keep up with it. Because it's not about following ad dollars to necessarily follow influence and what really engages audiences.

Athey: I would also say—I'm very interested in the phenomenon of social media as a curator of news. And I think it's going to become very important. But, actually, our little bubbles are not—introspection isn't necessarily the best way to look at that point right now.

All of our friends post very clever and interesting news articles on Facebook and Twitter and so on. But actually when you look at the data, it's still the case that most people get their news sort of—their online news in more traditional ways.

But there's a small set of people who are starting to get a big chair of their news from referrals through social media and so on, but it's still sort of a little bit more concentrated. You know, it's a small set of people that are intense users and a mass of people who haven't been there yet. But it's coming very fast.

Morgan: Maybe we have the opposite affect that Frank mentioned, that maybe traditional media may be very slow until it's very fast, and decline.

I'm struck, I'm from a very small coal town in western Pennsylvania that has an average household income of probably 30,000. So it's a pretty poor area. But over the last nine months, the explosion of people I've seen on Facebook, of people I've graduated high school with that are on Facebook. And this has broadband penetration of about 20 percent, 15 percent.

Bedecarré: Are you bombarded by coal miners now?

Morgan: The ads I'm getting now, yes, from the election ads. but it's not one newspaper, it maybe 5 percent of the people. But it has the potential to have massive impacts on how people are getting their information.

Speiser: I think there's a major disruption. Maybe you can't measure it in ad dollars, but you can certainly measure it in allocation of time. And would you look at the way people trade off their time, what were they doing before versus what we're doing now, that is measurable and that is impactful to brands.

To your point—you made a point very early on here, where the reason why I think it's going to break so quickly at the end there is you're going to have brands with these big dollars that sustain nonviable methods of advertising because—just for the sake of it being predictable and an outlet.

And the minute that becomes nonsustainable in itself, when it pays to switch and you have to do it, you're going to pull the dollars out, and they're going to go someplace else. Where they go is an open question.

But you're going to have people investing in methods of advertising that just don't pay for the sake of that you can actually measure them. Once that's not there, it gets a little more unpredictable.

Bedecarré: I was thinking what you said earlier at lunch about Craig's List. Who would have thought this little website in San Francisco with the funky guy with a barret that didn't have an enormous revenue model was going to kill the United States newspaper industry and kill classified advertising.

If you think about all the money that went into classified advertising versus the amount of money that goes into Craig's List, it doesn't make sense if you're trying to analyze a rational flow of dollars.

I just wonder if there are things that we don't even see now in social media and mobile that are going to kill other businesses, kind of hit them blindsided because it's free.

Morgan: That's what some venture capitalists have called the "zero billion dollar" markets. Where Craig's List has displaced probably $15 billion worth of advertising from a business that probably isn't generating more than about $150 million in cash, though it's probably doing that against only 40 million in cost. So it's extremely profitable.

Athey: Right. As the economist, the social value created is extraordinary. People aren't paying the price for it, so you're not seeing the consumer utility.

Morgan: I'm interested—let's think about it this way. Where is that being displaced? If people are going to pay less for content and advertisers will be having to pay less because they can get free distribution, what is the displaced opportunity?

Athey: Well—so I think it can be tempting to think money was here and it goes somewhere else, but you can also just have people getting different shares of a pie. So the people who were selling through classifieds keep more of the pie and the consumers keep more of the pie and the middleman got squeezed out. Competition can do that. There is no law that says middlemen have to take a huge chunk of the surplus along the way.

Speiser: I think this is good. I really think this is good. If we'd have just gone along with—like people bemoaning the loss of that, there would be a giant telephone operator industry right now instead of Google or something. Now that went someplace else. And because that—that thing that didn't have much utility is gone, there is a better way to do it, maybe—and I don't know this is what everybody wants to hear, but maybe instead of spending on advertising, you can spend it on the product itself and the people that need to make the differentiated product.

Morgan: If I give you the microphone, if he doesn't—Mark Boncheck doesn't know he's going to be called on yet. I would like the microphone in his hand, please.

It's interesting, Wal-Mart announced this year it's going to take a billion dollars of profit and put it into price reduction, rather than marketing. That's what it was going to do. It felt it wins on price, so, you know, how it displaces.

So when Mark and I met here a year ago, he was running community networks in his development for Sears Holdings, Sears and Kmart. So we have someone who is a marketer who has dealt with it. I would be very interested to hear your perspective of what was being talked about here and how you see this.

Bonchek: I would say, first of all, a lot of the things about the medium is the message. We're moving from a one-to-many world to the many-to-many world. That's back to McLuhan and Innis, where that came from.

What does it mean to be a many-to-many world? Where people can connect with each other. So I completely agree with what's been saying.

The one part I would say is where the money goes. I think it—it definitely comes out of advertising, but I don't think it necessarily goes into the product. It goes into the relationship. That's what has changed, the relationship between the brand and the individual.

So the question becomes, how do we use data, how do we use all the things we've been talking about to change the nature of the relationship between the brand and the consumer; not as a passive audience, but as cocreator?

Bedecarré: But I think the social contract used to be you have content, you have news, you have pretty pictures of new dresses in magazines. I have my attention and time I'm going to give you. And I don't mind watching the commercial or seeing the print ads because you're giving me that.

I wonder if that's thrown out the window because there's a different exchange, different value exchange. I can get all this stuff free now. Everything I want is free. Where is the exchange going to be?

I wonder if those things are going to be, I'm going to give you my data if you give me something in return. I'm going to give you my attention, if you give me free wireless or a free cell phone.

What are the things people want that they're spending a lot of money on right now? Maybe it's the phone companies and the cable companies that are going to be the next—someone else is going to say, I'll give you what they're giving you, but you're going to need to have some advertising attached to it.

Speiser: Of course it does go out the window. Because before you would buy a billboard because you drove past it. And you had to go past it because you were going. And You advertised on TV because you had to tune in to TV and watch the show, and I was able to get you there.

You don't even need to read the entire magazine anymore. You can get it bit by bit online, and the monetization is moving over there and you can get it piece by piece.

So the switching costs, costs you nothing to divert your attention to something else. And there's no contract that I will definitely get you at that spot for that reason.

So maybe it is the relationship. But it can't be predicated on reaching you in some predictable way.

Bonchek: No, I assume that's a fuel band on your wrist with Nike. That's the new model. That's the—

Speiser: It's awesome, by the way.

Bonchek: —new advertising. That's what I mean by a relationship. It's not the product. I mean, they may make money off of that, but it's much bigger than that, is my point.

You are now connected into a kind of ecosystem that has you naturally buy shoes and apparel and equipment because you're pulled into, I call it, their orbit.

Morgan: I want to hand this back to someone right behind you who has a real perspective as a media owner.

Mike, if you could identify this and tell us your perspective since you're on the media owners side.

Federle: >> Mike: Well, thanks Dave. Mime Mike Federle, the chief operating officer for Forbs Media. And an interesting conversation that, to me, first from a media owner's point of view, has to be viewed as looking at the end of your own sort of what got you to the party, and coming to terms with that. If that—before you can come up with answers to any of those solutions or possibilities of where it's all going.

And that, I think, is kind of the first step to getting to a solution. I'm not going to tell you what that is. But that, I think, is kind of the first most important step.

Morgan: So if you could keep handing it back to your right, to Avner, because I think we have someone with an opinion on what is the future of television and video.

Avner, why don't you tell folks who you are and your perspective on video.

Ronen: So I'm Avner Ronen, the founder and CEO of Boxee. We just launched a new device that sells at Wal-Mart. You can go to Wal-Mart not far from here and pick one up. What it does, it's a hybrid device. It brings you the broadcast channels, ABC, CBS and Fox and Netflix and YouTube and Pandora and Spotify. And it has a cloud DVR so the device has no storage. It uploads your recording to the cloud and you can watch them on your iPad. you can record as must as you like.

So our focus is on the TV screen. It's been for a while. And the way we view the future of video is a lot of it is still dependent on the content. What we found is our original device was a pure cord cutter device. It was pure over-the-top, and it only got you access to Netflix and YouTube and so on.

What we found out, it's nice, it's really in addition, people still want to watch American Idol, the local news and they want to watch a lot of content that is just not available over the top just yet. And the other thing we figured out—that's why with the new device we introduced the ability to access that content.

The other thing we figured out, the fact that the device is connected doesn't change the psychology of the user when they sit down on the sofa. We had a lot of icons on our screen and a lot of options to browse content. And we had over 400 apps. What we found out, it degrades the experience. It doesn't make it better.

People just want to sit in front of the TV and watch something, and TV does that great today. We just took—a lot of us in the industry connected to TV took the paradigm of iPad or iPhone and put a bunch of logos on the screen, and that's not the future of television.

We think the future of television as a screen, as a big screen, is that very much like it is today, the screen is going to be thinner and bigger, but it's still going to be all about the video.

A lot of other stuff is going to happen on the second screen, but on the TV screen, it's going to be all about the video, so in that sense we have a traditional point of view.

But we think the sources of content, the video that comes to that screen not necessarily is going to come from cable or satellite. A lot of it is going to come over the Internet. So the experience is going to remain the same. The source of the content is going to get different. And, obviously, people are going to watch it on more devices.

And I feel just—I don't want to take over the conversation, but I feel a lot of the conversation today around the traditional media is we're trying to fight yesterday's war based on yesterday's terms.

So, you know, that the show is 30 minutes long and is broadcast once a week, and that's the way you monetize it, and that's the way you aggregate into channels, and that's the way you aggregate channels into a media company.

I think the Internet is going to change all that over time. I don't think the incumbent structure is going to change for the foreseeable future. It's going to stay about the same until there's going to be real breakout moment, where the whole way in which content is going to be monetized is going to be different.

So take American Idol as an example. The fact that it monetizes through some voting on SMS and ads is really dated, you know, in my opinion. It's a huge brand, which has huge consumer engagement, it's just monetized in a very old-fashioned way.

Morgan: Assuming Avner's vision of this marketplace happens, let's go down the line here. How do you see—Susan, how can you imagine that market will change or disrupt if we see essentially a breaking of, let's say, the video or television industry and the companies that are providing into that infrastructure today?

Athey: Well, so I think one of the things that we've been talking about as an industry for a long time that still hasn't fully come together is how we get the right ads to the right people at the right time, using all the data that we have about people. It's amazing still that—how inefficient the advertising is, you get through video.

So presumably as it comes through the Internet, it will change. It's kind of amazing to me that it hasn't changed faster in a sense. But there's a lot of reasons for that having to do with the technology and structure of the industry and so on.

And once that becomes the case, who is going to be the ad platform, who is going to have the data? Again, are the middlemen—how big a cut do the middlemen get?

From an economics perspective, the middlemen get a very big cut if they have unique access to data and they have really the unique ability to do the matching and to get the answer right and to do the attribution and so on.

If there are competing platforms that have similar access to data or the data isn't owned by the ad platform, then, you know, we can see a lot more of the rents getting distributed and providing the incentives for their production. So, to me, that's one of the big open questions.

Speiser: I think once you're watching something, it's a very strong predictor that you want to keep watching it. People engage with TV. No one likes to be interrupted. I've never heard anyone that wants to sit down and watch a bunch of TV commercials.

Morgan: Super Bowl.

Speiser: Maybe in that case. You don't --

Kirkpatrick: What if every day was the Super Bowl in TV advertising?

Speiser: It would get old. You wouldn't want to do it. You want to get involved with the story. TV is a great way to passively sit back and engage with a story.

I think all the innovation and stuff moves into the second screen, because that's where you can effectively, A, compete for attention, but, B, do things that improve the life of the type of person that watches that show.

And I think things move out of the interruption economy and into the way, you marginally improve people's experience of watching the show. I think there's a whole realm of innovation that's about to come on the back of that. I'm actually, frankly, looking forward to it.

Bedecarré: I think broadcast video is still where brands are going to want to spend most of their money. They're going to want to be with high-quality content. So that's not going to change. But I do think what your point was, the model for how we get there might change.

Netflix is coming out with David Fincher's new series, House of Cards, and I think they are going to launch all 13 Episodes on day one, which is a more modern way of consuming a serial program. So that's something different.

I just noticed during the World Series when you wanted to watch a game and you wanted to see the San Francisco Giants win in four games straight, that, you know, major league baseball still has pay gates if you want to go on a different device than watching it on a television. So you have to have cable at the home and an MLB contract to watch it on a mobile device.

I think those are the kind of things that need to change. People still want to watch sports, but I think it should be a better experience to go from device to device.

Just, for example, talking about the second screen, everyone is going to have a mobile device in their lap watching television. It's not just going to be sitting on the sofa. It's always going to be sitting on the sofa with a tablet or mobile phone in your lap. I don't know that's all been worked out.

How does that add value to the equation? How does an advertiser or marketer take advantage of that?

I do think all these changes are happening faster than we can keep up with making media more relevant.

Athey: Certainly the marketers are going to have to do a much better job of really inviting the users in. Because if the users don't want to engage in the ads, they find ways around this. So this is really the ads providing an invitation to you to interact in a different way.

Similar to mobile, new actions and new attribution models will come into play. And then, you know, if one action is downloading an app, how valuable is that that you now have this relationship with your customers?

So in some sense, you can see that competing very hard to have the opportunity to get someone to form that relationship, at which point you don't need to be out there trying to acquire that consumer anymore, you've got them with your app. And you own them.

So you're going to have to sometimes work harder to find them and attract them to you.

I'm interested in the distributional consequences of this as well, because it's something—a product that you use more often or a product that is very important to you, that's worth downloading an app. That's worth making a relationship over. But the long tail of products that you consume regularly, you don't want to bother with an app. So the discovery process and advertising process for them is quite different.

Morgan: So I'd like to open up to some questions. I called on people, but I would like people to—right here. If we could.

Mahaney: Mark Mahaney.

Television advertising has continued to rise, ratings for the last year have started to sustainably decline. When does television marketing's spin crack? And I know you've touched on it. But maybe be more specific in the predictions. Where do those dollars go or do they just disappear like happened in part with Craig's List and classified advertising?

Morgan: One thing I want to say before they answer it. It is interesting to note that on the Mary Meeker slide, which is very famous. She shows the TV is 1 percent under invested in, relative to time spent.

Athey: One of the things we haven't talked too much about day is sort of the tail content in video.

In some sense maybe, the promise of the new ad platforms and getting content over the Internet is that while your top brands really want to be associated with good content, your direct marketers are more interested in who the person is. So in principle, that allows tail content to monetize at levels that are not as disparate from the head content as it has in the past.

So it's taken some time for that to come together, but the introduction of more direct marketing dollars to very well targeted advertising where you can then measure an action, an interaction with the brand or seeking more information on your second screen, all of those types of things can—we've been talking about them for years. We can sort of see them coming.

But it's—it still seems to me like at some point that is going to break open, and that's going to shift the incentives for content production as well as bring in a different mix of advertising dollars than in the past.

Speiser: I think some of them go away. But if tune-in is going down, by definition they have to shift the dollars into discovery mechanisms.

So it's good to be Facebook, Twitter and Google still. But I think you've got to get people at the top of the funnel, then, at that point. So as tune-in starts to trail off, you have to invest more to get people to tune in, and that flows to discovery.

Bedecarré: I wonder if there isn't something about the whole dual screen phenomenon. Marketers still want the big audiences. They are watching American Idol or Monday night football. But maybe they are going to be shifting some of those dollars out of buying 30 second commercials and shifting them into experiences that will be joined up at the hip.

So as you're watching the game, you're going to have an experience—that Bud Light is sponsoring and you're seeing Bud Light TV commercial, then maybe there's going to be fewer commercials and more content utility, information.

Maybe it's going to be a special fantasy football app that provides great value and would cost a lot of money to run for Anheuser-Busch, but that might be a way that I'm still talking to that same audience, they're still engaging in the same behaviors, but they've also now got something else on their lap that I can engage with them.

Speiser: One more point to that. Tune-in may be going down for things that you would expect and predict them to be. I don't think people aren't tuning in. They're just doing something else. That's a signal that people want to do something different, and they're opening up to being able to find new content.

But I think all the data says that people are still tuning into video more than ever. It's probably different video.

Morgan: The heavy rotation out of broadcast prime into cable networks and smaller networks and smaller tail.

Right back here, we have another question?

Ben Woo: Two quick questions.

Morgan: Who are you with?

Woo: Neuralytix, Market research firm. First question, how much of your comments are U.S. or North American-centric? And, secondarily, as we look at the globalization as a result of the Internet and that second screen, how much does advertising have to change to be global and be able to be consumed by people in different countries, cultures, languages, et cetera?

Morgan: Well, I'll throw one thing in just because I used to sell transnational advertising so I've lived with that.

We still have very few companies in the world that have a product that can be bought, consumed, sold, serviced in a same or similar way in, you know, many multinational markets.

So, you know, I would at least first start with, I don't know that we're going to see that many global advertising and global advertising budgets, because you have to interact, sell, price, service, deliver, differently market by market.

Bedecarré: I would interject. I've worked with Coca-Cola, McDonald's, Unilever, the global advertisers. They don't spend money globally. The money is all down in the region regions in the country, so there are not big global budgets right now for the big global advertisers. Not anytime soon.

Morgan: Actually, the trend is the other way. We actually used to have a lot more global budgets 25 years ago than we have today because much more power has been pushed down to the local markets, the localized things.

Probably the one product that is a bit different is media. I think probably if you look at the one success of CBS networks, most recently, is the fact that CBS no longer has to deficit finance its large prime time shows because it has produced them in a way that they can be sold outside the United States immediately. And like The Good Wife, Hawaii 5-0, The Mentalist, they were all profitable before they even lunched in the U.S. because they had been sold globally.

If you look at movies, for example, we have the U.S. movie industry—I mean, James Bond did $80 million in the U.S. the first weekend, but it did $300 million outside of the U.S. on simultaneous release. And in markets like China, it's not releasing them on screens.

It's using things like youku.com where people pay a one-time fee because there are not enough screens to show the James Bond movie to reach as many people as would want it.

So some of the digital and tangible products, maybe, but I think, actually, it's going to be less globalization and more localization.

Athey: Can I just pitch in here?

It was interesting to learn yesterday afternoon that Microsoft was not a consumer products company. I think that, again, comes back to the consumer bubble we live in. Maybe all of our friends have MacBooks. I even do see a few Windows laptops running around this conference.

He's got a Surface, awesome. You can come check out my Surface later.

But the—around the world --

Morgan: Former Microsoft employee.

Athey: Exactly.

So around the world, there are a lot of consumers out there with Windows laptops and so on. And with Microsoft software, I want to mention that as we move to, you know, software as a service and cloud-provided software, there's a whole new approach that can come alive in developing countries.

In developing countries people are skipping the PC, they are skipping the laptop, they're skipping the TV, but they've got a mobile. So when we talk about the marketing, there haven't been so many opportunities to reach all those individuals.

Of course they haven't got a lot of disposable income. But they're still participants in an economy and there's still opportunities to reach these people. And then there's services that are being provided and of course you're not going to be able to charge an enormous amount for those services. But advertising is an obvious way to monetize the fact that your product is being used in China and in India and all these places. But at the moment not a lot of people are paying for it.

Bedecarré: Some of the marketers in those markets are topping up mobile accounts if you watch advertising or giving you free time on, you know, multiplayer, video game, if you're downloading codes from the inside of a Coke cap.

So I think they are experimenting more with different value exchanges aside from here, you know, here is a banner ad on my small --

Speiser: It costs less to reach them and you know more about them. So why not get better at talking about them the way they prefer to be talked to.

Morgan: We only have 30 seconds. We also didn't prep this.

I want you to predict what is the most powerful media company in the world in 2020.

You both need to name the company. You can define what you mean by "powerful." I'm not going to set that. You can determine what you think is powerful. I see you thinking hard.

Tom, I will start with you.

Athey: I'll give my time back to you.

Bedecarré: I would say Apple because of the multiple platforms that they own and their bank account.

Morgan: Thanks.

Speiser: I agree. They have a good vertical change. I think somebody that teams up with Apple that furthers the discovery process will do pretty well. So Facebook or Twitter.

But I think Apple has it right. It's a good way to discover things and that improve your life, and they have the physical device.

Bedecarre: You can't say Microsoft.

Athey: I think we'll close it on that. We'll see.

Morgan: I would offer one that is a little bit different.

I'm going to say Amazon. And I'm going to say Amazon because, actually, it was a point I hadn't thought about. Last week I heard in an interview with Fred Wilson from Union Square Ventures who pointed out that Amazon, today, is more dominant in web services provision than Google is in search. And so I think the capacity for a company that's becoming a massive retailer, starting to move video into its platform in a heavy way—has more information on more people, more data, unique access—has the capacity, in eight years, to be the most powerful media company.

We thank you everybody for your attention being part of this. And thanks very much to the panel.