The Standards Distribution Market:

Serving Customers Between “All” and “Nothing”

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The business of standards sales and distribution has changed immensely in the past 20 years. The methods of delivery and access have evolved from microfilm and paper to "always-on" electronic documents viewable throughout an enterprise and licensed to a client's offices all over the world. SDOs and resellers have answered user needs admirably during this time and both have benefited handsomely from the new revenue these arrangements bring.

But satisfying customer needs is an ongoing process that must continue to evolve with available technology. In the past five years, standards users, from the largest companies to the smallest entrepreneurs, have expressed the need for more flexible options for licensing industry standards. Specifically, users demand smaller, more affordable, and more customized licensing packages, as opposed to comprehensive "all or nothing" subscriptions. For various reasons, these requests have not been fully met. Copyright violations are reportedly costing the industry a half billion dollars a year and offering any new product or licensing format without proper controls risks increasing that figure. Others feel that technology simply hasn't come far enough to offer users what they want.

But perhaps the most critical obstacle to offering new products is simply the fear of losing the status quo. The revenue received from the largest and most expensive subscriptions is an important source of revenue for SDOs, which depend heavily on these sales to support their standards development and publishing programs. Extreme caution is being exercised in order not to cannibalize or threaten this revenue.

However, an in-depth look at historical trends in similar business environments will show that so much caution, although understandable, is unnecessary and may even be detrimental to the industry. This essay will illustrate some of these historical trends and show that offering a wider variety of standards products and access methods will satisfy a larger group of customers and will actually generate far more revenue than previously seen. Opportunities abound!

This essay does not intend to propose alternative products or solutions. It simply seeks to reduce hesitation towards taking the next step, and to incite innovation and enthusiasm for offering new and more customer-centric products, satisfying a wider customer base, and moving the standards distribution industry forward.

Standards Distribution <u>Does</u> Mean Business

By now, you're surely wondering what the standards distribution business has to do with this year's World Standards Day theme of "Standards Means Business". The dollars involved in the standards business play a pivotal role in a continuing cycle in which each element is dependent on the next. The revenue from standards sales affects development, access, acceptance, usage, company endorsement, industry harmonization, and more. By influencing these key elements, standards sales and distribution has a profound effect on economies, markets, and business as a whole.

First and foremost, revenue from standards sales goes back to the publisher and helps to fund a variety of activities. Part of the revenue goes to fund future standards development activities. If less revenue were available for this mission, fewer standards would be developed and that could lead to more severe consequences for industries seeking harmonization.

Decreased revenue also could lead an SDO to spend less on promotion, in turn leading to slower or less widespread acceptance of an industry standard. Could it be that a loss in standards revenue might actually influence the worldwide acceptance of a standard? Consider the marketing budgets of some national and international SDOs. If these budgets were cut in half, users would certainly hear less about standards from those publishers.

If SDOs receive consistently less revenue from standards sales, that revenue will need to be recouped from other sources. A common answer is to increase membership dues. Raising membership dues carries its own perils though, not the least of which is loss of members, irritated members, and reduced participation in standards development. In turn, fewer participants in the development process could lead to – yes, you guessed it – less revenue (from memberships) and slower or less widespread acceptance.

We can all agree that better forms of access have led to more widespread usage of standards. The Internet and all of its delivery mechanisms have made it elementary for anyone to purchase a standard and have immediate access. Without the revenue to fund these projects though, access might not be so elementary and usage could suffer.

We have shown that revenue from standards sales is a key determinant of business directions. Therefore, actions that increase or decrease revenue play an indirect role. The actual methods by which standards are sold and distributed can increase or decrease standards revenue, usage, access, and acceptance. Therefore, distribution practices have an indirect effect on economies, markets, and business as a whole.

For example, let's briefly examine the issue of copyright violations. Losses from copyright violations reportedly cost the industry a half billion dollars a year. If this figure is even close to being accurate, it's a tremendous loss that has a monumental effect on the standards business. Distribution practices which do not prevent copyright violations are partially contributing to this loss.

However, it is also likely that distribution practices which do not provide companies with the flexibility and access they require may be contributing to the problem as well. More than one time, I have seen managers casually flout copyright rules in order to gain the flexibility and access they needed for a project. They claimed they were not able to legitimately purchase this access, so they were left with little choice. (I do not agree with this justification; the fact is that people use it.)

Finally, and perhaps most important, standards revenue, development, acceptance, and usage can be positively affected by standards distribution practices which satisfy the largest number of users, and are successful in addressing the widest possible set of uses.

We have determined that:

- Standards revenue can affect the extent of standards development
- Standards revenue can affect the acceptance of a standard
- Standards revenue can affect participation in standards development
- Distribution practices can affect copyright violations, which in turn affect revenue
- Distribution practices that maximize access and reach greater numbers of users will provide long-term benefits.

The Problems With All-Or-Nothing

For as long as most of us can remember, large standards subscriptions have been available from many resellers and SDOs. In many cases, the companies purchasing these packages obtain substantial value by providing their employees with enterprise-wide access and reducing the cost-per-user to a level that they could not otherwise achieve. Most of these products are pre-packaged and the user does not have the ability to pick and choose, or “unbundle", the exact documents they need. It is commonly an “all-or-nothing” option.

Small-medium size enterprises (SMEs) in particular, cannot afford the typical bundled licensing packages. While some companies gain real savings from these comprehensive products, it appears that this option does not satisfy the needs of all, or even a majority of standards users. Nearly all of the SMEs (and many of the larger companies interviewed for this essay) say that in order to get the content they need, they typically must buy packages containing extraneous content that they will never use.

SMEs have three alternatives: choose the “all” route, the “nothing” route, or purchase single standards in print or PDF format. Most will not purchase the comprehensive packages because their budgets simply don’t allow it. Some will choose the “nothing” option and try to survive by sharing individual copies, making illegal copies, or relying on other survival tactics (of course, when a customer chooses “nothing,” there is a good chance that both the SDO and reseller receive nothing). Purchasing single copies does satisfy some users, but for a multi-national company with employees in multiple locations, single standards do not satisfy their needs.

An Opportunity

As global competition expands, the need for standards has become more urgent. This urgency presents an opportunity and a vast potential market for SDOs and resellers. If only the largest 5% of the world’s businesses can afford to buy all-or-nothing subscriptions, this leaves 95% of the population as a target market. The U.S. Department of Labor reports that 80-85% of U.S. businesses are SMEs. Providing products and solutions specifically for this market will be a gold mine for those who capitalize upon it.

SMEs Are Our Friends

Before 1999, researchers and business executives who needed in-depth market research had limited choices: go direct to the hundreds of market research publishers, or buy an expensive subscription from Dialog or Profound. In 1999, MarketResearch.com opened up shop selling complete reports online for $2,000-$4,000 a shot. Soon after, they offered a new “buy by the slice” model, in which chapters and even single pages of reports were available at lower prices. At first, publishers were scared of cannibalizing the more expensive reports and their consistent royalties from Dialog and Profound. But according to Rob Granader, CEO of MarketResearch.com, publishers were won over for several reasons:

- The buy and slice model, even though it offered most slices for a tidy $200-$400, clearly opened up the market for those users who couldn’t afford, or who didn’t need, the full report. The market gained more customers overall.
- Suddenly, publishers had customers calling them directly to ask about more research like the reports they found on MarketResearch.com. One customer told a publisher that he never knew their stuff was so good and would now start buying the full reports.
- Publishers realized that real profits were not in short-term sales. The real goal was developing long-term customers, and that was much easier to do by offering products that users really wanted.
- As economies lose steam, some companies get tight with their money and can’t afford to buy the full reports. Publishers wanted an alternative to the all-or-nothing option.

Today, says Granader, most publishers have seen the benefits of serving the SMEs and they have not lost a penny of revenue from the smaller packages. Granader claims that royalties from Dialog and Profound are stronger than ever.

Answering Customer Demand, Even in the 1930s

On August 5th, 1921, radio's first professional baseball game was sent over the airwaves by the country's first radio station, KDKA in Pittsburgh, PA. For one hour and fifty-seven minutes the radio audience listened as Harold Arlin used a wireless telegraph and a converted telephone to recount the defeat of the Philadelphia Pirates (8-5) by the National League Pittsburgh Corsairs. By most accounts, this was a magnificent achievement. But Major League team owners and stadium operators were full of fear and anxiety.. Their fear was that people would no longer attend baseball games if they could simply listen on the radio. Of course, this fear proved to be totally unfounded. Almost from the first radio broadcast, baseball's popularity expanded along with the League (expanding to today's 30 teams), the stadiums, the marketing, and much more.

Although radio potentially threatened to snuff out paid attendance, it only served to make baseball more accessible to the masses, and generated significant revenue that, just as the owners and operators feared, has changed the business forever.

In 1936, television made one of its first major broadcasts, the Berlin Olympics. At that time, only the wealthiest consumers had television sets in their homes. The floor model boxes were the size of large air conditioners and cost the equivalent of $7000 today. Television usage increased dramatically after World War II with war-related technological advances and additional disposable income. At this point, a conflict was brewing in the industry. Some manufacturers saw a demand for smaller counter-top boxes and chose to promote those over the floor models. Other companies disagreed and felt that the smaller sets were a threat to the more expensive floor models. After much hesitation in the industry, companies began selling a variety of sizes and the industry exploded in a wave of new sales and new companies producing television sets.

Unbundle and Customize

Unbundling allows you to charge more for the same product components because **consumers' price points change when dealing with what they really want**. And because the component price is smaller than the bundled price, there is more impetus to buy.

Automobiles and computers are two good examples of "unbundling" products and expanding industries. For more than a decade after cars came into the mainstream, they were only available with few options. But as assembly technology improved, manufacturers started to offer customized cars and a plethora of options. Although one reason for customization was to upsell customers to leather seats, premium audio, etc., the larger reason was to answer customer demands in the heat of competition. The industry is still fiercely competitive, but clearly, the possibility of “building your own car” has expanded the industry and pushed revenue.

Similarly, Dell Computer created a shockwave when they unbundled most of the components of a computer and created a build-your-own service. Consumers and businesses used to buy whatever the engineer and product manager decided was good for them. Now, Dell is eating everyone’s lunch and for good reason. Dell’s principle of customization satisfies customers to their exact specifications. From Dell’s web site: “Every Dell system is built to order. Customers get exactly, and only, what they want.”

Some might see this example as proof that unbundling will cannibalize the larger product offerings. But what really happened is that other manufacturers followed suit and the PC market expanded dramatically. You can now “build your own” computers at Gateway, HP, IBM, and more.

In the mid 1990s, Apple Computer was about to exit the market for personal computers. And then they unbundled a big idea. They decided to release their new iMac computer with a new concept – unbundled color. When consumers found they could choose their colors (unheard of!), Apple’s market share bounced back in a big way. In fact, they started a huge trend of unbundling color and other fascia elements in all electronics (Nokia faceplates, stainless appliances, etc.). By creating the freedom to choose, Apple exploded a repressed market and created a flow of revenues and opportunities never seen before.

Innovate or Die

The previous comparisons are illustrations of industries and companies that succeeded by innovating and answering customer demands. Companies and industries that do not innovate stagnate.

Admittedly though, innovation is easier to discuss than to execute. The standards distribution industry is still operating under laws and concepts developed for paper -- before microfilm and microfiche, before CD-ROMs, before LANs and MANs, before PDF and Internet always-on borderless access. It's far easier to insist that all new technologies be judged under old laws, than to craft new laws that embrace all existing technologies. It’s easier to compete under old familiar rules than to adapt and learn to do business with new rules and new competitors. It's much easier to find a scapegoat, than to examine your own practices. As they say, "You can't get fired for saying no."

This situation is not unique to the standards industry. The difficulty of change is part of our daily lives. Movie companies sued over VCR manufacturing and blank video sales. Jack Valenti, the Chairman of the Motion Picture Association of America, testified to Congress that “the VCR is to the movie industry what the Boston Strangler is to a woman alone at night”; and yet, video sales now account for more industry profit than movies themselves. The music industry reacted vehemently to the advent of reel-to-reel home tape recorders, cassettes, DATs, minidiscs, VHS, BETA, music videos ("Why buy the record when you can tape it?"), MTV, and a host of other technological advances designed to make the consumer's life easier and better. Each of these advances threatened to kill movies, records, and concert attendance; in fact, each of these advances proved to build audience size, broaden exposure of new companies and new products, and of course, generate new net revenue.

Sony Music Group, one of the world’s largest record labels, was opposed to the sale of single songs in electronic format, postulating that it would cannibalize album sales. Their smaller division, Sony Electronics Group, saw an opportunity. If people want to download and record songs and make custom CDs, SEG wanted to be the facilitators. SEG developed CDRWs and MP3 players that could play single songs without copyright protection. While the big company held fast to the status quo, trying to dictate what customers should buy, their more nimble “competitor” went around them, creating products that allowed customers to do it on their own. As mad as SMG was, it’s hard to argue with the billions of dollars SEG is bringing in.

Demand Stimulates Supply

Fundamental economics states that demand stimulates supply, not vice versa. More simply put, necessity is the mother of invention. Standards developers and distributors must continually listen to its users and offer products and solutions that satisfy their needs, rather than limiting the supply and trying to coerce customers into products they do not need. Attempting to dictate user needs by limiting selection to a product they don’t want is far more difficult, far less profitable, and threatens to alienate customers in the long term.

Offering SMEs exactly what they are looking for will increase publishers' revenue. Increasing access to a product will garner a wider audience, accelerate its acceptance, and create greater revenue overall. And finally, a less expensive product will not necessarily detract from sales of a more expensive "parent" product.

Somewhere Between All and Nothing

Not all standards users can buy the biggest subscription licenses. Of those that cannot, many are still not satisfied with purchasing single copy PDF or single hardcopies. This means that somewhere between all and nothing, there is a significant market to exploit. Most customers will respond as long as their needs are met.