

# Growing IP with UGC

User-generated content has proved to be among the most successful ways of creating commercial intellectual property ever developed

By **Dan O Figueroa**

Intellectual property is all around us all the time in so many forms. It's the television programming, films, music, food brands, computers, video games and webpages that we consume every day. When one piece of intellectual property becomes super successful, it spills over into other categories of goods and services and ultimately spreads around the globe in some form – and the alluring part of that spread is the money involved.

When something makes big money, it becomes a success story that everyone wants to emulate. While there are a lot of great IP success stories, one of my favourites has to be the *Harry Potter* series. JK Rowling reportedly wrote her manuscript for the first book on a manual typewriter. What can be more old-tech than a manual typewriter, or a book for that matter? Here was a single mother trying to get a really long book, for kids, published at a time when kids are consuming any content they desire at any time, anywhere. And she was pitching a book about wizards and magic, a well-worked genre. That's probably why it was rejected by a dozen publishers before it was picked up by one small publishing house.

Fast forward a bit and we all know how the story ends. The *Harry Potter* series gets translated into more than 65 languages and becomes one of the best-selling book series of all times. The film versions of the books

become the highest-grossing film series of all time. Now *Harry Potter* is everywhere in the form of books, movies, music, candy, toys, clothes, bed linens, video games, iPods, websites and just recently an entire theme park in Florida. That's the kind of intellectual property that stimulates global economies. It is estimated that the *Harry Potter* intellectual property is worth US\$4 billion to US\$5 billion, and that JK Rowling, once receiving an unemployment welfare cheque, is worth more than US\$1 billion. It's good to own super-successful intellectual property.

## Finding the formula

The formula for creating compelling intellectual property (intellectual property that draws people and makes money) is elusive. That's why when something takes off, a flood of copycats follows shortly thereafter. Copycats are the norm in the film, television, internet and video game industries, because it is safer to try to make a copy than to spend millions developing something new that could fall flat. Consumers are fickle and their love of anything other than themselves is fleeting. Therefore, mega-corp management generally supports copying a success story instead of risking individual reputations and jobs by championing something new and unproven.

If the decision is to copy a success story, this is still easier said than done. You can't make a good copy of anything unless you genuinely understand what it is you are copying and, more importantly, what portion you need to copy. The secret sauce, or the part that made the original successful, is the part that you need to copy. Most copycats fail because giant corporations have a lot of internal business groups which weigh in and participate in the approval process. By the time that every group has contributed its portion to the

project, the secret sauce often takes a back seat to corporate process and protocol. Corporate process aside, it's still not easy to make a good copycat. If it were easy, every giant company with the means to execute on a large scale would be able to produce a successful copy.

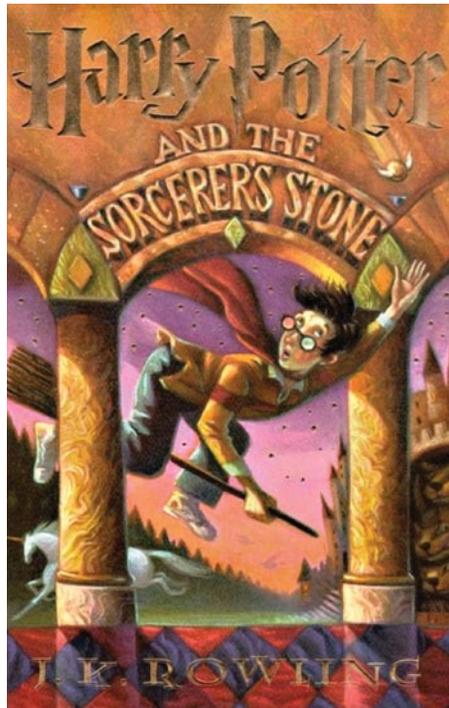
Creating compelling intellectual property is the Holy Grail for all companies, irrespective of whether they are making content, software or chip sets. So what is it about the *Harry Potter* series that makes it so compelling? JK Rowling created a very relatable set of underdog characters who face adversity and succeed. It's the classic Horatio Alger, rags-to-riches story. It is the American dream, which is really the dream for the underdog in every country in the world. That is her secret sauce. It's simple to recognise, but difficult to replicate. In order to replicate it, you have to get the characters, the struggle, the drama, the climax and the resolution just right. That's really difficult to do, and that's why what JK Rowling accomplished is really impressive.

There is a business model that seeks to remove the secret sauce part of the equation. And if you can execute it, consumers will fill in the characters, the drama and the climax for you – which means that your intellectual property should be, in large part, exactly what they want. If you can get them to fill your intellectual property with the elusive zeitgeist, then they will be creating the secret sauce for you. JK Rowling had to create all of that on her own.

If you look around, you will notice that many companies are employing this business model right now with huge success in video games, on television and on the internet. The key to making it work is creating some type of vehicle or framework intellectual property that stimulates consumers to spend their own time and energy to create and contribute content to your framework intellectual property. You need a compelling *quid pro quo* exchange.

#### Video games embrace their users

When consumers generate content in a video game, it's referred to as user-generated content (UGC). One of the first games to have huge success with UGC was a PC game called *Quake* back in 1996. *Quake* was one of the key pioneers in the first-person shooter (FPS) genre that is still alive and well. So alive that the fastest-selling video game of all time is an FPS called *Call of Duty: Black Ops*. It is estimated to have generated US\$1 billion in sales in six weeks. Prior to *Black Ops*, the fastest-selling video



game was *Call of Duty: Modern Warfare*.

For those unfamiliar with FPSs, they are essentially video game versions of playing army or capture-the-flag. The average lifespan of a video game is roughly 18 months, which means that you make 80% of the lifetime sales in the first 18 months before the game moves to the discount bin. However, *Quake* was able to extend its lifecycle well beyond that because the game shipped with tools that end users could use to modify the game. These tools are sometimes referred to as level editors. These level editors allowed consumers to create their own levels, called mods (short for modifications), which they then shared with the *Quake* community. Two of the most popular mods were Team Fortress and Rocket Arena. Players could download the levels for free and then play those levels with their friends online.

This doesn't sound like much today, but *Quake* was really the start of UGC in video games. It was revolutionary. It was so successful that it spawned a famous rival copycat called *Unreal*. Of course, *Unreal* shipped with level editors. *Quake* and *Unreal* went on to have long and storied successes that laid the foundation for today's FPS genre hit game franchises such as *Halo*, *SOCOM* and *Call of Duty*.

UGC has been a part of PC gaming since the 1990s, but it was not a part of console gaming until the last few years. This was largely due to the fact that video game consoles did not have hard drives or



**Harry Potter (left) is super successful intellectual property; while Quake (right) was a UGC games pioneer**



American Idol: UGC for the small screen

keyboards, and unlike PC games, console games were not installed onto the console. So initially, video game consoles such as Nintendo, Sega Genesis and the PlayStation were not conducive to UGC. The PS3 was really the first console that shipped with a hard drive. It was an option on the original Xbox. In the last few years, however, UGC has seen a rebirth on video game consoles.

A couple of famous video games that owe much of their success to UGC include *Little Big Planet* and *Modnation*. *Little Big Planet* is a side-scroller game (ie, a game where action moves horizontally across the screen) that shipped with creation tools that allow users to design and create game levels and share them with others online. Media coverage saw *Little Big Planet* as more than just a video game. It was touted as an educational tool – a game that was actually good for kids. This game went on to win game of the year awards for its innovation and its good-for-you-ness, which goes to show you that if you really do identify the secret sauce, you can make a copy so good that people will think that it's new and innovative.

#### UGC on the small screen

One of the best examples of UGC in television is *America's Funniest Home Videos* (AFV), which was based on a Japanese television show. Here the creators of AFV built a framework intellectual property that stimulates users to generate content and send it to the producers. The producers group and edit the videos into categories and write some witty segues to lead into each chunk of UGC. The show then adds another dose of UGC by letting the studio audience pick America's funniest home video each week. Ultimately, the show is almost exclusively UGC.

So how well has this formula worked? The show has been on the air for more than 21 seasons. It has been either number 1 or number 2 in its timeslot for the last eight years. AFV is a huge success. So if we were to emulate the show's success, we would have to copy the parts that make the show work. Something clearly works, because for the last 21 years people have been watching the show each week and sending in all of the content needed for next week's show. It may be the hope of winning the weekly US\$10,000 first place prize or a Warholian desire for 15 minutes of fame that entices home audiences to watch and generate content for the show. Whatever it is, it works. Thanks, audience.

Another good example of UGC in US television is *American Idol*. This show was a copy of the UK's *Pop Idol*. Users/viewers of

the show gather *en masse* all over the country to audition for the show. The wacky auditions ensure that even those who don't make the show effectively end up making the show – which proves that even bad UGC can be good UGC. *American Idol* is such a huge success that the show has essentially broken all advertising revenue records for regularly scheduled broadcast television shows. It is the only show that has ranked number 1 for six years in a row. Only two other shows in the history of US television have ranked number 1 for five years in a row: *The Cosby Show* and *All in the Family*. *American Idol* holds open auditions across the country and then compiles the out-takes to form the beginning of the structure that sets the stage for further audience participation. The producers (I mean, judges) ultimately select a group of 24 finalists and the home audience then begins to vote for the singer they like best. That's the beautiful part: 75 million people at home tell the producers what or who they want to see each week. This year the voting was made even easier by allowing Facebook users to vote online.

UGC is at the core of all reality TV, which represents a growing portion of television programming today. Compare that to the golden age of television and radio, where almost everything was scripted and produced by studios. But times have since changed dramatically. The biggest change is the number of channels and networks available to viewers. In the old days, people would only get on-air channels and they were lucky if their television received something on all 13 channels on the dial. Now, basic cable and satellite yield about 100 channels. More channels means more programming options and a more splintered television audience, which means that it's more challenging to get people to watch any particular show.

UGC-filled reality TV is a perfect fit for niche and fickle television audiences. The financial sense that reality TV makes becomes clearer if you consider that it costs, on average, half the money to produce a reality TV programme versus a scripted one. So with a splintered television audience and rising production budgets, it stands to reason that studio heads will often hop onto the reality TV bandwagon instead of risking money tasking college-educated writers and producers with trying to guess what the average person wants in terms of programming content. The end result is that if research shows that a significant portion of today's society think it's cool to run out and get a tattoo, then a reality show about real people getting tattoos in real tattoo

parlours just might work.

The result is UGC that is filled with real-life drama that a lot of people can relate to because it accurately captures today's spirit of the times. Is it high art? No, but the goal of most of television is not to create high art, but to make money by aggregating eyeballs. In television, traffic (or eyeballs) are the measure of money, and those eyeballs for the most part belong to the average person – just like the ones that belonged to the people who filled the open area near the stage at Shakespeare's Globe Theatre. They were the ones who provided the colour and the emotion to his plays, and those are the same people who are providing the colour and emotion for modern-day television in the form of UGC-infused reality TV.

### The internet catches on

Some of the most valuable assets on the internet are fuelled almost entirely by UGC. YouTube and Facebook are the best examples. Facebook, perhaps the most powerful and valuable example, was recently valued at US\$50 billion. Some have questioned that valuation, but even if you halved it to US\$25 billion, that is still very impressive for an asset built almost entirely on UGC.

It's even more impressive when you think about the type of UGC that fills Facebook. The UGC doesn't have mass appeal; in fact, it's quite the opposite. Facebook is filled with pictures of what people did last weekend, new boyfriends, new cars, puppies, all the stuff that used to live in photo albums and scrapbooks. Unlike television that seeks to have UGC with broad appeal, Facebook is built on UGC that has very narrow appeal. The only people who care about your new puppy or the great lunch you just had are your friends, or maybe just you. But it works. The UGC that each person creates on Facebook is the perfect mix of content needed to draw you and millions of others back to Facebook every day.

At the end of the day, Facebook is worth billions because of the traffic it generates. Interestingly, generating traffic was the premise behind the portal model of the internet boom of the late 1990s. These portals were part search engine and part destination for content. This model gave rise to famous portals such as Prodigy, AOL, Yahoo, Excite and AltaVista. The portal model was the internet darling. The plan was to be a kind of internet newspaper/search engine that was so compelling that people would not need to go anywhere else.

However, most of the portal plays failed. One of the key reasons for their demise was that they tried to gather eyeballs by

## Action plan



Many of the world's most successful and valuable IP assets are made almost entirely of IP created and donated by end users. YouTube and Facebook are among the most famous internet examples of this strategy or formula, but it's being used across industries.

- **UGC – The power of the people:** In the video game industry, IP or content created by end users is simply referred to as user-generated content (UGC). UGC is an incredibly valuable tool for building the value of your IP. It's current, it's free and, most importantly, it drives traffic.
- **Traffic creates value:** Many consulting firms and ad agencies like to use terms such as stickiness, social networking and viral. They all know these are the hot industry buzzwords, but somehow the expensive plans often don't yield the Holy Grail of serious traffic. Traffic is the basic measure of television, radio and internet

ad rates, and ultimately IP valuations.

- **Build it right and they shall come:** Many companies are trying to harvest the power of UGC. Even if your industry has nothing to do with television, video games or the internet *per se*, you can still use UGC to generate traffic to your brand or products. However, in order to copy their success stories, you must understand why they succeeded.
- **Quid pro quo exchange:** The one thing that Facebook, YouTube, Google, *American Idol/Pop Idol*, LinkedIn and the other success stories have in common is they all got free content, traffic and value thanks to UGC. The reason why end users embrace these brands over others is because each one of them figured out how to give end users something of value in exchange for their UGC and their loyal traffic.

aggregating content so they could be like internet versions of television networks. In those days, aggregating content meant licensing or paying for content from ABC, NBC and so on. I saw it first hand at AltaVista. AltaVista failed largely because it spent more money licensing content than the content ultimately generated.

Spending more than you earn is not a sustainable business model, which is why the UGC model is so beautiful. UGC is generally free. Google succeeded and leap-frogged Yahoo because it didn't seek to license content, but instead remained a pure search play. Google realised that search queries and search results are compelling content that results in traffic. While most people would not recognise it as such, Google's business is primarily reliant on UGC in the form of search queries, which it exchanges for search results, both of which result in traffic to Google. The end result is huge traffic and huge value.

So if you have ever visited Google, YouTube or Facebook, you have either created or consumed UGC and you probably liked it. That's because it was dripping with secret sauce. And if you have a Facebook account or ever responded to a poke or a message, you have helped increase the value of Facebook and Mark Zuckerberg thanks you for your UGC. *iam*

**Dan O Figueroa** is director of legal & business affairs and corporate counsel at Sony Computer Entertainment America