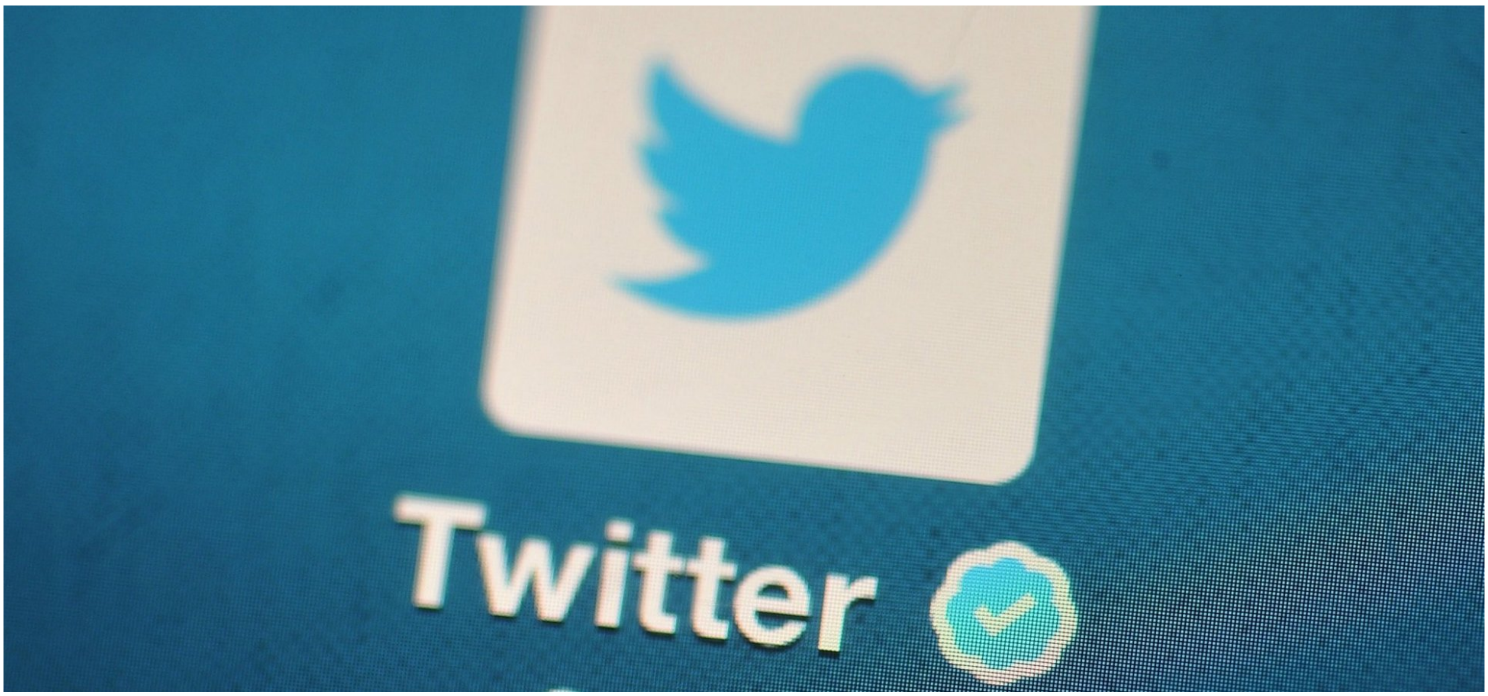
Inc.

TECHNOLOGY

Twitter's Comeback Shows the Path for Traditional Media Companies

Traditional media giants misidentified the effect as the cause. Lack of scale isn't the problem -- it's a symptom of the weakness in their underlying business models. Twitter's turnaround shows them the real recipe for success.

By Alex Moazed *Founder and CEO, Applico* @AlexMoazed



CREDIT: Getty Images

(This is a guest post from Applico Head of Platform and Modern Monopolies co-author Nick Johnson.)

Twitter is back, bigly.

After years of poor financial results and a languishing stock price, Twitter is finally growing again. Twitter's user numbers were up 8 million year-over-year to 336 million monthly active users in the first quarter of this year. That's stark turnaround for a company that was actually *losing* users just a few years ago.

How has Twitter done it? There are a combination of factors, including major product changes and redesigns. The U.S. President's continued use of the platform as his press briefing room also helps. But a significant part of Twitter's resurgence has been its pivot to news and premium content.

As we wrote in *Modern Monopolies*, for a long time Twitter suffered from an identity crisis. It couldn't decide if it was a content platform or a social network. One direction staked out a new territory for Twitter to focus on while the other cast Twitter as a direct competitor to Facebook, which it never really was. Under Jack Dorsey, Twitter's leadership finally resolved this conflict and focused on building Twitter as a content platform. Notably, in April 2016 Twitter moved itself out of the "Social Networking" category on the App Store and into the "News" section.

With that shift, Twitter also began focusing aggressively on professional content to complement its user-generated content. The pivot to News coincided with a $10 million deal with the NFL for Thursday Night Football games in April 2016. That partnership has since ended as Amazon bid up the rights to $50 million, but in the wake of its success Twitter has expanded its premium content in a big way. Next, Twitter went all-in on political coverage during the 2016 U.S. election season, live streaming the president debates and the inauguration.

Former Twitter COO Anthony Noto publicly noted that the company's goal was "24/7 video content on Twitter," including topics as broad as politics to ones as niche as professional dart leagues. "There's almost 300,000 followers for some of the professional dart leagues," Noto said. "We can serve that audience just as well as we can Boston Red Sox fans."

This spring, Twitter announce 30 new video deals with major content providers including ESPN and Disney, NBC, Viacom and Vice Media. It also expanded existing deals with Major League Baseball and Major League Soccer.

Combining UGC and Premium Content

Advertisers have begun to flock to Twitter's mix of user-generated content and premium content. For advertisers, this combination offers the best of both worlds. The platform content creates the scale of eyeballs and data that advertisers demand while the premium, linear content offer high-quality, ad-friendly inventory that brands want to associate with.

This strategy has been a boon for Twitter. Today, video accounts for more than half of the company's ad revenue, and the success of premium video ads have been a driving force behind Twitter's revenue resurgence. While revenue shrunk in the first quarter of 2017, in the first quarter of this year revenue was up 21 percent. And, importantly, Twitter is now profitable for the first time ever. It has posted two consecutive quarters with positive earnings and it is projecting a profitable year for 2018.

With its premium video strategy, Twitter has firmly reestablished itself as a viable third option for advertisers looking to diversify their spending away from Facebook and Google, as many increasingly are. With both revenue and user growth rebounding, investors have started to take a second look at Twitter's stock. Today, a stock that once bottomed out at just above $14 a little more than a year ago has been hovering around $46.

For media companies that are struggling with the slow but steady decline of TV advertising and subscription revenue, Twitter shows the path to success. Twitter's combination of user-generated content and premium content is exactly the model that the major media companies should be looking to replicate.

Instead, most have been looking to replicate the Netflix subscription model, but this is a loser's game that involves spending billions on content with little long-term defensibility. While Netflix claims paper profits, it only does so by hiding billions in content spend outside of its income statement. The company is bleeding cash and there's no end in sight.

Twitter Shows Media Companies How to Compete with Tech Platforms

In contrast, Twitter's strategy shows much greater promise. Yes, its content deals are still expensive. But it derisks those investments with a unique and defensible network of user-generated content. This combined platform and linear approach is a winning recipe in media, yet it's one that few major media companies have chosen to pursue.

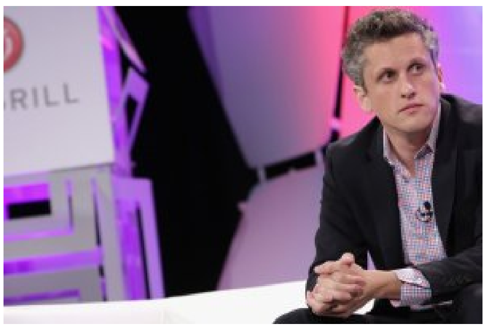
Instead, we're seeing a rush of mega-mergers as incumbents look to double down on their existing models. This strategy may work in the short term, but it won't stall the long-term shift away from traditional media models and towards platform businesses. It also won't provide traditional content providers with the scale they need to profitably compete with modern monopolies like Facebook and Google.

Unfortunately, these traditional media giants have misidentified the effect as the cause. They view lack of scale as the problem, when really it's just a symptom of their underlying business models. Rather than acquiring more and more linear content providers, these companies should be looking to embrace the platform model that drives the success of their biggest competitors.

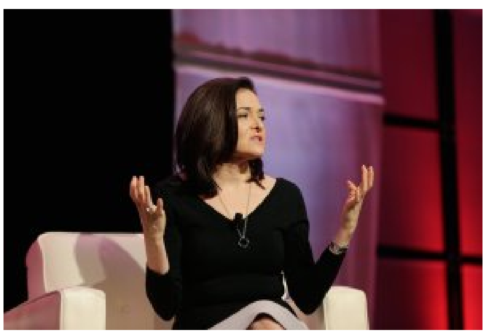
These media companies have a treasure trove of premium content, and Twitter has shown them how best to capitalize on it. Leveraging those premium assets to provide the basis for a network of user-generated content is a clear recipe for success. Scale *is* their path to competing with Facebook and Google. But it's the business model, and not their balance sheets, that will get them there.

PUBLISHED ON: JUN 25, 2018

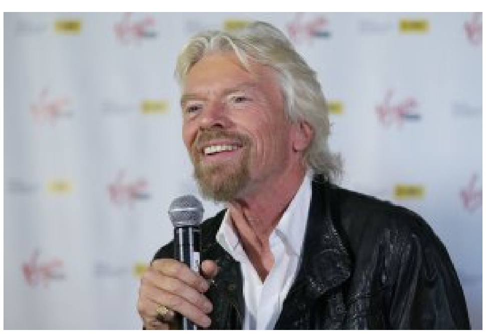
More from Inc.



$3.75 Billion Box Founder Says These 2 Books Are Crucial to Startup Success



Looking for Ways to Scale Yourself? Sheryl Sandberg Says Do This 1 Thing



In 1 Sentence, Richard Branson Explains How to Deal With Job Rejection