Vice Media, Inc:
The journey so far and the road ahead

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MAKING NEWS

Founded in 1994 under the initial name of Voice of Montreal, VICE Media, Inc. (“VICE”) (the “Company”) currently led by Shane Smith, Andrew Creighton and Eddy Moretti, first made news in the United States only in February 2013 by way of a bold, “basketball diplomacy” visit to North Korea. VICE’s star among media companies then took off, despite a series of unfortunate events thanks to an NBA star’s proclamation of “lifelong friendship” for the newly minted dictator, Kim Jong-un. This is when investors saw potential in the Company’s ability to capture the attention of the lucrative millennial market.

Though VICE started out as a local informational magazine with a reputation for being risqué, it has grown in frequent spurts and expanded through the addition of various business verticals, including: multiple digital news channels, a feature film and video production studio, a record label, an in-house advertising agency, an award-winning documentary news series with HBO, and even a pub in London; all while carefully preserving its hipster image in the media & entertainment industry. VICE now operates on multiple platforms in over 35 countries and claims to reach an average monthly worldwide audience of 181 million, though these statistics are difficult to verify. Over the years, the Company has attracted numerous investors, and offers to purchase the Company. Most notably, in 2013 Rupert Murdoch’s 21st Century Fox bought a 5 percent stake in VICE Media Inc. for $70 million, placing the overall value of the Company at $1.4 billion. In 2014, VICE raised another $500 million in equity from the American cable channel, A&E, and Technology Crossover Ventures, a Silicon Valley Venture Capitalist firm. This round placed VICE’s value at $2.5 billion, showing a massive growth in investors’ belief that its business model has the potential to produce serious cash flows.

The core of VICE’s appeal is its authentic, counter-culture voice, that it has carefully cultivated across the globe as it expanded to 35 countries. Yet that authenticity has been and is being challenged as VICE continues to grow from a fringe company into a media giant. It has been criticized for “selling cool” to mainstream corporations and blurring the lines between its editorial and advertising content largely due to sponsorship contracts and “native advertising” efforts. Increasing revenues through mainstream advertising deals coupled with recent controversies over the independence of its reporting has the potential to damage its carefully cultivated image. VICE is well aware of this delicate balance; Chief Creative Officer Eddy Moretti pointedly said in an interview regarding Time Warner’s $2 billion bid for the Company in 2014: “What we really have at the end of the day is our brand, and if we screw that up we have nothing...We don’t want to be sellouts.”

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1 http://www.theguardian.com/media/2015/jan/01/virtues-of-vice-magazine-transformed-into-global-giant
3 Cookson, Robert. “VICE Media’s value increases to $2.5bn after $500m fundraising,” Financial Times September 4, 2014. http://www.ft.com/cms/s/0/645e6bb2-341e-11e4-b81c-00144feabdc0.html#axzz3WG5EO5LQ
4 http://gawker.com/the-revolution-will-not-be-vice-1165948487
The Big Question

VICE is continuing to grow and work in collaboration with more and more mainstream corporations, which is the main driver to their revenue growth. As the Company expands its business, it must decide whether pursuing sponsored content and big deals with large corporations will undermine its credibility and appeal with its loyal consumers to the point that its success sows the seeds for its failure.

VICE AND ITS PEOPLE; VICE VERSUS THE OTHERS

In many ways, the VICE business model is similar to other traditional media companies in that its total revenue is heavily reliant on income from advertising, which VICE attracts by drawing in a large audience with edgy and innovative content. The primary difference between VICE and traditional media is that the former was an early mover to embrace the Internet in both its content and advertising models. Where other media outlets have struggled to capture attention in a fragmented market, VICE is succeeding by creating content for a specific audience (youth) by identifying the best digital and traditional channels to deliver balanced content, and adopting an innovative advertising model of sponsored content and audience-specific advertisements.

The News Industry

There has been a noticeable shift in how news is accessed in recent years. People have had access to news in a variety of ways for decades; televisions have been a source of news since the 1950s, and radios and newspapers have been a major source of news for much longer [See Appendix A]. Despite claims that the newsprint industry is dying, according to the American Press Institute, 61 percent of Americans still read newspapers and magazines to keep up with current events. Television remains the main source of news at 87 percent; however, 69 percent of Americans now also access news content using computers. It is also noteworthy that cell phones and tablets, which did not even exist until relatively recently, now deliver news to 69 percent and 29 percent of Americans respectively.

In this light, VICE’s current strategy of maintaining and growing a presence on HBO could make sense, as it helps the Company establish a television presence in a way that connects with its younger audience, which already associates it with popular shows such as Game of Thrones and Last Week Tonight.6

It is important to understand that VICE enjoys a select audience and more important to understand why. It is well appreciated by young people, especially men, (in the age group 18-35) who want in-depth, hard-hitting news presented to them in an engaging manner. It does not attempt or strive to be a frontlines reporting platform, but it promises that it knows its stories. This differentiates VICE from its competitors in several distinct ways. Traditional news sources focus on delivering news as quickly, thoroughly, and professionally as possible. Other online news sources, as well as social media, tailor themselves to a specific audience. The cable news networks focus on breaking the story, and the entertainment outlets are more focused on reporting in a way that aligns with the values and beliefs of their consumer base. By comparison, VICE’s profile is unique for its “immersion reporting,” which places its correspondents at the center of its coverage to connect the reader to the experience, but is also notable for

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The chart can be found in Appendix A.
optimizing its investigative work and approachability. Its brand of relatively in-depth stories told through immersion differentiates it from its competition.

New Advertising Models and Digital-First Competitors

VICE does not fit obviously into any one box in the media industry, as its content ranges from pure news to pure entertainment, and is often a mix of the two. Its news content competes with in-depth reporting like that of PBS’s Frontline series, as well as other traditional newspapers and cable news. However, its culture focused online and on app content more directly competes with other “digital natives” like Buzzfeed and even popular social media. Traditional media’s revenue stream typically comes from advertising and payments from end consumers; cable news gets its funding from advertisers based on the popularity of its content, which it provides to users through a paid cable package. Other online websites and social media provide content (theirs or sourced from other providers) for free, with their revenue streams coming from tailored advertising delivery.

Digital advertising has not been able to supplant the losses of print advertising and subscription revenue for most media companies, and television advertising still commands the bulk of total advertising dollars paid to media companies. Digital ad formats have not been able to demand the same high prices. Instead of selling banners and other online advertisements, VICE is selling its talent for content creation through a sponsored content model, which increases the value of its online advertising. This involves sponsorship deals with companies such that online articles

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and videos that appear are labeled as “sponsored content” or content co-creation. Examples include the VICE-Intel Creator’s Project on arts and technology⁸ or the Budweiser-VICE “Made in America” series on VICE’s online music channel, Noisey.⁹ VICE also founded an in-house advertising agency, VIRTUE that works with corporations to create content, branding strategy, and even design events for clients such as Garnier, Palladium, and Mountain Dew to name a few.¹⁰ While VIRTUE is a separate creative agency, it draws on the VICE employees and channels. The sponsored content approach has come under criticism for violating the “church and state” divide between editorial and commercial teams in the news industry, and VICE has been accused of allowing its sponsorship deals to influence reporting.¹¹ CEO Shane Smith has dismissed such claims, but also sees the editorial and advertising worlds blurring: “All brands should think of themselves as media companies.”¹²

In addition to the large revenues VICE has achieved through online advertising and sponsored content, the Company has begun to experiment with other channels for delivery of its news content that would be based more on a “paid content” model, which could in turn diversify its revenue stream and allow for more “serious,” documentary news content. VICE’s partnership with HBO is one such example. Also, this deal signals a shift even further away from traditional print news outlets, which own their distribution channels and ask consumers to pay directly for their content, towards a model more resembling cable news, which offers their content as part of a television package. This can also be seen as a strategic move for VICE to take advantage of a paid subscription model instead of charging viewers themselves, thus distancing VICE from an image of becoming more corporate. Unlike cable news, HBO uses a subscription-based model instead of an advertising-based model, although many companies do pay for their products or services to be featured on HBO shows. Additionally, HBO has been historically used for delivery of entertainment content, not news, to its 93 million subscribers worldwide. VICE’s revenue stream from this deal will largely depend on negotiations with HBO (some of the most popular shows on HBO cost an estimated $50 million per season),¹³ and it remains to be seen whether this venture will be a large revenue generator for the company.

The road ahead

VICE has built a very profitable, high growth business in an industry that has been struggling for survival, but its rapid success and its innovative advertising model may risk losing its loyal, millennial audience to doubts about the authenticity of the brand. Should VICE continue to pursue sponsored content and native advertising deals to continue its growth? VICE’s revenues come from its ability to provide tailored advertising to youth, but their success in doing so is potentially alienating to their target market. Is this a lose-lose situation? Will the deal with HBO save the counter-culture brand?

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⁸ http://thecreatorsproject.vice.com/en_us
¹⁰ http://digiday.com/publishers/vice-straddles-the-line/
¹¹ http://gawker.com/working-at-vice-media-is-not-as-cool-as-it-seems-1579711577
¹³ http://www.slate.com/articles/arts/culturebox/2012/03/game_of_thrones_hbo_and_showtime_make_money_despite_low_ratings_.2.html
Appendix A: How Americans access their news

Teaching Questions

1. Where is VICE generating value? Where on the media spectrum would you place it?
2. Who is VICE’s target market? What are the media needs of this market and why have they not been met?
3. What are the challenges with revenue generation in the media business? How have these challenges been met? What are the tradeoffs media companies like VICE must negotiate to sustain their businesses?
4. What value do partnerships pose to VICE? Are they taking advantage of this value adequately? Where else should they be looking for partners?
5. Given the chance, would you invest in VICE? Why or why not?