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Media and Entertainment Industry Group

The Billion-Dollar Challenge: Monetizing the Digital Opportunity

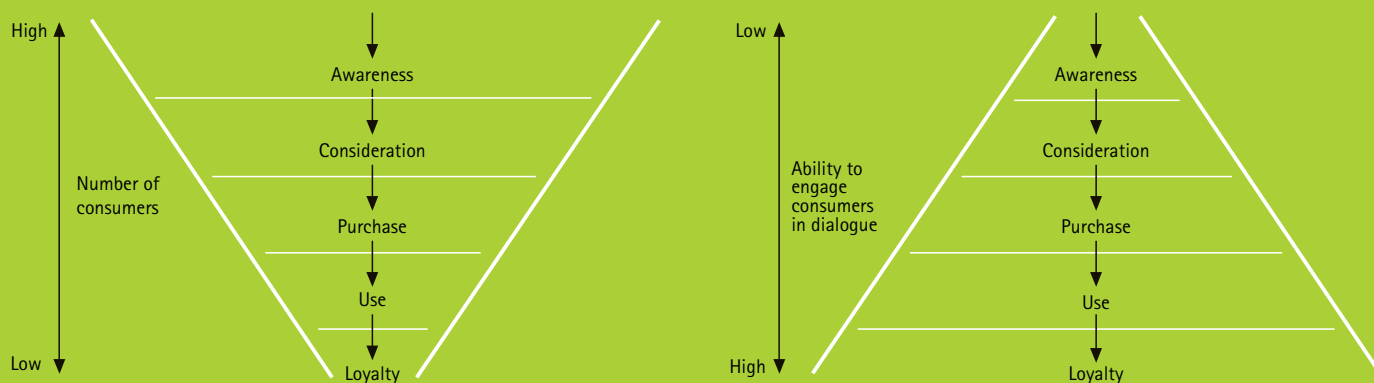
Media and entertainment companies are struggling to adjust to the inexorable digitization of the industry. Innovation is occurring, to be sure, but transforming digital innovation into digital revenue streams will require more fundamental and therefore more difficult change.

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Figure 1.

The traditional marketing funnel: Missed opportunities to influence consumer choice

In the traditional marketing paradigm, an inverse relationship exists between the number of consumers moving from awareness to loyalty (left), and the number of consumers who can be engaged in dialogue (right). Dialogue occurs mostly at the end of the funnel, where numbers are relatively low. This means that traditional approaches have, in general, not been able to leverage opportunities to engage with consumers and influence choice earlier in the marketing and sales process.



The challenges of monetization in the digital world are profound. Media and entertainment companies, as well as marketers, face the difficult task of bringing a new business model online while still maximizing profitability from the old model. They also live in a world of dramatically shorter lifecycles for products and services, and also companies and markets. Dynamism and volatility constitute the "new normal" of the digital marketplace.

Bold action is needed. Instead of trying to passively protect old models in the face of industry disruption, companies need to actively engage with that disruption. Instead of bringing analog formats and pricing models into the digital environment, media and entertainment companies must understand the distinctive capabilities of digital and put in place compelling value propositions and metrics for marketers and consumers alike. Achieving high performance in the digital world isn't about doing old things in new ways. It's about doing new things in new ways.

If media and entertainment companies are to generate the digital revenue streams required to support growth—a state we'll call "monetization nirvana"—they must: (1) understand and leverage the unique capabilities of digital to influence consumer behavior and spending through more relevant interactions; (2) use the distinctive aspects of the digital world to help marketers achieve more specific, measurable and accountable outcomes; and (3) continuously optimize the user experience and the marketer's value proposition through enhanced analytic capabilities.

Understanding the new consumer engagement paradigm

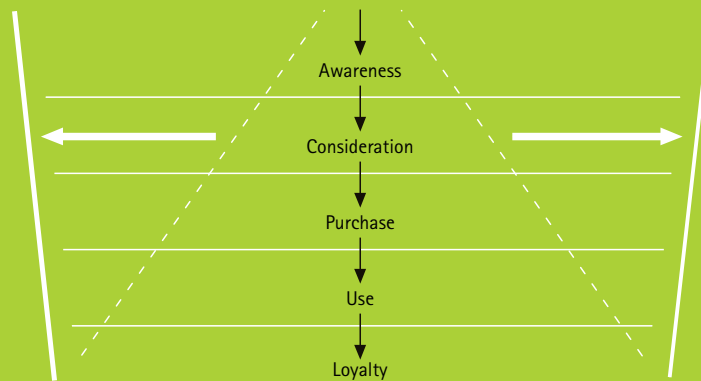
The opportunities that digital advertising and digital content present to media and entertainment companies must be understood both from the consumer's and the marketer's perspectives.

Engaging with the consumer today is one of the areas where too few companies are leveraging the distinctive power of digital marketing. Consider that the traditional frame of thinking has been focused on push marketing—reducing messages to the basics and getting those messages in front of as many eyes as possible. But that paradigm—the traditional marketing funnel that moves people through awareness, then consideration and purchase of a product, then usage and development of loyalty (see Figure 1)—is being significantly disrupted and reshaped.

Figure 2.

The new engagement paradigm of digital marketing

With the new digital paradigm, the marketing funnel is opening up, transforming its shape. More opportunities exist for dialogue, interaction and engagement throughout the marketing and sales process, even at the stages of awareness and consideration. Embracing this new engagement paradigm can lead to significant competitive advantage by more effectively influencing consumer choice to drive highly valuable business outcomes.



The new marketing paradigm (see Figure 2) is about influencing consumers' brand associations and buying behaviors by engaging them in dialogue and interaction—in part because dialogue and interaction are distinctive capabilities of the digital world. Companies have the opportunity through a variety of digital experiences such as social networking to engage in dialogue with millions of potential consumers. And every interaction—even those at the very earliest stages of awareness—becomes an opportunity to influence choice. Media companies and marketers alike now have a magnitude of opportunities for interaction and dialogue—at the front end as well as throughout the funnel—that can be much richer in terms of content and experience than what was possible before social digital capabilities arrived.

Take the example of a manufacturer of food blenders that produced a humorous online video campaign to support its entry into the retail market. In its ongoing series of videos, a variety of oddities are placed in the blender to demonstrate its blending strength. The videos became a viral hit, drawing more than 60 million viewers during the first year of the campaign. But people weren't just "viewing" the video ads—they were providing feedback, sharing the video link with others and spreading the word through social networks. Retail sales rose 500 percent in the first year of that 2007 campaign.

Companies also must be attuned, in real time, to what is happening to their brand over digital experiences such as social networks. Consumers are much smarter and better informed than they were just a few years ago, and they are connected—all the time, anywhere and everywhere. One only needs to consider how social media helped build the "Obama" brand during the most recent US presidential election to understand how future brands will be built.

One-way marketing may live on in the marketplace for a time, but it has passed the stage of maturity. Pushing and controlling a message will not earn the trust needed to achieve high performance. Media and entertainment companies as well as marketers must therefore look to where their target consumers are across all the different modes of social interaction and engage those consumers in ways that are meaningful to them and that engender trust.

Figure 3.

Monetizing the consumer experience by staying highly relevant

Media companies as well as marketers must ensure that the digital experiences they offer across all channels are highly relevant to consumers' needs, pain points and interests. The good news is that consumers are increasingly willing to pay for relevant experiences that add value to their lives.

Perceived relevance:

"This experience is valuable to me."



Revenue model:

"I am willing to pay for this experience."



The importance of consumer relevance

The other critical dimension of the new consumer engagement paradigm is relevance. Media companies, and marketers as well, must be highly relevant to a consumer's interests and pain points.

Achieving that relevance is becoming exceedingly difficult, however, given the fragmentation of channels and the user experience in today's marketplace. It's becoming increasingly easy for users to take matters into their own hands (as with app stores), re-composing their overall end-to-end experience into something meaningful and relevant to them.

Relevance is the primary reason search-based advertising has become so profitable. If a user is searching for "blenders," that's probably a fairly sound indicator of an intent to buy a blender. But other innovative ways to target users with relevant information must be developed if the industry is to succeed.

A significant challenge in this environment is that media consumption patterns are also highly fragmented. Companies are competing with almost innumerable platforms and channels. That means they must be highly relevant all the time, at every point of interaction, to gain significant user mindshare. If they fail to be relevant, companies risk negative brand associations which can then spread virally.

In spite of the challenges, there is also good news. If relevance to the consumer or user is high, we are finding that people are increasingly willing to pay for digital experiences (see Figure 3)—through subscriptions, for example, or on a pay-per-use model. We're also seeing that micropayments for virtual goods (buying assets in a virtual-world game, for example) is also finally catching on after a few failed early attempts.

Figure 4.

Providing increased value to marketers

In the age of "performance marketing," media and entertainment companies must increase their accountability, which means their ability to measure whether they have helped a marketer achieve its desired outcome—and then charge for results achieved.

Outcome/result:

"I reached my desired business outcome."

Weak outcome ← ————— ● ————— → Strong outcome

Sample outcome:

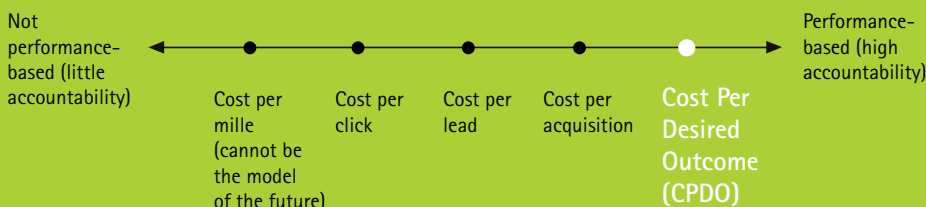
Increase customer lifetime value

Result:

Marketer improved value by 10 percent in 3 months. Half the increase can be attributed to specific digital activities.

Revenue model:

"I pay based on results."



New ways to provide value to marketers: Pricing models based on outcomes

Part of the old-world thinking that still pervades digital advertising has to do with pricing models. It's been 15 years since the appearance of the first online display ad, measured in traditional "cost per mille" (cost per thousand views) ways. That's really no different a pricing model than paying for a newspaper ad insertion; it's simply substituting the cost of showing a web page for the cost of showing a newspaper page (independent of whether or not the user/reader actually pays attention to the ad).

Some digital advertising metrics do begin getting to more defined goals: cost per lead (CPL), for example, pays only when a legitimate and well-qualified buyer expresses interest. Other metrics—cost-per-action, cost-per-acquisition, cost-per-engagement—try to move the pricing model toward a more accountable and performance-driven arrangement.

However, if we look at where innovation is happening in the world of advertising today, it's with media and entertainment companies

that are embracing the distinctive nature and capabilities of digital and using those capabilities to shape their pricing models. Those capabilities and models become a way to stay relevant to marketers and provide them with dramatically higher and more accountable levels of service.

In terms of pricing models and metrics, Accenture believes that the industry will migrate to something we have termed, "Cost per Desired Outcome" or CPDO. Such a metric will be a distinctive feature of the age of "performance marketing"—where media companies will ask marketers to pay based on performance or the achievement of a particular outcome. This is a distinctive competitive advantage to a media company—being able to tell a marketer, "Let's work together to precisely define the outcomes you are looking for, then you will pay only if we help you achieve that desired outcome." (See Figure 4.) This approach also improves the effectiveness of marketers because they must think more clearly about business objectives that drive desired results.

We are already seeing the beginnings of performance marketing in the industry. One

major global brand, for example, has announced it will no longer pay its advertising agencies by the hour or based on fixed fees, but instead, only for achieved results. Considering today's challenging economic climate, this is a clear sign that accountability for results is increasingly sought within the industry.

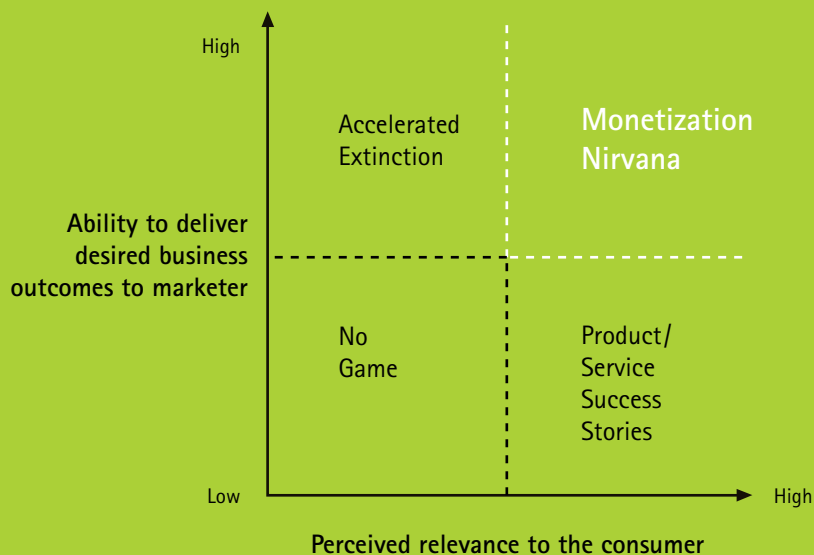
Although the transformation to performance marketing will be challenging to most media companies, it presents a strong potential for growth. Consider that, at least in theory, a CPDO model means that a marketer's budget is limited only by supply constraints. If the marketer is paying based on the desired outcome of X dollars of sales with attractive profit margins—paying a percentage of revenues—then the more the sales, the more advertising budget there is to spend. It's a win-win all around.

Paying for outcomes is a major trend that media companies will eventually be forced to embrace. Marketers will soon demand it. Any media company that does not aspire toward performance marketing and a metric such as CPDO will be disrupted or extinct at some point.

Figure 5.

Monetization nirvana

As the chart indicates, consumer experiences and marketing that are not relevant to the user will face accelerated extinction. Product/service success stories represent a more compelling model. The greatest success, however—monetization nirvana—will be in the space where the publisher connects the revenue streams (the ones targeted at the user as well as the ones targeted at marketers) with reinforcing mechanisms that benefit each other in a way that improves the quality of the service.



Achieving monetization nirvana

Getting digital monetization right—achieving monetization nirvana—means optimizing both the dimensions we have discussed to this point: mastering consumer relevance and influence on the one hand, and mastering the ability to provide more accountable outcomes to marketers on the other.

As shown in Figure 5, the challenge and opportunity alike for media and entertainment companies in the digital age can be summarized as follows:

- Companies that fail at both consumer relevance and accountability to marketers will not be in play at all—it's no game.
- Companies that do not create experiences that are relevant to consumers will face accelerated extinction, even if they improve their accountability to marketers.
- Companies that achieve a high degree of consumer relevance can stake out a position where they can achieve a degree of success, whether or not they achieve additional revenue streams from marketers. Apple iTunes, for example, sells other companies' products, on top of its own products, at premium prices. With or without advertising, it's a compelling business model.

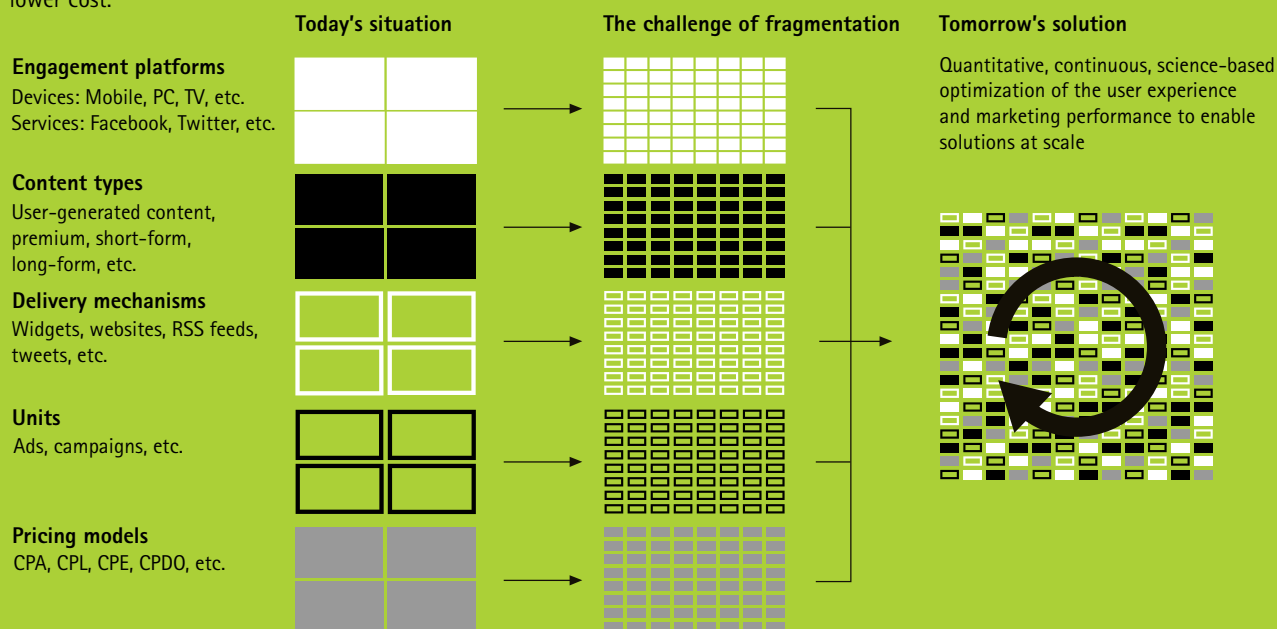
However, where an optimal future lies—call it "monetization nirvana"—is at the intersection between (1) digital experiences that are highly relevant to the consumer and (2) a performance-based model using the CPDO metric based on achieving the desired outcome for the marketer. Both dimensions—relevance and outcomes—generate value to stakeholders, and even reinforce each other without trade-offs.

To achieve high performance, media companies must excel at relevance and accountability at the same time. Excellence in one dimension only will not support competitiveness in the long run.

Figure 6.

Managing fragmentation and shortened lifecycles with science-based optimization

Today, innovation is occurring across all technologies and models in the digital world— engagement platforms, content types, delivery mechanisms, advertising units and pricing models. Tomorrow's challenge is rooted in the fact that this multi-faceted innovation is leading to increased fragmentation of the consumer experience and, therefore, of ways of influencing consumer choice. Product, service and market lifecycles have also been dramatically shortened, creating a dynamic and volatile environment. Traditional management techniques fall short in the digital environment. Decision-making must be supported by automation and science-based optimization. New analytic techniques and tools can enable media companies to continuously optimize (1) the consumer experience and (2) marketing performance at scale and at lower cost.



Using science-based analytics to continuously optimize the consumer experience and the value to marketers

The explosion of devices and channels, the shortening of product lifecycles, and the different ways to access an ever-increasing supply of content have strained ordinary modes of user and usage analysis past the breaking point. To successfully execute and monetize digital services and advertising, companies need stronger, science-based analytics capabilities that generate insights into customer preferences and desires and that also support continuous improvement in terms of accountability to marketers.

Better analytics tools, methods and approaches can enable companies to embrace fragmentation on multiple levels and then tie outcome-driven strategy and execution together in effective and actionable ways. This is not a trivial problem to solve, from either a technical or a business perspective. (See Figure 6.)

The quality of information and data is also critically important to the value of the insights generated. Analytics are only as good as the data that is used. In our experience, companies that are more advanced in their analytics capabilities have attained a high degree of granularity, quality and timeliness in their data. Near real-time data generation and access is becoming increasingly essential. Companies also need the organizational and decision-making structures that enable them to act quickly on the insights generated.

These analytics capabilities, in turn, enable companies to continuously optimize the consumer experience and the value to marketers. Such optimization requires mastering three complementary things:

1. Master how to be found.

Continuous optimization of how consumers locate a digital experience is increasingly a matter of how the digital experience is architected and built. The importance of search and discovery today means that media companies must leverage search engine optimization (SEO) in addition to

search engine marketing (SEM), among other elements in the marketing mix. These kinds of analytic approaches have a considerable impact on profitability and in some cases on the viability of entire business models. The science behind things like the mass-personalization and optimization of landing pages is still in its infancy but holds tremendous potential.

2. Master how to influence the desired actions of the consumer to drive profitability.

Companies must also continuously optimize the consumer experience so that it is made continuously relevant across all channels. The one-size-fits-all approach of traditional mass marketing will not drive differentiation; such an approach increasingly represents a risk to the brand. High perceived value to the consumer will be rewarded by the ability to be paid for services—either directly (e.g., subscriptions) or indirectly (e.g., micropayments for virtual goods). High perceived value to the consumer will also allow for increased positive influence of offline behavior.

Transforming digital innovation into digital revenue streams requires fundamental and difficult change. Media companies must create highly relevant consumer experiences, characterized by engagement and dialogue, that can influence consumer buying behaviors. These companies must also work in closer cooperation with marketers, offering pricing models based on accountability for outcomes. Success in both dimensions requires sophisticated analytics and optimization platforms.

3. Master how to deliver and measure marketers' desired outcomes.

This concept refers to the continuous optimization of marketing performance to the marketer with both the "ad unit" (for lack of a better word, since "advertising" might be the wrong expression here) as well as the pricing model behind it (e.g., Cost per Desired Outcome or CPDO). This kind of optimization will allow for accelerated innovation in digital advertising—innovations that are truly analytics- and data-driven—adding value not only to the marketer but also to the consumer.

All three opportunity areas represent a path toward monetization nirvana. These ingredients have to be operationalized at scale across the ever-growing cloud of services and data if they are to positively influence the bottom line.

Tomorrow's solutions will enable companies to more easily manage sophisticated analytics and optimization platforms that will allow for accurate and relevant measurement of business outcomes.

In addition, these platforms will accommodate dynamically adapting objectives as demand and supply factors change, helping to create more agility in business and its underlying technical and organizational infrastructure and processes.

On the path to high performance

The end of the old push paradigm for marketing could result in dramatic revenue growth for media and entertainment companies as well as marketers—indeed, for any company in the value chain. Success today is based on influencing consumer brand associations and buying behaviors. It's important to create opportunities for dialogue, which then influences consumer choice.

At this stage in the evolution of the media industry, media companies should be more open and transparent, working collaboratively with marketers to create and realize the vision of performance marketing based on highly relevant consumer value propositions. Companies should also

encourage and enable experimentation at all levels and with all stakeholders.

Aim to define an explicit roadmap that enables your organization to break out of old, siloed ways of thinking. Then, invest in analytics and continuous science-based optimization. Increased complexity and fragmentation mean that competitive differentiation and achieving high performance will depend on the ability to continuously optimize the consumer experience and the value proposition to marketers with data-driven capabilities.

Contact

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