

Media & Entertainment Group

Driving growth through innovation in the media and entertainment industry

New imperatives for a new digital age

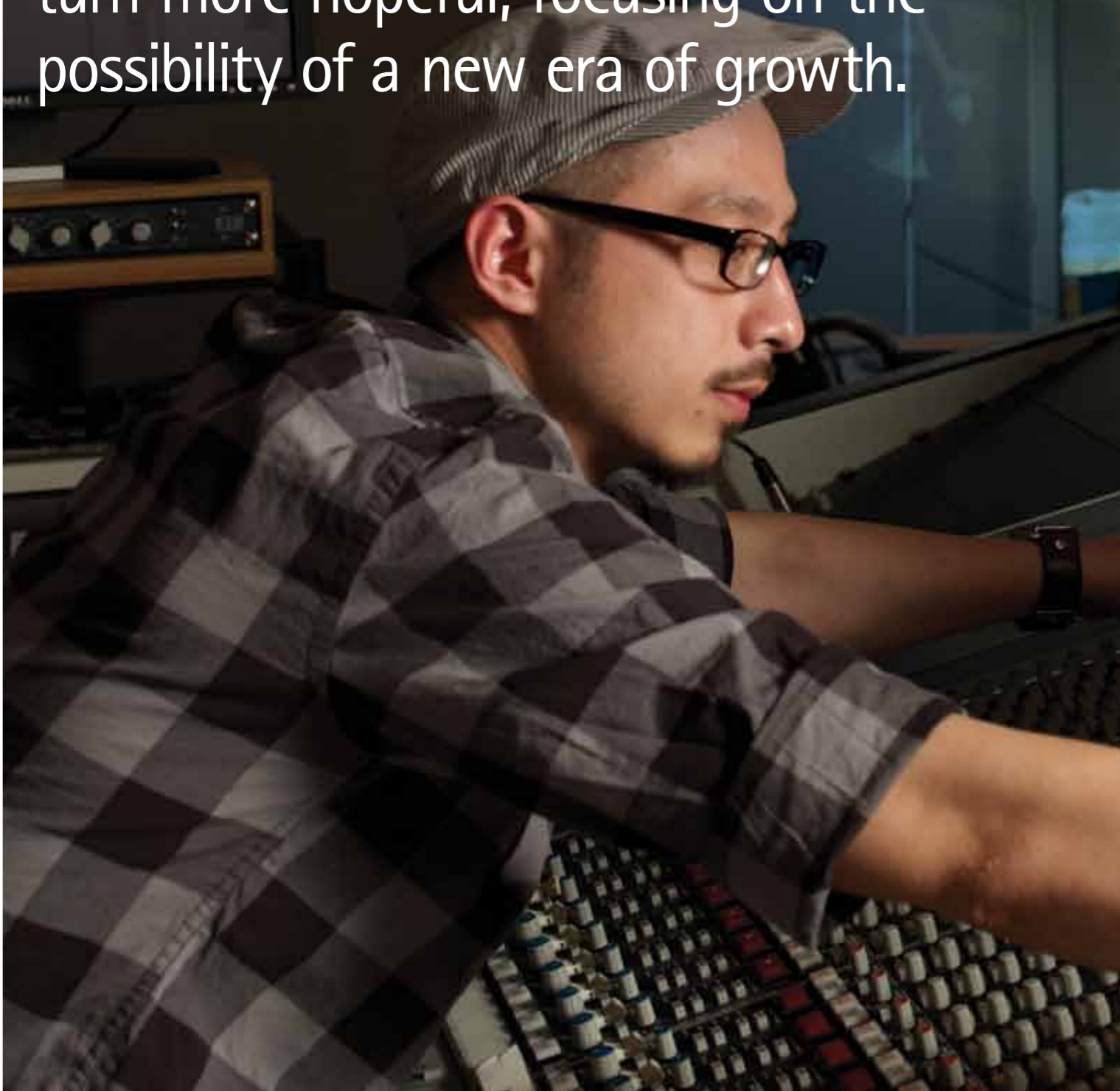
By Marco Vernocchi and David Wolf

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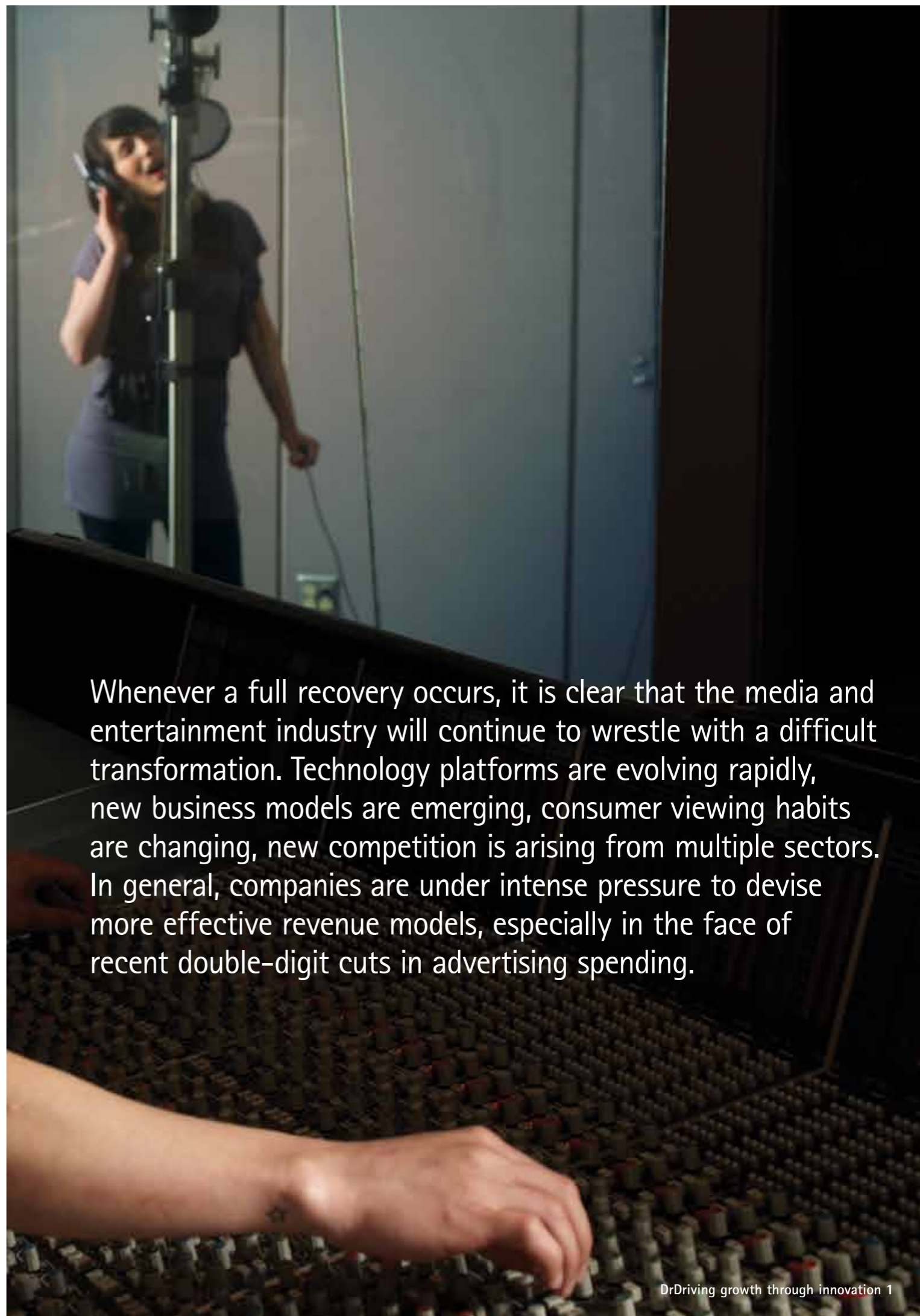
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The global recession has been especially hard on most sectors within the media and entertainment industry. Today, however, conversations among industry executives are cautiously beginning to turn more hopeful, focusing on the possibility of a new era of growth.



Whenever a full recovery occurs, it is clear that the media and entertainment industry will continue to wrestle with a difficult transformation. Technology platforms are evolving rapidly, new business models are emerging, consumer viewing habits are changing, new competition is arising from multiple sectors. In general, companies are under intense pressure to devise more effective revenue models, especially in the face of recent double-digit cuts in advertising spending.



The single theme that cuts across all these challenges and opportunities is *innovation*.

Out of the difficulties of the current marketplace, a select few players will emerge in a more competitive position, fueled by innovation directed at three primary areas:

- The digital consumer experience: Achieving excellence in engaging and interacting with consumers.
- Digital monetization: Applying innovative thinking to traditional business models in a way that creates new revenue streams.
- The digital supply chain: Migrating from analog to digital capabilities across all dimensions of the supply chain, from content acquisition and archiving, to content production, to content packaging and distribution, to fully automated process orchestration.

The demands of today's economic environment mean that success in only one or two of these areas is no longer sufficient; coordinated excellence in all three is now required. Many companies

have made progress in digitizing their supply chains, for example, but still struggle to devise workable business and monetization models. And engaging consumers in meaningful ways continues to be the most elusive goal of all.

Running through these three primary areas of innovation is another critical capability: managing the innovation pipeline efficiently to achieve growth. Innovation needs to be encouraged at all levels of a company and embedded in every organizational process. That requires creating a business discipline for managing innovation, beginning with a precise definition of innovation's role in the corporate strategy, and then putting organizational structures and dedicated investments in place. Without those, innovation will produce only sporadic creativity, not game-changing innovations capable of driving high performance.

Make no mistake: The challenges ahead are significant. Volatility is at an all-time high. New product lifecycles

are shrinking, traditional business models are failing and consumer attention spans are getting ever shorter. Shareholder value analyses of the media and entertainment industry reveals an increasing weighting of the current value—associated with profitability from existing operations—over the future value of many of these companies, meaning they are generating little or no premium from their future strategies.

Responding to these challenges means far more than just trying to extend the growth curve of existing products, services and models. This is about fundamental change that requires jumping to a new growth curve entirely. A large portion of the way that a modern media and entertainment company operates needs to change.

Yet, winners will emerge—companies with the leadership and culture to support bold and holistic change, and also with the discipline to manage innovation toward competitive advantage.

Consumer engagement and insight as keys to growth and innovation

One of the most important frontiers for innovation in the media and entertainment industry is in how companies engage and interact with digital consumers, and in how they harness customer insight as an engine for growth.

The economic downturn has underscored the importance of more targeted consumer engagement. It is, after all, specifically the mass media that has been hurt the most during the recession. The title of Accenture's most recent Global Content Study, "This time, it's personal," puts the matter well. Media and entertainment companies must improve their ability to leverage a close, personal understanding of consumers to deliver targeted and relevant content and services. The mass media era is over; we have entered the era of "me media."

Improving consumer engagement in a me-media age involves developing the right models for consumer interaction, harnessing analytics for better insight into consumer behaviors, and creating richer, more relevant and more engaging opportunities for consumer interaction.

Direct-to-consumer models

Content companies are aware, at least, of the importance of engaging directly with consumers to establish

long-term relationships. Our Global Content Study found that a large majority of companies surveyed (62 percent) rank the creation of direct-to-consumer relationships as one of their top three priorities. More than a third of them (38 percent) already have such relationships while 46 percent have both direct and indirect models. In fact, only 16 percent still have a pure indirect consumer model, and most of them are already trying to break free from it.

Content companies aim to use direct consumer relationships in a variety of value-creating ways: to gain feedback on the content consumption experience, develop new commercial offers and marketing campaigns, inform and shape content production, develop new methods of content packaging and distribution and optimize pricing to increase revenues.

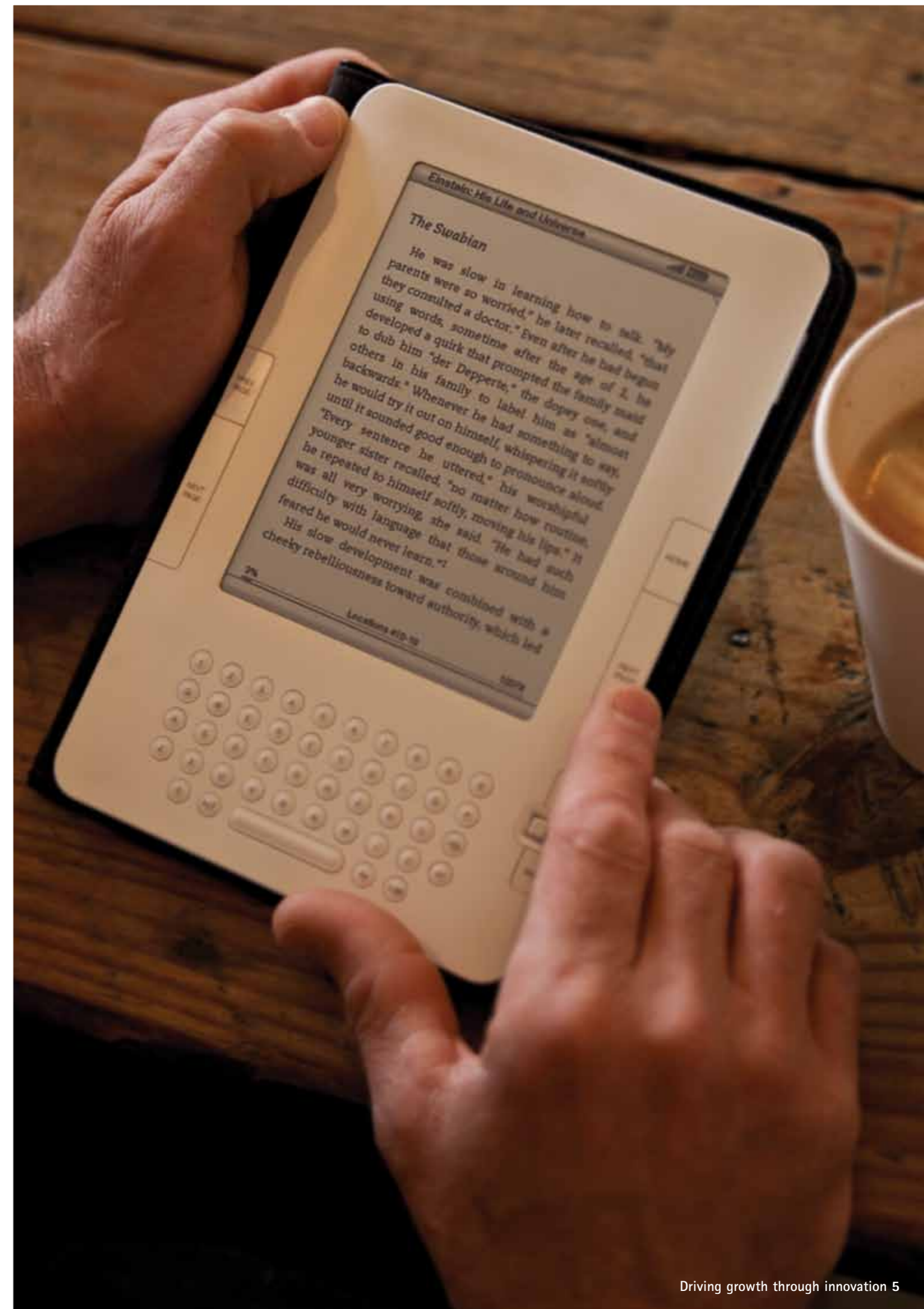
However, the ultimate goal of a direct-to-consumer model is more profitable consumer relationships. Companies know that direct interaction with

consumers will ultimately drive higher share of wallet and growth in revenues. They are currently laying the groundwork to deliver these benefits.

Using analytics to improve consumer insight

Media and entertainment companies are aware of the critical importance of analytics to serving consumers more effectively. At the same time, they are not confident in the maturity of their own analytics capabilities. Our survey found that more than 70 percent of executives agree that robust consumer data capabilities are an enabler of competitive advantage for their companies. However, more than half (54 percent) do not believe they are industry leaders in using on- and off-line data, and a fourth of respondents believe they are lagging considerably when it comes to harnessing analytics for better consumer insight.

One innovation in this area that Accenture is driving is what we call an "intelligent digital platform."





Many organizations run branded websites on relatively inflexible Web 1.0 digital marketing infrastructures and delivery systems. More often than not these legacy systems make it difficult to deliver personalized experiences.

An intelligent digital platform, on the other hand, gives a company the ability to run analytics on the data generated as customers interact with the site. Consumer products giant Procter & Gamble is already leveraging this kind of flexible, reusable platform—moving beyond a one-size-fits-all website to a platform that delivers customized experiences to consumers, as well as activity reports and business impact assessments to company executives.

In effect, the intelligent digital platform is giving P&G a website where, unlike today's sites, every customer will see and experience something slightly different. What consumers see on one page will depend on what they did on the previous one and on their profile—which is based on knowledge of their behaviors and preferences gleaned over time. The website experience will be highly

customized, increasing the likelihood of delivering relevant and compelling experiences.

Relevant and engaging consumer interaction

The intelligent digital platform points to the larger issue involved with generating richer consumer relationships: moving beyond a push marketing mindset to develop longer-term, interactive dialogue with consumers. The ability of many traditional media and entertainment companies to engage consumers and engender loyalty lags far behind many other industries. In the online world, and the world of mobile portals, that gap widens every day as Web and mobile traffic heads inexorably toward the sites that know how to do digital well.

The failure to engage consumers becomes a self-perpetuating problem when it comes to improving the revenue-generating potential of digital. If a company can't craft a relevant and compelling experience, people won't

come back. If they don't come back, companies can't learn enough about them to effectively monetize the relationship. An enterprise is then forced to remain in the world of digital small change—trying to make money on sessions, site visits and page views.

Innovation in the consumer domain must be driven by a new mindset, one based on relevance, dialogue and influence and supported by the technology platform just mentioned that can deliver customized experiences. If relevance to consumers is high, they are more likely to stick around to become long-term customers.

A second value generated from an engaging and reliably relevant experience is that digital advertising and marketing can begin to fulfill the potential that has long been predicted for them in the digital age. With deeper insight into consumer behaviors, marketers can make bolder promises to deliver specific kinds of customers with specific interests at specific phases of the purchase consideration process.

Applying innovation to improve monetization

NBC Universal CEO Jeff Zucker once famously characterized the digitization of media and entertainment as having traded “analog dollars for digital pennies.”

Although Zucker has recently upgraded his assessment (he thinks revenue generation has now achieved at least the level of “digital dimes”), companies still have a long way to go to generate the kind of revenues one should expect from digital channels.

New, hybrid business models

Uncertainty and volatility have created a situation in which many different digital business models co-exist in the media and entertainment industry, with no single model yet emerging as dominant.

This situation was confirmed by the Accenture Global Content Study. No single business model was chosen as dominant, strongly implying that companies will need to pursue hybrid models, mixing different revenue sources. Just over a third of the executives in our survey predicted that advertising-funded models will predominate in three years' time; 21 percent favor a hybrid mix of ads and various other revenues; 18 percent point toward a “freemium” model, blending a basic “free,” or ad-funded offering with

a premium ad-free version; and 22 percent cite paid-for models.

The hybridization of business models combining multiple revenue sources likely reflects the general downturn in advertising spend, which has increased the pressure for companies to move toward hybrid approaches drawing on several simultaneous revenue streams.

Overall, the responses from the executives in our study suggest that the choice of model will be determined on a case-by-case basis, depending on the specific characteristics of the offering and target consumers. Going forward, it will be critical for companies to have the flexibility and commitment to innovation that enables them to operate a combination of models, and to move between them as consumers' requirements change.

A multi-platform strategy

Just as companies must embrace a marketplace of hybrid business models, so must they embrace hybrid platforms for content delivery. Our survey found that two-thirds of executives believe their main source of future revenue growth will be new plat-

forms and ways of delivering content. And 86 percent of companies believe the most important capability for future success will be delivering content across devices, platforms and locations, tailoring content services to specific platforms.

Ultimately, a multi-platform strategy is driven by what consumers have been telling the industry for several years: people are loyal to content brands, not to particular channels. And they seek out the best consumption experience by choosing content specific to the platform they are using to consume it.

Thus, the message from both consumers and industry leaders is clear: future revenue growth in the multi-platform world depends on delivering the right quality and genre of content to the right consumers over the right platform. This capability takes us back to the previous discussion about innovations capable of delivering better consumer insights. To be certain, technology innovation is critical to multi-platform delivery; equally important, however, is the insight that tells a company which consumers want what content delivered to them over which platforms at what times.



Improving content ROI

A final factor in improving digital monetization capabilities concerns improving one's capabilities in exploiting the full value of content, as well as in content rights management. The costs associated with content now represent a substantial part of the total operating costs of media and entertainment companies, and account for the majority of their investments and assets.

Other research and analysis from Accenture finds that, in the broadcasting industry for example, companies generate less than \$2 for each \$1 spent on content—not a favorable money-making ratio in the long run.

To increase profitability, broadcasters need to improve their content return-on-investment. To do this, they need to strengthen or acquire new capabilities in content planning, acquisition and exploitation, including:

- Innovation through experimentation: scouting the content market to identify early-stage content for acquisition—less expensive content that nevertheless has high upside potential.

- A truly complete view of the available rights, allowing for comprehensive multi-platform exploitation.
- Detailed control and management of the performance of content.

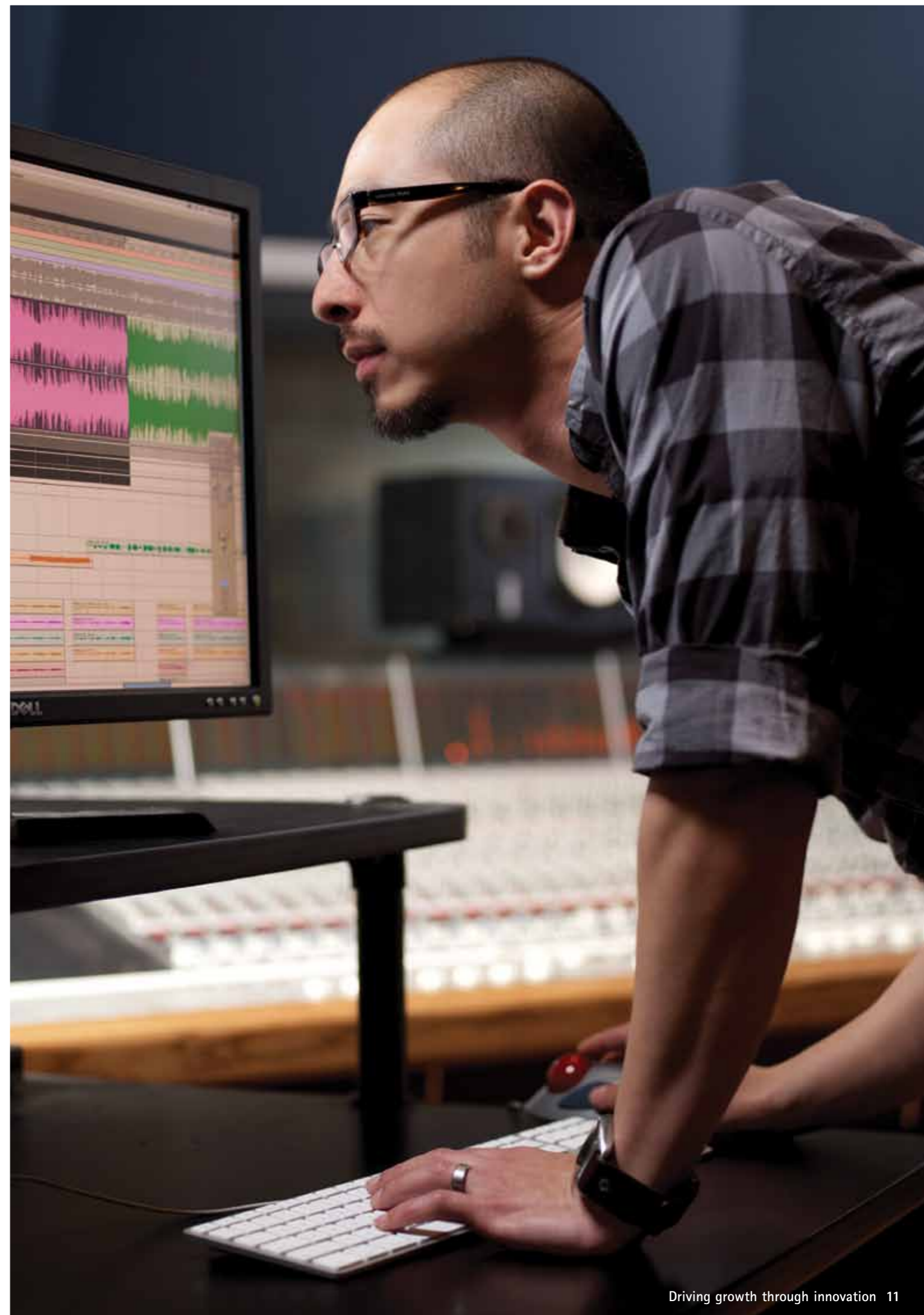
Digital advertising and the age of "performance marketing"

Digital technologies have fundamentally altered the media and entertainment industry and, with it, the advertising industry as well. Yet, the challenges of monetizing digital advertising are profound, both for marketers and for those companies offering the advertising channels themselves. All companies face the difficult task of bringing a new business model online while still maximizing profitability from the old model.

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 how they interact with and engage consumers. Digital enables more interactive, ongoing relationships, and

also offers the capability to gather greater insight into consumer behaviors. In turn, that enables savvy marketers to offer bolder value propositions, offering to deliver consumers with clearer intentions to buy at greater levels of specificity.

That ability to target then leads to more favorable pricing models and metrics, Accenture believes that the industry will migrate to a metric 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." This approach also improves the effectiveness of marketers because they must think more clearly about business objectives that drive desired results.





Innovation in operations and the digital supply chain

Even as media and entertainment companies look to improve their future value through improved consumer engagement and new business models, so must they optimize their current operations. The bulk of enterprise value—stock price and return to shareholders—comes from those operations and the ability to generate sufficient profit and cash from the business.

This focus underscores the need to streamline and maximize efficiencies, applying innovation to operations and looking in every corner of the business for ways to reduce costs and, in general, to improve cost and cash management. This can mean using outsourcing more effectively; it can mean improving the digitization of the supply chain to become more efficient; it can also mean completely reengineering marketing and distribution processes.

Aligning costs and revenues

From a cost management perspective, it is obvious that media and entertainment companies need to drive costs out of their operations as much as possible. But what specifically can companies do better than they do now?

One area ripe for improvement is in transforming a company's operating model to better align production-oriented costs with distribution-oriented revenues. In the past, the separation between production and

the distribution strategy, channels and windows created a loosely coupled cost and revenue equation. In a highly fragmented environment, with a proliferation of devices and channels, and with increasing price pressures, it is more important than ever to directly align production costs to revenue.

Companies must develop the ability to look at a property in terms of its lifetime value, and then weigh all production-oriented costs against all potential revenues. With that information, companies can then determine the most effective way to make, market and release the product to maximize return.

Supply chain digitization

Another important dimension of operational excellence is the continued digitization of the supply chain. According to our Global Content Study findings, the digital supply chain is now a must-have capability for competing in the industry. Despite tough economic conditions, investments in the digital

supply chain are continuing to rise, with 69 percent of executives saying their businesses' investments in digital transformation increased by at least 10 percent in 2009.

And 90 percent of executives whose companies have "fully digital" operations still have an ongoing program to improve their digital capabilities—evidence that digital supply chain capabilities will continue to be an essential means to create, manage and distribute content.

Digitizing a company's supply chain can produce dramatic results. Media and entertainment companies can potentially save up to 40 percent of their operational costs by migrating to a fully digital environment.

However, as companies continue to build out their digital supply chains to compete more effectively for consumers' attention and revenues, they still face several barriers that may impede their progress towards

becoming a fully integrated digital enterprise. Technological challenges are certainly one part of the story, but organizational, workforce and financial barriers also figure prominently in executives' minds.

Digital transformation affects all aspects of the business, and requires focused efforts to manage organizational change, retrain critical workforces, change the predominant culture, alter budget-making presumptions and encourage the leadership mindsets required to successfully navigate a long-term journey of change.

Outsourcing and other forms of cooperation across the value chain

The use of outsourcing to improve efficiencies in the media and entertainment industry is not new. Most companies have already made initial forays into outsourcing, especially around back office functions. Broadcasters, for

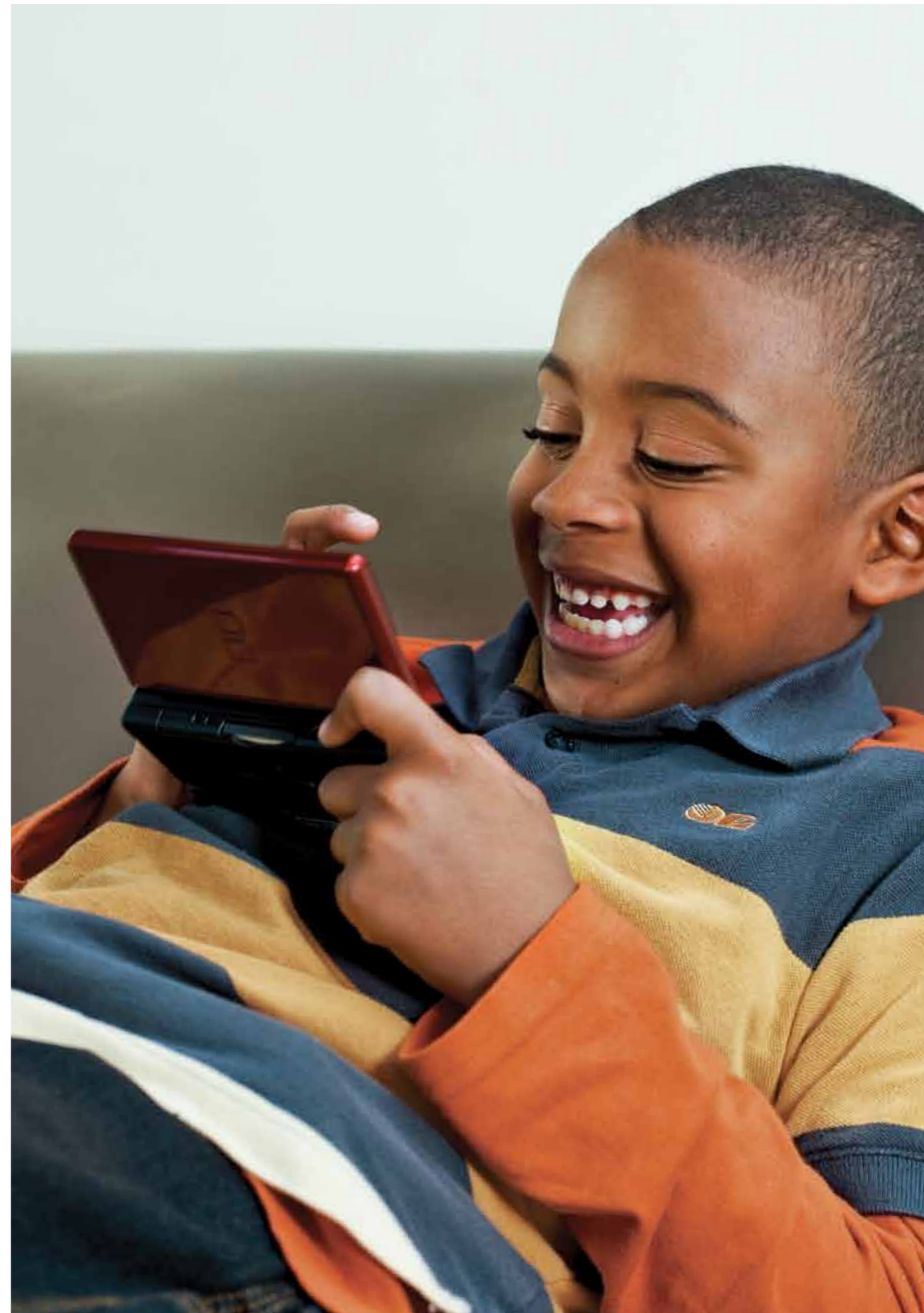
example, are finding opportunities for better cost management in production- and broadcasting-related application outsourcing, including application maintenance and development.

However, increased price points and pressure to decrease costs are spurring companies to move further up the outsourcing maturity scale, looking to a provider to do more than deliver capabilities at lower costs. An outsourcing provider is now sought out as a source of innovation and the means to drive specific business outcomes. More mature outsourcing relationships offer greater transparency and predictability. They are structured to align incentives and behaviors to outcomes of the business.

Furthermore, given the continued rise in importance of digital technologies, many media and entertainment companies find themselves lacking skills in sufficient numbers to succeed. Organizations need to assess where

their core competencies lie and then source non-core or specialized skills for content-specific operations with external labor pools at an attractive price point.

In general, marketplace complexities and the need to interact with such a wide range of players in the overall media and entertainment ecosystem mean that all companies must be prepared to innovate when it comes to collaborative operating models. Joint ventures, partnerships, cooperation with local distribution partners and with other companies and industries up and down the content supply chain—these and other developments will be critical to achieving high performance in the years ahead. This is an insight Accenture relies on every day, as we bundle our services and offerings across these related sectors of media, entertainment, publishing, communications, software, high tech and electronics.



Challenge and promise: The years ahead

In a recovering but still uncertain global business environment, people look to entertainment and information more than ever.

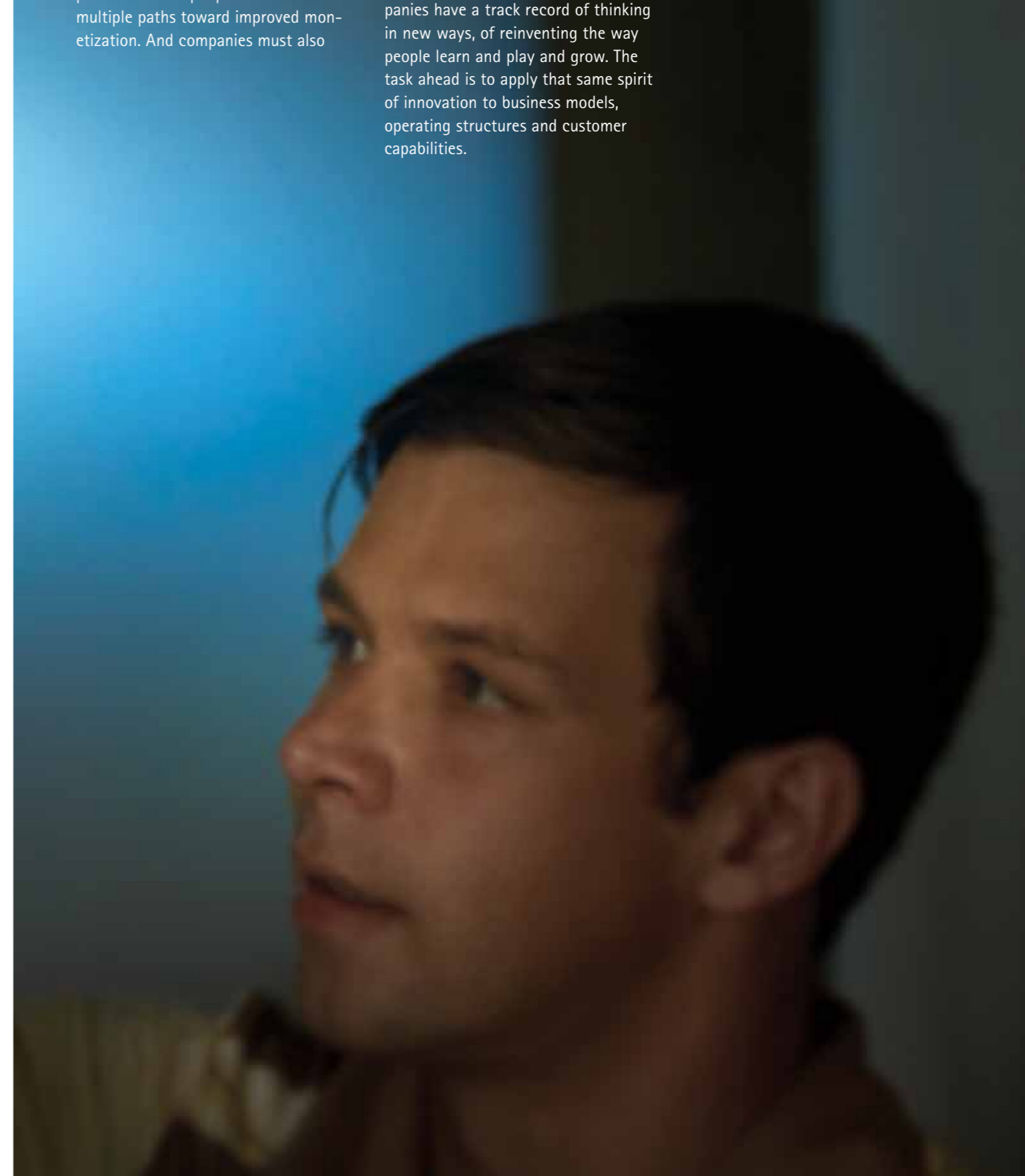


To meet that need, media and entertainment companies must be committed to understanding and satisfying consumer needs, and developing great content and consumer experiences. They must apply innovation to the way they think about business and revenue models, learning to live in a marketplace with multiple platforms and multiple paths toward improved monetization. And companies must also

transform their cost structure and capture the benefits of fully digital operations. With these capabilities, companies can meet their needs for current as well as future value.

More than any other type of business, the media and entertainment industry has innovation in its DNA. These companies have a track record of thinking in new ways, of reinventing the way people learn and play and grow. The task ahead is to apply that same spirit of innovation to business models, operating structures and customer capabilities.

It sounds less glamorous than delivering a blockbuster film, game or TV show. And yet the future ability to deliver those blockbusters depends in fact on the grittier kind of innovation that transforms a business from the inside out.



Contact

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For more information on how Accenture can help your company drive breakthrough growth through innovation, please contact:

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About the Media & Entertainment Group

Accenture helps broadcast, entertainment, portal and publishing companies adapt to the realities of the digital world and capitalize on new opportunities. More than 1,000 dedicated professionals provide media and entertainment companies with a distinctive combination of business and technology consulting, systems integration and outsourcing capabilities. Accenture has worked with 19 of the 20 largest media and entertainment companies in the world. Visit us at [www.accenture.com/
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