IBM Global Business Services
Executive Report

Media and Entertainment

IBM Institute for Business Value

Beyond content

Capitalizing on the new revenue opportunities

IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to *iibv@us.ibm.com* for more information. Additional studies from the IBM Institute for Business Value can be found at *ibm.com/iibv*

By Dr. Saul J. Berman, Bill Battino and Karen Feldman

As consumers continue to enhance and replace traditional media consumption with digital experiences, incumbent Media and Entertainment (M&E) companies face both a potential revenue challenge and an opportunity. A growing share of consumer value is shifting to new industry entrants and many companies are struggling to replace declining traditional revenue with equivalent value from digital media. To capitalize on new revenue opportunities, media companies should focus on enhancing the consumer experience, embracing new distribution platforms and expanding revenue models.

The consumer appetite for digital content continues to grow – and change – at a staggering pace. Media consumption has not just gone digital; it's connected. Consumers of all ages are trading printed books for e-readers, traditional television sets for Internet-connected TVs and mobile phones for smart phones, as well as adding new device categories – like tablets – to their portfolio of electronics. While these new devices present opportunities to further engage consumers, they also trigger disruption in the established media ecosystem as new entrants compete for consumer loyalty.

In this new reality, media companies face a revenue challenge. Digital services volume continues to grow but is not offsetting the value lost in traditional media. Three key drivers are underscoring this reality:

Value shifts – The balance of power has shifted, as device manufacturers and distributors/aggregators continue to innovate and deliver superior experiences for the consumer, capturing greater revenue share.

Substitution – Once merely a threat, substitution of traditional media is now glaringly real. The mainstream adoption of digital devices and content across all age groups continues to drive fragmentation and declines in traditional media consumption.

Weaker digital revenue models – Current digital revenue models tend to be weaker than traditional revenue models, whether due to lower unit value, lower inventory or the move toward *à la carte* offerings.

In addition, media companies face competition from a broader ecosystem that includes aggregators, device manufacturers and other new entrants – all vying for consumer mind and wallet share. Previously, quality content could aggregate large audiences and thus drive premium pricing. Today, however, revenue premiums are obtained by delivering audience context.

Today's media companies must determine how they can overcome these challenges to reclaim revenue. Our research indicates that M&E companies can indeed tackle these issues and chart a course toward growth and prosperity by concentrating on three key strategies:

Focusing on the experience – Media companies need to "rethink" their business models and seek innovative ways to enhance the consumer experience and connect with consumers.

Embracing new distribution platforms – Media companies can leverage connected platforms to engage consumers in a more strategic and ongoing relationship while optimizing value across distribution channels.

Expanding revenue models – New marketing, consumer-paid and packaged revenue models must be flexible and tailored, offering relevancy, choice, integration and packaging options for consumers.

To address the revenue challenge by delivering an immersive consumer experience, media companies will require a key set of capabilities to build analytics and insights, develop consumer-centric models and enable multiplatform delivery.

Background and research methodology

This report, the next in a series of Media and Entertainment (M&E) research reports, focuses on the business and revenue model innovation required to offset the value loss in traditional media that has occurred with the growth of digital.

An online survey, the third of this type conducted by the IBM Institute for Business Value, was broadly distributed by country, age and gender, providing reasonable representation of the online population. The questionnaire generated more than 3,300 responses from consumers over 13 years of age in five countries: Australia, Germany, Japan, the United Kingdom and the United States. In addition, a series of one-on-one interviews were conducted with business executives across the globe spanning relevant industries, including traditional content owners, media distributors, software/analytics providers, advertising agencies, consumer electronics providers and telecommunication providers. Also included were relevant outside parties (including industry analysts and associations).

Today's digital reality

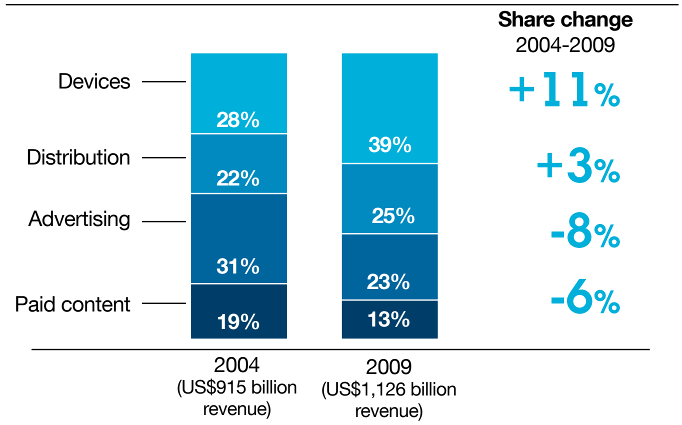
Consumption of digital content is now mainstream among younger segments, and older audiences are catching up at an astounding rate. With their "always on" devices, consumers are just clicks away from a virtually limitless selection of music, videos, games, shopping, news and more. This move to digital has created challenges for M&E companies, primarily caused by three key drivers: value shifts, substitution and weaker online revenue models.

Value shifts

As the options for consuming media have continued to grow and connected multimedia devices have been introduced, the overall experience has become more and more important. Consumers are making choices based on simplicity of use, integration and convenience. To meet consumers' growing needs, a new set of industry participants stepped in to deliver novel and superior experiences.

In fact, the pace of innovation has been dizzying. However, it generally has not been driven by traditional media participants. Device manufacturers and distributors/aggregators have led in consumer experience innovations – and consumers have gladly responded by allocating a greater portion of their budgets to offerings that enhance their experience. As a result, the balance of power and resulting value have shifted and, in many cases, device manufacturers and distributors/aggregators are capturing greater revenue share (see Figure 1).

Value shifts have been occurring across M&E, with the music industry serving as a prime example. The industry's traditional players are expected to lose more than 40 percent of value between 2003 and 2012 due largely to digital migration.[1] At the same time, new players in the broader music ecosystem have captured value by focusing on the consumer experience. In fact, if you define the industry more broadly and include the new players, the industry actually grew by 3 percent year-over-year between 2003 and 2008.[2]



Source: IBM Institute for Business Value analysis.
Note: Devices include TVs, DVD/Blu-ray players, MP3 players, smartphones, laptops/PCs, tablets/netbooks and portable video/game players. Distribution includes broadband access (wireline, wireless), and cable/satellite/IPTV subscriptions.

Figure 1: **Global revenue mix of media and entertainment and consumer electronics industries, 2004 versus 2009.**

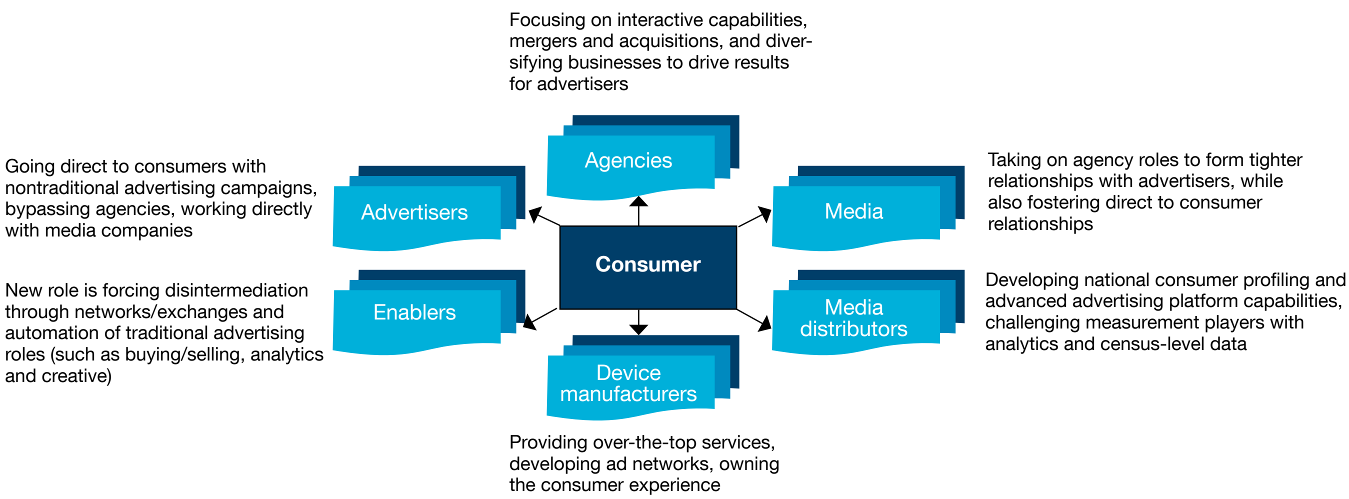
Apple, for example, profited through a reverse "razor blade model." Instead of giving away its portable music devices, or iPods (analogous to razors), to make money on music (analogous to razor blades), Apple charged a premium for the device but charged a low, standard price for songs. The model defined value in a new way and provided consumer convenience.[3] Other nontraditional players also saw revenue

"The challenge the industry faces is we don't just have a substitution effect, we have an ecosystem issue. Consumer mind and wallet share are not just migrating to the Web, but also to more devices (and players) than we ever imagined."

Head of Research, Global newspaper company opportunities, including concert promoters, which profited from expanded distribution of music and consumers' willingness to pay for the live experience, and some retailers like Best Buy, which helped consumers enjoy their connected devices through in-home networking services from its Geek Squad subsidiary.

The advertising industry provides another example of value shifts. As marketers have shifted dollars away from traditional advertising toward interactive marketing services, boundaries across the ecosystem have blurred, new models and players have emerged, and participants have broadened their focus areas and formed unexpected partnerships (see Figure 2). For example, some advertisers are bypassing agencies and going directly to the consumer through viral online video initiatives and branded mobile applications. Content networks are embracing agency roles, offering creative services directly to advertisers both for campaigns within their own properties as well as outside.

The mobile ecosystem is already more complex and fragmented than its online counterpart, due largely to the alignment required just to make a campaign happen – alignment between carriers, handset original equipment manufacturers, operating systems, third-party application developers, content owners and ad enablers. Fragmentation, non-existent measurement standards, limited creative production tools, immature business models and siloed organizational structures are all concerns as mobile content goes mainstream. Who will capture value is yet unknown.



Source: IBM Institute for Business Value analysis.

Figure 2: **The blurring marketing ecosystem.**

Substitution

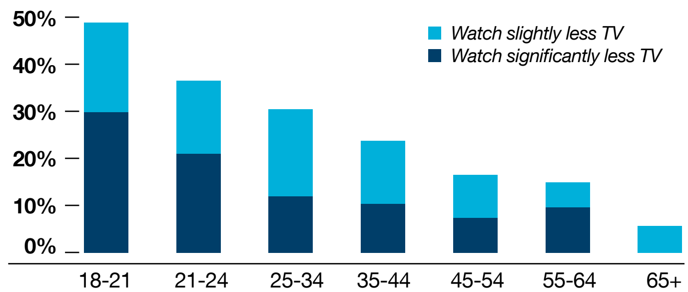
Consumers of all ages are embracing a multitude of new digital experiences. Essentially, online content adoption has mainstreamed, and although those age 18 to 24 are still in the forefront, older audiences are following in substantial numbers. Disproving previous assumptions that older audiences would continue to utilize traditional services, U.S. online growth in 2009 for most categories was driven by older audiences, resulting in a more even usage distribution across age groups, particularly for services like social networking and online news.

The substitution threat to traditional media is real. For television, substitution is most apparent with the coveted younger audiences (see Figure 3). Fifty percent of the U.S. consumers we surveyed in the 18 to 21 age group indicate they regularly watch online television, and close to 50 percent watch less television overall as a result of online viewing.

"I know some of the measurement companies claim online viewership is additive. But the reality is that it is impacting viewership of linear television, particularly for younger audiences who are now accustomed to an on-demand environment."

Vice President of Strategy, U.S. television network

Impact of online video viewing on "traditional" TV viewing
U.S. respondents segmented by age



Source: 2008 IBM Digital Consumer Survey.

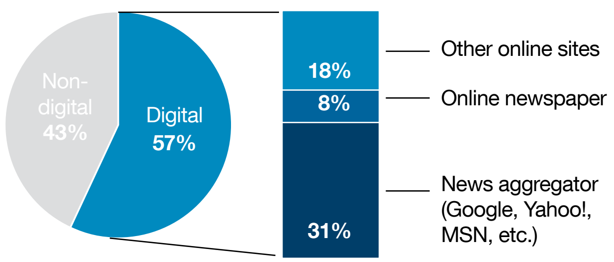
Figure 3: **For television, substitution is more apparent with younger audiences.**

Substitution is an issue for newspapers as well. Believing newspapers would retain their aging print readers, many in the industry focused digital strategies on attracting younger audiences.[4] However, our most recent research indicates the bulk of online newspaper growth is within the 55 and older segment, with simultaneous erosion in the 18 to 24 segment, implying there might not be a "safe" print segment.

Even more alarming is the possibility that older audiences will continue to shift from print to online, while younger audiences will migrate away from the newspaper as a destination altogether. In a recent survey, 57 percent of respondents indicate they prefer digital over print news – and they indicate that the online newspaper is their preferred destination only 8 percent of the time. Underscoring another value shift, they instead turn to aggregators like Google and Yahoo or other sites (see Figure 4).[5]

Such trends likely will continue and expand. Older audiences are buying smartphones and other connected devices; it is only a matter of time before the behavior patterns experienced with online content translate to mobile devices.

Preferred source for accessing "news right now" (United States)



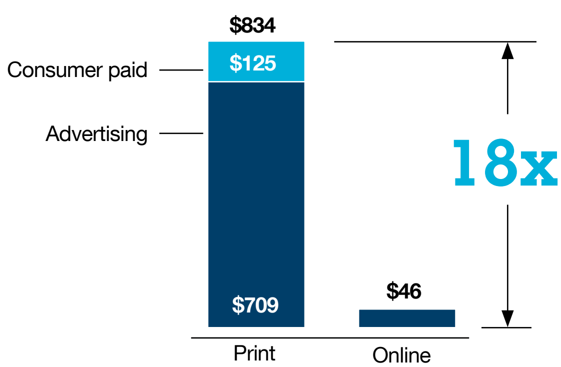
Source: "Outsell Report Shows Nearly Half of News Users Bypass Newspaper Sites in Favor of Google." Outsell press release. January 19, 2010. http://www.outsellinc.com/press/press_releases/news_users_2009

Figure 4: **For "right now" news, consumers prefer digital over print.**

Weaker revenue models

Substitution is of particular concern given the heavy reliance on online ad-supported models that have yielded a substantially lower unit return. For example, a print newspaper reader today is estimated to bring in 18 times the value of an online reader (see Figure 5).[6]

Newspaper value per reader per year



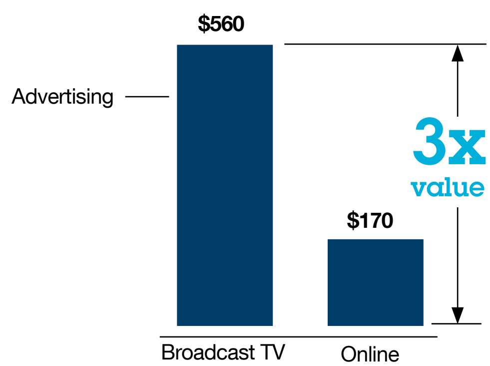
Sources: IBM analysis of publicly available information. For list of sources used for analysis, please see page 16, Reference 6.

Figure 5: **Value of print versus online reader.**

This value discrepancy is driven by two factors. First, most newspapers (with a few exceptions) provide content for free online. Second, the ad model online is not on par with the print version because of downward pricing pressures due to a surplus of online inventory and a reliance on advertising networks.

A value discrepancy also exists in the world of broadcast, with a broadcast TV viewer estimated to bring in three times the value of an online viewer (see Figure 6).[7] However, the reasons differ from those for newspapers. Online ads can often match or surpass broadcast price points due to the ability to target. However, the number of ads shown during programs on the most popular online video sites is approximately only 20 to 25 percent of what is shown on broadcast TV. Many industry experts believe Internet audiences simply will not tolerate as many commercials as there are on TV.[8]

Broadcast television value per thousand viewers per episode



Sources: "Can Pay TV Benefit from Online Video?" UBS Investment Research. June 22, 2009; IBM Institute for Business Value analysis.

Figure 6: **Value of broadcast versus online viewer.**

> *"If we don't figure out how to change an entire generation's behavior so it respects copyright and subscription revenue on the part of distributors, we're going to wake up and see cord cutting of traditional cable subscriptions."*
> Chief Operating Officer, Media distribution company

Our study also shows that consumer willingness to pay for online content continues to decrease, and one-third of heavy Internet users admit to regularly pirating music and video content. These findings make it all the more clear that M&E companies need to provide an easy, valuable and appropriately priced consumer experience – or risk piracy.

The key challenges associated with weaker revenue models, substitution and value shifts clearly point to an impending revenue gap.

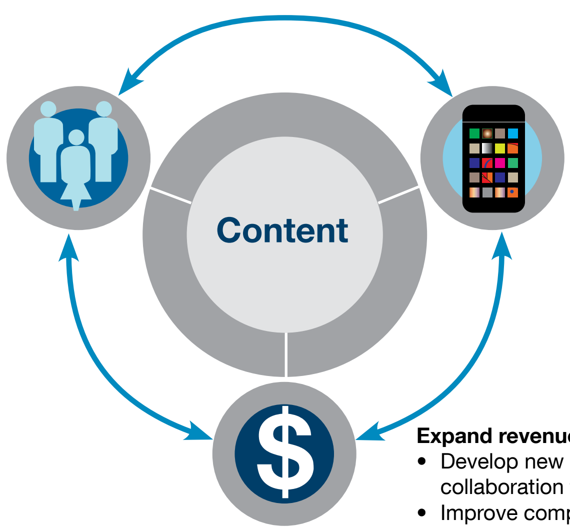
Reclaiming and growing industry revenue

The shift to digital provides a potentially expanding problem – or a huge opportunity to develop more strategic and tailored relationships with consumers by focusing on the overall experience, embracing new distribution platforms and expanding revenue models (see Figure 7).

Focusing on the experience

The M&E ecosystem has already become more complex, and once-defined roles have blurred – creating shifts across the value chain. Companies throughout the M&E space are vying to capture value and revenue share. To be successful in this endeavor, M&E companies will need to take risks and evolve their business models to more closely engage customers through superior innovative experiences.

Focus on the consumer experience
- Move beyond content to new services and offerings leveraging relationships across channels
- Use realtime analytics to gain deep customer insights and personalized experiences



Embrace and optimize distribution platforms
- Connect with customers across all devices in a seamless and integrated manner to improve loyalty
- Reduce complexity
- Enable expansion into new markets and repurposing of existing content

Expand revenue models
- Develop new business models and partner collaboration to strengthen core businesses
- Improve competitive position and generate new revenues faster

Source: IBM Institute for Business Value.

Figure 7: **Media's revenue challenge – Strategic areas for focus.**

> *"For a long time, media companies played the leading role in connecting marketers to consumers without reaping the benefits. There is no reason why we can't deliver (and monetize) the fuller experience."*
>
> President, Magazine publisher

But how do companies determine where and how to capture greater value? We created three strategies to help traditional media companies in this pursuit:

1. Extend to other elements in the value chain to enhance the consumer experience and capture revenue share. Create strong partnerships to capture a greater share of value chain revenues.
2. Deliver the social experience. Seek to both enhance the consumer experience and capture loyalty through value extensions that deliver directly to the consumer.
3. Use data to provide more value. Offer incentives to gain consumer insights and then offer value in exchange. Leverage the knowledge of consumer preferences and behavior patterns through analytics offerings and additional revenue models focused on targeted advertising and pricing opportunities.

These three strategies can be adopted and tailored to fit the specific scenarios faced by various M&E industries (see sidebar, Case study: Music industry). Most important, media companies must be proactive since doing nothing almost guarantees continued value loss.

Embracing new distribution platforms

To successfully drive the connected consumer experience, M&E companies must embrace and optimize new distribution platforms to deliver content wherever, whenever and in whatever format consumers desire. With new platforms continuously emerging, they certainly have no shortage of choices: smartphones, gaming consoles, mobile music players, PCs, tablets, e-readers, netbooks, e-toys and in-vehicle entertainment devices – just to name a few.

The opportunities across new platforms are large and growing. For example, Netflix's new streaming application on the Nintendo Wii was adopted by over 1 million users in its first month, Apple sold more than 3.3 million iPads during the first quarter it was available and the e-Reader market is expected to double in 2010 – and double again by 2012.[9]

At the same time, more and more consumers are using multiple devices concurrently. For example, NBC, an American television network, found that during its coverage of the Olympics, a significant number of viewers used two screens simultaneously, such as a PC and TV, or a mobile device and a TV. When this occurred, ad recall went up, presumably because NBC was able to create a more engaging and interactive experience across the devices.[10]

A key benefit of new distribution platforms is the opportunity to engage the consumer in a more strategic and ongoing relationship. And consumers seem to be open and willing to foster this relationship. For example, despite privacy concerns, when asked whether they would be willing to provide information about themselves online or via a mobile device in exchange for something of value, over 50 percent of consumers globally indicate a willingness in both cases – as long as it is transparent and in exchange for perceived value.

Case study
Music industry

What could the music industry have done differently to mitigate the value shifts and loss of share it experienced with the shift to digital?

Extend to other elements in the value chain to enhance the consumer experience and capture revenue share.

If record labels had partnered with device manufacturers early on, they might have been able to create an agreement where they captured a portion of revenues generated on the devices themselves. This would have allowed the labels to profit from the popularity of digital music. They also could have advocated more strongly for variable-based pricing to better reflect the value of individual songs. Their efforts in these areas, such as Total Music in 2007 (the industry's attempt to create its own digital distribution business) were generally unsuccessful.

Deliver the social experience.

If record labels had more closely tied themselves to consumers' social experiences, such as live or online concerts, they could have captured a portion of revenues generated off the concerts and marketing deals as opposed to the narrower arrangements that were structured only around song sales.

The social music experience has been mostly in the hands of small digital innovators, including Spotify (which offers music streaming services and the ability to create and share playlists) and Jelli (which allows radio listeners to listen to songs simultaneously with others and determine which songs are played by live online voting).[11] These companies offer the kind of online social experience the record labels could have provided – and owned – much sooner.

Use data to provide more value.

Music record labels could have culled the data and knowledge of consumers' preferences and behavior patterns related to music to offer targeted services, enhance the listening experience and help audiences discover and share new songs. For example, they could have created a service like the one offered by Pandora, which uses algorithms to suggest similar songs based on structure.

Behind the scenes, record labels could monetize consumer insights through analytics offerings and/or additional revenue models focused on targeted advertising and pricing opportunities. For example, they could have taken the lead in enabling artists to market directly to consumers based on their tastes and preferences. They also could have provided insights about consumers' music preferences to marketers and captured an additional revenue stream through advertising.

Though the ability to target ads online certainly exists, only about 10 percent of online ads are targeted and relevant.[12] Today, online advertising is still driven by the quantity over quality philosophy. Mobile, on the other hand, still has very few ads, presenting in many ways a clean slate. Companies can take a more cautious approach, leveraging the openness to build consumer trust by offering content and messaging that is relevant, rapid and integrated.

Consumers we surveyed also indicate a willingness to pay for services on mobile and other new devices, presenting an opportunity for more balanced revenue models. This opens up a multitude of possibilities in terms of what mobile marketing includes and how a marketer can engage with a consumer. Mobile couponing, shopper applications and social crowdsourcing tools are paving the way for an integrated shopping experience.

As an example of this integrated shopping experience, Foursquare, which provides a location-based social network mobile application, is enabling businesses to offer hyper-local targeted marketing messages to consumers based on proximity and frequency. In addition, users offer peer reviews of locations and services, adding a layer of user-generated content. In exchange for loyalty, more and more businesses – from local retailers to larger organizations like Bravo TV, Starbucks and The History Channel – are offering coupons, discounts, free goods and marketing materials.[13] As users continue to enter personal information and update their locations, Foursquare could collect a historical view of consumer habits and preferences and, over time, possibly recommend a much larger variety of targeted marketing materials in real time – as a consumer walks into a store to look for a specific item or service. What consumers are experiencing today could be just the beginning of what mobile marketing has to offer.

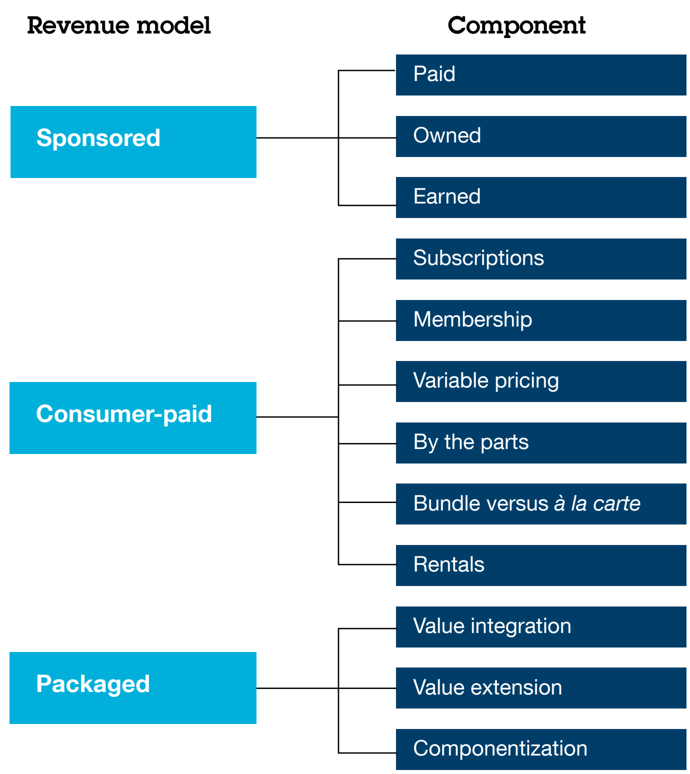
While the opportunities available through new distribution platforms are plentiful and potentially very profitable, there are a number of costs and strategic decisions to make. For example, media companies need to decide whether they will favor an open or closed ecosystem approach, as well as assess the real costs of working with a plethora of device manufacturers with different technology and metrics requirements. However, the potential rewards are worth the investigative efforts. Marketing content that is context- and permission-based and provides tangible value at the right time is an excellent basis for a new type of relationship between marketers and consumers.

"Mobile has the opportunity to be a game changer because of its ability to transcend time and space to deliver true utilitarian value to the consumer."

CEO of Digital, Global agency holding company

Expanding revenue models

Our research indicates that consumers today want relevant messaging, pricing models that provide choice and flexibility, and a seamless experience across their devices. As a result, new revenue models need to evolve beyond a "one size fits all" mold and offer the relevancy, choice, integration and packaging options consumers demand. We have identified three key types of revenue models that media companies should innovate to meet consumers' needs (see Figure 8).



Source: IBM Institute for Business Value.

Figure 8: **Media companies can develop innovative sponsored, consumer-paid and packaged revenue models.**

"We used to be in the business of selling content. Now we're in the business of delivering audiences. That means we now have to focus on creating a more compelling experience for consumers… and sharing our insights with our marketing partners."

President of Digital, Major magazine publisher

Sponsored: Marketing innovation

Sponsored – or indirect – revenue models separate the end customer from the person who actually pays, so that there are three parties to every transaction instead of two. Advertising sales is a classic source of indirect revenue, and other third-party revenue sources include fee-based product placement and sponsorship.

Today's M&E companies need to find innovative ways to "upgrade" traditional sponsored revenue models so they appeal to the digital consumer. They need to move from the "one-to-many" approach and take advantage of digital platforms to target and interact with consumers in a segmented or individualized way. They need to go "beyond advertising" and focus on consumer-centric marketing tactics.

Examples of such consumer-centric marketing can be seen across paid, owned and earned categories:

- *Contextual marketing through paid media* – This involves making messages and content more relevant for the consumer, with new advertising formats, new methods for reaching segmented consumers, and deeper integration between the content and the advertising messages.
- *Branded applications through owned media* – These applications, primarily for mobile devices, are designed to enhance the value of a brand through immersive experiences and relationships directly with the consumer.
- *Social networking through earned media* – This strategy focuses on profiling audiences, targeting social influencers and becoming a topic of conversation for social groups of consumers who are connected to one another.

Some companies pursuing such strategies have already seen incremental revenues. Meredith Corporation, for example, has evolved beyond traditional magazine publishing to offer full-service interactive marketing. Its Meredith Integrated Marketing division has created custom publishing, e-mail, social media and mobile campaigns for major companies. When the company's magazine ad revenue plunged 15 percent in one year, revenue tied to the interactive marketing business rose 13 percent.[14]

Consumer-paid: Pricing innovation

Media companies employing consumer-paid revenue models also must embrace innovation to offer more choice and flexibility to consumers. Our recent research reveals that pricing preferences are extremely heterogeneous. Some consumers prefer not to pay at all and are more than willing to view advertising in exchange. Others place a high value on their time and, as a result, are willing to pay for content, often through a subscription. Still others prefer to "design" their experience, paying for a specific content category (such as sports) *à la carte*, while some prefer to pay on a one-time or transactional basis for content.

Despite these differences, most leading suppliers of digital content offer very little flexibility with regard to pricing models, although experiments with new pricing models are underway. Effectively pricing innovative models involves rethinking both the amount of money charged and the point(s) where and when the customer pays.

For instance, "pricing by the parts" allows products previously sold as one unit to be cut into component parts that are priced and sold according to perceived value – giving the consumer a choice. As an example, consumers can buy a single song versus an album via Apple's iTunes Store, a software-based online digital media store. Another pricing model involves applying rental or subscription models to industries that were traditionally priced on a transactional basis, such as Rent the Runway has done by allowing customers to rent – rather than buy – dresses by top fashion designers.[15]

Packaged: Value innovation

Consumers are increasingly interested in having consistent experiences across their various devices. Though interest is highest among those under 24 and early Internet adopters (50 percent and 58 percent respectively), 41 percent overall indicate interest in cross-device content consistency and portability. Successful M&E organizations will embrace innovative packaged revenue models to deliver this consistency in experience across devices.

There are three packaged model strategies currently being pursued to capitalize on integration across platforms: value integration, value extension and componentization:

- *Value integration* – Introducing new platforms as additional opportunities for consumers, with incremental charges. The company generates revenue by charging incrementally on each distribution platform to drive more revenues. Companies pursuing this model include W*ired Magazine*, *The Wall Street Journal* and the *Financial Times.*
- *Value extension* – Introducing new platforms in an existing bundle, with no incremental charge. Instead of an incremental charge, a company extends the subscription to include new distribution platforms within an existing price point as added value to drive retention. Examples of companies pursuing this strategy include TV Everywhere and Netflix.
- *Componentization* – Splitting products or in-house resources into component parts and monetizing them in a different form for a different customer or use. Pricing by the parts, as Amazon does with songs, ringtones and albums, is an example of componentization.

Regardless of strategy, M&E companies must recognize that today's digital world requires change. "One size fits all" will no longer suffice. Consumers desire – and expect – revenue models that offer relevancy, choice and integration. This flexibility in revenue models is just one part of the superior, integrated experience consumers seek across their various devices.

Are you ready for the challenge?

To help M&E leaders overcome the revenue issues they face, we outlined three strategies – focusing on the consumer experience, embracing new distribution platforms and expanding revenue models. In addition, we have identified specific actions to take in each strategic area, as well as some enabling capabilities required to transform to a digital enterprise.

Strategic actions and capabilities

Focusing on the experience:	Embracing new distribution platforms:	Expanding revenue models:
• Form partnerships to enable enhanced consumer experiences involving multiple value chain players. • Determine whether to go with an open or closed ecosystem approach in the short term, while maintaining flexibility to change paths. • Move from a transactional, volume-based focus to one that enables integrated, cross-device "solutions" that foster deeper consumer trust, optimizing cross-platform predictive analytics to create a single view of the customer and more engaging and valuable experience • Develop the marketing skills, tools and services necessary to engage, cross-sell and tailor loyalty-based tactics to both end-users and clients. • Enable scalable custom solutions with a focus on digital automation that simplifies operations and improves flexibility, paying specific attention to the digital supply chain, the digital archive and cloud computing. • Align with consumer groups or clients to understand needs and wants and encourage true consumer innovation. • Break down silos in legacy business divisions to create a consumer-centric go-to-market approach enabling true monetization across business units.	• Utilize analytics and predictive modeling to optimize digital distribution. • Pilot individual and location-based broad monetization models, experimenting with new approaches and formats to determine what resonates with consumers. • Establish a flexible, agile and automated digital supply chain, enabling the end-to-end process for multiplatform to help increase efficiencies and drive down costs. • Work toward cross-industry collaboration on common standards and metrics. • Prioritize both consumer privacy and data security through effective technologies and processes. • Embrace multiplatform portals: interactive centers, live events, commerce, digital channel transformation and Web analytics.	• Build direct marketing and cross-platform capabilities to manage the shift to individual-based targeting and pricing. • Enable targeting of both content and messaging based on consumer profiles, context and self-provided information. • Create a common scalable and flexible payment infrastructure that delivers consumer choice not only in pricing, but in payment mechanisms as well. • Establish a single view of the consumer across platforms by implementing advanced analytics and integrating data across business units and organizational silos. • Build cross-platform campaign management and reporting tools that enable forecasting, sales, delivery and reporting for integrated, cross-platform marketing agreements.

Media and entertainment leaders should work now to build the capabilities necessary to take action and overcome the revenue challenge they face.

Conclusion

The consumption of digital media continues to grow. Even those long true to watching broadcast TV, purchasing CDs and renting videos from local stores are moving toward digital experiences – experiences that more often than not are delivered by device manufacturers, distributors/aggregators and new entrants. As a result, traditional M&E business models are losing traction, taking company revenues down with them.

To sustain and grow, media companies must get serious about change and develop the capabilities they need to extend and enhance the consumer experience. We believe they can do so by focusing on the experience, embracing new distribution platforms and expanding revenue models.

To learn more about this IBM Institute for Business Value study, please contact us at *iibv@us.ibm.com*. For a full catalog of our research, visit:

ibm.com/iibv

Be among the first to receive the latest insights from the IBM Institute for Business Value. Subscribe to IdeaWatch, our monthly e-newsletter featuring executive reports that offer strategic insights and recommendations based on IBV research:

ibm.com/gbs/ideawatch/subscribe

Related publications

Berman, Dr. Saul J., Bill Battino and Karen Feldman. "Media's looming revenue gap: Digital-driven challenge for traditional business models." IBM Institute for Business Value. March 2010. http://www-935.ibm.com/services/us/gbs/bus/html/ibv-digital-media-consumer.html

Berman, Dr. Saul J., Bill Battino and Karen Feldman. "Beyond advertising: Choosing a strategic path to the digital customer." IBM Institute for Business Value. February 2009. http://www-935.ibm.com/services/us/gbs/bus/html/gbs-beyond-advertising.html?cntxt=a1000062

Berman, Dr. Saul J., Bill Battino, Louisa Shipnuck and Andreas Neus. "The end of advertising as we know it." IBM Institute for Business Value. November 2007. http://www-935.ibm.com/services/us/index.wss/ibvstudy/gbs/a1028798?cntxt=a1000062

Authors

Dr. Saul J. Berman is the Global Lead Partner for Strategy Consulting and Innovation and Growth for IBM Global Business Services. He has over 25 years of experience consulting with senior management and has published multiple articles and in-depth reports on strategy and the future of media and entertainment. Dr. Berman is a frequent keynote speaker at major industry conferences and was named one of the 25 most influential consultants of 2005 by *Consulting* magazine. He can be reached at *saul.berman@us.ibm.com*.

Bill Battino is the Global Managing Partner of the Media and Entertainment, Telecommunications and Utilities consulting practices for IBM Global Business Services. He has 25 years of consulting experience in the areas of strategic planning, transformation, acquisition, market assessment, financial analysis and organizational assistance. In addition to being a frequent speaker at industry conferences and events, Mr. Battino has led and authored several media and telecommunications studies. He can be reached at *william.battino@us.ibm.com*.

Karen Feldman is the IBM Institute for Business Value Leader for Global Media and Entertainment. She has over ten years of consulting experience and has worked with leading companies on wide-ranging strategy and operations projects. Ms. Feldman has deep experience in both the advertising and marketing disciplines. She can be reached at *karen.x.feldman@us.ibm.com*.

Contributors

Steve Abraham, Global Leader, Media and Entertainment, IBM Global Business Services

Steve Canepa, General Manager, Media and Entertainment, IBM Sales and Distribution

Nadia Leonelli, Managing Consultant, Business Strategy, Media and Entertainment, IBM Global Business Services

The authors would also like to acknowledge the following people who assisted with the IBM Digital Media Consumer Study: Cheryl Grise, Partner, Americas Media and Entertainment Industry Leader, and Shiny Wei, IBM Global Business Services Media and Entertainment Industry, Global M&E Market & Strategic Development Lead

The right partner for a changing world

At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities.

References

1 "2003 Consumer Profile." Recording Industry Association of America (RIAA). 2004. http://76.74.24.142/64638263-0D37-829E-14FD-7C75E69F6EE6.pdf; Grover, Ronald and Adam Satariano. "The Fall of Music Downloads." *Bloomberg Businessweek*. July 1, 2010. http://www.businessweek.com/magazine/content/10_28/b4186037467816.htm

2 IBM Institute for Business Value analysis. 2010.

3 Johnson, Mark W., Clayton M. Christensen and Henning Kagermann. "Reinventing Your Business Model." *Harvard Business Review*. December 2008.

4 IBM Institute for Business Value analysis. 2010.

5 "Outsell Report Shows Nearly Half of News Users Bypass Newspaper Sites in Favor of Google." Outsell press release. January 19, 2010. http://www.outsellinc.com/press/press_releases/news_users_2009

6 Chittum, Ryan. "The Chasm Between the Value of Print and Web Users." *Columbia Journalism Review*. August 21, 2009. http://www.cjr.org/the_audit/post_11.php?page=all; "Advertising Expenditures." Business Analysis and Research, Newspaper Association of America. March 2010. http://www.naa.org/TrendsandNumbers/Advertising-Expenditures.aspx. "Total paid circulation." Newspaper Association of America. http://www.naa.org/TrendsandNumbers/Total-Paid-Circulation.aspx. "Newspaper Web Sites." Newspaper Association of America. http://www.naa.org/TrendsandNumbers/Newspaper-Websites.aspx; IBM Institute for Business Value analysis.

7 "Can Pay TV Benefit from Online Video?" UBS Investment Research. June 22, 2009; IBM Institute for Business Value analysis.

8 "Report: TV Networks Should Be Afraid – Very Afraid – Of HULU." MediaPost News, Online Media Daily. Monday, September 14, 2009. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=113407

9 "Netflix Wii adoption not that bad." Infendo. May 4, 2010. http://www.infendo.com/netflix-wii-adoption-not-that-bad/; "On the Call: Apple COO Tim Cook speaks to iPad adoption pattern and ongoing shortages." Simple Thoughts. July 20, 2010. http://blog.taragana.com/index.php/archive/on-the-call-apple-coo-tim-cook-speaks-to-ipad-adoption-pattern-and-ongoing-shortages/; "CES 2010 Trends to Watch: 4 Days 4 Predictions." 2010 International CES. Consumer Electronics Association. January 2010.

10 Wurtzel, Alan. "A look into the future: Learnings about the media consumer from the billion dollar Olympic lab." Advertising Research Foundation Annual Conference presentation. 2010.

11 Cutler, Kim-Mai. "Jelli: A pretty novel social music experience on the radio." SocialBeat. October 20, 2009. http://social.venturebeat.com/2009/10/20/jelli-a-pretty-novel-social-music-experience-on-the-radio/

12 "Behaviorally Targeted Ads Yield Twice The Revenue and Twice the Converts." Research Brief from the Center for Media Research. April 7, 2010. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=125477; "Behavioral Targeting: Advertising Gets Personal." eMarketer. June 2007. http://www.emarketer.com/Reports/All/Emarketer_2000415.aspx; IBM Institute for Business Value analysis. 2010.

13 "21 Unique Location Examples from Foursquare, Gowalla, Whrrl, and MyTown." Socialfresh.com. June 1, 2010. http://socialfresh.com/foursquare-case-studies/

14 Steel, Emily. "Meredith Builds Up a Sideline in Marketing." *The Wall Street Journal*. February 25, 2010. http://online.wsj.com/article/SB10001424052748703510204575085752704563926.html

15 "Subscription Model Turns Rent the Runway into a Real 'Dressflix.'" Xconomy. January 8, 2010. http://www.xconomy.com/boston/2010/01/08/subscription-model-turns-rent-the-runway-into-a-real-dressflix/

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
August 2010

GBE03361-USEN-01