IBM Business Consulting Services

Media and entertainment 2010

Open on the inside, open on the outside: The open media company of the future

An IBM Institute for Business Value Future Series executive summary

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The open media company of the future

Between now and 2010, key media and entertainment trends will compel companies to open up access to content in more ways than ever. Successful companies will create leaner, more transparent organizations that cater to more platforms, more devices and more users wanting to edit, compile and share. The closed and proprietary media and entertainment business models of the past will give way to open media business strategies, enabling forward-looking companies to exploit significant opportunities for growth and profitability.

A peek at 2010: "I want it my way…"

Media pervade everything, everywhere. Technology just keeps getting better, smaller and cheaper – raising expectations and putting business models up for grabs.

Businesses and consumers in 2010 are unencumbered by wires and cables. Wall-sized screens displaying gigabytes of digital information let users wallow in scores of programs, sales presentations or work files spread out at once. Fans flock to the neighborhood movie theater to see digital Webcasts of world championship tournaments or Broadway shows in realtime. Enthusiasts from around the globe spend hours together in realtime, playing interactive online games that feature characters from pop songs, books or movies. They joust from hundreds of types of platforms, devices and networks, all served by the standardization of digital formatting and realtime language translation.

Now more content is available in more formats than ever, and everybody wants something different from every piece of content. A university professor has videotaped his analysis of a news event and wants to intercut it into a primetime news broadcast downloaded for his classroom. Organized groups subscribe to an online service that provides profanity-free versions of top-selling music, books, films and other content. Online distribution and management systems track all rights and licensing by users, employing biometric identifiers tied to payment schemes (for large downloads) and subscription package fees (for less exclusive content).

Conglomerates, traditional studios and publishers are opening up their inventories, putting old and new digitized content online for variable fees. The same song costs more, or less, depending on complex variables such as age, sales tracking, promotional schemes or even the rarity of archival content. Customers can purchase and download a book configured for one or more types of devices; they can also order the film of the book, the soundtrack or only one song, the liner notes or a single quotation to use in a variety of formats, from a term paper

to a wall poster. Millions of micropayments aggregate to a sizeable revenue stream from the sale of new or archived digital content, much of which never has to travel to a theater, retail store or TV station – it's delivered online.

There are still powerful media brands, but even big conglomerates rely on outsource providers to handle just about everything that isn't directly brand-related – production, sales and distribution, marketing and customer service – whether physical or online. Each conglomerate relies on a tightly focused stable of specialized businesses linked online around the globe on a need-to-know basis. Other companies have organized around their core media specialties, becoming best-in-class for a key service such as accounting and rights management, or a profitable creative activity like animation, production or publishing. With digital media and online links, specialist companies can serve clients in many locations.

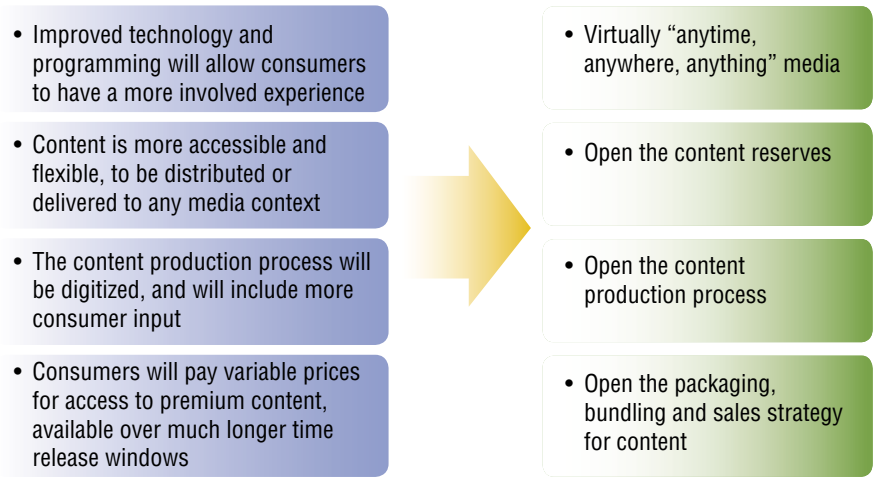
Media companies survive or fail in 2010 based not just on creative content, but on creative intelligence – about customers, markets and the value of digital assets. In an era of "pervasive media," users around the world are confidentially tracked for their opinions, preferences and tastes in media and entertainment – and data analysis helps companies determine asset potential. Open architectures and open business strategies let media businesses exploit rapidly developing niches, create new or aggregated revenue streams and customize open relationships with content creators, distributors, customers and consumers.

The open media business of the future – open on the inside, open on the outside

The impact of interactive, immersive media experiences – and users at many levels affordably equipped to participate, customize, create and distribute content – will rock markets and business models between now and 2010. Successful companies will respond by forming open relationships along the media creation and distribution chain as well as with audiences.

By 2010, there will be more tools in the hands of more creators, more digital content and easier transportability, bigger broadband pipes – and more competition for scarce consumer attention. Successful companies will resist the instinct to circle the wagons; instead they will open up the way they create content. They will open new ways to manage, store, catalog and break down content into product units. They will open up the distribution of content, the delivery and packaging and availability of content elements. They will build scale and reduce costs. And they will create open, reciprocal relationships with suppliers and customers, allowing more freedom in the ways they combine content and delivery (see Figure 1).

Figure 1. Each of these characteristics will contribute to the "open" media firm of the future.



Source: IBM Business Consulting Services analysis; IBM Institute for Business Value analysis, 2004.

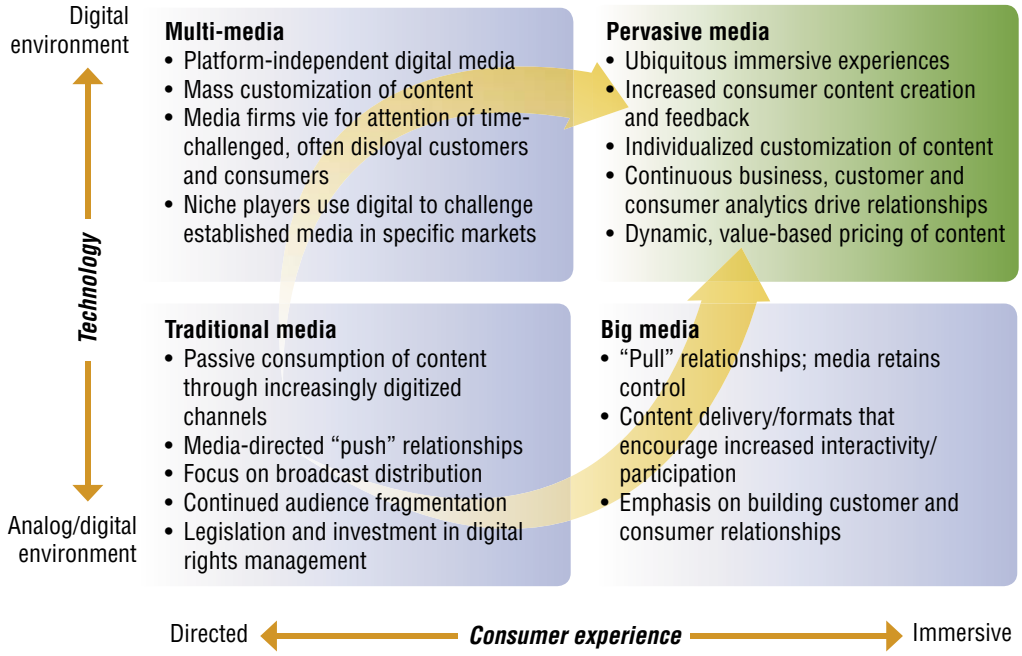
We believe that this open media firm of the future will come to pass because of four key drivers:

- Emerging media environments
- Evolving consumer behaviors
- Ongoing technological innovation
- Increasing scarcity of consumer attention.

More immersive experiences and increasing technological sophistication are creating new media environments

Between now and 2010, improvements in digital technology and the battle for human attention will cause media consumption patterns to rapidly evolve. This evolution will push media firms to develop sophisticated systems for managing customer and consumer relationships (see Figure 2).

Figure 2. All paths lead to the pervasive media environment of the future.



Source: IBM Business Consulting Services analysis; IBM Institute for Business Value analysis, 2004.

Over time, as technology evolves and consumers' wants and needs escalate, four media environments will emerge.

Traditional media represents the traditional contract between providers and users. It is a "one-way street" – media companies create and push content in a limited number of formats controlled by the distribution media toward passive audiences. Media companies build mass markets and own distribution systems to push content.

Multi-media finds an open field for technology dissolving these assumptions, introducing rapid, innovation-fueled growth in media and entertainment – multiplexes, DVD, Internet, cable, satellite and high-speed transmission, personal video recorders (PVRs) and satellite radio – and correspondingly diminishing shares of human attention.

Big media shows more interactivity between the media company and the consumer, such as channels and offerings within ISPs and Web portals, a wider range of content on DVDs versus videotapes, and data-gathering methods such as "cookies", opt-in marketing or customer relationship management. But the underlying business models remain lodged in the analog era.

Pervasive media represents the coming era, where consumers and businesses are fully connected, immersed in media all the time. Businesses will be able to respond through online connectivity and deliver electronically at any hour around the clock. Many forms of media will be "parallel processed" – in use simultaneously – such as watching TV and e-mailing at the same time. Users will be inundated with choices.

FCC chairman manages attention: becomes producer of own programming schedule

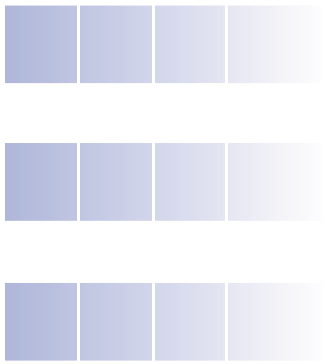
TiVo, the personal digital TV recorder, has received a favorable review by FCC chairman Michael Powell. In an interview with the Sunday New York Times Magazine, Powell said that, as a result of TiVo, "I'm my own programmer, not NBC. I've got a system looking all around the 300 channels I have. And picking out the stuff I like, putting them together and letting me decide whether *24* is on at 9:00 p.m. or 9:45."[1]

Media consumers, to varying degrees, will be increasingly involved in the creative process

These shifts toward a pervasive media environment will evoke major changes in media and entertainment companies by 2010. Media companies will need new strategies to respond to emerging media experiences and consumption behaviors. Although passive consumption will continue to represent a large market share, digital media's capabilities will engender new forms of interaction, enabling even traditional consumers to make content more individually meaningful:

- *Traditional passive consumers* – will choose among media companies' predictable mass-market offerings (but use several platforms or flexible viewing schedules with affordable devices) and choose different edits of the same content (for children or adults, for example).
- *Contributors* – will experiment with more options and more innovative platforms, providing feedback passively through purchase choices and data collection, and actively through suggestions, opt-ins or invitations to participate online.
- *Producers* – will program content and devices that they purchase from multiple sources, making uniquely personalized digital play lists or collections for their own tastes. These tech-savvy users will port content files among a variety of devices, and compile chunks of content from many sources into their own playback formats.
- *Authors* – will use affordable Web tools, provided by media companies, to tailor content to business or personal interests.

Users who contribute or interact as producers of their own programming or authors of content will not cease to enjoy passive consumption; they will add new skills and redefine the amount of time they spend enjoying media passively.



Technological innovation will continue to promote interactivity and responsiveness

Relentless technological development means that complexity will continue to characterize the media and entertainment industry in 2010 and beyond. Because technological development is largely outside the control of media firms, businesses will need to reengineer processes frequently to reap greater efficiencies from technological innovation.

Technological innovation: The transition from analog to distributed digital platforms.

Phase one: Digital formats (1996-2001): Continuously improving digital platforms, networks and software, such as MPEG formats, DVDs, CDs, PVRs, video game consoles, etc., affect media and entertainment distribution and value. Powerful market forces in the overall economy drive innovation beyond the control of media companies.

Phase two: Technology integration (2002-2006): Web services, grid computing, peer-to-peer/distributed computing and other improvements to identified needs from phase one. On demand strategies and middleware enable companies to respond more flexibly to customers and competitive shifts. Greater ROI from technology investments through enhanced standards, utilization and processes, more reliable autonomic (self-healing) systems, reduced network downtime and automating as many functions as possible.

Phase three: Transformation (2006-beyond): Exponentially more advanced and powerful systems transform value creation:

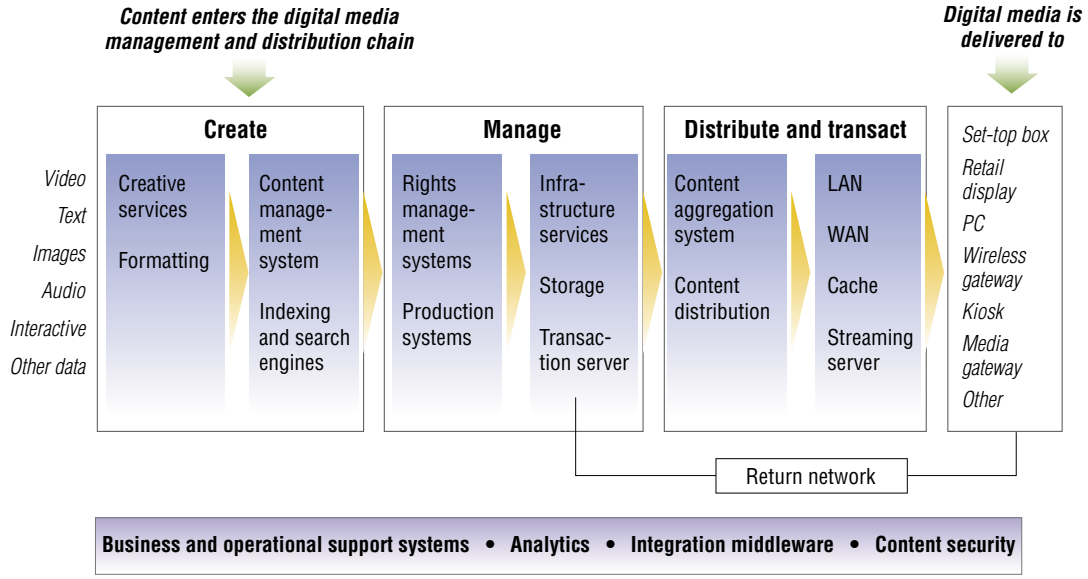
- Business intelligence – Improved data capture, analytics and knowledge management = better-informed business decisions
- Economies of scale – Reengineer scale and processes around new technology capabilities = reduced operating expense
- Partnerships – Digital ecosystems with other firms = shared costs, greater value
- Increased productivity – on demand and utility computing; multiple support technologies working more seamlessly.

The future's higher production capacities at more affordable price points will enable smaller businesses to produce more content that can be gathered to serve more niches. Skilled editors/content managers can deploy digital multimedia devices to serve niche markets, such as language- and interest-group subcultures. Content will be able to flow more easily upward from the grass roots as well as downward from the media elites, opening doors to fresh creative approaches.

Digital technology will enable media companies to create content of extraordinary quality, stability, storability and revolutionized production; but considering the substantial cost for these massive technology undertakings, any potential savings on the creative end must accrue over the long term. Lower costs through digital technology will take place in the realms of inventory, supply chain, distribution, back-office and security processes where strategic innovations can increase efficiencies and productivity.

Figure 3 contains an end-to-end view of a fully developed digital media system for creation, management and distribution of content in a virtually "touchless" online environment – requiring little human interaction – in 2010. Digital platform-universal standards will allow content traveling online to be managed and tracked throughout all enterprise processes, from creative to order fulfillment. This enables media companies to create new value through organizing around the core business and interoperating with partners that can perform certain media business functions more cheaply and efficiently.

Figure 3. Open media businesses of 2010 will develop a strategic blueprint for digital business technology.



Source: IBM Research, Digital Media Factory*, 2002: IBM Business Consulting Services analysis; IBM Institute for Business Value analysis, 2004.*

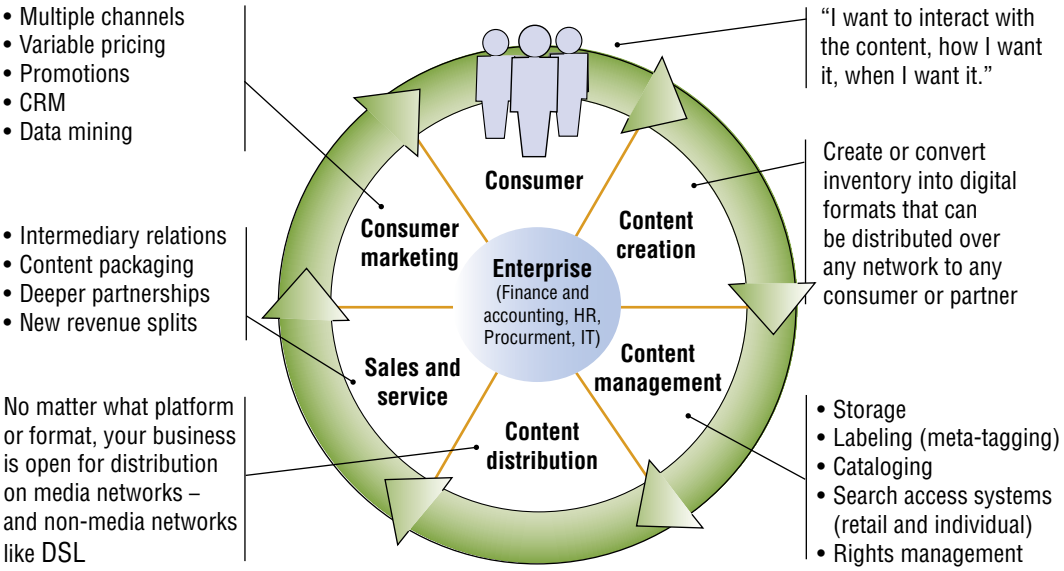
As more and better networks are deployed, new technologies and devices are rolled out, and content and users become more sophisticated, we anticipate that the convergence of these trends will continue to burden human attention.

Increasingly media companies will need to vie for consumer attention

As choices continue to expand and time remains limited, attention will become an even scarcer resource. The glut of overchoice and competition will become even more intense, and media companies must continue to vie for the customer's attention. A significant portion of content will be packaged and delivered based on customer demand, device and delivery requirements, making customer responsiveness the "killer app" of 2010. Digital content that can travel across platforms will no longer be welded to the distribution medium (fans may not have to miss their favorite television show while waiting in an airport when they are able to watch it wirelessly over their PDAs).

Limited consumer attention, increased availability of content, changing consumer behaviors and evolving technology will combine to fundamentally alter the traditional media company value chain by 2010. Leading companies will reshape their value chains into "attention loops" that facilitate ongoing, interactive relationships among content creators, business partners, customers and consumers (see Figure 4).

Figure 4. The open media company will embrace the "attention loop."



Source: IBM Business Consulting Services analysis; IBM Institute for Business Value analysis, 2004.

How will media businesses thrive, as users and customers demand more content-rich, high-bandwidth interactive experiences? This section explores our strategic recommendations for becoming an open media business.

What will it take to become an open media business?

We have ten strategic recommendations for those companies intent on becoming open media businesses of the future:

1. Get your digital house in order: Create or convert content to digital formats

Media developers should exploit the future's data-rich, pervasive media environment by creating content in (or converting archives to) platform-universal digital formats that can be played on a wide range of user devices. Digitization will help companies reap wider distribution of more bytes of content in multiple formats; one user may want an entire book or film, but only for a small-screen handheld device; another may want a quotation or a 30-second clip; another, full resolution for high-definition TV. Rights should be tied to the person, not the device, so that portability and transfer of the content from one device to another becomes easier with the development of universal digital standards. The conversion of analog content to digital management is an investment. Media firms need to develop a comprehensive strategy for prioritizing the conversion to digital management – content with the highest ROI or the shortest payback time should be converted first.

2. Manage content for optimum flexibility and asset value

In the pervasive, digital environment, an open approach will enable owners to reap more aggregate ROI from content that is flexibly managed so that it can be sold in long form or in parts, for multiple types of distribution online. Take a deeper look at price points. Price calibration influences perceived levels of quality, but some content, even of recent releases, should be offered at a lower price because it will never produce much profit; conversely, the "sleeper" that performs beyond expectations could contain greater ultimate value. For example, the critically acclaimed film, "O Brother, Where Art Thou" was rated 59th most popular by Variety in 2001,[2] but its soundtrack was judged independently by the public, garnering triple-Platinum RIAA certification[3] and winning five Grammys[4] and multiple top awards, including Album of the Year from both the Country Music Association and the International Bluegrass Music Association.[5] Use deeper analytics to identify demand indicators that are independent of traditional measurements (see recommendation 8).

3. Be open for distribution, no matter where or when

In the open media business of the future, platform-universal digital management will help your business cut costs by moving bytes through an online configuration and distribution system that can respond to broadcasters and customers with ordering and fulfillment processes available around the clock, every day of the year.

Your business strategy and distribution system should enable the configuration of content for multiple types of media networks, including cable, satellite, DSL and other significant systems as they emerge. Successful media producers of 2010 will undertake ongoing research and development to support more delivery devices and systems, with an eye to the anticipated increased penetration of home networks and home theaters.

4. Be open for delivery – in multiple packages, with variable pricing and always-on customer service

Although mass media will not die, exploiting more channels and more niches will enable the same content to be deployed in more ways simultaneously. Advanced data analytics are one of the features of digital media management that will help your business deliver to the proliferation of niches in a fragmented market. Realtime data analysis can help your business to:

- Determine an optimum channel mix
- Offer multiple ways to package digital content for a variety of formats, platforms and devices
- Utilize variable pricing – the same content may be worth more to a user at different stages of the product or customer lifecycles
- Use customer relationship management (CRM) more effectively, with more information available online and collected through multiple touchpoints.

5. Open digital doors – to contribute, produce or author dynamic content

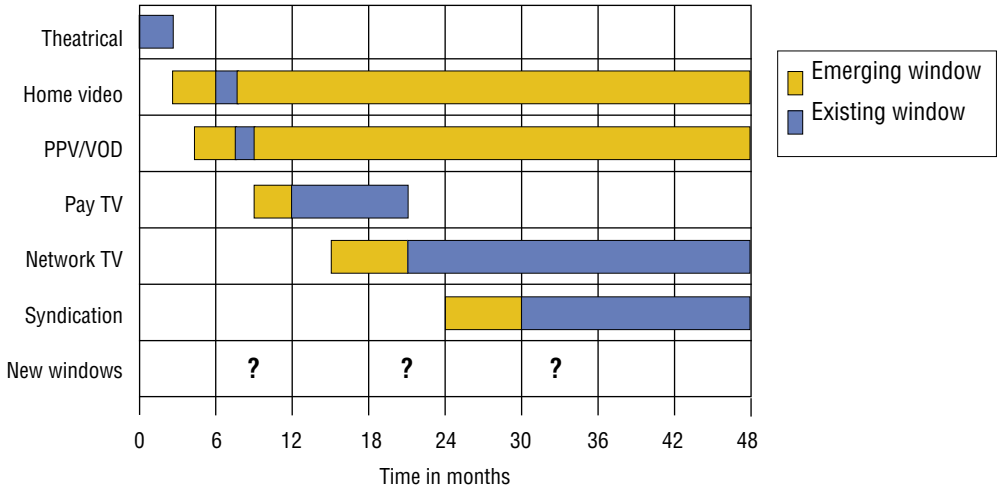
Since online distribution costs significantly less than the traditional physical development and distribution cycles, build ways to take advantage of grass-roots digital experiments and contributions. Establish simple online production and promotion resources with seamless, online digital media management. Encourage independent publishing initiatives – comedy blogs, online game characters, short feature films, new music – as a way to develop markets.

Digital tools in the hands of consumers will enable media companies to identify content or devices that might stand up to mass marketing before making the significant investments in scripting or advertising to mass-media standards. If your company owns significant digital content resources, offer pathways to aggregate small fees, such as online workshops for compilers, digital scrapbookers and anthologists, and promote their “albums” online.

6. Create new product windows and business models

Evolve strategies around the timing of release windows, balancing the features of various delivery systems with the nature of content. Monetize content by compressing cycles and windows. Some music distributors and others are experimenting with creating new windows – offering prerelease digital singles, or selling only albums initially and individual tracks later. We anticipate that start windows for the release of various media products will creep earlier and end later – with the availability of some highly popular content extending indefinitely (see Figure 5). The goal is to optimize each content asset's total value through a combination of price points and release window strategies.

Figure 5. Film windows will launch earlier and remain available longer.



Source: IBM Business Consulting Services analysis; IBM Institute for Business Value analysis, 2004; Vogel, Harold L. Entertainment Industry Economics: A Guide for Financial Analysis, *Fifth Edition. Cambridge University Press, 2001; Villa, Joan.* Theatrical-to-video windows shrinking. *Video Store Magazine, March 16, 2003; Villa, Joan.* Theater owners squawk about DVD. *Video Store Magazine, June 1, 2003; Indvik, Kurt.* A Window Closing on PPV/VOD? *Video Store Magazine, July 6, 2003.*

7. Manage openly and communicate in realtime through digital infrastructure

Put a digital backbone in place, so you can focus on core M&E research and development. Having a digital business infrastructure based on open standards technology gives your company options that were unworkable in traditional business models. Open standards give your business systems the ability to interconnect regardless of platform with legacy systems, business partners and customers, and to utilize Web services to communicate globally in realtime. A digital spine – integrated both horizontally across operations and vertically with customers and consumers

– allows outsourcing of routine functions which can significantly reduce investments in labor-intensive, back-office tasks such as order fulfillment, accounting, human resources, CRM and information technology.

8. Leverage a new depth of business intelligence made possible by digital technology
As your company begins to add more digital infrastructure and services to gain and hold customer attention, business intelligence can be key to creating greater efficiency. Business intelligence can be gleaned system-wide, once your company begins to utilize more digital systems through open standards and middleware technologies, content development and management, online security features, front- and back-office systems, customer relationship and alliance partner management systems. Shared intelligence can help your company focus on strategic initiatives, satisfy customers by appealing closely to their interests and make ongoing determinations of the value of assets, partnerships and customers. Pay attention to your customers and consumers. Gather ongoing feedback to understand what they want and get their attention. Find the "virtual Hollywood and Vine" – monitor new media behaviors to discover the front edge in content and consumption.

9. Use partnership strategies that drive efficiency and optimize customer attention
As your company focuses on its core competencies and divests unnecessary capital investments, develop partnership and alliance strategies to drive efficiencies and scale and add value to your offerings. We foresee the emergence of more boutique companies that will provide specialized functions cost-effectively in partnership with giant brands, as well as the breakup of overextended conglomerates lacking a tightly focused strategy. Your company should focus in-house on the products or services that differentiate it sharply from competitors. Business intelligence will help determine where your partnership efficiencies may lie; and digital systems can help you communicate seamlessly and continuously monitor access, rights and security.

10. Become an on-demand business
The emerging media and entertainment environment will be characterized by rapid and continuous discontinuities, a demanding revenue environment with intensive and specialized competition, continuing pressures on costs and returns, a significant amount of unpredictable demand and high business risk. Successful organizations will accelerate value creation by becoming on demand businesses: enterprises in which business processes – integrated end-to-end across the company and with key partners, suppliers and customers – can respond with flexibility and speed to any customer demand, market opportunity or external threat.

The open media business of the future: Conclusion

Despite an environment of uncertain economic growth, narrowing margins, rapid digitization and the threat of piracy, successful companies will open up new ways to create, manage and distribute content. They will open new ways to store, catalog and break down content into multiple product units, as well as open up the delivery, packaging and availability of content elements. They will integrate, manage and protect content, services and business models through open-standards digital technology. And they will create open, reciprocal relationships with suppliers and customers, allowing more access and granting more freedom in available ways to combine content and delivery. To remain profitable, media and entertainment companies must respond to the convergence of technological innovation with the consumer's imagination and sense of entitlement, as these key trends evolve to meet the open environment made possible by digital technology.

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