Media Management

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Media Management

Leveraging Content for Profitable Growth

With 41 Figures

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Andrej Vizjak Max Ringlstetter

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New Perspectives: Convergence Is Redefining Content

New Perspectives – Introduction

The media industry is in the midst of radical transformation driven by technological change. Originally a fragmented business, the media market has developed into a specialized business over time and is now heading in a totally different direction. In the future only companies focusing on volume – i.e., on selling content in maximum quantities – will manage to maintain a profitable position in this market.

To achieve this, all opportunities resulting from the digitalization of content must be exploited. Media companies can save on time-consuming and costly work processes in the future by distributing content through any of several end devices – the PC, TV, radio, e-book, or PDA. This digitalized type of content also implies a new distribution strategy: the times when the classical print, radio and audiovisual media, which were limited to one distribution channel, dominated the market are coming to an end.

Media companies pursuing a consistent and, above all, successful volume strategy have to create a series of other prerequisites: the standard currently available for data transmission still leaves much to be desired in terms of volume and speed; existing lines and networks do not suffice for the rapidly and continuously increasing demand from business and private customers. It is due to these insufficient network capacities that many end consumers make no use of online purchasing possibilities – the download time of homepages and portals is out of proportion to the "purchase click" factor. Experts agree that improving these standards would cause Internet sales to rise. In the coming years, these technical shortcomings will be reduced. The next-generation UMTS has been announced for 2003 at the latest, and the cable network will be expanded over the next few years to accommodate broadband transmissions.

Technological changes lead to the convergence of technologies as well as media. Media companies aiming to distribute content through a maximum number of channels are faced with new additional customers who, while operating in unfamiliar industries, may turn into potential competitors. Telecom providers, for instance, are not the only content customers but surely those with the strongest consumer resonance. Further content customers and distributors include portals/ISPs like Yahoo, other telematics operators such as DaimlerChrysler, and other TV and radio stations, as well as financial service providers. Media companies entering into alliances with these players – as several have done early on with telecom providers – can improve their market opportunities considerably.

Partnerships between media and telecommunications companies, however, are not only meaningful from the media provider's perspective. Today, telecommunications companies are also faced with the task of finding the right partners amongst the content providers and building up long-term relationships with them. Due to convergence both industries are moving closer together.

The (almost) daily reinventing and repositioning of the content business requires a technically sophisticated internal organization. Moreover, content managers must have expertise in both the shaping of content offerings and their technical realization. These new product managers partly create proprietary products themselves, either as a new original creation or by bundling content in alternative ways. Processing this "raw material," the content, – be it information, education, or entertainment – must be learned from scratch and handled in a new fashion. This does not diminish content providers' responsibility for the processing, presentation and dissemination of content; rather, it requires a maximum of accountability and ethics in certain areas of information.

The Only Way for the Media Industry to Grow and Profit Is with Content

Max Ringlstetter, Andrej Vizjak

The importance of the media industry has grown incessantly over the last ten years, especially fueled by tremendous profit potential opening up thanks to new technologies. The increased importance is reflected in economic respects. Worldwide, the media industry encompasses over $800 billion and is moving on to the playground of globally active multinationals. And over the last decade, it was also the media companies that captured the capital markets' attention. The Dow Jones Media Stoxx reached its absolute peak in 2000. The positive assessment by capital markets appeared justified for quite some time. Detailed analyses revealed the exponential growth rates realized by the media industry in the 90s. An analysis conducted by A.T. Kearney and the Universität Eichstätt-Ingolstadt on the world's 30 biggest media enterprises identified an average annual growth rate of nearly 20%. Annual growth of the top 7 in this segment even swung up by an astonishing 50%. Growth rates of that kind led to major investments and even companies from other industries like the diversified group Vivendi risked moving into this lucrative market segment. For the most part, this growth can be explained by the extremely positive development of single sub-segments. Media companies especially profited from the demand-driven development in the U.S. as well as from a broad spectrum of segments in the electronics and new media markets.

From Best-in-Class to a Problem Child

In the meantime, the mood to party has turned into a hangover. A sharp drop in sales, in particular, in the advertising markets is putting the companies accustomed to success under pressure. The times of tempestuous growth, in which only being in the right place at the right time was the guarantee for success, are now over for good. What are needed are strategies enabling additional growth in partly stagnating markets. Media managers today are now forced to further spearhead the growth of their companies by taking the right action while trimming skyrocketing costs back down to a normal level in parallel.

One particularly strong ray of hope for media companies is still digitalization that enables multi-channel access: at this point, not much needs to be said about the digitalization theme. It enables complex content like music, literature, videos, etc. to be stored on the smallest media, and to be sent and accessed on the Internet.

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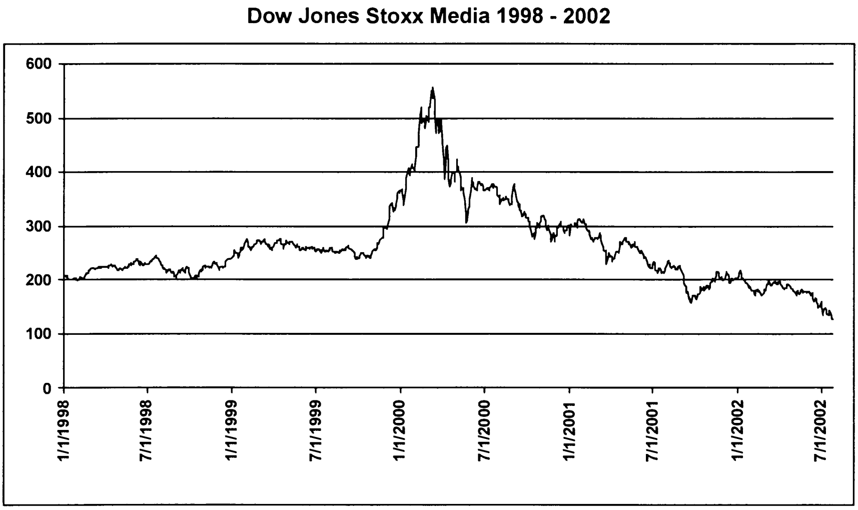

Fig. 1. Development of the Dow Jones media index from 1998-2002.

The purpose of multi-channel access is that the customers, without the attention of whom media companies would not achieve revenues and subsequently also no profit, cannot only be reached across various channels, but now they also have to be reached. Identical content must be able to be called up via an array of media in the future in order to achieve the broadest possible marketing effect. The various media segments must refer to and build on each other in order to effectively shape content syndication and also content for the customer. This is the only way to translate the potential value of content for the media companies into additional turnover, into enhanced results and therefore mid-term into shareholder value. In order to survive in today's competitive landscape with flagging growth, three new imperatives are emerging for those media companies that also want to belong to the players setting the tone in the market tomorrow:

- *Radically realign the segment-specific self-perception*: for a book publisher, e.g., this realignment can entail that it no longer perceives itself as the creator of books, rather as the manager of ideas and stories. That is, of content that can naturally be used in a book format, but also marketed and used across other channels, e.g. in the form of online texts.
- *Create an organization enabling a seamless transition from the current core business to the new self-perception as a content manager*: when designing a new organizational structure, it must be ensured that the typical cash flow streams from the current core business do not suddenly dry out and that a dynamic structure is possible in the new business option.
- *Design and implement meaningful partnership concepts*: the prerequisite for success is uncomplicated, flexible partnership concepts that enable a comprehensive, demand-oriented content portfolio to be offered and this portfolio to be

used analogously in *all* channels available. A core area for the coordination of these networks is the management of rights.

Based on the postulate of growth in revenue, our assumption is that the media industry is currently shifting rapidly from a specialization to a volume business. This rapid shift is based on the reduction of segment-specific costs triggered by digitalization. In this way, digitalization enables content to be separated from the original medium. The decisive strategic implication of this separation of content and format is that current products of the individual companies are no longer considered channel-specific. Instead, content is now considered usable in general and supported by new technologies, it is increasingly generated, aggregated and increasingly also distributed in large volumes irrelevant of the segment. The related reduction of segment-specific costs is what first enables the volume business, which is accompanied by cross-segmental economies of scale. The target is therefore content leveraging or respectively the content syndication and this across a broad spectrum of channels where customers can be reached.

Dimensions to Leverage Content

In principle, content syndication in the media landscape is nothing new. Exactly media products have always been suitable to use content and/or ideas several times because the products are not "worn out" even after being used multiple times. In order to understand content syndication more precisely, it is helpful to differentiate between various dimensions of content usage. This type of differentiation can be carried out along a media content's format dimensions. Media content can be differentiated in three format dimensions.

First, media content has an abstract dimension. This dimension contains the idea, the creative element of copyright works. During the course of the value-added process on to the media product, this idea takes on two additional formatting dimensions (see figure 2). Firstly, this is the reception format that determines the form in which the product will be presented - whether it can be read, heard or seen. Independent from that is the technical format that determines the end device or carrier medium to record media content for the customer. Based on this dimension, it is easier to characterize content syndication than the use of abstract content in more than one combination of various potential reception and technical formats. Additional revenue can be realized by selling ancillary rights. This approach is especially common for non-media usage. Ancillary rights are used for merchandising and licensing, the most comprehensive form of content syndication. This is where part of the abstract content is included in a non-media product such as a t-shirt, a cup, mask, model or an action figure.

The opportunities of digitalization enable much more intensive content syndication than ever before. These new opportunities call for new strategies that are only successful in companies clearly aligned to the relevant channels and customers. It is necessary to align the media companies correspondingly.

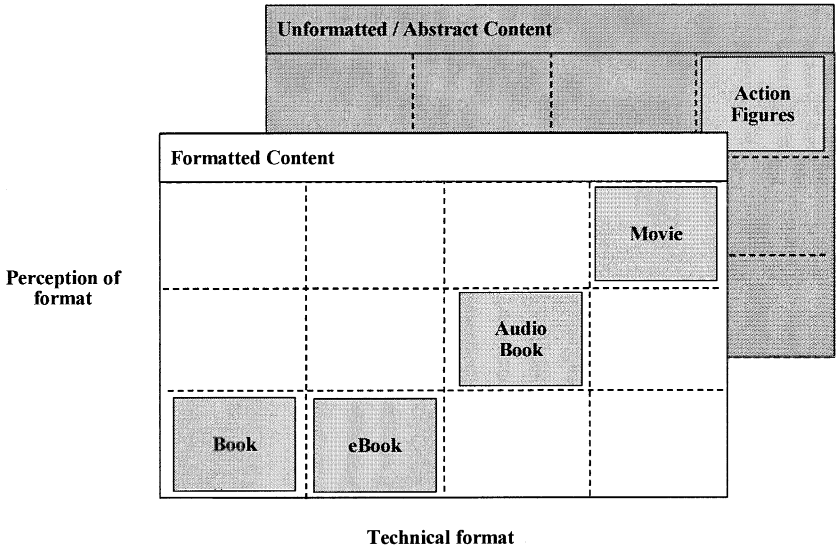

Fig. 2. Options of using content

To ensure that content syndication can develop into a profitable core component of the business strategy, a company generally goes through three stages of content leveraging. Building on the decision taken, these can be underpinned on various levels.

- *The first stage of content syndication* has always been common practice in the media industry. Here, additional usage applications are included in existing content. Both content as well as the reception and technical formats stay the same. Examples here would be press releases, press agencies, e.g. Reuters, Agence France-Press or dpa, that offer various editorial offices as a subscription. Every newspaper can either reprint them or use them for own eventual more in-depth research. Another example is to reuse film material initially created for movies, so-called windowing. A film is first used in the movies, then in Pay TV, subsequently on video or DVD and finally on Free TV. In doing so, only the technical format is modified. The objective of this type of content syndication is the realization of "multiple" profits by marketing across various distribution channels with constant, i.e. subjectively decreasing production costs. Windowing is based on a form of price discrimination where a company maximizes its profits by segmenting its customers in line with the different elasticity of demand. Characteristic for this stage is the fact that content is used several times within the original media segment.
- *In the second stage of content syndication*, product differentiation opens up additional sales opportunities. This stage is similar to versioning, that is, the customer-oriented preparation of various versions for various market segments. This is a new approach spurred by digitalization. Until now product differentia-

tion for media and information products was limited to windowing as described above. In the meantime, content no longer needs to be linked tightly with one or a maximum of two carrier media and therefore, it is also no longer dependent on exclusive differentiation via distribution channels and the publication date. Today, media and information products are differentiated according to criteria such as up-to-datedness, scope of functions, speed and additional benefits and, in turn, they are also adapted to the specific needs of fragmented groups of customers. The digital availability of content also enables content syndication of single content modules. An example here is the individual compilation of a travel guide based on a preferred travel route. In this way – even if usually to a minor extent – both the reception format as well as the technical format are modified. This expands the commercialization chain of entertainment and information content and therefore additional marketing potential. Characteristic for the second stage of content syndication is that content can be offered in various versions in several channels of new media.

- *In the third stage of content syndication* additional marketing potential is unlocked. A highly differentiated product portfolio can be marketed and used across and beyond media segments by means of cross-promotion and cross-selling. As the consumer can initially only evaluate the quality of content generated with great difficulty, confidence in media brands is particularly important. Media products are therefore 'experience' commodities for the first time that trigger positive brand transfer effects in marketing. Additionally, cost advantages can be achieved in distribution. Marketing additional products via an existing distribution network costs less than setting up an entirely new distribution network. Content syndication therefore offers new versions, but also new invented or orchestrated content in the context of the respective carrier medium. This can, as already mentioned. even go so far that only the abstract idea is used (e.g. merchandising) for additional revenue potential. The highest stage currently conceivable is reached with this intensive content syndication.

The example of Viacom reveals the potential that can be tapped through systematic content leveraging when various media segments, in our example, book, film, video, TV and CD, are tailored around each other. Viacom is one of the fastest growing companies in the empirical survey already mentioned. The average annual growth rate of more than 30% over the last ten years reveals the upswing in revenues enabled by a cross-media strategy. Our example is of a book published by Simon & Schuster, a publishing subsidiary of Paramount. The successful book is filmed by Paramount Film Studios, the film is shown in the movie theaters belonging to Viacom and later it is sold as a video by Viacom's subsidiary, Blockbuster. The film is then run on Viacoms' Megamedia test system or on a NYNEX (American telecommunications company that holds shares in Viacom) cable network. In parallel to the film, Viacom publishes the soundtrack on CD, promoted by music videos that are shown on the music channels MTV and VH-1 belonging to Viacom and played on radio stations belonging to Viacom to then be sold in CD shops belonging to Blockbuster. Of course, the film's leading actors also appear on "Entertainment Tonight," the show produced by Viacom, and they appear as guests in the TV series produced by Paramount – "Deep Space Night." Finally, Paramount TV Studios produces a sitcom according to the film's motives and the by now popular leading actors in the film publish their biographies with Simon & Schuster.

Additional growth potential opens up through multiple customer retention that can be built up by integrated content leveraging. Thanks to the cross-media bundling of services, single customer retention until now is transformed into multiple customer retention. Integrated content leveraging of the third stage enabled by interlinking, networking and bundling a wide array of media products adds value for specific customer groups, which can lead to stronger customer retention and subsequently, to enhanced competitiveness for the provider.

In theory, content leveraging promises excellent opportunities for media companies that are ready to look beyond familiar territory and try something new. The practical and profitable implementation, however, is not structured as simply as it initially seems. Content syndication is, in our opinion, namely only meaningful if a clear competitive edge materializes, when revenues swing up more than just once and the cost curve flows to ensure the development of sustainable, profitable growth.

From Specialized to Volume Business

As a media group, the need to take advantage of content leveraging opportunities is based on a fundamental shift in the rules of the game. Digitalization and content syndication are accompanied by a shift from specialization to volume. Indicators of this trend are growth and achievable economies of scale.

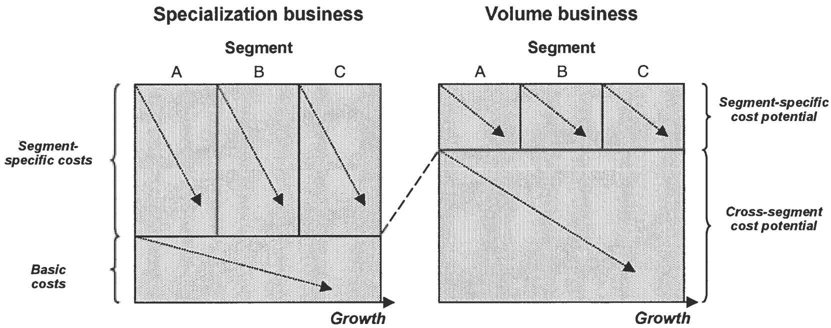

Fig. 3. Cost structures and cost potential in the specialization and volume business

- In the specialization business, to which all media companies belonged until just recently, the basic cost is a smaller, less important cost block. A market split up into several segments and accompanied either by the need for adaptation or differentiation options, depending on the point of view, requires the company's service to be aligned to specific segments, which implies segment-specific costs in a relevant amount while the industry's basic costs dip down in parallel.

- The volume business is characterized by the potential of higher cumulated production volumes, enabling cost advantages based on a steep empirical curve and high economies of scale. Typical here is – measured with total costs in the industry – a relatively high cross-segment basic cost block. Outside of the media industry, still waiting for these effects, is the airline industry as a good example with its high development costs. The development costs here form a constant basic cost block no matter whether two or two hundred aircraft are manufactured. These costs are not segment-specific, rather cross-segmential. The same holds true in the media sector where contacts will soon be developed in abstract formats/segments and only then processed segment specifically. The cost digression develops analogously to the increase in volume, i.e. the basic cost block increases pro rata with increasing volume whereas the segment-specific portion of costs decreases.

Theoretically, a company can keep growing until it becomes a monopolist in a segment, thereby increasingly realizing cost advantages based on its experience. Quantitative growth beyond a segment's boundaries, however, incurs new segment-specific cost blocks, to which experience acquired until now cannot or if so only partially be transferred. The cost argumentation used against the opportunities of quantitative growth in the specialization business is furthermore supplemented in that demand in single segments is relatively price-inelastic. That means: benefits for the customer is a powerful sales argument.

The nature of several segments differs tremendously. Today, the value chain for book production still basically differs from that of a newspaper or magazine, and the situation is comparable for film, TV and music media. That is why it is still very difficult today to realize cross-segmential economies of scale. The existing separation just as before of single media segments and therefore value-added leads to the high segment-specific costs that are a characteristic of the specialization business. Based on our estimate, this separation will continue to dissolve in the course of development because – as already initially mentioned – digitalization leads to convergence between various value chains: value chains previously separated as well as industries and products are heading in the same direction. A separation of the single media segments will therefore become increasingly difficult and the need of maintaining such separation increasingly nonessential. New technologies enable cross-media economies of scale to be exploited, which can lead to content generation, aggregation and distribution and lastly across segments.

Advantages can be realized in content syndication when the same content is used for different formats. Conceivable here is the already mentioned commercialization of an "idea" across the entire media usage chain. Also in the course of production, cross-format synergies can be realized by separating content and format by deploying new technologies, facilitated by the integration of separated media formats. Digitalization enables various media contents to be consolidated into a compatible basis, through which the same content can be processed more easily in various segments irrelevant of the subsequent format. Worldwide access is facilitated when this content is managed centrally in a media group.

In the new media sector, production can be centralized as the content only needs to be configured to the end devices accordingly. But synergies can also be realized with traditional media formats. For one, sophisticated technologies also enable production for these media similar to the on-demand postulate. This leads to a considerably lower remission rate and in turn, to substantial cost savings. The use of various sourcing strategies spurred by the Internet moreover enables saving effects in procurement costs.

Enormous synergy potential can also be harnessed in content distribution. The target of an undertaking should be to leverage state-of-the-art technologies for the integration of distribution processes separated until now. The central availability of all media content in digital form enables quick transport, also to remote regions. Direct sales to customers, especially on the Internet and cell phone, pull in revenue potential. A major advantage of distributing media products is particularly the use of the current customer relationship. Knowledge about a customer's purchases so far can be used to offer the customer additional products with comparable content. For example, if a customer is a Madonna fan or Beethoven enthusiast, other products in other formats can be offered such as a biography or tickets to a concert. In the same direction, integrated sales/distribution processes also allow cross-format brands to be built up that can benefit from the original medium's image.

Profitable Growth

When profitable growth through content leveraging is first substantiated in the course of eventual fixed cost digressions in content syndication, the advantages of content leveraging appear obvious: they are results of economies of scale and other synergies. However, this consideration is only partially correct in practice. The reason for this lies in the operational difficulty of actually tapping potential synergies and harnessing real advantages from the economies of scale achieved. Synergies can first be exploited by means of optimized processes in connection with an organizational structure aligned to the strategy and that is close to the customer. Our analyses reveal that not all top companies grow profitably. Whereas the leading group has achieved a Compound Average Growth Rate (CAGR) in revenue of almost 50% over the last ten years, the so-called value growers, that is, companies growing profitably, only realized slightly over 20%. In contrast to the top growers, the so-called simple growers, that reveal an average return on sales (ROS) of around 10%, the value growers' ROS with almost 20% is, nevertheless, considerably higher. The example of AOL Time Warner impressively shows that growth cannot be the sole corporate goal. This is a prominent example of how hard it really is to implement the idea of content leveraging.

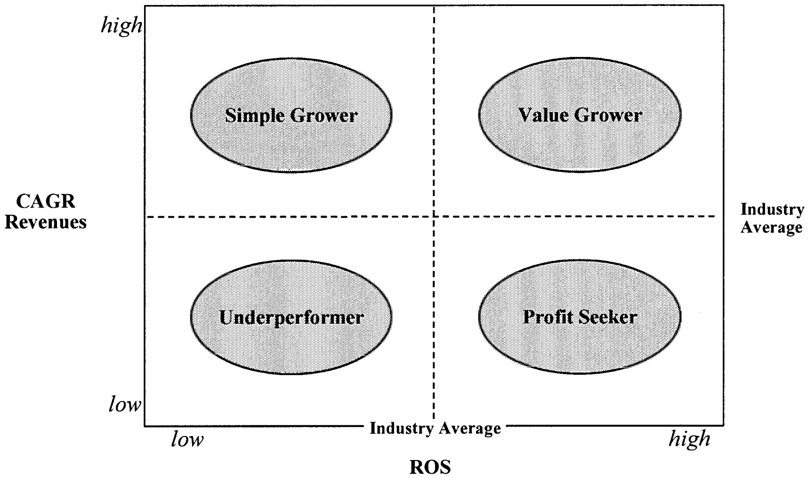

Fig. 4. Types of growth companies

AOL Time Warner can be more than proud of its presence in nearly all media segments: anything and everything on America Online with 34 million subscribers, solid journalism in Time and Fortune, crises are covered on CNN, who is who gossip in People, aesthetics in Wallpaper and Real Simple, nonsensical in Mad Magazine. Bandits' guns of the Sopranos flicker on HBO, the adventures of Harry Potter and Lord of the Rings on the screen at the movies. In addition, baseball, basketball and ice hockey teams belong to the AOL Time Warner empire. Approximately 13 million households are connected to AOL Time Warner's cable network and music fans around the world listen to music with the labels "Atlantic" or "Rhino." Summa summarum, the mega media company headquartered in New York serves 150 million subscribers. AOL Time Warner, announced in early 2000 as a history-making, forward-looking mix of the Old and the New Economy is now losing its persuasion power. AOL founder Steve Case admits: "We set overly ambitious goals and held on to them for too long." Parsons, who took over the reins as CEO in May 2002, has been asking the same question for months: "How can we get the single parts to work together so that the end result is more than the sum of the whole?" It's therefore no surprise that analysts already demanded this media giant be hived off at the beginning of 2002. In July 2002 the management responded to these requests. The world's biggest media and Internet enterprise will soon be split up into two new segments. America Online, the major publishing house Time Inc., Time Warner Cable, the book publisher AOL Time Warner Book Group, and the Interactive-Video arm will be incorporated into the new media and communications group. The Group will bundle its entertainment companies in the other segment. The businesses of the broadcast station HBO, the film studios New Line Cinema and Warner Bros., the cable network Turner Networks and the music firm Warner Music will be consolidated into the new entertainment and network group in the future.