

*Building content
engagement to
convince the
empowered
consumer that
“it’s OK to pay”*

Global entertainment and
media outlook 2011–2015

Across the E&M industry, content producers, media owners, platforms and advertisers are striving to create experiences that engage today's empowered consumer, thereby creating opportunities for monetization. But will consumers pay? The expectation that content can be accessed for free has become an integral part of many people's lifestyles—as illustrated by the accompanying information panel on PwC research into piracy behavior.

The task of convincing people to pay is made more difficult by the fact that we are now in a “golden age” for the content consumer. With the explosion in digital content, consumers have a choice and volume of content several magnitudes greater than five years ago, much of it available “free”—or at least at no extra cost on top of access, which is often billed on low fixed-price tariffs.

As a result, piracy is not only rife, but also spreading across segments with the advance of digital. With e-readers now taking off among consumers, book and magazine publishers face the risk of encountering the same issues that music publishing did several years ago—rampant digital theft and plummeting revenues. Meanwhile, the cross-industry legal battle against piracy continues, with mixed results.

Attitudes to piracy: “everyone is doing it”

Recent PwC research among US consumers aged 18 to 59 - all of whom had acknowledged their participation in online piracy within the past six months - suggests that pirating behavior will continue. Alongside price, other factors contributing to the respondents' decision to pirate content are earlier access and a perception that “everyone is doing it”. The findings include:

- 81 percent of the consumers who admit to pirating TV, movie, and video content say they will continue to do so.
- Mobile piracy is set to increase, with 40 percent of those who pirate content via traditional methods saying they will probably also pirate on mobile devices within the next six months.
- 76 percent are “somewhat willing” to pay a nominal fee if the content can be accessed closer to its release date.
- However, they are prepared to pay no more than \$3 to download a movie and less than \$1 for a TV program.

Source: The speed of life: Discovering behaviors and attitudes related to pirating content — PwC Consumer intelligence series.

What will people pay for?

Given that the industry must generate profits to invest in new content experiences, a situation in which content cannot be effectively monetized is simply unsustainable. If consumers do not start paying, then the content industry's long-term survival will come under threat—particularly if advertising-supported content revenue models do not deliver replacement revenues quickly enough.

Price is clearly a factor in consumers' decisions to engage in piracy, but other considerations can more than offset this. In our 2010 *Outlook*, we highlighted quality, convenience and experience as key factors encouraging consumers to pay for content. In addition to these three, we will now add two more: “participation” and “privilege”.

In terms of participation, consumers love playing an active role in shaping their content—and are happy to pay to do so: witness the popularity of buying virtual equipment on video gaming sites, or of voting for contestants on *American Idol*. And in terms of privilege, many consumers would like unlimited access to content for free, but are happy to pay for services that provide additional value and the ability to “jump the queue”, such as special offers and earlier access to content. Companies need to use these five attributes to create engaging, profitable offerings that overcome the attractiveness of “free” pirated content.

New content revenue strategies

The drive to build content engagement is accompanied by growing efforts to monetize this engagement. Consumers are becoming more used to paying for premium content on their mobiles and tablets. Encouraged by this trend, companies are taking various approaches to try and reassert the monetary value of their content. In the newspaper industry, several publishers have now implemented paywalls for online content. Equally the filmed entertainment industry is trying out new ways of “windowing” releases, by staggering the release on various platforms in combination with different pricing options for different time delays.

A variety of models are also being tried for *how* people pay. Bundled triple-play or quad-play subscriptions are being extended to include access to the same content over multiple platforms. Freemium remains popular, combining a free ad-funded service with a premium subscription-based, ad-free variant, and segments such as video games tend to use micropayments. A shift is also emerging away from buying and “owning” content, and towards paying to consume it on a “rented” basis via streaming from cloud-based services.

Platforms shape payment models

A further factor influencing what people buy via what payments model is the platform or device they are using. The explosive growth in mobile devices—smartphones, tablets and e-readers—is set to continue throughout the next five years. Some platforms impose a particular payment model, impacting both the consumer experience and the competitive environment.

For example, paid-for apps have taken off dramatically among smartphone and tablet users. But competing operating systems and handsets are now fragmenting the market, putting Apple’s market share under pressure from Android and Windows-based competitors. With no interoperability standards currently in place, app developers have to repurpose their offerings for multiple platforms.

The relationship between content providers and distributors may also influence payment methods. A deluge of data is putting communications operators’ bandwidth capacity under pressure, yet the returns on investing in network upgrades are uncertain. Telcos might favor a payment model based on charging for the amount of bandwidth used, but the size of the data downloaded does not necessarily reflect its value to the consumer. Another concept is using NFC (near field communication)-equipped smartphones to enable financial transactions.

In identifying the right payment model for the right content experience, E&M companies need to take a flexible approach and collaborate with other players, be they operators, application providers or consumer-friendly payment gateways. This will enable them to mould the payment models around what the consumer wants—thereby making the mode of payment one of the drivers of engagement with the content experience.