A Technology Center Publication

# The Rise of Lifestyle Media

## Achieving Success in the Digital Convergence Era*

An International Perspective

*connectedthinking

PricewaterhouseCoopers

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# Executive summary

In a converged media world consumers increasingly call the shots. They use Apple iPods to make their own music playlists. Personal video recorders allow them to customise television schedules. DAB Digital Radio pumps static-free music to their homes and cars. These consumers pull stock-market updates, text messages, wallpaper, ringtones, and short-form video into their mobile phones. They come together in online communities, generate their own content, mix it, and share it on a growing number of social networks. No longer a captive, mass-media audience; today's media consumer is unique, demanding, and engaged.

The technology enablers that have made this new breed of consumer possible? Broadband access and the Internet Protocol (IP). According to PricewaterhouseCoopers' *Global Entertainment and Media Outlook*, broadband Internet access is promoting major growth across all regions, with broadband reaching 448 million households globally by 2009. Telecommunications carriers are investing heavily in IP, laying fibre to homes and betting substantially on the promise of next-generation, content-based services. Broadband and IP will be the foundation through which consumers organise their work, leisure, and social time – and they are also the solvent penetrating the walls of the until now separate video content, communications, and advertising industries. Now that video content is no longer tied to a specific access network or device the rules are radically changing for all value chain participants.

These multi-mode, multi-device, multi-tasking video consumers have yet to eclipse more passive audiences, but they cannot be ignored. Content, communications, and advertising companies need to begin cultivating this emerging segment today. PricewaterhouseCoopers' own research of consumers aged 18 to 34 (the most media-savvy demographic and highly desirable to advertisers), found attitudinal changes in the way they view content and advertising. Our study found that while these consumers are seeking out free content, they are also much more willing to "pay" for rich online experiences by providing personal information. Consumers in our study said they would trade information about their lifestyles and interests for tailored advertising, promotions, and other relevant information of perceived value.

In tomorrow's converged media world, content and access will no longer be in short supply. Opportunities for consumers to access and manipulate content and services will overflow. However, consumers' time and attention will be limited. Thus, established approaches of pushing exclusive content through linear-channels, or networks, to mass or segmented audiences will no longer guarantee competitive advantage.

## Emergence of Lifestyle Media

Consumers need a new approach that helps them maximise their limited time and attention to create a rich, personalised, and social media environment. PricewaterhouseCoopers calls this approach Lifestyle Media: a personalised media experience within a social context. It bridges the world of unlimited professional and user-created video content with the world of limited consumer time and attention. It explicitly recognises that consumers increasingly access a two-way communications infrastructure, even if most content is still received in broadcast form.

Realising this vision of Lifestyle Media requires two fundamental components: new content distribution models that put consumers in control, and more accurate and scalable data about what they are watching, doing, and creating. The combination of these two crucial elements will create a media marketplace; a platform that connects media providers and media seekers through an organisational and technical infrastructure. It will enable Lifestyle Media to flourish by allowing content owners, advertisers, and consumers to discover, select, configure, distribute, and exchange both professionally produced and user-generated video content.

Marketplaces that let consumers search, research, share, and configure their media experiences will become valuable consumer gateways. These marketplaces will become the primary means for consumers to navigate unlimited professional, community-generated, and user-generated video content, services, and transactions. Likewise, marketplaces that can accurately track and measure this rich consumer activity and map it to community behaviour and buying tendencies will create value for their content, media, and advertising participants. Media marketplaces will bring to video the advantages of targeted advertising that have been demonstrated on the Web, raising the accountability for all participants in the value chain and creating benefits for both the media industry and consumers.

## Consumer intimacy: Key to ongoing success

During the next 5 to 10 years, the complexity of risks and rewards for incumbents and new market entrants will increase. Executives in the content, communications, advertising, and measurement industries must learn and master a new set of dependencies. Most importantly, they must understand that consumer activity information is the key to unlocking future value in convergence.

Ironically, there is a considerable lack of knowledge, research, and understanding of this new breed of consumer. Media businesses that want to make the most of the Lifestyle Media opportunity must get to know their consumers intimately. Rather than relying primarily on infrequent or periodic research activity, the winners in the converged media revolution will shadow their consumers, engaging them in continuous dialogue. The knowledge they acquire will enable media companies to meet consumer needs and discover new revenue streams that they cannot even begin to contemplate today.

Incumbents possess a brand advantage, access to consumers at a mass level, and a library of rich content that can be leveraged to establish media marketplaces. During this transition period, they can look to Internet industries for clues about organising a personalised experience across multiple touch points, building communities and increasing direct engagement with consumers. Global e-businesses such as Amazon, eBay, and Yahoo have created significant, profitable business models through building rich demographic, psychographic, and activity data as their basic capital stock and then raising its value through continuous interaction. Media and service companies that internalise and improve upon this concept will thrive in a converged environment. Those who do not will struggle.

## Scope of this report

This report analyses the impact of convergence on the video content, communications, advertising, and audience measurement industries. First, it presents an overview of our key findings about the challenges and opportunities resulting from convergence. Next, it provides recommendations for content owners, advertising agencies, and media measurement companies as to how they can best position themselves for the converged future. The report examines the key trends that are driving convergence and disrupting existing business models and practices. It then discusses how changes in consumer activity enabled by technology create new opportunities in the form of Lifestyle Media. It characterises the media marketplace as a structure that can create long-term, sustainable value in a converged media environment.

Finally, we provide a road map for companies seeking to engage tomorrow’s new media consumer. PricewaterhouseCoopers’ goals in this report are to inform and stimulate discussion among industry participants about the ways in which convergence will create and destroy value.

## Defining convergence

The term convergence describes two trends: the ability of different network platforms (broadcast, satellite, cable, telecommunications) to carry similar kinds of services; and the merging of consumer devices such as telephones, televisions, or PCs. From a technology perspective, the twin forces accelerating convergence are increased broadband penetration and increased standardisation of networks and devices to use the Internet Protocol (IP).

Convergence collapses previously distinct media distribution channels (for example, broadcast/cable television, radio, print, online) into a single media delivery chain. A converged infrastructure supports a range of interaction modes between users and content. Moreover, the open transport and interface protocols of IP mean that access to content has become largely network and device-independent.

Fundamentally, convergence affects the two-step process at the heart of any media-based industry: content creation and transport. The first step entails selecting, packaging, and encoding content into a medium. The second step transports content to its destination and then decodes it for use. In most instances, it is the second step that defines a particular media market, which influences the form taken by the content in the first step.

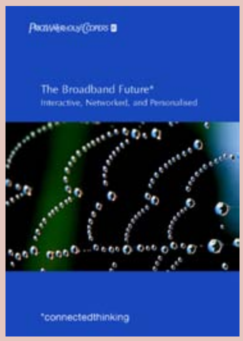
Content owners are both facilitators and beneficiaries of convergence. They make converged media experiences possible by offering consumers their content libraries in digital format through any access device and network. They benefit from convergence by serving consumers' new media needs with the appropriate distribution and business models.

For more detailed technology discussions of convergence, please refer to earlier reports in our Convergence series, of which this is the fourth instalment. Our series examines the convergence of the communications, computing, and entertainment services markets. In particular, it analyses the impact of migration to an IP-based delivery network on all value chain participants, including telecommunications carriers, cable operators and networks, content and service providers, satellite operators, software and infrastructure providers, and consumers.

To download copies of the reports, visit www.pwc.com/techcenter.

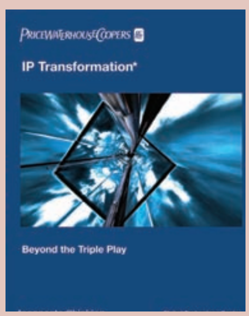

### Competition in the First Mile: Why Fiber to the Premises is not the Issue

Incumbent wireline carriers face significant challenges: erosion of traditional revenue streams due to competition from cable operators and other new competitors, customers' widespread adoption of wireless service, and increasing customer churn. This report examines the competitive landscape; analyses carrier strategies for success in this environment, including deploying fibre to the premises; and presents strategic recommendations for carriers and cable operators as to how they can best position themselves in this dynamic industry.




### The Broadband Future: Interactive, Networked, and Personalised

We evaluate the opportunities, threats, and challenges associated with selling content in a broadband-connected world. Focusing on the consumer market during the period from 2004 to 2006, the paper identifies the types and characteristics of content most likely to benefit from widespread broadband adoption, and considers how consumers will want to interact with that content. It concludes with a set of high-level recommendations to content providers and network operators as to how they should respond to the business opportunities created by the broadband Internet.




### IP Transformation: Beyond the Triple Play

This report analyses the consumer market challenges telecommunications carriers face as they migrate to a converged service delivery network. It highlights the key role of video services within triple and quad bundles and within the larger context of integrated telecommunications and information services. The report then discusses how carriers are managing the convergence of their infrastructure toward an all-IP network. Finally, it presents carrier strategies, business models, and operating best practices for leveraging this next-generation service delivery environment.

# Key findings

This report's primary findings underscore the challenges and opportunities that convergence is bringing to the global video content, distribution, and advertising industries.

Consumer needs are expanding beyond mass media and segmented media to Lifestyle Media. Convergence is making consumers more sophisticated in their video consumption habits by elevating Lifestyle Media to the top of the value-creating hierarchy. Lifestyle Media is the combination of a personalised media experience with a social context for participation. What were previously the ends (content, channels, or devices) of media and advertising business models are now the means for empowering consumers to organise their productive, leisure, and social time around converged media experiences. In an era of virtually unlimited content choices competing for limited consumer time and attention, Lifestyle Media will allow beneficial interaction between consumers, content owners, service providers, and networks. This approach presents many opportunities for the industry to create new revenue opportunities.

Knowledge of consumer activity rather than exclusive ownership of content or distribution assets will become the basis for competition. With ubiquitous connectivity and lower barriers to content creation, convergence empowers consumers and begins to break down the historical control points in the content creation and distribution chain. Leading media providers will track and measure the choices consumers make when they create, find, select, and exchange content and services. Providers will use this information to create value for their advertising partners. Businesses that capture consumer activity data and use it to inform business and advertising models will be positioned to succeed.

Media marketplace provides a structure to capitalise on the Lifestyle Media opportunity. Pull-oriented media consumption models, such as a media marketplace, that provide consumers with robust search, research, customisation, configuration, and scheduling tools will capture the opportunity associated with Lifestyle Media better than minor modifications to existing business practices. These models resemble those used in online retail, where product placement, dynamic pricing, and individualised service become the basis for competition. Participants in media marketplaces must collaborate in this transformation. In the near-term, the industry will experience increased complexity and economic inefficiencies before a refined and efficient structure for a media marketplace is developed.

Early movers in establishing media marketplaces will have a significant advantage over late entrants because of network effects, whereby the value of the marketplace increases as the number of participants increase. Incumbents and new entrants have begun to compete for consumer loyalty and profile information, and this trend will continue. Incumbents possess significant content assets and a brand advantage and they have a unique opportunity to exploit this by establishing direct relationships with consumers.

Media marketplaces will be economically viable only if operational efficiencies can be realised through consumer activity measurement capabilities and supporting systems. Crucial investments in data capture, analysis, and customer and community management systems are required to create a customer experience which resembles that of an Internet retailer. Effectively engaging audiences can be accomplished only through the automated capture and analysis of customer activity data. This information would feed into marketplace operational systems to trigger content suggestions and advertising placement. Likewise, investments in customer experience and community management capabilities that work across multiple platforms are needed to provide a single touch point for advertising and marketing partners.

Significant advancements in audience measurement technology are needed to capture, analyse, and standardise consumer activity data across digital platforms. To date, much of the demographic and activity data related to audience measurement is isolated on separate platforms (TV, broadband, mobile), even though consumers choose content across platforms. Both the content and advertising industries will need trusted third parties that use census and panel-based measurement approaches to capture standardised consumer activity information across platforms. Additionally, because discrete distribution channels can be complementary rather than competitive, measuring and analysing the impact of one outlet on another is also strongly needed.

The network effect causes a good or service to have a value to a potential customer dependent on the number of customers already owning that good or using that service. Estimates suggest that the total value of a good or service with a network effect is roughly proportional to the square of the number of customers already owning that good or using that service.

Measurement standards will be crucial for advertising growth. With digital platforms, every programme and advertisement delivered to a set-top box is logged; in theory, there should be accurate measurement of customer behaviour. But in reality, that accuracy will be relative, as different providers will collect and define unique audience-measurement and advertising delivery metrics, then apply them to proprietary systems and procedures. As a result, this non-standardised consumer data will be of limited value. This problem of inconsistent measurement data also hampered the initial growth of Internet advertising because without standard metrics, advertisers could not compare their return on investment (ROI) across different channels and campaigns.

Convergence brings uncertainty, but the ability to gather rich data on consumer activity also lowers the risks and costs associated with testing new revenue or advertising models. As device and distribution platform choices increase, consumers continually exhibit new behaviours and video consumption habits. This makes business planning and execution more challenging. Yet, the availability of automated and richer consumer activity data lowers the risks and costs of testing new services and business models. Content providers and advertisers can implement new ideas quickly and capture consumer reactions automatically. This data can then be used to determine which ideas can be built into sustainable business models and which should be modified or terminated.

Content providers and advertisers will be more accountable for their performance because it is now measurable. Given the proven effectiveness of targeted advertising in other interactive media, television advertising will continue to become more targeted. This shift will also raise demands for accountability. Advertising to mass audiences, such as at signature live events like Formula 1 Grand Prix or the World Cup Finals, will continue. But the effectiveness and better metrics of targeted environments will raise advertising spending and move it to those environments that enable a deeper engagement with the audience.

While technology makes it easier to collect detailed consumer information, privacy concerns are rising among consumers, regulators, and privacy advocates. Customer information is an organisation's greatest asset – and its greatest risk. Lifestyle Media enables content providers to monitor the viewing, surfing, downloading, and purchasing habits of subscribers. This ability will drive a new wave of marketing addressed on a one-to-one or one-to-household basis. It will also trigger a host of privacy challenges, including complying with existing and proposed data-protection laws. Equally challenging will be managing the current perception among consumers, regulators, and privacy advocates that companies will link subscriber behaviour to personal information and leverage it for marketing purposes. Media providers will have one chance to get subscriber privacy right; otherwise, they increase the risk of a privacy breach, resulting in outside inquiries, brand and reputation damage, loss of customers, negative press, costly fines, and litigation.

Convergence will require increased collaboration between value chain partners to drive new products and services to consumers. As companies look to expand their current portfolio of services and revenue streams, they will need to rely on value chain partners for many roles: technological advancement, access to new distribution outlets, protection of intellectual property, and so on. This will require new partnerships, alliances and joint ventures as great value can be gained from collaborating and sharing strengths. Since many companies will pursue these to drive incremental revenues and growth, transparency of reporting and independent verification will be critical to all parties' continued success.

# Recommendations

The following recommendations cover the primary challenges and opportunities facing the video content and distribution industries' main participants: content owners, advertising agencies, and media measurement companies.

## For content owners

Understand and serve consumers' Lifestyle Media needs. Conduct research to understand the Lifestyle Media needs of consumers and analyse the applicability of current assets and business models to meet those needs. Understand the new value propositions, (for example of providing sharable interactive experiences) that should be created to complement the mass media and segmented media models already in place. Be willing to assign rights under appropriate terms that help to build a business model around these value propositions.

Develop strategies for owning social networks and capturing consumer activity information. Content owners should develop plans to own and facilitate social networks, either through acquisitions or organic growth. These networks must provide the ability to create an infrastructure for collecting and analysing consumer activity information, and integration with marketplace operations. Companies operating social networks will also need to ensure they meet necessary privacy requirements.

Start to develop convergence-native content rather than concentrate solely on re-packaging existing content for multiple platforms. Content owners should invest in the reconceptualisation of content design, so they can take advantage of improved interactivity and the ability to test new concepts with audiences. Convergence-native content exhibits two properties that differentiate it from linear content: first, consumers have the ability to choose their level of interactivity with the content, ranging from total passivity for a linear movie to full immersion as in a video game; second, convergence-native content allows consumers to share their experience in a social context across a network with other users, according to the rules of either the content or the community.

Leverage brand and content assets to develop business plans for media marketplaces. Content owners should conduct business model due diligence and identify marketplaces where existing brands and content assets can create a sustainable competitive advantage. In particular they must analyse their role and position in a marketplace structure so as to capture and own consumer activity information. Successful marketplaces will combine content with tools for mixing, sharing, rating and so on. Develop strategies for acquiring such tools to complement content assets.

Assess readiness for the converged future. Different skills, infrastructure, and organisational structures will be required. Content owners should evaluate the potential appeal of their brand and culture to executives who have experience in interactive services, social networking, blogging, and viral marketing. Silos in organisations serving different outlets (TV, PC, mobile) should be bridged or dissolved. Practices in understanding, measuring, and serving the consumer via direct relationships should be revised, developed, or acquired.

Understand the complexities of content security and controls, and incorporate them into systems and processes. Digitisation of content and delivery over open Internet Protocol (IP) platforms has significantly increased the risk of content piracy and the need for protection. Content owners should understand technology solutions and controls required to manage the risks and rewards associated with assigning rights and collecting revenue from new business models. Matters related to content security policies, processes, and technologies should be analysed, benchmarked, instrumented, and monitored on an ongoing basis.

As video consumption expands to many devices, understand the impact of one outlet on another. The video consumption market is expected to grow as availability extends from the TV to the PC and portable devices. However, some cannibalisation of traditional revenue streams is likely and should be incorporated into operating plans. The best way to overcome this challenge is to develop measurement capabilities and the related infrastructure to understand how consumption on one device impacts and relates to others.

Build advertising models for new consumer activities, particularly video browsing. Content owners should capture extensive details of the audience segments that browse video programmes. Work with advertisers and advertising agencies to define the products and services that viewing segments will find most appealing, then develop varied advertising content not constrained by the traditional 30-second or 60-second spot. Pursue models such as ad-per-view to complement pay-per-view content, thereby benefiting consumers and advertisers. Establish metrics for video browsing and work with measurement companies, other content owners, and advertising agencies to standardise these metrics. Content owners could then create opportunities to enhance advertising rates for video search via pay-for-performance rate structures.

Establish industry standards for advertising and audience measurement metrics. The Internet provides a valuable lesson as to why measurement standards are crucial to advertising success. Through collaboration among media providers, advertising agencies, and advertisers, the Internet industry aligned the technical capabilities of the medium with advertiser expectations. By developing and implementing standard definitions and procedures around crucial audience measurement and advertising-delivery metrics, they made it possible for media buyers to compare their ROI across campaigns from different publishers and sellers. Content owners, distributors, advertising agencies, and advertisers should learn from this experience and begin to develop standards in advertising models for video.

Develop a branding strategy for direct-to-consumer marketplace operations. Today's networks and studios deliver content across a wide spectrum of psychographic domains. As content owners incorporate marketplace strategies, they will need to establish purposeful brands that attract viewers with simple, powerful value propositions. The broad aggregator roles are already being assumed by companies such as AOL, Google, MSN, Yahoo, Baidu and Terra.

Proactively address privacy risks and enhance customer loyalty through development of an effective compliance framework. Many Fortune 500 companies have illustrated that a proactive approach to privacy compliance best practices can be a competitive advantage and market differentiator. An effective privacy compliance framework begins with consumer-friendly policies that comply with regulatory requirements. Content providers committed to maintaining subscriber privacy must comply with the laws of the country they are operating in.

For example, best practice in many territories is to provide consumers with the means of opting out of marketing communications, whilst in others, consumers must actively opt in. A compliance framework should also include the following elements: customer data-flows inventory, risk assessments, employee training, an effective communications strategy, and compliance monitoring procedures and audits.

Assess and build competence in alliances, partnerships, and joint ventures. Success in a converged media environment will necessitate forging deep and unconventional partnerships with participants within and outside the media value chain.

Besides paying attention to the technology, processes, and the organisational structure necessary to meet established goals of a partnership, content owners should adopt best practices in structuring contracts, defining performance/success criteria and defining robust monitoring mechanisms to build a transparent, trusting relationship.

## For advertising agencies

In addition to the recommendations outlined above, advertising agencies should also consider the following:

Invest in advertising ROI technology and processes. The efficiency and success of advertising in online environments is raising performance expectations of advertising spend in other channels, raising accountability for all value chain participants. Media agencies should lead investment in technologies and processes that will help understand the effectiveness of advertising and marketing in all channels.

Lead the creation of new viewing experiences that provide advertising opportunities beyond the traditional 30-second spot. PricewaterhouseCoopers' research found that consumers are receptive to advertising that does not disrupt the viewing experience. This presents an opportunity for trying new strategies that might lead agencies to cross over into content provider roles. For instance, "surrounding" a time-shifted viewing experience with mini-vignettes of stars from a show or complementary information such as product information or consumer tips. Convergence will mean that agency brands can be leveraged and expanded in many new ways.

Develop and leverage social network communities as psychographic assets. Advertising agencies will increasingly guide both content developers and advertisers in targeting ever-more-nuanced cultural subgroups. Surveys and focus groups will not be displaced but instead will be augmented by real-time Web sites that attract social networks focused on common interests. Programme content and story lines will more often be measured and assessed by these informal communities. Agencies will need to provide more than numbers and develop compelling narratives that accurately reflect the interests (buying and otherwise) of audiences attracted to specific programmes.

Assist content owners with sub-brand development. As video consumption evolves toward a Web browsing model, content owners will seek assistance with content categorisation and sub-branding. They will want to know what the evolving cultural subgroups are, how the subgroups relate to different content, and what the buying power and buying interests are for each group. Agencies are ideally placed to help content owners repurpose selected elements of their large vaults of content, and develop promotional themes to attract the audiences to new, culturally relevant, branded gateways.

## For media measurement companies

Seek the first-mover advantage by defining new measurements. Measurement of media consumption has a long history of being defined by proprietary standards established by companies that anticipated changes in technology and society. Convergence is one of those moments in media history when new consumption patterns are rapidly evolving, opening the door for new approaches to measurement. When media marketplace participants redefine programme audiences as programme communities that track and follow their favourite personalities and plot lines, establishing the depth of this interest will be one new measurement domain. Capturing the psychographics of these communities, including their buying proclivities, is another clear opportunity.

Measure social networks, not just programmes. Content owners and advertising agencies will pay for under-served or emerging social networks of common interest that have yet to be targeted with content and advertising. Measurement companies should extend their focus beyond media consumption and develop real-time maps of the array of subcultures that define the societies within which their clients operate. The ability to assess these under-served communities, define narratives that capture their essence, define content domains they will find compelling, define advertising that will be effective and characterise their buying interests will benefit the entire media and entertainment industry.

Collaborate to provide cross-platform measures and create a complete view of video consumption. As video consumption expands to non-TV devices, it is unlikely that a single entity will be able to measure all outlets and devices. Measurement companies should collaborate to create standards as well as a comprehensive view of video consumption across the various outlets. They should also develop analytical capabilities to assess the impact of consumption in one outlet on others.

# Introduction

The potential impact of convergence on the television and advertising industries had long been predicted, but in 2005 theory became reality. Last year, incumbent media providers veered off the path on which they had built their businesses and struck landmark deals with computer makers, Web portals, cable operators, and search engines.

Although activity has been unprecedented, no clear-cut strategy has emerged for organisations navigating the nascent converged media environment. (See the sidebar, "Selected convergence-driven market activity in 2005," on page 11.) Convergence presents a huge risk for business models predicated on controlling media consumption through a specific distribution channel or device. Yet convergence also affords the opportunity for great rewards as companies reassemble content, services, and communications into higher-value experiences for consumption at any time and on any device.

Whether viewed as a threat or an opportunity, there's no question that convergence is unbundling video content from the television and broadcast or cable networks. "Video has exploded. Video is unshackled from the TV set. The chances to see video – better and more relevant video – whether watching online or elsewhere, is increasingly ubiquitous," says Tim Hanlon of Publicis Groupe Media Ventures, the venture arm of the advertising and media services conglomerate Publicis Groupe.

The paradox of convergence is that the forces that enable individuals to control video consumption are the same that enable communities to create a new user experience by augmenting content with services, tools, and transactions. For example, the BBC and MTV Overdrive provide a set of community management tools so that consumers can interact in a social setting, using content created by both the network and viewers. This co-mingling of professional and user-generated content is one of the most important trends to track, says Stacy Jolna, senior vice president, general manager of US-based TV Guide Television Group. "Community-created content is a new way to take advantage of interactive on-demand audiences who have an intrinsic pent-up demand to communicate with each other," he explains.

Other influential figures have also noted the importance of the shift to community and user-generated content. In a recent paper from PricewaterhouseCoopers, "Broadband – Interactive, Networked and Personalised", Chin Dae-Je, the Korean Minister of Information and Communications, said "Recently, broadband applications such as real-time multimedia services and community networking have been surging... the advance of technologies including digital cameras has turned individual users from passive recipients of services and information into active creators and providers of information."

Convergence empowers social networks. (For a definition of social networks, see box below.) From a content perspective, social networks provide an easy mechanism for consumers to compile and share their favourite content online. As such, they are becoming an effective mechanism to distribute and promote content. Industry interest in social networking is evident from several high-profile deals such as, in the US, News Corp's acquisition of MySpace and Yahoo's acquisition of Flickr, Upcoming.org, and del.icio.us, and in the UK, ITV's purchase of FriendsReunited.

Convergence, then, does not mean the death of content bundling. Instead, it shifts the power to do so towards consumers. This shift could dramatically alter the industry's established value chains. Figure 1 (see page 10) illustrates the three primary distribution chains through which video content reaches the consumer today. Each chain operates in parallel, with little overlap. The revenue sources, primary relationships, and value propositions are distinct. In a converged environment this separation is unlikely to be maintained.

Video consumption has historically been defined by a limited number of linear channels with scheduled programming lineups. With the growth of the Web and IP broadband networks, devices such as video iPods and video-capable phones are bombarding the consumer with increased content choices. Added to these are instant messaging, voice chats, and gaming, as well as traditional media like radio, magazines, and books. This content overload causes a fundamental shift: consumer time and attention, not content, becomes the scare commodity. Consequently, the industries or companies that will thrive in this new environment are those who can help consumers effectively manage the vast array of choices.

A social network is a technical and organisational infrastructure that enables individuals separated by time or distance to establish communities of interest where they exchange ideas, content, tools, and information in order to enhance the experience of being a part of a community.

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## How convergence is changing advertising and measurement

Content, distribution, advertising, and measurement comprise the primary components of the media industry, as shown in Figure 1. On the content side, the TV network market includes revenue from licensing fees and advertising on cable and broadcast networks. This market is expected to total about $161 billion worldwide in 2005, up 5.8 percent over the previous year. The distribution market, whose revenue comes from consumer subscriptions, pay per view, video-on-demand and advertising is expected to reach about $158 billion in 2005.

The effect of convergence will be especially profound in the advertising and measurement industries. Increases in online advertising are evidence of these changes.

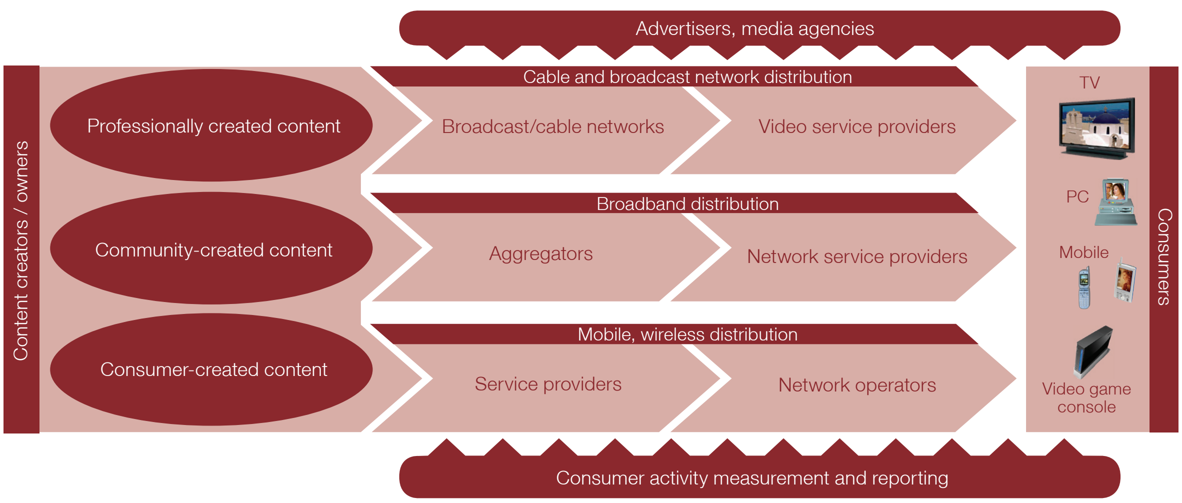
In 2005, the PricewaterhouseCoopers' *Global Entertainment and Media Outlook* projected that the global advertising market would grow 5.6 percent from 2004 to $379 billion in 2005. Of that figure, the online sector is the fastest growing segment – it grew more than four times faster than television advertising (See figure 2, page 12).

According to *Outlook*, advertisers were due to invest $19 billion online globally during 2005, almost a quarter more than the spend in 2004. And in the US, the world's largest online advertising market, growth in 2005 reached 30 percent, according to a report by the Interactive Advertising Bureau and PricewaterhouseCoopers. David Silverman, a partner in PricewaterhouseCoopers, believes that "with the increase in broadband penetration further enhancing how messages get delivered, we should continue to see a favourable environment for increased Internet ad spend".

While today Internet advertising is heavily concentrated in search engine-based advertising, online advertising is a nascent market and is expected to spawn new models in the future.

"There's a lot of social networking going on now. Hitting people with timely commercials, I don't think, can ever keep pace with the potential of word of mouth [advertising], particularly with young people," says Bill Gray, co-CEO of media agency Ogilvy North America. There is considerable potential for leveraging online social networks to run word-of-mouth or viral advertising campaigns. Media providers and advertisers can harness the trust resident in a social group, as well as the network effect, to generate effective advertising campaigns.

## Figure 1: Video content and distribution value chain




The established video content industry has several distinct distribution chains for video programming. Convergence, which shifts the power to the consumer, is changing this structure in several ways. Content is no longer limited to a single access device. Additionally, consumers are choosing among not only professionally produced content but also community and user-created content. Data and metrics about this new consumer activity are enabling advertisers and media agencies to make more informed decisions regarding advertising-supported business models.

## Selected convergence-driven market activity in 2005

Yahoo – Yahoo made significant media- and advertising-related moves in 2005. It acquired social networking sites Flickr, Upcoming.org, and del.icio.us to augment its tools for sharing content with friends and family. It also launched its video search service that indexes a broad array of video content from Web sites such as CBS News, MTV, Reuters, and VH1, as well as movie site IFilm.com. On the advertising front, Yahoo announced a service that allows companies advertising on its properties to see how well their online ads are performing.

Google – Google made several media forays during 2005. Among the most notable was the launch of Google Video, a free service that searches closed captioning and text descriptions of video content. Some videos are free and can be played directly, while others will be integrated with the Google Payment Service, which is likely to launch in 2006. Another Google initiative of note is Google Base, a free service that lets users submit content that the company will host and make searchable online. Users can describe an item with attributes to help people find it when they search Google Base.

Disney/Apple – Announced in October 2005, a deal between Disney and Apple created a new content selection for the iTunes media marketplace. For $1.99 per episode, Video iPod users can download current and past episodes of *ABC* Television's *Desperate Housewives* and *Lost*, as well as a handful of other series. Consumers will be able to purchase these shows the day after they air on TV.

News Corporation/Intermix Media – News Corporation acquired Intermix Media, a public company that owned social networking phenomena MySpace and 20 Web sites, for $580 million. Subsequently in November 2005, MySpace launched its own record label in partnership with Interscope Records. The MySpace label will launch compilations of music drawn from the opinions of the social networking site's more than 25 million monthly users.

MTV Overdrive – In April 2005, MTV Networks announced the launch of MTV Overdrive, an ad-supported broadband video channel. Separate from its cable channels, the network provides content from its Video Music Awards (VMA), a genre-specific library of music videos, feature film content such as interviews and behind-the-scenes footage, as well as television content from MTV shows. Consumers can create custom playlists and send them to friends.

Arbitron/Nielsen Portable People Meter – The two companies trialled a new measurement device. Resembling a pager, the Portable People Meter (PPM) is a passive device that automatically detects the wearer's exposure to any media that has inserted an inaudible code into its audio programming using an Arbitron PPM encoder. When a unique code is detected, the PPM registers, records, and time-stamps the signal. At day's end, the history of a wearer's exposure to media is downloaded into docking stations that send the information to Arbitron.

ITV/Friends Reunited – The UK-based free-to-air terrestrial broadcaster acquired social networking site Friends Reunited for €178m in December 2005. ITV has stated that it aims to generate 50 percent of its revenues away from its traditional advertising stream by 2010, and has since announced plans to involve the Friends Reunited community in a new phone- and text-line funded quiz channel.

The rise in online advertising can be distilled into two words: reach and relevance. Internet search engines such as Google have redefined the concept of targeted advertising. Their emphasis on measurement and direct accountability, in which advertisers pay for performance (click-through) rather than impressions alone, has changed accountability for all other forms of advertising. At the same time, consumers are spending more time online than on other media, and this factor is also expected to contribute to increased online advertising.

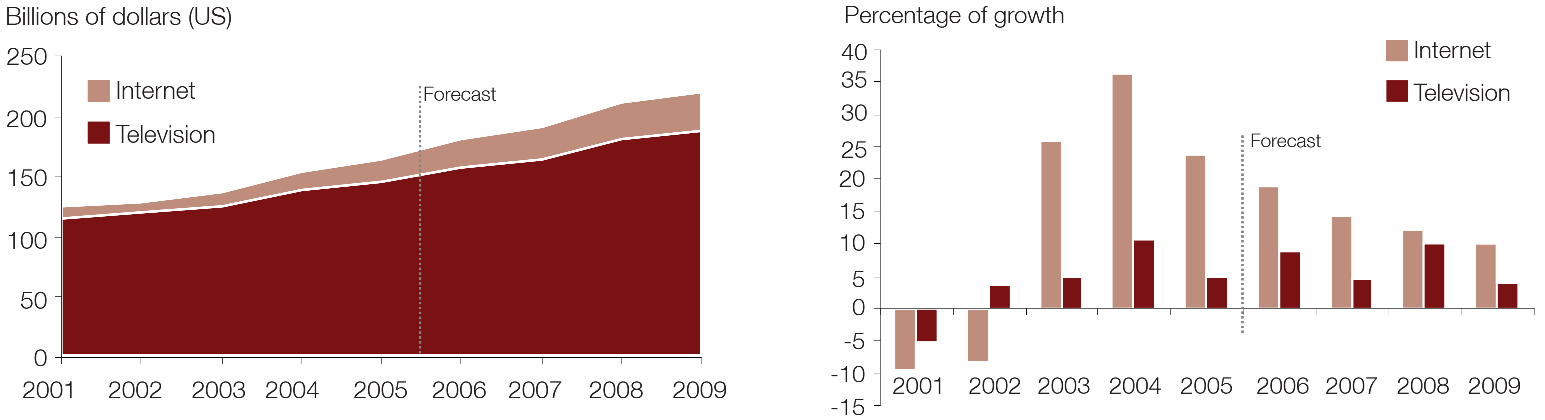
Not only is interactive advertising drawing dollars out of traditional advertising budgets, this spend is fuelling new brands and companies that did not exist a decade ago. Google's full year 2005 revenue (up 93 percent compared to the same period in 2004) suggests that the search giant is well on its way toward breaking the $10 billion mark for advertising revenue in 2006. This would place Google among the top four companies for ad sales, behind conglomerates such as News Corporation and Viacom. Over the last year, Google has launched a video service that includes search, upload, and viewing functions, which positions the company as an aggregator of online video content. However, whether Google will replicate its success with text-based ads in the video-based advertising segment remains to be seen.

Rapid growth in online advertising underscores the value of audience measurement. Along with media providers and advertisers, established audience measurement companies such as Arbitron and Nielsen Media Research are in the midst of developing their convergence strategies. Some critics have charged that current audience measurement systems for television do not accurately reflect audiences. Others argue that these passive audience measurement technologies will be crucial for transitioning the media and advertising industries into the converged environment.

For example, Nielsen Media Research broke new ground during late 2005 by announcing the launch of television ratings that included personal video recorder (PVR) use. The new ratings, called Shifted Average Audience estimates (SAAs), were slated for introduction in the US in December 2005. At that time, Nielsen would begin providing three streams of rating data: a "live-only" measurement, "live plus one day" that would capture initial PVR playback, and a third measure that offered "live plus seven days" for subsequent PVR playback.

## Figure 2: Global advertising revenue forecast, 2005–2009

Source: PricewaterhouseCoopers *Global Entertainment and Media Outlook*, 2005




Although Internet advertising declined between 2000 and 2002, its growth will outpace cable and broadcast network advertising in the future, according to forecasts from PricewaterhouseCoopers' *Global Entertainment and Media Outlook*.

The response from advertisers and broadcasters to the Nielsen initiative was mixed. Major advertising agencies took the position that the SAA ratings for content recorded on PVRs should be excluded from consideration in their negotiations with the networks. One of the largest media buyers declared that not only would it not recognise the new measure, it would also stop recognising ratings for television shows captured on VCRs. Conversely, television broadcasters argued that instead of time-shifted viewing being a negative development for advertisers, it added more opportunities for viewers to be exposed to advertisers' commercials. The broadcast networks used data derived from Arbitron's Personal People Meter (PPM) tests, a Nielsen and TiVo study, and some panel research from CBS to make their case. Such divergent views among media providers, advertisers, and audience measurement companies indicates how convergence will redefine key relationships and competitive advantage.

The effect of convergence will unfold over decades, but the urgency of embracing new business models and positioning for the future is already visible in industry activities. Where will these changes lead the industry and consumers? The value creation opportunities during the short term will come from understanding and serving the emerging Lifestyle Media needs of consumers and fulfilling those needs through a new structure that evolves into a media marketplace over the longer term.

> "There's a lot of social networking going on now. Hitting people with timely commercials can't ever keep pace with the potential of word-of-mouth [advertising], particularly with young people."
>
> Bill Gray, Ogilvy North America

# Lifestyle Media opportunity

Today's media consumer has evolved significantly over the last ten years. Rather than passively viewing content produced for a singular audience, consumers can now participate in a highly-interactive, socially-networked community focused on particular content. They feel a sense of ownership of that content, and they are not satisfied with mass or segmented media. Instead, they increasingly turn to Lifestyle Media – that is, a personalised media experience within a social context for participation.

"The broadcast audience is changing in profound ways. While the traditional relationship between broadcasters and their audience assumes a uni-dimensional, passive listener or viewer, today's audience is becoming much more multi-dimensional, looking at times also for interaction or even the ability to create and distribute its own content. In order to remain relevant to this multi-dimensional customer, broadcasters will have to respond with products and services that deliver value beyond quality content offered through linear channels, for example, by providing interactive experiences," predicts Herman Gyr, a principal at the Enterprise Development Group and co-author of the book *The Dynamic Enterprise*. The current value proposition, which is based on simple, one-dimensional considerations, will need to be replaced by sophisticated, nuanced characterisations of media consumers.

To meet the needs of this changing consumer, media and advertising companies must look beyond the mass media and segmented media strategies in place today. Table 1 compares these established approaches with the emerging Lifestyle Media approach.

**Table 1: Comparison of consumer media categories**

| Approach | Description | Growth prospects | Examples |
|---|---|---|---|
| Mass media | Content with broad appeal | Saturated, unlikely to provide future growth | Hit television shows, blockbuster movies |
| Segmented or niche media | Content geared towards special interest groups or audience segments | Some continued growth due to serving smaller niches (the long tail) | Discovery Channel |
| Lifestyle Media | Customised, interactive content within a greater social context | Considerable growth opportunities to serve new consumption model | Some early indicators: MTV Overdrive, MySpace, YouTube, FriendsReunited, Naver |

Mass media and segmented media are the leading approaches today, but they will not be able to satisfy new consumer activities and expectations. Segmented media has growth prospects if media and advertising companies serve the long tail – smaller and smaller niches. However, over the long term, Lifestyle Media consumption will supplant mass media as a driver for growth.

## Characteristics of Lifestyle Media

Lifestyle Media lets consumers optimise their productive, leisure, and social time by providing untethered, participatory, dynamic, and hyperlinked content that truly meets their needs. Unlike mass or segmented media that is unidirectional, Lifestyle Media is a many-to-many experience for consumption at any time, in any place, and on any device. (See Table 2 on page 15 for more details.)

> "A great new media experience has all the elements – personalised content, playlist management, and community tools – that are built in. And it's the integration, coupled with the discovery side that improves my experience as I listen to the radio and watch videos."
>
> Bob Roback, Yahoo Music

The combination of untethered and participatory characteristics means that Lifestyle Media content needs to be platform-independent and support interaction based on consumer preferences. It also suggests the need for content to be coordinated across platforms to enrich the consumer experience. “Online content, coupled with on-air content, makes for a richer consumer experience,” says Ric Harris, executive vice president and general manager of digital media and strategic marketing and television station division of NBC Universal. These characteristics respond to consumers’ desires to control their media consumption, leading to an anytime, anyplace experience. On the other hand, dynamic and hyperlinked characteristics call for video content to be more like data in the way that it can be linked, combined, or arranged in innovative ways that will be defined by specific experiences. These capabilities will enable consumers to browse video content in a similar way to how they browse Web content, making it possible for content owners to hold consumer attention and interest for longer. (See Figure 3 on page 16).

The building blocks for Lifestyle Media are a set of participants, a set of rules, and numerous flexible means for participation. Through the interaction of those elements, the story behind the media experience emerges.

Sports and news-oriented television were some of the first examples of lifestyle segmentation in media. In the case of sports, a professional or amateur association establishes a collection of participants, the rules that define the game, how winners are determined, and a context for participation in the form of a season and some kind of championship.

In sports, the actual stories occur when teams or individuals meet on the day of a match. But these stories can also be extended, often for far longer than the duration of the game itself, with back stories on participants, chat sessions, and opinion shows where pundits offer suggestions for improving performance.

The same principles hold for some reality television shows like Big Brother or Pop Idol and similar popstar shows worldwide. In these experiences, the viewer is not passively consuming packaged content so much as dwelling inside the event as it happens, almost like a video game. Beyond news, sports, and reality TV, these dynamics are now beginning to be applied to other media experiences.

**Table 2: Lifestyle Media characteristics**

| Characteristic | Description | Example |
|---|---|---|
| Untethered | Content available as time-shifted, place-shifted, device-shifted, and transaction-shifted on the basis of consumer preferences | Digital video recorders such as TiVo and Sky+ have time-shifting capabilities; Beyond TV and Orb support place-shifting; the Video iPod makes possible device-shifting |
| Participatory | Uses social networks to let consumer comment on, create, transform, co-create, and share content; brings community- and user-created content into the realm of professionally created content | MySpace, Match.com, MTV Overdrive, YouTube, FriendsReunited, Naver |
| Dynamic | Video content that is packaged dynamically, in real time, on the basis of consumer request, knowledge, and data; similar to how Web content evolved from static content to dynamic services | Video equivalent of customising Web sites and portals; early example is ad insertion customised to viewers, as announced by TiVo; future example could include content packaged to specific requests, such as to view basketball or football highlights focusing only on a particular player |
| Hyperlinked | Compelling, interconnected video content allowing consumers to follow their interests; lets media industry hold consumer attention and engagement for longer duration by enabling video browsing behaviour | MPEG4 video compression technology holds promise for embedding interactivity in video; with technological advancements and standardisation, video browsing behaviour can become a reality over time |

> “Online content, coupled with on-air content, makes for a richer consumer experience.”
>
> Ric Harris, NBCU

## Forces driving Lifestyle Media

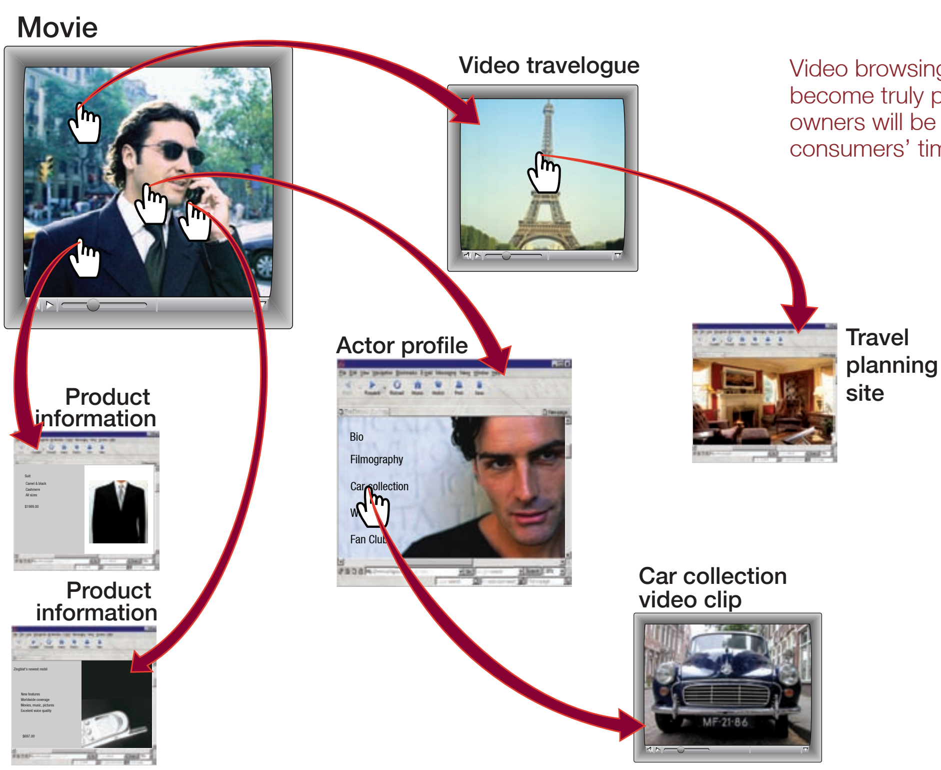
Several distinct forces are dramatically changing media consumption, creating trends that are set to continue. (See Figure 4 on page 17). First is the separation of video content from its transport channel and display device. Broadband and the Internet Protocol (IP) break this link by turning video into just another form of digital data. Today, video is delivered by broadcasters, cable and satellite operators, wireline and wireless telephone companies (telcos), Internet service providers (ISPs), and general-purpose Internet portals such as America Online (AOL). Search engine companies offering video content such as Google, MSN, and Yahoo are joining these providers.

At the same time, video display devices now encompass more than just television sets. Consumers watch video content on PCs, mobile phones, video gaming consoles, and many other video devices that provide robust scheduling and configuration features for customising a video experience.

Most consumers in major markets now carry mobile wireless handsets, making them one of the most important screens to grab consumer attention. In many major markets, mobile network operators have launched video services over high-speed networks. A recent article in *Israel Business Arena* cites Strategy Analytics as predicting revenue from digital television handsets to grow from $5 billion in 2006 to $30 billion globally by 2010. The ability to access video content outside of the home has been further enhanced through expanded penetration of Wi-Fi nodes in coffee shops, book shops, and other public venues.

Another notable change in media consumption is the growing participation in Internet-based social networks such as Flickr or MySpace. Trust, influence, and reputation are the currency of a social network where participants act as producers, distributors, and marketers of content through reviews, voting, and blogs.

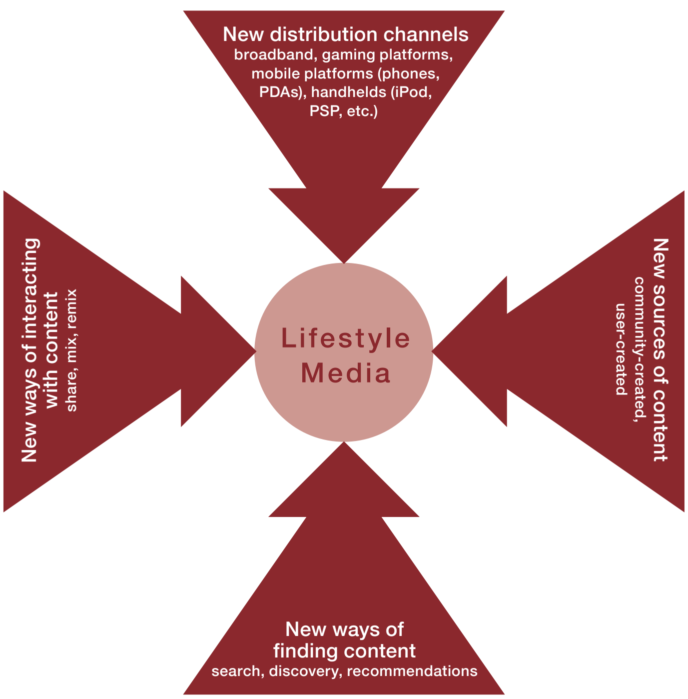
## Figure 3: Video browsing




Video browsing, a primary consumer activity in Lifestyle Media, will become truly possible when video content can be hyperlinked. Content owners will be able to define more engaging experiences, holding consumers’ time and attention for longer durations.

> "Today's audience is becoming much more multi-dimensional, looking at times also for interaction or even the ability to create and distribute its own content. In order to remain relevant to this multi-dimensional customer, broadcasters will have to respond with products and services that deliver value beyond quality content offered through linear channels."
>
> Herman Gyr, Enterprise Development Group

## Figure 4: Forces giving rise to Lifestyle Media




Many drivers are contributing to the rise of Lifestyle Media. All result in a surge of time spent online and give consumers more control, more choices and more freedom.

Large segments of consumers with desirable advertising demographics are joining these communities and individually or collaboratively creating content. In November 2005, the Pew Internet and American Society Project reported that some 57 percent of online teens aged 12 to 17 (about 12 million youth) have created a blog or personal Web page; shared original content such as artwork, photos, or videos online; or have remixed content found online into something new. Among the 18- to 25-year-old demographic in the Pew study, those who belong to social networks are considered to be the most attractive marketing target because of their income, education, and willingness to try new experiences.

Social networks are an untapped resource for media providers and advertisers. They can be used to stimulate word-of-mouth and viral marketing and provide a mechanism for targeted advertising. While measurement practices for understanding and leveraging social networks are yet to emerge, the level of trust within a community and anecdotal evidence of word-of-mouth campaigns suggest significant potential. Social networks can also be used to generate free- or low-cost content. However, as an environment of near-instant feedback they also present new challenges for community and reputation management.

## Discovery and distribution

Lifestyle Media alters the consumer experience in two fundamental ways: discovery and distribution. It allows consumers to discover new content and services, and then choose how they will be distributed. These interwoven activities offer consumers both novel and familiar choices for determining how they will spend their limited time and attention.

Consumers can now search and discover new video content. Discovery through direct Internet search will supplement programming schedules and channels as the primary means of content distribution. As a sign of things to come, the November 2005 agreement between Yahoo and digital video recorder (DVR) maker TiVo links Yahoo's TV listings to the device. From a Yahoo TV Web page listing local and national TV schedules, consumers can click on a button that says, "Schedule now on TiVo." Consumers can also navigate to sections of a specific episode and click a button to begin recording immediately.

Although the Yahoo and TiVo service works from broadcasters' published programming schedules, keyword descriptions, along with professional and amateur reviews will become primary inputs for consumers selecting shows to record. Other Internet companies such as Google have deployed video search engines that can use keywords to access specific sections of video content. As these technologies mature, the difference between searching programme schedules and searching catalogues of video content will blur.

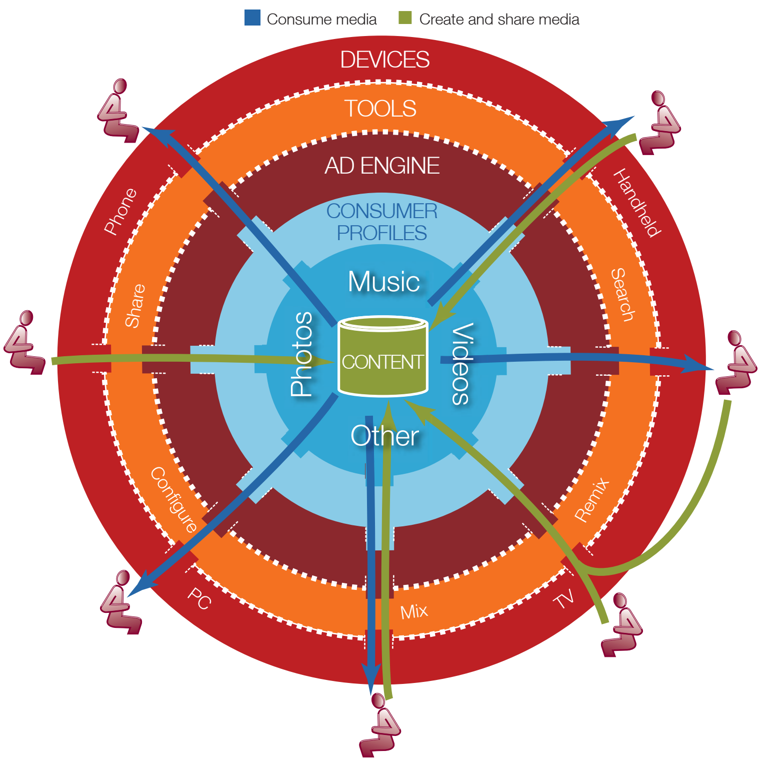
"A great new media experience has all the elements – personalised content, playlist management, and community tools – that are built in," says Bob Roback, general manager for Yahoo Music, "And it's the integration, coupled with the discovery side that improves my experience as I listen to the radio and watch videos. Also, as I find things I like, they are easily saved in a place that I can go back and listen to on-demand."

Yahoo Music is a prime example of the new convergence where value is created by orchestrating the active relationship between consumers, media, and other users instead of packaging and scheduling content for consumers to receive passively. In this many-to-many, lifestyle-focused business model, professionally created, user-created, and community-created content complement one another and evolve together. Quality content can bubble to the surface, be valued, and monetised through an intermediary such as Yahoo. In that sense, the converged media environment of the future resembles more of a marketplace - rather than a linear network – connecting many content providers with many consumers.

# Media marketplace business model

The Lifestyle Media content model is very different from the mass media or segmented media approaches that dictated programming, or even the newer supply-side initiatives designed for convergence. Media companies still limit content choices and have focused primarily on porting content, programme guides, and channels across multiple platforms and devices. Consumers come to a media provider's portal, for example, to access branded content. The bundling and packaging of the device and engagement experience is predetermined by the media provider and usually does not include content from outside the corporate umbrella.

Figure 5: Lifestyle Media and the media marketplace




A media marketplace supports a many-to-many interaction by bringing together content, tools, and consumer activity information. Tools help develop communities and support creation, sharing, mixing, and remixing of user-generated or professional content across multiple touch points.

However, meeting Lifestyle Media needs will require giving consumers the ability to access content from numerous sources and configure an experience according to their own preferences of engagement and display. Current activities – such as keyword searching, posting or receiving reviews through a social network, and comparing and even co-mingling content properties – suggest that accessing video in the near future will occur through a marketplace structure. The experience might have more in common with logging in to a video equivalent of Amazon or eBay than tuning in to broadcast or cable television networks. (See Figure 5.)

A marketplace for media is fundamentally a mechanism to connect media providers with media seekers. It is the organisational and technical infrastructure enabling media providers, advertisers, and consumers to interact successfully for the discovery, selection, configuration, distribution, and value exchange of professionally produced and user-generated content.

> "A set-top box does not have a demographic. You do not know who is in front of a set-top box with technology today, so the first approach is to have a representative sample of viewers to ensure that we are capturing both the programme, and the demographics of the person viewing it."
>
> Jeff Herman, Nielsen Media Research

To achieve these goals, a media marketplace must meet the following requirements:

- Integrated delivery mechanism – Supports anytime, anyplace, any-device consumption.
- Flexible transactions – The ability of consumers to determine the method of use and what they will exchange for the media experience, such as subscriptions, pay-per-view, outright purchase, or advertising supported. Transactions can also be based on other terms, such as surveys, feedback, or activity data (profiles).
- Co-mingled content – Coexistence of professional content with community- and user-created content.
- Tiered engagement – The ability of consumers to choose their level of engagement with a given media experience. Levels of engagement could include passive consumption, content enhancements, and community or social enhancements.
- Multiple business models – Support for many business models, such as business-to-consumer, consumer-to-consumer, consumer-to-business; one-to-many, and many-to-many.
- Data-centred – Rich instrumentation and collection of consumer activity information with required security and privacy.
- Search – The ability of consumers to search rapidly and research the attributes of a particular media available through the marketplace.
- Rights management – The ability of content owners and media providers to assign and manipulate rights connected with a property.

**Table 3: Comparison of video content market strategies**

| | Mass market | Segmented/niche market | Lifestyle-centred market |
|---|---|---|---|
| **Primary business model(s)** | One-to-many | One-to-many; one-to-few | One-to-many; one-to-few; many-to-many |
| **Delivery platform** | Linear network | Linear networks; on-demand platform | Linear network; on-demand platform; media marketplace |
| **Advertising model** | Based on impressions and reach | Based on impressions; targeted to segment/niche | Highly targeted and personalised; viral, word of mouth, advocacy; advertisers cross line as content providers to support brand value propositions |
| **Value resides in** | Owning content or distribution | Value in transition | Owning knowledge about consumer |

In the past, significant value was created by the control of content or distribution. In the future, value is likely to reside in owning knowledge about the consumer.

> "Optimising the interrelationship of all of these different platforms (TV, PC, mobile) is crucial because all brands have these platforms in common in the digital world. So, the need to understand the effects of one upon the other is quite dramatic."
>
> Ken Papagan, Rentrak

## Why a marketplace for media?

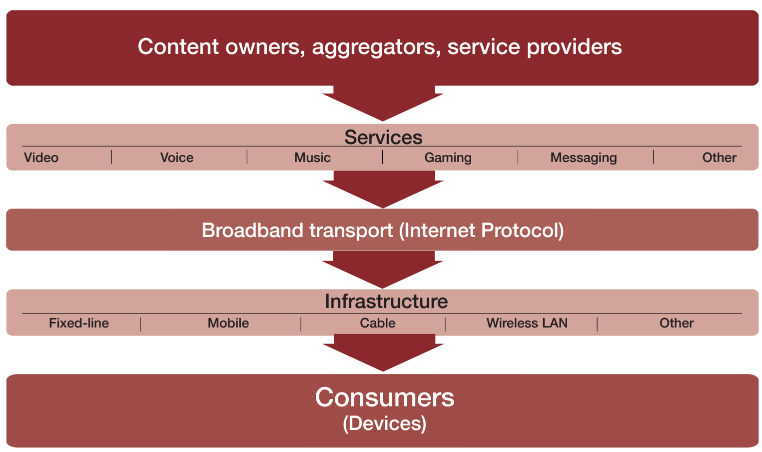
A marketplace for media makes sense for several reasons. Previously, video content value chains largely mirrored the distribution channel. Lifestyle Media value chains, however, do not necessarily follow a linear structure of content handoffs from originator, to packager, to aggregator, to service provider, to consumer (see Figure 6). Instead, revenue streams depend upon interaction between video content, software tools, and other services in a bundle configured primarily by the consumer. Thus, retail marketplace characteristics such as product placement, dynamic pricing, and individualised services will begin to define competition. (See Table 3 on page 20 for an overview of the industry evolution toward a marketplace that supports Lifestyle Media).

The need for consumers to manipulate content requires a combination of tools and content, rather than content alone – a significant departure from industry practice today. "Some consumers are also interested in digging into existing content to re-surface it, to re-create it, to engage with it in new ways and forms, as well as connect with others around the expression of content. So, the value proposition to them is neither high-quality content nor a fixed kind of show, nor an interactive experience. It's a platform, a set of tools with which they can express their full creativity and distribute their work as effectively as possible," suggests Enterprise Development Group's Gyr. A media marketplace structure will allow content owners and others to build such a platform, either through organic development or by integration of acquisitions.

Marketplaces have proven to be sustainable in other industries that have been affected by e-business or convergence, such as retail, travel, publishing, and financial services. These industries migrated their distribution from push to pull models once consumers started using the Web to find, compare, and transact for any good or service that can be represented in digital form.

A prime example of a retail marketplace is Amazon. It supports several business models, from selling direct to consumers to allowing other consumers or businesses (including Amazon competitors) to sell to its customer base. Amazon collects and uses rich consumer-behaviour information to automate many marketplace operations, while allowing discovery and the recommendation of products to the consumer on the basis of his or her behaviour history. Consumer-generated content in the form of reviews and ratings coexists with professional descriptions of products, giving consumers a rich tapestry of contextual and community content to guide their choices. In addition to offering retail products, Amazon orchestrates the marketplace by providing the tools and defining the rules. Its position in the value chain is dependent on the trust it has with consumers and the knowledge it collects about their shopping behaviour.

## Figure 6: Converged media value chain




Convergence to an IP-based transport allows for all content and services to be delivered across any physical infrastructure and therefore to any device.

No doubt, placing user-generated content alongside professional content carries its share of risks. Without adequate quality measures, professional content will be competing with user-generated content that may not be well conceived or well executed. However, community processes should be used to raise the profile of high-quality content, whether it is user-created or professionally produced. This approach is similar to the feedback ratings in eBay or the review ratings in Amazon and Netflix, which define the reputation or quality of a movie or product.

While marketplaces in retail, financial services, and other industries are heavily transaction-oriented, rather than focused on media distribution or consumption, their structure meets many of the requirements for creating new value by leveraging consumer activity information. Media marketplaces are likely to differ in their rules for participation, advertising's role in the business model, and how consumer-generated content is monetised. Media providers will discover that many different approaches can be used to respond to the Lifestyle Media opportunity.

Finally, it is important to note that the media marketplace is complementary to, not a replacement for, established business models (see Figure 7). It represents the next step in the incremental progression from the linear-channel platform, to the on-demand platform, and now to the media marketplace. It provides a mechanism for capturing value that is migrating from the linear-channel and on-demand platform now and in the future.

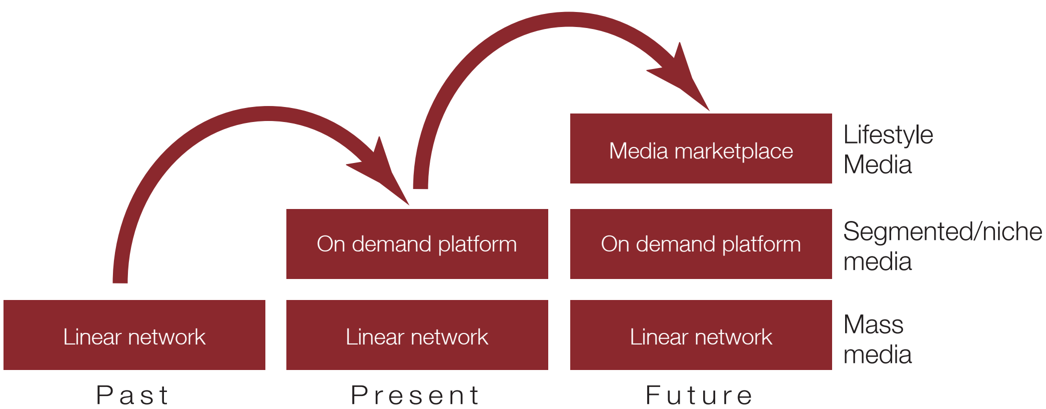
> "Ratings that take into account the venue where media is consumed and the system by which they are delivered will be the future of ratings."
>
> Frank Maggio, erinMedia

## Emerging media marketplaces

In 2005, Internet industry veterans launched several notable start-ups that focus on community video and that exhibit some of the characteristics of media marketplaces. Although these early examples are still defining their business models, they are important test cases for the concept.

One of the most anticipated launches was the Open Media Network (OMN), a globally accessible public-service network of free video and audio content that was founded by Mike Homer (previously the founder of content delivery network Kontiki) and included the involvement of Netscape founder Marc Andresson. OMN is like a PVR for Internet-delivered content. It includes a program guide, content subscriptions, and digital rights management. Most important, through the OMN client software that is downloaded to a PC, consumers can opt to become part of a content delivery grid. Currently, any publisher, broadcaster, or podcaster can add video content to the grid.

## Figure 7: Media marketplace evolution




A media marketplace is complementary to other models of serving content to consumers. Rather than being a replacement for them, it is the mechanism to capture value that may be escaping the linear network and on-demand platform.

In August 2005, the company announced new features, including more powerful search tools and audience voting that lets viewers rate and rank content. Future versions will likely include a secure payment system for premium content.

Other video-centred social networking sites such as YouTube have also recently launched. YouTube lets registered users easily upload, tag, and share personal video clips through other sites, blogs, and e-mail. In essence, the service lets consumers create their own personal video network. Since its public launch in August 2005, the company transfers about 8 terabytes of data per day through the YouTube community – the equivalent of an entire Blockbuster video outlet. YouTube, in essence, defines a many-to-many model for sharing consumer-created videos. While its revenue model is not clear in the company's early stage, YouTube's functionality is an important element of a media marketplace.

Experimenting with media marketplaces is not limited to startups. In November 2005, Time Warner announced its In2TV broadband video network, available through AOL. The In2TV network, which is supported by advertising, will feature Time Warner's 30-year back catalogue of television shows for free. MTV's offering on MTV Overdrive and ESPN360 are additional examples where established media properties are suggesting movement towards a media marketplace. The BBC also plans to make an archive of programmes – both television and radio – available for free over the Internet through its Open Archive initiative.

News Corporation's acquisition of MySpace is of particular importance. With the launch of its own record label in November 2005, the MySpace media marketplace is testing the strength of its own community to support a new media property – in this case, a record label. Unlike other efforts that leverage existing content in an online presence, MySpace is bridging the online and offline environments through the Lifestyle Media opportunity. With the assumption that if they understand their consumers' needs and desires as well as how to market to them, they can create a new record label and potentially much more. By working with their consumers and harnessing their community power, and viral marketing capabilities, they may be in a position to create a new kind of democratic content company, of the (young) people, by the (young) people, and for the (young) people.

> "A fast growing business for us involves providing professional background music for Korean users to build into their personal homepages for both wireless and other networks."
>
> Hawk Sohn, SK Telecom

Video initiatives from popular Internet portals AOL, Google, MSN and Yahoo also demonstrate an evolving media marketplace structure. Although these companies started and matured outside of the video media and information services arena, they all see video as an important element of their future success. All have made significant forays into video by announcing search capabilities for video content uploaded to their sites or third-party sites. With little original content, they are positioning themselves to be the content aggregators for the converged media world.

In developments outside of the US marketplace, South Korea has been a leader in broadband penetration and in defining the digital lifestyle that is increasingly blending consumption on mobile devices into the mainstream media business models. (For more details, see the sidebar, "Korea's converged lifestyle," on page 25.) In Hong Kong, Chua Productions has launched a 24-hour television channel: Interactive Channel, which represents the convergence of broadcast TV, the Internet, and mobile networks. The channel provides infotainment-oriented programming (the combination of information and entertainment) that will appeal to viewers and advertisers. Viewers can interact with content using Webcams and phones during live broadcasts. Unlike games-focused channels, Interactive Channel combines talk shows, news, and game shows. Its business model is based on attracting advertisers to its highly-targeted advertising environment.

Each of these new marketplaces is challenging well-established notions of linear programming in favour of a more dynamic and direct relationship with the consumer. Time will tell whether or not they succeed, but they are clear evidence that an evolution to a marketplace structure is well under way.

## Measurement challenges

The success of a media marketplace will hinge on the ability to capture rich consumer demographics, buying intentions, and information about viewing behaviour. Measurements are also needed to enable automation of the marketplace.

In a converged media environment, obtaining measurements is challenging because exposure to video content or an advertising message is no longer intrinsic to tuning into a channel. A media marketplace complicates the ability to predict a viewer's likely response to a message solely on the basis of the attributes of his or her access device. "A set-top box does not have a demographic," states Jeff Herman, vice president of corporate development at Nielsen Media Research. "You do not know who is in front of a set-top box with technology today, so the first approach is to have a representative sample of viewers to ensure that we are capturing both the programme, and the demographics of the person viewing it."

The effectiveness of audience measurement in a media marketplace depends on how well a media provider or an advertiser can capture information about viewers according to the following parameters:

- Reach – The ability to scale measurement across platforms and reach large numbers of customers (such as cross-platform and census measurement).
- Granularity – The ability to drill down to either specific demographic or psychographic information or activity (such as second-by-second ratings).
- Standardisation – The ability to use similar techniques and technologies across many media platforms to achieve consistent measurement.
- Automation – The ability to use technology-intensive rather than labour-intensive techniques for achieving robust, transparent, granular, and standardised results.
- Identity control – The ability to calibrate the level of data capture and analysis according to the degree of consumer consent.

One particular challenge is how to analyse the impact of one video outlet on another. "Optimising the interrelationship of all of these different platforms (TV, PC, mobile) is crucial because all brands have these platforms in common in the digital world. So, the need to understand the effects of one upon the other is quite dramatic," says Ken Papagan, executive vice president of business development and strategic planning of measurement company Rentrak.

A related measurement hurdle is the need for standards that enable consistent comparison of data across the various platforms. This will be particularly crucial to drive advertising growth. With digital platforms, every programme and advertisement delivered to a consumer device is logged. However, despite the availability of all of this data, it is of limited value. This is due to the fact that different media providers collect and define their own audience measurement and ad delivery metrics, and then apply them to unique systems and procedures. This lack of standards was seen when the Internet emerged as a new advertising medium and it hampered growth because advertisers could not compare their return on investment for different campaigns, channels, or Web sites.

The inherent complexity of standardised, cross-platform measurement will require the development of new measures that reflect the expanding choices in delivery and devices. "Ratings that take into account the venue where media is consumed and the system by which they are delivered (cable, digital cable, over-air, satellite), will be the future of ratings" explains Frank Maggio, chairman of erinMedia, a media research company focused on understanding television audience behaviour.

## Advertising challenges

Media providers in marketplace environments will need to maximise and coordinate advertising opportunities across many outlets and provide performance results. "If we want to buy advertising direct from MTV, we expect MTV to be selling us video-based opportunities across multiple touch points. So we expect them to be selling us their broadband video offerings, their mobile video offerings, their VOD offerings, their force-recorded DVR offerings on satellite, and who knows what else," contends Publicis Groupe Media Ventures' Tim Hanlon.

## Korea’s converged lifestyle

When asked to explain how their country came to be one of the leading broadband economies, most Koreans point to a common native phrase, *bballi bballi*, literally “hurry hurry.” The *bballi bballi* philosophy flows throughout the industries and markets behind Korea’s quest to become the world’s most converged society.

Today’s Korean lifestyle revolves around high-speed access to information through extensive wireless and wireline broadband networks, terrestrial and satellite television beamed to portable devices, video-on-demand services, and more than 25,000 cybercafes for relaxing and playing multiplayer online games.

All this digital horsepower has given Korean companies and consumers the ability to access and manipulate media like nowhere else in the world. Koreans receive satellite and terrestrial television to their mobile phones through Digital Multimedia Broadcast (DMB). They pull DVD-quality video on demand from broadband Web portals such as Yahoo Korea, whose Yammy Web portal archives more than 150,000 video clips. Korea’s terrestrial broadcasters make their programmes available over streaming media while they are being broadcast. Some popular TV shows generate considerable live and on-demand revenue without advertising support. New services for video searching by scene, rather than keyword, are revolutionising how Koreans watch sports.

One of the most fascinating aspects of the Korean experience is how convergence affects the production and promotion of content. According to Hawk Sohn, a senior market researcher for SK Telecom, Korea’s leading mobile telecommunications provider, convergence is reversing the traditional process for producing and distributing music. Sohn notes that music producers will test the appeal of a band by releasing a single track on the wireless or other digital channel. The near-instant feedback from the market in the form of downloads could sway the producer to fund an entire collection of songs that might end up in audio CD form and other digital formats.

Additionally, a new growth area for service providers such as SK Telecom is to help users combine professional content with their own. “A fast-growing business for us involves providing professional background music for Korean users to build into their personal home pages for both wireless and other networks,” he says.

Video also is evolving toward a mix of broadcast and user configuration, according to Dr. Junmo Mo Koo, the CEO of mCubeWorks, a Korean company that develops multimedia streaming solutions for mobile terminals and servers. Dr. Koo remarks that in DMB, competition comes from both the conventional terrestrial and satellite broadcast industries as well as the telecommunications industry in the form of IP-based video services, or IPTV. These organisations compete not only through their content but also in the ways that they aid consumers in personalising their experience with professional content, or making their own content available to others. “At some of the major portal sites, a user can upload their own content and the service provider converts it into the various formats for mobile, fixed, or other networks, as well as configuring it for various network speeds,” explains Dr. Koo.

Such a sophisticated approach to content crosses over to advertising. Korea’s major broadcast networks are government regulated to carry minimal, if any, advertising, relying mainly on user fees instead. Wireless is more promising but, even here, advertisers and content providers must walk a fine line, according to Dr. Koo. “In Korea, people want to watch mobile video content to get information in an entertaining way,” says Dr. Koo. “They want very recent information about a new show or new lifestyle trend to share with their friends. So we typically stick to banner ads, wallpaper, and so forth because Koreans feel it’s rude to interrupt a person with an advertisement when they are accessing content on their phone.”

Mobile subscriptions in Korea began to overtake fixed-line subscriptions as early as 1999. Mobile handsets have become video and still cameras, game consoles, MP3 players, Web browsers, electronic wallets, and keys all wrapped into one. Using this digital remote control for the *bballi bballi* lifestyle, Koreans continue to set the pace for innovation in a converged media environment.

Such changing expectations suggest that accountability for media providers is rising to a new high. Likewise, advertising agencies are finding that clients are demanding greater accountability for their advertising and marketing spend.

Not surprisingly, the success of online search companies and Web properties such as Google, MSN, and Yahoo have contributed to changing expectations. Their ability to provide census-based data, rather than sample-based feedback on the relative acceptance of a commercial message, has resonated with advertisers. The Web has made it far easier to collect data not only about an audience's exposure to a particular commercial message, but also their individual actions subsequent to that exposure. The meteoric rise in search engine advertising revenue demonstrates that consumers respond better to personalised messages rather than mass market messages cascaded throughout a converged environment.

Yet, according to Carla Hendra, co-CEO of Ogilvy North America, marketers and advertisers should not be lulled into thinking that just because they can access a massive trove of data about customer actions, they can automatically place the right message in front of the right person at the right time.

"It is true that Internet-based customer data can be far less expensive to collect and leverage, compared to some of the offline direct marketing channels. But you still need to change the mindset of sponsors regarding what they do with the data," she says. "Today's sponsors will need to respond to millions of customers on a one-to-one basis, not just a one-time broadcast. We have been personalising direct mail forever, but trying to personalise television advertising is not quite the same. It will still come down to the message you present the consumer, but it will require a love of data and an ability to adapt creative messages on the fly. Because of this, ROI will be a function of both science and art."

The rise of social networks and word-of-mouth advertising is a prime example of the importance of striking the right balance between the science of measurement and the art of communication. New measurements that look beyond the pure focus of media consumption and develop real-time maps of the continuously evolving array of social networks that define our society are needed. At the same time, the messages that will resonate with consumers and build a loyal relationship.

## Google's advertising auction

In 2005, Google sold more than $6 billion in ads globally. This is more advertising than is sold by any single newspaper, magazine publisher, or television network. By the end of 2006, Goldman Sachs estimates that Google will achieve advertising revenue of nearly $10 billion, placing the search engine company fourth among American media conglomerates in total advertising sales after News Corporation, Viacom, and Walt Disney – but ahead of NBC Universal and Time Warner.

Google's success at matching relevant ads to user searches for higher ad conversation rates is well documented. However, the auction formats with which advertisers bid for message placements in keyword search results is less well known.

The Google system, also known as a Vickrey auction, takes sealed bids from advertisers who are ignorant of other bids. The ad placement is awarded to the highest bidder at a price equal to the second highest bid (the highest unsuccessful bid). That way, the winner pays less than the highest bid offered.

For example, if three advertisers are bidding for a keyword placement in which advertiser A bids $10, advertiser B bids $15, and advertiser C bids $20, then C wins but pays only $15.

The advantage of Google's Vickrey auction format is that it encourages advertisers to bid aggressively because they know that they will not overpay but will come close to the market consensus. Largely automated by software at the search giant and its advertising partners, the Google ad auctioning format has proved as attractive to advertisers as the fact that they are not billed unless the ad is clicked through by the user. The company reported that ad inventory space for certain keywords was sold out near the end of 2005.

## Advertising opportunities

Voting via short message service (SMS), online surveys, and a host of other innovations are creating a referendum society of consumers who rapidly exchange opinions. To date, these networks have far outstripped the ability of traditional advertising to personalise ads. New models for advertising also need to be developed for user- and community-created content. "I expect user-created content to be a viable environment for advertisers, but I think that is where measures of environment are going to be required, to see whether it's a more positive or a less positive environment, and whether people are more engaged, more trusting, more likely to consider advertising a recommendation, or less," explains Jack Myers, editor and publisher of Jack Myers Media Business Reports.

Some studies have suggested a higher level of trust in a user-created content environment, which leads to greater effectiveness of the marketing and advertising messages displayed there. "The more consumer participation we can have – whether it's blogging, posting photos or videos, or posting their own stories, the more compelling the content for our users," suggests NBC Universal's Harris. The more compelling the content, the more engaged the viewer, which leads to better impact of advertising and marketing messages. For example, companies have tested promotions aimed at teenagers by monitoring blogs to uncover what is being said online about new products, ad campaigns and older brands. Such an approach has been found by some companies to be a cost-effective approach to spotting product trends.

Granular measurements create the potential for many new advertising models, in addition to models that leverage user-created content discussed above. "Tactical information will be available to try many different types of advertising and make informed decisions, both about the impact of an ad's content and where to place it. This is the main benefit of granular, second-by-second rating measurements," contends erinMedia's Frank Maggio. In addition to today's product placements and programme sponsorship models, some examples of new advertising models are:

- Ad-per view – Offering on-demand content for free in return for advertising exposure.

- Ads on demand – Advertising could be served on demand, based upon a consumer's search request. For example, if a consumer was in the market for a new camera, an ad that informs him in an engaging fashion could lead to a purchase. Such interactions that are initiated by the consumer will be much more effective and valuable than impressions.

- Personalised ads – Ads based upon consumer profiles could be inserted into the linear video stream. Recorded programmes could have their original commercials replaced with personalised ones.

- Long-form ads – The user clicks from a traditional TV spot, hot spot, or menu to view a more detailed ad format. This approach is currently used by TiVo, which links to detailed ads from its menu and regular pop up boxes. Because the user chooses to view a long form ad, they are considered more valuable than ad impressions alone.

- Polled ads – Advertising that seeks audience input, as demonstrated by ReacTV in the US. In ReacTV, the audience is polled periodically on ads viewed and rewarded with prizes for participation.

- Word-of-mouth and viral ads – In a social network, advertising models could use influence, reputation, and social standing of a participant to drive word-of-mouth or viral campaigns in both online and offline environments.

- Consumer activity ads – Advertising could be targeted to a consumer's particular activity in a marketplace.

What is common across these varying advertising approaches is that each seeks to make advertising more targeted, more personalised, and more accountable. This is accomplished through platform interactivity and the availability of granular data about consumer activity and consumption habits.

> “The convergence of tools with content in an on-demand world will be a key factor driving the entertainment experience for consumers into the future.”
>
> Stacy Jolna, TV Guide Television Group

## Seizing the media marketplace opportunity

For the video content and distribution industries, the media marketplace opportunity requires fundamental changes. It demands a service, rather than product, orientation. It necessitates relating to an individual rather than a mass audience. It requires orchestrating rather than dictating. It requires providing consumers with a combination of tools and content rather than content alone. “The convergence of tools with content in an on-demand world will be a key factor driving the entertainment experience for consumers into the future.” predicts Stacy Jolna of US -based TV Guide Television group.

Marketplaces thrive on the network effect; that is, the extra value created for all participants in a network above and beyond the value received by each newcomer to the network. Market leaders who capture sizeable audiences will have a substantial advantage that will be difficult for trailing competitors to overcome. For example, as a first mover in the online auction marketplace, eBay was able to garner a sizeable advantage so that even followers like Amazon and Yahoo, which have strong brands, have been unable to affect eBay’s dominant market share significantly. Similar dynamics are possible in media marketplaces. Thus, media companies have only a narrow window of opportunity to establish direct relationships with consumers by leveraging their popular brands and content assets.

Internet powerhouses such as Google and Yahoo are moving into the converged video entertainment market. They possess considerable strengths in large registered user bases, robust search and research technology, and well-honed commerce and ad-serving capabilities. As marketplaces evolve, they could have either a broad (horizontal) or narrow (vertical) orientation. Internet aggregators such as AOL, Google, MSN, and Yahoo appear to be investing heavily to position themselves for the horizontal role. For many content owners, existing brands and content assets will lend themselves more easily to vertical marketplaces. Disney, for instance, is well-positioned to dominate a media marketplace for children, as is ESPN for a sports media marketplace, MTV for a youth media marketplace, likewise SKY Sports in the UK, and so on. Similarly, media trade publications are well-positioned to create business-to-business marketplaces that enable them to transition their brands online to become media marketplaces for their respective verticals, blending video content with other rich media.

Whether marketplaces are horizontal or vertical, participants will have opportunities to create new brands. As content owners incorporate marketplace strategies, they will need to establish purposeful brands that attract viewers with simple, powerful value propositions. Cable and satellite networks have made great strides in establishing brands with definable demographics. As studios begin offering content directly to consumers, they will need to create similar online sub-brands to establish attractive gateways. Media agencies are ideally placed to help content owners re-purpose selected elements of their large vaults of old and new content. They can also help content owners develop promotional themes to attract audiences to new, culturally relevant, branded gateways.

With their strong brands, rich content libraries, and global reach established content owners can become major beneficiaries of the Lifestyle Media opportunity. They should start with developing an intimate understanding of the emerging behaviour being defined by Lifestyle Media. They should master the techniques for fostering and supporting communities and social networks. And they should do so while increasing direct engagement with the consumer and developing ways of organising a personalised experience across multiple video outlets and touch points.

One near-term challenge of Lifestyle Media revolves around how to revalue and reposition existing media and distribution assets, as opposed to building new ones. Existing content is unlikely to be suitable for all platforms. For instance, there is limited opportunity for streaming full-length movies or television programmes to mobile phones. However, the same content packaged in digestible chunks, which build communities of interest, spark consumer involvement, and lead to higher ratings for the television show, would be beneficial. Packaging soundtracks into ringtones spawned a sizeable market; similar opportunities will likely exist with video. Future success will ultimately show whether or not these organisations have truly embraced the idea of Lifestyle Media.

# Risk and reward

In the next 5 to 10 years, it is probable that today's leading media, distribution, and advertising companies will continue to be significant purveyors of branded content, services, and commercial messages. It is certain, however, that their business models, revenue streams, competitive dynamics, and core partnerships will evolve in radically new ways. The path ahead is fraught with risk as well as rewards. On the supply side, media providers, network operators, advertisers, and measurement companies must contend with the challenges and opportunities that stem from new ways of working with one another. The demand side faces a similar set of challenges and opportunities for consumer interaction.

In both cases, video content and delivery companies must fully grasp that theirs is not a production challenge of porting media content onto various devices, but rather an orchestration challenge for delivering a quality media experience that has lifestyle-enhancing qualities.

## Supply-side issues

As content owners, network operators, advertisers, and measurement companies begin to deliver their goods and services through broadband, they become more reliant on relatively immature technologies and on partnerships and business relationships considered unthinkable just a few years ago. These are early days for IP-based video services, and marketplace participants must understand how convergence affects current business processes. During this evolutionary period, many different paths towards a converged media environment will be tried. There is likely to be increased complexity, as well as economic inefficiencies, early on. However, as the different industry participants collaborate on changing consumer activity and business models, the refinement of the media marketplace approach will become possible.

After the buzz of convergence deal-making and new product launches has subsided, general business principles rather than novel features will start to differentiate companies. The payment process for on-demand video content provides an example. From an operational point of view, this payment for a single piece of content could include one or more of the following: direct payment to the content originator from a consumer; a portion of revenue to the content originator, passed back by a distribution partner such as a network provider; or payment by an advertiser for placing a commercial message.

Given such complexity, licensing and royalty collection becomes crucial. Content owners and distributors must consider a number of issues, as summarised in Table 4 on page 30.

Licensing compliance and royalty management in a media marketplace throw into sharp relief how convergence will dramatically accelerate the pace of mergers and acquisitions, alliances, joint ventures, and partnerships across industry sectors. Some of the first signs of this transition are already taking place.

The youth-oriented portal MySpace started as a Web-based community for sharing photos, journals, and interests with other members of self-defined, opt-in communities. During August 2005, News Corporation acquired the holding company for MySpace and more than 20 other Web sites for $580 million. Given the fact that MySpace and its partner sites did not own proprietary content or have direct subscriptions with customers, the acquisition is one of the boldest bets to date on the convergence opportunity.

It is also one of the first tangible demonstrations of the potential power of social networks in a converged environment. In November 2005, MySpace announced the launch of its own record label in a joint venture with Interscope Records. MySpace records will feature independent and unsigned artists as well as compilations that include music groups from other labels. The first release was a compilation of tracks that have become popular among the 36 million registered users of the site.

The MySpace example hints at some of the possibilities for video content providers and advertisers to collaborate in customer-led rather than content- or channel-led media marketplaces. How News Corporation manages and monetises MySpace will be a bellwether for how other media and advertising organisations approach other social networks.

> "Today's sponsors will need to respond to millions of customers on a one-to-one basis, not just a one-time broadcast. We have been personalising direct mail forever, but trying to personalise television advertising is not quite the same. It will still come down to the message you present to the consumer, but it will require a love of data and an ability to adapt creative messages on the fly."
>
> Carla Hendra, Ogilvy North America

## Demand-side issues

A crucial yet often overlooked aspect of convergence is that a direct relationship with a consumer goes both ways. In nearly all other forms of Web marketplaces, customers expect to reach their service providers painlessly through various channels to receive end-to-end support for provisioning, installing, or maintaining the goods and services they procured online. Why should media be any different?

The need for media and advertising companies to achieve improved customer service capabilities is one of the unexpected issues in convergence. Improving customer service requires organisations to rethink their view of a customer contact centre. No longer a sunk cost, a customer contact centre can be a platform for accomplishing many business objectives. Some of those objectives might include facilitating an up-sell or cross-sell opportunity, offloading certain customer traffic to self-serve options, or routing a problem through differentiated levels of customer service.

Customer service can also be a component in a new business process that is becoming a requirement in the media and advertising industries: calculating the value of an individual audience member. In the era of mass or segmented media, an eyeball was an eyeball. But convergence and media marketplaces mean that content providers, advertisers, and network operators are not necessarily serving an audience of viewers, listeners, or readers, but are serving an audience of individuals. In doing so, media providers must consider the following issues:

- Understanding the return on customer – What is the lifetime value of the customer? How do I rank my customers to determine what I must provide?
- Profits per customer – Which customer segments are most profitable?
- Losing customers – What contributes to customer churn?
- Customer acquisition – How much do I spend to acquire a new customer?

The ability to respond to these questions is crucial for success. The importance of these answers elevates the role of measurement and metrics in the media marketplace.

**Table 4: Licensing and royalty considerations in a media marketplace**

| Content owners | Content distributors |
|---|---|
| • How do I know I am receiving all of the royalty revenue due to me?<br>• How do I determine if transactions involving my content are captured completely and accurately?<br>• How do I learn if unauthorised use of my intellectual property occurs? | • How do I convince content owners that they are receiving the proper amount of royalty revenue due to them?<br>• How do I ensure that I am not over-paying or under-paying content owners based on transaction volume?<br>• How do I determine the boundaries of my responsibility for protecting the intellectual property of my content partners?<br>• How do I demonstrate compliance with licensing terms? |

## Privacy and measurement risks

Capturing audience information is also necessary for cultivating successful partnerships “We view metrics, in large part, to be about a relationship,” explains Michelle Bottomley of Ogilvy & Mather. “The metrics need to be anchored in and around the journey that the consumer is taking with the brand, and the effectiveness of the marketing efforts in acquiring, retaining, and growing the value of these relationships over time.”

A media provider has little chance to sell a converged advertising opportunity without granular, local data on demographics and activity. Yet, that imperative affects both real and perceived issues of viewer privacy. A balance must be achieved between personal privacy and the collection of demographic and activity data. Many leading companies consider a pro-active approach to privacy compliance best practices as a competitive advantage and market differentiator. Companies should provide consumers with readily available means to opt-out of certain data capture. They should also inventory customer data flows, conduct risk assessments, and implement employee training and communications strategy.

When greater direct knowledge of the consumer is fundamental to new forms of advertising, how receptive are viewers? PricewaterhouseCoopers and Luntz, Maslansky Strategic Advisors conducted a series of focus groups during the third quarter of 2005 to study this question and determine how viewers regard advertising in converged media.

Among the surprising results was the degree to which consumers actually like advertising that is targeted to them and that offers a clear benefit in either the advertising itself or the media experience it supports. The focus groups revealed that their willingness to watch ads must be tied closely to receiving high-quality, free content. The clearest way to do this is to provide a direct comparison of the ad-supported content option (ad-per view) and a paid subscription or purchase option.

> “At some of the major portal sites, a user can upload their own content and the service provider converts it into the various formats for mobile, fixed, or other networks, as well as configuring it for various network speeds.”
>
> Dr. Junmo Mo Koo, McubeWorks

A finding of equal importance was that consumers, especially those aged 18 to 25, are more often willing to provide information about themselves in exchange for content or targeted advertisements. A majority of consumers said they would be willing to provide detailed information about their consumption habits, brand preferences, and demographics if they thought they would receive something valuable in return – with the caveat that they did not want to be personally identified. They were comfortable with companies collecting usage data and targeting advertising to a consumer profile, but they wanted to remain anonymous.

# Conclusion

1995 was a landmark year for media convergence. WebTV and Yahoo were founded, and the second version of Netscape Navigator was released. Microsoft released Windows 95 to great fanfare because it included the company's first version of the Internet Explorer Web browser, which had a link to a fledgling online network appropriately called the Microsoft Network.

The telecommunications companies flexed their muscles at the International Telecommunications Union (ITU) Telecom 1995 trade show in Geneva. A host of joint-venture announcements left little doubt that telecommunications companies were positioning to capture the huge pent-up demand for Internet services. Average bandwidth speeds had achieved a blistering 14,400 kilobits per second and promised to double in 1996.

Looking 10 years back in order to look 10 years forward is not particularly useful for predicting how convergence technology and deal structures will play out. But it can be very instructive for understanding change. Like today's executives in media, networks, advertising, and audience measurement, the leaders of incumbent companies and the founders of new companies in 1995 perceived and articulated the opportunities, risks, and competitive advantages at their disposal according to the time and circumstance in which they found themselves. Remember, bandwidth rates of 14,400 Kbps were considered fast in 1995.

## Looking back, looking forward

It is arguably more instructive to examine some significant events from 1995 and compare the short-term, or disruptive impact, and the long-term, or convergent, impact. (See Table 5.)

In every case, the disruptive, short-term impact of these events hardly foreshadowed the long-term, convergent impact. Convergence takes time, and even as the events of 1995 were already being labelled "convergence" by some a decade ago, those that sought to capitalise at that time had to wait to for their rewards, if indeed they ever received them.

Is this, then, the time to make better decisions around the new decade's convergence?

**Table 5: Representative convergence-defining events of 1995**

| 1995 event of note | Disruptive impact | Convergent impact |
|---|---|---|
| National Science Foundation removes Internet ban on commercial uses. | Commercial entities rush to develop Web sites to ensure they have a Web presence. | Rapid growth of Internet advertising; begins to change advertising performance expectations for other media. |
| Kodak introduces the DC40, the first point-and-shoot digital camera. | Reduced demand for camera film and film processing. | Digital photos become major component in growing wealth of consumer-created content; social networks form around photos and blogs. |
| PlayStation video gaming console released by Sony in the United States. | Three-dimensional graphics sets new standard in video gaming. | Video gaming industry revenue in the United States as in many countries exceeds that of movie box office revenue; games themselves inspire movies; generations of gamers do not stop playing just because they have grown up. |
| Digital mobile technologies such as CDMA and GSM become mainstream. | More conversations can be carried by a single cell site. | Technology makes mobile distribution of music and video content possible; cell phone becomes third screen after TV and PC. |
| Netscape 2.0 and Microsoft Internet Explorer released. | Internet content becomes available to average consumer. | Newspapers and magazines with limited differentiating content become disintermediated in favour of Web media platforms. |

Look at a sample of telling events from last year and consider their disruptive impact. Unlike the events of 1995, when developments that can now be characterised as revolutionary were taking place, today's events are more evolutionary. As such, there is reason to believe that a real connection can be established between the near-term, disruptive impacts and a logical conclusion to longer-term, convergent impacts. (See Table 6).

These events and others like them are taking place nearly every day as the convergence of media, distribution, advertising, and measurement continues apace. Standing still and hoping that "piracy will be brought under control," or that "consumers don't change, they'll always be the same," are tempting perspectives because they allow participants in these industries to stay the course.

History is a guide that previous waves of technological change (such as VHS and DVD), that were initially met with fear and resistance because of concerns about cannibalisation of core revenues, in the end lead to robust new revenue streams. They expanded the overall market by delivering real value to consumers in one form or another.

We hope this discourse on the wave of change that is finally bringing convergence into focus will dissuade anyone from resting on their laurels. The time is right for a full engagement in the new industries that will be defined by the winners of the convergence era.

**Table 6: Representative convergence-defining events of 2005**

| 2005 event of note | Disruptive impact | Convergent impact |
|---|---|---|
| Social network MySpace acquired by News Corp. | Introduces the power of social networks in content value creation; defined communities to provide social comfort and security to online audiences. | Social networks defined by common interests, personal referrals, and controlled exposure of identity will increasingly become the new targeted audiences for media and advertisers. |
| In2TV announced by Time Warner, which will distribute older TV shows directly over the Internet. BBC Open Archive announced. | Bypassing traditional distribution channels, Time Warner captures more advertising revenue. | Time Warner and other media companies will learn to aggregate shows around defined micro communities, which are dynamic components of media marketplaces. |
| Video iPod and Slingbox come to market. | Device and service enables users to separate video content from traditional access device or distribution channel. | Media companies learn that the most important commodity is consumer attention to their properties—at any time and on any device; they begin to develop business models to monetise that attention. |
| AT&T, France Telecom and Deutsche Telecom each announce plans to roll out bundles of voice, broadband, and video services. | Traditional contracts and business relationships between content owners, distributors, and technology suppliers are strained by the telco entry into the video market. | Innovation in video content and delivery flourishes as commodity services no longer deliver expected profit margins. |
| Yahoo buys social networking site del.icio.us | Del.icio.us helps consumers store and share information about their favourite places on and off the Web. | Automation of references for products and services becomes embedded in media consumption, making direct advertising inefficient. |

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PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax, and advisory services for public and private clients. More than 120,000 people in 139 countries connect their thinking, experience, and solutions to build public trust and enhance value for clients and their stakeholders. ("PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.)

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