# LIGHTS, CAMERA, DIGITIZE!

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## Abstract

The digital revolution has opened up a cauldron of possibilities for media, and entertainment (M&E) companies – possibilities that require a drastic change in the way these companies operate. They need to adopt a dual 'Renew-New' strategy. One that simultaneously renews traditional business models to meet changing customer expectations, and builds new services and capabilities to address vastly different customer expectations anticipated in the future. In this paper, we discuss the rising trends in customer needs, content consumption habits, technologies, and how M&E companies can respond to them.

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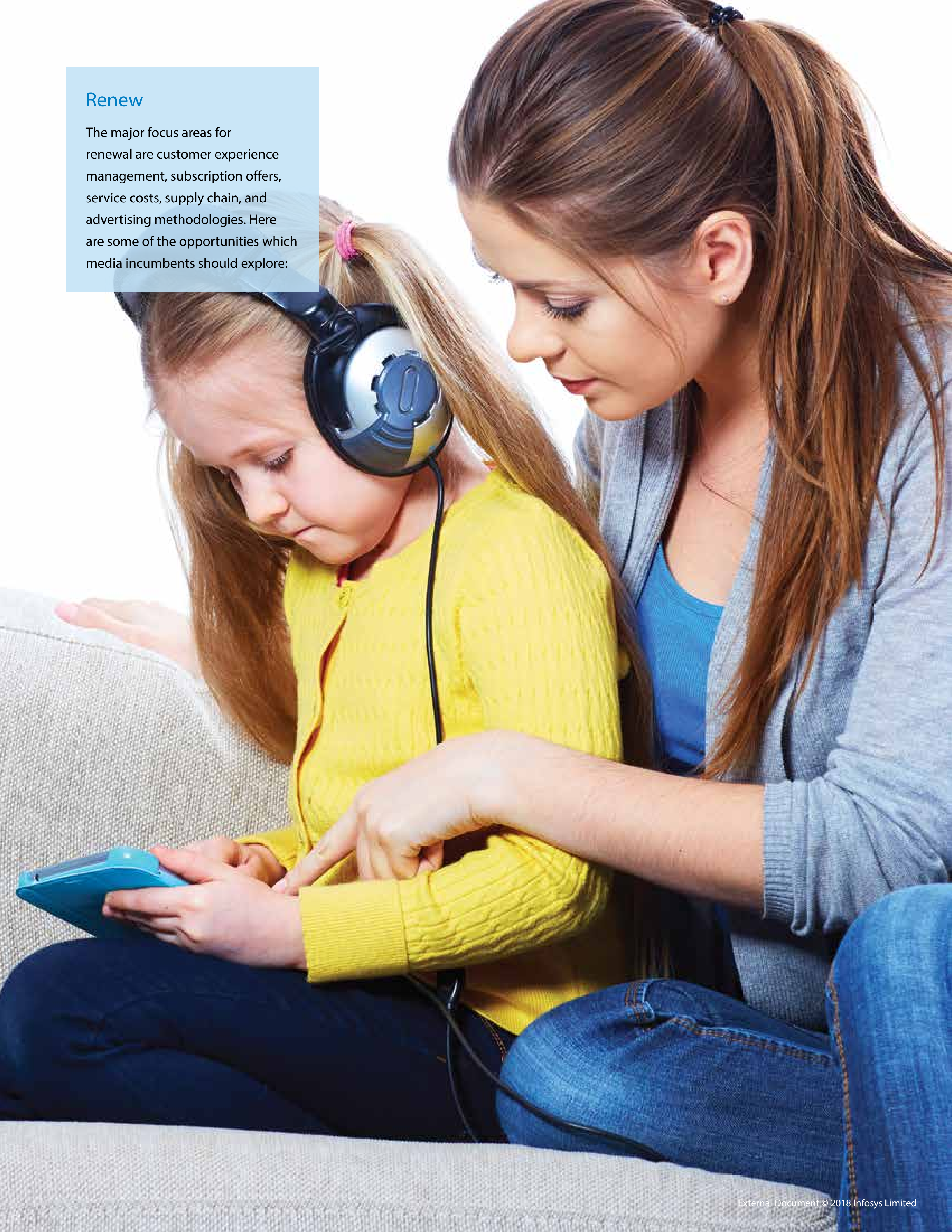
## Lights, Camera, Digitize!

Over the past few years, the production-to-consumption supply chain in the Media & Entertainment (M&E) industry – broadcast or cable networks, movie studios, music labels, radio stations, etc. – has changed drastically. Content is still king, but the internet is rapidly becoming the channel of choice for millions to access high-quality content via a proliferation of high-tech personal devices. This, in turn, has transformed consumption patterns and behaviors as a new generation seeks more control over when, where, and how they access content of their choice, and how much they pay for it.

To succeed in this vastly altered landscape, M&E companies will need to renew traditional business models and propositions to fit changing customer expectations. Concurrently, they will also need to build new services and capabilities that resonate with a radically different customer's expectation of a distinctive experience.

## Renew

The major focus areas for renewal are customer experience management, subscription offers, service costs, supply chain, and advertising methodologies. Here are some of the opportunities which media incumbents should explore:



- **We understand, Mr. Customer:** Not only have mobile-connected devices made TV viewing a multiscreen, multitasking activity but they have also extended entertainment beyond the boundaries of home, and conventional primetime slots. These behavioral changes are accompanied by altered expectations that companies are responding to with a TV - Everywhere model, which empowers new consumption patterns. For instance, Comcast's TV Go smartphone app registered 11 million downloads in less than a year, and the service is now being used by 30% of their regular subscribers. And as companies address the consumption shift from 'linear' to 'streaming' and from 'own' to 'subscribe', they will also need to address diverse pricing preferences, from a la carte to all-you-can-eat.

- **We want it, when we want it – Changing subscription demands:** Analysis of subscriptions reveals a paradigm shift in customer demands. There is a revolution in the way customers choose, and pay for TV services, from a la carte to pick-and-mix that will not only change distribution models but even subscription offers. Relaxation viewing is increasingly being driven by Video-On-Demand (VOD), scheduled TV is shifting to appointment viewing while linear TV is best suited for the 'here and now' appeal of live sports and entertainment. Given this situation, content mobility, availability, and affordability will be critical success factors in ensuring customer engagement and brand relevance. Traditional models will therefore need to be renewed to support unified, cross-platform solutions which support diverse monetization models, and deliver new content experiences directly to the customer. With these changes in subscription offers, service costs are also moving towards a need-based model.

- **Optimizing service costs:** Netflix is a great example of transformation in the service costs model. Though the on-demand streaming video model that Netflix offers is still quite limited in terms of depth of selection, a combination of quality content, extended device / platform compatibility, and competitive pricing has made it a premier destination for customers looking for entertainment value. Amazon Prime has further upped the ante with its cost-efficient services and soon, the key consideration for customers will be the ease with which they can switch providers. Soon there might not be a high-end pay-TV service market any more as service bundles fragment into focused clusters at a wider range of price points. Dish Network's Sling TV, for example, offers a limited range of channels at a very competitive price and is targeted at the cash-constrained millennials and cord-nevers rather than the general cable audience. As service providers continue to operate more efficiently with targeted-by-cost-and-content packages, pay-TV operators will need to compete for audiences at every level. The industry will also have to compete hard for advertising revenue.

- **Ads for you, and you only:** As providers fight for every dollar of advertising revenue, the evolution of the dynamics of distribution, pricing, and consumption will intensify their focus on addressable and accountable advertising. Service providers will need to find innovative ways to match specific audience preferences to individual advertisers based on up-to-the-minute data. This has to be supported by the appropriate allocation of ad inventory to serve right ads to the right customer on the best-suited screen and at the most appropriate moment. A focus on programmatic ad buying and delivery will help them revive revenues from traditional streams while the creation of an enterprise-wide 'data lake' would enable them to leverage analytics to make the process of managing, marketing, and measuring advertising more efficient.

- **Reviewing the media supply chain:** All the initiatives discussed above need the support of a strong supply chain. As linear consumption from household television sets yields to on-demand relaxation viewing over mobile devices, the traditional media supply chain will need to be renewed to address the changing preferences and behaviors engendered by this shift. The sector will need to redefine conventional metrics of engagement, and this will result in the packaging of content in efficient bundles. As linear TV evolves into a series of more flexible consumption possibilities, the conventionally linear media supply chain will also need to morph into something more flexible, adaptable, and appropriate to the new M&E model.

Communications today, enables us to live digital lifestyles and it's no longer just an end service. New communications service providers (CSPs) and multichannel video programming distributors (MVPDs) must be proactive and adaptive of new digital services.

Besides the renewal opportunities described above, a number of opportunities to adopt new technologies, systems, and practices await the industry.

## New

M&E providers can look for new opportunities in changing customer needs, viewing habits, and technologies, exemplified by some of the following trends:

- **The rise of cord cutters and cord nevers:** As they have done elsewhere, youth will change the rules of consumption in the M&E space as well. Most millennials, the cord nevers, prefer subscription video on-demand (SVOD) and over the top (OTT) content and a la carte pricing to long-term committed subscriptions. A recently launched offering from HBO, GO, allows users to view their favorite shows without the cable TV or satellite subscription. Then there are the cord cutters, a segment that has increased by 44% over the past four years in the U.S. Both these segments will be critical to the success of the pay-TV industry and will need to be targeted with completely different strategies of content, packaging, and pricing. The industry's 'TV Everywhere' thrust is a testimony to the importance of these two segments with most major players launching services designed to bring them back into the audience. Apart from the earlier mentioned Sling TV, NBC O&O also has smartphone apps for live TV Everywhere which include local programming, prime time, late night network shows, and network news.

- **Binge watching, the new addiction:** The rising popularity of streaming entertainment services such as Netflix has triggered a trend called binge watching, a cultural phenomenon that over half of all American adults now seem to have embraced. In fact, the political drama 'House of Cards', one of the most binge-watched shows in the U.S., has helped establish Netflix as a transformative power in the M&E industry. If releasing an entire season of a show helps whet the ever-growing appetite for more entertainment, it also builds engagement with customers, acquires new fans, and delivers bigger audiences for subsequent seasons. More importantly, it results in new marketing and distribution strategies such as holiday marathons.

- **Changing primary screens:** The change in consumption patterns as described above is accompanied by a change in consumption interface. The primacy of the television screen in the M&E universe has now been usurped by the smartphone. Primacy itself may no longer be a definitive concept as customers define screen dominance based on their immediate entertainment needs. The emphasis must therefore be on tailoring a content experience that seamlessly adapts to customer needs irrespective of the viewing interface. It is true though that alternative screens have taken the lead as sources of mainstream engagement in an era where companies such as Netflix and Amazon have delivered some truly disruptive possibilities. The focus, therefore, will need to be on developing capabilities, partnerships, and models that enable businesses to deliver a new portfolio of services directly to customers.

- **Beyond TV, creating new experiences:** As service providers increase direct interaction with customers, they have another opportunity to intensify engagement by creating a more interactive and immersive approach to storytelling across different channels and screens. The first 4D theater in the U.S. that combines 3D experience with haptic and tactile stimuli was launched last year. A team of scientists from New Zealand and South Korea are already at work on a project to bring a similar 4D experience to home entertainment. In an increasingly interactive world, the entertainment experience should also be more interactive, maybe even extend the locus of narrative control itself to the viewers. As virtual reality technologies become more practical and cost competitive, it should soon be possible for customers to 'attend' a live concert on the other side of the world or even immerse themselves in their favorite movies or sitcoms.

- **IoT at your service, literally!:** Similarly, the IoT will reduce the distance between the customer and content. This means that once the world transforms into a vast network of connected customers, devices, and sensors, the industry will have to constantly explore opportunities to develop new services that enhance customer experience as well as expand the possibilities for brands. The focus should be on leveraging IoT to identify new contexts to create new content consumption and marketing experiences. Most importantly, companies will be able to generate insights into customer behavior, which are derived from more than just an individual's content consumption patterns to tailor personalized, contextualized content.

- **Cloud-hopping with Media Function Virtualization (MFV:** Besides 4D and IoT, the technology innovation that will exert great influence over the M&E space is Media Function Virtualization. Just as Network Function Virtualization eliminated the need for traditional hardware by virtualizing functions onto the cloud, MFV will help transform the overall content life cycle in the M&E business. The storage function on mobile devices is already virtualized to a large extent where created content is uploaded to a cloud." Soon the entire life cycle – editing, production, distribution, programming, consumption, and feedback – will be run on the cloud to create a virtual TV experience. This would enable the delivery of in-sync content and services to any user context and device while allowing for rapid and continuous development of applications and services.

## In Summary

Success in the M&E business will be determined by the ability to map the DNA of new customers, connect with them directly, and deliver an experience that is personalized to their individual context, expectations, and preferences. To achieve this, companies must energize their traditional strengths by renewing their capabilities and offerings while simultaneously exploring new opportunities and creating new propositions. But even in a dual 'renew and new' strategy, some things remain constant: an acute focus on changing expectations and behaviors of customers and an emphasis on delivering what is best for them, when, where, and the way they want it, at a price point that represents mutual value.

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