From Content to Experience

Moving Beyond Content Creation to Providing an Immersive Entertainment Experience

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These are challenging times for the media industry. The economic downturn, the rapid pace of concurrent changes in technology, and consumers' demand for more control and power when accessing content are driving media companies to rethink their business models.

Online sites such as YouTube, Facebook, Netflix, and iTunes have revolutionized not only the way video and audio content is distributed and consumed, but also the way consumers access and control content from various devices.

Video is rapidly becoming a primary form of entertainment and a way for consumers to interact on the web, as professionally produced video is being consumed increasingly online. Based on data from comScore, Inc., viewers watched 14.3 billion online videos in December 2008.[1] This presents a major challenge and opportunity for content providers to ensure that they can continue to command premium margins for their products and gain new revenue sources. Whichever way we view changes in consumer behavior, content remains king.

Now is the perfect time for content providers to assess existing revenues by creating powerful, new value propositions built on collaboration, innovation, and strategic partnerships.

In this Point of View, the Cisco® Internet Business Solutions Group (IBSG) explores three strategies that content providers can adopt in the short, mid, and long term to take advantage of the tremendous opportunities created by evolving technology and consumer behavior.

Short Term: Positioning for Growth in a Down Economy

With increased investment scrutiny and decreased capital availability, companies must reduce their costs to invest in the future and position themselves for sustainable growth. Content providers can take a number of steps—at both the creation and distribution ends of the value chain—to accomplish these objectives.

1. http://news.cnet.com/8301-1023_3-10156888-93.html

Reduce Costs

In a challenging economy, the industry must explore new opportunities prudently. Further reductions in content and product budgets are expected as advertising revenues slide. Television revenue in the United States is predicted to drop by 20 percent this year, according to BIA Advisory Services. In the first edition of its quarterly "Investing in Television Market Report," BIA forecasts that after six years with industry revenue hovering between $20 billion and $22 billion, 2009 is expected to end at $17 billion in revenues.[2] Ad revenues in Europe have also decreased—the United Kingdom alone suffered a 6 percent drop in 2008, according to Billetts Media Monitoring.

Media budgets are already under scrutiny, with production funding taking the first hit. In December 2008, both 20th Century Fox Television and ABC Studios announced 2 percent budget cuts, while NBC Universal and CBS Corporation experienced layoffs in response to the economy.[3]

During tough times, executive decisions tend to be more reactive than strategic. Given reduced revenues, the tendency is to slash budgets, which ultimately affects innovation and productivity.

The good news is innovation and productivity do not have to suffer. While technology is, and has been, a catalyst for innovation, technology also helps improve productivity. For instance, social networking and collaboration platforms are no longer just "nice" features for consumers; they are also powerful business tools that can be used to reduce costs such as travel and communications. In difficult times, it is common to cut costs, especially in these two areas. Fortunately, social networking and collaboration tools enable companies to reduce such costs, and others, without decreasing the value of the content or the work.

Today's virtual collaboration technologies are not only easy to use, they also empower and involve employees in real time, thus shortening the decision-making process and improving the quality of output. Furthermore, virtual attendance is less onerous than physical attendance, and capabilities such as one-click video collaboration (including Cisco TelePresence™), instant messaging, document sharing, high-quality imaging, and recorded meetings (audio and video) all provide an engaging and creatively productive experience.

Increase Efficiency of Content Creation

The social media aspect of the Web 2.0 environment presents a versatile toolset for the creative community. Depending on the application, Web 2.0 tools allow content creators to develop virtual teams around specific projects, share asynchronous communications "threads," and communicate in real time using audio and video chat.

Ironically, the technology that has begun to transform the content-distribution landscape can also enhance the process of professional content creation. Digital dailies, digital workflow, remote edits performed in multiple locations using edit-decision lists with local rendering, and instant-on collaboration tools that further enhance the creative process are several examples of technology's impact on content creation.

2. http://www.tvtechnology.com/article/80770
3. www.tvweek.com/news/2008/12/20th_century_fox_tv_cuts_produ.php

These capabilities enable broader participation by contributors, editors, and producers, who can help enhance the final product and streamline the review and approval processes.

Increase Efficiency of Content Distribution

Technology also plays an important role in content-delivery platforms. New technology enables content providers to reduce distribution costs significantly—IP-based distribution, digital cinema, and electronic sell-through (digital distribution services that allow consumers to download movies and TV series to own) are just a few examples of where innovative technology can directly lower costs.

Peer-to-peer (P2P) solutions, often considered costly, are still on the tech industry's radar. Assuming that these solutions will become easier to manage and control, as well as provide improved security, they too may offer content providers another opportune way to distribute content efficiently. Some broadcasters are already experimenting in this area, such as NRK in Norway. In 2008, NRK published the popular Norwegian series "Nordkalotten 365" for free on the web, using P2P solutions. According to NRK executives, downloads have exceeded expectations, and the experiment may pave the way for changing licensing fees in the digital age.

The expensive processes of digitization and encoding for multiple formats and platforms are also susceptible to efficiency gains. A combination of new technology and collaboration within the industry is required to establish common standards. The ability to automate the transformation of content from one media format to another would result in significant savings. Standing in the way, however, is digital rights management, which prevents unauthorized duplication of copyrighted work. The industry has far to go to overcome this controversial issue.

Midterm: Enhance Distribution Models and Produce New Content for New Audiences

Content providers are exploring new models for creating, managing, and distributing content. The issue for content providers is not whether they *should* pursue supplementary distribution opportunities offered by new online and mobile outlets, but rather *how* to do it profitably.

Partner to Protect Assets

The challenge for media companies is to strike a balance between their relationships with providers whose distribution platforms still deliver the vast majority of their revenues and their ability to take advantage of new opportunities. We believe that old and new business models can be reconciled in a way that benefits content providers.

Content providers can benefit from creating a value proposition with service providers that drives sustainable revenue, and closer collaboration will only strengthen their bond. While the consumption of online video is growing fast, it is still miniscule compared to existing mass-distribution service provider platforms. Service providers "own" the consumer relationship and are well-prepared to explore new forms of distribution in which content providers might want to participate. At the same time, content providers are well-positioned for the future because their content *is* the differentiator that will enhance the consumer value proposition offered by service providers.

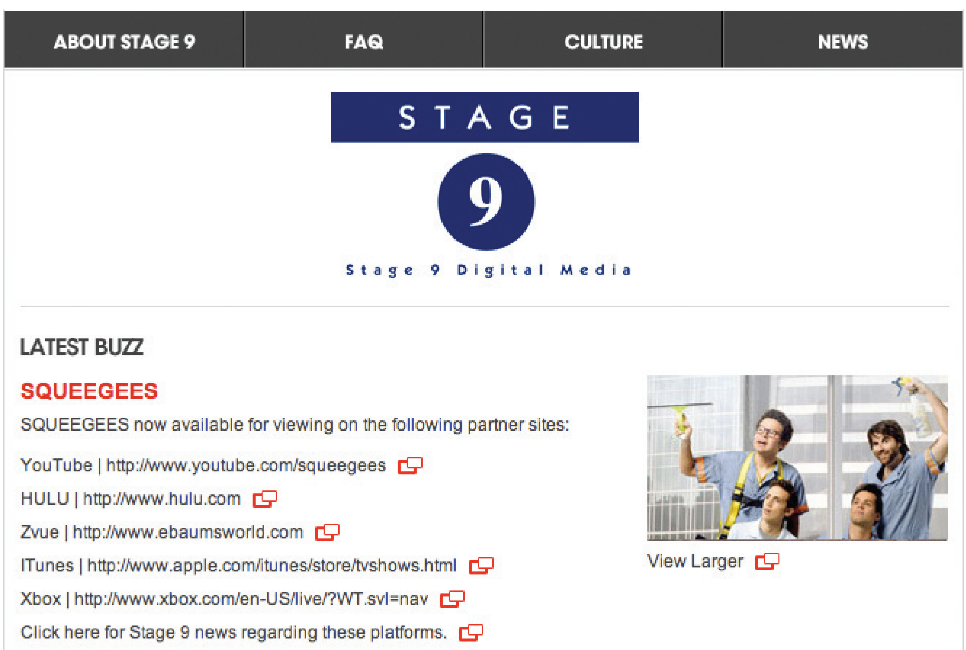
Content providers should focus on creating popular, professional programming while partnering with distributors, new and old, to explore new ways of creating revenue streams by selling existing content to emerging digital outlets and creating new forms of content for new devices.

New and existing distribution models require that content providers have access to better viewer information—from the type of content they consume and share to how they consume it. Detailed information is critical for content providers to maintain current revenue streams, develop new ones, and take advantage of advertising and e-commerce opportunities. Advertising techniques and technologies must accommodate and enable new consumer trends. Instead of preventing consumers from using content to create short video clips, for example, content providers should enable this process and integrate it into social networks. Not only will this capability encourage viral marketing—with the right tools, it will also enable ads to be inserted into videos, allowing content providers to generate incremental revenue.

Partner to Enhance New Platforms

New types of media and capabilities enable content providers to develop exciting partnerships using new platforms. The Walt Disney Company offers one of the most advanced examples of this approach. In early 2008, Disney launched Stage 9 Digital Media, Inc., a production house that provides short-form programming—known as "webisodes"—such as *Squeegees* and *Voicemail* exclusively on the web via a number of online platforms (see Figure 1). Disney also partnered with Microsoft to deliver episodes of both shows to viewers across Europe via MSN.

Figure 1. *Squeegees* Trailer Viewable Online Through Multiple Platforms



Source: Stage 9 Digital Media, Inc., 2009

Short-form programming is part of Disney's strategy to expand revenue generated from its global TV business (Disney reported US$2.5 billion in revenue in 2008) by moving into new markets, outlets, and platforms without cannibalizing its existing business. Ben Pyne, president of Global Distribution for Disney Media Networks, is upbeat about the model: "In new media, there are opportunities to complement and support traditional TV viewing. In the United States, ABC.com has had 450 million [video] streams since its launch in 2006," Pyne said in a written statement.

Other networks with alternative distribution models are CBS, which sells its content through YouTube, and Warner Bros. Television Group, which partnered with Joost on three channels in the United States (other Joost partners include Viacom and Sony Pictures Television).

Hulu.com, an online video service of Hulu LLC—co-owned by News Corporation, NBC Universal, and Providence Equity Partners—is another example of a successful online video service. In addition to serving videos directly on its website, Hulu.com syndicates videos to other online destination sites, including those within News Corp., such as MySpace.

Revenue models for these arrangements are still evolving, but some patterns are beginning to emerge. In the case of CBS and YouTube, CBS sells ads and YouTube takes a cut. While this model is not uncommon, the industry is watching the experiment carefully.

iTunes is probably the best-known example of a successful and unique distribution model. According to Apple, iTunes houses the world's largest online catalog of TV and cable programs, totaling more than 30,000 episodes. While shows are commercial-free, they are delivered for a fee.

In October 2008, Apple announced that it had sold 200 million TV episodes via iTunes, contributing directly to content providers' revenues. iTunes has become a valuable marketing tool for new shows and a lifeline for shows that previously may not have had enough viewers to justify a full run. *The Office* is an example of a TV program that grew in popularity and received higher ratings as a result of exposure on iTunes, according to NBC executives. The show's producer, Ben Silverman, said the success of the iPod created an audience for Fox that was not tuning in to traditional broadcast television. At the same time, Silverman said that making the episodes available for download immediately after they were broadcast increased ratings.

ABC reported a similar increase in ratings for *Lost* and *Desperate Housewives* just three months after the shows were launched on iTunes in January 2006.

Each distribution model offers consumers a different experience. For example, through meta-tagging and other tools, Hulu.com enables and encourages social interactions about viewers' favorite content. Users can create clips, send them to friends, and embed them in their personal websites. Additional navigational tools not only improve navigation, but also allow users to extract specific details such as scenes from a movie, resulting in focused online discussions.

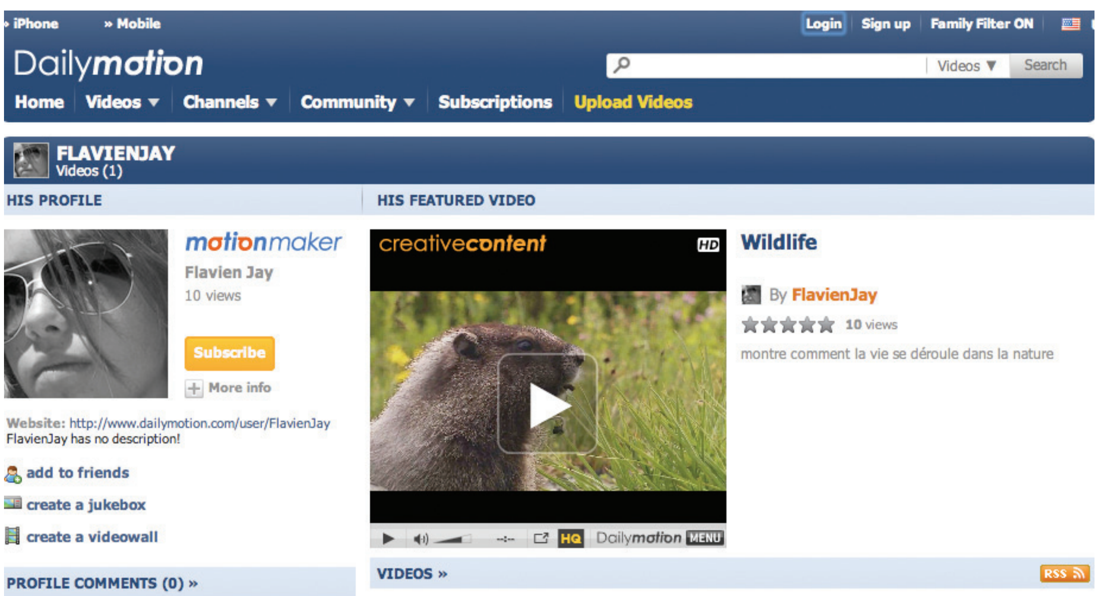
Whereas Hulu.com allows users more opportunities to socialize online, iTunes offers minimal social networking, but the sheer range of content aggregated in one place and the ease of navigation make iTunes a significant distribution outlet.

Regardless of the business model, the main benefit of these new approaches to distribution is that content providers generate revenue without having to invest in bandwidth and distribution infrastructure. These flexible models prevent costs from increasing more quickly than revenues and balance the industry's natural reluctance to "replace analog dollars with digital dimes,"[4] a phrase Jeff Zucker, CEO of NBC Universal, used during an interview to describe the difficulty in making money via a digital strategy. According to Zucker, revenue from online advertising has not grown as quickly as many people had expected.

Create Niche Content for Niche Audiences

Different media outlets offer content providers various ways to package products, thereby allowing them to meet demand for niche content or formats cost-effectively. New distribution models reduce the high costs of distributing to relatively small audiences, while addressing and targeting their needs. This approach also encourages a semiprofessional class of content providers to contribute content enabled by low-cost video- and post-production technology. Major portals such as YouTube and Dailymotion have been testing this strategy. Dailymotion already attracts 13,000 producers it calls "motionmakers," a community of accomplished amateurs whose high-quality productions are likely to attract advertisers (see Figure 2).

Figure 2. Profile of Motionmaker Flavien Jay



Source: Dailymotion, 2009

4. http://blog.broadcastengineering.com/brad/2009/01/14/spending-analog-dollars-to-get-digital-pennies/

New web-specific formats that would not be economical to distribute through traditional channels also are emerging. *The Guild*, an award-winning independent sitcom webisode about a group of gamers, was described by its creators as “written for gamers, about gamers, by a gamer.” Episodes of *The Guild* are shown in Figure 3.

Figure 3. Season 1 and 2 Episodes of *The Guild*

Source: The Guild, 2009

Other niche-like offerings include the portal My Damn Channel, which features a wide range of web-only material organized into channels such as “Photoshop,” “Harry Shearer,” and “FACETIME with Terrell Owens & Three 6 Mafia.”

Crackle.com, the Sony Pictures Entertainment multiplatform online video entertainment network, also shows promise. Crackle.com distributes digital content including original webisodes and full-length traditional programming from Sony Pictures’ vast library of television series and feature films. Content reaches a global audience across the Internet via multiple devices.

Crackle.com also provides the next wave of creative talent a forum for reaching and interacting with mainstream audiences. With 6 million hits in December 2008, according to Quantcast.com, the significant demand for such content is clear.

Niche content has also found a place online in print and radio broadcast formats. For example, *The Onion* publishes and broadcasts fictitious comedy daily through news stories, op-eds, columns, and more, in addition to running fictitious video news clips (see Figure 4).

Figure 4. Fictitious Comedy Broadcast via Onion Radio News

Source: Onion, Inc., 2009

Regardless of the delivery vehicle and genre, professionally created, high-quality content is important because it differentiates the pros from the amateurs—professional content is what still drives revenues, even though the market for amateur content has grown significantly.

Long Term: Know Thy Viewer

Distribute Online, Gain Consumer Insights

Based on industry research, it is clear that consumers want to watch content online. For example, comScore, in its November 2008 survey, reported that 146 million people (77 percent of the U.S. Internet audience) viewed online video that year, watching 34 percent more videos than in 2007.

Many viewers are already watching TV shows for free, as most major television networks run full episodes of recent shows online. Some networks even provide viewers access to archived material, and, as noted earlier, major studios such as Sony, via Crackle.com, run full-length movies for free.

Whether going direct through sites such as Crackle.com or using aggregators such as Hulu.com to distribute content, it is important to note some major differences between Internet-based and traditional distribution models. Internet-based models enable content providers and distributors to:

- Enhance significantly their ability to understand consumers through improved methods of measuring content consumption and consumer behavior
- Improve their ability to insert personalized and interactive ads promising better ROI
- Customize and enhance the user experience
- Experiment with new distribution models

While profitability of these distribution models is still elusive, there are some positive indications that profit through ad-based models is achievable. Based on data from Interactive Advertising Bureau, cost per thousand (CPM) reached $100 on some sites. Anecdotal data indicates a $60-plus CPM on sites such as Hulu.com for some of its content. Even with average CPMs around $25, Hulu's CPMs are much higher than those for the same shows broadcast on network TV.

Skeptics may denounce the relatively small audience for online video, but the market is evolving, and small, independent producers and studios are doing much better than they were a few years ago. TubeMogul, a provider of services for uploading and tracking content on some of the top video-sharing sites, conducted a recent survey of 12,000 TubeMogul members. Questions addressed monetization, CPM, and particular advertising methods. Fifty-one percent of respondents said they monetize their videos through advertising and reported an average CPM of approximately $12.39—not a bad result considering this cost compares favorably with average television network rates.

Knowing your viewers is another way to make money using the Internet as a distribution vehicle. Once users visit your website, you can offer them a number of services to customize their experience, make recommendations, or give them access to additional content. You can also ask them to register, fill out a questionnaire to learn more about them, invite them to chat with you directly online, or encourage feedback on certain content.

If they do not register, you can still follow their web behavior using Internet tools such as web analytics software to see which type of content they consume and which sites they visit. This knowledge can be used to target ads for higher CPMs, customize users' experience so that they will stay on your site longer, create content-based online communities or virtual worlds of their shows, or notify them of e-commerce websites related to their preferred shows.

Internet tools help content providers maximize revenue through improved advertising monetization, optimized content, and increased customer engagement. Internet tools also help content providers facilitate complementary sources of business, as long as the distribution platform is comprehensive and allows scalability at a reasonable cost.

Dan Scheinman, senior vice president and general manager of the Media Solutions Group at Cisco, believes that "media companies today have one of the greatest opportunities to develop new sources of revenue by aggressively pursuing customer-direct strategies. For consumers, going direct enables them to control their content and participate in the creation and consumption of that content. While older models will never go away, newer models will arise, bringing media companies closer to consumers and creating new, large revenue streams."

Immerse Users in the Content

The insatiable demand for content is only going to increase. Existing and new media companies are rushing to market with new and archived content to convert user demand into revenue. As a result, consumer options keep growing—consumers now have access to hundreds of TV channels, thousands of video websites, millions of videos online, as well as the ability to stream content to cell phones and download video to portable media players. This landscape has resulted in audience fragmentation, which continues to impact advertising and other sources of revenue.

Given this, content providers must keep consumers close and monetize the relationship throughout the entertainment experience—which is no longer just about viewing video, but about the entire experience associated with the product. Content providers can take advantage of consumer demand for the “complete” entertainment experience by developing a premium level of services that fully exploits both the senses and the “connected” nature of today’s entertainment. In this way, content ceases to be static; instead, content becomes a unique, multifaceted experience. For example, instead of just offering customers a video, providers can sell a complete “experience package” that lets viewers join an online community, create and embed content into their personal pages on Facebook or MySpace, immerse their avatar into virtual worlds, or accept an online invitation for a real-life event.

More important, content providers can increase revenue by selling related merchandise in both virtual and real worlds. This type of on-demand, custom “manufacturing” may thrive in this new environment because consumers are mentally ready to pay for a wide range of personalized merchandise such as replicas of products from their favorite videos. This advanced form of e-commerce increases the potential for merchandising, while simultaneously making it a sole entertainment experience. Media companies must embrace this new world of immersive content because it expands the traditional, “two-dimensional” media-distribution process—where movies are released first in theaters, then on DVD (and, in some cases, made available on-demand), and, finally, broadcast on network TV—to the third dimension: level of experience. In the end, a new medium will emerge—one in which the experience *becomes* the product, and the product *is* the experience.

Three Keys to the Future

The pace of change in the media industry is relentless, even in today's economic climate. The opportunities for content and service providers to create new business models are significant. Sometimes amid the noise, it can be difficult to gain perspective. Therefore, it is worth taking stock of the past. Three important insights emerge:

1. **Professionally produced, high-quality content.** Content will always be a key differentiator, regardless of the delivery platform.
2. **Technology-enabled experiences.** The way consumers experience "filmed" entertainment is likely to become richer and more diverse, interactive, and immersive than possibly imagined.
3. **New partnerships.** There is greater value in having partners with complementary skills collaborating to design the future of media than there is in competing by attempting to add noncore competencies to current operating models.

Today's video consumption paradigm and business models are changing rapidly; technology will continue to accelerate change. The advent of new digital platforms and video technologies means that the video experience of the 21st century will be in sharp contrast to that of the late 20th century. Ultimately, it will be the viewer's experience that will enable content providers to create value in the future—not by adding complementary features, but by fundamentally changing the nature of the product.

For content and service providers, there is far more to be gained by collaborating to create new models than there is by competing to preserve old ones.

Notes

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More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps CXOs and public sector leaders transform their organizations—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that address key CXO concerns.

For further information about IBSG, visit http://www.cisco.com/go/ibsg

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