

A spark in the digitale engine

'Outlook towards 2013; Trends in the Netherlands'. Een reële weergave van de ontwikkelingen en verwachtingen voor: boeken, tijdschriften, B-to-B, kranten, broadcasting en internet.

Introduction

It's all about behaviour. How consumers act and how media companies and advertising agencies respond, defines the way the entertainment and media market operates. These days, consumers are taking part in the fast flow of technological development and further digitalisation. Carriers of content have changed from static to dynamic. As the economy hits bottom, the consumer is likely to change its behaviour, with all possible effects.

Despite the struggling economy, digitalisation is still taking a huge flight. The world's leading technological companies as Sony and Apple keep producing successful and innovative mobile devices, which can be used for cross medial consumption of entertainment and media products. The Iphone is an excellent example of a mobile device that can be used for phone calls, watching movies, playing games, browsing the internet and listening to the latest hits. This trend shows a strong convergence of entertainment and media on one hand and hardware on the other hand. Almost all major players in the entertainment and media market respond to this development. Where I-tunes and e-books already exist for a number of years, digital cinemas and even theme park based video games are being introduced these days. Gaming, which is of course digital in itself, is growing even though the economic circumstances get worse.

As mentioned, the behaviour of consumers is changing. People tend to individualise more and more and every consumer has the ability to make its own unique choice. This means that the old, generic revenue models do not always work anymore as they do not fill the specific needs of the consumer. To reach the consumer on a personal level is the key to success and therefore entertainment and media companies are reinventing their revenue models and market approach.

Industry analysis

An important question is how the media industry responds to all the major developments that are taking place.

In the first place, a number of general trends can be identified. Our world gets smaller and smaller and globalisation is visible in entertainment and media more than anywhere else, driven as well by these new technologies. Where global formats remain very popular, a well balanced local format embodies the success of these brands. In all major fields of entertainment and media this trend can be found. For instance in

magazine publishing where woman's magazines such as Cosmopolitan and Marie Claire are immensely popular global brands, but the well balanced local format is responsible for the success of these magazines. For broadcasting it's quite similar. The major Hollywood blockbusters still enjoy great popularity, over the past years however it is the Dutch movies that have drawn the large audiences to the cinemas. Not to mention the music industry, where the Dutch artists were responsible for maintaining the physical distribution of music records. Gaming is a global market 'avant la lettre' as games as World of Warcraft are played by people worldwide simultaneously. Nevertheless, the local Dutch gaming industry is flourishing with many new companies and games being launched.

Looking more closely at the different entertainment and media sectors, the publishing industry is clearly changing. Many traditional publishing activities seem to become part of new internet initiatives more and more and the digital distribution of content is taking a flight. The e-book market for instance has moderately increased in the past years, but will probably really boom when a convenient mobile device for e-reading has been invented. The same applies for newspapers. These new digital technologies are strengthened by excellent customer relationship management, which enables these companies to specifically meet their consumer's needs. And knowing who your customer is, is still key in the publishing business. Although these new publishing media have the potential to really cut into the market share of the existing publishers, a strong response has not been given yet. Is the sense of urgency missing perhaps?

A similar development can be seen in the gaming industry. Due to the huge possibilities of marketing and selling your own game through the internet, many gaming companies start to gradually eliminate the role of the publishers. This however is just one of the major developments in the gaming industry though. Despite the current economic crisis, the gaming industry still manages to grow. As the crisis tends to keep people at home, more games are being played in living rooms whereas, stimulated by the downturn, serious games are being produced to train and educate personnel. This diversification combined with a new role that includes publishing your own products proves the maturity of the sector. Gaming has come of age.

The television sector in the Netherlands has been mature for years, but faces a huge amount of challenges and market developments. Caused by a significant pressure on product margins and a lower duration of contracts, the ownership and financing structures of many television companies is changing, accelerated by the economic crisis which additionally causes a drop in advertising revenues. Caused by the downturn as well, the development of High Definition TV happens in a slower pace than expected, whereas Video-on-Demand on the other hand is increasing. A more on-demand platform like VOD combined with the

seemingly limitless possibilities of DTT, the television market may be urged to point its attention into a new direction.

SWOT analysis

Looking at all current developments in and the way the market responds to it, we want to have more insight in the position the entertainment and media market finds itself in. What are the opportunities, what is the Achilles heel? A drill down into the market and the companies itself may reveal this.

Strengths

The main strengths of companies in the E&M the market is a combination of content creation and marketing capabilities. Content is the most significant and recognisable product of all E&M companies and is the perfect way to distinguish oneself from other parties. Not only is content the core product of a media company, its attributes make a brand recognisable for the consumer. In addition to content creation, the ability to market and sell content is a major strength of the industry also.

Weaknesses

It's not all strengths though. Many media companies, for instance newspapers, have been very successful in their trade with a certain revenue model for decades or longer. It is not easy therefore to change a formula that has been used for such a long time. The current crisis, changing behaviour and economic downturn ask for a proactive market approach. Changing a proven concept however takes courage and inevitably leads to painful measures.

In some cases it seems to be difficult for traditional companies in entertainment and media to be able to operate as one integrated media company. Some companies are still convinced that traditional distribution channels are more profitable, at least in the short term, rather than looking for new ways to bring the content to the consumer.

Opportunities

There are plenty of opportunities on the other hand. In the first place companies may choose to diversify their activities. This way a company has the ability to generate revenue from more media sources at once, which makes it less vulnerable when a decline in one specific market occurs. A good example of diversification is Bol.com, which originally started as an internet retail platform of consumer products like books, CDs and DVDs, but now offers a second hand book platform and sells hardware as well.

Secondly, a company may improve its performance by starting to operate in more segments of the value chain. When integration of several activities in the value chain takes place successfully, a company 'owns' more of the moments where the money is earned. This way a media retailer may become a publisher as well by integrating backwards into the value chain. And it works the other way around as well: TV producers may very well start to sell their own formats instead of using agencies.

Not only being active in several parts of the value chain is an opportunity for entertainment and media companies, the ability to sell your products through more than one channel can make an enterprise very successful when these channels are combined effectively. Imagine a company that is able to sell cookery books via e-commerce, that operates an interactive internet platform where people can exchange cooking experiences and play games and publish a magazine with diet advice for a specific audience? Additionally this company can cooperate with companies from the food industry and launch products together in a joint media campaign.

Threats

A couple of threats roam around in the entertainment and media business, with a huge possible impact on existing companies. In the first place new entrants threaten existing companies. The free newspapers that have been introduced in the Netherlands a couple of years ago form serious competition for the existing companies. Substitutes however may constitute an even bigger risk for the existing companies. Imagine the effect the huge rise e-commerce has on existing companies that sell books or music.

When companies notice that significant parts of their revenues and profits are eaten away, the larger ones of these companies have to ability to simply buy new media companies which threatened them before. Although this integrates new media into existing companies, the policy to buy new revenue models does have a negative impact on the innovative power of the existing companies themselves.

Finally, the current economic downturn doesn't help as well. The advertising market shows a steep drop, both in price and in quantity, and due to increasing unemployment consumers stop spending their salaries. Especially this last trend makes the current economic crisis different from the burst of the internet bubble in 2001, when the employment and therefore consumer spending was relatively undamaged.

Where it all comes together

The conclusion is simple. Whether entertainment and media companies will have a profitable future, all depends on capabilities and the ability to respond to market circumstances. the strategy that is chosen. What

product-market combinations are we in, where are we in the value chain and do we have the proper capabilities to achieve our goals. Those questions matter.

Product market extensions

Entertainment en media companies cannot operate as a single medium anymore. In choosing channels to distribute content, a cross medial approach can be followed. In addition, the choice for niche markets is an important one. To reach the end user of the content, the use of consumer integrated networks forms an ideal medium. This type of networks can provide a platform for user generated content, a model that includes revenue sharing and of course cooperation possibilities with advertising agencies. This way revenue sharing can take place in many forms: revenue can be shared with the consumer, with the advertising company or even with a hardware provider. No matter how important these areas are however, to meet the consumers demand on an individual basis, the proper blend between services and content provided is key and should be the basis for the product market approach.

In a situation where the economic and market circumstances are tight, operational excellence gains influence and meaning. Operational excellence can be achieved in more ways. For instance by printing newspapers in collaboration with other newspaper companies a significant cost reduction can be achieved.

Value chain

To be successful, it is important for a media company to be able to set foot on several layers in the value chain. This is the only way the effectively execute a strategy of diversification.

Next to enlarge the influence throughout the value chain in order to diversify, it is very important for media companies to protect one's spot in the value chain itself. Otherwise your position may well be taken over by someone bigger. Amazon.com is a great example of a company that has been able to take over many positions in the book publishing value chain. Where Amazon.com started as a company that mainly sold books through the internet directly to consumers, the company has managed to outrun the traditional book publishers by directly getting in contact with authors, now gaining 70% of the book publishing revenue in the value chain. For larger companies the strategy of diversification is easier of course. By simply acquiring companies it's fairly simple to enter a new part of the value chain. Smaller companies need to be very good at a specific activity in order to survive on a stand alone basis. They must have something special to offer. This makes Digital Rights Management extra important. It's not just who has invented the unique content, it's who owns it... Media companies who have seized to think in (their) traditional media

distribution channels, may become very successful by making use of all the verticals in the value chain.

Core Competencies and Capabilities

What do I do best? Can I deliver first class content for a very specific, highly educated target audiences and niche markets or am I perfect in making content for large target audiences. Some companies may find out that they actually don't have such competencies. These companies may find themselves in trouble in a couple of years when they have not managed to really excel in a certain field. Active search for new talent and by creating new talent yourself (for instance by providing cross-media training and development programs) you may be able to stand out from the crowd in the future as well.

When you have established your core competencies as a company, how to sell it to your audience is the key question. And the same rule applies for the distribution as well. You may have all the capabilities to generate content that sums up to a top-notch quality newspaper, but you're not a printing office.

And what about the crisis? Doesn't it matter at all? Of course it matters, it matters immensely since it has a direct influence on consumer behaviour, advertising spending and therefore media companies. But change is needed in the media business anyway and the crisis may very well be a good moment to start thinking about it instead of simply imitating the ostrich. The crisis may prove to be the enabler for change in the end for the entertainment and media industry. But it's a nasty medicine.

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