

Accenture Media and Entertainment

The Accenture Global Content Study 2008

The Challenge of Change:
Perspectives on the future for content providers

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The Accenture Global Content Study 2008 studied more than 100 leaders and decision-makers in the media and entertainment industry, spanning television, videogames, film, music, radio, publishing, interactive entertainment and advertising.

Executive Summary

The study, now in its third year, canvassed opinions from executives across North America and Europe, gauging their views of where the greatest opportunities and challenges will come from over the next five years. The key findings are outlined in this summary.

There is consensus over the way the digital market is evolving, where the opportunities lie and what will drive revenues over the next five years:

- 63% of companies are pursuing a multi-platform distribution strategy.
- More than one-third of companies expect to see significant revenues from social media and user-generated content within three years.

- 84 percent of companies expect mobile rich media to become mass market, representing the largest growth opportunity for media and entertainment firms.
- 52 percent of those interviewed see digital advertising eclipsing traditional advertising within five years.

Execution challenges are slowing the market:

- Over 50 percent of the media executives we spoke to believe they know which capabilities they need to transform their businesses.
- 59 percent are less than halfway along their transformational journey and are unprepared to meet the challenges of the digital marketplace.

- Increasing complexity in the business environment is causing executives to re-evaluate their capabilities.

The digital market is expected to continue to trend upwards over the next two to three years. But unless the large media organizations can transform rapidly, they will miss out on new opportunities for revenue growth. With this in mind, the critical strategic priorities must now be focused on:

- Executing digital transformation quickly and effectively
- Aggressively pursuing multi-platform distribution
- Enabling continuous product innovation
- Aligning existing cost structures with future revenue streams
- Understanding the consumer and delivering on their needs.

The media and entertainment industry knows about change. Over the past 100 years, the industry has had to transform and reinvent itself as the result of the introduction of disruptive technologies — from radio to film, silent to sound, film to television and now, offline to online. During each transition entrenched players have been faced with a single imperative: adapt, or risk losing your audience.

Inevitably, some entrenched players are unable to make the transition, and thus perish. Others recognize the opportunity and seize it.

"In today's fast-changing and highly-competitive environment, you have to satisfy your audience with more immediacy, more fresh programming, more flexibility in how you deliver content. Successful companies will be the ones taking chances, giving their creative people and technology teams the resources and the confidence to do what they do best."

Philippe Dauman, Chief Executive Officer and President, Viacom



In 1927 Warner Bros. released the first talking film, *The Jazz Singer*, and ushered in the era of talking pictures. In 1929 Warner Bros. released the first all-color talking film and created a "color revolution." Fast forward to the 1970's when Warner Bros. first got involved in cable television, acquired Atari — one of the first video game console companies — and helped to create the home video market. Later, in the 1990's, Warner Bros. helped to redefine home video with the advent of DVD, ushering in one of the most prosperous times in the industry's

history. These innovations represent brave, tradition-defying gambles that resulted in the company growing larger than before and, ultimately, in industry transformation.

Now the media and entertainment industry is facing its largest and most daunting transformation. As technology enables the ubiquitous availability of media, the audience is shifting its consumption habits. Content creators and distributors have to adapt. Change is never easy, but circumstances conspire to make it inevitable. And, as the Warner Bros. example shows, it can bring very substantial rewards.

This year's report — *The Challenge of Change* — reveals the findings of the Accenture Global Content Study 2008, which canvassed more than 100 senior executives across the global media and entertainment industry. These influential leaders provided us with insight into the trends now shaping this industry, enabling us to better understand the potential winners and losers, threats and opportunities. We hope you find it an interesting and thought-provoking read.



"Technology drivers have always shaped our media, from the printing press to moving pictures. Today's digital innovations are transforming our business, but most importantly, allowing us to engage the audience with richer, more immersive story-telling." Jamyn Edis, Vice President of Emerging Technologies, HBO

Methodology

For the third year, Accenture has interviewed senior decision-makers in the media and entertainment industry, asking them to identify the greatest opportunities and challenges they expect to encounter over the next five years.

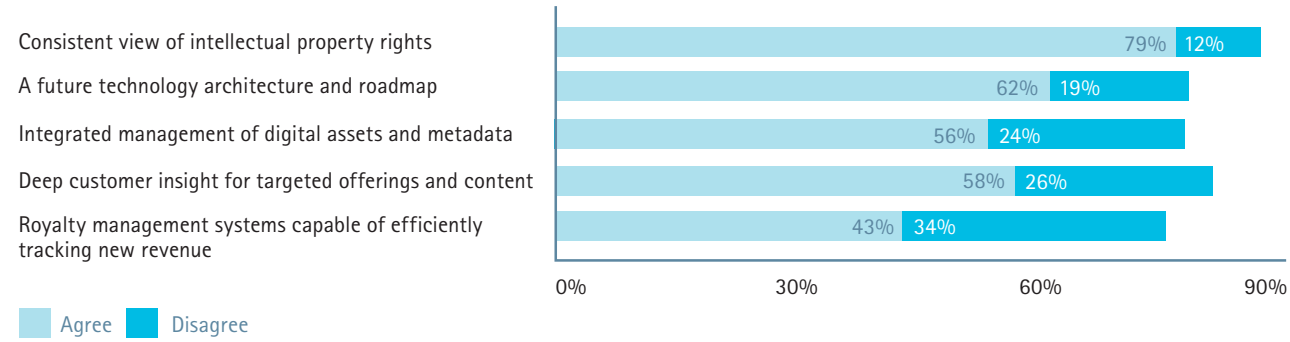
Now established as a signpost to change, the Accenture Global Content Study 2008 synthesizes the views of more than 100 leaders in the content space, including C-level executives across the television, film, music, radio, video games, publishing, interactive entertainment and advertising industries.

Building on our knowledge base accumulated in the three years since we launched this major research project, we asked respondents to identify the most important opportunities for revenue growth in their industry over the next five years, as well as the significant challenges that they will need to overcome. We asked for an update on the social media and short-form video phenomenon. We investigated the rate of growth in digital revenues and digital advertising, as well as the uptake of mobile media. And, crucially, we set about establishing just how far companies have progressed in their drive towards digital transformation. We then considered the findings in

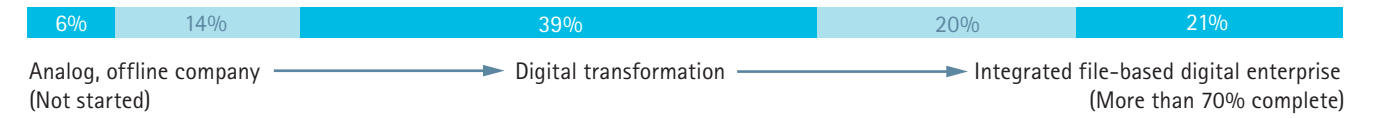
the context of Accenture's High-Performance Business Program and made recommendations to help media and entertainment companies achieve high performance in the new digital era.

The following summary presents some of the key findings from this year's study, as well as highlights some of the principal implications for media and entertainment companies striving to capture digital revenues and survive/thrive in this new environment. For further information about this report please register at www.accenture.com/contentstudy.

Extent to which agree or disagree with statements about digital transformation capabilities



Progress in migration from analog, offline company to integrated file-based digital enterprise (e.g. from production to distribution)



It's all in the execution

“Change inevitably takes longer than you think to happen – but when it happens, it's more profound than you could have imagined.”

UK Television executive

In 1969, Thunderclap Newman was singing: “We have got to get it together...because the revolution's here.” The same sentiments apply today. Media and entertainment executives know the business is profoundly changing and acknowledge the need to adapt quickly, effectively and decisively to the changing digital marketplace.

Leading media and entertainment executives “get it”

2008 may be recognized as the year that digital media moved from an unstable niche market in the eyes of our respondents to a more stable market critical to the success of their business, with companies such as Disney and NBC each projecting over \$1 billion respectively in digital revenues. Indeed, the results of our study show that there is a coherent and agreed upon view of how the market is developing, where the

opportunities lie and what needs to be done to take advantage of them from now on.

Now it should all be about execution

Over 50 percent of the media executives we interviewed now know which capabilities they need to take advantage of this new market. At the same time, we believe that many have a false sense of their current capabilities. For example, nearly 80 percent of executives told us that their organizations have a consistent view of intellectual property rights (i.e.; have the same understanding of the rights associated with a specific intellectual property across their entire business). This is at odds with our experience working in the media and entertainment space. We would suggest that a more realistic proportion of companies with this capability is closer to 10 to

30 percent. We believe this discrepancy can be explained by increasing complexity in the business environment (i.e. increasingly complex rights as distribution channels multiply).

While executives may overestimate their current capabilities, they have a more realistic view of their progress along the digital transformation continuum. This is highlighted by the fact that the majority of media companies believe they are less than 40 percent of the way along this journey. This reinforces what we have seen in the market. As companies progress on their transformational journeys, they begin to realize that it is broader and much more complex than originally expected. As a result, they slow execution and re-evaluate their plans.

The rate of change suggests that while media companies have a conceptual

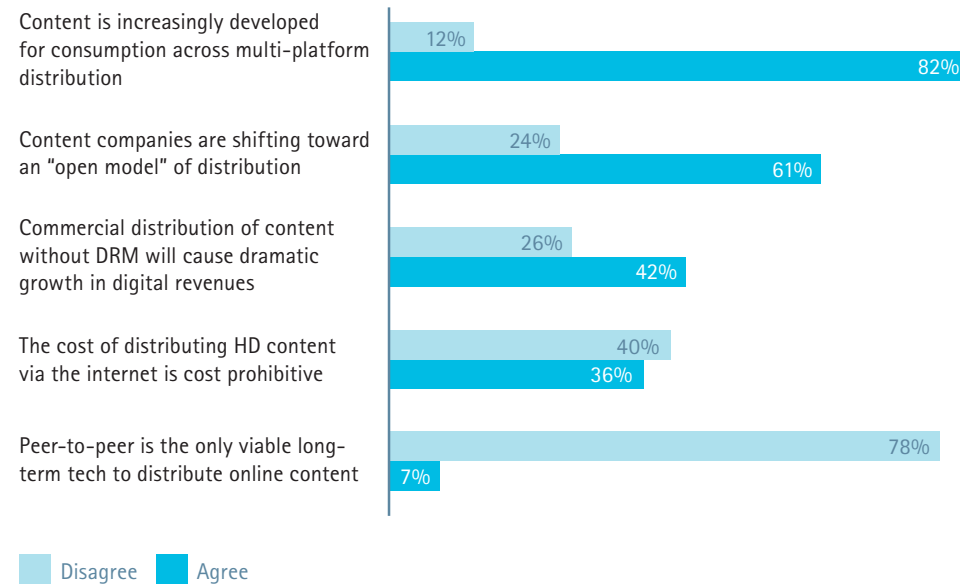


vision and understanding of the all-encompassing scale of change in front of them, the operational implementation of “transformational capabilities” (e.g., integrated management of metadata and digital assets, efficient digital royalty management systems, etc.) is being applied piecemeal, if at all. For example, a majority of content companies recognize the need to distribute content through multiple platforms. However, almost one-third of those interviewed indicated that

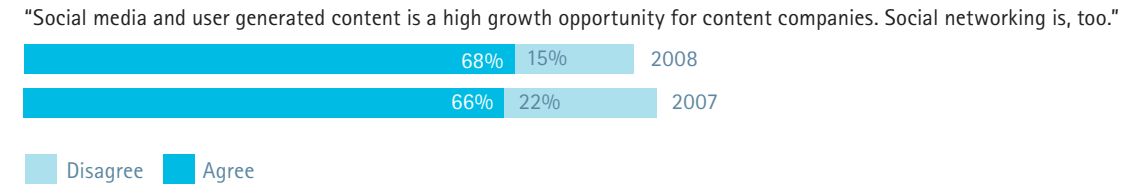
they are still taking a “siloeed approach.” 79 percent of those interviewed plan to move to an integrated approach, but challenges abound.

As a result, most organizations are unprepared to meet the existing challenges in the market. Furthermore, this market is evolving so fast that there are inevitably new innovations poised to force more disruptive changes through the industry in the next 12 to 18 months.

To what extent do you agree that...



Extent to which agree or disagree with statements around social media/user generated content



The future is getting clearer

"The big issue will be trying to convert the technology to reliable revenue...trying to monetise the social networks, experimenting with new business models, trying to increase revenues in existing models. This is what we are all trying to do."

Music executive, USA

This year's study shows that media and entertainment companies have, for the most part, embraced digital media, and have acknowledged the need to adapt their business strategies and technical operations to evolve and grow their businesses. The study also reveals a consensus as to where future value and revenue will come from — multi-platform distribution, social media, mobile and digital advertising are amongst the front-runners.

Multi-platform distribution

Content companies know that they have to make digital content available to consumers whenever and wherever they want it, and there is broad consensus that finding new ways to reach consumers, or responding to how and where media is being accessed, is seen as the largest growth driver for content companies over the next five years. For 63 percent of our respondents this means pursuing a content

distribution strategy across multiple screens (e.g.,TV, online and mobile, etc.)

Channels Pursued



It is not surprising then, that as companies pursue their multi-screen strategies they are developing content for consumption across these different channels. While 83 percent of our respondents agree that content is increasingly developed for consumption across multiple platforms, content companies are taking a multi-faceted approach to multi-platform distribution. CBS, ABC and NBC, for example, repurpose content originally intended for television on the Internet. Other companies, such as Warner Bros. and Disney, have announced plans to

create and distribute platform specific content, such as *The Jeannie Tate Show*. Another example, ABC's *Lost*, provides an integrated experience, creating unique content for each platform that furthers the overarching plot and storyline. This integrated approach creates new opportunities for customers to interact with their content as well as new revenue opportunities involved with production and distribution of the show.

Social media is here to stay

"People power" and new ways of consuming content continue to drive change throughout the industry. Indeed, social networks, the poster children of Web 2.0 concepts, have proven their ability to aggregate large audiences and influence consumer behavior and popular culture. Our respondents recognize this, and 68 percent agree that social media and user-generated content is a high-growth opportunity for them.

In fact, 53 percent believe social media distribution channels represent the highest growth opportunity for them. This may be due to the fact that social media represent much more than a simple distribution channel and direct revenue stream. Influencers congregate and decisions are made through social media. Therefore social media also represent a large indirect revenue stream. Through our experiences in the market, we have found that this opportunity is so complex, and requires such a broad set of capabilities to harness its power, that companies are finding it difficult to realize its revenue potential.

That said, 57 percent of respondents expect to see significant revenues from social media and user-generated content within one to three years. However, 40 percent expect to see significant revenues from this sector in greater than three years, and 18 percent believe it will take more than five years (more than double the results indicated in our 2007 study).



"We need to ensure that our content is available on whichever platform consumers wish to view it on."

Television executive, USA

“People will be a much greater part of content creation or content consumption. I think the audience will be so much closer to the content authors.” Television Executive, UK

People power

Our research shows there is an enormous and growing opportunity for media and entertainment companies to engage with the audience in a relatively inexpensive but extremely effective manner, provided they can develop the right capabilities and execute them well.

Respondents to our survey are confident that the Web 2.0 phenomenon is here to stay. 66 percent agree that there is no likelihood of the “bubble” bursting during the next 24 months, while 71 percent do not see any risk in allowing their brands to be associated with social media. 68 percent of

executives see social media/networking as a high growth opportunity.

The music industry, in particular, is looking to social networking sites as a source of new talent (television and film have yet to capitalize on this opportunity). The home-grown success of stars such as Lily Allen, Arctic Monkeys, Rihanna and Kate Nash – all of whom built their followings on social networking sites – underlines the potential of this medium.

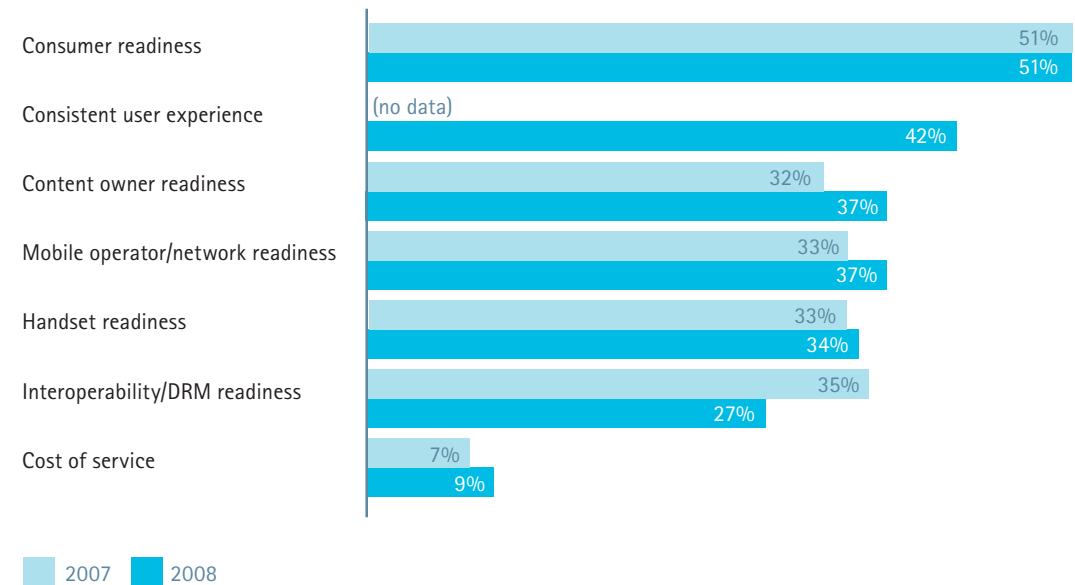
56 percent of respondents to our survey are already involved in social media in some capacity.

For the year ahead, 46 percent expect to focus on organic involvement, with 19 percent planning joint ventures in this space and 10 percent contemplating acquisitions. The slight downturn in user numbers on FaceBook and some other social networking sites is clearly not identified as a long-term concern by media businesses targeting this space. Indeed, compared to last year (when 25% of executives saw this as a revolutionary phenomenon) the vast majority of executives are convinced that social media is evolutionary (74 percent) and not a fad (just seven percent of executives.)

When will mobile rich media become a mass market?



What do you view as the greatest barriers to mass market uptake of mobile rich media?



Mobile

This year's study reflects an agreement on growth drivers in the media and entertainment industry. 57 percent of our respondents agree that mobile represents the largest growth opportunity over the next five years and industry observers agree that the mobile market will have profound impact on when, where and how content is produced, packaged, distributed and consumed. The question is: When will this nascent market become a mass market? To this, our respondents were split. 55 percent believe that mobile will be a mass market within three years, 45 percent believe it will be after three years.

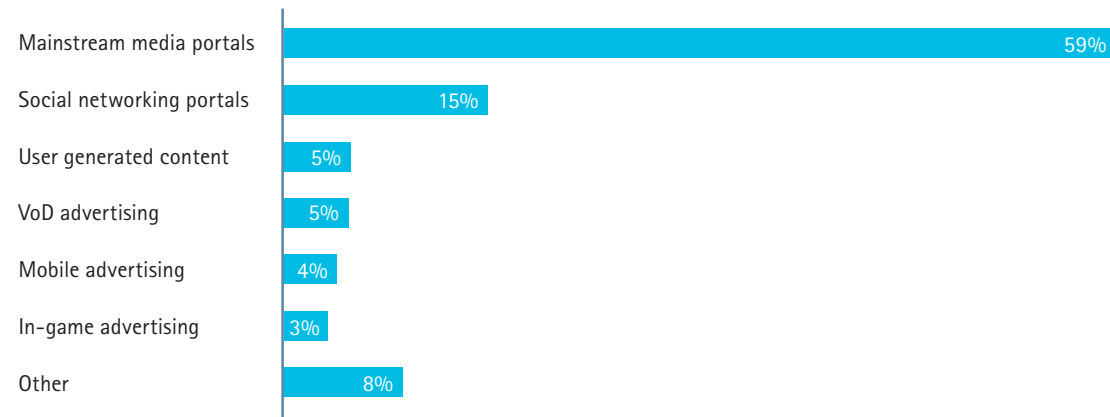
One possible explanation for the split is that media and entertainment executives see a number of significant barriers to the uptake of mobile rich media. Consumer readiness continues to be singled out by the greatest proportion of executives (51 percent), but companies' ability (or lack thereof) to provide a consistent user experience is also expected to impede mass market uptake (42 percent). Lack of readiness amongst both content owners and mobile operators/networks also plays a part (37 percent).

Digital Advertising

Our research indicates that ad-supported business models will drive a large portion of future revenues for media and entertainment companies. In fact, 62 percent of respondents believe that content will be supported by a variety of advertising methods, including branded content, search, sponsorships, performance and a mix of all within the next five years.

As a result, expectations for surging revenues from online advertising are high. According to a recent Financial Times article (11 Feb 2008), online advertising is expected to generate revenue of US\$41.6 billion this year. ZenithOptimedia forecasts that, by 2010, online will represent one tenth of all advertising spend worldwide.

Where do you expect to spend the majority of your digital advertising budget in the next year?



On both the buy- and sell-sides, almost every media company is trying to adapt to the reality of digital advertising as a major source of revenue. As reported on Mediaweek.com, Antony Young, president of Optimedia US, recently put it like this: "A lot more decisions are starting with the media strategy, as opposed to starting with the messaging. Digital has put a big, fat wedge in the way we have to approach communication in campaigns."

As far as targeted spend on digital advertising is concerned, the majority (59 percent) will be directed at mainstream media portals. However, this marks a significant decrease on last year, when 77 percent of budgets were allocated to this sector of the market. In a growing digital market, this does not necessarily represent a dilution in financial terms, but there is no doubt that social networking portals are assuming far greater significance. For 2008, 15 percent of budgets will be allocated to this area.

As such, small and large companies alike are pouring resources into aggregating ever-larger audiences across platforms and developing deeper abilities to target them. Google's acquisition of DoubleClick, Yahoo!'s purchase of RightMedia, Microsoft's acquisition of aQuantive and most recently Microsoft's bid for Yahoo! illustrates this point. However, acquiring technologies, aggregating audiences and achieving consensus is simply not enough.

The scope of digital transformation is broad, complex and affects each value chain participant differently. This year's study has found that regardless of where a company sits in the value chain, the following challenges are common:

Common challenges across the value chain

Multi-Channel Distribution

Providing a fully integrated, customer-centric, multi-channel experience requires media and entertainment companies to break out of their siloed offerings and to abstract the content from the device so that it can be leveraged cross-channel. This requires having strong content and rights management capabilities, as well as the ability to properly schedule and control content distribution.

Social Media

Enabling media and entertainment companies can leverage social media to interact with their customers in a new and more meaningful way. In order to capitalize on and monetise the wide array of social media,

companies across the value chain first need to discern their abilities to understand their customers' behavior, preference and consumption patterns. Then, companies must determine the capabilities and implement the technologies required to create content/offerings tailored to specific customer segments.

Mobile

Overcoming the significant barriers to mass market adoption of rich media requires organizations to clearly define mobile content offerings and work with partners more closely than ever before. As such, content companies should reconsider the definition, purpose and business models associated with mobile content. As offerings become better defined, content compa-

nies must then work closely with mobile content distributors to create simple and integrated user experiences that "fit" the content.

Digital Advertising

Achieving the promise of digital advertising requires firms to understand who their customers are as well as to recognize the power of multi-screen distribution and the effectiveness of rich media. This means media and entertainment companies need to build out multi-channel advertising capabilities, including multi-channel inventory and management solutions as well as multi-channel yield optimization tools — all capable of delivering rich as well as static media.

The Accenture Global Content Study 2008 shows that media and entertainment companies are struggling to operationally transform their businesses to meet the demands of an ever changing digital marketplace.

Transformation is a daunting prospect, but the momentum behind the digital revolution continues to build and billions of dollars are now at stake. A well-planned, well-executed integrated transformation strategy is now a necessity.

Implications

"You must break the innovator's dilemma and walk away from old paradigms...you must have a keen focus on determining what consumers really need and what makes their lives better."

Media Executive, USA

The need to innovate and optimize content, to investigate new opportunities and to exploit new technologies and platforms – is a strategic priority if companies are to survive and grow, and media and entertainment businesses have to be equipped to exploit new channels in an integrated way.

In this environment, as our study shows, companies face a number of challenges. As ever, the keys to high performance are speed, flexibility and innovation – but the ways in which these need to be applied are changing all the time. Effective digital transformation is vital and requires focused execution programs. Media businesses know they have to do this to succeed: the time has come to act on these intentions.

Against this backdrop, the ability to execute effectively will be key to capitalizing on market opportunities.



"From the consumer's point of view, technology has caused this revolution that we're talking about...it's caused a dramatic disruption in the way people used to consume information and entertainment, so technology has disrupted the model. This has obliged us to move on and try to keep up with the change in their habits."

Publishing Executive, Italy

Multi-platform distribution, social media, mobile and digital advertising are only a few examples of the rapid technological and behavioral changes that are now a fact of life for media and entertainment companies. To keep pace, organizations must overcome significant cultural, technical and other business challenges. To effectively compete, corporate DNAs must change and, in making the change, companies in this space face important strategic and execution priorities, including:

Execution – getting it right

Execute your digital transformation as quickly and effectively as possible.

How prepared is your organization to execute the cultural and technological changes required to support the demands of the market?

Aggressively pursue multi-platform distribution.

Is your organization equipped to execute an integrated multi-platform distribution strategy?

Focus on continuous product innovation.

Are you able to keep up with the rate of change? In which areas might you fall behind?

Align your cost structures to future revenue streams.

Has your cost structure been fully optimized to enable the flexibility required to pursue new business opportunities?

Develop an understanding with the consumer and deliver what they want.

How well do you know your audience? Content aside, do you have the ability to create, enable, and deliver a product or service they want?

"There will be no new surprises this year, instead we will see a significant winnowing out of new media models as the industry figures out what works." Sir Martin Sorrell, Chairman and CEO of WPP

Conclusion

The media and entertainment industry knows about change. Over the last hundred years, the industry has had to transform and reinvent itself. Today, transformation beckons again.

As in the past, Warner Bros. is leading the way and has begun its digital transformation journey. Once completed, digital content of all types will be created, stored, shared and accessed quickly, efficiently and securely across its operations and by each member of the content value chain. In short, Warner Bros. is building flexible, responsive and agile businesses that will also allow for fine-tuning and course changes as the digital marketplace emerges.

Across the entire media and entertainment industry, traditional ways of doing business are being challenged by new digital technologies and consumer demands for 24/7 access to high quality content. This does not mean that traditional content (and traditional

media) is dead. Far from it. Cinemas will continue to find audiences for years to come. Children will still lose themselves in storybooks. Newspapers will be spread out on café tables. And bands will treasure the first cut of their new record.

But there's no denying the pace of change. A generation from now, people will rely on media and digital information much more than they do today. Cross-platform access to content — anytime, anyplace, anywhere — will be the norm. New technologies will emerge and be adopted. Disruptive players will force their way into the media and entertainment industry.

For the time being, however, "old" and "new" media will ride side-by-side. Each will fuel interest in the other. Digital will continue to enhance the consumer experience, enabling wider and more immediate distribution. All of this is well recognized by now.



All industries eventually arrive at an inflexion point. The financial services industry had no choice but to embrace electronic trading. The travel industry was forced to accept its consumers shopping online for the best deals. The telecommunications industry had to come to terms with VoIP.

Now the media and entertainment industry has reached this point. Companies in this sector know what they must do. And, as ever, there will be no prizes for second place.



About The Accenture Global Content Study 2008

The study was fielded for Accenture in North America and Europe by The BPRI Group at the beginning of 2008. The results are based on face-to-face and telephone interviews.

All efforts were made in good faith to secure a balanced and representative sample of respondents.

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About the Media & Entertainment Group

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With 178,000 people in 49 countries, the company generated net revenues of US\$19.70 billion for the fiscal year ended Aug. 31, 2007. Its home page is www.accenture.com

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