



Mastering tempo

Creating long-term value amidst
accelerating demand

About this report

This report was prepared by Ernst & Young together with the 2012 Forum d'Avignon. The Forum promotes social cohesion and economic growth through culture and the creative industries. Ernst & Young understands the importance of culture and its economic impact, and has supported the Forum d'Avignon since its inception.

Our last collaboration, *Intellectual property in a digital world*, looked at the opportunity for value creation from the effective enforcement of intellectual property protection. Other reports previously published include: *The way to cultural diversity: the international survey on tax policies in the cultural sector*, and *Monetization of digital media: creating value consumers will buy*.

For 2012, the theme of the Forum d'Avignon is Reasons for hope: imagining and passing on. It focuses on long-term legacies. In this context, we agreed to examine the issue of tempo. Specifically, we explore how creating enduring cultural and economic value is increasingly challenged by accelerating media innovation and consumption.

Throughout creative industries, tempo is critical. It influences the creative process and affects the development, distribution and consumption of content – both in the short and the long-term. In all areas, tempo is accelerating as the industry innovates at an unprecedented rate. Media businesses keep pace by embracing new technologies and evolving. However, to succeed they must balance satisfying the consumer's voracious appetite for new content – anytime, anywhere – with creating content that has a legacy of enduring value.

Ernst & Young, looked across markets and sub-sectors to understand, contextualize and interpret how executives are mastering tempo. We mobilized media and entertainment practitioners across our network, as well as interviewed executives from some of the world's leading media and entertainment companies. Their insights, along with our market research and proprietary analysis helped shape this report.

Copies of the study are available on the Ernst & Young website (ey.com/mediaentertainment) and the Forum d'Avignon website (forum-avignon.org).

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Executive summary

Mastering tempo – creating long-term value amidst accelerating demand

In media and entertainment, the path to success is littered with innovative digital businesses. They promised much but fell away or were absorbed by more enduring, more successful competitors. For executives in this increasingly fast-paced, high-tempo industry, just surviving means embracing change and adapting.

Never has the tempo of innovation and change been so rapid or had such a significant impact. The interplay of new technologies, changing consumer demands, revised business processes and the actions of regulators create a virtuous circle that drives and sustains change. For example, we see the emergence of smartphones and tablets coupled with intensified consumer expectations for anytime, anywhere content. The challenge for media and entertainment businesses and for policy-makers is to keep pace and, where possible, keep ahead. Already many successful businesses are actively and enthusiastically embracing change.

At the same time, all along the media value chain, from creatives to industry executives, there is what seems to be a contradiction. A new generation of viewer, reader, subscriber, uploader and downloader has emerged. *Homo conexus* has an insatiable appetite for more and more content with ever greater access, variety, choice and control. This seems at odds with the creation of lasting, enduring

content that has sustainable cultural and economic value. A shortening of the *time to consume* is mirrored in a shortening of the *time to remember*. The role of media and entertainment businesses is to balance these twin demands, deliver on both and at the same time generate shareholder returns.

The further we progress into a digital world, the more acute the challenge becomes. Magazines that were once produced weekly now include daily podcasts, email updates and up-to-the-minute websites mixing features with breaking news and live feeds. Ironically, the amount of information and its accessibility make it increasingly disposable. Generating content that keeps pace with change, and where possible, becomes enduring, requires merging creativity with business innovations.

As media businesses plot a course in this innovative, fast-tempo world, there are common lessons to learn: How to manage consumers as they redefine their relationship to media – as they usurp editors – to take greater control of their media choices. How to manage panic so as to profit from current innovation rather than succumbing to the multitude of forces creating it. How to adapt without losing sight of some of the core assets that define success. How to provide long-term legacy through enablement and planning rather than more protection.



Foot on the accelerator

Forces driving the pace of innovation in the media and entertainment industry

Media and entertainment sectors have a long tradition of innovation. The 20th century brought transformational technologies – first radio, then television, followed by internet and mobile. Each necessitated new forms of content to be delivered in new ways. In the 21st century, the pace of innovation has accelerated. It took almost a decade for worldwide pay-TV subscribers to double from 500 million to 1 billion. In comparison, it took Facebook just eight years to build a subscriber base of 1 billion.¹ New words and phrases are established in the industry's lexicon and the consciousness of the consumer – social media, tweets, time-shift, ebooks, on-demand, freemium and more.

A series of interconnected and complementary forces are pressing the accelerator – driving innovation. Together they form a virtuous circle that defines the media and entertainment landscape. At the same time, the escalating demands of each continue to drive the tempo of this industry still faster. New, transformative technologies have tapped into consumer demand and new entrants are taking advantage. As Facebook grew, CEO Mark Zuckerberg became a billionaire after just four years; Rockefeller and Ford took 20 years. By exploiting the internet and related, enabling technology – for example, apps, mobile and social – it is possible to reach global audiences and achieve scale far more rapidly. It is also possible to do so with limited incremental costs.

As evidenced in Ernst & Young's 2012 survey of media and entertainment CEOs, many media executives understand and embrace innovation. There is a greater sense of "opportunity and optimism" about the digital future.² In contrast to four years ago when there was still uncertainty about the potential of digital, CEOs now talk of their entire business becoming digital. As one puts it, "The digital tail of today will, tomorrow, swap places with today's traditional analog dog."³

Chart 1: Proliferation of media technologies

Number of years taken to double from 500 million to 1 billion global subscribers

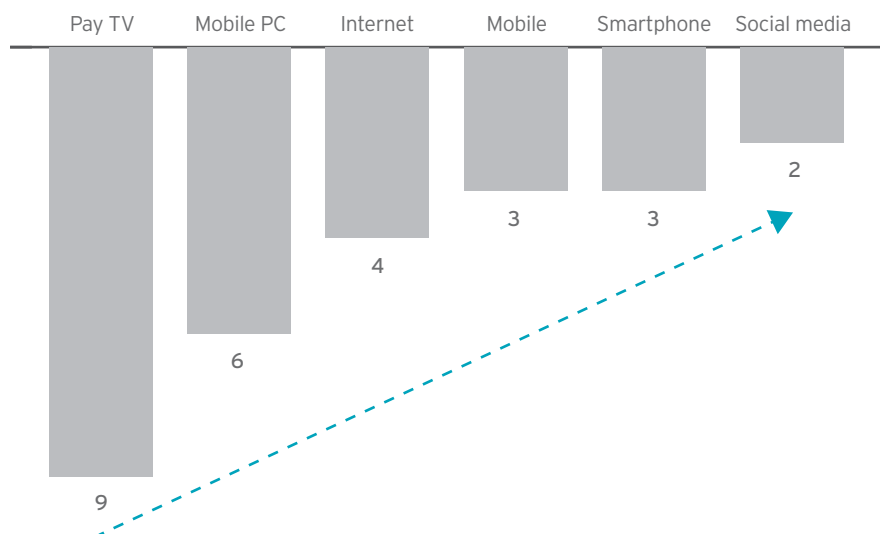
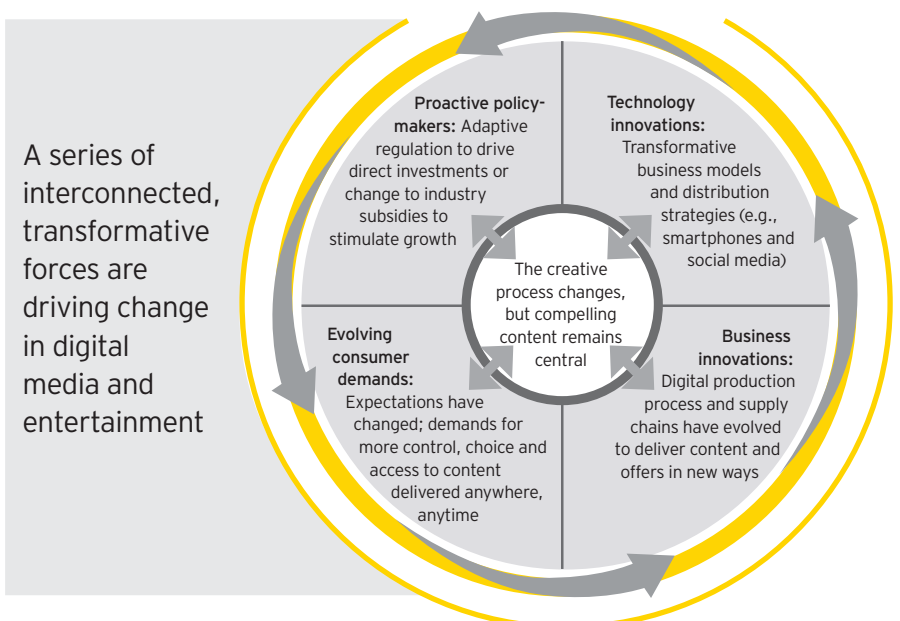


Chart 2: Forces effecting change in media and entertainment



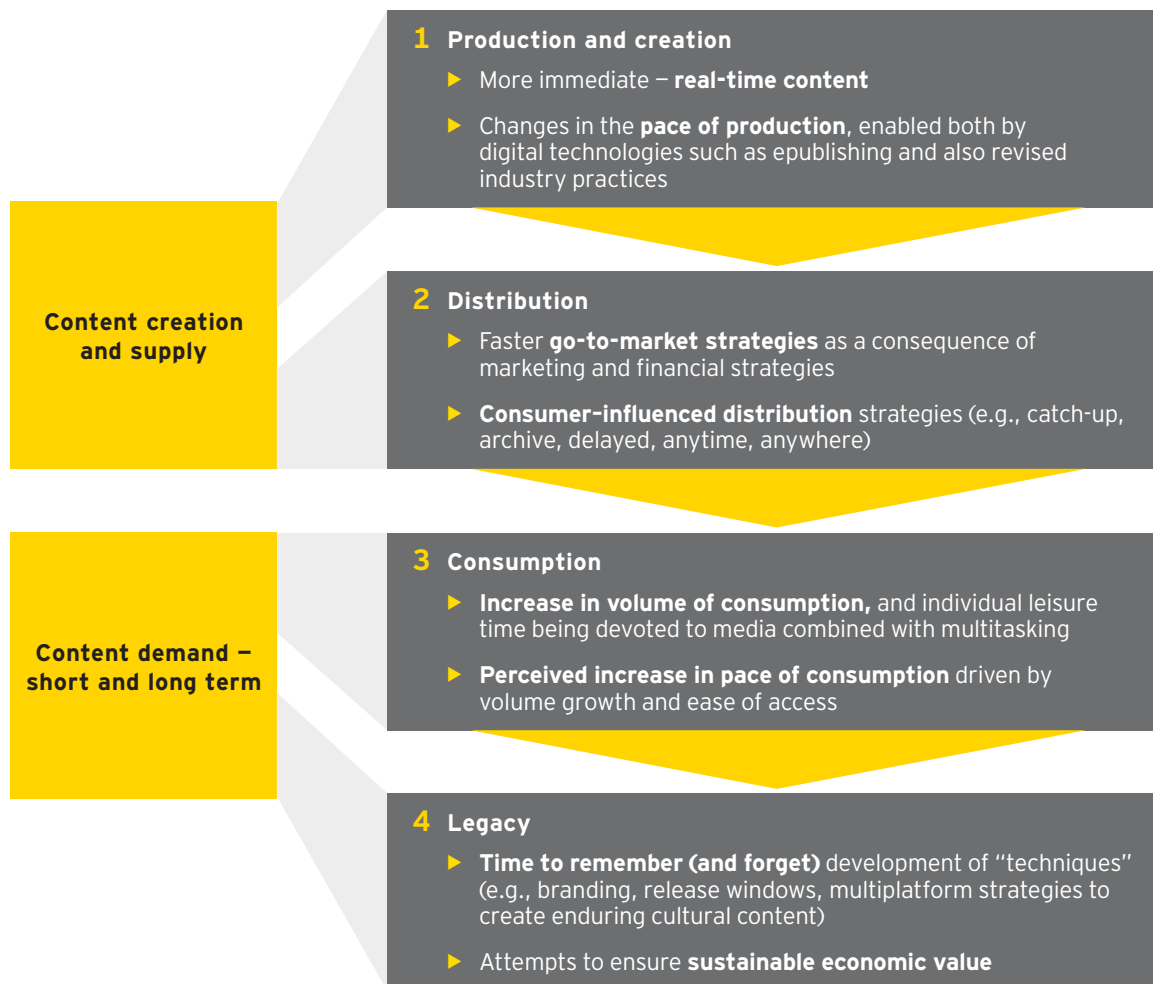


Changing pace

The impact of the creative dynamic

Tempo refers to each and every element of media and entertainment. It shapes the creative process and defines the pace of production and distribution. It impacts the volume and frequency of consumption. Critically, it also relates to whether content has long-term, enduring value or is instead short-lived and disposable.

Chart 3: How tempo impacts different parts of media and entertainment





Rapid content development and distribution

In the creative and production processes, industry innovation is having the least impact on tempo. Posting a video, a status update or even a blog does not itself constitute media, let alone entertainment and art. At the least, recognition by a wider audience and peer group is required. The creation of quality content needs time. This is why authors average one novel a year and music albums typically take around three years to be released.

In many ways, the creative process revolves around traditional relationships between familiar roles. The internet has widened the search for talent, ideas and creativity, but authors continue to submit manuscripts and screenwriters submit screenplays. The biggest impact of innovation is to make the creative process more efficient.

The transition to digital brings radical changes to production processes, although to some extent, the potential to shorten lead times is mitigated by increased complexity. In movies, ever more complex special effects and ever more extravagant use of computer-generated imagery lengthen the production cycle. The same is true in other media. Dr. Frank Sambeth, Chairman and CEO of Random House, one of the world's leading book publishers, believes the range and variety of technologies elongates the development process and becomes a "key financial burden." Ebooks are having a profound effect in simplifying the digital supply chain but a lack of interoperability and subsequent need to provision for multiple devices complicates the process; many potential efficiencies are lost. In this context, there is a trend toward overlapping or integrated production pipelines, mirroring approaches that are widespread and well-established in other industries. In the automotive industry, the design, production and development of new technologies and new models is underway years before their predecessors reach the market. Movie series such as *The Lord of the Rings* trilogy and *Pirates of the Caribbean* are examples of the simultaneous development of content.

Spotlight

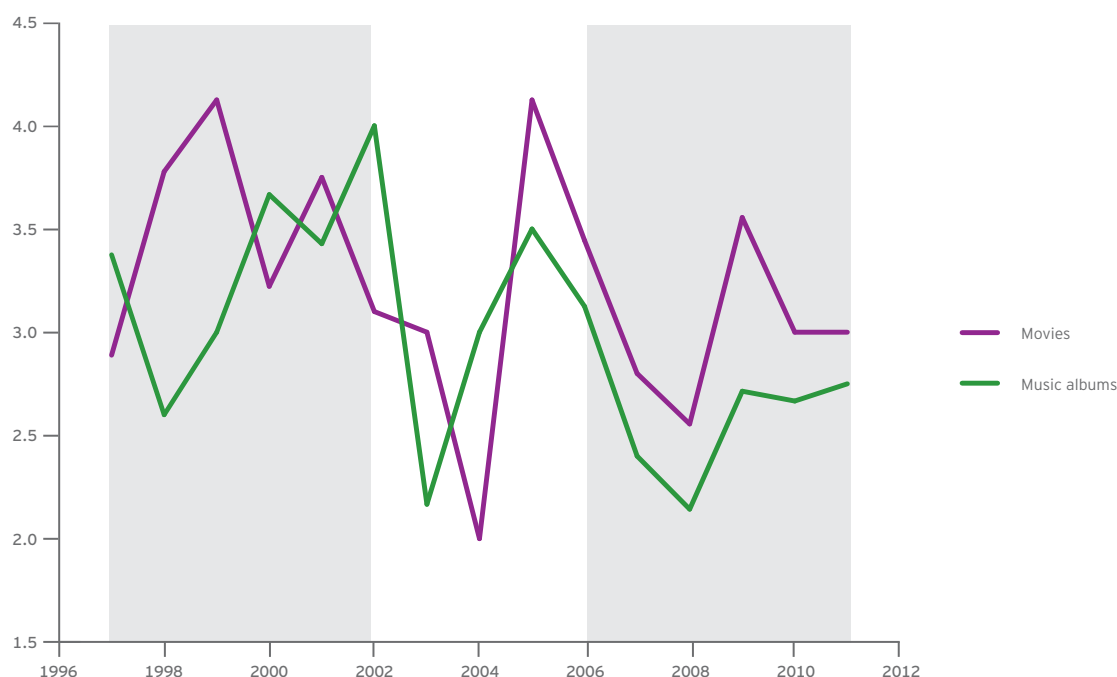
Blick, Switzerland's most popular paid daily newspaper, has created an up-to-the-minute newsroom in Zurich. Journalists who work across Blick's brands, including the daily, evening and Sunday editions as well as the Blick portal, access real-time information. A screen in the newsroom provides a dashboard of the Blick website

and those of their competitors. It shows journalists and editors, in real time, what is being read and viewed by their target audience. Integrated into the service are additional features such as hotlines for citizen journalists so they find out about news stories as they happen.

Access to this real-time information informs the articles and stories to be covered or re-covered by Blick's journalists. The result is a portfolio of press and online content that is timely and more relevant for the audience.

Chart 4: Changing production cycles

Average number of years since previous release in France



Music albums looked at the artist of each top 10 album and indicated the year of release of the artist's previous record (LP albums only, cover songs and musicals were excluded). The difference gives us the number of years between two LPs. Movies looked at the director of each top 10 film and indicated the year of release of the director's previous movie. The difference gives us the number of years between two movies. The results are the average difference for the top 10 by year.

The time to create covers different stages, from writing and ideation (for which, if we exclude collective brainstorming techniques, no improvement has been made so far in terms of production time) to the actual production (where time has certainly been impacted by technology and innovation, but in many and sometimes opposite ways) and marketing.

Spotlight

Innovation in both the music and movie sectors, caused largely by the emergence of new technologies, has reinvented the core product, created new business models and above all prompted a transformation in the way

consumers engage with content, as well as their appetite for it. The impact seems structural. We analyzed the cycle of album productions and movie releases, which, over time, reveal a shortening of lead times. In the late 1990s, it consistently

took approximately 40 months for follow-up albums and movies to get to market, but in recent years, this has fallen closer to 36 months.

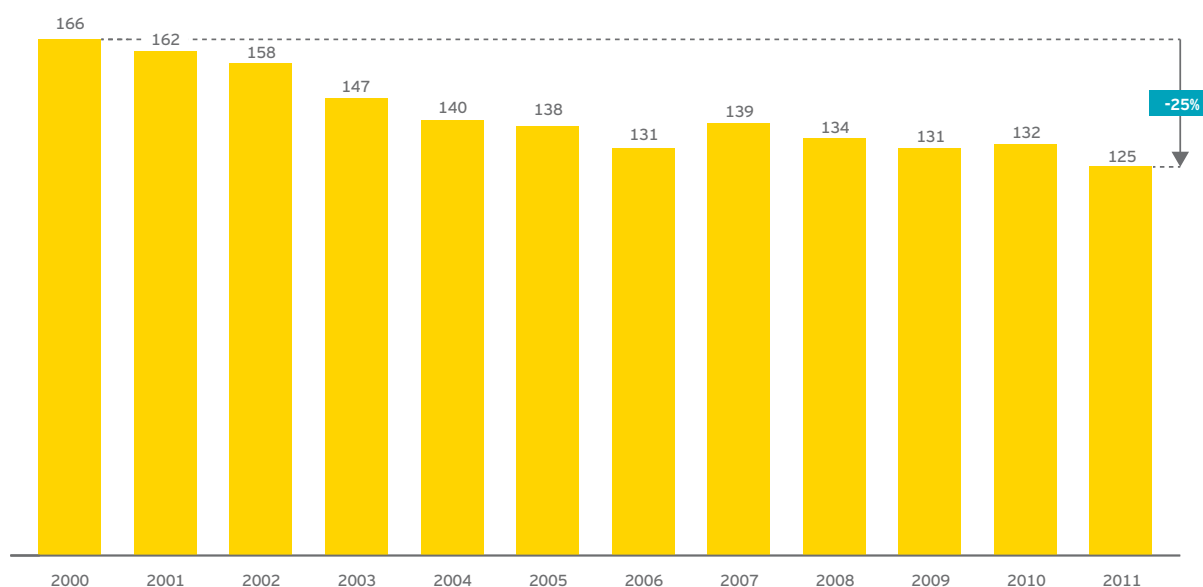
Distribution of content is where we see the most profound change in tempo. This is enabled most by new technologies, evolving processes and opportunities to maximize the monetization of different customer target groups.

There is an increasingly rapid flow-through of movies from cinema exhibition to DVD and other forms of exploitation. Release windows are being shortened. In the US, the amount of time a film spends in the cinema before DVD release fell by 25% since 2000 – albeit that's more evolution than revolution.

Chart 5: Release windows in the US have shortened

Cinema exhibition to video release, US

Average days



Spotlight

The use of technology as an enabler and the shift to an increasingly global mindset has accelerated the wholesale distribution of content. FremantleMedia

formats, The Price is Right, first produced in the 50s in the US, traveled to more than 40 countries in the space of a few decades. The Got Talent series was

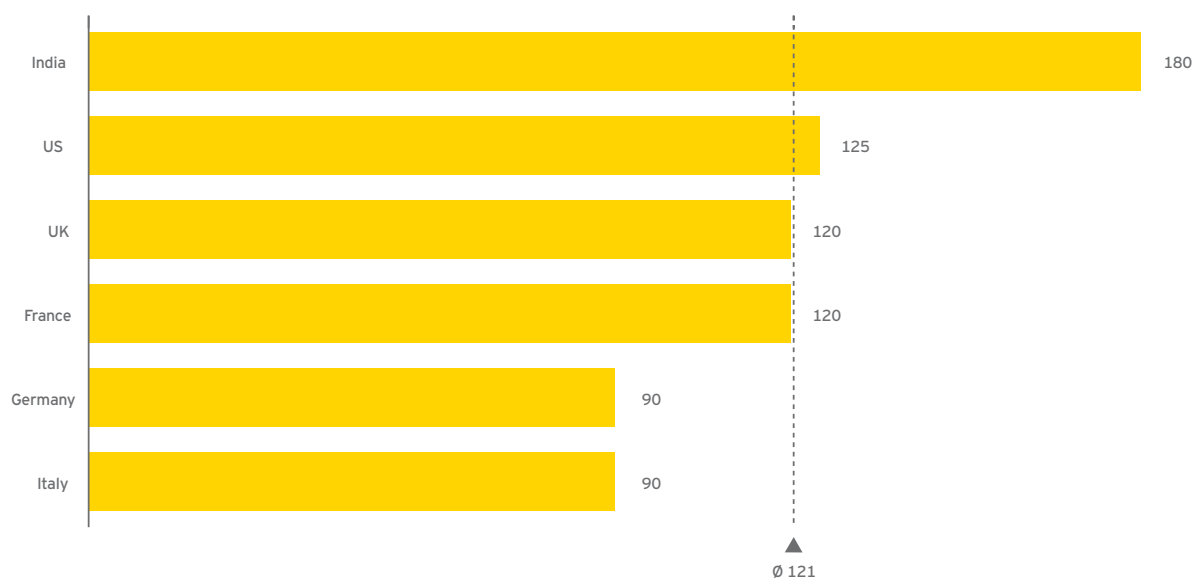
produced in as many countries in the space of only a few years.

Reasons to move more swiftly from cinema exhibition to DVD are varied. The decision is often attributed to a need to mitigate piracy, particularly in emerging markets, or to manage marketing costs amid short-term, quarterly reporting cycles. In reality, much of the revenue from cinema exhibition is loaded into the first days of release, and moving swiftly onto other, scaled platforms is an attempt to maximize those other revenue opportunities. In the UK, around 28% of total box office revenue is generated in the

first weekend,⁴ but box office only contributes 30% of a movie's revenue.⁵ In India, where the box office accounts for a much higher percentage of movie revenue, rapid technology growth would be expected to have a bigger impact. This is not the case. By 2015, an estimated 69% of revenue for films released in India will come from the box office – a high percentage, but a slide of only 5% from 2010.⁶

Chart 6: Comparative release windows

Average number of days between cinema exhibition and DVD release



Spotlight

The manipulation of release windows is nothing new. In China, control of release windows is used to protect the local movie industry. In February 2012, as part of a World Trade Organization agreement, China increased the import of Hollywood movies from 20 to 34. However, such

movies, which account for an estimated 65% of Chinese box office revenue, are being released to compete against each other. Examples include the simultaneous release of *The Amazing Spider-Man* and *Batman: The Dark Knight Rises*, as well as the simultaneous release of *The Bourne*

Legacy and *Total Recall*. In this way, China Film Group, which controls release windows, creates periods exclusively for Chinese releases and safeguards the local movie industry.⁷

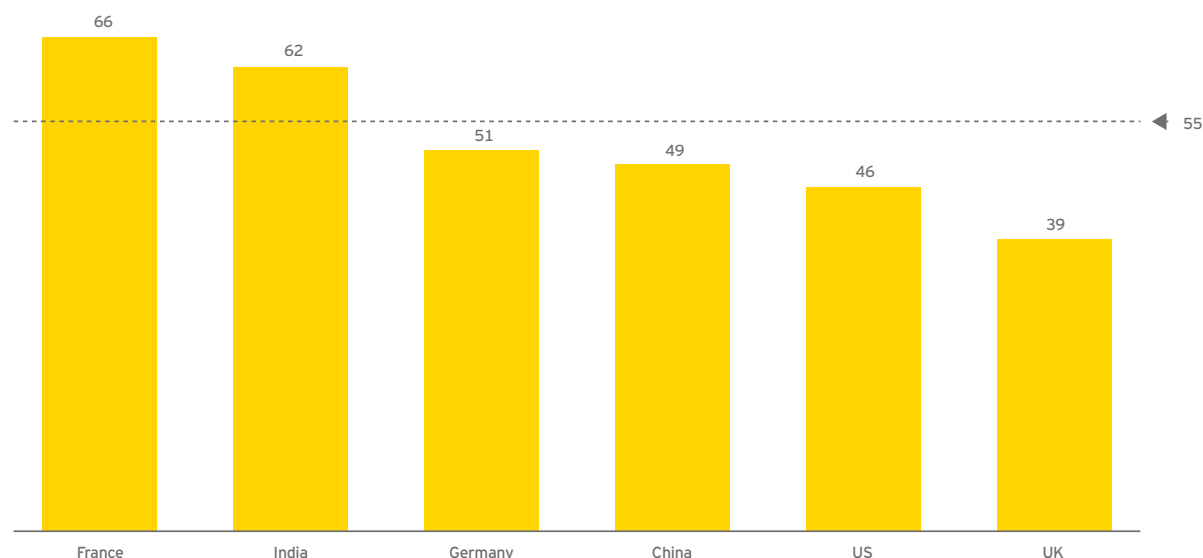
Technology is causing book publishers to rethink the role of release windows. Where once the paperback would follow the hardback and precipitate a boost in sales, the ebook has so far made this anachronistic. Ebooks are currently published simultaneously with the hardback, while the release of the paperback might only coincide with a price reduction in the ebook. As ebooks achieve greater scale, the challenge for publishers is to differentiate versions to make release windows once again relevant. In 2011, the rapidly growing ebook market represented 15% of all new book sales in the US.⁸ *The New York Times* publishes a best seller list only for ebooks, and Smashwords, a leading self-publication portal, boasts a catalog of more than 100,000 ebook-only titles. The use of app-based interactivity, readers' choices on plotlines and embedded, value-added content are all ways ebooks can be versioned. In this way, the release window will remain relevant and new monetization opportunities emerge.

Today's media businesses are on a treadmill of innovation, continually developing how they distribute content to consumers. The perpetual and often rapid nature of change only accentuates a perception of accelerated tempo. An Ernst & Young survey of business executives, titled *The Revolution of Services*, highlighted how the pace of innovation is unlikely to slow down.⁹ In the next five years, some 55% of surveyed businesses plan to launch new services that do not already exist. A market-by-market snapshot reveals that number to be 66% of French and 62% of Indian businesses. Moreover, 91% of Indian businesses plan to export their services globally, as well as China in at 84% against an average of 59%.

Chart 7: Acceleration of service renewal

In the next five years, does your company plan to launch services that do not exist today?

Percentage of respondents who answered "yes"



Spotlight

The Economist is a leader in digital innovation. It began as a weekly news and current affairs publication available on newsstands in a traditional paper format. Since the mid-1990s, The Economist has expanded its service offering through a comprehensive digital strategy.

At the core of The Economist's digital strategy is how it distributes content to its customers in the most efficient, accessible

and engaging way. It achieves this by embracing new technologies and evolving its service offering accordingly.

First, the paper-based version was complemented with a website. Digital editions were launched, an app was added, followed by podcasts and then vodcasts. All of this is complemented with an integrated social media strategy to promote content on Facebook and Twitter.

By the middle of 2012, The Economist was reporting more than 120,000 digital-only subscribers.

(Print edition, 1843; website, 1997; audio edition, 2007; podcast 2008; Facebook site, 2009; iOS apps, 2010; Android app, 2011)



“Digital is now a regular part of the business. We need to transform the organization into that mindset.”

– Dr. Frank Sambeth,
Chair & CEO
Verlagsgruppe
Random House

All you can consume in a day

In 24 hours, even the most avid media fan has a finite amount of time to consume content. Consequently, we see changing consumption habits. More and more leisure time is devoted to consuming media, but multitasking, the simultaneous consumption of content across different devices, is also expanding consumption volumes. In addition, the amount of available content, access to it across multiple platforms and the chance to switch quickly and seamlessly from one piece of content to another creates a perception of increased tempo.

Amount of time spent consuming

Ever greater amounts of content are being consumed. Simply, the amount of time spent enjoying media content continues to grow. Between 2008 and 2011, television viewing in the US grew by 3% to reach 287 minutes per day.¹⁰ Over the same period, viewing in India grew by 6% to a comparatively low base of just 105 minutes.¹¹ The amount and the potential may vary by market, but the increase is universal.

In a digital world, the volume of consumption is increasing at a much higher rate. *Homo conexus*, a new breed of media consumer, is accessing multiple devices within easy reach. It is now possible for them to consume content in ways, at times and in places not possible just a few years ago.

Chart 8: Changing consumption in a digital age

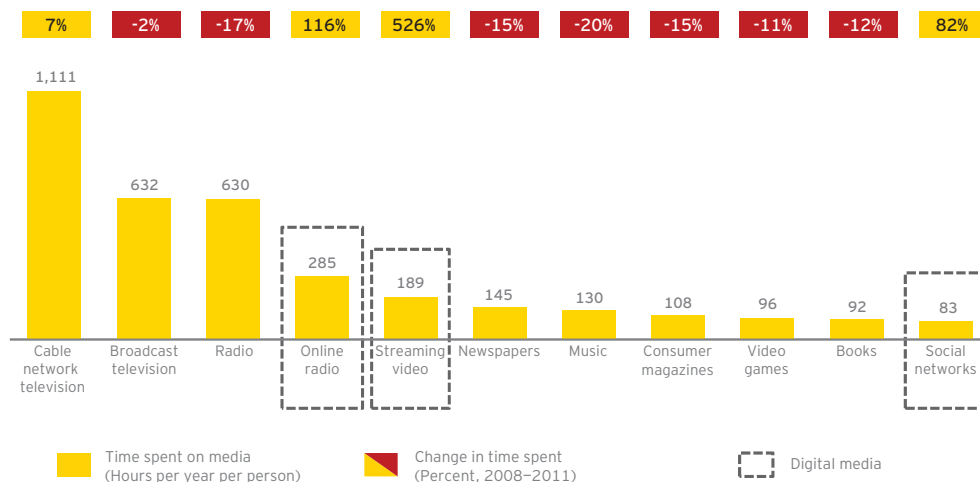


Chart 9: Television consumption trends
 Increase in worldwide television consumption
Average daily minutes 2004–2011

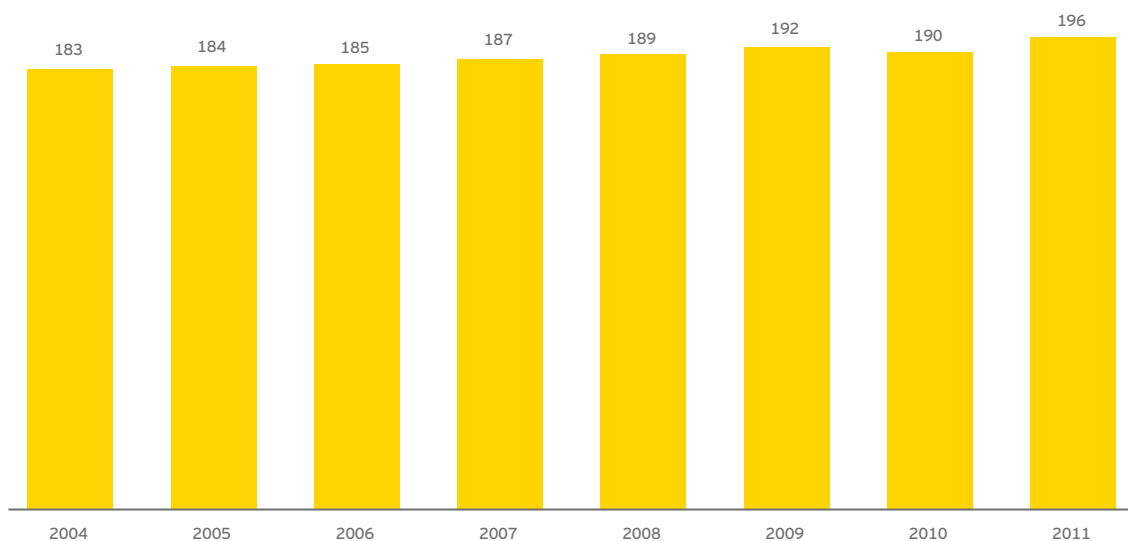
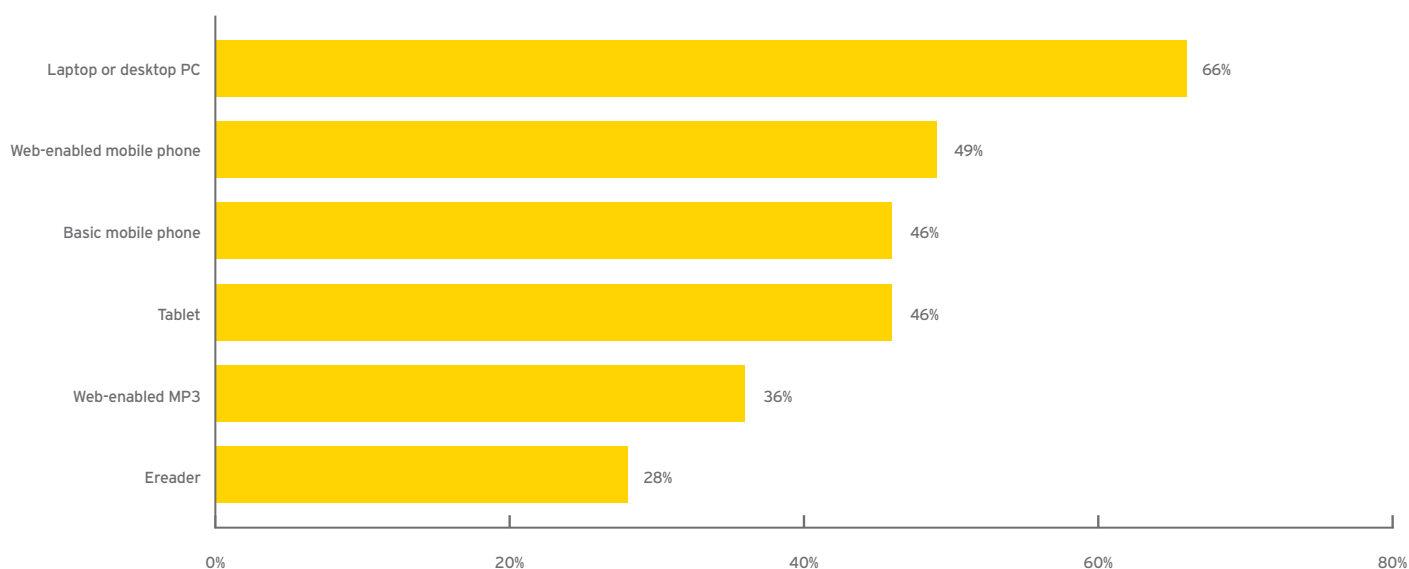


Chart 10: Multitasking
 Multitasking while watching TV, by device type
(% of US mobile device owners who multitask)



More choice making content more disposable

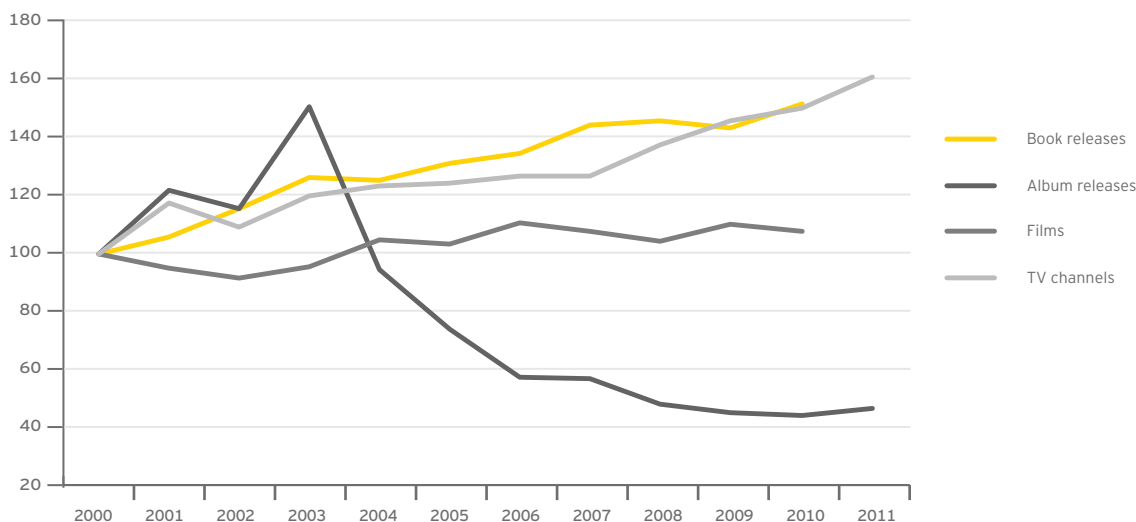
An explosion in the amount of available content has given consumers ever greater choice over what they watch, read and download. At the same time, the consumer has greater control over access to content, often demanding anytime, anywhere access. Being bombarded with choices and the ability to switch rapidly from one piece of content to another creates a perception of faster tempo.

Greater choice

The picture varies in different media sectors, but there is an exponential rise in media output. Not only is the number of TV channels continuing to grow, a trend that has been consistent for many years, but more books are published and more films produced. Pierre Harand, Head of Strategy at Canal Plus Group, refers to this phenomenon as hyper-choice for users and consumers and hyper-competition for media businesses.

Greater choice does not automatically make consumers choose more. Loyalty to established, incumbent brands continues to see leading channels garner the greatest (albeit diminishing) share of audience. Nonetheless, in the UK, the average number of channels watched regularly by viewers has increased from five in 2002 to 24 in 2011.¹²

Chart 11: Growth of media volume in France, 2000-2011



In emerging markets, growth is more pronounced and the opportunities for returns are more appealing. Local market factors are at play, such as the proliferation of technologies, rising literacy rates, investments in growth (including subsidies), public policy initiatives and the emergence of a middle class.

Spotlight

In India, taxes are used to improve access to movies by applying tax exemptions to cinema multiplexes.

India's Bollywood movie industry is thriving. In 2011, it produced more than 1,200 movies and annually generates more than US\$3 billion in revenue.¹³ The government's favorable tax policy has created an environment for the proliferation of multiplexes. It has proven significant in driving and sustaining growth.

To increase the number of multiplexes and thereby establish more widespread access to films, multiplexes may be exempt from entertainment tax. The exemption is discretionary to state governments and varies by state. Certain states completely exempt multiplexes from tax for the first three to four years of operations in order to promote investment, development and growth.

A vibrant movie industry and tax exemptions are driving the growth of multiplexes. By April 2013, the number of multiplexes is forecast to reach 1,350 – a year-on-year increase of 50%.¹⁴ Multiplexes mean higher volume, a wider offering with more choice and accelerated rotation of movies.

"We need to follow our customers wherever they are."

– Jean-Clément Texier,
CEO Ringier, France

Greater access

In 2000, the value of physical album sales was US\$28 billion globally. By 2011, it had declined by 64% to US\$10 billion. The sale of CDs has been offset (albeit not completely) by music download and streaming services. It is no longer necessary to buy an album, listen to it in its entirety and in all probability listen to it many times over before returning to the store to buy another. Accessibility to music makes it possible, even easy, to switch between songs, albums and artists in much the same way the remote control facilitates channel-hopping. It is now more convenient to listen to a song, and with the aid of a phone and mobile connection, to download or stream it almost instantly. The same is increasingly true of movies, books, games and most other media formats. In just two years, mobile access to YouTube's library of videos doubled from 8% to 16%.¹⁵ The latest ereaders allow even the most casual bookworm to carry 1,400 books at the same time, and with cloud-based access, that number becomes almost limitless.

Providing quick and ready access to content is a priority for both consumers and executives. Instantaneity drives impulse, ultimately generating improved sales. An Ernst & Young survey of business leaders found 77% of executives attributed the success of their service offering to the ability to save the consumer time.¹⁶ In a separate survey, Ernst & Young asked consumers why they would pay a premium for a service. 32% cited availability, broken into immediate (20%) or short-term (12%).¹⁷ As part of the value proposition, consumers increasingly expect access to all of their content at any time – "What I want, where I want, when I want," as Jean Hornain, CEO of *Le Parisien*, puts it.¹⁸

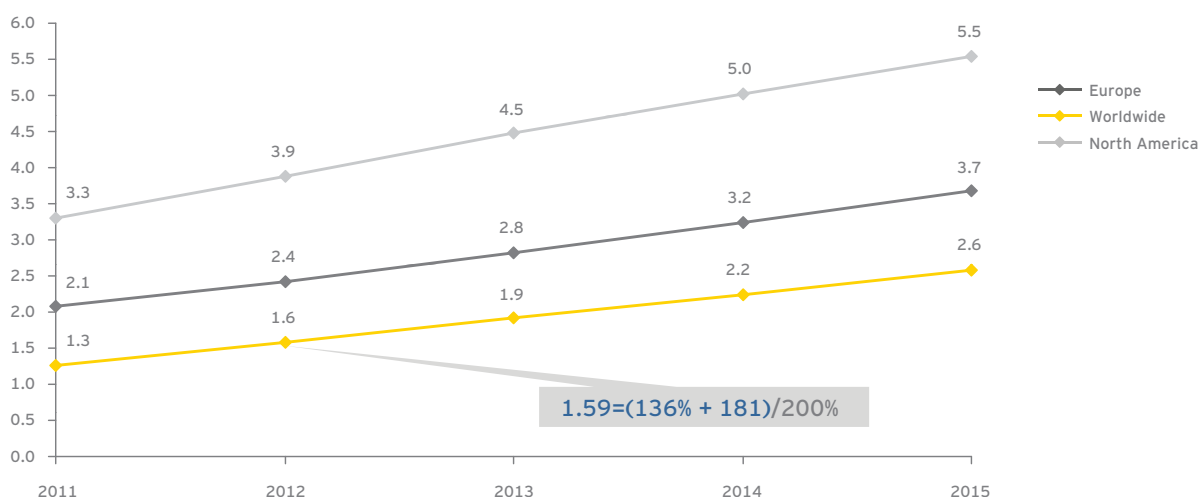
Hornain is further concerned that consumer expectations for ready access to content are heightened by much of it being free. Sustaining engagement after midday, when a newspaper typically ceases to be relevant, is challenging if consumers simply switch to alternative news sources and ones they don't necessarily pay for. For Hornain, the challenge lies in maintaining engagement with the consumer to safeguard margins. Digital will hugely impact *Le Parisien's* cost base, 70% of which relates to printing and distribution, but this means little if they cannot find readers willing to pay for the content. Hornain's solution is to evolve and differentiate content in *Le Parisien*. Greater emphasis is to be placed on features and in-depth, more thoughtful content.

Chart 12: Media saturation index

Ernst & Young Digital Media Saturation Index

Index is based on the household penetration of fixed and wireless broadband connections and consumer internet-enabled devices.*

Index = (broadband penetration + consumer device penetration)/200%



* Internet-enabled devices include tablets, 3G/4G wireless phones, internet-connected TVs, computers, internet-enabled video game consoles, internet-enabled Blu-ray players, internet-enabled DVRs, and streaming media.

"You are not an artist just because you post a creation on a website. You only become an artist once you're being acknowledged as such by the industry. When you sign with a publisher then you can start seeing yourself as a writer."

– Pascal Nègre - Universal Music Group,
CEO, France

Enduring content: time to remember and time to forget

Enduring content might be the classic works of literature, great movies and albums, or more personally, the stories remembered from childhood. All have a cultural and/or economic legacy. Such legacy may be constant or may be continually revisited and refreshed. Enduring success is guaranteed by the best ideas, scripts, plots, actors and artists. Other factors are also at play, including brand development and management. Such factors assume greater importance amid accelerating consumption and atomization of content sources.

Enduring content typically comes in three formats that may evolve over time.

1. **Ongoing success:** Content that sustains success and thereby transcends generations. It has both a past and a present. An example is the hugely popular animated series *The Simpsons*. After more than 500 episodes spanning more than two decades, it has created an identity and brand that transcends generations and continues to be discovered by today's audiences.
2. **Serialization:** Legacy content can be more periodic, changing over time but still revolving around a core creative nucleus. New versions emerge on the same theme. Perhaps the best example is the James Bond movie franchise. It is the second highest-grossing film franchise in movie history and shows no sign of losing its appeal with the latest installment, *Skyfall*, released in late 2012.
3. **Revisited/reinvented:** Unlike serialized content, there is content that is unchanging, remains on the shelf and from time to time is taken down, enjoyed and perhaps reinvented. One of the best examples is *The Three Musketeers* by Alexandre Dumas. The novel remains a constant but has spawned more than 30 movie adaptations, essentially all with familiar characters and plot.

Spotlight

"On consumer experience and the creative industries"

The consumer has also redefined his demand: he or she wants an experience and not simply a product or a service, when being exposed to creative and media content. To be significant, this experience must be more sensorial and more dramatic. This puts an extra effort

on production techniques and the use of advanced digital technology.

In the "anywhere, anywhen, anyhow" consumption mode, the creative content industry is somehow functioning as a commodity market where the good is no longer a product and/or service (signified by a name, a brand, one or several successful authors) but a

range of sensorial benefits provided in the context of use: physiological (energizing, soothing, ...), psychological (reassuring in its familiarity, awakening by its novelty, ...), and cognitive (in the background of another activity, between two activities, immersive within a main activity).

– Edouard Le Maréchal, founder and
CEO, Tangenciels

Various tax incentives relate to the preservation of structural or physical culture, but there is less evidence of tax breaks for content or specifically digital content. There are government subsidies through national libraries and archives, but this is selective and often insufficient. In France, some exceptions include subsidies from the Centre National du Cinéma et de L'Image Animée (CNC) for the restoration and provisioning of legacy movies for on-demand services. Regulators must also be mindful of the need to understand the licensing process. For example, many rights, when initially purchased, were not future-proofed. Often they do not allow for the distribution of content in digital form. The need to redress this, by identifying original rights owners and renegotiating contracts, is proving a significant barrier to preservation.

Spotlight

The US tax regime has shown the way in creating incentives for the intellectual property age.

The increasing usage of intellectual property in the cultural sector is taken into account in a two-part tax incentive for individuals: the Intellectual Property Contribution Income Tax Deduction.

As part of the overall allowable deduction for charitable contributions, a deduction for a donation of a patent or other intellectual property to a qualified organization is limited to the basis of the property or the fair market value of the property, whichever is less.

Additional deductions based on income earned from the donated property following its donation may be claimed in the years following the donation on a sliding scale with no additional deductions allowed after the legal life of the copyright expires or the 10th anniversary of the donation.



Driving at speed

Implications and lessons on how to survive and thrive amid rapid innovation

The challenge in navigating the path to digital is keeping your balance – keeping one foot safely on the dock as you put your leading foot in the boat.”

Ernst & Young – CEO study 2012

“We have to avoid the rowboat mentality – rowing the boat forward as fast as possible while facing backward from where we have come.”

Ernst & Young – CEO study 2012

As the media and entertainment industry innovates, there are specific recommendations for businesses as they look to master the shortening time to consume while addressing long-term value and relevance.

- 1) **Move from *transacting* to *engaging with consumers*:** The first priority for any consumer-led business is to “know” its customer.

Realize the consumer is a chameleon. He or she is harder to know and more demanding to please, skeptical of marketing and the media and as knowledgeable as any seller. The consumer can no longer be put into boxes, and unless retailers make real efforts to know and please consumers, marketing – and selling – could become a game of chance.

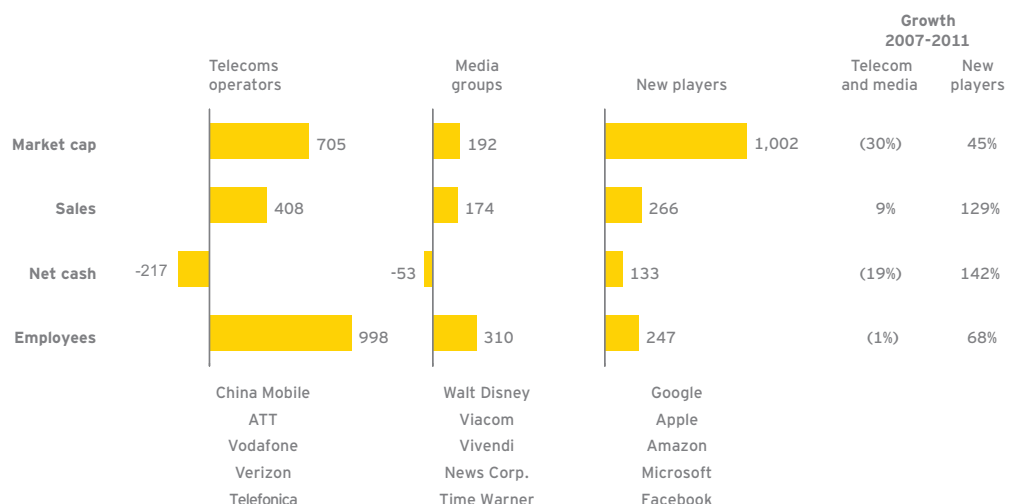
Most media and creative industry players have realized they must use new ways – and for the first time, all ways digital – to engage their customers. Expectations of the new “Gen Y” or “digital native” consumers mean that companies must keep up with the pace of change or lose relevance. But few realize how rapid or transformational the change needs to be, and most lack a coherent and joined up digital strategy.

Media and creative industry players who want to keep abreast of changing consumer types need to deliver a truly personalized service: agile enough to satisfy both the new, unpredictable “chameleon consumer” – who moves between segments and defies conventional rules of behavior – and more familiar customer types.

Chart 13: Understanding the customer

New media vs. telco and media incumbents

In US\$ billions except employees, which are in thousands of people



Market cap at 31 December 2007 or 2011

“Today a very quick turnaround is necessary for success. It’s about being a success at its first outing on the international stage. Formats have a very short time window to prove themselves.”

– Claire Tavernier, Head of Worldwide Drama and FMX, FremantleMedia

Reconnect creators and consumers. Recent changes in consumer habits have disintermediated the relationship between content creators and consumers. All our interviewees emphasized this radical change. As an example, Pierre Hornain highlights 15- to 24-year olds, who account for almost half of catch-up TV and spend 20% of their television time just defining what they want to watch.

This new generation of media-savvy, connected individuals has emerged. They are taking control, willing to usurp editors and to manage their own media consumption. As we have seen, consumers will be 1) more demanding about when and where they receive content, 2) more volatile in their media habits, engaging more in multi-access/multitasking and 3) providing more input and feedback into all aspects and stages of the creative process and media business.

In this changed environment, *Le Parisien*’s Jean Hornain believes the role of creators has changed from what he describes as “supply” to “demand.” The newspaper moves from being available for consumers to instead become more targeted toward a defined consumer demand, one that is defined by the consumer themselves. Hornain sums up this new approach – “Creators/journalists and consumers/readers will be in direct connection: more complete answers to the questions raised by readers.” In many ways, the process of content creation becomes a never-ending process of mutual engagement and re-engagement.

Authors increasingly illustrate their understanding of this issue. Instead of publishing novels on a periodic basis, they sustain engagement with their readers through short stories timed to fill the void between publications. This sustains the relationship and entices new readers, willing to download snippets for 99 cents but reluctant to invest in a full-priced product. Authors further supplement this approach with the mandatory social media profile, discussing characters, plots and publication dates.

The same sentiment is echoed by Jean-Clément Texier, CEO at Ringier France. He defines the changing role of publishers from “paper producers to event producers: to give life to the brand, engage with consumers and communities.”¹⁹

Like and recommend. The shift from transaction to engagement is even more critical to control time and tempo, because not only are consumers defining their own media experiences, but through recommendations, “likes” and sharing they are defining the experience for their network. Ninety-six percent of online transactions are driven by research online. The role of recommendations and ratings is already important.

2) Panic can be managed: Given changing consumer demands and the opportunities created by new technologies, it is imperative for media businesses to innovate or die. As *Le Parisien*’s Hornain describes it, “people and shareholders must accept [that] the business comes with certain risks and that failure is possible, speed is necessary.”

Businesses are being forced to better anticipate the needs of the consumer and build in capabilities for short- and long-term adaptation. Businesses that are able to manage accelerated change and innovation avoid the risk of unstructured “panic.”

Harness the power of data. It is a risk that the explosion of information and data will blind businesses to the opportunities such data presents. Data on consumers’ demographics, actions, sentiments or location is now widely and somewhat excessively available. It creates opportunities, through cross-platform analytics, to understand the customer in ways not possible, but 90% of available data is less than two years old.²⁰ Media businesses need to build the capabilities (culture, talent, systems) to manage, interpret and utilize this explosion of data. A reluctance to invest in these capabilities is often a consequence of focus on core activities and uncertainty about investments that could be obsolete in just a few years. Nonetheless, failure to make such investments holds potentially greater risks.

“Re-Act” in real time. The proliferation of data has made it possible for executives to access real-time information about their businesses and those of their peers. The expectation of consumers has made it a necessity. This real-time information includes key performance indicators and metrics traditionally found in monthly reporting but also data on trends and hot topics. It includes revenue as much as “likes.” The use of multivariate testing is one example that allows publishers to test what subjects are popular or trending on their websites ahead of constructing the following day’s newspaper.

In the UK, *The Guardian* newspaper makes extensive use of social networks, particularly Twitter. These are used both for promoting and breaking news but crucially also for news gathering. In what *The Guardian* journalists describe as a “collaborative news process,” they mine social networks for consumer insight and information on various topics. This information is then used to determine the *Guardian*’s own output and to input directly into the content.

“Mastering the Big Data is not yet in the DNA of M&E companies. They will have to recruit talent that knows how to understand the consumers through behavior data and offer personalized content.”

– Bruno Thibaudau,
Director Business Innovation, Vivendi

Innovate and experiment in controlled situations. In such a rapidly evolving industry, there is a temptation to harness internal creativity for rapid “hyper” innovation, but it does not necessarily add long-term value.

Claire Tavernier believes one of the biggest challenges is making the right bets on investments to improve the business. Identifying the right technology and confirm that it is future-proof, that it will have a lifespan longer than a couple of years. However, technology is only one part of the current re-engineering of businesses. It includes adapting all aspects of the organization, including the assimilation of new talent with digital skills that should no longer exist on the periphery of legacy businesses.

- 3) Legacy strikes back:** Our research and interviews point to the potential of legacy content – where content is relevant to multiple generations. It is a means to control some of the acceleration and changes affecting the industry. We see potential in the resilience of brands and familiar platforms. And we see a new role for policy-makers, not so much as protectors but as facilitators and enablers of the right to legacy.

Consumers continue to engage with familiar media channels. At least in the short-term, many of the familiar characteristics that define success in media and entertainment will remain in place. To satisfy increasing levels of consumption, media incumbents act as enablers, not inhibitors. In the UK, the dominant apps for content downloads and viewing continue to be established media brands, including the iPlayer from the BBC, SkyGo from BSkyB and ITV player from the largest commercial

broadcaster. Alternative services, which historically rely on user-generated content, are increasingly shifting focus to quality content and a traditional “channel” model. YouTube is launching what it calls micro-channels, approximately 100 across 18 categories or genres. Effectively, they are introducing an on-demand version of scheduling and elements of the distribution process that are reminiscent of traditional models. Despite consumers taking greater control, there remains a paternalism based on customer segmentation – it benefits all sides. In this example, Christophe Muller, Director YouTube Partnerships, believes the target is to create spaces for interaction with more “enduring” content and offer the opportunity to providers to drive the channel themselves.

Part of the enduring success of familiar channels is consumers’ ongoing gravitation toward trusted brands. Brands and branded content create stickiness and extend the lifetime of successful content. Within media, brands have always been multifaceted. For example, in books, the mix includes 1) a strong publisher name; 2) authors who are brands and have a fan base, e.g., John Grisham; 3) individual book brands; 4) genres, such as fantasy; and 5) characters, e.g., Harry Potter. Leveraging multifaceted brands across multiple media is increasingly important for the longevity of content. Moreover, this is impacting the creation and production process, for example, the simultaneous or overlapping production of multiple films in a series.

Spotlight

Google embraces innovation. It has a philosophy described as “Fail fast,” which allows for experimentation but also includes a framework to identify success and, where appropriate, move on to the next big idea. Ultimately this leads to an approach of managed innovation described as “more wood behind fewer arrows.” In order to take

full advantage of the fast-changing and improving technologies, Google needs to focus its resources on a few products, thereby improving the overall Google experience. In late 2011, Google chose to redirect its resources to a few high-impact innovations. Google started a spring clean by closing or combining about 30 of its products. The company reorganized itself

into seven groups with leaders overseeing specific areas instead of broad portfolios. “To succeed you need real focus and thought about what you work on and, just as important, what you don’t work on.”
– Bradley Horowitz, VP, Product, Google,
14 October 2011.

“The vast majority of video content consumption still happens on a TV screen, and in linear programming. However, the picture is slightly different for audiences under 25. More than half of them consume content on alternative screens (PC, tablet, smartphone) and non-linear content represents a fifth of their video consumption.”

– Pierre Harand,
Head of Strategy at Canal Plus Group

Sharing content and interoperability is integral to its enduring success. Regulatory changes and the effective use of digital asset management will be important for ensuring the legacy of content. Much of the IT already exists. A consequence of the cloud and of multiple but incompatible formats is the impact on the ability to share content.

Dr. Frank Sambeth believes one of the most critical enablers for sharing media content, whether through generations or among friends, is making interoperability a necessity.²¹ The future for media, according to Sambeth, does not lie in closed technology ecosystems. Regulators have a role to play in enabling the widespread dissemination of content within the constraints of effective copyright legislation and safeguards.

Generationally the issue is also acute. For successive generations to explore or inherit personal libraries, for children to read the same books as their parents – these require a compatible ereader and access to the same digital locker.

Access to intellectual property rights for the consumer is governed by the general terms and conditions of the platform, which in most cases restricts usage. Even if an heir is entitled to access content, he or she will not be identified as the beneficiary of a license, and therefore, will face technical access difficulties such as simply not knowing passwords. In this way, there is a risk that content libraries will cease to be shared and handed on.

The more traditional role of regulators, policy-makers and even cultural institutions is to safeguard and protect content for future generations. This is where opportunity exists for closer collaboration with business. For years, Google has been putting publications online. Businesses have become very effective at managing their own archives and frequently those of others. This is a role many are happy to play. Sites such as YouTube have become as much a media archive as a media business. What they have done effectively is to develop the search and discovery techniques to make

content available. A more integrated approach, involving cultural organizations and driven in collaboration with the public sector, could make a vast amount of content not only universally available but relevant.

Policy-makers can protect the “right to legacy.” Technology innovations, the explosion of content, the atomization of content creation and sourcing, and the breaking down of borders all create challenges for safeguarding content rights. In essence, the regulatory challenge is threefold: 1) content is made by many contributors, i.e., joint authorship and derivative works become more difficult for a lawyer to check and monitor; 2) content is easier to share and to copy, while preventing piracy is more complex; and 3) content is more contextual and more international, i.e., many rules of law and jurisdiction are covered. Lawyers will require more time and better regulatory frameworks to secure and protect content. Ironically, possible solutions will come from technology, where content can be “stamped” to protect ownership, or third parties, such as telcos and hosting services, can play a more active role.

Regulators contribute to the conditions for competition. It is for regulators to be mindful of their role in providing a competitive environment for incumbents and other players, such as international broadcasters, ISPs and new media, e.g., Google. Each must be on an equal footing in terms of regulatory constraints; if not, the result is a competitive distortion.

Significant innovation still lies ahead, but today, regulation of digital media is applied broadly. Just as policy-makers encouraged telecoms operators to develop networks and offer broadband access to a majority of the population, the development of high-speed internet enables technology companies to deliver vast volumes of media content to a mass market without fully anticipating the impact on the value chain of media and creation. With a model established, it is time for investments and rewards to be shared in a way that preserves legacy.

Spotlight

Brands, all year round: the combined exploitation of multiple media is important in building brands and maintaining them in the consumer consciousness.

TV successes such as X Factor and Glee are examples of exploiting brands between the core TV product through complementary media and cultural

output. These include DVD releases, soundtrack downloads, live performances and concert tour and a full-length movie.

“Regulators need to reason on the whole value chain, considering creation and distribution, if they want to assist in a proper sharing of value between all the actors”

– Sandrine Dufour,
Deputy CFO and
EVP Innovation, Vivendi

Content providers face a dual challenge: more relevant content and quicker distribution. In this context, where consumers are more demanding about quality and availability of content, stakeholders expect policy-makers to help. They look to policy-makers to turn the opportunity presented by current trends into a win-win relationship between creators, content distributors and consumers. Moreover, greater technological complexity, international expansion and a more fragmented production of content (in terms of location and origin) require more consistent rules at an international level. They must facilitate: 1) the timely monitoring of the chain of rights, 2) the prevention and repression of piracy and 3) the harmonizing of rules of law. If policy-makers do not find solutions to enable and stimulate the smooth emergence of high-quality and diversified content, various stakeholders, because they are accountable for such evolution, will take the lead to protect both creativity and business development.

- 4) **The best content at the best time for the consumer:** With multiple content, formats, devices and sources, creative content consumption has defined another value for the consumer. Formerly single tasks that could be characterized by their social, educational and cultural benefits are now replaced or completed by consumer benefits relying on sensorial experiences, generating well-being and even usefulness.

The creative industries must thus understand that consumers live a dual relationship with cultural products: while they continue to seek the best time to consume attractive, compelling content, they now also seek the best content to occupy their time.

From this redefined relationship, the consumers, especially digital natives, expect their cultural and creative consumption to:

1. Create well-being at specific times of the day or the week; this well-being is based on rituals (i.e., familiarity and repetition). Hence the need to create signs identified by consumers (brands, genres, authors) covering specific temporalities (consumable in a few minutes, immediately accessible, consumed only at certain times of the day, while multitasking) and stable benefits (same format, same media, requiring no change of habits).
2. Help them complete a full schedule in which there are few remaining gaps of inactivity (transportation, meetings, etc.). Hence the interest to provide products and services that are rapidly accessible and easy to interrupt and resume, scalable, non-intrusive and generating no frustration.
3. Represent a real activity included in a real schedule. Here, consumers expect content-rich, immersive “storytelling” products that provide value (either by experience or by information) and are consistent with consumers’ own life values.

Business models, formats and value chains, which define today’s TV programs and movies, music, press, publishing and video games must consider these new consumers’ expectations.

Spotlight

France struggles to adapt its tax legislation to the explosion of media outlets.

In 2010, France introduced a fixed VAT basis breakdown for newspapers and magazines offering both web and paper services, subject to different VAT rates. A similar approach was considered for

triple-play subscription services offered by internet access providers; however, this turned out to be either incompatible with European Union regulations or challenged by the operators. Now in 2012 France has taken the logical step of applying to digital books the reduced rate of VAT so far only available to paper versions.

This is still under scrutiny by the EU Commission, which still relies on technical definition of flows eligible to reduce VAT rate and European rules requiring unanimity for any change to such definition.



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