



Papers

Media and entertainment – Use of digital assets and digital management: Industry outlook 2006–2010

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Keywords: *media, entertainment, industry drivers, piracy, CMS, economic growth*

Abstract The objective of this overview is to identify key trends and development efforts affecting the industry and relate them to spending forecasts of 2006–2010.

Journal of Digital Asset Management (2007) 3, 5–9. doi:10.1057/palgrave.dam.3650055

INTRODUCTION

The media and entertainment industry is now well into a recovery pattern, with increases during the past two years exceeding growth during 2001–2003, reflecting the improved economic conditions in most areas. Digital distribution technologies are becoming established and are allowing consumers to access media content. It is common now for wireless telephones to serve as media centers. The internet will be the fastest growing segment during the next five years, and revenue over the internet will contribute to growth of television distribution, music and video games.

Continued expansion in the broadband household space will be a major driver of growth. Similarly, increases in the number of wireless telephone subscribers and the rollout of new handsets and wireless networks will stimulate the mobile markets.

While piracy continues to cut into legitimate sales, piracy growth will slow during the next five years as more aggressive enforcement continues. The availability of legal digital alternatives and rising incomes serve to increase demand for spending through authorized channels.

By the end of the forecast period (2010), the current recovery will be in its eighth year, a time during previous economic cycles when economic growth tends to slow. I expect the media and entertainment industry to moderate during 2009–2010, but growth will still remain stronger than it was in the earlier years of 2000.

The growth of the overall US Media and Entertainment market (this includes newspaper, television, internet, wireless, casino and other) will expand at an approximate rate of 5.6 per cent. This shows an increase from \$553bn to \$726bn. The US market will grow slower than all other markets with the leader being Asia Pacific at a 9.2 per cent growth rate. One unknown market to tap is Latin America with an expected rate of 8.5 per cent. The dynamics being the demographic shift and while efforts to restrain piracy will further help the market by reducing piracy's incremental shift on legitimate spending.

PIRACY

Piracy has hurt the M&E market during the past few years because consumers have been able to access music; video, cable/satellite television service and even books without paying for them

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through legitimate channels. Piracy has had a particular severe impact in Asia Pacific and Latin America. Governments have been more concerned about copyright protection and have been more proactive in enforcing laws and prosecuting offenders.

These developments have increased the risk of privacy, which raises the implicit cost to perpetrators. One of the appealing features of unauthorized downloading of entertainment was its convenience. With the advent of convenient licensed alternatives, one of the drivers of piracy has been eliminated. Improved economic conditions are also working to limit piracy. The combination of slower declines in physical sales and increases in licensed digital downloads will stabilize the markets in 2006.

PRINCIPAL INDUSTRY DRIVERS

The Key Themes: 2006–2010

- Digital and mobile distribution will become a significant component of the M&E market, fueled by rising broadband and wireless subscriptions.
- Economic growth will support spending in the near term, but higher gas prices are raising the cost of purchasing products away from home and maturation in the recovery will lead to slower M&E growth during the later years (2009–2010).
- Physical formats will continue to dominate, but growth will be slow as consumers migrate to digital and mobile.

DIGITAL AND MOBILE DISTRIBUTION

Virtually every segment of the M&E industry is being influenced by distribution of content online or to mobile devices or by digital technologies in general. Digital cable and satellite platforms, IPTV and VOD will drive the television distribution market. Licensed digital downloads and mobile music will be the only expanding components of recorded music during the next five years. Broadband will be the principal driver of the internet segment, and online and wireless games will be the fastest growing components of the video game market.

Digital and mobile content will have a significant impact on overall spending, accounting for 41 per cent of the total growth in these segments during the next five years. Online distribution is being facilitated by rapid growth in the number of households that access the internet through a broadband connection. In 2005, the broadband universe totaled 187mm, up from only 30mm in 2001. By 2010 there will be an approximate 246mm broadband households bringing the number to 433mm.

ECONOMIC GROWTH

The economy plays a significant role in the M&E industry mostly because segments are cyclically sensitive. When economic conditions were weak in early 2000, the M&E industry suffered. During the past two years faster economic growth contributed to faster M&E growth.

The US and global economy is now in the next phase of the expansionary cycle. In 2005 the US and Latin America grew at a rate of 6.4 per cent, while Asia Pacific was next at 5.9 per cent. Asia Pacific is expected to be the fastest growing region during the next five years, expanding by 6.0 per cent on a compound annual basis. Latin America will be the next fastest region with a 5.5 per cent growth.

The M&E industry is continuing to recover from the 2001–2003 slowdowns. The improvements achieved during the past two years will be sustained through most of the forecasted period. New revenue streams are growing rapidly, physical formats are still important but growing more slowly and the availability of licensed digital distribution services is providing consumers with an authorized alternative to piracy.

ADVERTISING SPENDING — GLOBAL AND US

Global

It is projected that global advertising will increase at a 6.2 per cent annual rate during the 2006–2010 period rising to 521bn from 385bn in 2005. The improvement in growth achieved during the past two years will be sustained through 2008 with only moderate growth during 2009–2010.

Internet advertising, which plunged by 17 per cent from 2000 to 2002, soared by 35 per cent during the past three years. The rebound in internet advertising coincided with the surge in the number of households accessing the internet through a broadband connection. Broadband users buy more products online. Broadband also facilitates full-motion video ads. The use of sponsored keyword search, rich media advertising and increased use of the internet by advertisers increases spending. It is expected for the internet to remain the fastest growing advertising medium with a projected 18 per cent annual increase to 52bn by 2010. The internet will constitute nearly 10 per cent of all advertising in 2010 compared with less than 3 per cent in 2002. Global advertising on the internet is projected to be almost 29bn in 2006.

Internet advertising will continue to grow at double-digit rates (outside of the US), buoyed by an expanding broadband subscriber base, by keyword search and by full-motion video advertising. This will be complimented by new syndication and broadband advertising insertion methods.

United States

In the US it is not expected to average double-digit growth during the next five years. Video games and the internet will be the fastest growing segments with annual increases of 8.5

per cent. Increased broadband penetration will enhance internet access spending and stimulate online advertising. Sports will grow at approximately 7 per cent fueled by the internet, mobile phone, satellite radio and continued merchandising growth. A surging video-on-demand market will result in a 5.5 per cent annual increase for television distribution.

Advertising spend (in millions):

US

2005 2006 2007 2008 2009 2010
12,542 15,550 18,500 21,300 23,500 25,500

Europe

2005 2006 2007 2008 2009 2010
5,689 7,745 9,726 11,694 13,397 14,896

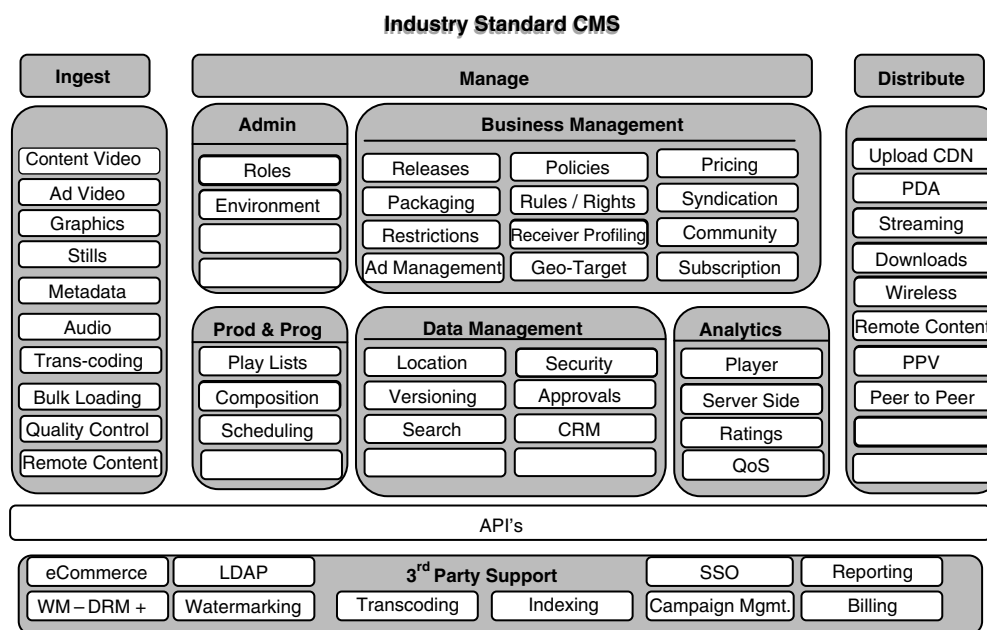
Asia Pacific

2005 2006 2007 2008 2009 2010
3,694 4,840 6,073 7,358 8,609 9,869

Source: Gartner Group

INDUSTRY BASELINE CONTENT MANAGEMENT SYSTEMS

The following diagram represents the Content Management standard feature/functionality that third party suppliers offer today. Your business strategy may not be to create another CMS for the customer but to offer key components for user experience, syndication and monetization for their clients. It will be important to manage this data but is not the business driver.



BUSINESS DIRECTION

Once upon a time, way back when, video was a novelty for web publishers. Seen as a marketing tool to drive awareness for offline properties or products, online video was rarely part of a commerce or advertising solution (read: cost center.)

Enter 2006. No longer is online video a loss leader for web publishers. It is increasingly a prime revenue source and major opportunity. With opportunity, of course, comes complexity. How does a content creator make an online video effort not only engaging and attractive for end users, but also profitable and successful from a business standpoint? Companies have accomplished this initial task by providing leading edge publishing tools that provide the methods for accomplishing a very compelling User Experience. This is only the top of a complex offering.

On one end of the spectrum are content producers. In some cases they are making the content available for syndication but increasingly, are also looking to go directly to consumers with their own websites. In between you have the aggregators who get their content from a mix of user-generated and professionally produced sources. Can a company be a content aggregator or an ad network, or both? By being the aggregator it will be necessary to focus on the tools and services necessary to support this environment. It will be important for a company to prioritize the tools required to support this space keeping in mind economics and timing.

The irony of online video for publishers is that the more successful they are at getting eyeballs, the more expensive it becomes. There are myriad examples of great content that cost someone a lot of money. Jib-Jab's first video cost hundreds of thousands of dollars in streaming costs and bursting fees and, unfortunately, had no business model to recoup those losses.

The key being how are you going to monetize your online video? Do you sell access to the video, or do you sell access to the consumers of the video? *If the strategy is to sell access to the video, then you have to prioritize locking down DRM solutions, payment processing, fulfillment and customer support.*

Ad sales: remember that every stream served with no ad is a lost opportunity for revenue. If a content provider has chosen advertising as their

revenue model, they need to identify where those ad dollars are going to come from. You have a few choices here. The most obvious is to sell the inventory yourself. If you are a large publisher and have the in-house staff to support it, you will probably do very well with this method. Many large publishers are, however, finding that the months it takes to get a video ad sales team up to speed can be very costly.

If you do not fall into that category, there are other options, from working with rep firms to video ad networks. In the banner world, the majority of successful publishers take a mixed approach, with internal ad sales representing the majority of their inventory, but one or more ad networks moving unsold inventory. This can be seen as the most successful model for online video ad inventory as well.

For providers the first decision is which video format to use (WM, Flash, QT or Real). The criteria are:

- target audience;
- desired reach;
- quality concerns;
- security needs;
- live or on-demand.

More and more publishers are using Flash. It seems to offer the best combination of these factors with the largest user base. Additionally what technologies will you use for ad insertion? There are many criteria to look for. Content Providers are looking for solutions and from a strategic business direction you must prioritize their development effort to be in concert with their clients. Content providers are asking themselves these questions and the company must be ahead of the discussion in order to meet development timelines, prioritization is crucial here.

1. Do you just want pre-roll and post-roll, or do you think you might need mid-roll as well — the ability to create custom combinations?
2. Are you working with an ad network that supplies ads dynamically?
3. What are your distribution requirements? Will it work with your CDN?
4. What are your ad-logic server requirements?

5. Can you skin and customize your player?
6. Does it integrate with your CMS and workflow processes?

In summary, by reviewing the economic and strategic trends in the industry it will be important to determine how to best proceed. A company business strategy could be to increase revenue by CPM-based activity on the network; this should drive the comprehensive technology strategy. The strategy needs specific timing applied, in order to move in concert with the economic drivers, industry trends and targeted functionality. There are specific areas of “bundling” of functionality that are best developed concurrently to make the offerings the most appealing to consumers. As an example, if offering downloading of assets you must drive the development of e-commerce,

DRM, Advanced Search, Fulfillment and Customer Support in your offerings. This provides a complete offering to clients and also drives revenue. The development of Advanced Programming Interfaces should be provided concurrently and immediately.

It will be important to make the right development decisions today in order to take advantage of the environment for the next 2–3 years. By taking advantage of the economic expansion (2006–2008), a company should drive their development effort towards the provisioning of services to maximize revenue before the downturn of the cyclical environment. Clients today have capital to use, are keen on the piracy issues, need to ability to syndicate, sell and track their valuable assets and will need customer support to help along the way.