

# **Faster, Better, Cheaper: Making Money in a Digital World**

November 2009



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# Executive Summary

The economic recession which hit most of the world last year has affected newspaper publishers badly. Advertising revenues have plummeted in many markets – in the US, by 29% between their peak in 2000 and the last full year of figures in 2008. They have fallen a further 30% in the first half of this year. If this trend continues their take will be a full 50% lower than its peak in 2000.

Advertisers have also cut back on their TV spending. Globally, the industry is likely to be down about 7% in 2009 over 2008; in many countries the figures are far worse. This is the first year television advertising has fallen since figures started being compiled.

The music industry has also suffered, with revenues dropping by an estimated 28% between 2000 and 2008.

Yet evidence suggests that people are accessing more news content, watching more television, paying more at the cinema box office and listening to more music than at any time in history.

So what is going on?

Newspaper publishers have suffered declining advertising revenues and falling circulation and readership. Yet more and more people are accessing their content free on the internet.

Cable subscriptions continue to grow, but they too may eventually face competition from free video streaming and downloading services.

Music has moved beyond the store and onto the internet, enabling people to discover and access it in multiple ways, many of them outside the control of the artists and companies creating it.

In the majority of instances, though, they are not paying for it. The International Federation of the Phonographic Industry (IFPI) estimates that as much as 95% of all music tracks globally are downloaded without payment to the artist or producer.

Companies in the media and content industries need to face up to the challenge of securing revenues from new sources and in new ways from their customers. New business models are needed to run alongside existing ones or, in some instances, to eventually replace them.

For this they need an in-depth understanding of how consumers are thinking and behaving in this fast-changing environment. Long-established habits - e.g. of reading a newspaper on the morning commute, watching scheduled television shows or buying CDs to listen to in the car – are slowly changing, as new opportunities present themselves.

What do people want? Will they be willing to pay for more and better content, or will a company that helps them navigate through an already dizzying array of choice fare better? Will they pay for speed, quality or exclusive content? And how important is it for payment to be simple and seamless?

What future does media branding have in the new world of unlimited choices?

The need for fast and accurate research into how consumers are thinking and behaving has never been greater. The economic stakes have never been higher. Companies that fail to change are unlikely to survive. But those who invest now in understanding what their customers want are likely to be best-placed to lead, rather than to lag these changes.

# Introduction

Companies creating and distributing content for people to watch, read or listen to used to focus attention on just a single outlet. The music industry, for example, built itself around selling singles and albums in retail outlets. Newspaper publishers sold their papers on newsstands or via subscription.

Making money was straightforward, if not always easy: companies sold physical products to consumers and, in the case of newspapers, sold advertising space or time to marketers.

It is no longer quite so simple. Consumers can now access, share and even create content in ways that were simply not available to them in the past. These choices are changing the way they consume media.

Advertisers, of course, need to follow their customers wherever they go. As a result, understanding how and why consumers exercise their newfound choice is crucial to the future of all these businesses.

This report provides an overview of these developments and outlines key questions that need to be addressed in order for media, content and device companies to set about monetising their products. For example:

- Can a newspaper publisher attract new and different customers, as well as providing added value to existing readers through on-line and mobile versions of its printed product?
- Should the music industry focus on protecting and re-building its current business model or re-orient itself towards building artist brands and generating new revenue streams?
- How can video entertainment and film companies exploit the power of the internet to make their content instantly and easily accessible to more people, yet at the same time get them to pay for the privilege?

In future reports, we will address the similar challenges facing the magazine and video games industries.



## Faster, Better, Cheaper

When Steve Dempter earned \$250,000 by developing an application for the iPhone called Truism, a lot of clever computer programmers wanted to try the same thing for themselves.

Ethan Nicholas was one of them. Inspired by Dempter, he went about writing his own application for the iPhone.

On the day his creation, iShoot, was launched on October 19<sup>th</sup> 2008, it was so popular that he netted \$1,000. Three months later, by which time he had also introduced a free, lighter version to attract more users, his income had rocketed – he made \$35,000 on a single day that month.

Almost a year later the iPhone boasts more than 85,000 applications and has attracted over 2 billion downloads. Most are now created by large companies, rather than individual developers.

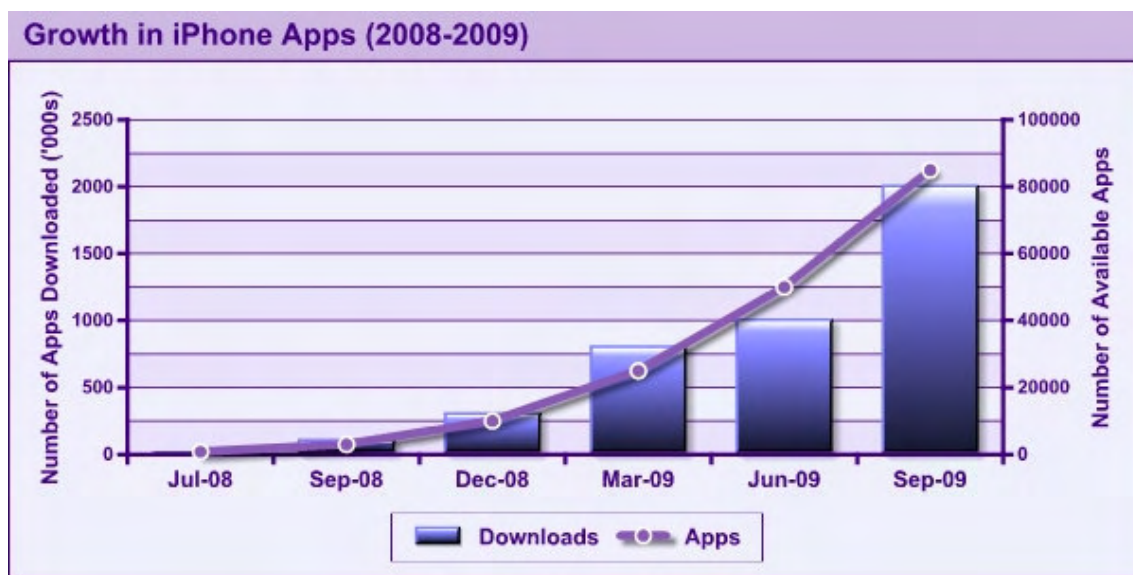
The success of these men and others like them exemplifies how money can be made in the new digital world as long as the product, the price and the marketing are right. In this, at least, the world has not changed very much.

But in almost every other respect it has. The digital revolution has been powered by massive leaps forward in three core technologies: digital storage, processing power and bandwidth.

For consumers, it has meant faster, better and cheaper telecommunications, television, photography, games and access to information. It has also introduced a degree of choice they have never had to deal with before.

For the companies that create the content carried by these technologies, it has led to a complete re-examination of their business models, their assumptions about consumers and their pricing.

Historically, most of them built businesses on the back of scarcity. News was edited, packaged and scheduled by newspaper publishers and broadcasters. The output of musicians was controlled and distributed by a small number of large record companies. Most movies were in the hands of the big Hollywood studios.



Local television markets were dominated by one, two or sometimes three channels which controlled what you watched and when you watched it.

Where there was scarcity there is now abundance. Much of the product once firmly in the hands of these companies is now freely available. We can access it in many more ways – off-line, on-line and on the move. And we can do so anytime in almost any place.

The competitive environment, in short, has transformed, as have the expectations of consumers. In order to survive and thrive, companies need to re-examine their business models, refresh their understanding of what customers want and, most important of all, figure out how they can earn money in the new digital environment. All, of course, are linked.

Key decisions they need to make include:

1. Determining the right business **model** for monetising their product or service;
2. Identifying the key **drivers** of consumer value;
3. Deciding how and what people will **pay** for their product or service.

Market research can play a critical role in addressing these questions, employing a whole host of tools and techniques. We will look at some of these later in this report.

The important point to note however, is that the window of opportunity is short: companies need to address some of these important questions before the market – and their customers – leave them behind.



## Five business models

The five main business models adopted by media and content companies include:

### 1. Traditional commerce

In the analogue world it was simple. A company created a brand and offered it to customers for a given price. Other brands would compete with it on the basis of product quality, price, distribution and promotional tactics.

In the digital age, this approach still underpins plenty of businesses. Traditional retailers, for example, still base their businesses on this same basic model. They have taken advantage of the capabilities provided by the internet to offer customers a facility to browse and order goods on-line and have them delivered. But the model is fundamentally the same. Digital-only retailers such as amazon.com have also emerged, selling books, DVDs, electronic goods and more.

Media and content industries, however, face a different kind of competition.

Whether you buy shampoo, books or cameras in-store or on-line, you must still pay for the goods if you want to own them.

But if you want to check the news or sports scores, listen to music or watch a television programme, you can now go on-line and do any of these things, often without paying, at a time and place convenient to you.

The newspaper publishing business, music companies and the creators of video and filmed entertainment are all examples of industries where the internet has forced managers to look outside the traditional commerce business model. They cannot now simply create a product and expect people to come only to them for it. Their customers now have far greater choice.

The traditional commerce model is by no means dead in these businesses. But it can no longer be their only means of making money.

### 2. Advertising

The fallback model for many media companies – because it is an extension of the way most of them already make their money – has been to sell space to advertisers on their websites.

Google, for example, earns money by charging advertisers to buy space associated with keywords on its Search engine.



Advertisers can also sponsor other website pages or buy display advertising banners based on the number and profile of people visiting them.

Hulu, the United States on-line video site, lets viewers stream popular television shows, old favourites and full-length movies onto their computers with commercials pre-loaded. It is free to viewers, but they are unable to skip or fast forward through the ads.

To date, few media companies have earned enough advertising revenue from their on-line properties to replace declining off-line returns. This is despite the fact that on-line advertising has been by far the fastest growing medium in the world for several years. Something else is clearly needed.

### 3. Freemium

The “Freemium” model works by offering a basic product for nothing while a premium version is offered with a price tag (which can be in the form of pay to play/watch/read or a subscription).

If the product and price are right, it may be possible to persuade a minority of premium customers to fund the entire business.

Spotify offers free – but advertising-supported - access to more than 6 million individual music tracks, which users can also buy. Those opting to pay a monthly subscription fee can listen to tracks without advertising and enjoy various other advantages over ‘free’ users.

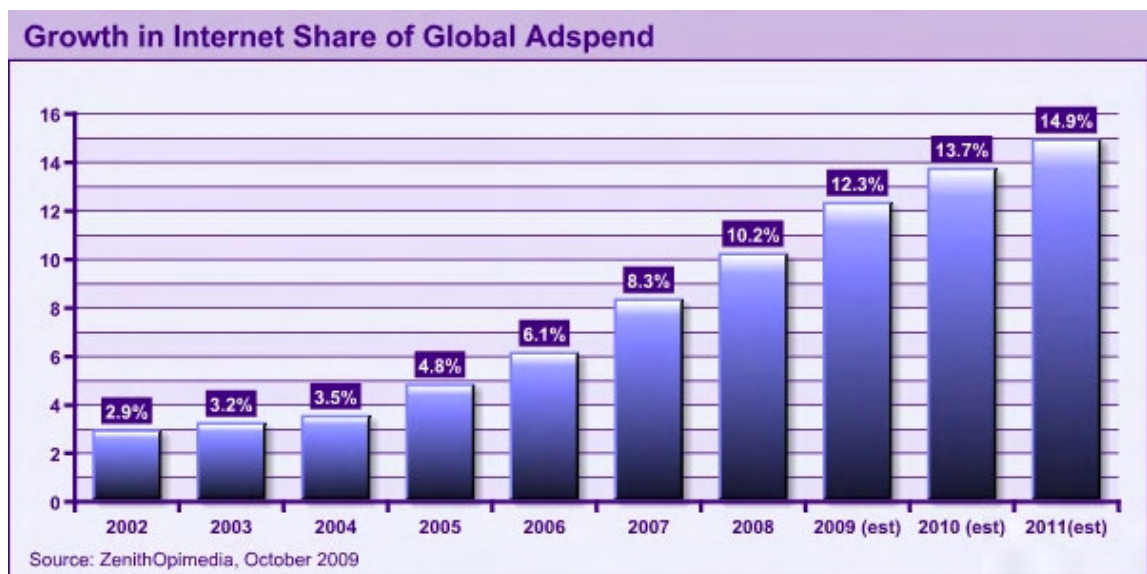
Another example is the *Wall Street Journal*, which offers limited content to non-paying customers on its website and more in-depth access to paying subscribers.

### 4. Virtual goods

Although not every media and content company can take advantage of it, the idea of selling “virtual” goods has been successful in the video games industry and also for some social media sites.

Facebook, for example, offers ‘limited edition virtual gifts’ (e.g. birthday greetings or congratulatory messages) which can be sent to friends on the site for a nominal sum. The company is estimated to earn more than \$50 million annually from this.

Playdom lets players save time by jumping ahead in games, as well as selling them weapons and decorations for their virtual cars.



Chinese internet portal Tencent has been reported as earning nearly \$1 billion from the sale of virtual goods such as pet penguins and 'premium' instant messaging.

### 5. The Affiliate model

In the affiliate model, companies can make money by driving traffic or leads to another company's website, taking a commission on sales. Amazon is perhaps the best example of this, enabling book buyers, for instance, to search for titles across a large number of small and medium sized retailers and to buy from them using Amazon's payment system.

The advantage to Amazon is that it can generate high traffic from people wanting a 'one-stop shop'; affiliates benefit from a considerably larger retail catchment area than they would otherwise have had.

## The role of market research

Choosing the right business model or models is clearly critical to the success of any company. The decision can only be made with an in-depth and thorough understanding of consumers and what it is they most value in a product or service.

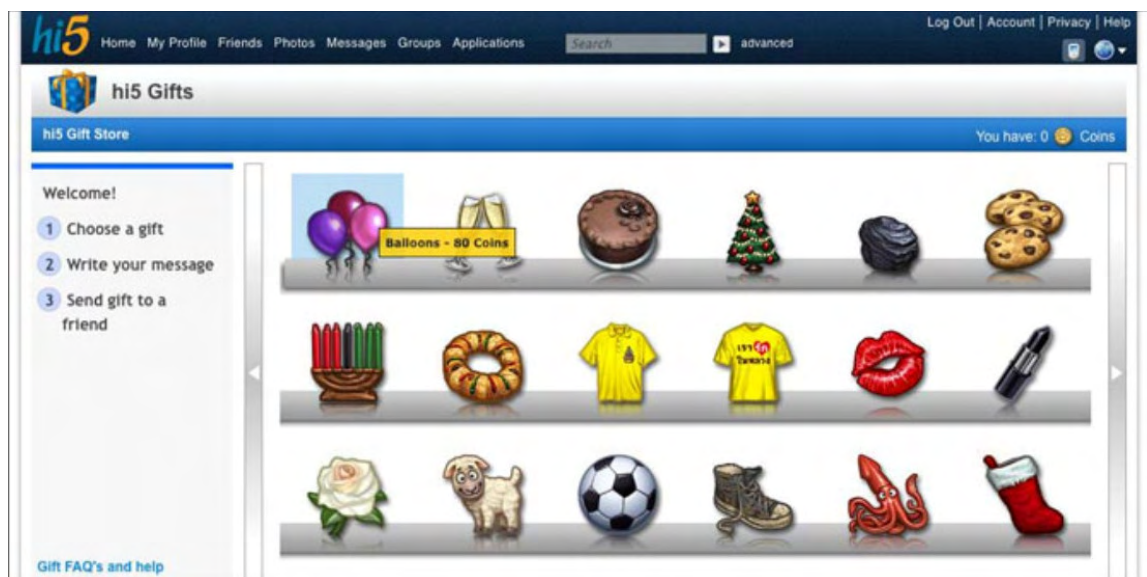
The technology driving the digital world has matured very fast. Peoples' behaviour has changed less quickly, as they slowly come to grips with some of the opportunities presented to them on-line and via their mobile devices.

But some of the new technologies have taken off very fast. Good examples of this include the iPod and the iPhone applications market.

To ensure they can maintain a presence in businesses they have long dominated, traditional players in the newspaper publishing, music, television and movie businesses will need to move equally fast.

They have just a short window in which to develop a clear understanding of what will persuade their customers to stay with them or to desert them. If they fail to grasp this chance, the window will close behind them.

### Virtual Goods From hi5



## Consumer drivers

There are plenty of questions that need to be addressed. What leads consumers to one product or service rather than another? Are they looking primarily for information, entertainment or status? How important is speed versus quality? What value might a custom product tailored to their needs have? How do people actually use different media? Are they driven more by habit or by specific needs and requirements? Do they see themselves changing their habits in the future?

Ipsos MediaCT offers a range of qualitative and quantitative techniques that can help in uncovering consumer behaviour. In particular, we offer ways for companies in the media and music industries to quantify the strength of their brands across their various dimensions. Details of how to find out about these approaches are summarised at the end of this report.



In a world which is changing fast, it is also important to develop reliable ways to test new products and services in a crowded marketplace and to ascertain – as early as possible in the product development process – how likely it is to succeed.

Again, Ipsos offers an approach to testing new product and service concepts early in the innovation cycle – before significant investments are made.



## Payment methods

The question of payment goes deeper than simply whether or not consumers can be persuaded to pay for something they can get free somewhere else.

Convenience can often be a barrier. If the task of paying a very small amount of money for a service or item of information is too onerous, it may drive people away.

Subscription-based services such as Spotify's premium service, Netflix (video content via DVDs or on-line streaming) or access to the full content of the *Wall Street Journal* require some sort of direct debit or credit card form to be filled in, but also involve higher sums of money and a service of greater long-term value.

Pay-per-item services such as iTunes, Facebook gifts or specific magazine or newspaper articles involve very small amounts of money, hardly worth the bother of filling in a credit card payment form, although micropayments services like PayPal have made the process easier, as have various pre-payment systems.

An emerging payment platform which could make this easier still is that of mobile payments. BOKU, for example, can be installed by a web publisher as a means of collecting payments from users. Instead of entering a credit card number, billing address, security number and all the rest, customers simply enter a cell phone number. A confirmation text is sent to the number, the cell phone owner responds and then the charge is added to his monthly phone bill.

The business model chosen and the views of actual and potential customers will need to be sought in order to choose which of these payment models will best suit a particular product or service.

## Payment levels

Then there is the question of how much can be charged. iTunes has built a business on the back of a simple pricing model – most of the 11 million songs available for download on the site are offered for one of three prices ranging from 69 cents to \$1.29 in the United States (with a similar pricing strategy elsewhere).

Netflix offers different monthly subscription plans depending on how many DVDs the user takes out at any one time. A whole range of companies offer variations on this model.

## Research questions

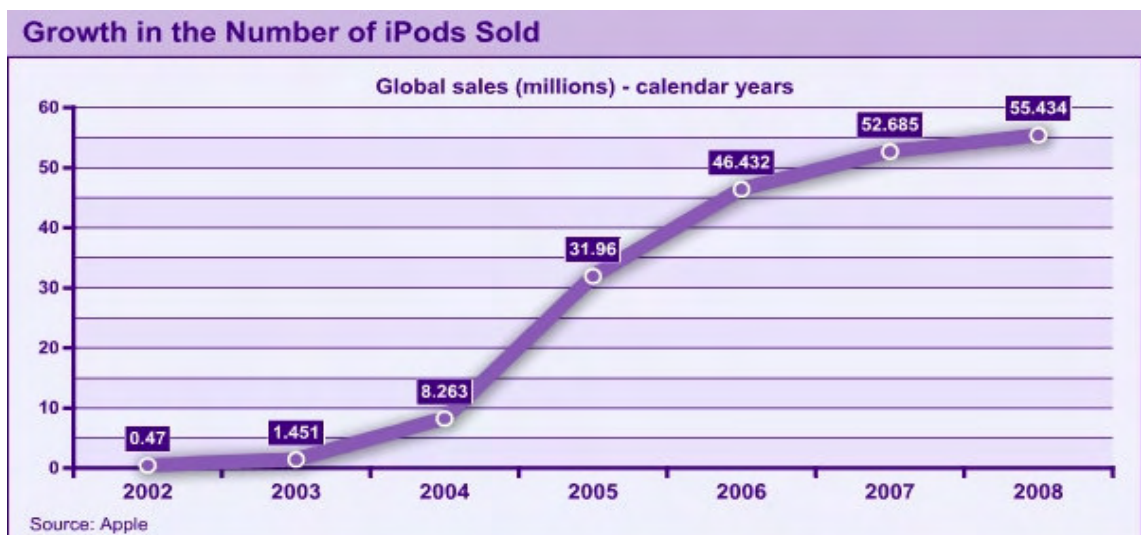
You cannot simply ask people whether they would be prepared to pay for something they can receive for nothing. Yet many polls seem to do just that, finding, unsurprisingly, that people prefer not to pay. Asked to imagine a world where no free alternative is available and to pick from a range of prices, again unsurprisingly, most pick the lowest.

A more sophisticated approach is needed. A range of price testing techniques are available to maximise the chances of the right price being set.

The Discrete Choice Method (DCM), to name just one, enables consumers to examine and choose between payment methods and options tied into specific content or service offerings.

It can be especially powerful in examining demand in the context of real world marketplace situations. It can also be used to assess future potential scenarios such as what might happen when a competitor reacts.

The most important pre-requisite, however, is to test pricing on the basis of a clear understanding of consumer value drivers.



## Media, Content and Technology businesses

To summarise, three core sets of questions need to be tackled:

1. What is the consumer value proposition?  
Are people looking for speed, convenience, premium content, ad avoidance, extended choice or something else? Or is it some combination of all of these?
2. What are the appropriate payment mechanisms for a given product or service? Could a subscription be made to work? Or pay per item? Would introducing a mobile payment option make a difference?
3. How much can be charged, given the value proposition established?

We now illustrate how these questions are being addressed in three content creation industries: newspaper publishing, music and video entertainment (including movies).

In future reports we plan to look at a number of other industries facing the challenge of monetising content, including magazine publishing and video gaming.

# Newspapers



# Newspapers

## Background

Newspaper publishers have traditionally generated money from three main sources: the cover prices they charge buyers on the newsstand or via subscription, classified advertising and display advertising.

Each of these revenue streams has come under pressure in recent years, driven by the growth of the internet and exacerbated by the economic recession.

Take circulation revenues. In 1955 around 125 million copies of national newspapers were sold or distributed in the UK every week. By mid-2009, this figure had fallen to a little over 70 million copies, a drop of around 40%. Most of the decline has occurred over the past ten years or so

In the US, circulation of (mostly local) newspapers was stable for many years before beginning to decline in the 1990s. It fell from a peak of 62 million in 1985 to 49 million in 2008, a drop of 21%, although due to cover price increases, circulation revenues have remained fairly stable over recent years.

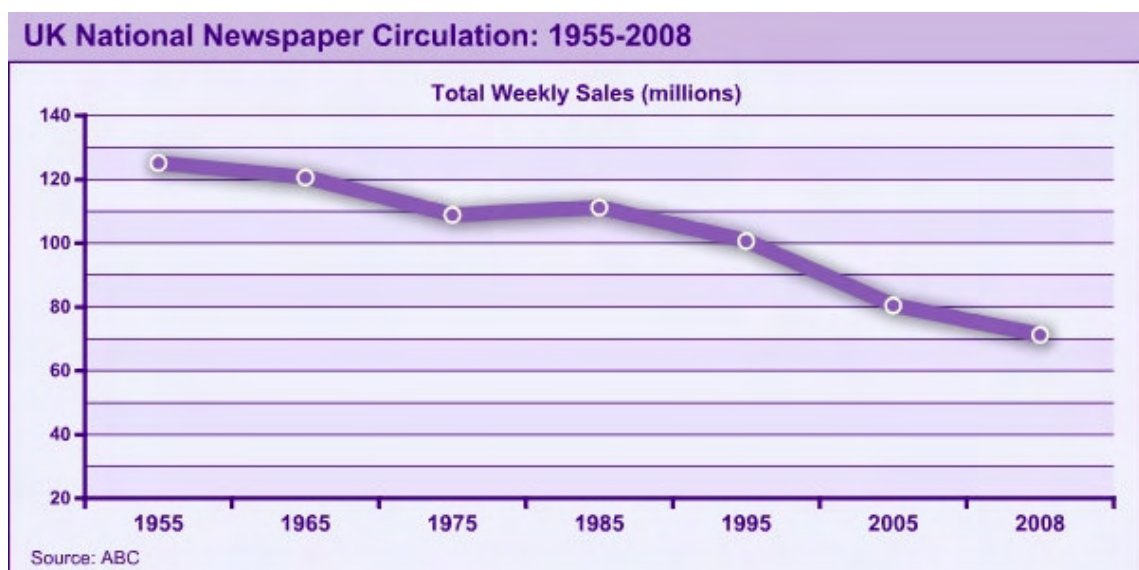
*“I confidently predict that within the next twelve months, almost all news organisations will be charging for content.”*

*Lionel Barber, editor, Financial Times, 15/7/09*

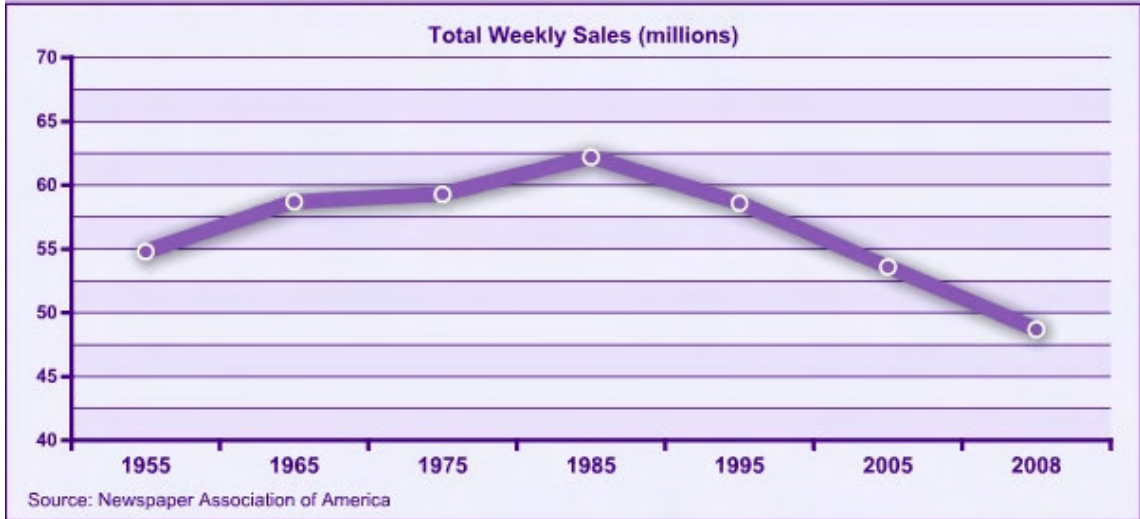
But this has not been true of classified advertising, which has moved inexorably to the internet in every major market.

In 2000, classified advertising in the United States was worth \$19.6 billion out of a total \$48.7 billion in advertising revenues. By 2008, it had halved to just under \$10 billion. Display advertising volumes have also fallen as the economic recession has bitten, helping to drag the overall advertising take down to \$35 billion.

Globally, ZenithOptimedia’s *Advertising Expenditure Forecasts* report for October 2009 noted that newspaper advertising revenues peaked in 2007 at \$130 billion. They are forecast to fall to just \$102 billion in 2009 and \$97 billion by 2011.



## US Daily Newspaper Sales: 1955-2008



Newspapers' share of total advertising, according to the same source, will have fallen gradually from 38% back in 1990 to 21% two years from now.

Free newspapers have popped up in many of the world's cities supported entirely by advertising. People can also get news on-line or via their mobile phones without paying.

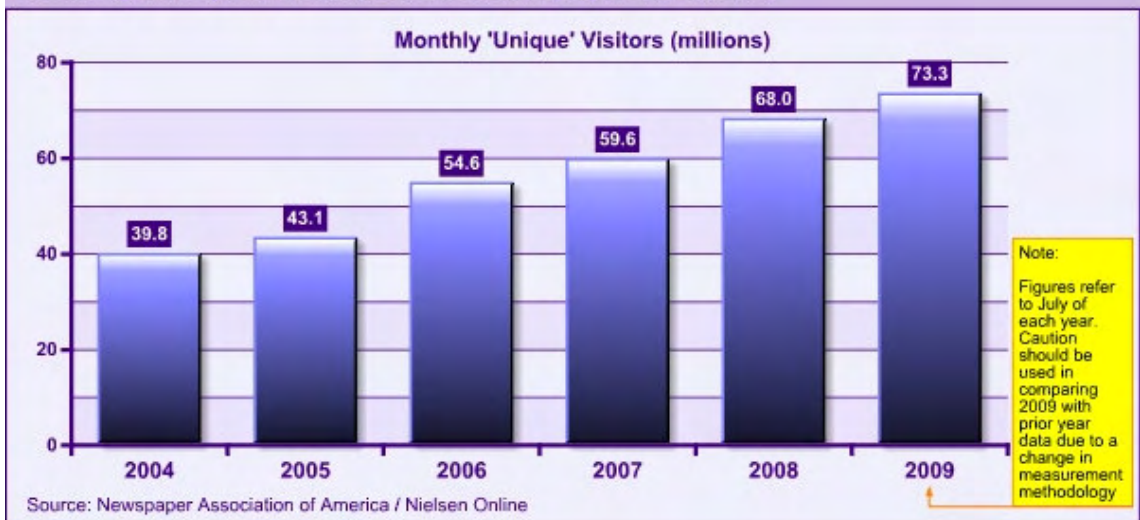
Newspaper content is available from a range of other sources including television and radio websites, news aggregators and agencies and newspaper websites themselves. Several

thousand titles are available to read on-line at the click of a mouse.

As publishers often lament, websites like Google index or 'steal' content created by their journalists and generate advertising revenues by bringing it together in one place.

But in the same way the music industry has seen consumption of music grow as new sources of content have emerged, the hunger for news and current affairs information shows no signs of waning.

## Monthly 'Unique' Visitors to US Newspaper Websites



For example, despite falling circulations for printed newspapers in the United States, Nielsen Online reported that the number of unique monthly visitors to newspaper websites almost doubled to 73 million between 2004 and 2009.

And in the UK, although the number of adults claiming to read a daily or Sunday national newspaper fell by 5 million to 29 million between 1999 and 2009, 16 million people visit one or other of the national newspaper websites every month while 24 million access local newspaper websites.

But if the eyeballs are still there, the dollars are not. On-line advertising income has not made up for the decline in classified and display advertising and there are few signs that it will do so anytime soon.

In the United States, one of the worst hit markets, combined print and on-line advertising revenues in the first half of 2009 have fallen by 43% since their peak three years ago – from \$23.5 billion to \$13.4 billion. Local newspapers have been forced to close down in several cities or move to an on-line only format;. Several publishers, including Tribune Co., Philadelphia Newspapers LLC, the Journal Register Co. and Freedom Communications have filed for bankruptcy.

## Business model

Historically, newspaper publishers based their businesses on two models: the traditional commerce model (selling printed copies) and advertising (classified and display).

With news and commentary freely available from so many other sources, the traditional commerce model is coming under pressure, especially amongst younger people. Advertising has also suffered heavily in the current economic recession.

As a result, a number of alternative business models are being developed to co-exist with these. For example, several newspapers – notably the *Financial Times* and *Wall Street Journal* – are working with the Freemium approach in their on-line editions. Readers can browse a limited amount of content on either site for nothing, but get full access in return for paying a subscription fee.

Content aggregators such as Journalism Online in the United States and, more recently, Google's *Fast Flip* service, offer versions of the Affiliate model, where users can be driven via a 'one-stop shop' to the websites of individual titles.

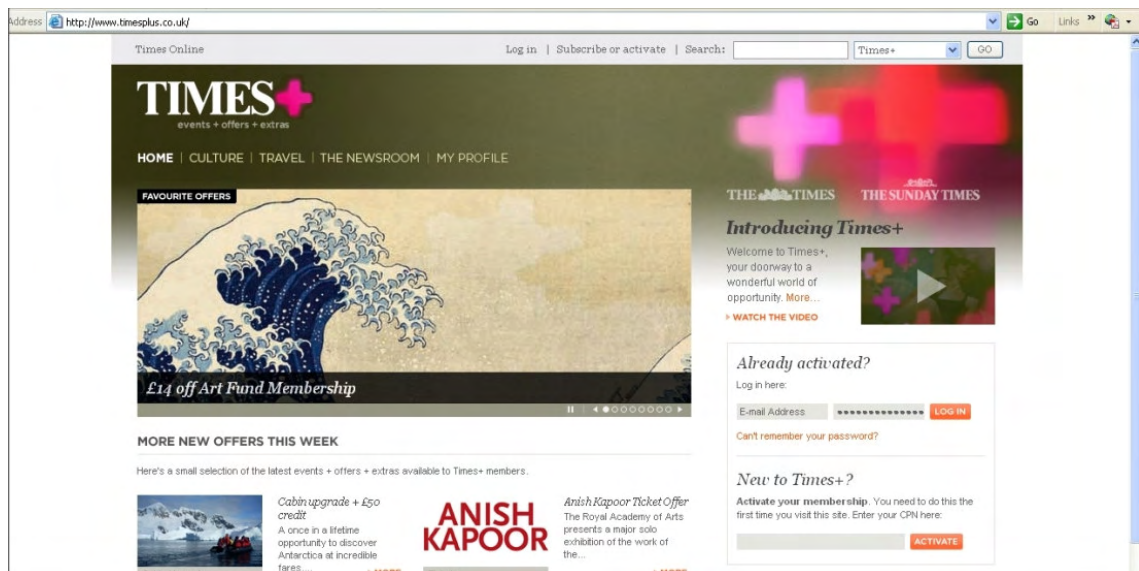
**Fast Flip** lets users browse through recent news, headlines and specific topics, as well as feeds from individual publishers, such as the *New York Times*, the *Washington Post* and the BBC. It will be interesting to see whether imitating the traditional newspaper format on-line is enough to shake habitual readers out of the printed newspaper to its on-line equivalent over time.

The UK's *Times* newspaper has set up Times+, a "members' club" offering extra content and various exclusive benefits to those joining.

## Consumer drivers

Of course the motivation to read a newspaper can go beyond the actual content within it – it may be driven primarily by habit.

Publishers need to know how many of their readers find the print and on-line versions of their content interchangeable, how important the newspaper brand is to them in choosing their news source and whether they look for different things off-line, on-line and on the move. And can they attract new readers via other versions of their content?



Ultimately, any company needs to gauge the extent to which its content has value to readers. If it doesn't, it is unlikely they will pay for it. If there are alternative, free sources for the same content, this too will be a barrier to paying

For habitual newspaper readers, the paper itself may have as much value as the content. For other readers or new prospects, there may be value in a range of other services a newspaper brand might offer on-line or via mobile. For example:

- Access to an archive of stories;
- Searchable databases of local services;
- Specialist content, such as business news and commentary, including an SMS alert service;
- Hyper-local stories;
- Local, national and international sports results
- Special offers from partner companies;
- Customised newspapers to download

Certain newspapers are already well known for their particular expertise or flair at covering

particular content areas. Specialist business titles like the *Financial Times*, the *Wall Street Journal*, *Les Echos* in France or *The Australian Financial Review* have become journals of record for important business stories and comment.

Some newspapers can offer particular strengths in other areas. The *Sun* and *News of the World* in the UK, for example, are known for their coverage of celebrity scandals, which attract a lot of website hits when the stories break. The *Racing Post* is a destination brand for anybody interested in horse racing.

Local newspapers throughout the world can brand themselves as the preferred source of news and information about specific localities and may be able to charge a premium for reporting on and photographing or filming very localised events such as school sports days etc., as well as offering directories of local services such as plumbers or window cleaners.

To the extent that individual publishers can market their expertise and uniqueness in providing content that people want to access, they are more likely to be able to charge for it than for general news available from multiple sources at no cost.

The important challenge is to get under the skin of target consumers and find out what they really value. What content would they pay for? How do they want to receive it? What are the barriers to paying for it? How strong are current newspaper brands with respect to these needs and how differentiated are they from competitive content creators?

## Paying for newspapers

The *Financial Times* and the *Wall Street Journal* both charge a subscription fee for access to premium content on-line, payable by debit or credit card. Both offer subscribers the option of setting up e-mail alerts to inform them of breaking news on particular companies or stories they are interested in.



There has been discussion about whether newspapers could emulate the iTunes model and charge users who do not want a full subscription to access individual articles – although this may only work for high-interest, specialist content such as business articles, local news or perhaps celebrity scoops, rather than general news.

Because of the small amounts of money involved in charging on a per article basis, newspapers have shown interest in micropayment systems which allow users to easily spend very small amounts of money for an item of content without the hassle of continually filling in credit card forms.

Google is developing an online micropayment system aimed at making it easier for newspapers and other providers to charge for content. The plans, outlined in a proposal to

the Newspaper Association of America, seek to provide 'easy subscription, sign-up and management for users' as well as 'packaging and multiple payment forms for publishers'.

The proposed service would provide consumers with a single login, allowing them to easily access premium content from a variety of different websites – for example a selection of top business or other specialist titles.

Journalism Online, a US start up, is attempting to bring together publishers to provide consumers with a one-stop shop for accessing content on either a per article or subscription basis.

The *Financial Times* offers a number of subscription options. UK readers can obtain on-line access for £1.90 a week (£99 a year), accessing it via their PCs or mobile devices. The service claims around 120,000 paying subscribers. Registered users can also access a limited number of full articles every month for nothing.

The *Wall Street Journal* offers on-line access to US subscribers for \$1.99 a week (\$103 per year), with similar features. It serves more than a million subscribers.

Both newspapers offer combined packages for subscribing to the print and on-line editions.

French daily *Le Monde* charges €6 per month for full access to its content. And the *New York Times* offers an exact digital replica of the printed edition to download, as well as access to an on-line site, an iPhone app and a dedicated mobile site, although in this case no charges are made for any of these versions of the newspaper.

## The future of newspapers

Newspapers are but one place where people can find news, news analysis, sports results, celebrity gossip, business stories, investigative scoops and entertainment listings. Many people are asking why they should pay a cover price for an often hefty package of printed materials, a large chunk of which won't be read, with much of it out of date by the time it is received anyway.

When all that and more can easily be accessed in more convenient form for nothing, it is clear that newspaper publishers face a significant challenge.

They will need to build on some of their advantages:

- *Habit.* Many people simply like holding and reading printed newspapers. It is possible that this habit will diminish over time, but it is unlikely to disappear;
- *Content.* As discussed above, newspaper publishers need to find out what it is people most value and become the trusted providers of that service – whether it be breaking business stories, celebrity scoops or school sports day results;
- *Branding and heritage.* Newspapers are brands. As brands they stand for something that has meaning for their readers. They need to re-examine and re-enforce this branding beginning with a thorough understanding of its strength and dimensions today.



# Music



# Music

## Background

According to the International Federation of the Phonographic Industry (IFPI), recorded music – alongside games - is at the vanguard of the on-line and mobile revolution, generating more revenue in percentage terms through digital platforms than the newspaper, magazine and film industries combined.

% of Global Digital Revenues by Industry (2008)	
Games	35%
Recorded music	20%
Newspapers	4%
Films	4%
Magazines	1%

Source: PWC Global Entertainment & Media Report (2008)/IFPI

And it has happened very fast. In 2004, just 2% of global music sales came from digital sources. By 2008 it had grown to 20%. Development of the digital music business has been even more rapid in markets like South Korea (more than 60% of total sales) and the USA (36%).

If growth continues at this rate, worldwide revenues generated from digital music will equal that of all physical media sold sometime in mid-2016. In many countries it will happen much sooner.

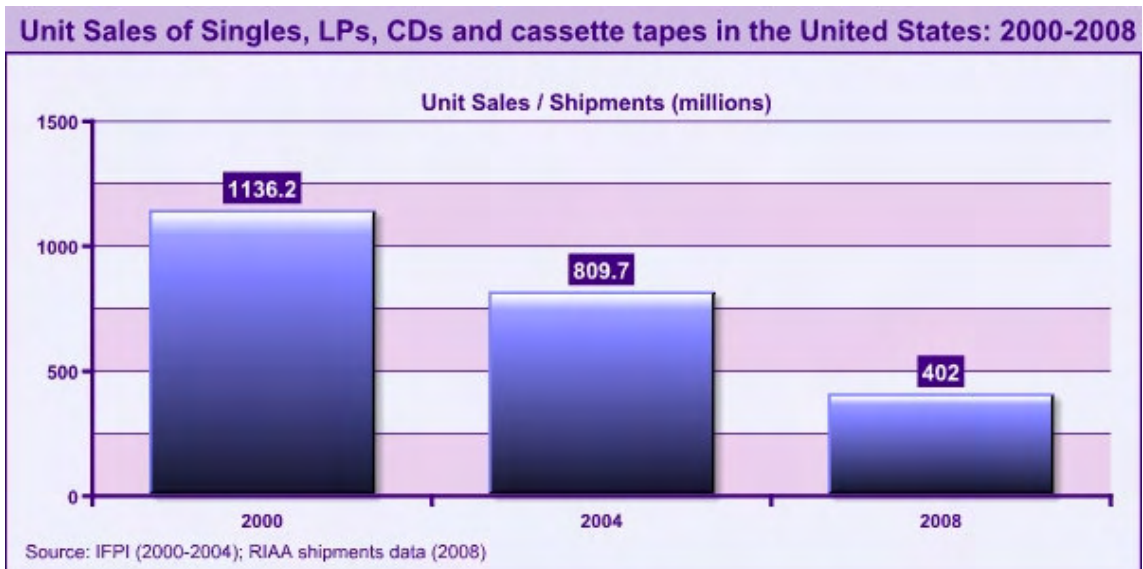
For the individual listener or artist, the digital revolution has meant music can be accessed via a dizzying array of formats including CDs, video downloads, ringtones, mobile tracks and more. Justin Timberlake's *Future Sex/Love Sounds* album, for example, was made

available via more than 100 different products, which between them sold 19 million units. Just 20% of these were CDs. Of course simply making more music available in more formats does not mean all of it will be consumed. According to a study by PRS for Music in the United States in 2008, most of the millions of songs now so easily available to people on paid sites are rarely, if ever, streamed or downloaded.



Looking at one large on-line digital retail store with an inventory of 13 million songs, they found that 10 million of the songs had never been downloaded - even once. 80% of revenues came from about 52,000 songs – less than 0.5% of the total.

It is likely, on the other hand, that people subscribing to 'all-you-can-eat' music services will be more likely to listen to new and unfamiliar music, as they do not have to pay additional sums for the privilege.



This also applies to people who don't pay at all. There is no doubt that illegal downloading of music has cut into the industry's revenues. The IFPI estimates that around 40 billion files were shared illegally in 2008, meaning that 95% of all music tracks globally were downloaded without payment to the artist or producer.

### The Paradox of Plenty

Even before digital distribution started having an impact on the music market in 2004, the number of CDs, DVDs and other physical formats sold had been declining globally. In the United States, the number of physical albums sold fell to a record low of 400 million in 2008, 45% below the 2000 level.

Since then, the overall volume of music consumed (combining both physical and digital formats) has risen to an all-time high, with the growing number of digital streams and downloads outweighing the drop in physical formats sold.

But revenues for the companies involved in the music business have not reflected this otherwise pleasing statistic, dropping by an

estimated 28% worldwide between 2000 and 2008.

### Business models

Under the traditional commerce model, music artists made most of their money from the sale of albums and CDs. Musicians played live to promote their albums, rather than to get rich. As more and more music has become available on-line for nothing, the industry is faced with either working to protect this model (i.e. through making it easier to buy music and harder to steal it) or building a new one.

A number of artists have chosen to offer some or all of their recorded work free over the internet, in the hope that it will be downloaded and shared by as many people as possible, acting as a promotional vehicle for themselves as brands.

With a strong brand identity, they can make more money from live performances, product endorsements and merchandising. So instead of playing live to promote their recordings, they are beginning to give away recordings to promote their live concerts.



iTunes, launched in 2003, revolutionised the music market with its pay-to-download service in 23 countries. The initial concept was to sell individual tracks for a single, low price of 99 cents and to allow easy downloading to iPods.

Having sold more than 6 billion songs by the beginning of 2009, it now accounts for some 70% of worldwide on-line digital music sales, making it the largest music retailer in the world.

Subscription is also being tried, with several on-line music services launched in recent years including Last.fm and Pandora.

Others include Danish Internet Services Provider, TDC, which launched a music subscription service in April 2008 offering access to 2.2 million tracks for broadband and mobile subscribers to stream. In return for a higher subscription they can download tracks to own.

Nokia's *Comes With Music* service, introduced in the UK in October 2008, provides unlimited access to music (to own) for the first year packaged in with the price of a mobile subscription.



It had expanded to a few other countries (though not yet the United States) as of October 2009, but had only signed up 107,000 customers after its first year<sup>1</sup>.

Another model gaining some traction is the ad-supported one. Swedish company Spotify launched its peer-to-peer music streaming service in 2008. Available in six European countries, it offers advertising-supported access to more than 6 million individual tracks, which users can also buy.

Those opting to pay a subscription fee can listen to tracks without advertising and enjoy various other advantages over 'free' users, including the ability to download a free application to their iPhone so they can stream music and temporarily store playlists.

Spotify now claims to make more money in Sweden than iTunes.

Vevo, which is to launch a music video website at the end of 2009, is looking to cash in on the popularity of music videos. These are currently YouTube's most popular genre, but are mixed in with all the other miscellaneous content on the site – not all of it popular with advertisers.

Music videos are used mainly to build artist brands, but it is hoped that the large and youthful audience numbers can also be used to attract advertisers to support the service.

## Consumer drivers

Ipsos MediaCT's global *Connections* study, carried out in spring 2009, found that 44% of people contacted across twelve major markets admitted to having streamed or downloaded music from unofficial websites in the previous month, with a particularly high incidence in China, India and Russia. So there is no doubt that it is both tempting and relatively easy for people to obtain music for nothing.

Interestingly, these same people turned out to be far more likely than those who did not indulge in this behaviour to buy CDs or pay to stream or download music. They are, in effect, the best customers for music and what Malcolm Gladwell<sup>2</sup> referred to as the "mavens" and "connectors" of the music world.

Many stream or download music in order to sample it, before being sure they want to listen further or find out more about the artists – which supports the movement amongst many bands to give their recorded music away as a promotional strategy.

The survey found that around a third of people in the US, Japan and northern Europe would not have found out about certain music without having sampled it free first.

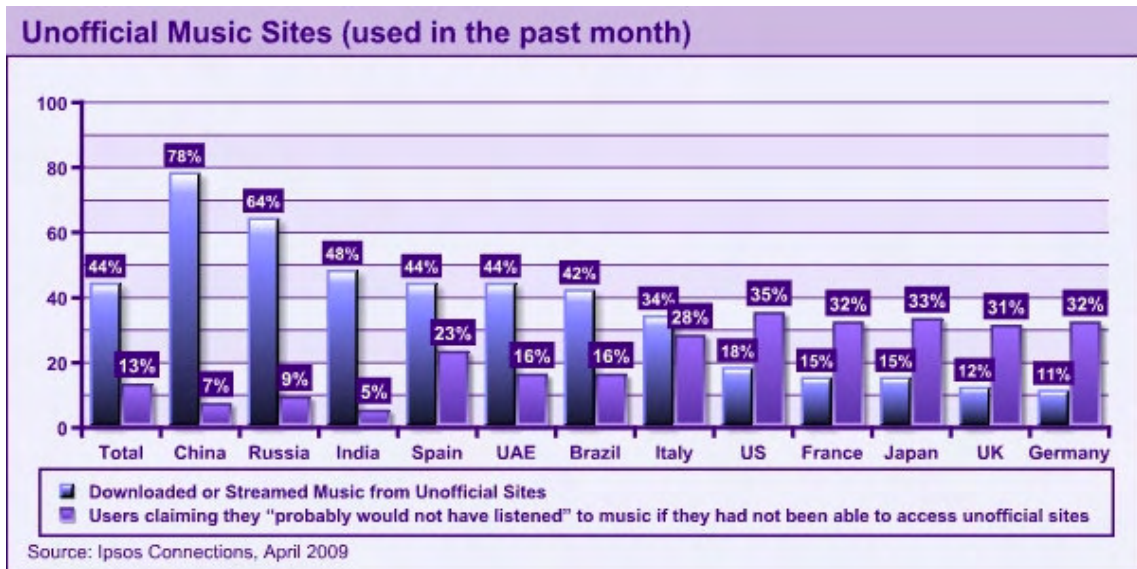
There are clearly people for whom music is a real passion; even when they access it illegally at times, they will pay for it on other occasions. They are also ready to pay hefty prices to attend live music events or to buy merchandise connected with their favourite artists. The challenge for the industry is to understand what it is fans value and how much they would be prepared to pay for it.



On the other side of the coin, there are also efforts being made to warn people with very heavy internet usage that downloading or streaming music from unofficial websites is

<sup>1</sup> *Sunday Times*, 25<sup>th</sup> October 2009

<sup>2</sup> Malcolm Gladwell. *The Tipping Point.: How Little Things Can Make a Big Difference*



against the law and that the Internet Service Providers keep a track of individual usage. Often a simple reminder that usage can be tracked will curb behaviour, without any further steps having to be taken.

### Paying for music

Many payment methods are available to music buyers, from the traditional retailing of CDs, paying to download individual tracks on-line or stumping up subscription fees to stream and/or download from a wide choice of music content.

iTunes offers any individual track to US iPod users for between 69 cents and \$1.29 – depending how ‘hot’ the track is. Users in other countries are offered a similarly simple rate card for purchasing songs.

### CASE STUDY: (Tempo)

*As part of its TEMPO study in the United States, Ipsos MediaCT runs choice-based conjoint modelling exercises which help observe, in a range of probable marketplace scenarios, how consumers would behave.*

*In one exercise, people who regularly stream or download music were asked how they would source music were the option of peer-to-peer file-sharing services to no longer be available to them. Choices available included paying subscriptions or fees to access music, using advertising-supported sites where no fees were necessary or withdrawing from the market. The majority picked ad-supported sites; many simply said they would no longer access music in these ways; only a few said they would pay fees or subscriptions.*

Spotify's premium users pay £10 a month for advertising-free access in the UK.

In the United States Real Rhapsody offers several subscription levels ranging from a free service offering 25 streamed tracks a month to \$14.99 a month for unlimited access to their library. Downloads cost 99 cents per track.

Also in the United States, Ipsos has carried out a regular survey of digital music downloaders and streamers, TEMPO, for several years.

In April 2009, the survey found that many downloaders and streamers were attracted to the idea of ad-supported downloading. Even if people found they could no longer file-share, a far greater number of them were attracted to free, legitimate advertising-supported services than were prepared to pay fees to listen.

## The future of music

The music industry is evolving around its most important product – its artists. To maximise the value of these assets it needs to invest in building and monetising their brand identities. It will no doubt be helpful for the industry to draw on some of the branding disciplines used in the consumer packaged goods industries as they do this.

This means as a start point that they need to measure the strength of each of their artist brands along their various dimensions and then to track how this changes over time.

Having built some knowledge and experience in this area, they will be better able to identify the key drivers of each artist brand's strength – and its sources of weakness - helping them to learn lessons for other artists and future marketing campaigns.

The distribution of music content is likely to continue in all its current forms: CDs, DVDs, MP3 downloads, subscription streaming and downloading services and ad-supported services. Piracy is unlikely to go away although it may be possible to make it less attractive.

Great care will need to be taken in handling the question of illegal downloading. As has been uncovered in our research, it can be a major promotional outlet for artists. It is usually the largest music consumers who tend to take part in this activity – and they are also often major customers of legitimate content.

To penalise them with heavy fines or imprisonment for downloading content from unofficial sites may well have a negative effect on the companies and the artist brands they represent and promote.



# Video entertainment



# Video entertainment

## Background

Ever since television advertising was first introduced to the world in a 1941 commercial for Bulova Watches in New York, it has provided most of the funding for the medium in the United States and elsewhere. Many European countries initially financed television with a licence fee payable by viewers or directly from state coffers, although advertising gradually increased its presence.

In 2008, the medium attracted over \$200 billion in revenues - \$160 billion from advertising, \$19 billion from pay TV and \$40 billion from cable and satellite subscriptions. Although advertising revenues have fallen back quite sharply since then, they remain television's major source of funding.

The global market for filmed entertainment was worth a further \$84 billion,<sup>3</sup> comprising theatrical distribution revenues, DVD sell-thru, television rights and Video-on-Demand.

Although only representing a third of this market, box office revenues reached an all time high in 2008 of \$28 billion.

People are showing a growing appetite for video in all its forms. Cinema admissions have remained stable – at around 6 billion tickets sold every year – despite ticket price rises. Television viewing in the home has been rising in many countries. And while small, viewing to video content on the internet and mobile devices has been growing rapidly.

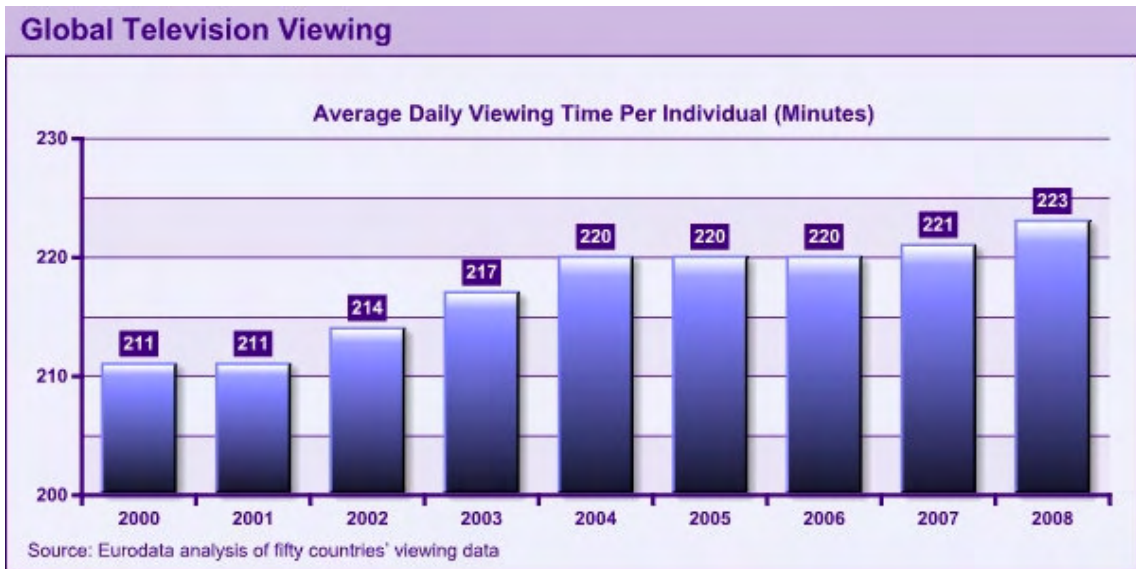
As an illustration of this, analysis of viewing data from 50 countries by Eurodata found that average viewing time per individual across these territories rose from 3 hours 31 minutes in 2000 to 3 hours 43 minutes in 2008.

In the United States, where Nielsen has reported on viewing across traditional television, the internet and mobile, figures for the second quarter of 2009 showed that viewing across most video sources was higher than the comparable period of 2008. Television viewing rose by 1.5% to 141 hours a month, time-shifted viewing grew 20% and viewing on-line went up by a massive 46%. Only viewing on mobile devices was down on the previous year.

Of course the spectacular growth of on-line video consumption needs to be seen in context. Compared to the total amount of viewing that takes place across America, on-line viewing is still a blip on the radar, with about a 1% share. Time-shift is a bit higher at 1.5%, driven by the rapid adoption of PVRs in recent years. Viewing on mobile devices stands at about 0.1% of the total. In other words, just over 97% of total video hours consumed are watched on the household television set.

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<sup>3</sup> PricewaterhouseCoopers. *Global Entertainment & Media Outlook, 2009-2013*, June 2009



There is also a lot of simultaneous usage of different devices. A survey of European on-line consumers by Forrester Research found, for example, that more than half of younger respondents reported watching television at the same time as they were on-line<sup>4</sup>.

At the very least, the amount of *attentive* viewing people do in front of their televisions may have been dropping rather than rising. At present the jury is still out on this.

Awareness of digital video sites is high and growing – particularly of YouTube and, in the United States, Hulu.

Ipsos MediaCT's digital video tracking study in the United States found that awareness of Hulu, where users can stream recent television programmes for nothing in return for watching advertising, grew from just 9% in September 2008 to 41% in March 2009.

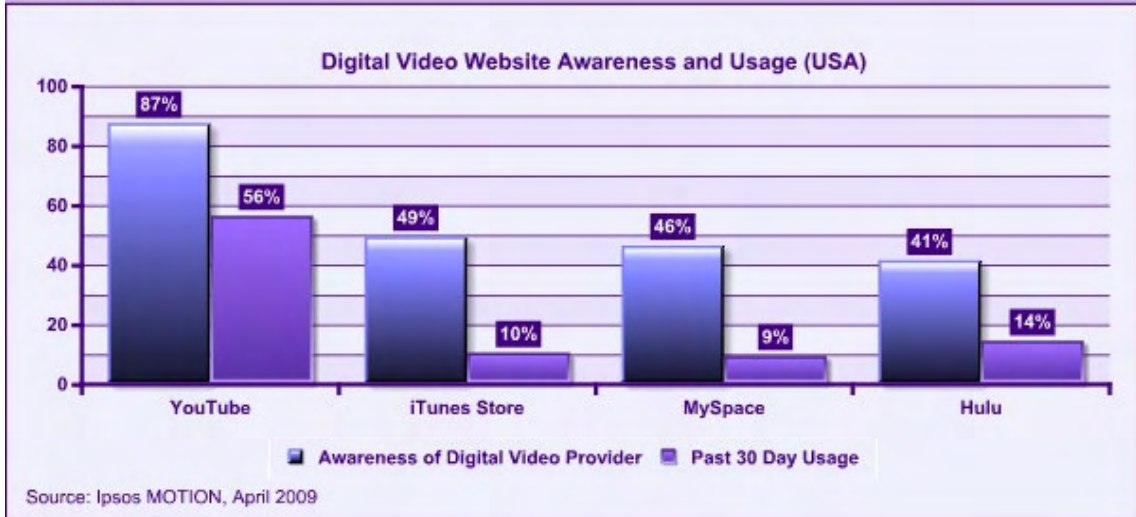
So the market for filmed entertainment and video looks, on the face of it, to be showing glimmers of health. Some parts of the business continue to grow, though the largest contributor – advertising – is down. Audiences are rising. Does the digital revolution pose the same sort of structural threat for the television and movie industries as it does for newspaper publishers and the music business?

## Business models

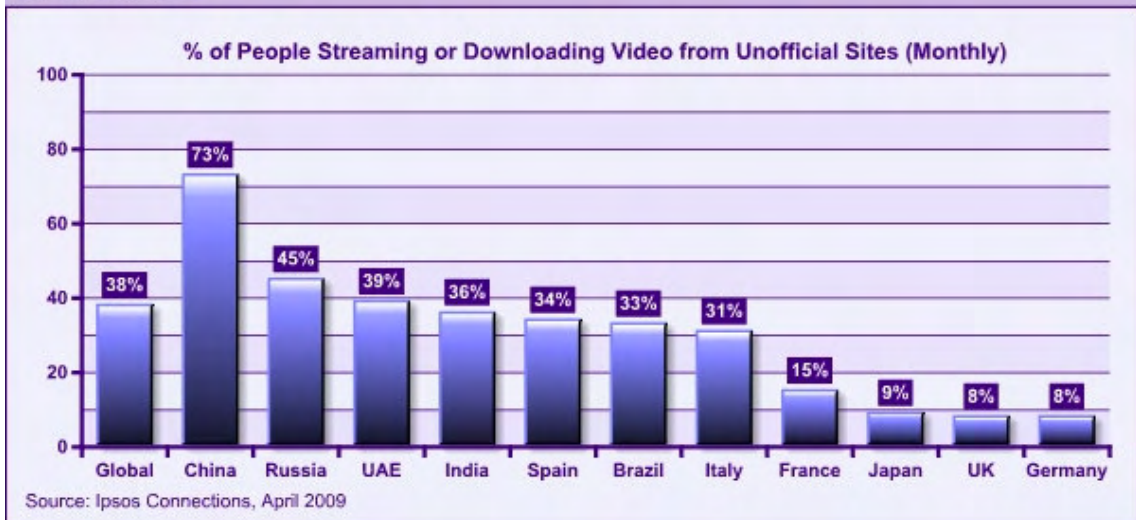
The traditional commerce model still dominates the market for filmed entertainment. Cinema goers must buy tickets to see a movie. They must pay to buy or rent DVDs or to take out a cable subscription. The alternative, increasingly being practiced, is to download movies for nothing via unofficial file-sharing sites or to buy illicit DVDs.

<sup>4</sup> Forrester Research, *European Multitasking Consumers Present Both Challenges And Opportunities*, October 2008

## MOTION



## Connections



In a survey carried out in 2008, Ipsos MediaCT estimated that the UK audiovisual industry may have lost as much as £526 million from copyright theft.

A 2004 study for the Motion Picture Association of America estimated losses to be as high as \$6.1 billion worldwide, with 80-90% of movie content being viewed illegally in countries like China and Russia.

And, in April 2009, the Ipsos *Connections* study, run in twelve countries, found that 38% of people admitted to having accessed film content via such unofficial sites.

To date, as we have seen, box office receipts remain healthy and cinema admissions have been stable on the back of strong content and an improved viewing experience (e.g. the growth of 3D).

DVD sales have been less healthy. The business was worth just over \$26 billion globally in 2008, a drop of 5% over 2007. Both purchasing and rental incomes were down.

Video's version of the Freemium model is the cable box. Viewers pay a monthly fee to access a package of free, advertising-supported channels and have the option of

paying more to receive premium content (with no advertising) through the same cable or satellite service.

Worldwide, over 400 million households now receive signals via cable, with a further 100 million or so receiving theirs direct by satellite. About half of them watch digital television. This has extended the number of channels received considerably – e.g. to more than 100 in the *average* US home.

Revenues from subscribers were close to \$60 billion in 2008 and continue to rise.

Pirating of cable or satellite signals is currently an issue in some countries, particularly in Asia, suggesting that revenues could be even higher if sufficient regulations were in place and enforced.

On the other hand, if programmes can be accessed and viewed more cheaply and conveniently on-line, the upward trend in revenues may come to a halt at some point.

Advertising, to date the main funding mechanism for television broadcasters, has been hit hard by the economic recession, which began towards the end of 2008. Globally, TV advertising revenues are forecast to fall by 7% in 2009, although they are expected to recover to 2008 levels by 2012. In some more developed markets, the decline is likely to be greater.

The traditional advertising model is threatened by several developments. Viewers are faced with ever growing non-programming clutter in many countries, as broadcasters try to squeeze more revenue-earning content into their schedules. In the United States more than a third of prime-time network schedules

regularly contain either product advertising, station promotions or product placements.

This has spurred many people to invest in Personal Video Recorders where they are available, allowing them, if they so choose, to record programmes and to skip commercials when they are played back.

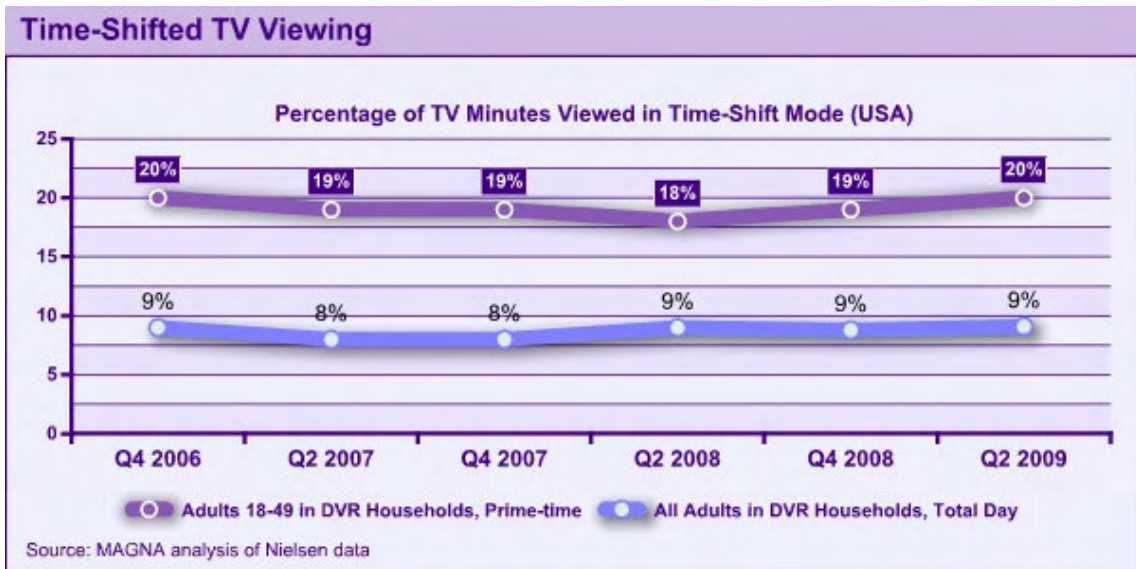
More than a third of US and a quarter of UK households now have these devices installed. Some shows in the United States are seeing as much as 40% of audiences watching them after the official broadcast time. On average however, time-shift accounts for a little less than 20% of all prime-time viewing in DVR households and just under 10% for the day as a whole. This demonstrates, perhaps, the power of habit over technology.

Now that viewers can also access programmes on-line or, in some case, via mobile devices, additional pressure is likely to be applied to the dominant model of live transmissions to the household television set.

Hulu currently shows just one commercial execution in each break, compared to half-a-dozen or more on live television. The service has been enjoying rapid growth in audiences over the past two years.

There has been some discussion of whether a premium version of Hulu might be created. It may, for example, offer advertising-free programmes to stream or even download in return for a monthly subscription. Higher quality video could be offered to premium subscribers or even access to a better back catalogue.

YouTube is also mooting a premium service to layer on top of its free service.



A pilot being conducted by leading cable operators Comcast and Time Warner, also in the United States, is seeking to make content available on-line exactly as it was broadcast (commercials included) to cable subscribers who already have access to the programmes.

Dubbed “TV Everywhere,” the idea is that audiences across both platforms could be reported as a unified number and, of course, that new audiences will be attracted.

As well as providing an alternative distribution channel for television content, the internet offers competitive sources of content. On-line video sites like YouTube, Joost, Dailymotion and others allow people to stream or download thousands of short-form and longer video clips, both professional and amateur.

In the United States, these sites (particularly YouTube) comprise the bulk of on-line viewing today, although network shows and clips represent the major part of viewing on mobile devices.

The movie business has spawned its own affiliate model as well. The UK’s findanyfilm.com website seeks to provide a one-stop shop where any movie available to

view in the UK can be found and either streamed or purchased – legally. There are also many aggregator sites where thousands of movies and television programmes can be accessed.

### Consumer drivers

Ipsos MediaCT’s MOTION study in the United States has tracked the growth of consumer interest in on-line video for several years. Amongst its April 2009 findings were that:

- 67% of on-line adults had streamed or downloaded a video file at some point;
- 86% of those aged 18-24 had streamed or downloaded video files;
- People preferred to stream rather than download video;
- Shorter clips were preferred over full-length TV shows or movies;
- Only 13% had ever paid for video content downloaded from the internet;
- 12% had uploaded video content to the internet for other people to view.

A UK study, carried out by Ipsos in July 2009, found a strong reluctance amongst consumers to pay more than around £3 to download a new release film (compared to £9 - £12 from current legal on-line video retailers). This may change when, for example, viewers can download the films direct to their television sets.

But the market is a fast-changing one. The studies have identified a number of changes over the past year – for example that the incidence of paying for content, though low, has been rising (possibly due to anti-piracy campaigns).

Hulu seems to have had a dampening effect on people's propensity to download full-length television shows, but a very positive impact on the likelihood they will stream them instead (9% streamed TV shows monthly at the end of 2007, rising to 26% in April 2009).

Most people feel it is not unreasonable to be asked to sit through advertising if the content is offered for nothing – though only for longer form content. As with newspapers, it may well be that the current strength of traditional television viewing, despite all the new ways in which video content can be accessed, is down to ingrained habits.

Or it may be that people simply like watching television rather than staring at a PC or mobile screen. New technologies that bring the internet onto the living room television set may gradually start to change these habits.

Part of the research challenge is to try to get under the skin of consumers and understand how these different distribution channels fit into their lives and how important media brands will continue to be in helping them decide what to watch.

Will Hulu in the United States or Findanyfilm.com in the UK become destination sites for video content in the way that Amazon has for books or iTunes has for music? Might they be able to earn money by aggregating materials from different content owners, offering convenient search and payment mechanisms and taking a cut of the revenue?

Will advertising play a bigger role in funding video content than it has to date, with viewers happy to watch commercials rather than pay? And will some people pay in order to get advertising-free content?

<b>Acceptance of Free, Advertising Supported Video</b> (% of US Digital Video Users, April, 2009)				
	<b>Very Reasonable</b>	<b>Somewhat Reasonable</b>	<b>Not Very Reasonable</b>	<b>Not At All Reasonable</b>
Full length TV shows	37%	49%	7%	7%
Full length movies	35	43	12	10
Movie/TV trailers of previews	26	39	17	18
Amateur/homemade video clips	22	28	20	31

Source: Ipsos MediaCT, MOTION, September 2009

One of the key findings from the Ipsos *Connections* study referred to earlier was that people who access and download video material illegally, are usually also heavy consumers of video material from official sites. In other words they are fans. And they are looking for cost-effective and easy ways to get hold of the content they want to watch.

Arguably, the industry needs to find ways to meet the needs of this valuable audience and to wean them off, rather than scare them off their illicit activities.

## Paying for video entertainment

Subscription payments remain a common method of funding television and video services.

It started with the licence fee, an annual payment made by all television viewers to receive television broadcasts initiated by the BBC in the UK.

This model was adopted in a few other European countries early in the development of the television industry, but many others relied on commercial advertising to fund it.

When cable was introduced, it wasn't long before certain 'premium' channels were able to charge a monthly fee for access.

Film and sports channels were amongst the first to do this. More recently, cable and satellite operators have tended to offer various packages featuring a mix of different kinds of channel (e.g. sports, film or family packages) – again, for a given monthly subscription fee.

Netflix and others provide DVDs for rental in return for a monthly subscription and some cinema chains offer unlimited movie visits in return for a fixed monthly payment.

Pay-per-View, Video-on-Demand and Near Video On Demand are all ways in which broadcasters have been able to charge viewers to access individual programmes or services. This is also the model offered by on-line video retailers such as iTunes, Movielink and CinemaNow.

There is no unified price for movie downloads across the various on-line services. iTunes and its competitors tend to charge between \$15 and \$17 for a new release film in the United States, although some are priced more cheaply. A typical catalogue film costs around \$9.99 and many older films are available for less than \$5.

Television shows are priced much more cheaply. The standard charge is \$1.99, but some individual episodes are offered at 99 cents.

In the UK, Blinkbox charges around £12 to download a new release film and £12.49 for a back catalogue movie. The new release price is well above the £3 price that the Ipsos survey referred to earlier found to be optimum.

Netflix charges between \$8.99 and \$16.99 a month in the United States depending on how many DVDs are rented out at any one time. Lovefilm in the UK offers a similar service for a little under £4 a month.



## The future of video entertainment

When the CW network in the United States blocked on-line access to the final few episodes of its popular *Gossip Girl* show in April 2008 in an attempt to 'encourage' viewers to tune in, they simply went elsewhere<sup>5</sup>.

They can usually now find what they want to watch via official or unofficial means and will not be prevented from doing so by such action (which was soon reversed). This underlines the importance for the broadcasters of keeping control of their content by making it available in whatever form viewers want it, and finding ways to remain their first port of call when they seek it.

While advertising revenues and DVD sales have both suffered over the last two years, some of the other revenue streams accruing to the television and movie industries have remained healthy. Theatrical revenues, for example, have strengthened on the back of rising ticket prices. Cable and satellite subscriptions have continued to grow and pay-TV is still in positive territory.

In the newspaper and music businesses, we have already stressed the importance of branding in the pursuit of competitive

advantage for individual companies. Of course the quality and appeal of the content, its ease of access, pricing and the prevention of piracy will be important. But branding will play an increasing role in differentiating the growing multitude of content providers in this, as in the other industries.

For news, brands like the BBC and CNN position themselves as trusted global providers with on-screen, on-line and on-the-move outlets. CNBC, Bloomberg and Asia Business News offer the same positioning for business news and analysis, Discovery and A&E for documentary programming and so on.

Can these brand values be transferred with all their heritage and strengths into the crowded on-line world? Will they attract new people – or the same viewers that watch them on television? What are the particular strengths and weaknesses of the various video entertainment brands and what might cause their current users to increase or remove their loyalty?

These are questions the businesses need to know the answers to if they are to survive and thrive in the digital age.

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<sup>5</sup> Example quoted in *Screen Digest*, September 2009

# Summary and Conclusion

The digital revolution has dramatically shaken up the worlds of media and content creation. Industries embracing music, newspaper publishing, video entertainment, magazines, video games and motion pictures face a host of challenges to their traditional business models.

All are grappling with how they can make people pay for their products and how much they can charge.

There are a number of approaches that do seem to be working in this new environment and some that clearly aren't – although all need to be tested in real market situations with real consumers before we can be sure. For example:

## What is working?

- ✓ Ease of use
- ✓ Free
- ✓ Advertising-supported
- ✓ Valued or premium content
- ✓ Lack of competitive options

## What is not?

- ✗ Complex payment process
- ✗ Undifferentiated content
- ✗ High price
- ✗ Free alternatives
- ✗ Blocking consumers from exercising choice

# Ipsos MediaCT

Ipsos MediaCT offers a number of proprietary tools and approaches which help address some of the issues raised in this report, as well as a full range of research services across more than sixty countries worldwide. For example:

## Audience measurement

We measure media audiences in more than sixty countries. These include quantifying and profiling audiences to television, radio, internet, print and out-of-home media. Ipsos is also pioneering the MediaCell, a passive audience measurement device carried on mobile phones.

## Consumer research

We carry out research to help companies acquire and retain customers. Specialist approaches include market landscaping, consumer segmentation and Usage & Attitude studies.

## Brand equity measurement

We have developed a proprietary approach to measuring the strength of media and content brands on different dimensions and across different platforms. Results from our analyses help brands to set strategic priorities for growth.

## Custom panels






Ipsos builds and manages custom panels for media, content and technology companies, enabling them to stay in regular touch with changing consumer attitudes and opinions.

## Innovation

Ipsos helps companies to minimise the risks involved in developing and launching new products and services through tried and tested techniques and a substantial body of norms and benchmarks.

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For further information on any of these products or to discuss this report further, please go to our website at <http://www.ipsos.com/mediact>, where you can find contact details for an Ipsos MediaCT representative in your region, or contact one of the following:

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