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Game Not Over
*How the Media and
Entertainment Industry
Can Survive
the Downturn*



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EXECUTIVE SUMMARY

The global financial crisis has wrought havoc on the media and entertainment industry, especially the sectors most dependent on advertising and consumer spending. Before the crisis, many media companies were already suffering through profound shifts in their businesses. Traditional media audiences were shrinking, and digital revenue was not growing fast enough to make up the difference. The economic meltdown over the past six months has exacerbated these issues dramatically. Major marketers in such big-spending advertising categories as financial services and automotive are fighting for their very survival, and those in other sectors are closely reexamining their media mix too. Worst of all, consumer confidence is at its lowest level in decades.

This crisis is far more challenging than previous recessions. The lack of liquidity in credit markets and the declines in consumer spending will not be fixed overnight. Consumers will eventually start spending again, but the numbers are still trending downward, and many economists feel the recession could be deep and prolonged—and will leave behind profound changes in media consumption and shopping behaviors.

In this challenging period, there are clear priorities for media companies. First, they must rise to the structural challenge facing them and accept the fact that they must reinvent their business models. Media sales need to

become more targeted, data-driven, and marketer-oriented. Costs must be reduced. And the resulting savings need to be invested in capabilities and assets that will drive the next generation of growth.

Many of the leaders in these companies already know this, but their reactions so far have not been especially bold. Most have focused on predictable, incremental cost-cutting, particularly of staff. Those actions have been neither big enough nor fast enough to alter their trajectory. For companies that hope to establish a winning position in media beyond the downturn, this incrementalism will have to change.

THE STRUCTURAL CHALLENGE

If the downturn has affected media companies disproportionately, compared to other sectors, it is because they have not yet figured out how to deal with the enormous structural pressures confronting them. Digital media remains the dominant growth opportunity for their future. However, although many media companies have made forays into digital, those approaches have yet to generate substantial returns for the vast majority.

The downturn will nonetheless accelerate the movement to digital media. Marketers under financial pressure will want advertising that is more targeted, accountable, and interactive, all of which benefits digital. Online advertising has the most room to grow; it commands just a 6 percent share of measured media spending among the top 25 U.S. national advertisers. And because it's still comparatively small and in ramp-up mode, major marketers looking to cut costs will be more likely to trim TV and print ads rather than digital. Challenges in such large categories as auto, financial services, and retail may result in slower online ad growth, but digital's share of total ad spending should still increase in 2009.

Another factor is the trend of consumers spending more time at home and online. They may hold off on buying a new flat-screen TV, video game console, or theme-park trip, but when they're home they'll devote more time and attention to online news and video entertainment, blogs, search engines, online games,

social networking, and e-commerce. Demographics play a role, too. Some reports suggest members of Generation Y spend 30 percent more time online than they do watching TV. Therefore, it is highly doubtful that innovative advertisers such as Unilever and Nike will reduce their spending on digital elements—in fact, they may even increase such spending.

Yet, even as pressures grow for media to be more surgical and precise, the right marketing model remains elusive. Booz & Company's recent Marketing & Media Ecosystem study (done in partnership with the Association of National Advertisers, the Interactive Advertising Bureau, and the American Association of Advertising Agencies) found that approximately 90 percent of marketers are focused on campaigns that are cross-platform and inclusive of digital media, and that about 80 percent believe insights into consumers' digital behavior will become more important to their brands. However, only about 25 percent of marketers consider themselves sufficiently savvy to capitalize on the opportunities in online advertising. Their key concerns include the efficacy of digital metrics, the need for greater education in the C-suite on the value of digital advertising, and the desire for new models that will allow them to build a more effective advertising presence online. Media companies have a key role to play in developing innovative ways to address these concerns—even now, in this time of unprecedented pressure.

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THE NEXT GENERATION OF MEDIA SALES

In today's market of ad inventory oversupply, media sales teams need to change their relationship with clients from that of mere media vendors to higher-value marketing partners. They must come armed with more precise insight into consumer behavior. In this world, data is king. The advent of digital has created a valuable mechanism for media companies to articulate who their consumers and audiences are and, with that more granular insight, combat the commoditization of their advertising inventory.

In this environment, sales teams no longer simply sell; they consult. They leverage data on their audiences' interests and behaviors across touch points such as display ads, registrations, page views, e-newsletters, online videos, live events, searches, transactions, and even set-top boxes. With more specific data, the analysis of media audiences and brands can move beyond traditional reach and frequency goals to better address marketer objectives around engagement, purchase intent, loyalty, and advocacy. For most media companies, this will require stronger consumer research; deeper data management skills; a more strategic,

client-focused marketing orientation; and new external partnerships.

New approaches are also required for media sales management. Media companies need sales structures designed to sell both premium inventory and less differentiated offerings cost-effectively. This will compel the most aggressive media companies to evolve their selling model in two directions. For their premium inventory, they need to provide a consultative solution, focused on ideas, integration, and results. They must be able to work in concert with agencies, to form direct partnerships with major marketers, and to take full advantage of their own data and insight capabilities. For their commodity inventory, they need to find channels at a much lower cost, such as telesales, sales consortia, ad exchanges, and ad networks that can expand their reach at more attractive economics than traditional sales forces. NBC Universal's recent partnership with Google represents a further step in this direction: The deal allows Google to broker a small amount of NBCU cable inventory. Other media companies will emulate and even expand on this approach in the coming months.

A FOCUSED ACQUISITION AGENDA

For the first time in recent memory, cash and liquidity provide significant advantages in the media and entertainment world. With many private equity players relegated to the sidelines for the near term and some overleveraged media companies compelled to sell assets, there will be more opportunities for players with strong balance sheets to pursue acquisitions. In addition to the inevitable consolidation that will occur in some maturing media sectors (e.g., cable networks), a key target in particular will be digital media and related technology startups that are no longer flush with financing.

Few of these acquisitions will be industry-transforming blockbusters. Most deals will be modest in size, designed primarily to help media companies extend geographic reach or add critical new capabilities such as online gaming, agency services, social networking, and advertising-related technology. Lifetime Networks' acquisition of Korean casual gaming site Roiworld.com in November 2008, Meredith's deal to buy healthcare communications firm Big Communications in June 2008, and Gannett's purchase of Ripple6, Inc., a provider of social media services to marketers and publishers, in November 2008 are all good examples of such deals.

FUNDAMENTAL COST TRANSFORMATION

We know from experience with previous downturns that many leading companies found themselves stronger when better economic times arrived. Why? They did not limit their efforts to quick fixes. Rather, they undertook urgent, energetic efforts to reshape their cost structures fundamentally.

Today's media companies should take advantage of current challenges to do the same. The starting point would be to shed struggling analog businesses that may be solvent today but have limited upside in the future. Such steps will no doubt be painful, but the current crisis gives an opportunity to direct dollars and attention to the digital assets and related capabilities that are key to growth when the economy turns around.

In today's cyclical and secular downturn, every expense must be justified. Costs must be rationalized to the

lowest level possible given current margin trends. In the past, media businesses have completed rounds of reductions bit by bit, ultimately ending up where they should have gotten much sooner. In this environment, companies should stretch now to get more for less. They should make tough choices on investments and people—and spend every dollar as if it were their last.

Leading players will extend outsourcing and offshoring beyond the obvious areas into editorial content, marketing, sales, and key IT functions while concentrating their resources on more brand-defining areas. They will institute shared-services operations, either transaction- or expertise-based, that span business units. They will scour the organization for best practices across editorial, content development, sales effectiveness, yield management, and HR to capture greater consistency and immediate operational benefits. Finally, in an industry in which sourcing influences as much as 40 to 50 percent of the cost base (a number that is growing), they will closely review their procurement practices and pursue aggressive vendor-restructuring efforts.

CONNECTING INNOVATION TO MONETIZATION

The best companies recognize that a harsh economic climate does not mean the end of innovation. Just recall how quickly after the last downturn companies such as Google, eBay, and Amazon emerged to become the pre-eminent companies in their respective categories.

Marketers are demonstrating that they will pay for media environments that deliver an engaging experience to a targeted audience and move consumers closer to a purchase. They will also pay for the opportunity to create a consumer relationship. Scripps Networks, with its many ad-supported, interest-oriented newsletters, is a good example of a media company taking advantages of these trends. The company's newsletters reach 12 million subscribers per month and command attractive advertising rates given their targeting and opt-in nature. Video games, online video, and mobile represent other target-rich areas that are ripe for similar advertising-oriented innovation.

However, not all media innovation should be limited to digital environments. Media companies have to find ways to participate in the other 75 percent of the marketer's spending mix, below-the-line spending, which represents virgin territory for them.

In downturns, marketers tend to shift their spending toward below-the-line marketing because of its accountability and proximity to sales. Prior to the current crisis, many leading marketers were already significantly increasing (or planning to increase) their spend on relationship marketing, event marketing, public relations, word-of-mouth marketing, shopper marketing, and in-store media. If they want to capture additional growth, media companies need to extend their brands and expertise into these areas with greater focus. CBS has begun to move down this path with its Outernet division, which has in-store video networks in 10,500 retail locations such as grocery stores, providing marketers opportunities to deliver relevant messaging to consumers near the point of sale.

In the end, many advertisers will use the current economic downturn to make significant, lasting changes to their marketing mix. Media and entertainment companies that target such spending need to adapt faster and stay ahead of demand. The 2001 downturn ultimately accelerated a shift in consumer behavior and advertising toward more targeted and digital media. This current downturn will do the same, only with even greater intensity and permanency.

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