New Markets, New Mind-sets

Best Ideas from the Abu Dhabi Media Summit 2010

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EXECUTIVE SUMMARY

Rapid changes in digital connectivity and applications are advancing a technological revolution. Digital media is driving radical shifts in lifestyles and having a profound social impact. It is also creating a permanent transformation in the communications, media, and technology (CMT) sectors. More than ever, developing markets are actively participating and contributing to this digital revolution. The consumers in these markets represent a majority of the world's digital natives, and digital penetration will continue to grow at faster rates than in the developed world.

These circumstances present significant challenges but even greater opportunities for the players best able to capitalize on those trends. The recent Abu Dhabi Media Summit brought together prominent industry figures across the globe to explore the underlying potential and related issues: digital ubiquity and the explosion in the need for bandwidth; the way that digital content transcends national borders, which requires providers to craft a balance to serve local preferences; the increasingly overlapping roles of telecoms, Internet companies, and other players; and finally, the imperative for emerging markets to develop new playbooks to monetize premium content. The enthusiasm of the Summit's participants speaks to their confidence that the industry can address these challenges and their optimism about developing markets' potential.

Contents

Dr. Prannoy Roy, Executive Chairperson, NDTV; Kishore Lulla, Group Executive Chairman, Eros International; Edward Borgerding, CEO, Abu Dhabi Media Company; Hartmut Ostrowski, Chairman and CEO, Bertelsmann AG; Dirk Meyer, President and CEO, AMD; Mehmet Ali Yalcindag, Vice Chairman and CEO, Dogan Media Group; Maurice Levy, Chairman and CEO, Publicis Groupe; Rupert Murdoch, Chairman and CEO, News Corporation; H.H. Lt. General Sheikh Saif bin Zayed Al Nahyan, UAE Deputy Prime Minister and Minister of Interior; H.R.H. Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, Chairman, Kingdom Holding; H.E. Mohamed Khalaf Al-Mazrouei, Advisor for Cultural & Heritage Affairs at the Court of H.H. Crown Prince of Abu Dhabi; Hans Vestberg, Chairman and CEO, Ericsson; Dr. Suk-Chae Lee, Chairman and CEO, KT Corporation; Dr. Kai-Fu Lee, Chairman and CEO, Innovation Works

"No nation has a monopoly on creative content. If you tell a good story, people will respond."

— Rupert Murdoch, News Corporation CEO and Chairman

OFFERING INSIGHTS IN THE NEW MEDIA ENVIRONMENT

In March 2010, Abu Dhabi Media Company welcomed prominent global leaders in media, telecom, and technology to the United Arab Emirates for the Abu Dhabi Media Summit, a new conference highlighting the most significant developments in the media industry in emerging markets.[1] The Summit was organized by PublicisLive and built on the success of PublicisLive's five-year-old Monaco Media Forum, which takes place each fall and focuses on media in developed markets. Thanks to emerging economies' impressive growth, they warranted their own event at which leaders in the CMT sectors could address the specific challenges and growing opportunities in the space.

Booz & Company served as the knowledge partner for the Summit, overseeing intellectual capital for attendees and moderating several panel discussions. This Conference Insight is a recap of the best ideas and most noteworthy discussions at the event.

Emerging markets are becoming the new economic powers in the world. By 2015, they are projected to represent 49 percent of the world's GDP. Four of the 10 fastest-growing countries in the world are developing economies (China, Qatar, Iraq, and India). More relevant for the Summit, these countries are some of the fastest-growing telecom markets on the planet, with 70 percent of worldwide mobile subscribers and triple-digit growth rates in mobile broadband, allowing wide swathes of the population access to new media. And unlike in developed markets, that growth is not coming at the expense of traditional media. Emerging economies still show strong growth in traditional formats such as print and broadcast, with new-media channels seen as a complement to those outlets, rather than a substitute.

The forum highlighted several trends that are shaping the media space in developing markets, each of which will be discussed below:

- How is the advancement of digital technology transforming consumers' lifestyles and their media consumption in emerging markets?
- What role are the different stakeholders in CMT sectors playing to meet digital consumers' demands for content?
- What can global players do to make their digital investments relevant to local markets in emerging economies?
- Finally, what will be the playbook for business models in emerging markets and how will these models support monetization of investments in premium content, applications, and digital infrastructure?

Edward Borgerding, CEO, Abu Dhabi Media Company

Tom Stewart, CMO, Booz & Company; H.E. Khaldoon Khalifa al Mubarak, Chairman, twofour54

DIGITAL UBIQUITY TRANSFORMS EMERGING MARKETS

A key theme of the summit was the way in which digital connectivity and technology are not only affecting media consumption patterns in developing markets but dramatically changing people's lives for the better. Although the digital revolution is having an impact on lifestyles, economic development, and social conditions in countries around the globe, the shifts have been especially profound in emerging markets, which are starting from a lower baseline of digital penetration and experiencing faster growth rates in technology adoption.

The Digital Revolution

Hans Vestberg, CEO and chairman of Ericsson, described the growth of IT and telecom as the fifth technological revolution in human history (following the industrial revolution, the age of steam and railways, the age of steel and electricity, and the emergence of mass production and automobiles), and one that is happening at a faster rate than its predecessors. Over the next five years, Vestberg argued, the number of mobile-phone subscribers will grow from 4.6 billion currently to 7 billion. In that same period, the number of smartphones will grow fourfold, the number of connected devices will grow sixfold, network traffic (which includes voice and data) will increase 25-fold, and data usage will itself increase 50-fold. By 2020, Ericsson estimates, there will be 50 billion connected devices worldwide.

Dirk Meyer, CEO and president of AMD, cited a recent *New York Times* article that found that the average American family now spends as much on digital media content as it does on gasoline or restaurants. ***"In fact, surveys reveal that Americans consider their digital content subscription a necessity of life, just like electricity and water,"*** he said.

Technology for Social Good

The transformation is particularly profound in the developing world, where the development of widespread, next-generation telecom infrastructure has the potential to improve living standards: Google CEO and Chairman Eric Schmidt said that more than one billion people will come online over the next three years thanks to mobile phones.

The effects of this shift are not limited to individuals: Hans Vestberg from Ericsson discussed the direct impact of technology and communications infrastructure on national economies. Specifically, every 10 percent increase in wireless penetration results in a 0.6 percent to 0.8 percent increase in GDP. A 10 percent increase in broadband penetration results in a 1 percent increase in GDP.

Soaring Bandwidth Demand

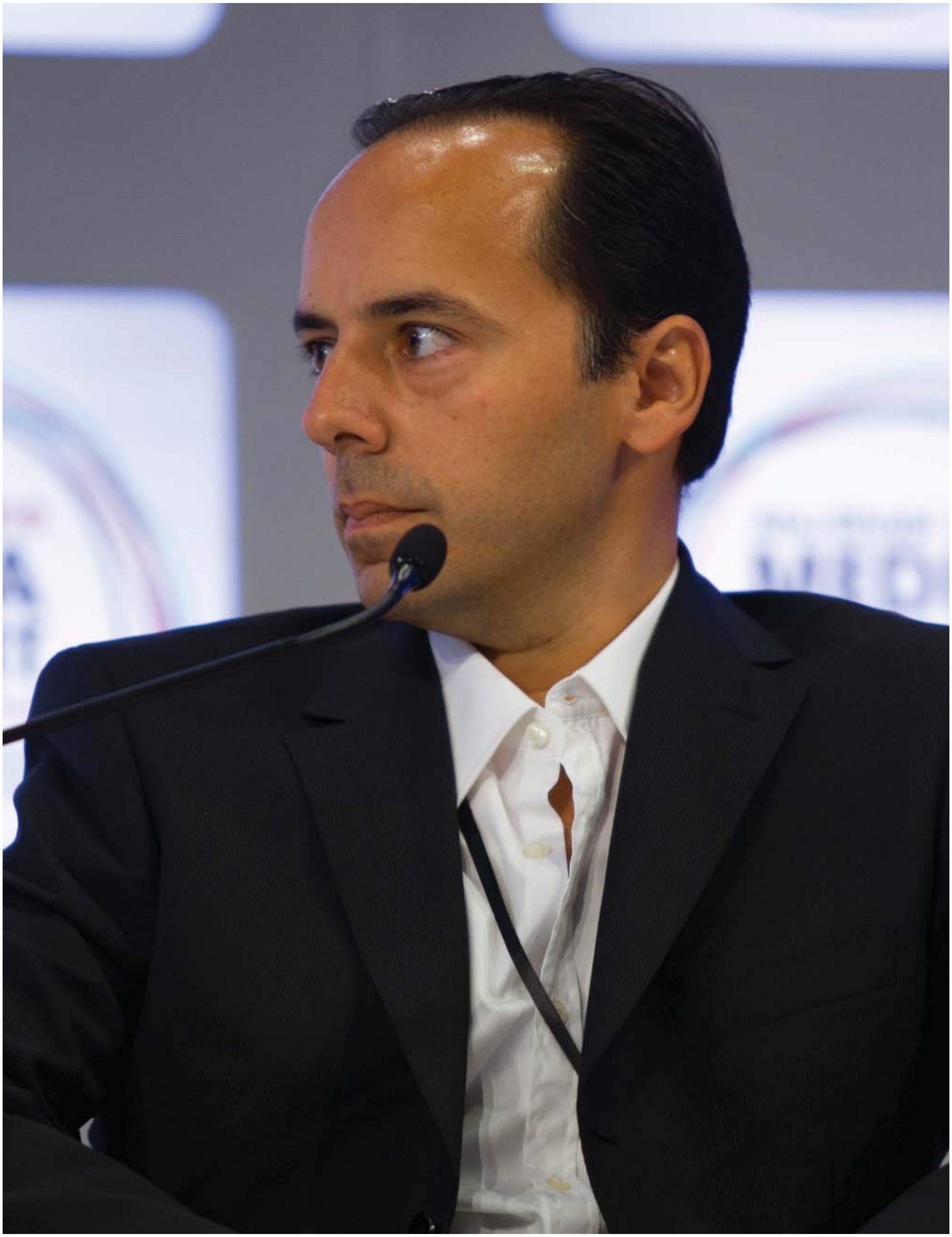
The rise of new technologies and frequent introduction of upgraded handsets, all aimed at increasing continuous data consumption, will significantly strain the capacity of network infrastructure. Several years ago, 1 gigabit of bandwidth was enough to connect countries. Today, individual consumers have connections to the Internet with greater bandwidth.

Karim Sabbagh, head of the communications, media, and technology practice at Booz & Company, pointed out the ever-increasing capacity requirements of more sophisticated, media-rich technologies. Smartphones require 10 times the network capacity of standard voice phones, Sabbagh said. A video recorder connected to the Internet requires 100 times the capacity of a smartphone. Mobile PCs require 1,300 times the capacity.

Such technological advances are on track with the greater amounts of data currently moving around the world, a point illustrated by Eric Schmidt of Google. ***"Between the dawn of the world and 2003, the world constructed 5 exabytes [5 million terabytes] of information,"*** Schmidt said. ***"Today, we produce the same amount in two days."***

Because of these complementary trends—more data being created, and greater numbers of devices capable of accessing that data in more sophisticated ways—network capacity will need to increase from 90,000 terabits per month to 3.6 million terabits per month over the next five years, a 40-fold increase. Such capacity requirements will pose major challenges for telecom operators in developing markets.

Maurice Levy, Chairman and CEO, Publicis Groupe



Karim Sarkis, Executive Director, Broadcast Group, Abu Dhabi Media Company

DIGITAL CONTENT HAS NO BORDERS

The second major theme from the Summit was the pervasive globalization of media. Increasingly, the potential audience for digital content is no longer regional but global. At the same time, audiences in emerging markets are hungry for locally relevant content—creating a paradox for content producers with stakes around the world.

Globalization of Media

This trend of globalization applies to the creation of media as well as its consumption. Emerging markets are still attractive investment targets for global media companies, but they are also becoming global creative hubs. As News Corporation CEO and Chairman Rupert Murdoch said in his opening address, ***"No nation has a monopoly on creative content. If you tell a good story, people will respond."***

In Indonesia, for example, the creative sector now represents 5.4 million jobs and 6 percent of global GDP. The Indonesian government is taking steps to leverage this growth, with the goal of doubling the sector's contribution to GDP by 2025.

Perhaps the most striking example of this kind of globalization of content is the success of the film *My Name Is Khan*. A collaboration between several production companies (including Imagenation Abu Dhabi, Abu Dhabi Media Company's film subsidiary) and a number of distribution partners, the film opened to positive reviews globally and has become one of the highest-grossing Indian films in history.

Localization of Content

There is a counterforce to this trend of media globalization, however. Despite the blurring boundaries between countries and cultures, audiences are not homogenous around the world, and most markets still want some percentage of their content to be regionally specific and targeted. This is a major challenge for international content providers, which must work with intermediaries in every market where they hope to establish a presence. Mehmet Ali Yalcindag, CEO and vice chairman of Dogan Media Group, said that ***international players need to "think global and act local."***

As Robert Bakish, the CEO of MTV Networks International, explained, ***"Strong global brands are needed to help people filter choices, but compelling content needs to be attached. Global players can succeed by using international programming, but delivering it in a locally appropriate way, through presentation, language, and ultimately wrapping it in local production and programming."***

In some cases, this local tailoring of content affects more than language—it also determines the design and "richness" of the content. In China, for example, bandwidth costs are high and some consumers balk at paying steep access costs or subscription fees. Instead, they prefer relatively stripped-down content, with fewer images, videos, multimedia components, or complex ads.

H.R.H. Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, Chairman, Kingdom Holding; Rupert Murdoch, Chairman and CEO, News Corporation

Karim Sabbagh, Partner and Head of CMT Practice, Booz & Company; H.E. Mohammed Omran, Chairman, Etisalat; Hans Vestberg, Chairman and CEO, Ericsson

“The average American family now spends as much on digital media content as on gasoline or restaurants.”

— Dirk Meyer, AMD CEO and President

NEW COMPETITION FOR CMT PLAYERS

The third principal theme of the Abu Dhabi Media Summit was the way in which the technologies involved in the delivery of digital content are meshing with each other. As with geography, the lines that once divided sectors in the CMT space are fading. Television shows can now be viewed on smartphones, in addition to the traditional cable or satellite television service. Telephone calls can now be made on the Internet, rather than dedicated voice lines. This overlapping of roles has resulted in new competition among CMT players, as they jockey to reach consumers in more compelling ways.

Technology Commoditization

In this context, the digital infrastructure that telecoms have invested in so heavily (the "pipes") is at risk of turning into a commodity. Internet companies are becoming telecoms' biggest competitors, and those Internet players tend to be smaller and more nimble. And their speed of execution and ad-driven business models—which notably do not require subscriptions—put them at an advantage in the digital age.

As Osman Sultan, CEO of telecom operator du, emphasized, ***"It's the Googles and Facebooks that have the direct access to the consumers and can monetize their usage."*** For example, Skype now represents 12 percent of international calling volume, a third of which is video calls. By comparison, Verizon, the biggest telecom company in the world, has 4 percent of international calling volume.

These issues are affecting CMT players in both developed and developing markets. These companies will need to find a return on their investment, which will likely come from enhanced digital content offerings and valueadded services delivered through their existing channels. ***"Etisalat invested five billion dirhams [US$1.4 billion] in the UAE for connecting the country by the end of next year,"*** said Etisalat's chairman, His Excellency Mohammed Omran. "It's a big investment. We realize it will not come back from voice or ordinary telecom services."

Content Is Key

Most important in this discussion of technology meshing is the idea that the technology itself is the means and not the end. Almost all speakers at the Summit emphasized that content is the most important asset in the digital age. As Dirk Meyer of AMD put it, ***"Technology in the future will be invisible. It's not about the computer. It's about the experience."*** Rupert Murdoch of News Corp echoed this sentiment: ***"Without creative content, electronic devices are merely expensive playthings."***

Another crucial idea in this vein is that new technologies (smartphones, netbooks, iPads, and the like) don't merely provide a new way to deliver existing content. Instead, they drive more substantial changes in the way content should be created and consumed. According to Meyer of AMD, successful content today incorporates a number of key principles:

- Short form is better than long form.
- Interactive is better than static.
- Pictures are better than words.
- Videos are better than pictures.
- In this age of social media, *my* videos are better than *your* videos.

Digital content is still evolving, and will continue to do so as new technologies allow more creative and compelling ways to connect with audiences. The spread of formerly expensive, limited technologies like facial-recognition and motion-recognition software is allowing content providers to create new experiences for consumers. These technologies can be found, among other places, in the recent spate of video games developed through partnerships between gaming companies and film-production companies; for example, games based on movies such as *Avatar*, *Star Wars*, and *The Matrix*.

In summary, all CMT players are competing to own as much as possible of the consumer relationship. However, as Gabriel Chahine, a partner in the media practice at Booz & Company, noted, ***"There are no declared winners."*** In emerging markets, the opportunities are still open for all players.

“Between the dawn of the world and 2003, the world constructed 5 exabytes of information. Today, we produce the same amount in two days.”

— Eric Schmidt, Google CEO and Chairman

James Murdoch, Chairman and CEO, Europe & Asia, News Corporation

Eric Schmidt, Chairman and CEO, Google

NEW BUSINESS MODELS TO MONETIZE DIGITAL CONTENT

The fourth and final theme of the Summit was the challenge of adapting business models to the changing conditions of the digital world. In this context, the discussion centered primarily on developed markets, which are further along in terms of both adoption and penetration of digital technologies than emerging markets. Although new delivery technologies and consumption patterns are clearly cannibalizing revenue from traditional media players in developed markets, they are also enabling the monetization of content through more innovative channels. Yet most global media companies have not figured out the best business model for generating revenue for digital offerings—particularly costly, premium content. Moreover, even assuming these players can develop effective monetization strategies for digital content, it is far from certain that those models will apply to emerging markets. Speakers' statements at the Summit reflected this uncertainty.

Who Pays for Premium Content?

Advances in technology have allowed content providers to deliver better, richer media experiences for consumers. Premium content is more pervasive and attracts wider audiences, yet it doesn't present obvious monetization methods. In addition, the growth of user-generated content, not only in the entertainment category with products like YouTube, Twitter, and Facebook, but also in the realm of citizen journalism, thanks to sites like Huffington Post and allvoices.com, is putting pressure on media companies that generate news and entertainment in traditional, old-media formats—and charge for it. Although these new-media companies are mostly based in the U.S., they have a large and growing presence in developing markets. Allvoices.com, in particular, currently has contributors in more than 146 countries around the world.

The issue of paid-content models applies primarily to media companies rather than Internet players, most of which (in both developed and developing countries) don't generate subscription-based revenue. Innovation Works CEO Kai-Fu Lee noted that Chinese consumers are particularly resistant to paying for online content. Taobao, a commerce website in China, has no listing fees and sells its advertising inventory through ad networks (specifically Google AdWords). Yet Taobao has been very successful, and today is the biggest Chinese commerce site.

Many media companies, perhaps understandably, argue that dual-income business models comprising both advertising and subscription income are as relevant in a new-media universe as they were in traditional formats. Jon Miller, CEO and chairman of News Corp Digital Media Group, put it thus: ***"The healthiest media companies have always followed a dual business model."*** Miller was speaking in

"Global players can succeed by using international programming, but delivering it in a locally appropriate way, through presentation, language, and ultimately wrapping it in local production and programming."

— Robert Bakish, MTV Networks International CEO the context of free-to-air satellite television service, which is pervasive in the Middle East and North Africa and which doesn't require subscriptions but instead functions on a single revenue stream of advertising alone.

TV 2.0

In fact, of all media formats, broadcast television is undergoing perhaps the most profound disruption in its business model, something that several of the Summit panelists noted. Like other forms of media, the right solution for television broadcasters is not simply to put out the same content on new delivery platforms but to make the most of opportunities created by those platforms. Robert Bakish of MTV Networks International said, ***"TV needs to move to a 360-degree world. All channels need to be marketed together to create a compelling experience for viewers."*** Google's Schmidt pointed out that the online platform gives TV producers an advantage in developing new programs: They can test their programs online, at lower production costs, before ramping them up for full-fledged TV lineups.

New Rules of Advertising

Similarly, the interactive element of digital media creates opportunities for advertisers. According to Raoul Roverato, an executive vice president at Orange, 50 percent of consumers prefer to interact with their content in some manner—either through time-adjustment features like those found on digital video recorders, or blogging about and linking to specific shows in real-time—rather than merely watching passively. That gives advertisers the ability to work hand-in-hand with content creators. For example, advertisers could hypothetically include their products in a TV show and allow consumers to get real-time information about these products by clicking on them. In that way, television is evolving from being a "mass medium" to a "mass personalized medium" that is more relevant for advertisers.

Finally, digital media has rewritten the rules of advertising, a key discussion topic in the forum. Like content providers, ad agencies are struggling to adapt their business models in rapidly changing market conditions. And some initiatives have been more successful than others. For example, direct advertising has already been successful online, largely due to the search category, whereas brand advertising has not. According to Jon Miller of News Corp Digital Media, ***"Performance-based advertising [e.g., search] is three to four times bigger than brand advertising online."***

That said, digital brand advertising will likely continue to grow in the coming years, largely as advertisers shift their campaigns online from traditional platforms. AOL CEO and Chairman Tim Armstrong estimates this volume at US$10 to $20 billion. Video advertising—or ads embedded in videos—will likely grow as well. However, as Miller of News Corp noted, most ad agencies are still struggling with this approach. ***"We still haven't cracked it,"*** Miller said. ***"It's complex and it's still not very clear how it can be used in a targeted way."***

In the end, digital advertising is much like digital content—it offers significant opportunities to enrich the experience for consumers, with more flexibility and more accountability. Although the best advertising business model in developing markets remains an open question, the agency that first implements it will be rewarded with significant revenue.

Endnote

[1] For more information on the details of the summit, including a list of co-chairs, please visit www.admediasummit.com.

CONCLUSION

The Abu Dhabi Media Summit gave local industry leaders and global thought leaders in the CMT space an opportunity to discuss trends and issues shaping the evolution of the sector in emerging markets in greater depth. The principal challenges include bandwidth capacity, the difficulty of creating content for an audience that is both global and local, the overlapping roles of companies in the CMT space, and the mandate for a business model that can monetize premium digital content. Although these are thorny challenges, the upside is significant. Emerging markets present significant growth opportunities for both global media entities and local enterprises. Accordingly, the conversation at the Summit was largely optimistic and enthusiastic, reflecting the growth potential of CMT emerging markets for the foreseeable future.

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