Technology and Capricious Consumers: Drivers of Change in Business Models and Value Chains

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Current media and communication markets are complex and turbulent

- Many players, using competing technologies, creating rapid changes, producing unclear market directions
- Technological change and consumer choices are challenging established business models and distribution channels of media and communications
- Changes make it difficult to predict the future of increasing number of content platforms and content services

Technological change is central

- Rapid changes in past 2 decades; large array of possibilities
  - technology in search of needs
- Change is enabled by technology but determined by consumers
- Impact of technology model [substitution→growth→ social transformation]
  - Consumers are not abandoning established media technologies and services but are using them differently
  - Growth in industry sectors but limited economic growth
    - reducing cost, speeding production, and increasing productivity but with price reductions for previously costly services
  - Some social transformation in terms of how, when, and where ICT is used

5 crucial trends affecting all content providers

- Abundance
- Fragmentation and polarization
- Portfolio development
- Eroding strength of media firms
- Power shift in communications

Abundance

- Dramatic rise in media types and units of media
  - Growth of supply far exceeds growth of consumption
- Average number if newspaper pages tripled in 20th century
- Average home had 1-3 TV channels in 1960; today it has 12-56 depending on nation
- 4 times as many magazines available as 25 years ago
- 1000 new books are published daily
- 320 million hours of radio broadcasting annually
- 13 million hours of TV broadcasting annually
- New information growing at a rate of 30 percent a year
  - Scientific information doubling every 12 years

Effects of Abundance

Fragmentation and Polarization

- Audiences are spreading their media use across more channels and titles (Fragmentation)
- Fragmentation produces extremes of use and non-use (Polarization)
  - Tendency to individuals focus most use on 1 newspaper, 2-3 magazine, 3-4 TV channels, 1-2 Internet portals
- TV Channels received in household and viewing
  - If 20 channels received average viewed in HH is 5
  - If 50 channels received averaged viewed in HH is 12
  - If 100 channels received average viewed in HH is 16
- Advertisers are responding by spreading their expenditures and paying less for smaller audiences

Media and ICT companies are responding with

Portfolio Development

- Declining average return per unit makes owning a single media product problematic
- Most companies now produce multiple content products and services
- Portfolios are efforts to reduce risk and obtain economies of scale and scope
- Portfolios can increase return by more efficient operations and joint cost savings
- Portfolios can be used to increase revenue

Despite portfolios
Eroding Strength of Media Companies

- No “pure” media companies are in the top 100 companies in the U.S. or in the top 500 worldwide
- Audience reach of media companies is declining even though they have grown bigger
- All major global media companies are concerned that they may be takeover targets
- Media companies are struggling with major investors
- Telecomm companies are coping with low returns on infrastructure; attempting to get higher returns from content and other value added services
- Consolidation in media and telecommunications industries
- Private equity investors are acquiring in Europe and North America

Underlying all this is a

Power Shift in Communications

- Media space was previously controlled by media; today it is increasingly controlled by consumer
  - No longer a supply but a *demand* market
- Financing of new initiatives in cable and satellite TV and radio, audio and video downloading, digital television, mobile media are based on consumer payment model
- For every dollar spend on media by advertisers, consumers spend three dollars
- Consumer-created content and content distribution is growing
- Advertisers spending is relatively flat in Europe and North America (only about 1/3 of total marketing expenditures for many major advertisers).
  - Expenditures are increasing in personal marketing, direct marketing, sponsorships, cross promotion, etc.

Media and ICT consumers differ widely in their use behaviors

- Some are high users of the press, others of TV, others prefer radio, some the Internet or mobile
- Passive Consumers
  - Reader oriented (newspapers, magazines, books)
  - Video oriented (tv-cable-satellite-DVD-downloads)
  - Audio oriented (radio-recording-mp3-music video)
- Active Consumers
  - Talkers (voice, SMS, e-mail)
  - Creators (text, audio, and video)
- Passive and Active Consumers

Consumer trends drive change

- Consumers are consuming across the services and creating individual patterns of consumption
  - Are less loyal to specific content providers than in the past
- As costs shift to consumers they are becoming more discerning about content choice and price
  - Will pay little for average or poor content; are paying significantly for content and services they value
- Aggregate mass audiences are diminishing and being replaced by smaller groups of individual consumers
  - Increasingly must be addressed a separate customers
- Media and communication firms do not have the organizational expertise and structures needed for effective customer relationship management

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