IBM Global Business Services

IBM Institute for Business Value quick read

Media and Entertainment

Navigating the media divide

Innovating and enabling new business models

The worlds of traditional and new media are already clashing, and it's a conflict that continues to expand. However, a second type of conflict is brewing – one that could cause major rifts among traditional partners. For media companies, it's time to pursue different and somewhat opposing business models…and navigate the media divide.

A new world of media has arrived. Pioneered by teens and gadget-savvy professionals, it has quickly spread into virtually every consumer segment, and started to encroach on traditional media turf.

Our analysis of how media companies can respond to and exploit these changes reveals two trends as particularly disruptive. They are: the rising popularity of user-created content and the move toward open distribution platforms. In fact, these two axes of change clearly delineate the old and new worlds of media.

In response to these content and distribution innovations, as well as new world entrants, media companies must seek growth in new business models. Our analysis suggests that four primary business models will coexist through 2010 (see figure), with different companies pursuing different and multiple options based on their unique strengths and historical assets. While the business models will surely overlap over time, we address them below in their pure form for comparative purposes.

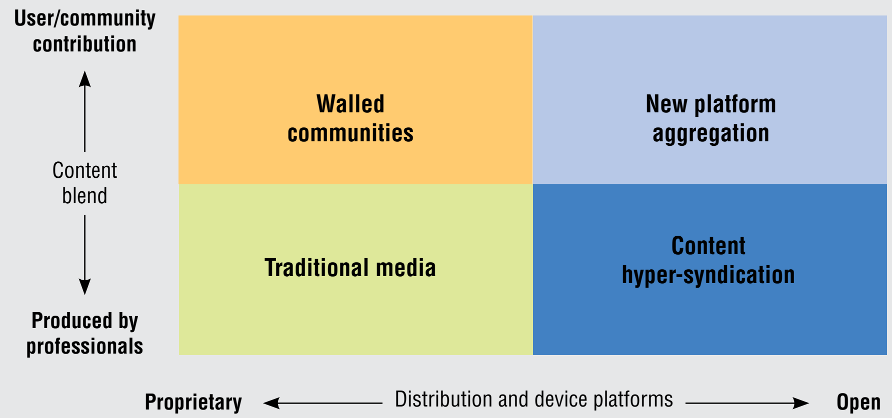
Traditional media – This model relies on professionally made and branded content delivered through a "walled" conditional-access environment and with dedicated devices. This is where most content owners and distributors operate today.

Walled communities – This model is based on distribution of niche and user- and community-generated content within a conditional access environment through dedicated devices. Typically, these are traditional businesses that have expanded their "walls" to include nontraditional features and experiences. Emergent examples include Comcast's work with Current TV, Verizon's work with YouTube and NTT DoCoMo's thousands of user-run content sites.

Content hyper-syndication – This model makes professionally produced content available in open channels, without proprietary access "walls" or dedicated devices. Leading examples include BBC's interactive player, BitTorrent with Warner Bros. Entertainment, and abc.com.

FIGURE

The conflict between traditional and new media has resulted in four business models that will be in use over the next three to five years.



Source: IBM Institute for Business Value.

New platform aggregation – This model relies on user-generated content and open distribution platforms. It is arguably the most disruptive model, as neither incumbent content owners nor distributors have legacy advantages here. Most media companies seeking entry will likely have to "buy in" for speed, as recent combinations illustrate: Sony Pictures Entertainment with Grouper Networks, Viacom International's MTV with Atom Entertainment, and News Corporation with Intermix Media (MySpace.com).

These business model shifts forebode another conflict yet to come. This conflict will emerge among existing players – between traditional content owners (such as studios, game publishers and music labels) and traditional media distributors (television affiliates, retailers, motion picture exhibitors, cable and satellite providers and the like).

We call this conflict a media divide. While tension is certain in this media divide, the end game is not. Along with conflict may come opportunity, if companies navigate astutely the "divide" of interests and strategies.

Most media companies will participate in new platform aggregation to increase consumer reach and the associated valuation. However, they should emphasize models that fortify their divergent strengths and assets: Content hyper-syndication for content owners and Walled communities for distributors. Content owners should be increasingly interested in new open distribution channels that lead to greater licensing volume, brand extension and market disintermediation. Conversely, media distributors will want to bolster closed or walled communities, driving more subscriber loyalty and greater margins from community content and niche experiences. As each pursues these somewhat opposing business models, conflicts will build…unless forward-thinking measures are taken right away.

Navigating the divide

We have ten specific recommendations for media companies, as they face immediate threat from the new media world and a possible new industry order:

1. Put consumers at the center of your business and boardroom.
2. Convert consumer data into competitive advantage.
3. Give control to get share.
4. Deliver experiences, not just content.
5. Leverage virtual worlds.
6. Innovate business models.
7. Invest in interactive, measurable advertising services and platforms.
8. Redefine partnerships, while mitigating fallout.
9. Shift investment from traditional business to new models.
10. Create a flexible business design.

To execute these recommendations, media companies will likely need to make changes in business practices, acquisition strategies, operating models, organizational designs and infrastructure, just to name a few areas.

The current clash between traditional and new media is reaching new heights. Industry incumbents are responding – but perhaps not quickly or completely enough. While they compete in new ways on this front, traditional media cannot ignore the growing division in its own ranks. Hence, media companies must prepare both for new industry roles and a divergence that may redraw industry lines.

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
12-06

To request a full version of this paper, e-mail us at iibv@us.ibm.com

Authors

Saul Berman, Global Media and Entertainment Strategy Leader, IBM Global Business Services

Steve Abraham, Global Media and Entertainment Leader, IBM Global Business Services

Bill Battino, Americas Media and Entertainment Leader, IBM Global Business Services

Louisa Shipnuck and Andreas Neus, Media and Entertainment Leaders, IBM Institute for Business Value

G510-6551-02