New media to take full control in 2006

By Diane Mermigas

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CHICAGO -- If 2005 was the year that digital broadband technology took the media and entertainment industries by surprise, then 2006 will be the year it takes control.

The biggest media players spent the past year chasing rapid adoption rates and shifting consumer habits to get their content on portable digital devices like the video iPod, on streaming Internet Web sites, and into digital downloads in such places as Yahoo! and Comcast Cable.

In the process, media and entertainment companies are turning their business dynamics inside out, changing everything from exhibition windows and initial release platforms, to marketing and advertising practices and pricing. They also have formulated some dangerous misnomers like the notion that Google, as a new 5% equity partner in AOL, will know how to work the magic with that company that Time Warner cannot. Or the idea that splitting Viacom into two separate entities will assure that the new companies realize fuller profits and valuations; or that traditional media players can aspire to Google's wildly inflated stock price if they try a little harder to look like they have new-media religion.

In truth, it all comes down to the caliber and vision of company management and leadership -- something media and entertainment industries have in perilously short supply. In a quest to conquer the digital fast track, an aging ruling class is anointing their next-in-line top executives and their next-of-kin, few of which have the "right stuff" to reinvent these industries during the next several decades. While many will move their companies into the thick of a digital transition, few are skilled enough to ingeniously mine it.

That will require a new generation of graduates from the Steve Jobs, Bill Gates and Steven Spielberg school of mavericks and free-thinkers. It also will require a new standard for innovation and imagination, concepts that these weary industries have difficulty budgeting for much less mandating.

The focus in 2006 will be how quickly media players adjust by embracing the powerful digital transformation with more enterprise and less frenzy, like the Big Four broadcast networks uniformly slapping their primetime hits or vintage series against the digital download wall to see what sticks. Companies will need to be thoughtful about reshaping industry economics and logistics according to the new rules of play.

The bottom line: they likely will make more money than they do today beckoning to the whims of emancipated consumers. Consider that at this early juncture, ABC stands to make more than $3 million in incremental revenue -- or pure profit -- from its iPod downloads of select series like "Desperate Housewives," compared with the $11.3 million in advertising revenue generated each hour long episode in its conventional broadcast, Forrester Research said.

If the likes of Google (through search and other online analytics) and Apple (through portable devices) taught us anything in 2005 it is that empowering consumers is very good business.

The restructuring of traditional media companies in response to new competitive dynamics already is visible at NBC Universal, News Corp. and; Viacom. But acquiring an Internet phenomenon like MySpace.com, hiring digital gurus and creating digital divisions does not assure success in a new era that requires corporate wide agility, comprehension of the new consumer psyche, and appreciation for the potential of digital technology. In short, legacy structures and mindsets will continue to be problematic.

The proliferation of new media adoption numbers has gone from being a harbinger to a testament of this wide-ranging technology shift prompting a new set of challenges and opportunities.

With paid search on the way to outpacing display advertising by 2010, according to Jupiter Research, online advertising overall far exceeded expectations of $12 billion in 2005 and claiming more than 30% of total advertising growth, analysts said. Online retail sales will approach $25 billion.

The most import and new market is global subscriptions and advertising on handheld devices, which will total $10 billion in 2010 and reach $50 billion five years after that, Bernstein Research said. For now the tug of war continues between cable, satellite and telephone companies about a $120 billion video, voice and data consumer bundle.

At the other end of the spectrum, video-on-demand is expected to top $6 billion in revenue by 2014, Kagan Media Research said. Half the total television audience samples some online video content in a month's time, suggesting that it is more than consumers age 18-39 who have become multimedia savvy.

With broadband adoption nearing 60% of all U.S. households, DVR usage in all forms expected to be about 20% in 2006, it looks like the "killer application" of new media is what the consumer wants, when they want it, where they want it.

Among the trends and issues that likely will continue to shape media and entertainment in the New Year:

-- Personalized, portable digital media (including powerful cell phones, iPods and laptop computers) will edge out the living room experience of flipping TV channels with a remote control or popping a disc into the DVD player.

-- All content, product and service providers will become more savvy about identifying and catering to individual consumer needs and interests, all of which will command premium pricing. They might be surprised to find that in some cases, content "snippets" might carry a higher price tag than full-length movies or TV programs.

-- The threshold for consumer spending on all forms of media and entertainment will begin to surface. Instead of responding to an explosion of new devices and options, consumers will become more selective.

-- A mushrooming on-demand sector will begin to necessitate changes in business models and forecasts about how and when content-related revenue and profits are generated.

-- Ubiquitous interactivity on a myriad of digital devices and platforms will force the migration of advertisers from static pitches to drill-down layers of product and service information, and the all-important customized transaction. It will make product placement look like a novel fling.

-- Expect the shift in exhibition windows to create new business and economic models. Movie releases might simultaneously occur in theaters and online; the off-network TV series that have fueled basic cable networks might shift to on-demand digital cable; and the content that once drove DVD sales already is at the core of digital downloads.

-- Video games, which recently have taken a breather from industry-leading growth rates, will grow up to become part of a more integrated effort to service consumers' communications, entertainment and information interests and needs. It will put Microsoft's Xbox and Sony's PlayStation 3 on new, more complex multifunction, multimedia playing field.

-- A new science and accepted practice of product and service accountability, and consumer information will rapidly replace the struggling Neanderthal standards of audience measurement, creating more accurate performance metrics for media and entertainment companies, and advertisers.

-- Regulation is rearing its ugly head again with cable operators voluntarily adopting a limited "a la carte" measure rather than having them mandated. Over time and on a broader scale, the movement stands to fundamentally alter media and entertainment dynamics and economics.

-- Print and broadcast television media are due for major upheaval and new survival business models for static players in an interactive world.

Indeed, the entire concept of "value" in media and entertainment is in a state of flux: the value of companies, their products and services, their advertising time and space, their customers. How that value is redefined and redistributed will be the big story of 2006.

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