A black and white photograph of a hand reaching out, palm up, against a background of falling water droplets. The droplets are in various stages of motion, creating a sense of depth and movement. The hand is positioned in the lower right quadrant, with fingers slightly spread. The overall mood is one of reaching, grasping, or presenting something.

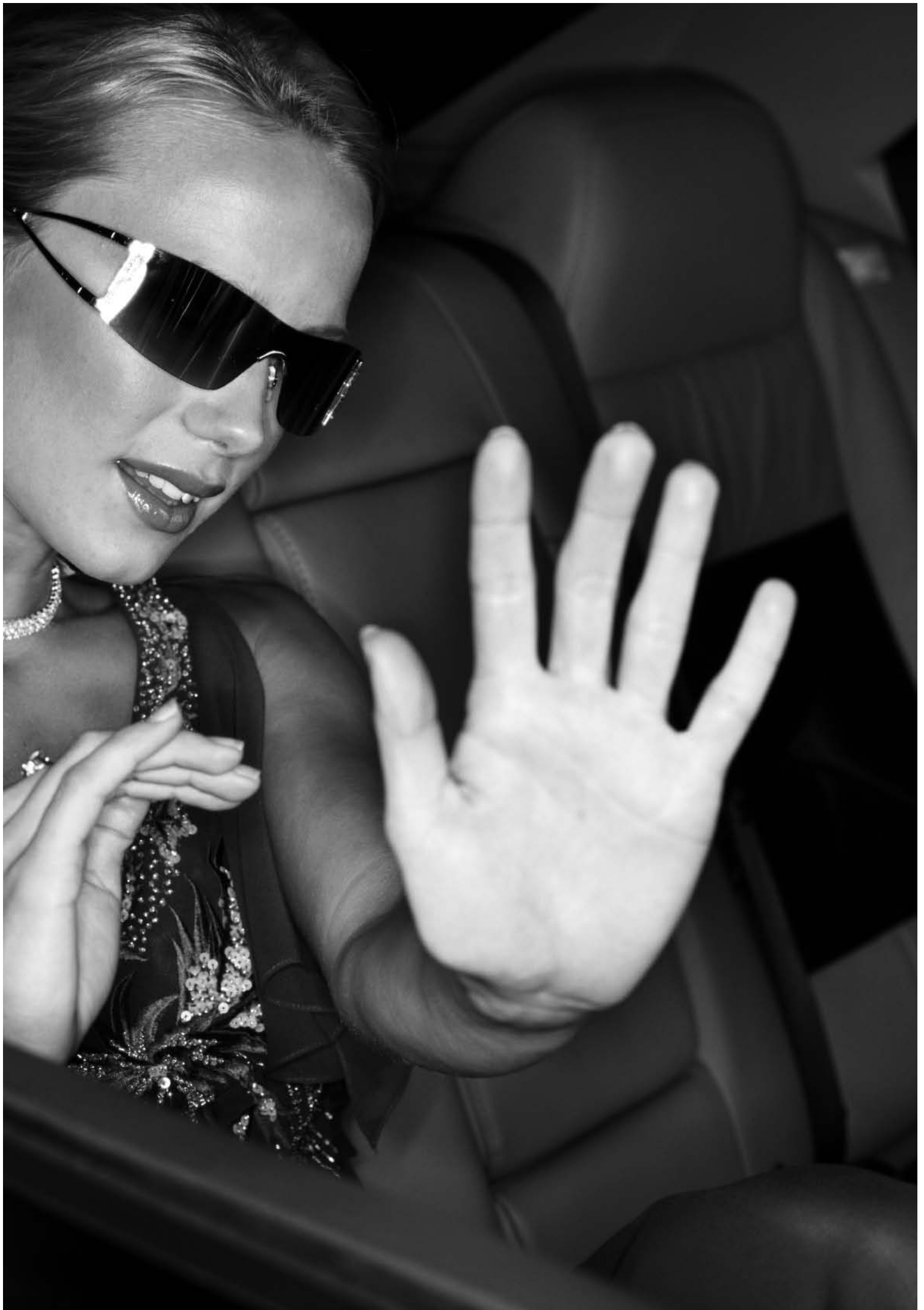
Content: Here,
there and
everywhere

Accenture Media
Content Survey
2006

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King content

Like a Hollywood starlet, convergence has arrived fashionably late to its own party – but what an arrival it has been. The past year has seen a blitz of convergence-related launches, from full-track wireless music downloads and IPTV rollouts, to next-generation mobile videogaming and digital home consoles. It seems a week does not go by without Tom Cruise crashing Terry Semel's Yahoo! event or U2 taking to the stage with Apple's Steve Jobs.

It took a while for the promise of convergence to jump from drawing board concept into consumers' hands, but it's increasingly here now, bringing users media consumption closer to the nirvana of anything, anytime, anywhere.

A confluence of factors have propelled convergence into the mainstream, from digitization of content, to pervasive broadband access and lower-cost, higher-performance technology, and this is unleashing a wave of creative potential across the world – and media content is leading the charge.

As such, content is critical to the growth strategies of telecoms and technology companies, and the mastery of new distribution channels is a strategic priority for media companies. Put bluntly, an IPTV service with poor content is as useful as a cinema without a movie or a newspaper without print.

'Toto, I've got a feeling we're not in Kansas anymore.'

The Wizard of Oz

In order to fill these new channels, hastily arranged pacts are being sealed daily. There is, for all parties, a palpable sense of urgency. But, as Sir Howard Stringer, Sony's CEO, observed at the Consumer Electronics Show in January 2006, "Content and technology are strange bedfellows. We are joined together. Sometimes we misunderstand each other. But isn't that after all the definition of marriage?" Yet, with the market evolving at such breakneck speed, some fear there will be no second chances for those that get left behind.

And, even as opportunities explode for media, convergence poses major challenges to companies looking to monetize their offerings; new technologies and business models are disrupting the traditional media landscape; consumer groups are continuously fragmenting and coalescing into new segments; and executives in media and technology organizations are struggling to map strategies for the journey ahead. It is therefore vital to understand where executives in media organizations – the producers of content – are placing their bets for the next decade of growth.

Accenture's Media Content Survey 2006

To help answer these questions, Accenture recently completed its 'Media Content Survey 2006'. This groundbreaking research project surveyed over 130 of the most influential content executives in leading media and entertainment companies worldwide (spanning the film, TV, music, radio, videogames, publishing and advertising industries). Leading figures in the industry across North America, Europe and the Asia-Pacific region voiced their hopes and their fears, including WPP's CEO, Sir Martin Sorrell, Shanghai Media group's president Ruigang Li, Derek Carter, CEO of EMAP and David Munns, vice chairman of EMI, as well as executives from companies such as Disney, Time Warner, Universal, Sony, MGM, BBC, TF1, Univision, Pearson and Electronic Arts.

We asked these powerful decision-makers to tell us where they believe growth will come from – new channels, new content, or new markets. We sought out their views

on the opportunities and challenges in IPTV and mobile rich media. And we asked them to tell us what they believe will be needed to succeed in the years ahead.

Overwhelmingly, we heard senior executives sharing views that reinforced Accenture's own position on how best to explore the wealth of digital content now being created across existing and developing channels. As an executive from MGM commented, "there will be a rush for us to grab as much distribution as possible...[but] we need a consumer orientation because content providers are overprotective and everybody is nervous of the technology that's coming out." Similarly, a senior Time Warner executive observed, "people have an insatiable demand for content; as the platforms expand, the need to create content to fill these channels...will increase and quality content will be in greater demand."

With technology and creativity hand

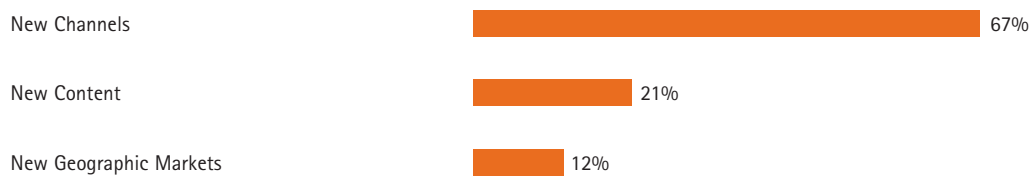
in hand together, content providers and channel owners know that they need each other. But they have to understand each other better. This is essential if they are to establish the relationships needed to deliver high performance convergence offerings.

The following summary presents some of the key findings from our study, as well as highlighting the implications for media, technology and telecommunications companies operating in convergence.

New channels –
the key to growth



Figure 1 – What will drive growth over the next 5 years?



New channels are perceived as being the biggest growth driver for content companies over the next five years. 67 percent of executives across all media sectors are convinced of this, far ahead of the 21 percent placing their bets on new content and the 12 percent who believe new markets will be their main source of growth (see fig. 1). Deal-making is in full flood, as executives in these organizations scramble to identify the best strategy for making content available across the various distribution channels. For example, Warner Brothers and AOL have announced their In2TV venture, while Starz has gone live with its Vongo service. Apple, which initially launched iTunes video services with Disney and NBC, has extended its offering to include MTV, Nickelodeon and USA networks. Deals have been signed between CBS and Google for monetizing content by delivering it across the portal. Similarly, in Europe, operators such as Vodafone have joint offerings with satellite broadcaster Sky delivering channels such as

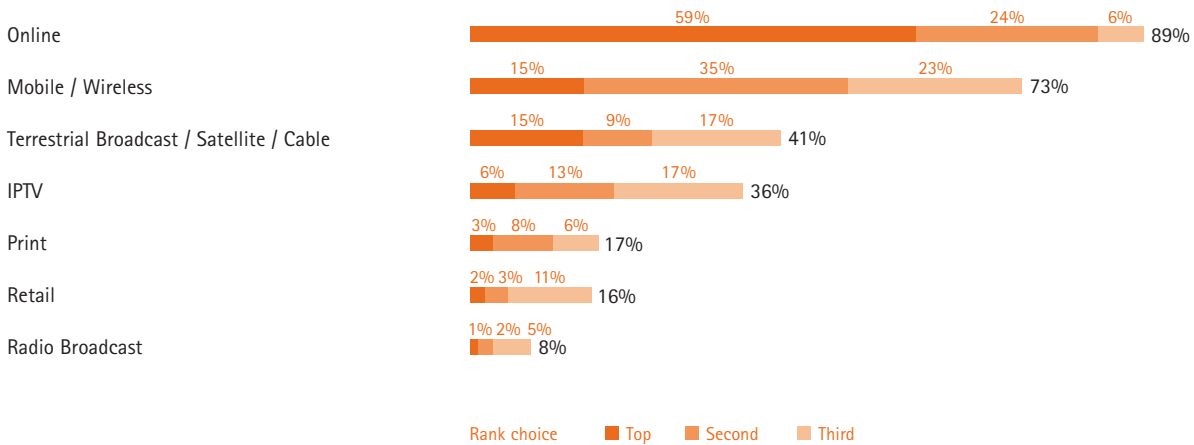
Sky News, Bloomberg and Discovery to subscribers.

Of the various distribution channels, online and mobile/wireless are expected to provide the highest growth opportunities (see fig. 2), although broadcast and IPTV combined is clearly perceived as another major source of growth. In particular, online is being viewed as a beachhead for expanding existing content offerings – whether on television or radio – to new consumer groups and to reduce current customers churning to new content forms.

Of the media sectors, music is the most optimistic about mobile/wireless channels, reflecting the IDC's prediction that revenues in the US wireless music market will skyrocket from \$19m in 2005 to over \$1.2bn by 2009. MTV's \$50m investment in a joint venture with Amp'd Mobile is just one example of the vigorous positioning taking place. Interestingly, music executives are split 50/50 on

Figure 2 – Distribution channels offering the highest growth over next 5 years?

Respondents asked to rank top 3, where applicable.



"Content will have to be adapted to deliver much more mobile and on-demand experience. Content makers are going to be in a strong position as long as they can provide across a range of distribution platforms."

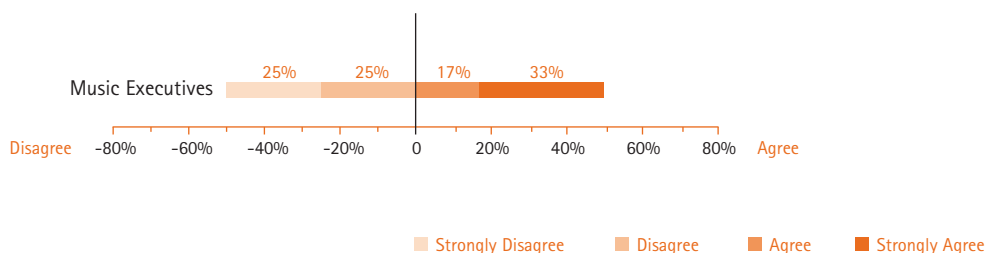
Director, BBC

who benefits most from mobile music, network operators or music owners (see fig. 3). But either way, content must be adapted to the new distribution, as the Vice Chairman of EMI observed, "product development must be geared to change as the channels change, the product must take advantage of the technology".

Of the TV executives, 78 percent believe IPTV will revolutionize the television industry. Of the various territories, Asia is most optimistic about IPTV uptake, as the region, driven by China, skips ahead a technological generation. However, overall, IPTV is not expected to achieve mainstream penetration for at least five years – some two years behind mobile rich media. Lack of consumer readiness is identified as the greatest barrier to its mass market uptake. Convincing subscribers to switch will be an ambitious marketing task and may require lowering prices on other bundled offerings, such as voice and

Figure 3 – “Mobile/wireless music is more important to network operators than in music companies.” Agree or disagree?

Respondents asked to select 1 (strongly disagree with statement) through 5 (strongly agree). A proportion of respondents were neutral.



broadband access. Lack of network readiness is also believed to be a major hurdle, reflecting the time that it is expected to take operators, such as Verizon FIOS, to roll out robust and penetrated offerings. Of course, the fact that 36 percent of senior executives rank IPTV amongst their top-three sources of growth is extremely significant. This is still, after all, a relatively unproven new concept.

In terms of monetizing offerings, advertising supported content is expected to be the most prevalent consumer business model for the next five years (according to nearly 40 percent of executives). However, subscription and pay-per-play will continue to dominate as compelling propositions in the music, film and pay-TV sectors. Advertising executives believe that interactive advertising is poised to revolutionize their industry, with growth driven by mobile and, especially, videogame advertising. Their optimism over interactive advertising reflects the development

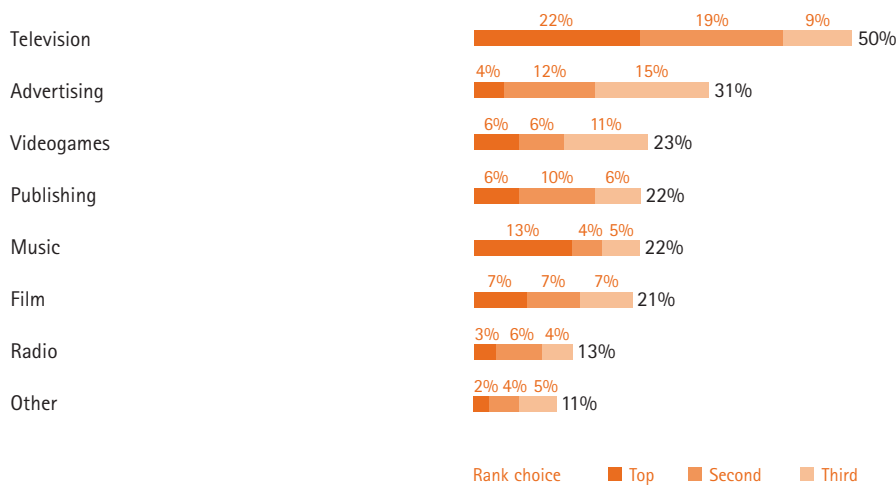
of new devices that will leverage the ability to monitor online behaviors. In this space, 75 percent of videogame executives believe that the X-Box 360 is best-positioned as an integrated digital home device, although half of them believe that PS3 will come to dominate the videogame console market.

Content and the
convergence value
chain – who will win
the growth game?



Figure 4 – Content types offering the highest growth over the next 5 years?

Respondents asked to rank top 3, where applicable.



After new channels, media executives identify new content as the major source of opportunity for the next five years. Accenture forecasts the media and entertainment industry to grow at a 7 percent CAGR over the next five years. Within this, much of the growth will be driven by sub-segments, such as videogames (23 percent CAGR), online content (14 percent CAGR) and television content (7 percent CAGR). Other segments will remain stable or exhibit minor growth, with no market decline forecasted.

Executives in our survey agreed, viewing television and videogames as strongly positioned to be the next most important source of growth in entertainment (at 50 percent and 23 percent of respondents, respectively; see fig. 4), particularly in North America and Asia markets. The advertising sector is especially bullish about growth in videogames, reflecting the ability to track customer usage and demographics with connected next-generation consoles.

It will be the content providers that are best positioned to take advantage of these opportunities, as 83 percent of executives expect content to remain king for the time being (see fig. 5), having rated 'Content Providers' as one of the top 3 choices in 'Who is best positioned along the value chain?'

However, the traditional power structure is being challenged. Software and internet companies are moving into powerful positions – particularly so in Europe. 67 percent of executives surveyed saw software/internet companies as the one of the most important challengers (executives chose it within their top 3 ranking).

Meanwhile, content executives clearly believe telecoms companies are better placed than cable/satellite providers. Music companies, in particular, see power shifting emphatically into the hands of telecoms companies, powered by the expected upsurge in

"The content providers are ultimately in control, as content is king and platforms come and go."
SVP, Comcast

Figure 5 – Sectors along value chain who are best positioned

Respondents asked to rank top 3, where applicable.

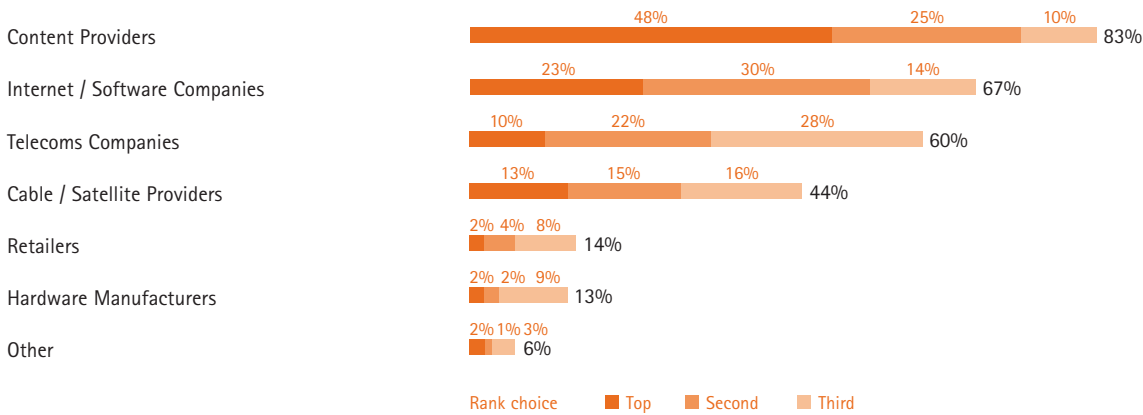
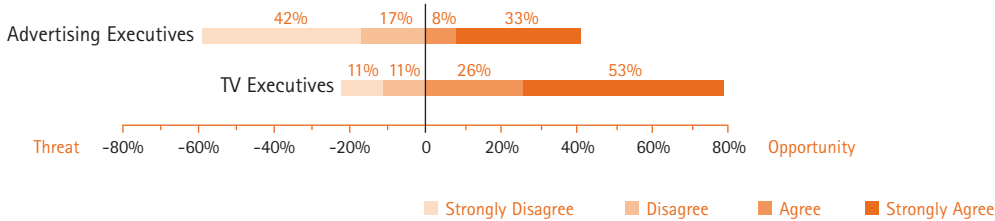


Figure 6 – DVRs and TIVO – opportunity or a threat?

Respondents asked to select 1 (strongly disagree with statement) through 5 (strongly agree). A proportion of respondents were neutral.



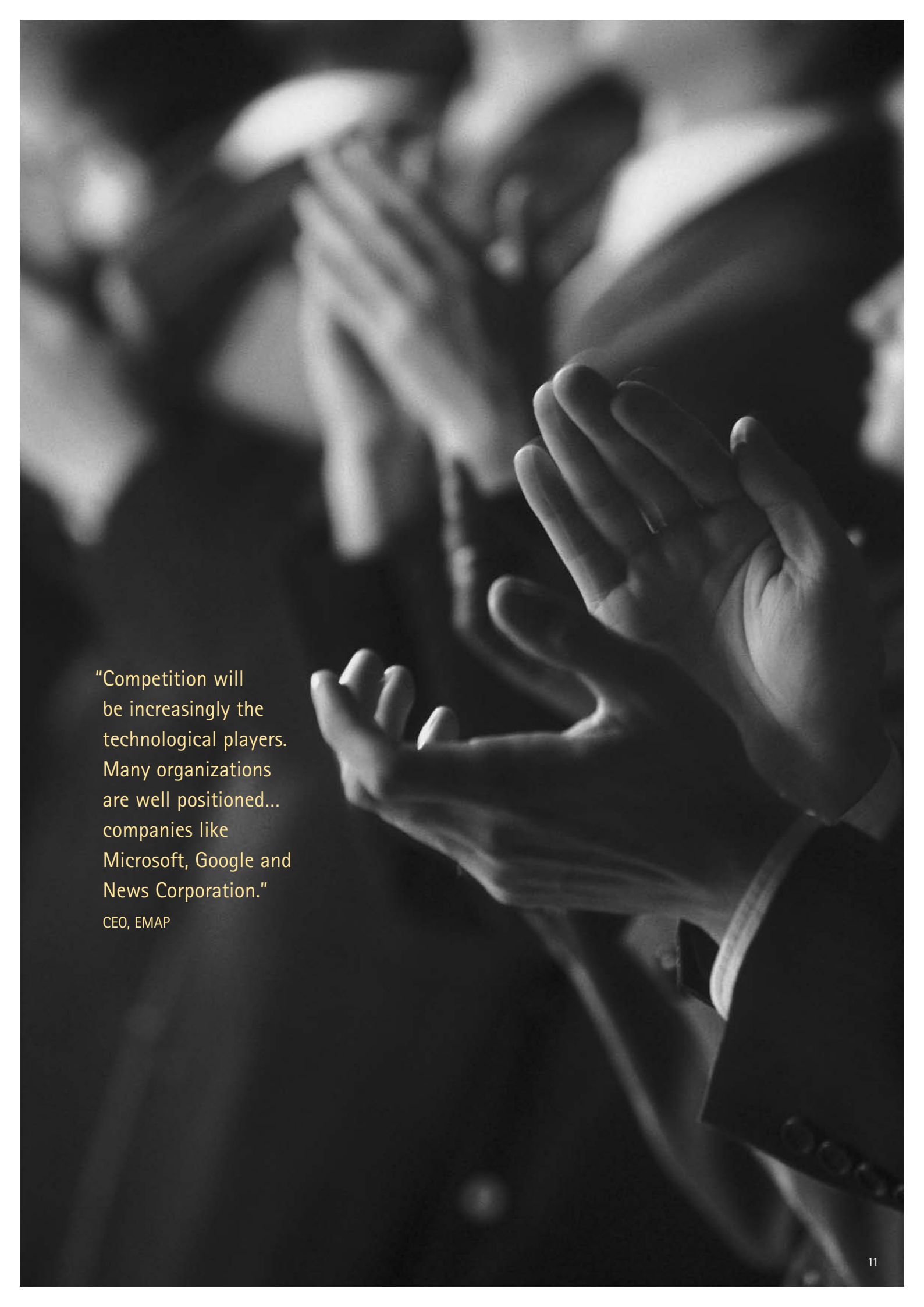
mobile music revenues. Reflecting the legacy of electronic hardware in the region, Asia-based executives expect to see growing strength amongst hardware companies and retailers.

Most media executives see cross-sector competition as the greatest threat to their businesses. Interestingly, technology – the source of so much opportunity – is seen as a double-edged sword, with P2P and piracy both causing real uncertainty and fear. However, each industry sector sees different threats emerging. To break this down, music executives are most concerned by technology and price pressure; publishing executives are nervous about price pressure and cross-sector competition; and TV and film executives are worried by cross-sector competition and technology.

Executives in the advertising and TV industries are diametrically opposed where video search and DVRs are concerned (see fig. 6). TV executives

view these as very positive developments for their industry – advertising executives see them as their biggest threat. The reconciliation of such opposing viewpoints in two such interdependent sectors is clearly a priority.

Such tensions are illustrative of the differences in opinion as to what the future business models will look like. Nearly 40 percent of executives believe advertising-supported models will dominate in five years, whereas over 30 percent saw subscription leading, with 25 percent seeing strength in a la carte or transactional models. Sub-sector differences also show interesting effects, such as 7 percent of music executives seeing advertising as viable – from almost zero percent today – as well as nearly 50 percent of videogames executives asserting that advertising will be a leading business model in their sector.



"Competition will
be increasingly the
technological players.
Many organizations
are well positioned...
companies like
Microsoft, Google and
News Corporation."

CEO, EMAP

New Markets – a massive opportunity, but not yet

“The potential for developing a market in the Chinese media industry is very great...But don't be too optimistic. Policy adjustments are moving slowly.”

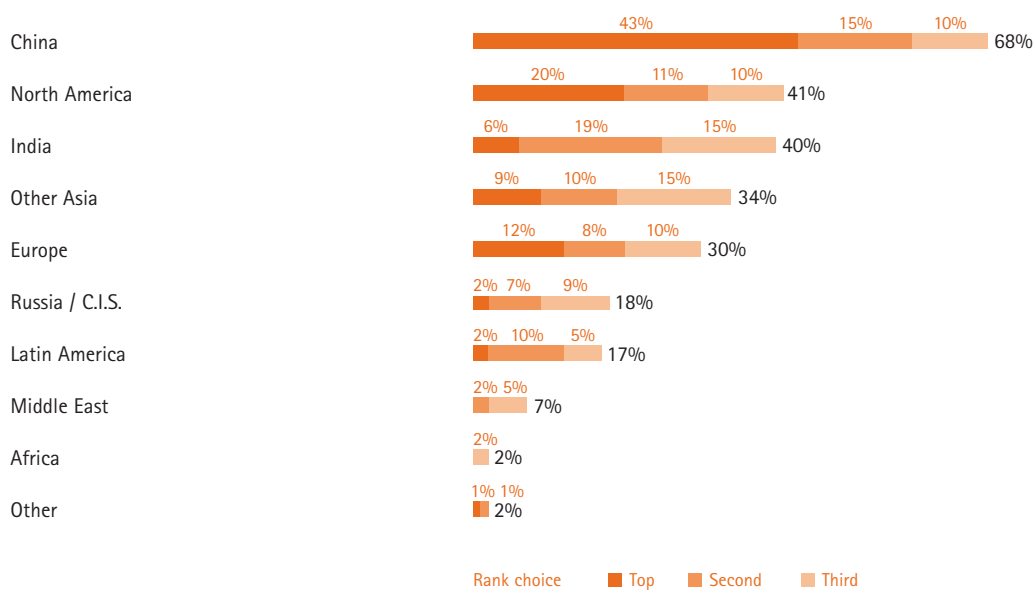
Executive, Shanghai Media Group

New markets have traditionally been a major source of growth in the media content space. Whereas Hollywood's focus was originally in the domestic market, the international box office has risen to be at least half of its takings. However, while executive focus has shifted to new channels, the promise of new overseas markets still represents a major source of opportunity.

Overall, Asian countries are viewed as the key to geographic growth, with China leading the field for 68 percent of executives, who believe China is a top three territory for overseas expansion (ahead of North America at 41 percent of respondents and India at 40 percent; see fig. 7). The principal attractions are the gross size of the Chinese market, the rich demographics clustered in urban areas, and a generally under-served market for content. Music executives are the most optimistic about China, reflecting the opportunity for mobile rich media in such a massive market.

Figure 7 – Geographic markets providing the most attractive growth potential?

Respondents asked to rank top 3, where applicable.



Yet, surprisingly, despite its attractions, one-third of all media executives have no plans to start investing in China for at least the next five years and another 19 percent do not plan to start investing there for at least 12 months. Other than companies from the Asia region, Europe-based organizations are most willing to invest in China (nearly half the North American media executives had no plans to invest there for at least the next five years).

That said, the Chinese government is working hard to ameliorate the situation, and the vast majority of media executives (81 percent) expect the investment climate there to improve in the run-up to the 2008 Beijing Olympics. Executives are excited by the great, and as yet almost untapped, demand for 'Western' content. Video-based content (film, TV and videogames) is best positioned for success, driven by the ease with which this content can be dubbed, as well as the

pervasiveness of imagery. Music is, by contrast, considered a more localized – and less culturally portable – medium.

As a strategy for entering the Chinese marketplace, media executives are strongly in favor of locally-adapted content (75 percent agreed), delivered through joint ventures with local companies (77 percent agreed). If they are to be effective in new geographic markets, there is emphatic agreement amongst media executives (at 90 percent of all respondents) that their organizations will need to be decentralized, as opposed to being controlled at a global corporate level.



"The competition will be more global. We expect fewer but much bigger competitors and heavy competition from Asia."

Group CFO, Bertelsmann



Implications

Just a few years ago, media companies were most worried by intra-sector competition. Those days are gone. Today, cross-sector competition is the main threat. Increased activity along the convergence value chain is creating fundamental shifts in the corporate landscape between the communications, high technology and media industries. The boundaries between markets involved in convergence are becoming increasingly blurred, as telecommunications operators move into offering content, device manufacturers launch IP-based delivery channels and content companies move into communications offerings.

In this landscape, as our research made clear, the keys to success from now on will be speed, flexibility and innovation. The main implications for companies developing converged propositions are headlined opposite:

“We have to be very innovative and open to new competencies. That implies big changes in the companies’ structures and organizations. I expect a very turbulent future.”

Director, RAI Broadcasting

1. The need for flexible partnerships

To combat the threat of cross-sector competition, companies need to develop agile and adaptable partnerships that enable them to extend their capabilities at scale and speed. Sprint’s push into mobile TV is supported by the offerings that are made available through its partnership with MobiTV, for example. These partnerships will be needed most in areas where companies currently have limited assets (such as telecoms companies in content), where scale or local knowledge is necessary (in foreign markets, for example), or where cost is too high a barrier to entry (as with the deployment of a new network for mobile virtual network operators/MVNOs).

Any decision to provide end-to-end convergence solutions will mean that new competencies have to be developed – and for many companies,

it will be quicker to acquire these, than to grow them. However, mergers, acquisitions and joint ventures are challenges in themselves, requiring a significant investment of time, resource and cash to execute successfully – especially in post-merger integration. The reality is that all camps in the convergence marketplace, media, technology and broadcast companies, have much to gain from collaboration – and much to lose from direct competition. By working together, they will be able to tailor/adapt content that is truly capable of leveraging the real differentiators and idiosyncrasies of each platform. Content providers and advertisers will obtain rich and detailed information on consumer usage/preferences and reach new demographics. Technology companies will be able to avoid the very real risk of disintermediation (the process by which content providers establish relationships direct with end-users). And broadcasters will be able to ensure that their audiences reap

"Our industry is going through a change as seismic as when TV moved from broadcast to cable 20 years back. Industry will own retail channels to sell [to consumers] 24/7. There's constant interaction with the consumer. New transactions are going to be smaller in size, but greater in frequency."

Director, Electronic Arts

maximum value from their content in a multi-platform world.

2. Understand your consumers

Clearly, all companies must move quickly to take advantage of what these new channels have to offer. This means providing the market with a compelling and relevant proposition – placing consumers front and centre of the equation – giving them what they really want, not just what is technologically feasible. This was underlined by a senior vice president at Time Warner, who observed, "there will be a rush for us to grab as much distribution as possible....[but] we need a consumer orientation because content providers are over-protective and everybody is nervous of the technology that's coming out." By using technology to develop an in-depth understanding of their customers, media companies will be able to close the loop. This will help them to develop new products and

services that mesh with customer preferences. When products prove unsuccessful in beta, they will need to learn to accept failure and move on. And when they prove successful, they will need to have the associated technical architectures and business operations to scale that success as fast as possible. By taking this approach, YouTube, an online video-sharing service has been able to scale from launch in 2005 to serving over 15m videos per day and handling 20,000 new video uploads a year later.

3. Make the technology work for you

Given the breadth of new products, services and channels that convergence offers, companies need to iterate new pricing structures that move beyond traditional business models. Recognizing this, media companies are slowly opening up their content libraries to new digital platforms, including Apple's iTunes,

mobile carrier portals and Google video. They need to take advantage of channel growth by integrating platform networks and ecosystems to allow the porting of content across platform – from cell phone to cable to DVR – giving users the freedom to experience digital assets anytime and anywhere. SlingBox, for example, has risen to be a leader in content porting by allowing users precisely this flexibility. And, crucially, they will need to plan for long-term operational efficiency. From a technical infrastructure perspective, they will therefore have to consider architectures and business decisions that bring down core technical operations costs over time.

“Executive staff must start thinking in a new way or businesses will fail. It’s time to throw out the old models, and be more techno-savvy.”

SVP, Fox Sports

That's a wrap!

William Goldman, the acclaimed writer of *All the President's Men* and *Butch Cassidy and the Sundance Kid*, once observed that in Hollywood, "no one knows anything". In digital convergence today, there's the sense that – for all the debate and rhetoric – no one really knows how the next five years will play out in the world of content or technology. But, at Accenture, we believe that the results of this survey will illuminate the path for those that choose to play. There is plenty of opportunity and there will be many challenges, but the overwhelming sentiment is that now is the time for execution.

The question we will be left to wonder is, who will be there to take their bows when the curtain goes down?

Accenture Convergence Group

For more information on this study and what Accenture can do to help you reach high performance in your convergence business, please contact:

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Email: comms.and.high.tech@accenture.com
and write "Content" in the subject line.

Methodology

The Accenture Media Content Survey 2006 is based on face-to-face and telephone interviews with over 130 senior executives at leading TV, film, music, publishing, videogame, radio and advertising companies around the world. Interviews were undertaken by an independent third party research company during January-February 2006. Quantitative outputs were analyzed by Accenture using SPSS. All efforts were made in good faith to secure a balanced and representative sample of respondents.

Authored by

Jamyn Edis and Gavin Mann

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 129,000 people in 48 countries, the company generated net revenues of US \$15.55 billion for the fiscal year ended Aug. 31, 2005. Its home page is www.accenture.com.

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