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EXECUTIVE

Insights

Hidden Opportunities in New Media: Opportunities Uncovered and Myths Debunked

As new technologies emerge, the where, when, and how of media consumption continues to change, creating new profit opportunities. These changes have major implications not only for media content providers and distributors, but also for advertisers and investors.

L.E.K. Consulting has documented these trends and opportunities in its second annual “L.E.K. Hidden Opportunities in New Media Survey.” L.E.K. Consulting has again measured changes in media consumption and the underlying motivations driving them. The research findings uncover new opportunities for media companies and advertisers to consider, expose several major myths about new media usage, and confirm several of today’s media market realities. L.E.K. interviewed more than 2,000 U.S. households and found several surprising implications for the way consumers use both old and new media.

- Consumers reported that they increased their use of “all-you-can-eat” subscription-based media in lieu of transaction-based media

- The “e-reader Republic” is here – e-readers are a big driver of growth in the book and magazine markets, and e-readers are also significant consumers of new media overall
- Consumers are multi-tasking more than ever on the Internet, and advertisers may find that because online is largely supplemental to traditional media, that synergistic multi-platform campaigns (e.g. Internet + TV, etc.) may well be the best way to reach this increasingly “plugged in” audience. Additionally, TV and radio ads can effectively become “interactive ads” for multi-taskers.

This *L.E.K. Executive Insights* report summarizes the survey’s principal findings:

- **Five New Media Opportunities to Consider**
- **Three Myths Debunked**
- **Four Market Wisdoms Confirmed**

Five New Media Opportunities to Consider

1. Online video content can be lucrative, but the optimal delivery is through the cable bill

- If offered at a perceived good dollar value, up to 38% of consumers reported they would definitely or probably pay a fee on top of their cable bill to gain access to their cable content online and on their mobile phones

2. E-readers are driving readership and becoming a growth driver for the book and magazine market — the “iPod Nation” consumer segment is good, but the “e-reader Republic” offers even more opportunities for new media services

- Among active readers who own an e-reader, about 48% reported reading more books as a consequence of having such products, as compared to those who do not

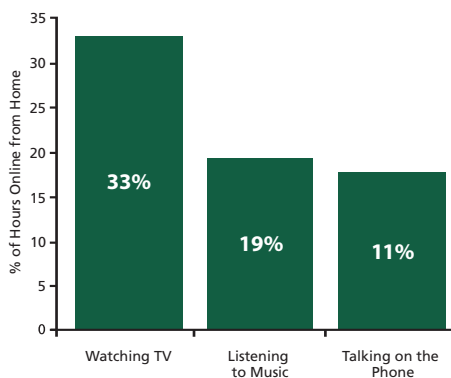
Hidden Opportunities in New Media: Opportunities Uncovered and Myths Debunked was written by Dan Schechter and Bret Masterson, Vice Presidents within L.E.K.’s Media & Entertainment Practice.

own an e-reader where only 15% reported reading more books (44% vs. 23%, respectively for magazines)

- 36% percent of the books read by people with e-readers represent incremental consumption— meaning more than one-third of the books read on e-readers would not have been read in print
- 40% of respondents indicated that affordability of books on e-readers was driving their increased consumption, and 47% indicated the release of more interesting books as a reason for spending more time reading print media (likely due to better discovery on e-readers)
- iPod owners consume roughly 14% more new media (8.9 hours vs. 7.8 hours per week) than the general population, while e-reader owners consume a whopping 18.2 hours of new media per week in comparison

Figure 1

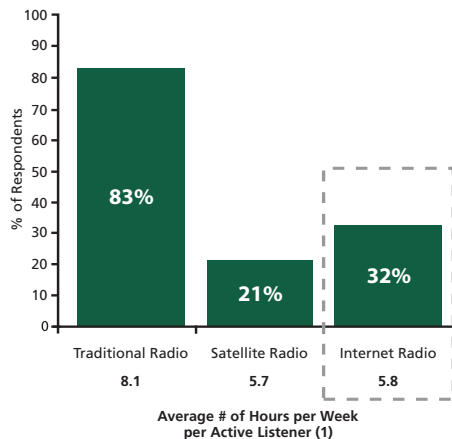
Multi-Tasking On Other Media Types While Online at Home (1)



Note: (1) "What percentage of the time you spend online at home in a typical week is also spent doing something else?" (n = 1,987)
Source: L.E.K. Media Consumption Survey (December 2009)

Figure 2

% of Respondents who are Active Radio Listeners (1)



Note: (1) "How much of the following do you watch/consume in a typical week?" (n=2,008); "Active" listeners indicated at least some consumption of the respective radio type per week
Source: L.E.K. Media Consumption Survey (December 2009)

3. Consumers are multi-tasking while online, specifically watching TV and/or listening to music – advertisers should note and take advantage

- 33% of the time during which consumers are online at home is simultaneously spent watching TV
- 19% of their online time is spent simultaneously listening to music, and 11% is spent talking on the phone

4. Internet radio is finally becoming relevant

- Among active radio listeners, 32% use Internet radio services on a weekly basis, logging an average of 5.8 hrs per week per user

5. Don't forget about new media for people over age 50, a potential new growth area

- Average reported time spent online increases with age, while activities differ from younger to older consumers (while 25 to 39 year olds report 6.8 hours per week, the 50 to 64 year old age group reports 8.3 hours per week)

Three Myths Debunked

Myth 1 – TV is "old media" that will be ravaged by Internet cannibalization

- Television still rules and remains the largest media form by far in terms of time spent by consumers, who spend 38 reported hours per week watching TV, versus 8 hours on the Internet
- DVRs are powering TV growth, with a reported 39% of TV viewing occurring after a program's first airing. And 23% of DVR owners indicate they are viewing more cable TV, versus only 10% of DVR owners who indicated that they are watching less cable TV
- However, local TV is not faring as well, and may get caught in the downward spiral that newspapers are experiencing (local

Figure 3

Average Mean Hours Consumed Per Week by Major Media Types (2009) (1, 2)

Media Type	2009
Internet	7.6
TV	37.6
Radio	9.8
Movies	2.9
Games	7.5
Print	7.1

(1) Reported Internet usage time per week adjusted in a ratio of average time spent as measured by 3rd party sources to reported Internet usage time within survey, given that survey was sampled from online panels. Reported TV usage time per week adjusted to mean time as measured by Nielsen in Q3 2008

(2) Numbers shown are rounded to the nearest decimal point
Source: L.E.K. Media Consumption Survey (n=2,008), Nielsen, L.E.K. Analysis

TV was the *only* TV category whose reported viewing declined)

- Online TV is still very small, accounting for only 1% of total TV hours viewed

Myth 2 – This year’s rosy box office numbers (a 3% increase in admissions) mean that everything is “just fine” for the movie theater industry

- It seems that the box office is up this year because the number of casual moviegoers surged
- But active moviegoers (those who typically see one or more movies a month) are self-reporting a 10% drop in the number of movies they watch in a theater, with 56% of those going to fewer movies indicating that the cost is too expensive
- The “success” is modest and fragile

Myth 3 – Softness of DVD sales is due to the recession

- DVDs may not “snap back” after the recession with 80% of consumers indicating that they will not return to “pre-recession” DVD purchase levels — even with a restored economy and improved personal finances
- 34% of consumers indicated that DVDs are too expensive, and 27% indicated that renting is more convenient and/or a better value than buying

Four Market Wisdoms Confirmed

Sometimes, however, the more things change the more they stay the same. The L.E.K. Hidden Opportunities in

New Media Study also confirmed four market wisdoms.

1. Newspaper readership continues to experience a slow death

- Physical newspapers are losing relevance as consumers access the same content more conveniently from online sources (31% of respondents cite access to other methods as a reason for spending less time reading printed newspapers)

2. Flat-priced “all-you-can-eat” media work better in recessions than transaction-based media

- Consumers do not cut back on key subscription services, even when times are tough
- A net 6% of consumers increased viewing of cable TV and 27% increased their online activities (both require subscriptions)

3. “Life requires a soundtrack”

- Music is second to TV and ahead of Internet in terms of the amount of time spent on the medium
- 52% of music is consumed via radio

4. Internet usage continues to eat into other media categories and personal time

- Increases in online usage by consumers are pressuring other media categories given the limited amount of available “free time” for entertainment
- 57% of consumers reported they would increase Internet time if they had more free time. The next most popular choice for free time allocation was network and cable TV at 38%

Conclusion

According to the L.E.K. Hidden Opportunities in New Media Survey, Internet and TV consumption appear to be more resilient in today’s weak economy compared to movie-going, DVD rentals and transaction-based media. In particular, as DVD sales remain soft, studios need new pricing models and windowing strategies.

And as consumers continue to multi-task more and more, advertisers should consider Internet radio as an up-and-coming media outlet since 19% of people spending time online for various purposes are simultaneously listening to music via the Internet.

Additionally, the “e-reader Republic” is a growing and largely un-mined demographic. E-reader users consume a remarkable 18.2 hours of new media per week in comparison to the average consumer. This area has seen major growth in the past year, and promises more as a greater selection of books become available in this format, and competing e-readers begin to gain market share.

Based on this data, it is clear that economic climate and time pressure have caused major changes in consumer behavior which will last well beyond this past year. As new types of media and new consumer demographics move to the forefront, media companies and advertisers that understand and act on these changes can emerge as the winners.

For more information on our study and its findings, please email mediaentertainment@lek.com

L.E.K. consulting is a global strategy consulting firm that specializes in corporate strategy, transaction services, and performance improvement.

Founded in 1983, L.E.K. currently employs over 900 professionals in 20 offices worldwide. Global clients include Fortune 500, FTSE 100, Eurotop 300, and many of the largest firms in Asia Pacific. With a reputation for solving the most complex issues, L.E.K. collaborates with business leaders to accelerate the pace and precision of strategic decision-making. As a leading advisor to the media and entertainment industries, L.E.K. possesses a deep understanding of the ways new entertainment technologies and a multitude of delivery platforms are transforming the industry. L.E.K. has worked with some of the most recognized companies in the business to assess and mitigate potential risks and uncover opportunities. Areas of expertise include broadcast and communications, filmed entertainment, ancillary markets, music, print media, destination, site-based entertainment, and sport.

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