

Generating Growth in the Media Industry: How TV Networks Can Reach New Heights

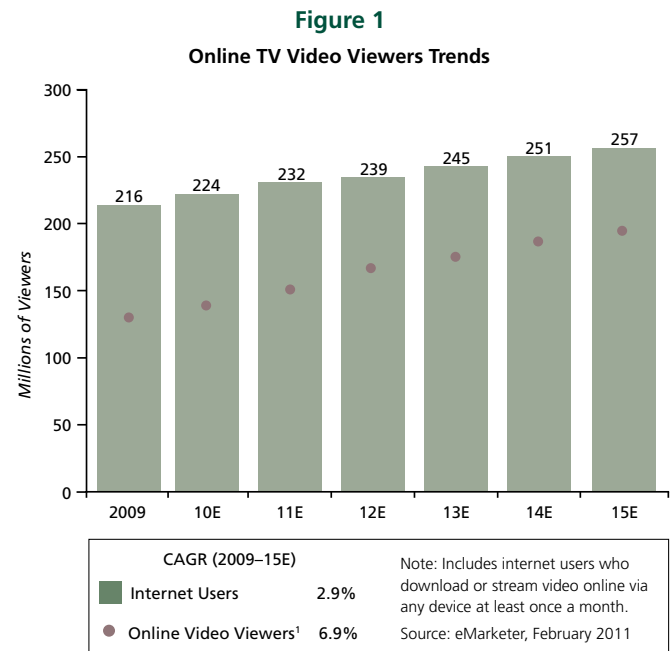
In part three of this series, L.E.K. Consulting examines how TV networks can increase their levels of success by drawing from the success of social and casual games companies.

The TV landscape has become increasingly saturated during the last few decades with more offerings from both broadcast and cable networks. In 1985, the average household had access to 12 broadcast stations and a total of 19 channels. By 2005, the average household had access to 96 channels of which only 16 were broadcast stations. In addition to a saturated TV market, TV networks now have to compete with numerous new media platforms for the attention of consumers (e.g., social networks, internet video clips, social games, etc.).

The Move to Online Consumption

Consumers still have a significant appetite for TV content, but they are adopting alternative video consumption platforms (e.g., Hulu, Netflix, etc.) at a rapid rate. The total number of Americans who view videos online is expected to grow at a rate of approximately 7% annually during the next five years, climbing to almost 196 million viewers by 2015 (see Figure 1).

As a result, identifying who owns the right to disseminate TV programming on these new platforms has recently emerged as a key issue. Multiple System Operators (MSOs) have indicated a desire to display content on additional platforms (e.g., mobile devices, tablets, etc.) without further compensating cable networks, though some networks contend they do not have the right to do so. In March 2011, several TV networks demanded



that MSOs stop making their content available on tablets, including iPads.

Despite complying with the demand, MSOs have stated that they are willing to fight for the right to show TV content on tablets and other alternative platforms. Time Warner Cable, for example, publicly stated that it has "...every right to carry

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the programming on our iPad app....[and] we will pursue all of our legal rights against the programmers who don't share our vision."

The Increasing Cost of Television Programming

TV networks are also facing pressure on the cost side. Industry participants have stated that the costs associated with making quality programming available on television are increasing, while the alternative video distribution platforms that capitalize on consumers' appetite for online content have a lower cost structure. A senior executive at a large cable network discussed these cost pressures during an interview with L.E.K.:

"Costs are going up to both produce content and acquire it. Distributors used to pass these costs onto consumers, but consumers are becoming increasingly unhappy about increased costs at a time when they are also challenged economically. They are looking towards alternative platforms such as Netflix. They see similar content available for \$8 per month elsewhere, which further adds to the problem."

Opportunities and Challenges

The shift in consumer preferences toward watching content online represents a potential opportunity for TV networks. Taking advantage of this opportunity, however, will require confronting a number of challenges:

1. Streaming content online has been hard to monetize to date, because currently the only revenue opportunity is through advertising.
2. Online content has the potential to cannibalize current TV viewers, and ultimately ad sales.
3. While advertising CPMs are higher for online streams than broadcast network CPMs, they are not high enough to make up for the fact that advertising inventories (spots per minute) on major online channels are roughly a quarter of what they are on traditional TV.

4. Distribution of content online could potentially limit the ability of TV networks to negotiate higher retransmission or affiliate fees.
5. To date, TV networks have not consistently developed online-only content that has been effective in engaging large numbers of TV viewers online.
6. Established incumbent players (e.g., Hulu, Netflix, etc.) that serve as portals for multiple content providers limit what a single TV network can do on its own.
7. Profiting from online content requires that networks be able to retain online and mobile rights for programs, which is not necessarily the case under many current co-production models.

Lessons from the World of Social Gaming

Social gaming is a new industry that has used several online monetization and promotional strategies with much success. Despite its infancy, the social and casual gaming industry exhibits several similarities to the TV industry:

1. Seeking monetization methods beyond traditional

advertising: Several social gaming companies have effectively leveraged monetization methods in addition to traditional advertising, such as micro-transactions which require viewers to pay a small fee to access content. TV networks, particularly those on the broadcasting side, are likewise seeking ways to generate revenue from additional sources.

2. Compounding effects for success: People sometimes join a social game in part because their friends play it, and they fear feeling left out. This is similar to someone watching a particular TV show in part because a consumer does not want to be left out of "watercooler" conversations.

3. Easily identifiable performance metrics: Social game developers consistently monitor metrics such as monthly average users and total hours played much in the same manner that TV networks look at Nielsen ratings. Both industries try to bring in

new consumers while at the same time introducing mechanisms to encourage existing viewers to consume more.

Given their similarities, TV networks can use lessons from social and casual games to evolve and overcome the challenges associated with the distribution of content through alternative platforms. These lessons include:

A. Offer Premium Subscription Products

1. Enable consumers to upgrade their online viewing to a higher resolution and/or an ad-free option for a given monthly or annual fee.
2. Allow users to customize their subscriptions to gain access to the full network, specific programs, or specific events (e.g., live sports), and adjust pricing accordingly.

Social gaming portals have had success using subscription models. For example, iWin is a social/casual gaming portal that leverages some of the above concepts. iWin users pay a monthly subscription fee of \$6.99 for the right to download one ad-supported game a month or \$9.99 for unlimited, ad-free access to any game on the site.

TV content providers have already started to utilize subscription products as a source of revenue:

- **Hulu Plus:** This service provides users with additional features that are not found on the free version of Hulu, such as HD video quality, entire current seasons of shows, and the ability to watch Hulu across additional platforms (e.g., Playstation 3, Roku, etc.).
- **Playon.TV:** Users of the free version of Playon.TV are only able to stream limited content to their TV, such as YouTube, while pay subscribers get a much broader platform base of channels (e.g., Viacom Channels, Hulu, Pandora, etc.).

B. Leverage Customer Relationships to Offer a Customized Experience

1. Keep track of online viewers and motivate or require them to sign in with an email address and pertinent demographic information; offer incentives to those who participate.
2. Leverage the database of digital consumers to promote new shows and series.
3. Tailor advertising and lead generation to the customer's specific demographics and viewing habits.
4. Provide incentives for viewers to engage with advertisers, such as offering access to additional content, in-game currencies or free subscriptions in exchange for answering advertiser surveys or buying products.

Social games have used a broad range of tactics to build and leverage relationships with customers. One example is Applifier, which is a cross-promotion tool that developers can incorporate into their games. Applifier is a dynamic banner advertisement with several key features:

- **Retargeting:** Game developers can choose which ads users see based on how often they play a game as well as the last time they played the game.
- **Geo-targeting:** Applifier allows advertisers to localize their ads and display them to users based on their location.
- **Favorites:** The games a user plays most frequently can be automatically added to a favorites list that provides the user a shortcut back to a game's location.
- **In-game promotional tools:** Applifier enables game developers to provide ads that offer incentives for consumers to play a game more. For example, users may be offered free virtual currency for playing the game again the next day.

TV networks can use similar tactics to entice users to consume more content as well as to optimize the overall user experience by providing customized ads and offers. TV content providers are already starting to leverage some of these strategies:

- **USA Network:** USA operates a virtual point system that consumers can use for bragging rights with their friends and as an exchange mechanism for real rewards. Users must sign up and provide demographic information (e.g., age, zip code, gender, etc.) to participate in the system, and they receive 500 points as a bonus for signing up.
- **Hulu:** Hulu users can provide feedback regarding which advertisements are relevant to them to better optimize the advertisements they see.

C. Create a Social World

1. Create an online community where friends can read about, watch and respond to programs dynamically, whether they watch online or through cable. Structure the community so that viewers can gain access to comments and participate in conversations based on what they have viewed.
2. Build an incentive program to motivate participation and continued viewership. For example, users may be allowed to purchase credits or earn them through lead-generation activities. These credits could then be used to get simple rewards (e.g., access to additional content, in-game advantages, etc.) or to buy show merchandise.
3. Enable features that update users' friends on actions the users have taken (e.g., earned points for solving a puzzle, viewed a show or advertisement they liked, etc.).

Zynga's FarmVille is a popular game that demonstrates the value of a social world. Users require the help of their friends and in-game purchases to construct larger farms that yield more exotic crops. The involvement of one's friends keeps users coming back for both cooperative and competitive reasons. Quitting costs become higher for users as they "level-up" because of

time invested to earn additional features and their position in their respective farming communities.

TV content providers are already starting to leverage the capabilities of social worlds:

- **Comedy Central:** Users of Comedy Central's web site can sign up and participate in social networking activities such as community forum chats, status updates and the exchange of photos and videos.
- **Fox.com:** Fox has started the infrastructure for a social world by enabling users to create profiles and gain access to features such as blogging, updating one's mood, adding friends, leaving comments and sending messages.

D. Connect Interactive Social Games to TV Shows

1. Link hit shows to game concepts that resonate with consumers to increase consumer affinity and investment in shows (e.g., "Grey's Anatomy" paired with a hospital building game, "The Sopranos" paired with a Mafia Wars-type game, "Law & Order" paired with a detective game, etc.).
2. Leverage the game as a tool to generate live and active viewership of shows, limit cannibalization of content on TV, and/or open up additional monetization mechanisms via subscription and freemium models.
3. Use events on the show to trigger an in-game action the user must take in order to earn credits. The size of the reward is correlated with the speed with which the user completes the action after the live trigger event.

Social games have the potential to not only serve as an additional revenue stream for TV content providers but also as a cross-promotion mechanism for both revenue sources. In effect, a TV network could use television shows to promote social games and vice versa, increasing the popularity of and revenue earned from both. TV content providers are already starting to incorporate the use of social games into their business models:

- **USA.com:** USA has created casual games around some of its hit shows (e.g., “Burn Notice,” “White Collar,” etc.) that enable users to earn points by completing certain actions. These points can then be redeemed for real rewards. All users are shown a list of top scorers.
- **ABC.com:** ABC has launched apps (e.g., Grey’s Anatomy Sync) that enable users to “check-in” and earn virtual badges, share comments with other viewers and take polls and quizzes in real time.
- **Syfy:** The cable channel announced that it plans to launch social games on Facebook toward the end of 2011. The games will be tied to Syfy original programming as well as similar shows on the network.

Key Takeaways

The increasing popularity of alternative distribution platforms for TV content is changing the TV landscape. Although this shift is presenting TV networks with significant challenges to their future growth and relevance, the thriving social gaming industry offers a number of ideas for leveraging the opportunities that these new distribution platforms provide. L.E.K. can aid TV networks in identifying applicable ideas from the social gaming industry that can be used to drive new growth opportunities.

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