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Insights

Hidden Opportunities in New Media: The Impact of New Technologies and the Recession on Media Consumption

New L.E.K Consulting research (including a proprietary study of over 2,121 households) has debunked five major myths about new media usage and uncovered opportunities for media companies. The five myths are:

1. Myth: “New media is only for the young.”

Opportunity: “Seniors are the undiscovered market for new media.”

- Among active Internet users, those over 50 years old actually logged the most time on the Internet;
- Average time spent online increases with age (while 18–24 year olds report 6.8 hours/week, the 50–64 year old age group reports 8.1 hours/week).

2. Myth: “Traditional demographics alone (e.g., age, gender, wealth) explain new media usage.”

Opportunity: “Membership in iPod Nation can be more telling.”

- Of medium and heavy users of new media, 73% own a portable music device;
- The “iPod Nation” (the group that owns portable media devices) is more likely to be increasing consumption across all media platforms.

3. Myth: “Wealth is driving the adoption of new media.”

Opportunity: “Advertising, low-cost subscriptions and microtransactions open up the market.”

- Within the consumer segment showing the heaviest usage of new media, most are not wealthy.

4. Myth: “Games are a niche activity.”

Opportunity: “Everybody plays.”

- Gaming (casual, mobile, hardcore, etc.) continues to be a leading indicator of heavy online new media usage;
- Online casual games reach new, older (and increasingly female) demographics.

5. Myth: “Free media is the only way to withstand the recession.”

Opportunity: “Subscriptions work in recessions too.”

- Consumers are abandoning fee per transaction models for subscriptions, and subscription models (Netflix, World of Warcraft, etc.) have held up surprisingly well.

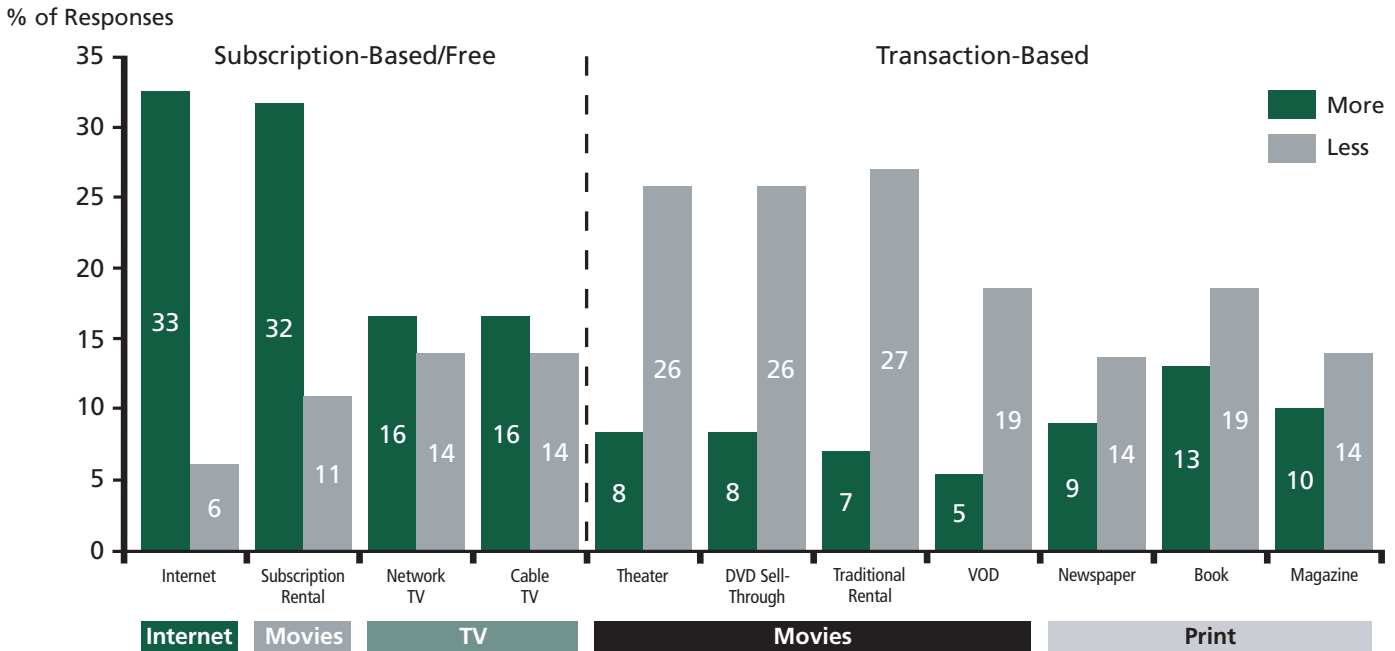
Hidden Opportunities in New Media: The Impact of New Technologies and the Recession on Media Consumption was written by Julie Wherry (Engagement Manager), Bret Masterson (Vice President), and Dan Schechter (Vice President and Practice Head). All work in the Media and Entertainment Practice in L.E.K. Consulting’s Los Angeles Office.

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Figure 1

Net Respondents' Media Consumption Patterns by Media Type (n=2,121)

How Does Your Current Consumption Compare to that of a Year Ago?



Our new research also uncovered other interesting findings, including:

• Time and financial pressures are forcing new media choices:

- The most important factor cited in choosing new media is “perceived low cost” with free (network TV) or “all-you-can-eat” zero marginal cost media (including Internet, cable TV, subscription rental, massive multi-player online games, etc.) preferred;
- The other most important factors are choice and convenience (Netflix and TiVo are good examples of products that are doing well today because of exceptional choice and convenience).

• TV is still king:

- Traditional media is not dead. The consumer spends on average 37.8 hours watching TV (59% of time spent on media and entertainment), trumping all other media types.

• Life requires a soundtrack:

- While the profit model for music may be busted, the need for music (in particular, programmed music) is not dead;
- Music represents the second largest category of time spend (19% share) after TV;
- Although much of the industry’s focus is on digital downloads, music is enjoyed 62% of the time on the radio, not CDs or digital downloads.

How can media companies survive the recession?

Our research provides some clues. *Figure 1* depicts the percentage of households which have increased or decreased consumption of different types of media over the last year. Interestingly, consumers are cutting back on all media categories which involve an explicit “transaction.” Media which is *perceived* to be “free” is experiencing consumption growth.

Note that people view subscription services like cable TV and Internet usage as “near free” since there is no charge for incremental usage.

Key implications:

“Free” is not the only way to withstand the recession. Subscriptions work in recessions, too. Also you can link your service (say a new game) to another subscription service (cable bill, mobile phone bill, etc.).

Now is a great time to acquire customers for ad-supported services (for example, broadcast TV over the Internet). Even though the ad market is under pressure, consumers are motivated to find less costly alternatives, and the ad market will bounce back.

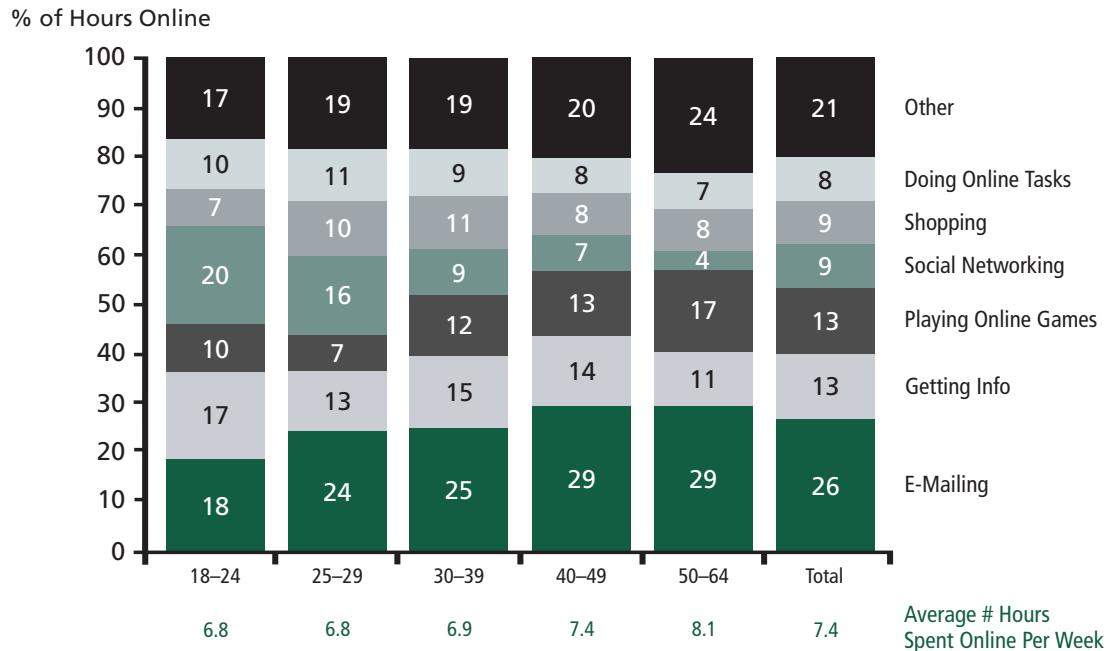
Is new media just for the young?

No — older people have both time and needs. Our research indicates that middle-aged consumers use the Internet just as much as younger people do.

Figure 2

Allocation of Average Time Spent Online per Week by Age (n=2,111)

How Are Your Average Hours Online Per Week Spent?



However, their activities do differ. Younger people spend more time on social networking activities, and older people spend more time on e-mail. While the actual hours of online time is similar among age groups (Figure 2), on average older people actually spend more time online (note: our sample is of active Internet users only).

Key implications:

Yes, it’s always great to have the cool and hip Internet applications for the young trendsetters, but media companies could access a potentially richer target through online initiatives focused on the older set. For example, older people are fueling the huge growth in online casual games.

Our research on time allocation confirms what every middle-aged parent instinctively understands. The middle-aged media consumer with kids has very little free time. These consumers commonly cite “too busy” as the reason for reduced media consumption. In fact,

33% of 30 to 44 year olds cite “lack of free time” as the primary reason for reduced time spent on newspapers. The Internet has been a beneficiary of this time crunch to some extent, as it is viewed as a “more convenient way to get content,” especially from traditional print media such as newspapers and magazines.

Say Hello to the “iPod Dad.”

The study findings further reveal how consumer segments are increasingly entwined with technology platforms. Whereas the “soccer mom” may have helped epitomize suburban women with kids, the “iPod dad” reflects the fact that technology has enabled people to easily access all types of new media and the importance of segmenting and marketing to them accordingly.

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

Many challenges face media companies, but there are solutions and L.E.K. can help.

L.E.K. has worked with a broad spectrum of media and entertainment companies on their most important strategic and financial challenges, including:

- Capturing new media revenue. We help our clients develop strategies and business initiatives to exploit new digital distribution channels.
- Acquisitions. We work with both corporate media companies as well as private equity funds to thoroughly assess the commercial prospects of acquisition targets, including assessment of revenue forecasts, impact of new technologies, competitive positioning, key risks, and the viability of potential growth opportunities.
- Strategically leveraging media content onto new media platforms. We help clients investigate opportunities to exploit their content using new business models (e.g., developing virtual worlds for popular media properties).



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For further information contact:

L.E.K. Consulting is a global strategy consulting firm whose experts partner with executives around the world to make the most difficult and critical business decisions—quickly and with optimal results.

As a leading strategic advisor to the media and entertainment industry, L.E.K. has worked on many of the key issues driving future success for clients in all major geographies. L.E.K. has advised on 3 of the 5 biggest M&E transactions of the past 5 years. L.E.K. has been engaged as a trusted advisor by senior media executives looking to enhance profit performance through the development and execution of long-term growth strategies, content development and management, new business development, digital growth initiatives, operational effectiveness, market forecasting and acquisitions among other concerns.

L.E.K. Consulting's portfolio of services draws on core capabilities of research, benchmarking, modeling, analysis and strategy development to help companies determine the best way forward.

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