Executive Insights

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Lessons for Retailers and Consumer Brands From the Front Line of Media Disruption

What do you like best about your online streaming service? Maybe it's the original programming. Or having instant access to thousands of titles. Quite possibly, it's that the service offers you mostly content you enjoy, while showing other family members the content they enjoy. If you travel (or just get kicked out of the TV room), you probably welcome the ability to watch your shows in different locations on different devices.

There's a lot to like about the modern media industry. What can be hard to appreciate is how deliberate the new attributes are. They are, all of them, part of an overarching strategy to acquire loyal consumers by enabling each one to create a custom experience out of a mass offering.

While the media industry is at the forefront of this shift, the core strategic tenets are relevant to any consumer business. The evolution of the media industry is a harbinger of the change retailers and consumer brands are beginning to encounter, which makes the media industry fertile ground for identifying best practices to win in a changing environment. To understand, let's break the strategy down into three basic themes.

Theme 1: Tell the right story to the right people

Consistency may be the soul of a brand, but one-size-fits-all messaging can leave people thinking, "This brand's not meant for me." In the past, the result would have been a missed chance to connect. But today, between greater ad-blocking technology and a compensatory uptick in commercial content, the consequences of irrelevance are more severe. Customers might turn away forever.

Traditional media networks have led the way in targeting specific interest groups and demographics. While this has always been a programming strategy, it's becoming more precise in the digital age. For example, in 2015, AMC Networks launched SundanceNow Doc Club, an over-the-top streaming service for the underserved fans of documentaries, now called Sundance Now.

Sundance Now is a prime example of an OTT service. OTT is a way of delivering TV and movie content via the Internet without requiring users to subscribe to a traditional cable or satellite TV service. While many people are familiar with Netflix and Hulu, which aggregate content across a range of genres, some content providers use OTT services to target a specific genre or consumer segment (see Figure 1).

Recommendation engines — algorithms that use statistical analysis to predict what content a given consumer might enjoy — further this media fragmentation (see Figure 2). Having collected massive banks of data on consumer viewing histories, pay TV providers from Netflix to traditional cable distributors increasingly

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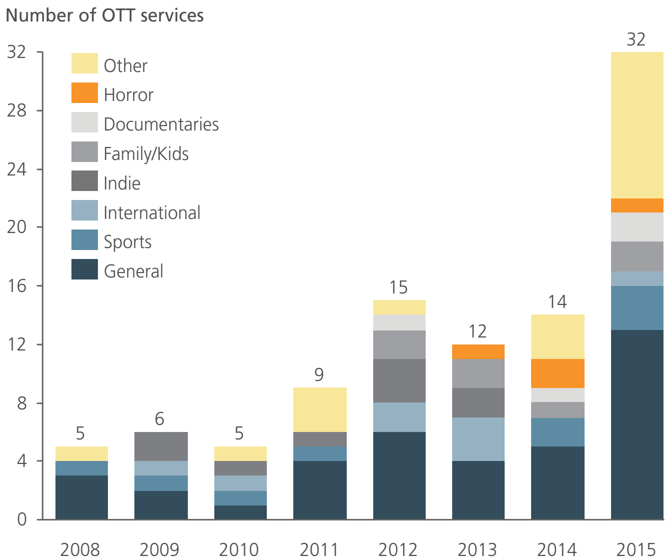
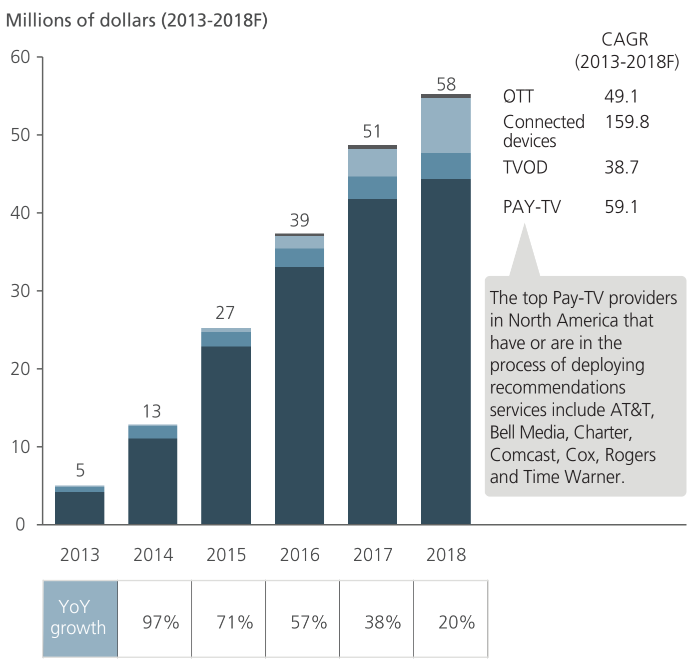
Figure 1
OTT TV services launched in the U.S., by genre*
(2008 - 2015)



*Excludes TV Everywhere, includes only major OTT launches, not an exhaustive list.
Source: SNL Kagan, L.E.K. research and analysis

Figure 2
Third-party recommendation engine vendors —
revenues in North America



Source: L.E.K. analysis of SNL Kagan

rely on recommendation engines to curate content to consumers' individual preferences.

The lesson for retail and consumer products is that mass retailers are at risk. New micro-targeted entrants are already nipping at the heels of incumbents. Cool Material, for example, is a "daily source for better gear, insightful articles and insider info on all the stuff guys want," from Casper pillows to unique whiskey glasses. Violet Grey offers beauty how-to and lifestyle articles from makeup artists, industry insiders and celebrities.

Between them, these ecommerce sites have two things in common: They cater to niche segments and they look more like blogs or Internet portals than they do stores or catalogs. Consumers come for the content but stay for the products, and vice versa.

These are just startups, and success is no sure thing, but established retail and consumer brands should look to these examples to understand how they might better serve consumers with content unique to their particular interests and at the right points in their life cycles. Aided by integrated customer relationship management, companies can engage niche segments throughout the customer life cycle by delivering the right messaging at the appropriate points of customer interaction.

Theme 2: Connect the right way at the right time

As we've seen, OTT is a means to deliver specialty content to an appreciative audience. But OTT has another benefit as well: It offers greater control for content providers.

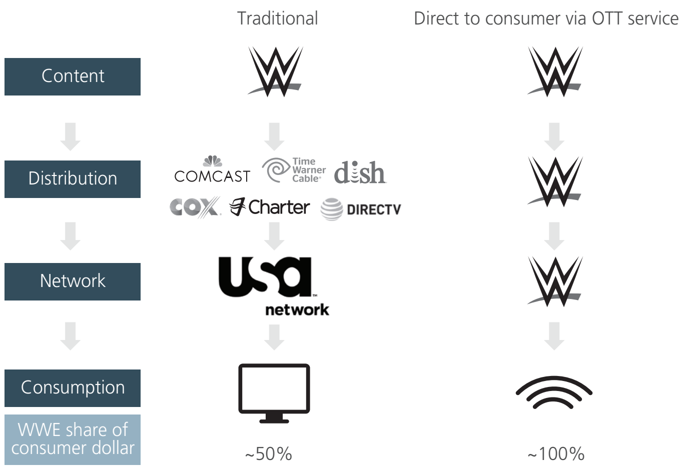
To examine this further, consider media's traditional distribution model, in which networks and cable companies serve as intermediaries between content providers and consumers. OTT bypasses these intermediaries. It enables content owners to forge a direct path to loyal fans.

WWE Network is an example of this new value model (see Figure 3). The wrestling entertainment company operates an OTT distribution channel where subscribers can access streaming and on-demand content. Without an intermediary's constraints, WWE is free to create and deliver content however it serves its own business interests to do so.

Besides OTT, another media trend is to deliver content that intentionally serves a particular stage of customer acquisition. Different sets of content aim to raise awareness, build interest and provide opportunities to buy. The overall effect is a compelling, holistic consumer experience.

Unlike OTT networks like WWE, retailers needn't create a new business model to reach consumers directly. They have always operated over the top of existing online infrastructure, with many enjoying the additional advantage of owning brick-and-mortar stores.

Figure 3
WWE Network distribution methods



Source: L.E.K. analysis

Consumer brands, however, must develop new capabilities to succeed in the direct-to-consumer model. Many brands have been built up through third-party distribution and are struggling to strike a balance between maintaining these relationships, which remain lucrative, and direct-to-consumer channels, which offer attractive growth and improved margins.

So brands and retailers are in a position to benefit from the media company strategy of direct, end-to-end consumer engagement. Amazon, for instance, is well-known for offering products that reflect a visitor's interests based on his or her browsing and purchase histories. The retail giant also uses video in categories such as apparel and home improvement to help shoppers make purchase decisions.

However, it's companies like golf equipment manufacturer and retailer Callaway that really blur the boundary between media and their own industry. Rather than rely on traditional media channels, Callaway produces an exclusive video channel filled with news, entertainment, education and other programming related to the golfing lifestyle. Blogs, podcasts, discussion forums and more complete the mosaic of consumer touch points. Visitors may take in as much content as they like, whenever they like. Should they choose to buy, the retail environment is just a click away.

Theme 3: Evolve the offer as the consumer evolves

They're diverse, mobile and interconnected. They embrace novelty, authenticity and digital technology. And together, they form America's largest living generation.

Millennials — that cohort of people born roughly between 1980 and 2000 — are poised to replace baby boomers as the generation with the greatest buying power. By 2020, they'll account for 40% of U.S. discretionary spending. The effects are already visible as one industry after another bends to the consumption habits of this demographic.

Media companies have adapted. In fact, Millennials' preferences are driving much of the media fragmentation and disintermediation that we've been discussing. The result is that traditional operators (technically called multichannel video programming distributors) are seeing their subscriber numbers stall or decline. Meanwhile, the numbers for OTT providers like Netflix, Amazon Prime and Hulu are going up.

Also growing are "virtual" services that stream channels over Wi-Fi without requiring a traditional cable subscription. Sling TV is an example.

With their time (and therefore attention spans) in short supply, Millennials are also contributing to the popularity of short-form videos, new content categories such as eSports (video game competitions) and newer content platforms such as mobile, social media and virtual reality. All of these are coming at the expense of traditional transactional content models such as buying and renting movies and buying music.

The takeaway? Although Millennials influence retail and consumer products, product development is just part of what's needed to attract and retain this demographic. Brands and retailers must also promote and merchandise products in a way that's consistent with Millennials' preferences — over multiple platforms and in digestible amounts.

In response to the growing influence of Millennials, the media industry vertical has developed a set of tailored subscription services aimed at both broad audiences (e.g., Netflix, Hulu) and niche audiences (e.g., Crunchyroll, Qello). With consumers increasingly interested in subscribing to their favorite brands and retailers, consumer companies can develop similar curated subscription models. A subscription model allows retailers to lock in existing customers and expand their share of wallet, while simultaneously aggregating data that can yield insights into future consumer needs.

Many retailers and consumer brands have been slow to address the growing market for subscriptions, ceding share and incumbent advantages to smaller startups (e.g., Blue Apron and Bulu Box) that are driving growth and educating consumers. Larger retailers and brands have the opportunity to capitalize on the latent demand for subscriptions services, but if they sit on the sidelines too long, they will find themselves either losing share or forced to make late, expensive acquisitions (e.g., Unilever's purchase of Dollar Shave Club for $1 billion).

Conclusion

Technology advancements and evolving preferences are changing how people spend their time and money. Hyperpersonalization and the on-demand culture are upending the value chain. Avenues to directly engage with consumers are increasingly available, but more than ever before, offerings must be relevant, convenient and invited.

Retailers and consumer brands would benefit from examining how disruptive forces have been impacting the media industry to identify best practices and key learnings that can inform, reinforce or alter the strategic direction for their companies.

1. Tell the right story to the right people
2. Connect the right way at the right time
3. Evolve the offer as the consumer evolves

Adapting to the changing market landscape will not be easy, as retailers and consumer brands will have to navigate existing channels, margin structures and Wall Street expectations. Careful strategic planning is important, but having the confidence to move forward aggressively and disrupt one's own business if needed is even more critical. The example of Blockbuster looms large for those who don't.

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