

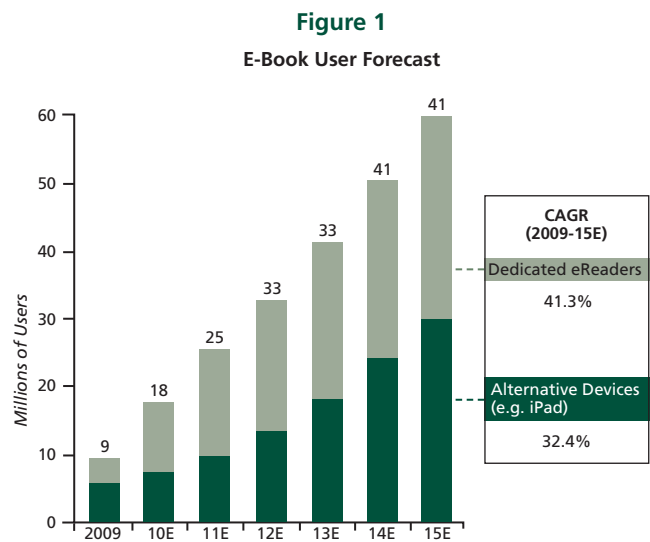
Generating Growth in the Media Industry: Best-Selling Strategies for Publishers

The sixth segment in this series examines how the publishing industry can take a page from casual and social gaming companies to develop new revenue models.

The allure of digital content – including the ability to have immediate news updates at the click of a button – has created a pronounced decline in revenues from print books, magazines and newspapers. And many publishers are scrambling to develop profitable strategies to engage with consumers across traditional and digital formats.

The good news is that consumers have not lost their interest in reading and are seeking new avenues for acquiring the content they want digitally. The introduction and consumer adoption of e-readers (e.g., Kindle and Nook) and tablet devices (e.g., iPad) has accelerated the migration toward digital consumption. Industry forecasts predict that approximately 30 million dedicated e-reader devices (Kindle, Nook, etc.) will be in circulation in the U.S. by 2015. In addition, it is estimated that the increasing popularity of alternative e-reading devices, such as tablets, will lead to a total of almost 60 million e-book adopters by 2015 (see Figure 1).

L.E.K. Consulting's third annual *Hidden Opportunities in New Media Survey* indicates that approximately 29% of tablet owners increased their consumption of digital books and magazines



following the adoption of the new technology. And Amazon.com reported that sales of electronic versions of their top-10 best sellers were double that of print versions during the second half of 2010. The Pew Research Center reports that the percentage of those owning tablets, Nooks or Kindles nearly doubled since last year to reach 19% in 2012.

While this migration to digital publishing has the potential to generate significant new demand, it also creates new challenges for the publishing industry, including:

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1. Consumer prices for digital publications can be up to 50% cheaper than their printed counterparts.
2. Efforts to charge for online publications have enjoyed lukewarm success to date; new efforts are being made and the gold standard model may soon emerge.
3. Piracy continues to be a key concern and threatens to drive down the prices consumers are willing to pay for content.
4. Non-publishers (like Google) have introduced disruptive technologies/services that may enhance non-traditional competition in the future and require digital publishers to compete creatively.
5. New digital media sales distribution platforms (e.g., Apple, Google and Amazon.com) are changing the relationship between consumers and publishers, especially with regard to magazines. This will potentially change the critical advertising revenue stream (with better targeting, ability for retargeting, and maybe increasing CPMs).
6. Major distributors such as Apple are currently charging publishers a steep 30% transaction fee (note that digital margins seem fine even with this fee).
7. Authors are gaining new leverage in their negotiations with publishers as they can now self-market and self-publish digital books on the Internet.
8. Large bookstores (e.g., Barnes & Noble), which were once a key distribution channel for the publishing industry, are now facing significant pressure (and even bankruptcy) as consumers opt to buy both physical and digital publications online.

Learning from Social and Casual Gaming

Social gaming is a new industry that has very successfully used a number of online monetization and promotional strategies. Despite its being a newcomer to the media industry, the social and casual gaming industry shares several similarities with publishing:

1. Consumer willingness to “lease” content: Social games typically operate using a model by which consumers do not actually own the game, but rather have the ability to access it. It is likely that consumers also will be willing to “lease” e-books given that a book in any format is typically used for a short period of time.

2. Dynamic innovation of products: Social and casual games use frequent updates and the addition of new features to keep users engaged and to generate additional revenue. Similar tactics could be leveraged for certain types of electronically published media.

3. Ability to access multiple revenue streams: Several social and casual games have demonstrated the ability to generate revenue from multiple sources. Some forms of print media, such as magazines, already do this as well. Publishers can take advantage of the shift to digital media to develop multiple revenue streams across a variety of formats.

4. Value of recommendations: User reviews are a key component of the social and casual gaming industries. Current best-seller lists and word-of-mouth recommendations from friends are crucial drivers of consumer purchasing decisions in the traditional print industry and can be readily leveraged in digital publishing.

Given these similarities, publishers can learn valuable lessons from players in the social and casual gaming industry that can be used to succeed in the digital landscape.

A. Sell Access, Not Assets

1. Offer a monthly subscription that provides access to a full catalog of books.
2. Allow users to customize subscription plans to reflect their interests (e.g., purchasing access to all titles by a given author or all titles belonging to a specific genre) and price these plans accordingly.

Social games have had success implementing similar subscription strategies. For example, 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 its site.

Similar concepts are starting to emerge in the print industry. BookSwim.com is a startup that allows users to borrow physical books with a model similar to Netflix. BookSwim.com users pay a subscription fee that varies based on the number of books a user is permitted to borrow at one time. A coalition of publishers could adopt a model by which they rent new print versions of books and also provide electronic access to older or lesser-known e-books for a monthly fee.

B. Embed Dynamic Pay-as-You-Go Features into Media Formats

1. Offer alternative story lines to novels that consumers can access by using credits that they purchase or earn by participating in lead-generation activities.
2. Enable consumers to purchase or earn credits at key points in content (e.g., the end of a chapter) that can be used in a virtual world or in virtual games that are related to the content's genre.
3. Introduce "mini-episodes" of books that are released at set intervals – similar to TV shows.

Angry Birds provides an example of how social games have leveraged the dynamic capabilities of electronic pay-as-you-go models. Angry Birds generates revenue and user interest in multiple ways, including releasing seasonally-themed versions of the game (e.g., Rio, Space) that once purchased include future free updates of new levels, allowing users to purchase additional utilities (e.g., Mighty Eagle), and unlocking levels by either upgrading to the paid version or by becoming a fan on Facebook. All of these sporadic mini-transaction options provide motivation for users to upgrade to the paid version of the game.

This concept is one that has not yet been widely implemented in the publishing industry. Electronically published products that incorporate pay-as-you-go features and meet consumer appetite for quick and easy-to-consume content have the potential to be both popular and profitable as e-readers become more common.

C. Capitalize on Interactive Mobile Device Capabilities

1. Integrate casual or social games into children's books, allowing readers to play games for points at key intervals within an e-book (e.g., at the completion of a chapter).
2. Leverage children's competitive spirit by designing a system that publicly displays the number of points a child has earned based on the number of chapters he or she has completed.
3. Include additional value-added features into e-books (e.g., audio and e-book bundles, features allowing parents to record themselves reading children's books, built-in learning tools).
4. Add additional monetization platforms to other forms of media (e.g., have advertisements or sponsors for electronic books or specific special features).

Social and casual games have excelled at leveraging the capabilities of new gaming platforms such as mobile phones and Facebook:

- **Games optimized for mobile** – such as Draw Something, Temple Run, Gears, Fruit Ninja and Gold Miner – have made use of touch-screen phones' motion-sensing capabilities, such as the ability to determine how quickly a user moves his or her finger across the screen.
- **CityVille:** This game has successfully exploited Facebook's community sharing (viral) and monetization capabilities, promoting itself through users' status updates and friend lists, and offering players the option to purchase premium content to improve their experience of playing the otherwise free game.

Companies in the published media industry are already starting to incorporate content that leverages the capabilities of e-readers:

- **Oceanhouse Media:** This startup produces apps related to popular children's titles, such as Dr. Seuss books. Products of Oceanhouse Media include narrated e-books, in-book learning tools (e.g., words highlighted as the narrator reads them), and text that appears when pictures are touched.
- **Disney:** Disney's publishing division has had success incorporating features such as games, movie clips, music, and coloring pages into children's books designed for the iPad.

D. Leverage a Freemium Model

1. Offer older book titles and back-issues of magazines for free. Tailor the program to titles that can generate a following for a given author, property or topic.
2. Allow users to read a set number of chapters from a new book for free each month.

3. Offer a flexible subscription and pay-as-you-go platforms that allow heavier users the option to purchase new content or features.

Several social and casual game developers have successfully implemented a freemium model. Glu Games' Gun Bros, for example, is free to download and users are provided with full access to over 70 levels. User reviews indicate, however, that it is nearly impossible to advance past certain levels without purchasing optional equipment (e.g., guns, armor).

Several publishing and publishing-related companies are already beginning to utilize freemium strategies:

- **New York Times:** Users have access to 20 free articles each month, and those who wish to read more must purchase a subscription package.
- **ESPN.com Insider:** Users have access to free articles and video clips and have the option of purchasing a subscription to view additional content such as full team scouting reports, article insights and premium clips.
- **Amazon.com:** Amazon.com has a "Send Sample" feature that lets Kindle users preview e-books before buying them.

E. Build the Customer Relationship – and Be Willing to Pay for It

1. Sell e-books and e-magazines at standard prices through distributors such as Apple and Amazon.com, but give consumers an added incentive to make their purchase on the publisher's website with offers such as a rebate on the purchase price.
2. Leverage the database of digital consumers to promote additional books and magazines, and offer members discounts when possible.
3. Tailor advertising and lead-generation to the customer's demographic and reading habits.

Social games typically require users to provide basic demographic information. Games such as Mafia Wars that require users to sign in with a Facebook account have access to a great deal of customer information that can be used to target them with relevant ads and lead-generating activities that can be completed in exchange for virtual currency or other in-game benefits.

Players in the publishing industry have long understood the value of having information about their customers, but they have not always had effective tools to acquire it. However, the increasing popularity of electronic media platforms in the publishing industry is starting to change this. Examples of companies that have started to implement mechanisms for building customer relationships include:

- **Financial Times:** Users that do not register for a free online newspaper membership are allowed to view up to two articles per month. But those who register and provide demographic information can view up to 10 free articles per month.
- **Amazon.com:** The company tracks customers' purchases and then provides them with product recommendations each time they sign in. An option that allows customers to note purchases that do not reflect their typical buying habits (e.g., gifts) increases customer participation and improves the relevance of future recommendations.

F. Create a Social World

1. Create a community in which friends can read books, magazines and newspapers – and then share their thoughts dynamically. Structure the community so that readers can gain access to comments and participate in discussions based on what they have read.
2. Implement features that update users' friends about their book-related activities (e.g., completing or purchasing a book).

3. Build an incentive program that encourages participation and continued consumption. For example, users may be allowed to purchase credits or earn them by completing lead-generation activities. These credits could then be used to access rewards (e.g., "bonus" material) or additional books.

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.

Publishers have not yet extensively leveraged social worlds, but emerging third-party startups are beginning to integrate social world concepts into the industry. Examples of these include:

- **Goodreads.com:** A service that lets users update their friends on what they are reading, recommend books to friends, and post book reviews.
- **eBookfling.com:** This new startup allows users to use credits to borrow books from other users for up to 14 days. Users can purchase credits or earn them by lending books to other users.

Electronic media is rapidly changing the dynamics of publishing. L.E.K. can help publishing companies identify lessons from social gaming that can be used to overcome the headwinds currently facing the industry.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded nearly 30 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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