

Where Consumers are Logging On and Tuning Out: Hidden Opportunities for the Media & Entertainment Industry

"How do you make money from the shifts in media usage today?"

"How do you cut through the clutter and become a 'must have' for consumers?"

"What is the winning revenue model?"

These fundamental questions are pivotal for media and entertainment executives today. Given the rapidly changing landscape, a reactive stance or strategic misstep can have dire financial consequences on any media business. In its third annual Hidden Opportunities in New Media Survey, L.E.K. Consulting provides fresh insights into changing consumer preferences across all media (traditional and new media) – including why consumers are focusing more on specific media channels, which business models are driving success, and where cash flows will trend over time.

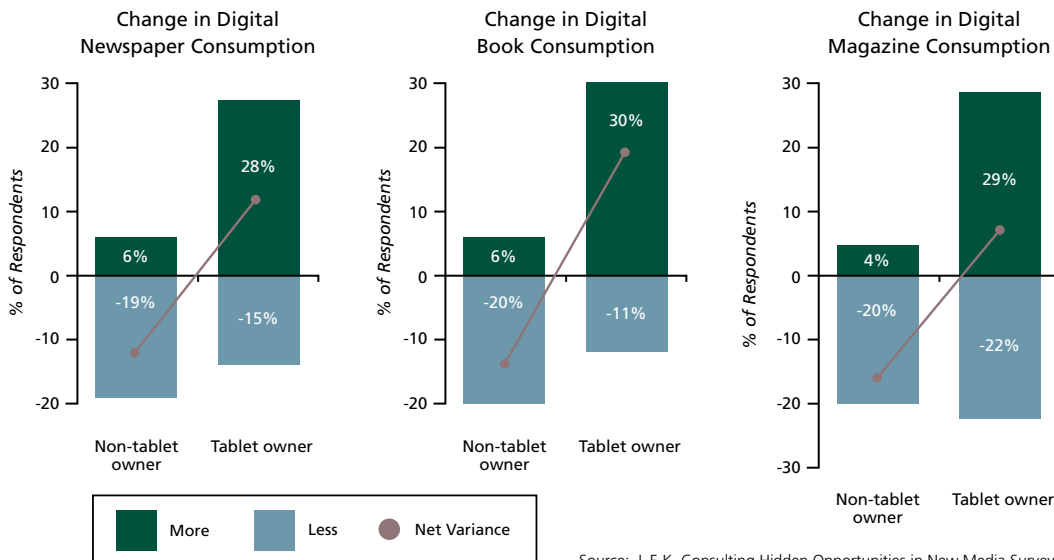
L.E.K. interviewed 2,000 U.S. consumers to measure changes in media consumption and identify the underlying motivations behind those changes. L.E.K.'s findings spotlight opportunities in emerging media technologies such as iPads/tablets, and illustrate why TV and select other media will stay strong.

Tablet Device Owners Drive Media Consumption

iPad and tablet owners are voracious consumers of media and are significantly outpacing individuals who do not own tablets. While online digital media consumption is *declining* for non-tablet owners, digital consumption is *surging* for tablet owners (see Figure 1).

Figure 1

Net Respondent Change in Digital Consumer Publishing Consumption Since Last Year

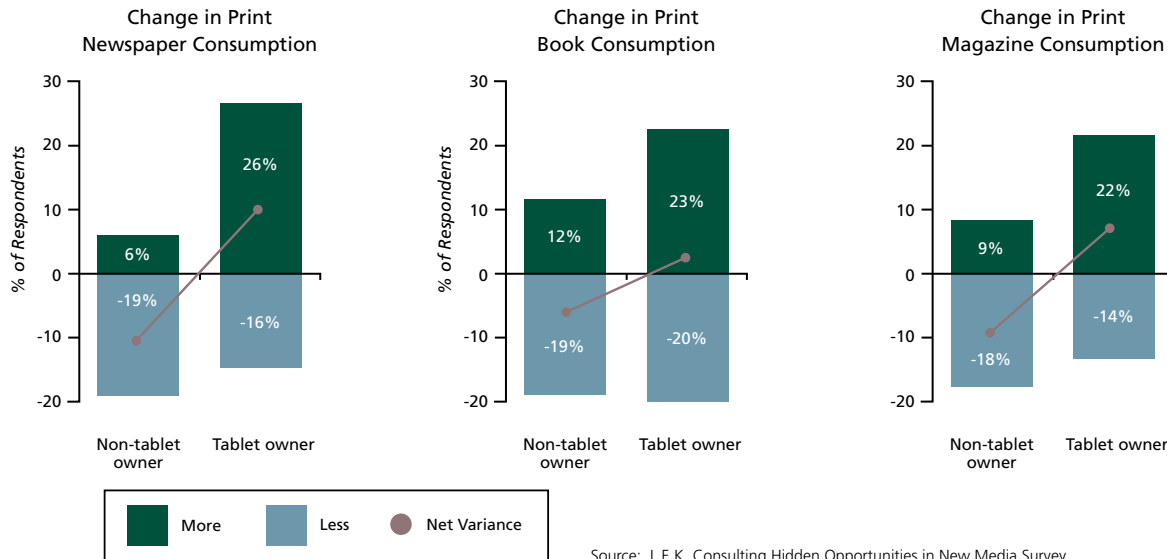


Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

Surprisingly, tablet owners are also driving the *traditional print* market as well (see Figure 2).

Figure 2

Net Respondent Change in *Print* Consumer Publishing Consumption Since Last Year



Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

Why the strong growth in digital consumption among tablet owners? The number-one reason is that tablet users prefer e-readers for viewing traditional print media on their devices. The second reason is the perceived lower price of e-versions of books, newspapers and magazines (note that the actual e-version costs are not always lower in reality). Additionally, tablet owners are gaming three times more and watching movies 2.5 times more than consumers without e-readers (see Figure 3).

Figure 3

Major Media Type Consumption of Tablet Owner vs. Non-tablet Owner¹

Media type	Mean Hours per Week Consumed		
	Tablet owner	Non-tablet owner	Total
TV	47.8	36.9	37.5
Radio	11.0	8.3	8.5
Music	11.3	6.6	6.9
Movies	9.8	3.7	4.1
Games	17.5	6.1	6.8
Publishing	13.7	7.9	8.3

Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

Cord Trimming Frays Pay TV Revenues

The ~\$91 billion pay TV market² is under threat from the exponential growth of free content on video sites (YouTube, Hulu, broadcaster web sites, etc.) and the similar growth of inexpensive video rental models (Netflix, Redbox, etc.). Although some analysts are proclaiming that droves of consumers will completely “cut the cord” from their pay TV providers, L.E.K. data shows little evidence of this threat. To date, only 2% of L.E.K. survey respondents are cord cutting.

A more serious issue facing cable and satellite providers is “cord trimming,” the term for consumers who keep – but reduce – their monthly cable or satellite TV services. L.E.K. found that 16% of consumers reported reducing their monthly pay TV bills during the past year. Those cord trimmers reduced their pay TV bills by an average of 25%.

While the cost of ever-increasing cable bills in a recession is the prime cause, the availability of low cost “all-you-can-eat” subscriptions such as Netflix and free pirate content appear to be critical contributors as well.

Shifting Media Consumption Trends

Why are consumers shifting away from console games, concerts, gambling and cinema? L.E.K. data shows three real causes behind the shifts:

1. Limited availability of time: The time crunch is real for consumers and the explosion in new media causes consumers to be even more selective about how they spend their free time, despite the continued prevalence of “media multitasking.” This is the primary cause of drops in console games (revenues down 8% per year 2008-2010³).

2. History of price increases: Many entertainment sectors have increased prices faster than inflation, and L.E.K. is seeing growing evidence of a backlash. For example, 56% of consumers that L.E.K. surveyed cited high cinema admission prices as the reason for fewer trips to the movies⁴. While other transaction-based services also declined last year, subscription-based content models have fared better.

3. Clutter fatigue: Consumers prefer electronic and digital media over physical copies. They are also enthused by subscription models that offer higher perceived value for money.

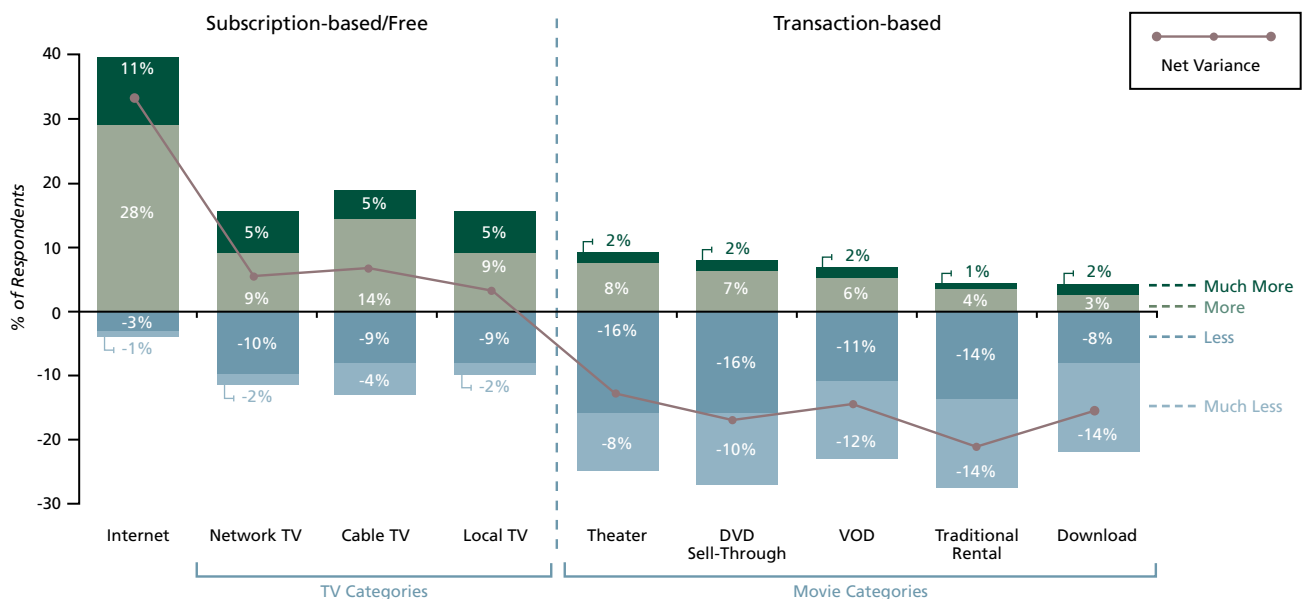
As Figure 4 illustrates, consumers are filling up on “all-you-can-eat” entertainment rather than à la carte offerings. Subscription-based services such as Internet and pay TV continue to grow while services with incremental fees, such as video on demand, are seeing declines. Consumers see that subscriptions score well on ease-of-use and perceived value (all-you-can-eat subscriptions seem to provide greater value to consumers).

TV Remains King for Consumers

Despite the continued growth of consumer time spent online, TV is still the most popular media type. L.E.K. also tested consumers’ media preferences by asking them which single form of media they would keep if they were forced to choose (see Figure 5). TV received one-third of the votes, with Internet

Figure 4

Subscription-based Models Grow while Transaction-based Media Declines
2010 Change in Consumption across Media Types

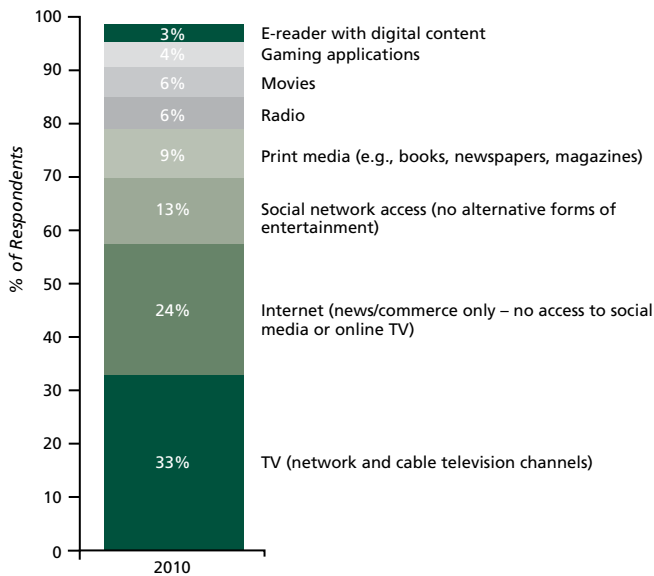


Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

access a distant second, followed by social networks, print content and other forms of entertainment.

Figure 5

If Stranded on a Desert Island, what Would you Choose as your Only Form of Entertainment?



Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

Despite unrelenting competition from new forms of media, TV continues to outdistance its rivals. In 2011, 111 million viewers⁵ tuned in to the Super Bowl, making it the most watched single event in American TV history, surpassing the record held by the 2010 Super Bowl. Viewers are watching more than just sports, as this year’s Grammys had the largest TV audience in a decade. These findings show that TV continues to be a mainstay and that special events tend to generate higher TV ratings.

Social Networks Influence Sales

The popularity and usage of social networks is exploding. Forty-four percent of respondents use social networking sites daily, with 27% percent logging on several times each day. Not surprisingly, those that engage more frequently with social networks report a higher level of engagement with brands and products; 57% of respondents that visit several times a day “Like” at least five brands.

Consumers with higher brand engagement through social networks are more heavily influenced by social marketing to make purchases. L.E.K. identified a high correlation between social network activity and its influence on sales (see Figure 6).

When executed effectively, social network marketing can deftly use advertising to raise awareness and harness member endorsements to generate the product credibility that can sway consumers to make purchases.

Three Key Findings

Although there are many implications based on the L.E.K. Hidden Opportunities in New Media Survey, L.E.K. has outlined three key takeaways below:

- **What Content is Winning and Why:** Digital media is generally increasing consumer mindshare, TV viewership remains a strong constant, and radio and other media are declining. A deeper analysis of online usage preferences shows that shorter-form, iPad/tablet-delivered content has the best potential to win.

Figure 6

Active Social Network Members are More Likely to Make Purchases Based on Social Marketing

Facebook Usage Frequency	% reporting Facebook as an important influence on their purchasing decisions*	% reporting that Facebook has directly resulted in a purchase
Several times per day	23%	25%
Daily	12%	14%
2-3 times per week	11%	14%
Weekly	6%	7%
Average**	14%	15%

*Of respondents with a social network account

**Average across all respondents with a social network account, regardless of usage frequency

Source: L.E.K. Consulting Hidden Opportunities in New Media Survey

- **Winning Revenue Models:** Flat-priced “all-you-can-eat” subscription models work better during anemic economic periods than transaction-based media. L.E.K.’s research shows that consumers do not significantly cut back on key subscription services, even when times are tough. L.E.K.’s survey findings show a net 19% of consumers reported increased viewing of cable TV, and 39% reported increased online activities (both require subscriptions).

- **Advertising Sweet Spots – Tablets and Social Networking:** iPad and tablet owners are enthusiastic consumers of content – both for their wireless tablet/e-reader devices and through traditional formats (print, TV, etc). Prudent brands and retailers have the opportunity to feed this appetite for media with targeted offers to this important demographic. Similarly, consumers that are highly engaged in social networks are influenced by relevant advertising and vocal community members who can act as brand advocates to evangelize (or criticize) companies and their products. Advertisers and marketers should carefully consider how to reach these audiences and boost the return on investment (ROI) of their marketing campaigns.

¹Reported Internet usage time per week adjusted in a ratio of average time spent as measured by third-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 Q2 2010. The music data includes both recorded music and live performance.

²2009 Pay TV provider revenue market; Source: SNL Kagan

³Source: ESA

⁴North American cinema admissions fell 5% from 2009-10. Source: MPAA 2010 Theatrical Statistics

⁵Source: Nielsen Media Research

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