



:: FUTURE OF MEDIA : REPORT ::

JULY 2008

WELCOME



We are entering the media economy. The traditional boundaries of the media and entertainment industry have become meaningless. Today almost every business and social activity is a form of media. An increasing proportion of our social interactions happen across media channels. Every organization is now a media entity, engaged in creating and disseminating messages among its staff, customers, and partners to achieve business objectives. As the physical economy becomes marginalized and economic value becomes centered on the virtual, media encompasses almost everything.

At the same time, many media organizations are experiencing severe challenges, as content proliferates, audiences change behaviors, advertising revenue erodes, and new competitors emerge. Others are prospering as they tap swiftly growing sectors, leverage amateur content creation, tap the power of social networks, and scale production costs. Meanwhile adjacent industries such as telecom, financial services, mobile phones, consumer electronics, professional services, and even automobile are becoming media participants.

Each year Future Exploration Network runs the Future of Media Summit, linking Silicon Valley and Sydney with video and cross-continental discussions, and launches an accompanying report. The striking impact of the 2006 and 2007 Future of Media Reports means this year's report has a lot to live up to. We are confident the new frameworks and ideas we are contributing will again provide substantial value.

Over the last years we have helped many media organizations develop and implement effective strategies. We thrive on helping companies to create the future of media. However it is also exciting to take these issues and conversations into a broader sphere. Welcome to the conversation.

Ross Dawson
Chairman
Future Exploration Network

:: FUTURE OF MEDIA 2008 : PARTNERS ::

Strategic Partners

Burson-Marsteller **TANDBERG**
See: performance

Partners

MEDIA: A GROWTH MARKET

SIZE OF GLOBAL MEDIA AND ENTERTAINMENT MARKET IN 2008: **\$US 1.7 trillion**

Source: PricewaterhouseCoopers

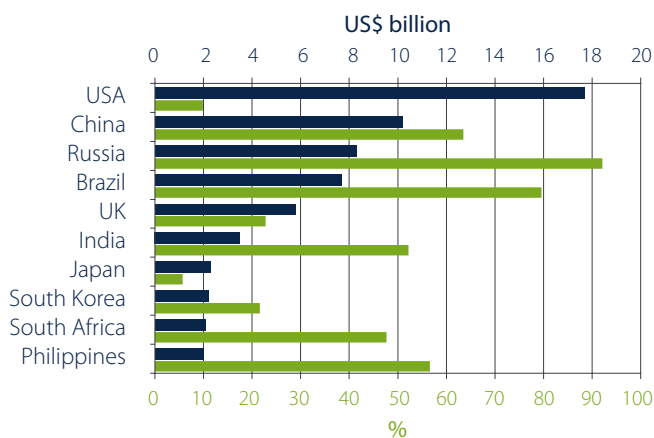
SIZE OF GLOBAL MEDIA AND ENTERTAINMENT MARKET IN 2024: **\$US 5.7 trillion (2008 dollars)**

Source: Future Exploration Network

Media, entertainment, and related industries are positioned at the center of massive global growth. The current positioning of some media companies in a rapidly changing market means they are not experiencing this upside. Others are doing fabulously well in tapping people's almost insatiable desire for content and connection. In this report we explore the growth and opportunities available to all participants in the vast landscape which is media.

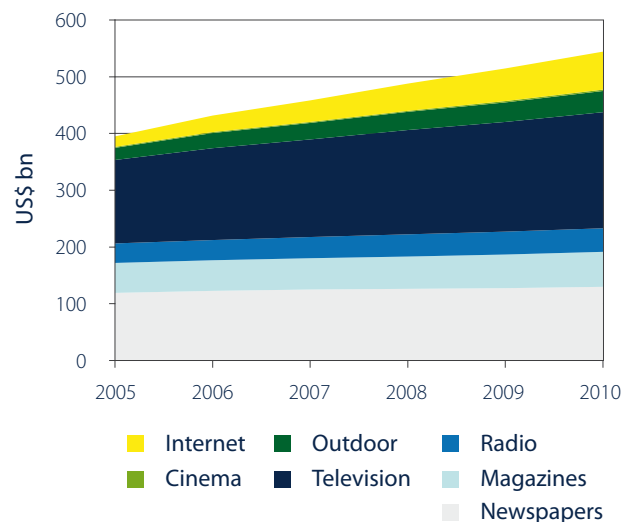
Fastest growing advertising markets 2007 - 2010

Source: Zenith Optimedia



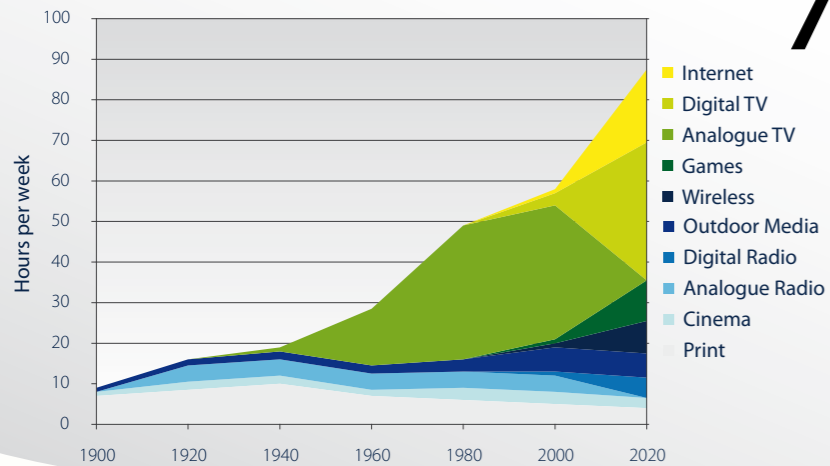
Global advertising revenues

Source: Zenith Optimedia



Media Consumption

Source: Carat



7 Driving Forces

1 Increasing Media Consumption

Increasing media consumption. Humans are intrinsically media animals. As we get greater access to media and content, we are discovering that our appetite for information and entertainment is virtually insatiable. It is commonplace for people of all ages to consume multiple media at the same time, with television, internet, newspaper, messaging, and other media frequently overlapping.

Implications:

Average total media consumption will exceed waking hours. Most media will be consumed with partial attention. Advertising impact will decrease.

Shaping Media

4 Personalization

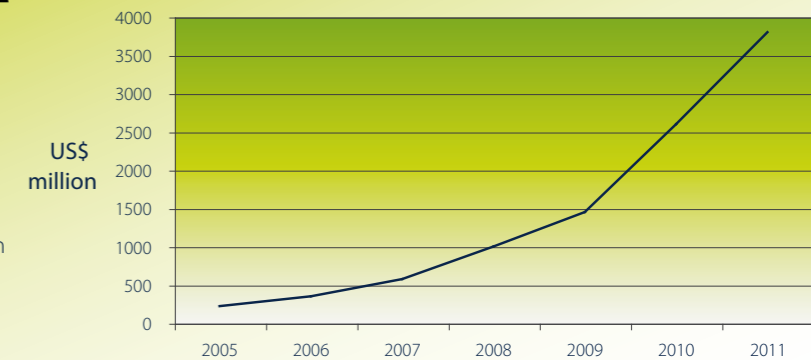
Media is becoming personalized. Ultimately this is about user control, in enabling every possible choice in what, when, and where people consume media, and its formatting, filtering, and presentation. At the same time, real-time information on viewers enables highly targeted advertising based on behaviors, location, and other profile data. The fate of personalized advertising will depend on how societal attitudes to privacy evolve.

Implications:

Users' expectations for control over their media will increase. Abuse of personalized advertising will create a backlash. Some will opt-out, and others will opt-in if sufficient value is created.

Behavioral Advertising

Source: eMarketer



2 Fragmentation

At the same time as we are consuming more media, every existing media channel is being fragmented, and new ones are being added apace. In the example of television in this chart, we watch ever more television, but the proliferation of new channels means continually less viewer time per channel. Now that the Internet and mobile are creating an explosion of new channels and content, audiences are being divided into smaller and smaller segments.

Implications:

Current mass media markets are ephemeral. Revenues per channel will decrease. In all except a handful of cases, production costs will need to scaled down.

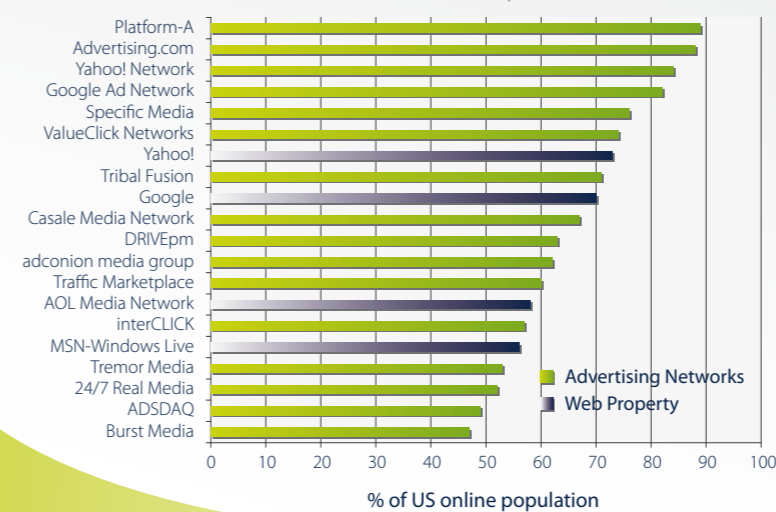
US TV Fragmentation

Source: Media Dynamics and Bear Sterns



US Internet audience reach

Source: comScore, Media Metrix



5 New revenue models

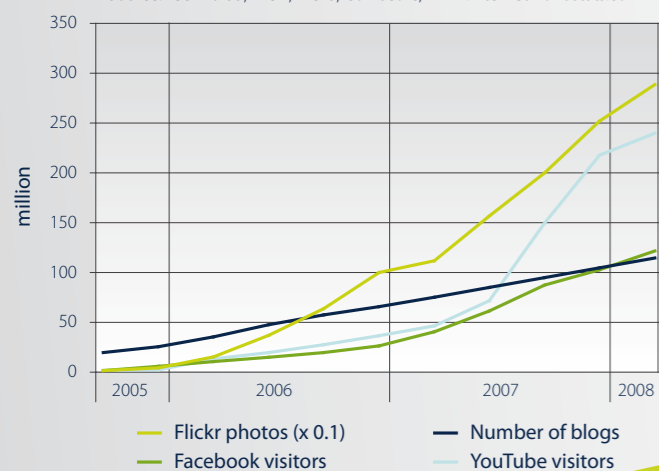
Within the current trend away from subscription and towards ad-supported business models, the way that advertising is sold is dramatically changing. As illustrated, the vast majority of the online players with the greatest reach are advertising networks, not stand-alone sites such as Google or Yahoo! Unbundling sales and content is allowing far greater scalability of content production costs. The promise of micropayments for content may re-emerge within a decade.

Implications:

Advertising aggregation will be central to the media landscape. Media companies will segment and unbundle ad sales and content creation.

User generated content

Source: Technorati, Flickr, Alexa, Comscore, www.internetworldstats.com



3 Participation

Early talk about consumer-generated media has become a stark reality over the last two years, with an explosion of media participation across blogs, photos, videos, social networks, and more. The costs of quality content creation are plummeting. Already a large proportion of content available is non-professional, and people's media activities are increasingly focused on participatory channels such as social networks.

Implications:

An infinite supply of content. Increased fragmentation of attention. Pro-Am (professional-amateur) content models will emerge.

6 Generational change

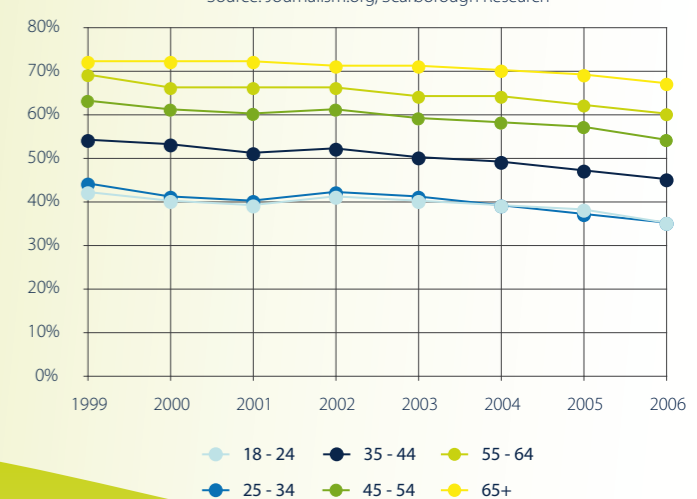
The chart shows that each generation is fairly consistent in its media consumption patterns, however that each group behaves very differently. The average audience age of traditional media such as television and radio continues to increase. Over the medium to long-term, generational change will result in dramatically different profiles for media consumption and participation.

Implications:

Media channels will be increasingly age-segmented. Advertisers will accelerate their shift to new media outlets. Sharemarket valuations will reflect age profiles of audiences.

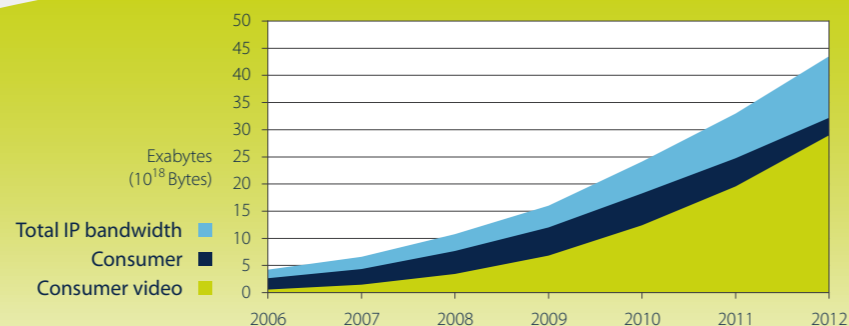
Newspaper readership by age

Source: Journalism.org, Scarborough Research



Global IP traffic

Source: Cisco



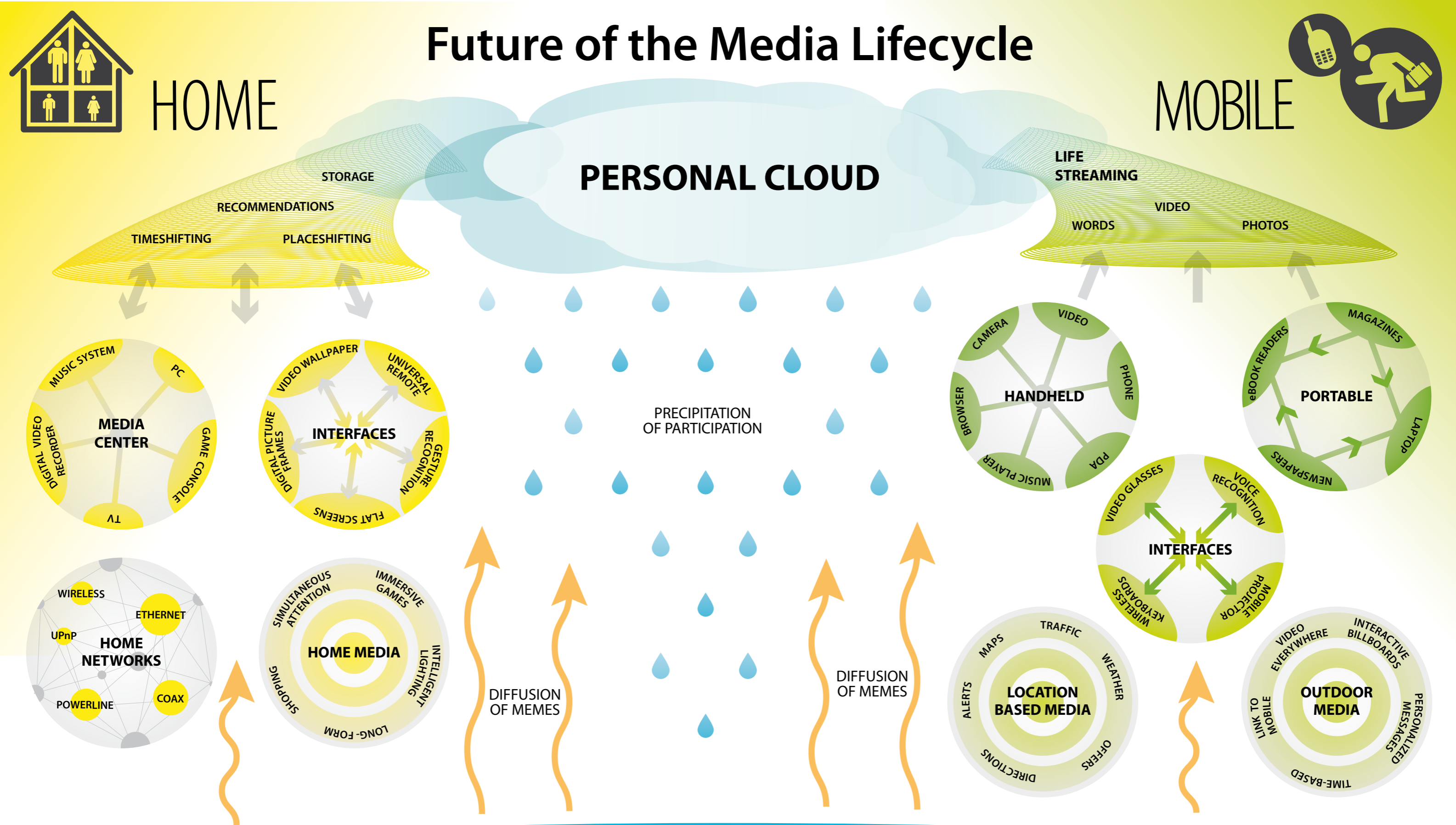
7 Increasing bandwidth

In developed countries the Internet has now shifted from dial-up to broadband in the home. A rapid pace of increase in bandwidth will continue indefinitely. It will not be too long before the majority of developed country homes receive over 100Mbps. At the same time mobile bandwidth is soaring, with a variety of technologies contributing to pervasive high-speed access to content.

Implications:

Video on demand anywhere, anytime. Personal clouds will allow music and video collections to be accessed anywhere without local storage. The rationale for allocated media spectrum and infrastructure will fade.

Future of the Media Lifecycle



Creative Commons Attribution-Share Alike 3.0 License

Future of Media: Strategy Tools

Flow Economy Strategy Process - Summary

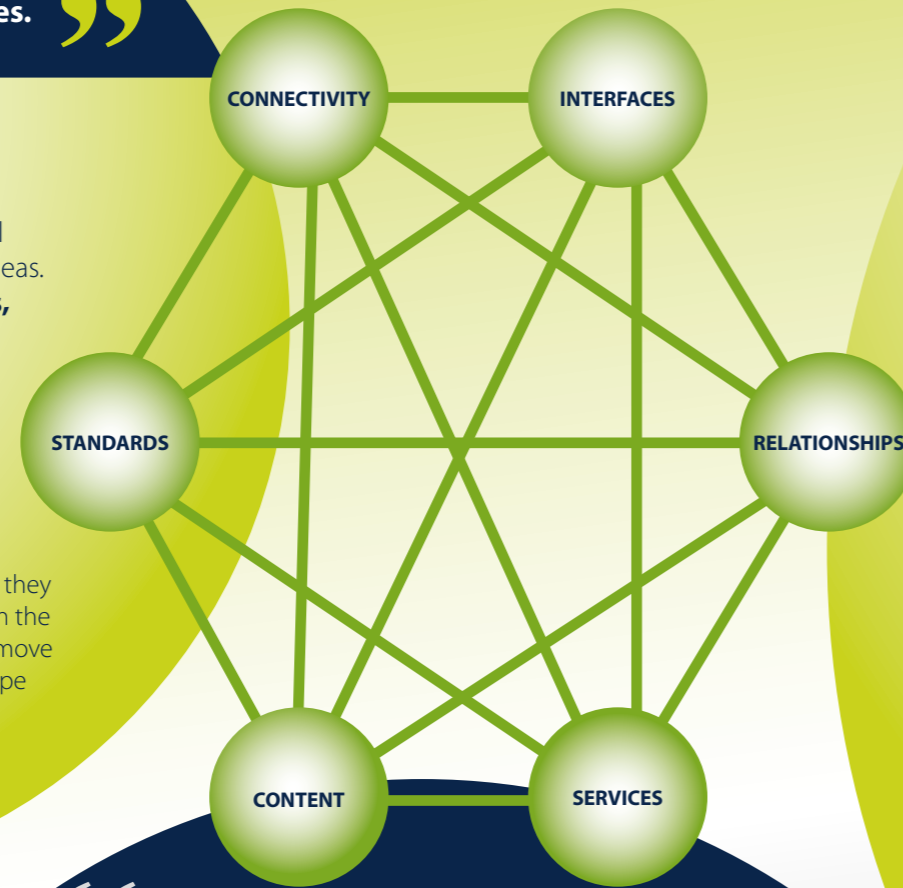
- 1. Define your space**
 - What is the "total customer experience" you participate in creating?
 - Which elements of the flow economy do you currently provide within this?
 - Who provides the other flow economy elements required?
 - What is your current relationship with these providers?
- 2. Redefine your space**
 - What is driving change in the flow of information and value in the space?
 - How can you redefine the total customer experience?
 - What are competitive drivers within each of the flow elements required?
 - How can you leverage your existing positioning into new sources of revenue or value?
- 3. Reposition**
 - Build internal capabilities.
 - Acquire existing businesses.
 - License content or technology.
 - Build alliances with complementary firms.
 - Outsource business activities.

3 Examples: Strategic repositioning in the Flow Economy

1 Apple
 Apple has proved very effective at repositioning itself across the flow economy. Most prominently, it has used its strong positioning in **Interfaces** (e.g. iPod, Mac) to shift to **Content** (iTunes). It has also built direct **Relationships** with its iTunes customers whereas before distributors held all customer relationships. Apple's adoption AAC as the default music encoding **Standard** on iTunes provided some lock-in as it was a less common though still open standard. For iPhone it has selected and generated revenue from selected partners for **Connectivity** (AT&T in the US), and is now taking part of the **Service** revenue for iPhone apps provided by a broader developer community.

2 British Sky Broadcasting (BSkyB)
 BSKyB began with part ownership of the satellites providing the **Connectivity** for TV delivery, creating and buying **Content**, and using these to create customer **Relationships**. In the early 1990s it sold its satellite ownership and since then has used the Astra satellites to provide the necessary **Connectivity**. Its exclusive live TV **Content** rights for the FA Premier League since 1992 has been leveraged into strong subscriber growth and many new **Relationships**. In 2001 BSKyB introduced Sky+, a combination set-top box and digital video recorder, providing an **Interface** to generate greater revenue and build more entrenched **Relationships**. BSKyB is now shifting into new **Services** including broadband and phone. It is also distributing its **Content** over new channels including mobile using Sky Anytime.

3 NTT DoCoMo
 The flow economy framework is especially relevant to telecoms providers that need to reposition from commoditized **Connectivity** into higher value spaces. DoCoMo has distinguished itself by developing **Standards** including W-CDMA and i-mode, providing it with local market differentiation and access to international markets. Its alliances with phone manufacturers allow it to control the **Interfaces** used by its customers, creating more embedded **Relationships**. i-mode's staggering success after its 1999 launch was largely attributable to its model of allowing third-party **Content** and **Services** providers access to the system, with just a low margin for DoCoMo. DoCoMo is now providing financial **Services** through its DCMX mobile credit cards, and, as other mobile companies, seeking to leverage its existing customer **Interfaces** to provide search functionality.



“ In uncertain times, don't try to predict the future. Systematically explore possible futures. ”
Ross Dawson

Scenario Planning for Media

Classic scenario planning is one of the most powerful tools for rigorous long-term strategy development in the media industry. In the face of multiple uncertainties, including technological development, consumer behavior, standards battles, regulation, and many others, a well-designed scenario planning process assists the development of robust business strategies.

Generic scenarios are of limited use. Scenarios need to be developed around specific business issues and key decisions. A typical scenario planning process would include:

- Define objectives and key strategic decisions
- Identify driving forces and critical uncertainties
- Select key dimensions
- Create scenario framework
- Develop distinct, plausible, complementary scenarios
- Test existing strategies across scenarios
- Generate new strategic options
- Define a core strategy and contingent responses
- Build strategic responsiveness across the organization

“ You have to learn the rules of the game. And then you have to play better than anyone else. ”
Albert Einstein

Game Theory: Strategies for Openness

The inexorable shift to openness dominates the media strategic landscape today. All successful platforms provide rich programming interfaces, open standards are swiftly being adopted, data portability is gaining momentum, most content is available on RSS feeds, and controls on intellectual property are being loosened.

The extraordinary pace of these trends means that media strategy is becoming more challenging. New business models are required, competitive responses must be swift, and strategic choices need to be made and implemented in real-time.

In this environment game theory is extremely relevant and a valuable strategic tool. Game theory studies how multi-player situations may evolve as participants respond to each others' actions. This can be done using mathematical modelling, or more simply as a framework for thinking through strategic options, their impact on the industry landscape, and optimal short and long-term strategies.

STRATEGY MAP	STRATEGY 1	STRATEGY 2	STRATEGY 3
COMPETITOR A	Blue	Green	Yellow
COMPETITOR B	Dark Blue	Purple	Orange
COMPETITOR C	Black	Dark Purple	Red

Flow Economy Framework

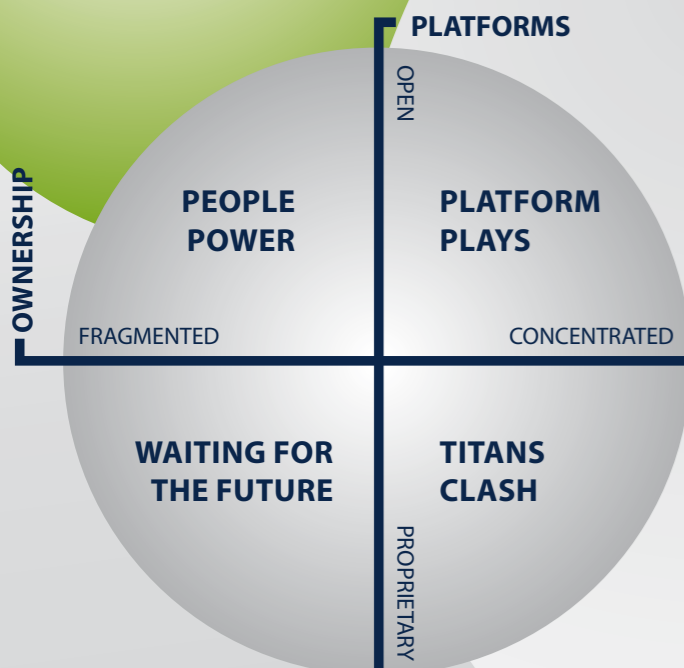
The Flow Economy Framework encompasses all activity based on the flow of information and ideas. The diagram shows its six elements: **Standards, Relationships, Connectivity, Interfaces, Content,** and **Services**. All six elements are required to deliver value to customers.

Each of these elements can be run as a stand-alone business. However the greatest value is unlocked in how they are combined. Only a handful of companies have the capacity to play in all six elements of the flow economy, and even then they must rely heavily on alliances. The heart of strategy in the flow economy is in leveraging existing strengths to move into a higher-value strategic position. As the landscape develops, this repositioning is a continuous process.

More information

Full details on the Flow Economy framework and strategy process can be found in Chapter 7 of *Living Networks*.

Free chapter download from: www.livingnetworksbook.com



- Strategy
- Thought Leadership
- Sponsored Content

MEDIA SNIPPETS

“ More than 57% of online video viewers share links to the videos they find with others ”

Pew

“ Six in ten (59%) are not comfortable when websites use behavioural information to tailor advertisements or content. ”

Harris

“ Roughly one-fifth of all U.S. households are disconnected from the Internet and have never used e-mail. ”

Parks Associates

“ US newspaper circulation is the same as in 1978, when there were 100 million fewer people in America ”

Newspaper Association of America

“ In 2007 YouTube consumed as much bandwidth as the entire Internet in 2000. ”

Daily Telegraph

“ France has the largest number of IPTV subscribers in the world, with three of the world's four largest IPTV service providers (Free, Orange France Telecom and Neuf Cegetel). The remaining service provider out of the top four is PCCW in Hong Kong. ”

dailyIPTV

“ There are 1.4 million new broadband users in China every month. ”

China Mobile

“ Thirty seven percent of consumers say they would rather pay for online content than be exposed to advertisements ”

Deloitte

“ Almost 70% of journalists read blogs regularly, while 20% say they spend over one hour per day reading blogs ”

Marketwatch

“ The median age of a US live television viewer is 50, compared to 38 for the entire population. ”

Magna Global

ABOUT FUTURE EXPLORATION NETWORK

Future Exploration Network assists major organizations globally to gain insights into the future and develop strategies that create competitive advantage. Its unique services are delivered from its deep in-house expertise, complemented by its network of global best-of-breed experts.

Clients of Future Exploration Network's key executives include ABN Amro, Capgemini, CNET, Ernst & Young, IBM, KPMG, Lend Lease, Macquarie Bank, Microsoft, Morgan Stanley, News Corporation, and SAP.



LEADERSHIP

Ross Dawson
Chairman

Ross Dawson is a globally recognized business strategist and authority on the future of technology and business, the best-selling author of *Living Networks* and *Developing Knowledge-Based Client Relationships*, and a frequent

international keynote speaker. His work is regularly featured in leading print and broadcast media worldwide such as CNN, Bloomberg TV, Washington Post, Reuters, SkyNews, ABC TV, and Channel News Asia. Ross also writes the highly influential **Trends in the Living Networks** blog

VIRTUAL CONSULTING MODEL TAPS WORLD'S BEST

Future Exploration Network has extensive in-house resources for consulting, research, and content creation. We complement these core resources by drawing as required on our diverse network of global best-of-breed experts. This allows us to deliver unique, world-class services for projects of any scale.

SERVICES

Strategy consulting

Future Exploration Network applies a range of tools and approaches to assist its clients to develop clear, actionable strategies in highly uncertain environments. We have deep expertise in applying scenario planning to build robust strategies.

Research

Deep research into technological, social, and business trends supports clients' strategic thinking, decisions, and implementation. Technology landscapes help organizations to plan long-term positioning, product development, and technology strategies.

Thought leadership content

We create content for leading organizations that will reach and engage attention-poor senior executives and support key messages on technology and business trends. These can be delivered in a wide variety of content formats, including print, presentations, documents, audio, video, and flash, and delivered so they reach target audiences.

Presentations and workshops

Keynote speeches and executive workshops can be delivered by key Future Exploration Network executives Ross Dawson, Richard Watson, or other world-class presenters from our network to stimulate, provoke, entertain, and provide input into specific strategic decisions.

Events

We create focused, relevant, highly interactive conferences and events that bring together the best minds in the field. FEN organizes both public events, and custom-designed events for key sponsors.

Go to www.futureexploration.net for other free publications including:

- Future of Media Report 2006
- Future of Media Report 2007
- Web 2.0 Framework
- Executive Insights into Enterprise 2.0



Contact Us

Future Exploration Network

Sydney :: +612 9994 8011

San Francisco :: +1(415) 315 9566

London :: +44(0)20 8133 3638

Email :: fen@futureexploration.net

www.futureexploration.net