

Media Strategies for a Networked World

Week 2

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Today...

- Complete net neutrality debate
- Introduce assignment
- Review business models and underlying behaviours in media
- The view from VirginMedia
- Group work on foundations of assignment
- Discussion

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Introduction to some conventional media

- May not appear as glamorous as some parts of the media but attractive
 - Revenues, employment, activity and status
 - Relatively stable/secure and reasonable hours
- Opportunities for MBA skills
 - Management & business skill requirements are increasing
 - Very active M&A field
 - Low barriers to entry for start-ups
 - Technology increasingly important
- Industry is renowned for internal promotion and on-the-job training

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Media & Comms is a significant business

- Media = \$880 Billion worldwide
 - 45% in US
 - 44% in publishing
 - 4% growth rate CAGR, consistently > market
- Wireless communications = \$450 Billion worldwide
 - 12% historic growth rates, forecast to drop to 7%

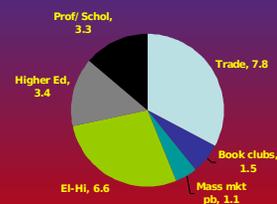
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Today's "conventional" media

- "Publishing, printing and recorded media" – a significant industry, eg in the UK
 - Employs 375,000
 - 60,000+ enterprises
 - £33Bn revenues (cf, agriculture £26Bn, hotel/restaurants £62Bn)
- Book publishing
 - \$25Bn business in the USA which is about 40% of world market
- Newspapers, Magazines and Journals
- Web sites
- Movies – theatre and recorded
- Music – live and recorded

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Book publishing is divided between Trade and Academic



2005 US market \$25Bn

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Publishing is about what to outsource

- Writing/illustration
- Design
- Printing
- Warehouse & Distribution, Inventory control
- Sales & Marketing
- Order processing, Credit control
- Accounts & Finance
- HR, IT, Legal
- Management

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Key steps in media product life cycles – how has technology changed the decisions?

- Back list vs front list
- New titles
 - Commissioning
 - Production / editing
 - Printing and distribution – physical / electronic
- Existing titles
 - Out of print – is there such a thing now?
 - Reprint
- Pricing / repricing (“stickering”) / bundling
- Discounting
- International pricing – transfer pricing
- Extent or size of the product

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Typical P&L for an academic text/ref book

Academic conference book		Notes	
• Gross Sales	100	• Audit fee – 10%, trade 10%	
• Less discounts	(15)	• Bookstores have full right of return of any unsold stock	
• Net sales	(85)		
Net Sales	100		
• Cost of Sales		• Academic books much higher profit values	
• Paper, printing & binding	20	• Usually a % of the Gross Sale, can be in range 5%-10%	
• Royalties	10		
• Total cost of sales	30		
Gross Margin	70		
	as % of net sales		
• Operating Expenses		• Catalogues, sales reps, sample copies	
• Sales and Marketing	24	• Customer service, order taking, shipping, warehousing	
• Distribution	13	• Rent, management, production, editorial, advertising	
• General & Administrative	17		
• R&D expenses	24		
Operating Income	39		
	as % of net sales		

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Trade books have a different profile

Notes		Trade book	
• Audit fee – 10%, trade 10%		• Gross Sales	250
• Bookstores have full right of return of any unsold stock		• Less discounts	(12.5)
		• Net sales	(237.5)
Net Sales	250	Net Sales	250
• Academic books much higher profit values		• Cost of Sales	
• Usually a % of the Gross Sale, can be in range 5%-10%		• Paper, printing & binding	2.0
		• Royalties	2.2
		• Total cost of sales	4.2
		Gross Margin	83.8
			as % of net sales
• Catalogues, sales reps, sample copies		• Operating Expenses	
• Customer service, order taking, shipping, warehousing		• Sales and Marketing	3.0
• Rent, management, production, editorial, advertising		• Distribution	1.0
		• General & Administrative	1.0
		• R&D expenses	2.8
		Operating Income	83.8
			as % of net sales

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Publishers' reactions to the internal medicine text book

Harrison's Principles of Internal Medicine
 Pub Date: 2004-07-27
 Copyright: 2005
 Edition: 16
 \$155.00 USD

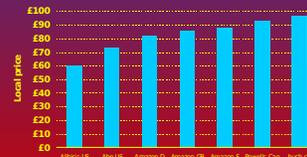


16th Edition Improves on a winning formula with:
 • State-of-the-art coverage of over 4,700 diseases and disorders—more than any other internal medicine text
 • A brand new full color format—665 full color drawings, 175 clinical and laboratory images, and hundreds of boxes, tables, and algorithms that use color to guide you to the information you need ASAP in everyday patient care
 • Thorough revision and updates of virtually all chapters
 • The addition of key new chapters—including extensive new coverage of Critical Care Medicine
 • 145 algorithms for making accurate clinical decisions fast at the point of care
 • 1,100 easy-access tables for immediate access to vital information and formulas
 • Cardinal manifestations of diseases and symptoms in 55 chapters (you'll find yourself turning to this section over and over again). Here you will find all the major manifestations, such as fever, pain, edema and rash, presented in depth, with a referral that takes you to the disease section for the complete chapter.

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International publishers are still trying to exploit local price differences in academic books

Harrison's Internal Medicine
 0071391401



Source: Internet, all new books, no shipping included, SBS analysis

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Publishers try to overcome the updating problem with linked web sites

Hurwitz Clinical Pediatric Dermatology e-dition, 3rd Edition with Continually Updated Online e-reference
By Amy S. Paller, MD and Anthony J. Mancini, MD
752 pages 800 ill.
Trim size 10 7/16 X 7 3/5 in.
Copyright 2006
\$219.00, Book with Online E-dition, Reference



- **THE BOOK:**
 - Presents new chapters that cover the hottest topics in the field.
 - Offers meticulous revisions and updates of all other chapters.
 - Features a bold new full-color design—with over 800 illustrations of breathtaking clarity.
- **THE WEB SITE:**
 - Users can search the entire contents of the book and access...
 - Weekly updates
 - A PowerPoint® image library featuring every image in the book.
 - Valuable web links to relevant sites – making this your one stop for pediatric dermatology information.
 - Patient information sheets.

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Similarly in college textbooks, to maintain market share publishers have had to invest in on-line learning resources: more cost and little extra revenue

Macroeconomics
Authors: DeLong, Bradford; Olney, Martha
Division: Higher Education
ISBN: 0072877588
©2006 | 2nd Edition | 584 pages | Hardcover
Price: US\$ 126.95



About
£46.50

Online Learning Centre: <http://www.mhhe.com/economics/dejong>

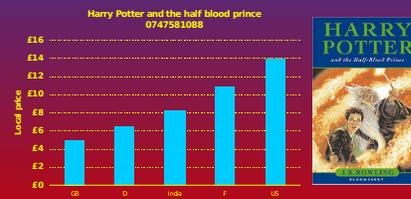
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Large price differentials can also be found in other subjects, eg economics text book



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The effect can be even more pronounced in trade books – but how long can this continue?



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Academic journals – a closed system

- History – origin of academic journals
- Importance of Impact Factor
- Content flow: authors often = readers
- Motivation of each link in the content chain
 - Authors: to get published in as high IF journal as possible, as soon as possible
 - Buyers: to supply as many journals to the readers within the money available
 - Publisher: to make as much money as possible, including from advertising (classified and display) – www.elsevier.com/locate/0167-6369
 - Society: to maximise commission/royalties and satisfy members but not be left with publishing costs
 - Readers: to keep up to date with scientific / academic advances

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There have been attempts to break the chains...none have yet succeeded...

- Impact Factor is too strong a measure for authors to walk away from
- Buyers / librarians like to have budgets to spend
- Publishers' claim to add value has not been seriously challenged (eg house style, distribution)
- Different economic models are also resisted by authors
 - Currently unpaid but then have to pay to read
 - There is a proposal to charge authors but then make the paper free to readers

...but the Internet is making inroads in some specialised subjects

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Peer review – a flawed system but the only one we have at the moment

- Before publishing, authors' submitted ms are sent by Publisher to be reviewed to assess quality
- Need to find **non-conflicted** reviewers – can be difficult/impossible in very narrow specialties
- And get a **timely** turn-round – when the reviewers are usually not paid, and are very busy researchers themselves
- A problem when researchers are competing and getting published gives them ownership rights to a discovery
 - Authors can send their ms to only one journal at a time

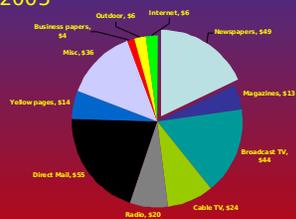
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Newspaper publishing

- A “forgiving industry” in the short term with some strong branding
- But under threat in the long term
 - Technology
 - Fashion
 - Substitution

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Advertising spend in USA – newspapers still key and worth \$49B in 2005



Source: Newspaper Association of America

2005 total = \$271 billion

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In the USA, newspaper advertising spend continues to grow

Total print newspaper advertising



Source: Newspaper Association of America

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US retail advertising remains ~50% of newspaper ad revenues...but how long can classified hold up?

Total print newspaper advertising

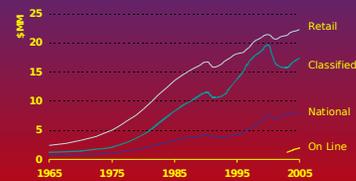


Source: Newspaper Association of America

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Online seems to be replacing national advertising, not classified

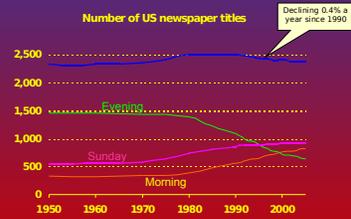
Total print newspaper advertising



Source: Newspaper Association of America

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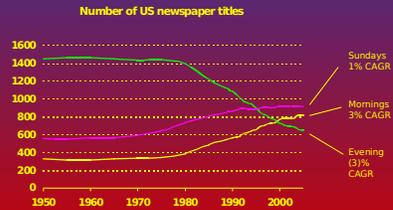
Total number of US newspaper titles has remained fairly steady for over 50 years



Source: Newspaper Association of America

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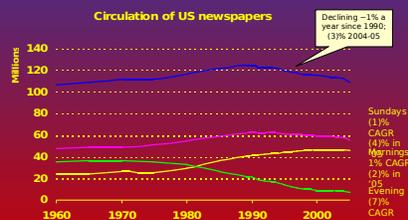
...while evening papers continue to close, has the growth in morning/Sunday titles now stopped?



Source: Newspaper Association of America

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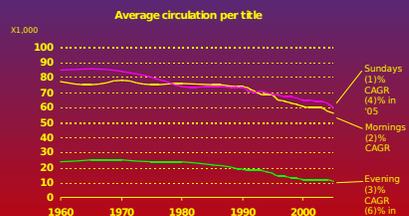
US newspaper circulation has been declining since the peak in 1990 – M&E now at pre-1960 levels



Source: Newspaper Association of America

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Average circulation per title has been declining 1%-3% CAGR for the last 20+ years – accelerating in 2005?



Source: Newspaper Association of America, BIA Kiplinger

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A future "newspaper"?



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Web sites

- Capturing the zeitgeist, some very lucky examples
- What point on the value chain to operate?
 - Content creation
 - Content aggregation
 - Editing and interpretation
- How to monetize?
 - Subscription
 - Advertising
 - Donation
 - Cross subsidised by other business
- Essential problem is custom and practice – for now?
 - Much/sufficient content is free to reader
 - Many content creators also create for free
 - Quality is highly variable

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Media company's assets

- Authors / creators
- Customers and knowledge of their interests
- Back List – the Intellectual Property (IP)
- Know-how
- Staff
- Dues / back orders
- Contracts
- Physical inventory
- Real estate and capital assets
- Capital

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So are there any underlying ... of media that can instruct us?



Marshall McLuhan, 1911-1980

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Media are based on just two human senses

- **Sight and Sound**
- Major difference between these two
 - Turn sight/images on and off
 - Sound is always "on", McLuhan's "acoustic world"
- The other 3 human senses require us to be proximate
 - Touch
 - Taste
 - Smell

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Essential differences?



Chagall windows at Reims Cathedral



Railway Bridge at Argenteuil, 1873, Monet

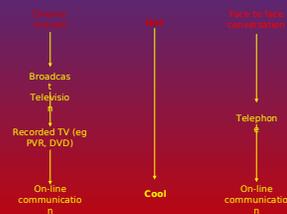
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McLuhan defined media as "hot" or "cool"

- **Hot**
 - Loud
 - Bright
 - Clear
 - Fixed, unchanging
 - Reflected light
- High definition
- Less involvement needed
- **Cool**
 - Soft
 - Shadowy
 - Blurred
 - Changeable, unfixed
 - Transmitted light
- Audience needs to fill in the details
- More work required by audience so more involvement

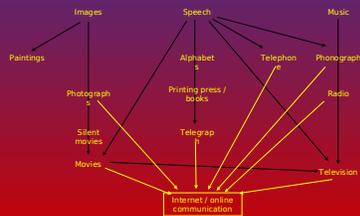
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Technical developments appear to have cooled media off



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Every new medium is built on a pre-existing medium...



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The “Global Village” – a term coined by McLuhan 44 years ago in 1962

- “The new electronic interdependence recreates the world in the image of a global village.”
- What is a village?
 - Access to news for everyone
 - Open access to entertainment
 - Chance for all villagers’ voices to be heard
 - All take part in decisions / “politics”
 - Information receivers can be senders as well
 - Generally authoritarian / paternalistic (like a family)
- What sort of “village” did we have in 1962?
- Does the Internet now deliver? What is missing?

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So, can we start to understand and quantify what makes each medium intrinsically and relatively attractive?

- The nature of the medium itself
 - Reflected vs Transmitted light (“Light On or Light Through”)
 - Discarnate, ie disconnected
 - Part of the acoustic world
 - Temperature – hot or cool
- Accessibility (eg, iPod video, DVD, TV, Cinema)
- Cost (initial investment, variable cost)
- Learning cost (passive or active)
- Interactivity (phone vs radio vs internet)
- Controllability (eg RealAudio)

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How consciously do consumers trade off different characteristics of media? Example for listening to music

Characteristics	FM Radio	iPOD	Live concert	CD & HiFi
Initial investment	○	○	●	○
Maintenance required by user	●	○	●	○
Running cost	○	○	○	○
Sound quality	○	○	●	●
Accessibility	○	●	○	○
User control of music	○	●	○	●
Interaction to new music	●	○	○	○

Does the driver type of music? Eg. Rap, Pop, Classical, Opera, Rock, Jazz...

Poor ○ → ● Good

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Today...

- Complete net neutrality debate
- Introduce assignment
- Review business models and underlying behaviours in media
- The view from VirginMedia
- Group work on foundations of assignment
- Discussion

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For your chosen industry/organisation, start to develop a basic view of assets, product and market segmentation

- What assets do you have? What value do they have now and will they have in the future?
- What is the most useful definition of “products”?
- What is a useful audience segmentation to understand how to deliver the products/service?
- Are there any potential audiences, currently unserved?
- Where is the value in the value chain? What are the drivers that will determine the value chain in future?
- Who are the competition?
- What are useful performance measures for the output?

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Select your industry and a specific organisation

- Artist or artist organisation
- Record label or movie studio
- Technology company
- Newspaper, magazine or book publishing
- On-line aggregator - may be a search engine, content aggregator
- Television - either a channel, producer or both
- Telecoms