

Networked media:

Consumers love it, but who will profit?

Tumbling CD sales caused panic in the music industry, proving that the way we consume media is evolving. The availability of networked media – digital media over networks – increases choice, makes the experience more personal and adds interactivity. This new consumer behavior perfectly suits network operators that are adapting their business models to the concept of networked media.



THE DIGITALIZATION of content, coupled with the rollout of broadband networks, allows for completely new ways of distributing and consuming media. This creates new business opportunities for both operators and media companies. Media content becomes easily available, allowing consumers to be entertained and stay informed but also to share their experiences with family and friends.

The physical distribution of media content will continue to diminish. Music and video downloads over networks are examples of media content that have already become a widely used alternative for many consumers.

Five recent examples of networked media successes illustrate the potential demand:

- Consumers have purchased and downloaded more than 200 million songs from Apple's European iTunes music store in just over two years (source: Apple, August 2, 2006, "European iTunes Music Store Tops 200 Million Songs Sold").
- Operator 3 in the UK introduced SeeMe

TV, with mobile subscribers posting their own video content for other subscribers to view. It quickly reached 1 million downloads a month (source: *The Guardian*, March 23, 2006, "Picture all the news that's fit to upload").

- Orange World surpassed 4.5 million mobile TV/video sessions per month in France in January 2006 (source: Orange, September 11, 2006, "Driving Mobile TV adoption" presentation at IBC event in Amsterdam).
- NRK and Ericsson trialed interactive mobile TV services – doubling viewing time – with 20 percent of those who downloaded the interactive client viewing the mobile TV service every day (source: Ericsson, February 7, 2006, "Ericsson and NRK's interactive mobile TV trial doubles average viewing time").
- Leading online video site YouTube announced that more than 100 million videos per day are being watched on the site and some 65,000 videos are now uploaded daily to YouTube (source: *MarketingVox*, July 17, 2006, "YouTube Visitors Watch 100 Million Videos a Day").

In time, all content will be available in digital format and over a network, making it accessible both at home and on the move.

This gives consumers a wider choice, the opportunity to tailor their personal content, keep it at their fingertips, and consume it from any device at any time.

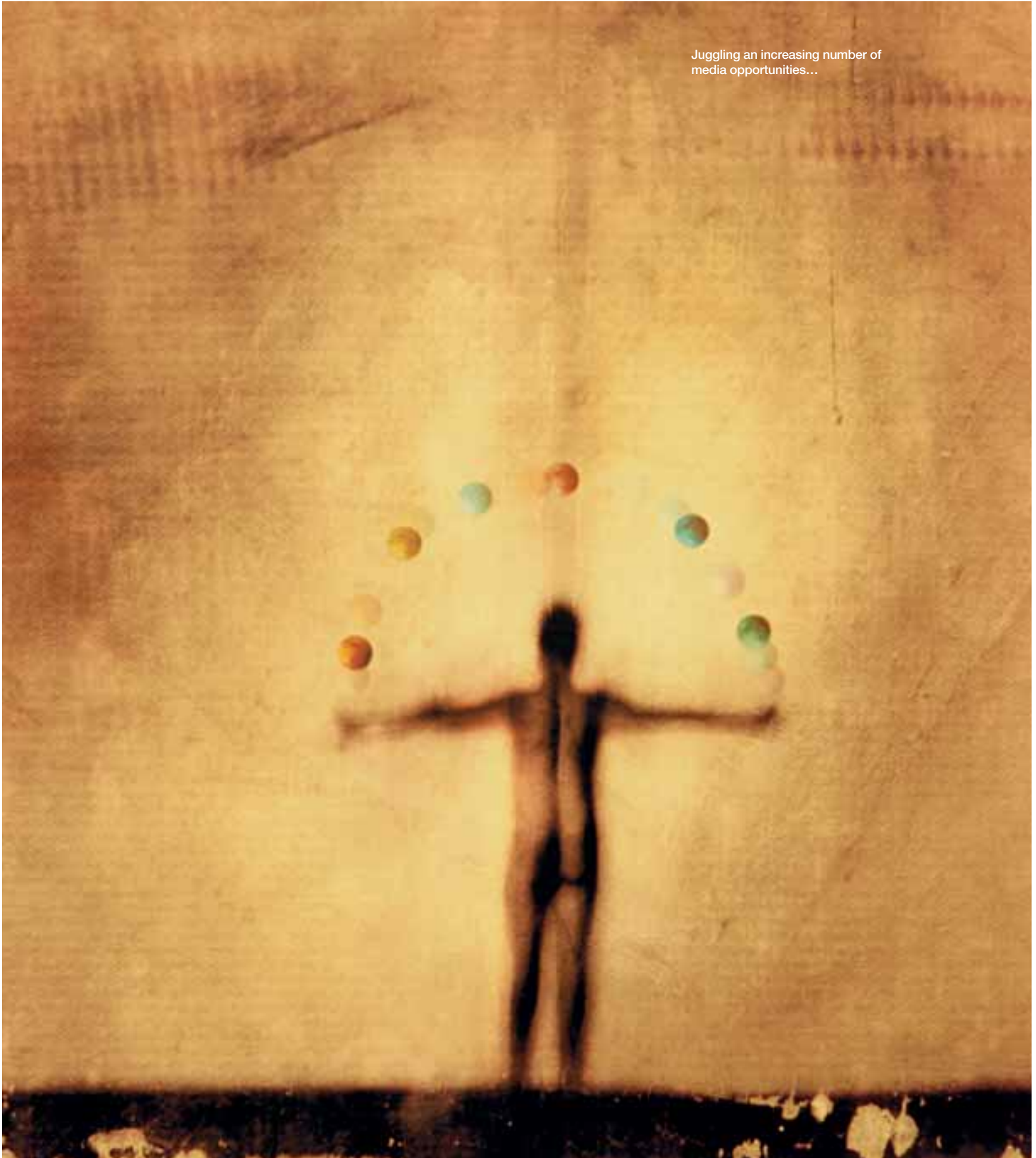
By 2011, about 35 percent of global music revenues and 50 percent of global gaming revenues will be networked, a recent study by UK-based analyst group Analysys forecasts.

This emerging opportunity involves two giant industries of today – telecom and media – and includes areas such as TV, radio, print, gaming, video and music, both created professionally and user-generated. The networked media market is expected to grow 10 times faster during coming years than traditional media (35 percent versus 3.5 percent).

A promising increase in consumer interest and subsequent potential for increased revenues has received the attention of both the telecom and media industries, but the



Juggling an increasing number of
media opportunities...



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working relations between the industries have not been settled. Business models, including the value chain, related players and their roles – as well as revenue streams and sources – are still being defined.

Creating new value chains

The first opportunity for joint business – and thus a joint value chain – between the telecommunication and media industries really emerged in the mid-1990s when internet use took off. Suddenly, fixed telecom op-

erators, internet players, and content providers were battling for the same consumer offerings, trying to work out relationships between themselves in the process.

Ten years later, the current status suggests that telecom operators have been left to manage the internet connectivity, while content providers and new players such as search engines and communities manage the internet consumer experience. The rise of networked media can change this situation, where media-intense services such as IPTV can allow operators to regain their momentum in the fixed space. There is a possibility that communication services, on the other hand, move further from operators to internet alternatives.

A similar battle is shaping up in the mobile space. Telecom networks are perfectly suited to handle networked media services such as mobile TV and music, offering consumers an engaging experience, building on personalization and interactivity. Mobile TV can also be distributed efficiently over telecom networks using two complementary mechanisms: unicast delivery for the potentially hundreds of niche TV channels that capture few simultaneous users, and multicast/broadcast to deliver the fewer channels that attract the most interest. Unicast is also used to distribute any TV and video content on-demand, offering efficient distribution of the “long-tail” with a complete back-catalog becoming available for the consumer.

With the introduction of these more advanced media offerings, the evolution of internet/IP services and the addition of the mobile channel alongside the internet one, the value chains for networked media seem ready to be settled.

A networked media report by Analysys outlines major differences regarding revenue flows and agreements between different content types. There are unique traits in most of the value chains for mobile-TV, IPTV, online music, mobile music, online gaming, mobile gaming, online radio, mobile radio, online video, mobile video, online text, and mobile text. Alignment of the related processes (content and solution management, content formatting, and so on) can become a key success factor for companies with higher ambitions than single-type content distribution.

Where the money comes from

Historically, the revenue streams for telecom operators and media companies have been very different. Telecom operators have often relied on traffic-based charges and subscriptions, whereas media companies have typically to a large extent relied on advertising. Broadly speaking, these revenue models are very different: one focuses on satisfying consumers, while the other does so indirectly by satisfying advertisers.

facts

Networked media has several unique consumer traits that will drive the uptake of media and content services.

- **Personal:** Networked media can be addressed to specific individuals, ensuring that the content is meaningful to everyone.
- **Interactive:** Networked media provides opportunities for the consumer to interact with and shape the media experience.
- **24/7:** Media and content are always available, supporting ad hoc needs. Various devices, including computers, TVs and mobile phones, ensure access at all times.
- **Viral:** Networked media can include consumers as distributors, adding their recommendations to what is passed on, further increasing the value (and reach) of the media content consumed.
- **Multiple:** Media types and media channels are converging, with traditionally separate devices such as TVs, PCs and mobile phones becoming connected and presenting one experience: multimedia on multi-device over multi-access.
- **Simple:** As media and entertainment services and content over communication networks mature, ease of use remains a key target because complex activation and consumption tends to deter mass-market use. Automatic device configuration and single sign-on are examples of technical solutions supporting simplicity.
- **Expressive:** Media content is an important enhancement of the way we express ourselves, our likes and dislikes. Think of why ringtones are so popular.
- **Rich:** Multimedia and multiple media streams will enrich the media experience and change the way we consume media services.
- **Secure:** Spamming on the internet and rights-management issues are focus areas as the business models around networked media mature.
- **Billable:** Logically and fairly priced services will stimulate the uptake of media services, something that digital networks handle efficiently.

note

{ Not all theft: music sales on the internet have in fact increased in recent years. }

Revenues from consumers include connectivity fees, service fees, and additional spending on related services. Contrary to general belief, networked music sales have, as an example, increased in recent years (source: International Federation of the Phonographic Industry), even though many young people believe that free access to music on the internet is a basic right (source: Ericsson Consumer & Enterprise Lab).

Consumers, at least in some markets, have also adapted to buying goods over the internet – online shopping during November and December 2005 reached more than USD 30 billion in the US, according to a report from Goldman Sachs, Nielsen/NetRatings and Harris Interactive.

There is potential to bring in both consumer and advertiser revenue streams when delivering networked media. This means that the total spend from each stakeholder can at least be maintained. The adoption of advertising for networked media is more likely to be successful if the advertisements are personalized and made relevant for each individual user – and such tailor-made targeting is something networked media supports.

TV channels, for example, can easily see advertising possibilities in mobile TV and IPTV since they relate to their current revenue models. In the same way, operators can see possibilities for subscription packages for these services. Agreements for how any revenue sharing between these business models should be set up are still agreed on a case-by-case basis.

The potential revenue models for networked media, many of which are already used on the internet, include:

- Subscriptions – monthly fees for specific media services, such as Rhapsody.
- Traffic charges – price per traffic amount sent, such as the way many mobile operators offer WAP information.
- Advertising – content-separated, such as traditional TV-commercial breaks; content-inserted, such as product placements; context-inserted, such as targeted pop-ups based on clicks; search-related or classifieds-related; “intracommercials” when entering or starting a media service; and cross-advertising where physical, mobile, PC, and traditional channels are interlinked.
- Various forms of brokering – demand collection, such as Priceline; auctions, such as eBay; search agents, such as Pricerunner; and virtual marketplaces.
- Information mediation services – advertising network matchmaking, such as DoubleClick; audience measurement information, such as network operator statistics or Nielsen/NetRatings; and user-tracking services.

essence

{ Everyone wants to act as the shop front. }

- Merchandising – virtual stores or virtual shop windows.
- Community services – targeted advertising, subscriptions or premium services such as Friendster or Lunarstorm.

The community and advertising models are examples that are currently in demand.

Fast-growing communities

The community service potential is huge. Nielsen/NetRatings listed April 2006's top 10 social networking sites as collectively growing by 47 percent year-on-year, increasing from an unduplicated unique audience of 46.8 million last year to 68.8 million in April 2006, and reaching 45 percent of active web users in the US.

The advertising possibilities have been firmly tested on the internet, even though targeted advertising is still in its early days, with examples such as Google matching search words with advertisements. Internet advertising revenues in the US in 2005 totaled USD 12.5 billion, a record for a single year. Keyword search drew the most ads, posting revenues of USD 5.1 bil-

lion, or 41 percent of the overall total. Classifieds came second with USD 2.1 billion, while e-mail was third with USD 251 million (source: report from Interactive Advertising Bureau and PricewaterhouseCoopers, April 2006).

For the mobile channel, advertising is still largely untapped. An Ericsson study (February 2006) on the business potential of mobile TV advertisements revealed that personalized marketing was the key advantage for consumers watching mobile ads, (proportion of respondents who indicated each reason as a key advantage):

Personalized marketing	73 percent
Dedicated offerings	68 percent
More attractive mobile TV tariffs	43 percent
Easy interaction with advertisers	30 percent
Others	11 percent.

The study included interviews with operators, TV channels, marketing agencies, consumer brands, service providers, and media agencies from Western Europe and North America. It concluded that operators are rarely involved in mobile marketing today, but that operators and media companies will both gain from cooperating.

As TV distribution migrates to digital networks, advertising also changes. When a majority of users are equipped with the capability to skip commercials, through for example digital video recorders, at the same time as the number of TV distribution alternatives and channels increases, advertisers will have increasing difficulty in landing their campaigns. New ways of advertising are therefore being used increasingly, such as product placements, sponsorships, co-

fast-growing communities

Top 10 social networking sites* for April 2006 (US, home, and work)

Site	Apr-06 Unique Audience (000)	Growth (year on year)
MySpace	38,359	367%
Blogger	18,508	80%
Classmates Online	12,865	10%
YouTube	12,505	N/A
MSN Groups	10,570	-14%
AOL Hometown	9,590	-15%
Yahoo Groups	9,165	11%
MSN Spaces	7,165	286%
Six Apart TypePad	6,711	32%
Xanga.com	6,631	27%

Source: Nielsen/NetRatings, May 2006

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branding, split screens, commercials during fast forward, documericals, ad-supported video on demand, and click-through solutions. However, researcher FIND/SVP found that consumers are twice as likely to buy a product as a result of seeing a TV commercial than they would after seeing a product in a branded entertainment scenario (source: <http://publications.mediapost.com/index.cfm?fuseaction=Articles.san&s=33347&Nid=15087>). This implies that advertising will continue to be closely evaluated. Here the telecom networks' unique ability to reach individual users with personalized content is a strong opportunity to attract future advertisers.

Managing digital rights

The lack of agreed business models that outline the relationship between telecommunication and media players is an obstacle for many networked media initiatives. TV broadcasters may for example be used to purchasing the rights to distributing content to all users once or twice. Personalized media with on-demand services can, however, be legally interpreted as distribution of content every time an individual consumes the content. This suggests that the content-purchasing agreements may need to be changed for effective distribution of content.

A lot of focus and effort has been put in the area of managing music rights and the relationship to file sharing. The digital rights discussions have focused on digital rights management systems (DRM) that limit the possibilities for unlimited sharing. Legal sharing options such as iMesh, Mashboxx, and Playloder are surfacing, but have yet to attract large numbers of users. One alternative introduced by, for example, Napster is to allow users to download files and consume them free of charge up to three times. After that they need to purchase the song to continue listening.

The current alternatives for handling digital rights are:

- 1 Standards-based DRM solution – (such as the OMA DRM 2.0).
- 2 Proprietary DRM solution.
- 3 No DRM solution.

All three alternatives are plausible, and no single alternative has yet become dominant. A risk with proprietary DRM solutions is the potential difficulty of consuming content on any device, rather than being stuck with one supplier's devices. The coupling of specific content to specific devices – such as the situation with iTunes/iPod – has, in some cases, been quite successful despite obvious consumer limitations.

Owning the customer

Many of the obstacles with networked media opportunities can be boiled down to customer ownership. Who should make the offering to the consumers?

Breaking it down

- The introduction of IPTV, voice, text – and other media combined – provides a new opportunity to attract consumers in their homes.
- Operators must maintain close consumer relations in competition with internet, device and media companies by providing personalized and interactive experiences.
- Operators, internet companies and media companies will find joint ways to offer consumer experiences where the consumer gets the brand recognition from the combined effect of content, service and delivery.



the author

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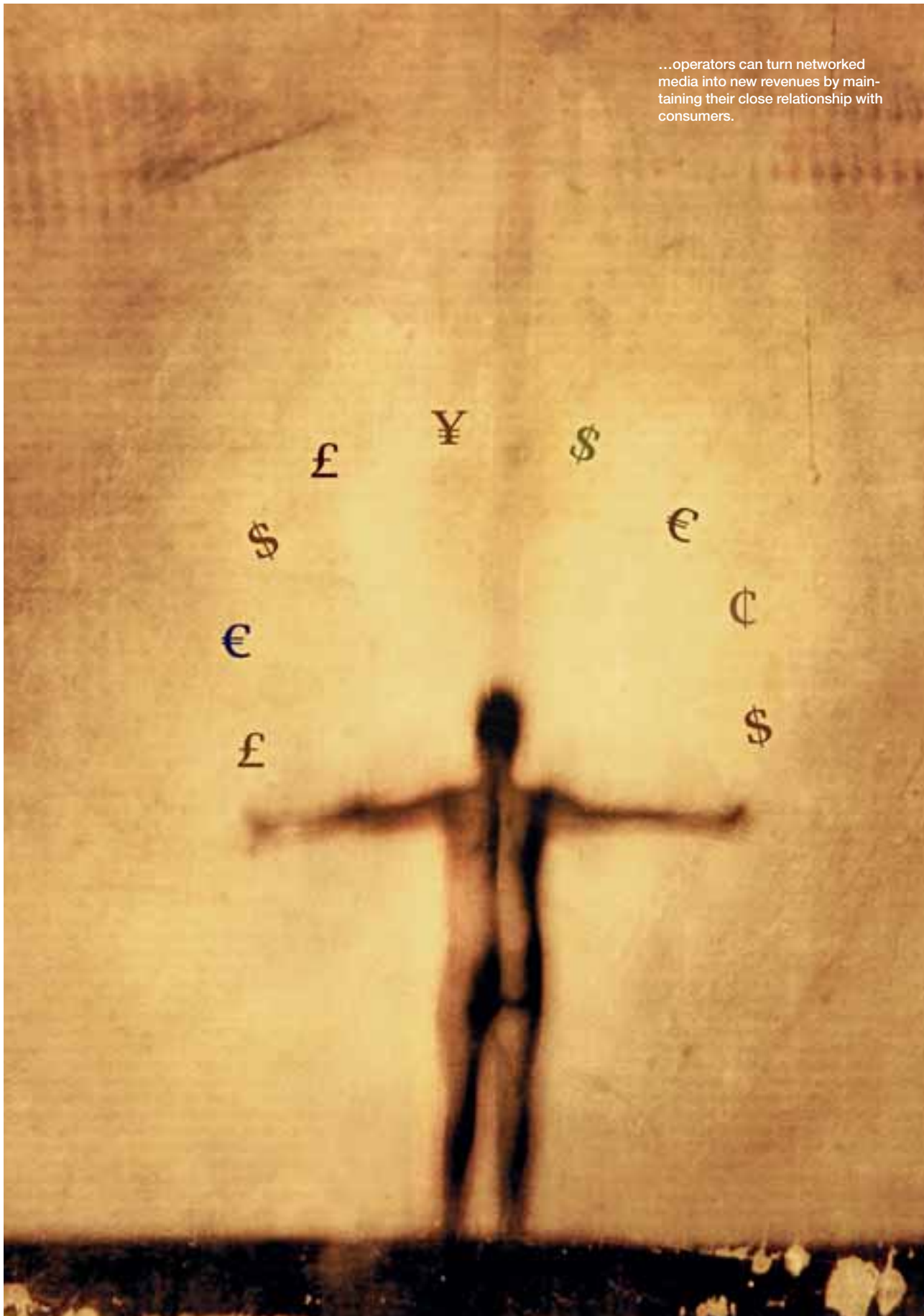
Media companies typically have strong consumer brands that can also be leveraged for delivery over telecom networks. This also maintains their multi-channel capabilities in the eyes of their advertisers, strengthening the offering to them. Media companies might be concerned about cannibalizing revenues from existing channels when introducing new ones. A general trend is, however, that consumers want to expand their experience and that internet and mobile offerings will be regarded as necessary parts of a media experience. The added value of interactive, personalized capabilities will mean that media content is increasingly demanded over internet and mobile connections where such capabilities are supported.

In contrast, telecom service providers have entrenched positions in the fixed and mobile telephony domains. They have demanding customers that they typically want to serve beyond the pure connectivity subscription. The internet experience has left most of them with connectivity revenues, whereas portals, premium services, and related advertising have been left for other players to handle. With the introduction of IPTV and advanced communication services with voice, text, and other media combined, there is an opportunity to attract consumer interest in their home environment again. Telecom service providers have maintained a stronger position in the mobile domain. Here it will be important to maintain the dominant position and close consumer relations, in competition with internet, device and media companies. Services such as 3G mobile TV and mobile music will rely on providing personalized and interactive experiences that consumers are increasingly demanding.

Because the media, internet and telecom industries have a lot to gain from cooperating on this opportunity and all will want to act as the “shop front,” we will probably see combined offerings to a much larger extent than we have in the past: network service providers, internet players and large media companies standing together, offering unrivalled consumer experiences where the consumer gets the brand recognition from the content, the service and the delivery.



...operators can turn networked media into new revenues by maintaining their close relationship with consumers.



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