The New DNA of Content

From book, movie and merchandise sales to celebrity gossip pages and online fan forums, Twilight is the latest pop culture sensation. But those following all-things Twilight most closely aren’t necessarily the insatiable young “twihards.” As the $1.8 trillion media and entertainment industry looks for new ways to sell more content, executives aren’t just wrestling with new technologies—but all new rules.

Creating and selling content that engages millions has been the lifeblood of the global media and entertainment industry. Companies in New York and California—traditional hubs of this industry—employ more than 950,000 people from staff writers, editors, photographers, publishers, choreographers and cinematographers to producers, advertising and PR specialists, journalists, game designers and media technologists. This doesn’t include the thousands of freelancers who work under contract or the aspiring artists who contribute their talent to the mix by sending manuscripts, screenplays, demo CDs and photographs in hopes of...
becoming the next big thing in the world of media and entertainment.

Technology and the digital age have altered the process of creating and selling content. Whether editing page layouts or film footage, creators can now do their jobs better and faster, exponentially increasing the speed with which they deliver content to those who consume it. They have also ignited an insatiable appetite for better content.

Traditional media companies have been wrestling with the digerati—those on the technological frontier of new ways to communicate—as they struggle to stay in the game. Amid an avalanche of new options, whether it be tweeting succinctly or sharing rich media in the cloud in real time, there are new questions to answer; and almost all of them involve content.

The New Money Train

Good content sells. And the more diverse it is, the more it sells. Pop artist Lady Gaga is number one on Fast Company’s list of the 100 Most Creative People in Business not only because she can sing but also because she “…reigns over a brand that spans music (10 million plus albums sold), video (1 billion plus Web views), design (Monster headphones, Polaroid cameras) and marketing (HP, MAC, cosmetics).”

The mistake many artistic people make is to look at everything through a creative lens rather than a financial one. Lady Gaga makes money by looking through both lenses.

In an era of instant gratification, it becomes important to understand the relevance of content—what is relevant to whom and for how long. This is especially true as story cycles get decidedly shorter. In the past 10 years, the number of days a Top 3 feature story has remained active has fallen by 23 percent. Yet there are more variants created around each subject, driven largely by social media such as tweets and blogs, and digital versions of magazine brands. Before Lady Gaga, there was a plethora of other stars, including Britney Spears, who was a cover subject of People, Us Weekly, In Touch, Life & Style, OK! and Star 175 times in just 78 weeks. Add in the number of YouTube video clips, Facebook conversations and mentions in the blogosphere, and the number of contexts in which Ms. Spears was followed skyrocketed. And this was pre-tweets. Missing a hot topic or over-extending it has immediate financial consequences.

With digital media, content is no longer static. It can be created and changed in minutes as photographers retouch images. This is nothing new, but there are now more amateurs doing it. When does retouching become mis-representing, and does it pose a risk for the media brand that publishes the image? For instance, when a high-end fashion photographer retouches a shot of a model to soften shadows and enhance contours, does this simply “beautify” the image or does it distort it, moving

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Vertical View

it way beyond a reflection of what the camera saw? If a war photographer increases the number of missiles fired from a fighter jet in an attack on an enemy position, is it to balance out white space in the sky or promote a personal viewpoint? Do such decisions merely enhance the artistic appeal or do they cross the ethics line?

Increasingly, as social media sites blend into branded and traditional media, the marriage of the two can stimulate sales of traditional coverage. For example, as bloggers across the globe covered the sudden death of Michael Jackson in the minutest of detail, TIME magazine’s special commemorative issue—priced at a 45 percent premium over its standard newsstand price—sold out in less than 24 hours. This despite otherwise declining revenues in publishing and other traditional media sectors.

The Costs and Benefits of Ownership

With more connectivity around content, the costs and benefits of ownership are becoming more obscure. The best example of this is copyright contracts. Most contracts include provisions for editorial context, which specifies the precise story in which the content can be used. Yet few contracts have been able to keep up with the explosion of alternative means of distribution in today’s user-involved and technology-driven era.

Factors such as speed, access and the ability to hear consumers’ opinions and comments via social media sites all play a role in relaying relevant content to consumers. So do the aspiring actors and musicians who are actively (or even unintentionally) popularizing their own brands in a range of diverse social networking communities. Indeed, a two-year-old song by singer Chris Brown got a second wind when the viral YouTube video hit JK Wedding Entrance Dance garnered more than 16 million views in 17 days.4 Sony Records moved quickly to capitalize on the video’s unexpected popularity. The question for media companies is whether or not they have Sony’s flexibility to act on such opportunities when presented.

When discussing copyrights, the topic of infringement is never far off. Traditional media companies are managing copyright infringements ad hoc, often with inconsistent market standards and little transparency in regard to market prices for usage rights. As landmark cases wind their way through the legal system, they serve merely as a time stamp as to when the question of infringement became obsolete.

The good news, however, is that the commoditization of content has led to the standardization of usage rights. Just three years ago, the right to reuse a print image versus the same web-based image was met with a 15 to 20 percent price jump. Today, there is rarely a premium to pay for reuse—whether the image be on a website, a mobile application, Facebook or an elevator console. The expansion of “stock” content has shifted, with buyers and sellers agreeing to value content based on time periods rather than distribution.

Yet negotiating fair-market price for content reuse rights is still more art than science, and smart content buyers structure dynamic contracts flexible enough to handle the oft-changing growth in media. Stories of publishers reducing content-acquisition costs by 25 percent are fairly common as they negotiate premiums for content reuse. For example, a book publisher uses a sliding-scale pricing structure that links rates and rights to annual usage volumes, not unlike the sliding-scale pricing deals companies negotiate with their paper suppliers. Publishers can save 15 percent on a previous year’s baseline.

4 www.youtube.com/watch?v=4-9jLEiN0
The bigger news is that transparency in rights costs can improve investment decisions. For example, market tests of the above-mentioned strategies revealed that syndication rights for static editorial and pictorial content was at a 160 percent premium over single-use rights. Armed with this kind of information, content publishers can make better return-on-investment decisions when weighing the cost of acquiring usage rights against the anticipated benefits. Media companies can more rigorously identify key content segments and design specific short- and long-term treatments for each. Acquiring more rights will obviously cost more money, so the next question becomes what is the value of these rights, and when do they start to pay off?

The Talent-Management Paradox

Part of content investment involves talent investment. As media companies have looked for ways to reduce fixed costs, they have increasingly resorted to contracting freelancers rather than hiring full-time employees. If the choice were between investing in stable core strategic assets or in talent that they feared could grow “stale” in a matter of months, the choice was simple—talent was rushed out the door.

The result has been an exploding freelance talent market where the best and brightest talent is outside the organization and management control. Everything from movie production to magazine photography now exists beyond corporate walls.

While this market of freelance talent has caused a surge in small-content providers, it has also led to a larger philosophical discussion about “make-versus-buy”: Is it better to develop your own talent or simply buy it from the outside? The answer could have profound implications across all aspects of organizations from human resources to accounting and treasury operations.

So far, the overwhelming answer has been to buy it—as the cost of nurturing profitable talent often outweighs the benefits. The challenge continues to be in identifying raw talent, establishing an environment for creative growth and ongoing innovation. The prevailing wisdom is that talent bought from a hyper-competitive marketplace will always produce more diverse and cutting-edge options than homegrown versions.

There is a drawback, however. If successful in developing lucrative talent, companies do not have the right to capitalize on the total value of their output beyond one format. Consider, for example, the music industry. The major record labels generally invest an average of $3 to $5 million in a new artist’s “recording fund,” absorbing the cost for artists who do not

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become popular, while reaping high royalties for those who do (often uncapped for the duration of the multi-year contract). While many successful artists renew subsequent contracts under different terms or even renegotiate existing ones, few labels have been able to structure a deal that allows long-term value sharing of the artist’s brand, of which the label was the original incubator.

Lady Gaga is the latest 360-degree deal where labels invest 100 percent up front for a cut of revenues from every aspect of the artist’s business—from music to merchandising.

For the most part, media companies have little infrastructure to develop talent or patience to nurture it. Today’s hottest ideas are mostly generated independently and then purchased for distribution—a pattern that reduces once-powerful companies such as Sony and Universal to distribution engines for films such as the Harry Potter series. In an era when syndication and licensing are the path to revenue nirvana, industry dynamics have forced media companies to abdicate their erstwhile place as leading providers of content.

Measure, Manage, Market

As economic conditions continue to stifle industry growth, changes to financial models have created an opportunity for media companies to rethink their strategies. The three Ms of content should be at the top of every executive’s list:

Measure value. Take a good look at what consumers value, recognizing that value needs to be more than driving traffic or generating buzz. These are important metrics, but if a media company is unable to generate meaningful revenue, the model is fatally flawed. Consider how many feature films open with great fanfare, only to fall flat in ticket sales. Granted, correctly forecasting revenue can be a daunting task, but all successful media companies in the future will have systems that attempt to do so. Expanding these models across platforms and integrating the output and previously learned lessons into the talent-selection process supports consistently better investment decisions.

Manage the pipeline. Because talent is a fleeting asset, it is an illusion to think a company can identify and lock in future talent. Not unlike a sports team that places too much faith in talent scouts, a wrong talent decision could be a crippling disadvantage. We can sympathize with the music executives who signed the big artists only to see their star wane before the contracts expired. However, it is more important to have a stable of talent that can be sustained steadily and can survive the roller coaster of fast-changing times. It is a balancing act that requires clear decision-making processes that link talent costs with expected revenues. Disney has been doing this for years, from Hannah Montana to Wizards of Waverly Place and the Jonas Brothers. The company has an especially strong track record of knowing when the balance of power in talent negotiations has changed. Rather than fight the current, they simply shift to the next life stage.
Market universally. A media company should be able to leverage multiple channels and disperse content seamlessly, regardless of channel. Consider how revenue potential for iconic content such as the Olympic Games has evolved; the business cases for these opportunities are well-documented. The challenge for NBC in 2010 was to manage the process perfectly, regardless of the strengths of specific channels that did not exist when NBC originally bid on the rights. Without clear marketing plans capable of producing revenue, additional platforms merely create cost, and for NBC the result was a $223 million loss.

Traditional publishing houses today are investing heavily in Web properties to ensure they reach consumers seamlessly across print and digital channels. The Apple iPad and the Sony Reader create an opportunity to redefine how the business operates—with the right mix of talent able to exploit new products as the foundation for innovation rather than an outlet for repurposed material.

Think 360°

Lady Gaga is just the latest 360-degree deal where labels invest 100 percent up front for a cut of revenues from every aspect of the artist’s business—from music to merchandising. The pop artist’s label stands a good chance of getting its money’s worth: As industry observer Simon Dumenco told Forbes magazine, “…Lady Gaga understands viral marketing better than anyone on the pop scene today.” There will be others—many others—as technology, talent and distribution continue to alter the DNA of content.

Consulting Authors

Jim Singer is a partner and co-head of the consumer products and retail practice in North America. Based in the New York office, he can be reached at james.singer@atkearney.com.

Greg Portell is a principal in the consumer products and retail practice. Based in the New York office, he can be reached at greg.portell@atkearney.com.

Kosha Gada is a consultant based in the New York office. She can be reached at kosha.gada@atkearney.com.
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