

Winning in Internet Video: The Six Big Questions for Content Owners

Internet video is being hailed as the next big new media growth opportunity—and a major threat to the traditional players' business models. Millions of dollars are being invested in Internet video and Web TV offerings. Succeeding with these new online video ventures presents significant challenges and risks, and often places the participants in direct conflict with their traditional partners. Winning players will craft compelling business designs around six critical areas in order to create an online video business that is differentiated in an increasingly competitive and crowded marketplace.

Content owners (film studios, networks), online aggregators (Google, Yahoo), traditional TV providers (cable MSOs), and Web TV specialists (Brightcove, Joost) are already placing big bets and investing heavily to get their “slice of the pie.”

Many of the players in the traditional video value chain are caught in a dilemma. Having observed the digital music experience where the music labels have been unable to capture significant value from their content, film studios and broadcasters are hesitant to give away their video assets for others to profit from. Cable companies don’t want to be left out of the Internet video space, but, in equal measure, they don’t want to cannibalize their traditional and highly lucrative distribution channel.

Now these traditional media players are exploring new online direct-to-consumer distribution models, and many are double-betting on multiple Internet video business designs. For example, NBC has set up a direct-to-consumer NBC-branded video website. It has also launched a video distribution network with News Corp., AOL, Yahoo and other partners in order to compete against YouTube. In addition, NBC distributes content directly through partners, including MySpace.

Succeeding with these new online video ventures presents significant challenges and risks, and often places the participants in direct conflict with their traditional partners. We at Oliver Wyman believe there are six critical questions

that must be answered in order to create a winning online video business that differentiates itself in an increasingly competitive and crowded marketplace.

What are the top customer needs online players can serve—and for which customers?

Attempting to build a generic online video offer to serve the mass market will likely result in a business that fails to distinguish itself from already-established sites like YouTube. They will attract relatively few end users since there is only so much demand for sites that provide a one-stop-shop to all online video.

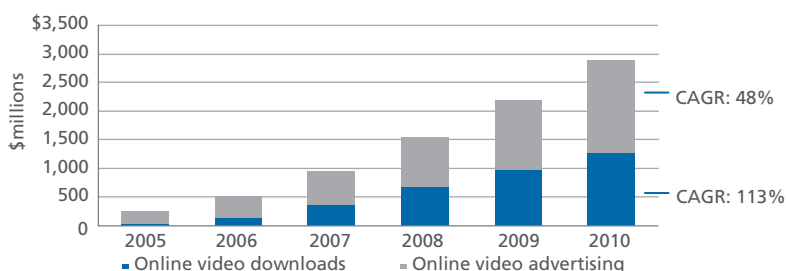
To be successful, online video businesses will need to select specific customer segments, understand their online video behaviors and priorities, and focus on building offers to meet these needs.

A targeted offer to a specific segment will make it easier to build a “sticky” online video product that is differentiated from the competition. The SciFi Channel’s *BattleStar Galactica* site is one such targeted online video offering that has been very successful at tailoring its offer to a niche audience of passionate fans.

What unique assets do I own that will enable me to build a franchise with these segments?

Differentiating through content alone is likely to be difficult, since most of the basic content for prime-time shows and movies is likely to be available on many online video sites. Therefore, online video players need to identify what assets they own—or can build around—that will make their product unique.

Internet video growth forecast



Source: Veronis Suhler Stevenson, PQ Media, comScore Networks, DFC Intelligence, IDC, iTunes, International Federation of Phonographic Industry, Jupiter Media Metrix, Nexis Lexis, Online Publishers Association, The Themis Group

NBC has begun to differentiate itself by offering live interactions with the cast of popular prime-time shows, such as *The Office* and *My Name is Earl*, among others. This creates a differentiated offering that also builds loyalty and repeat use around the content.

Other players will need to identify the assets they own—or can build—that will differentiate their product and that competitors will find hard to replicate.

Device or no device? Given that the TV will continue to be the primary in-home viewing device for content end users, will it become critical to transfer online content to the TV to win? Or will a portable video device become a “killer” product in the next 5 years?

Given the recent deal between Google and Apple, device players clearly believe that an in-home device to bring Web video to the TV is a critical component of a winning strategy.

With this in mind, content owners will be very wary of allowing a device-led approach to capture the lion's share of the value generated from their content. However, if a device is critical for long-term success, the playing field is shifted in favor of Cable MSOs, device manufacturers (Apple, Microsoft), and even mobile operators. Making a double-bet by developing an integrated device/Internet video offer would afford protection, should a device become a critical part of that offer.

What distribution models should be adopted?

Investing heavily to create a well-known branded destination video site may not be the best way to win and may not be worth the investment for many players. With a few exceptions (e.g., Disney, ESPN, CNN), many of the studios' and TV channels' brands are not strong drivers of traditional consumers' viewing habits today. Before investing heavily in a branded online video destination, par-

ticipants must ask themselves if this best serves their strategic objectives.

Partnering with established online players may be a more effective way of attracting and monetizing an online audience—as CBS has now chosen to do—by syndicating its shows to many online partners. CBS decided on this approach after Innertube, its entertainment channel on CBS.com, failed to attract a sufficient audience.

Another approach includes building branded offers around specific programming (as Fox has done with *American Idol*), which may prove to be a better way to build consumer awareness and attract audiences.

What will be the impact on offline distribution partnerships and business models?

The greatest fear of the content owners is that online video will cannibalize their traditional revenue streams. In addition, online video brings partners in the traditional video value chain into direct competition. To this point, we have seen Wal-Mart reportedly threaten to pull Disney's DVDs from its shelves when Disney agreed to sell episodes of ABC's popular shows, *Desperate Housewives* and *Lost*, online through iTunes.

Content owners are going to need to decide how their online business models will complement their traditional models.

Should the online business be a money maker in its own right? Or should the primary objective be to enhance the offline franchise, which in many cases will continue to create the lion's share of revenues in the near future?

Balancing the online and offline business models—as well as partners' interests—will be critical if the online and offline distribution models are to complement each other. Online video is expected to be big, but who wins will depend on who can answer these critical questions. ❖

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This white paper was prepared by **John Senior**, a Principal in Oliver Wyman's Communications, Media, and Technology Practice. He has consulted to some of the world's leading telecommunications, media and entertainment companies, including cable MSOs, telcos, ISPs, mobile operators, and media groups in the U.S. and Europe. Mr. Senior's work has focused on corporate and product strategy development and he has led several projects to develop converged media and communications business and product strategies. Prior to joining Oliver Wyman, Mr. Senior worked for Accenture in the U.K. and South Africa and was educated in the U.K., holding a B.Sc from Southampton University. He can be reached at john.senior@oliverwyman.com.

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