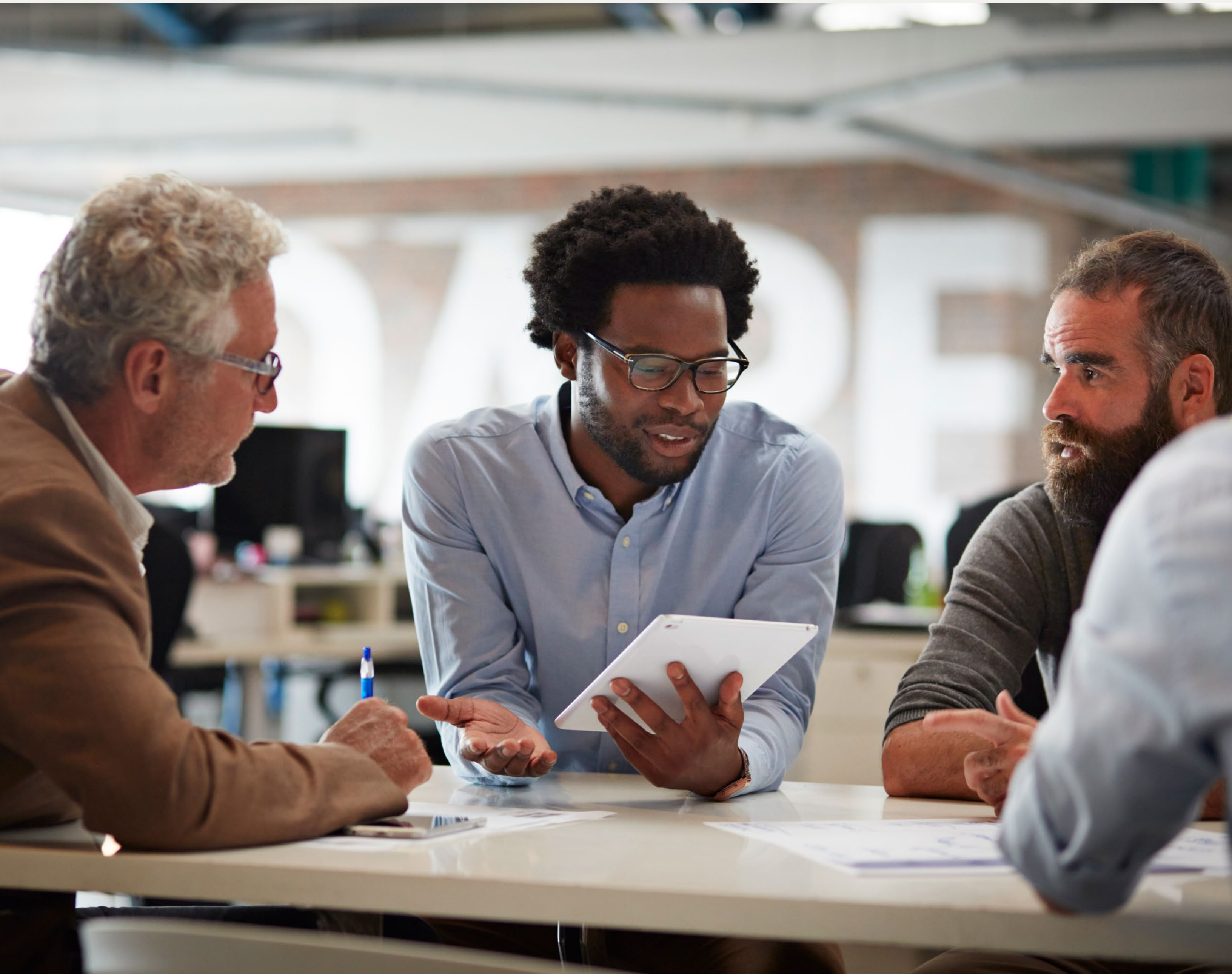
Media's Digital Dilemma



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The media industry is facing unprecedented digital disruption since the advent of streaming and the market entry of tech giants shaking up the traditional competitive landscape. The impact is that streaming companies are struggling to grow and retain subscribers, and three of the top five platforms are unprofitable with a combined loss of more than $6B.[20] With customer churn increasing, overall gross subscriptions slowing, and revenue from linear programming declining, the media industry has a challenging time ahead.

While this may be a new phenomenon for the media industry, other industries have gone through similar challenges in the past and harnessed digital disruption to great advantage. The retail industry, for example, went through a dramatic shift with the rise of e-commerce in the early 2000s, with the winners further enjoying incredible success throughout the shocks of the COVID-19 pandemic. These companies were able to improve the customer shopping experience through convenience, speed, and ease of access, while also leveraging customer data and insights to increase sales.

These observable changes of customer behavior in the retail industry are more broadly applicable, and media companies could apply these lessons learned to boost their competitive advantage. The next decade in the media industry will certainly face more consolidation, alliances, and newsworthy exits, and the winners who rise to the top will be those who learn from others, because after all, we have seen this movie before.

Summary

This document discusses the challenges and opportunities for the media streaming industry, and how it can learn and leverage from other mature digital companies and industries (such as airline, retail, manufacturing, and consumer-packaged-goods) that have faced similar disruptions and how they have used strategies such as loyalty programs, dynamic pricing, hyperpersonalization, and innovation to survive and thrive. Data, analytics, Artificial Intelligence (AI) and Generative AI are key for media companies to focus on profitable growth, customer retention, and content quality and diversity to compete in the highly competitive and changing market.

Media Industry: State of the Union

Most media enterprises are un-profitable in streaming, except for Netflix and Warner Bros. Discovery. Further, streaming has cannibalized the traditional revenue streams, such as licensing deals and linear programming advertising revenue. Increasing subscribers and increasing Revenue per User (RPU), is a top priority in the media industry. Some of the ways media companies have addressed these objectives are increasing the size of their catalog, trying to improve the quality of their catalog, increasing price, cracking down on password sharing, and expanding offerings with premium and advertisement supported models.

The overall challenge in the media industry can be summarized as the classic innovators dilemma: the new is disrupting the old.[22] What has changed are customer behavior, tastes, and preferences, increasing customer expectations, customer buying preferences, perception of value, and personalization.

Connected Products

Consumer tastes and behavior is constantly changing and evolving and with a connected product you have the ability to monitor their behavior and make better decisions based on that data. In the media industry, the rise of digital (streaming) media, which is a connected product, has led to a shift in how people consume content, with many opting for online sources over traditional media:

- The average daily time spent with digital media in the United States is expected to increase from seven hours and 19 minutes in 2022 to close to eight hours in 2025, while watching TV accounts for about three hours.[26]
- From a price sensitivity perspective, 50 percent of users across all streaming providers would cancel their subscription if prices increased by up to 30 percent.[27]
- Binge-watching is becoming the new normal, with almost 75% of the US adults now identifying as part of this category.[28]
- Concise and engaging content, driven by the pace of online consumption, are key components of the success of shorter content.[29]

In the retail industry we have seen changes in customer behavior stemming from convenience, speed of finding products, and ease of access.[7] Traeger, the creator of the wood pellet grill, conducted a survey which found a correlation between high Net Promotor Score (NPS) and the number of times per week the customer uses their grill. This led to a natural conclusion that they should launch a campaign to inspire customers to use their grills more often. Before spending millions on this campaign, they decided to look at their data collected from the grills and found no differences in usage frequency between high and low NPS customers. What they did find was that customers with low NPS tended to fiddle with their grills more, opening the lid and adjusting the temperature too frequently compared to those with high NPS scores. So instead of launching the marketing campaign, they used this data to proactively reach out to customers having trouble with their grills to diagnose any issues they were having and teach them how to use the product more effectively: a connected customer (and product) experience resulted in greater customer satisfaction.[23, 24]

In the media and entertainment industry, streaming media provides the ability to monitor and analyze consumer's behavior and make better personalized decisions based on that data: media streaming apps are a connected product that can track all sorts of things about the customer, their (binge) watching behavior, and their preferences to optimize the platform, develop content they will like, and recommend content they will consume: being able to act upon insights from this type of information, allows for a better connected customer experience.

Dynamic Pricing

Data about how the customer uses and interacts with your product are incredibly valuable for improving the overall customer experience. A good customer experience, which is driven by proactively anticipating customer needs, reduces churn.[25] Consumers are focused on relevant content, availability, and value. As a result, streaming platforms run promotions to attract and retain consumers.

We are all too familiar with the concept of dynamic pricing. While airlines have used this concept to set their ticketing prices over past few decades, most of us only noticed with the surge pricing part of dynamic pricing when using Uber/Lyft rideshares. Airlines use a complex revenue management system to optimize their profits by adjusting prices based on demand, seasonality, competition, and other factors.[30] The model that airlines and hotels use for reservation is unique in the sense that they need to sell a commodity that disappears as soon as the plane has left, or a new day arrives for a hotel: vanishing commodities need to be sold on a time constraint basis with discounts being provided where needed, based on consumer insights derived from historical data. Promotions and ads are key to filling the empty spots as the deadline approaches.

As an example, airlines may release empty seats to loyal customers (aka frequent flyers) in the weeks leading up to departure.[35] This approach balances the airline's revenue management and loyalty programs. Since these seats are made available online, the customer will have a positive digital experience, thereby creating more loyalty.[36]

With streaming, currently platforms try to fill up their catalog so there aren't any "dead" periods where you don't have a new show, but in line with the travel industry examples above, they should experiment with clustering shows and increasing the price for new subscribers when these series are about to launch, and lowering prices to attract new subscribers during slower periods. This could be a new and innovative way (other than the annual plan discounts) to get subscribers to stick around month-to-month versus subscribing and unsubscribing based on when their favorite shows come out. Customers are looking for value. Streaming companies can leverage this dynamic pricing concept to attract more customers during low peak periods. This will need to be very near real-time and infused with hyperpersonalization[31] reflecting the subscriber's unique streaming needs. This insight can be used to proactively anticipate and fulfil customer needs.

Loyalty and Rewards Programs

According to a McKinsey article "Data-driven marketing at scale can deliver that growth—consumer-packaged-goods (CPG) companies can deliver 3 to 5 percent growth in net sales and improve marketing efficiency by 10 to 20 percent." [3] This type of impact is derived through macro-audiences versus micro-opportunities (aka hyperpersonalization) and customer-level Artificial Intelligence (AI).

Consider Unilever: with its acquisition of the Dollar Shave Club, it propelled itself into the direct-to-consumer market, a major shift away from its traditional business-to-business market. A bold (digital) move for Unilever to increase revenue and tap into a new customer base, which unfortunately led to the divestiture of the Dollar Shave Club after 7 years. The lesson learned is that while a new market opened, challenges remained. A new competitor, Harry's, entered the market soon after the launch of the Dollar Shave Club, by manufacturing in-house and augmenting its direct-to-consumer to partnering with retailers. While the Dollar Shave Club operates both as a subscription service and a loyalty program (Razor Rewards), Harry's offers both a offers both a subscription service and a membership program. In either case, diversification of revenue streams is a key to success.[4]

There are several aspects to these loyalty programs which keep customers loyal year after year to these airlines. For example, better seating on airplanes, access to lounges along with better access to a partnership ecosystem, such as car rental and hotel rewards and benefits, as well as alignment to coffee shops: Starbucks and Delta have created a partnership that allows for a convergence of hospitality and convenience and is built on benefits for members of both loyalty programs.[9] The key observation is that loyalty programs are valuable to customers if they provide value to the customer. An example of a loyalty program that did not provide sufficient value to its participants is the Dillards loyalty program that at one point provide $10 rewards for every $750 of spend.[12]

The retention of customers and increasing the RPU is key in creating a thriving revenue stream for media companies. The path to success in this area is knowing the customers. Cutting edge customer experiences are those that leverage emerging technologies, data analytics, social media mining, and personalized content to create immersive, interactive, and engaging experiences for the audience. Creating and providing next generation experiences will help Media and Entertainment companies convert their customers into loyal followers and even promoter or influencer.

Media and entertainment companies can create loyalty programs which can increase customer experience. For example, with loyalty points, enrolled customers can get better access to theme parks, events like concerts, or even premium content. Media and Entertainment companies need to look at what customers value and provide incentives accordingly. A Media and entertainment Frequent Consumer program may incent people with live events, access to premium content, or even partnerships with other companies, as shown by the Delta and Starbucks loyalty program partnership that allows for a convergence of hospitality and convenience and is built on benefits for members of both loyalty programs.

Platform Ecosystem

The decline of traditional revenue streams, such as print advertising, has forced media companies to explore new business models, thereby necessitating the shift of the media industry model from growing at all cost to one of focus on margins. And this is not unique to the media industry.[5]

Apple is known for its constant innovation and disruption of various industries, such as personal computing, music, mobile phones, and tablets. However, Apple also faced disruption from competitors, such as Microsoft, Google, Samsung, and Amazon, who offered cheaper or more diverse products and services. To survive and thrive in the face of disruption, Apple reinvented its core value proposition from being a hardware manufacturer to being a platform provider. Apple created a platform ecosystem of products by bundling hardware, services and software that integrated seamlessly and offered a superior user experience. Apple also leveraged its loyal customer base, brand reputation, and design expertise to charge premium prices and maintain high margins. Apple's reinvention of its core value proposition enabled it to become one of the most valuable and profitable companies in the world, as customers embrace the platform ecosystem.

Price discrimination takes many forms: customers bidding in an auction with the final price determined what the client is willing to pay, coupons for products based on loyalty, and seats to movies that differ in price for matinee and evening showings. We see a similar trends in the streaming media space, where traditional streaming subscriptions and freemium subscriptions co-exist. The industry also sees cross-industry price discrimination where a Chase branded debit card will provide benefits that include access to premium tickets, Disney vacation perks, and limited time offers.[18]

The media industry is highly competitive, with new players entering the market and established companies fighting to maintain their market share. The Apple example shows that an innovation mindset can create new business opportunities that can create a more loyal customer, a higher paying customer, and even open new revenue opportunities.

Apple and Amazon already provide bundling in the form of Apple TV+ and Amazon Video, this strategy needs to be embraced more by media and entertainment companies. While bundling is important, the brand of a company is extremely import: the brand value of Apple in 2023 is reported to be north of $880 billion US dollars.[16] Hence the selection of a celebrity to advertise products and bundles is a particularly important one. Companies realized that advertisements that feature celebrities allows the companies to target a larger (and possible more loyal) consumer base and hence would allow for higher prices and hence increase revenue.[17]

Recommendation Engines

Netflix started as a DVD rental service that competed with Blockbuster. However, as the internet and digital technologies disrupted the video rental industry, Netflix shifted its focus to online streaming and original content production. By doing so, Netflix created a new value proposition for its customers, who could access a large library of movies and shows anytime, anywhere, and on any device. Netflix also leveraged its data and analytics capabilities to personalize its recommendations and create content that matched the preferences of its subscribers. Netflix's reinvention of its core business model enabled it to become the dominant player in the online streaming market, while Blockbuster went bankrupt.

According to a recent Comcast study, viewers search for, discover, and watch content across multiple screens and devices. Customer satisfaction heavily relies on choice, attention, decision, and social context. To improve customer satisfaction, content providers must improve the content discovery experience by catering to the needs and preferences of diverse types of viewers: hyperpersonalization is a way to achieve this goal: time sensitive and contextual.[13]

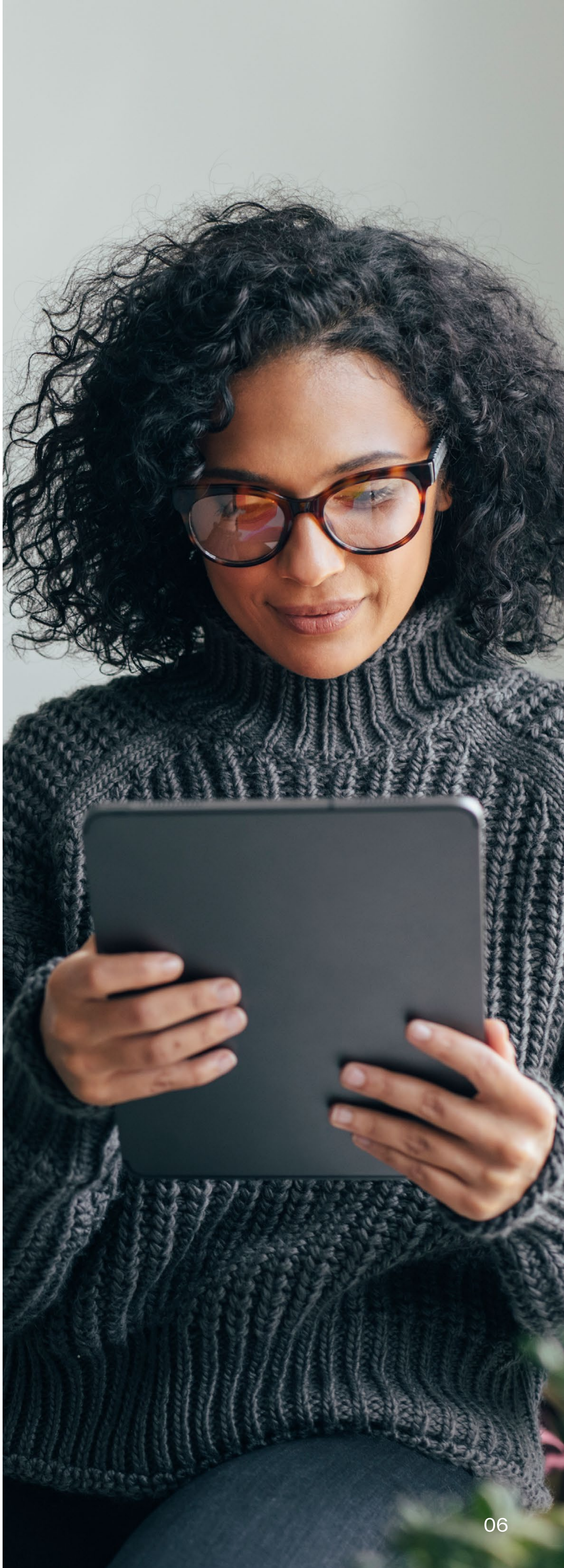
Every online shopper has encountered product recommendation engines: when you search for products, the retail site shows items or products that you may also like. This recommendation may be accompanied by a personalized discount or promotion code. These engines use AI to analyze data about the shopper, their behavior, their interest, and purchase history. But most importantly, these search engines provide the capability to search on almost any component of the product imaginable through extensive product meta tagging. Combining this with product references and social media insight, contextual offers may be made available. It is the time sensitivity and context that will drive shoppers to respond to these offers and buy the products.[14]

Many online retailers provide search engines that offer extensive filtering options, allowing users to narrow down their search results by categories such as price, brand, ratings, price, rating, size, energy rating, and more. These types of search engine (which offer faceted search) turn into recommendation engines, as it helps users find exactly what they need quickly and efficiently.[37]

While dated a bit, a prime example of the strength of a recommendation engine is Target, that wanted figure out if a customer is pregnant, even if she did not want Target to know. Through analysis Target identified about twenty-five products that, when analyzed together, would assign each shopper a “pregnancy prediction” score, which in turn allowed Target to “target” the identified audience with specific coupons.[15]

More specifically, media and entertainment companies need to engage with its customers beyond a traditional loyalty program: content needs to create a connection (preferably an emotional one) with the viewers and influencers. This can only be achieved through a new recommendation engine, powered by improved search and Generative AI capabilities, as well as social media content.

And regarding recommendation engines, media platforms already do this, but they do not provide the service that consumers are looking for, but they are terrible. Retail companies have done a great job of enabling customers to find what they want through filters on the shopping page: you can filter by every single metadata attribute on the platform. Media companies should think about implementing this and possibly integrating an element of Generative AI so viewers can find what they want through natural language processing.



Socially Connected Streaming

Socially connected streaming involves live streaming content while engaging with your audience in real-time. This type of streaming is popular on platforms like Twitch, YouTube Live, and Facebook Live, where streamers can interact with viewers through chat, polls, and other interactive features.

Imagine a world where your streaming experience is not just personalized by algorithms but also enriched by the tastes and preferences of your closest friends and family. By integrating social elements into platforms like Netflix, users could access a "Top 10 Among Family and Friends" list, offering a curated selection of shows and movies that resonate within their social circles. This feature would allow for a more connected viewing experience, fostering discussions and shared interests that go beyond the screen.

However, the implementation of such a system would necessitate robust privacy controls to ensure users feel secure in sharing their viewing habits. Consent and access permissions would be paramount, with clear settings allowing users to manage who can see their activity and preferences. By prioritizing these privacy measures, streaming platforms can build trust and encourage more users to opt into this socially connected experience, knowing their data is handled responsibly.

The potential benefits of adding social elements to streaming platforms are vast. Not only would it enhance personalization and engagement, but it could also drive user retention and satisfaction. When viewers discover content recommended by friends, they are more likely to enjoy and stick with the platform. Ultimately, this integration could revolutionize how we consume digital media, transforming solitary viewing into a more interactive and community-driven experience.

Explore resources for deeper insights into the industry's future

The media trends shaping the industry, including the interdependence of streaming video, social media, and gaming, emphasize the need for strong visions that span these sectors to drive the entire industry forward:

- Studios and video streamers face market disruption, competing not only with each other but also with social media, user-generated content, and video games.
- Social media services are leaning into user-generated content (UGC), and messaging services are shifting toward utility. Gaming impacts every part of the media and entertainment industry, highlighting tight communities and fandoms.
- Strategies for Media executives to build sustainable, profitable businesses. It advocates a shift from tactical cost reduction to a strategic approach impacting both top and bottom lines.

MovieLabs and Hollywood Studios (in their joint 2030 Vision) [32, 33] envision the future of media creation into driving forces shaping the media and entertainment industry, potential scenarios, and strategic implications for organizations in a rapidly evolving landscape.

Gaming's impact continues to evolve, shaping how we consume and engage with the media and entertainment industry in several ways:

1. **Convergence of Gaming and Entertainment Platforms:**
   - Traditional entertainment platforms (such as movies, TV shows, and music) are increasingly integrating with gaming. For instance, video game adaptations of popular movies or TV series are common.
   - Interactive storytelling experiences, like episodic games or "choose your own adventure" narratives, blur the lines between gaming and traditional media.

2. **Streaming and Esports:**
   - Streaming platforms like Twitch and YouTube Gaming have become major players in the entertainment landscape. Gamers stream their gameplay, and viewers engage in live chat, creating a unique form of entertainment.
   - Esports (competitive video gaming) has grown exponentially, with professional leagues, tournaments, and massive audiences. Esports events rival traditional sports in terms of viewership.

3. **In-Game Advertising and Product Placement:**
   - Brands now advertise with video games, reaching a captive audience. In-game billboards, sponsored content, and virtual product placements are common.
   - For example, a racing game might feature real-world car brands, or a sports game could highlight branded jerseys.

4. **Virtual Reality (VR) and Augmented Reality (AR):**
   - Gaming has driven advancements in VR and AR technologies. These immersive experiences extend beyond gaming to applications in education, training, and entertainment.
   - VR allows users to step into virtual worlds, while AR overlays digital content onto the real world

5. **Narrative Complexity and Emotional Engagement:**
   - Games offer intricate narratives, character development, and emotional engagement. Players become active participants, making choices that impact the story.
   - This trend has influenced other media forms, leading to more complex storytelling in movies, TV series, and novels.

6. Cross-Promotions and Collaborations:
- Games collaborate with musicians, actors, and influencers. These collaborations expand the reach of both gaming and entertainment.

7. Social:
- The industry reflects and sometimes challenges societal values. Social media platforms amplify these effects by providing a space for audiences to share their views, create fan communities, and engage directly with creators.
- User-generated content continues to democratize media production, thereby fostering a more inclusive cultural landscape

How can Kyndryl help?

The key to capturing market share, thrill customers, and increase revenue is unlocking the value of data and harnessing emerging technologies to deliver distinctive and highly customized customer experiences. Kyndryl has deep expertise in applications, data, and (generative) AI, as well as designing, running, and managing the most modern, efficient, and reliable core and edge technology infrastructure that the world depends on every day.

Consider the following next steps where Kyndryl can help you along your journey:

Gen AI Readiness Assessment: Scheduling a consultation with Kyndryl to assess a customer's current Information Technology (IT) and data infrastructure and readiness for Generative AI adoption to identify any gaps and develop a plan to ensure foundational preparedness.

AI-Everywhere Future Workshop: Attend a Kyndryl workshop to learn more about Kyndryl Bridge platform[34] and how it can help you achieve an "AI-Everywhere Future."

Generative AI for [Your Specific Use Case]: Leverage Kyndryl's expertise to brainstorm and identify potential applications of Generative AI within your organization.

Kyndryl Vital: Leverage Kyndryl's expertise to brainstorm and explore how we can jointly incorporate these strategies into the streaming business through e.g., customer journey mapping.

Data Strategy: Kyndryl's Data Strategy offering helps clients supercharge their data driven initiatives around a scalable platform on demand basis, focused on one of the following areas: data quality and access controls, data complexity, operating cost, or analytics and AI capabilities.

Hyperpersonalization: Leverage Kyndryl Vital to co-create using technology to elevate the human experience using real-time data, AI, Machine Learning (ML), and predictive analytics to collect and analyze and act upon the data to e.g., improve customer service, increase revenue, and decrease churn.

Authors

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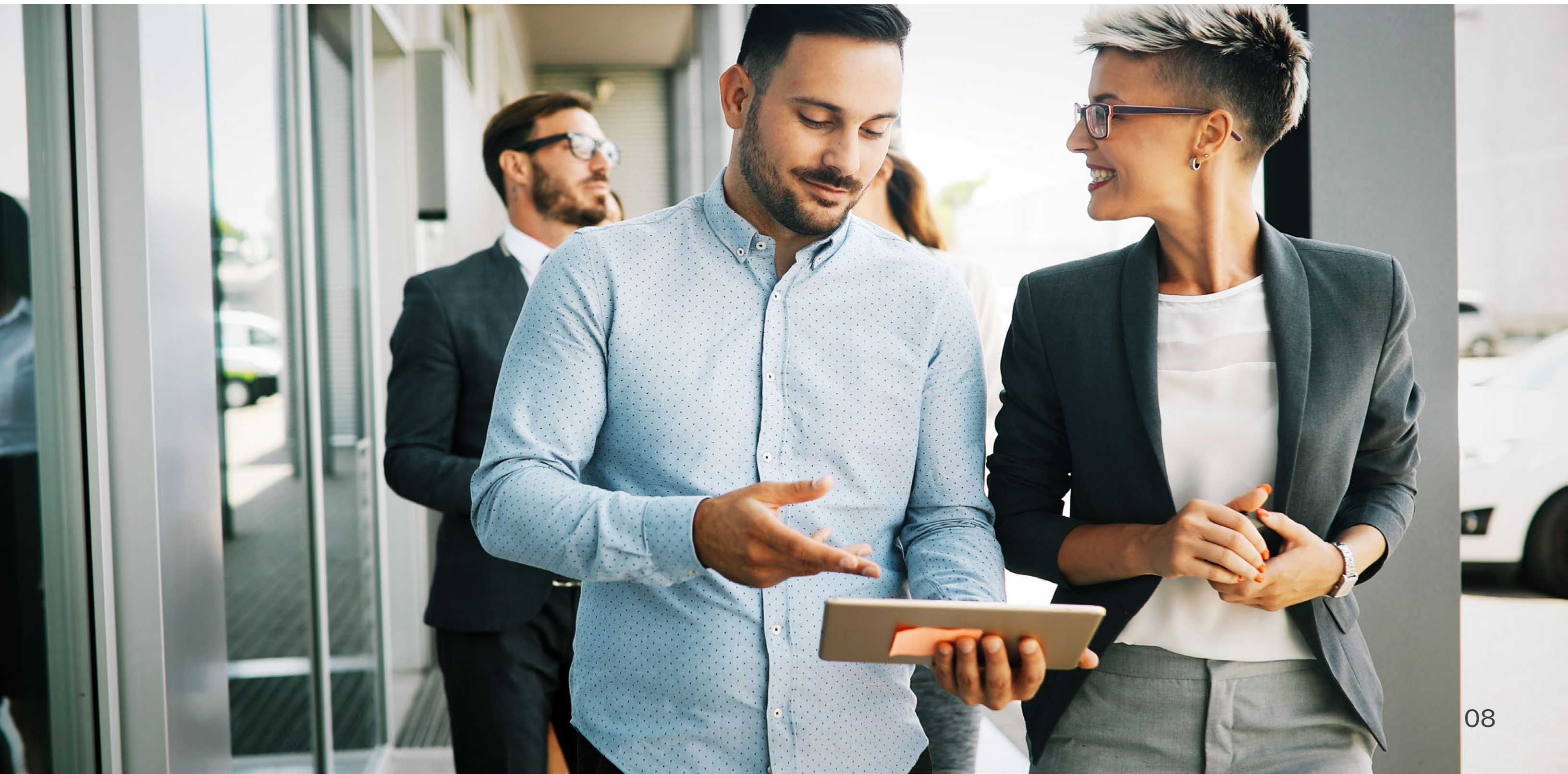

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