The Future of Media and Advertising in 3 Pages

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During the second half of 2005, the irresistible force of convergence collided head-on with the immovable object of today's media and advertising industries.

The immovable object lost.

That issue settled, the two core questions are A.) what fundamentally changed? and B.) how will existing media and advertising assets be re-deployed?

I contend that convergence flips competition from a property-based model of owning/exploiting titles or channels to a service-based model of owning/exploiting knowledge of customer preferences. In an environment of infinite digital shelf space, media and advertising is going to start looking a lot more like consumer retail.

I believe that media companies and advertisers can no longer base their business on *capturing* viewers, listeners, readers or players who consume content that is restricted by type, channel or device. Instead, media companies and advertisers must learn to serve <u>customers</u> who could be viewing, listening, reading, playing, or *manipulating* a given piece of content wherever they want, any time they want, on any device they like.

Thus, the lasting impact of convergence is the penetration of retail e-commerce into the previously cushy world of media and advertising. Media and advertising executives might dream of convergence enabling them to re-sell or re-purpose existing content for new money. But that is sugar water masquerading as mother's milk. After the novelty phase is past, they or their replacements will have to rip the guts out of current operating procedure lest convergence-native competitors do the job for them. Media and advertising executives need only observe how e-commerce rocked travel & leisure, financial services, home electronics, real-estate, automobiles, and a host of other consumer touching industries to grasp what a retail future really means for them.

The march toward consumer retail for media and advertising is inevitable because once an economic good or service can be digitized, transported and experienced on-demand; push-oriented business models that depend on scarcity must yield to pull-oriented models that help people navigate a world of abundant choice.

This is convergence acting as a solvent on traditional media and advertising. Executives are rightly terrified. The past decade saw skepticism about convergence because it didn't come as a signature innovation that anyone could see. Instead, convergence arrived on little cat feet via hundreds of innovations that rode on broadband IP combined with the habits of a network-native customer base who were in elementary school when convergence first crossed the radar screens of Hollywood and Madison Avenue.

But the digital tribes are now grown up and have profoundly different perceptions of media value. They produce, share, experience, and manipulate content as well as opinions about goods, services, and ideas without immediate recourse to incumbent media and advertising outlets.

Convergence as glue

However, convergence also enables mass customization, which is really good retailing by another name. The amateur social networks have figured out what most professional media and advertising firms have failed to grasp: convergence-native value is not a content, distribution, digital rights, or monetization problem. It's about understanding a new kind of audience, stupid!

Take MTV, for example. Strictly speaking, MTV doesn't fund artistic development, distribute the network signal, or sell music direct to the consumer. Yet, MTV became huge in the global music industry because it was highly skilled at programming music video content to fit and enhance the lifestyle of its audience.

More recently, search engines such as Google or Yahoo! along with e-tailers such as Amazon or eBay have created major, profitable businesses through gathering customer demographics and activity data as their basic capital stock. They refine that raw material into real assets through digital conversations with customers in the form of searches, transactions, reviews, loyalty programs, and other forms of interaction, that are digital in technology, but are retail in philosophy.

In each case, the thrust of product and service innovation can be found in how these companies optimize how their customers find what they want, in a format they like, at a price they are willing to pay. Back-end production and fulfillment systems exist only to add value to that experience.

Like Janus, these companies face in two directions simultaneously. One side accumulates demographic and psychographic information to marry with activity data to place the most relevant suggestion, and thereby help the customer navigate abundant choice. The other face looks upstream to orchestrate multiple supplies of product, content and services to deliver on expectations of an on-demand experience. Naturally, the infrastructure consists of powerful databases, networks and applications. But the *business* lies in how these companies use the infrastructure's institutional memory to consistently end up in the right place with a good offer. When you try this the first time, everyone thinks you're crazy as hell. Make it work, and you're a visionary genius.

This is the rocket science that Toyota learned when they used Just-In-Time to lower the price point for making better cars. It's the black magic that Dell pioneered when it built only after the customer ordered. It's UPS and FedEx saying 10:30 tomorrow morning---guaranteed. At its core, it's about understanding your capabilities *and* your audience well enough to make a ludicrous promise that can evolve quickly into a habit.

To know a lot of little things or one big thing

So how should today's media companies and advertisers compete in a world where customer knowledge on the front-end and orchestration on the back-end is what drives value?

I say that it requires a retailer's mind-set. Content creation, production and distribution are now sub-sets within the swatch of new activities such as product placement, cross-promotion, dynamic pricing, bundling with tools, individualized service, identifying and engaging communities, rewarding loyalty, running specials, all of which are retail best practices that media players and advertisers must customize to their world. Owning titles or channels will remain important. But they will no longer *define* what is media, what is advertising, who wields market power, and how they use it.

Many, if not most, of today's media and advertising players will counter that either media is unique (the burden of proof is on you) or I'm simply re-stating the obvious. Perhaps. But until the day I can call *CBS Sports* customer support to fix the camera angle I ordered for the Superbowl or qualify for a free preview of an exclusive motoring channel for new BMW owners, I don't buy what they're trying to sell---namely that incumbents ever thought much past the idea of pushing inventory instead of learning about their customers.

However, I do know that by the early 1600s, European castles became virtually impregnable to cannon fire, a situation that persisted right up to the 19th century. But the castles declined nonetheless because their primary advantage---the ability to organize and control trade within a well-defined area---couldn't compete with the new factories and industrial culture that drew tenants and talent off the farm and into the cities. Once the exchange of goods, services and ideas happened outside castle walls, these grand structures became only so much overhead.

Today's situation is similar. No cash or stock-led frontal assault will likely breach the walls of today's consolidated media and advertising incumbents.

And it doesn't matter a tinker's damn.

During the next decade, look closely for those companies that have internalized the distinction between owning exclusive titles/channels and serving loyal customers. They will be the ones controlling the most wealth and power in a converged media economy.