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2017 Entertainment and Media Trends

Functional transformation to make businesses "fan"-centric

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About the author

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Introduction

“The world is a dangerous place, Elliot. Not because of those who do evil, but because of those who look on and do nothing.”

Fans of NBCUniversal’s *Mr. Robot*, a dystopian video series about hacker culture on the USA Network, will recognize this chilling call to action from Mr. Robot himself, played by Christian Slater. Decisive action is precisely what NBCUniversal took to forge a passionate following of tech-savvy millennial viewers for this show. It is now moving into its third season and has helped redefine the USA Network — once known for lighter, “blue-sky” content — as a network with an edgier, more complex sensibility.

To promote *Mr. Robot,* NBCUniversal recognized it needed a new playbook for audience development that went well beyond linear TV. The team created original content for Facebook Live, Reddit, Snapchat, YouTube, and Twitch, Amazon’s platform for gamers. The network also developed a virtual reality simulcast for San Diego Comic-Con 2016, and created a *Mr. Robot* experience in a Manhattan storefront where visitors could “hack” an Evil Corp ATM machine. What did these efforts have in common? They all encouraged *Mr. Robot* viewers to stay connected with storylines and characters in the environments where viewers desired that emotional and social connectivity. These experiences thus turned viewers into fans, and fans into zealots.

An entertainment and media (E&M) offering today simply cannot thrive without the economic, social, and emotional power of fans. Devoted followers are as critical to feature films, video games, and sports teams as they are to *Mr. Robot.* Premium content is expensive, and getting more so. Distribution is a brutal battle for shelf space where only brands that are “most wanted” can hope to win. The steady march of digital technology has ushered in a direct-to-consumer environment characterized by greater choice and user control. There is simply too much competition for users to allow E&M businesses to survive on experiences that cater to casual “eyeballs” or infrequent users.

“The formula for success is shifting radically,” noted the 2016 Strategy& Industry Trends report on entertainment and media. “No longer is it enough to develop content for eyeballs. Now, you must create a fan-centric business.” This trend is becoming even more pronounced as 2017 unfolds. In today’s hypercompetitive landscape, entertainment and media businesses designed around and for fans command multiple strategic advantages. They know more about who their users are, what they want, and how and where to deliver it. Fans spend more per capita and are less likely to churn. Today’s fans also recruit tomorrow’s.

To regularly make the kind of transition exemplified by NBCUniversal’s *Mr. Robot,* E&M companies need to orient themselves around fans. They need capabilities that help them operate in new, more flexible ways across content, distribution, and user experience. They must become fan-centric. The good news is that they can accomplish all these objectives by focusing on five key functions: user/fan insight, content and experiences, distribution, monetization, and operations.

User/fan insight

As user behaviors rapidly evolve and consumption occurs across an ever-expanding universe of distribution environments and platforms, companies with the deepest, most direct insight into their fans have a decisive advantage. Unfortunately, too many large E&M companies remain focused on analyzing outputs such as ratings, unique visitors, and time spent rather than drilling into the functional, emotional, and social behaviors that translate into fandom for their brands. And although most companies sit on a treasure trove of first-party data, few have organized their people, processes, and technology to mine those insights into fan preferences at the necessary operational scale.

It is not surprising that fan insight capabilities have evolved most quickly in the music industry. In the pre-digital era, top artists such as the Beatles and the Grateful Dead recognized the value of interacting directly with fans and creating fan communities (the Beatlemaniacs and the Dead Heads, for example). Through their fan clubs, these bands learned about who their fans were, what they liked, and where they lived. This continued focus helps explain why contemporary artists such as Taylor Swift and Beyoncé have been so successful in leveraging social media to crack the code for fan development and fan activation.

Global music service Spotify shows what is possible when fan insight capabilities are more fully realized. Spotify has a database of more than 100 million users, including 50 million paid subscribers, which provides information about any artist's listeners. The Spotify Fan Insights service enables artists to slice and dice listening data and to zero in on their heavy listeners and sharers (i.e., their fans) versus their more casual consumers. Artists can develop insights into audience composition (what proportion of monthly listeners are fans), discovery (which users create the most influential playlists), competition (what other artists' fans are consuming), and avidity (how frequently and regularly fans are engaging). And they can then begin to deploy strategies designed to connect with those fans who will spend on merchandise, touring, and other premium offerings. For Spotify itself, insights into what Spotify users are interested in and what will turn listeners into subscribers have helped Spotify management more effectively concentrate its people and its resources on the initiatives that matter most.

Proficiency with technology, first-party data, and analytics all feature prominently in Spotify's story. But development of these powerful insight capabilities does not happen overnight. Since 2014, Spotify has purchased three companies (the Echo Nest, Seed Scientific, and Preact) to bolster its analytics capabilities and help it better understand how casual users can morph into higher-value fans (subscribers).

Content and experiences

For many consumer entertainment and media businesses, avid or loyal fans — who typically represent 10 to 20 percent of a franchise's user base — can drive 80 percent or more of that franchise's overall business value. Content efforts therefore must prioritize initiatives aimed at super-serving them — deepening engagement with avid fans and simultaneously extending the brands and franchises associated with these passionate fans into new areas.

Fans are by definition fanatics — people whose enthusiasm or zeal is beyond normal levels of behavior. Avid fans cannot get enough of the content they love. They binge on it. They share it. They talk and post about it. They create more of it. They might watch *The Americans,* a spy drama on FX, and then listen to Slate's podcast about each episode. They may obsessively watch HBO's *Game of Thrones* and then pen *GoT* fan fiction or catch a *GoT* live concert. Avid fans will seek out content-fueled interactions across a diversity of experiences, provided those interactions ignite and power their emotional connection with, say, a sports team, a film, or a video game. For many fans, the quality of these experiences is further amplified when it translates into social connections; fan-to-fan relationships; and active communities united by shared passions, values, and interests.

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Companies that create content and experiences tailored to avid fan bases can unlock significant business value. In recent years, the National Football League has placed growing strategic emphasis on its own media assets, including the NFL Network, a 24/7 pay-TV network that has become a US$1 billion business. Providing blanket coverage of events such as the draft and the NFL combine, the NFL Network enables fans to indulge their passion for football year round and feel like an insider with unique, in-depth content that goes beyond its Sunday games. The NFL's RedZone pay-TV channel, which allows fans to watch the most exciting plays of every game, further feeds the voracious appetites of fantasy football aficionados who follow players on multiple teams. These committed fans now have more football to consume than ever before, they are watching more and spending more, and they are more engaged with the NFL.

The New York Times Company is pursuing a “subscription-first” growth strategy, which is aimed at expanding its roster of subscribers from the current 3 million to 10 million. In effect, this is a fan-first strategy. It emphasizes super-serving users who are regular readers and most willing to pay for a print or digital subscription. The *New York Times* has increased its investment in journalism focused on storytelling through podcasts, visualizations (such as maps and interactive graphics), video, and live events. These moves reflect a recognition by the company that it can achieve more, in terms of subscriptions and advertising growth, by creating more premium content targeted to its most valuable readers than by engaging in a less-focused effort to boost page views and the number of less-committed unique visitors.

Distribution

As user behavior and content consumption — especially among younger users — trend more toward social media, mobile devices, and streaming, E&M companies have to adapt to ensure they are building and strengthening their fan bases. For many players, this means developing powerful owned and operated showcase destinations, and designing experiences on partner platforms that grow and deepen the fan base.

E&M companies can take some pointers from luxury brands. The products of Burberry can be found at such global retailers as Saks Fifth Avenue, Harrods, and KaDeWe. However, the fully expressed world of Burberry can be experienced only at the company's global flagship store in London, Burberry Regent Street. At Burberry Regent Street, which opened in 2012, consumers can shop the company's full lines for men, women, and children. The store also curates events featuring new creators in music, film, theater, and art. Burberry has used Regent Street to pilot innovations, including interactive displays and mobile apps that deliver in-store notifications and offers.

This "showcase" approach to owned distribution is relevant for entertainment and media brands that, like Burberry, possess a critical mass of passionate fans who will reward the richest, deepest experience with their time and money. The WWE Network, World Wrestling Entertainment's subscription video on demand (SVOD) product, with 1.5 million subscribers, is a compelling illustration of how a media company can add a premium distribution platform to its arsenal while furthering relationships with distribution partners such as NBC-Universal, Facebook, and YouTube. This service has become WWE's preferred home for popular pay-per-view events such as WrestleMania, along with new series including *205 Live* and *WWE Fastlane* as well as archival content. The WWE network is now the second-largest specialty SVOD network, after Major League Baseball's MLB.TV.

Even the largest, most well-regarded E&M content brands need the distribution scale that third parties can generate. Companies should thoughtfully select distribution partners that can create robust fan value versus lower-value eyeballs. The distribution partner needs to deliver concentrated reach efficiently in terms of either avid fans (therefore resulting in incremental engagement) or convertible fans (casual users who can be cultivated into avid fans). The partner ideally also shares information on users and fans to help further inform business as well as creative decision making.

As noted, with *Mr. Robot,* NBCUniversal's USA Network has strategically expanded its digital distribution roster to add platforms including Amazon's Twitch, Facebook Live, and Reddit. For shows with broader fan bases, NBCUniversal has relied on partnerships with players such as Verizon's AOL to post video clips from shows including *The Blacklist, Saturday Night Live,* and *The Tonight Show* on the AOL On video network.

Monetization

Companies that build fan bases have to be able to capture their premium value effectively. Given that fans engage across many properties and feel increasingly skittish when content and advertising are out of context, E&M companies have to become more sophisticated with respect to data, segmentation and measurement, and technology to succeed commercially. Selling fans, after all, has different requirements than selling eyeballs. Companies must develop sales structures, processes, and decision rights that extend not only across a company's entire portfolio, but also into business partners' properties. Sales teams need to know how to translate the factors that drive relevance and emotional connection with their fans into compelling "fit-for-purpose" solutions for their marketing customers. Finally, sales teams must ensure that their advertising and promotional efforts amplify the quality and intensity of a fan's experience.

Several entertainment and media players — companies such as NBCUniversal, Time Warner's Turner, Viacom, and, more recently, Disney — have reimagined their advertising sales capabilities to take better advantage of their audience scale across brands and screens through new combinations of data, technology, and advertising products. This approach is also enabling these companies to move away from their historical focus of selling specific shows, dayparts, networks, and brands, and toward selling fan-based segments. Over time, this should lead to fewer but higher-impact ad executions, less clutter, and less waste — benefiting fans, marketers, and the media properties.

Given the realities of user fragmentation, companies have to better understand the behavior of their fans beyond their own properties. Sales teams should know how their fans engage on third-party properties — and how that consumption is different from that which occurs on their own properties. Media company sales teams must forge the commercial partnership models that support these expanded capability and monetization objectives.

A major market opportunity exists for those E&M companies that can become truly user-centric, in terms of both fans and marketers.

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NBCUniversal has built a strategic network of digital partners that includes AOL, Vox, BuzzFeed, Snapchat, and, most recently, Apple's News app to further scale its sales and technology capabilities and extend the depth of its fan communities. These partnerships enable NBCUniversal to sell advertising packages associated with its premium content that incorporate some inventory from each of these partners. For example, NBCUniversal has developed a version of its singing contest *The Voice* for Snapchat, which involves integrating relevant Snapchat inventory for *The Voice* (e.g., filters, lenses, Snap ads) into the mobile- or video-centric solutions that NBCUniversal offers marketers.

Following fan passions creates a natural pathway to identifying new revenue opportunities for E&M companies — especially live events. Ample market data suggests how much millennials prioritize live experiences over physical products, and indicates that they are spending more time and money on them. Millennials are also more likely to be drawn to live events when they are powered by recognizable content or brands from a favorite TV show, video game, sports team, magazine, author, or musical artist. Why? One dominant reason is that live events are sharable experiences in social media, and play into user desires for recognition and influence.

Condé Nast — with a brand portfolio that includes such stalwarts as *Glamour* (and its Women of the Year Awards franchise) and newcomers such as *Pitchfork*, which specializes in music festivals — views live events as an attractive mechanism by which to bring leading personalities together with avid fans while increasing its revenues in lifestyle and vertical segments. The potential benefits: more revenue via sponsorship and ticket sales, new sources of first-party data that support fan development efforts for its brands, better solutions for advertisers through improvements to activation, and stronger social distribution and fan recruitment achieved by tapping into avid fans' social networks.

Sales teams have to be both strategic and dynamic to fully capture the monetization potential of fans. They have to be responsible for more of the fan revenue agenda for their brands and business — and have the people, processes, and technology to do it. With advertisers as well as distribution partners, sales teams must act more like strategic consultants than traditional sellers to design and execute the collaboration models and client-oriented solutions required by working with third parties. Internally, they need to team more seamlessly across functions. In most cases, these requirements will profoundly change the profile of what constitutes the ideal sales leader and sales team. How well companies execute this transformation of the sales function will play a decisive role in their future success.

Operations

The fifth and final key function E&M companies will have to pursue involves operations. The highest-performing companies tightly link revenue and cost agendas. As this industry transitions to a direct-to-consumer world, senior executives need to (1) focus on what they do best in terms of serving fans, (2) align their cost structure, and (3) organize their operations accordingly. To win with fans, E&M companies must get fit for growth — growth that is both profitable and sustainable.

Reallocating resources in order to grow is a difficult task that requires making tough choices and wrenching trade-offs. Will these changes make a difference for fans? Answering this question has to be the starting point for identifying any significant alterations or improvements to company operations. Not everything companies do creates meaningful differentiation with fans or, secondarily, with marketing or distribution partners.

Today, brands and products that are not heavily populated by avid fans are essentially commodities. Consider the many zombie pay-TV networks with low ratings, sustained primarily by an aging video bundle that fewer distributors and consumers appear prepared to support. This predicament is shared by digital publishers that are treading water, struggling to build sufficient communities of loyal, passionate fans who are targetable by advertisers and who can lead the way to revenue opportunities in such areas as live events and e-commerce.

Going forward, the preferential economics of fan-centric businesses combined with the necessity for both better internal collaboration within company portfolios and more holistic external relationships with partners will compel E&M companies to structure their operations in new ways. Business processes across the enterprise can be designed to optimize both the cost-to-serve and fan satisfaction, avoiding overserving casual users and underserving loyal fans. Any activity that does not demonstrably improve fan value should be as lean and efficient as possible and is therefore a potential candidate for automation, consolidation, or outsourcing.

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Today's fast-changing E&M landscape further rewards companies with superior flexibility and speed. All of these factors will drive companies to pursue operational improvements in two areas: (1) process innovation and clustering of similar activities to increase fan scale and optimize variable costs in such areas as sales, marketing, product development, and production; and (2) centralization, outsourcing, and portfolio rationalization designed to attack fixed costs in areas such as G&A expenses and IT.

A fan-focused future

Even in a period of disruption, some realities endure. The most valuable constituents in the E&M industry are the active, loyal, and passionate fans. Yes, technology has empowered them — giving them more control, choice, and convenience than ever available before. Yet these users continue to reward their favorite brands with a disproportionate share of their time and spending because those experiences deliver unique emotional connectivity, attachment, and affinity in a world of massive media supply.

As the industry transitions to a more direct-to-consumer world, those companies that fully embrace a fan-centric approach to their business and how it functions will emerge as the new leaders. Making this transformation will require significant changes and investments across the entire enterprise. But for those entertainment and media companies that make fans the center of everything they do, the returns will be substantial.

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