

QUICK TAKE



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Peter Chernin's 10 Rules For Media Survival

News Corp. President Challenges Media Complacency In The Digital Age

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EXECUTIVE SUMMARY

News Corporation President Peter Chernin isn't shying away from the media industry's biggest problems — he's challenging his fellow executives to face them head-on. Chernin wants networks and advertisers to work together on new formats, and he wants content companies to turn to technology for new forms of distribution. As fragmentation and ad-skipping swell, live events will rule — and piracy will become the deadliest threat to profits. Based on this speech, Chernin is the most forward-thinking senior executive in media — the industry and its advertisers ignore his warnings at their own risk.

PETER CHERNIN SPEAKS THE TRUTH. ARE YOU READY TO LISTEN?

At the Forrester Consumer Forum last week, News Corp. President Peter Chernin laid out his “10 Rules For Media Companies' Survival In The Digital Age.” Chernin stands out from the media crowd by boldly and realistically facing up to the most contentious issues in media: fragmentation, ad-skipping, and piracy. Within this speech were charges that every media company — and advertiser — must heed.

Chernin opened with this:

“Today media companies are facing the most challenging time in our history. It's also the most exciting time in our history. . . . Consumers now sit in the catbird seat, gaining the control and convenience that they have always craved. For us in the content business, it means the prospect of even greater fragmentation of our audience, which is the inevitable result of all technology.”

From Forrester's perspective, this encapsulates exactly what's happening to media right now: technology empowering consumers, making it harder and harder for media to ply its traditional pursuit of passive audiences. Chernin then laid out 10 rules for survival.

“**Rule 1. Consumers are not driven by technology.** Anyone who thinks they are is making the first really big mistake. . . . Their desires are the same as they've always been. . . . control, choice, convenience, and simplicity.”

“**Rule 2. The wired home changes nothing.** What it really means is that consumers want the ability to move content from one device to another in their home. That's all it means. . . . They

want to be able to take the thing they watched in the living room and when they go to the bedroom, or the vacation home, or the RV, to take that piece of content with them. Devices don't rule the home; the devices are ruled by consumers in the home."

Forrester's take: We agree that benefits, not devices, make the difference. Technologies like DVRs, video on-demand (VOD), and MP3 players succeed by improving control, choice, and convenience in media consumption.¹ For media companies, concentrate on the technology or devices and you miss the point; concentrate on the benefits and you see the future. But the digital home *does* matter, because the benefit Chernin describes — moving content around — creates both opportunity and risk for media companies. Media companies must engage with technology companies to create simple ways to make media mobile while keeping it safe from piracy.

"Rule 3. Media companies and advertisers must redefine their relationship. We now have a mutual interest. We had better figure out a way together to hang on to our customers. That's going to mean working together much, much earlier in the creative process. . . . in essence creating a marriage between a brand and a program. We did it with '24' and Ford. . . . and 'American Idol' and Coke."

"Rule 4. Consumers don't reject advertising, they reject complacency. We hold onto the same stupid advertising models, where we stick six 30-second commercials back to back, which is like hanging up a sign to the consumer saying, 'It's okay to go away now for a few minutes.' . . . If we give them advertising that's different in ways that are smart and compelling and entertaining and surprising, they will recognize it and reward it. . . . In some cases we ought to be doing two-minute mini-movies, or five-second spots that break through the clutter so fast that [viewers] don't have time to TiVo them. Targeted product placement can be an unbelievably effective way to target clutter."

It's so refreshing to hear a leader of one of the world's largest advertising-supported television companies admit that the emperor has no clothes — that the 30-second commercial's days are fading.² News Corp's advice is on-target. Advertisers who aren't exploring alternative TV formats — not just product placement but VOD ads and PC/TV interactivity — will lose out as DVRs take off.³ And networks must make it a top priority to develop alternative ad formats in partnership with these advertisers.

"Rule 5. Content is still king, but financing the kingdom is complicated. We need to effectively window our product. . . . Take the epic miniseries, like 'Roots.' Why not premiere it on video on demand, then put it on the network, then put it on DVD. Or focus on less expensive niche programming. . . . What's going away is the middle, what characterized network television . . . broad inoffensive things. It's too expensive to create [this sort of] mediocre programming."

“Rule 6. If content is king, then marketing is the crown prince. We all dream of creating content that becomes a global phenomenon: [like] ‘Titanic’ or ‘Friends.’ [But people] aren’t watching promos [for programs anymore], they’re fast forwarding through. . . . [Media companies should be] launching contests, Internet games, 10 minute sneak previews of things. . . . If you are a broadcast or cable network, you must strive to create a tightly focused brand . . . like HBO, FX, or MTV. If you are a broad generic channel in that world [like ABC, CBS, or USA], you’re in trouble.”

“Rule 7. Get noticed. People are barraged with media images. Our brightest ideas must be more original, more audacious, and more gripping if they have any hope of finding success. . . . At Fox, we did ‘The Simpsons,’ ‘24,’ and ‘Arrested Development.’ Today’s reality programming is noisy, risky, sometimes in bad taste, but it’s getting noticed.”

Ordinary network television is expensive, but both its advertising and syndication models are under siege from proliferating cable channels and DVR ad-skipping. Shell-shocked, they’ll find it hard to take the bold steps needed to transition to new revenue streams in the digital world. These include expanded distribution — comprising both free and paid VOD — and tighter branding. Of the big four broadcast networks, only Fox has a well-defined brand, based on edgy content that breaks rules, from NFL coverage to “24.” ABC, NBC, and CBS will be caught between their mass-audience roots and consumers’ inability to differentiate them.

“Rule 8. It’s a small world after all. We can no longer force feed people in international territories . . . with our garbage. . . . Fragmentation is going on in every territory in the world.”

“Rule 9. Nothing compares to live. In a world of infinite choice, there is simply nothing to compare to the spontaneity and thrill of live sports, live news, and live entertainment. . . . From the NFL to breaking news, live TV is the single most effective way to break through the clutter. . . . And live television is now the advertiser’s best friend. Even savvy consumers who regularly skip through the ads wouldn’t think of missing a moment of the World Series or the Super Bowl!”

These rules extend Chernin’s broad/niche dichotomy. Around the world, locally produced niche programming wins, further reducing the global market for American-produced television. And sports — the premier live event — drives power to the leagues and teams, which can sell their rights to the highest bidder. While advertisers can and should ascribe more value to advertising in live events — from the World Cup to the Academy Awards — networks will suffer as the competition for — and cost of — live, global, mega events rises.

“Rule 10. All the other rules are meaningless if our content is not protected from digital thievery. If we don't solve piracy of content, all of us are out of business. . . . We will not make our content available until we can protect it. . . . Consumers need to understand that stealing is wrong and there are consequences.”

Chernin has attempted to rouse the media industry to take on the piracy issue as its top priority. When I raised the question of what he would do if piracy can't be stopped, he said he was optimistic . . . but admitted that in Russia, where piracy is rampant, movie distributors worked out a deal with the pirates to make theatrical display of movies possible. In a world where Kazaa, DVD-ripping software, and camcorders make instant global piracy not just possible, but inevitable, we're not optimistic that digital rights management can solve all ills.⁴ Instead, media companies must reduce the costs of production.⁵ And they must find strategies — as Apple did with iTunes — to make legal content consumption an easier, more enjoyable experience than piracy.

WHAT IT MEANS

SURVIVING IN A WORLD OF FRAGMENTATION, AD-AVOIDANCE, AND PIRACY

The forces Chernin describes can't be ignored — but most media companies won't come to grips with the problem anyway. As a result:

- **Studios will hold up on release of high-definition DVDs.** HD's current format war is just the beginning of the problem for HD DVDs. Studios won't release films until the content is proven secure — and thieves will make cracking the format their top priority. In the end, HD VOD may take flight as the best distribution model for recently released theatricals.
- **Network fare will get wilder.** There's only so much live sports to go around. Networks will increasingly trumpet big events year-round — reality show finales, live episodes of dramatic series, and ever-multiplying awards shows. As the screaming increases, more quality dramas and comedies will shift to pay networks like HBO and niche networks like Lifetime.
- **Consumers will grow to accept ads in shows.** As 30-second spots become less effective, networks and advertisers will be forced to follow Chernin's advice and pursue new ad formats within programs. Product placement will morph into buzzword placement (“Can you hear me now? Good.”), subliminal seductions, and advertising crawls along the bottom of the screen. A new breed of creative workers will rise in the advertising industry, hatching new ways to weave advertising messages into programming. Even as activists decry the further commercialization of broadcast TV, consumers will grow to accept it as the cost of entertainment in the digital age.

ENDNOTES

- ¹ Consumers consistently vote for improvements to television that improve choice and convenience, especially time-shifting. See the March 24, 2004, Trends “DVRs Eclipse VOD.”
- ² DVR users watch recorded programs 60% of the time, and watch only 8% of the ads in these programs. See the September 8, 2004, Trends “The Mind Of The DVR User: Media And Advertising.”
- ³ Advertisers are ready to move dollars out of television commercials and into new formats as DVRs take off. See the April 22, 2004, Trends “Ad-Skipping Still Haunts Advertisers.”
- ⁴ To stop movie piracy, studios must embrace VOD. See the August 25, 2003, Forrester Report “From Discs To Downloads.”
- ⁵ The high compensation for artists and producers can't survive in the digital age. See the December 9, 2002, Forrester Brief “My View: Digital Denial.”