

# Bringing the Future into Focus: Towards an Integrated Digital Content Proposition

Telecom and broadband providers are warmly embracing digital entertainment as a way to drive new revenues on the networks they've invested heavily in to upgrade. In contrast, large retailers see physical sales of DVDs, CDs and books as a stagnating set of major revenue streams and are struggling to understand how to marry this with a new suite of digital offerings.

Both cases show the intensity of the changes, opportunities and challenges faced in the content distribution value chain. All players from production to distribution—and sometimes also the end-user—are seeking to develop new ways of acquiring, packaging and consuming digital media content such as music, video and games. In this context, the keys to success are not easy to find.

For this reason, and to support businesses in their challenge to identify new routes and launch innovative offerings, Capgemini completed an extensive survey on digital media delivery in the US and Europe.

## A Global Customer Survey

### Methodology

In two waves, Capgemini surveyed more than 6,000 consumers across France, Germany, the UK and the United States. Through the use of Conjoint Analysis (a statistical technique), the objective was to determine the relative importance that consumers place on different product attributes when making a purchase decision.



The first wave focused on retailers and sought to understand the relative attractiveness of different digital offerings compared to a DVD purchased in store, how to price new digital offerings, the market impact of introducing these new offerings (such as Manufacturing on Demand [MOD] and Electronic Sell-Through [EST]) and which consumers to target. The second wave provided similar insights into the relative attractiveness of these offerings when offered by telecom, cable, and satellite companies.

**Findings: There is a disconnect between available offers and what consumers want**

Capgemini's research showed that there is real consumer appetite for digital consumption of video, music and games—so much so that over 40% of consumers across the US and Europe would shift their spend to new video offerings if they were made available. This trend is strengthened by the fact that 25% of survey respondents said they prefer digital to physical music and 20% would be interested in new ways to purchase and own gaming content.

The findings also indicated that there is considerable consumer interest in VOD bundles (rent and then own), especially when priced similarly to a standard DVD.

Interestingly, if we acknowledge some local variation in terms of latent demand due to cable and satellite penetration or consumers' familiarity with PPV services, most trends are consistent across geographies:

- **Downloading recent content looks set to be the killer play:** In terms of content offerings, more than 70% of respondents were interested in buying digital copies of recent movies, 60% music tracks and 50% recent TV shows across all content categories.
- **Customers prefer to own rather than to rent:** Price and content availability are the most important

consideration for respondents when purchasing a movie. More than 60% cite a preference to own and not rent content—with ownership, collecting, and gift giving the main reasons to buy.

- **Digital take-off will only be possible by matching the quality of experience to that of a DVD:** Before digital video takes off, a TV-based experience and the associated preference for DVDs will have to be addressed. Capgemini found that 41% of consumers do not like watching movies on a PC. They also express a preference to own DVDs and say movies currently take too long to download online.

Figure 2: Interest in purchasing recent movie downloads

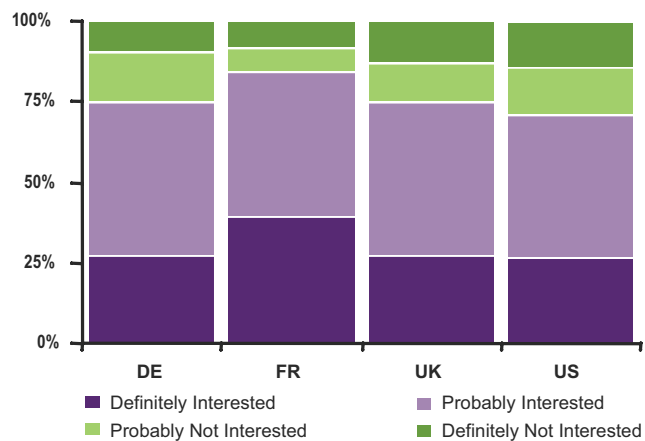
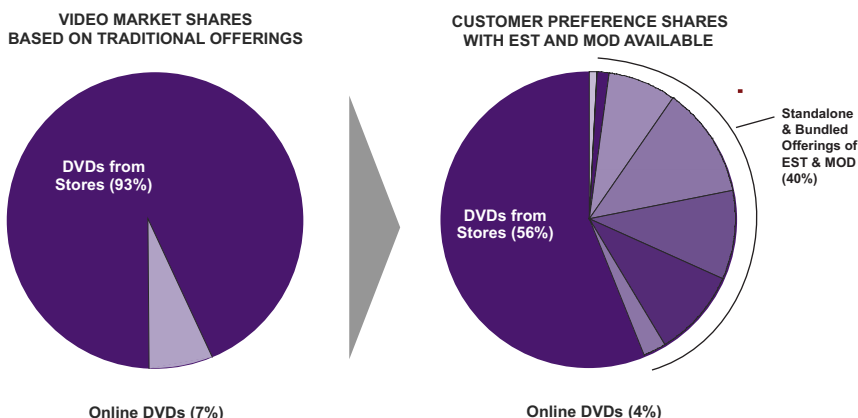


Figure 1: Current DVD purchasing trends and consumer preferences



Source: NPD and Capgemini Conjoint Analysis Survey

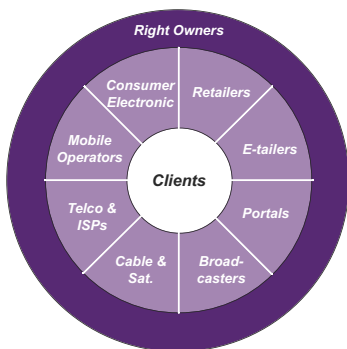
- **Bundled offerings provide a decisive competitive advantage:** About 50% of respondents were interested in switching broadband providers to take advantage of a VOD + DVD bundled offering.
- **Price matters:** Our analysis revealed that by proposing rightly priced bundled offerings, retailers and telecom operators would be able to capture an additional contribution margin—even after including cannibalization and substitution effects

### Conclusions: Supporting the Transition from Physical to Digital

Capgemini's research confirmed strong consumer appetite for digital content, whilst at the same time highlighting the key digital attributes that consumers favoured over physical copies. However, the most important finding was the power of bundling physical and digital assets. In addition to appealing to the end-user if rightly priced, it also enables retailers, telecom operators and media companies to educate and support consumers in their transition from physical to digital content purchase and consumption. It is an important weapon in defense of the current race against piracy.

Therefore with market entry barriers falling rapidly and more stakeholders than ever playing in the same field, the race to reach the end-user at home and on-the-go to capture mobile and home entertainment customer spending has intensified (See Fig 3, below).

Figure 3: Increasing number of channels to reach the end-user



But what does this mean to you? If you are a telecom operator or an ISP, you might consider complementing your digital offering with a physical component to meet consumer needs. At the same time, retailers may increasingly complement their physical offerings with a digital play.

Across US and Europe in the past few months, many retailers and media companies have begun moves into telecom services (via fixed, mobile and broadband offerings) and/or digital content distribution propositions.

The next big question is therefore differentiation: how do you compete in this increasingly competitive environment and drive customers to your services? Which capabilities and partnerships do you have to build? When and how?

### Capgemini's Vision: An Integrated Digital Content Proposition

Our global research and client work have taught us that those who will succeed in the new digital world will be those best-positioned to develop an integrated digital content proposition across content categories and channels. This will be brought to the end-user via a rich and intuitive customer interface—flexible enough to match individuals' aspirations with the creative ambitions of content producers.

To achieve this integrated vision, a set of three complimentary capabilities need to be built:

- **An Integrated 3-screen Approach:** Seamlessly delivering the right type of content in the right format to the right individual at the right moment and through the right device. It must support segmented as well as recommended commercial offerings across PC, TV and mobile screens.
- **A Digital Media Vault:** Enabling business-to-business relationships between production and distribution, the preparation of content for distribution and the facilitation of multi-channel content delivery. The current boom in digitization to support content production and distribution sets the digital vault as centerpiece of the digital value chain (see Fig 4, on following page)
- **A Physical Component:** Enabling the customer to “experience”

physical assets while the preference remains amongst a subset of the customer base. There are different core propositions that Capgemini believes players should consider to take advantage of both physical and digital channels:

Single Offering	Bundle Offering
DVD	DVD + eCopy
Manufacturing On Demand (MOD)	MOD + eCopy
Electronic Sell Through (EST)	EST + DVD
Video On Demand (VOD)	VOD + DVD VOD + eCopy

Whilst not all players will develop these three capabilities at the same pace nor in the same fashion, the direction is set and some have already started their transformation journey to benefit from first mover advantage.

However, even if the technology is in place to enable this integrated customer proposition, several factors make it more of a long-term play given local market conditions, customer readiness and each players' own stage within the capability development process. Capgemini believes there are three critical areas to fully evaluate before deciding how and when to go digital:

- Firstly, the entire value chain is changing and consolidating. Stakeholders' relationships and roles are far from being stable, so any future digital vision requires that clear strategic and tactical objectives are set.
- Secondly, a certain degree of customer education is required over time to trigger mass market transition from physical to digital. Digital providers must facilitate and integrate this process in their development plans.
- Thirdly, legacy information system complexities, lack of future-proof

architecture and premature technological choices in most cases prevent quick and easy integration of the application layers that serve clearly defined business processes.

### Key Success Factors

Based on market assessment and project experience in the US and Europe, Capgemini has identified five key success factors that are necessary when approaching and achieving an integrated digital proposition:

- **Understanding Your Customers' Needs:**

It is critical to have deep understanding of your target customers' behavior and preferences, price sensitivity, and product positioning in such an increasingly segmented and competitive market.

- **Content Rights Access:** Size matters in the digital space. In terms of content, users expect catalogue breadth and depth they can explore. However, rights are often difficult to negotiate due to commercial, technical and security sensitivities. The ability to negotiate rights of use is a long and complicated process—but a must.

- **Compelling End-user Experience:**

Apple is increasingly setting the benchmark in terms of user interfaces for TV, PC, portable devices and mobile. You can have the best product proposition, market position and pricing strategy, but without a compelling user experience your success will be limited.

- **An Integrated and Automated Supply Chain:**

Your content supply chain must be tightly integrated and automated both vertically across digital and physical distribution channels and horizontally with your suppliers and distributors. This requires strict control of business processes, security of content distribution and service level management.

- **Open Architecture and Platforms to Support Different Business Models:**

Service Oriented Architecture and Web services are today's business enablers to guarantee open standards and to support evolution. However, this requires ever increasing alignment between business models, product

Figure 4: An integrated digital content proposition

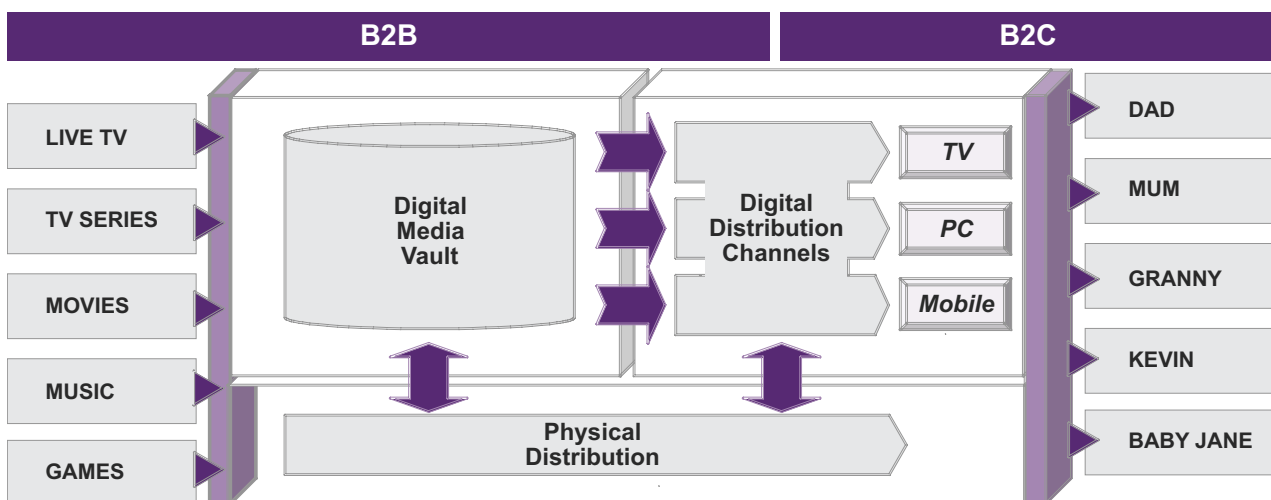
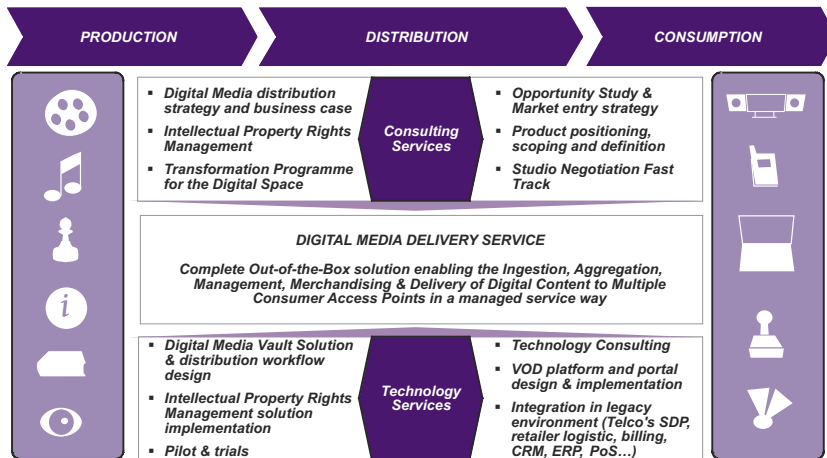


Figure 5: Capgemini's Digital Media Delivery Service



and service definition, IT architecture design and technological know-how. It also requires taking into consideration the specificities of service centers and monitoring the quality of experience for such services.

Achieving these key success factors requires considering a mix of strategic and tactical options and partnerships. Whilst a "build" approach enables greater independence and an integrated solution that complements your own vision and ability, a "buy" approach certainly reduces risk and substantial initial investment, enables you to benefit from existing experience and facilitates better focus on marketing of the initial service. In most cases, a mix of both across capabilities will likely be enabled. Whatever your scenario, the five dimensions must be carefully considered as part of a capability development roadmap. Capgemini also recommends tracking user behavior and satisfaction as early as possible in the process.

### Capgemini's Approach

Capgemini has developed a rich and insightful perspective in the field of digital content distribution over the past decade. We have been working hand-in-hand with our customers on

initiatives ranging from movie and music studio content distribution strategy to implementation and operation of distribution solutions for TV, PC and mobile devices.

Our approach can address the different challenges faced when building digital capability (see figure 5).

### Consulting Services

TME's Consulting Services practice is the leading global management consulting group dedicated to helping CEOs and senior executives in the converging communications industries address their most critical strategic and operational challenges. We support our clients in the definition of growth strategies, in launching new businesses and services, in achieving operational excellence based on our unparalleled global perspective and on the experience of our international team.

### Technology Services

Delivery excellence is TME's highest priority for its Technology Services practice, having delivered over 2,500 architecture, systems integration and infrastructure projects. As well as generic IT implementation expertise, TME has a broad range of industry-specific capabilities ranging from

billing and customer care system implementation to service delivery platforms, portals, advertising sales house solutions and IP video service assurance and quality monitoring systems.

### Digital Media Delivery Managed Service

Capgemini's Digital Media Delivery (DMD) Service enables retailers, telecom, cable, broadband and entertainment companies (with the approval of content rights holders), to sell and distribute digital content to their customers. Capgemini is teaming with major technology providers to bring this turn-key solution to specific markets. Already deployed in the US, the service will be soon available in Europe.

Retailers, working in concert with content rights holders, can leverage the DMD Service to bundle digital copies of movies, shows and videos with existing media such as DVDs, or create new digital bundles to play on TV's, PC's or portable devices. The DMD Service also complements the new networks that telecommunications and cable companies are rolling out. Customers seeking to purchase movies, music and TV shows can use the service's innovative user interface to browse, select and purchase digital content from their broadband provider. Similar to a DMD Service installation for a retailer, the storage and distribution of digital content, payment systems and DRM capabilities are all managed by Capgemini on behalf of its clients.

### Why Capgemini?

Capgemini, with its dedicated media practice and deep industry experience, can help you define your digital future whilst at the same time maximize potential opportunities. Here's why we should be your partner of choice:

- We have been working with clients and partners on digital issues for the

past decade, with many major services now live

- We have deep knowledge of the market, owing to close collaboration with clients and in-depth market studies and analysis
- Capgemini's strong relationships with the studios enable us to accelerate and support in studio negotiation
- As the consumer-critical industries converge, our dedicated Telecom, Media & Entertainment and Retail sectors work together to help you understand each and leverage your business across both
- We have built a leading platform with a strong ecosystem of partners that is able to bridge physical and digital distribution
- We have a risk averse "think big/start small" approach
- Effective collaboration between our Consulting, Technology and Outsourcing Services teams bring you the best when you need it and seamlessly bridges strategy and technology
- We have developed a global approach towards digital media and leverage best practice across our US and European media and entertainment teams

**Experience Counts:**

**Home Entertainment Strategy & Implementation:** A leading European broadband provider needed help to launch IP-based home entertainment services. Capgemini supported by assessing the TV and entertainment market (e.g. customer needs, targets groups), evaluating related business models, and designing a compelling business case. Through TME's stringent evaluation methodologies and project management expertise, the client was able to define convincing products, plan a step-by-step development approach that fitted with the organizational and technical capabilities and within 18 months launch its first services. The revenues within the first six months of operation are promising.

**Multi-Channel and Multi-Device Non-Linear Content Offering**

**Platform:** A major pay-TV operator wanted to take advantage of multi-channel and multi-device non-linear content offerings. With fierce competitive pressure for video offerings and content acquisition from the likes of IPTV and cable companies, Capgemini was asked to help design its VOD servicing platform. We delivered the functional design, GUI description and the business process design—as well as recommended configuration for the selected technology solution, including data model design and basic functional implementation.

**Digital Media Delivery Solutions to Catch the Digital Wave:**

Currently there is a huge opportunity for retailers, telcos and media companies to better exploit latent customer demand for digital offerings—if they can overcome the high-cost of entry and complexity of studio content negotiations. Capgemini is teaming with major technology providers to deliver a turn-key Digital Media Delivery Solution to enable the management, merchandising and delivery of digital content to multiple consumer access points. The resulting end-to-end system offers design to full operational and technology build, launch, and run, and is offered as either a full suite of a set of complementary services.



**About Capgemini and the Collaborative Business Experience**

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and

collaboration-focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs approximately 61,000 people worldwide and reported 2005 global revenues of 6,954 million euros.

More information about our services, offices and research is available at [www.capgemini.com](http://www.capgemini.com).

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