Studie: Vying for Attention

Kampf um Aufmerksamkeit.

Wie sichert man sich in der modernen Medienwelt die Aufmerksamkeit des Zuschauers, des Lesers oder des Online-Nutzers ? Die Studie von Price Waterhouse Coopers, die Sie auf den folgenden Seiten lesen können, gibt Hinweise.

TEXT: SAUL J. BERMAN, BENNETT E. MCCLELLAN, PRICE WATERHOUSE COOPERS

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PRICEWATERHOUSECOOPERS

Vying for Attention

The Future of Competing in Entertainment and Media

Our Industry Perspective 2001-2005

About This Paper:

Nothing defines today's entertainment and media industries so much as change—rapid, relentless, complex change in the business environment and technology surrounding entertainment and media.

As partners in PricewaterhouseCoopers' Entertainment & Media practice, we help our clients envision and build their future strategically—both the future that will surround them, and the future they will create for their enthusiastic consumers.

This paper offers our point of view about the critical role human attention will play in competing successfully through 2005 and beyond. We begin with a story. We provide examples and opinion from our industry perspectives that show how attention has become a scarce resource. Next we describe how attention will drive entertainment and media industry trends. And we conclude with advice about how entertainment and media companies can succeed in the attention-driven economy.

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1955
The Family (and Some Neighbors) Gather to Watch a TV Show

2005
The Fickles Scatter Their Attention

The Fickles, average middle-income parents with one child, will spend the evening in 2005 among their home entertainment—more than two dozen media devices, thousands of digital files of music and films, hundreds of old-style audio and video tapes, and shelves crammed with recent publications. After homework on his laptop, Tommy Fickle will play a game with his grandpop in Alaska and his cousin in New Jersey via a hand-held device, as Mom and Dad video-mail co-workers and friends, scan video-mail offerings from selected shopping sites, and do some online purchasing.

Now it's time to relax. The Fickles divide their attention among satellite radio or television, network or cable TV, music systems and DVDs, gaming consoles and Internet devices, bound books and e-books, online papers and magazines—it's just a school night.

The Fickles want a wireless system that connects all their devices. Their neighbor just got one. If the neighbor ever deciphers the help file and gets answers from online tech support, there will be no more tangled cables—he will be able to move his electronic devices all around the house or into his briefcase without needing wall outlets. When he finally gets it figured out, his family will be able to view a movie together in one room, broadcast it to several rooms, or show a different flick in each room. With a click, they'll be able to tune the film out and tune some music in, or send music files between computers, PDAs, radios or speaker systems. The Fickles are waiting a few more months before they buy a system like their neighbors', when they believe the price will drop.

This Friday night they watched video-on-demand at home, but on Saturday the Fickles want to go out. While lunching in front of the Internet screen in the kitchen, they check schedules at local multiplexes. They view online movie previews, play digital games and sample the virtual reality attractions at nearby theme parks. Dad and Tommy want to go to a megamall to catch a movie, but Mom has to finish a work project. So while Dad drives she will use the car's wireless terminal and, later, one of the many e-stations at the mall. She contacts team members around the globe while Dad and Tommy experience the movie's spectacular digital graphics and sound.

Mom's courtesy headphones filter out, but not entirely, the mall's teeming bookstores, simulated-reality arcades, electronic gaming palaces, and open mini-theaters showing non-stop feature film trailers. Overhead plasma screens stream advertorials and special offers from the mall's large and mid-sized tenants, all bulging with content. It's hard to pay attention, but working here is the price of being with her family today. Maybe she will do some hands-on shopping later on.

The mall already knows Mom's guestcode. Before the movie ends, ads for the mall's cuisines will pop up on her screen, with real-time waitlists at each eating place. She will make reservations and pre-order appetizers. Soon Dad and Tommy will emerge from the movie and the Fickles will enjoy Mom's restaurant choice.

Unless they change their minds.

If so, the Fickles will credit the appetizers to their account, donate them to a food bank via PDA, and turn their attention to another teeming mall.

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Entertainment and Media Saturation Around the World

About 98 percent of US households, 95 percent of households in Europe, and 72 percent of Asia/Pacific households have televisions.

Overall, there was a combined net increase of 4,727 movie screens in Europe, Middle East and Africa between 1995 and 2000.

88 million homes in the US own at least one VCR; there are nearly two billion more in the rest of the developed world.

Japan dominates the Asia/Pacific market for filmed entertainment, generating $6.1 billion in spending in 2000, representing 54 percent of total spending in the region.

In 2000, the Internet was used by 56 percent of adults in the US, and nearly 75 percent of children aged 12 to 17 had Internet access.

More than 123 million read newspapers every day in the US.

DBS and digital cable are fueling multichannel subscriber growth in Canada. Launched in 1997, DBS has grown to one million Canadian subscribers in 2000.

Latin America's average basic cable television subscription fee is $20 per month, representing 72 percent of the average person's monthly income.

Every month, some 367 million magazines are subscribed or purchased in the US; in Europe, some $14 billion will be spent on magazines in 2001.

In Brazil, Columbia, Mexico, and Venezuela, estimated piracy rates for recorded music are between 25 and 50 percent; in Argentina and Chile, 10 to 25 percent.

99 percent of US households have radios; most have more than five.

Sources: See Note 1.

Projected Entertainment Media Spending Around the Globe: $Millions[2]

2001 2002 2003 2004 2005

$850,660 $915,718 $981,839 $1,054,861 $1,126,616

$1,200
1,000
800
600
400
200
0

TOTAL
Station, Cable and DBS Distribution
Newspaper Publishing
Broadcast and Cable Television
Book Publishing
Magazine Publishing
Filmed Entertainment
Radio and Outdoor Advertising
Internet
Recorded Music
Theme Parks and Amusement Parks

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Will DVD Replace VHS by 2005?

There are roughly 90 million VHS machines in the US now versus ten million DVD players. We predict that DVD growth will be substantial, but will not wipe out VHS within five years. Consumers will still have personal archives on VHS tapes—birthdays, weddings, graduations. Nostalgia is a potent force, and massive amounts of nostalgic content exist that people will want to continue enjoying, such as movies and television shows from the past. With the coming retirement of the Baby Boom, there is a potential market for the revival of vinyl record players.

Section 1:

Attention Drives the Entertainment and Media Economy

Our story of the Fickle family illustrates that the days of cheap, available attention—when people paid undivided attention for an hour or more per evening to a book, radio broadcast, movie or television show—are long over.

Human attention is moving from the status of a commodity to that of a scarce economic resource. Especially in entertainment and media, ***attention is evolving as a dynamic economic driver***—and this trend will continue to accelerate.

From our perspectives as partners in the Entertainment & Media practice of PricewaterhouseCoopers, this paper offers our point of view about competing in the entertainment and media industries for the coming years:

- This section describes the central role attention will play in the future of entertainment and media.
- Attention will drive industry trends through 2005 and beyond, as we describe in Section II.
- What should your company do to capitalize on attention-driven trends? Section III reveals our advice.

Vying for Attention

The digital age will flourish in the next five to ten years, heralded by the coming of broadband technology. Consider, if you will, what some suggest is the *Law of Bandwidth Price Elasticity:* "A one-unit decline in bandwidth price yields a five-unit rise in demand."[3] The projected capacity of broadband is so large that industry insiders are calling it a "pipe" rather than a cable or line, in spite of its currently limited availability. Broadband's appealing features—instantaneous connectivity, fluid Internet operability and easy distribution of massive amounts of digital content (both copyrighted and pirated)—position it to become ***the expected consumer standard, starting in 2005 and beyond.*** Around 2005, a second-generation broadband pipe will have been introduced, with broadband saturation reaching some 40 to 50 percent of homes by then.

The now-familiar *Moore's Law* postulates that computer power doubles every 18 months. The increasing capacity, speed and reach of computing, the e-transformation of commerce and the rapid consumer feedback enabled by the Internet have already shortened production and the life cycles of initial content in the entertainment and media industry, with no end in sight to this trend. As the pipeline expands, producers will rush to fill it, the amount of content the consumer experiences each day will skyrocket, ***and word-of-mouth about entertainment and media will accelerate.***

In an environment saturated with choices but pressed for time, ***brands will vie for attention***, competing harder than ever at all the "touchpoints" between the brand and the consumer, not just for market share, but for influence.

According to our projections (at left), consumers around the globe will spend more each year on entertainment and media. More choices, more ways to connect—but ***there will still be the same number of hours in the day.*** What will drive the economy, then, will be that which gains—and holds—the consumer's attention.

Content and Devices Will Proliferate; Markets Will Fragment

Content and device developers of all types—cable companies, radio and television broadcasters, Internet Service Providers (ISPs), film studios, publishing houses, satellite providers—will respond to relentless demand and light-speed obsolescence with ***non-stop waves of innovation.*** They will experiment with new content, product development and business strategy as well as with re-purposing, reformatting and the redesign of existing offerings.

The proliferation of choices means that ***markets will continue to subdivide and fragment.*** Content developers and executives who try to maintain a more

"Packet-Switching"

Your attention gathers a packet of content from a television drama, switches during the commercial to gather another packet from a comedy show on a different station, switches to gather your teenager playing a video game in a nearby room, switches to attend to a call from your mother, switches to a passing car with speakers booming, switches to deliver a packet to your brother telling him when to pick up your mother, switches back to the TV program—all in minutes or seconds. These packets of attention are sorted and reassembled by your brain into linear streams of content with chronological sequences—the plot of the TV drama, the gist of the sitcom glimpsed during the commercials, which video game was playing, when your mother will be picked up by your brother, the lyrics of the song played by the passing car.

traditional approach will always be behind and playing catch up. The market environment will constantly change. Even when innovations are introduced, they will be challenged more quickly. ***Developers will need to be more creative,*** continually trying out new ideas that will keep them differentiated. The good news is, there will be more ways to reach the consumer, but it will be harder to reach them—and harder to create a mass market. *Marketers will have to target many smaller segments, and their approaches will need to be more focused.*

Consumers will snap up innovations, even though interoperability among devices and platforms will continue to lag behind demand. They will also hang onto their older devices and content, fueling an ***explosive demand for content*** to play on an ever-widening array of platforms, as well as devices that will integrate older content.

Consumers will continue to absorb multiple new devices and efficient ways to use them to accomplish more and more each year, but multi-tasking has invisible limits. In fact, ***people do not actually multi-task, but rather "packet-switch"*** *from one task to another,* dividing attention in smaller and smaller increments. Legislative proposals in many states to prohibit phoning while driving due to accidents involving cell phones imply that over-divided attention can have social costs, from motor accidents to emotional stress.

Competition for the consumer's attention becomes greater with every fresh wave of new content, new formats and user options, new modes of connecting. This is so because ***the hours in the day are fixed***—humans will always desire and need to give quality attention to natural, face-to-face interactions at home and on the job.

A recent Henley Centre study asked how many agreed with the statement, "I never have enough time." Respondents who agreed numbered 51 percent in 1991, 57 percent in 1995 and 66 percent in 1999.[4]

Competition for Attention:	Past	Future
TV Channels	4 or 5	500+
Web Sites	0	20 million
Publications	100+	1000+
Radio Stations	10+	10,000+
Product Lifecycles	years	months
Incoming messages per day	10+	100+
Hours in the day	24	24

We estimate that consumers spend an average of eight to nine hours per day involved with information, communications, entertainment and media technologies, and ***this attention share will steadily grow through 2005.*** But the multiple new devices and content streams pouring into this space are naturally contributing to the fragmentation of audiences.

Brands will vie to maximize points of contact with consumers, striving to create even more efficient delivery mechanisms to niche audiences. Mergers are one of the ways entertainment and media companies will respond, by rounding up audience fragments and capturing bundles of established consumer "touchpoints."

Merging companies vying to deliver more content will need to respond to rapidly changing needs and desires of well-targeted niches and leverage those preferences across the many business interests of the merged organization.

Channels and Sources Will Explode and Contend for Attention

The push towards "total" digital connectivity and the explosive growth of mechanisms of content delivery is pervasive. ***New touchpoints between brands and customers are multiplying daily.*** The end of year 2000 saw a clever campaign using Jim Carrey's Grinch character from a Universal feature film tied into a promotion with the US Postal Service, a service nearly

every adult and most children in the US use during the holidays. New York taxicabs feature the recorded voices of Broadway stars; they remind passengers to fasten their seatbelts—and they plug their shows. DBS (Digital Broadcast Satellite), wireless, satellite master antenna, dish and other technologies that beam signals directly to consumers' homes are projected to produce *double-digit subscriber growth annually through 2005*, rising from less than nine million in 1998 to some 23 million subscribers (and $19 billion in revenues) by 2005. Cable is a relatively mature industry, with some 70 million subscribers in the US alone, but will continue to grow some 2.2 percent per year through 2005.[5]

Connectivity will surround us—interactive, live, real-time connectivity—in any room in the house, in the car, work space, public spaces. Wherever we are, we will be able to connect. Businesses want more connectivity— to compete for attention share, to work more efficiently and to enable time-stressed workers to lower the barriers between work and home. Wireless technologies in entertainment venues such as theme parks will maximize revenues and optimize the guest experience by directing guests to "no wait" attractions and events. Optical glasses are under development even now that can receive and display a stream of content—just put them on your nose and watch the digital stream flow!

Only a century ago, information moved in shallower streams—newspapers, magazines, word-of-mouth—in an environment without automobiles or highways. Homes had no radios, televisions nor long-distance phone service. But, at the dawn of the 21st century:

- more than 40,000 new books are published per year in the US alone
- the Internet offers more than a billion pages, and grows every minute
- a typical weekday issue of a big-city US or UK newspaper contains more information than the average 17th-century Englishman encountered in a lifetime, at a cost of about 10,000 words per US penny
- Time Warner Cable offers over 500 digital channels in New York City.

Entertainment is supposed to relieve stress, not cause it. ***But the extravaganza of choices will only escalate.*** The remote control device, the larger capacity of broadband, and the imminent spread of wireless personal interconnectivity systems will do nothing to discourage packet-switching: consumers will continue to flip restlessly among cable and network channels while "watching" other programs; they will flip past banner and broadcast ads; they will skim dozens of newspaper, magazine and web pages per minute.

The Value Chain Becomes the "Attention Loop"

The power of digital communication to compress time and space will continue to influence our globalizing society. Technology itself, however, is essentially an array of tools. In the case of entertainment and media, ***technology is a powerful tool that channels the flow of human attention.*** It is not technology, but human attention that applies itself to discovering the full range of technology. It is attention, aided by technology, that will lead to revolutionary transformations and higher-level tool uses. ***Intermediation of attention flows*** will become an essential strategic factors for companies participating in the digital age.

The traditional value chain was a linear sequence that began with research and development and moved straight through the steps of manufacturing, distribution and marketing until it reached the customer. The creator of goods determined the design of products and "pushed" the consumer to accept them.

When managing flows of attention becomes the central force, the linear "push" towards the customer becomes a revolving dynamic, a mutual interaction—transforming from "push" to "push-pull." ***The customer exerts "pull" to help the design of products, services and entertainment experiences.***

The Attention Loop

Above the Line:
The parts that directly involve the customer's attention are integral to your business.

The line is a moveable boundary. Above it are the functions that are strategic and differentiating for your business.

Customer
R&D
Customer Relationship Management
Manufacturing
Sales
Distribution
Marketing

In the traditional value chain, only Sales or Customer Relations touches the consumer. In the Attention Loop, the customer is also involved in R&D.

Below the Line:
Where your business should:

- Minimize costs
- Minimize investment
- Push to outsource, or
- Eliminate functions.

We call this process of value delivery *an "attention loop" rather than a value chain.* The customer's attention is engaged at two places in the loop:

- the attractiveness or effectiveness of the product's design, and
- the way the product is delivered/experienced.

The most cost-effective kind of intermediation is that which provides the shortest distance between consumers and producers. The attention loop is a new way of prioritizing the pieces of the traditional value chain. The pieces are still present, but their level of importance changes. ***Your company need not manufacture a service in order to deliver the service;*** instead, you spend your capital on customer-facing activities. PricewaterhouseCoopers' MetaCapitalist[6] model asks, in effect, "If it's not the highest-value activity, why are you doing it in-house?"

For some companies, one piece of gaining customer attention is "permission marketing", where the customer requests e-mail from a trusted brand, or an e-alert as soon as a desired product goes on sale. Another example of a successful, cost-effective program is the software industry's collaboration with users who are willing to contribute to product research via "beta" releases before the product's launch. Paying attention to suggestions is the shortest distance to the kind of product improvements that will satisfy users.

Commanding Attention: Influence Is as Important as Control

The triumph of the ***individualized choice***, as opposed to the passive acceptance of mass-marketed products, is the inexorable competitive thrust of the digital age, going beyond the mere choice of what is available. Changing the value chain to ***the attention loop allows consumers to shape what is available,*** going from "what's in this catalog" and even "what do I like from this catalog" to "what would I like to see in this catalog?"

In the attention-based economy, ***consumers will continuously exert influence to get more of what they believe in and want.*** In entertainment and media industries, brand owners are creating ***not so much products or services as experiences.*** Brand owners are intermediaries facilitating the attention of customers to the potentials of their brand network. Power will shift from ***attention buyers—***those who market entertainment and media—to ***attention generators—***the consumers who distribute their attention to whatever pleases them.

As we noted in our previous forecast,[7] ***the passive traditional customer will be less influential than the experiencer—***the person who is exercising personal choices, who is using services like the individual home page to control what takes center stage in his or her consciousness. ***The consumer network will be creative collaborators in the experiences they desire,*** shaping content to make it individually relevant.

Digital media itself contains a wealth of potential for galvanizing attention. As just one example, sports games are captured by more than one camera angle. Digital broadcast will make it possible for the fan to choose the angle at which he wants to view his favorite athletes; some entertainment story content will even lend itself to several choices of endings! ***Content providers of all types will offer formats that make it easy for attention-givers to shape content.***

Customer perception will rule, and consumer attention will determine what businesses thrive or fail. At every contact with a brand, materially glutted, media-saturated customers who manage their attention defensively will ask themselves, "Are you trying to help me get what I really want, or just trying to sell me something?"

Section 2:

Attention Will Drive Industry Trends to 2005 and Beyond

Access! More and more, the consumer will exercise not just choice, but *taste* in how to connect.

Vying for Attention Will Be a Buyer's Market

To enter the stream of digital content, consumers can type, they can write, scan, sketch—even speak. Their voicemail can call their pagers or their friends' houses. They can send photos over e-mail, talk to themselves to access their e-mail, and soon they will be sending voice e-mail. A computer user can have film and book reviews sent to his personalized web portal, view product descriptions from manufacturers and compare prices at warehouse sites, join user groups for media, software and gaming devices. He can play those games online with people he will never meet.

Traveling to another city? First, a consumer can navigate its home page, its newspapers online, its links to theme parks and theaters. One click on an alliance ad, and an order page opens with guidebooks to that region—some of them downloadable to a palmtop. If music is what she wants, she can choose from CDs, MP3 files, tapes, vinyl, DTV, satellite, speaker systems, miniplayers, Surround Sound.

Toys 'R' Us and Amazon.com Play Together Nicely

"Clicks-and-modems" are learning the hard way that they need the expertise and exposure of the bricks-and-mortar stores. And even the traditional retailers with web sites are feeling the pain from e-tail competition. Consumers want both, and want to use them interchangeably, such as being able to return an item to a store that was bought at the brand's web site. Last year Amazon, the most prominent dot.com brand, formed an alliance with Toys 'R' Us. The giant big box retailer supplies toys from its inventory; Amazon runs the web site, delivering toys from its half-dozen US distribution centers. Working together, the alliance reaped sales of $124 million during holiday 2000. Not only did Amazon avoid the inventory writedown that had taken $39 million out of last year's profits, it was also able to cut inventories by 21 percent in the fourth quarter—even though sales rose 44 percent. Toys 'R' Us benefited by correcting its disappointing delivery performance of the previous year.[8]

Consumers are now getting what they want, when and where they want it, in more ways than ever. As wireless technology advances, their ability to get what they want will only increase. Brands that are aware of the tough competition for their customers' attention are also aware that they ***provide not just content, but experiences.*** What was it like to wait for overblown web site graphics to load? To wait on hold for tech support? To have awkward functionalities on a device, requiring additional outlays for "dummy" books to learn how to use them? Those customers, if they haven't already moved on, are looking for their first chance to bolt.

Especially in entertainment, ***consumers will give their attention to content that is worth their time, to experiences that reward their values, to quality rather than quantity.*** There was a time when the experience itself of going out to a movie was stimulating enough to overshadow mediocre content. For new users of the Internet, even a badly executed site with poor content, but lots of it, was acceptable due to the very thrill of being on the web. But in the exploding abundance of entertainment and media to come, ***quality of experience will determine where the consumer dispenses attention.***

Enemies Join Forces: Bricks & Modems vs. Clicks & Mortar

In our previous forecast, published in 1999, we cautioned that the dot.com mania could flame out, and it is not news that it did just that in 2000. The past several years were marked by intense industry speculation that, with the rise of e-tailing, there would no longer be a role for bricks and mortar. In hindsight, the dot.com boasting that discounted traditional retailers was incredibly audacious. ***No-one has a greater interest in connecting with their customers than existing bricks and mortar businesses***—they already have the capitalization, organization, supply chains and relationships with customers. Now it appears that they will be the ones who will survive over the long term.

Digital content providers have painfully discovered that ***incumbent players have long-term advantages over purely Internet channels.*** They can acquire the

Global Company, Local Content

At the end of the first quarter 2001, the global media and entertainment company Viacom signed a landmark agreement with China to roll out their popular Nickelodeon show to some 40 million Chinese households by mid-year. Viacom will work with a Chinese production company to co-produce local "Chinese Nickelodeon" programming for children.[9]

focused skills of the pure plays more easily than the other way around. When it comes to online purchasing, consumers will hesitate less when dealing with a long-established brand.

For new Internet models, funds are drying up now that overreaction to dot.com fever has set in. ***Alliance with the bricks will be the best chance for the clicks players to monetize—and it will be as important for the bricks to ally with the clicks to avoid losing market share.***

Traditional ***legacy players who become multi-channel will be the long-term brands in media and entertainment,*** effectively leveraging their established brand equity on the Internet and across other new media touchpoints against upstart rivals. Music, as an example, can be distributed on disc, tape, PC or via satellite. We see those companies that have retail expertise—and that move with the interests of their customers—retaining their dominance.

"English Is for Business; Entertain Me in MY Language"

Companies will need to connect to a lot of places, both physically and electronically, in multiple layers—and at a level of complexity never before seen. Yet globalization does not mean homogenization. For some companies, globalization may mean meeting a global interest community wherever they may be with the content they are looking for, such as content for speakers of a given language, anywhere they live in the world.

Whether or not economic trends continue to see-saw, or recover their recent long boom, markets will continue to globalize. Whether or not governments choose to cooperate in order to reap the benefits of the digital age, its inevitable rise cannot be prevented.

The comparative ease of global distribution in the age of digital technologies opens a cultural banquet, but ***marketing will seldom again be as simple as pumping out the same content from one culture into others.*** Many localities resent cultural incursions and resist the culturally homogenizing forces of globalization, as demonstrated by the violent protests in 2000 at the International Monetary Fund meeting in Seattle and the World Economic Forum in Davos. Content authoring and distribution will need to pay greater attention and respect to cultural sensitivities around the globe.

In spite of the current global flood of English-language exports from the US and UK, there will be an ***upsurge in local and regional content*** elsewhere. In France, approximately 55 percent of music now sold is French-language; in Japan, Japanese-language choices are favored four to one. This trend will continue. ***Consumers everywhere will want more local content. Vertical integration and creative alliances with local content providers will be profitable for established brands.*** As markets become increasingly connected, US audiences are likely to participate in elevating other countries' equivalents of Elvis and Britney.

China, the world's most populous nation, appears determined to lead the way in digital development. Its goal is to beat the US to having a fully interoperable, all-digital distribution system for more than two-thirds of its people. Wireless and satellite will help span its rugged terrain. In fact, our studies predict that the ***healthiest growth in entertainment and media spending will take place in the vast Asia/Pacific market*** as a whole, with other nations not far behind.[10]

The Outlook for Entertainment and Media Spending by Region ($Millions)[10]

	2001	2002	2003
United States	363,661	390,761	416,484
% Change	7.7	6.6	6.4
Europe	258,823	276,698	294,735
% Change	6.9	6.5	6.1
Asia/Pacific	174,517	188,092	202,045
% Change	7.8	7.4	7.5

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Satellite Radio: A Creative Convergence of New Media, Content and Applications

Radio remains popular: 75 percent of Americans over age 12 listen for an average of three hours daily. New digital radio technologies are expected to emerge, with revenues starting to peak in 2005. Primary adopters will be new-car purchasers. Drivers will be able to select a mix of programming from some 50 channels of music and 50 of news/talk/information, more than twice the total of 47 conventional AM/FM channels in the nation's largest existing market, New York City. Uncensored by FCC, the new medium is expected to foster unique or special-interest programming.[11]

Technology Innovates Beyond Human Capacity

As providers continue to roll out devices and content to appease high consumer demand, much of it before a legitimate consumer market for the technology has been established, the ***high expectations and hype surrounding technology will result in developmental setbacks*** in some entertainment and media areas. Consumers will fluctuate between trying to obtain the promises of new media—and trying to avoid "innovation fatigue" by shutting out content bombardment.

Conflicting connectivity standards, difficult handling, high price points, false promises and poor customer service are some of the inevitable "industrial pollutants" of the digital age that will produce customer resistance and delay the benefits that technology can deliver. Converged offerings such as Internet-enabled television (HDTV, ITV) and now Bluetooth (a radio-wave system that allows all of a user's electronic devices—computers, home entertainment systems, cell phones, keyboards, headphones—to share data with one another without wires) are just some of the currently overhyped developments that are vying for the mass market. Due to insufficient demand—consumers do not yet understand what these innovations can do for them—they are still not ready for prime time.

Bandwidth is another significant hurdle—economic growth models for most media companies depend on bandwidth and storage capacity, but ***demand will outstrip its availability.*** Adding complexity to the challenges of bandwidth development will be this conundrum: as bandwidth capability becomes available, it will enable new developments that will require vastly more bandwidth. For example, a recent industry alliance created an electronic cinema demo that used nearly 50 percent of its provider's total system bandwidth for that single movie stream. DSL (Digital Subscriber Line) has been another disappointment so far, in terms of availability and reliability. The demand for DSL exists, but the rate of provisioning and installing is not keeping up with demand.

In our view, the many information, communications, entertainment and media industries that rely on the massive telecommunications infrastructure, where the interoperability standards are still not uniform, have a pressing need ***to cooperate in sharing the multi-billion dollar investments that will be required*** to solve fundamental dilemmas in this environment.

Meanwhile, the ***convergence of technologies and devices, the divergence of functions into separate devices, and the shrinking of devices*** will continue. Combo devices are everywhere, as developers try new combinations to see what users will adopt. Despite the innovations of several global manufacturers, we predict that the majority of end-user devices will remain separate components. Will consumers prefer single devices that do several things pretty well? We believe they will continue to prefer devices that do only one or two things, and do them very well.

Further miniaturization awaits consumers. Already, music fans can buy a featherweight MP3 player, with memory cards the size of postage stamps, that can be strapped on the body or encased in a headset. There will still be multiple challenges with standards, but don't blink or you will miss the ever-shrinking media storage devices. We'll be carrying megabytes in mini digital wallets.

As Pipelines Expand, Demand for Content Will Escalate

Intense broadband ramp up, mushrooming Internet activity, constant innovation, expanding digital technology for cinema, TV, music, and print—***the pipeline for content will continue to enlarge.*** The wars have already begun for broadband dominance in the home.

During just the latter half of 2000, the number of US households using cable broadband or DSL connections doubled to eleven percent. It has also been found that broadband users spend more than twice as much time as dial-up consumers on the Internet, due to its instantaneous page fill and its "always-on" feature. Broadband's early adopters tend to be those who have experienced its lightening speed and can no longer stand to use a computer without it. Market "hyper-growth" is anticipated to take off this year. By 2005, broadband will become the rapid connection standard for nearly 47 US million households.[12]

Know Your Customer

A study by iVillage.com, a high-profile web site aimed at women, found that men "bookmark" over 100 web sites but revisit few to none, while women "bookmark" only ten sites, but visit most of them frequently.[13] *Mars versus Venus? Perhaps it just shows the need to appeal to audiences in a specific way, and to do it 24/7.*

Distributors are already running to keep up with the need to fill the expanded pipe with more than the reruns and mediocre programming that now threaten the quality of the media. The challenges of providing high-quality, original content development will be formidable. We estimate that ***only a limited percentage of content development will be truly profitable. Margins will be squeezed*** in all sectors of the overchoice environment. Business models will have to include brand community management to keep consumers' attention. *Platform-universality will be key*—to be widely enjoyed, content will have to be formatted for a wide spectrum of existing and future platforms.

Advertising will expand and continue to innovate— such as advertising embedded in the content of a television show, or increased use of product placements. Advertisers will be eager to deploy attention-grabbing new content and media. The growing technology for continuous education, such as satellite distance learning, will want innovative content to serve globalized work environments and educational institutions, both established and virtual.

But the challenges to traditional rules of authorship and ownership have just begun. ***Digital Rights Management (DRM) and other technologies will attempt to protect the traditional view of assets,*** now that new rules are changing the game and demanding new responses. The speed necessary to appease fickle tastes already glutted by choices leaves players vulnerable. Profit-motivated leaks or outright piracy can erode projects before they are hatched, even those that had excellent prospects in the development stage. And ***bad press now travels at Internet speed.*** Electronic solutions will be a growing part of the security, privacy and asset-defense equation.

We anticipate a rising crossover from traditional entertainment and media markets into business-to-business venues. As the barriers between personal and work life continue to break down in the time-crunched society, ***B2B will demand more entertainment and media content.*** Companies will want to entice attention to their portals, such as B2B product information and user-friendly HR sites or training experiences for far-flung employees. Companies will bundle content with their products, such as interactive B2B sales promotions, and will provide enticing ways to communicate with clients, prospects and media and to garner the attention of staff. Business solutions providers will need to market both to end users and to intermediaries.

Brands Must Sustain Attention and Deliver the Goods

Consumers will pay attention to companies that make their content an experience a customer will be eager to repeat. Consumers will increasingly want to filter the onslaught of choices by ***using a few known labels as a guide through the clutter.***

The critical goal will no longer be mere brand ***recognition,*** but brand ***respect.*** Brand loyalty will continue to suffer from overchoice and consumer fickleness; even when companies gain a customer's attention, it will be quickly lost. ***Brands will reign where they have demonstrated trustworthiness in the new environment.*** Empty hype will kill brands in the age where consumers can check on brand performance for themselves. Brand owners must not promise what they cannot deliver.

The megabrand will function as a screen to filter in precisely targeted content, and filter out undesirable experiences at every level, from long wait times to unsatisfactory product to excessive or imprecise searching. ***Consumers will rely on brands as trusted advisors that offer the power of recommendation.*** A strong brand prescreens, in effect, which content to pay attention to and which channels a consumer is likely to enjoy; it also guarantees safe passage. A few megabrands that offer a wide range of entertainment and media experiences, both actual and virtual, will continue to dominate, but clicks-only megaportals will also gain attention share.

For brand purveyors, the question of "what is a brand?" will be an important one: Is Vivendi Universal the brand, or is it Jurassic Park? The brand owner is not necessarily the brand in the consumers' frame of reference, the brand is the franchise. ***A strong brand***

Digital Culture Wars

According to the Pew Internet Project, about 22 percent of Internet users say they have downloaded music; 78 percent of those downloaders say their actions aren't "stealing", and 61 percent say they "don't care" if the music they download is copyrighted.[14]

franchise in entertainment and media enables multiple tie-ins—films, theme park rides, games, merchandise—as well as sequels. Entertainment and media marketers, too, will have more choices, and will become expert at refocusing the same content on multiple niche segments.

Part of the experience for the entertainment and media consumer is the sense of participating in what's hot. ***Content itself becomes an element of fashion—*** fans not only want to go to the hottest movie, but also to wear the hip fashions in the movie and play the cool music from the movie. ***Fashion matters—*** consumers will pay more for the latest content or the most fashionably styled product than they will for a commodity product, ***so design will continue to advance and become integral to the relationship between content and delivery system.*** No more gray boxes—we already see the rising popularity of translucent gel-covered teen phones and desktop computers with youthful styling and colors. In the future, astonishingly beautiful design will saturate more levels of the market than ever. But it will remain the early adopters of a technology who set the demand for products that deliver satisfying functionalities along with fashion and styling.

Piracy on the Open Waves: Government Will Get Involved

The battle for ownership of digital content has implications for all types of content owners. In our last forecast, we observed that the new media threat is becoming the "no media" threat. As digitally formatted content proliferates across all areas of entertainment and media, whether music or books or films, ***the ability of rightful owners to capitalize on their creations will continue to be threatened.***

The current controversy over digital music files downloaded from the Internet is only the beginning. There is nothing to prevent "entrepreneurs" from scanning the entire text of novels or pirating digital films and distributing them online. There will continue to be pressure from a significant portion of the user camp that envisions a world in which "All content is free."

We see a vital movement towards ***clarification of intellectual property rights (IPR) in all media.*** Copyright law is well-established. The rights granted by those laws are not legally changed because a new technology allows users to circumvent those laws. In the Napster controversy, recording artists and the Recording Industry Association of America won the first battle by arguing that downloading music online without paying for it is theft of copyright-protected intellectual property.

But the "all content should be free" fight is not going to go away. Court battles will be pitched, new enterprises will emerge that willingly distribute free content in exchange for subscriptions, memberships, marketing data or other resources. There will be a powerful need to ***find new ways to monetize attention.***

Government intervention has been discounted as a primary dynamic affecting entertainment and media after years of regulatory laissez-faire. The shrinking competition among airlines and the current energy crisis in California, many believe, are negative results of a period of widespread deregulation in many industries. The pendulum can be expected to start swinging back towards ***reassertion of government as a player, but not before 2005.***

The judiciary does not act in the entertainment space unless someone is accused of breaking existing laws, such as the Napster case. It takes legislatures a period of years to sort out the interested parties, the irregularities in a new situation and the implications for good or bad. Keep your eyes open for the legislative battle to commence fully in the next four to eight years, when ***governments will come to the legislative table to reset the rules for the digital age.*** Meanwhile, there will be lots of court action to vet the issues that circumvent or contradict existing rules.

After the recent period of rapid innovation in technology and digital media, international issues—travel, formats, consumer protection, technical standards, moral standards, trade balances, taxation and tariff— are far from sorted out. Eventually, government will have a big say in regulating traffic and content—***all***

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cyberfrontiers around the world will be politicized. This inevitability is somewhat of a non-issue in Europe, China and Japan, where governments are already more controlling than in the US.

We do not anticipate a great deal of US intervention until after the presidential election of 2004. Governments enjoy many benefits from the status quo, such as taxes and fees already in place. ***The current administration is unlikely to rock the boat*** unless elected to a second term, when there would presumably be a mandate, unlike the election of 2000. For now, the US government will maintain and promote the Internet.

We do not see the Fed disrupting the progress of e-commerce and m-commerce (mobile) development, nor of the digital distribution of media. These sectors are now tiny compared to TV, and will not become as large, in terms of content delivery, in the next five years, so conflicts surrounding them will lack enough political impact on constituencies to make them urge their legislators to act.

Is the US government likely to become more restrictive on airwaves? No, more liberal. According to the FCC Telecommunications Act of 1996, local TV stations may have both analog and digital methods of distribution. That ruling was passed with the expectation that most of the US would switch to digital by 2007—then the analog frequencies would be handed back and sold to other entities, like mobile and telephony.

For the conversion to digital television to happen, by the terms of the ruling 85 percent of the households in an area would have to have digital TVs (DTVs). Will the vast majority of US households have DTVs in 2007? No. Therefore there will be ***an extension of the two-channel policy (analog and digital). This is a great quandary,*** because other businesses, like m-commerce, have their eyes on that spectrum and need it to develop their initiatives. Whatever administration is in office after 2005 is most likely to be the one to resolve the DTV issue. When it breaks, a lot of lawyers will get a whole lot richer in Washington.

New Competitors and Business Models Will Continue to Evolve

The ease of digital copying, along with the expanding pipeline and surging participation in new media and the Internet, are trends that combine to force the creation of new business models. Technologies for protecting digital data are already rolling out that will be critical to the survival of some content owners, but the legal struggle over digital music file sharing has demonstrated that ***interest in peer-to-peer applications is powerful***—even business uses for peer-to-peer file exchange. ***New business models will emerge that will "free" content and still create profit.***

Although they resist them now, music companies will benefit more from subscription business models in the near future. Napster's new Bertelsmann-backed subscription model is its first response to legal sanctions barring its previous business model.

Claiming victory from Napster's ashes for his hugely popular MTV cable offerings, the chairman of MTV Networks boldly predicted that "We will be the beneficiaries of what happened with Napster," as plans for the new MTV360 cable channel model were announced in March, 2001.[15] Research indicated that MTV's viewers—primarily teens and post-adolescents—use the Internet to communicate at the same time that they are watching MTV. The new "multimedia version of the brand", MTV360, will integrate an Internet site with MTV's two existing music-video and programming channels, and will add instant messaging capability to capture "packet-switching" young users.

Solutions will also come about through ***consolidation of interests.*** When upstart AOL threatened the distribution model of a major media company like Time Warner, combining those companies united their interests. The merged company offers advertisers a multitude of ways to reach customers, down to the segment of one—the individual surfer.

Players along the entire digital entertainment and media spectrum will take a ***dynamic view of piracy***

MetaCapitalism: The Value-Added Community

The value-added community (VAC) is a collection of free agents contracting with a brand owner. The ability of VAC enterprises to ally with more than one brand will be determined by the scope of their own business plans. An entrepreneurial tech-engineering hothouse can serve several brand portals; an international design giant such as an automotive company may turn its talents to innovative theater, theme park or transportation-based entertainment environments. In these creative alliances, value chain components share the risks and costs of development.[16]

as well as competition. They will continue to fight for protection of assets, but will turn the piracy game into an advantage, finding ways to sell off stored assets and move profit opportunities upstream.

Companies are being pushed to work differently than they have in the past—more globally, in ways that go beyond the traditional models of international operations. What is new is ***the blurring of boundaries that results from e-volution:***

- geographic: e-communications penetrates national and cultural barriers
- time: the Internet enables consumers to browse and shop around the clock
- media: e-technologies create crossovers between markets.

Films, books and music once operated in separate, linear pathways from producers to consumers. Traditionally, certain books that sold well subsequently became films. The way to consumers is now a mesh of shorter circuits. Now a film may capture the attention of a viewer, stimulating the purchase of the book it was based upon; it may create demand for its branded clothing or its cool web site among people who have never seen the film nor read the book. The very same content stream may capture some other consumers' attention via its music, stimulating them to consume the film for which the music was scored as well as the composer's and film director's other work, while they never know nor care that the book and clothing exist. The short-circuiting of traditional content streams into an interwoven mesh means ***greater consumer choice: attention finds the shortest pathway to what it wants.***

Even for entertainment and media conglomerates functioning as holding companies for many types of businesses—film, tv, publishing, games—the lines of content may not be managed by themselves anymore, but must be managed as a mesh. What pulls your content through the network of interconnections is attention paid at the other end. Conglomerates are not a new model of revenue generation—what is new is their aggregation of functions, ***leading consumers' attention to the proven brand distributed across a number of channels.***

The powerful demand for content in the new environment will engender ***bold new competitors.*** Technology developers have traditionally led the introduction of new content. Desktop computer technology did not begin with the total experience of the consumer and work backward from there, but instead commissioned both the development and the experience of content. Dozens of web sites are now devoted to user community complaints about at least one megalithic software developer, its programs and its CEO. We predict that content providers will increasingly reverse the roles—***content creators will lead and direct the technologists to build the quality of experience that they envision.***

To do so, content creators need not take on the technological development in-house. As the drive towards the horizontal, alliance-based business model, or "value-added community" becomes more e-enabled and more efficient, companies, particularly those that function as service organizations to the creative side of the entertainment and media industries, will find greater profitability in the disaggregation of vertical production hierarchies. ***Brand owners will establish multiple alliances*** with effective suppliers on the basis of "the best team for the project."

It will no longer be only by industry segment that companies will compete—publisher against publisher, studio against studio. It will also be by horizontal value chain roles that companies will compete, crossing channels to distribute branded experiences. ***Brands will be purveyors of a quality of experience*** towards which all their value chain players will contribute. Brand owners will be more flexible in adopting a value proposition and lending it the value of their name—or in assembling a value chain alliance to produce new experiences that will enhance their brand.

Demographic Patterns will Strongly Affect Entertainment Spending: Number of US-Born 22-Year-Olds (Millions)

5,000
4,000
3,000
2,000
1,000
0

Baby Boom Generation (1946-1964)
"Gen-X" (1965-1976)
TODAY
Echo Boom Generation (1977-present)

1965 1975 1985 1995 2005 2015 2025

Demographic Trends Will Affect Who Pays Attention to What

Demography is a primary force of nature operating behind the scenes. While many of the powerful trends in entertainment and media today are technologically driven, ***demographic shifts will occur that can play a major strategic role in profitability for companies that look ahead.*** As only one example, the surging numbers of immigrant populations within developed nations as a result of increased travel and economic opportunities over the past thirty years are creating potential markets for culturally-based specialties, such as the Spanish-language version of the popular US magazine, *People.*

A powerful demographic trend that we see forming up over the next decade points toward ***a growth market for home-based entertainment,*** signaling a need for development and build-out to accommodate it. We say this because the Echo Boom (the children of Baby Boomers) is due to mature around 2011. According to recent figures, the number of 22-year-olds entering the US work force in 2001 increased for the first time in seven years. Twelve more years of such increases will follow—roughly three million entered in 2001 and 4.2 million will enter in 2010.[17]

Today's 22-year-olds will be the householding 32-year-olds in ten years. By 2011, this age group will be confined at home by young children, mortgages and bills. Echo Boomers have been electronic all of their lives. They will form a natural market for Video-on-Demand (VOD) and other home-entertainment innovations.

There is limited infrastructure for VOD now—people still cannot get DSL. Most users still have 28.8 or 56K modems. Cable, even if it is available, is only in place in about two-thirds of homes. But ***there will be a convergence in ten years of all the promises of broadband with a large consumer base of electronically sophisticated people at home ready to receive them.*** Companies that thrive in the battle for attention need to look beyond the narrow assumptions of the short term—consumption patterns, total demand, location of consumption—towards ***unique demographic factors that will exert influence*** on the economics of their niche, their business and their industry segment.

New "Killer Apps" Will Slay Resistance to Attention

The attention-bearing, gadget-laden, innovation-fatigued consumer is asking, "Why do we need digital? Who wants to learn another new program? What's in it for me?" To succeed, developers must ***create applications and content forms that engender new experiences*** and give consumers a reason to believe.

The killer apps on the Internet are e-mail, instant messaging, file exchange and chat rooms, yet few versions of them are profit-based. They are all about human connection. They return brand attention, however, that can circle back to commercial ventures.

One present challenge is what to do with the convergence of Internet and television. In the enhanced TV experience, viewers will be able to point a mouse at characters and display their bios, or expand the filmography of the director. Do they want to ***choose an alternate ending to the story? Click!*** It will be exciting to watch the potentials unfold, and which enhancements viewers really will want.

A "killer application" makes unique use of the media on which it is available. When desktop computers first appeared, they were deadly to work with until early spreadsheet programs arrived in the 80s. Eventually, a major "office suite" moved the technology to the background and brought user-friendliness closer to the forefront, in spite of the exasperations the program's succeeding versions have generated.

For many of the new entertainment and media technologies, applications have yet to arrive that will drive technology so elegantly that both the technology and the application become invisible to the user, and ***the experience of the content is the primary thing that engages attention.***

Section 3:

Pay Attention!

Top Ten Ways to Survive in the Attention Economy:

What meaningful actions should entertainment and media companies take to survive in the attention-driven economy over the next five years or more? Attention should play central role in your executive leadership's strategic philosophy. We conclude this point of view with our top ten recommendations:

1 Connect with Your Customers and Cultivate Relationships

Our discussion thus far has underscored the major economic shift that we foresee: ***Attention is no longer a commodity, but a resource.*** This shift signals the reassertion of the individual. It is a fundamental reversal of the assumption of "mass production for a mass culture"—the long-term trend that began with the Industrial Age more than a century ago.

Unlike commodities, which are depleted in the marketplace, resources generate other benefits. The coffee bean, for example, can operate as either commodity or resource. When it is ground for beverages, it is depleted. When it is planted as a seed, it generates beans and revenue streams. Under the brand innovation of Starbucks and others, the by-products of the coffee bean—aroma, flavor, and versatility—have been optimized through an understanding of what a new generation of consumers want.

Viewed as a resource, attention generates many benefits:

- It generates good feelings towards your brand
- It generates things that can be sold, such as consumer contributions to open systems like Java or Linux
- It delivers services; if a user shares a problem in a chat room, others contribute "intellectual property" to help solve it
- It focuses interests and gathers more attention; the World Trade riots were an exercise in connecting people in ways that would have been impossible through conventional media such as newspapers
- Because it is scarce, winning attention limits your competitors' access to your customers.

Companies that view attention as a resource will commit to respecting and cultivating attention. Your company must plant attention, harvest it, plant it elsewhere. Strategy and decision-making will involve greater creativity in thinking about people. If your company looks at people as mere beans to be counted—or ground up and filtered through your marketing programs—your brand will suffer. In reality, ***people are bearers of a valuable resource, attention.*** Attention-competitive brands will plant and nurture relationships with people.

Paying attention to people involves ***continuously figuring out how to relate to, inspire, recruit, ally, align and attract people***—not just consumers and your customers, but also your employees and alliance partners. Each person in the attention loop contributes to your customer's experience with your brand.

Customer Relationship Management (CRM) is one answer to the need to connect directly with customers. CRM enables a company to respond to people, whether they are consumers or B2B customers; as unique individuals. CRM helps a company to:

- understand customers as *experiencers* of its brand,
- respect customers' lifetime value to the brand, and
- focus effectively on sustaining relationships with individuals.

Through an integrated approach of strategy and technology, CRM assembles each customer's preferences and transactions with your brand, and makes the data simultaneously available to all authorized customer-facing employees at any company location—any time, anywhere, around the globe. It can enable a company to mine consumer data and appeal to niches within its customer base, to create customer communities, or to change its marketing and targeting approach with the life changes of a customer—for

example, when a customer adds young children to the household, or when the customer resumes going out of the home for entertainment when the children are grown. For B2B customers, ***CRM helps create efficient, productive relationships*** through providing rapid "institutional memory" of a wealth of data, information and transaction history between companies.

Entertainment and media's unique challenges require companies to develop a strategy for approaching CRM. Your company may decide to subsidize certain customer acquisitions in order to seek the long-term value of their business and minimize churn. For example, many types of devices, from satellite dishes to cell phones to computers, are now provided at low or no cost as part of a multi-year term of service. Once they are connected, it is critical to keep the customers happy. Emerging CRM technologies can enable even creative companies like content providers to increase share and create strong communities of those who experience their brand.

A fully integrated CRM strategy for your company takes into account which areas of your operations will truly benefit, balancing economics of the investment against the lifetime value of acquired relationships, and determines whether to share those relationships across the multiple units of your business—and how to balance trade-offs if you do.

2 Find New Revenue Streams - NOW!

As we said in our previous forecast: e-business, only recently regarded as The Next Big Thing, is "history." That is, e-business has already become a fundamental expectation of the way business is done. In the next five years, ***digital and pre-digital business models will converge.*** Digital and e-business transformation are ultimately capable of bringing about a dramatically different future; what we have seen to date is only the foundation, and strong foundations take time to build. ***Be prepared to develop and operate business initiatives in both the digital and non-digital spheres*** for the next few years, running some parallel programs in both camps. As we also discussed, Wall Street is not "nuts." Even the inevitable need not be instantaneous, as many companies have learned from the dot.com furor. The dot.bomb shake-out is evidence that ***profitable performance must remain an imperative of your business—e-Business included.***

Entertainment and media distribution companies will need to ***adopt multi-channel strategies to maintain dominance in the future.*** Although TV will remain the consumer hub, it will be just one of multiple hubs for the connected, blended home/car/office/transportation/megamall lifestyle emerging. Companies should devise comprehensive, increasingly integrated strategies to explore the ***expanding number of "touchpoints"***—all the ways a customer can interact with your organization. Television, voice, ubiquitous computing, PDA, kiosk and traditional channels will vie for attention, along with emerging technologies—WAP (Wireless Application Protocol), interactive web and ITV. A multi-channel strategy avoids merely putting up a web site that cuts into your existing share. Its aim is to ***gather attention by being in all the places your customers are likely to be.***

Multi-channel strategies and digital technology, while providing more revenue sources for content, also bring forth the need for more formats and variations of the same story. The value is in the story, characters and brand franchises owners establish; ***vying for attention will move to the forefront*** of the content-owners' business strategy.

The electronic world changes the relative value of goods, services and capabilities. Films, newspapers, books and music in digital form eliminate the need for physical formats for some consumers, some of the time. There will always be demand for some physical versions, but market share is changing, reducing the value of many older content platforms.

Entertainment and media companies should let go of old assumptions and rules, explore new value mixes

Comparative Business Models that Use the Internet Channel

A subscription to the New York Times costs money, but nytimes.com, the abbreviated online version, is free, and it allows customers to search articles and archives with a click. NYT's online format extends interest in its proprietary content around the globe—in real time. Some NYT consumers, however, such as commuters, New York residents or library reading rooms across the nation, genuinely prefer the paper version. The substantial volume of paid subscriptions helps allay the cost of maintaining a web site. Consumers also transfer value to online advertisers by registering information when logging on.

Edmund's, which compiles new and used car prices and consumer reviews in book and magazine formats, also publishes its content at no charge online, but for a different reason. Consumers need Edmund's content infrequently, and the content is assembled from publicly-available sources. Edmund's leveraged its trusted brand of auto information into a strategic array of new value streams, such as partnerships in auto purchasing, loans, insurance, service, parts, accessories, and customer data management. Edmund's' strategy cuts into its paperware share, but builds brand reach and directs attention to its new revenue channels.

and change their business models to accommodate rapidly changing technology innovations and threats. ***Today's threats will be tomorrow's success.*** Newer measures of success, such as share of innovations, diversity of revenue streams or breadth of successful ventures, subscriptions, sponsorships, referrals—and some solutions we have yet to see—will all have roles as generators of revenue, alongside of advertising, sales and admission receipts.

The "all content should be free" movement will continue to generate new challenges. Strategically, your company must ask, "What if all content were free? How could we make money?" The answer to this question must come down to ***selling the attention you have come to command through the marketing of your brand, brokering the talent associated with your brand, and sharing the audience segments you have entertained or equipped.*** When home video came along, film studios feared that the end was near, but video has instead generated an even greater market for their product. Your business models must turn adversity into advantage.

3 Set Your Customers and Your Brands Free

Paying attention to consumers and customers is, more than any other thing, about connecting with people. ***Attention restores the sense of community*** that characterized both the mom'n'pop store and the custom retailers that preceded globalization and high technology. Digital hyperconnectivity can invade or it can embrace people. Companies should pay attention with understanding, flexibility and friendliness to the concerns of target groups, forming caring relationships with communities of customers.

With consumers driving the choice, providers should ***listen closely to customers*** and build ways to give them appealing choices and information, when and where it will please them to find it. Brands must focus more than ever on ***precise strategies for gaining attention share.*** Effective competition will build brand stickiness without the hard sell. Customer Relationship Management (CRM) technologies and database-aided research will help discern not only what the individual really wants, but what new offerings the consumer will pay attention to.

Successful companies will ***"set their customers and their brands free"*** by providing a memorable, pleasant customer experience, even when the customer tries on the brand but does not buy—this time. As their standard, brands should think retail, where the customer is able to interact with a salesperson—not Hollywood, where consumers are passive recipients of a preconceived vision.

Advertising as we now know it will increasingly give way to ***interactive content that provides a variety of product information.*** The game will no longer be about stimulating a mass market. Instead, ***custom buying experiences will flourish***—companies will ask, "Is this product the right one for you? We want you to be satisfied." Companies will tailor their offerings to smaller segments which may be less profitable; profits will come from an aggregation of small segments.

Content should remain consumer-driven to avoid backlash, such as the present annoyance at telephone answering trees, intrusive telemarketing, super-complex web pages that crash and consumer offers that fail to deliver. Consumers hold many concerns about "Big Brother", knowing that electronic data storage poses challenges to their financial, social and medical privacy. Outstanding service not only should be friendly; it also should work effectively to ***conduct transaction experiences in a minimum of steps with***

Calculating What the Traffic Will Bear

Trendy Internet cafés first seen in the 90s are now reborn as pay-by-the-hour lifelines for immigrants, tourists and the hardware-challenged. The easyEverything café in New York's Times Square provides 800 computer screens in about 18,000 square feet. The price for Internet time fluctuates depending on seating—a dollar can buy from 15 minutes to three hours. A large monitor announces the going rate, adjusted automatically by a computer that calculates the number of people logged on.[19]

a maximum of security. Brand owners must stand behind their claims and courtesies, because their decisions will be instantly and relentlessly exposed to a global network.

At the same time, players whose business strategies are sharply defined and who make strategic use of electronic management will ***hone their segments***, focus on the best customers and most likely prospects, and maintain continuous electronic housecleaning.

4 Don't Pay for Impressions, Pay for Attention!

Not impressions, not clicks, but "click-throughs" and ***completed transactions should be the new measure of advertising effectiveness.*** Media companies will share in the success of their advertisers—that's the good news. Revenue sharing is an example. The bad news is that advertisers will ***abandon media that do not show results.***

The outlook for traditional advertising is positive. Fears that Internet advertising would knock it off the boards did not pan out. In a twist of fate, some of the large ad revenues in radio and television today are coming from new media companies of the type that were ballyhooed to take their place. With both the Summer Olympics and another US presidential election in 2004, advertising revenues could balloon by over $1 billion US, with a boost next year as well for the Winter Olympics.[18] In both new and traditional media, the same precision enabled by e-business in targeting and responding to customers also enables greater tracking of results, and ***effective companies will demand—and receive—measurements of advertising's worth.***

Producers that thrive will be those that select and target markets effectively and place increasing value on ***paying attention to customer relationships and retention.*** Cross-platform standards will have to be resolved so that companies can not only disassemble and reassemble the same content across a variety of media, but also that consumers can use the media and content without becoming frustrated and overwhelmed. Attention-based marketing will drive economies towards the "custom" channel for the tightly focused niche.

5 Make Your Pricing Dynamic

We envision that one of the important revenue tools will be ***selling the same content at different prices to different consumers in different places at different times—and even at the same time***, for a variety of strategic reasons. Consumers have demonstrated that they will pay more for airline tickets and hotel accommodations when time is more important than money, or when a special circumstance is present. A global soft drink company has recently pioneered selling its canned sodas in Japan at prices that vary according to the weather—its "smart" vending machines read temperature metrics and automatically raise the price on hot days. So far, thirsty Japanese consumers willingly pay more.

Empty seats in a movie theater are spaces that could be sold at "standby" rates to generate more revenue, perhaps offered at a discount to diners at a nearby restaurants or passing shoppers in the nearest mall. It may stimulate DVD sales from consumers attempting to catch up on the first five minutes that they missed as a standby. Or tickets could be sold on the Internet for those willing to search and click for a bargain price. Another revenue possibility is the sale of subscription series in configurations consumers want, like a certain number of first-run opening nights or Saturday morning family films.

In our opinion, ***the theater lobby is an underestimated, underutilized retail venue.*** For adolescent, children's and adult nostalgia films, soundtracks belong on sale at premium prices in the lobby, where impulse buying can be maximized. Satisfied filmgoers exiting an action or romantic film blockbuster might pay as much as $99 for the DVD if it is sold in the lobby on the first day of theatrical release. The complex mathematical infrastructure needed to provide real time volume and pricing calculations is already technologically possible.

6 Go Global from the Start: Compress Your Windows

Nothing will get simpler. ***Companies of all sizes will continue to grapple with the impacts of globalizing markets and supply, and an environment of increasing complexity, exposure and layering.*** Filmmakers and distributors, faced with average production costs of $50 million and more for a major motion picture, will want to exploit global markets. US and UK film and TV content will produce fewer smash hits globally, but alliances with local talent will produce more local hits.

Even if their business models are not world wide, companies will gain great efficiencies by using ***"global" access infrastructure*** throughout every aspect of their operations and extended enterprise. Another layer of global thinking is the opportunity to ***respond to the many communities within your world.*** Are there large pockets of consumers in your local distribution pattern, or around the globe, that would welcome your content in another language, or geared to a different age group or gender?

More risk, but more reward: content distributors should ***compress release and revenue strategies***, ***opening films simultaneously on a global basis*** to maximize the value of marketing expenditure, following rapidly with video, television, cable, pay TV, and other licensing. In a global market, ***digital content flows faster and farther, is easier to copy or pirate, and declines rapidly in value as it flows.*** Owners who use speed and ancillary revenue models, not just traditional streams, will maximize the share of the value they capture, as opposed to that captured by others in the value chain. Rather than maintain inventories, content owners should license content, get the value while it's hot, and let others share the risk.

China, India and others are on the way to being not just markets, but also the competition. Businesses cannot control the "word of mouth" any longer; ***winners will exploit hyperconnection to their advantage***, using the media to build anticipation, striking hard and fast to gain the larger portion of revenues in the shorter term.

7 Create Standards that Work

An undercurrent of backlash against technology is all around us. Some of it is generational; today's adults, faced with an upgraded version of a program they have been using for years are still looking for a printed manual for "the" new way to perform functions. They experience more frustration than teens who grew up computing; they will readily play around onscreen until they resolve the functionalities.

Media and entertainment are about more enjoyment, greater ease, and relief from life stresses. Consumers don't want to work at the experience. Devices and content can and should be interactive, but first they must be easy for the non-techie to use. There will never be a totally universal operability standard; there will always be new innovations, platforms and standards. But for the next few years, ***players and brands that create interoperability between platforms will contend powerfully in the market for attention.***

MP3 is a prime example of a "standard that works"—in fact, it has worked so well that the eager attention paid by consumers has far exceeded the expectations of its creators. MP3 was developed by MPEG, the Motion Picture Experts Group, which is responsible for standards in feature films—hardly a renegade band of garage tech-heads. Its ease at enabling music file exchange enabled MP3 to migrate to the user community, where it became such a popular way to exchange digital music files that it spawned a small industry and an array of player devices. ***The measure of "a standard that works" is its ease of use and its extendibility to other uses beyond its original intent.*** It should satisfy the "person in the street", not the techno elites.

8 Share the Investment Risk

The digital age will bring about a massive IT infrastructure, but it will be a shared phenomenon, much like the Internet itself. As participants in a system with multiple components, companies will need to ***determine which parts to own and which to connect***

with on an alliance or an outsource basis. The trend will be for slim business structures that are assembled and disassembled with relative ease to meet the rapid, converging and continuous innovation of the digital media industries.

This trend in industry at large is a natural for entertainment companies, which have traditionally assembled the best creative team for a project. The same principles that have always impacted your success can be successfully employed in other areas of product tie-ins, distribution and associated industries.

The market will no longer reward only the traditional, vertically integrated "pyramid" company structure. Many companies will find greater profitability in migrating their business structure ***to the decapitalized, e-transformed organization*** illustrated below:[20]

Brand-owning companies should leverage their capital and focus on core competencies by relying less on internal sources of capital and focusing more on outsourcing non-core physical capital activities and support functions across the supply and demand chains. The new model will comprise clusters of external networked companies around a relatively low-capital, brand-owning company ***focused on attention share and customer-facing activities—the attention loop.*** In the attention loop model, both brand capital and human capital are focused with maximum effectiveness and leveraged to drive growth.

9 Be a Close Follower: Learn from Others' Mistakes

On the creative side of the entertainment spectrum, with its enormous costs on the human resource end, companies will move cautiously, showing up at the party when it's already underway. They will aim to be ***first on creative**, **but "fast second" on technology.*** They will experiment, but let the technologists, their partners and the boutiques invest first, and learn from their mistakes. Their strategy should be to avoid the bleeding edge, but keep informed by making focused, strategic investments to keep abreast of technology—then follow close behind (since innovation will happen in Internet time), fill in the missing pieces and set the standard. ***First movers take the brunt; "best movers" will succeed in the long run.***

Metacapitalism:
The Transformation to e-Business

A Value-Added Community

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Scenario Planning

The future cannot be predicted with absolute accuracy. We help our clients approach this reality with ***scenario planning.*** *Companies must confront the relentless unpredictability of the entertainment and media industry by* ***planning scenarios around what could happen***. *There are elements of each scenario that can be painted into different scenarios as the future unfolds. It is key to monitor your scenarios and observe how the trends underlying them are developing.*

In entertainment and media, the need to invest is not an *occasional, but a continual* renewal. It is critical to stay in the game and continue to experiment. Financial strategies will include contingencies and calculated risk. Another approach in this environment of short lifecycles is to ***share IT risk and investment.*** Your company can avoid the cost of custom configurations by using IT partners who can customize packaged software that is already proven and well-tested in the marketplace

With the need, the competition and the rate of innovation, smart companies will make investments to fit strategic priorities, find partners to share the ventures and risks, defer to them the tasks they do best, and ***focus on what their own company does best.***

10 Focus Your Attention as Companies Converge and Diverge

In the coming five years, major players will continue to acquire businesses that fill gaps in the wide variety of entertainment and media choices bearing their brands, ***offering a wide spectrum of content over large, captive distribution networks.*** Megabrands traditionally identified with business capabilities other than entertainment and media—retailers, airlines, sports teams, banks, travel services and many others—will also begin to exercise their considerable clout along the entertainment and media value chain.

Specialized segment-focused players will target niche groups of consumers, from large to small. Those that grow rapidly may be absorbed by major players; others will choose horizontal alliances with similar mid-sized entities. Conversely, ***some major conglomerates are likely to find it more efficient to break themselves up into multiple businesses.***

The one constant that companies will deal with is constant change. ***Convergence and divergence will characterize the development of both technology and of business models.*** It is a fundamental dynamic, like biodiversity or technological progress; ***in any complex system, forces generate counterforces.*** There is no straight line progression or continuous upward trend, in spite of human propensity to pay more attention to good news, even to purchase the research that tends to show positive trends.

Whenever there is a strong trend there will be a strong countertrend or resistance. We can predict this phenomenon with certainty; it will affect the entertainment and media industries because they are such a powerful force. Just how the countertrends and resistance will come about in each of the wide array of channels is more difficult to foretell.

The solution? ***Do not allow your company to become too invested in any one idea—there is no One Answer.*** Your company should hedge, investing strategically in a bundle of carefully selected of ideas, even though many ultimately may not work out. For some companies it will make sense to acquire or ally; for others, best interests will be served by divestitures and rightsizing to focus on new market opportunities.

As an alternate strategy in some cases, ***risk not being one of the first companies to do a given thing.*** For instance, if yours is one of the later companies to sell your library to a successful video-on-demand network, its valuation would be greater than the first ones sold because once other archival titles are exploited, the buyers will have created a scarcity of fresh material. They will also have had time to have built up their business and would be able to make a more lucrative offer.

The point for your company is this: ***take comfort.*** No matter the force, there will be some impediments to that force. Taking your lesson from the zealots in the dot.com era, say to your management team, "maybe not—there might be a slower way"—a way to accomplish your company's goal so that you get paid.

We are now in a ten-year transitional decade, a transition so profound that barely one of the top ten key trends in entertainment and media competition today is likely to be in the top lineup of strong forces at the end of the decade. That being the case, your company should ***identify the key drivers affecting***

The MECA Scenario Still Describes the Future

In our previous forecast, our PricewaterhouseCoopers Entertainment & Media practice envisioned the entertainment and media landscape ten years into the future. MECA—the Mall for Entertainment/Media Content Access—is our scenario, a beautifully styled leisure environment where consumers move easily among countless choices, from mainstream group experiences to uniquely personal ones. We foresee that MECA's anchor tenants—large entertainment conglomerate players—will continue to grow, strategically acquiring and spinning off segments according to closely-watched consumer attention criteria. Portals and their successors continue to consolidate among themselves as they mature. The segmentor tenants, those mid-sized companies that appeal to select targets yet attract the attention of a wider audience, are struggling or dying, pointing to their need for a bricks-and-modems or multi-channel strategy. Microniche boutiques and amateurs in kiosks face steep challenges that may only be overcome by alliances with larger tenants.

your industry sector, knowing that each has a limited life, and pay attention to that—your development portfolio—as well as to your customers.

Especially due to the creativity demanded in entertainment and media, you must ***continue to experiment and invest in spite of the reality that most of your new ideas may not work out. The ideas that do galvanize attention powerfully are the ones that will underscore your future success.***

Summary

Vying for the attention of the time-challenged, media-saturated consumer characterizes the thrust of competition for the coming five years. There will be a continuing explosion of new technologies and new ways to connect electronically, requiring solutions to patchworked standards in order to create smooth interoperability and avoid consumer backlash. For the foreseeable future, demands for the consumer's attention are escalating. The trend towards individualization and customization is powerful, moving consumers to a more influential role in relation to production of content. Consumers will gravitate to trusted brands to manage and filter content bombardment. In the attention economy, therefore, consumers exert greater power to shape content and experiences. In response, companies will use not just a variety of electronic infrastructure to respond to the explosion of multi-channel consumer touchpoints, they also will market to ever-smaller, more finely targeted segments. Successful brand-owning business models will form decapitalized and collaborative alliance networks that will redeploy capital, cut costs and share risk along the network. Development will center on strategies that capture the attention of selected targets through deep responsiveness to the consumer's experience of the brand, and on new business models that respond proactively to the rise of digital media.

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About the Authors

Saul J. Berman

Saul J. Berman, lead Global and Americas Strategic Consulting Partner of PricewaterhouseCoopers' Entertainment & Media practice, has more than 20 years' experience advising senior management of entertainment, telecommunications, retailers and consumer goods companies in the United States, Japan, Europe and Australia. Dr. Berman holds both the PhD in Management and the MBA in Production Systems and Operations Research from Columbia University; his BS in Economics is from the Wharton School, University of Pennsylvania.

Bennett E. McClellan

Bennett. McClellan is a Strategic Consulting Managing Director of PricewaterhouseCoopers' Entertainment & Media practice. For more than a dozen years he has advised senior managers in feature film, broadcasting, recorded music, video games and e-business. He formerly held both senior executive and creative positions with major entertainment companies. He holds a master's degree from the School of Theater, Film & Television at UCLA, an MBA from Harvard University and a BA in biochemistry from University of California-San Diego.

Principal Editorial Team:

Steven M. Abraham,
Americas Information, Communications & Entertainment/Media Consulting Leader

Kevin Carton,
Global Entertainment & Media Leader

Michael Kelley,
Global Marketing Partner

Lauren Kronthal,
Global Information, Communications & Entertainment/Media Consulting Marketing Director

Dana Williams
Strategic Communications, Consulting Editor

Ellen Brubeck,
Management Consulting Services, *Research*

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PricewaterhouseCoopers' Information, Communications & Entertainment/Media Practice
For More Information Please Contact:

Noel Taylor—London
Global & European Information, Communications & Entertainment/Media Consulting Leader
noel.taylor@uk.pwcglobal.com
Tel: +44-207-804-6126

Steven M. Abraham—Los Angeles
Americas Information, Communications & Entertainment/Media Consulting Leader
steven.abraham@us.pwcglobal.com
Tel: +1-310-201-1941

Saul J. Berman—Los Angeles
Global & Americas Entertainment/Media Strategic Consulting Leader
saul.berman@us.pwcglobal.com
Tel: +1-310-201-1909

John Montgomery—Sydney
Asia/Pacific Information, Communications & Entertainment/Media Consulting Leader
john.montgomery@au.pwcglobal.com
Tel: +61-2-8266-2859

Lauren Kronthal—Baltimore
Global Information, Communications & Entertainment/Media Consulting Marketing Director
lauren.kronthal@us.pwcglobal.com
Tel: +1-410-412-7621

To learn more about our consulting practice, please call your client service representative, or visit our web site: www.pwcglobal.com

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