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Media money will flow to content managers

To catch a glimpse of where media industry profits are headed, look no further than Heavy.com. There, advertisers such as Sony, Nike, Axe and Diesel have settled in to reach the coveted 18- to 34-year-old males – more than 10m unique users each month. The seven-year-old site, which calls itself a "broadband network", lets users swap videos and games and also offers its own guy-oriented content that is significantly less expensive to create than what is broadcast by traditional networks.

Heavy.com's expected 2006 advertising revenues of $20m (£10.5m) represent a 300 per cent rise over 2005. Heavy.com is a beneficiary of the media profit pool's shifting tides. During the past two decades, broadcasters, station groups, cable television operators and other distributors garnered most of the profits in media because they controlled access to the consumer. Now, thanks to an explosion of content and new delivery platforms, control has shifted to consumers of media. As a result, the money made by managing content will grow faster than profits in any other part of the media value chain. Profits from content management, boosted by the "aggregation" of content and communities by popular internet portals and cable network brands, are rising about 12 per cent a year, according to our analysis. That is roughly twice the rate of growth in profits from distribution.

Traditional industry players are spending billions on content management. But it will take more than the right investments to win these sweepstakes. To succeed as content managers, media companies need to know more about their customers than the customers know about themselves. They must anticipate customers' changing preferences and rapidly turn those insights into new offerings.

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Skilful content management requires making the right calls about what content gets targeted at which audiences, which platforms to use in transmitting that content and how best to support it through advertising, subscriptions or a combination of the two.

What will it take to win? First, media companies need to be disciplined about where not to invest. While it makes sense for content creators and distributors to carve out as large a stake of the profits from content aggregation as they can, neither should try to play all three links in the chain as creators, managers and distributors. Distributors and creators should focus on the content management that sits between distribution and content creation. Distributors should buy the content that will generate the highest return on investment from their customer base. Creators should sell their products through whatever combination of platforms generates the most revenue.

Second, media companies should identify which audiences to pursue first and develop strategies to "own" those segments wherever the audience tunes in. ESPN, the US-based sports network, is a textbook case: from a single cable channel, ESPN has expanded to multiple channels, a print magazine, a high-traffic website and now content pushed to mobile phones.

Third, companies need to determine where they have significant gaps. Can a cable network capture and immediately process user data? That is what enables Google to deliver targeted advertising and Amazon to offer instant product recommendations. Where is the forum for audiences to share user-generated content and opinions, as they do on YouTube and MySpace. Such forums keep audiences returning and build libraries of content that help to lower programming costs.

Finally, companies must build a strong consumer focus. The key is capturing the right customer information and quickly incorporating these insights into product development and content management. Time Warner Cable, for example, intends to create an auction system for advertising spots, matching subscriber data culled from set-top boxes with information about what subscribers prefer to watch. Advertisers will bid to target ads at viewers with specific viewing habits. Time Warner Cable stands to bring to cable TV the higher level of consumer insight that is the foundation of Google's success on the internet.

Heavy.com and other upstarts will not run the incumbents out of business. But the trend is clear: as consumers of content assume more control, the companies that understand, track and respond to those consumers will profit most from the big shift in power.

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