Kevin Morris and Glenn Altschuler: Round 2 -- The Transformation of the Media and Entertainment Landscape

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The era of "creative destruction" in media and entertainment is best thought of as a round-robin boxing match. It is time to reassess the prospects for the three contenders: (i) artists; (ii) media companies; and (iii) technology. Each of them, we believe, continues to bob, weave, block, and jab - and the outcome remains in doubt.

Round 1 went to technology, or more specifically, the technology companies. Beginning with Microsoft in the early 80's and through Google today, cyber-Sugar Ray Leonards from Silicon Valley to Seattle have brought us into the Digital Age. During Round 1, traditional concepts of value in media and entertainment appeared to be irrelevant.

In the Analog Age, professionally produced content was scarce. Those controlling distribution flew like a butterfly and stung like a bee. As iTunes libraries replaced record collections, companies like Google, YouTube, and MySpace made user-oriented platforms ubiquitous and offered search, amateur video, and social networking.

Hollywood scrambled to come up with a plan. Fears were fed by an assumption that the internet would replace television, home entertainment and perhaps even the movie theatre. With their bloated infrastructures, huge marketing budgets, antiquated analog distribution methods and flat footedness/arrogance, media companies, pundits declared, were Sonny Liston losers.

The devastation of the recorded music industry was the canary in the coal mine, foreshadowing the demise of studios in a time in which users glommed on to new platforms provided by Silicon Valley. And to make the matters worse for Hollywood, the concept of "disintermediation" gave voice to the notion that artists and users alike could stride into and out of the ring owning their own content.

It is time to say it ain't gonna happen that way. The revolution may be televised, after all.

With the notable exception of Google, it is not clear that any of the other platforms will ever be profitable. Despite immense popularity, "monetization" problems have plagued every internet company from AOL to Yahoo, from YouTube to MySpace, from Facebook to Skype. As the experts put it, the tech side of the triangle has not been able to take the "quantification of engagement" and paint it green.

At the same time, reports of the death of Hollywood are premature. Despite the recession of 2009, as of today, US Box Office is up 17% percent over last year. Even with a deeply-wounded ad market and a strike-addled scripted show world, more people watch TV than ever before. Although DVD sales are down a bit, the Home Entertainment business remains very profitable. And finally, with touring revenues soaring, downloads gaining traction, and publishing doing fine, music may well be on the upswing.

We believe this evidence suggests that a re-configured balance of power is emerging and Round 2 has begun. The open-field run of the tech companies is at an end. Consumers, it seems, are not ready to give up production values and still look to the context provided by the media companies. Similarly, neither artists nor the technology companies - again, excluding Google - have been able to master the methods of monetization that is the stock-in-trade of the studios and the TV business: theatrical revenues, licensing consumer products and the efficient sale of advertising on a mass scale.

People prefer professionally produced content. While millions have gotten a buzz watching Diet Coke bottles filled with Mentos explode, YouTube's recent announcement of revenue sharing deals with Hollywood speaks volumes about the fading commercial prospects for insurgent, disintermediating platforms. It is even whispered that YouTube might pay for content outright. Not only do users (who are being called consumers a lot more often these days) like their movies and TV shows, but that material is, well, a lot easier to make money from than uploaded videos of cats peeing in toilets.

People may no longer want to read newspapers, but, it turns out, they still want to see movies and concerts. Despite the diffusion of viewership across broadcast and cable networks, they remain interested in all kinds of TV shows. TiVo and time-shifting may have increased overall viewership. Americans want to see Bob Costas talk to Michael Phelps on the couch in the studio; they want to watch American Idol on FOX; they want to buy Slumdog Millionaire as soon as it's available on DVD; and they want to go to The Hannah Montana Movie, watch Mylie Cyrus on the small screen and listen to their songs on Radio Disney.
Young people - and a U.S. Senator or two - Twitter all the time, but won't pay to play. Contrast that with "the old media companies," who control movies, TV and home entertainment - and know how to use their assets to drive customers with credit cards to the content they produce.

The transformation from a media and entertainment landscape predicated on scarcity to one defined by ubiquity is indeed profound. And the media companies face enormous challenges. But they are not down for the count. In fact, the logical extension of this new world order in the heavyweight division is that those who control the content will wear the championship belt.

Which would bring us to Round 3. What might occur is that the actual creators of content, the individual artists themselves, will eventually summon their inner George Foreman and gain greater control over their own products. The difficulty here is that Artists aren't grill salesmen, while tech and media companies are dominated by very, very good managers, marketers and merchandisers. In the near term, the suits may well continue to get artists to work for wages and not ownership.

Is there a right and just distribution of power in media and entertainment? Well, here's a modest Round 3 attempt to re-define the roles of the three sides of the triangle. Artists own and create content. They'll engage media companies to finance, produce and market said content. Together they will look to technology companies to provide new and improved methods of delivering it to the consumer. No one bites the ear that feeds him. And at the end of Round 3, interests are properly aligned, profits are maximized, all parties are rewarded handsomely, and consumers have a feast at their fingertips.