

Viewpoint

The consumer in the driver's seat

As companies strive to map out and navigate their routes through the fast-evolving E&M landscape, their responses and strategies will be shaped by one factor more than any other: consumer behavior. Far from slowing down or deflecting consumers' migration towards new digital content experiences and consumption modes, the recent economic turmoil appears to have accelerated this behavioral shift — in turn adding further momentum to the E&M industry's ongoing structural change.

As we highlighted last year in our 2009 Outlook, that structural change is manifesting itself across three parallel dimensions: economic, advertising, and consumer behavior. With economic confidence remaining subdued, and advertising exhibiting a clear but fragile return to stability, companies are currently in an environment where consumer feedback and consumer usage provide the only reliable guides to the commercial viability of products and services. As a result, consumer behavior will be an important driver of industry developments over the coming five years.

Listening to feedback

Consumers' rising influence is underlined by several developments. As digital transformation drives the E&M industry ever deeper into uncharted territory, companies are increasingly listening to their consumers and involving them in product development.

The effect is to turn the global consumer base into a huge test bed for new offerings and new consumption modes. Following the launch of each new wave of technological innovation—smartphones a few years ago, and tablets or netbooks today—the industry must first establish how consumers respond to and use these new offerings, before it can be certain about the right service, pricing, and revenue models.

This trend is reflected in — and supported by — the rise of social networking, which represents not just a profound behavioral shift, but also a dramatic illustration of the power of shared information and communication. Social networking itself is now being embraced by traditional media and viewed as a channel that is complementary to existing offerings. The increased relevance of the social networking context enriches the overall consumer experience.

"I love my TV series, and we leave Facebook status comments: 'Watch this, don't watch that.' I've introduced a lot of my friends to the series *Californication*."

—19-year-old, Cape Town, South Africa

Consumer responses are still evolving

Even given the availability of tools such as social networking, tracking and responding to consumers' changing behavior remains a complex task, and trying to second-guess them can be a risky undertaking. The challenges are increased by the fact that consumers' responses to new offerings and experiences have yet to stabilize — and in fact are continuing to evolve. Here are three current examples of this evolution in action:

- **New platforms are boosting consumption of old content:** Far from undermining existing and traditional content, advances in digital technology can actually re-establish and restore content's value for consumers. For example, consumers who are early adopters of tablets have told PricewaterhouseCoopers that these devices are prompting them to read more and to access more content, thereby suggesting that tablets could prompt a revival in book reading. Similarly, HDTV is supporting television revenues, 3-D is boosting film, and authorized music sites are steadily restoring the value of recorded music that was lost to illegal peer-to-peer downloading. In each case, digital innovation in devices and applications is enhancing the experience of the consumption of content.
- **Willingness to pay:** Similarly, many users of previously free ad-funded online content services have proved ready and willing to switch to paying for an ad-free variant under "freemium"—a business model that works by offering basic services for free while charging a premium for advanced or special features. Pioneered by the likes of Flickr, freemium is now used by such online music services as Pandora. The success of Zynga's well-known social games such as Farmville and Mafia Wars lies in Zynga's ability to create consumer stickiness by offering the games for free while earning revenue from microtransactions for virtual goods. The rise of freemium confirms that high-quality, licensed services can be more attractive to consumers than unlicensed peer-to-peer alternatives are.
- **Digital consumption extends across generations:** More-mature demographics are becoming increasingly enthusiastic adopters of new modes of digital consumption. Recent industry figures show that people over 45 years old account for 42 percent of users on Facebook. The rise of the older digital community is taking the revenue and market potential of new services into new demographic and content areas.

Such trends underline that consumers are calling the shots — and that E&M companies who do not research consumers' responses when developing and launching new services do so at their peril.

"The devices I own are the computer, the Wii that I love to play with my grandchildren, and of course I have a cell phone, TV, and DVD. I'm planning on buying a netbook that I can carry for traveling."

—60-year-old, Chicago, US

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