

# ALVAREZ & MARSAL

## THE BUSINESS OF MEDIA | POST-EVENT THOUGHTS

With digital disruption both opening and closing doors, media businesses are in a race to build new, sustainable digital pay and subscription models. But how do challengers and incumbents fight against the global tech giants and convince a generation brought up on piracy and free content to pay?

In May 2017, as part of A&M's quarterly breakfast series on the Business of Media, we asked four executives who have launched or transformed subscription businesses to debate the issue in front of an invited audience of 90 of their peers and The Club at The Ivy members. The panellists, who all spoke 'behind closed doors' and in a personal capacity, were:

- Chris Duncan, Managing Director of the Times and The Sunday Times at News UK
- Nick Walters, Founder and CEO of pre-school kids TV app, Hopster
- Pascal de Mul, Chief Partnership Officer at music service, Deezer
- William Mellis, MD at Alvarez & Marsal, former head of Customer Marketing at Sky

Hosted by A&M's Paul Naha-Biswas and moderated by Kate Bulkley, the discussion was insightful and lively. For those who could not make it on the day, Kate and Paul share some of the edited highlights below.

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## THE BUSINESS OF PAYING FOR DIGITAL

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### The 10-second takeaway

- **Acquire with a view to retain.** There's no point in expensively acquiring customers who leave after the discount period. So, bedding-in and cultivating a habit of use is critical on the path to monetisation.
- **Data intelligence and effective customer tracking and management is not a luxury** but an unavoidable cost of doing business. You need to invest management time in getting your data team to really understand the drivers of your business rather than them second guessing you.
- **Identify the motivations of your subscribers** – whether those are creating guilt-free time for parents using Hopster to help The Times readers appear well informed around the dinner table.
- **Find your place in the digital ecology.** While the big beasts of digital are often direct competitors, they can often be vital, albeit not free, distribution platforms.
- **Ride, rather than get swept away by, the technology wave.** New consumer technology waves such as the iPad (in 2010) or voice-based AI (today) offer points of disruption that 'reset the clock' and create opportunities for new entrants or challengers.

## Acquire with a view to retain

Convincing customers to pay for a digital service is about creating the right 'customer conversion funnel'. Whereas a lot of time, effort and money is spent on acquiring customers, all the speakers agreed that a sole focus on acquisition can be counter-productive. For example, putting your service into a bundled offer with a mobile telco can be seductive but if the customer does not engage with your service, then at the end of the trial period or at the end of the bundle period, these new subscribers will simply churn off the service. "Telcos help because they are usually among the biggest advertisers in a market so it's great for visibility but bundling (with a telco) can mask the real subscriber numbers – especially when the telco package lock-in periods elapse," said Pascal de Mul, Chief Partnership Officer of music service Deezer.

"The bedding in and welcome period is key," added William Mellis, MD of A&M and former head of Customer Marketing at Sky. "In an ecommerce play you get as little as 4 seconds to convince the customer that your service is useful. In pay TV you have four weeks. It's about getting the customers using the product and engaging with the content. If they don't engage early, don't be surprised when they churn".

In the digital world, habit-forming is key. "A lot of us use discounting for trial periods to get people on the slow ramp to pay", said Chris Duncan, MD of The Times newspapers at News UK. "The investment we are asking of them upfront is low in terms of money, but the investment you really need in the first 30 days is time. Encouraging that effort from the customer to build a habit with your product is what will sustain you. The money comes later".

## Data intelligence is essential and is an unavoidable cost of doing business

Data lies at the heart of driving habit-forming behaviour. "The more customers use the service, the more it becomes a habit and at some point you can make them an offer to pay for it," said Deezer's De Mul. A key metric in music streaming to understand habit forming is the DAU/MAU score (daily average users expressed as a percentage of monthly average users). It means that engagements levels can be observed in real time and faster than using a traditional metric such as NPS (net promoter score). Real-time measures also mean that customer reaction to a system tweak (A/B testing of small changes) can be understood in less than five minutes.

But data intelligence comes at a cost – both in terms of management time and resources. "Just as printing presses, paper and delivery trucks are simply a cost of business in print, data intelligence is part and parcel of being in a digital business", said News UK's Duncan. "The single most important thing I have learned in seven years of this job is that you can drive the most value in your business by spending time explaining the context of your business to the analysts that work on your data. It's not about which software platform you are running but about how you understand the data you are collecting".

## Understand the motivations of subscribers

Understanding the underlying motivations of your subscribers is one of the most powerful retention tools. For example, at pre-school video and games service Hopster, it is about convincing the parents that the service is benefiting their kids as well as giving the parents some guilt-free time off. "Parents are buying a service that they like and helps develop their children but they are also buying some free time for themselves," said Nick Walters, CEO and founder of Hopster.



The Times discovered that star columnists like Jeremy Clarkson do not work as customer acquisition tools because “it’s too difficult for people to decide what a columnist is worth”, said Duncan. But once they are paying for the product, columnists are a good retention factor. “If you asked the newsroom why people pay for The Times they would say trust, authority and expertise. But if we ask our customers, they say things like, ‘to stop me saying stupid things about Syria at a dinner party tonight.’ So, for customers there is a utility and a social currency to subscribing. It’s not just habit but ‘habit and utility’ that keeps them coming back.”

### **Find your place in the digital ecology**

Hopster’s Walters said that carving out the right niche is also going to be increasingly important when you are competing with the digital giants including Google, Apple, Amazon and Netflix because they have such deep pockets. “It’s interesting because while these are all potential competitors, they are also fantastic distribution platforms as well” said Walters. Hopster recently put its app on Amazon Channels in the UK with buy-through via Amazon Prime. “[Amazon] gives us access to a whole bunch of people, marketing and payment solutions and more devices that ever before, at a scale that would be really difficult for us to do by ourselves,” said Walters.

Yet for Deezer, platforms like Apple push up the consumer’s cost because Deezer must pay the 30% ‘Apple Tax’. Deezer’s direct price is £9.99 but if subscribers want it from the App Store they must pay £12.99. News UK’s Duncan pointed to the power of big competitors on The Times’ business. Facebook, Google and the BBC, all compete in the news space, with the ‘free’ news from the BBC hugely distorting the market. There are also three current anti-trust actions against Google being undertaken by the EU. “But you can only act in the world as it is, not as it should be” said Duncan.

### **Ride, rather than get swept away by, the technology wave**

According to News UK’s Duncan, The Times benefited greatly from being a must-have app in the early days of the iPad adoption wave. Fast forward to today and technology shifts, like voice recognition AI, mean a need for continual adjustment and learning. If you were to ask Amazon Fire to play *Peppa Pig*, which service does it recommend – Amazon Prime, Netflix or Milkshake? Although being another complex skill for businesses to learn, for de Mul, this disruption is an opportunity to be exploited. “Today, the music services are all about optimising visual playlists,” said Deezer’s de Mul. “But Amazon’s Alexa doesn’t work with lists, so at Deezer we are working on a product called *Flow* that figures out what you want to hear at any particular moment and the inputs will eventually be things like where you are, time of day and the weather. Done right, that’s our opportunity to leapfrog Spotify”.

