

Digital strategies for innovation in media markets in crisis

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## Digital strategies for innovation

### 1. Introduction

Turmoil in the media industry is far from new. But the wave that has swept Spanish media has taken media managers, firms and even entire markets by surprise. The industry enjoyed solid profits and margins for decades. There were entry barriers that made life difficult for competitors, and several key markets were in fact, “oligopolies”. In print media, readership had been steadily decreasing, but the advertising market was still doing relatively well.

Internet’s development and free consumption diminished content value. There was an abundance of possible substitutions. Consumers could find news and entertainment without any cost and started “escaping” from some media outlets. Then, the industry was hit by the September 2008 financial crisis that eroded growth, and advertising with it. It was the “crisis inside the crisis”. The need for daring solutions was all the more pressing in a context with fewer resources to cope with change.

Technological improvements are beneficial: products and services are developed from them, and growth occurs. But some of the old players cannot cope with market transformations. Companies need to increase their innovation capabilities, find the best management options, and foster culture and leadership “revolutions” to get ready for change. This paper summarizes some strategies for a digital transition that takes place in the middle of a recession. It draws ideas from practice to apply them to media companies and innovation.

### 2. Methodology

This theoretical narrative paper looks at best international practices, case studies and the most recent literature in the field, with the goal of improving company performance in the Spanish market, and could be useful to understand the impact and meaning of the digital transition in a global context. It tries to answer questions as the following: Are there ways to innovate in unstable conditions? Are digital scenarios going to kill traditional media? Are they opportunities or threats? What are the quality indicators that are sustainable along time? Can “old” media learn from digital players or social media? We look to relevant cases to draw some lessons and “takeaways” for managers in Spanish media and entertainment companies.

### 3. Innovation and employee learning

National Public Radio (NPR) is a public broadcaster that has been considered as a model of innovation. Like other public broadcasters, NPR was a relatively obscure source of news and entertainment. By 2009, it had reached 30 million Americans every week and had audiences larger than “powerhouses” like CNN or USA Today.

NPR opened newsrooms overseas when other companies were closing them. That allowed it to produce content from 36 cities around the world. The business model was based on direct contributions from people that supported NPR, sponsors, and a \$200 million gift from Joan Kroc, the widow of McDonald’s founder. NPR has also suffered financial storms, but was able to weather them.

Listeners doubled from 1999, when newspapers’ circulation and TV newscasts’ audience was diminishing. With more than 800 stations, it covered every city in a way that newspapers or TV networks could not match. Besides, it grew in the digital media arena: by 2010, it had 14 million podcasts downloaded every month, 8 million visits to its web, and offered NPR Mobile.

This public broadcaster also invested its money, with the help of several foundations, to train 450 employees in digital storytelling paying its people to spend time learning. Income diversification has made NPR somewhat more resistant to the ups and downs of the economy, as opposed to media models based solely on advertising. Digital media emphasis provoked some problems between NPR and its local stations that paid elevated sums for their content. The broadcaster started to experiment about which content would be available only and when.

Managers explained NPR success talking about the quality of its writers. Listeners said they were close to their voices and personalities. NPR seems to have committed itself with quality content. The use of social media to build audience and community would have been meaningless with superficial content that can easily be replaced.

#### 4. Organizations with a capacity for change

Several authors have considered Google as paradigm (Auletta, 2009; Jarvis, 2009). Many companies have failed to profit from the opportunities that the Internet provides, and seem unable to build a sustainable business model. Entrepreneurial companies are often characterized by their ability to “disorganize”. They generate wealth through a process that Schumpeter described as “creative destruction”, which implies management of uncertainty and the unknown, and a capacity to respond to change.

Innovators are looking for the unexpected; failures or unpredictable events; a lack of coherence between conventional wisdom and what really happens; problems with existing processes that look difficult to solve; changes in industries or markets that seem to take everybody by surprise; demographic transformations; changes in perceptions or meaning of products and services. Sometimes it is necessary to change the “frame” and extend the space for search. A new way of organizing and thinking can be necessary to innovate.

Google is an interesting example: a company eager to try new things and learn. Mistakes display weaknesses and “dead ends” and can have educational value. Google rapidly launches new products and closes them fast when they don’t work. Between 2001 and 2010, it had a number of failures: Google Catalogs, Google Wave, Google SearchWiki, Google Audio Ads, Google Video, Dodgeball, Jaiku, Google Notebook, Google Print Ads, Google Page Creator, Google Answers...Some people argue that without these “errors”, the great success of “Google’s decade” would have never occurred.

Google tries to be “faster than change”. Its goal is to build a company that can evolve as the Internet, a really adaptable organization. Competitive advantage at a given time is not as important as what Hamel calls “evolutionary advantage”. In this way, Google was always incorporating advantages to its model, keeping innovation alive. Its company first invented a model of search without generating income. Later, it sold it to great portals like AOL and Yahoo. After that, it built an intelligent model to sell advertising along with search. Then, it launched Gmail, getting an impressive amount of information and huge income in advertising. Finally, it was able to take advantage of its advertising profits to finance services as successful as Google News, Google Maps, Google Desktop, Google Book Search, or Google Scholar.

#### 5. Real differentiation

Innovation allows longstanding companies with long market lives to overcome recession by keeping a strong identity. A good example is *The Economist*, a magazine that was founded in 1843. In spite of the crisis, its circulation grew 8.5% in North America and 6% worldwide in 2009, in a context in which its competitors were

“retreating”. While *Time* or *Newsweek* were losing readers, advertisers and financial resources, *The Economist* continued its circulation growth. With a committed and loyal readership base, it has more advertising pages than other market players and its profits have grown faster.

The key for *The Economist's* success seems to be its unique perspective. *Time*, *Newsweek* or *U.S. News & World Report* are organized around content, but *The Economist's* central section is organized by continents. The magazine encourages writers to change topics and locations. Coverage is universal both geographically and in terms of content and depth. *The Economist* develops deep stories by giving time to its writers to read, think or speak with people. They do not need to write every week; they can have as much as three weeks to write a three-page long article. The magazine, however, controls carefully all the other editorial costs. Its market niche allows it to have expensive subscriptions and limit discounts. Price is a clear indication that readers value the magazine: promotions tend to be carefully avoided as a practice that would “cheapen” the product.

Success is being replicated in the digital realm. After its launching on November 2010, *iPad* and *iPhone* applications have had two million downloads. Online traffic has increased in the web, and an entity created to share information services (*Economist Intelligence Unit*) has become a significant income source.

## 6. Initiating “mental revolutions”

Some challenges have made apparent the need for a mental revolution in the media industry. The Spanish television broadcasting market could provide an example. By early January 2012, Mediaset's *Telecinco* was the leading commercial broadcaster with 12.7% share. *Antena3* followed with 12.6%; *Cuatro* (5.9%) and *La Sexta* (4.7%) came next. The sum of the four largest commercial channels reached 35.9% of the audience. In 2006, it was above 48%. The market power balance has shifted from producers to consumers that have a bigger say in the process and even can become content producers. Diminished entry barriers and technological breakthroughs open up the industry to competitors at very low costs. Digitalization and new content distribution platforms tend to foster and accelerate change.

Books, magazines or television programs were at first glance competing for similar markets, but media usage and spending grew for all media and there was little “cannibalization”. Advertising, the leading industry income source was also growing as a percentage of GDP in most countries. Technological innovations (such a printing improvements) were paramount. In the film industry, for example, the successive introduction of terrestrial TV, cable, satellite, VHS, and DVD, guaranteed industry growth. New products, more channels or technological tools completed supply, instead of replacing it. Companies just kept “old media” as they were introducing or investing in the new.

The Internet developed at the end of the nineties, and companies had great expectations. The leading market players had astronomic “price tags”. When the “bubble” burst around 2000, companies stopped their investments, ignoring “online” models. Companies assumed the Internet was “cannibalizing” contents that used to be more profitable than websites. In the meantime, usage grew faster than expected and the largest market shares went to *Yahoo!*, *eBay*, *Amazon* or *Google*. When traditional companies wanted to come back, it was too late.

Content could be distributed and stored with costs close to zero. Internet also reduced operational costs; commissions entered a downward spiral, and distribution monopolies were under siege. Magazine and newspaper editors needed a physical distribution network; bloggers didn't. Musical groups were not in the hands of recording companies anymore.

Apple is a classic example of consumer understanding. Since its foundation by Jobs and Wozniak in 1976, has been “transformational”. It has arguably changed how

we gather information or listen to music, while designing beautiful products that get consumers' attention. Its recent list of products (*iPod*, *iPhone*, *iPad*) is impressive enough. Innovation, quality emphasis and consumer loyalty are a source of admiration. Apple is able to generate interest with every new product, with huge media attention.

## 7. New experiences and platforms

*Disney* incorporated new experiences to its cartoons and created an animated world for its theme parks. Now it extends its "experiences" to "online" media. Media industry companies can generate experiences by increasing the levels of engagement to connect with audiences in more memorable and meaningful ways. Some media have tried to extend their well-known brands to "nearby" contexts. For example, *ESPN* created its *ESPN Zones*. *ESPN Zones* are bars that are not typical "sports" bars, but engaging places with multiple TV sets where fans can replicate "the stadium experience", underlining *ESPN's* brand attributes. *ESPN* has also been active "online", launching *ESPN360* and *ESPNPlay*.

Another relevant area is broadcasting in multiple platforms. *Lost* is considered one of the most successful TV shows of the decade. Its "pilot" was the most expensive in TV's history. That is why some people think it is impossible to replicate it. But other aspects of this TV series could we imitated: its narrative structure, with abundant "flashbacks" and "flashforwards"; its unique mix of mythology, literature, science, and religion; its strong identity and look.

Part of *Lost's* success came from its unique and multimedia distribution platform strategy. It was a terrestrial TV show, but it took full advantage of DVD, downloads and the Internet. New plots were heavily advertised with "spoilers" in small doses and "broadcast" online. Screenwriters avoided the traditional narrative sequence. The plot was broken in pieces building "puzzle" that the viewer had to decipher. The audience emotion and involvement was so high that *Lost* not only had viewers; it had unconditional supporters and fans.

## 8. Learning from social media, participation, and consumer understanding

Print media have been successful in some of their innovations. Some have used *Facebook* as a tool. Magazines explore interaction, or try to take advantage of their well-established brands to sell other goods: *Country Living* sells furniture; *Elle* has launched clothing collections; *Brides*, accessories. Magazines have been exploring different brand extensions that allow for audience interaction. *Wallpaper* has published an "animated cover", applying techniques imported from the film industry that were used by Dentsu advertising agency in a campaign for *Asahi Shimbun's* redesign. *Monocle*, a classy magazine that covers design and culture has opened its own shop in Manhattan's West Village and opened other shops in Tokyo, Hong Kong. It sells furniture, stationery, candles and old issues of the magazine. Publishers also study the possibilities they have to charge for their online editions, following successful examples like those of the *Wall Street Journal* or *Financial Times*. *Pittsburgh Post-Gazette* asks readers to belong to a "select club" (PG+) that gives subscribers unique advantages: exclusive content; invitations for sports or cultural events; direct access to newspaper writers, and so on.

Successful social media like *Facebook*, *YouTube* o *Twitter* have taught companies some lessons. They demonstrate how video is crucial in the web; how consumers become producers to levels that were not imagined before; the need to understand transparency in open societies; the importance of fostering a sense of participation, community and collaboration. They also demonstrate how important speed has become in news and entertainment.

Social media have had a substantial influence in the evolution of organizational life. Organizations do not control the conversations about themselves anymore. Social

activism is also deeply shaped by them. They play a relevant role spotting trends. Social media have been able to report events, natural disasters, and other breaking global news before traditional outlets. They are a new step in a process of “disintermediation” started by blogs. Facebook, Twitter or YouTube make some traditional media content irrelevant or easily replaceable.

In social media we contemplate at its fullest the landscape aptly described by Jenkins (2006): media convergence, participatory culture and collective intelligence. Media convergence is the content flux between different platforms, and the migratory behavior of audiences that are always on the move, looking for new entertainment experiences. By “participatory culture”, Jenkins defined the contrast between the idea of a “passive viewer” in a time when producers and consumers roles were not so easily separated. With the expression “collective intelligence”, Jenkins described a trend to turn consumption into a collective process, sharing knowledge to cope with the frightening amount of available information. Social media understood these opportunities better than some traditional media.

Social media illustrate the way to think like consumers and adapt to new, instant and mobile communications, where sharing is crucial. Some media companies have not been able to change with their consumers. That is why media companies need to answer questions like the following: What is the competition going to do? Why audiences prefer their products? Why do they decide the use of their products? The key is not only competitor analysis but also an effort to help employees to think like consumers, looking for solutions to their problems.

## 9. Discussion and further research

The cases studied and our review has led to some preliminary conclusions that need further validation and analysis, but could shed light over the management of Spanish media companies. The success stories have allowed to identify sound practices and strategies in critical fields as innovation, consumer satisfaction and engagement, participation, advertising, new experiences and distribution platforms, differentiation, and so on. Some Spanish media companies, trapped by the conventional wisdom of their markets, offer a “menu” that seems a mere imitation and repetition of “glories” of the past.

Digital transition leads to update company learning. Traditional ways of production are changed, and the workforce needs to be trained again. Some old and established players are threatened, and only learning companies make progress. Google could be a good place to learn. This transformative company, arguably the biggest media company in the world (Auletta, 2009), is quintessentially adaptable. Best brands are able to innovate, have initiative and accept risks (and also some failures).

The more capable media companies “swim against the stream”. They seem to have a capacity to nurture the best possible content to sustain their competitive advantage. They resist temptations to be “lighter”, “cheaper” or look for the lowest common denominator, and often defy conventional wisdom. Sometimes, they are old companies that have been consistent with well-established identities and are difficult to replace.

An improvement in marketing and advertising is also an answer to the crisis. Some initiatives might include easier access and consumer transactions; better effectiveness for clients; more personalization and emotional implication; loyalty rewards. New media experiences should be created to increase levels of engagement. Contemporary audiences have a fickle attention. Strong brands create powerful experiences in which the point of sale plays a role: some brand extensions could actually work for media brands that have solid relationships with its public. Advertisers will demand better target audience knowledge and ask for precise intelligence about advertising and marketing effectiveness; they will also want to use digital strategies and offers for several media platforms. Selling aggressively “media spaces” will no longer

be enough: there will be a need to build sophisticated marketing machines to serve clients.

A related field for improvement is consumer understanding. Markets will also be better served by listening more. Some companies still consider audience and client reactions as a curse. In reality, they are a blessing. The capacity for analysis of consumer feedback allows companies to respond relevant questions such as: Who is the consumer? What is he or she buying? How often? After what kind of event? Which product version sells best? At which price? What is the most attractive packaging version? What is the best seller for every audience? What is the best performing postal code? Are consumers satisfied?

Companies might also need to differentiate from one another not only by their content, but also by its distribution. Content distribution improvement is related to access, multiple distribution channels and easier transactions. This is a way to improve service to audience adding more personalized elements, more emotional involvement with some brands, two-way communication, loyalty rewards, and so on. As the music industry taught, added value is related to content distribution. Content should be distributed in multiple platforms: visual, text, podcasting, blogs, and so on. Consumers expect brands to be close to them: brands are actively looking for users and not the other way around. Downloads create new brand relationships, increase the amount of time people spent, and foster “word of mouth” and recommendations.

The digital transition has allowed for increased levels of participation and interactivity. Social media like Facebook or Twitter teach old media to be relevant and flexible, engage consumers, listen to them, and use a conversational tone. Collaboration and a sense of community are fostered. Media companies should think like consumers. Sometimes there is a tendency to paralysis that comes from a lack of ability to stand back and understand new conditions and choices for consumers, or to consider why the competition is growing.

Part of the lessons from digital transition in Spanish media could also be management-related. The digital transition brings with it flatter management structures, more flexibility, less intermediaries, easier operations and the end of some physical distribution networks. Structures are in need of restructuring. Second-generation Internet companies have organized their management around flat and horizontal structures and openness. They have shown that the more experienced managers are not necessarily the best innovators. As Hamel famously wrote (2007), innovators need to take advice from people that have never learned what should not be done.

Media outlets need to broadcast content that can reach audiences wherever they are. Many people don't have the time to read comfortably a piece of news at home, but could listen to an in-depth report in their commutes, while preparing dinner, or cleaning up the garden. iPads and tablets will bring with them new casualties. But the digital transition is good for consumers, will be a force for the industry's improvement and opens up new venues for research. Initiative, innovation and risk are differential factors for leading companies that look for solutions, avoiding the creative paralysis caused by bureaucratic forces and the “status quo” in the Spanish media market.

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