BCG

THE BOSTON CONSULTING GROUP

Preparing for Public Broadcasting's Perfect Storm

Staying Relevant in a World of Nonlinear Media

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 81 offices in 45 countries. For more information, please visit bcg.com.

BCG

THE BOSTON CONSULTING GROUP

Preparing for Public Broadcasting's Perfect Storm

Staying Relevant in a World of Nonlinear Media

Antonella Mei-Pochtler and Tibor von Merey

January 2014

AT A GLANCE

A new wave of radical change sweeping the media industry—driven by digitization and changing consumer habits—presents an existential crisis for public service broadcasters. To stay relevant, public broadcasters must become leading providers of high-quality content to their target audiences across all media channels while still fulfilling their public-service mandates.

Become Integrated Providers

To adapt to the "always on," borderless, and fast-paced digital world, many public broadcasters need to expand their reach into "nonlinear," on-demand content that is delivered through PCs and a growing array of mobile devices. They must also break down the silos separating TV, radio, and online platforms and transform themselves into integrated content providers.

Track Target Audiences

Public broadcasters need a sophisticated understanding of target audiences and the economics of successfully delivering different genres of content via different media platforms throughout the day. We recommend an approach called media touchpoints*;* it measures audience relevance on the basis of how often a consumer comes into contact with different media platforms.

In recent decades, revolutionary change in the global media landscape has posed immense challenges to television broadcasters everywhere. But the impact has been especially traumatic for publicly supported broadcasters. Audience engagement with public TV and radio has declined steadily since the 1970s, in the wake of multiple waves of market liberalization and the advent of commercial television. Attempts by public service broadcasters (PSBs) to win advertising and wider viewership have failed to entirely stem the slide. Often, their approaches—everything from introducing reality shows to airing displays of nudity—have fanned controversy.

Now a new wave of radical change in the media industry is being ushered in by digitization and changing consumer habits. This time, PSBs are confronting a "perfect storm," one that will force them to justify their very existence. Viewers, especially the young, are increasingly turning to a growing variety of new online-media outlets. Well-capitalized, global players like Google, Netflix, and Apple, as well as a host of innovative upstarts, can stream virtually any kind of video or audio content on demand—including programming that was long available only on public stations—through PCs and an array of mobile devices. What's more, online media are often beyond the control of national regulators.

PSBs face an uphill battle as they attempt to make the transition to the "always on," borderless, and fast-paced digital world. Most PSBs have been slow to move beyond the "linear" world, in which their audiences can tune into TV and radio programs only at specified times on specified channels. They lack the financial resources to compete with large global corporations in the new war for high-viewership content. What's more, their freedom to offer programming and compete for digital advertising revenue is typically constrained by government regulation.

The best way for public broadcasters to remain relevant is to be leading providers of high-quality content valued by target audiences—while fulfilling their mandates to provide public service.

The best way for public broadcasters to remain relevant is to be leading providers of high-quality content that is important to their target audiences—while fulfilling their mandates to provide public service. PSBs by no means should exit the traditional business of delivering national and regional TV programming, which will continue to command large followings for at least the rest of this decade. Rather, they must strengthen their online activities to become integrated providers of content across all media. And they must extend their reach across multiple channels in order to reach all age groups.

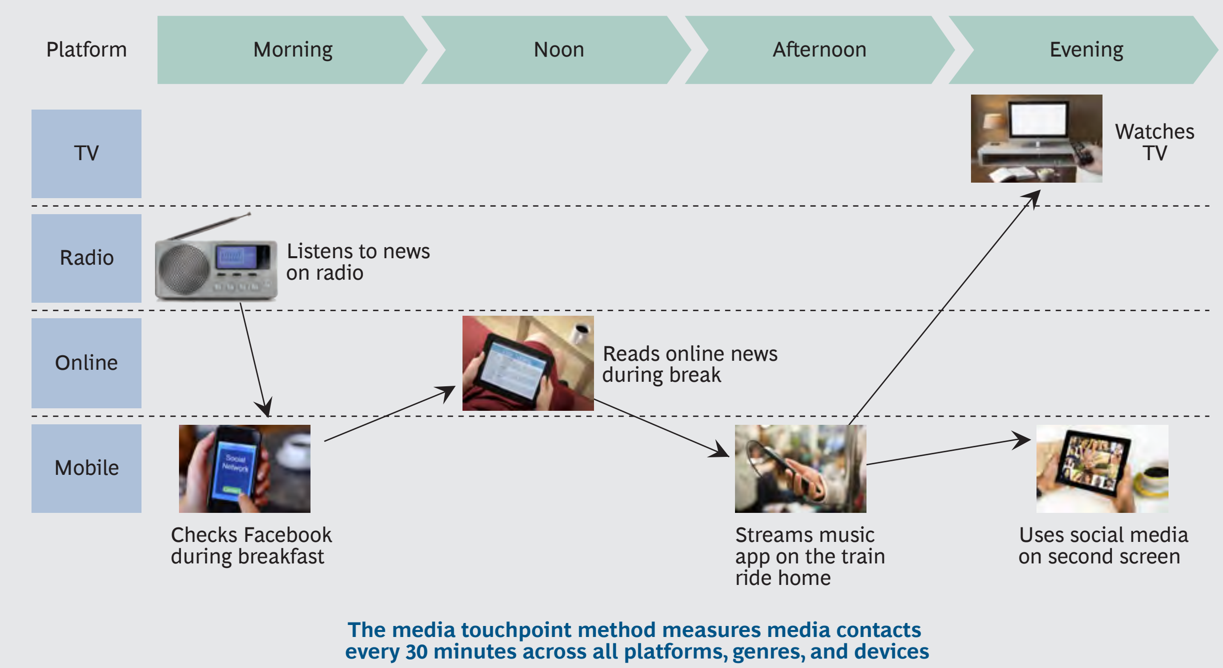
Adapting to this new game will require an in-depth and sophisticated understanding of target audiences and the economics of successfully delivering different genres of cross-media content. Each PSB should identify those programming genres in which it should strive to be a content leader—as well as those in which it can afford to be a follower. Each PSB must also learn how to maximize its investments by understanding the costs and benefits of providing content.

Decisions about investments in content should be based on a keen understanding of what marketers refer to as the "customer journey." How do target audiences consume media throughout the day? When do they come in contact with certain genres of content—such as news, sports, or music? And which media platforms are they using at each point in this daily journey—radio, TV, print, or online?

To acquire this knowledge, we propose that PSBs adopt a metric called media touchpoints that measures the relevance of programming to target audiences across all media. Currently, most PSBs use a siloed approach for measuring relevance and making content decisions: First, they set budgets for purchasing or producing different genres of TV, radio, or online content. Second, they sell advertising based on conventional measures of audience viewership, such as audience share ratings or clicks online.

By contrast, under the media touchpoint approach, audience relevance is measured on the basis of how often a consumer comes into contact with different media platforms. It also measures how many of these touchpoints are generated by the PSB across all media—whether via PCs, smartphones, radios, living-room TV sets, or other devices. (See Exhibit 1.)

EXHIBIT 1 | Which Content Do Consumers Access When—and Through Which Media?



Source: BCG.

Armed with such intelligence, PSBs can then analyze the costs and benefits of providing certain genres of content over each media platform. In so doing, PSBs can significantly improve their odds of making smart bets on both conventional and digital programming.

Making the transformation from organizations with a linear concept of TV or radio programming to the nonlinear, digital, and multimedia world is not easy for commercial broadcasters—let alone corporations that operate under public oversight and must fulfill public mandates. But the pressure to do so will only intensify as online viewership of programming becomes the norm. The time for PSBs to act is now.

The Mounting Challenges for Public Broadcasters

Four decades ago, public TV and radio were fixtures inside households around the world. In much of Japan and Europe, in fact, government-funded TV monopolized the airwaves because commercial television had not yet been permitted. From the beginning, the mandate of PSBs was public service. The guiding principles of PSBs in most nations include providing programming that is widely accessible, that appeals to general tastes, and that contributes to a sense of community. To maintain a distance from vested commercial interests, PSBs operate under various advertising restrictions from government regulators. As a result, public broadcasters have relied heavily on funding from governments, viewers, and licensing fees. By and large, this basic PSB framework remains in place today.

The ensuing decades, however, have brought three waves of change that have fundamentally transformed the broadcasting industry, with significant implications for PSBs. The first wave was market liberalization, which took hold as governments in Europe and Asia authorized commercial radio and TV stations that targeted the mass audience. In the second wave, which began in the 1980s, cable and satellite TV brought ever more channels into viewers' living rooms. Offerings included not only international mainstream channels in English, German, and French but also niche channels that offered the same kind of public-interest programming offered by PSBs.

Nonlinear platforms are breaking down the traditional boundaries of TV, radio, print, and online and allowing consumers to receive practically any kind of content whenever they want.

These first two waves of change largely explain the steady decline in viewership of public TV. As recently as 1989, for example, Austrian public broadcaster Österreichischer Rundfunk (ORF) and Greece's former Hellenic Broadcasting Corporation (ERT) essentially monopolized TV viewership in their respective countries. Today, after those markets have been opened to both domestic and foreign competition, ORF's viewership share has fallen to around 39 percent. And the viewership share of ERT had plunged to 15 percent before it was recently shut down by the government.

The third wave of change—digitization—is currently under way and potentially the most disruptive. New, nonlinear platforms are breaking down the traditional boundaries that separate TV, radio, print, and online and allowing consumers to receive practically any kind of content whenever they want. At the same time, a proliferation of new devices, such as affordable and ever more powerful tablets and smartphones, has accelerated the pace of innovation in applications that are altering the ways in which audiences experience content.

The era of digitization presents three profound challenges for PSBs as they now operate: changes in media consumption, financial pressures, and regulatory constraint.

Changes in Media Consumption

The penetration of broadcast Internet and digital TV in homes around the world has risen dramatically over the past few years—and will continue to rise. Indeed, increases in media usage are being driven almost entirely by the online platform. The case of Austria is typical: The average Austrian spent 74 minutes a day online in 2011, compared with 43 minutes daily in 2007. The rise reflects a compound annual growth rate of 14 percent. In that same period, time spent watching television rose by only 2 percent, time spent reading the newspaper remained flat, and time spent listening to the radio declined slightly.

A recent survey of consumers in the U.S., Germany, the U.K., and France found that half would rather live without traditional media than without the Internet.

Tellingly, a recent survey of consumers in the U.S., Germany, the U.K., and France found that half would rather live without traditional media than without the Internet. The shift in audience preferences has become more pronounced with each succeeding generation. Based on our research, we estimate that Austrians 50 years or older spend 452 minutes each day with media, yet spend only 8 percent of that time online. The remainder of their media time is divided equally between TV and radio. Austrians between 30 and 49 years old, by contrast, spend only 19 percent of their media time online and only 34 percent watching television. Most notably, consumers between 14 and 29 years old spend 35 percent of their media time online, 40 percent listening to the radio, and just 25 percent watching television.

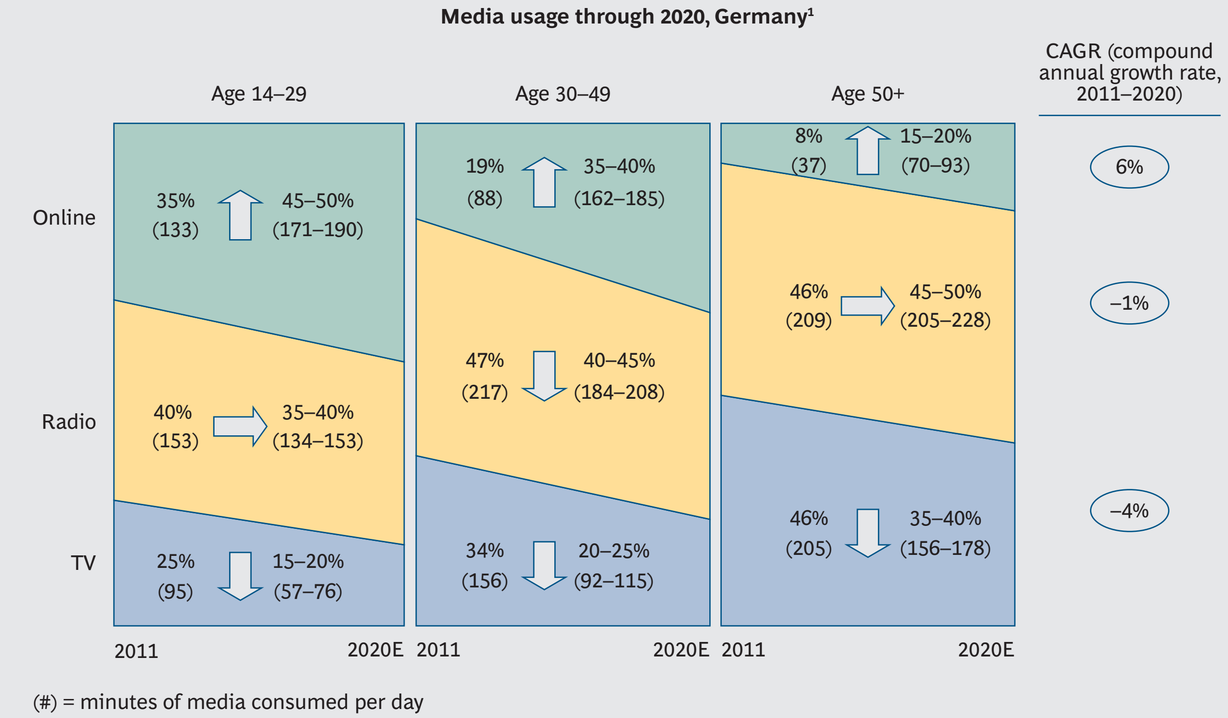
This digital migration will continue. PQ Media, a media research company, estimates that the global average for weekly digital media usage will rise from 5.3 hours per week in 2012 to 8.9 hours by 2017—a growth rate of 10.7 percent annually.

Traditional TV and radio will still be important in 2020: BCG estimates that in Germany these media will account for 60 percent of viewership across all target groups—and for more than 80 percent of viewership among people 50 and older. Yet overall viewership of linear TV is likely to keep declining. (See Exhibit 2.)

Essentially, two factors will drive this digital migration. The first is the "porting effect"; it has been identified in studies and shows that as people age, they don't abandon the media they grew up with. Despite the greater programming choice online and the availability of new devices, for example, older viewers continue to feel more comfortable with print newspapers and TV sets. It can be assumed, therefore, that today's 14- to 29-year-olds will likely remain loyal to online media as they age.

The "market effect," the other driver of greater digital media use, is propelled by technological progress. The most powerful force has been improved broadband infrastructure, which affordably brings high-speed Internet into more homes. In the U.S., for example, the share of households with Internet connections of at least 10 megabits per second grew from 11 percent in 2009 to around 30 percent today—and is projected to reach 40 percent by 2015.

EXHIBIT 2 | Germany Illustrates the Projected Continuing Shift Online of Media Consumption



Sources: ARD/ZDF online study 2012; BCG analysis.
[1]Data for 2011 focus on the share of the TV, radio, and online platforms. Other media are excluded.

Mobile broadband connections have also risen dramatically. In Austria, for example, 70 percent of the population already had access to 3G mobile service in 2012 and 2 percent had access to 4G. In that year, the number of broadband connections through smartphones surpassed fixed-line broadband connections. (See Exhibit 3.)

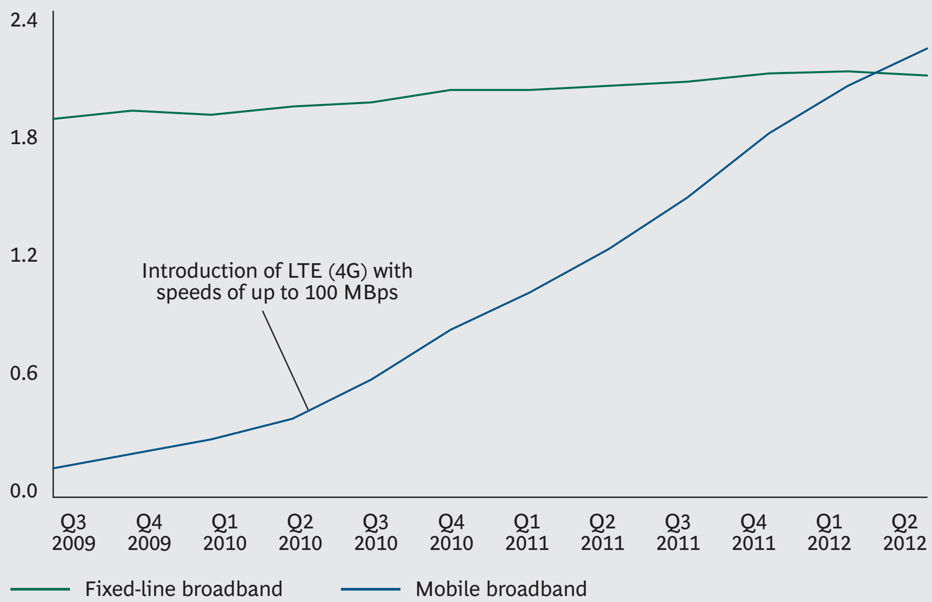
In addition, the rapid proliferation of new devices allows people to consume more media online. By 2017, for example, it is projected that 21 percent of all TVs worldwide will have Internet connections. Gartner estimates that 85 percent of all flat-panel TVs produced in 2016 will be Internet-connected smart TVs. In addition, annual global sales of Web-enabled game consoles have risen more than fivefold since 2007. And worldwide sales of Web-enabled mobile devices, such as smartphones and tablets, are projected to surpass 1 billion units by 2016. This growth will be driven by plunging retail prices. The average global price of a smartphone dropped from $328 in 2008 to $255 in 2012—and is expected to fall to $174 in 2015.

Among the most important new technology trends are nonlinear TV, Web radio, and dual screening.

Nonlinear TV. Video content that can be viewed online irrespective of time, location, or provider will continue to gain importance. Such nonlinear TV is already extensively available on a range of video-on-demand (VoD) platforms offered by established broadcasting companies, new digitally based competitors, and Web

EXHIBIT 3 | Mobile Broadband Connections Have Risen Dramatically

Number of broadband connections in Austria (millions)



Implications

- Smartphone plans have been growing by around 28 percent each quarter since the third quarter of 2009
- More than 60 percent of Austrian households had mobile broadband connections
- Connection speeds are faster. By 2012, 70 percent of Austrians had access to 3G and 25 percent to 4G

Sources: RTR Telekom Monitor 2011–2012; press.

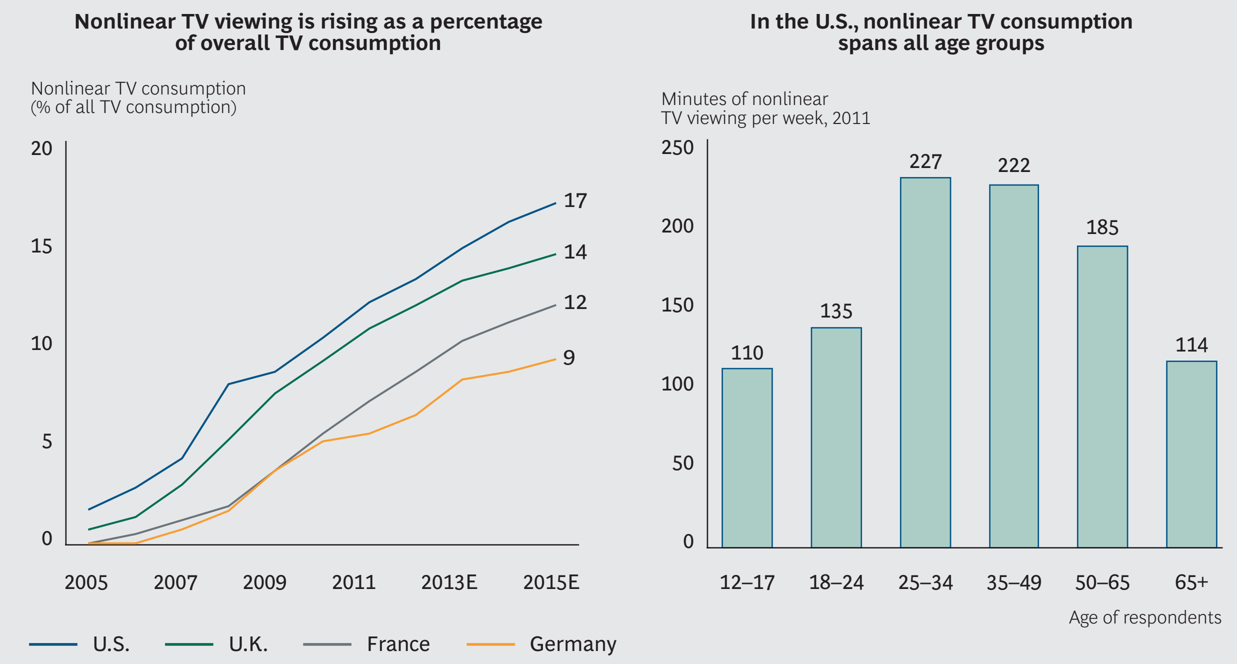
navigators such as Google TV and Apple TV. Some new entrants, such as Netflix and YouTube, offer original programming on demand.

Consumption of nonlinear TV is projected to grow dramatically. In Germany, for example, nonlinear TV is expected to account for 9 percent of overall TV viewership by 2015. That share is expected to reach 12 percent in France, 14 percent in the U.K., and 17 percent in the U.S. (See Exhibit 4.) The rising share of households with broadband connections and high-speed Internet services—and of consumers who use the mobile Internet through smartphones and tablets—will drive even wider adoption.

Indeed, a tipping point may be fast approaching that will trigger the mass adoption of nonlinear TV—accompanied by an even greater migration of advertising spending toward digital media. We believe such a threshold could be reached once nonlinear TV commands a share of around 15 to 20 percent of total TV viewership. At that point, nonlinear TV will move into the mainstream—and audience acceptance could accelerate dramatically. Although consumers of certain target groups will continue to prefer watching conventional TV, PSBs must prepare for the likelihood that use of nonlinear TV will surpass traditional viewing in the near future.

Powerful new platforms for delivering a seemingly endless choice of high-quality, easily accessible, and affordable nonlinear TV content could power the next wave of disruption. Some of these offerings already are hitting the market. Netflix, for example, has produced several original series, including the critically acclaimed *House*

EXHIBIT 4 | Nonlinear TV Is Gaining Broader Acceptance



Sources: IHS/Screen Digest; Nielsen.

of Cards. Netflix invested $100 million for two 13-episode seasons of this series, a remake of a BBC political drama of the same name.

New technologies are also making nonlinear TV easier and more comfortable to watch. Instead of having to lean forward to watch nonlinear TV on a computer screen or tablet, consumers can lean back in their sofas or beds and, with a few clicks of the remote, watch online programs on large TV screens.

Web Radio. A similar digital revolution is under way in radio. Worldwide, around 45 percent of those aged 14 to 29 and around 25 percent of people aged 45 to 65 use online music streaming. Linear Web radio, which offers static online audio through browsers, is already widely available. Important innovations include TuneIn, a feature now offered on many automobiles. TuneIn consolidates content from more than 70,000 channels and makes it available to some 4.5 million unique users worldwide.

Nonlinear audio streaming is also taking off. Each month, for example, 58 million people listen to audio content via Pandora, which offers audio streaming based on automatically personalized playlists. Through iHeartRadio, some 167 million users stream live, customizable content from 1,500 radio channels. Listenership is also growing fast on nonlinear audio services such as Spotify, Rhapsody, and Deezer.

Dual Screening. A growing number of consumers watch programming on several kinds of media simultaneously, a practice known as dual screening or second screening. As they watch a movie on TV, for example, consumers may also be surfing the Web via a tablet or smartphone in search of more information about an actor. Viewers may also chat online while they watch TV. In Germany, 59 percent of media consumers—and 75 percent of those under the age of 29—already use TV and online media simultaneously.

As smartphones, tablets, and other devices become more affordable and ubiquitous, experts predict that dual screening will become more prevalent. To capitalize on this trend, public TV and radio stations must increasingly offer complementary and interactive content.

Financial Pressures

The consumer shift toward nonlinear TV poses a significant financial challenge for PSBs. The capital required to compete with new digital entrants for popular programming is rising. But short of significant increases in public support or changes in advertising regulations, PSBs have limited options for sharply boosting their revenue.

Most PSBs would find it difficult to achieve a dramatic increase in advertising. Even if regulators loosen the rules on advertising revenue, PSBs would still have to fight for share in a brutal and sluggish market.

First, there is the issue of scale. The current leaders in nonlinear media are giant corporations with global reach, considerable expertise, sophisticated technologies, and a wealth of consumer data amassed over years to better target viewers. They also have immense resources. Apple boasted 2012 annual sales of around $150 billion, a market capitalization of about $470 billion as of December 2013, and some 200 million monthly users of online content. Google, which owns YouTube, had a market capitalization of around $350 billion and nearly 800 million monthly users. Facebook had a market capitalization of $110 billion and more than 1 billion monthly users.

Even the largest PSBs are dwarfs by comparison. The combined public TV and radio companies of Germany report revenues of around $11 billion. The BBC and the United Kingdom Independent Broadcasting network had combined revenues of around $11 billion in 2012. Japan's NHK has annual revenues of around $7 billion. In the U.S., the Corporation for Public Broadcasting and the Public Broadcasting Service have combined annual revenues of a little more than $1 billion.

Public funding for most PSBs around the world has stagnated in real terms—and in many cases has decreased. It is also unlikely in today's environment that PSBs will be able to sharply increase licensing fees for their content, in part because of their historical mandates. In addition, PSBs have generally provided basic programming to the public that commercial companies have avoided because it was not deemed profitable enough. What's more, audiences now can receive virtually any programming they want and need through private channels and via the Internet, including much of the same programming offered by PSBs.

A dramatic increase in advertising would be difficult to achieve at most PSBs. Even if regulators loosen up rules on the ability of public broadcasters to raise advertising revenue, the PSBs would still have to fight for share in a brutal and sluggish market.

Overall advertising revenues are growing slightly, in line with GDP. In the European Union, for example, ad revenues are projected to grow by 2 percent a year from

2013 through 2020. Online advertising will be the main driver; it grew by 14 percent annually in Western Europe from 2007 through 2011. During that same period in Western Europe, spending on conventional TV advertising contracted by 1 percent annually, radio advertising fell by 2 percent, and print advertising fell by 7 percent.

This growth gap is projected to widen. Globally, television advertising is projected to grow by 6 percent annually through 2017, although much of that growth will be in emerging markets. Growth in radio advertising will be even slower. Compound annual growth in online advertising from 2012 through 2017, by contrast, is projected at 12 percent.

Ad budgets are also shifting toward nonlinear TV. In 2005, conventional TV accounted for 98 percent of the total spent on TV advertising in the U.S. By 2015, it is forecast that 17 percent of the spending for TV advertising will be for nonlinear TV.

Regulatory Constraints

Existing regulatory frameworks restrict both the kinds of programming that PSBs can offer and their advertising options. PSBs also sometimes face legal constraints on their ability to offer online content. In some countries, for example, regulators restrict PSBs from generating advertising from online print content in response to objections from newspapers and magazines, which view the PSBs as unfair competition. Such constraints can seriously impede the ability of PSBs to implement a comprehensive online strategy.

The regulatory constraints on advertising by PSBs vary dramatically from one country to the next. The following examples illustrate these differences.

Existing regulatory frameworks restrict the kinds of programming that PSBs can offer and their advertising options. PSBs also sometimes face legal constraints on online offerings.

- **ORF** of Austria cannot air commercial breaks on TV and must limit advertising to 42 minutes a day. It offers one ad-free radio channel, and its other radio stations can offer 172 minutes of advertising a day. Advertising on ORF's online content consists mainly of banner ads—and revenue is capped.

- **The BBC** can air no TV or radio advertising in the U.K. It has been allowed to take ads on its radio World Service only since 2012. The BBC can run only limited online ads on international Web sites and on mobile applications.

- **SRG SSR** of Switzerland can air a maximum of 12 minutes of both TV and radio advertising an hour—up to a maximum of 15 percent of its airtime—but commercial interruptions are permitted only in programs running longer than 90 minutes. SRG SSR cannot accept online advertising.

- **ARD** of Germany is allowed to feature commercial breaks on TV, but no more than 20 minutes of ad time is allowed before 8 p.m. Monday through Saturday. Sponsorship is permitted, but product placement is not. ARD can air a maximum of 90 minutes of radio ads a day except on Sunday. The PSB may not run online ads.

- **RTE** of Ireland receives half of its revenues from commercial activities. It can air unlimited TV spots. It can also charge commercial prices for this advertising.

RTE has extensive power to accept radio advertising, including airtime, sponsorships, and promotions. RTE's online site is financed entirely by advertising.

How Public Broadcasters Are Responding

Public broadcasters have responded to the challenges of nonlinear media in very different ways. A growing number are, at a minimum, adding digital content to their programming portfolios. Several also offer online TV programming, YouTube channels, and online text of news articles, as well as mobile apps.

The BBC has been in the vanguard among PSBs. It has an original channel for YouTube, for example, and it launched the BBC iPlayer Radio app for mobile devices. The service, which had 1 million downloads during the first two months following its launch in October 2012, offers live streaming of all BBC radio channels, allows users to download numerous podcasts, and provides a function that wakes up listeners with live radio via their smartphones or computers.

PSBs lack a business model for providing leading content across all media platforms even as more integrated and strategic approaches are needed to succeed in a fragmented media environment.

Other PSBs are experimenting with dual screening by simultaneously offering content on different media. To expand its broadcasting coverage of Alpine skiing championships, for example, ORF developed an iPad app that allows users to look up extra information about the athletes and the event. The app also allows users to watch video of the event from different camera angles simultaneously on their TVs and iPads. Swiss and Norwegian PSBs are developing similar multimedia content.

By and large, however, PSBs still treat online merely as an add-on to their linear TV and radio portfolios. They lack a business model for providing leading content across all media platforms even as a more integrated and strategic approach is needed to succeed in an increasingly fragmented media environment.

A Strategy for Cross-Media Success

To stay relevant, PSBs must develop a comprehensive content and platform strategy. They also require structures that ensure that this strategy is effectively and efficiently fulfilled on a financially sound and sustainable basis. PSBs must rethink their organizations and acquire new capabilities to operate using a cross-media approach. To catch up, most PSBs need to at least double the pace of their digital growth. They must also stay abreast of digital technology and service trends.

To accomplish this, we propose that PSBs implement a new system for measuring how audiences consume media content and define their portfolios of content. They also need a way to assess the costs and benefits of programming options through what we call *genre economics.*

Measuring Touchpoints

Broadcasters must first build an in-depth understanding of how their different target audiences—segmented by age, gender, or education—consume media throughout the day across different genres and channels. BCG introduces a new metric we call media touchpoints. A touchpoint is defined as one contact with any media platform during a 30-minute period.

Measuring media touchpoints gives broadcasters a truly comparable view of how media are consumed across platforms. It also captures parallel usage: if somebody watches a two-hour movie on linear TV and spends two minutes checking the Wikipedia page of an actor on an iPad, for example, their actions would count as four total TV touchpoints and one mobile tablet touchpoint. These data points can add depth and detail to information gleaned from other established metrics—such as TV and radio audience ratings and page clicks—that are widely accepted by market participants and advertising clients.

By establishing a comprehensive touchpoint-tracking system, public broadcasters can map the media journey of individuals throughout the day and generate new insights into what really makes content relevant to target audiences. Broadcasters can also measure the "perceived value" of offerings by asking consumers whether or not they would miss PSB content if it were not available.

Touchpoints are a valuable window into media journeys that are increasingly more integrated. Nowadays, consumers may still be reading their morning newspaper over breakfast and listening to the radio while driving to work. But they are also monitoring the news online during work and in the evening, and they may be checking their tablets for more information while a movie is playing on the TV.

To be a content leader among such multitasking consumers of multimedia, a PSB must have a mobile news website, relevant radio news, and a tablet-ready app or website that complements its TV content. It is essential that the broadcaster transform itself from primarily a linear TV and radio organization into one that provides content seamlessly across platforms and is equally at ease in the digital, nonlinear world.

Once a true understanding of the unique consumption behaviors of all the target groups has been achieved, public broadcasters need to refine their content portfolios aggressively.

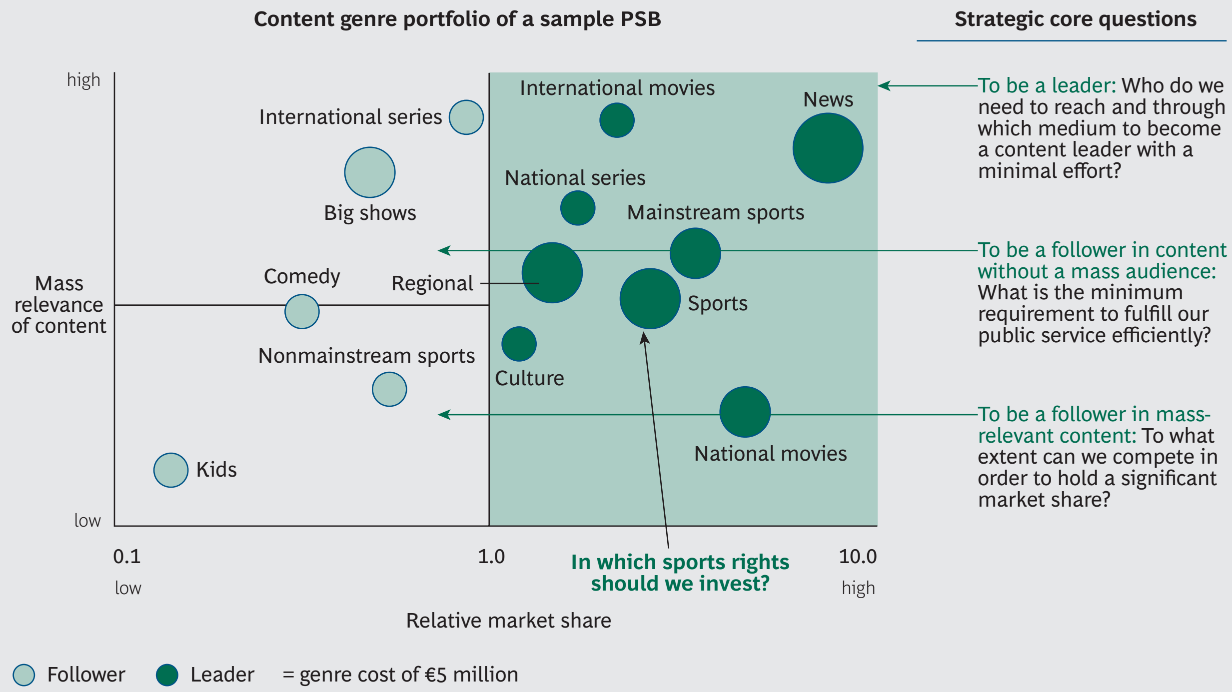
Fine-Tuning the Content Portfolio

Once a true understanding of the unique consumption behaviors of all the target groups has been achieved, public broadcasters need to refine their content portfolios aggressively. They must balance audience tastes—which are revealed through market analysis—with their public mandates. While PSBs must work within regulatory requirements, they often have leeway over where they can place their biggest bets.

Relevance and Reach. It is important to differentiate the programming that is relevant to mass audiences from the programming that is relevant to special interests. This distinction varies by content genre. The mass-relevant genres—those with the broadest reach and the most viewed minutes—typically include news, mainstream sports, and entertainment. Special-interest genres such as children's, religious, and niche sports programming may still be very relevant to certain target groups—but not to a mass audience. New digital-media platforms offer the opportunity to transmit niche programming through online-based networks, which require relatively little investment.

To inform their investment decisions, PSBs must also distinguish between the content genres in which they should strive to be market leaders and those in which they can be followers. (See Exhibit 5.) Already today, PSBs around the world answer

EXHIBIT 5 | A PSB Must Decide Whether to Lead or Follow in Each Content Genre



Source: BCG analysis.

the question about where to play in very different ways, often depending on their history. Many European PSBs that once enjoyed broadcast monopolies remain market leaders in mass-relevant genres, such as news, sports, and entertainment. In the U.S., on the other hand, PSBs have traditionally been followers—with little or no market share—in entertainment and sports.

Genre Economics. Public broadcasters can make better-informed decisions about their investments by deploying *genre economics*—the analysis of the costs versus the benefit for each genre and subgenre. PSBs must assess how much it costs to reach a certain level of consumption per genre and how much of that cost can be financed through advertising, sponsorship, or licensing fees. Comprehensive genre economics reveals which sports rights pay off in high viewership, for example, and how much more it costs to reach audiences with original programming compared with acquired content.

By combining genre economics with touchpoint analysis, PSBs can identify in which genres and media they essentially "overpay" to reach a specific target audience—and in which genres they need to invest more. Genre economics can also reveal the areas in which it makes sense to acquire mass-relevant blockbuster content. For example, can a European public broadcaster get "more bang for its buck" by paying for UEFA Champions League soccer, which is typically watched by all age groups? Or is it better off to opt for the UEFA Europa League soccer, which appeals to a smaller and narrower audience—but also costs much less?

Building Cross-Media Capabilities and Structures

PSBs need to begin breaking down the conventional silo structures that separate TV, radio, print, and online media. Each of these platforms should be integrated throughout the organization. That means PSBs should build cross-media capabilities in everything from market research and advertising to innovation and human resources. At the same time, costs not related to content need to be radically reduced, and activities that are not related to the core business should be outsourced.

Making Funding Sustainable

All of these challenges require a sound and sustainable funding model. Increasing public funding may seem improbable, especially in European economies with tight public budgets. But by transforming their organizations and adopting a more analytical approach to investments, PSBs can achieve more radical cost savings and generate new revenues through cross-media advertising. By maintaining their legitimacy, moreover, PSBs will be in a stronger position to sustain support for public funding.

While growth in traditional TV advertising is stalling, PSBs should improve their cross-media advertising capabilities and leverage the touchpoints that they generate across platforms. PSBs enjoy a very strong position because they are usually the only players in their domestic markets that already offer TV, radio, and digital touchpoints as a one-stop shop. In some countries, however, such an offering would require modifications to government regulations limiting the advertising activities undertaken by PSBs.

Among PSBs' most valuable assets are their reputations as trusted providers of high-quality programming and the loyalty of important segments of consumers for years to come.

Finally, PSBs need to look beyond revenues that stem from pure programming, whose appeal usually is limited by culture or language. PSBs should explore such new opportunities as video-on-demand services, second-screen offerings, and online gaming.

An Agenda for the Nonlinear World

The good news for PSBs is that they still have a number of advantages that they can draw on so that they not only remain relevant but also change the game. Among their most valuable assets are their reputations as trusted providers of high-quality programming and the loyalty of important segments of consumers for years to come.

To succeed in the transition to the digital age, we advise PSBs to adopt the following goals:

- *Strengthen the core.* PSBs must face up to the fact that their legitimacy is at stake. They must adopt a mindset that the goal is to win the customer every day with relevant content on the right media touchpoints. In so doing, PSBs will be able to command healthy license fees and advertising revenue.

- *Build a cross-media organization.* Rather than approaching the media industry from the standpoint of discrete segments—such as TV, radio, and online—PSBs should become cross-media organizations. The cultural transformation should start with the organizational chart; that is, the incentives and career paths offered managers should be geared toward breaking down silos and integrating platforms. General managers, for example, should bring work experience in radio, TV, and online media. PSBs must also build new capabilities, such as expertise in new digital technologies, consumer trends, and market analysis.

- *Get into shape.* In order to free up the resources needed to implement these strategies, PSBs must focus as never before on efficiency, especially in support functions that are not part of their core business, and they must make critical decisions on outsourcing and shared services. Productivity and wage levels must be adjusted to match private-market levels. Consolidating existing business segments will free up such resources as funding and staffing for digital transformation.

- *Engage with the regulator.* PSBs must seek an active dialogue with regulators and educate them about changing consumer behavior in order to update mandates and business models to fit the new digital realities.

Adjusting to the emerging nonlinear-media environment may be a daunting challenge. But PSBs that transform their organizations and acquire the new capabilities needed for competing in the digital age will make the transition successfully.

About the Authors

Antonella Mei-Pochtler is a senior partner and managing director in the Vienna office of The Boston Consulting Group; she leads European marketing at the firm. You may contact her by e-mail at mei-pochtler.antonella@bcg.com.

Tibor von Merey is a consultant in the firm's Vienna office. You may contact him by e-mail at vonmerey.tibor@bcg.com.

Acknowledgments

This report would not have been possible without the efforts of Amanda Provost, Joachim Stephan, Christopher Kanitz, Max Reimpell, Nikolaus von Hesler, Simon Sonntag, Philipp Pachler, Thomas Hoefer, Gudrun Schmirler, Erin Maulday, Fabrizio Genziani, Robin Blumenthal, Diana Shao, and Yoko Yagi of the BCG project team. The authors also would like to thank Pete Engardio for his editorial assistance, and Katherine Andrews, Gary Callahan, Sarah Davis, Mary DeVience, Kim Friedman, Abigail Garland, and Sara Strassenreiter of the editorial and production staff.

For Further Contact

If you would like to discuss this report, please contact one of the authors.

To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcgperspectives.com.

Follow bcg.perspectives on Facebook and Twitter.

© The Boston Consulting Group, Inc. 2014. All rights reserved.
12/13 Rev. 1/14

BCG

THE BOSTON CONSULTING GROUP

Abu Dhabi
Amsterdam
Athens
Atlanta
Auckland
Bangkok
Barcelona
Beijing
Berlin
Bogotá
Boston
Brussels
Budapest
Buenos Aires
Calgary
Canberra
Casablanca
Chennai
Chicago
Cologne
Copenhagen
Dallas
Detroit
Dubai
Düsseldorf
Frankfurt
Geneva
Hamburg
Helsinki
Ho Chi Minh City
Hong Kong
Houston
Istanbul
Jakarta
Johannesburg
Kiev
Kuala Lumpur
Lisbon
London
Los Angeles
Luanda
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis
Monterrey
Montréal
Moscow
Mumbai
Munich
Nagoya
New Delhi
New Jersey
New York
Oslo
Paris
Perth
Philadelphia
Prague
Rio de Janeiro
Rome
San Francisco
Santiago
São Paulo
Seattle
Seoul
Shanghai
Singapore
Stockholm
Stuttgart
Sydney
Taipei
Tel Aviv
Tokyo
Toronto
Vienna
Warsaw
Washington
Zurich

bcg.com