DYNAMIC MEDIA IN TRANSION

A Report on Best Practices in Business Communications

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A Philosophical Perspective

It's all about solutions. Technology is a tool. The medium is not the message. Whether a program is distributed on videotape, via satellite, on a DVD or streamed over an accommodating Intranet, content rules. Yes, some early adapters and media geeks will watch just about anything that demonstrates a bleeding edge technology, but, in the final analysis, media works only if it provides a solution to a problem. It may come as a surprise to some of our readers, but print is also a proven solution. You see, in order to solve a problem the communications must be accessible. If nothing else, print is certainly accessible.

Gerard Gibbons, M.D, president of Visual Eyes, Inc., a very successful Woodland Hills, CA production company, characterizes himself as a "Platform agnostic." *"Digital media,"* he says, *"is only the package for different flavors of content."* This book looks at all the flavors to help our readers identify trends and critical success factors for applying a rich panoply of media to achieve solutions.

We've chosen to use the term "media services" both to identify the various creative and technical media functions such as producing videotapes or duplicating slides and the organizations that create the media in the corporate, non-profit private and governmental sectors and the production community. Media services can be provided by internal departments or by outside vendors, both large and small. Media Services can range from desktop publishing newsletters to producing multi-million dollar motion pictures or sales conferences. The professionals who provide the services include writers, directors, designers, videographers, grips, managers, account representatives – in short everyone who is connected with the concept, design, creation, distribution and management of communications media.

The intention in researching and writing this book was to provide a long overdue update on the state of the industry. While trade publications have filled the gap with articles about certain aspects of the industry, the last broad-brush studies were the private television reports produced by Judith and Douglas Brush, the most recent of which appeared in 1988. The key research is from an on-line survey conducted by AVVideo Multimedia Producer magazine in June, 2000.

A lot has changed since then, most notably the trend toward convergence. The confluence of media suggests that it is no longer appropriate to segregate or narrow the area of research. Instead we felt it essential to look at all media, including print. This broadening of the scope of the study is reinforced by an increasing tendency toward consolidation of media production functions, particularly in internal or in-house media services groups and what we see as the beginning of a trend toward full media integration.

This report also provides some actionable and statistical benchmarks against which media services professionals can measure themselves and their organizations. This report is intended to serve as a practical strategic planning guide – a reference handbook to which the media professional can refer for insights and guidance on the state of the industry and his or her own future direction.

This report culiminates in a pair of New Media Services Models. These models, one for corporate and nonprofit in-house departments and the other for production companies, derive from what our research points to as the benchmarks for the effective media developers and media services organizations of the future.

Executive Summary

On balance, the findings in this report will be reassuring to dynamic media professionals, whether on the client or vendor side. There are no severely ominous clouds in the data, only the constant, and sometimes buffeting winds of change. Conclusion: the business is alive, well and expanding.

The winds of change, mirrored in the report, include a great amount of volatility in the form of both internal and external organization restructuring i.e., mergers, acquisitions, spin-offs, closings and other significant business realignments. These departures from the status quo were most pronounced for corporate media services—particularly Fortune 1000 respondents—and had the least impact on producers. Non-profits experienced change mostly in the form of internal realignments.

The good news is that these changes generally brought with them new customers, increased work, additional functions and often additions to staff. The downside appears to be that the added personnel were often not the equal of the stepped up workload. This was good news for producers who responded to the increased outsourcing requirements that resulted from changes and closings on the client side.

The size of the reporting staff has increased since the mid eighties, but that fact is tempered by survey evidence that shows that the scope and nature of media services has changed and grown since that time. Media managers, clients and vendors increasingly use contract/freelance personnel to meet peak loads and corporations still view support staffs as inviting targets for cost reductions.

Videotape continues to be produced by more survey respondents than any other medium. Film production, among the older technologies, still has a surprisingly significant presence among media applications. Nevertheless its star is fading. Among the newer technologies, Web development has emerged and DVD usage is on the rise.

Expenses (Overhead and Operating, External Services and Capital Equipment) were up from 1998 to 1999 and again from 1999 to the projected 2000 budget. There were some notable exceptions, however, particularly in the Fortune 1000 category. On the production company revenue side the big dollar volumes continue to come from videotape production, print/graphic design and live conferences/events.

Vendors report more outsourcing. Corporations and Non-Profits report more insourcing. Clearly there is more work and, to some extent, everyone wins. The wild cards here are media department closings that often result in outsourcing windfalls for vendors (if they can identify their potential customers).

Finally, Media Asset Management, merely a footnote in our studies a few years ago, is coming into its own. Aided in its growth by the advent of digital storage and certain change management initiatives, media asset management provides the media professional with another tool for driving down costs and increasing efficiencies.

The survey findings point to a business that is changing, growing and thriving. This metamorphosis does not come without jarring shifts, about faces and traumatic dislocations. Yet, as the data suggests, the business and its practitioners are prospering. This prosperity and change is driven by technology, the competitive economic environment and the fertile creative mind of the media professional. None of these are likely to change any time soon.

Survey Overview

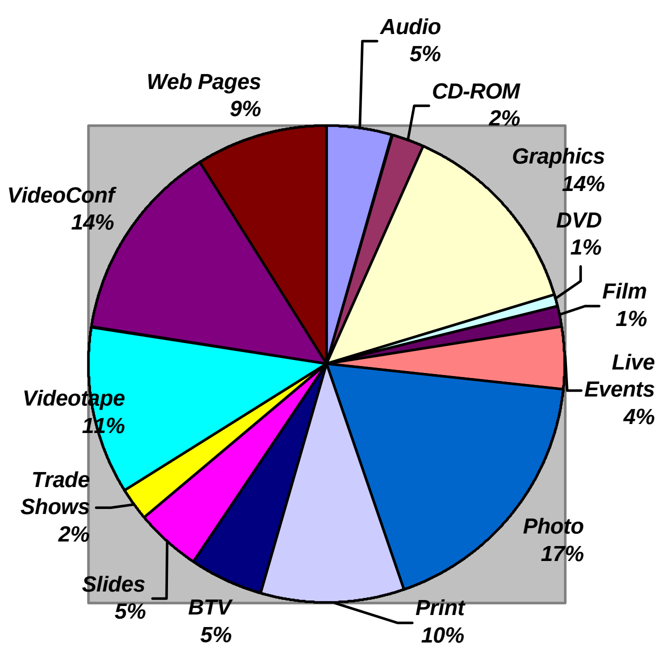
Media services is a growth industry. That is not to say it is unmitigated growth, because there are some valleys as well as peaks. The valleys, however, are becoming increasingly shallow.

Production Trends

Chart 1.1 shows the average percentage of projects of each type produced by Fortune 1000 media services departments in 1999. Photography projects count for the largest number at 17%, followed closely by videoconferences and trade shows at 14%, videotapes at 11% and print projects at 10%. CD-ROM at 2% is slightly above DVD and Film at 1% each.

This is not to say that every media services department in the Fortune 1000 produced this many programs in every media, only that this is the average

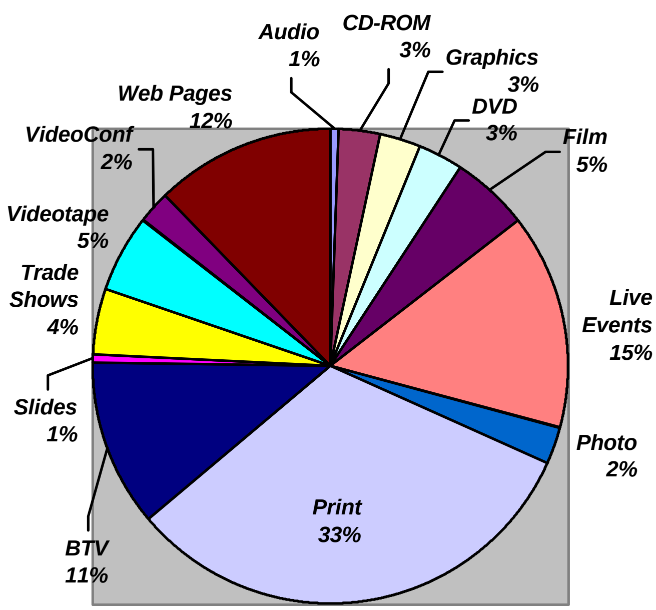
1.1 Average % Projects Produced



number of programs reported by all departments responding to the survey.

The conclusion is that Fortune 1000 media departments are providing a much broader range of services than used to be the case when video, print, conferences and other media were segregated into different work groups.

1.2 Average % Project Expenditures



The overriding trend identified in this study is the consolidation of multiple services into centralized media services departments. This is equally true of corporate media services departments as a whole, though less true in the non-profit sector where media services departments tend to be more specialized. While many production companies have expanded the range of services they offer in recent years, they generally tend to specialize in areas of core competency rather than trying to be all things to all people.

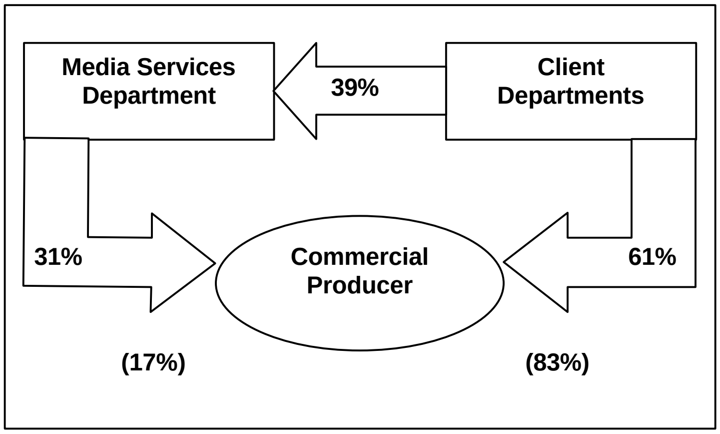
Chart 1.2 shows the average percentage of 1999 budgets spent on each of the media. While audio and slides represent 5% of the project workload, they account for somewhat less than 1% each of expenses. Print, which is 10% of the workload, accounts for the largest share of expenditures at 33%

Similar comparisons make it possible to assess the relative cost of each of the media being produced. Though this chart represents Fortune 1000 media expenditures, the other business sectors track closely.

Bypass work

Bypass work is work done for internal departments which does not flow through the in-house media department. That "bypass" work accounts for a significant amount of revenue for production companies. Unlike most other "manufacturing" type operations, customers may go to in-house suppliers (the media services department) or direct to outside vendors. The media services department/in-house supplier may use those same outside vendors for the exact same services, which that vendor is also providing directly to the client department.

1.3 Budget Flow Analysis



For example, based on the Fortune 1000 responses we can surmise that client departments within the enterprise may spend more than 60% of their media dollars directly with outside vendors, while spending the other 40% with the in-house media services groups. Since 31% of total media services department expenditures are for outside services, that suggests that producers get 88% of their revenue directly from in-house client departments and only 12% from the media service department. Producers would be well advised to pay attention to the potential of this bypass market. In house media departments and their corporate finance and brand identity strategists must be concerned with loss of control from so much work being done outside the media services infrastructure.

Expense Trends

The anomaly of the industry is that technology is anti-inflationary. The cost of each generation of technology is lower. More effective, more efficient production tools are consistently better and less costly than earlier versions. Each new round of hardware and software makes it possible to do more with less. Not too many years ago, the technology was leading the creative curve. Now, as media professionals have learned to expand the envelope, new media tools are being developed at an even faster rate. In effect, Faster, Better **and** Cheaper is the norm.

1.4 15 Year Corporate Expense Trend

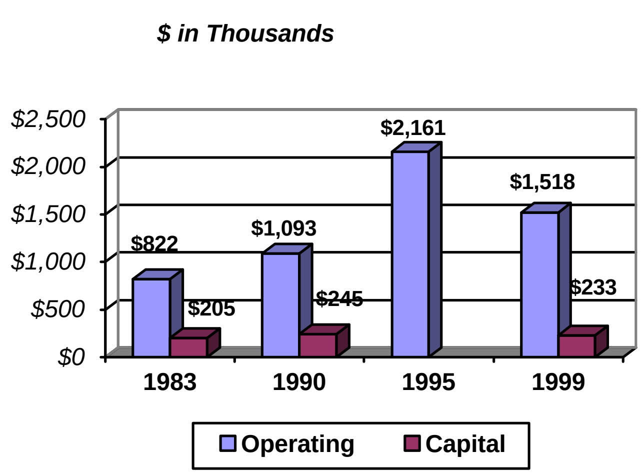
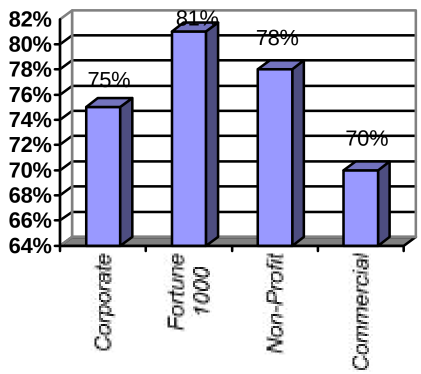


Chart 1.4 tracks in-house operating expenses and capital expenditures drawn from several surveys conducted since 1983. The first three surveys were of members of The Communications Media Management Association (CMMA). The 1995 survey did not ask for capital investments. The Fortune 1000 respondents reported the 1999 data in the AVVMMP survey. The drop in 1999 operating expenses is due partly to the differences in the survey sample, however, there is a relationship between recent downsizings and expense reductions, to some extent mandated by corporate management and, in other cases, made possible through productivity enhancements. Even with that reduction, however, there has been an 85% increase in operating expenses over the 16-year period, which is some 10% above the rate of inflation.

Capital equipment investments have remained relatively flat, increasing only 14% over that period of time, somewhat below the rate of inflation. This is indicative of the increased capabilities and lower cost of the newer generations of production hardware.

Trends in Staffing and Workloads

1.5 % Reporting Increased Workload



Overwhelmingly survey respondents in all groups reported workload increases over the past three years ranging from 70% for the producers to 84% for the Fortune 1000 media services departments. However, as reported in detail in Chapter 2, staff increases have not kept up with that increase in workloads, in spite of the fact that nearly twice as many in-house departments had staff increases as had decreases.

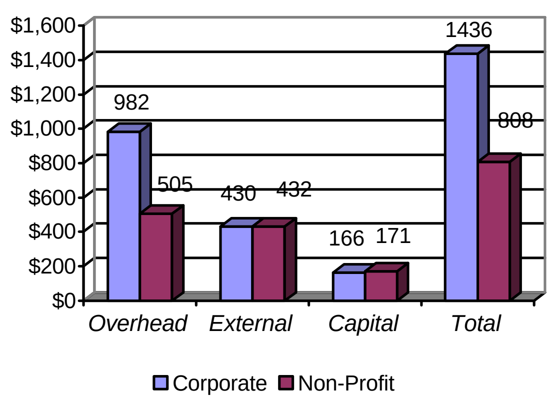
Non-Profits

Based on the findings of this survey, the greatest growth in media services in the near future will likely come from the non-profit sector, primarily driven by higher education and health care sectors. Both are beginning to make effective use of technology, particularly distance learning and the Internet, to reach broader constituencies and lower the cost of delivering services.

Chart 1.6 to the right, 2000 Budget Comparisons, shows that external and capital expenses are about even for both the corporate (Fortune 1000) and non-profit sectors. The difference is in internal overhead expenses, which impact the total average expenses. This difference is largely due to the smaller staffs, and possibly lower pay scales, of professionals working in the non-profit sector.[1]

1.6 2000 Budget Comparisons

Average $ in thousands

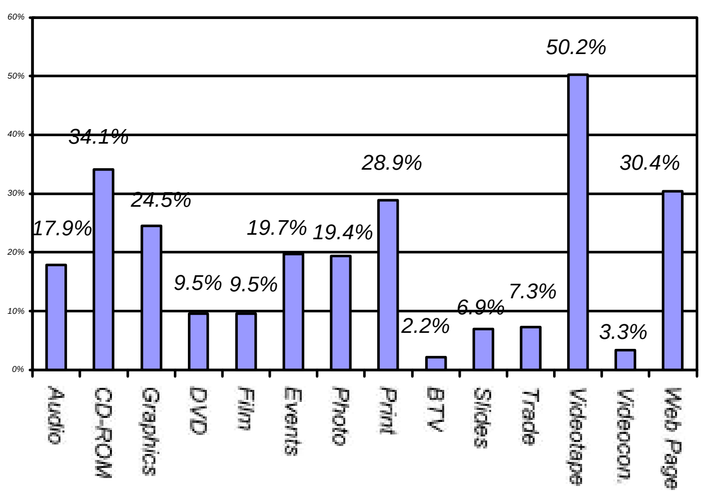


However, if the projected expenditures growth rates from 1999 to 2000 continue for a few more years, we see the non-profit sector catching up rather rapidly. Conversations with people working in higher education and non-profit medical care confirm this projection.

Production Companies

Production companies tend to specialize in one or a few media rather than trying to develop the same range of services as the one-stop in-house media shops. However, commercial producer clients are beginning to demand a broader array of services, which is forcing these companies to either add those services internally or form alliances with other companies that can work with them to meet client requirements.

1.8 % Producing Each Media



For example, a number of respondents said that 80% or more of their business came from just one of the media listed in the survey. Chart 1.8 shows the percentage of respondents producing in each of the media. Videotape is produced by just over 50% of the respondents, with CD-ROM, Web pages, Print and Graphics in the next tier. Film and DVD are produced by an equal percentage of companies, which tracks with the work done for corporate and non-profit clients. Comments made at recent industry meetings confirm that film continues to be an important acquisition medium.

BTV and Videoconferencing are done primarily by a few specialty companies. Media production generalists get involved in the production of tape or graphics elements or to write or direct broadcasts. Slides are obviously declining in importance.

The staffing, skill set and compensation model for the New Media Services model, whether a corporate or commercial producer, is the fewest possible number of people doing the most amount of work in the widest variety of specialties, for the highest possible compensation.

This overview is intended to provide an indication of the detail on the survey findings as well as a wealth of information gathered from interviews and surveys with a large number of media professionals from all areas that is contained in this report.