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Big Media Prospect Untested Digital Claims

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Back in the giddy, gilded age that preceded the tech stock shakeout of April 2000, New York's Silicon Alley was abuzz with talk of a 20th Century Gold Rush, as venture capitalists fronted millions of dollars to just about any dot-commisarr with a rough draft of a business plan and a goofy domain name.

Trouble was, broadband remained in the larval stage, and the advertising model hinged on the impractical banner-ad and its irritating sibling, the pop-up.

By the time the market corrected itself, many New Economy prospectors had already abandoned their pans and pickaxes, having anticipated that such rapid and unchecked growth was unsustainable in the face of a fundamentally unsound revenue model. In short, the whole Internet start-up movement simply did not pan out.

Seven years later, a new wagon train is trundling west, only this time it's Old Media applying the rawhide to the nag. Last week, Viacom began laying off some 250 staffers at its MTV Networks division, thinning the herd in advance of a mandate to beef up its digital media properties. In preceding weeks, NBC Universal, Discovery Communications and Time Inc. made similar pronouncements, accompanied by personnel reductions of varying impact on their respective org charts.

In a memo to staffers sent early the morning of Feb. 12, MTVN chairman and CEO Judy McGrath said that in order to compete in an accelerating digital universe, the company must "refine [its] business and organizational models."

Along with a number of high-level cuts made in its affiliate sales and marketing department, MTVN also shuttered its MTV World suite of digital networks, and moved to consolidate the operations of MTV2 within the flagship network. Significant staff cuts were also made at VH1 Classic and MTV Docs, and the news and online teams were merged.

That MTVN would begin to pull focus from the TV to the digital arena was made explicit by incoming Viacom president and CEO Phillippe Dauman, who in November laid bare his long-term plan to investors in his inaugural earnings call.

"Managing the transition of our business from a traditional linear world to one that embraces the digital world is my Number One priority," Dauman said.

Dauman also said that he aimed to reach \$500 million in digital ad sales before the end of this year. What he didn't say was how MTVN was going to get there in the absence of a standard advertising model.

Earlier this month, when Discovery Communications CEO David Zaslav outlined his own reorg plans, he indicated that he wouldn't be willing to delay the company's digital expansion while waiting around for a standardized ad model.

(At present, clients are stuck with pre-roll spots of varying lengths or standard 30-second spots that are merely repurposed from the linear TV environment.) "To be successful in media you have to be entrepreneurial," Zaslav said. "We can't afford to be late to the party."

Industry executives on all sides of the business seem to agree with that assessment. "They have no choice--they have to do this," said Hal Vogel, principal of Vogel Capital Management. "If you sit still, you're dead."

While acknowledging the risks involved in throwing oneself headlong into the digital unknown, Vogel doesn't buy the Internet Bubble version 2.0 argument. "That's too harsh a judgment," Vogel said. "These are some very smart people who are working to figure out where they need to position themselves. That will take time, but they'll get it done."

Other observers said while they can hear the echoes of the dot-com era's first swell, technological advances and a revolution in social dynamics should help smooth out the bumps the second time around.

"There's a tremendous amount of exuberance in the digital space that's reminiscent of gold rushes of the past," said Jeff Ratner, who buys nonlinear media as MindShare Interaction's North American digital director. "But the difference between now and then is that last time, everyone jumped onstage before the audience had arrived. Now, we know the audience is there and that they're consuming content across multiple platforms."

MTVN is already well on the way to acclimating itself to the nonlinear world, launching MTV Overdrive and Comedy Central's MotherLoad, a pair of ad-supported broadband sites featuring original streaming video content. (VH1, CMT and Nickelodeon have also spun off broadband video sites.) Since it went live in April 2005, Overdrive has become MTVN's leading online destination, averaging nearly 2 million video streams per day.

In the pipeline for later this year is VBS.tv, a broadband channel to be launched by MTVN and the hipster monthly Vice magazine. While MTV would only confirm that it has formed a partnership with Vice, a beta site is loaded with the sort of cutting-edge music and comedy that could appeal to MTV's male 18-34 demo.

If MTVN's digital properties aren't exactly ATMs--Viacom's third-quarter digital ad revenue represented about a sixth of the company's total \$1.09 billion ad sales intake--they're on the right track as far as content is concerned.

"You can't simply just throw clips of your shows on the Web, or just create crappy little low-budget shows exclusively for broadband," said Dave Noll, president of the digital content shop City Lights Digital. "MTV will have to be one of the leaders because their audience is the only one that gets it."

A handful of TV vets seem to get it, too. Jordan Levin, the former CEO of The WB, is a founding partner of Generate, a content-creation and talent-management firm developing multiplatform properties. Levin, who was a pivotal force behind The WB's Buffy the Vampire Slayer, said that if he were to launch that series today, he wouldn't restrict it to the confines of the living room.

"I view everything as an entertainment property. The audience has that desire to create ownership of the show they love and you have to serve that desire," Levin said.

Buffy was a pioneer in the early days of the nonlinear TV experience, inasmuch as the show was fodder for thousands of pre-blog online chat rooms. If anything, that phenomenon has only intensified as the technology has spread. "Audiences demand a lot more and kids have just come to expect a more immersive experience," Levin said.

While Wall Street has been disappointed in Viacom's performance since it split off from CBS Corp. more than a year

ago--shares have dipped 6 percent over the past year, while CBS shares have gained 24 percent--news of the layoffs was greeted with something akin to ambivalence. Shares on Feb. 13 closed down nearly a dollar, but rebounded sharply, ending the week at \$40.53, in the neighborhood of a 52-week high of \$43.87.

Of course, bloodletting is almost never cause for alarm on the Street, where the bottom line is sacrosanct above all things. In a note to investors, Sanford Bernstein analyst Michael Nathanson noted that "top-line has slowed at Viacom, and the new management has inherited a cost structure that needs to be pared down," adding that the restructuring was "nothing too sinister."

The cuts were carried out on the eve of Dauman's second earnings call. Viacom is scheduled to report its fourth-quarter '06 earnings on March 1, and analysts are expecting earnings of 58 cents on revenue of \$3.15 billion, according to a Thomson Financial poll. By way of comparison, the prior three-month period saw Viacom rake in \$2.66 billion in revenue.

Keeping investors happy is a significant factor behind the headlong rush to plant the flag in digital media, said John Skipper, ESPN executive vp, content. "If you're a publicly traded company, you have to position yourself as a new-media operation," Skipper said. "If investors don't have that perception of you as such, you won't see your stock go up."

That said, Skipper believes that there's more to the digital landscape than simply kowtowing to the whims of the wizards of Wall Street: "The advertisers and the consumers are all mobilizing there, so you have to be there to meet them."

ESPN has been one of the few media companies to settle comfortably into the nonlinear space, having been consistent in its embrace of new platforms. ESPN's philosophy of managing content--and its employees--is another differentiator. "We don't lay people off, we move them around," Skipper said.

If the historical Gold Rush of 1849 didn't line the pockets of every hopeful who packed up his family and belongings to make the trek across the continent and into the unknown, failure ultimately served as a catalyst for growth in a country that was still struggling to establish its identity.

As failure became the norm, the willingness to risk failure became the cornerstone of what was to become an entrepreneurial economy. Now, that spirit has transferred from ingots to digits.

"It is an overwhelming and probably the single most exciting time to be in the media business," said John Swift, managing director, PHD US. "We're facing unprecedented challenges in terms of clutter and the number of devices that are available, but these are good challenges to have."