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Lessons from CPG companies for the home entertainment business

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It must be rare to be in the home entertainment business these days without feeling the heat.

Firstly, the movie business is undergoing a major transformation. Gone are the days when studios were great movie idea incubators. Now they also need to be 'brand businesses,' scouting for projects that can be transformed into successful franchises with worldwide appeal to boot.

Here's an example of the heat. A great flick should translate into fantastic DVD sales. At the moment, however, DVD sales are down. Although the economic downturn has significantly reduced America's overall appetite to spend, it was expected that the movie industry was least likely to be affected by the slowdown. However, consumers are now looking for discounts and using coupons whenever they can to save as much as they can. So buying DVDs, which is a discretionary spend, can be postponed or deferred.

According to the Digital Entertainment Group, DVD sales fell 9 percent in 2008, bringing total home video spending down by 5.5 percent to USD 22.4 billion - the first year in which overall consumer spend on home video has seen a decline. In 2009, according to the DEG, there has been a further 3.2 percent fall in disc revenues.

As a result of declining DVD sales, retail margins are impacting retailers' franchisee decisions, stock replenishments, and eventually affecting the operating margins of big Hollywood studios. Talk about a vicious circle.

And the challenge compounds. A number of new distribution channels, technologies and formats are threatening to swamp the traditional DVD store distribution model. Consider Redbox, On-demand and Netflix - just a few of the more successful new formats luring customers away from buying DVDs at a store. Redbox (a low-price rental service) has dealt a death blow to traditional DVD pricing while Netflix and On-Demand have created huge incentives for viewers to stay at home and watch movies without the need to buy DVDs at the store.

In these tough times, media and entertainment companies can draw important lessons from the branded consumer packaged goods (CPG) industry.

As movie studios push to reorganize themselves as portfolios of brands, the home entertainment industry will continue to experience pressure on margins from new formats - no different from the razor-thin margins in the retail industry.

To survive, the best companies will have to create super efficient supply chains. And this is where the peculiarities of the home entertainment industry matter.

Unlike a CPG company's portfolio which is comprised of a few brands with relatively long shelf lives, each movie is a new brand with an effective shelf life of a few weeks. About 70 percent of a movie's lifetime sales take place in the first six to eight weeks. Add to that fickle consumer preferences and the challenges of efficiently managing the supply chain in the crucial first few weeks, and the problem becomes obvious.

Home entertainment companies are also competing with the CPG companies for footfalls. Since the average wallet size - or spending - has reduced, retailers have begun to demand accurate forecasts and to optimize total available shelf space.

Here again, home entertainment companies can deploy the traditional CPG methods of jockeying with retailers and building robust categories. The firm that leads a category will get the retailer's mindshare and the lion's share of shelf space. The only caveat here is that unlike the CPG industry, this jockeying will be done in a rather nebulously defined 'genre' - industry-speak for a category.

DVD retail account managers must also start positioning themselves like CPG brand managers. They must see themselves as custodians of a franchise whose lifecycle needs to be extended and sales maximized with effective campaigns. This includes deploying traditional CPG tactics

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from well-timed pricing cuts to measurable promotions and campaigns aimed at extending new release and 'catalog' (DVDs after the first 12-16 weeks) life.

Another trend to be kept in mind is the localization of content. With more data available on consumer preferences and demographics, research has indicated that customers can, even in adjacent precincts or counties, have dramatically different viewership choices.

A combination of factors such as age, income, family size and ethnographic profile drives what sells at the store. Just as retailers like Macy's and Target are reorganizing themselves around localization, entertainment companies must gear up to offer content that has a local appeal.

These changes require a rapid and effective response from the home entertainment industry - one that starts when they start to approach marketing as CPG firms did about 15 to 20 years ago.

The current economic slowdown offers these companies a chance to re-tool their business models and franchise movies in new ways by deriving insights as to how CPG companies retail and market their brands. One of the best tools they can leverage is the power of enterprise-level data and analytics to drive cutting-edge decision making within the marketing and distribution functions.

Analytics can help home entertainment companies leverage changing customer preferences, new distribution formats and technologies to make the most of the opportunities that will come their way. And perhaps feel a little less heat.

To learn more, please write to us at **info@wns.com**

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