M+E JOURNAL

Charting the Metaverse

The metaverse will prove transformative for M&E. But only when the entire industry gets on board.

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GETTING REAL ABOUT VIRTUAL WORLDS

What's ahead for media companies in the metaverse? Content, community and commerce are about to converge.

ABSTRACT: We examine the role media companies might play in the immersive, interactive environment where viewers consume content—and seamlessly purchase digital or physical goods connected to it. We look at the changes ahead as media companies evolve from content creators and distributors to active liaisons that bring content together with brands. How will they join forces with broadcast and cable companies, communications providers, advertisers, and social media platforms to make content available in virtual worlds? Here are three challenges for media companies and real-world ways to tackle them.

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The potential of virtual worlds dazzles us, and rightly so. The metaverse offers new ways to create, distribute and consume content.

For media and entertainment leaders, the key is a balanced approach that's grounded in reality: It's their job to explore and experiment with content in virtual worlds — and still run profitable businesses.

That is, media companies need to keep it real.

As metaverse strategies evolve, here are three challenges M&E leaders will encounter with steps for addressing them.

VIRTUAL WORLDS NEED THEIR OWN BUSINESS MODELS.

Exploring how the subscription economy will flourish in the metaverse is a key question for media companies. Virtual content

AS WE EXPLORE VIRTUAL WORLDS' potential for content creation, distribution, and consumption, it's critical to view it through the lens of business implications. To keep it real means keeping an eye on the bottom line.

complicates business models in several areas. For one thing, their real-time nature requires the ability to flex quickly to recommend and deliver the content consumers want in each moment, perhaps based on what they're looking at or what's in their peripheral vision.

For another, virtual content raises intriguing questions about exactly how media companies will generate revenue there in addition to their physical and digital channels. Content in the virtual world can be sold in pieces. For example, creating games, short-form content and memes from long-form movies and shows. Shaping a business model for selling content within content is a new opportunity that media companies will need to plan for.

How to address the challenge: all signs are that consumers are willing to open their wallets in virtual worlds: A Gucci bag from the luxury retailer's pop-up store on Roblox sold for the equivalent of $6, and then resold on another virtual platform for the equivalent of $4,100 —$800 more than its real-world counterpart. Despite consumers' willingness to spend, we expect to see the "freemium" model proliferate early on for virtual content, gaining traction for the sector as it has in gaming, where publishers distribute the content for free and generate revenue from in-app purchases or advertising.

Those concierge-level, add-on purchases are likely to be essential for attracting and retaining paying subscribers and creating long-term customer value in the metaverse. For example, subscribers might purchase one-of-a-kind experiences such as exclusive Discords or attending a virtual red-carpet movie premiere, paying for the experience with cryptocurrency or virtual currencies.

Also needed will be a media supply chain that works in any marketplace. Virtual worlds require innovative changes in the way content is served up and what is being served up. Media companies will need to be able to sell on any virtual platform with the same set of tools and supply chain that they use to support physical and digital channels. That flexibility requires repeatable, scalable processes that can ingest large amounts of real-time data and recommend next best actions.

Rights management looms large. Media companies have made great strides advancing rights management from studios to artists and internationalizing it. Entering the metaverse requires rethinking that strategy. How will media companies distribute royalties in virtual worlds that trade in virtual currencies and NFTs? For example, could royalties be paid in Robux? And how will media companies track rights in virtual worlds where they may have no control over how and where content is going to be shown?

Still to be worked out are thorny authentication issues such as how and whether subscribers who purchase content on digital platforms have access to it in on virtual platforms. How will authentication be managed? Who can watch and where?

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How to address the challenge: Establishing a winning strategy for control over content will be paramount. Rights management in virtual worlds requires a way to account for new types of currency and monetization models even as media companies compete against user-generated content from boutique firms and individuals. And the strategy needs to balance media companies' own interests: A subscriber spending time in the metaverse is taking time away from consuming physical and digital media. What's more, the issue of piracy is never far away and hovers over the metaverse. Content security and authentication will be critical.

Rights management in the metaverse also raises the related issue of authenticity, a subject that media companies already struggle as they seek to define and protect their brands amid the tsunami of content. Success in the metaverse will require a strategy for how brands are both represented and offer meaningful experiences.

Data ownership gets complicated. Among streaming services today, media companies have two partners in data ownership: the communications service providers that have a high-level view of where traffic is going, and, often, streaming intelligence or data-analytics companies. The metaverse adds virtual platform providers such as Decentraland and Sandbox to the roster of data owners.

Less clear and perhaps even more important is who will own the customer relationship. Determining who owns — and secures — the experience remains a critical step in extracting value from virtual platforms. Complicating the task is the fluid omnichannel experience that's at the heart of the metaverse: Web3's decentralization means media companies need to create a connected experience for consumers as they move from, say, watching streaming content over an OTT service, to a virtual platform, and then back again.

As media companies navigate the new terrain of data, the ramifications for privacy and analytics are significant. The focus will be to determine what new types of data will be gathered and how companies will use the data to create better CX.

How to address the challenge: Take steps now to own your data. In addition to your companies' content, it's your most valuable asset. How you'll use the additional data from virtual platforms to create more insight requires careful planning that needs to begin ASAP, regardless of where your company's strategy stands in the move to the metaverse.

In addition to using the data to create a better, more competitive CX, more media companies are exploring separate businesses for their data. These new units act as clearinghouses to sell and monetize first-party data. As more companies look to create a separately branded "dataco," key issues related to data ownership include ensuring your media company establishes monetization and retains control among a network of partners.

The efforts are a business opportunity, yet they also speak to the fragmentation within the media industry, in which multiple entities develop and protect their own data. Again, we see the issue of brand and authenticity coming into play here as it's incumbent on companies to wisely manage the voluminous data that's so central to their brands. It's a tough problem that virtual worlds make even tougher for media companies as they evaluate how best to structure themselves to sell the data and adhere to privacy laws that remain in flux.

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