

SWOT Analysis for Discovery Holdings Corp

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Introduction

Discovery Holdings Corporation has built a successful corporate venture based on providing educational content through cable, Internet, retail stores, and public schools. Founded in 1985 by John Hendricks, Discovery offers quality documentaries and has found a niche audience in its intellectually stimulating programming. The company has branched out into online tutoring services, providing educational media to schools, and expansive online content. Discovery's major company competitors are other cable companies and entertainment providers. Discovery focuses on Digital Cable Media, but also provides educational content to schools via subscriptions, homework help services to K-12 students, and sells DVDs, books, and toys through stores across the country.

The company has stayed ahead of the curve technologically by connecting its cable content to its Internet content and investing heavily in digital cable. The company faces competition from rival cable channels the History Channel and National Geographic (Ahren 2006), as well as an emerging and still unrecognized threat from Web 2.0 services. The company has also failed to act on the emerging use of video games as a medium for distributing educational content. Overall, the company is very successful, but it must maintain its corporate strategy of staying ahead of the curve technologically if it intends to continue dominating the market.

Revenue has climbed over the past year while income has leveled off. Operating income for 2006 was \$160 million, below \$166 million for 2005. Third quarter revenue for 2006 was \$722 million, up from \$639 million in third quarter 2005 (Ahrens 2006). Discovery is a top 10 network in primetime among adults 25-54 (Downey 2005).

Strengths

Chief among Discovery's strengths is the company's broad diversification. Its holdings include "the Discovery Channel, TLC, Animal Planet, Travel Channel, Discovery Health Channel and emerging digital tier networks, such as The Science Channel, Discovery Kids, The Military Channel, Discovery Home, Discovery Times, Fit TV and Discovery HD Theater, Online Content, Commerce, Educational Services, and Media (Reuters 2007)." Discovery also has a history of forging alliances with more traditional media providers that have long histories and large libraries of content, distributing BBC content via BBC America (Discovery Corporate 2006, Jan 25), and teaming up with the New York Times to produce Discovery Times (Scocca 2006). A weakening Advertising market and rating problems recently prompted the company to diversify into international markets and begin offering educational content to public schools (Washington Post Staff Writer 2006). Continued diversification will reduce the risks of loss by spreading Discovery's investments across a wide variety of media and business strategies (Griffin et. al. 2007 p.548)

Another of Discovery's strengths is the company's farsighted technological focus. Discovery invested in digital cable technologies long before the technology had become mainstream, so early on, in fact, that Forbes magazine called it "Discovery's Big Gamble (Dubow 1999)." Discovery also expanded its e-commerce business using CommerceHub's Universal Connection Hub and Drop-Ship Master (Brooks 2006). These software solutions will allow Discovery to solidify its matrix relationships between its numerous methods of online retailing (Internetretailer 2006). Discovery's new CEO, David Zaslav, also comes from a strong technological background, as Variety magazine

reported, "Under Zaslav, NBC Universal has extensive plans to transmit its shows to the Internet, iTunes, cell phones and other wireless devices (Dempsey 2006)." In 1999 Discovery signed a content deal with Intellihealth to integrate its cable and online content (Rosen 1999). Such forward-thinking moves give Discovery an edge over its competitors in the technological environment, allowing it to create better entertainment and educational values for its customers (Griffin et. al. 2007 p. 39).

Discovery's third strength is its talent pool, voted one of Working Woman's top 100 companies to work for in 2005 and 2006 (Working Mother 2007). The magazine cited Discovery's flexible working schedule, kid-friendly environment, and extended leave times for new parents in its reasons for accepting the company. Such policies are also forward thinking as, "the next generation of talented, caring and healthy citizens is dependent on their mothers in the workforce today (Evans 2006)." Additionally, Discovery has a history of being able to hire talented CEOs, such as the former head of NBC Universal David Zaslav. "It is a sign of the firm's growth and status in the industry that it can regularly attract high-level network talent such as Zaslav and former CBS executive Billy Campbell, president of Discovery's U.S. networks, hired in 2002 (Ahrens 2006)." Discovery's corporate goals are fun and productive. Educating the masses is a fulfilling career. Discovery should continue pushing the education aspect of the company's media and emphasize the company's mother and family friendly environment.

Weaknesses

While Discovery's focus on digital cable will eventually pay off, as it is the inevitable future of broadcasting, it has also been expensive. Digital Cable is growing at a much slower pace than expected. In 2005 digital cable subscriptions had yet to reach the

40% mark despite steady growth, and international markets are even worse with India at only 5% digital and China having a mere 1% digital cable subscription rate (Breznick 2005). The American Government keeps pushing the drop-dead date for analogue broadcasting back from it's original date of December 21, 2006 now set at February 18, 2009 (Broache 2005). Discovery's best strategy for dealing with the extended delay in payoff for their prescient strategy is to maintain diversification. While cable broadcasting lags behind, the World Wide Web continues to grow. Streaming video gains popularity every day. Plus Discovery's audience tends toward the "upscale, educated adults aged 25-54 (Stay Free! Magazine 2006)," a demographic more likely to own better technologies.

However Discovery's technological focus may also exclude the less tech-savvy demographic. Digital receivers are still prohibitively expensive for many people (\$146 US) (Breznick 2005), and the Internet is complicated to use. These facts prevent a large number of people from accessing Discovery's online and digital content. Time will resolve this weakness as people become more web-savvy and analog technologies die out, but the company can take more proactive steps. For instance, pushing their educational tools in schools gets school kids familiar with these technologies and raises the next generation of Discovery fans.

While Discovery's overall audience is large, it doesn't have any single shows that are big hits. The Big Three networks have shows that bring in millions of viewers, which draws in advertisers, who don't see having a wide variety of shows that bring in smaller audiences as appealing (Pulley 2003). The Discovery Channel accomplished double-digit ratings growth in August 2006 (Discovery Corporate 2006, Aug 2007)), and both the Discovery Channel and TLC finished 2006 with double digit ratings growth over 2005

(Discovery News 2007, Jan 3); however, these numbers don't impress advertisers, and Discovery's attempt to compensate for not having any hit shows, by pulling in an overall larger median audience has had one unintended consequence:

Like many networks that launched with a tight focus, Discovery Channel's image has grown murkier over the past few years as it rolled out general-interest programs like "Monster Garage" and "American Chopper" that could easily air on any number of networks. Adding to Discovery's blurry image is that it has begun competing with itself with its newer networks, including Discovery Health and the Science Channel. (Downey 2005)

Discovery brought in an advertising sales expert from CBS to improve ad revenues (Pulley 2003), but Discovery does fine with ad revenues and should focus on expanding its brand. Discovery's business model should continue to focus on its psychographic, which obviously prefers educational entertainment to the lowest-common-denominator reality shows and sitcoms. Discovery should not dumb down its content to get explosive ratings.

Opportunities

Discovery has cornered the educational media market. There is very little educational content on cable television, with reality shows and sitcoms bringing in the largest audiences (MSN Encarta 2007). Discovery has found a niche with education and capitalized on it by expanding the number of channels, each one focusing on a different field of intellectually stimulating content such as history, medical sciences, and animals. "Journalistic accuracy and high production values of Discovery documentaries have earned the programs a place in the curriculum of numerous educational institutions, from grade schools through graduate schools (Freed 1998)." As Marketing VP Chris Mosely puts it, a "psychographic tie binds [our audience] together--they want information and

they want to be entertained (Stay Free! Magazine 2006)." More recently, Discovery has introduced COSMEO, an online homework aid, and "Discovery has no direct rivals in offering streaming educational videos to the 11 million households with high-speed Internet connections that include school-aged children (Washington Post Staff Writer 2006)." While Discovery should continue to press this content onto educators its focus on public schools at the expense of Universities seems too narrowly focused. Discovery should push into the University market as well.

Time Magazine named Web 2.0 contributors their "Person of the Year" for 2006 (Grossman 2006). Online communities, bloggers, streaming video services, and social networking sites are all harnessing the power of their active user bases to provide content. Under David Zaslav, NBC Universal announced UNBC 2.0. the company's "plan to reposition (and streamline) the company to focus on digital media (Brady 2006)." Now that Zaslav heads Discovery, he can take his experience implementing Web 2.0 at UNBC and apply it to Discovery. Discovery also has an existing expansive online presence, which it can use to leverage its audience into an interactive online community. These communities are then allowed to free-associate, provide news links, amateur content, and other bottom-up creations of which discovery may then take advantage.

Additionally in Discovery's list of untapped technological markets, we find the educational power of video games are only now being realized. Doug Lowenstein, President of the Entertainment Software Association, states:

Everywhere we turn, we hear more about visionary people recognizing how games can help train first responders, how they can help prepare surgeons, how they can help kids manage pain, how they can help prepare air traffic controllers and software engineers. Does it make any sense to you that we can acknowledge all of this, but we can't acknowledge that games can help kids learn about the American Revolution, of the Middle Ages, that they can help kids learn about

biology or physics, or they can help kids understand economics? (Federation of American Scientists 2006)

“Re-mission” is a new video game that allows kids to pilot a nano-character around the human body battling cancer cells (HopeLab 2007). Civilization is a popular game that allows players to learn the intricacies of developing cultures while conquering the world (Sid Meier's Civilization III 2007). The Army uses a free downloadable Bootcamp simulator as a recruitment tool (Gonzalez 2004). Discovery is taking some important steps to compete in this realm with the introduction of its COSMEO subscription-based homework aid (Washington Post Staff Writer 2006), which it has teamed up with DELL computers to distribute (Design Taxi 2006); however, Discovery needs to expand aggressively into the business of making video games. It has diversified into so many other media, this is an obvious complement to their corporate strategy of being on the cutting edge of technology. They should acquire or ally themselves with a video game developer.

Threats

Discovery is no longer the only provider of streaming content online. Google Video and YouTube are now providing access to BBC Documentaries. YouTube and Google’s advantages are their Web 2.0 strategy, harnessing the power of their user communities to provide content. As outlined in Discovery’s opportunities, the company needs a user community to compile and draw users to online streaming video content.

Also on the Web 2.0 front, scientists are forming their own online communities. Seed Magazine has a portal featuring posts from various scientists working in a variety of fields (Seed 2007). While the traditional Discovery audience member is probably not as serious about science as someone working in the field, Institutions of higher-learning are

an obvious demographic Discovery should hope to expand into and not allow other content providers to shut them out of this potential market. Discovery must expand their Web 2.0 efforts. They need to begin building their own user communities and include professional scientists and academics with incentives for providing content. Discovery can then harness from this online think tank, keeping it on the cutting edge.

Because Discovery focuses on educational entertainment, much of their content appeals to educational institutions. Under the Fair Use clause, schools and institutions can show copyrighted materials for educational purposes (U.S. Copyright Office 2007). They don't have to pay royalties to Discovery for each showing. Discovery can limit the impact of this by providing service to educational institutions that is so affordable and with such convenience that it would make more sense for the institution to pay a subscription fee to a streaming on-demand broadcast rather than purchase and store libraries of dvds and books.

Conclusion

Discovery Holdings Corp. has a well-established brand and market share; however, it faces challenges from rivals such as National Geographic, the History channel, and free online content. Discovery has successfully stayed ahead of the curve technologically, but technology changes daily and Discovery must recognize the importance of Web 2.0 online communities and user-inspired content.

Discovery needs to build an online community similar to MySpace or YouTube, allowing users to contribute into a feedback loop of content. It's imperative for Discovery to break into the video game market before other companies scoop them in providing educational content in this untapped medium. Discovery's success is owed in great deal

to its corporate strategy of investing in technologies like digital cable long before their competitors recognized their importance, by focusing on this strategy and investing in Web 2.0 and video game mediums, Discovery will continue to stay ahead of the game.

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