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New Outlook: Channel M founder David Teichner, who will stay on at PlayNetwork.

Vision for Future

MARKETING: PlayNetwork adds video to in-store audio with Channel M pickup.

By JOEL RUSSELL, Staff Reporter

CHANNEL M has the video. PlayNetwork Inc. has the audio. Will these two in-store media companies work well together?

That's the question raised by the acquisition of Sherman Oaks-based Channel M by PlayNetwork of Redmond, Wash. Channel M puts video screens in stores and sells ad time on them. PlayNetwork provides background music for retail establishments.

The strategy of merging the companies was to expand business by putting video screens in stores where they already provide audio, said Lon Troxel, chief executive of PlayNetwork. "Being together provides a natural way to have a conversation to offer music and video," Troxel said.

Channel M has its screens in about 10,000 stores, while PlayNetwork pipes music into 55,000. Adding video screens to even a portion of PlayNetwork's audio customer base will result in healthy growth.

"We are growing our subscriber base over 20 percent annually, and this acquisition

allows us to continue to gain market share," Troxel explained.

Channel M is one of the nation's largest in-store video production and distribution companies, with clients such as Blockbuster, GameStop and Kampgrounds of America.

The company was acquired Nov. 2 by PlayNetwork, which provides in-store music and voice messages for such clients as Starbucks, Nordstrom,

Victoria's Secret, Gap and Macaroni Grill. Financial terms of the acquisition were not disclosed.

In addition to getting advertiser messages on in-store screens, Channel M produces programming for its customers and sells it to them. For example, the screens in Blockbuster stores feature news show-type programming with movie star interviews, Hollywood gossip, trailers for current films — and advertising. The movie studios pay Channel M to show the trailers, advertisers pay for exposure, and Channel M shares the revenue with Blockbuster.

Meanwhile, PlayNetwork provides background music and marketing messages to stores that pay a subscription fee. There is no

advertising in a PlayNetwork soundtrack, except voice-overs to promote the store itself.

Now what happens?

The idea is to make the audio complement the video. For example, the audio in a store could direct customers to video screens to see items on sale and get more information about them.

Channel M's staff of 31 employees, who produce the videos and sell the ads, will remain in Sherman Oaks, and the payroll is expected to grow as the video business expands. Channel M executives David Teichner and Eric Hebel will join PlayNetwork as executive vice president of Channel M advertising and senior vice president of creative media services, respectively. Both will remain at the Sherman Oaks office.

"Channel M's management and board spent a lot of time looking at the market and we came to the conclusion that the PlayNetwork combination was our No. 1 choice," Teichner told the Business Journal.

As traditional media such as TV and newspapers have lost audience, marketers are more attracted to in-store video. While the PlayNet-

work-Channel M combination creates a big player, there are hundreds of other companies that sell video ads on screens in elevators, on gas pumps, in checkout lines and even on college campuses.

Rob Gorrie, president of Adcentricity, an out-of-home video advertising company in New York, said he expects the number of screens to grow rapidly in the next two years. One of the advantages of in-store video is how easy it is to track sales of products advertised on in-store screens.

For example, if Blockbuster advertises a movie at one of its stores, and sales increase for those titles, the company knows that Channel M is working.

"Channel M has a huge opportunity because it can demonstrate the sales lift for items in the stores that appear on their network," Gorrie said.

But a downside might be consumer resistance. Shoppers may sour on in-store media if it becomes intrusive.

"The notion of screens in stores doesn't bother people, but if it gets interruptive, consumers quickly get annoyed," Gorrie said. "If you look back at the history of cinema, when 30-second TV spots first appeared in theaters, people threw popcorn at the screen. The advertising must be done in a way that fits the context and feels comfortable."

Compatible cultures

Teichner took the helm of Channel M after the death of his uncle, who had founded the company in 1989 in Chicago. Teichner later moved the company to Los Angeles. The company secured financial backing from Vintage Capital in 2006 and Ascend Venture Group in 2008.

In early 2009, the company secured a fresh round of financing from Intel Corp. In conjunction with the deal, Intel wanted Peter Lee to join the company; he became chief executive in June. Previously, Lee was vice president of business development for new technology at Walt Disney Co.

PlayNetwork was founded in 1996 by Adam Brotman, currently vice president of digital ventures at Starbucks. Troxel was recruited to replace Brotman as chief executive in 2005. The company has backing from three venture capital firms.

Troxel said that PlayNetwork and Channel M are a good fit, and the match was conceived out of a desire to build business.

"This was never an acquisition for cost elimination," he said. "It was strategic — two content companies that combined provide a unique suite of services."

Like most entrepreneurs, Teichner felt conflicted about relinquishing control of his company, but he knew the sacrifice would be for the greater good.

"You can't be afraid to make the hard decision," he said. "We wanted a global company and it became clear it would be difficult to reach that as a stand-alone company. As we put everything on the board, we could see this would help us achieve what we set out to do 10 years ago."