How are media and entertainment businesses reinventing in an age of transformation?

Discover how industry leaders are adapting their enterprise to drive future growth.

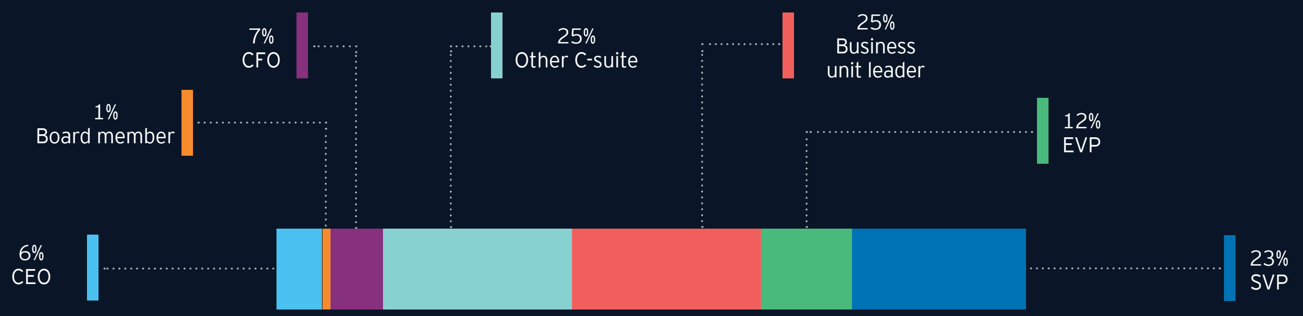
The better the question. The bett r th n r.
The better the world works.

ABOUT THE REPORT

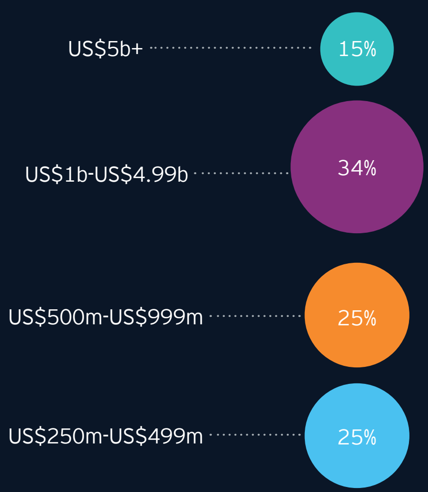
As media and entertainment executives navigate disruption in their industry, they are asking what they should prioritize and also what actions their peers are taking to address market realities and position for long-term success. To help answer these questions, we surveyed over 350 industry leaders from around the world and from across the diverse range of subsectors.

Survey demographics

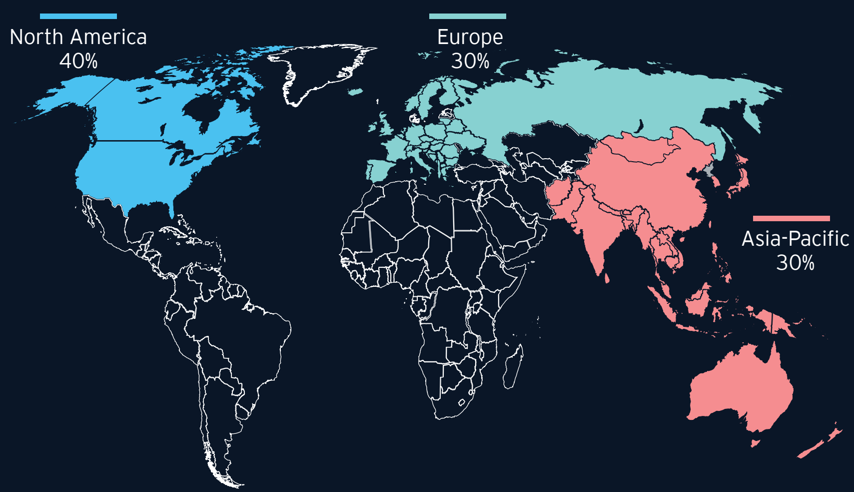
Seniority of role*



Company size*



Geography



* Percentages may not add up to 100 due to rounding off.

Survey methodology

EY analysis is based on a survey of more than 350 media and entertainment executives taking a representative view of companies by scale, geography and industry subsector.

For each question, and unless otherwise stated, executives were asked to select their top three responses from a predefined list of options. For example, a response of 50% means it was selected as one of the top three answers by half of the respondents.

THE NEXT WAVE OF THE MEDIA AND ENTERTAINMENT ENTERPRISE

Over a third of media and entertainment executives say that without reinvention, their company will no longer exist in five years. The latest global EY survey of senior media and entertainment executives highlights how much they understand the imperative for change. Half state that they can no longer rely on traditional business models (50%).

Key findings from EY research

Media and entertainment executives understand the need to change ...

34%

of media and entertainment executives say their companies will cease to exist without reinvention.

... and yet there is real uncertainty about where to start.

28%

of executives admit they don't know what actions to prioritize in the transformation of their business.

In EY research, media and entertainment executives identify three areas of focus:

1 Pursuing operational excellence and agility

Simplification is a hallmark of the new operating model.

55% of executives prioritize consolidation of internal segments to streamline the business.

52% of executives identify de-layering management and increasing spans of control for remaining executives.

2 Rebooting innovation strategy and approach

Balancing sustained success against long-term vision requires a structured approach to innovation.

44% of executives see the pressure to maximize short-term results as their barrier to innovation.

38% of executives see incubators, within the core of the business, as a driver of innovation.

3 Accelerating talent and skills development

Closing talent gaps and building critical skills remain an important driver of change for media and entertainment companies.

49% of executives see the upskilling of the existing workforce as the key to talent development.

61% of executives at companies with turnover between US$250 million and US$500 million see the gig economy as relevant to their talent strategy vs. just 20% for those with turnover above US$5 billion.

THE BURNING

PLATFORM

Asked to identify the most impactful drivers of change on their businesses, some executives look at macroeconomic and political factors, which ebb and flow, but, nevertheless, consistently influence decision-making. However, the survey suggests that there are three drivers of change that remain constant in the disruption of the media and entertainment industry.

- **The dynamic, competitive landscape**. Media and entertainment executives agree that the ground is shifting beneath their feet. The increasing fluidity of companies across sectors is reshaping the landscape as content producers enter direct-to-consumer (D2C) distribution, multichannel video programming distributors (MVPDs) acquire content producers and cable networks, publishers become information services providers, measurement companies move into new platforms and ad agencies explore content creation. In the short term, these shifts propel market share growth, which, in turn, could lead to price competition and pressure on profitability.
- **The pace of technology change**. Executives are also struggling to keep pace with technology changes as they evaluate whether and how to deploy a variety of digital innovations, including virtual and augmented reality, voice assistants, blockchain, artificial intelligence, and now 5G and the Internet of Things. Questions exist, not only about the application of these technologies in developing new offerings, but also about their role in evolving the operations of the enterprise itself.
- **Shifting consumer expectations and trends**. Media leaders also feel challenged by the need to respond to continually shifting customer expectations. This reflects the varying consumer demands in terms of how, where, when and how much they choose to use and pay for products and services.

34%

of media companies will cease to exist without reinvention.

So many levers, so much uncertainty make prioritizing opportunities challenging

Despite the need to reposition their businesses, executives remain upbeat about the opportunities that change presents, including in areas such as competition, talent and even regulation.[1]

If they are to capitalize on the probable benefits of change, executives must decide where to begin. They look for potential within their own businesses, but also ask what others are doing. More than one in four (28%) executives identify the need to reinvigorate their business, but admit they don't know what to prioritize. With so many levers to pull, all of which carry uncertainty and require investment, the starting point often is unclear.

Despite their uncertainty, executives across the media and entertainment industry are taking action. Their decisions reflect what their priorities are and reveal that there is no single path to reinvention. In fact, we find considerable variation in the approach in different subsectors. Their diversity of business models and revenue streams, as well as their relative maturity, leads to a wide array of game plans. For example, at advertising and marketing enterprises, the top initiative is to better utilize increasing volumes of data (48%), reflecting the industry's pivot to addressable advertising and the expectation of brands for greater transparency and ROI measurement. In contrast, data utilization is less of a priority at film and television production companies (33%); instead, they are aiming for improvements in operational execution and delivery (48%).

> “
>
> We are often asked questions about what to prioritize and what are others doing. This research provides answers to how the industry is confronting change.
>
> **John Harrison, EY Global Media & Entertainment Sector Leader**

EY analysis identifies, across all subsectors, three ambitions that media and entertainment companies are prioritizing above all else:

1. Pursue operational excellence and agility

2. Reboot innovation strategy and approach

3. Accelerate talent and skills development

1. For more detail about executive perceptions of the drivers of change, see separate research titled, *Opportunities & Threats*, EY, January 2020.

Top 10 opportunities and threats for Media & Entertainment companies 2020

About the survey

Each year, the EY Global Media & Entertainment Sector details the opportunities and threats shaping the future of the industry. For 2020, as part of this survey, we asked over 350 executives to rank the top 10 change drivers on a scale from positive opportunity to defensive threat.

There is overwhelming positivity about the future.

In a separate report, EY professionals dive further into each of the change drivers, tackling issues that we see as a specific issue. For example, executives identified the biggest opportunity as responding to changing customer expectations and trends, so we took a closer look at the challenge of content discovery and how media and entertainment companies are ensuring their content gets in front of their audiences.

For further information and the full details of the *Top 10 opportunities and threats for Media & Entertainment companies 2020*, go to **ey.com/media-entertainment.**

Change driver*	Positive opportunity*	Negative threats*
Responding to changing customer expectations and trends ***Content discovery, a weapon for winning customers***	63%	25%
Exploiting rapidly increasing availability of data ***Data is everywhere, making sense of it is what matters***	62%	18%
Accessing capital markets ***In the digital world, new levers of value emerge***	61%	29%
Keeping pace with the speed of technology change ***Planning for a 5G future***	60%	21%
Responding to shifting competitive dynamics ***D2C video: finding the right balance***	60%	21%
Responding to geopolitical dynamics (e.g., increasing protectionism) ***Navigating through a volatile geopolitical environment***	53%	32%
Managing increasing regulatory complexity and compliance requirements ***Transform compliance from a burden into an advantage***	52%	33%
Closing talent gaps and building critical skills ***Building the 21st century workforce***	46%	24%
Managing increasing content spend demands and costs ***Creating a sustainable strategy for content investment***	44%	25%
Driving international market expansion ***Partner for success***	42%	27%

* Data from *How are media and entertainment businesses reinventing in an age of transformation?*

Priority 1

Pursue operational excellence and operational agility

In nearly all industry subsectors, the evolving nature of revenue generation – in terms of its mix, model and contribution margin – combined with the pressing need to release capital trapped in the cost base to fund growth, is leading companies to proactively break through organizational inertia to effect change.

Executives identified operating model change and improving operational delivery and execution as the top two priorities on the agenda. Getting the operating model right is considered truly transformational by almost two-thirds (63%) of those who are pursuing the initiative.

The rationale for striving toward operational excellence includes:

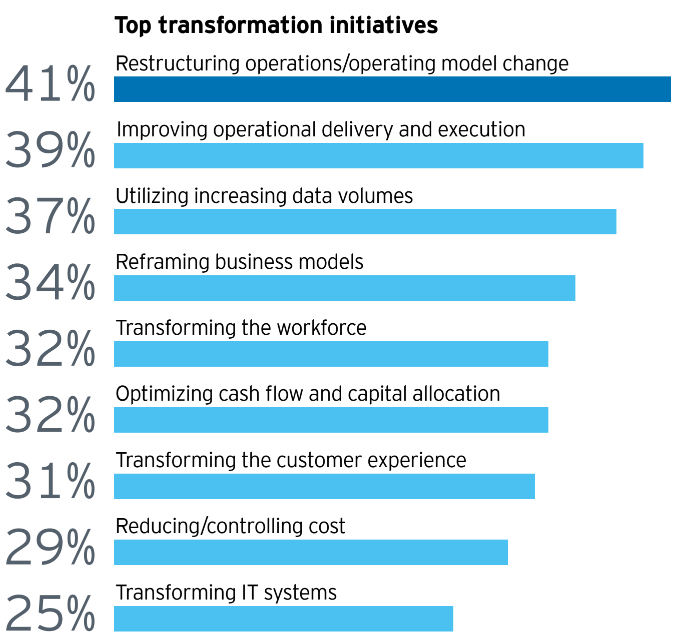
- **Efficiency** – the reduction of costs to bolster margins and the freeing up of capital and other resources for redeployment in areas critical for growth, such as content development, technology or talent, or as one executive stated, "cost savings in day-to-day operations that will enable mission-critical investments"
- **Effectiveness** – the ability to execute flawlessly at speed, or as a survey respondent commented, "operational innovations to improve the way we perform"

Regardless of the subsector, efficiency and effectiveness are rarely mutually exclusive. For example, automation improves execution by enabling processes that were otherwise manual or were impractical under legacy operating models. At the same time, automation, according to 46% of the industry executives surveyed, is the single most important tactic for cost savings.

Driving the next-generation media and entertainment operating model is key to achieving companies' strategic goals

Q Thinking about the transformation initiatives that you are focusing on over the next 12 months, which ones are most critical to achieving your strategic goals?

(Rank top three priorities)



55%

of executives want to streamline their business by consolidating internal segments.

Keep it simple

The consolidation of segments ranked highest overall (55%) for media executives aiming to streamline the operating model. Integrating overlapping businesses, duplicative regional infrastructures or even the merging of stand-alone divisions creates synergy opportunities that can help drive cost savings and value creation. Successfully achieving an effective internal combination, particularly at larger, complex enterprises, often requires the same project-management approach and discipline necessary for post-merger integration programs. In both situations, many distinct functional work streams — ranging from sales, finance, technology, HR, procurement and the like — must work in concert to reach the desired outcome.

Of all media subsectors, advertising and marketing services respondents were most focused (70%) on transforming the operating model through internal consolidation. The agencies are gradually bringing together vast, diverse portfolios of relatively unconnected businesses built through multiyear acquisition programs to retire multiple subbrands, simplify offerings and generate efficiencies.

Related to internal consolidation is the de-layering of management and the resulting increase of the spans of control for the remaining executives. Over 50% of all media executives surveyed rate this as a priority action, with advertising and marketing services again ranking above average (61%); film and TV producers (70%) and information services companies (60%) are also seeking to reduce management layers.

Simplification of the enterprise is a major factor for advertising and marketing companies

Q What initiatives are you focusing on to restructure operations and for operating model change?

(Rank top three priorities)

Top initiatives to restructure operations and for operating model change

	All media and entertainment	Advertising and marketing
Internal consolidation of segments	55%	70%
Managerial de-layering/increased spans of control	52%	61%

Deal with the data

Market success will largely depend on media and entertainment companies' ability to make the most of the data that resides in and is generated across their enterprises.

Almost two-thirds of media executives see the increasing availability of data as an opportunity (62%). In some subsectors, such as information services — where data underpins the entire business model — the development of data products and services is logically the top priority. Yet, many companies have not yet perfected the art of collecting, sharing, analyzing, utilizing and protecting data.

62%

of executives prioritize the opportunity in data.

56%

of executives prioritize building first-party data vs.

13%

who prioritize third-party sources.

Major categories on the media company data agenda include:

- The consolidation of existing customer data (44% overall, ranked highest by broadcasting, cable and OTT (over-the-top) networks at 71%), thereby better understanding what they have today
- Enhancing the data analytics skills of the organization (42% overall, ranked highest by sports and live entertainment companies at 50%), thereby doing more with the data they have
- Developing proprietary sources of data (40% overall, ranked highest by advertising and marketing services companies at 52%) to better leverage what is available, but untapped, in order to stimulate incremental commercial opportunities

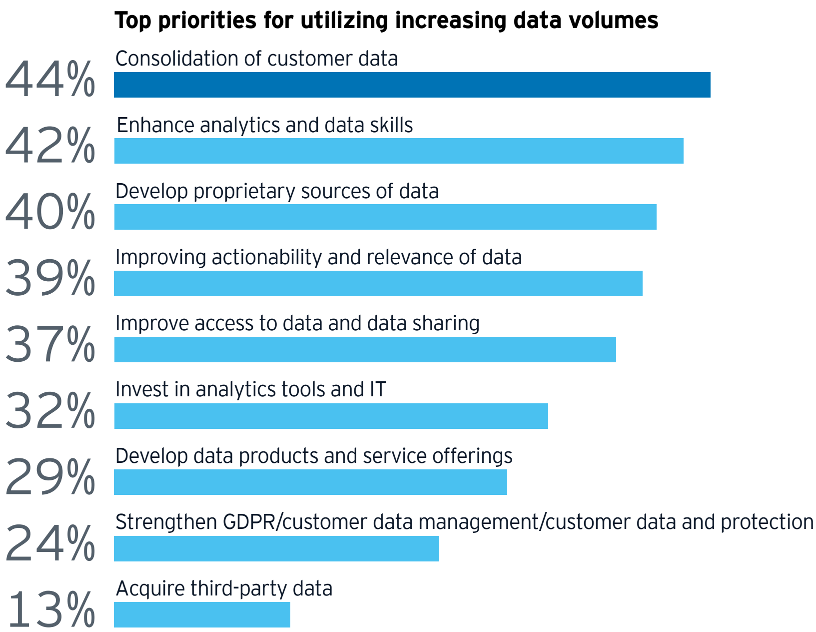
Realizing benefits from data is one of the most crucial tactics for transforming the customer experience. Broadcast, cable and OTT networks, nearly all of which are pursuing some form of direct-to-consumer (DTC) relationship, see building first-party data capabilities as a top priority (56%) for increasing customer insights, innovating customer interfaces, and improving customer acquisition and retention performance.

Interestingly, the least important priority for media leaders is the acquisition of third-party data (13% of respondents ranked this as a top action item).

Getting to grips with data is about improving current capabilities

Q What initiatives are you focusing on for the utilization of increasing data volumes?

(Rank top three priorities)



Focus on the strategic

The modern media company is far more digital, data-driven, process-heavy and complex than ever before. Aligning with these dynamics is an ever-changing regulatory, political, tax, financial reporting and compliance backdrop, especially as media companies extend their operating footprint around the world to far-flung jurisdictions with distinct characteristics. As these trends intensify, media executives are constantly looking for ways to meet their objectives and obligations, unburden the enterprise, and redirect management focus and resources on the most strategic areas.

To optimize the execution of corporate activities that are subject to regulatory and compliance scrutiny, many media companies are centralizing functions into shared services frameworks, either insourced or outsourced, to mitigate the effects of the complex environment (e.g., the continuous need to invest in specialized talent, training and technology). For example, companies increasingly are working with third parties to run key areas, such as tax, internal audit, legal, third-party risk management and cybersecurity as a managed service wherein the external partner delivers expertise and up-to-the-minute capability and technology.

Function centralization and outsourcing are ranked as major priorities for broadcast, cable and OTT networks (67%), MVPDs (67%) and information services companies (55%). These subsectors and others view the streamlining or even removal of non-strategic, non-core elements of processes and compliance in the back office as key to improving both effectiveness and efficiency.

Usher in the new or build on what works

Reframing the business to capture the wide variety of opportunities developing in the marketplace is essential for media and entertainment companies as they navigate the turbulence of disruption — being nimble is a prerequisite for success. Transformational initiatives around customer targeting, product and service development, sales, distribution and new market entry are all in play as the industry continues to evolve.

A relevant example can be found in the film and TV production subsector. Studios understand the upside potential arising from the growth in demand for content as the "streaming wars" go global. These companies are moving their businesses forward by prioritizing selling to new customers (69%), especially streaming-only networks with deep pockets, and upselling to existing customers (46%) that are making bold bets on DTC and need fresh programming to support their service launches. They also view international expansion as a route to additional growth (54%). Production companies place the least emphasis on fundamental changes to their product offering (15%) — compelling content always sells for studios.

In contrast, executives in many other media subsectors are focused on invigorating their product and service offerings to power the future of their business, most notably sports and live entertainment providers (57%), which are facing massive competition for ticket sales and customer attention; advertising and marketing services companies (56%), which are seeing their customers insource agency activities; and MVPDs (50%), which are dealing with cord cutting and looking at 5G wireless on the near horizon.

This emphasis on product development requires a clear understanding of the shifting market and the ability to innovate, the latter of which often is a challenge for many media and entertainment companies.

Priority 2

Reboot innovation strategy and approach

As history highlights, many successful media and entertainment companies have had strong, charismatic figureheads, entrepreneurs and visionaries who seemingly define their organizations in their own image. The industry leaders of today continue to be integral to innovation – across the industry, just 18% of executives see a lack of leadership buy-in as a barrier to innovation. However, there is scope to do more. Only 20% of media and entertainment executives consider their corporate strategy and the vision of the CEO as a leading driver of innovation in their enterprise.

A major challenge is the conflicting pressure to deliver today while planning and investing for tomorrow, finding the balance between sustained performance and long-term innovation. Almost half of the EY survey respondents (44%) identified this as a top barrier to innovation.

By necessity, this conflict leads to an innovation strategy that incorporates multiple horizons, not all of which knit seamlessly together. As one media executive noted, "The general idea here is to define steps for the next three, five, seven years and so on," and then calibrate investment decisions accordingly, while maintaining growth, profitability and free cash flow.

Short-termism is less of an issue as companies get bigger. However, it is still a barrier for 36% of executives at companies with revenue of more than US$5 billion. Coupled with 40% of executives struggling to establish a clear business case for innovation initiatives or a path to a return on their investment, there is a challenge in both thinking and realizing the long-term strategy.

In the pursuit of innovation, media and entertainment companies utilize a variety of approaches and methodologies, ranging from appointing chief innovation officers to foster ideation from within the company to establishing in-house incubators, funding external venture capital investments or sourcing disruptive capabilities through acquisitions. Developing a network of external advisors to showcase new opportunities also is a key ingredient for a robust innovation program.

Analyzing innovation through a subsector lens does not result in a clear conclusion about which approaches are most prevalent – companies across the media industry are deploying a full arsenal of innovation strategies in the hunt for future growth.

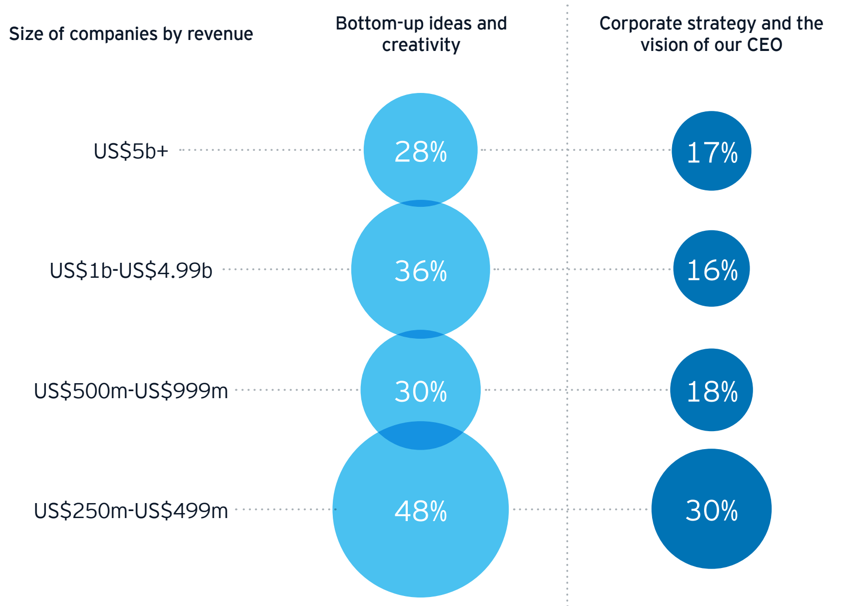
However, when assessing innovation in the industry based on company size, as measured by annual revenue, distinct differences arise. Smaller media enterprises (sub-US$1 billion) with more limited investment capacity put greater weight on driving innovation through bottom-up creativity and organizing in-house incubators, effectively bootstrapping new businesses from within. Larger companies (over US$5 billion) naturally have more significant resources to deploy. These companies put greater emphasis on sourcing innovation through corporate venture capital, M&A and high-profile hiring. Coordinating innovation and allowing ideas to flow up through the company are inherently more challenging if the organization is mature, siloed and diversified, indicating why larger enterprises find structured approaches more effective.

> “There’s no one path to innovation but it’s clear that it doesn’t happen by accident; it needs structure, leadership and above all recognition.
>
> Martyn Whistler, EY Global Media & Entertainment Lead Analyst

Larger enterprises need to encourage everyone to play a greater role in innovation

Q Thinking about how innovation in your organization is inspired and driven today, what are the most important tactics or sources of inspiration? (Rank top three priorities)

Inspiration for innovation



Priority 3

Accelerate talent and skills development

Like every industry, managing today's workforce presents complexities for media and entertainment companies. Demographically, there are four generations in the workforce coexisting currently: boomers, Gen X, millennials and the oldest members of Gen Z. As a greater percentage of Gen Z moves into their working years, soon to be followed by members of the yet-to-be-named youngest generation who are spending their formative years fully immersed in technology, we can expect tomorrow's workforce – with its demographic spread and range of backgrounds, habits, demands and expectations – likewise to be very different. Employee attitudes about the workplace are changing quickly. For many, work is more than "checking into" a job; rather, work is a vehicle for making a difference. Purpose-driven, socially responsible organizations have become magnets for young talent.

33%

of executives identified the need to close the talent gap and build skills as a driver of change.

In this context, the need to close the talent gap and build skills is rising in importance. Across the board, 33% of executives identify talent management as one of the greatest drivers of change in their business, ranking higher than competition, technology disruption or even changing customer expectations.

Potentially more disconcerting is how much the talent gap is viewed negatively. When we looked across all drivers of industry change, nearly a quarter (24%) saw talent as a threat, making it both the largest driver of industry change and the most negative.

Consequently, media and entertainment executives see solving this talent equation as central to their future success.

A failure to bridge the talent and skills gap continues to hold companies back, hindering their ability to adapt and compete. Among the biggest barriers to innovation in media companies are inadequate skills and training (30%). An even more significant blocker to innovation for 41% of media and entertainment executives is cultural inertia or resistance to change, which links directly to the people model.

When deciding how to accelerate their talent transformation, executives face a paradox. Workforce requirements are in constant flux. The need for digital skill sets is now the norm, but changing technology continues to shift expectations and requirements. To remain relevant, workers need to migrate up the value chain, reinventing themselves and constantly improving their capabilities. The relevance of expertise over experience tips in favor of the former.

Among media executives, the preferred option for accelerating the development of talent is to upskill the existing workforce (49%). If given a free hand, more than one executive identified training as the thing they would choose for transforming their enterprise. As one executive stated, "People development, that will get us where we want to be."

If upskilling is the preferred option, going externally to recruit new skill sets also remains an important part of the mix and a tactic for 36% of media executives. However, an overemphasis on recruitment creates a potentially costly cycle of short-term fixes.

The gig economy may offer a solution to this paradox. Contingent workers provide easy access to relevant skills and talent without the long-term costs of training and upskilling. Freelancers have long been a mainstay in the media industry, especially in sectors such as advertising and TV and film production. Of companies in the US$250 million to US$500 million range, 61% identify the gig economy as relevant to their talent strategy vs. 20% for enterprises with revenue of more than US$5 billion.

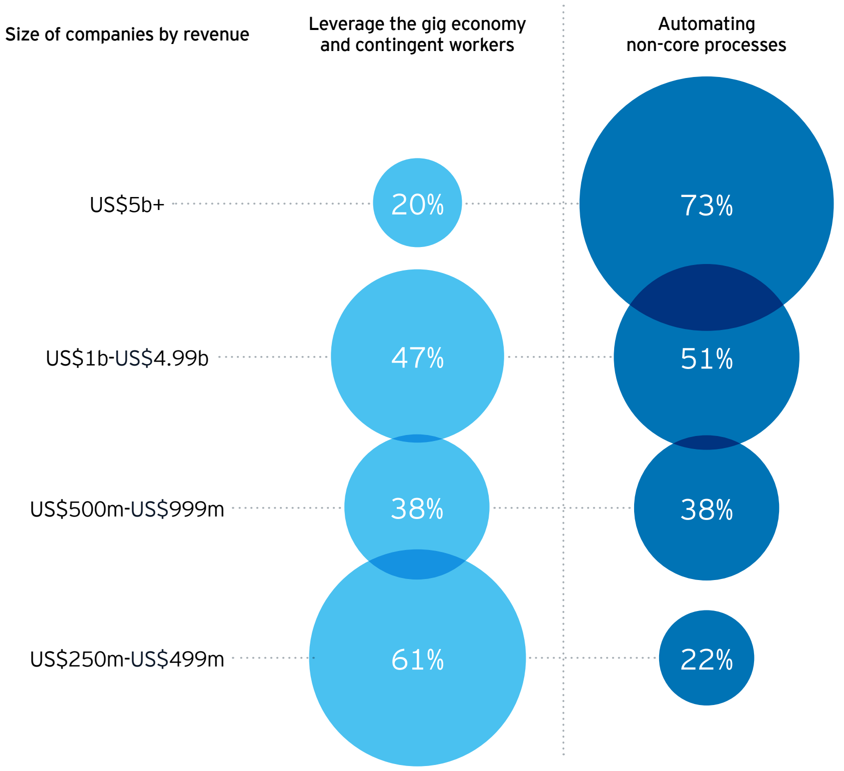
49%

of executives prioritize upskilling their existing workforce as the best way to develop talent.

Scale correlates to a media and entertainment company's talent and people strategy

Q What initiatives are you focusing on to transform the workforce? (Rank top three priorities)

Priorities for transforming the workforce



CONCLUSION

Although there is much uncertainty in terms of what the future holds, there are three constants driving disruption in media and entertainment: a dynamic, competitive landscape; technological change; and shifting customer expectations. By prioritizing three levers of action, media and entertainment companies can address their short-term challenges, while simultaneously preparing for long-term value creation.

Operational change

The pursuit of operational excellence needs to balance efficiency and effectiveness for a media and entertainment enterprise that will compete in a rapidly changing ecosystem.

Focusing on only one of these will deliver short-term, but unsustainable, results.

Innovate by design

Innovation is a deliberate action, supported by clear structures, leadership and processes.

At the same time, innovation approaches must be multifaceted, relying on more than isolated initiatives or narrowly defined approaches.

Focus on core skills

Building an environment of continuous learning and development is essential to sustain the evolution of the enterprise.

The rapid pace of change in media and entertainment makes upskilling an effective way to ensure capabilities keep pace.

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