

SUMMARY

How do you turn disruption into transformation?

Ten Opportunities & Threats for media
and entertainment companies | 2019

The media and entertainment industry is squaring up to the challenges of shifting customer demands, technology innovation, regulatory and policy upheaval, and a strategic reshaping of the competitive landscape. In the latest look at the biggest opportunities and threats facing the industry, EY Global Media & Entertainment Sector team highlights the priorities for industry leaders and how they can respond.



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Building a better
working world



Win the battle for content

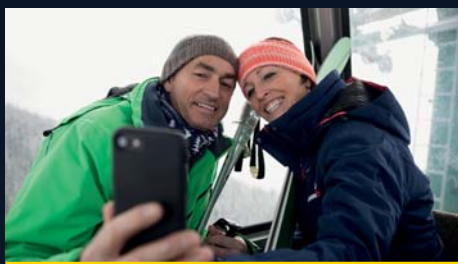
The stakes are high. Media and entertainment companies are placing bigger, more expensive bets on content as part of an escalating arm's race against powerful, disruptive competitors. In addition to developing original, exclusive content, media and entertainment companies are investing to lock in the best talent (on and off-screen) as well as in new formats and genres. The winners in the fight to attract and retain audiences will have more than deep pockets. Success will require a clear strategy that is operationally real. Decisions about content acquisition and exploitation will leverage insights derived from data inputs sourced throughout the enterprise to maximize both distribution and monetization. Companies will increasingly utilize a suite of intelligent, automated technologies to efficiently create, manage, customize, distribute and monetize content that satisfies audiences' ever-evolving appetites and drives successful business models.



Choose open or closed models

Audiences lead the way and media and entertainment companies must follow. As consumption patterns change, companies are on a relentless treadmill, rethinking the tools and capabilities they need to reach audiences and make money. As companies increasingly seek to rebalance the business model from advertising and wholesale distribution to "retail" revenue streams, direct-to-consumer models will take center stage.

Many traditional media companies will need to build marketing muscle around customer acquisition, engagement and retention. They will have to create frictionless experiences around their content and brands, while ensuring that the level of differentiation is sufficient to compel consumer payment. Even if media companies have these skills (many do not), they will need to evolve to compete, bringing more rigor and technology into their approaches. They will also need to understand the financial impacts of accelerating changes to content and monetization models, which will force tough, long-term decisions about investing in exclusives and originals to attract viewers, marketing their experiences and brands at scale to the right consumers, and generating revenue through subscriptions, licensing, advertising or some combination of each.



Expand the spotlight beyond Gen Z

Media and entertainment companies, have been laser-focused on Gen Z and Millennials, potentially at the risk of overlooking older generations. By 2020, for the first time in human history, the world's population aged 65 and older will exceed the number of children under the age of five.¹ Not only is this older age group large but they are affluent, tech-savvy, loyal and enjoy the most leisure time. It is a compelling mix.

To seize the opportunity media and entertainment companies must focus their attention (at least some of it) to understanding the unique features of this older demographic, creating products and services that appeal to their lifestyle and media consumption habits, reaching them with relevant marketing messages through the channels they trust.



Embed comprehensive cyber strategies

Considering the growing threat environment, media and entertainment companies must devise a comprehensive, multilayer cybersecurity risk management strategy that extends throughout the enterprise. This includes protecting the right assets, managing third-party risks, developing a cost efficient and effective cyber risk organization and resource model, and leveraging new technologies such as automation to improve speed in their security organizations.



Recalibrate for growth

Media and entertainment business models are in constant flux and many traditional companies are struggling to find their way in the new, fast-paced reality. After years of disruption, they face a dual dilemma - how to invest in today's promising but cash-burning businesses while simultaneously navigating the shift from legacy operations that remain profitable but tethered to the past. This puts capital allocation strategy as a top priority. With the pressure to meet changing expectations, some are taking a step back to identify routes to long-term, sustainable growth. The conversations are difficult and require transparency from the teams in the trenches all the way up to the board.

¹"Ageing and health," World Health Organization, February 2018, <http://www.who.int/news-room/fact-sheets/detail/ageing-and-health>, accessed October 2018.



Automate for effect

Across all media and entertainment sub sectors, traditional incumbents are vying with heavyweight technology companies with more nimble ways of operating and scaling. Media companies often are affected by inertia with a remarkable number of processes - both consumer-facing and behind the scenes - driven by highly manual and archaic operations. In this intensely competitive industry, the ability to use technology and lose legacy behaviors enables leaders to execute efficiently at scale.

Deploying intelligent automation (IA) solutions offers an operational edge that can result in improved margins while also serving as a catalyst for innovation throughout the enterprise. The sheer scale and complexity of the potential options for content creation, distribution and monetization beg for more use of data and technology; without a robust exploration of intelligent automation, companies will struggle to take advantage of machine learning and artificial intelligence to optimize business results.

To deliver on the promise of efficiencies and enhanced capabilities, IA needs to be applied, not implemented. IA is a technology solution; however, it must be accompanied by a program of integration and change management that has strong buy-in, governance and trust.



Obsess about the customer

Digitally native, technology companies have taken products and services that consumers crave and delivered them in a seamless, frictionless and personalized experience.

Since consumers compare experiences across providers, the digital leaders have set a benchmark for everyone. As a result, media and entertainment companies are no longer valued solely for the video, music or information they provide, but for the customer experiences they wrap around their core offerings.

In many cases, media and entertainment companies will need to reorient their business and understand the human expectations around frictionless interfaces and transactions. They will need to replace trickle-down decision-making with agile, integrated approaches to decision making that are fueled by data and work across silos of the business. It is critical to unify customer data to achieve a 360-degree view, deploy an agile and connected technology stack and transform the operating model to break down organizational silos.



Prepare for a taxing future

At no point in corporate history has there been so much upheaval in tax. A raft of macro trends and shocks, combined with the inexorable retooling of corporations into the digital age, is creating multiple tracks of transformation. Additional layers of complexity come from within the media industry. As over-the-top (OTT) content distribution models evolve and media companies utilize different platforms and work with new partners and in new markets, they need to understand the tax risks and rewards.

Not only do tax directors need to make plans in increasingly uncertain times, they need to deal with current regulation and anticipate new regulation, transform their tax function and at the same time deliver on the strategic and compliance needs of their business. To achieve all of this, they need flexible and adaptable tax operations, which allow them to focus on what is strategic and adds value.



Rethink advertising experiences and incentives

The current media landscape is caught between two very different forms of marketing: performance-driven marketing built in the native digital world defined by targetability and precision, and brand marketing built on scale and efficient distribution. Increasingly, marketers will need to strike a new balance to understand the precise math of these differing approaches to marketing. And, unfortunately, the evolving advertising market is not yet fluid to enable the calculations to move seamlessly between traditional, linear media and digital formats. While digital continues to ascend, there is still remarkable scale and importance on more linear experiences, which must be enabled for brands to achieve their goals.



Transact to transform

Media and entertainment M&A remains robust. The focus is on high-impact transactions that build convergence offerings and scale. In a disruption-led world, companies are keen to unlock and exploit content and distribution synergies, build a strong direct-to-consumer proposition and create international opportunities.

The challenge for media and entertainment companies lies in execution. To realize full potential in M&A, acquiring companies need to single out the specific drivers of value in a deal and understand how these drivers fit with the existing operations, and then implement an integration program designed and calibrated to achieve the desired outcomes.



EY Contacts



John Harrison

EY Global Media & Entertainment Sector Leader
john.harrison@ey.com
+1 212 773 6122



Janet Balis

EY Global Media & Entertainment Advisory Leader
and EY Americas Marketing Consulting Leader
janet.balis@ey.com
+1 212 773 1422



Ian Eddleston

EY Global Media & Entertainment Assurance Leader
ian.eddleston@ey.com
+1 213 977 3304



Will Fisher

EY Global Media & Entertainment Transaction
Advisory Services Leader
wfisher@uk.ey.com
+44 20 7951 0432



Alan Luchs

EY Global Media & Entertainment Tax Leader
alan.luchs@ey.com
+1 212 773 4380

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