



Top 10 opportunities
and threats for Media
& Entertainment
companies 2020



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Introduction

The media and entertainment (M&E) industry continues to experience unprecedented change, with soaring customer expectations; a rapidly growing list of new, enabling technologies; a volatile macroeconomic and regulatory environment; and an intensification of competition.



Every year, the EY Global Media & Entertainment Sector team details the opportunities and threats shaping the future of the industry. This year, we asked 350 executives from companies of different sizes, geographies and industry subsectors to rank the top 10 change drivers according to whether they are an opportunity or threat. Respondents expressed an overwhelming positivity about the

future, with widespread optimism outweighing negative sentiment. In the following pages, we dive further into each of the change drivers, tackling issues from escalating content costs to 5G. We detail the strategies and tactics for management teams to deploy in response to, or anticipation of, this shifting environment.

Opportunities and threats – rankings

Change drivers¹

Responding to changing customer expectations and trends
Making content discovery a weapon for winning customers

Exploiting rapidly increasing availability of data
Data is everywhere, and making sense of it is what matters

Accessing capital markets
In the digital world, defining the new levers of value

Keeping pace with the speed of technology change
Planning for a 5G future

Responding to shifting competitive dynamics
DTC video: finding the right balance

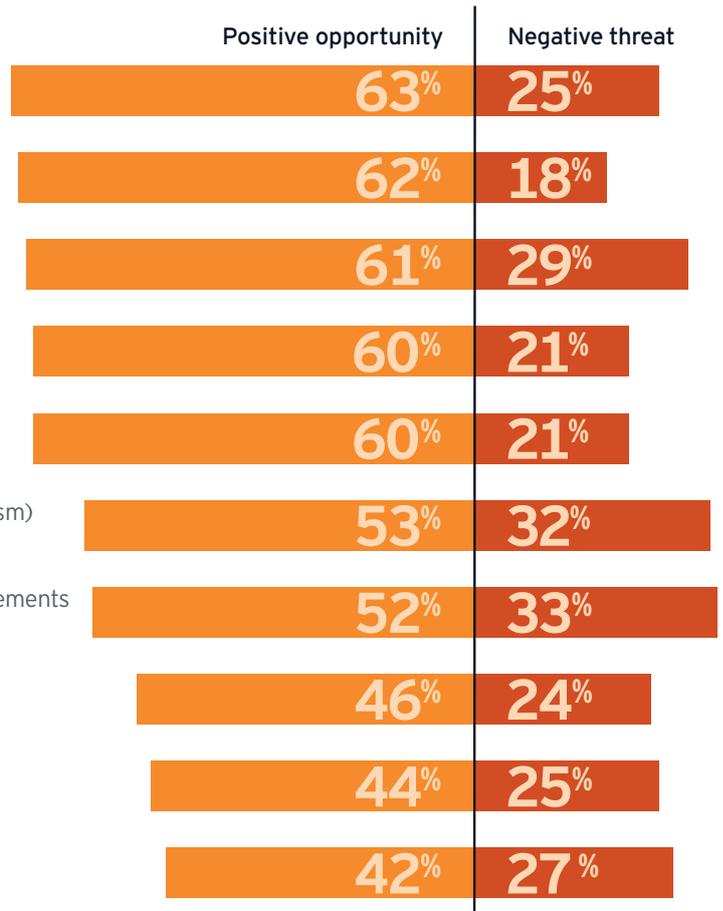
Responding to geopolitical dynamics (e.g., increasing protectionism)
Navigating through a volatile geopolitical environment

Managing increasing regulatory complexity and compliance requirements
Transforming compliance from a burden into an advantage

Closing talent gaps and building critical skills
Building the 21st century workforce

Managing increasing content spend demands and costs
Creating a sustainable strategy for content investment

Driving international market expansion
Partnering for success



¹ How are media and entertainment businesses reinventing in an age of transformation?, EY, 2020.



Making content discovery a weapon for winning customers

The explosion of content is a boon for consumers. Yet it is also a cause of growing frustration if they can't find what they want. Content discovery has become a key weapon in the battle among TV and video providers to attract and keep customers.

Different models are emerging, from recommendation engines to aggregation portals, but they all require a common foundation. Media and entertainment companies, which have long used metadata tagging to classify content, need to create more contextually relevant discovery experiences by going deeper and employing hyper-detailed descriptors about all the content they control. Standard classifications (e.g., genre, characters) will be augmented by a multitude of microgenres, along with harder-to-quantify concepts like mood and plot.

This same precision also applies to customers, compelling media and entertainment companies to shift from demographic-based targeting to persona-based views of customers, informed and enabled by first-, second- and third-party data. In all this, machine learning, and metadata analytics will be must-have skillsets.



Data is everywhere, and making sense of it is what matters

The trove of data that media and entertainment companies currently possess is set to explode as new products and services are launched and the Internet of Things revolution gathers speed. Many media and entertainment companies have yet to perfect the art of sharing, analyzing and utilizing data. It often sits in different silos within the organization or exists in different formats, preventing it from being employed to deliver insight and drive decision-making.

Reaping the full benefits of company data begins with leadership articulating to all employees a clear vision of how data creates competitive advantage. On a more tactical level, these leaders need to break down organizational and technical barriers that prevent effective data sharing. Indeed, all data collection initiatives must be designed from the ground up to support enterprise-wide data sharing.

The media and entertainment workforce must become adept at utilizing the new generation of artificial intelligence tools, such as robotic process automation (RPA) and artificial neural networks, to find hidden patterns and insights behind the data and deploy visualization and analytics tools to translate this data into useful forms that employees can use to make accurate data-based decisions.



In the digital world, defining the new levers of value

Media and entertainment companies – particularly those with still-lucrative legacy businesses – are asking themselves what creates value in today's market. Quarterly and annual financial performance based on well-known metrics (e.g., box office, viewers, advertising revenue, circulation) still rule the day in terms of market value. However, with the business evolving so rapidly, many feel that traditional measures no longer capture the value of the strategic capabilities that increase long-term valuation. At the same time, there is a growing imperative to invest in areas that will create long-term value, but don't deliver immediate ROI.

To get away from "short-termism," media and entertainment companies need to create a new toolkit for measuring performance and a new value story to articulate it. Creating this story starts with identifying the value levers and strategic capabilities required to deliver stakeholder outcomes. These include assets like intellectual property (IP), innovation, human capital, customer trust and organizational culture. Once these tools are developed, it is just as important to articulate a value narrative that provides context for investors, so they can fully understand the role these value levers play over the long term and not simply in the next round of results.



Planning for a 5G future

The long-awaited 5G mobile revolution is at hand, as carriers in many countries accelerate their infrastructure and equipment rollouts. 5G has the power to revolutionize the way content is created and consumed. Yet many media and entertainment companies are unsure how the technology will shape their future. With the market soon to hit critical mass, companies can't afford to wait to plan their 5G market strategies.

Media and entertainment companies' first priority is to develop a myriad of use cases for how 5G can enhance their current offerings or create entirely new classes of consumer and business services. The enormous bandwidth and low latency of 5G empower media and entertainment companies to completely reimagine how consumers experience content – from in-car entertainment to highly immersive virtual reality and augmented reality. However, most media and entertainment companies do not yet possess the skills necessary to bring to life the advanced features and greater immersion that 5G promises. As 5G also has the power to transform internal workflows, companies will have to devote equal energy to figuring out how 5G can drive greater efficiency, lower costs and increased capabilities. This means rapid upskilling, either organically, through M&A or through partnerships in an emerging ecosystem.

5G also presents a potential longer-term disruption threat to existing fixed broadband providers if the next-generation wireless service proves fast and reliable enough to serve as a replacement to existing high-speed internet connections.



DTC video: finding the right balance

The past year has seen a wave of media and entertainment companies launching direct-to-consumer (DTC) video streaming services. Whether a content company or a distributor, their motivation is the same – to meet evolving customer media usage preferences, drive incremental subscription and advertising revenue, and generate vast amounts of valuable consumer data for use in marketing, subscriber acquisition, ad targeting and future content investment decision-making.

However, DTC distribution is not without significant risks. For companies that have traditionally operated on the business-to-business/wholesale model, the impact DTC distribution will have on traditional methods is still unclear. DTC services also demand huge cash outlays to deliver fresh, compelling, exclusive content; robust marketing support; and an attractive price-to-perceived value ratio, all within the context of a fragmented, intensely competitive DTC landscape where consumers are in control.

Companies that ultimately win in the so-called streaming wars will be those that can manage through the loss of high-margin content licensing revenue as they bring programming home to their own platforms, establish price points that maximize DTC revenue without pushing consumers to move too quickly away from the still-profitable current businesses or quickly churn off the streaming service, and deliver exceptional customer experience (navigation, discovery, personalization and support) seamlessly across platforms.



Navigating through a volatile geopolitical environment

Macroeconomic and political risks have always been factored into how media and entertainment companies operate. However, in many ways, the current political and economic environment is more volatile than in years past. There is a reordering of decades-old global economic, trade and political relationships, including a marked movement toward increased protectionism. In many countries, increased political polarization means that elections have a far greater potential to result in significant swings in economic and trade policies. This uncertainty has media and entertainment executives rethinking where they currently do business and where they might engage in the future.

In such a volatile geopolitical environment, now more than ever, media and entertainment companies must continuously assess the impact of evolving political conditions and regulatory landscapes that affect their ability to maintain or increase revenue and profitability in all the countries in which they operate. This includes conducting in-depth quantitative analysis to determine the risks under various geopolitical and economic scenarios. They must also continually evaluate geopolitical risks to their supply chains and develop the capability to react quickly when disruptions occur. Media and entertainment companies also need to identify the key decision-makers that influence their current and future business objectives and develop relationships accordingly. Above all, they need to choose which battles to fight and how hard to fight them.



Transforming compliance from a burden into an advantage

Media and entertainment companies' efforts to rise to the challenge of unprecedented industry transformation is made more difficult by increased compliance demands. Not only do these demands sap management attention and company resources, but also many are finding that their compliance organizations are struggling to adapt and are not ideally suited to today's (and tomorrow's) risk environment. A third of media and entertainment company respondents in our M&E senior executive study see regulatory complexity and compliance requirements as a negative threat to their business.²

However, compliance can be as much of an opportunity as a threat if media and entertainment companies shift a greater portion of compliance-related activities to others, so they can focus on the strategic issues that define their success.

While outsourcing tasks and functions is certainly not new, the range of competencies available continues to grow. Better still, many of these competencies and functions align with the imperatives of the business-analytics, third-party risk management, intelligent automation and RPA as well as whole functions from cybersecurity to tax. All are available on an "as a service" basis. These areas help companies get tasks done more quickly at lower cost with the ability to scale. External providers ease the compliance burden by providing centralized coordination and standardized processes across jurisdictions, world-class talent with up-to-date regulatory knowledge and advanced technologies to increase speed and accuracy (e.g., using RPA for manual, time-consuming regulatory filings).



Building the 21st century workforce

With the business environment changing so rapidly, media and entertainment companies need a more flexible,

adaptable, digitally literate and innovative workforce than ever before. Yet the traditional rules for building such a workforce are changing, along with the very nature of the workforce itself. It is multigenerational, more transactional (freelancers, temps and agency workers) and more diverse, and its participants are in search of meaning beyond simply completing tasks.

Yet, media and entertainment companies need to work even harder to source, manage, motivate and retain talent while controlling costs. A third of media executives in EY's M&E senior executive study cited the transformation of their workforce as key to achieving their companies' strategic goals.

Aligning their talent needs to larger strategic imperatives requires media and entertainment companies to assess how their talent mix matches the changing nature of the work and the tasks that are required in the next decade or more. This necessarily means embedding new talent processes, working arrangements and technology tools to meet changing requirements and preferences. For instance, there is ample evidence that organizations rated highly for diversity and inclusion see better team collaboration, higher employee retention, improved market share and greater success in new markets. This can only be achieved where there is C-suite buy-in, meaningful change and alignment to strategic decisions.



Creating a sustainable strategy for content investment

New streaming platforms are fueling demand for more content than ever – and media and entertainment companies are eager to supply it. Networks of all types are using original, exclusive content, often developed by in-house studios, to power DTC platform growth and viewership. Production infrastructure is running at full speed, and competition for high-quality programming has driven up costs significantly, pressuring margins and profitability.

Increasing content investment to succeed in an evolving industry ecosystem brings with it considerably greater complexity. In today's multifaceted distribution environment, where revenue generation (and value creation) is rapidly shifting toward a DTC subscription model, evaluating returns on content spend and estimating future cash flows are challenging for players throughout the value chain. Many media and entertainment

² *How are media and entertainment businesses reinventing in an age of transformation?*, EY, 2020.

companies' business and financial operations are not designed to measure lifetime program-level profitability across platforms, especially as the legacy windowing framework fades.

Effective rights management allows companies to maximize all their IP assets, while mitigating the risk of improperly using the IP of others. However, many companies' rights systems are not yet up to the task of digital (many processes are still manual). Companies can now leverage intelligent automation technologies to automate a myriad of rights management tasks, as well as help curate, price and target content. Media and entertainment companies also need to incorporate new metrics and financial processes to calculate and track content profitability across legacy and new platforms, and to help shape future strategies for investment and monetization.



Partnering for success

M&A and geographic expansion have given rise to global companies that play an outsized role in content creation, distribution, advertising and information services. It is no surprise then that in many parts of the world, established media and entertainment companies are abandoning traditional rivalries to form agreements and alliances to accelerate growth and achieve efficiencies. These arrangements allow them to pool costs, share technical skills and create solutions for customers.

Forming successful alliances and ventures requires a blend of vision and superior execution. Media and entertainment leaders should continually scan the horizon to pinpoint opportunities where tie-ups can meet future market needs and establish processes that can quickly stand them up. Once potential areas of collaboration are identified, companies must undertake rigorous analyses to understand the intersection points that deliver value and those that pose a risk of cannibalizing the core business. Many partnerships and acquisitions fail, not because of the strategic intent, but in the execution. Since many of the alliances of the future will have data sharing at their heart, the partners' ability to aggregate data from across their respective enterprises and make it usable for the parties is a big part of determining the success or failure of these ventures.

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Out now!



To read the full report, *How are media and entertainment businesses reinventing in an age of transformation?*, visit ey.com/media-entertainment to discover the next wave of the media and entertainment enterprise.

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