EY

Building a better working world

How will adversity reinvent the media and entertainment industry?

The better the question. The better the answer.
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Our survey reveals that media and entertainment executives are building resilient businesses and reframing their future by focusing on four key areas.

M&E survey data

45%

believe that, without reinvention, their companies will cease to exist in five years.

Given the nonstop pressures generated from shifting consumer behavior, disruptive technology and vigorous competition, management teams were already aware of the need to construct more durable and dynamic organizations.

In brief

- Media and entertainment (M&E) executives reflect on how recent events have impacted their businesses.
- Remaining resilient amidst adversity is reliant on four key areas.

Navigating the multidimensional challenges that emerged from the global pandemic forced many business leaders to reassess the concept of resilience.

But what does it mean to be resilient? How can companies bring the concept to life and harness it as a competitive advantage?

To find out, Ernst & Young LLP (EY US) surveyed M&E leaders across the US and in every industry subsector. And what we learned is that executives are focusing on four key areas to build resiliency and reframe their futures:

1. Simplify and streamline operations and functions
2. Innovate business models
3. Protect and secure the enterprise
4. Reimagine the future of work

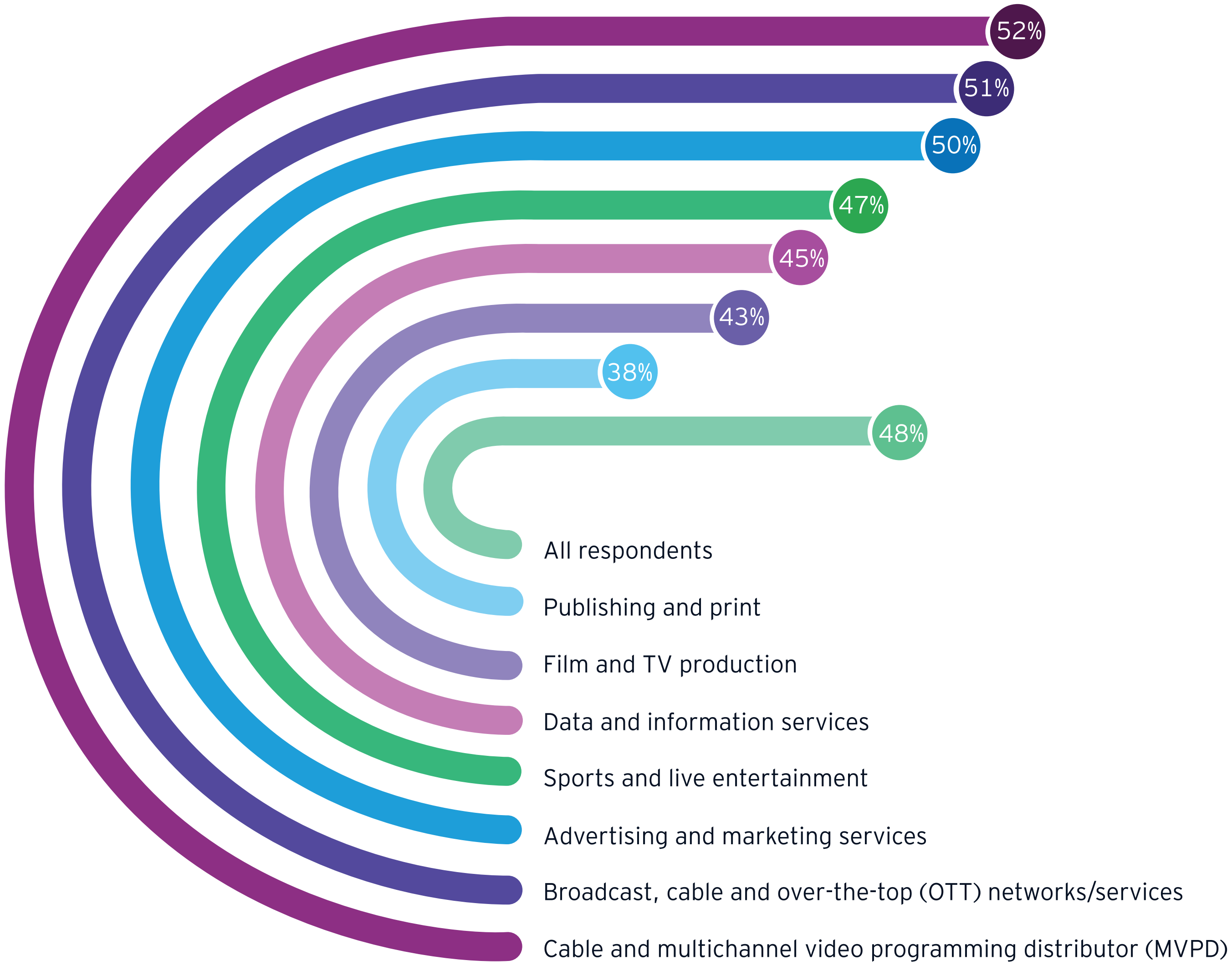
When executives speak of resiliency, they are looking beyond the COVID-19 landscape. Given the nonstop pressures generated from shifting consumer behavior, disruptive technology and vigorous competition, management teams were already aware of the need to construct more durable and dynamic organizations.

In last year's pre-pandemic survey, 37% of executives said that without reinvention, their companies would cease to exist in five years. In this year's survey, 52% of M&E executives say the pandemic permanently changed how their businesses operate.

And although risk identification is a priority for one-third of executives, truly improving resiliency requires a more wide-ranging ambition.

Reinventing an organization's internal processes — making them fit for purpose and future-proofed — must occur within the context of re-examining the entire business model. It means creating an enterprise that is agile and strong enough to withstand whatever is thrown at it, from sudden worldwide shocks, to long-term structural changes.

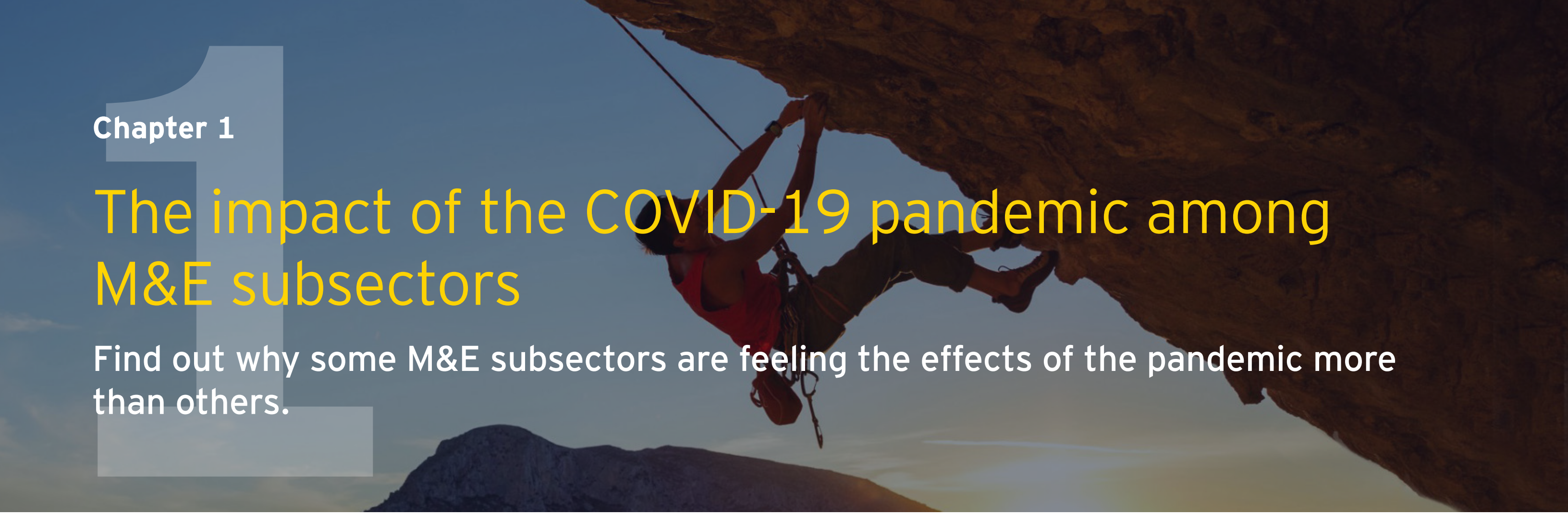
Resiliency has become more important across the M&E industry subsectors.



Percentages of M&E executives who saw building a more resilient enterprise as a priority post-pandemic

Source: *EY survey of media and entertainment leaders, 2021*.

Building more resilient enterprises requires rewriting corporate DNA. To do that, leadership teams must address the operational and strategic changes occurring in the industry.



Chapter 1

The impact of the COVID-19 pandemic among M&E subsectors

Find out why some M&E subsectors are feeling the effects of the pandemic more than others.

The COVID-19 pandemic was a wake-up call for the M&E industry. Executives saw the urgent need to accelerate transformation.

M&E survey data

52%

of M&E executives say the pandemic permanently changed how their businesses operate.

Advertising was hit hard by a sudden drop in key channels (television, outdoor, print, cinema and sponsorship) and a widespread retrenchment in marketers’ spending.

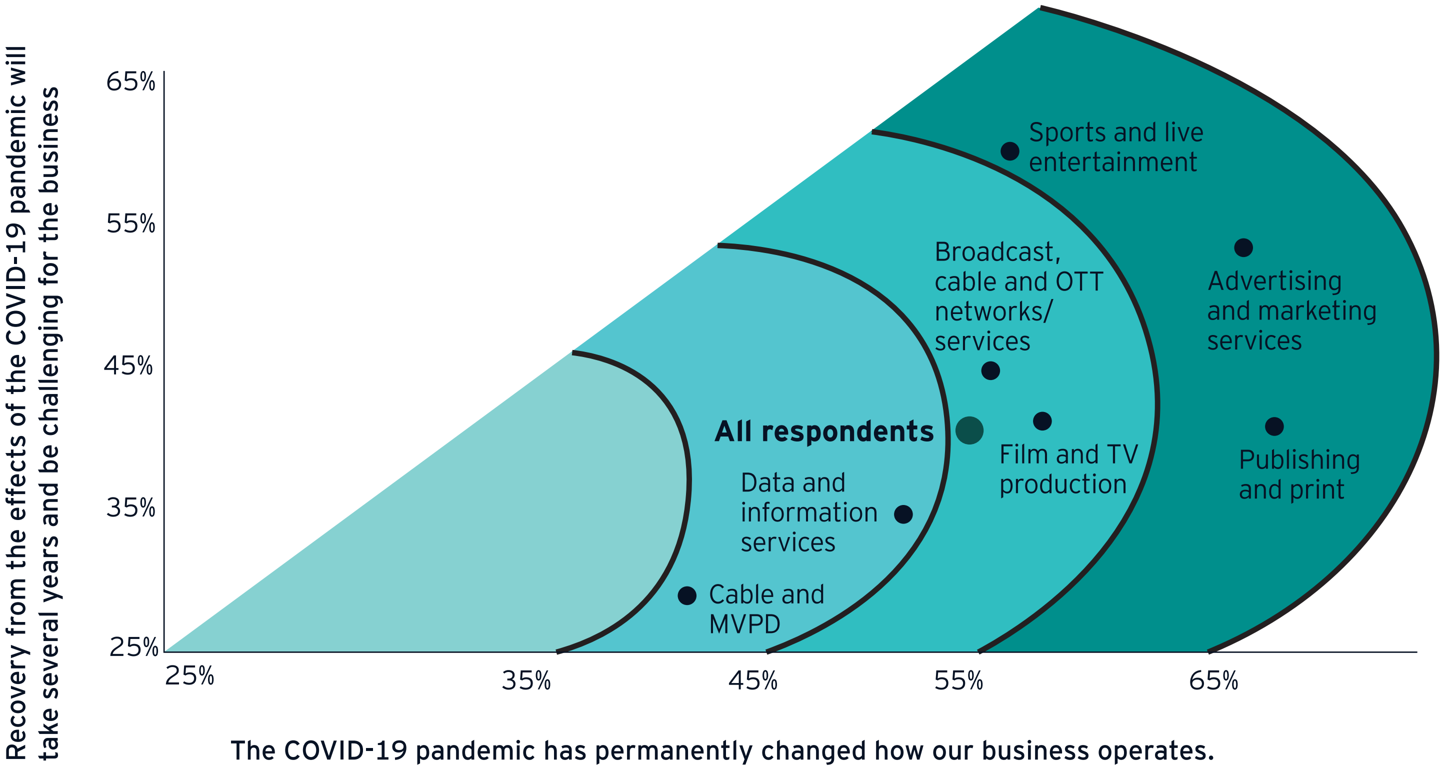
The subsectors that expect the most significant lasting change from the pandemic are print and publishing (62%) and advertising and marketing (61%). But nuance is important. The former saw an acceleration of the long-running decline in print, with a marked shift to online content consumption — especially news, learning and educational content.

In contrast, advertising was hit hard by a sudden drop in key channels (television, outdoor, print, cinema and sponsorship) and a widespread retrenchment in marketers’ spending. But this subsector is bouncing back as advertisers position for the macro momentum associated with the post-pandemic recovery — digital media and e-commerce platforms will lead the way in terms of ad spending.

In sports and live events, 53% of respondents indicate their businesses face enduring change following the pandemic. This subsector includes a wide variety of M&E businesses that rely on in-person admissions to drive revenue. Here, the effects of shutdowns were profound, with attendance falling to zero and, in many cases, all activities halted. Industry leaders responded quickly, launching virtual formats as a bridge to reopen and a path to maintain customer engagement. Following the pandemic, many of these solutions will remain as complementary offerings integrated with the primary product. The time-tested popularity of gathering for shared experiences — particularly for sports, live music and business-related events — promises to fuel a robust rebound over time, with a new emphasis on in-venue safety measures and digital add-ons.

At the other end of the spectrum, the cable subsector expects the least amount of long-term impact (43%) from the COVID-19 pandemic. The cable industry owns the digital infrastructure that makes possible the transition of work, school and entertainment into the home. As a result, the subsector saw accelerated growth of high-speed (and high-margin) data subscriptions throughout 2020 — although the streaming pivot by consumers on lockdown led to an increase in the rate of video cord cutting and a decrease in landline phone connections?

M&E subsectors will experience pandemic recovery in very different ways.



Percentages of M&E executives who agree with this statement.
Source: EY survey of media and entertainment leaders, 2021.

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Chapter 2

Why simplification is key for M&E enterprise resilience

Simplification has many benefits for M&E businesses looking to enhance resiliency.

Overall, 41% of M&E executives cited simplifying the enterprise as a business priority.

Overall, 41% of M&E executives cited simplifying the enterprise as a business priority. Achieving efficiencies through simplification typically leads to lower costs and streamlined decision-making for businesses of all types. Yet, simplification comes in many forms.

In M&E, where capital intensity is rising as companies invest in areas that drive competitive differentiation – namely, content/intellectual property (IP), technology and talent – simplification initiatives frequently spur the redeployment of resources to more strategic uses. Expanding investment capacity through cost reductions is a specific objective for many executives (39%). Above all, simplification enables M&E leaders to execute and pivot quickly when necessary.

In subsectors such as cable, advertising, sports and live entertainment, there is equal emphasis on overall simplification and unlocking capital trapped throughout the business. Advertising, for instance, offers fertile ground for simplification. Agencies are dealing with the legacy of aggressive M&A strategies, which built disparate holding companies with multiple brands and overlapping capabilities.

Advertising also faces a deep structural upheaval as the industry shifts to data-driven models while facing new competitive challenges. That's stoking an urgency to invest in technology.

Top priorities around simplification are consolidation of business units, departments or functions (52%) and outsourcing back-office activities (43%). Let's explore these in more detail:

Consolidation – sometimes executed as a stand-alone internal restructuring but often propelled by strategic transactions – leads to cleaner organizational and management structures with less siloed activity and a more integrated, responsive market strategy.

Cable and broadcast network operators, for example, have undertaken extensive M&A in the land grab for content and IP while concurrently rationalizing duplicative capabilities in the pursuit of deal-related synergies.

Yet, according to executives, internal consolidation is more radical than just combining functions. They put a far greater emphasis on fusing business units and revamping the operating model.

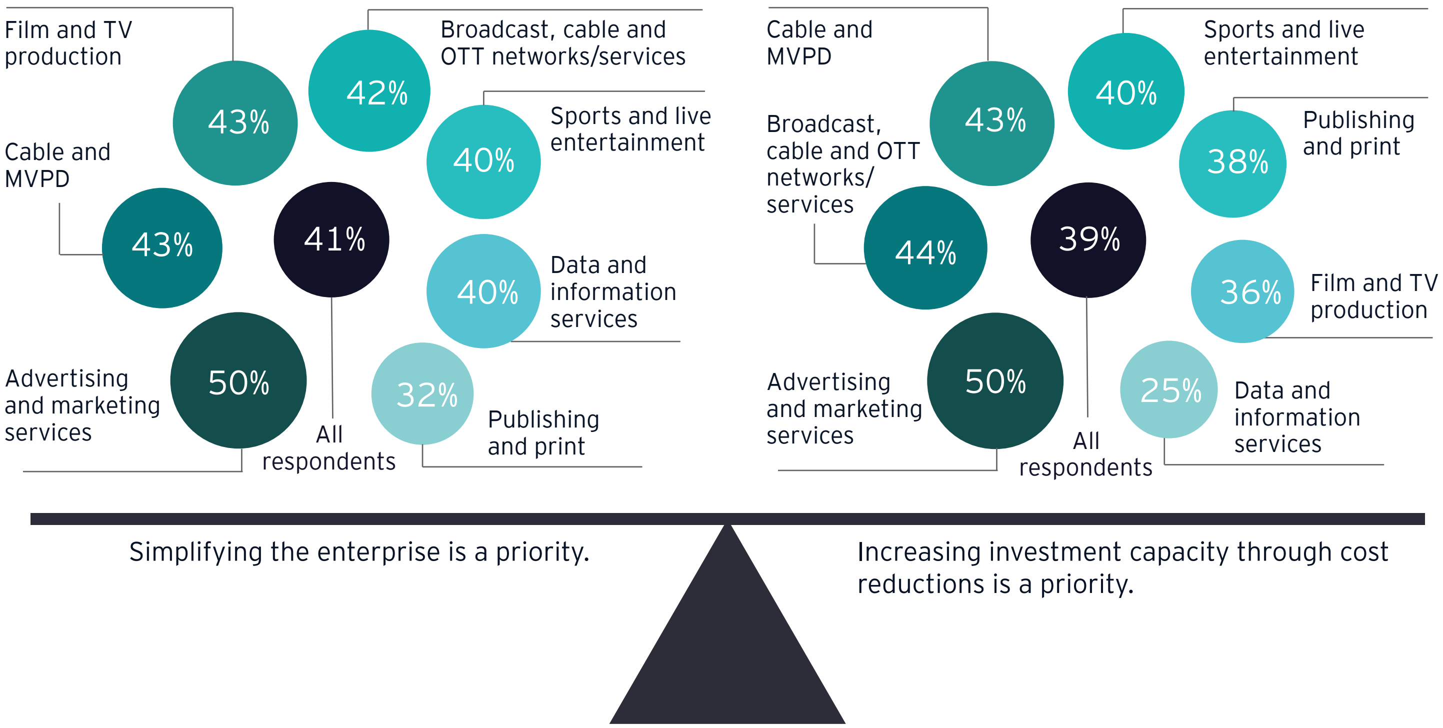
Outsourcing has long been an important simplification lever for M&E executives. In subsectors such as data and information services, working with third parties to establish captive centers in low-cost locations is commonplace. Thus, it's not surprising that outsourcing back-office activities is the top priority (60%) here.

In recent years, the rationale for outsourcing has intensified. Enterprises have seen significant increases in complexity in back-office operations as they face more rigorous compliance requirements and surging demand for relevant skill sets.

Sourcing and procurement is another core function that M&E executives are targeting for simplification. The focus here is on rationalizing vendor relationships and improving the contracting process, which continue to have significant potential for optimization, and, ultimately, enhancing cash flow.

Finally, automation is ramping up. Process automation is a priority for 58% of executives, focusing on driving out the cost associated with administering repeatable, low-value but necessary activities in labor-intensive corporate functions, such as finance, accounting, internal audit, tax and legal.

Most M&E subsectors take a balanced view of the need to simplify and free up investment capacity.



Percentages of M&E executives who agree with these sentiments
Source: EY survey of media and entertainment leaders, 2021.

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Chapter 3

How M&E executives can create resilience through business model innovation

From subscription to direct to consumer, find out how traditional M&E models are evolving.

M&E survey data

48%

of M&E executives say they can no longer rely on traditional industry business models.

The COVID-19 pandemic has intensified the pace of long-running changes taking place across the M&E industry, including cord cutting, the explosion of streaming and the nonstop growth of targeted digital advertising. The increasing influence of shifting consumer demands and new technologies suggests that change will only accelerate.

The tension is real; in the EY survey, one industry leader stated, "With our existing model, we were facing losses. Now, our top priority is our digital audience and adapting our business model accordingly."

For executives building a resilient enterprise, reinvention of their business models is vital — and offers an opportunity.

A quick look at business model innovations in the M&E sector:

Product and service offerings

Evolving existing product and service offerings is a top goal for 56% of industry leaders in all subsectors. For advertising agencies, where data, analytics and digital solutions are powering growth for a wide range of new competitors, 75% of executives say they are focused on reshaping their service portfolios to better meet customer needs. A similar story is playing out in cable (65%) as management teams seek to leverage the broadband relationship to further embed in consumers' digital lives with complementary connectivity solutions, de-emphasizing the legacy video-led offering.

Developing new distribution models

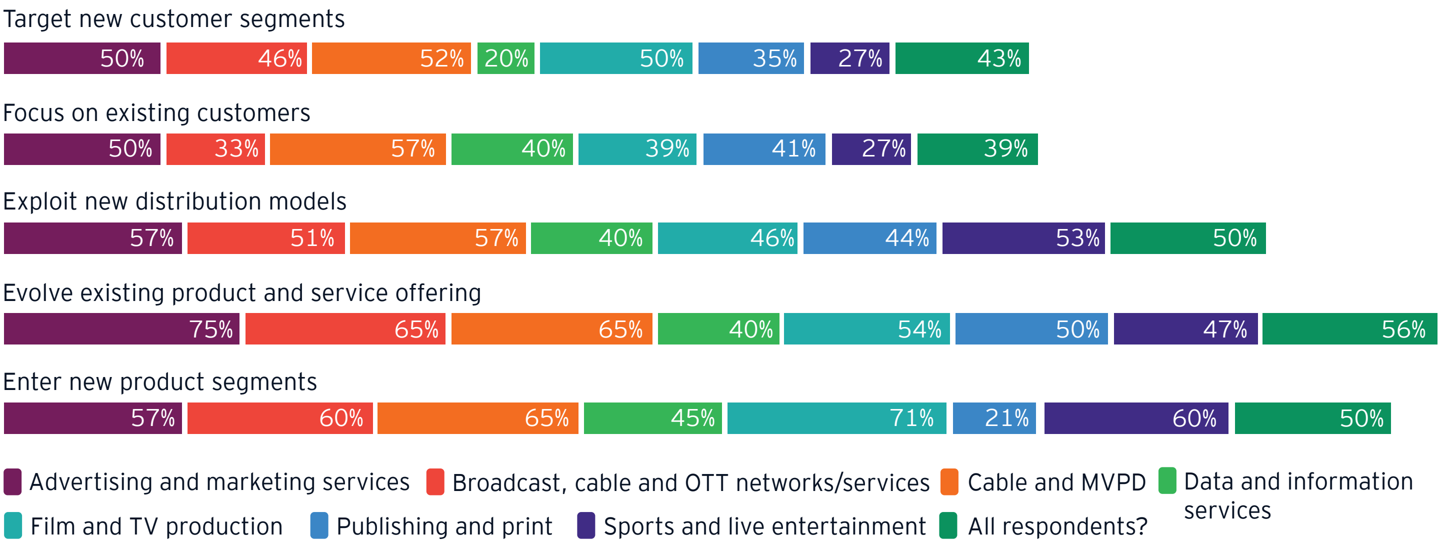
Exploiting new paths to reach the end customer is a focus for 50% of M&E executives. Broadcast and cable network owners are now fully committed to the direct-to-consumer (D2C) model, shifting the industry ecosystem structure from wholesale to retail, while film studios are proactively shrinking the theatrical window to get movies onto streaming services more quickly, fueling D2C subscriber growth and achieving efficiency in marketing spend for new releases.

Next-gen technologies

More than ever, M&E companies realize distribution holds the key to last-mile relationships with their customers. Next-gen technologies, such as 5G and IoT, provide a platform to engage customers in new ways. Almost half (47%) of executives are investing in next-gen tech, but this trends higher for film and TV studios and sports and live entertainment.

The latter is a case study in creating new fan experiences within venues and then sustaining a day-to-day relationship through virtual events, augmented advertising, social media, personalized content and seamless payment technologies. As one surveyed executive stated, "We're focused on implementing cutting-edge technology to hold our customers and make our services more reliable and immersive."

Each M&A subsector has a different strategy for realizing its transformation.



Percentages of M&E executives who agree that these transformations are a priority

Source: *EY survey of media and entertainment leaders, 2021*

It is no easy task to evolve legacy media companies away from traditional industry models. As an example, content and channel owners have historically benefitted from their wholesale relationships with cable operators. The pay TV bundle was a hugely successful model for network owners, with every new subscriber adding incremental revenue that flowed almost directly to the bottom line.

The shift to a D2C model challenges what worked so well for so long. In many instances, what was effectively a business-to-business-to-consumer subscription model is replaced by an OTT D2C transactional model. While these range from pay per content (VOD) to pay monthly (SVOD), all the content you can eat, they are not subscriptions in the traditional sense of the linear bundle because customers have full optionality to sign up and drop off the service at will. Churn is high relative to the legacy framework because switching costs for the customer are minimal. Such a shift leaves content and channel owners more vulnerable, but it also presents opportunities.

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A quick look at D2C opportunities in the M&E sector:

Getting to know the customer

For the first time, there is a direct relationship with the customer. Content owners can understand, at a granular level, what customers watche, like and dislike and use this to inform their content investments and propositions and to evolve and grow their offerings and businesses accordingly. Streaming offerings with advertising components will benefit from this additional customer insight, enabling greater targeting and measurement.

Scaling the opportunity

OTT also enables unprecedented ramp-up and scale, including rapid, global deployment, which is integral to many media companies' growth plans — particularly large ones looking for new headroom. Scale brings confidence in the model and spreads risk in challenging times. M&E companies that lack mega-scale are less able to fund investment in content, technology, talent and marketing, all of which underpin success and competitiveness.

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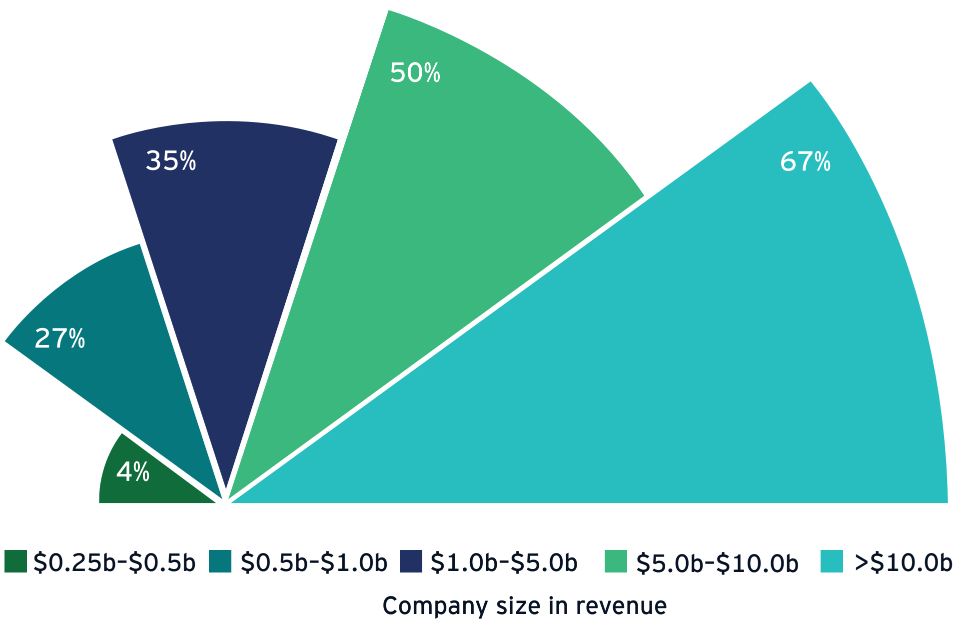
Revenue size matters in international growth plans

The EY survey shows a desire among media executives (M&E) to roll out and scale up subscription models. They are viewed as more resilient by being less susceptible to external shocks and sudden fluctuations in demand. Yet today's reality sees the industry evolving to a more dynamic, fluid environment. M&E executives must find ways to roll out their D2C offering, with the opportunities it brings, while seeking to embed the advantages of the legacy bundle. In practice, that means offering a compelling proposition to customers with proprietary content, slick user experiences and high switching costs, all of which boost short-term operating resilience and lead to long-lasting, higher-value customer relationships.



Percentage of M&E executives who are focusing on international markets
Source: EY survey of media and entertainment leaders, 2021.

Chapter 4

How M&E companies can build secure enterprises

In a world of uncertainty, M&E executives pull out all the stops.

Securing the enterprise involves overall preparedness around political, economic, technological and regulatory factors, all of which are more volatile than ever.

M&E companies must support prudent internal behavior (financial soundness, manageable leverage, data protection) and fortify defenses against a host of external threats (cyber attacks, political upheaval, regulatory uncertainty, reputational risks).

At the outset of the pandemic, M&E companies enacted work-from-home directives to maintain business continuity. However, increasing interconnectivity and remote access have made M&E companies more vulnerable to financial and regulatory risks.

In many ways, the COVID-19 pandemic only accelerated these trends. The migration to cloud computing, the proliferation of IP workflows and the evolution of data-driven business models were already in motion when the crisis hit.

M&E companies need holistic cybersecurity solutions to protect this ever-increasing network interconnectivity and the explosion of access points. According to the M&E executives we surveyed, replacing legacy technology is the biggest IT priority (52%), with improving IT security (44%) and hiring IT talent (41%) also in focus, particularly in companies with more than $1 billion in revenue.

Securing the enterprise goes far beyond mitigating cyber risks. Recent experience shows disruption comes in many forms.

Half of the surveyed executives emphasized the need to respond to unexpected geopolitical developments, with a third citing the importance of adapting better to regulatory and compliance requirements, particularly around data protection and privacy. (These perspectives are backed up by a recent EY Global Capital Confidence Barometer, in which 88% of M&E executives report they have either delayed or stopped planned investment amid geopolitical challenges.)

Midsize M&E companies

61%

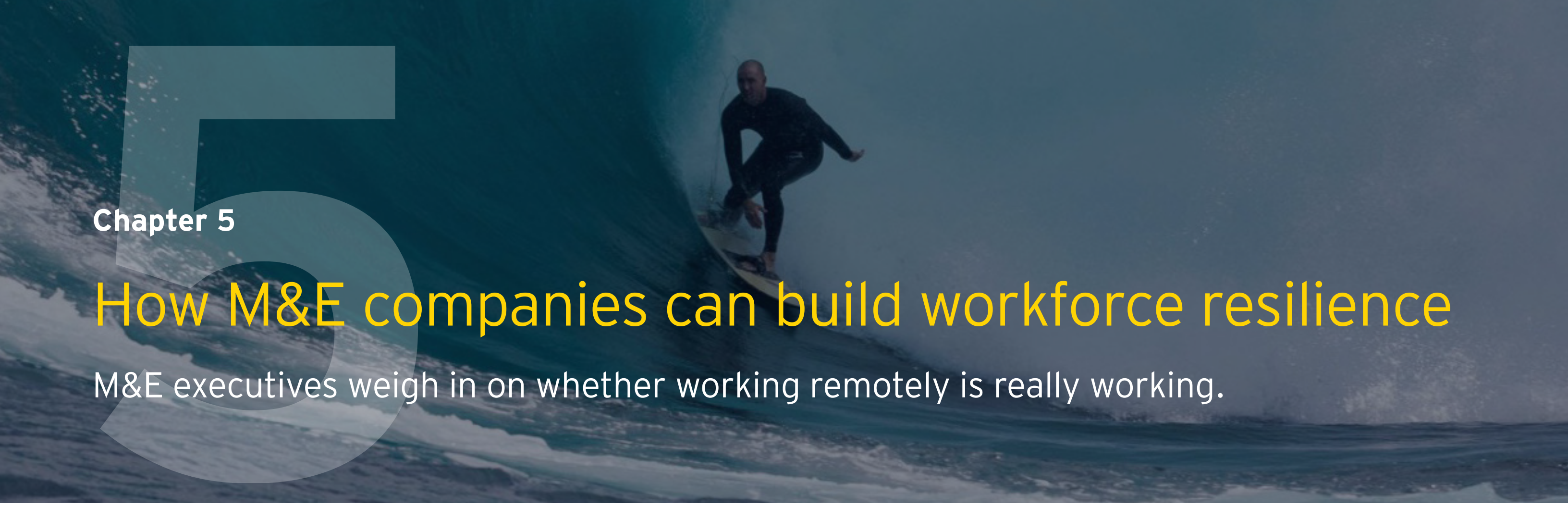
agree that a lack of investment capital is one of the biggest inhibitors to growth and transformation, and it undermines their ability to compete.

M&E companies must continuously assess and reassess the impact of evolving change and disruption. Reassuringly, M&E executives recognize the need to understand their customers better — and are taking action to do so.

About half (51%) stressed the need to enhance analytics, forecasting and modeling. That starts by questioning whether they have the right models built from the most relevant and timely data. This is even more critical as companies grow.

A secure enterprise must also maintain access to capital. In the early weeks of the pandemic, the biggest concern among M&E executives was maintaining liquidity. They did so through costcutting, delaying nonessential spending and aggressively managing working capital. Simply put, the focus was on cash preservation.

Even in normal times, access to capital is critical — albeit for different reasons. For 61% of midsize M&E companies, a lack of investment capital is one of the biggest inhibitors to growth and transformation, and it undermines their ability to compete.



Chapter 5

How M&E companies can build workforce resilience

M&E executives weigh in on whether working remotely is really working.

Strategic workforce planning requires a long-term view that must weigh and balance skill set requirements, automation policies, contingent working, dispersed locations, new products and services, costs and market volatility.

Close to half of M&E executives (48%) cite the transformation of work as key in achieving their strategic goals.

The outbreak of COVID-19 led to mass furloughs, particularly for businesses dependent on revenue from physical gatherings. But it's important to distinguish between expediencies to preserve liquidity and longer-term trends. Post-pandemic recovery in these sectors will likely involve a return to work locations at varying paces and scales.

Nonetheless, the pandemic will have ongoing structural effects on employment models. The pandemic forced those who could work from home to do so. Companies soon realized that their employees are equally productive — or in some cases, even more so — when they work from home. At the same time, many employees are enjoying a better work-life balance and don't envision themselves returning fulltime to the office.

Remote models offer another opportunity. Having spent more than a year investing in enabling technologies, such as remote production cameras and home-based editing suites, many M&E executives (43%) see a path to increase investment capacity by reducing or consolidating real estate and facilities.

Among M&E executives, the most preferred option (53%) for redesigning their workforce model involves flexible working practices, including a balance of on-premises and remote work. This move will address issues related to talent and skills gaps, work location and recruiting costs by making it easier for companies to source talent more broadly.

It also forces companies to rewrite their employee value proposition, which is a mix of the employee's engagement, wellbeing, recognition and trust — and make a commitment to diversity and inclusiveness, which is a critical priority that executives noted (46%). When the value proposition aligns with employee needs and expectations, it establishes a sense of belonging among staff, which helps the organization retain and attract top talent and ultimately achieve better results.

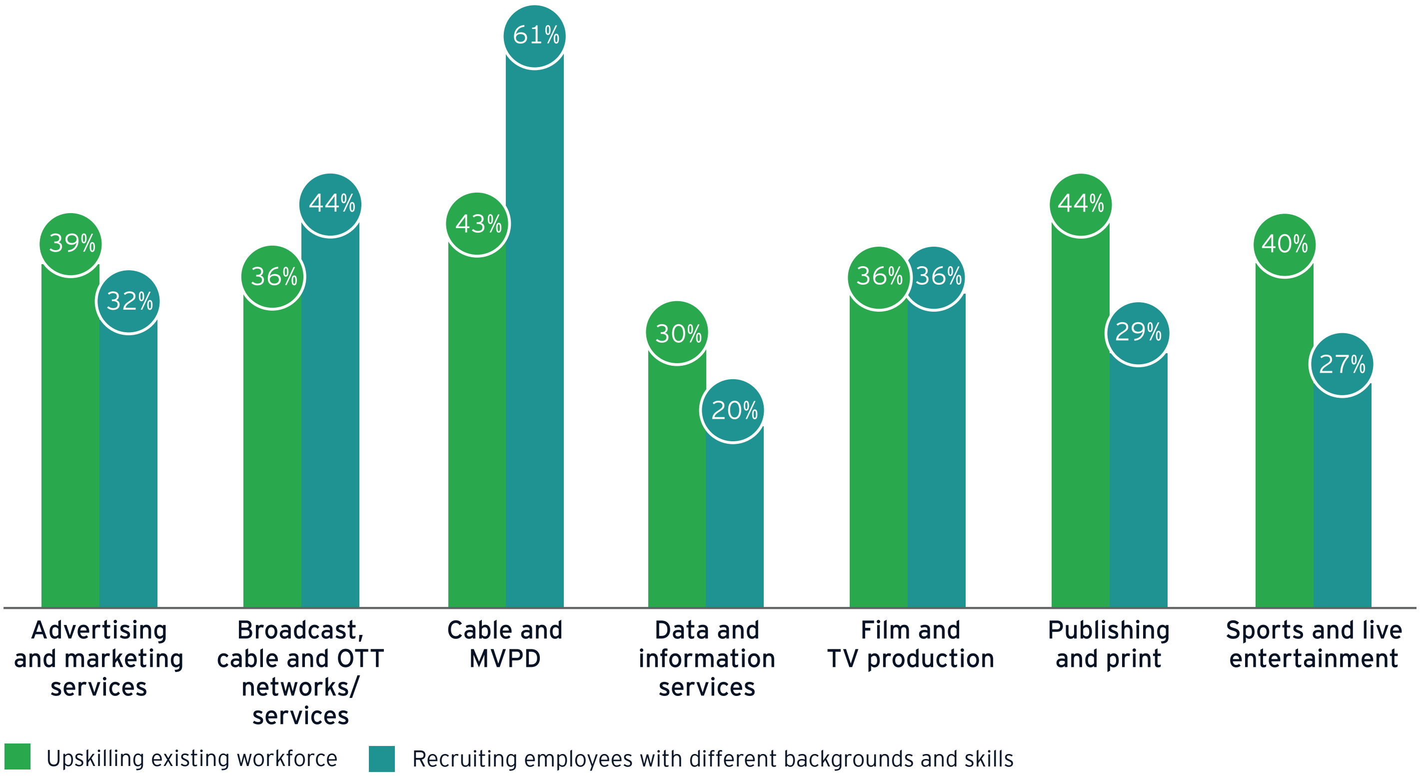
Another focus for building resilient M&E enterprises is keeping pace with (or staying ahead of) changing talent and skills needs. Overall, 40% of executives cited this as important, but it is even more crucial in subsectors such as cable and MVPD? (57%) and data and information services (50%).

Failure to bridge the talent gap continues to hold companies back. Inadequate skills and training are consistently among the biggest barriers to innovation in M&E companies, according to 42% of executives, a sharp jump from 31% last year.

When accelerating talent development, developing the existing workforce and recruiting new employees with different backgrounds and capabilities are both important. The balance varies by subsector. For instance, broadcast, cable and OTT networks/services and cable companies put more weight on recruitment to accelerate workforce transformation. Offering remote or hybrid working models will allow M&E companies to access a broader pool of talent.

However, simply going to the market to recruit new talent is only a short-term fix. In the dynamic M&E industry, the only sustainable way to keep pace with rapid change is to put in place mechanisms and a culture for employees to reskill and upskill.

Subsectors take a varied approach to address the talent gap.



Percentages of M&E executives who saw upskilling the existing workforce and recruiting employees with different backgrounds and skills as top priorities in addressing talent gaps in their organizations

Source: EY survey of media and entertainment leaders, 2021.

Reimagining resiliency to reframe the future

The COVID-19 pandemic forced many M&E executives to question the sustainability of their enterprises. It made them critique everything, from basic operations, to the fundamentals of their business models. Many realized the need for change and the need to embed more significant levels of resiliency.

With the pandemic's initial shock now passed, executives are reimagining resiliency as not just what you do in a crisis but also being prepared for a crisis. To be sure, smart decisions are vital when disruption hits, but it's equally important to build an enterprise that is strong enough to withstand those disruptions.

Summary

In M&E, short-term trends constantly interplay with long-term structural evolution. A resilient M&E enterprise begins with four pillars:

1. An operating model that's streamlined and nimble enough to pivot when necessary
2. A business model that's strong and scalable
3. A workforce model that's built on long-term value
4. Identification, measurement

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