

If disruption
persists, can M&E
companies remain
steadfast?



The better the question. The better the answer.
The better the world works.

82%

of executives say they have clarity on the opportunities and threats facing their companies and the industry.

In the ongoing evolution of media and entertainment, executives are charting a more confident course through the churning forces of change.

In early 2022, Ernst & Young LLP surveyed 150 executives from US media and entertainment companies for the Evolution of the Media & Entertainment (M&E) Industry report. The companies represent annual revenues ranging from \$100 million into the billions and cover the entire media and entertainment industry – from networks and advertising agencies, to game publishers, live entertainment, multichannel video programming distributors (MVPDs) and professional media providers. Respondents include C-suite members, directors, senior VPs, heads of strategy and board members. In our third year conducting our annual survey, we learned that M&E leaders are feeling more confident about their prospects after aggressively working to reposition their businesses and operating models.

60%

say they are willing to disrupt their company's legacy strengths to position for future growth.

Actions taken by management teams to respond to both industry disruption and the shock created from the emergence of the COVID-19 pandemic:

1

Realignment of business models to meet changing customer preferences and habits

52%

of M&E executives stated that they can no longer rely on traditional business models.

2

Reset cost structures improve the resilience, efficiency and effectiveness of operations (and to unlock capital for redeployment)

69%

of M&E companies improved resiliency against a wide variety of threats.

3

Reinvigorate the focus on the talent agenda

70%

of M&E leaders said they invested in talent and skills development to position their workforces for a more dynamic environment.

4

Execution of M&A to optimize industry positioning, increase scale and add necessary capabilities

71%

of leaders evaluating strategic transactions to reframe and enhance their business portfolios kept M&A on the agenda.

68%

simplified and streamlined business operations and corporate functions to improve efficiency.

The modernization of the M&E enterprise is underway

M&E companies have reinvented themselves – now what?

Despite this increasingly positive outlook, 52% of M&E executives state that they can no longer rely on traditional M&E business models, up from 48% a year ago.

Major M&E markets and subsectors are in flux.

1

Consumer behavior

Consumers are in control and driving change throughout the industry.

2

Technology advancements

New technology and new consumer habits are rewiring how consumers purchase, access and enjoy content of all type.

3

Direct-to-consumer (D2C) distribution

The streaming revolution is upending traditional linear ecosystems – the shift from “wholesale” to “retail” distribution is leading to customer relationships with different financial and operating characteristics.

4

Shift to digital

Advertising continues to migrate to digital and mobile platforms, presenting an opportunity and threat for M&E.

5

Geopolitical uncertainty

Uncertainty in the macro environment – inflation, geopolitical instability, supply chain challenges and capital market volatility – is impacting all industries, especially those such as M&E that are dependent on discretionary consumer spending.

Success in these conditions will require a nimble strategy, smart investment and ongoing recalibration of front- and back-office operations.

As they drive change throughout their organizations, executives also are focusing on messaging to their key constituents. Some 64% say they need to better define and articulate how they deliver value to customers, employees, investors and other stakeholders.

While M&E executives indicate they have a better sense of the industry’s direction, they continue to pursue transformation on a variety of fronts to achieve their strategic growth imperatives.

This is not an easy path.

Chapter 2

Challenges to innovation and transformation

True innovation starts with asking the right questions and knowing what customers want from you.

In a high-velocity market like much of M&E? today, change is fast and furious.

Reliable, insightful and timely information and analysis fuel innovation and transformation. Improving technology infrastructure, employee skill sets, customer knowledge and investment assessment are all top of mind in M&E C-suites.

Yet 41% of industry executives see their strategic and operational agendas as burdened by legacy systems and processes that lack the capability to quickly produce actionable business intelligence and insights. To remedy this, companies across the industry are making significant investment in leading-edge technology and software to enable enhanced visibility into operational and financial performance.

To simply modernize systems and upgrade processes is not enough – executives say they need a workforce with the right skills to analyze and interpret the avalanche of data available to M&E companies today.

More than a third (36%) of M&E executives believe their organizations lack the analytical capabilities to turn data into insights. And more broadly, half (50%) say they need to improve training to boost employee skills to match business needs.

Much of the data available to M&E leaders concerns customer behavior and activity. Subscription-based business and revenue models have proliferated across the industry, creating a constant flow of digital inputs for management teams to evaluate – ranging from service usage metrics, to engagement with advertising and content and other offerings.

Despite the more direct consumer relationship in most industry subsectors, 39% of M&E respondents say they lack a deep understanding of their customers, complicating innovation and business development.

The pursuit of growth requires new investment as well as the evaluation of capital allocation decisions – both of which present more challenges for the M&E market. Half (50%) of M&E executives – vs. 22% in our previous study – say that assessing ROI potential for specific projects is a key challenge for their innovation agendas.

Management teams and investors are focused on the outlook for profitable growth as capital intensity increases. It is vital for executives to understand and resolve these challenges as they work through a targeted list of top operational priorities.

To enable their strategic agendas and empower the entire enterprise, M&E leaders are doubling down in several key areas, as noted below.

Top priorities for M&E leaders

72%

innovating products and services

68%

increasing discipline in financial management

67%

investing in people

64%

improving customer centricity

68%

growing a purpose-driven culture

Innovation and customer centricity will power growth

Developing offerings to increase customer engagement and accelerate revenue generation is crucial.

Consumer-driven shifts in M&E? business models are leading executives to focus on reshaping their portfolios of products and services to better attract and retain customers and grow market share.

At the same time, the emphasis on customer centricity is only intensifying.

More than 70% of M&E leaders are targeting new customer revenue streams and refreshing offerings to strengthen relationships and reduce churn. Examples include the following:

- ▶ Broadcast and cable network owners seeking to appeal to “cord nevers” and retain access to cord cutters have aggressively moved into the D2C space over the last two years.
- ▶ Cable system operators are rapidly growing mobile and digital home offerings, leveraging the core broadband relationship. Cable companies are also rolling out technology to support integration of streaming services,

potentially re-establishing their role as a video bundle provider.

- ▶ Data and information services companies are expanding analytics capabilities and the breadth of professional content available to embed more fully into client workflows.

Research and development investment is a priority for 64% of M&E executives. Many companies are beginning to explore the opportunities related to the emerging metaverse, Web3 and offerings enabled by blockchain, such as non-fungible tokens (NFTs). M&E companies are using NFTs as an additional way to engage with consumers and fans directly and reinforce the fundamental value of intellectual property.

Underlying much of this activity is the application of next-gen technology. More than 65% of respondents say that they are prioritizing investments in services, such as 5G-enabled mobile gaming, content recommendation engines infused with artificial intelligence and programming distribution moved to the cloud, to establish seamless delivery.

Customers, of course, are at the center; M&E executives are taking steps in several important areas to improve competitive positioning:

M&E executives are taking steps in several important areas to improve competitive positioning:

66%

investing in omnichannel customer experiences

65%

increasing marketing spend

64%

building customer data capabilities and insights

63%

addressing customer fatigue with subscriptions and resistance to advertising

M&E leaders understand that the consumer is in control. A stale product and service portfolio will result in market share erosion, putting a premium on continuous innovation and experimentation.

Why M&E companies must stay nimble but aggressive

Disciplined financial management is key to new growth and keeping cash flow optimal.

Nearly 70% of M&E executives surveyed say that enhancing financial planning, forecasting and modeling is an important element to overall financial management.

Specifically, senior leaders want accurate and timely data, analytics and insights to make investment decisions and act on market opportunities. And 64% seek to retain financial flexibility to move fast – essential in an environment that is changing so rapidly.

Organic investment across the industry to drive growth in core operations is also increasing, including:

- ▶ Content investment to support streaming
- ▶ Communication networks investment to bolster speed and reach, and to offer new services
- ▶ Advertising technology investment to enhance targeting and measurement
- ▶ Digital media investment (content, apps, loyalty platforms) to connect more directly with consumers

The evolution of M&E means that many players are transitioning away from legacy business models that are in long-term decline to exciting newer areas with favorable growth prospects. The clearest example today is the shift from linear broadcasting to streaming. This follows a similar track seen in other subsectors, such as newspaper and magazine publishing, music and radio.

The challenge for operators is weighing the need to maintain and harvest valuable cash flows from legacy businesses to fund the heavy investment needed to drive new growth. About 63% of M&E leaders say that balancing their growth ambitions with the need to realize profit and cash flow generation is a core component of their financial management and capital strategies.

The strategic landscape is also active, with mergers and acquisitions occurring throughout the industry. It is critical for M&E leadership teams to effectively model, execute and track cost and revenue synergies arising from transactions.

Risk management is also top of mind, and 63% of executives say improving risk identification and controls is a financial management priority. This is especially true in areas where new business and revenue models have taken hold, putting a greater emphasis on the quality of data collection, analysis, testing and reporting of new metrics to investors.

Success in these areas – along with other capital allocation priorities, such as debt reduction, dividends and share repurchases – requires a finely tuned approach to financial management.

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Humans are at the center of successful M&E enterprises

The next generation of M&E talent wants a hybrid work model combined with a purpose-driven culture.

The COVID-19 pandemic completely changed the dynamic between organizations and employees.

The rapid economic recovery that began in late 2020 and ran through 2021 drove a huge uptick in turnover, dubbed the Great Resignation, and a shift in the balance of power that favors employees.

According to the 2022 [EY Work Reimagined surveys](#), 43% of employees across industries say they are likely to leave their employer in the next 12 months, with pay and career growth as the primary motivators for a potential change in jobs.

Further, hybrid working and flexibility needs are here to stay, with 80% of employees desiring to work remotely two or more days per week. For management teams, this means operationalizing hybrid work models, particularly the development of a work-technology experience for employees that fosters collaboration, productivity and learning wherever people work.

Today, M&E companies are highly focused on attracting and retaining a skilled workforce that is engaged and motivated. This includes recruiting employees with different backgrounds and skills that align with the current (and future) marketplace.

Additionally, 72% of M&E leaders are investing in employee health and well being initiatives, 63% are implementing or extending flexible working practices, and 65% are actively promoting diversity, equity and inclusiveness (DEI) in the workplace. The focus on DEI is well

placed – 82% of employee respondents to the EY Work Reimagined surveys stated that more can be done to improve DEI at work, especially around hiring criteria and pay equity.

Another key objective for M&E leaders is establishing and nurturing a purpose-driven culture. Purpose underpins the talent agenda and overall corporate philosophy; its relevance extends to a wide range of stakeholders, which places a premium on the delivery of crisp and clear messaging. This validates the priority identified by executives to communicate the vision and values of the enterprise more effectively to all invested parties, including employees.

Increasingly, vision and values – and purpose – must incorporate an array of environmental, social and governance (ESG) components. Beyond individual business performance and professional growth, 70% of our M&E survey respondents state that employees are focused on how their employers are approaching environmental risks, while 63% say that they are evaluating how to respond to societal issues in the headlines today.

To address this, M&E leaders are pursuing a variety of ESG initiatives that emphasize and enhance social impact, climate change mitigation, sustainability and other areas, along with tracking and reporting progress against predefined goals.

The workplace has changed since the start of 2020. M&E leaders are taking the necessary steps to build and maintain a diverse workforce that has the skills, capabilities and engagement to flourish in today's marketplace.

Conditions in M&E remain as dynamic and exciting as ever. Leaders of companies in every subsector have a deep understanding of the opportunities available and threats lurking across the landscape today. An informed strategy coupled with a disciplined approach to innovation, customer centricity, financial management and the development of human capital will enable top performers to thrive as industry transformation rolls on.

Summary

M&E and entertainment leaders have weathered significant change over the past two years and are now armed with a new set of priorities. The wall between M&E companies and consumers has come down. Businesses know they must become customer centric if they are to survive. Innovation, transformation and financial returns are top of mind as companies increasingly compete for market share. To achieve their goals, executives are realigning corporate strategies, resetting capital agendas, modernizing systems and investing in people.

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US SCORE no. 18100-221US
2210-4102938.
ED None

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