Digital Leadership Study Series from
EY's Global Technology Center and
Global Media & Entertainment Center

Report No. 2

Sustaining digital leadership!

Agile technology strategies for growth, business models and customer engagement

EY

Building a better working world

"The customer has never before had so much power to shape media and entertainment. Yet fast-changing digital technologies are making new forms possible all the time – and customers don't have preferences on tomorrow's inventions. This intersection of customer power and rapidly advancing enabling technology is fostering a time of unprecedented opportunity and risk for companies."

Pat Hyek
Global Technology Industry Leader
EY

"Developing and delivering content remains at the core of what media and entertainment companies do. New technologies have simply redefined many elements that are integral to these businesses, from the creative process to the intimacy of relationships with customers. We see leaders across all media subsectors embracing digital technologies to drive growth in their businesses."

John Nendick
Global Media & Entertainment Leader
EY

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Note: all statistics referenced in this report are from EY's Digital Leadership Study Series global survey, unless otherwise noted and all dollar amounts are US dollars, unless otherwise indicated. The full explanation of survey methodology appears on page 43.

Sustaining digital leadership!

Agile technology strategies for growth, business models and customer engagement

Welcome to *Sustaining digital leadership!*, the second volume of our Digital Leadership Study Series. The four chapters of this report offer research, analysis and insights to support media and entertainment (M&E) and enabling technology companies as they continue their journey of ongoing digital transformation.

The leaders of that transformation tell us that continuous innovation, without fear of failure but rather learning from it, is the open secret to capturing the tremendous growth opportunity that digital affords M&E. This is primary among the many more detailed insights on the following pages. All were gleaned from executives at more than 550 companies responding to our in-depth survey, nearly two dozen executive interviews and our own analysis of articles and reports from secondary sources (for full methodology, see page 43).

But continuous innovation in the rapidly evolving M&E landscape is not for the faint-hearted. It requires proactively balancing growth and risk, creating a "radically intimate" relationship with customers (whether businesses or consumers) and reimagining products and business models. In all these areas, our report focuses on lessons offered by "digital leaders" — those M&E companies already driving more than half their revenue through digital and most advanced in their use of the transformative digital technologies: smart mobility, social networking, cloud computing and big data analytics (for a full explanation of how digital leaders were identified, see page 43).

We hope *Sustaining digital leadership!* will enhance your own strategic thinking as your organizations meet, and overcome, the challenges of digital transformation.

"There is no map, and charting a path ahead will not be easy. We will need to invent, which means we will need to experiment."[1]

Jeffrey P. Bezos
Owner
The Washington Post

Chapter 1

Balancing growth and risk

65%

of digital leaders say they are prepared to cut legacy media investments to support digital efforts.

Key strategy highlights

- Innovate and rebalance. Focus on new products (i.e., content and services) to drive growth — even if it means disrupting legacy businesses. Evolving existing products may not be enough.
- Create a diversified portfolio of offerings and business models to manage risk and increase opportunities for success.
- Speed is imperative: launch and learn rather than learn and launch.
- Invest in technologies for managing digital-related risks.
- Use big data analytics to get a more detailed understanding of both business-to-business (B2B) and business-to-consumer (B2C) customers, and hone content and services based on their preferences.
- Manage technology partnerships and investments wisely to accelerate digital transformation.

Note: throughout this report, "products" refers to media and entertainment content and services.

As digital transformation sweeps through the media and entertainment (M&E) world, the challenge of managing sustainable growth has become a complex balance of sound business practice and risk-taking.

"Digital growth for M&E companies is driven by innovative ways to exploit their IP."

John Nendick
Global Media & Entertainment Leader
EY

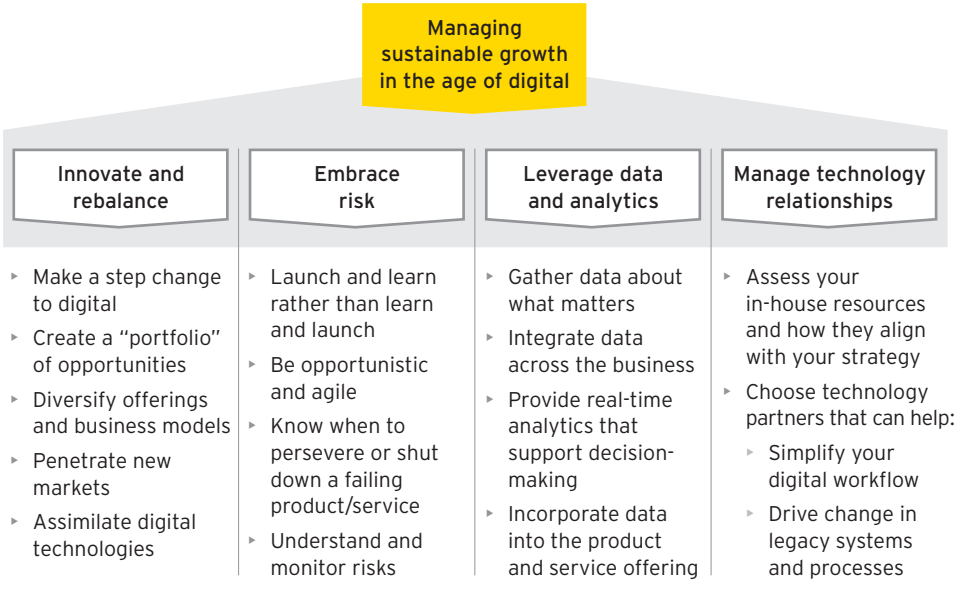
The opportunities and risks

M&E companies have extraordinary opportunities to drive top- and bottom-line growth by leveraging transformative mobile, social, cloud and big data analytics technologies to develop new content, expand distribution and reinvent business models. But digital technologies are also unleashing disruptive change that, if not carefully managed, can undermine growth strategies – and competitiveness. The challenges of that disruption have been aptly illustrated by acquisitions of newspapers and magazines at historically low prices, including *The Washington Post*. As Amazon, Inc. founder Jeff Bezos, *The Washington Post's* acquirer, commented: "There is no map, and charting a path ahead will not be easy. We will need to invent, which means we will need to experiment."

"Born-again" and "born-digital" routes to market leadership

As digital redraws the M&E playing field, it has created two routes to market leadership. Born-digital companies,

Figure 1: Managing growth



Source: EY analysis.

such as Facebook, are leveraging their technological and entrepreneurial expertise to make the leap into M&E. Born-again companies like the BBC and Thomson Reuters are reinventing their business for the digital age, while building on core strengths, such as their brands, talent and customer relationships. Whether companies are born-digital or born-again, the path to sustainable growth requires a keen understanding of fast-changing customer behaviors, the willingness to act boldly and the ability to accept and manage risks.

Though there is no "one size fits all" model for digital success, our research revealed four focus areas for achieving digital leadership: innovating and rebalancing the portfolio of products and business models, embracing risk, leveraging data and analytics and managing technology relationships – whether they involve partnerships or investments (Figure 1, page 6).

Innovate and rebalance

As Figure 2 (below) suggests, making a step change to digital is key to success. Among digital leaders, 58% believe new products and services will be among the greatest drivers of growth, compared with 45% who expect growth from evolving existing products (Figure 3, page 8). They also recognize that digital growth may disrupt legacy businesses. Almost two-thirds of digital leaders (65%) are prepared to cut legacy media investments to support digital efforts, compared with 48% of other companies.

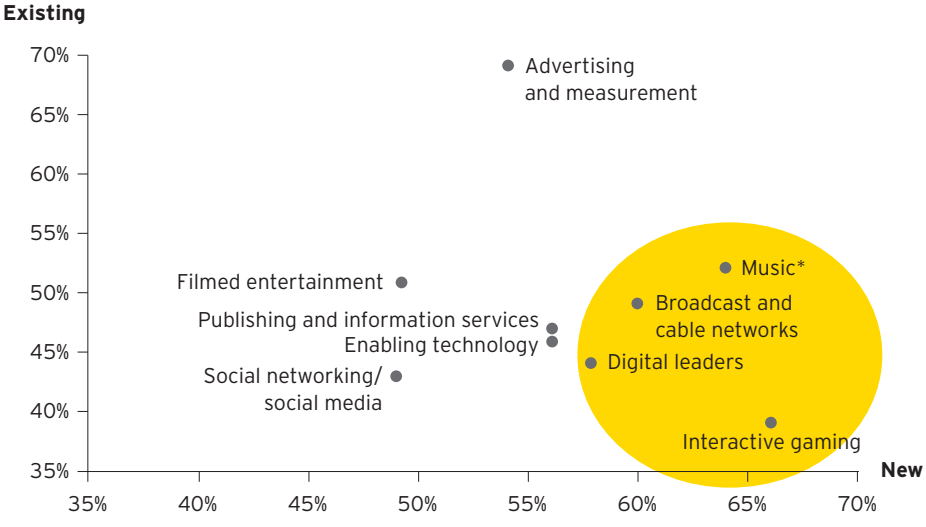
Because the digital future is unpredictable, it's important to position these new products within a balanced portfolio of opportunities, providing diversified paths to growth. Leading M&E companies are maximizing the likelihood of success by placing multiple bets, quickly terminating failing ventures and ramping up those most likely to succeed.

"Partnering is one area where successful M&E companies demonstrate the power of shared leadership. Our research shows that digital leaders partner more, accelerating time-to-market with technology-enabled innovation, while sharing risk and expense."

Tom Connolly
Global Media & Entertainment
Transaction Advisory Services Leader
EY

Figure 2: Prioritization of investments in evolving existing products/services versus developing new ones

Percentage of respondents



Our analysis suggests industry segments in the colored bubble are leading innovation because they place greater emphasis on developing new products than on evolving existing ones.

*This result suggests the music subsector, initially reluctant in digital transition, has adapted based on those early experiences as it now scores among the most focused on new-product development.

Source: EY analysis.

"If we as an industry think that encrypting the bits better, making disks view-only and preventing consumers from making copies is the way to increase revenue, we will fail."

Mitch Singer
President of the Digital Entertainment Content Ecosystem (DECE)

"A broad multi-faceted strategy and technology platform for identifying and securing business critical information, systems, digital assets and their lifecycle is critically important to M&E companies' long-term growth and profitability."

Howard Bass
Global Media & Entertainment Advisory Services Leader
EY

Born-again companies are learning to act like technology start-ups, funding experimental opportunities in innovative technologies or hunting for logical acquisitions. Assimilation of mobile and social technologies is vital, as users continue shifting to smartphones and tablets. For example, NBCUniversal's acquisition of Stringwire, which distributes live video feeds created on users' smartphones,[2] may help the established broadcaster leap into the fast-growing field of user-generated social media news content. In the UK, *The Sun* newspaper bundled print subscriptions with mobile device access to all content for one price – including exclusive video clips of European football for the ardent fans within its audience.[3,4]

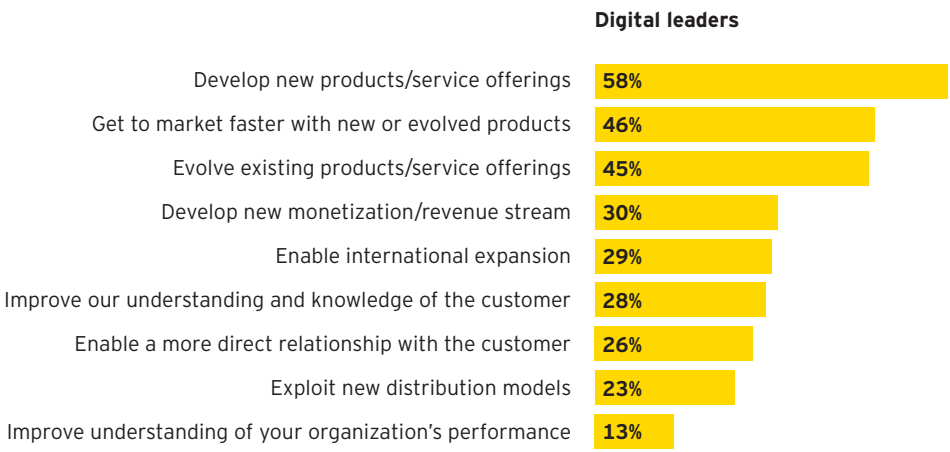
Diversifying business models is necessary to fuel growth, as traditional revenue sources dwindle. With print advertising in decline, periodicals, such as *The New York Times*, are deriving more revenue from digital subscriptions by creating "paywalls" and other monetization schemes around their online content.[5] Micropayments are expected to quickly grow in importance; today, only 5% of media executives see micropayments as the biggest contributor to growth, but that percentage is expected to double within three years, while buy-to-own and rental diminish.

The digital era offers new opportunities for geographical expansion as well. But it can also intensify international competition by enabling small start-ups and disruptive technologies to rapidly acquire a global footprint – as with music-streaming company Spotify, which originated in Sweden in 2008 and has quickly extended its services to 24 million users in 28 countries, including 6 million paying subscribers.[6]

Embrace risk

Digital leaders accept and actively manage the strategic, operational and reputational risks of digital transformation, recognizing that standing still poses even greater threats. Only 28% say they're unwilling to take major risks as they engage with digital, compared with 39% of others; 70% say they're willing to accept short-term losses as they move up the digital learning curve, compared with 47% of others (Figure 4, page 9).

Figure 3: In what ways will technology drive growth for your organization? (Rank the top three)



Note: percentages shown represent digital leaders who ranked each choice first, second or third.
Source: EY analysis.

Because speed is essential in fast-changing digital markets, digital leaders launch and learn rather than learn and launch: 46% say getting to market faster is among their top priorities, compared with 38% of others. Recognizing the importance of digital, 64% of M&E companies are investing in digital staff faster than digital revenue is growing, and many are rapidly reintegrating digital "skunk works"* back into their core business operations.

Managing risk in the digital world means being opportunistic and alert to shifts in audience preferences and technology trends. Even born-digital music service Pandora was taken by surprise and had to quickly increase its mobile efforts as its listeners shifted from PCs to smartphones, as Founder and Chief Strategy Officer Tim Westergren told us in our first report.[7]

Digital intensifies the impact of operational risks, such as system failures and cyber-threats, as shown by attacks attributed to Syrian hackers that briefly disabled *The New York Times* website and also affected other companies, including Twitter.[8] Digital leaders are clearly focused on these risks: 78% are making greater investments in cybersecurity, network security, encryption and other related systems, compared with 58% of other companies. Further, 75% have established units dedicated to fighting digital threats. And, recognizing that the ubiquity of social media means reputational damage can spread more quickly, 68% of digital leaders actively monitor social networks for risk.

Leverage data and analytics

Mobile, social and big data analytics technologies can enable M&E companies to respond more quickly to shifts in customer behavior and market trends. In fact, big data analytics may directly drive new growth opportunities because companies can develop content with greater confidence that it will match audience preferences. For example, Netflix made an early commitment to funding two seasons of its first exclusive series, *House of Cards*, after its analysis showed that subscribers watched other content starring Kevin Spacey or directed by David Fincher. In a speech, Spacey reported that Netflix said, "We've run our data, and it tells us that our audience would watch this series. We don't need you to do a pilot."[9]

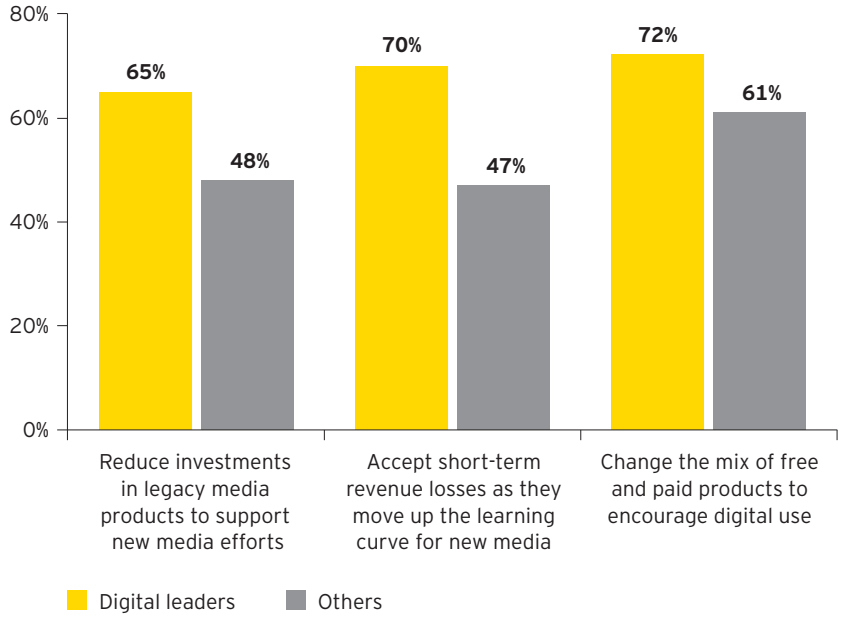
"We've seen that a big win for companies on digital transformation journeys is to drive more integration of systems, which enables them to simplify digital work flows."

Kevin Price
Global Technology Industry Advisory Services Leader
EY

Note: the use of analytics, and insight derived from analytics, represents one of the larger areas of transformation for technology and M&E companies. Analytics are used to describe and improve business performance. Yet we are in the infancy of the "era of analytics." Both technology and M&E companies have a steep learning curve to climb in understanding how they can leverage insights from customers, and consumer technologies, to drive value-added content and services.

*A small group working on innovative or otherwise secret projects within a larger organization, but unhampered by bureaucracy.

Figure 4: As you engage new technologies to transform your business, what risks are you willing to accept?



Source: EY analysis.

"Use of analytics offers M&E companies the ability to make real-time decisions and create compelling engagement with their customers. Successful M&E companies must move their customer analytics beyond 'hindsight', beyond 'insight' and onto 'foresight' – identifying targets with the highest probability of success."

Mark Borao
Global Media & Entertainment Advisory Services
EY

"The need for partnering between technology and M&E companies is profound. Companies will find that a successful transition to digital requires an M&E company to be technology-driven and to even act more like a technology company."

Guy Wanger
Global Technology Industry Assurance Services Leader
EY

Figure 6 (page 11) shows that most M&E companies haven't yet extensively exploited big data analytics. As expected, though digital leaders are further along than others: 26% are deploying second-generation* or later big data analytics solutions for customer engagement, compared with only 9% of other companies. And while the benefits of analytics in B2C markets may be most obvious, they can be equally vital to B2B companies – as the Reed Elsevier "digital transformation journey" story on page 22 attests. To quickly respond to market shifts, leading M&E companies are analyzing data in real time, gathering information across business functions and multiple sources, such as social media, smartphones and in-store visits. Among digital leaders, 70% have the resources, tools and processes they need "to enable effective sharing of data and insight around the organization," and 77% say they can access relevant data in real time (Figure 5, below).

Manage technology relationships and investments wisely

To compete in fast-changing digital environments, leading M&E companies are making informed decisions about when to build, buy or partner to develop solutions that can accelerate their own digital transformation.

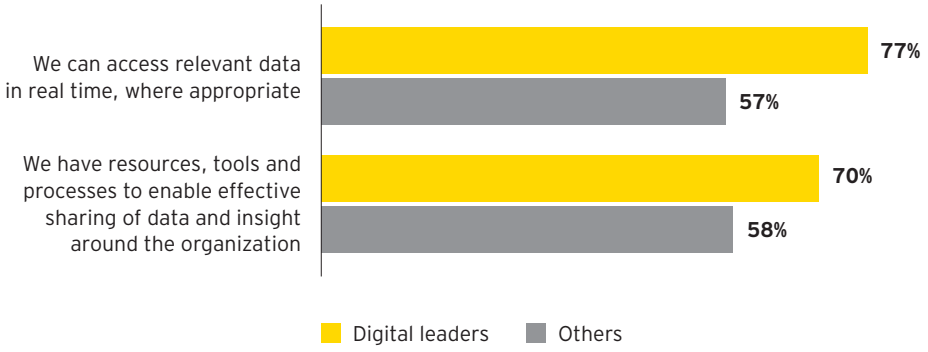
Our research shows that most M&E companies prefer in-house development. For example, most (64%) agree with the statement that, "We rely on our in-house skills and processes to collect, store, and analyze data, and act on the results." This appears to be particularly true for born-digital companies, which often view technological innovation as a core strength and competitive differentiator.

Yet companies that choose to partner with the right technology supplier may enjoy significant advantages in reducing time to market, risk and expense. Partnering can also help overcome the challenge of acquiring the digital talent to get projects done quickly. Digital leaders recognize this: 51% see alliances with technology partners (and other M&E companies) as a strategic priority, compared with 30% of others (Figures 7 and 8, page 11). They also place significant emphasis on interoperability (38%) and reliability (26%). Given the importance of digital, M&E companies in general look for technology partners that have trusted and well-established brands (53%) and are seen as technology leaders (39%).

Many M&E companies also use mergers and acquisitions to accelerate digital growth. For example, the need to compete in an increasingly digital advertising market was an important driver in the announced merger between agency giants Publicis Groupe and Omnicom – and even before that announcement, Publicis Groupe, in particular, had acquired several digital marketing companies.[10]

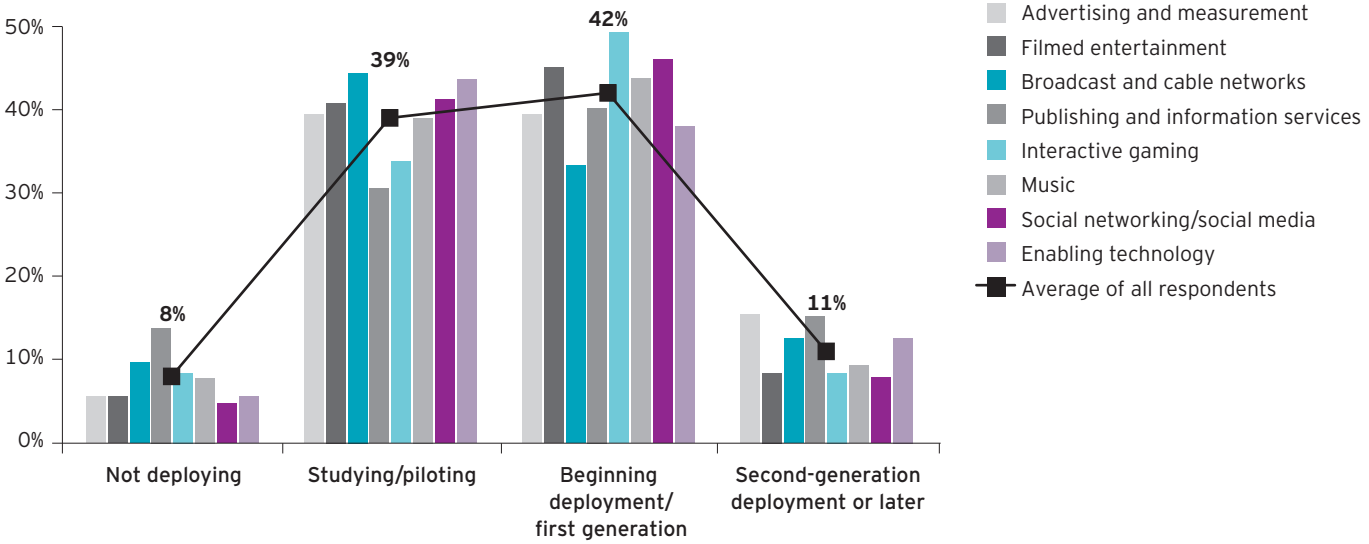
*Throughout this report, "second-generation" denotes technology deployments that incorporate lessons learned from initial deployments and go beyond to achieve more advanced functionality.

Figure 5: How digital leaders and others rated their organization's use of big data



Source: EY analysis.

Figure 6: At what stage of development is your company in employing big data to help achieve your customer engagement business goals?



Source: EY analysis.

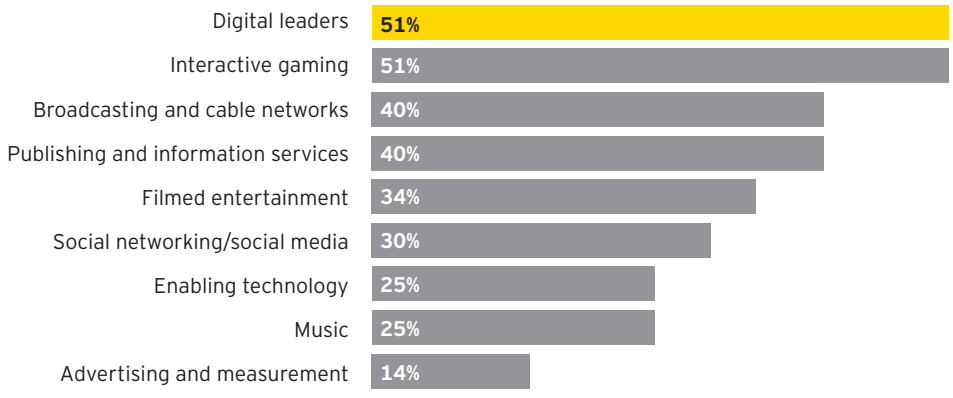
Figure 7: Percentage of respondents who identify building alliances with M&E and technology partners as a strategic priority for digital transformation

Source: EY analysis.

"When M&E transactions are motivated in part by the need to onboard talent that is 'digital technology savvy,' the ability to energize and retain key talent emerges as a big factor in the ultimate success of the transaction."

Joe Steger
Global Technology Industry
Transaction Advisory Services Leader
EY

Figure 8: Percentage of respondents, by segment, who identify building alliances with M&E and technology partners as a strategic priority for digital transformation



Source: EY analysis.

Digital transformation journeys

In our in-depth interviews with the senior executives overseeing digital transformation journeys at approximately two dozen M&E and enabling technology companies, we came across many striking stories. Here are four we found aligned with the theme of "Balancing growth and risk."

BBC sharpens online focus

A little more than two years ago, the BBC's top managers realized the company's online presence needed an overhaul. "Our site was comprised of almost anything the content divisions would throw over the wall," explains John Tate, Group Director of Policy & Strategy at the British broadcaster. "It was sort of a sprawling commons. It wasn't integrated, it didn't look right and the navigability was suffering."

To force editorial and program managers to sharpen their focus and rationalize content, the BBC's top executive at the time, Director-General Mark Thompson, ordered cuts to the digital budget. "What really pushed this was the director-general saying, 'You've got 25% less resources, and I want you to maintain the reach of the site.' It's a rather brutal method, but it forced us to get more organized and to make choices," Tate says.

The result was a single integrated site with 10 clearly delineated "products," including news, sports and weather, all designed for access across four types of devices: PCs, smartphones, tablets and connected TVs. Dubbed the "1-10-4" strategy, the initiative cut the number of web pages by about 25% and made it easier for viewers to find content.

The BBC's website not only operates more smoothly, but it also remains among the world's most heavily visited websites.[11] "We feared our trajectory would slip," Tate says, "but we have held our own."

Starcom MediaVest explores the impact of social media on advertising

As social media seizes a growing share of advertising, Starcom MediaVest Group is exploring the impact by investigating how to meld the use of traditional media with services such as Twitter.

In April 2013, the company announced a multifaceted relationship with Twitter. In part, the deal focuses on buying Twitter advertising for the agency's clients. But another key element is a "social TV lab" that explores the relationship between Twitter and TV, according to Lisa Giacosa, a senior vice president at Starcom MediaVest (which is part of the global marketing and advertising holding company Publicis Groupe).

Jointly staffed by Starcom MediaVest and Twitter, the lab will explore ROI and changes in audience behavior resulting from using Twitter and TV together, whether during major live events or scripted TV shows. "It used to be that you'd gather around the water cooler and talk about what you watched on TV last night. That conversation is now happening in real time, via social tools, such as Twitter," Giacosa says.

Big data analytics will be key to understanding and then using the information. "What excites us is the ability to move more quickly, create personalized experiences that are responsive to the always-on data feed and then optimize those experiences in real time," Giacosa says.

Starcom MediaVest also is collaborating with ShareThis, a service that tracks social-media activity, to enable media planners to include social-media metrics as they evaluate publishers to determine how to allocate media ad spending.

TheStreet, Inc. remodels with open source

Financial news site TheStreet is in the midst of a sweeping two-year technology migration to open-source software and cloud computing, designed to help the company reduce cost, while more quickly supporting new services and devices.

The migration was initiated as part of a broader corporate restructuring by CEO Elisabeth DeMarse, who joined the born-digital company in 2011. "We took the company down to its studs, and part of that involved taking the technology down to its studs," she says, adding that the company also replaced most of its technology team.

TheStreet saved $1 million by switching from on-site servers to a public cloud service, and further cut costs by moving to open-source content management and video platforms. Next, DeMarse plans to replace an expensive proprietary database with open-source software. Besides reducing cost, she expects TheStreet will also be able to add new features more quickly. "Moving to open source is a huge deal. For publishers, a legacy technology stack is really a millstone around the neck," she says.

DeMarse is encouraging her technology team to focus first on designing for handheld devices, as the audience rapidly switches to smartphones and tablets. "Especially for financial news, it will increase consumption because people will be checking their phones, while they're at grocery stores and dry cleaners," she says. For example, she explains that the company is moving away from a "sushi box" home page to a scrolling list of news items more easily viewed on smartphones' small screens.

Embracing streaming – and sharing – as a model for growth

Movie production houses have seen DVD sales decline for several years. But thanks to a cloud-based technology called UltraViolet, which stores a digital version of a purchased disk, home entertainment sales have staged a comeback in the first half of 2013. In the US, Blu-ray growth offset DVD's decline, resulting in a combined increase of 2% over the first half of 2012.[12]

UltraViolet is a cloud-based rights-management system from the Digital Entertainment Content Ecosystem (DECE), a consortium of movie and TV producers, retailers and consumer electronics companies. "Cloud services make consumers feel confident buying digital content because they know they can always access it from the cloud. They no longer have to personally manage it across their own devices," says Mitch Singer, President of the DECE.* "Who manages my digital life? I don't want to do it, and that's where the cloud comes in."

A growing range of studios and retailers, including VUDU, Barnes & Noble's Nook and Best Buy's CinemaNow service, offer UltraViolet. The technology provides consumers with value-added services they didn't get with purchased disks: they can create cloud-based libraries of the films and TV shows they buy (even previously purchased disks), view their collections on any device and even share the films instantly with family and friends.

At the same time, UltraViolet provides to its member companies data on users' buying habits, which can ultimately help shape decision-making regarding future content and formats.

"By creating a service that caters to digital users' changing preferences and allowing for sharing, which is a key differentiator from other on-demand services, I think we've got the platform that will stimulate growth," says Singer.

*Mitch Singer is also Chief Digital Strategy Officer of Sony Pictures Entertainment.

"The customer's voice used to be visible only in the past tense – customers spoke through transactions. But the conversation became much richer and went from past tense to present tense as it moved away from the cash register and into social networks. Today, we live in a world that is really not just past and present but future as well, because intention signals have become part of the conversation."

J.P. Rangaswami
Chief Scientist
Salesforce.com

"Being mobile, we rely heavily on data analysis to drive design because we have to earn our keep every few seconds with microtransactions."

Nick Earl
Senior Vice President and Head of Development, EA Mobile
Electronic Arts Inc.

Chapter 2

Creating a virtuous circle of customer engagement

85%

of digital leaders say direct customer relationships are a current or near-term priority.

Technology empowers customer-centric innovation and growth

Key strategy highlights

- Establish "radical intimacy" with your customers, based on trusted, direct relationships and 360-degree profiles of their "anytime/anywhere" preferences and behaviors – whether mobile, social, online, at home, in theaters or at work.
- Set in motion a virtuous circle of customer engagement and innovation to rapidly connect with B2B or B2C customers, listen to them, adapt or expand your offerings based on customer input, and re-engage. Recognize this is a journey, especially for companies starting without trusted customer relationships.
- Build up the skills, tools and agility to analyze accurately and act rapidly on a growing mountain of customer data.
- Share customer data and analysis across the organization, with dashboards and other tools delivering the right information to the right people in real time.
- Make data-driven customer response your driver of innovation.
- Use your customers' preferences and behavior as your blueprint for curating new content and service distribution back into their personalized digital spheres – balancing direct and indirect channels.
- Do it again from the top, as new interactions with trusted B2B or B2C customers generate new data and insights.

Smart mobility, social networking, cloud computing and big data analytics together are revolutionizing the relationship between media and entertainment (M&E) companies and their customers.

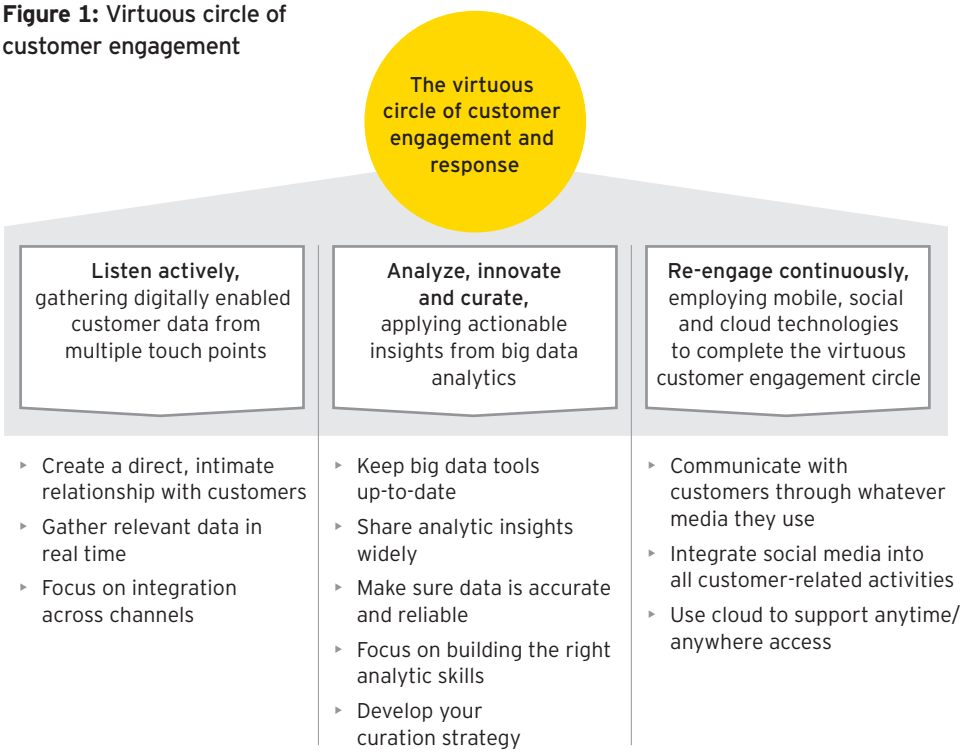
"Five million people tell us where they are every day, so we have living, breathing heat maps of the way people move through cities all over the world. When they do a mobile search, we harvest their intent. And when we do it right, they love the ads we send them."

Dennis Crowley
CEO
Foursquare

These transformative technologies let both B2B and B2C M&E companies capture unprecedented insights into their customers and engage with them in new ways. The customer relationship is no longer a one-way street, or even a two-way street: it is evolving into a virtuous circle of customer engagement and innovation. Today, leading M&E companies connect with customers, listen to their feedback, adapt or expand their offerings and engage anew – starting the process all over again.

The opportunities these four transformative technologies make possible is giving rise to many new kinds of competitors and, therefore, an increasingly crowded M&E landscape. That raises the pressure on M&E companies to make advantageous use of the technologies to create "radically intimate," direct customer relationships – because if you don't do it, someone else will. Today's digitally empowered customers expect personalized, anywhere/anytime access to content and services. If customers

Figure 1: Virtuous circle of customer engagement



Source: EY analysis.

find your experience lacking, another experience is just a click away. "Our customers have much more choice today across the spectrum of content they need to run their businesses, and they're more confident in their ability to identify trustworthy sources," says Michael Parlapiano, Global Head of Strategy & Business Development, Financial for Thomson Reuters. "So while they trust their traditional content providers, they are also able to quickly get comfortable with new sources and will migrate to them if it benefits their business."

No wonder that our research shows 85% of digital leaders agreed that developing direct customer relationships is a top priority now or in the next 2–3 years (Figure 2, below). Of note, this is a case where other respondents were not far behind the leaders, with 83% agreeing. Among companies that derive the majority of revenue through B2B content and services, a somewhat higher percentage agreed than did B2C companies (82% versus 75%). And 90% of companies whose revenue splits more evenly between B2B and B2C agreed. Direct customer relationships enable M&E companies to set in motion a circle of engagement that puts customer experience and customer-driven innovation at the center of their business, driving everything from real-time improvements in services and products to changes in the way they are delivered and branded.

This virtuous circle consists of three closely linked phases (Figure 1, page 16). Leading M&E companies:

- Listen actively, gathering digitally enabled customer data from multiple touch points
- Analyze and curate the information, applying actionable insights from big data analytics
- Re-engage continuously, completing the virtuous circle by employing mobile, social and cloud technologies to deliver new and enhanced products and services

Listen actively

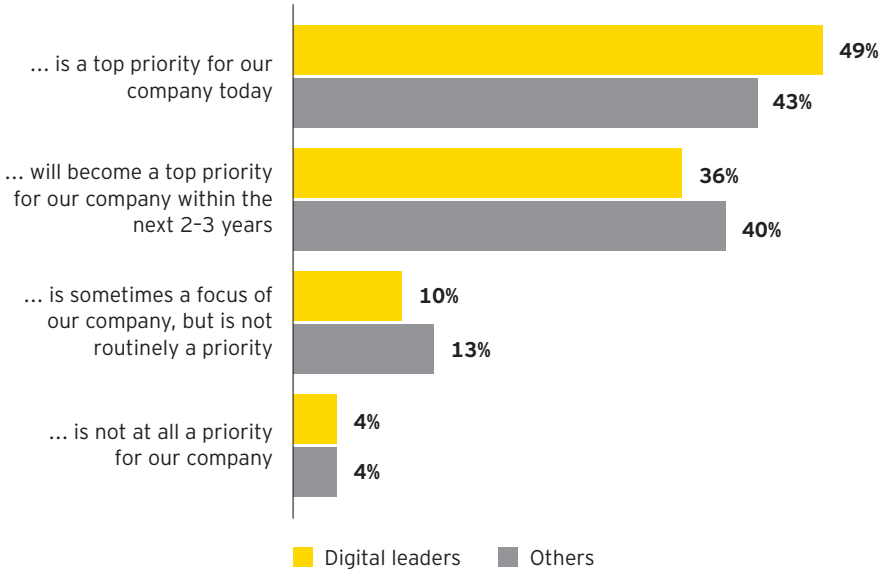
The virtuous circle begins with listening across all channels to capture the multitude of data points available in the digital environment. This includes monitoring trending sentiments on social networks, counting click-through rates, identifying customers' mobile locations and pinpointing the moment at which most viewers stop watching a video (among a cornucopia of possible customer interaction data points).

Social networking service Foursquare, for example, collects location data from customers' smartphones when they choose to check in, and uses the data to target ads as well as recommendations for local services. Says Foursquare CEO Dennis Crowley: "Five million people tell us where they are every day, so we have living, breathing heat maps of the way people move through cities all over the world. When they do a mobile search, we harvest their intent. And when we do it right, they love the ads we send them."

"As advancing technology and telecommunications innovation drives continuous M&E product evolution, maintaining unique, compelling and personalized content is becoming 'table stakes' – the basic cost of doing business."

David McGregor
Asia-Pacific Technology, Media and Telecommunications Market Leader
EY

Figure 2: Which of the following statements best describes your company? Developing direct relationships with end customers (bypassing indirect channels) ...



Source: EY analysis.

"Our journalists are required to have a social media strategy for every story they publish."

Elisabeth DeMarse
CEO
TheStreet, Inc.

"Cloud technology is doing even more than instilling M&E companies' infrastructure with greater flexibility and speed at lower cost. It's changing the way consumers think about 'owning' media."

Alex Bender
West Region Technology Industry Leader
EY

This listening becomes the basis of "radical intimacy," a term we are using to describe the 360-degree customer views that digital leaders are developing. Notably, 57% of digital leaders say listening to and analyzing customer interactions is a top strategic priority for digital transformation, compared with 48% of other M&E companies. Digital leaders are also better able than other M&E companies to listen and respond to customers via mobile devices and online: 49% say they can capture and act on information about customers through mobile channels most or all of the time, compared with 44% of other M&E companies; for online, the figure is 61%, compared with 48% (Figure 3, below).

M&E companies can build customer intimacy by integrating information across these multiple channels. Digital leaders are moving aggressively to achieve this: 81% say they are integrating data across two or three channels today to obtain a full customer profile, compared with 64% of other companies; 59% aim to integrate data across all channels within three years, compared with just 36% of other companies (Figure 4, page 19). Among industry segments, music and gaming companies are furthest along: 47% and 49%, respectively, expect to integrate data across all channels in three years.

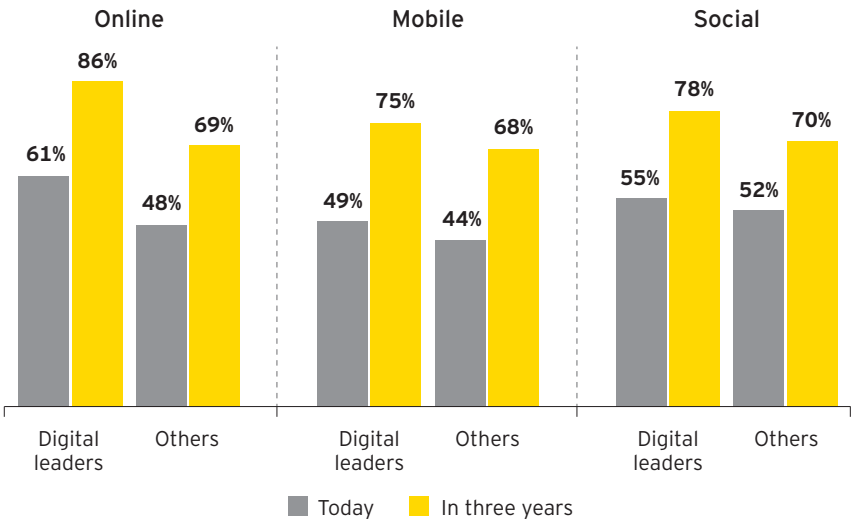
Analyze, innovate and curate

Using big data analytics, leading M&E companies are extracting insights from customer data and using those insights to drive innovation in products, services and distribution models. Music-streaming company Pandora, for example, analyzes millions of items of user feedback to continuously improve the personalized playlists that are at the heart of its service (see "Digital transformation journeys," page 23).

Digital leaders are significantly ahead of other M&E companies in using big data analytics to improve product and service development: 41% are employing second- or later-generation analytics for this purpose, compared with only 11% of other companies (Figure 5, page 20). Sharing big data and insights across the organization is fundamental to producing results. Seventy percent of digital leaders say they have the resources, tools and processes needed to do so effectively today (Figure 6, page 20).

Still, it's clear that big data analysis presents challenges, even for digital leaders. Ensuring data accuracy and reliability was cited (Figure 7, page 21) as one of the biggest obstacles to achieving big data goals by an even higher percentage of digital leaders (49%) than other companies (39%).

Figure 3: To what extent can your company capture and act on information about customers, through each of the following channels? (Percentage who say "all of the time" or a "majority of the time")



Source: EY analysis.

This makes some sense, in that the digital leaders are further along in their use of big data tools in the first place and they are using a more numerous and complex variety of sources.

In addition, 39% of digital leaders say they are not yet obtaining insights from their analysis of customer data (Figure 6, page 20).

The insights gained from analysis drive the process of curation — determining how to change content, identifying exactly which content to incorporate into enhanced offerings and deciding how to customize and personalize those offerings across the multiple available digital channels and devices to best re-engage with each customer.

Digital leaders believe it is particularly important to incorporate data from mobile devices and social networks into products and services. Nearly three quarters of digital leaders (74%) say it is "very" or "extremely" important to enhance their content and offerings using knowledge of customers' specific locations, compared with 50% of other M&E companies; 68% of digital leaders say it is "very" or "extremely" important to incorporate social network interactions into the product development process, compared with 52% of others (Figure 8, page 21).

Re-engage and respond continuously

To complete the virtuous circle, M&E companies use mobile, social and cloud technologies to re-engage customers with enhanced content and services. Among digital leaders, 70% consider it "very" or "extremely" important to use social media as a sales and distribution channel (Figure 8, page 21). In a separate question, 62% of digital leaders say it is "very" or "extremely" important to use cloud computing to streamline customer access to their products and services across multiple devices.

Big data analysis is helping companies segment customers into smaller groups based on clearer understanding of their characteristics and behavior. For example, one market research firm identifies media customer segments, such as "socializers," "technophobes" and "wired for work."[1] M&E companies also have more options when it comes to selecting the best distribution channels and devices for reaching each audience segment. "Our core business is telling stories," says Mitch Singer, President of the Digital Entertainment Content Ecosystem (DECE) "The technology lets us ask how best to deliver that story to consumers who want to engage in it — whether in theaters for a big-screen experience, or delivering 50 or 60 story arcs like *Breaking Bad* in a more passive experience at home, or whether it's video-on-demand or a subscription service like Netflix."

"Digital technologies enable far more direct customer interactions than ever before, leading to new opportunities to build trusted relationships — the 'DNA' of successful companies. Leading companies see every customer interaction as an opportunity to build trust."

Howard Bass
Global Media & Entertainment Advisory Services Leader
EY

"The ability to quickly share data and insights across the business is essential to gain the greatest benefit from big data analytics."

Robert DeMaine
Global Technology Industry Analyst
EY

Figure 4: To what degree are you integrating customer data across channels to obtain a full customer profile?

		Digital leaders	Others
Not integrated across channels	Today	0%	24%
	In three years	0%	5%
	% change	0%	-79%
Integrated across two channels	Today	39%	40%
	In three years	16%	26%
	% change	-59%	-35%
Integrated across three channels	Today	42%	24%
	In three years	25%	34%
	% change	-40%	42%
Integrated across all channels	Today	19%	11%
	In three years	59%	36%
	% change	211%	227%

Source: EY analysis.

"Digital creates new ways for M&E companies to reach and delight their customer — whether you're delighting business customers with high-quality information that responds to their needs, or delighting audiences with first-rate entertainment. Becoming something they know and trust is what helps drive growth."

Martyn Whistler
Global Media & Entertainment
Lead Analyst
EY

"Digital transformation is driving M&E companies to re-examine almost every aspect of their business, including the core value of their products and services and how best to address their audience."

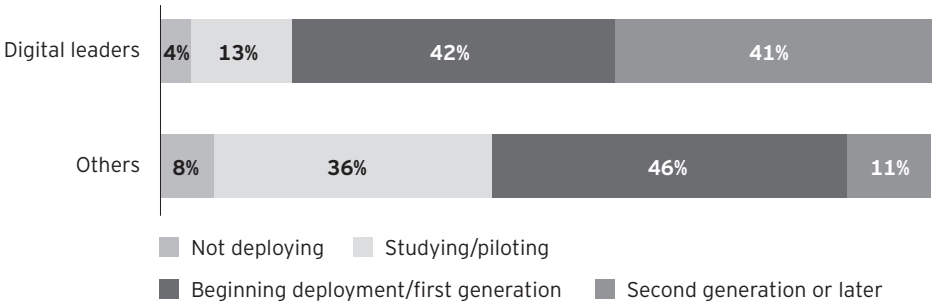
Ian Eddleston
Global Media & Entertainment
Assurance Services Leader
EY

Increasingly, M&E companies are strengthening customer relationships by engaging via multiple channels, both traditional and digital. M&E companies are advertising and distributing content both via TV and social-media services, such as Twitter and are trying to better understand how audiences use the two channels together. A recently created metric, the Nielsen Twitter TV Rating, showed that tweets caused a "significant increase" in ratings while shows were on the air in 29% of the shows studied.[2]

As customers shift to smartphones and tablets, M&E companies are quickly increasing emphasis on mobile devices. Among digital leaders, 83% expect increased use of their offerings via tablets and 77% expect greater use via smartphones. In contrast, only 46% expect increased use via PCs and 40% expect greater use via TV. Responding to the trend, far more digital leaders (30%) than other companies (10%) are already deploying second-generation or later mobile technology for customer engagement (Figure 9, page 21).

Illustrating the vast potential for discovering new ways to use digital media and mobile devices alongside more traditional channels, The Walt Disney Company has been staging a "second screen live" revival of *The Little Mermaid* in movie theaters, inviting children to "break the rules" by bringing their iPad to the movies. During the film, the young audience can play along using a new iPad app that helps keep them engaged with interactive games and trivia questions about the movie and its animated characters.[3]

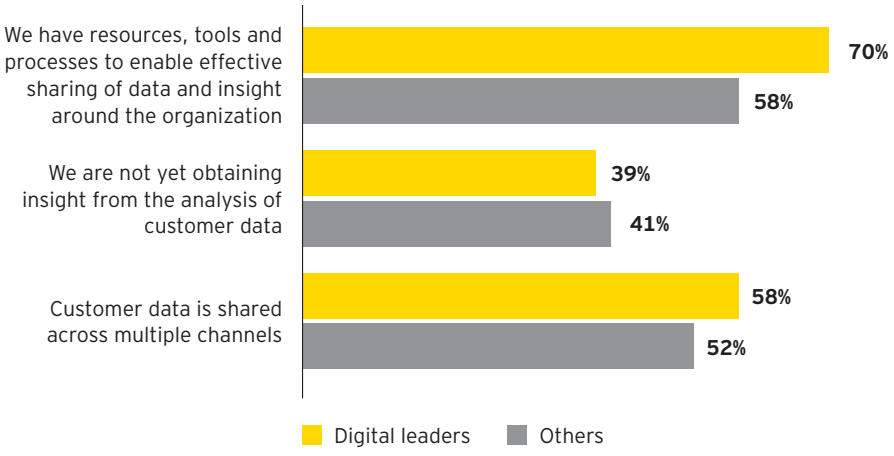
Figure 5: At what stage of development is your company in employing big data to help improve product and service development?



Note: percentages do not total 100% due to rounding.

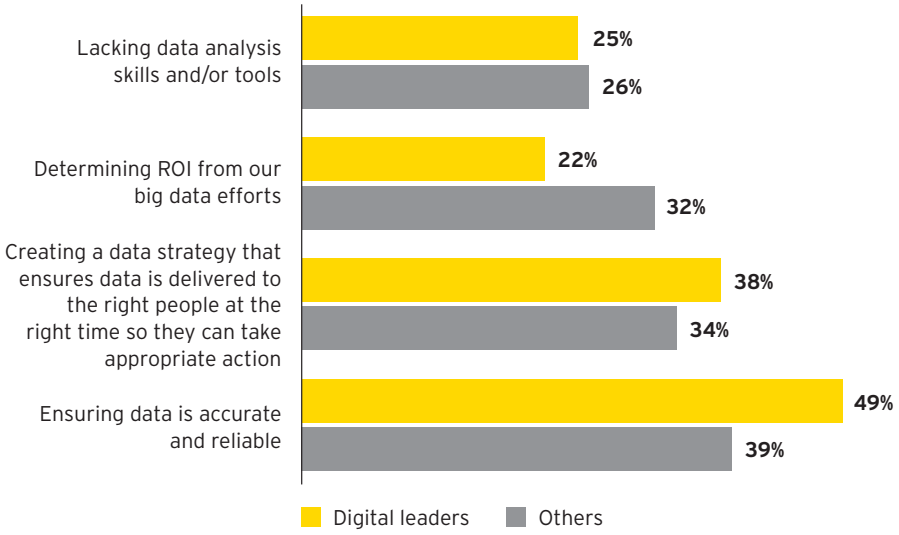
Source: EY analysis.

Figure 6: For each of the following statements regarding your organization's use of big data, rate the extent to which you agree or disagree.
(Percentage of respondents who agree/strongly agree)



Source: EY analysis.

Figure 7: What are the biggest obstacles to achieving your big data goals?



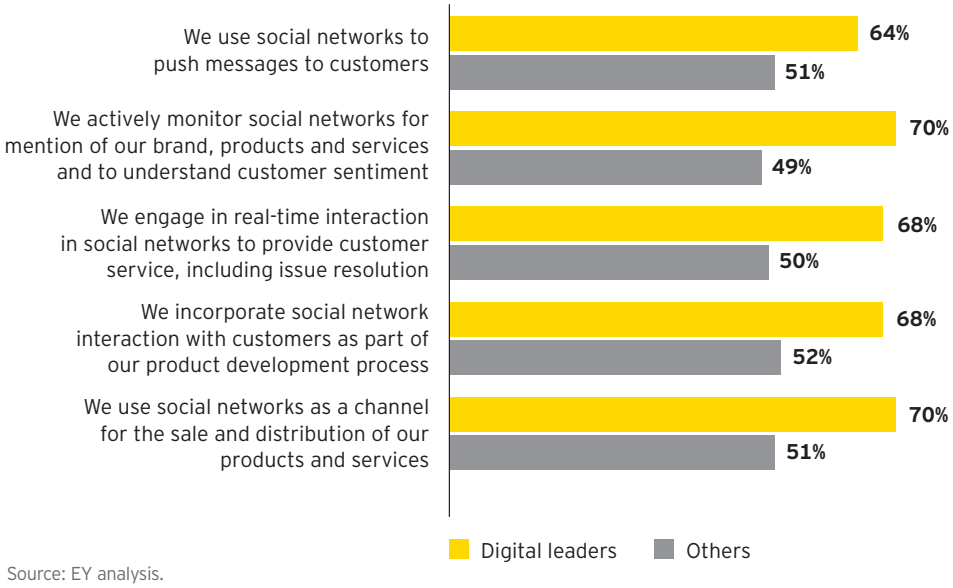
Note: percentage that ranked each statement among the top three obstacles.

Source: EY analysis.

"Cloud services make consumers feel confident buying digital content because they know they can always access it from the cloud. They no longer have to personally manage it across their own devices."

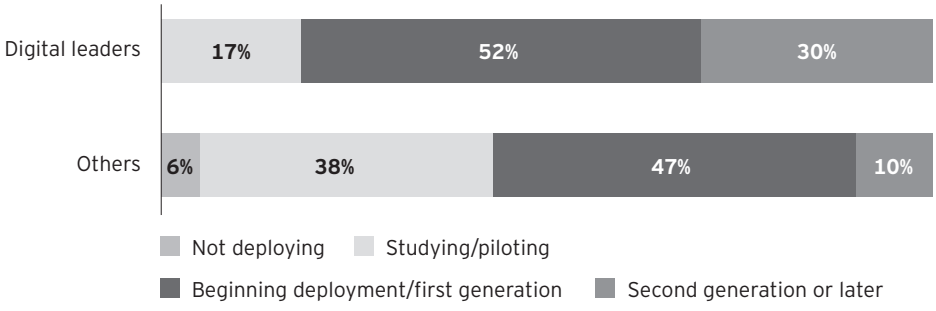
Mitch Singer
President of the Digital Entertainment Content Ecosystem (DECE)

Figure 8: For each of the following statements, how important is the use of social networking to your organization? (Percentage for very/extremely important)



Source: EY analysis.

Figure 9: At what stage of development is your company in employing mobile technology to help improve customer engagement?



Note: percentages do not total 100% due to rounding.

Source: EY analysis.

Digital transformation journeys

In our in-depth interviews with the senior executives overseeing digital transformation journeys at approximately two dozen M&E and enabling technology companies, we came across many striking stories. Here are five we found most aligned with the theme of "Creating a virtuous circle of customer engagement."

"We've built a world-class business-intelligence function and unified all of our customer databases. The goal is not only to acquire and retain subscribers, but to build better products by understanding who our customers are, what they do, where they do it and how they do it."

Marc Frons
Chief Information Officer
The New York Times Company

IBM tunes in to customer preferences

Steve Canepa, General Manager of IBM's Global Media & Entertainment Industry practice, believes that for M&E companies to succeed in the digital era they must shift from a mass-marketing model to delivering content that matches what individual customers want. This means creating a process that leverages big data analytics to build a more nuanced customer portrait, tailors content and streamlines content delivery across multiple channels.

"Faced with a deluge of content from many sources, people will gravitate toward whoever can provide the experience that is most in tune with what they actually want," says Canepa. "We're at the very early stages of understanding these new connected audiences and using that understanding to shape content development," he adds.

IBM has attempted to address this challenge with a standards-based technology framework for M&E companies that analyzes data from different sources, automates content development and distribution work flows and enables multichannel distribution.

Last year, IBM worked with a client to determine the impact of movie trailers broadcast during the Super Bowl. Before the game, IBM built audience profiles by analyzing five million blog posts and one billion tweets over several weeks. Then, during the game, it analyzed 12,000 tweets a second, mapping them against specific audience profiles to gauge the impact of trailers. "We could tell if audience intent to see a movie was going up or down while the trailer was airing, in real time," says Canepa.

Big data drives Reed Elsevier's growth

While our survey data shows that a mere 11% of M&E companies have progressed beyond initial deployments of big data analytics to second-generation or later projects, Reed Elsevier's history is steeped in big data analytics. According to Kumsal Bayazit, Head of Global Strategy, big data analytics is an integral part of the products and services Reed Elsevier delivers to customers, a key tool driving customer insights, an accelerant of product innovation cycles and a critical element helping to drive growth in emerging markets (among many other uses).

The company serves professional subscribers in disciplines including science and health, law, risk analytics and financial services. In each area, Reed Elsevier applies analytics to content to create new value. "It used to be only editors would be able to analyze content, but now you can do a lot through machine learning using big data technologies and algorithmically generate insight from the content you have," explains Bayazit. She notes that big data analytics is used by the risk analytics service to help customers identify tax or prescription fraud. In the legal discipline, Reed Elsevier can analyze decision patterns to assess how a judge views a particular point of law.

In terms of customer insights, Bayazit says, "It's important to connect the dots on what the customer is buying from you, what they are saying to your marketing department from a satisfaction perspective, what they are saying to your sales team and what their interactions are with customer service. The more you can mine that data, the richer your understanding of the customer experience."

Bayazit believes a big advantage of big data technologies is accelerating product innovation because "you can try out something by test driving it on real content and get results within hours. You see if it works or not, and then improve your algorithms or your approach. So it definitely speeds up time-to-market and innovation cycles." In emerging markets, it helps match the right local and global content to best meet the needs of professionals in each country.

Customer-focused and media-agnostic

Reflecting how technology is transforming almost every aspect of marketing, Ogilvy & Mather in 2011 dissolved its pioneering worldwide digital advertising unit, OgilvyInteractive, and distributed the responsibility for digital throughout the firm. "Every single employee within our organization – 22,000 people – is accountable for digital," says Brandon Berger, Chief Digital Officer at the agency.

Ogilvy's clients are increasingly looking for a single "media-agnostic" partner who can create an idea and apply it across the right mix of traditional and digital channels, Berger adds. "Digital has created so much opportunity, and so much complexity," he says. "I almost think about every channel now as a platform to engage consumers. No matter what somebody does – whether they are sharing photos on a social-media site or writing an online restaurant review – we can insert our message there."

As technology becomes even more pervasive in consumers' lives, sophisticated big data analysis will be needed to understand their behavior – how they will react using their handheld devices when they see a provocative in-store ad, for example. Gaining a deeper understanding of customers through this data could enable agencies, working as trusted advisors to their clients, to devise more sophisticated ways to build lifetime brand loyalty. "Our job is to come up with the creative ideas, the strategy and ultimately the execution across channels," he says.

Analytics help Pandora close the virtuous circle

Amid a growing crowd of competitors, streaming-music service Pandora believes it can stay ahead by using big data analytics – together with in-house expertise – to understand what customers want and deliver personalized content.

Most Pandora users listen to the company's free, ad-supported service, which creates and delivers personalized playlists based on user preferences.

Pandora's analytical process includes the Music Genome Project, in which Pandora music analysts analyze the characteristics of individual songs, adding the information to a huge database. The service matches song characteristics to user preferences to determine which songs are included in each user's playlists.

Pandora then continually refines the song selection based on user feedback. "We have more than 30 billion pieces of feedback from listeners – songs they like and don't like," says Tim Westergren, Pandora's Founder and Chief Strategic Officer. "We have a whole team of people who do nothing but look at that data and make adjustments and improvements to make the playlists better."

"Delivering a really good, personalized radio service is incredibly hard," he says. "Of all the things that we do here, nothing makes a bigger difference to our business than making the playlist a little bit better."

To target advertising, the company also uses other listener-supplied information, such as their ZIP codes, age and gender. "Customization defines our business – not just the streaming radio but the advertising business too," Westergren says.

Readers are at center of Forbes' content shift

"After a long career in this business, it became clear to me that digital publishing had broken the traditional model of creating content, from an economic perspective. It just costs too much to create the content. It was also broken from a social perspective," says Lewis D'Vorkin, Chief Product Officer at Forbes Media. The reinvented model driving Forbes today includes a data-focused orientation around what customers (aka, readers) want.

"Data flows through our newsroom to editors. Data flows to reporters. Data flows to everybody," D'Vorkin says. A telling story illustrates related cultural change. Initially, writers were embarrassed by and resisted a public page-use counter that let everyone see how many readers visit each article page. But D'Vorkin felt the counters provided important data writers could use to shape ongoing coverage. As Forbes' traffic grew to 55 million unique visitors (according to internal statistics*) from 15 million three years ago (and page views per visitor increased 15% over that period), there came a day when the counter was overwhelmed and stopped working. "When that happened, all publishing stopped. No one wanted to publish if they couldn't see how they were doing. So we had changed the ethos from being embarrassed by it to it being a feedback loop that helped them understand how their work was viewed."

Another cultural shift was the elimination of five or six rounds of content editing. Explains D'Vorkin: "We shifted to a culture of 'hire smart people and let them hit the publish button.' This approach builds audience around their knowledge and who they are. It works because there's strong monitoring and oversight by editors, producers and readers, and the web is a very self-correcting medium. If they don't get it right at first they will find out very quickly." Unusually for a news site, more than 50% of Forbes' monthly traffic comes from articles that are more than 30 days old. "Because the news analysis we provide lives on far longer than breaking news, we are able to monetize old content in a very powerful way," D'Vorkin notes.

*Forbes.com internal statistics are from Site Catalyst, part of Adobe Systems Inc.'s Marketing Cloud and often referred to as "Omniture" after its originating company (acquired by Adobe in 2009).

"This is a company that is willing to radically change its business to stay competitive. We went from being a domestic DVD company to largely a global streaming company in three years. And in the last year, we've also gone from being a licensor of content from others to a major producer of original series and films."

Jonathan Friedland
Chief Communications Officer
Netflix, Inc.

Chapter 3

Rethinking products and business models

Social networking companies expect their role as content distributors to increase

22%

in the next 2–3 years.

Rethinking business strategies in an increasingly crowded, rapidly evolving digital world

Key strategy highlights

- Establish your place in the ecosystem. Re-evaluate strategies, market position and competitive strengths and consider making far-reaching changes to remain successful.
- Decide how to acquire or build your digital portfolio and whether to divest non-core businesses.
- Turn product innovation into a continuous process, using mobile, social, cloud and big data analytics technologies to hone products to customer preferences.
- Incorporate unique content, personalization and anywhere/anytime access into products to attract paying customers.
- Focus on fast-growing new channels, such as mobile streaming.
- Exploit the power of "brandwidth" to extend your reach into new digital channels.
- Diversify revenue sources (e.g., adding micropayments), although subscriptions and advertising may remain fundamental to growth.

To stay ahead in the fast-changing digital world, media and entertainment (M&E) companies are reassessing the fundamentals of their business – from corporate strategy to products, distribution channels and pricing models.

"M&E's new digital landscape demands global use of cloud content and service delivery arrangements. However, cloud infrastructure is borderless, while tax jurisdictions are not. As a result, we often encounter surprising – and still evolving – cloud tax risks that affect every business aspect, from profit margins to partnerships to compliance burdens to brand reputation."*

Channing Flynn
Global Technology Industry
Tax Services Leader
EY

The race to digital transformation

Across the M&E landscape, a new race is afoot. As established M&E companies seek to become born-again by creating digital products and services, born-digital companies, such as Facebook and Twitter are extending their reach in traditional M&E sectors, such as advertising. Whether born-again or born-digital, these companies are pursuing a common goal: to create sustainable business models in markets that are being transformed by mobile, social, cloud and big data analytics technologies.

As technology demolishes barriers to entry, creating an endless flow of new competitors and distribution options, M&E companies are continuously rethinking how they grow revenue and attract customers. Our research reveals four imperatives for companies across all industry sectors: establishing your place in the digital ecosystem, rethinking products for digital audiences, optimizing market distribution and penetration and reassessing revenue-generation and pricing strategies.

Figure 1: New business models

Adopting new business models amid rapid change

Establish your place in the digital ecosystem	Rethink your products for the digital audience	Optimize your penetration and distribution	Reassess revenue and pricing strategies
▸ Confirm that you are focused on the right business and audience	▸ Turn product innovation into an ongoing process	▸ Set the right balance between direct and third-party distribution	▸ The traditional model still matters
▸ Accept the "blur" of content creation and distribution	▸ Ensure your content stays unique and compelling	▸ Focus on fast-growing new media channels	▸ Revenue streams will diversify
▸ Make the decision to build, acquire or divest	▸ Put personalization at the center of your content offerings	▸ Recognize the power of brandwidth	▸ Small payments can have big payoffs
	▸ Gear up now for anywhere/anytime access		▸ Pay-on-demand will rise in some sectors
			▸ Freemium models should not be overlooked

Source: EY analysis.

*EY's global Cloud Computing Tax Guide details complex service and content arrangements in over 80 cross-border business arrangements. It can be accessed via: ey.com/cloudtaxguide.

Establish your place in the digital ecosystem

Ever since Apple Inc. opened the iTunes Store in 2003,[1] forever changing the music industry and the way digital products are distributed, digital transformation has spread across the entire M&E ecosystem. Game developers, for example, are diminishing reliance on shrink-wrapped products tied to specific consoles, or no longer sell them; instead, they're using the cloud to provide anywhere/anytime access to users via smartphones and tablets, along with PCs.

As digital continues to reshape M&E, companies are reconsidering their business strategies and preparing to make far-reaching changes. This includes identifying the core value in your products and services, re-evaluating which business you want to be in and examining how best to address your target audience. Faced with a decline in print advertising, Reed Elsevier shifted emphasis at its Reed Business Information division from advertising-driven B2B and B2C publications to paid information services for business audiences, believing they will provide a more reliable revenue stream.[2]

Other companies are blurring the traditional boundaries between content developers and distributors as they seek new ways to attract customers and drive revenue. For example, Netflix, Amazon and YouTube are expanding from distribution into development of original video content. Other companies are shifting into distribution: digital leaders expect their roles as content distributors to increase by 9% within three years, and there is an even bigger increase (24%) among social networking companies. Some social media companies are seeking to boost advertising revenue by distributing other forms of M&E content, a trend exemplified by Twitter's recent deal to distribute National Football League video clips accompanied by ads from sponsors Verizon and McDonald's.[3]

"Global M&E companies are already used to the business impact of different jurisdictions' approach to intellectual property protection and artistic rights. But they may be unprepared for the tax implications of serving products and services from the cloud, across many jurisdictions."

Alan Luchs
Global Media & Entertainment
Tax Services Leader
EY

Figure 2: To what extent is your firm a content developer, content distributor, content packager or content access provider (today and in 2–3 years)?

		Total	Digital leaders	Advertising/ measurement	Filmed entertainment	Broadcast/ cable networking	Publishing/ information services	Interactive gaming	Music	Social networking/ social media	Enabling technology
Content developer	Today	30%	32%	36%	32%	21%	36%	37%	25%	25%	25%
	3 years	30%	31%	35%	31%	21%	35%	36%	27%	26%	26%
	% change	0%	-3%	-3%	-3%	0%	-3%	-3%	8%	4%	4%
Content distributor	Today	20%	22%	19%	22%	22%	23%	17%	21%	17%	15%
	3 years	21%	24%	18%	22%	23%	25%	17%	22%	21%	16%
	% change	5%	9%	-5%	0%	5%	9%	0%	5%	24%	7%
Content packager	Today	13%	11%	12%	14%	12%	11%	13%	16%	15%	11%
	3 years	13%	10%	12%	13%	13%	12%	15%	15%	16%	11%
	% change	0%	-9%	0%	-7%	8%	9%	15%	-6%	7%	0%
Access provider	Today	14%	15%	11%	14%	22%	11%	13%	15%	17%	12%
	3 years	14%	15%	11%	15%	21%	13%	13%	12%	15%	13%
	% change	0%	0%	0%	7%	-5%	18%	0%	-20%	-12%	8%
Technology enabler	Today	17%	16%	12%	13%	17%	13%	16%	16%	18%	31%
	3 years	17%	16%	12%	14%	15%	11%	17%	17%	15%	31%
	% change	0%	0%	0%	8%	-12%	-15%	6%	6%	-17%	0%

Source: EY analysis.

"As technologies, such as cloud/SaaS and mobile platforms lower barriers to entry, they create new opportunities – but also new and often non-traditional competitors."

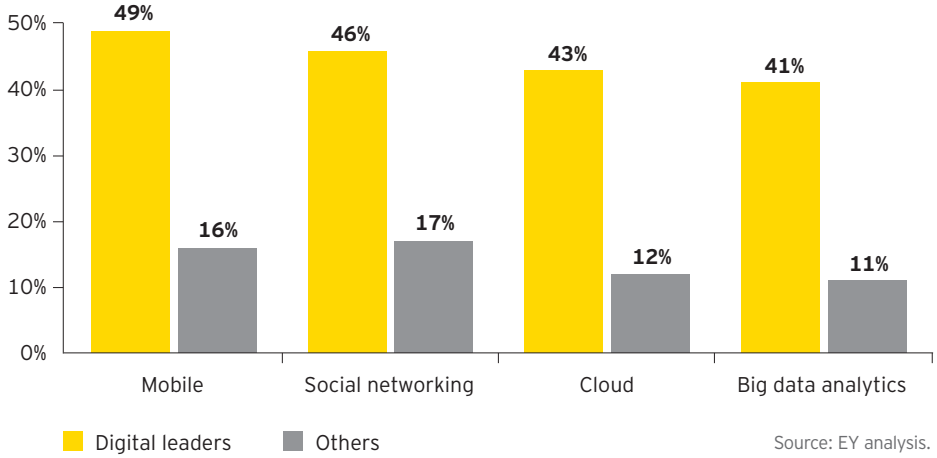
David Nichols
Americas IT
Transformation Practice Leader
EY

Once companies determine where to position themselves within the M&E value chain, they must decide how to build their portfolio and how large it should be. One option is to sell non-core businesses while investing in digital in-house development and acquisitions; Reed Elsevier divested dozens of print titles while acquiring other businesses, including Mendeley Ltd., which provides a social networking service for academic research.[4] Another approach is to retain profitable traditional media to fund digital expansion. As Bob Carrigan, former CEO of information provider IDG, reportedly said, "We manage print for profit and digital for growth."[5] Many companies are using M&A to expand mobile capabilities, a trend exemplified by Twitter's acquisition of mobile advertising firm MoPub.[6]

Rethink your products for a digital audience

New opportunities – and competitors – continually emerge as cloud computing and mobile and social platforms reduce barriers to market entry. To respond, M&E companies must make product innovation a continuous process.

Figure 3: Digital leaders are far ahead in using second-generation mobile, social, cloud and big data analytics technologies for product development.



Source: EY analysis.

Figure 4: In the digital age, how will you ensure customers pay for digital products and services?
(Percentage of respondents who selected each choice among their top three)

	Total	Digital leaders	Advertising/ measurement	Filmed entertainment	Broadcast/ cable networking	Publishing/ information services	Interactive gaming	Music	Social networking/ social media	Enabling technology
Supplemental/ premium content for a fee	51%	46%	54%	55%	50%	44%	42%	61%	52%	49%
Anytime/ anywhere access	63%	61%	62%	63%	78%	67%	52%	58%	67%	58%
Personalization	64%	67%	65%	66%	53%	61%	76%	59%	60%	72%
Create unique content	61%	62%	55%	51%	61%	67%	61%	64%	73%	58%
Affinity programs	50%	58%	44%	55%	40%	47%	62%	48%	44%	59%
Other	3%	4%	3%	1%	3%	7%	1%	6%	2%	3%

Source: EY analysis.

Based on our research, digital leaders are far more advanced than other companies in using transformative mobile, social, cloud and big data analytics technologies to drive iterative development of products honed to customer preferences and behavior. For example, 41% are using second-generation or later big data analytics solutions for product or service development, compared with just 11% of other companies (Figure 3, page 28).

Provide anywhere/anytime access *now*! M&E companies see unique content, personalization and anytime/anywhere access as the three most important ways to persuade customers to pay for digital products or services (Figure 4, page 28).

The emphasis varies by industry segment: the percentage of companies that view unique content as one of the biggest drivers is highest among social media companies (73%), publishers (67%) and the music industry (64%). Personalization is most frequently cited among companies in the advertising, film, gaming and technology segments, and is emphasized more by B2B companies (71%) than B2C (61%). M&E companies also understand that customers want access to content wherever they are, on any device, at any time; 63% believe it is among the top ways to ensure customers will pay for products. The proportion is even higher among publishers (67%), broadcasters and cable networks (78%) and social media companies (67%).

"Digital is allowing our brand to be much more global. The Wall Street Journal is now available in nine languages, and that's only possible because of digital."

Raju Narisetti
Senior Vice President, Strategy
News Corp

Figure 5: What is your revenue split by channel (today and in 2–3 years)?

	Total			Advertising/ measurement			Filmed entertainment			Broadcast/ cable networks			Publishing/ information services		
	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change
Mobile streaming	11%	13%	18%	8%	9%	13%	10%	11%	10%	9%	12%	33%	10%	12%	20%
Online (non-mobile) streaming	14%	15%	7%	14%	14%	0%	12%	16%	33%	15%	15%	0%	15%	15%	0%
Broadcast	19%	20%	5%	29%	29%	0%	26%	25%	-4%	38%	35%	-8%	8%	9%	13%
Online (non-mobile) downloads	14%	14%	0%	11%	11%	0%	10%	13%	30%	10%	11%	10%	17%	17%	0%
Mobile downloads	12%	12%	0%	8%	7%	-13%	9%	8%	-11%	12%	10%	-17%	9%	11%	22%
Print/physical media (CD/DVD)	14%	12%	-14%	11%	12%	9%	16%	14%	-13%	7%	7%	0%	25%	20%	-20%
Events, concert ticket sales	9%	8%	-11%	10%	9%	-10%	10%	8%	-20%	5%	5%	0%	8%	8%	0%

	Total			Interactive gaming			Music			Social networking/ social media			Enabling technology		
	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change
Mobile streaming	11%	13%	18%	14%	18%	29%	12%	13%	8%	16%	16%	0%	13%	16%	23%
Online (non-mobile) streaming	14%	15%	7%	15%	18%	20%	11%	11%	0%	17%	17%	0%	14%	16%	14%
Broadcast	19%	20%	5%	9%	10%	11%	18%	21%	17%	14%	16%	14%	10%	11%	10%
Online (non-mobile) downloads	14%	14%	0%	18%	17%	-6%	12%	13%	8%	15%	16%	7%	17%	15%	-12%
Mobile downloads	12%	12%	0%	16%	17%	6%	11%	11%	0%	16%	15%	-6%	16%	18%	13%
Print/physical media (CD/DVD)	14%	12%	-14%	16%	13%	-19%	18%	16%	-11%	8%	8%	0%	13%	10%	-23%
Events, concert ticket sales	9%	8%	-11%	8%	5%	-38%	15%	12%	-20%	11%	8%	-27%	7%	7%	0%

Source: EY analysis.

"Our goal is to move as much as possible of our infrastructure into our cloud, so that we can create a continuous experience across users' devices."

Michael Parlapiano
Global Head of Strategy & Business Development, Financial Thomson Reuters

Optimize distribution and market penetration

Technology opens new distribution channels and content delivery methods that represent attractive revenue opportunities.

As audiences shift to tablets and smartphones, M&E companies expect mobile streaming to provide the greatest growth. Among all companies, the proportion of revenue generated by mobile streaming is expected to rise 18% in three years, while the proportion from print and other physical media diminishes by 14% and concert ticket sales and other events decline 11%. The anticipated mobile-streaming growth rates are even higher among broadcasting (33%), gaming (29%), enabling technology (23%) and publishing (20%) companies (Figure 5, page 29). A growing number of cloud-based services from a diversity of companies including Apple, Amazon and Best Buy's CinemaNow are using streaming (both mobile and fixed) to deliver movies and other content.

M&E content producers must also decide when to directly supply their audiences and when to distribute via third parties. Although using distributors can help reach a larger audience, it also brings the risk that major digital distributors may own the customer relationship. M&E companies should strive for a balance that maximizes growth and profitability, while enabling them to maintain access to customers and customer data as well as control over digital rights management.

Figure 6: What business models most contribute to your organization's growth (today and in 2–3 years)?

	Total			Advertising/ measurement			Filmed entertainment			Broadcast/ cable networks			Publishing/ information services		
	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change
Micropayments	5%	10%	100%	1%	10%	900%	8%	11%	38%	1%	11%	1,000%	8%	11%	38%
Advertising	12%	13%	8%	17%	20%	18%	15%	17%	13%	11%	15%	36%	11%	14%	27%
Virtual goods' sales	2%	3%	50%	0%	1%	-	4%	3%	-25%	1%	0%	-100%	0%	1%	-
Subscription	28%	27%	-4%	39%	32%	-18%	23%	31%	35%	38%	35%	-8%	29%	29%	0%
Pay-on-demand/buy-to-own	20%	19%	-5%	17%	10%	-41%	8%	15%	88%	19%	18%	-5%	21%	11%	-48%
Freemium	5%	5%	0%	7%	4%	-43%	3%	1%	-67%	0%	4%	-	11%	8%	-27%
Pay-on-demand/rent	27%	21%	-22%	18%	23%	28%	35%	17%	-51%	29%	17%	-41%	15%	19%	27%

	Total			Interactive gaming			Music			Social networking/ social media			Enabling technology		
	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change	Today	2–3 years	% change
Micropayments	5%	10%	100%	6%	7%	17%	2%	9%	350%	5%	6%	20%	6%	15%	150%
Advertising	12%	13%	8%	7%	8%	14%	9%	13%	44%	16%	13%	-19%	7%	4%	-43%
Virtual goods' sales	2%	3%	50%	8%	8%	0%	0%	3%	-	5%	3%	-40%	0%	0%	0%
Subscription	28%	27%	-4%	20%	20%	0%	19%	19%	0%	13%	14%	8%	38%	34%	-11%
Pay-on-demand/buy-to-own	20%	19%	-5%	21%	27%	29%	38%	23%	-39%	24%	27%	13%	17%	23%	35%
Freemium	5%	5%	0%	1%	7%	600%	8%	2%	-75%	6%	8%	33%	4%	3%	-25%
Pay-on-demand/rent	27%	21%	-22%	37%	23%	-38%	23%	28%	22%	30%	24%	-20%	28%	21%	-25%

Source: EY analysis.

Well-known M&E companies can capitalize on the power of brandwidth — leveraging their brand equity to exploit new channels. Consumers are being overwhelmed by a tidal wave of digital information and entertainment of widely varying quality. Brands help consumers find content they trust.

ESPN's brand recognition has helped the cable TV channel expand into distributing sports content online and extend the reach of its video content via mobile and fixed streaming.[7]

Reassess revenue-generation and pricing strategies

Pressure on traditional business models has forced M&E companies to re-examine pricing strategies and develop new ways to generate revenue.

Many publishers, for example, that had hoped digital advertising would offset losses in print advertising are now recognizing they need other ways to fill the revenue gap. Some, such as *The New York Times* and *The Wall Street Journal*, are expanding digital subscriptions.[8]

In fact, our research indicates that the traditional subscription model, reapplied to digital, is expected to remain a bedrock of growth even as M&E companies diversify into other revenue-generating methods. Among all M&E companies surveyed, 27% believe subscriptions will remain the greatest driver of growth in 2-3 years (Figure 6, page 30). That's only slightly less than today (28%).

All industry sectors expect that micro-payments will increase in importance (Figure 6). Some industry segments in which micropayments are little used today expect significant jumps: 11% of broadcasters and 10% of advertising agencies expect micropayments will become the biggest growth driver within three years, compared with just 1% today in both segments.

Certain industry segments also expect growth in other models, such as pay-on-demand and freemium, in which companies offer some content or features free but require payment for others. Fifteen percent of film companies expect pay-on-demand/buy-to-own to be their biggest growth driver within three years, compared with 8% who see it that way today. A number of gaming companies are moving to freemium: 7% expect freemium to become the biggest growth driver within three years, compared with just 1% today.

Diversifying revenue amid a changing advertising market

Though global advertising spending continues to grow, there is increasing pressure on ad revenues at traditional M&E companies.

The fastest media advertising growth is expected in digital, especially mobile.[9] However, the number of M&E companies competing for advertisers' spending is growing even faster, as technologies, such as cloud/SaaS lower barriers to market entry. This increased competition puts pressure on the prices M&E companies can charge for advertising, particularly in segments, such as publishing.

Digital advertisers also expect more than just brand recognition from their ad spending. They began looking for more concrete results, such as lead generation several years ago, and are now progressing toward "outcomes-based" models as quickly as they can figure out how to measure the relationship between digital marketing campaigns and subsequent sales. As a result, ad spending is becoming more targeted, a trend likely to continue with the growth of new advertising technologies, such as programmatic buying.

All of this means that M&E companies should continue to diversify revenue streams, adding sources, such as micropayments and digital subscriptions. In addition, companies that rely on advertising should continue focusing on technology to target advertisements and deliver measurable results. Roughly half as many digital leaders (7%) believe advertising will be the biggest driver of growth in 2–3 years, compared with 14% today; in contrast, more digital leaders believe the biggest drivers will become micropayments (10% compared with 6% today) or freemium (13% compared with 6% today).

"The M&E world is moving rapidly through lead-generation models and into outcomes-based models. So for example, automobile advertisers say it won't be just how many people clicked on a website or came through the dealership — it'll be how many incremental cars this ad actually helped to sell."

Howard Bass
Global Media & Entertainment Advisory Services Leader
EY

"Diversifying into multiple pricing, revenue and distribution models, and then being prepared to shift emphasis based on differing customer preferences in each region, will be a long-term critical success factor for M&E."

Jean-Benoit Berty
EMEIA Technology, Media and Telecommunications Market Leader
EY

Digital transformation journeys

In our in-depth interviews with the senior executives overseeing digital transformation journeys at approximately two dozen M&E and enabling technology companies, we came across many striking stories. Here are four we found most aligned with the theme of "Rethinking products and business models."

Baidu's mobile acquisitions

In 2011, Baidu, China's largest internet search company, realized that it needed to fundamentally rethink its business model for the fast-growing mobile market. "We needed to radicalize our thinking. Mobile is paramount, and it is different enough from the PC-based internet that it warrants a separate focus," says Kaiser Kuo, the company's Director of International Communications.

Key to Baidu's strategy is the idea that mobile users access the internet via a limited number of "entry points," such as apps, search, maps and location-based services. Baidu wants to dominate those entry points and is using acquisitions to move more quickly in the fiercely competitive Chinese internet sector. "An acquisition provides a ready-made product with an established brand; you get to market faster with less uncertainty," Kuo says.

The Q313 $1.9 billion purchase of 91 Wireless Websoft, a large app store and mobile game operator, established a key stronghold at one of these entry points. "Today, the main way people access the mobile internet is through applications from an app store," Kuo notes. Baidu also bought a 59% stake in group-buying site Nuomi Holdings, Inc., which Kuo says complements Baidu Maps within the firm's location-based services strategy by helping users find the best nearby deals.

Baidu is also the default search engine on many smartphones in China, which helped drive the company's mobile sales to 10% of total revenue for the first time in Q213.[10]

A flexible paywall boosts digital revenue

Like other newspapers, News Corporation's *The Wall Street Journal (WSJ)* seeks to convert online "news grazers" into paying digital subscribers.

To drive digital revenue growth from both subscribers and advertisers (while continuing to attract new readers), the *WSJ* dynamically allocates some of its content behind a paywall available only to paid subscribers, while other content can be freely accessed by anyone.

Raju Narisetti, Senior Vice President, Strategy for News Corp, says this model provides several advantages over the alternative metered-content model, which allows readers a specified, limited number of free articles each month before they must pay for access. For example, the *WSJ* can decide each day how many of its stories to make freely available, based on factors, such as advertiser demand. If additional ad impressions are needed, more content can be placed outside the paywall, where it generates more traffic. "We are in a much better position to deal with advertising ebbs and flows," Narisetti says.

Narisetti says the *WSJ*'s model also avoids newsroom pressure to generate high-impact stories early in the calendar month, something he says is a danger with the metered model. "The success of a meter model is entirely dependent on trying to get you to hit the meter early in the month," he says.

Digital has helped the *WSJ* broaden its geographical reach by producing local-language online versions for regional markets that can't justify the cost of producing print editions, Narisetti adds. "Digital is allowing our brand to be much more global than print ever did," he says.

Mandalay offers new mobile content distribution model

Before the rise of app stores like those for iOS and Android, mobile carriers believed they'd be the ones selling content to consumers and taking a percentage of the sale. But today, carriers are sidelined in the mobile content market — estimated at $26 billion in 2013[11] growing to $65 billion in 2016.[12]

Mandalay Digital Group is trying to get carriers back in the game. "We've built a technology platform that allows carriers the opportunity to get back into marketing and selling content to their customers, leveraging carrier billing and in-app billing technology. That's good news for content and media providers, because it provides them with new revenue opportunities via another distribution platform," says Peter Adderton, CEO of Mandalay Digital.

Mandalay Digital offers a range of mobile services, as well as software that is installed on smartphones. The services generate new revenue for carriers: Mandalay's offerings include an app and content store that divides revenue from customer purchases among the content publisher, the carrier and Mandalay. Adderton believes this approach has the potential to broaden the mobile content market to people without credit card or other accounts that are the required payment mechanisms for the most popular app stores, which could be a key to unlocking emerging-market revenue. "The ability that a carrier has to bill that customer, whether they are prepaid or postpaid, opens up a whole new market," says Adderton. In addition, the carrier gets to collect the all-important data about subscriber purchasing behavior.

Mandalay's approach also includes a search tool whose results can focus around an artist's or media company's brand. It combines results across many content formats on a single brand-oriented page. "If you search for a specific celebrity or brand, it renders a real-time page for that brand that could include songs, music videos, ring tones and wallpapers that you can buy. We believe in a *brand* engine, and not a search engine," Adderton concluded.

Keeping viewers tuned in with subscription-based content

While TV viewership and revenues remain solid at Discovery Communications, the cable content provider acknowledges that change is imminent as viewers in increasing numbers change to digital formats.

To keep viewers tuned in, Discovery's digital media offerings have expanded through Discovery Digital Networks, offering original online programming, such as DNews (updated several times daily), in addition to ongoing investments in online content linked to Discovery's cable programs. The growing audience for these online channels and web series is helping Discovery expand from a traditional advertising model to one that also includes content that features native advertising and that is available for subscription. In the fall of 2013, Discovery expanded with ForHumanPeoples, a video-based online shopping channel built on a successful online commerce offering of the same name.

These efforts are key to helping Discovery collect and analyze data that provide insights about audience preferences, helping it create a successful digital business model. Such data is not typically available through traditional cable formats. By getting closer to its audience, Discovery can better tailor programming to specific audiences, determine new ways to monetize content and, ultimately, deepen its relationship with viewers.

"We are trying to be as smart as we can in building alternative businesses," says Discovery's Chief Digital Officer, J.B. Perrette, "but we're not trying to accelerate the demise of cable. So we are continuing to walk that tight rope."

"What excites us is the ability to move more quickly, create personalized experiences that are responsive to the always-on data feed, and then optimize those experiences in real time."

Lisa Giacosa
Senior Vice President
Starcom MediaVest Group

"We have thoroughly diversified ourselves across multiple product and revenue models, and we think that is a key to success. If you can diversify your model, it gives you a lot better opportunity to be successful going forward."

Peter Adderton
CEO
Mandalay Digital

"Media companies have been making or distributing content in a certain way for many decades. In the age of innovation, they need to take a hard look at themselves (group by group, division by division) and embrace principles that place innovation at the center of everything they do."

David Jensen
Global Innovation Strategy Leader
EY

Chapter 4

Innovation at the center

64%

of M&E digital leaders choose "creating a culture of innovation" as their top strategic priority for digital transformation.

Insights from a roundtable discussion with EY's technology, media and entertainment (M&E) and digital strategy leaders

Key strategy highlights

It is simple to say but so very hard to execute: put innovation at the center of everything you do. Here are the key strategies emerging from our roundtable:

- Think beyond products and services for innovation, toward customer experience, supply chain, delivery and pricing models.
- Act faster than makes you comfortable, and fear not failure. Learn from failure. Launch, learn, iterate and repeat.
- Continuous innovation at the pace and scale required is not something anyone can do alone. Err on the side of partnering, especially with technology companies and technology-savvy M&E companies.
- Err on the side of greater collaboration, especially with customers — invite them into your innovation ecosystem.
- Apply big data analytics to integrated data from all customer touch points, especially mobile and social, to develop finer-grained digital customer segments than previously possible.
- Embrace the risks inherent in all this with a proactive risk-management approach; identify the right "risk insights" that enable greater performance for your business.

Technology-enabled innovation has become a cornerstone of M&E. We've now mined a rich mountain of survey data and nearly two dozen M&E and technology executive interviews. From the insights this research offers, contained in an earlier report of this Digital Leadership Study Series and the three previous chapters of this report, it is clear: M&E success comes down to innovation.

"As companies innovate their product and service bundles, the consumer becomes more central to the ecosystem, there emerges a far broader set of direct to consumer and digital 'risk criteria' to be measured and monitored. M&E companies are going to have to challenge their traditional approaches to risk management."

Howard Bass
Global Media & Entertainment Advisory Services Leader
EY

Whether M&E companies are balancing growth and risk in development of new digital products and services, fostering "radically intimate" customer relationships that inform that development or reimagining the revenue and distribution models with which to bring new products and services to market, innovation is a requisite. Four critical technologies we've examined in every chapter of this report — smart mobility, cloud computing, social networking and big data analytics — are enabling innovation throughout M&E, from supply chain to the customer experience. And because those technologies are evolving continuously at ever-accelerating rates (which are already breathtakingly fast by traditional measures), leading M&E companies also are innovating continuously. They're inventing, experimenting and iterating in unceasing waves of innovation.

This context makes clear why "creating a culture of innovation" is the top strategic priority of study respondents as they digitally transform their companies. Fifty-five percent of all respondents chose that response, including an even higher proportion of companies identified as digital leaders (64%).

Recently, EY's Global Media & Entertainment Advisory Services Leader, Howard Bass, and Global Technology Industry Leader, Pat Hyek, sat down to discuss the issues and impacts of technology-enabled M&E innovation with our firm's Global Innovation Strategy Leader, David Jensen. John Nendick, Global Media & Entertainment Leader, moderated the roundtable discussion. What follows are edited excerpts of their conversation.

John Nendick: What does it mean for an M&E company to "create a culture of innovation"? What might they have to do differently? What aspects of their organizations might they have to reimagine?

David Jensen: First, it's very important to understand that innovative cultures can all be very different and specific to each company's individual DNA. For media companies that have been making or distributing content a certain way for many decades, I think they have to look at themselves group by group, division by division, embrace broad innovation principles and see how they might apply them to put innovation at the center of everything they do. At first, that may sound simplistic. But now think deeply about what putting "innovation at the center of everything you do" really means. The first thing it means is that you make innovation everybody's responsibility, not just the job of a group of researchers, or scientists or corporate strategists. And when you reach the point where everybody at all levels of your organization internalizes the imperative to invent, with speed and agility, now you've created a truly innovative culture.

Pat Hyek: Another aspect of this "innovation at the center of everything" idea is to be broadly open to innovating in many different dimensions – not only products or services, which is what most people usually think of. Look at how technology companies have gone beyond that to innovate in customer experience, in supply chain, in their delivery, pricing and business models. Even further, look at the examples set by companies, such as Amazon, Apple, eBay, Google and Microsoft – they do not even limit their thinking about what business they are in.

Jensen: You've hit on something, Pat. Many M&E companies in a funny way still focus like product companies around innovation. They think about innovating in products or services, but they don't think about the profit model, the business model, the network model. They don't think about innovating in the brand experience or the customer-engagement experience. It's just not where they're focused. A separate but equally critical issue is, how do they manage failure? How do they learn from failure, and how do their cultures accept failure? Because the hard truth is, you're not innovating if there isn't at least a small chance that you will fail.

Howard Bass: I absolutely agree that M&E companies – all companies, really – need to be innovating in all of the dimensions you both mentioned. But let's also consider the fact that 42% of the digital leaders in our survey believe that shortening product life cycles are their biggest challenge in digital transformation. Now, it's legitimate to extrapolate from there to say that the "life cycles" of all those other dimensions are also shortening. So M&E companies face the daunting need for continuous innovation in every aspect of everything they do.

Nendick: I think of that as the "treadmill of innovation," right? You're on this treadmill, and it's nonstop. You have no choice but to keep running, adapting, innovating – and the treadmill is always getting faster. This seems sufficiently different from the historical experience of most companies that one wonders how they will adapt. In particular, what are M&E companies doing to adapt?

John Nendick
Global Media & Entertainment Leader
EY

David Jensen
Global Innovation Strategy Leader
EY

Pat Hyek
Global Technology Industry Leader
EY

Howard Bass
Global Media & Entertainment Advisory Services Leader
EY

"Media and entertainment companies may well be furthest along the digital transformation journey that is sweeping through all industries today, given that their very content and services are more readily digitized. But it is still early in the journey. Key to success is remembering that developing and delivering great content remains the core of M&E, and we see leaders across all media subsectors embracing that core and using new digital technologies to drive growth in their businesses."

John Nendick
Global Media & Entertainment Leader
EY

Hyek: Something in the survey data that resonated with me on this point was that 51% of digital leaders agreed that alliances with technology partners and other M&E companies was a strategic priority. But only 30% of other companies agreed. So the M&E companies that are measurably getting this digital transformation "right" are telling us that continuous innovation at the pace and the scale required is not something anyone can do alone.

Jensen: M&E companies have always assembled partners to tackle major projects, but there's a qualitative difference with this idea of putting innovation at the center but not having to do everything yourself. The digital leaders are able to move very quickly to partner together around opportunities and don't view themselves as the sole providers of innovation or business value. They're willing to let new ideas and businesses incubate — but they're equally able to go outside to source ideas, content or technology, and they don't feel bad for doing so. They recognize that that's what leaders do. Look at what Netflix does, in supporting many of its activities through small technology partners and hosting its streaming service on the Amazon Web Services cloud, even though Amazon is a competitor in streaming video. Now they're partnering with content providers. They have the ability to foster relationships quickly, as in the case of *House of Cards*, and support a producer who has a good idea — and then bring that idea exclusively to Netflix.

Hyek: The overall idea is, if your company doesn't do a given part so well, you go out and find a specialist who does. There may be many different specialists playing small roles or large roles. But your company has the vision for how all the pieces come together. This brings to mind the idea of a collage, or a mosaic, rather, of interlocking partnerships. That's a good descriptor because it highlights just how multifaceted and multidimensional this collaboration model might look, and the multiplicity of drivers when people are making the decisions about whom to partner with. Is it cost? Is it functionality? Is it brand?

Nendick: Or is it the customer experience? This is a bit of a left turn, but while technology is enabling a lot of innovation in M&E, aren't the most successful examples, in both B2B and B2C, being driven by customers, their changing behaviors and how they're adopting both the technology and the technology-enabled innovations?

Bass: There are other factors, but I would say that's number one. We now live in a consumer-dominated world. With social networks, both B2B and B2C customers now have much of the control over brands; they can make and break brands overnight. The way customers engage, and have authority and power over what they expect and what they demand, has definitely shifted the thinking of a lot of M&E and technology companies.

Hyek: It's true. Companies in every industry, not just M&E, are responding to this sea of change. Social networks have given customers a forum to express their voices explicitly. The billions of interactions customers have everyday with smart mobile devices creates a large volume of data that gives implicit insight into customer expectations and desires. Big data analytics tools let companies make sense of all this data, and in the best cases actually anticipate customer behavior. But as our survey results have shown, the vast majority of companies are only just starting out on what amounts to a very steep learning curve. Making these technologies work together productively to yield a 360-degree view of the customer is a major challenge — and yet another reason why M&E and technology companies should consider more partnering together to achieve their needs.

Nendick: I believe the technologies Pat just mentioned and all the customer information they generate are creating an opportunity for M&E companies. They are getting to know their customers far, far better than they ever have before. In what ways can they make use of the insight this customer data gives them?

Jensen: In fact, this is the innovation opportunity that excites me most. That is, that M&E marketers can move from their traditional customer segmentations to digital segmentations, which are informed by the much richer, more holistic and more detailed customer data Pat just talked about. Digital segmentation takes advantage of being able to track every interaction and behavior that somebody is doing relative to your brand, your content or your product through a combination of web click streams, mobile points of engagement, set-top boxes or game consoles. You aggregate all that together to get a profile of how somebody is engaging with your brand or content. And with insights from those richer customer segmentations, marketers can better refine their products and services, or they can innovate around personalized products and services customized for specific digital customer segments or even individuals. Or, of course, they can do both.

Bass: I agree, but there's another trend emerging as well. For a long time, M&E companies have seen greater customer data as a way to improve the precision of what they offer to advertisers and thereby to raise their prices. But we're already beginning to see a trend, albeit very nascent, to bring data back into the business, right into the creative process, and inform content creation decisions.

Hyek: This is such an important path for M&E that I was surprised when our survey data came back with such low levels of deployment for big data analytics technology. You know, 47% are not deploying or just studying or piloting it for customer engagement (Figure 6, page 11). Until I saw that nearly two-thirds of the companies insist on doing everything in-house (see discussion on page 10). And it keeps bringing me back to the need for more partnerships that enable M&E companies to leverage the technology skills and experiences that will help them tackle a challenge like this. Let's face it, the digital segmentation we're talking about is powerful, but it is very hard to do.

Jensen: Not only that, but many companies face internal resistance. Think about the culture around programming that broadcast companies have built up over many decades. The programming folks became significant cultural tastemakers. They accomplished that in the, let's call it the pre-big-data analytics era. I don't think they yet understand the power that big data can bring to them. Secondly, the stakes on each programming decision are higher for broadcast companies than for streaming video companies because of the linear programming paradigm of broadcast television. If a network show flops, where do they find the audience for all the advertisers in that time slot? Of course, that also may be an argument that the linear programming model is outmoded in the face of competitors that have no such limitation.

Nendick: I'd like to steer us a bit back toward the customer, and weave that together with the partnering issue that has come up two or three times already. It has happened often in the history of technology that customers take products in innovative directions never envisioned by their creators, leading to new business opportunities. Perhaps the most notable recent example is Microsoft Kinect. M&E, meanwhile, has its own analogous history of so-called "fan fiction." Are M&E companies moving toward a future, not too far away, in which M&E consumers become a full partner in an integrated ecosystem of M&E innovation?

Jensen: To date we've only seen sporadic and opportunistic examples of content created by — I'll just call it the small community of fans that become creators of content — being integrated back in some form into the mainstream brand. But there's no doubt that the technology-enabled distribution mechanisms and feedback platforms like social media have disrupted the old value chain of artists that have relationships with producers who are tastemakers that package content for distributors to deliver to consumers. Artists can have direct relationships with consumers, if they prefer. But more to your point, I think it is still very, very early times in this emerging trend of consumers participating in a content future or consciously contributing to a media company's innovation process. What I do believe, though, is that media companies

"Technology-enabled innovation in products and services is critically important, but the leading M&E companies should look beyond that to innovation in customer experience, supply chain, pricing and business models. Don't limit your thinking about what business you're in."

Pat Hyek
Global Technology Industry Leader
EY

"Digital segmentation creates valuable insights of how people are engaging with a brand or piece of content. By aggregating every interaction that somebody is doing relative to a brand through a combination of web click streams, mobile points of engagement, set-top boxes and/or game consoles, the brand is able to deepen its interaction and relationship with consumers."

David Jensen
Global Innovation Strategy Leader
EY

have a significant opportunity to differentiate on actually delivering this idea. In other words, they can completely integrate fans as full participants in their content development and innovation ecosystem.

Nendick: Ceding so much control to your customer is a nice segue to the question of risk. How does risk management change in a future where customers are product development partners, the instantaneous feedback from social media can transform brands overnight and learning from failure is a requisite for success?

Bass: Clearly these characteristics of the current M&E landscape are likely to overwhelm traditional approaches to risk management. As you put innovation at the center, and the consumer becomes part of your innovation ecosystem, there is a far broader set of risk criteria and many more dimensions of risk that have to be measured.

Jensen: To amplify John's point, we think the dialogue around risk has to change from one where you have business success despite the risks because you've managed them so well, to the idea of risk-enabled performance. So instead of just identifying the drivers of uncertainty, and planning contingencies, we go further to identify "risk insights." Where are the opportunities to have leverage over risks? To use insights about uncertainties to recalibrate controls? To identify options that we can test and validate? And where can we embed risk metrics directly in operational processes?

Hyek: Technology companies have faced this kind of multidimensional risk landscape for a long time. Think about integrating and interpreting information from multiple customer touch points, or about managing strategic risks and operational risks, like keeping data secure in the cloud. Technology companies with these experiences may need to think beyond simply generating revenue based on offered products and services, and think more deeply about ways they can partner with M&E companies to leverage their strategic and their operational experiences with technology to help M&E companies.

Nendick: We're about out of time. Any closing thoughts?

Jensen: My thought goes all the way back to the beginning to place the emphasis back on putting innovation at the center of everything you do. If you're an M&E executive right now, you have tremendous opportunity to invent new products, services and business models. There are already plenty of examples of digital leaders who are embracing this opportunity – those who are embracing the risks and who are going out and innovating. They're doing new things that are exciting. And, look, these are still early days. There's plenty more that needs doing.

Bass: I would encourage executives to question their own organizations. Ask yourselves: "How far along the curve are we?" "How innovative are we?" "What are we doing?" Realize that there's a very big opportunity here, and to succeed at it for the long run you need to institutionalize innovation and make it repeatable. A bit like the treadmill. That means you have to put a bit of process around it. You have to be able to identify promising innovations by performing ongoing analysis of new ideas that leads to a balanced portfolio of opportunities. Prioritize investment in those opportunities. Importantly, companies must make advantageous use of emerging technology, and that means they should be constantly canvassing the technology landscape and mapping the new capabilities emerging to their opportunities.

Hyek: As a longtime technology guy, I've seen the amazing curve of greater computing, storage and networking power and always lowering costs disrupt many industries over the course of many decades. The one thing they all have in common – including the technology industry, by the way – is the need to think differently about innovation. So M&E and technology companies alike should continue to think about innovation beyond their traditional means. Technology is now at the point where it's enabling a kind of re-imagining of business models and whole new ecosystems of innovation. It's a time to think about innovation very differently.

Considerations for technology companies

- How well does your company understand the evolving digital M&E landscape and the needs of born-digital and born-again M&E companies, so that you can provide the right tools and solutions to facilitate their growth strategies?
- How effectively does your company innovate in mobile, social, cloud or big data analytics solutions that help M&E companies identify new opportunities, deliver digital content and services, grow and outpace their competitors?
- In what ways does your company demonstrate the brand and market leadership that M&E companies value most highly in their technology partners? Is your company highlighting successes and sharing best practices with potential M&E partners?
- What steps are you taking to build long-term relationships with your M&E partners?
- Are you continually engaging with M&E partners in their innovation processes?
- How successful are you at helping M&E companies assess the strategic and operational risks (including cybersecurity) involved in launching new digital content and services, business models or revenue models?
- How is your company helping M&E companies manage, integrate and interpret the flow of information across multiple platforms and devices? Do your solutions enable integration of systems that help simplify digital workflows?
- How successful are you at helping your M&E partners connect directly with B2B or B2C customers and drive customer innovation across multiple digital channels?
- As M&E revenue models evolve, how effectively can your offerings address the need for micropayments, on demand, freemium or other emerging pricing models?
- How are you ensuring your data is accurate and reliable when collected and shared across multiple digital channels?

Considerations for M&E companies

- How comprehensive is your market analysis, i.e., how well do you understand rapidly evolving technologies, customer needs, market trends and the competitive landscape? Who has the holistic view of their impact and do you fully understand the implications on revenue, margins, business models and overall growth?
- How effectively do you encourage, capture and nurture innovation within the organization?
- How well are you balancing the need to maximize value from existing products, services and intellectual property and actively pursuing and investing in new opportunities?
- How confident are you that your company understands its data needs and the potential of the different types of data that are available? Can you identify what is relevant and separate it from noise? Is the right data being efficiently collected, analyzed, disseminated and acted upon?
- Where does your customer find content? To what extent are you using social and mobile to build direct relationships with your end customers? Is your approach to content curation passive or proactive?
- Would you describe your approach to product development as "make and sell" or "sense and respond"?
- How clearly can you articulate the customer value proposition of your content or offer? Is it in the uniqueness of the content, its widespread availability, the quality of the user experience, etc.?
- Who are the digital leaders in your organization, i.e., the evangelists with the passion, expertise, capabilities and mandate to shape and implement the digital agenda?
- Are your relationships with technology partners sufficiently collaborative to innovate and evolve with changing market and customer dynamics? Are you continually engaged with your technology partners in their product innovation process?

"The continuous nature of technology enabled innovation makes this digital revolution a kind of never-ending journey. No single new product or service will ever be the 'answer.' Winners will be those who build organizational systems, processes and cultures that always drive new ideas building on today's successes and tomorrow's possibilities."

Pat Hyek
Global Technology Industry Leader
EY

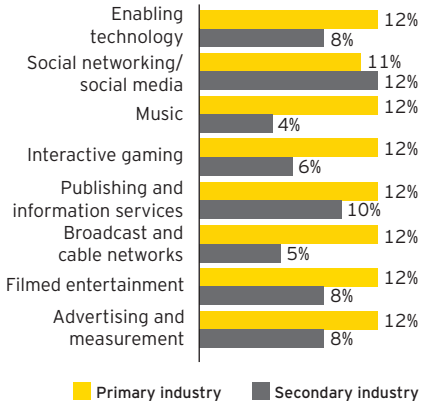
Methodology

Available at www.ey.com

EY, with the help of Oxford Economics, conducted a global survey of more than 550 M&E executives during 2013. Respondents came from a wide swath of M&E industry segments, including advertising, broadcast and cable, publishing and information services, filmed entertainment, interactive gaming, music and social networking, as well as from the technology industry. Respondents were asked to report their primary segment, as well as their secondary segment, if any. In addition, we conducted one-on-one interviews with nearly two dozen M&E and technology executives, and analyzed hundreds of articles and research reports from secondary sources.

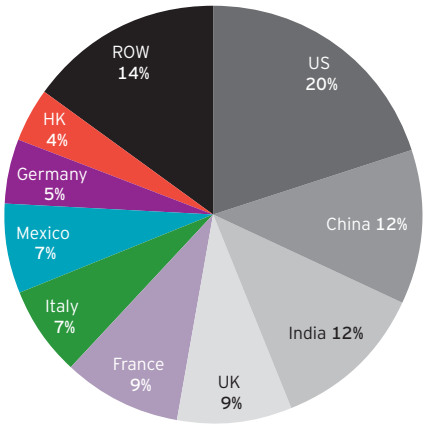
The four chapters of *Sustaining digital leadership!* represent the second report in the Digital Leadership Study Series from EY's Global Technology Center and Global Media & Entertainment Center. Both reports in this series, *Digital Agility Now!* and *Sustaining digital leadership!* are available at ey.com.

Figure 1: Respondents by industry segment



Source: EY analysis.

Figure 2: Respondents by country headquarters



ROW includes: Australia, Brazil, Canada, Finland, Indonesia, Israel, Japan, New Zealand, Russia, South Africa, South Korea, Spain, Sweden and Taiwan.

Percentages in Figure 2 do not total 100% due to rounding.

Source: EY analysis.

Defining digital leaders

Figure 3: Revenue breakdown

Annual revenue	Digital leaders	All others
$25m–$499m	29%	34%
$500m–$999m	41%	32%
$1b–$5b	20%	25%
>$5b	10%	9%

Note: our review of the digital leaders' survey responses often yielded additional valuable insights. Therefore, throughout this report we refer to three different types of responses, as appropriate:

- All survey respondents
- Digital leaders
- All others (all survey respondents minus the digital leaders)

Source: EY analysis.

Among the more than 550 global respondents to our survey, we identified and categorized 69 companies as digital leaders based on certain criteria. In these companies:

- Digital revenue already exceeds 50% of their company revenue.
- Customer profile data is integrated across at least two channels.
- Second-generation-or-better solutions are in place in at least two of four key technologies (smart mobility, social media, cloud computing and big data analytics) to increase revenue or develop new products or services.

These digital leaders tend to have different characteristics than all other survey respondents. They are:

- More likely to have been in business longer; 62% of digital leaders have been in business more than 10 years, compared with 53% for all other respondents.
- Are more enthusiastic about the potential of smart mobility to generate significant revenue over the next 2–3 years versus all other respondents (83% versus 67%).
- Not necessarily very large companies. In fact, 41% of digital leaders have revenues between $500m and $1b.

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