Digital media
Future is now

Prepared by PricewaterhouseCoopers for the Mumbai Academy of Moving Image

pwc

Foreword

Constant disruption from new technology and changing consumer behaviour demand that entertainment and media (E&M) businesses have a business 'fit for the digital age'. It is increasingly clear that consumers perceive no divide between digital and traditional media: what they want is more flexibility and freedom in when and how they consume content.

To provide a holistic outlook and thorough understanding of the digital trends in the E&M industry, PricewaterhouseCoopers (PwC) has prepared this thought paper for the Mumbai Academy of Moving Image (MAMI).

This paper helps identify key strategic issues for E&M companies operating in this new digital environment, such as how to grow consumer engagement and monetise it effectively at a sufficient cost.

PwC is delighted to partner with MAMI and hopes this thought paper encourages discussion and elicits views on how to evolve business models to reap the benefits of digital transformation in India.

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Introduction

The future is now. Digital has already fundamentally changed the way we interact with the world around us, shrinking the globe, vastly increasing the array of products and services on offer and changing the way we access them.

It is fair to say that we are not entering a digital era. Rather, we have plunged into it headlong, irretrievably and, in some cases, unsuspectingly. In this new normal, everything we ever thought we knew about success will be challenged, tested and, in many ways, forced to change. To a large degree, the entertainment and media (E&M) industry is not an exception.

As smoke clears over the E&M landscape after a decade and more of digital disruption, and the industry continues its efforts to keep pace with advancing consumer expectations, it's increasingly clear that consumers see no significant divide between digital and traditional media: what they want is more flexibility, freedom and convenience in when and how they consume their preferred content. New digital offerings have created a bigger, more diverse content universe, where digital has accelerated delivery across platforms.

These consumer-driven dynamics bring transformational implications for players across the E&M industry as they seek to benefit economically from these shifts.

Consumers don't want schedule—they want the content on demand and mobile.

The major strategic issue for E&M companies operating in this environment is how to grow consumer engagement and monetise it at a sufficient cost.

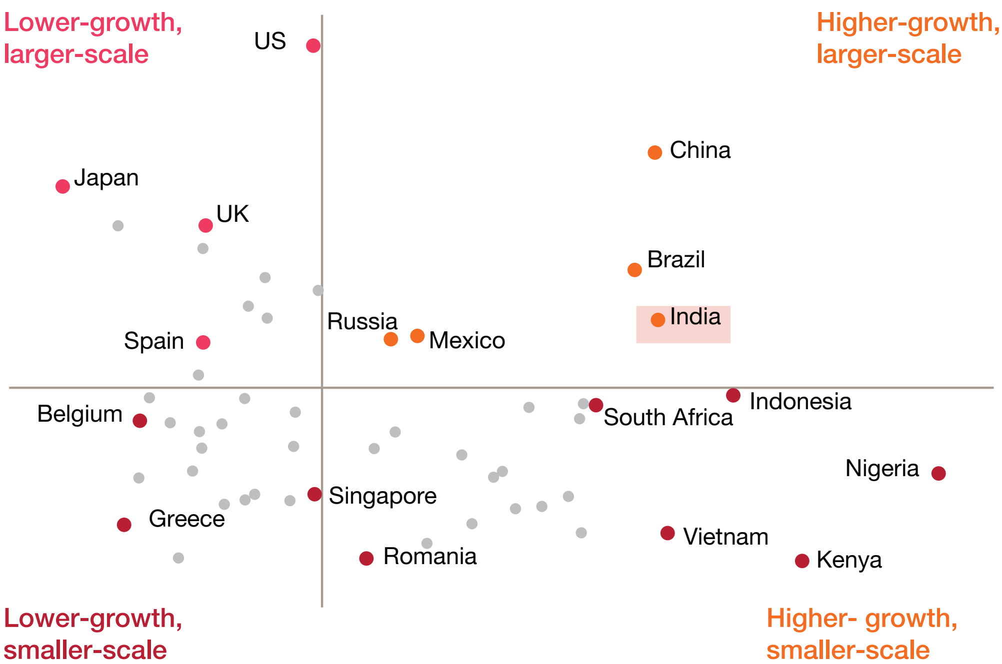
An overall perspective

A diverse and fast-evolving world of E&M in which converging consumer behaviours drive converging spending patterns

PwC's global entertainment and media outlook 2015-2019 projects that worldwide E&M revenue will rise at a compound annual growth rate (CAGR) of 5.1% over the forecast period from 1.74 trillion USD in 2014 to 2.23 trillion USD in 2019.

Over the five-year forecast period, seven countries across the globe are projected to achieve double-digit CAGRs in overall spending.

The long-term trend is towards convergence between markets, as economic and technological gaps narrow, and the globalised marketplace sees consumer expectations, demands and behaviours with regard to their content experiences become increasingly uniform across the world.



Note:
Higher-growth, larger-scale markets: Worth more than 20 billion USD in 2014 and 5% or more CAGR to 2014
Lower-growth, larger-scale markets: Worth more than 20 billion USD in 2014 and less than 5% CAGR to 2014
Higher-growth, smaller-scale markets: Worth less than 20 billion USD in 2014 and 5% or more CAGR to 2014
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Source: Global entertainment & media outlook 2015-2019, PwC, Ovum

Digital and non-digital spending not an either-or situation but a matter of consumer choice

Looking globally across both consumer and advertiser spending, the rising expenditure on digital media remains a major driver of change in the E&M marketplace.

But despite the appeal of digital content and services, as demonstrated by digital media's growing proportion of overall spending, a notable feature in most markets is the resilience and, in some cases, resurgence of some aspects of traditional media. Overall, what is emerging is an environment where the distinction between 'digital' and 'non-digital' is regarded as irrelevant by consumers. Instead, their focus is on choosing to fulfil a convenient and compelling need at a particular time and place without worrying or even caring how it's delivered.

Consumers want to experience media content across multiple platforms, not just digital ones. Indeed, traditional media consumption has an important role to play in such a cross-platform universe, co-existing alongside digital media, and sometimes, as in the case of cinema and live concerts, appearing revitalised by it. So despite its gradual decline, traditional media consumption will remain a key part of the mix for many years to come.

Internet advertising, especially mobile, will continue its unstoppable global rise as broadband and devices continue to roll out

Internet advertising continues to be the key mover over the five-year period, overtaking broadcast TV advertising as the most important medium with a 36.0% share of the total advertising in 2019.

Internet advertising's CAGR of 12.1% will make it the fastest-growing segment of advertising over the forecast period, as brands continue to see value in its innovation and improving accountability, and the global ranks of Internet-connected consumers continue to expand. A primary driver of growth in overall Internet advertising will be mobile Internet advertising revenue.

The framework for global mobile advertising opportunity is the rapid worldwide proliferation of Internet-connected devices, whose numbers are projected to rise from 2.34 billion smartphones and tablets combined in 2014 to 5.30 billion in 2019.

More and more consumers are spending more and more time on Internet-connected devices, accessing the expanding universe of content and consumption experiences enabled by technology.

Monetising mobile consumption is the next critical challenge…

By 2017, more than half of the world's population will be mobile Internet subscribers.

The rise of over-the-top (OTT) video services is slowly changing the shape of advertising

Global total broadcast TV advertising revenue, consisting of multi-channel and terrestrial TV advertising revenues, accounted for 97.2% of global total TV advertising revenue in 2014. But as viewing continues to move away from traditional networks towards digital alternatives, advertisers will consider changing where they allocate their expenditure to reach desired demographic segments.

TV and video consumption patterns are changing

The public is demanding high-quality original programming available in a flexible, on-demand manner across numerous devices to satisfy the growing taste for 'binge viewing', and OTT services offer the best outlet for this type of consumption.

On-demand models are changing consumer expectations about paid digital content, as the migration continues from owning to streaming, OTT and 'all you can eat'

The Internet has accustomed consumers to the idea of instant access to content. In most cases, this content was initially delivered at no cost to the end user, and this apparent lack of a monetisation model caused owners of expensive content to hold back from making it available online.

However, as sales of physical media continue to decline, services such as Spotify and Netflix are managing to build a sizeable paying audience for content delivered over the Internet.

The on-demand model is not solely about making digital versions of content available to paying consumers. These new services are also building their business on an understanding of the way consumers' expectations are changing.

The model of traditional media asks consumers to pay to own a physical copy—a CD or DVD. But attempts to replicate the ownership model in digital media have struggled.

The same shift from owning to streaming can also be seen in the subdued demand for electronic sell-through (EST) versions of movies, in the face of competition from not just stand-alone OTT video services, but also enhanced multiscreen and OTT offerings from broadcasters. For some consumers—those who are happy to pay for content to be aggregated for them rather than going out to discover it for themselves—the 'all you can eat' access model is proving attractive.

OTT services are familiarising users in some markets with an ad-free video consumption experience

Beyond the migration of advertising spend from traditional to digital platforms, there is also a shift from ad-supported to subscription-based consumption.

Video content strengthens its grip as the live experience continues to engage and delight consumers

Another shift that will continue is consumers' migration from text to video. One consistent trend globally is the rising share of overall consumer spending through to 2019 that is accounted for by video-based content and services against an ongoing decline in spending on primarily text-based content and services.

If revenue from TV subscriptions and licence fees, video games and filmed entertainment is aggregated, 52.1% of consumer revenue in 2019 will be fundamentally derived from moving images on a screen, up from 50.2% in 2014. This reflects a surge in video-based content, as the means of creating, distributing and viewing it become cheaper and easier.

Connected devices open up new video opportunities and challenges

Smartphone connections are forecast to rise from 1.92 billion in 2014 to 3.85 billion in 2019. The proliferation of such connected devices among consumers will create both significant new opportunities and considerable challenges for companies creating and distributing filmed entertainment content.

Four forces reshaping the digital advertising landscape: Mobile, video, native and programmatic

The brave new world of digital advertising is turning out to be more complex than many expected

PwC recently asked 3,800 consumers in the US, the UK, China and Brazil about their experiences of—and views on—mobile advertising. Their responses confirmed that mobile Internet connectivity is now integral to people's lifestyles the world over: at least 87% in each market in the survey check news, weather and sports on their mobile devices at least once a week. Put simply, we're joined at the hip to our mobile phones.

We also found big generational divides, with younger consumers more relaxed about technologies like geo-targeting and tracking, but the over-35 age group regarding these with suspicion. And while video was the most popular form of mobile advertising in Brazil and China, people in the US and UK said they preferred banner ads—largely because they're easier to ignore.

All of this underlines the fact that just because people love their smartphones, it doesn't necessarily mean they like receiving ads on them—even (and sometimes, especially) if they're relevant to them individually and/or geographically.

There's no mutual exclusivity: traditional media is selling "digital" advertising, and the division between online and mobile is also evaporating rapidly, as advertisers increasingly come to see the merging of the two as a given.

Four forces for change including two fast-growing forms of advertising

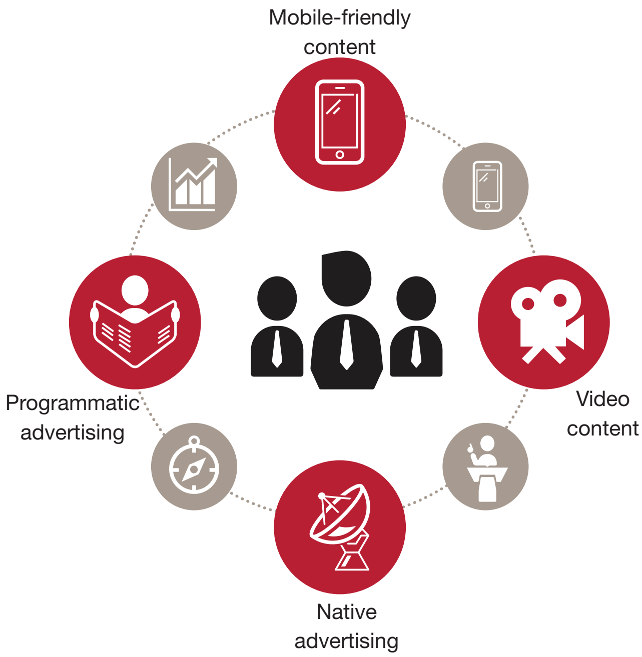
Against this background, what are the trends now driving changes in the advertising environment?

PwC's experience across the world points to four powerful drivers: mobile, video, and programmatic and native advertising.

These trends are all interrelated. The first two—mobile and video—are driven by changing consumer behaviours related to increased mobile use and digital video content consumption, expanding the interaction and size of the advertising market that can be accessed through these channels. In late 2014, Facebook said roughly two-thirds of its sales revenue was coming from ads placed on mobile devices, up from just under half, the year before.

Although the size of the audience/growth rates and opportunities are very attractive for both video and mobile, advertisers also want to deliver the most relevant experiences possible to those consumers who are most likely to be interested in their products. To help realise these goals, they're turning to native advertising—online ads that match the form and function of the platform on which they appear, such as an article that's written by an advertiser but uses the same format as an editorial article.

The latest trends driving the evolving advertising landscape



Source: Global entertainment & media outlook 2015-2019, PwC

Meanwhile, both advertisers and publishers are looking for better ways to reach the right audience on the right device at the right (read: as low as possible) price. These goals play to the strengths of programmatic advertising, which can be targeted, priced and delivered based on audience data analytics and largely automated platforms. While there are still questions over how publishers should deal with programmatic advertising, it has emerged as a solution to help streamline the buying process, reduce costs and enable the aggregation of consumer sets into meaningful audiences that can help advertisers to target even small niche segments.

Managing two models in one portfolio

To meet the varying needs of today's advertisers, media companies must offer both native and programmatic advertising inventory within their portfolios. However, each of these forms of advertising demands its own very different skill set—creating the challenge of managing them in a coordinated fashion, without losing the diverse set of skills and experience unique to each area within the same organisation.

Driving value in the evolving digital advertising environment

So, as the four forces of mobile, video, and native and programmatic play out in advertising, what do advertisers and marketers need to do?

In our view, four things:

- First, develop a 'mobile first' mindset rather than one based on having traditional and online advertising repurposed for mobile.
- Second, remember relevance and context are king. People are willing to view an ad if it's relevant—but not if they feel it's overly invasive.
- Third, take account of the way Internet infrastructure of varying quality across different regions affects preferences for—and tolerance of—different advertising forms.
- And fourth, leverage big data and analytics to drive better targeting—not just of programmatic, but native advertising too. Overall, the message is clear. As the advertising mix becomes more diverse, so do the opportunities. Online, mobile, traditional, programmatic and native: each has a role to play and each offers both tremendous opportunity and unique challenges. We're not in an 'either-or' world, and as companies create their strategies, they should have a right-sized 'and' point of view in mind to fully take advantage of this important and evolving trend.

Maximising the value of content: Blending data insights and deep intuitions to drive competitive edge

In an increasingly data-driven world, ways to value content are evolving

For a major content producer such as a movie studio, the traditional business model for distributing content has been to leverage a large catalogue to command a higher price across the portfolio. However, the companies buying that content are getting smarter and more finicky—just as their own customers—about what they want to buy, and how much they're willing to pay for it.

As a result, they don't want your entire catalogue of films. Instead, they are very interested in just a handful of titles that they think their consumers will watch. In the past, this choice may have been made on a commercial gut feeling and generic box office figures. But now, the buyers know if they're making the right calls, because they can predict consumer behaviour through advanced analytical capabilities, leveraging the vast treasure trove of hard consumer data available.

Historically, the landscape of content measurement and monetisation was relatively simple. TV, for example, was all about ratings—percentages of TV households drawn from samples designed to mirror key demographics. With film, it was box office numbers, based on the numbers of people showing up at cinemas and paying for a ticket.

But these metrics are increasingly out of sync with today's world. Take box office, for example. People may have bought a ticket, but did they actually enjoy the movie, or even stay till the end? So it is with TV ratings. Are people really watching the live broadcast, or is it just on in the background while they do something else?

What does this mean for content developers and owners, especially major movie studios and TV production houses?

Data alone is not enough: to gain real insights, you also need to know the right questions to ask. While everyone today talks about wanting big data, leveraging it successfully to create analytics-driven insights is a journey towards maturity, requiring an understanding of what value the company is looking to derive and where it wants to excel.

Content players already possess the one asset that's the hardest to acquire, and therefore the most valuable: many collective decades of experience, insights and intuition in producing content that people want to consume and pay for. This understanding of what consumers want has guided long-established content players, such as the major studios, successfully through a decade and more of digital disruption.

In the years to come, the winners in content will be the players that blend gut feeling and data analytics to know the customer better than anyone else.

We believe successful entertainment and media companies need to focus on three major imperatives ...

Develop seamless consumer relationships across distribution channels

Put mobile (and increasingly video) at the centre

Innovate around the product and user experience

To elaborate on these imperatives...

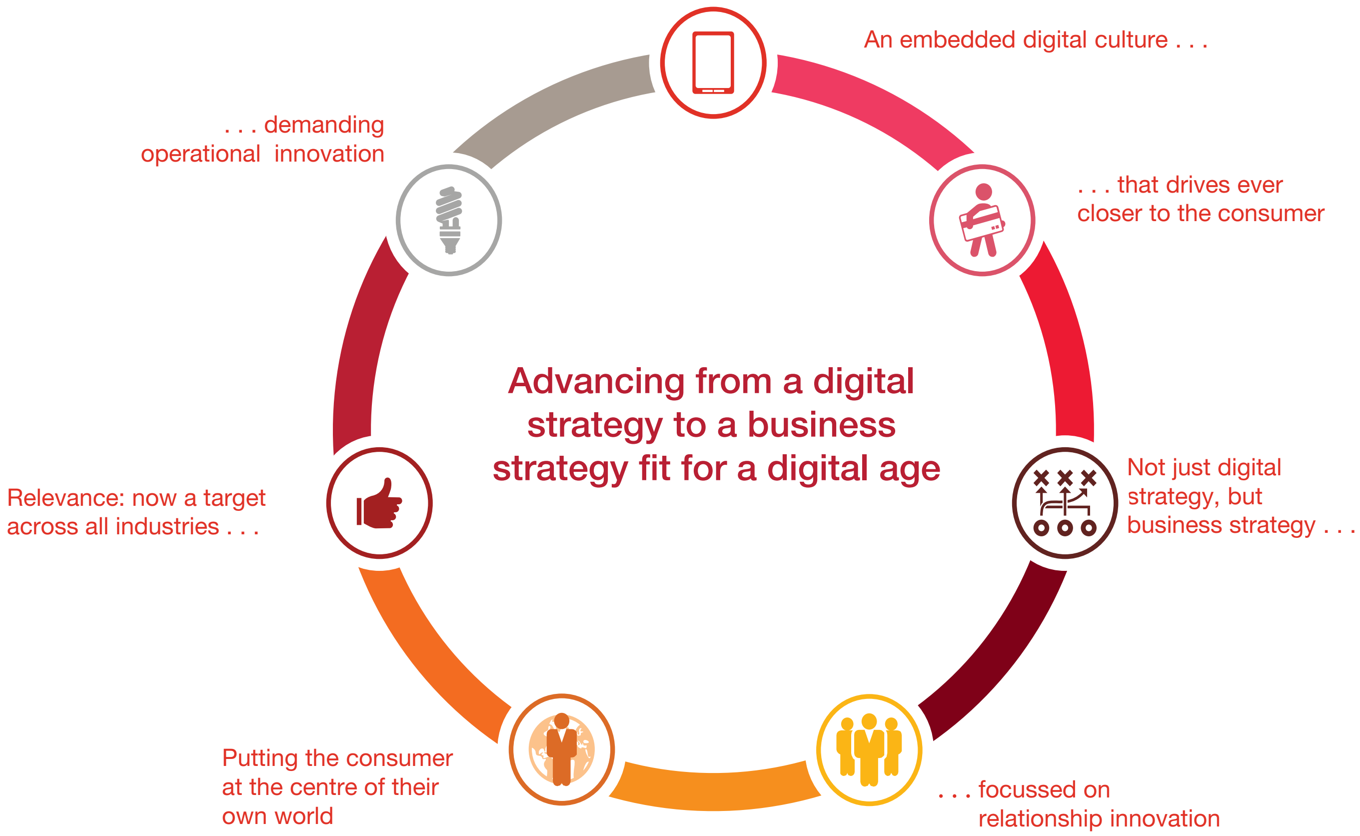
First, stop compartmentalising your consumer relationships by distribution channels: manage them more directly, holistically and via segments that are anchored in richer user profiles and powered by deeper data analytics expertise. This is what's required to make the right choices related to content production, distribution and monetisation.

Second, put mobile (increasingly video) at the centre of your consumer's experience—it's now the first screen, located nearest to the individual, and at the heart of their social network.

Third, continue innovating, particularly around the product and the overall user experience, so that it becomes more personalised, more engaging, easier to discover and more flexible to accommodate different combinations of advertising, subscriptions and transactions.

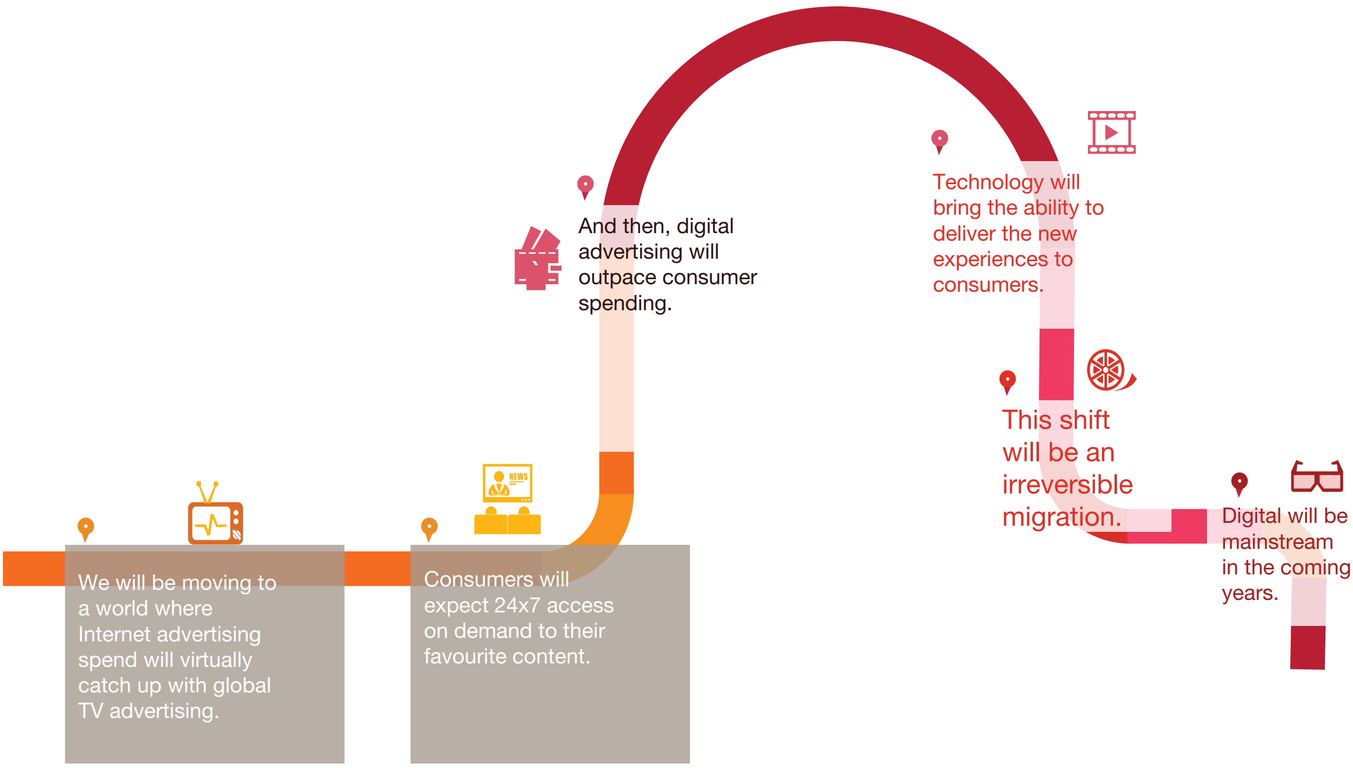
Put simply, it's time to embrace the fact that mastering the user experience is critical to success in this industry and key to both monetising and sustaining growth.

What the future holds for us



To summarise

…the world has moved on, and business has moved with it



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