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2016 entertainment & media industry trends

The E&M sector needs a fan-centric strategy

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Introduction

A few recent, seemingly disparate, events illuminate the seismic shifts occurring in entertainment and media (E&M). When basketball superstar Kobe Bryant announced his retirement from the NBA on November 29, 2015, it occurred not on a major sports network but via social media and the *Players' Tribune*, an athlete-centric digital publisher. That same month, CBS — which like NBC, FOX, and ABC is trying to grow viewership outside of traditional pay-TV — announced plans to revive *Star Trek*, one of its best-known franchises, exclusively on CBS All Access, its new subscription video on-demand service. Fox declared it will no longer track same-day TV ratings; rather, it will report on program viewership occurring after three and seven days, responding to the prevalence of on-demand viewing. Mobile operators like AT&T and Sprint responded to users' surging demand for streaming video by emphasizing their unlimited wireless data offerings in their marketing and subscriber acquisition efforts. And some of the hottest-selling gifts in the holiday season of 2015 were streaming video devices and smartphones.

For E&M executives, the formula for success is shifting radically. No longer is it enough to develop content for eyeballs. Now, you must create a fan-centric business.

These developments foreshadow the E&M industry's rapid transition to a direct-to-consumer world, where most content will remain the same — at first, anyway — but the packaging and distribution will change significantly. Specifically, the expansion of digital technology, manifested in more ubiquitous fixed and wireless network connectivity enabling growing numbers of connected devices and new routes to the user, is altering the industry's structure, driving new ways to produce, distribute, and monetize content across its landscape. Creators can more readily pursue opportunities outside traditional studios and distribution channels. Consumers have far more content to choose from, available to them at any time, in any mix, through many more delivery options and devices. In every corner of E&M, empowered users are gravitating to brands, experiences, and platforms that are differentiated as much by the quality of their curation, customization, and convenience as by the quality of their content.

If you are an executive in E&M, your formula for success is already shifting radically. No longer is it enough to develop content solely to attract eyeballs, seeking the largest audiences possible for advertising and subscription revenues. Now, you must create *fans:* active users united by shared ideas, interests, and experiences, who will return every day to your brands and properties. As a fan-centric business, buoyed by the loyalty of passionate users, you will command substantial strategic advantages. You will know more about who your users are, what they want, and how to deliver what they want. This will enable you to monetize your products and experiences more effectively and more broadly. Current fans recruit new fans. Best of all, fans spend more per capita and are less likely to churn.

In every E&M sector, disruptive companies are racing against incumbents to drive fan value — to be the first to deliver what users want, perhaps even before it is clear they want it. In 2016, the pace will accelerate. Any companies hoping to join the fray will need to be better than the competition at locking up fan engagement, loyalty, and spending, and at investing in efforts that drive fan value. Here's a strategic look at the industry developments in which companies have the most at stake.

Surviving the "videoquake"

As media evolves to a direct-to-consumer world, nowhere is the competition fiercer than in television. Video commands the most revenue of any E&M sector: about US$420 billion globally in subscriptions and advertising in 2015, according to PwC. Around the world, more people are choosing to stream video through over-the-top (OTT) services, that is, services that deliver film and television content via the Internet, without the need for traditional cable or satellite TV subscriptions. Today, 78 percent of U.S. consumers subscribe to at least one OTT service, according to PwC. Although most viewers currently add OTT to their pay-TV subscriptions, its disruptive potential is becoming more apparent. In 2014, 91 percent of U.S. consumers said they could see themselves subscribing to cable in the following year. A year later, that number had fallen to 79 percent.

So far, the response of traditional TV players has not been adequate to halt the march of OTT. If anything, it has sped up OTT's ascension. Over the last few years, the industry's counteroffer has been "TV Everywhere" (TVE) — viewing of network content on any device for consumers with pay-TV subscriptions. But adoption of TVE has been disappointing, owing to low overall awareness, a lackluster user experience, and authentication difficulties. Today, fewer than one in seven U.S. pay-TV households actively uses TVE. In parallel, many E&M companies have been selling their content — their libraries of movies and television shows as well as new originals — to streaming services such as Netflix, Amazon, and Hulu. Although these sales have driven short-term revenue gains for both studios and networks, they have also enabled OTT services to gain a firmer grasp on the end-user relationship, monetize viewership in more advertising-free and ad-light environments, and build their brands at the expense of the studios or networks supplying the shows. And they are doing all of this while offering viewers lower prices compared with what traditional pay-TV bundles cost.

To succeed in this evolving video ecosystem, studios, networks, and distributors must embrace separate strategies. Studios have benefited the most from the proliferation of streaming services, whose thirst for unique, high-quality content does not show any signs of abating. To maintain this advantage, studios must aggressively invest in intellectual property, development, and production to build deep rosters of branded, repeatable content aimed at multiple revenue streams, including domestic sales to networks or streaming services, international sales, and licensing for video games, consumer products, and other categories.

Networks also need to produce more content and own more of their shows, but for different reasons. In a fragmenting viewing landscape with growing pressure on the traditional pay-TV bundle, networks can no longer rely on their historic approaches to achieve favorable advertising and subscription revenues. Instead, they must start repositioning themselves as pay-TV bundles resized into "skinnier" packages and other new combinations. To consistently be in the "must have" category, networks have to offer a steady supply of original and unique acquired content to cut through the clutter and create meaningful fan bases, making their networks, brands, and shows "indispensable" to distributors as well as advertisers. And as they invest in more differentiated content, networks will have to exercise greater control of their rights related to streaming if they are to better monetize TVE, OTT, and expanding third-party distribution opportunities. As the bundle gets reshaped, the networks with weaker brands, less differentiated content, and fewer fans will be the ones most exposed to potential distribution and advertising losses in this environment.

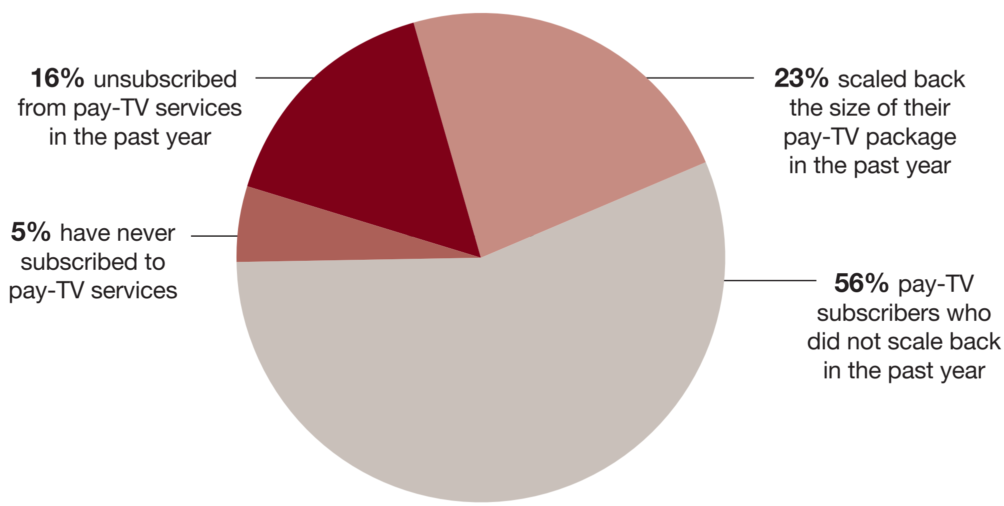
Traditional video distributors, such as cable, satellite, and telecommunications companies, must weigh three strategic options as they react to consumer desire for fewer channels, more personalization and choice, and lower monthly bills: (1) create more segmented, affordable, and smaller video bundles to maintain pay-TV subscription rates; (2) launch OTT services to target cord-nevers (those who have never connected to a pay-TV service); and (3) integrate "a la carte" OTT or packages of OTT services with broadband access.

Numerous variations of these approaches are being adopted. For example, last July, Verizon, the U.S. broadband and telecommunications company, said that fully one-third of its new FiOS video subscribers had chosen the company's "custom TV" skinny bundle. Meanwhile, in the U.K., Sky's Now TV claims that it is seeing incremental subscriber growth from its tailored OTT offering that targets consumers who would not seriously consider its premium pay-TV service. And Cablevision, a U.S. cable operator, is offering stand-alone streaming services such as HBO NOW, Hulu, and others in combination with broadband Internet access as specific — typically younger — segments of users choose video streaming over pay-TV. Amazon is pursuing yet another version of this reseller strategy with its recently launched Streaming Partners Program, where Prime members can add premium video services like Starz to their Prime Video accounts on an à la carte basis. Over time, we see much of this distributor activity inexorably leading toward a redesigned, more unified, and more segmented collection of easy-to-enjoy video for users.

In the coming year, we expect investment and innovation in the video ecosystem to concentrate even more on the intersection of content, technology, and user experience. Digital music providers — with their vast pools of content, playlists, suggestion engines, social recommendations, mood-based curation, and even celebrity recommendations — have excelled at helping listeners find the sounds they want to hear and, hence, capturing value. Video providers can learn from their innovative offerings. Indeed, networks, content developers, and distributors that know how to balance depth *(for each target viewer, always having something already known to be appealing)* with discovery *(for each target viewer, always having something new, fresh, and compelling)* will outrun the competition.

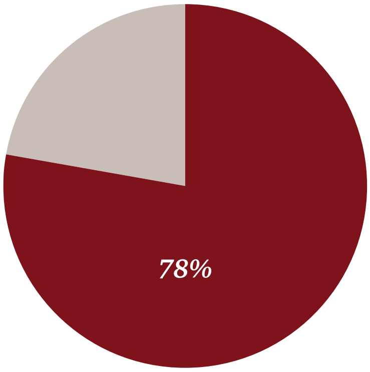
Video providers can learn from digital music providers how to balance depth with discovery for viewers and, hence, capture value.

The E&M industry is in flux, with viewers questioning the value of pay-TV subscriptions...

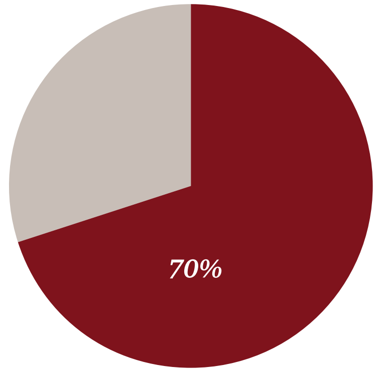


Source: Fall 2015 survey results, published in PwC Consumer Intelligence Series: Videoquake 3.0: The evolution of TV's revolution

And also being drawn to on-demand streaming services…



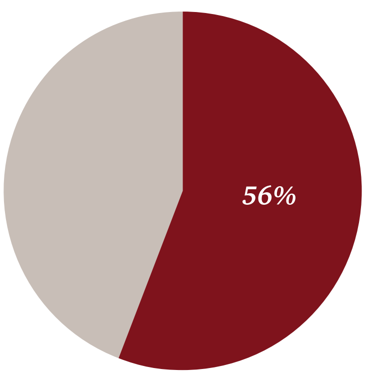
Consumers who subscribed to at least one streaming service



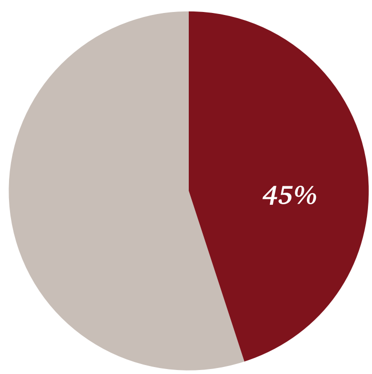
Pay-TV subscribers who also subscribed to a streaming service

Source: Fall 2015 survey results, published in PwC Consumer Intelligence Series: Videoquake 3.0: The evolution of TV's revolution

While clamoring for greater personalization and control.



56% of cord-cutters said "being able to customize my package to exactly the channels that I want" would get them to resubscribe to pay-TV



45% of loyal pay-TV subscribers said they most preferred an "a la carte" package of channels

Source: Fall 2015 survey results, published in PwC Consumer Intelligence Series: Videoquake 3.0: The evolution of TV's revolution

Winning in a world of apps

Tomorrow's E&M landscape is most visible today on your teenage daughter's smartphone, where users spend two out of every three minutes of their digital media time and where apps dominate. Users spend 71 percent of their time on mobile devices using apps, according to comScore. Increasingly, apps are influencing how users consume media and entertainment as they become the preferred format for delivering content- and functionality-rich experiences that drive engagement, best exemplified by apps such as Major League Baseball Advanced Media's At Bat in sports and Spotify in music. But considering the competition among the multitude of apps across social media, games, messaging, e-commerce, fitness, dating, music, personal finance, travel, and even user-generated photos and videos — and limited available real estate on mobile device home screens — the fight for users among E&M companies will be brutal.

User time on smartphones is concentrated in just a few apps, a landscape dominated by social media properties such as Facebook, Instagram, and Twitter, as well as entertainment brands such as Google's YouTube, Pandora, and Apple Music. Today, the top five apps capture 88 percent of a user's app time according to comScore. With their outsized audiences, these apps are becoming ever more attractive to advertisers, particularly as the TV landscape fragments. In the fourth quarter of 2015, 80 percent of Facebook's $5.6 billion in advertising revenue came from mobile, up from 69 percent in the same period the year before, with much of its recent growth coming from its native mobile apps.

As apps drive more mobile consumption growth, including video, the quality of mobile app advertising is improving, which will lead to better returns for marketers as they increase their mobile spend, driving higher mobile advertising prices and more monetized impressions. Ad formats designed for apps take advantage of touch-screen features, such as tapping and swiping, and of GPS capabilities to integrate location into the advertising experience. They also target users' interests with brand-sponsored content and offer compelling short-form video or rich media that is both more fun and interesting for users to watch and share. App-focused publishers and marketers are becoming adept at managing the rich trove of mobile data involving age/gender, location, user ID, and user app behavior, among other factors, to strengthen the effectiveness of their messaging.

To thrive in an app-driven world and maximize their fan base, media owners need to master two connected businesses: their off-site, off-app distribution, and their branded digital destinations. For the first, E&M companies must activate a robust network of distributor and platform relationships to deliver content to where the target user wants it, to create product “versions” that easily flow but fit across multiple platforms without excessive customization, and to be agile in monetizing those efforts. Increasingly, the largest apps are, in fact, the distributors. Through offerings such as Snapchat’s Discover, Facebook’s Instant Articles, and Apple News, content providers whose output is geared for these digital distributors can publish directly onto their apps, which offer such desirable user features as fast screen loading and attractive page designs. Publishers can “fish where the fish are” and attract new audiences to their brands, while the app companies keep users on their platforms for extended periods of engagement. Under these arrangements, publishers can sell advertising provided they share a percentage of the revenue with the platform partner.

Even as they establish partnerships with social media sites, E&M firms cannot neglect the importance of their own apps to their business model.

Even as they establish partnerships with social media sites, E&M firms cannot neglect the importance of their own apps to their business model. Especially with the TV emerging as the key connected device for video in the living room, providing a potentially larger context for apps and Internet content, media owners must have a modern, user-friendly, and attractive app that works well on multiple devices and that is a compelling destination for their most loyal fans. The backbone of this app for any media company must be the ability to arrive at data-driven and observation-driven insights into fan needs that uncover desirable new products and experiences to create, that identify cross-selling opportunities in existing offerings, and that reveal potential improvements in services and features that will translate into a more engaged user base and active fan community.

Extending media experiences into physical experiences

As fans spend more time on their digital devices, they feel more personally connected to their favorite artists, stars, athletes, and fellow fans — so much so that they crave more live, direct interactions with them. A great deal of evidence supports this. Touring and festivals are now the lifeblood of the music industry. Theme park visitation is growing globally at a healthy 4 percent for the top destinations; faster growth is expected in the coming years in Asia, especially China. And video gaming (aka “e-sports”) has become a live event phenomenon where fans pack arenas to watch others play competitively.

Live events are critical to building and strengthening fandom. They also represent the most direct way to monetize a digital entertainment or media relationship in the physical world through ticket sales, merchandise, sponsorships, and advertising. Often, social media — connections and conversation between talent and fans as well as among fans — is at the center of the virtuous circle that drives the value of live events, such as games, concerts, conferences, theme parks, conventions, and musicals. For example, fans fill Instagram, Snapchat, and Facebook feeds with @event selfies, that is, photos, videos, and posts showcasing their favorite moments. These activities stimulate more interest from other fans, driving more ticket and product sales as well as advertising opportunities. Live events can be re-monetized as content on traditional or digital media. To illustrate, look no further than Taylor Swift’s decision to release her 1989 World Tour LIVE film on Apple Music, where it is available exclusively to Apple Music subscribers.

The attractive dynamics of live experiences explain why companies such as Pandora, which started out as a 100 percent digital service, have launched new event franchises like Women in Country. It is the rationale for other big strategic moves in 2015. Traditional publishers such as Time Inc., Conde Nast, and the New York Times Company have announced plans to expand their participation in live events — viewing these efforts as essential to developing new offerings for users and well as marketing partners and sponsors. Video brands such as CNBC are also pursuing live event opportunities. In 2015, CNBC in partnership with Inc. Media, the publisher of *Inc*. magazine, launched iCONIC, a multicity event series focused on small business, entrepreneurship, and start-up innovation. As “paid content,” live events are becoming more critical for E&M companies as they seek to unlock new sources of revenue growth from their brands and fan bases beyond traditional advertising and subscriptions.

Capitalizing on "pockets of growth"

The quest for new sources of growth frequently compels companies to concentrate on tech-driven innovation or geographic expansion. In the process, they often overlook pockets of growth within their home markets that can be discovered only through rigorous segmentation, active experimentation, and development of user insights. In the U.S., the Latino population exemplifies that potential — it is a sizable, media-friendly, and high-growth demographic that is still comparatively underserved in terms of quality video content and digital experiences for users and advertisers.

The U.S. Latino population, which stood at 55.4 million in 2014, is forecast to reach 119 million in 2060, an increase of 115 percent. Today, Latinos are the largest ethnic group in the country, and they are projected to be the second-fastest-growing ethnic group after Asian-Americans. According to Nielsen, Latinos are very digitally active, watching more video on the Internet and on their mobile phones than non-Latino whites. Smartphone penetration is also higher among Latinos, and Latino moviegoers make up 23 percent of all ticket sales despite being just 17 percent of the population, according to the Motion Picture Association of America's year-end study. Finally, Latinos skew millennial, with a median age of 27.

These facts suggest that there is an exciting opportunity to create more targeted, compelling content for the Latino community, especially for E&M companies and marketers looking to build younger fan bases. Yet media publishers, agencies, and marketers too often focus their efforts solely on first-generation Latinos versus second- and third-generation Latinos, assuming they will capture more integrated Latinos via mass-market initiatives. It is, however, precisely these second-plus-generation Latinos who should be a strategic focus. Their disposable income is growing, and they are diverse, bilingual, and connected to family and community through social media and video on mobile devices.

Some major E&M companies have recognized this often overlooked Latino opportunity. NBC Universal is debuting two midseason series on its NBC network that aim to appeal to both the Latino community and the broad market: *Telenovela,* a comedy with Eva Longoria, and *Shades of Blue,* a drama with Jennifer Lopez. The El Rey Network, a U.S. cable partnership between filmmaker Richard Rodriguez and Univision, is an even more ambitious attempt to produce original content for second- and third-generation Latinos who are bilingual but speak English as their primary language. Starz, the premium video service, and MiTú, the digital media company, have also prioritized new content growth initiatives targeting Latinos.

There is room for more efforts like these, especially in video and digital. *Empire,* Fox's hip-hop soap opera, which debuted in 2015 and was a surprise ratings success, gaining nearly 17 million viewers by the end of the season, demonstrates the explosive impact that media companies can have when they create multicultural storylines that resonate with popular culture. In the second season, *Empire* has added a more Latino flavor to its cast and subject matter and expanded its audience in the process. This serves as a model not only for U.S. companies but also for other E&M outfits in global regions that have diverse cultural communities and emerging consumer segments that may also represent attractive "pockets of growth."

Move or adapt

The winners and losers in this coming fan-centric, direct-to-consumer world have yet to be determined. What is clear today is the list of requirements for success: attributes that will excite users — more customization, control, and perceived value — and distinctive, habit-forming brands and experiences that turn commodity eyeballs into devoted fans. Transitioning to a more direct-to-consumer world will not be easy for many media companies. Existing capabilities need to be reimagined to stress content development, user insights, digital distribution, fan management, and mobile advertising sales, as well as app design, data science, and new business models. This will require sustained senior leadership and greater investment in content, technology, and experience. It will mean making tough decisions regarding brands and businesses not associated with a meaningful fan base. Considering the unimaginably fast clock speed in entertainment and media today, E&M companies cannot afford any delay.

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