



## CORPORATE PERFORMANCE IMPROVEMENT

# Traditional Media & Entertainment Industry – Achieving Competitive Edge with Digital & Data Capabilities Through COVID-19 and Beyond

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### Background

The traditional Media & Entertainment (M&E) companies have been going through a significant evolution with the cutting the cord movement, reduction in traditional TV viewership and continued expansion of Over-The-Top (OTT) platforms, including the emergence of new providers. The COVID-19 pandemic has created enormous uncertainty and has accelerated the velocity of disruption for the traditional M&E companies. New content production is throttled, advertising budgets are slashed and new consumer trends are emerging even faster with the newfound multitude of video options. The demand for original premium content is soaring. As highlighted in the eMarketer research [podcast](#), the remote workforce, social distancing measures and consumer immobility has increased the average daily video viewing time by one hour in 2020. This has had a very large effect on how content is produced, scheduled and distributed to end consumers.

The new trends in consumer behaviors, a spike in content consumption and the loss in revenue (ads and sponsorships) are driving the cost of traditional M&E companies to optimize their digital media supply-chain (i.e. the digital infrastructure, core services, etc.). It can be confusing for leadership on where to begin when it comes to making choices to start transformation. The two key strategies that traditional M&E companies should consider center around how to maintain a competitive edge:

1. Simplify digital media supply-chain to optimize the revenue from the existing business model
2. Increase focus on direct-to-consumer (D2C) business models

In this article, we will discuss various M&E business models, challenges faced by the industry and strategies to maintain a competitive edge with a simplified business model.

### M&E Business Models

Let's take a closer look at the primary business models in which traditional M&E companies operate:

- Over-The-Air (OTA) free services through local broadcasting networks



- Pay TV such as the bundled subscription services (i.e. ESPN, TBS, etc.) and premium services (i.e. HBO, STARZ, etc.) provided using digital cable and satellite
- Subscription video on demand (SVoD) that provides access to a library of media content for a fixed recurring fee, such as Netflix, Hulu, etc.
- Advertising (or Ad-based) video on demand (AVoD) that provides advertisement-based video for free, like YouTube, Pluto, etc.
- Transactional video on demand (TVoD) that provides content on pay-per-view basis, such as iTunes

Several OTT providers are also contemplating hybrid models to drive up the average revenue per user and maximize profits by opening all possible revenue streams. For example, YouTube is adding premium content (TVoD) at fees in addition to their freemium model (AVoD). Amazon and Netflix are exploring opportunities to screen self-produced movies in local theaters throughout the U.S. Tubi (recently bought by Fox Corp.) has created an OTT platform that is complete free with ad-supporting streaming.

Among these business models, there is an ongoing shift of viewers, content and money towards the SVoD model. The growth of this model is the biggest with Netflix alone, adding approximately [26 million consumers in the first two quarters](#) of 2020. The combined annual spending of Netflix, Amazon and Apple on original content [production is approximately 30 billion dollars](#) this year. The Pay TV model is rapidly declining, with subscription loss expected to top 15 million consumers by 2024.

## Key Challenges

As the growth of OTT platforms rapidly increases and competition heats up among different players, traditional M&E companies are faced with some key challenges.

### ***Intense competition is creating price pressure and content fragmentation***

The entry of a large number of established companies (Apple TV, Disney+, Peacock, etc.) in the OTT space, combined with incumbents (Netflix, Amazon, Hulu, etc.) and niche players, (Pluto, Wanderlust, BirdieTime, etc.) is creating a growing number of proprietary ecosystems and “app congestion” in users’ devices. The content fragmentation creates significant pricing pressure for everyone. For example, many new entrants are foregoing high-margin licensing revenues and short-term profitability, as well as significant marketing and infrastructure costs to build brand awareness.

### ***Spike in content consumption is putting pressure on digital media supply-chain and consumer retention***

The COVID-19 pandemic has spiked the binge-watching trends and put pressure on content libraries of all OTT platforms. The consumers are effectively watching more content than M&E companies are able to add. This issue is eating into their revenue streams (in terms of lost subscription fees) when they switch to other platforms in search of new content. The problem of running out of new content is hitting smaller and niche providers even harder due to the availability of limited content.

### ***Consumer expectations are changing towards personalized experience and original premium content***

Consumers like to take charge and plan their own media day through streaming videos. There is a demand for a large variety of original contents delivered through multiple channels, with less advertising and strong data protection. This



increase in demand and high expectations is causing significant OPEX pressure in terms of content production cost and non-content related overheads on the entire digital media supply chain and all involved players (i.e. advertisers, content producers, content distributors, etc.).

## Strategies to Maintain Competitive Edge

The M&E companies are looking inwards to reduce OPEX and non-content related overheads, as well as optimize their content supply chain by leveraging advanced analytics and artificial intelligence (AI) in curating content that may be of interest to consumers. Let's look at a few points to see how these strategies can be realized.

### ***Prioritize value-driven investments***

The key for traditional M&E companies is to simplify their business model and focus on initiatives with maximized bottom lines. The investment efforts need to move towards media content and platform features that identify waste and, instead, engage consumers and provide maximum customer lifetime value. Many of the traditional M&E companies hold more debt on their balance sheets than ever before. It is important for leadership to maintain tight liquidity control and evaluate cost reduction opportunities such as zero-based budgeting, real-estate rationalization, variable IT cost optimization and FP&A process de-duplication across all revenue channels, spend assessments and vendor rationalization.

### ***Focus on intelligent automation***

The successful M&E organizations have been investing in common operating models and enterprise-wide digital infrastructures to unify and integrate processes and technology, from content creation to distribution. That means focusing on breaking digital and data silos, and removing repetitive production costs, and media workflows to gain benefits of synergies in content production. Companies should look for opportunities to optimize the monetization of content by leveraging shared distribution, marketing and sales channels as well as standardized metadata for a full view of global assets. In terms of technology infrastructure, cloud adoption is key to increase video content outreach, reduce technical implementation and infrastructure costs, and simplify workflows.

### ***Understand the consumer***

Almost a century ago, Philadelphia based retailer John Wanamaker quoted, "Half the money I spend on advertising is wasted. The trouble is, I don't know which half." The point here is that M&E companies need to continue to stay on top of understanding consumer needs. The analysis of consumer demographics, market segments, preferences and personas provide insight into how to tailor to behaviors and optimize customer experience (CX). For example, consumers access media content from a number of devices and leave reviews on social media platforms. Analysis of this data should give content creators and distributors a deep look into consumer age groups, their preferences and viewing choices, and ideas for new content development.

### ***Use a data driven approach***

To thrive within the D2C business models, continued investments in digital and data capabilities is imperative. M&E companies are collecting a wide variety of data and metadata about their customer and content consumption. This data needs to be of good quality to translate into actionable information. So, it is vital to establish one version of truth for customers and product data, and perform enrichment from various channels (i.e. sites, social media, etc.). The data analytics should be integrated into every aspect of media supply chain, from content acquisition, scheduling and recommendations, to pricing and advertisements.





### ***Leadership and execution rigor***

The enterprise-wide nature of the transformation journey requires lots of learning and experimenting, as well as collaboration between cross functional teams. The leadership team's experience with the execution of digital and data platforms is vital for success. If there is a lack of expertise, companies should bring in external hires or interim leaders to drive these initiatives. Establishing a change management cadence to regularly monitor progress is an indispensable part of effective program execution. Leadership should carefully assess reporting layers and duplicative roles and responsibilities and, instead, look to reallocate resources for more intelligent and productive tasks.

## **LOOKING AHEAD**

As global economies pivot to recovery, M&E companies have a small window to transform their business model and react to accelerated trends around new consumer needs and expectations. Leadership will need to create renewed focus on transformation initiatives to capitalize on large investments and maintain a sense of possibility as an enduring source of competitive advantage. Top management consulting firms like Alvarez and Marsal are spending more time helping clients cover on-going merger and acquisitions for content and larger global viewership, consolidation of platforms for automation distribution and cost take-out initiatives. Given crisis related disruptions to content supply chains, M&E companies that can develop adaptability and accelerate the use of advanced analytics will thrive and strengthen their links to consumers.

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