



Cognizant Consulting

Competing to Win in the Media & Entertainment Industry

To outperform in tough times, media and entertainment companies must rejuvenate their business, operating and technology models by jettisoning non-value-adding activities and reinforcing core strengths that provide sustainable growth, despite funding challenges.

Executive Summary

Now more than ever, the media and entertainment (M&E) industry is under the spotlight. While the global pandemic has given many parts of the sector a boost in terms of consumer habits – increased screen time resulting in higher demand for content – longer-term trends are worrisome. A deep-rooted structural shift has led to a steady decline in net margins – a 14% CAGR decline over the last five years;¹ the growth in digital services and the presence of agile competitors suggests that these challenges are far from over.

There are answers, however, for beleaguered CFOs and COOs across the M&E sector who are tasked with bringing their companies through these tough times. The central tenet is that old-fashioned, straightforward cost-cutting won't work. Instead, a more strategic approach is needed.

This white paper lays out strategies M&E executives can adopt to turn the corner and build more sustainable, profitable businesses in the long run. It promotes a shift in focus away from tactical cost reduction to a more strategic, targeted approach to impact both the top and bottom lines.

An industry primer

To better understand the range of possible solutions, it makes sense to first see where the industry is heading.

I Increased online viewership: Despite the aforementioned challenges (see Figure 1),² the

overall size of the market has increased and is expected to expand further over the next few years. The subscription video on-demand (SVOD) market alone is expected to have over 1.37 billion users by 2024 (see Figure 2).³

M&E industry: Net margin and EBITDA/sales

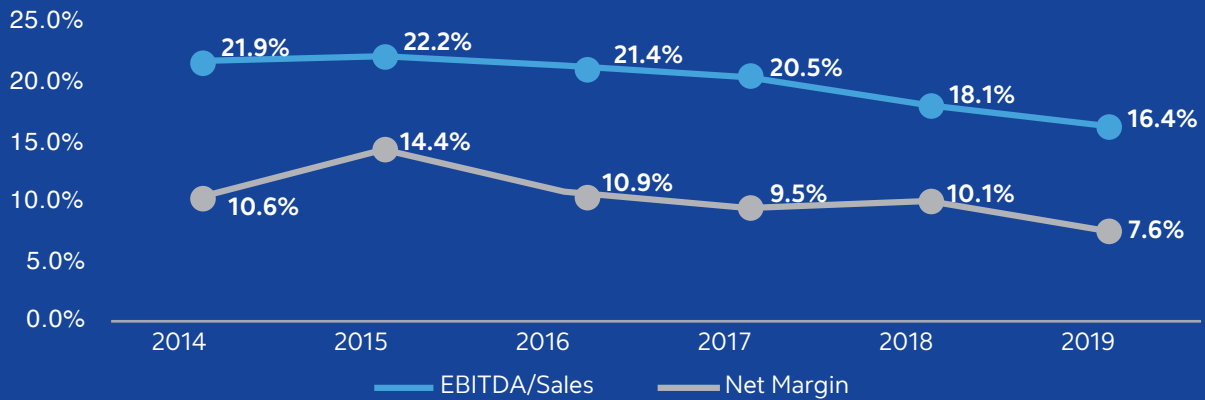


Figure 1
Source: http://people.stern.nyu.edu/adamodar/New_Home_Page/data.html.

Projected subscription video on demand market growth

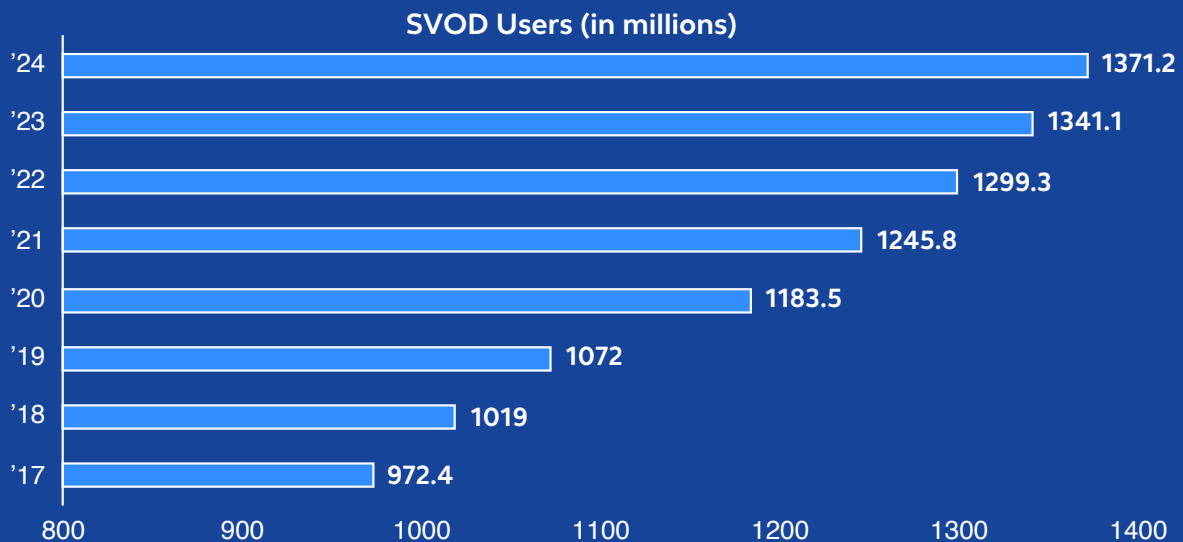


Figure 2
Source: Statista (Forecast adjusted for expected impact of COVID-19), July 2020.

However, while positive, the increase demands higher investment from M&E organizations in their growth strategies and muscle-building through creative projects (e.g., generating/acquiring more content).

I Increased competition: The slow but steady evolution of 5G networks, as well as ever-improving broadband penetration, is creating a larger addressable market at a faster pace than anything previously seen. This is causing traditional media companies to accelerate a shift in focus on new revenue streams and markets. For OTT services, for example, competition is well known, and to say the market is overcrowded is somewhat stating the obvious: Netflix, Apple TV, Disney, HBO Max, Peacock, etc. However, what is less well accepted is how this plays out in terms of where these organizations place their strategic bets and what levers are available to them when the competition is fierce and customer retention remains a challenge.

I Stressed revenue growth: Finding the right price and maintaining a healthy customer base is challenging. The switching cost for customers is practically zero, which directly impacts revenue and increases unpredictability, which can stall investment decisions to support growth. The days of customers being locked into long-term cable TV contracts are long gone. Consumer expectations are growing all the time – for example, it is widely accepted that customers want to access content with limited or no ads, forcing executives to identify new and creative ways to position ads without disrupting the user experience. On the subscription model side, the outlook doesn't look great either – the growth rate of the average revenue per user for the SVOD market is also expected to decline, with price-sensitive Asian markets contributing to the user base.

The road to profitable growth

As these pressures build, survival anxiety within the industry grows. Companies increasingly need to place targeted bets with minimal room for failure; but in most cases, there is a distraction, which draws attention and investment from true growth areas. This is often compounded by sources of engrained complexity – be it duplication of operational processes as a result of an acquired business or strategic initiatives that cater to

certain markets rather than embodying a holistic approach.

Getting these bets right, whether high-stakes or low-stakes, will set the course for success or failure. One strategy that is playing out especially widely is vertical integration: taking ownership from acquisition/production through to distribution, which brings a level of self-determination. However,

The days of customers being locked into long-term cable TV contracts are long gone.

the strategic lag reflects M&E companies’ devotion to legacy operating models, which has caused value leakage (through increased operating costs and highly levered financial books) and stunted profitable growth. M&E organizations need to move fast. Strategies across the industry aren’t very different, as customers are more demanding and have more choice. It was never truer that the right action taken today beats the perfect choice enacted six months too late.

There are options, however. Reducing operational costs in the right areas can have a disproportionate return on the bottom line and can – based on our experience – boost the enterprise value by as much as 50%. The key is to optimize in the right places, on noncore costs. Doing this will not only create savings, but enable the company to invest in crucial creative content.

Based on our experience of advising some of the largest M&E companies in the world, we have

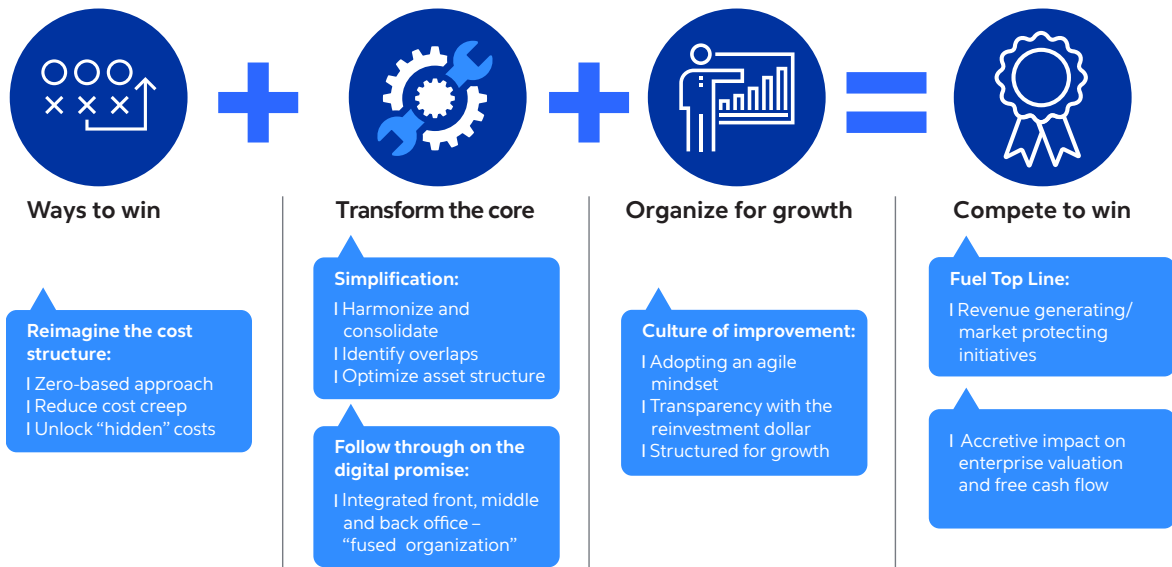
defined a competitive advantage model, which enables clients to do exactly this.

Our work has uncovered four core steps that major M&E companies need to take: reimagine the cost structure, transform the core, organize for growth and compete to win. Doing these things will help companies understand:

- How to win in a fiercely competitive market.
- Which places to cut costs, and to what extent.
- How to ensure the business is not distracted by noncore activities.
- How to refocus/invest these saving into areas of growth.

Figure 3 lays out our perspective on how organizations can win in these challenging times.

A way forward



Source: Cognizant
Figure 3

Ways to win

Helping clients identify new ways to deliver value to their customers by differentiating their services, embracing digital to fuel their top line, building customer intimacy and identifying successful revenue models that pay in real terms.

Transform the core

Helping clients to transform their core business, evolving the cost base to fuel business strategy, leveraging emerging technologies, and reforming processes and ways of working that enable future

digitally enabled capabilities whilst reducing operational costs.

Organize for growth

Helping clients to organize themselves to win in the market by driving efficiencies and positive margin growth through coherently combining critical skills, organizational capabilities, culture and people that enables their operating model to deliver strategic and competitive advantage.

Gaining the competitive advantage



A way to win: Reimagine the cost structure.

Rethinking costs is a crucial part of gaining a competitive edge. Single-digit cost-cutting drives are not enough. They don't create value for the organization, and won't enable a business to compete against agile, digital-native companies. Executives need to look at transformational cost optimization initiatives through zero-based approaches. That will help build a true, clean cost base that provides a platform to reimagine how the business operates and its supporting cost structures. Removing redundancies and process inefficiencies not only reduces cost but increases the speed of decision-making.

What organizations can do:

I Rebuild costs from the ground up. A good starting point is to look at existing long-term plans and budgets, and rebuild them from the foundation. This is a detailed exercise that involves different budget owners reviewing each budget line. It forces budget owners to question every budget line item and whether it drives business value. The process can be arduous, as it involves a painstaking review of all cost elements and often requires a leap of faith from the business. If done well, this granular, clean view of the cost base can

be incredibly powerful (see Quick Take, page 6).

- I Reduce cost creep.** This need is inevitable for even the most financially disciplined organizations. But making careful cost management a regular activity can put the brakes on profligate spending, by constantly challenging executives to identify areas that can provide disproportionate returns.
- I Make technology a game-changer.** Artificial intelligence (AI) is helping our clients in a multitude of ways – for example, by helping budget book owners to identify true costs and creating budget models based on data-driven algorithmic findings. The huge volume of data at most companies can make tracking costs difficult; in some cases, cost-per-sale is underestimated by a third. A common financial data repository can answer these challenges, and provide a solid foundation for further AI activity like automated classification of transactional data to the right cost center. Taking this a step further, private equity firms are now leveraging AI tools to generate investment/cost models that reduce their model building time by **over 90%**. For more on AI's potential business impact, read "[Five Ways Media Companies Can Generate Value from AI.](#)"

Quick Take

Leading Media Company Delivers Multimillion-Dollar Cost Synergies

Challenge: As a result of a multibillion-dollar merger, our client – a global media company – was required to deliver multimillion-dollar cost synergies across six operating companies. The client was struggling to identify areas that could provide disproportionate savings to meet aggressive targets.

Solution: We were appointed as the sole advisory partner for this strategic initiative across the UK, U.S. and Asia. We performed detailed assessments of the company's cost structure and processes across all business functions and international operating companies. We provided insights about the combined cost base, highlighted areas for targeted intervention – based in internal and external benchmarks, defined cost categories and ownership structure, and helped build a combined cost structure from the ground up. We provided financial synergy models that offered the executives detailed scenario modelling and synergy realization opportunity tracking.

Benefits:

- | \$100 million of actionable cost-out initiatives and a detailed execution value roadmap including in-year returns based on a zero-based approach to core business functions.
- | Over 10% of these savings were incremental saves that were identified as part of our detailed ground-up approach.
- | Unified financial modeling/reporting through standardized budget books and consolidated P&L across multiple entities and territories.
- | Rapid and seamless decision-making across multiple territories with simplified governance structure.
- | Restructured their operating model with investments channeled to growth areas.

A consequence of being a serial acquirer is an increasingly disjointed model, across business divisions, territories and operations.



Transform the core: Simplification.

Today, global media companies are acquiring and re-integrating into even larger entities (e.g., Viacom/CBS, Comcast/Sky and AT&T/Time Warner) and are competing against equally formidable competition. Established players are trading similar strategies to new born-digital entrants with deep pockets and big plans. Yet, chances are good that despite world-class talent, valuable intellectual property, a growing base of subscribers/viewers and increasing market/territory presence, some of these organizations will fall behind. A consequence of being a serial acquirer is an increasingly disjointed model, across business divisions, territories and operations.

What organizations can do:

I Establish a clear shared strategy and business model.

Most organizations don't deliver on their transformation promises because they fail to articulate their strategic objectives. Defining and communicating your strategy to both internal and external stakeholders holds executives accountable, prevents them from moving the goal post and creates tangible metrics to measure performance. Even high-performing business functions can become mediocre if the strategy communication is lacking – and this under-performance can spread rapidly.

I Build one aligned operating model.

Organizations need one operating model and one culture; in other words, pulling the oars in different directions won't get your company where it needs to go. This may be especially true for the M&E industry, where many organizations are trying to build a differentiated direct to consumer (D2C) business model through rapid M&As and

transformations, and hard-earned value could be easily lost if the operating model is not aligned.

I Harmonize and consolidate core operations.

Loosely confederated companies have different ways of working globally; there are often huge returns if they are consolidated. Distilling operations is an approach that is often overlooked, and sometimes seen as too messy due to changes in workflows, technology consolidation and people. The media supply chain is a great example of a function that has been traditionally overlooked or addressed only tactically. With the shift in core business models (such as D2C), executives are increasingly relooking at their supply chain as a source of opportunity for transformational cost restructuring. The upstream supply chain process components – such as rights management, content ingestion, quality and compliance, and content operations – are processes that are usually common irrespective of the local/regional content demands, but in many cases they are not managed globally. By taking a strategic view, the returns can be eye-catching.

I Evaluate the existing asset base. Asset-heavy activities such as play-out and distribution can become purely commercial decisions. They are insourced or outsourced depending on the current value of the existing asset base or the organization's ability to negotiate with providers. These capabilities are heavily commoditized in today's market, with a multitude of vendors providing reliable services. This enables companies to be more strategic about these decisions, by optimizing the asset base either through sweating existing assets or taking the call to release assets from those booked, providing write-off opportunities.

Quick Take

Strategic Cost Optimization at a Large UK Broadcaster

Challenge: Our client, one of the world's most trusted global news providers, was undergoing a period of rapid transformation. Changes in how people consume content as well as overall market pressures created a need for the client to be operationally lean and efficient.

Solution: We worked with the client to identify business strategy aligned operating design principles and to reimagine options for the future operating model. We tested our hypotheses against our M&E industry insights and by running a current-state diagnostic of the client's organization. Doing this enabled us to narrow down the best-fit operating model. We further identified minimal viable operating capabilities to ensure early value realization and build internal stakeholder confidence.

Benefits:

Working with the client, we:

- I Developed a reimagined target operating model and an actionable 12-month roadmap.
- I Designed a multimillion-dollar cost optimization initiative, identifying significant cost-restructuring opportunities across asset management and scheduling processes as well as by creating a centralized capability center around these areas.
- I Developed flexible resourcing models to unlock business value and provide a highly effective operating model to drive margin improvement.



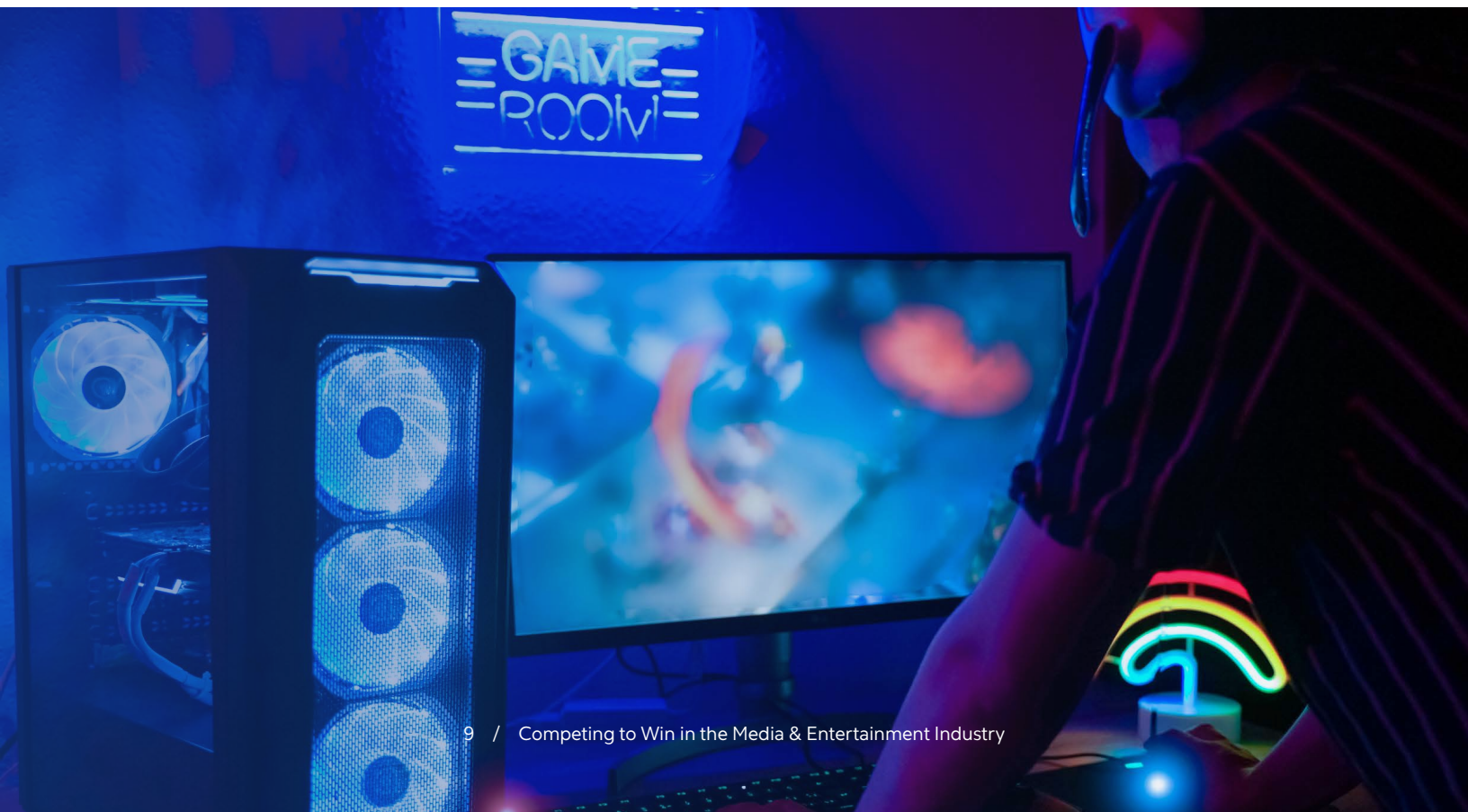
Transform the core: Follow through on the digital promise.

While the M&E industry was among the first to digitize, more than 95% of companies in the industry do not consider themselves to be digital leaders, according to [our research](#). The focus needs to shift from customer-facing processes to the rest of the organization, to create a streamlined business that is up to **2.5 times more likely** to deliver double-digit growth.

There are many day-to-day tasks that rely on human interventions that could be automated. Consider the contract review process for assessing rights – which today in most companies is managed manually, often through high-cost resources such as lawyers and paralegals to interpret rights positions and provisions, enter data from contracts into rights systems and provide insights into rights availability. AI and machine learning tools like our evolutionary AI framework known as **LEAF** can automate such processes to a remarkable degree of accuracy. This brings opportunities for efficiency gains, but often unlocks value by providing insights from data often locked out from organizations.

What organizations can do:

- I **Define the digital journey.** Start off small by identifying day-to-day activities (such as duplicate content identification and brand/celebrity recognition) that can be automated simply. This offers the ability to reduce costs fast with minimal risk while building stakeholder confidence. The step can be followed by more ambitious and complex opportunities to apply AI – such as advanced natural language processing – for automated subtitling or automated asset de-duplication.
- I **Apply data to drive transformation.** One of the reasons digital disruptors continue to pull ahead is their use of data analytics to make decisions – whether this means investment decisions on which content rights to acquire, or personalized experiences for users. Traditional media companies need to consolidate and monetize their data, using it to make the right decisions.



Quick Take

Large Media Conglomerate Leverages AI to Drive Process Optimization

Challenge: Our client is a leading UK-based media company that has grown inorganically through acquisitions with little focus on operational efficiency. With new private equity owners and increased market competition, the client is looking to identify strategic initiatives to create a lean, future-ready organization.

Solution: We helped establish an AI factory for the client, which aided in automating key cost-heavy operational processes across their core revenue-generating activities and top-line growth initiatives. We helped define a repeatable framework that provides a repeatable model to focus decision-making and viability of candidate processes and operations to ensure value is delivered at scale with the best possible ROI.

Working with the client, we:

- | Assessed and qualified over 20 business scenarios to enhance operational process efficiency.
- | Delivered multiple MVPs to generate wider business and to prove the concept.

Benefits:

- | Over 60% reduction in time to deliver content across the media supply chain by faster processing of large content volumes.
- | 70% reduction in processing time for the identification of advertisement duplicates.



Organizing for growth: Building a culture of improvement.

A mindset of continuous improvement has to come from the top. To achieve this, executives need to be invested in the idea of cultural change. They must identify the next level of management that will be instrumental in effecting such change, and they need to use the right metrics and investment model to track progress. To keep everyone on board with the changes, they have to show results quickly and provide clarity on how they will support investment in other areas.

What organizations can do:

- I Adopt an agile mindset.** Any large strategic transformation can easily turn into a long laborious initiative where people lose interest quickly. To avoid this, organizations need an agile approach to iteratively deliver and communicate value. This also requires the governance structure to be simplified to aid fast decision-making. This can be achieved by empowering people to make decisions, by having the right level of executive sponsorship that creates pathways to cut through the organizational clutter.
- I Be transparent and communicate.** Cost-cutting can pull down employee morale. M&E decision-makers need to build the right communication strategy to showcase how savings are being reinvested to fuel the organization's creative pursuits and growth agenda. One way of doing this is by defining how to communicate the company's vision and how the savings now can help achieve those objectives. While it may be intuitive for decision-makers as to how these funds are utilized, it needs to percolate across the organization.
- I Structure the organization for growth.** It is crucial to build the right organizational structure to achieve growth. A comprehensive assessment of skills within the organization will help identify whether the right person is doing the right job, and which areas require additional people investment. The objective of such an assessment should be forward-looking, aligned to the investment strategy.

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Quick Take

Making Operations Leaner at the Monitoring Division of a Large Broadcaster

Challenge: Our client is the monitoring division of a public broadcaster which operates globally to observe, understand and explain open source media throughout the world. They provide accessible and relevant information and insights for the broadcaster and commercial clients worldwide, to help them make better, more informed decisions.

Rapidly changing customer expectations from both inside the public organization itself and external commercial and noncommercial clients, meant a massive change was required if our client was to remain relevant and competitive.

Solution: We proposed an “enterprise agile approach” to iteratively disrupt, define and implement the future operating model, enabling both immediate business impact and the ability to continually adapt. We used a diverge-converge approach, which allows for an agile, rapid-decision-making approach to key design decisions. Following that, we narrowed down to the best-fit operating model, by iteratively applying organizational execution constraints and alignment to business strategy.

Benefits:

- Unlocked cost savings:** This came from focusing on consolidating international locations and managerial responsibilities, eliminating unnecessary duplication of capabilities while making more effective use of freelance journalists and reusing existing skills and technology.
- Increased commercial revenue:** Our client’s contribution to the parent broadcaster’s live news has increased and the commercialization of output has been strengthened through a new, intuitive user portal which saw a 150% increase of active signed-in users.
- Embedded change:** Introducing the agile and transparent ways of working transformed the way journalists, editorial teams and our client as a whole think of its users and putting their needs first.

Winning in tough times

In order to achieve profitable growth, companies need to focus on improving ROI, particularly focusing on the top line levers. For example, focusing on content investment, rights and intellectual property, similar to how other sectors have a laser focus on working capital, can bring both efficiency and eye-catching top line returns. This can be done through simple interventions, targeted cost and effort cutting in low growth, nonstrategic areas, which can help redirect this released capital and effort toward targeted, high-return growth areas. Here are the five key steps:

- I Align supply with demand.** Ensure that your organization's investments reflect the market. This starts with having tools that transcend backward-looking analysis.
- I Take a forensic view.** Are your organization's content rights being exploited to their fullest potential? Reduce or stop investment in non-value-generating areas. Once you've got it right, doubling down on winning formulas can provide disproportionate returns.
- I Focus on information.** Aim for better-informed investing by adopting a balanced, strategic view of investment that goes beyond financials.
- I Align effort with returns.** Don't leave money on the table with underperformance of existing rights. Focus hard effort into the deals that have a high return and provide the right processes for simple investments to take care of themselves.
- I Be a leader in portfolio or performance management.** Focus on long-range planning. To make investments truly work for your organization, combine forward-looking analysis, backward-looking critique and interventions during a deal, e.g., content acquisition, syndication, etc. Too many companies only look back; for successful portfolio management, they need to look forward, as well as keeping a critical eye on emerging deals.



Quick Take

Large U.S. Studio Brings Predictability in Its Revenue Forecast

Challenge: Our client was struggling to come up with a long-range plan for upcoming title releases and develop an accurate forecast to predict revenue.

Solution: We conducted a program to assess and model methods to improve the accuracy of sales and support long-range planning and investments. We created an exploratory data analysis process to study the impact on different title and investment levels, as well as genre, Motion Picture Association ratings, online review scores, meter scores and user ratings, etc. We applied advanced statistical algorithms such as Random Forest and XGBoost techniques to model possible scenarios.

Benefits:

- I Using predictive modelling with a 90% accuracy rate for high-end titles sales and ROI provided significant dollar improvement in revenue predictability.
- I Value add for the theatrical team was in assessing the consumer interest for the upcoming release by providing opening sales forecasts on a daily basis starting from two weeks before release – thus improving the revenue forecast.

M&E executives need to reinvest cost savings wisely, with laser focus, and target areas that provide high probability of disproportionate return and, importantly, that will make the organization stand out in a congested market.

Looking ahead

Global media companies are on the verge of a new competitive phase that is resulting from a long-term struggle between vast media and entertainment players and their ability to vertically integrate their content production/ownership, and to profitably and predictably monetize their intellectual property. At stake is victory in the battle for the living room and beyond. It's been talked about for many years, but now the bets are being made.

While the cost optimization initiatives outlined above help drive efficiencies and fund transformation programs, strategic investment in growth areas is the ultimate goal and will draw the line between the winners and the losers. M&E executives need to reinvest cost savings wisely, with laser focus, and target areas that provide high probability of disproportionate return and, importantly, that will make the organization stand out in a congested market.

If previous downturns and market shifts have taught us anything, it is that organizations that are able to pivot quickly to the new order invariably succeed in the long term.

Building and extending the digital foundation is critical for delivering much-needed agility in both good times and bad. This is easier said than done, as it requires a fundamental shift across existing technology by evolving the legacy technology stack to a more platform-based approach, and simplifying and digitizing processes to deliver business value. However, these two advances will matter little if M&E companies don't build an organizational culture that focuses on value/outcomes delivered rather than a functionality or capabilities enabled. Moreover, they must reject the notion of one-time transformations.

Strategic acquisitions and partnerships have been the rage for many executives seeking to fast-track growth. This approach will continue to redefine the industry. Given the COVID-19 crisis, these approaches have temporarily taken a back seat, but rest assured that there are many lucrative M&A and partnership targets available at potential discounts which, if properly executed, can foster speedy recovery for troubled M&E organizations. Companies with dry powder should consider such tactics to exploit current market conditions.

Endnotes

- ¹ Data sets from Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University; http://people.stern.nyu.edu/adamodar/New_Home_Page/data.html.
- ² Ibid.
- ³ Statista Database; <https://www.statista.com/outlook/206/100/video-streaming--svod-/worldwide#market-users>.

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Ian Lube leads Cognizant's CMT Consulting Practice in Europe. He has over 15 years of experience in board level advisory to FTSE 100 and Fortune 500 companies across strategic cost restructuring, deal advisory, carve-outs and post-merger integration. Ian has advised some of the world's largest media, entertainment, technology and sports companies, helping clients respond to digital disruption, deliver value through M&A, build growth strategy and organize to meet new opportunities. Ian can be reached at Ian.Lube@cognizant.com | www.linkedin.com/in/ianlube/.

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About Cognizant Communications, Media & Technology

Cognizant Communications, Media & Technology (CMT) business unit helps clients transform into people-centric enterprises – enabling businesses to create new business models that deliver more personal and relevant customer experiences. We combine human insights with advanced technology to translate customer needs into differentiated content, products and services that power our clients' future. Cognizant applies domain expertise and digital know-how to help CMT companies optimize performance for today and accelerate digital transformation for tomorrow. Our technology innovations, proven solutions product and software engineering expertise, creative interactive prowess and global delivery excellence enable businesses scale to meet the needs of the market. Learn more at <https://www.cognizant.com/cmt-solutions>.

About Cognizant Media & Entertainment Consulting Practice

Cognizant's Media & Entertainment Consulting Practice is a multi-award winning consultancy which combines deep domain expertise with advanced thinking across strategy, management consulting and technology to help global 2000 companies worldwide transform and accelerate their digital journeys. We pride ourselves in supporting our clients with their most complex business and technology issues, helping them meet opportunities from digital, organize themselves for growth and to lead in today's dynamic digital age - while planning for whatever tomorrow brings. Learn more at www.cognizant.com/consulting.

About Cognizant

Cognizant (Nasdaq-100: CTSH) is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 194 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us @Cognizant.



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