A Transformation Roadmap for Media and Entertainment Revitalization

By following a five-step plan, media and entertainment companies can optimize human resources, standardize key business processes and revamp aging IT infrastructure to ensure viability over the long term.

Executive Summary

Technology has grown exponentially over the past 15 years within media and entertainment, bombarding the film, TV, publishing and music industries with new competition, business models and product landscapes that benefit a digitally sophisticated consumer base. However, for incumbent media and entertainment businesses, disruptive technology requires adaptation, and those that fail to adapt risk obsolescence.

Successful adaptation often requires a complete business transformation—a daunting and complex effort that requires a comprehensive evaluation of corporate strategies, human resources, processes and technologies. Now more than ever, understanding the complexity of business transformation is critical to longevity in the media and entertainment space.

Working with many of the largest global media and entertainment companies, we have helped players transform their businesses to adapt to ever-changing environments, whether they are large, small, new or established. This white paper explores the drivers affecting change within media and entertainment, describes our five-phase methodology for business transformation and reveals success factors critical to a meaningful business transformation effort.

Drivers of Transformation

In recent years, digital disruption has upended traditional business models within the media and entertainment marketplace. Content consumption across media channels, devices and demographics is on the rise. Due to unprecedented Internet usage and adoption of Internet-enabled devices, consumers are now at the heart of a digital ecosystem in which they actively create, distribute and consume content.

As a result, the components of traditional industry business models—product development, pricing and revenue models, marketing, advertising, branding, distribution—have all been impacted by drastic changes sweeping these industries. Not only are core business processes being altered by technological advances, but the ways in which people use technology to perform work within the organization are shifting, as well; effective sharing, collaboration, virtualization and innovation are emerging as essential ingredients of business success. What follows are examples of how these trends are reshaping today’s media and entertainment landscape.
Broadband and Mobile Devices
Nearly 65% of U.S. adults use high-speed Internet connections at home, and broadband users rate content consumption and sharing as two of the most important ways they use the Internet.1 With smartphone adoption reaching nearly 30% of the global mobile user base, consumers are increasingly choosing to consume media through these devices.2 The emergence of 3G and 4G networks and enhanced network infrastructure has further fueled this growth.

Digital Content Delivery Competition
Digitization has introduced a fundamental change to the concept of media and entertainment products. Incumbent market players face increasing competition from high-technology companies offering hardware and software solutions for digital content delivery. Apple, Google and Amazon have created effective, self-sustaining, self-reinforcing business models, and newer companies such as Netflix, Hulu, Spotify and Pandora are paving the way for new content distribution channels and business models. These models include on-demand, subscription, sell-through, streaming, ad-supported, freemium, searched, recommended and curated.

Social Media and CRM
According to a recent Nielsen Media report, social networks and blogs now account for nearly 25% of total time spent on the Internet.3 Whether or not this time expenditure is complementary or cannibalistic to traditional media, the rise of social CRM has facilitated bi-directional collaboration and information sharing between companies and their customers. Accordingly, productivity gains of social CRM have been estimated at 11.8% among marketing and sales executives and will continue to be adopted across corporate enterprises.4

Big Data
With the rise of broadband and mobile devices, digital content distribution platforms and social media, data has grown exponentially across all industry segments. Social networks, real-time consumer behavior and mobile and location-based services now represent important sources of information, not just for customer relationship management but for driving key business decisions. For instance, BigChampagne and Next Big Sound have become key sources for music companies to obtain data and analytics from social media “chatter” and make decisions affecting music marketing, artist repertoire and distribution.

Regulatory and Policy Stalemate
Laws aimed at curbing piracy remain in a state of flux and greatly impact media and entertainment companies. In the U.S. Congress, the Stop Online Piracy Act and Protect Intellectual Property Act sparked intense debate over the rights of copyright holders vs. interest in an open Internet. While government bodies are stuck in stalemate, regulatory compliance is only one part of a complex, multipronged strategy that media and entertainment companies can apply to impose control over the use and consumption of their intellectual property.

Identifying the Need for Business Transformation
How do you know if your business is in need of a transformational effort? Through our work with media and entertainment companies, we have observed the following key indicators:

Industry and Business Lifecycle Maturity
The biggest factors indicating the need for business transformation within the media and entertainment industries are the maturity or decline of core revenue channels or models. Other indicators, however, also have the potential to spur the need for transformation, including innovations in technology, new competitive entrants and even regulatory forces.

For example, print publishing industry revenues have gradually declined for a large part of the last decade and are forecast to decline further, from $10.2 billion to $9.5 billion (in circulation revenue) and $24.7 billion to $23.2 billion (in advertising revenue) between 2010 and 2015.5 Similarly, in the music industry, revenue from album sales declined between 2000 and 2010, at an annual average of 8%.6 In these industries, traditional customers have moved onto online and mobile channels to consume content, but incumbent companies in some cases lack the agility and capital — financial, human and otherwise — to follow suit. On top of this, disruptive technologies and new entrants have completely turned the traditional distribution of books and music on its ear. This trend illuminates why some traditional publishing and music companies need wide-scale transformation efforts to remain competitive.

Disparate IT Systems
As media and entertainment companies have grown over the years, the size and scope of
their IT stacks have widened from legacy mainframe systems to next-generation, cloud-based solutions. Often, a lack of interoperability between systems and data creates information and process gaps. In addition, different vendors often support different systems, preventing the collaboration and clear communication needed to rationalize systems. Without unified enterprise-level IT systems, interoperability or open interfaces, companies can struggle to standardize processes and gain necessary efficiencies to compete with low-cost industry leadership.

Aging Systems, Inflexible Technology and Fragmentation
As in any other industry, legacy systems form a significant part of the media and entertainment IT landscape. In many companies, they contain the core business logic for several business functions, but they are also costly to own, lack vendor support and are difficult to integrate with new technologies or modern distributed architectures. Such legacy systems often thwart attempts by companies to adapt to local market needs, quickly exploit new opportunities or execute an ambitious new business strategy.

Similar to the ever-expanding size and scope of IT stacks, technical operations and IT groups within media and entertainment companies have grown and fragmented in disparate ways. The past five to 10 years have seen stand-alone, innovation-incubating “digital media” groups emerge, proliferate and fragment, as social media, big data, mobility and cloud disciplines have called for separate areas of expertise. Often, large media and entertainment companies struggle to enable collaboration among these groups or integrate their capabilities into operating/functional business units.

An Approach to Business Transformation
After observing these symptoms at many of our media and entertainment clients, we created a methodology for developing an actionable plan for business transformation. Our methodology delivers a three- to five-year plan that can be immediately translated into real transformational change for an enterprise.

Phase 1: Defining Value & Strategies
The rapid proliferation of disruptive technologies, not to mention ever-changing consumer tastes and behaviors, have greatly impacted media and entertainment company strategies over the past 10 years. Before embarking on a transformative effort within a rapidly changing environment, it is crucial that the values and business strategy be revisited to ensure the most relevant and informed approach. Formulating strategy is the first step and a foundational effort for business transformation. The strategies and values identified will set the tone for the entire transformation effort, so it must be actionable and easily communicated.

Our Cognizant Value Discovery Assessment (CVDA) is a proprietary tool and framework that informs, transforms and communicates an organization’s strategy. The CVDA’s value is in its ability to deliver a relative diagnosis of the current and planned strategies to prioritize the areas of change and focus that the organization should pursue. The CVDA evaluates the current and future enterprise transformation strategies against the top four levers that deliver value in media and entertainment companies (see Figure 1):

- **Efficiency:** Optimizing the cost structure of the business, streamlining processes, reducing waste and generating higher returns on investment.
- **Effectiveness:** Improving productivity and operational performance in such areas as quality control, customer satisfaction, decreased time to market, etc.
- **Virtualization:** Sharing work processes, knowledge and technology both within and outside the enterprise in a collaborative and flexible manner.
- **Innovation:** Fostering the capacity to create new products, services, channels and market opportunities that will result in new revenue streams.

Phase 2: Business Capability and Model Definition and Assessment
A business capability is what a business fundamentally must do to achieve its objectives. In order to support a business transformation, an organization may need to nurture a set of capabilities it does not currently have. For example, many media and entertainment companies need to translate customer experiences, workflows and engagement to mobile platforms. Studios, record
companies and publishers need robust methods of distributing and delivering content across a variety of platforms and experiences. These are capabilities that 15 years ago, most of these companies didn’t have to worry about.

After defining capabilities, the next logical step is to look at how to deliver value to customers. A business model describes the rationale of how an organization creates, delivers and captures value. As part of the transformation effort, it is critical to identify high-level business models that describe what your organization will deliver to your customers, in what markets and in what ways. For example, with fragmented digital distribution channels, studios, publishers, music and content creators need to evaluate and understand the dynamics of both subscription and pay-to-own business models, such as Spotify and iTunes, and how those models impact their business operations, technologies and processes.

When embarking on a business transformation effort, it is crucial that business models and capabilities align to ensure an organization’s ability to operate in an ever-changing business environment. Forces such as globalization, the millennial mindset, “prosumers,” business virtualization and cloud platforms will continue to disrupt the media landscape moving forward. (For more on this topic, read our white paper, “Finding Your Place in the New World of Communications, Digital Media and Entertainment,” produced in collaboration with the MIT Center for Digital Business.)

Phase 3: Current State Assessment

With the rapid changes in content consumption, media and entertainment companies have often implemented business processes and capabilities as Band-Aids, patches and extensions of legacy workflows. However, conducting a fully transformational effort requires understanding of current-state business processes, at a high level. This effort helps identify an organization’s operational strengths and weaknesses, current-state landscape and value stream, to identify a starting point for a meaningful business transformation.

The current-state assessment is necessary to form a baseline for the future-state definition, as well as gain an understanding of the critical pain points and improvement opportunities. Achieving a successful current-state assessment relies on aligning the level of detail gathered within the current state with the future-state objectives.

Given the amount of change that most business transformation initiatives intend to implement, gathering current-state information at a detailed level is typically time consuming and does not necessarily serve the objectives of the future-state

Figure 1
definition. It's more important to get a baseline understanding for the development of future-state processes, organizational structure and systems rather than documenting a very detailed version of a current state that will inevitably change.

Our customized, high-level value stream mapping methodology ensures alignment of the current-state assessment and the future-state definition so that only the right level of information is gathered. This methodology supports the development of an end-to-end view of an organization and creates a focused and complete map of the enterprise processes that will be used to assist in determining the impact of the changes being brought about by the transformation initiative.

**Phase 4: Future-State Definition, Gap Analysis and In-Flight Analysis**

The future-state definition phase is where transformation moves from vision to definitive form. Building off the current-state assessment, the transition and development of the future state defines the change needed to enable the business capabilities and vision developed in the first phase. The future-state definition brings together the components of the business strategy, business capabilities and current-state pain points to develop a series of workstreams that will serve as action plans to deliver the future-state vision. This phase is not intended to design new processes or in-depth system requirements, although it will create a structure to articulate the future-state vision.

For example, an entertainment company transitioning from delivering playout content using existing models to distributing that content via emerging options may have high-level workstreams such as second-screen application development, modification of digital rights contracts and management systems, establishment of new relationships with content delivery networks, and integration with social media sites through APIs.

While identifying projects needed to fulfill the organization’s future-state vision, the organization must also review and continue, halt or repurpose any inflight projects related to the transformation effort.

The mix of future-state workstreams should closely align with the focus and priorities developed in the strategy, capabilities and business model phases. The development of future-state workstreams is a critical component to the development of a business transformation initiative in that the workstreams identified within this stage will be the basis for the roadmap.

With all the work involved with identifying necessary projects and workstreams that will transform the enterprise, current initiatives and projects will not completely halt once an enterprise transformation effort has begun. As large transformation efforts are often implemented over multiple years, it is equally important to understand how the business transformation initiative could impact ongoing initiatives, as well as how business-as-usual activities (BAU) will be carried out during transitional periods.

Since many of the processes and capabilities addressed within the business transformation initiative are business-critical, it is crucial to the success and validity of the plan being developed to have considered the dependencies, tollgates and critical success factors that are associated with the future-state workstreams identified.

This dependency and coordination effort can be a challenge for many organizations, particularly those that currently operate in a siloed fashion. For example, numerous functions within an organization may simultaneously explore social media initiatives in an uncoordinated fashion, making it difficult to integrate social media effectively into the overall business strategy and cross-department processes. Understanding the entire landscape of projects and programs within the organization helps create the most effective transformation roadmap and plan.

**Phase 5: Transformation Roadmap Definition**

The definition of the roadmap is where all the components of business vision, current-state and future-state efforts come together to form an actionable and meaningful plan to achieve meaningful transformation. Building this roadmap collaboratively with all stakeholders will ensure input and support across all impacted groups within the organization.

**Transforming Workstreams to Projects**

This effort begins with transforming workstreams into actionable projects that the organization can plan, resource and execute. Due to the nature of the workstream ideation and creation process during the future-state assessment, it is likely that the workstreams generated from this effort will have overlapping areas, as well as pieces
that will work better when reorganized into other projects or workstreams. Transforming the workstreams into actionable projects is not an exact science, but it is critical to consider which part of the organization can best manage the initiatives that are overlapping, since these will be the most challenging and contain the highest number of competing interests.

Resourcing the Projects
Since the transformation effort will likely take significant coordinated effort across departments, constructing a realistic resource plan for each project is absolutely necessary during the roadmap creation phase. While this can be an overwhelming task, it is important to plan and estimate the resourcing plans for the first few projects lined up in the roadmap. This will help create realistic expectations and ensure a smooth transition and retention of momentum, from planning to implementation.

During resource planning, remember that each project should be evaluated to determine the best resourcing model. For example, will your top talent be allocated equally to transformation projects and day-to-day business? Will you choose to outsource a project entirely? Or is a project best served by a hybrid model of internal and external talent? A mix of resourcing models is typically used across enterprise transformation efforts in order to minimize the impact to the ongoing business, develop the needed innovation and successfully execute. Consider the timeline and objectives of the project to inform the decision around using primarily internal or external resources for execution.

Other Roadmap Creation Considerations
The projects and resources needed to complete a project will provide the necessary inputs to arrive at costing, but a detailed estimate of high-priority projects is crucial for understanding the potential magnitude of the business transformation effort. Additionally, while creating the roadmap, it is essential to project and quantify the amount of change the enterprise can sustain. Business transformation efforts can often be daunting, and issues can arise when an organization is trying to undertake too many large changes at once.

Change management and a quantifiable understanding of the change impacts can go a long way toward informing how many projects and initiatives an organization can manage at once. Our proprietary methodology can quantify the amount of change and the associated impacts for an individual project or a collection of initiatives.

Keys to Success
Due to the scope and underlying complexity involved with most business transformation projects, it is important to identify success factors. We have observed that the following elements drive the success of most business transformation projects:

- **Executive sponsorship**: Executives need to communicate their engagement with, commitment to and support for the transformation initiative to the entire organization.
- **Strong governance and management**: Coordination and control over multiple projects is critical to the success of an initiative this size.
- **Continual justification and review**: Quarterly roadmap review sessions ensure that the most important initiatives are addressed.
- **Business value-based decisions**: All adjustments to the roadmap must be based on a business value decision.
- **Effective change management/marketing**: Enthusiasm needs to be created for the roadmap, both with employees and external parties.
- **Discipline around structure**: Any new projects need to be vetted in the context of the roadmap to minimize distractions.
- **Appropriate staffing**: Outside parties should be engaged where bandwidth or expertise is required.
- **Structured project request process**: A process needs to be created that streamlines the submission and review of projects not currently on the roadmap.

Looking Ahead
A rapidly changing landscape has created the need for media and entertainment industry stalwarts to closely examine the people, processes and technology they are using to operate in this
new environment. Disruptive technologies and shifts in consumer demand will continue to create an explosion of new business models, consumption channels and content demand that will require the industry to drastically change the way it engages with consumers, executes operations and fulfills demand. New methodologies and considerations will help transform media and entertainment companies to face the new challenges and opportunities of the next 20 years.

Footnotes

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