THE WORK AHEAD

The Second Half of the Chessboard: Media & Entertainment Is Nearing ‘the End of Digital’s Beginning’

The Center for the Future of Work
The Work Ahead is a research series providing insight and guidance on how businesses – and jobs – will evolve in the digital economy.

Although the M&E industry was among the first to digitize its products and services, it can’t stop there. Our study reveals that M&E businesses need to extend digital innovations from the front office into the middle and back office in order to ensure relevance far into the future.

This report preview highlights key findings from our study and specifies recommendations for M&E businesses to thrive in the work ahead.

To read our full report on the M&E Work Ahead survey and recommendations, please contact Corey.Olfert@cognizant.com.
THE WORK AHEAD IN MEDIA & ENTERTAINMENT
Executive Summary

The media and entertainment (M&E) industry has long been called upon to adapt to technology change: The “small screen” of living room TVs supplanting the “big screen” of movie theaters, and then the “mini-screen” of mobile eclipsing both. The expanding reach and market value of gaming, with universities now offering e-sport scholarships. Amazon’s swift emergence as a major studio and content creator. Facebook’s hyper-personalized ad-serving. Netflix's data mining to finely tailor content offerings to customer tastes.

Yet, even though M&E companies were among the earliest adopters of advanced digital technologies, it’s as if they’ve only just begun. Some would say they’re experiencing the “second half of the chessboard” conundrum, in which an exponentially growing factor begins to significantly impact business strategy (akin to doubling the number of grains of rice on each of the 32 squares of a chessboard).1 If the industry once thought that digitizing its products and services was the endgame, M&E players now realize they’ve only made their first few moves.

To better understand the pressures facing M&E businesses and the progress they’re making on adapting their strategies, processes and business models for the future of work, Cognizant’s Center for the Future of Work, in conjunction with the renowned economist Nouriel Roubini, surveyed 350 top executives at leading M&E companies. (For the full study methodology, see page 10.) We found that with their running start, and despite the critical business challenges of heavy consolidation and profit pressures, M&E businesses are now poised to expand their digital mastery across their business, operating and technology models to significantly impact market performance.

Consider that in early 2018, Netflix released the latest film in the Cloverfield series to a rapturous reception from fans with no advance warning save for one commercial during the Super Bowl, just a few hours prior to release. No mega marketing prelude was needed; no critical prereleases were shown. That’s a media game-changer, all at the push of a (very sophisticated) digital button.

Beyond the front office, where consumers have been treated to digital products and services from M&E providers for the better part of two decades, the middle and back offices are the new digital frontier.2 More out-of-left-field moves like Netflix’s will rock the operating models and organizational alignment of all players in the industry.

At the same time, according to our Work Ahead study, more than 95% of M&E companies wouldn’t characterize their organizations as being digital leaders. This is a shocking admission that requires urgent action if these businesses are to master digital as a lever for business success.

Even for those in the middle of the pack, it is critical to learn how to achieve the best return on their digital investments, in order to overcome the lackluster growth and profitability challenges of recent years. In order to enable the agile innovations required to compete, M&E players need to invest now in technologies such as artificial intelligence (AI), machine learning and blockchain, and develop the processes necessary to experiment rapidly and move on to new initiatives if the benefits are not apparent.

Our research uncovered seven key findings that illuminate the work ahead for M&E organizations as they expand their digital efforts beyond the customer interface.
Seven key findings:

01 Digital is seen as a pervasive lever for competitive performance – and (too often) a source of unwarranted confidence for M&E incumbents. In the race for digital leadership, established players believe they are catching up to – even surpassing – those "born digital," notably via M&A strategies. In our research, however, digital natives in the industry are outperforming incumbents on digital revenue. Traditional M&E companies may believe they will be ahead of their competitors by 2022, but they can’t rest their laurels on their current digital progress.

02 The "end of the beginning" is in sight, and now the real work ahead begins. Most M&E companies in our study expect to put the finishing touches on the first phase of their digital transformation within two to three years, with gaming, advertising and cable businesses leading the pack and music and film companies lagging behind. This is no time, however, for leaders to halt their innovation investments. What might seem whimsical today won’t seem so far-fetched tomorrow. We expect to see a quickening pace in competitive announcements that initially seem "odd" (think Meg Whitman’s NewTV startup with Jeffrey Katzenberg).3

03 True digital leaders – those with an integrated front- and back-end and strong digital growth and innovation – are rare in today’s M&E industry, accounting for just 3% of the companies studied (see Figure 1, next page). These “digital sprinters” exhibit a variety of winning behaviors, such as building a culture of innovation and instilling a vision that focuses on the customer. These leaders reward “intrapreneurship” and define leadership roles. However, finding and nurturing the right digital talent remains a challenge, particularly for segments such as gaming and film.

04 Concerns about data security (37%) and business alignment are the largest barriers to operating as a truly digital entity. Nearly 40% of respondents cite misalignment of goals between IT and business operations, as well as between business and investment objectives.

05 Spending on new technology is slated to increase by 50% in five years. Across sectors, the M&E industry now invests 10% of revenue on average on technology, which is somewhat less than in many industries. While M&E companies said they will increase spending to nearly 15% by 2022, this figure is behind our study’s cross-industry Work Ahead digital technology spending benchmark, which indicates that by 2020, companies will increase investments an average 16.6% of their annual revenue.4

06 Nearly 80% of respondents cited mobility as the technology trend with the broadest impact over the next two years, with the use of wearables rising, especially in gaming (92%). AI, augmented reality (AR), virtual reality (VR) and blockchain are all expected to play important roles. AI was cited as particularly critical for advertisers (73%) and publishers (66%), while AR/VR will be critical in the gaming (89%), broadcasting (70%) and film (78%) segments by 2020. Blockchain may have many future M&E applications, from facilitating royalties and crowd-funding, to digital advertising and distribution. Our research shows that blockchain is still not fully understood by the industry, with just 29% of respondents expecting it to be key in two years. To leverage game-changing technologies in the near term, businesses will need to adopt a fail-fast attitude and willingness to experiment broadly. (For more on blockchain’s vast business implications, visit the blockchain section of our website.)

07 Creative destruction in digital is tough but unavoidable. Adapting the business models required for the work ahead is complex, and even paradoxical, for M&E players. On the one hand, they need to reinvent their business; on the other, they need to prop up sagging margins to meet shareholder expectations. Creative destruction is part of the DNA of M&E. New digital channels have forced fast shifts in strategy and revenue models. The return on investment is real for companies that realign their business around being digital. On average, digital leaders expect revenue to rise just over 5%, with costs rising just 4.6% in the last year.
Few Digital Leaders Now, But Many Are Gearing Up

Respondents were asked to assess their digital maturity now and in the future.

<table>
<thead>
<tr>
<th>Category</th>
<th>Now</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Leader</td>
<td>3%</td>
<td>47%</td>
</tr>
<tr>
<td>Maturing</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>Transitioning</td>
<td>51%</td>
<td>0%</td>
</tr>
<tr>
<td>Beginner</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Digitally Advanced (Maturing + Leaders)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Now</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>All M&amp;E</td>
<td>48%</td>
<td>100%</td>
</tr>
<tr>
<td>Cable</td>
<td>71%</td>
<td>100%</td>
</tr>
<tr>
<td>Advertising</td>
<td>65%</td>
<td>100%</td>
</tr>
<tr>
<td>Gaming</td>
<td>56%</td>
<td>100%</td>
</tr>
<tr>
<td>Broadcast</td>
<td>44%</td>
<td>100%</td>
</tr>
<tr>
<td>Publishing</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>Film</td>
<td>3%</td>
<td>100%</td>
</tr>
<tr>
<td>Music</td>
<td>37%</td>
<td>100%</td>
</tr>
<tr>
<td>Internet</td>
<td>3%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Over half of respondents are now in the early stages of digital maturity. By 2022, all of them plan to be advanced – and 47% expect to be digital leaders.

Response base: 350 M&E executives
Source: Cognizant Center for the Future of Work.
Figure 1
RECOMMENDATIONS FOR THE WORK AHEAD

Our research shows that most traditional M&E companies are onto the next critical phase, one that will require them to embrace digital as a tool for transforming their end-to-end operations and business models. Much work awaits the industry - for established titans and born-digitals, alike:

- **Leverage established-business strengths (such as depth of content offerings and breadth of distribution) to catch up to - and surpass - born-digital businesses.** Although start-ups had an early business advantage, traditional M&E players believe they are now neck-and-neck with their born-digital competitors. For example, born-digital companies report that 25.5% of their revenue is derived from digital channels vs. 23.8% for traditional companies. Thanks to years of digital innovation - and tapping the blossoming digital ecosystem through acquisitions and partnership - M&E incumbents believe they are now ahead in digital maturity, including the gains made from digital platforms that drive revenue and help to build their client base. In fact, 48% said they expect to be digital leaders by 2022, markedly more than the 36% of born-digital outfits.
M&E businesses should take a lesson from digital leaders inside and outside the industry, which are spending far more than the 10% average on technology (up to nearly 16%), but are seeing greater returns due to the compounding impact of their digital investments.

- **Keep moving the needle.** When it comes to digital maturity, our study reveals a normal bell curve, with 54% of respondents saying their companies are behind or on par with the competition; another 46% believe their companies are ahead. But by 2022, just about all M&E companies believe they will be of above-average maturity - which is not mathematically possible. Clearly, many respondents are overestimating their companies' digital capabilities, or underestimating the progress that their competitors expect to make. Digital transformation is a moving target, not a destination. It pays to be realistic.

- **Make organizational changes to forge a path to digital leadership.** Data security, misalignment of investment and business goals, poor teamwork between IT and business heads, and organizational resistance are just some of the stumbling blocks to expect. Anointing a digital leader and establishing a dedicated team is one way to move past these challenges; another is to remove the lines of demarcation between “digital” and “business operations” in favor of a boundaryless organization.

- **Manage the virtuous circle of digital investment.** M&E businesses should take a lesson from digital leaders inside and outside the industry, which are spending far more than the 10% average on technology (up to nearly 16%), but are seeing greater returns due to the compounding impact of their digital investments (invest more, grow more, then invest even more). We recommend at least 20% of technology budgets be geared toward digital innovation. The Catch-22: balancing business disruptions with the ability to increase investments. Some sectors, such as the beleaguered print and online news media, are challenged to find available funds for such investments, but failing to do so puts their future at risk.

- **Begin now to experiment with advanced technologies as “entertainment” morphs into “experiences.”** Digital winners will leverage game-changing technologies over the next two to five years. Wearables will rise in mobile's wake, and gaming engines for developers are galvanizing the emergent experiences of the AR space as the entertainment economy quickly gives way to the experience economy. In an industry that revolves around information and ideas, AI will have a major impact, as will blockchain when its use cases come to light. As M&E reaches the end of the first phase of becoming digital, the industry has arrived at a critical inflection point. For at least the next few years, the frontline of digital transformation will reside within middle- and back-office operations, where there is much potential to apply advanced technologies to dramatically change business and operating models, with a focus on innovation.

At shift points like this, the old rulebooks no longer apply. If your organization feels it is doing “well enough” now, sustaining or redoubling those efforts may still not be enough moving forward. Bold moves are required to heighten contact, augment creativity and cultivate attention spans. The changes to come will make today's M&E trends such as cord-cutting, paywalls, Slingbox, Apple TV and targeted advertising seem quaint. Like a good gamer, don't be caught playing checkers - it's time to start playing chess.
By 2022, just about all M&E companies believe they will be of above-average maturity - which is not mathematically possible. Clearly, many respondents are overestimating their companies’ digital capabilities, or underestimating the progress that their competitors expect to make.
Methodology and Demographics

Roubini ThoughtLab conducted a telephone survey of senior executives in the media & entertainment industry in November 2017. The survey included 350 executives in the U.S., Canada, UK, France and Germany.

The survey cut across eight key sectors:

- Advertising
- Music
- Broadcasting
- Cable
- Filmed entertainment
- Publishing
- Gaming
- Internet services

Half of the respondents work in companies with annual revenues between U.S. $500 million and U.S. $999 million, and the other half in businesses with annual revenues of U.S. $1 billion or more.

To read our full report on the M&E Work Ahead survey and recommendations, please contact Corey.Olfert@cognizant.com.

Footnotes

1 The phrase “second half of the chessboard” was coined by Ray Kurzweil, referencing the ancient “wheat and chessboard problem.” For more on the origins of this concept, see https://en.wikipedia.org/wiki/Wheat_and_chessboard_problem.


ABOUT COGNIZANT MEDIA & ENTERTAINMENT

Keep up with changing consumption patterns, new devices and revenue channels emerging from the digital content revolution. From on-demand media to digital distribution, media and entertainment leaders partner with Cognizant to help them work better and work differently. Explore how our digital solutions, consulting services and IT services can help you accelerate digital at scale. Learn more by visiting: www.cognizant.com/information-media-entertainment.

ABOUT THE CENTER FOR THE FUTURE OF WORK

Cognizant’s Center for the Future of Work™ is chartered to examine how work is changing, and will change, in response to the emergence of new technologies, new business practices and new workers. The Center provides original research and analysis of work trends and dynamics, and collaborates with a wide range of business, technology and academic thinkers about what the future of work will look like as technology changes so many aspects of our working lives. For more information, visit Cognizant.com/futureofwork, or contact Ben Pring, Cognizant VP and Director of the Center for the Future of Work, at Benjamin.Pring@cognizant.com.

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 205 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.

World HEADQUARTERS

500 Frank W. Burr Blvd.
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277
Email: inquiry@cognizant.com

European HEADQUARTERS

1 Kingdom Street
Paddington Central
London W2 6BD
Phone: +44 (0) 20 7297 7600
Fax: +44 (0) 20 7121 0102
Email: infouk@cognizant.com

India Operations HEADQUARTERS

#5/535, Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai, 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060
Email: inquiryindia@cognizant.com

© Copyright 2018, Cognizant. All rights reserved. No part of this document may be reproduced, stored in a retrieval system, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the express written permission from Cognizant. The information contained herein is subject to change without notice. All other trademarks mentioned herein are the property of their respective owners.