AVASANT

Media & Entertainment Industry: An Overview

Change in technology and lifestyle has transformed content production, demand and consumption for Media & Entertainment Industry

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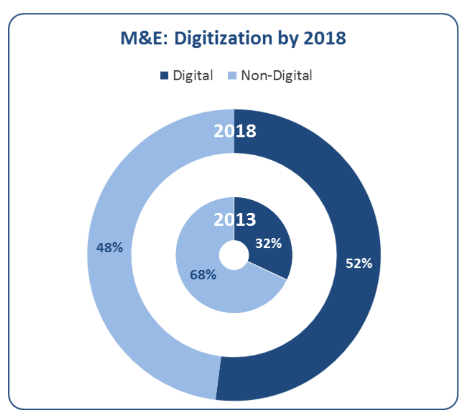
Media & Entertainment (M&E) industry is in a transformation phase as both old and new continues to coexist. Interactivity, digitization, multiple-platforms, multiple-devices and globalization of services based landscape has remodeled the media and entertainment vertical over the last decade.

Social Media, Mobility, Analytics and Cloud Computing (SMAC), the new generation in technology & globalization is now the next wave catalyst of change for the industry.

The Media and Entertainment (M&E) industry has multiple segments that combine into one vertical; Movies/Cinema, Television, Music, Publishing, Radio, Internet, Advertising and Gaming. Moreover, trends and drivers for each of the segments vary across sub-segments, geographies and consumer segments. This makes the vertical unique, since these sub-verticals compete, compliment and combine to fulfil the ever-increasing demand for entertainment and information globally.

The industry also depends on multiple external factors/technology developments like wireless, mobile, devices, digitization, internet access speeds, cloud storage, consumer analytics and social media among others. The industry has successfully adapted around these developments in every generation. Since 1990s, digitization of content has changed creation and delivery of music. Another disruption in 2000s, the rise of the internet was a game changer for all the sub-verticals of the industry. Presently, social media has been instrumental in shaping the present media & entertainment industry.

Traditionally the M&E industry has been a creative industry following technology innovations and consumer demands. By its inherent nature, the industry is extremely dependent on markets, cultures, languages and consumer segments. We have, however, witnessed content that have bridged not only the language barrier, but also worked across segments internationally. M&E is also unique due to its psychological, emotional and aspirational appeal to its customers. Quality and acceptance hence become extremely subjective to each individual. Traditionally, content creators were the deciders on what to supply – the critical change in the new era is that demand is completely consumer driven. The new age consumer not only demands what they like, but also in the format they like, additionally, they also want to customize the content to their preferences.



Transformation to Digital

M&E organizations of the new generation are striving for operational excellence and benchmarking themselves with the best-in-class organizations in other sectors. From the way, budgets are determined, to how the research, content creation and distribution are conducted is now stream-lined and performed professionally with proper project management. One of the significant changes in the content has been its digitization. The digital innovation, which resulted in converting analog video/audio into digital format, transformed the way content is distributed and consumed. The transformation to digital is still underway and it is still common to find a combination of old and new used together in the industry.

Avasant's observations and analysis suggest that consumer demand for M&E is primarily driven by interactivity and connectivity. This trend is expected to grow and become the primary channel for meeting the increasing demand by M&E organizations in the next five years.

Consolidation and Standardization

Multiple device and platform environment is expected to move towards standardization of formats. Large numbers of file extensions and formats have already become redundant, while the new formats for 3D and HD in video and stream-able/compressed format for audio have taken over. With over 170 digital video formats and 130 audio digital formats, standardization of formats is not only expected but also a necessity for the future.

Due to interactive and interlacing digital content, the gaps between various segments like television, gaming, radio, internet, advertising etc. have diminished. This increasing integration of content across segments is leading to consolidation of production houses and vendor markets. Large M&A contracts like Facebook-WhatsApp, Microsoft-Skype, Walt Disney-Pixar, MySpace-News Corp, Google-YouTube, McClatchy-Knight Ridder, etc. is continuing to shape the industry.

Social Media

Impact of social media on lifestyle has manifested in the way we consume media and entertainment. From the way we are influenced about news, collaborate over a game or share information – social media has resulted in a complete paradigm shift for M&E. Speed of information dissemination has increased tenfold as a result of social media and it is not just a one-way street anymore – there is complete interactivity resulting in immediate feedback, comments and analysis. Avasant anticipates customized M&E content in the future as a result of social media and the information we choose to share.

Analytics, Animation and Interactivity

Content developers are more and more depending on animation and visual effects in their production. The development of content in these technology domains have a high rate of penetration by specialized vendors to outsource. Niche service providers have developed significant credibility and the spend from the industry has also drawn some large outsourcing vendors to provide M&E outsourcing services.

New analytical models enable focused customer experience for the target audience. Big data and advanced statistical techniques have transformed the way content is now distributed and demand analyzed.

Resource and Experience

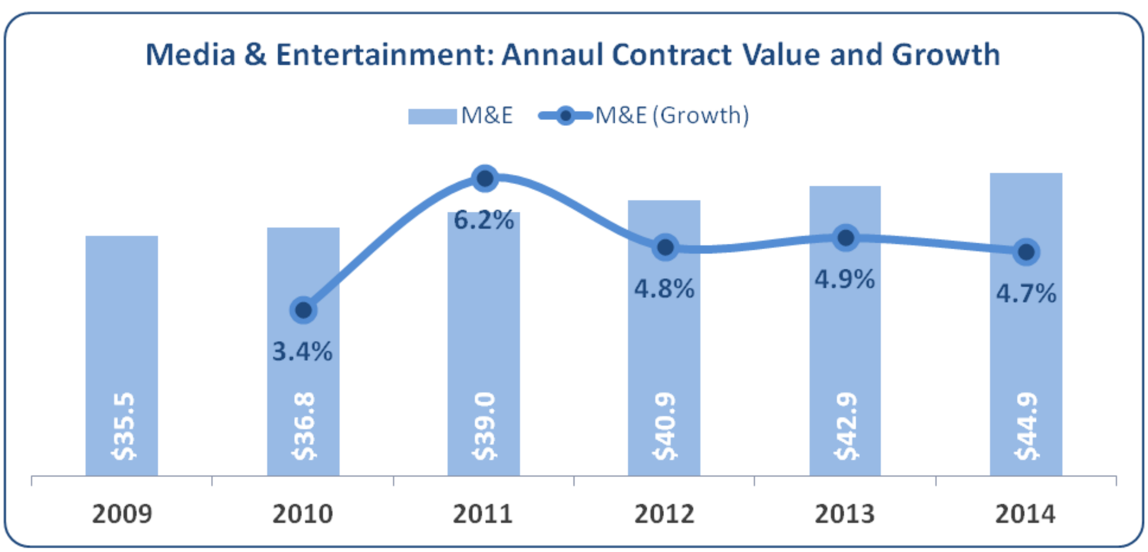
One more factor that makes the M&E industry unique is the people who create content. Average experience of creative professionals is over 20 years; this also creates a constant talent requirement for the industry. Because of the cost pressures and limited talent pool, the industry has taken strategic decisions which manufacturing took in the 70s, information technology took in the 80s and Engineering Services has taken in the late 90s – to outsource/offshore.

Offshoring to Optimize

Offshoring provides not only improved bottom lines and improved operational efficiency, but also more importantly, access to previously untapped experienced resource pools. It is common to find animation, effects, editing and audio/video synchronization performed by offshore resources or by niche service providers in countries like India, China, Philippines, Malaysia, Korea and Taipei.

Experienced talent for M&E is difficult to find and scalability has always been a challenge for the industry. Sourcing and globalization have enabled the industry to not just reduce cost, but also harness the talent available globally. The top services, offshored by production houses to vendors or performed in captives outside are:

1. Ideation and Creative Process
2. Scriptwriting, Storyboarding & Copyrighting
3. Creative Graphics & Designing
4. Animation & 3D Modeling
5. Visual Effects (VFX)
6. Typesetting and Documentation
7. Editing, Dubbing and other Processing
8. Content/Format Transformation
9. Content Research
10. Anti-Piracy Measures
11. Digital Asset Management



While the M&E industry was facing sustainability issues and negative growth during the Global Economic Slowdown, the outsourcing of processes witnessed steady performance. Larger contracts have been signed since 2010 that have helped the recovery and growth of outsourcing in M&E. Direct relations for the industry to the economic stability and consumers' disposable can result in volatility in the regional markets – which cumulates into a global impact.

Buyers of outsourcing, including the top Forbes companies like Comcast, Walt Disney, Time Warner, DirectTV, Thompson Reuters, CBS, Viacom, British Sky among others have been steady outsources. The participation rate, though, of buyers from M&E has been behind most other prominent verticals. However, for a vertical that is primarily content-based and requires specialized services, the 30% to 40% participation of M&E buyers of outsourcing is significant.

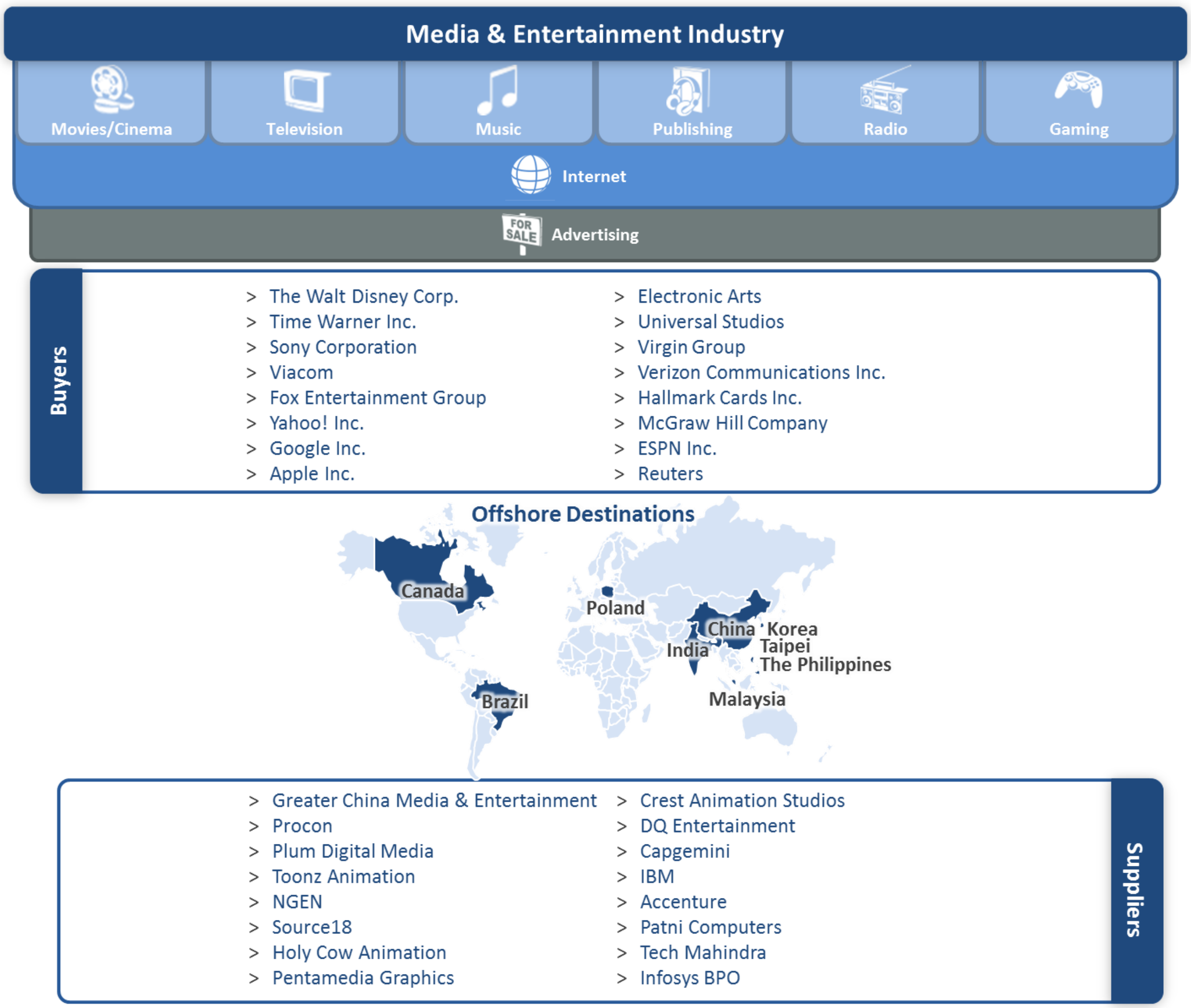
Company	Country Headquarters	ITO Outsourcing	BPO Outsourcing	Industry Specific Domain Outsourcing
Comcast	*United States*	Yes	No	Yes
América Móvil	*Mexico*	Yes	Yes	Yes
News Corp	*United States*	Yes	Yes	Yes
Time Warner	*United States*	Yes	Yes	Yes
Telstra	*Australia*	Yes	No	Yes
Directv	*United States*	Yes	Yes	No
Thomson Reuters	*Canada*	Yes	Yes	Yes
CBS	*United States*	Yes	No	Yes
Viacom	*United States*	Yes	No	No
Reed Elsevier	*United Kingdom*	Yes	No	No
Sony	*Japan*	Yes	Yes	Yes
Omnicom Group	*United States*	Yes	Yes	Yes
Vivendi	*France*	Yes	Yes	Yes
Liberty Global	*United States*	No	Yes	No
British Sky Broadcast-ing	*United Kingdom*	Yes	No	No
Pearson	*United Kingdom*	Yes	No	Yes

For the top M&E organizations, IT outsourcing is quite common and most have contracts with one of the traditional outsourcing service providers. BPO is a mix, with a few organizations outsourcing services like F&A, HRO and Procurement while others have preferred to keep their services in-house. Specialized services for creative, processing, release and post-release functions are often outsourced to niche service providers.

The vendor landscape for M&E includes a large number of niche players like Greater China Media & Entertainment, Procon, Plum Digital Media, Toonz Animation, NGEN, Source18, Holy Cow Animation, Pentamedia Graphics, Crest Animation Studios and DQ Entertainment. On the other hand traditional outsourcing vendors have also developed specialized services for the M&E vertical; the prominent ones include Capgemini, Accenture, TCS, Tech Mahindra, Patni Computers, Atos, RR Donnelly and IBM.

Media & Entertainment Market and Segments

Avasant estimates the revenue from all M&E channels to be US$1.6 trillion in 2013. The market is expected to maintain steady growth of over 6% YoY over the next 5 years. M&E industry directly reflects the state of the global economy and disposable income that the consumers have to spend on entertainment. After the Economic Slowdown, the industry has successfully recovered since 2011 with 8% growth.



The M&E vertical is split into eight sub-segments based on the type of content and distribution:

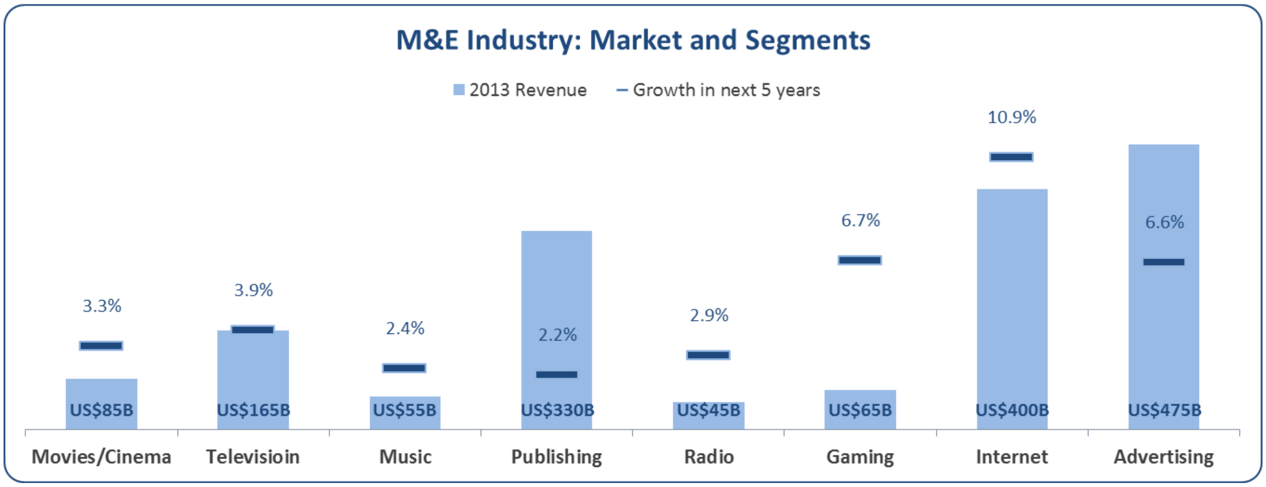
Vertical/Content Based M&E

1. Movies/Cinema
2. Television
3. Music
4. Publishing

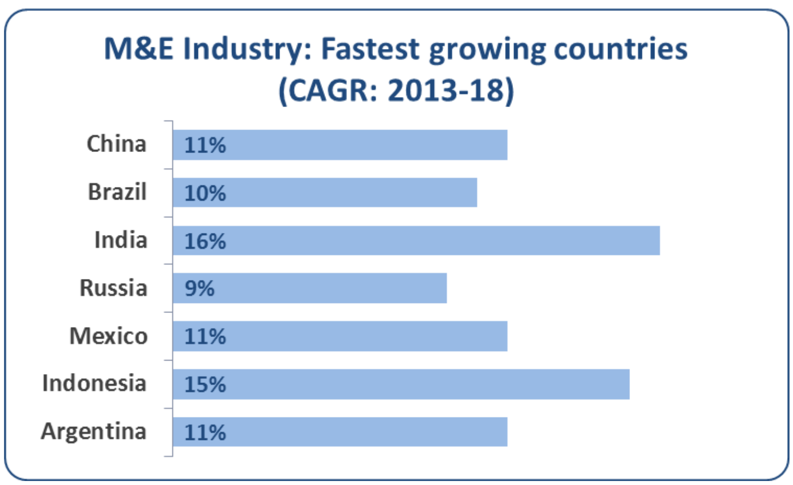
5. Radio
6. Gaming

Horizontal/Channel based M&E

7. Internet
8. Advertising

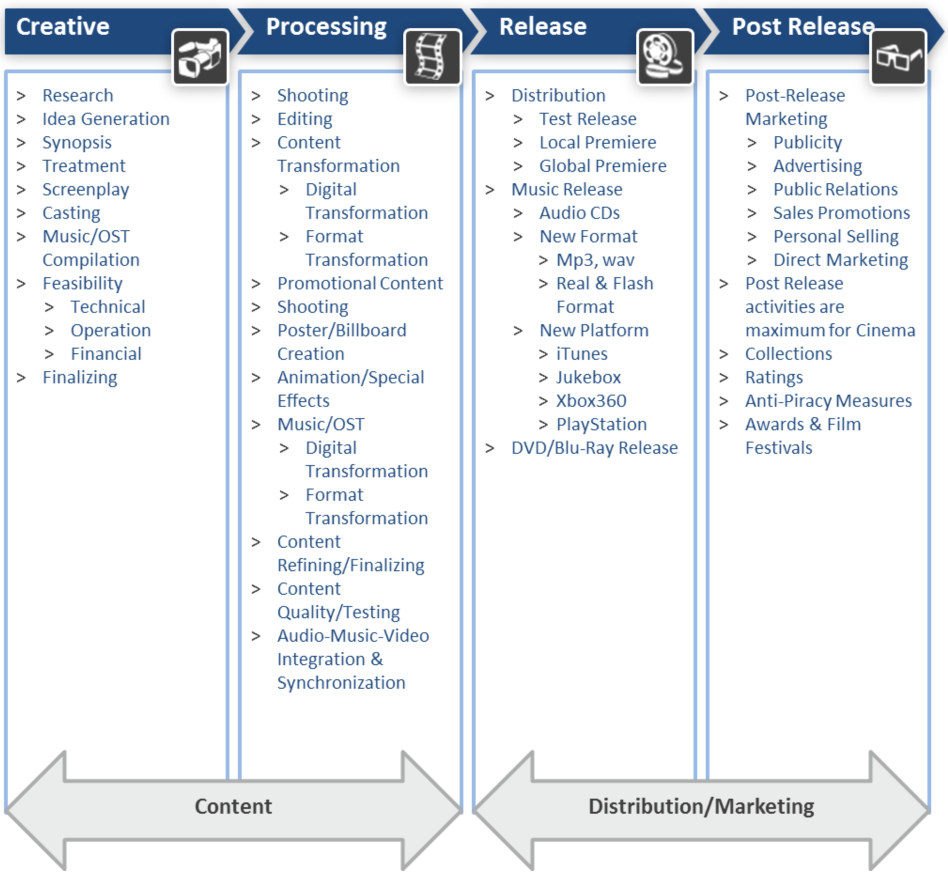


Emerging markets in Asia Pacific and Latin America have enabled the M&E industry to sustain revenues though the Global Economy Slowdown. The industry due to its direct relationship with disposable income of its customers took a major drop during the Slowdown. The 2007 revenue of US$1.6 trillion is however back in 2013 and the future of the industry looks promising. Countries like India and Indonesia have large markets with high growth and potential, these new markets provide new sales opportunities for M&E content for production houses.

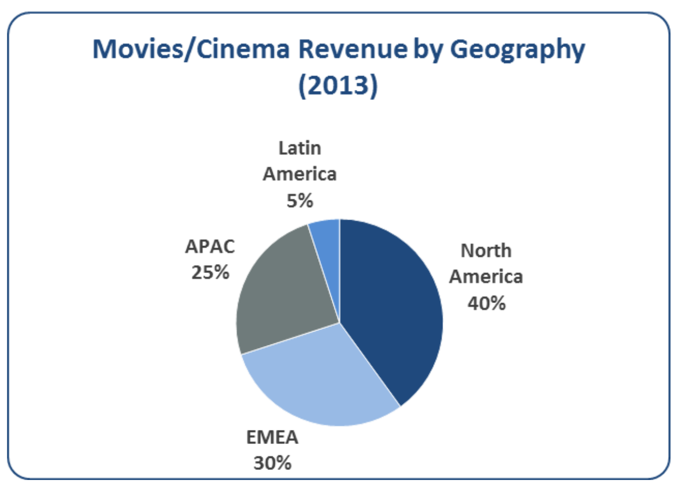


1. Movies/Cinema

Films/Movies have been one of the key entertainment channels across the world and expected to continue on its growth trajectory for the next 5 years at about 3%. Digitization of content has not only created several opportunities for the sub-segment, but also numerous new challenges. Content sold for one platform is now readily transferable to another without additional sales, however the challenge of piracy has increased manifold due to ease of distribution.



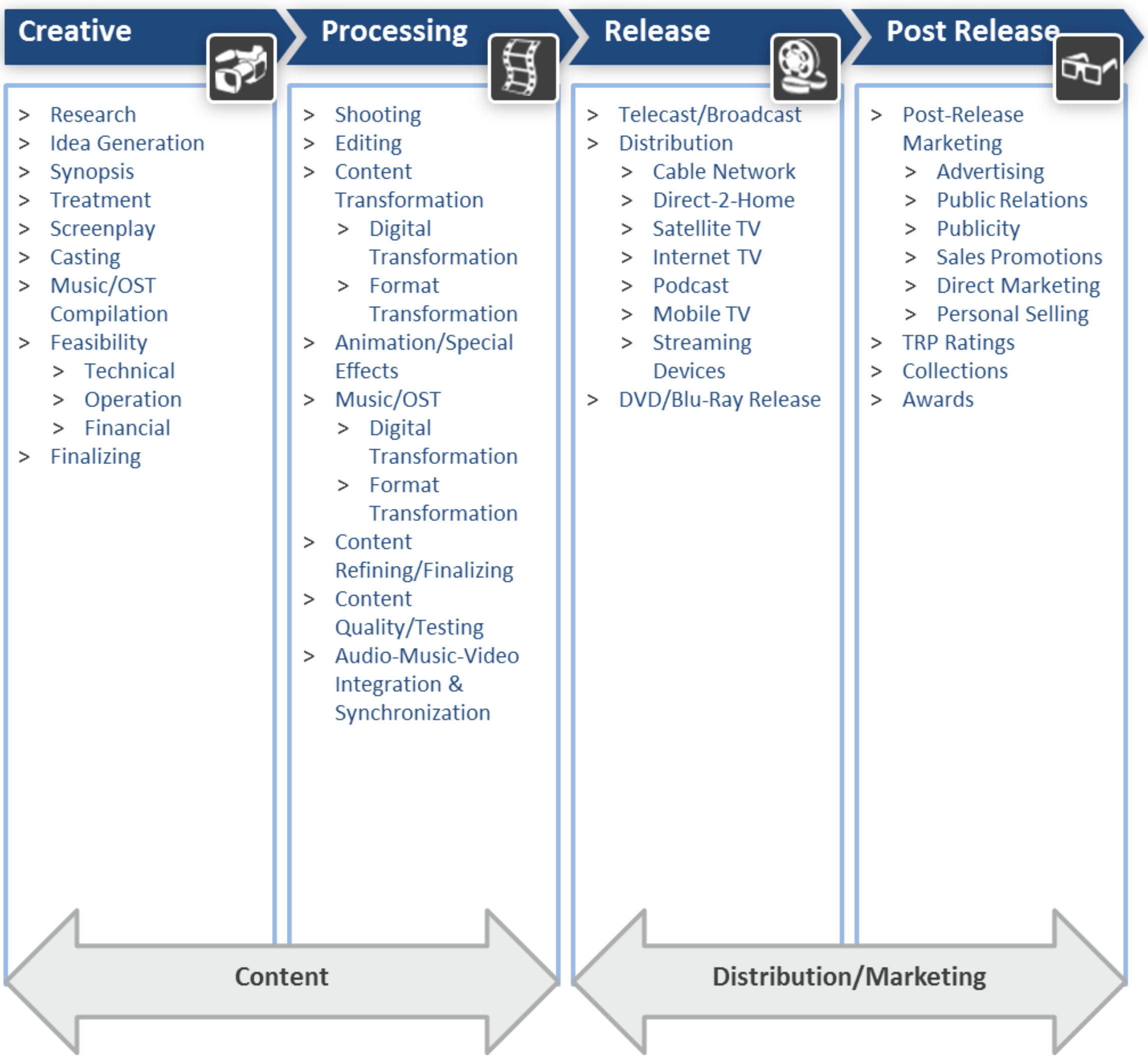
Emerging markets in Asia Pacific like China, Thailand and India have had double-digit growth and have kept the momentum through the Global Economic Slowdown. On the other hand countries like Russia, Argentina, Brazil and Venezuela are expected to have around 5% growth in the coming five years. The larger and traditional markets of the United States and Europe are expected to remain stagnant.



Box office collections of movies have traditionally been the single largest source of income for production houses. Avasant expects significant transition in revenue to the device based distribution in the next 3-5 years, exceeding box office collections. Digital sales over platforms like Blu-ray, DVD, iTunes, YouTube etc. will become prominent channels for the majority of movies across budgets.

2. Television

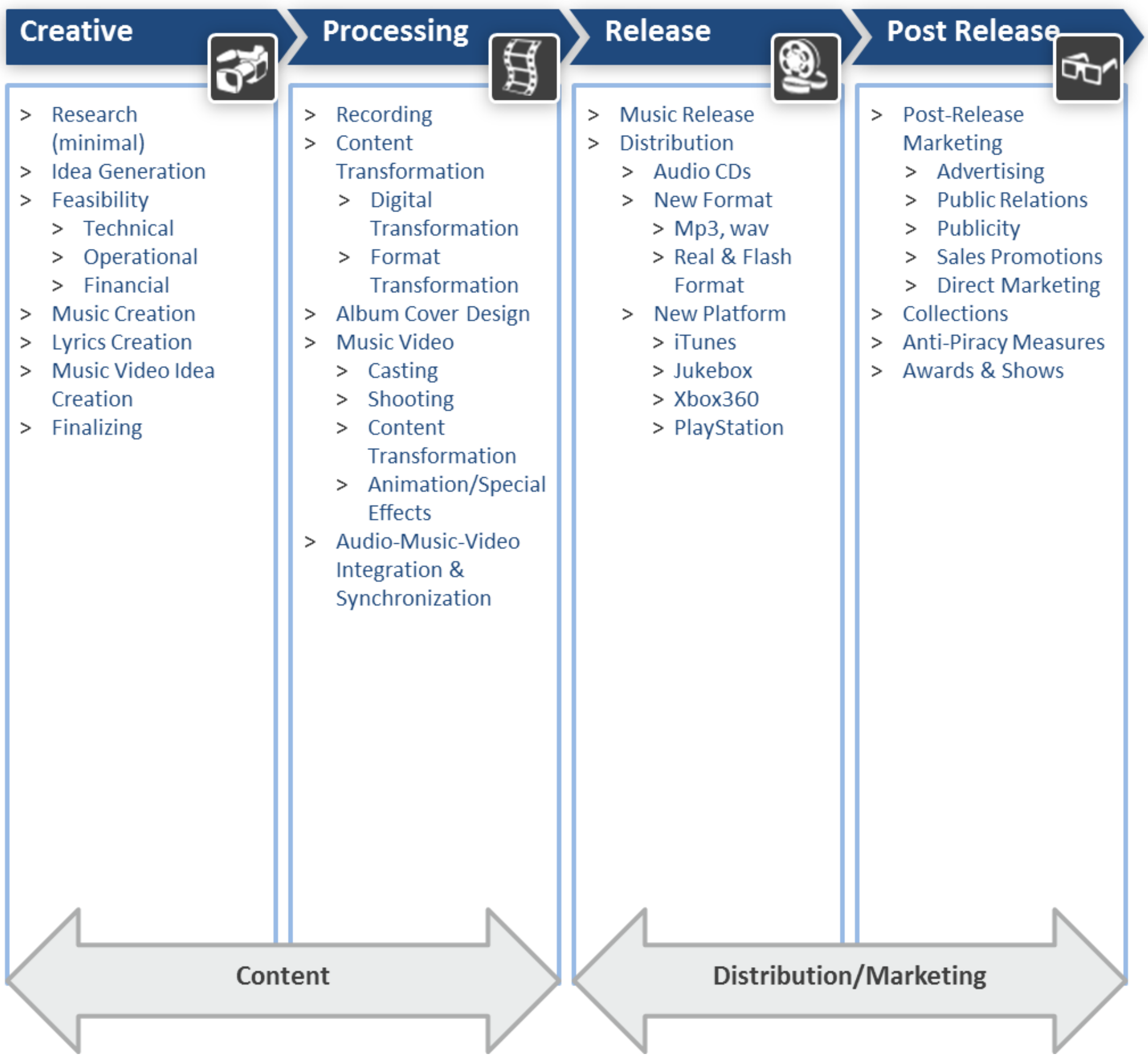
Television has been transformed after digitization, not only the way content was produced changed, but also the devices have transformed drastically. Avasant believes that for the segment in presently moving towards digitization, while we still see CRT televisions in the developing countries, internet television is gaining popularity in the developed economies. We also continue to have terrestrial free-to-air delivery of television content along with co-axial cable subscriptions while satellite TV has completely taken over most major cities globally.



The vertical is also constantly faced with challenges due to digitization and new delivery models such as pay TV, internet TV (IPTV) and interactive TV in the developed economies. Developing economies have the power of growth; countries like Indonesia, India, Vietnam and Thailand are expected to have double-digit growth in their television markets.

3. Music

The music industry has been under tremendous stress due to multiple challenges post digitization, however, growth is expected to return in the next 2-3 years. The overall market is around US$55 billion and expected to grow to over US$60 billion by 2018 at around 3% CAGR. Music is one of the segments where Europe is larger in terms of revenue compared to North America due to the large markets of United Kingdom, France and Germany.

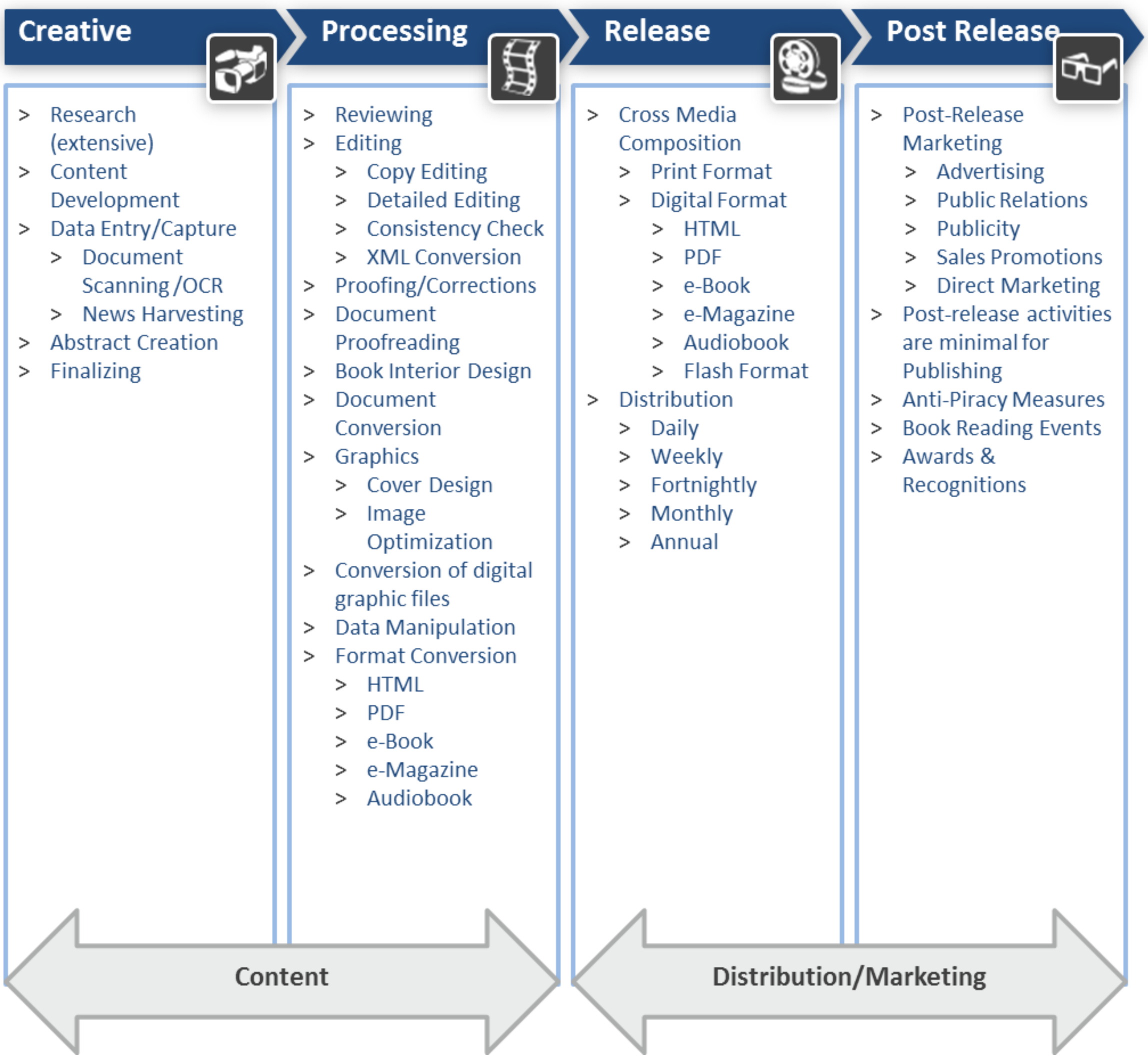


The greatest threat the music industry faces post digitization is Piracy. Every album and track is available on the internet almost at the same time it is released from some source or the other. The industry has faced difficulty to regulate content from the device side as well since while iTunes sells most content, content downloaded from pirated sources also work with the devices. Piracy will continue to be a significant challenge in the next five years while revenues from live performances and concerts will balance the revenue stream with over US$25 billion revenues in 2013.

BRIC nations are also expected to balance the revenue growth for the industry with high double-digit growth figures. Music streaming and smartphones with the improved music capability are also opportunities for the music industry to capitalize. Avasant expects digital music to overtake physical formats like audio CDs by 2018. Streaming of music on-demand will also become a significant contributor to music revenues in the next five years.

4. Publishing

Publishing is further segmented into 1) Newspaper Publishing; 2) Magazine Publishing and 3) Book Publishing. All the three segments have a separate market and the future outlook for each of them is very different due to digitization of content and new technology. In 2013, the publishing segment garnered US$330 billion in revenues and Avasant predicts it to grow at around 2% year-on-year in the next 5 years.



Newspaper Publishing, despite the many challenges like e-Papers, new devices, news broadcasters etc. has sustained growth. This can be attributed to the newspaper reading habit for most people and developing economies where the literacy is still growing. Revenue for the sub-segment, however, have been influenced severely by digitization, especially the advertisement revenue. Newspaper brands have also become digital and advertisement revenue is a combination of not just print but also digital distribution.

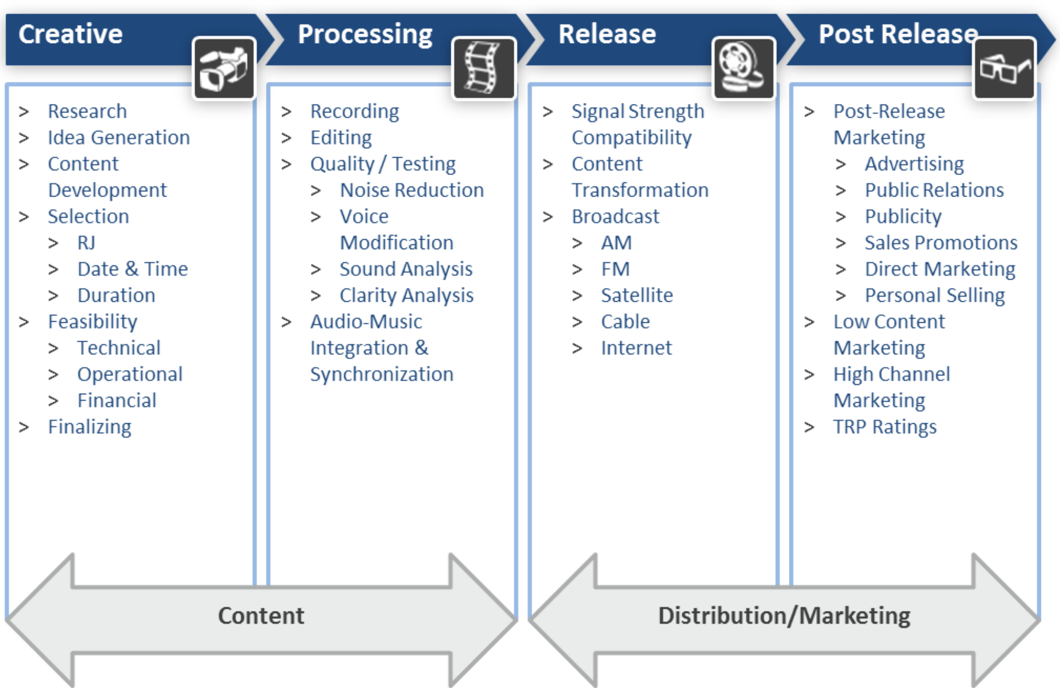
The Global Magazine Publishing market is proving resilient, and while it has declined over the past few years, publishers are now responding to changing consumer demands, especially around digital content. US dominates the consumer magazine market with over 32% of global revenue share for 2013, however, increasing digitization is expected to shrink the market in the next 3-5 years. Meager growth of about 1% is expected in the magazine publishing segment.

Book Publishing is one of the most robust segments for publishing and least impacted by digitization and future technology. Contributing about 1/3rd of the total publishing segment it is the largest sub-segment, but also expected to have marginal growth of around 1% in the next 5 years. Books are now converted to e-Books as they are released and multiple devices have enabled the digital content to be distributed very easily. Websites like Amazon and e-Book readers like the Kindle, iPad and Surface among others, have not only increased the reach for publishers but also enabled customers with freedom to carry millions of pages on their devices. Apart from e-Books, another popular brainchild of digitization is Audiobooks. Audiobooks had gained in popularity with children's books like Harry Potter – however, now the format is increasingly becoming popular for all fiction and non-fiction books for adults as well.

While Digitization has improved and increased distribution of books globally, the brick-&-mortar system of books will continue to fade over the next 5 years. Many more changes like the Encyclopedia Britannica becoming online only are likely to surface in the near future.

5. Radio

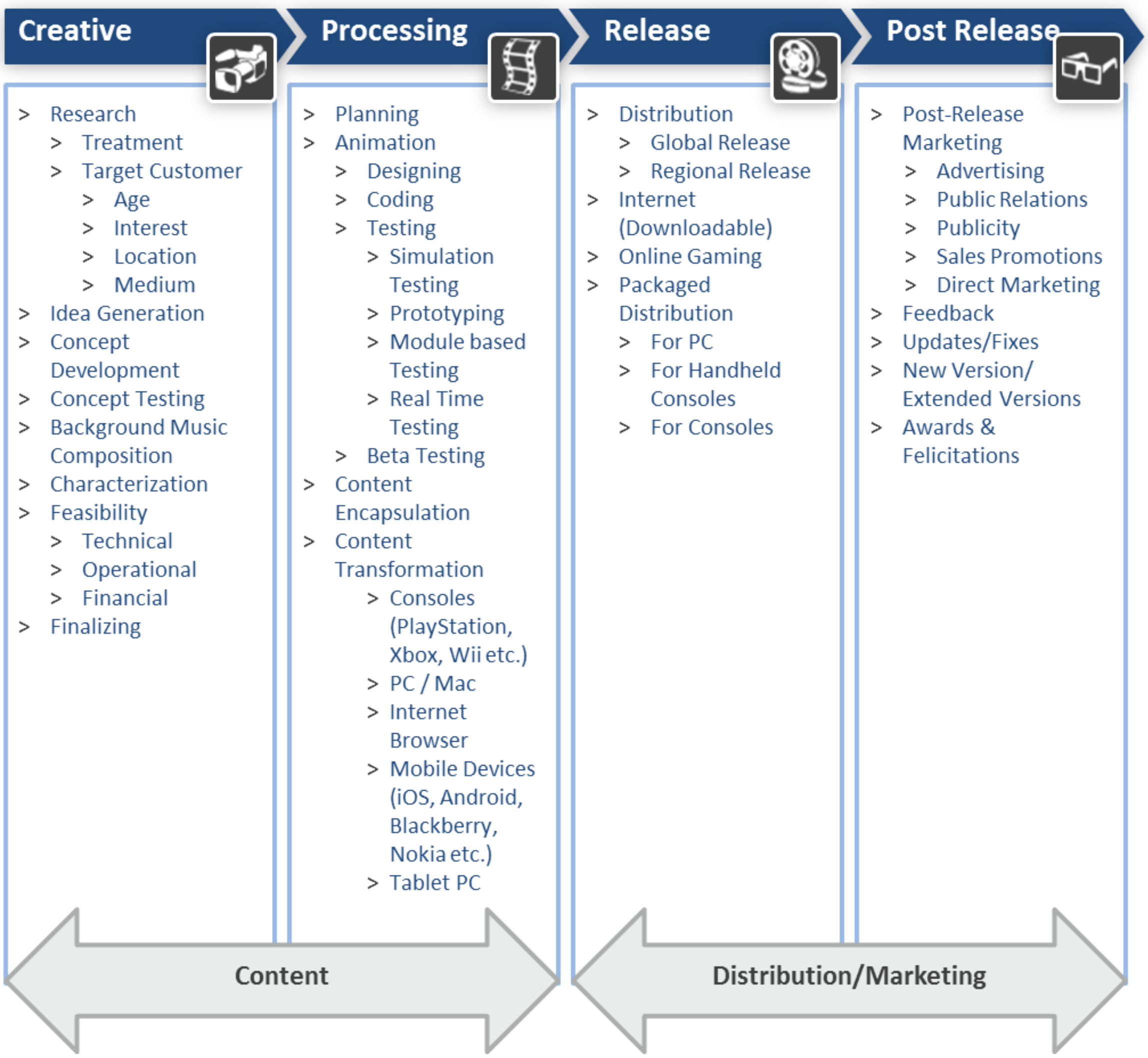
Radio is a niche segment for Media & Entertainment since it is considered to be parallel activity or mode of entertainment for consumers. Listening to the news or music while driving or travelling without having to carry additional content will continue to be popular. The segment is also driven by advertising since most of all radio content is free. Avasant expects the US$45 billion segment to grow at about 3% year-on-year for the next five years.



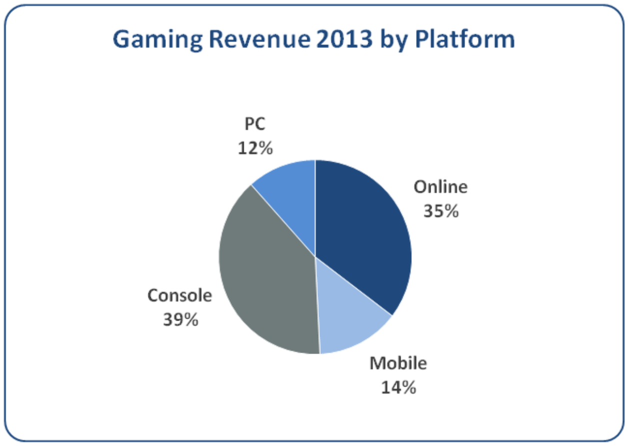
United States and countries in Western Europe are the most developed markets for radio broadcasters, but are expected to be stagnant. Emerging economies like China, South Africa, India, Argentina, Venezuela, Pakistan and the Philippines. Satellite Radio and paid digital radio will continue to remain small with less than 10% of the total revenue.

6. Gaming

Gaming is a new segment for M&E vertical that is born from the combination of technology and digitization. The revenue from Gaming can be segmented into the various revenue/distribution channels like 1) Online, 2) Mobile, 3) Console, and 4) PC. Behind internet-based advertising, Gaming is expected to be the fastest growing segment with close to 7% growth from its present US$65 billion market.



Being a new segment, it is still more prevalent in the developed economies of North America, Western Europe, Japan and Australia. Other developing economies like China, Russia, India, Vietnam, Hungary, Czech Republic, Poland and South Africa all have double-digit estimated growth rates for the next five years.



While consoles from Microsoft, Sony, Nintendo offer gaming at its best, the most widespread distribution channel is over the internet and social media. Mobile gaming on the other hand is the fastest growing market with over 12% growth expected YoY until 2018. PC is the rapidly becoming a redundant channel for gaming, however, it still finds some takers for the next five years.

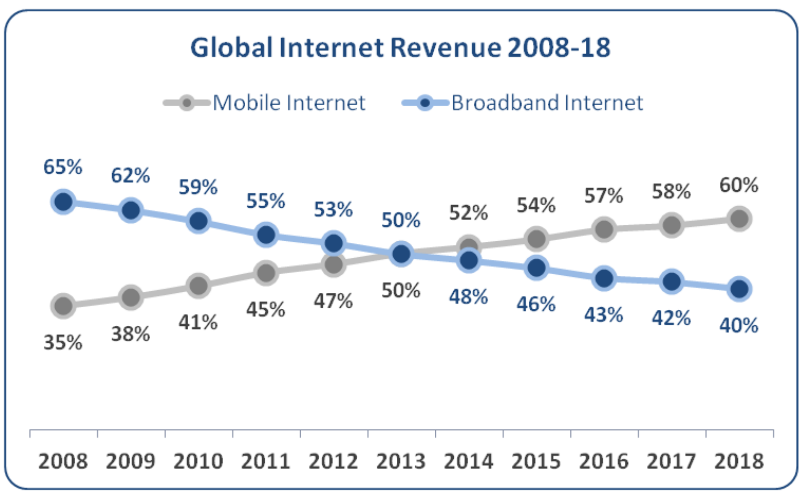
Another traditional segment of gaming, which has been able to perform well are casino games and machines. Casino gaming is expected to grow at over 2% in the next 5 years.

The largest segment of revenue for M&E however, provided not by the content driven verticals of movie/cinema, television, music, publishing, radio or gaming – but by the two horizontal services, which run across the content services.

1. **Internet**: which not only enables distribution of M&E content, but is the single largest impact of digitization of content for the segment
2. **Advertisement**: innovative distribution of free content (*the Google model*), is enabled because of networked advertising in the new digital era. It is not only the single largest source of revenue for M&E but also promises to be the game changer for the industry

7. Internet

While the internet is responsible for highest revenues globally and majority of M&E is expected move to the cloud in the next five years – there still remains a large untapped segment. Internet broadband penetration globally has only reached about 40% and mobile internet penetration is only 25%. This scope of future expansion is the key reason why Avasant expects around 11% growth for the M&E services across the internet in the next five years.



Challenge of multiple platforms comes from the customers who no longer wants to purchase content outright. Streaming online and OTT (Over-The-Top) services are gaining ground rapidly. The content available for purchase outright is expected to be portable across the devices that the consumer may already have – this throws out additional challenges to the content producers. Its not just needs to work with multiple devices but also devices running on multiple platforms and screen resolution.

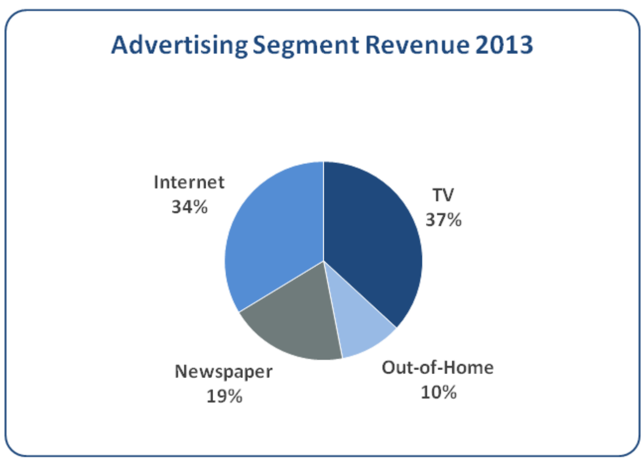
Additionally, with the explosion in smartphone sales and rapid access to mobile internet, the landscape for internet services is also under transformation. Content is now demanded not only for PCs and laptops but also for mobile devices. New set of devices/technology like smart TV with browsing feature, gaming consoles with full browsing capability and tablet PCs with ability to connect using 3G/LTE or broadband increase the challenge for content developers. With 50-50 split between mobile and broadband, the content is presently under transition. Most portals are creating intelligent pages that identify the device used and adapts accordingly. By 2018, when mobile internet would become the primary distribution channel for the sector, content standardization across platforms can be expected to answer the challenges currently faced.

United States, United Kingdom, Japan and China have the largest revenue per user for broadband services and are expected to have double-digit growth. Spend on internet services is shifting from broadband to mobile and in the next five years mobile internet is expected to overshadow broadband services. Growth in penetration will however be driven by emerging economies like BRIC and countries in Latin America.

8. Advertising

Advertising is the single largest revenue contributor to M&E with US$475 billion in total. Advertising is yet another M&E segment that is under transition due to technology and digitization. Avasant expects the segment to grow at around 7% over the next five years.

From the way advertising works for television, the technology change from traditionally terrestrial television model to paid subscriptions – the entire delivery model is under change. Free-to-air to digital based satellite or online television has not only changed the way content is produced and distributed but also advertising models. With intelligent devices and data being absorbed from what we consume, advertising is not only intelligent but customized to individual consumers' requirements.



Segments like outdoor advertising and other traditional medium have managed to sustain, but are expected to stagnate in terms of growth. Interactive advertising and connectivity has completely changed the way advertising content is now presented and delivered. B2B advertising however is the most unaffected segment and will continue to grow at around 4% over the next five years.

The largest segment of advertising continues to be television advertising, however internet advertising is rapidly catching up to television. While television advertising revenues will continue to be more than internet, it is expected to surpass all other formats of advertising by 2020. Presently, internet advertising garnered US$160 billion in 2013. As online retail increases further, advertising over the internet is expected to grow at over 12% year-on-year in the next five years.

Conclusion

Media & Entertainment organizations are facing challenges in face of digitization and technology, these waves are changing the way content is created, distributed and consumed. Delivery models are changing from free-to-air, to subscription based and consumer drives the content demand. The industry is in a transformation phase with the change from analog to digital. Newspapers, books and magazines are sold in both digital and printed formats and music is heard both in audio CDs and iPhones.

With mobile internet becoming the primary internet source and digital becoming the default format for M&E content – future of the industry belongs to technology and innovation. New devices, technology advancement in content generation and ease of distribution with higher internet penetration will drive M&E. The impact of new wave technology innovations, including social media, mobility, analytics and cloud (SMAC) is expected to create differentiation between M&E organizations.

Animation, gaming and visual effects are the new kids on the block with maximum potential and penetration for outsourcing. While talent for creative arts remains low, developing countries like China, India and The Philippines' talent pool has been effective in normalizing the impact for production houses. Internet and advertising, the two horizontal segments for M&E have been able to drive the six content driven verticals and its supply. Demand, on the other hand has shifted into the hands of the customer, with complete flexibility of devices, platforms, content type and interaction. The same game is available over social media, mobile phone, personal computer or on a gaming console based on what device the customer uses.

For Media & Entertainment companies, it is exciting times and interesting to witness the catalysts of technology and innovation – changing the M&E landscape. Avasant views competitive advantage in being able to collaborate and seamlessly integrate content to meet consumer demand.

Avasant assists its Media & Entertainment sector clients to secure a position of strength with the new digital supply chain via:

1. Sourcing of IT applications & infrastructure services with the focus on building a competitive digital advantage
2. Driving cost take out in the back office via business process outsourcing initiatives in metadata, HR and F&A.
3. Securing the leading outsourcing relationships in the area of network engineering and new product development for broadcast clients
4. Setting up captives to capitalize on local talent during a geographic expansion in Europe, LATAM, Middle East, Africa and Asia
5. Software and IP License Optimization across the enterprise
6. Cost Management for tribal, commercial casino enterprises with a special focus on licensing regimes for technology providers.

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About Avasant

With its global headquarters in Los Angeles, California, Avasant is a leading management consulting, research, and events firm servicing global clients across the public, private, and non-profit sectors. Our talented team of consultants, lawyers and technologists average over 20 years of industry-honed experience and have conducted 1,000+ engagements in over 40 countries worldwide. Avasant drives customer value through the use of our proprietary consulting and advisory methods, which have been refined over decades of ‘real-world’ transaction and engagement experience. The combination of our world-class resources allows Avasant to yield superior business outcomes in three primary domains: Strategic Sourcing, Digital Consulting, IT & Business Transformation and Globalization Consulting.