13th Annual Global CEO Survey

# Key highlights for entertainment and media companies

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Few, if any, business leaders will forget the past 18 months. The global recession was the most serious many have ever experienced. **Setting a smarter course for growth**, the PricewaterhouseCoopers 13th Annual Global CEO Survey, looks at how CEOs have responded and how they are positioning their companies for recovery. It also explores where CEOs believe regulation can become more effective and what they consider the lasting legacies of the recession.

CEOs have concentrated on reducing headcount, selling off unwanted assets and preserving cash, but one area where resources continue to flow is talent development. CEOs are aware that they'll need the right skills in the right places when the recovery sets in. Most CEOs have also acquired a healthy respect for risk, volatility and flexibility, and are emerging with a different view of the growth imperative. More plan to change their risk management processes than any other element of their strategy, organisation or business model. And more boards are getting more involved in assessing strategic risk than any other item on the boardroom agenda.

# Changing consumer behaviour

The Global CEO Survey found that entertainment and media (E&M) CEOs are more likely to believe that consumer spending and behaviour will change permanently as a result of the economic crisis, and are more concerned about this than many of their counterparts in other industries[1].

And these concerns perhaps explain why E&M CEOs are more likely to plan increased investment in R&D and new product innovation in the wake of the economic crisis than CEOs in other industries[2].

## Digital growth accelerated by the economic downturn

These findings illustrate that CEOs of E&M businesses are very aware that their customers' desires and habits are changing at an unprecedented pace – a trend that the economic downturn has accelerated.

Chair and CEO of Interpublic Group (IPG), Michael Roth, agrees: "There's no question that there's a change in the buying patterns of the consumer. The days of freely spending money, I think, have passed. People are looking for value for their dollars, and even if you can afford to spend more money, it's appropriate to think about how you spend your dollars."

This reflects the findings of PwC's flagship industry report, the Global Media and Entertainment and Media Outlook 2009-2013, which highlights our belief that against a backdrop of tough economic conditions, there will be nowhere to hide from the implications of digital migration. Consumers are looking for increased value and control, which is facilitated by and drives a rapidly digitalising media world. Consumers want to consume their media wherever, whenever and however they want, and the downturn has added considerable momentum to that trend.

**[1]** 94% of E&M respondents anticipate some/major change in consumer purchasing behaviours compared to 81% of the total sample. 60% of E&M respondents were somewhat or extremely concerned about a permanent shift in consumer spending and behaviours, as opposed to 48% across the total sample.

**[2]** Over the next 3 years, as a result of the economic crisis, 74% of E&M CEOs surveyed plan to moderately/significantly increase their long-term investment decision with regard to R&D and new product innovation, as opposed to 57% across the total survey sample.

# Changing consumer behaviour

## Shifting place and time

Marcel Fenez, PwC's Global Entertainment & Media leader, comments: "We are seeing consumers move from 'prime time' consumption to 'my time' – as a result of which many businesses are taking a fundamental look at how they deliver, price and package their content."

In the entertainment and media world, time and place are no longer set by appointment. Consumers are increasingly liberated from TV schedules by time-shifting devices such as PVRs, video-on-demand and online catch-up services. And media consumption habits are becoming more and more mobile, with content available on smart phones, netbooks and through wireless connections that allow consumers to watch and listen where, when and how they want.

Taken together, these trends mean that, according to the *Outlook*, mobile/digital content will account for more the three-quarters (78 per cent) of all revenue growth in the period between 2009 and 2013, with digital content predicted to account for 31 per cent of all spend on content in 2013 compared to 21 per cent today.

## Net kids educating their parents

As E&M CEOs recognise, value will be a key consideration for all consumers. The net generation, born between 1977 and 1997 and the first generation to grow up in a wholly digital world, make many more choices about how – and indeed whether – they are prepared to pay for content. Those attitudes are now spreading across the generations as parents and grandparents become more comfortable with digital content.

The downturn has accelerated those new consumer attitudes and behaviours. In a downturn consumers eschew going out in favour of staying at home, consequently watching more TV and video content, listening to more music and spending more time online. And behavioural trends go far deeper than simply changing buying habits. Content is increasingly integral to social interactions and relationships, as witnessed by the explosive growth of social networking through tools such as Twitter and Facebook. The challenge for E&M businesses is how best to capitalise on and monetise these trends.

Marcel Fenez sums up how the search for digital value is presenting a challenge to the industry: "Everyone is looking for a good deal. We're now seeing the parents of the net generation also wanting to access content for very little or even for free. And ironically in a downturn people consume more content but the challenge for media businesses is how to monetise that increased activity in the digital space."

# Collaboration

The Global CEO Survey found that E&M business leaders are more likely than their peers in other industries to have initiated restructuring activities in the past 12 months to enter into a new joint venture or strategic alliance[3].

## Agility is key

While intense competition has long been the default mode for businesses in the E&M industry, collaboration is becoming an increasingly vital approach as new business models demand speed, agility and flexibility to get closer to the digital consumer – as well as the need to manage down underlying costs.

The challenges facing E&M companies have many different components, from monetising growing demand for digital content, through capitalising on fast-evolving consumption habits, to developing a whole range of new advertising revenue models.

Markets are increasingly global, and yet consumers are looking for a one-to-one, personalised relationship with their media suppliers. Business models increasingly need to flex and fit around the needs of the consumer rather than expecting the consumers to adapt their behaviour in order to consume media, and that means strategies for collaboration must be equally flexible.

As revenue models change, cost structures also need to be aligned, and digital delivery provides opportunities for savings. Savings can be further enhanced by exploiting opportunities to share functions with others, especially where to do so is non-competitive.

**[3]** 51% of E&M respondents said they had initiated restructuring activities in the past 12 months to enter into a new joint venture or strategic alliance versus 35% of the total sample.

# Collaboration

## It takes two (or three or four…)

Building new models to meet these challenges will require collaboration between partners across the entire media value chain. What's more, the new partners are likely to be companies who may more traditionally have seen each other as competitors.

Collaboration can be used to exploit new areas and drive new, shared, revenue streams to spread the costs and risks involved in building new operations.

In the past partnerships have proven difficult to execute and therefore the collaborations of today and tomorrow need to be more flexible, with more focus on achieving business objectives and less about 'control for control's sake'.

Successful collaboration will require finding ways to split risks and rewards. To achieve this businesses should be open to all possibilities.

*"We're going to hear more and more about collaboration rather than just competition. And the key to successful collaboration is going to be flexibility. That means never saying 'no' to anything without thinking carefully about it first. This is a great time to differentiate by innovating and capitalizing on new forms of commercial relationships."*

*Marcel Fenez, Global E&M Leader, PricewaterhouseCoopers*

# Talent

The Global CEO Survey states that E&M CEOs are more likely to have seen their organizations reduce headcount in the past twelve months compared to other industries and are more likely to predict further losses in the next 12 months[4].

However, E&M CEOs are also more likely to state that staff morale and employee engagement programmes will change to a large extent/significantly[5].

## Keep the talent pipeline flowing

While rationalising headcount can provide short time respite from economic pressure, the longer term effects must also be taken into account in an industry such as entertainment and media industry which is heavily reliant on talent.

PwC's analysis shows that businesses retrenching on talent today are likely to face a tough time tomorrow. Our recent report, *Managing tomorrow's people: How the downturn will change the future of work,* uses scenario planning to show that companies which scale back their people investment now are likely to fail in the long term.

And as the long-term decisions taken during the downturn begin to be felt, the winners and losers of the war for talent are starting to reveal themselves, with those who continued to focus on investment and employee engagement emerging as clear leaders. Hartmut Ostrowski, Chair and CEO of Bertelsmann AG, confirms: "As a creative company, our success is absolutely dependent on our employees, their ideas and intellectual resources".

Furthermore, in an era of digital transformation the need to ensure innovation is encouraged and developed becomes paramount. Accordingly, organisations seek to define structures that are flexible and reward innovation.

**[4]** 71% of E&M respondents said that headcount in their organisation decreased in the past 12 months versus 48% of the total global sample, and 37% of E&M respondents said that headcount was likely to decrease in the next 12 months compared to 25% of the total sample.

**[5]** 54% of E&M respondents said that their approach to staff morale and employee engagement would change to a large extent/significantly versus 41% of the total sample.

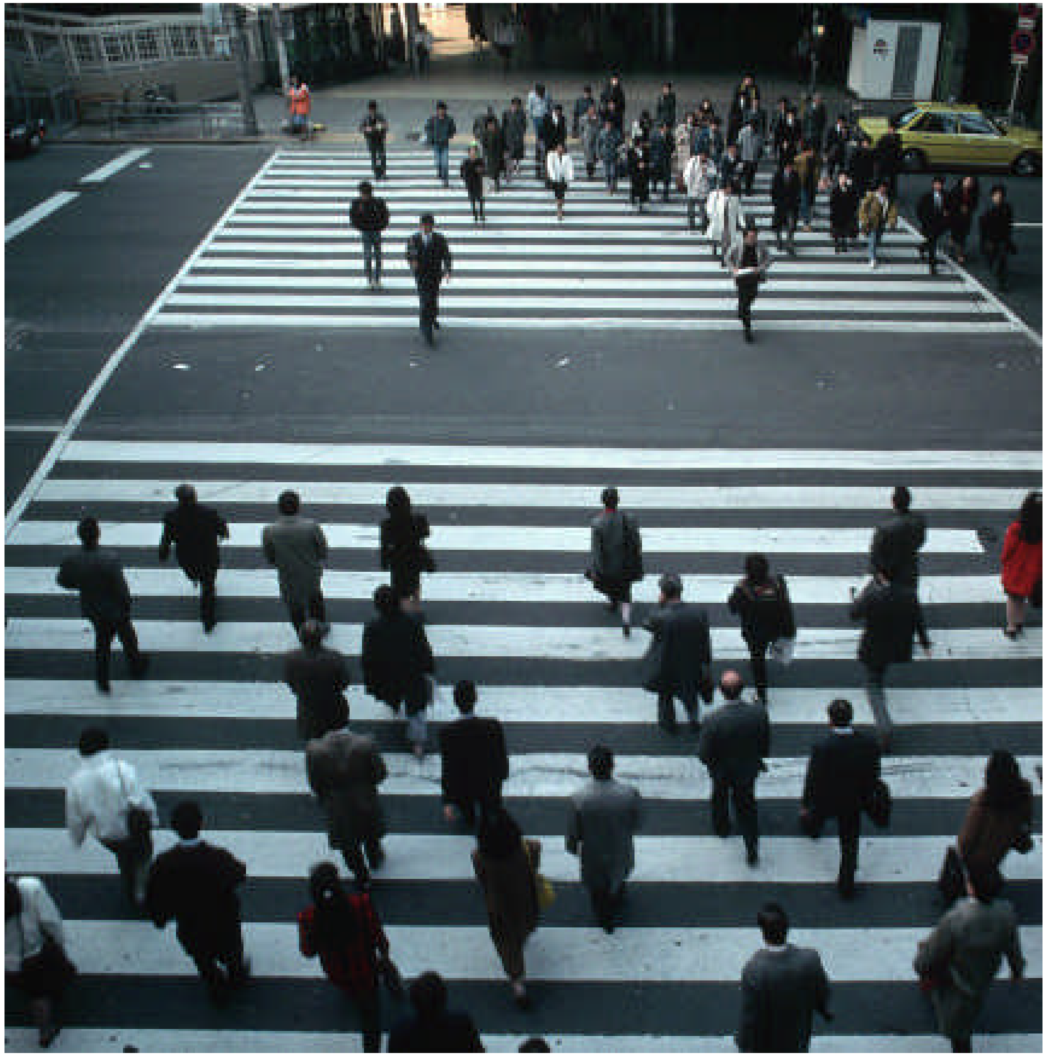
# Talent

People and talent will be such a prized commodity in tomorrow's world that only companies who have invested both in a talent pipeline for the future and in an environment which allows creativity and entrepreneurialism to flourish will succeed.

It is therefore reassuring to see that E&M respondents to our Global CEO Survey are more committed to employee engagement activity than other sectors as a whole – a sure sign of recognition that the industry’s success rests in large part on its talent.

*“What you do in this environment is add to your talent base and reposition your talent to be more suited for the challenges that are ahead. Even though we’ve had a nine to ten percent reduction in terms of staffing, we’ve also had increases to invest in those markets and resources that are necessary to be competitive.”*

*Michael Roth, Chairman and CEO,*
*Interpublic Group*



# Climate change

E&M CEOs we interviewed for the Global CEO survey don't see climate change as especially relevant to their businesses. They are less likely to be preparing for climate change than their counterparts in other industries over the next 12 months[6], and they are also less inclined to believe that climate change initiatives will be a major expense for their business[7].

And E&M CEOs also tend not to make a strong connection between the investments they might make in climate change related initiatives and their reputation among stakeholders, including employees[8].

## Not an E&M issue?

It's easy to see why entertainment and media CEOs do not necessarily perceive climate change to be of major concern their industry. But that perception perhaps fails to take into account the far wider implications of government policies and regulation likely to emerge over the next decade to address the impacts of climate change.

As Hartmut Ostrowski of Bertelsmann elaborates, "Though the media industry may not be one of the biggest polluters, we acknowledge our corporate responsibility to deal with the issue of climate change. At Bertelsmann, responsibility towards the environment is part of our corporate culture – and as such is included in our company's value system."

**[6]** 37% of E&M respondents said they were preparing for the impacts of climate-change initiatives in the coming 12 months, compared to 61% of the total sample.

**[7]** 20% of E&M respondents agreed that compliance with climate change initiatives will be a significant expense for their company, versus 34% of the total sample.

**[8]** 40% of E&M respondents agreed that their company's response to climate change initiatives will provide a reputational advantage for their company among key stakeholders, including employees, compared to 61% of the total sample.

# Climate change

Businesses across all industries will unquestionably feel the impact of changing regimes – especially in the area of taxation. In a forthcoming major study into the impact of climate change on business worldwide, PwC estimates that within a decade, environmental taxes could amount to as much as 20 per cent of tax revenues in many countries.

All companies will need to start planning for this eventuality, and we will be analysing the topic further in a new study to be published in February 2010, **Appetite for Change: Global business perspectives on tax and regulation for a low carbon economy,** which will examine policy and regulatory initiatives driven by climate change. Other regulatory impacts will increasingly change the general business environment, regardless of sector. But what is less clear is how and where those impacts will be felt.

# Want to learn more?

## The full 13th Annual Global CEO Survey is available at:

www.pwc.com/ceosurvey

The quotes in this article are taken from interviews with Hartmut Ostrowski, Chairman & CEO, Bertelsmann AG, and Michael Roth, Chairman & CEO, Interpublic Group.

You can access transcripts of the interviews via the Global CEO Survey website.

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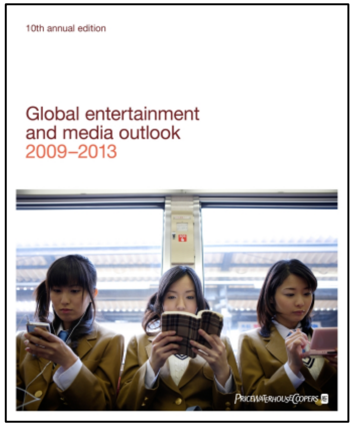


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