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Perspectives from the Global Entertainment and Media Outlook on Value Chains

Across E&M, companies chart a direct-to-consumer path

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Value chains

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PERSPECTIVE: When asked about the threat of industry disruption, 23 percent of all the leaders who responded to PwC's annual CEO survey said technology will reshape their industry over the next five years. But the proportion of E&M CEOs who shared this sentiment was more than twice as high: 56 percent. Indeed, technological advancements, and the dramatic changes in consumer behavior that they enable, are already redistributing revenues and competitive advantage.

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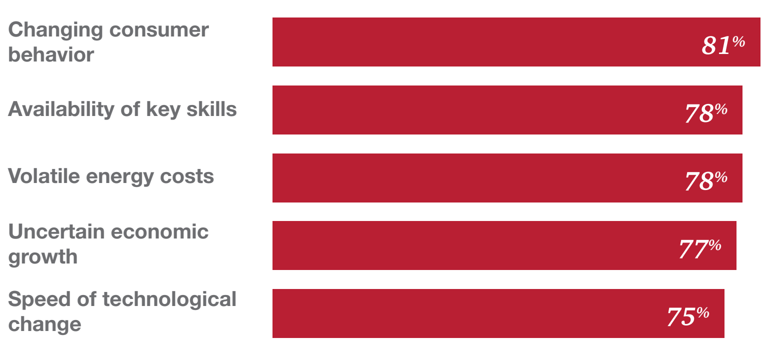
As a result, E&M businesses now have a mandate to build and fortify direct, sustainable relationships with consumers. The paths and choices to navigate to the consumer depend on a relentless focus on the user experience. But they also depend on a company's current role in the ecosystem of content, distribution, and advertising.

Exhibit 1: Top five concerns for E&M CEOs



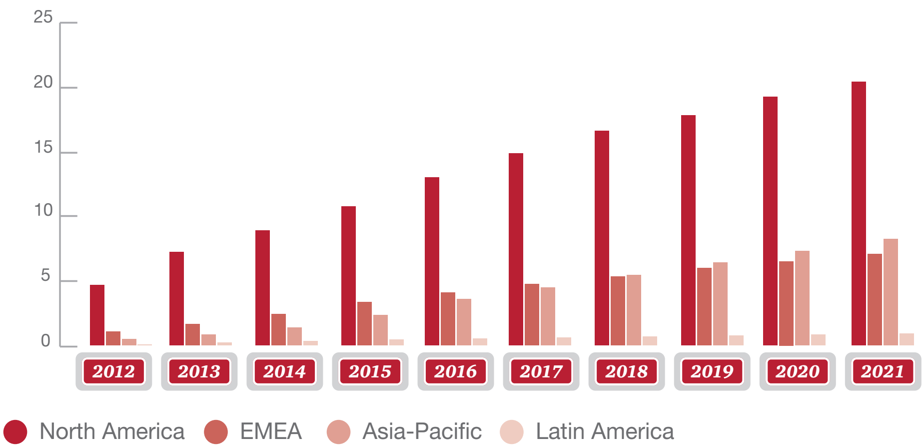
Source: PwC, 20th Annual Global CEO Survey

Content

In their path to build closer relationships with consumers, content companies have doubled down on blockbuster hits. In a February 2017 special report, the *Economist* described an industry in which blockbusters continue to dominate, despite the immense choices consumers have. Overwhelmed by content choices, consumers fall back on the familiar; they rely on recommendations from friends, algorithms, and rankings. As a result, content that is popular becomes more popular. The promise of digital distribution was that content providers would be able to monetize the massive amount of intellectual property (IP) gathering dust in their vaults, catalogs, archives, and backlists — often referred to as "long tail" content. In a digital world, no book would ever go out of print; even the most obscure title would always be available to the few people who wanted access to it. The long tail would create recurring revenue streams from hundreds or thousands of titles and provide content creators with the incentive to produce work, even if it appealed to only a small niche audience.

But instead, we've seen that across the E&M industry, there's a heavy concentration of blockbuster content. Investment dollars are thus flowing into high-quality, premium content. Disney's major franchises produced the top five highest-grossing films in 2016, including all four of the films that grossed more than $1 billion. Disney's live-action version of *Beauty and the Beast* tallied $1 billion at the box office within a month of its launch in the spring of 2017. And in April 2017, Universal Pictures' *The Fate of the Furious* reached $1 billion in the third weekend after its release, largely driven by strong performance in China and other international markets.

Exhibit 2: Consumer spending on Internet video (US$ billions) by region



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

Distribution

The continual splintering of distribution platforms is making it imperative for distribution companies to figure out how to get closer to consumers. To reach attractive demographics in the increasingly digital and mobile environment, we're seeing a significant number of organic and inorganic investments aimed at combining distribution with video content.

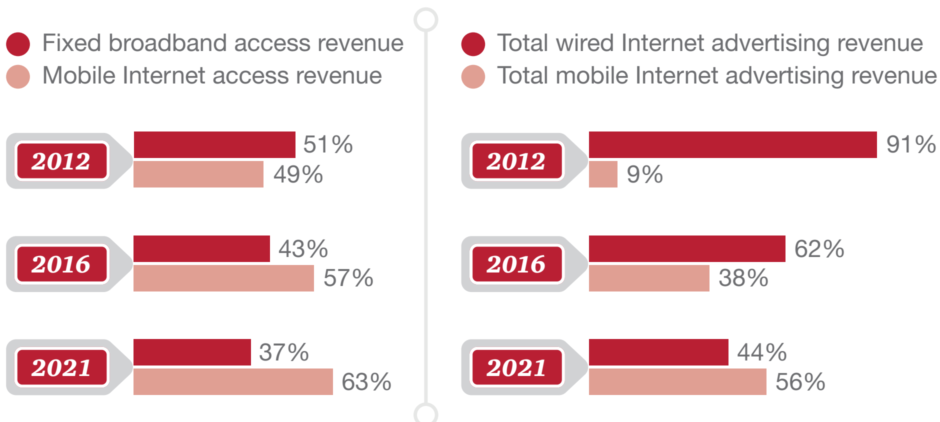
Content companies are making bolder moves to get directly involved in distribution. Much of this is driven by the rapid growth of over-the-top aggregators and the threat of cannibalization — not being able to reach audiences through traditional pay-TV distribution (*see Exhibit 2*). Some are taking direct-to-consumer approaches by building proprietary apps, such as HBO Now, or pursuing acquisitions. Firms are also entering into content deals with tech giants to reach consumers on third-party social platforms. Examples include Facebook's recently announced deals to stream content from Major League Soccer games, along with original content deals with several other media companies (CNN, HuffPost, the *New York Times*, etc.). For its part, Amazon has struck an agreement with the National Football League to stream Thursday night games. Increasingly, Netflix is entering into distribution partnerships with U.S. and international carriers as part of its global expansion strategy.

Amid this flurry of activity, it's not clear which will be the top distribution channels five years from now, and what forces will separate the winners from the losers.

Advertising

For advertisers, forging a profitable path to consumers means gaining visibility in digital distribution platforms where consumers discover and recommend content (and brands). From the Outlook data, we know that global spending on advertising is growing at a faster pace than consumer spending, and signs indicate it will continue to do so through 2021. But what's less apparent is the concentration of advertiser spending on the digital side — where all the growth is. Rather than being spread across many outlets, advertising now flows disproportionately to a few large platforms, such as Facebook and Google.

Exhibit 3: Total Internet access revenue and Internet advertising revenue by make-up (%), 2012 vs. 2016 vs. 2021



Source: Global entertainment and media outlook 2017–2021, PwC, Ovum

The robust growth of Internet advertising masks an embedded form of inertia. Premium brands are reluctant to take on the perceived risks inherent in concentrating more of their advertising in digital mediums.

The fact that the rising tide will lift only a few very large boats presents increasingly difficult challenges for traditional media segments. The media planning business, as well as newspaper and magazine publishers, will come under particularly acute pressure.

In the new environment, value flows to the companies that control the three Cs: content, communication, and commerce. For Internet advertisers, the route to control is through focusing on the user experience, especially in mobile. The growth of Internet advertising is being powered by mobile advertising, which grew by 54 percent in the past year, to $43.8 billion. Through 2021, that number will grow at a 17.1 percent CAGR — ultimately reaching $96.9 billion. An example can be seen in China's Tencent, which is laser-focused on creating a mobile ecosystem (pushing users from desktop to mobile gaming, for example) that is sufficiently compelling for the user never to leave the "Tencent experience." Introduced in 2011, Tencent's enormously popular messenger app, WeChat, surpassed 800 million monthly active users in 2016. Tencent invests heavily in the mobile commerce future, aiming to dominate the online finance and e-commerce market. Other companies that have proved to be powerful magnets for user attention, such as Amazon, Facebook, and Google, are moving in a similar direction.

With each passing month, more of the world's Internet experience is taking place via mobile. But last year, wired Internet advertising still accounted for 61.6 percent of total Internet advertising (*see Exhibit 3*). The robust growth of Internet advertising also masks an embedded form of inertia. Premium brands are reluctant to take on the perceived risks inherent in concentrating more of their advertising in digital mediums. Without accepted measurement practices that can provide transparency on the efficacy and efficiency of the major platforms, larger agencies and their clients have held back their ad dollars. It often takes a period of time for advertisers to catch up to where consumers are spending their time and attention. In 2016, smartphone connections accounted for more than 50 percent of global mobile phone connections, a proportion that will rise to more than 75 percent by 2021.

Appendix

Global entertainment and media outlook

PwC's Global entertainment and media outlook 2017-2021 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 17 entertainment and media segments, across 54 countries. It's a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. You can access the full segment definitions or subscribe to the Global entertainment and media outlook at www.pwc.com/outlook.

Historical data collection

All forecasts have been built starting with the collection of historical data from a variety of sources. A baseline of accurate and comprehensive historical data is collected in the first instance from publicly available information, including from trade association and government agencies. When this data is used directly, these sources are cited accordingly. In addition, interviews with relevant associations, regulators and leading players have been held to gather insights and estimates not available in the public domain. When this information is collected, it is used as part of calculations, and the sources are proprietary.

Forecasting methods

All forecasts are prepared as part of a collaborative, integrated process involving both quantitative and qualitative analysis. The forecasts are the result of a rigorous process of scoping, market mapping, data collection, statistical modeling, and validation.

Note: The only source of all consumer and advertising spend data is the Global entertainment and media outlook; however, all the data, charts, and graphs (unless stated otherwise) in this publication are taken from the Global entertainment and media outlook.

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Many other professionals from the PwC entertainment and media practice, across 54 countries, reviewed and added local expertise to this article.

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