About this report

Ernst & Young continues to be heavily engaged around the world in seeking to identify leading practices in the area of risk management. Properly approached, the process of risk management can add value even if, fortunately, the feared events never happen. In working through scenarios and impact analysis, companies may find many opportunities to tighten processes and controls that can make them more agile and able to operate more effectively, in whatever market conditions arise.

Our work with companies around the world suggests that there is a body of leading risk management practices emerging, but that many companies are still doing too little in this area. Our research has shown that, while strategic risks have become more important, companies have been focusing on the easier-to-manage areas of operational risks. In looking to general practice, the implications for different sectors can be blurred. One person's challenge is frequently someone else's market opportunity. Even within each sector, the risks for each company may vary. Risk management must be carried out at the company level.

We have consulted widely but this is not an exhaustive list of risks. Inevitably it is a snapshot of the risks we see at this time. We encourage you to read this report in a questioning manner. Do you agree with the risks? How do they impact you? We hope that some of the risks identified surprise you and some of the weightings that we attached to them in the rankings differ from those that you would apply. You should have your own equivalent of a risk radar and your own ongoing dialogue around this, within your own organization.

We believe that company leadership must:

- Conduct an annual risk assessment that defines key risks and weights probability and impact on business drivers. The risks in this report can provide the start of that process.
- Assess risks beyond financial and regulatory risk to consider the wider environment in which the organization operates and the full extent of its operations. Keep an open mind about where risks can come from.
- Conduct scenario planning for the major risks that they identify and develop a number of operational responses (possibly as part of the planning cycle).
- Evaluate the organization's ability to manage the risks that they identify – in particular ensure that the risk management processes are linked to the actual risks that the business faces.
- Have effective monitoring and controls processes to give both earlier warning and improved ability to respond.

Sometimes, of course, the risks that we fear actually come to pass. Few of the risks that have devastated the financial services sector and badly hurt the wider economy were unpredictable – eventually, economic bubbles burst. It is now, in the hardest of times, when seeking to gain opportunity from adversity, that we will see the evidence of effective risk management and those companies which mastered it.
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The economic shocks that originated in the financial sector have now spread, triggering economic volatility worldwide. This volatility has made it extremely difficult for media and entertainment (M&E) companies to forecast revenues, especially those derived from advertisers or consumers.

While this sector tends to be cyclical, it has certain counter-cyclical elements. For example, US cinema attendance surged during the great depression of the 1930s, and, in a modern parallel, video games achieved record sales in some markets during the 2008 holiday season.

As a result of the heightened level of uncertainty regarding revenues, media companies are focusing on what they can still control: their costs. Therefore, responding to the global economic downturn, and the resultant challenge of cost control and reduction, tops our list of risks for the year ahead.

The downturn is also driving many other risks on our 2009 list. For instance, the shifts in advertising dollars to areas that offer more precise performance metrics may well be accelerated by the uncertain global economy. Economic volatility is making it even harder to make sound decisions about allocating investments between traditional and new media.

The risk that topped our list last year, consumer demand shifts, remains perhaps the central long-term strategic challenge for our industry, as consumers migrate from traditional to new media. Of course, this challenge is also one that is intertwined with several other risks – notably, operationalizing new business models and shifting advertising dollars. The lesson here is that business risks are interdependent, not independent. These risks cannot be dealt with in a vacuum, but rather, must be managed in context.

In the report that follows, we present the findings from our interviews with sector analysts, looking ahead to the business risks of 2009. I invite readers to compare the analysts’ views expressed in this report, with those of 27 CEOs from M&E companies, whom we interviewed for our separate report, Fast Forward: How CEOs are Balancing the Transition to the Digital Future. Like the analysts, these CEOs feel that in the long term, the challenges of technology enablement and changing consumer demand will drive performance in our sector.

But to get to the long term, we must manage the immediate challenges of a global downturn. I would like to thank all of our panelists for their time and insights in looking ahead to the risks of 2009. This is a dialogue that needs to continue.
The Ernst & Young business risk radar

The Ernst & Young risk radar is a simple device that allows us to present a snapshot of the top 10 business risks for a company or a sector.

The risks at the center of the radar are those that the analysts we interviewed thought would pose the greatest challenge to the leading global firms in the M&E sector in the year ahead.

The radar is divided into four sections that correspond to the Ernst & Young Risk Universe™ model. Compliance risks originate in politics, law, regulation or corporate governance. Financial risks stem from volatility in markets and the real economy. Strategic risks are related to customers, competitors and investors. Lastly, Operational risks impact the processes, systems, people and overall value chain of a business.

The top 10 business risks for media and entertainment

Risk weighting and risk prioritization

Phase 1:
- We interviewed more than 100 industry commentators representing 11 sectors and more than 20 academic disciplines, asking each interviewee to identify the top business risks for 2009. We asked the panelists to focus on risks for the “leading global firms” in their sector. We also asked each panelist to provide commentary on why each risk was important, how each risk had changed since last year, and which of a company’s value drivers each risk might impact.
- Based on these interviews, we drew up “long lists” of between 20 and 40 risks for each sector.

Phase 2:
- In order to prioritize the top risks for each sector, we interviewed panels of sector professionals. The composition of the panels varied for each sector, and included CEOs, strategy planning executives, analysts, journalists in trade publications, advisors and our own Ernst & Young practice professionals. We asked each panelist to provide their own ranking of the top 10 risks for their sector, as well as up to five “below the radar” risks that may emerge to threaten the performance of industry-leading firms in the years ahead. The panelists’ ratings were aggregated to select the final top 10 risks for each sector.
Executive summary – the top 10 risks for media and entertainment

The top 10

Ranking from 2008 in parentheses

1. Economic downturns and resultant cost control and reduction efforts (New)
2. Consumer demand shifts (1)
3. Shifting advertising dollars (New)
4. Operationalizing new business models and managing the infrastructure to support them (3)
5. Allocating investments between traditional and new media (New)
6. New market entrants and the impact on the value chain (New)
7. Asset exploitation and protection (including piracy and intellectual property rights) (6)
8. Emerging markets (4)
9. M&A activity and entry of private equity (5)
10. Corporate governance and internal controls (7)

Aggregating our interview results worldwide, the top 10 business risks for multinational firms that are leaders in the M&E sector are:

1. Economic downturns and resultant cost control and reduction efforts

The high-pressure business environment of recent years has already led to widespread implementation of cost control measures and significant improvements in the professionalism of process management. For 2009, a weakening global economy has made cost control a top challenge with significant implications for M&E companies’ profitability and even survival.

2. Consumer demand shifts

This issue remains the central long-term challenge for the companies that dominate the M&E sector today, as consumers shift from traditional to digital media, and from mass to individual entertainment.

3. Shifting advertising dollars

This risk has escalated over the past year, driven by a worrying combination of cyclical and structural trends. Just as many companies are migrating to advertising-based monetization, a weakening global economy is causing cuts in advertising spend.

4. Operationalizing new business models and managing the infrastructure to support them

During 2009, the stress of the economic downturn may throw a harsh light on any weaknesses in the business infrastructure that supports new business models and new platforms.
5 Allocating investments between traditional and new media

Economic volatility has lead to heightened uncertainties. Neither hesitation nor boldness, but rigorous future planning will be key to successfully striking a balance between traditional and new media investments.

6 New market entrants and the impact on the value chain

The issue is not only one of increased competition facing the firms currently leading the sector, but also that new entrants are driving a trend towards specialization in the M&E industry. Winning responses will be based around managing relationships with partners and customers.

7 Asset exploitation and protection (including piracy and intellectual property rights)

Advances in technology and distribution channels, the rising importance of less-regulated emerging markets, and the growth of open source and online video content combine to keep intellectual property protection within the top 10 risks in the M&E sector for 2009.

8 Emerging markets

In the long term, and perhaps even the near term, emerging markets will account for much of the global growth in the sector. For leading global players to succeed in these markets, it is necessary to understand the economic and social fabric of the operating environment, rather than simply going and “setting up shop.”

9 M&A activity and entry of private equity

The gloomy outlook in financial markets has reduced M&A volume significantly, but transactions remain fundamental to strategies in this transforming sector.

10 Corporate governance and internal controls

As a result of the crisis, public attention has once again focused on corporate governance. Among other responsibilities, boards must better understand the reliability of internal forecasts and projections, challenge the sustainability of current sources of financing, and question the ability of counterparties to fulfill their obligations to the company.
The high-pressure business environment and associated tightening of capital availability has led to widespread implementation of cost control measures and significant improvements in the professionalism of process management. Across the sector, companies are reducing costs by restructuring their back-offices through consolidation, standardization, shared services, outsourcing and off-shoring. Still, according to one analyst: “Companies lack a true grasp of cost drivers and costs themselves, and fail to consider costs from a sufficiently holistic angle.”

Crucial to the success of these efforts is an understanding of price elasticities. As one analyst remarked: “At the point that consumer pricing becomes inelastic, there will be severe penalties for cost control malfunction.” In addition to helping companies maximize the benefit from cost containment programs, a better understanding of price elasticities will allow companies to improve their pricing schemes and identify sources of value leakage. Rather than focusing on price cuts, companies need to aim at improving revenues through price differentiation. This can be done, for example, by changing trade terms with industry partners so that uniform terms are replaced with prices that are linked to sales.

1 Economic downturns and resultant cost control and reduction efforts

As mentioned in the opening statement, the weakening economy has made cost control in M&E – typically a highly cyclical sector – the top challenge with significant implications for M&E companies’ profitability and even survival. As last year’s poor economic outlook has worsened into an outright recession in many geographies, the challenge of managing during a downturn has moved up to be the number one risk on the list for 2009.

Yet the M&E industry has, on the whole, remained resilient when compared to the broader economy, using the S&P 1200 index as a measure. The M&E index outperformed the broader cross-industry index by almost 25% in 2008, but with a staggering volatility incorporated in that statistic – some M&E companies’ share prices showed a modest decline of 1% while others dropped as much as 89%. And although 2008 revenues of companies on the index grew an estimated 10%, their revenues are predicted to remain flat through the next year.

The impact of a contracting global economy and resultant cost control efforts is expected to be felt in all organizational areas of the M&E industry – growth, profitability, efficiency, and reputation. Declining consumer spending reduces revenues and impacts margins and hence the profitability of the business, establishing a mandate for cost control. (In addition, structural shifts in the sector, discussed in relation to the risks below, can lead to cost issues. As one analyst pointed out: “One entity’s advantaged position in a value chain is another entity’s cost control problem.”) At the same time, poorly managed cost reduction efforts that lead to negative attention from stakeholders and the media, or worse, disruptions of crucial processes or diminished operational effectiveness, can have serious reputational implications. This pressure has also resulted in a renewed focus by content producers on previously “off-limits” production and distribution cost categories that can typically represent over 80% of the total cost pool.

Steps companies can take to respond to this risk

- Assess cost control initiatives to improve value for the company. Assess corporate infrastructure and consider the relative benefits of outsourcing, shared services or offshoring.
- Perform scenario-based planning and forecasting to help improve cost efficiencies.
- Eliminate organizational redundancies and non-mission critical roles. Think “outside the box” to identify creative ways to reduce costs.
Increasing market pressures, changing consumer demand and higher shareholder expectations are placing significant demands on M&E companies.

Fundamental market and consumer shifts not only impact interim performance but the viability of many companies as a whole. Consequently, as companies plot their strategic direction and adjust operating models, cost reduction and control becomes mission critical.

This convergence of events has pushed companies towards dramatic and accelerated cost control plans to help manage the performance demands of the external market. Implementing such plans at an expedited pace often results in neglecting the appropriate level of analysis.

A major risk of companies’ cost control efforts is cutting the foundation of the core business or eliminating expenses in the wrong places.

M&E companies face the risk of losing market partners that fall victim to the tightened economic environment. Companies need to analyze their dependencies on content creators, packagers and distributors to mitigate risks from the disappearance of a key partner in the value chain.

The following is a five-step approach management can employ to effectively control and manage costs:

1. Focus on cash management and working capital controls. Supply-chain relationships, vendor payment terms and deals that were historically stable may change and adversely impact cash flows and should therefore be analyzed on a recurring basis. Rigorous modeling of near-, mid- and long-term cash flow needs is a prerequisite of prioritizing cost elimination and control measures. This will prove key in addressing immediate focus areas for management while they pursue cost restructuring and strategic realignments in the mid to long term.

2. Focus on a comprehensive and holistic evaluation of core business. This may result in the elimination of redundant work streams and operating segments – including underperforming assets, operations and people, which drain working capital. Such exercises can also generate incremental cash inflow from the sale of non-core operations and assets in order to protect and differentially invest in the core business. Management teams need to ask themselves: “How can cash be freed?” and “What transactions can the company undertake to free cash?” However, a comprehensive assessment that identifies core, non-core and redundant activities needs to precede these measures.

3. Cost elimination and control strategies need to be managed and well-executed to achieve sustainable impact. Too often companies do not ensure that cost control plans gain momentum or commitment from teams.

4. Strict adherence to agreed execution protocols, existence of a back-up plan and a careful approach to successfully managing cost control strategies. While companies should avoid departing from their cost control strategy once it is established, any deviations should be consensus-led. At the same time, a back-up plan should address the possible situation of incontrollables (reduced cash inflows from unpaid receivables, etc.) affecting the cost control strategy.

5. Keep an objective unbiased perspective when managing plans. Successful execution of cost control strategies hinges on involvement of all parts of the firm and cannot be driven by a small initiative from the finance, operations or executive department.

If cost reduction and control becomes mission critical, M&E companies should bear in mind that the primary purpose of cost control is to add value. Cost control must deliver tangible and demonstrable value to the business and not become an end in itself.
Last year’s number one risk of consumer demand shifts remains a top risk to the M&E sector in 2009. These shifts are by now well known – consumers are shifting from traditional to digital media and from mass to individual entertainment. Another important shift is that through the sustained growth of Web 2.0, consumers are becoming increasingly active content creators themselves and are increasingly accustomed to accessing content for free. In the words of one Ernst & Young analyst: “Technology is enabling consumers to meet their content consumption objectives on-demand, on-location and, on occasion, on-the-house.”

New technologies are increasing the pace of these shifts and pushing M&E companies to undertake new, and sometimes risky, strategic initiatives in response. “Most innovation within the past 12 months in the M&E space appears to involve individual entertainment devices empowering the consumer,” one analyst noted. For instance, 3G phones are propelling the development of multi-purpose individual entertainment devices, and online availability of recently broadcast television programs (likely to be surpassed by more substantial archives) is making video-on-demand more widely available.

M&E companies are trying to manage the tasks of maintaining their core business while positioning themselves for the future. This balancing act could become even more difficult as the global downturn accelerates consumer flight from some traditional media. There is a risk that some companies, with revenues suffering as a result of the business cycle, will be unable to make the investments needed to stay ahead of changing consumer demands. As a US-based academic remarked: “The companies that have led the change have accepted the reality that continuous innovation is the path to maintaining leadership and market share.”

While there is tremendous variability within the sector, these shifts in consumer demand have had profound effects on growth and earnings for many companies. New revenue sources from areas of surging demand, such as digital media, can be meager in comparison to traditional media. Companies face the challenge of protecting their mature and high cash flow distribution markets while continuing to innovate and adapt content to the younger generation. In the Ernst & Young CEO study mentioned in the introduction to this report, one CEO summed it up by saying: “Media is trading analog dollars for digital dimes.” The music industry, for instance, has recently struggled to maintain customer access and market pricing power, as evidenced by the industry’s decline in global revenues by 23% since its peak in 1998.

Companies face the challenge of protecting their mature and high cash flow distribution markets while continuing to innovate and adapt content to the younger generation.”

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Steps companies can take to respond to this risk

- Be relevant to customers and their evolving consumption choices by accommodating preferences for interactivity, mobility and flexible pricing models.
- Continue to experiment with enhancements to the consumer experience so that they will pay for access or content. One analyst cited key areas of interest: privileged access to early release media, toll-based interactivity, or customized, edited or ranked content.
- Partner with new entrants. Internet search engines will migrate more and more consumers to their brands.
- Leverage new media properties to collect consumer preference insights at little or no cost (e.g., test new shows with feedback surveys on websites).

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Our third risk for 2009 is another that has risen dramatically on the list for M&E companies. Driving the rise of this risk is a worrying combination of cyclical and structural trends. In the words of one Europe-based analyst: “The dramatic drop in performance of many media companies, due to the combination of the shift of advertising to the internet, and the pressure on advertising due to recession fear, have triggered a much higher sense of urgency to change business models.”

The difficulty of applying direct consumption charges in the online media environment and the prevalent trend in consumer attitudes towards “entitlement to free usage,” have compelled companies to migrate their business models and rely increasingly on advertising-based monetization. A weakening global economy has caused cuts in advertising spend and raised competition for advertising dollars across all M&E sub-sectors.

The availability of impact metrics is placing new demands on M&E companies to demonstrate returns on advertising investments. Advertising buyers are shifting investments into media channels whose collection of consumer-specific information, combined with personalization technologies, allow better consumer targeting. “Aside from the internet, other parties such as mobile phone manufacturers, cable companies and mobile phone operators are trying to become advertising partners. They have a large reach, deep knowledge of their customers and can target advertisements much more precisely than media companies,” noted one analyst. New technology – such as DVRs, which make it even easier for the consumer to skip advertising – reinforces the challenge for M&E companies to deliver verifiable investment returns.

Analysts worry that the structural shifts that are taking place may be dramatically accelerated by a global recession, as the stress on advertising budgets forces advertisers out of their comfort zones and compels them to change long-established habits. As one Ernst & Young analyst observed: “Behavior metrics and better audience targeting increase companies’ knowledge about the impact of spending on customer acquisition and sales. They therefore provide an incentive to cut advertising dollars where they fail short of expected returns.” M&E companies need to adjust to this new situation in order to overcome the competitive pressures that are making sales and revenue generation increasingly challenging.

**Steps companies can take to respond to this risk**

- Align activities across media channels to provide buyers with multi-platform offerings.
- Optimize costs per thousand impressions (CPMs). Many M&E companies give away digital advertising for free or low CPMs. Yet online advertising is the highest growth segment. Ensure all CPMs, especially new media CPMs, are competitive and updated each year.
- Ensure sales force understands media sales across all platforms.
- Create cross-functional teams (e.g., marketing, sales, creative) to develop advertising proposals that are personalized and integrated across all activities.
- Leverage analytics to maximize advertising ROI.
The economic downturn has caused a correlated decline in advertising dollars across traditional media and may accelerate the transfer to digital.

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The rise in digital advertising and the economic downturn have created widespread rethinking of the pricing and sales proposition of advertising inventory. Digital media is putting pressure on traditional media advertising sales, driven by increased interactivity and behavioral metrics. The economic downturn has caused a correlated decline in advertising dollars across traditional media and may accelerate the transfer to digital. The slowing economy is reducing advertising spend, thereby putting pricing pressures on advertising sellers.

While digital advertising revenues are becoming more sizeable, they are also causing a rethink of value measures of advertising across all media channels. Most notably, online advertising is increasingly being priced on behavioral- (e.g., click-through) rather than reach- (e.g., impressions) based metrics. These insights are impacting media measurements and pricing in both digital and traditional media.

Meeting the challenge of shifting advertising dollars

How are advertising buyers and media companies responding?
Companies are verifying quality (e.g., image, brand, and context), quantity (e.g., cost and audience) and impact (e.g., sales) by leveraging media audit services and statistical modeling.

Confronted with shrinking advertising budgets, media companies have been developing strategies to offer better customer targeting, greater insight into consumer behavior and increased opportunities for cross-platform buys. Thematic TV channels, local TV and newspapers, and topical websites all present ways of focusing on targeted markets and leveraging digital technologies to develop personalized advertising capabilities and behavioral-based metrics.

The shift towards online advertising has prompted broadcasters to consider new engagement- or behavioral-based pricing in order to demonstrate increased value and justify higher prices. They must also demonstrate ROI beyond reach-based measures. New technology, such as DVRs, reinforces the challenge of finding new ways of showing advertising ROI across the sector. Broadcasters are also implementing pricing optimization and advertising management initiatives to increase the value of their inventory.

Where are the opportunities?
Trends suggest the M&E industry falls short of the great monetization potential offered by online advertising. Based on a study of US households, average hours spent using the internet increased by 72% from 2004 to 2007. In 2007, consumers spent 24% of their entertainment time online, yet advertisers spent only 7% of their total budget on this platform. This disconnect is expected to narrow as advertisers in the US increase online advertising spend from $21 billion in 2007 to a forecasted $51 billion in 2012.

Mobile advertising represents another growth opportunity with worldwide spending on mobile advertising expected to grow from $1 billion in 2007 to over $8 billion in 2012.

Video games are becoming increasingly important as evidenced by Take Two’s “Grand Theft Auto IV,” which surpassed all-time records for week-one retail sales. Spending on video game advertising is expected to grow to $1 billion in the US in 2012, up from $502 million in 2007.

In conclusion
Advertising buyers are becoming more sophisticated in their buying behaviors, digitization is driving behavioral-based metrics, and the economy is squeezing advertising dollars. In response, media companies are developing integrated cross-platform offerings, leveraging new value measures and redefining operational processes to improve advertising sales. In an environment of increasing cost pressures, digital advertising through online, mobile and gaming platforms offers direct engagement between the brand and its consumers, offering advertising buyers significant growth opportunities and value.
As strategic innovations continue to characterize the M&E sector, failure to operationalize new business models and to manage the infrastructure to support them remain a crucial challenge. This risk has fallen from third place last year as the economic downturn has prioritized cost control and reduction efforts.

One part of the challenge is the well-known issue of monetization. “Companies are now faced with the challenge of developing a business model that keeps them in the game but also produces cash flow,” wrote one Ernst & Young commentator. This challenge is likely to be even more difficult as many developed economies undergo their first serious recession since digital media came of age. Successful innovation threatens the industry's existing cash cows, and innovative business models are likely to suffer more difficulties of monetization in the face of a decline in consumer spending. (On the upside, across the sector, increasingly sophisticated pricing strategies for online material are expected to substitute for the uniform pricing models that to date have hampered the innovation and robustness of new business models.)

The other, and perhaps more challenging, aspect to this risk is that of building a business infrastructure to support new platforms effectively. “The potential of new technologies to support new marketing and distribution is being constrained by infrastructure problems,” argued one analyst. The increasing importance of user-generated content, growth in online advertising, and the growing disconnect between content and monetization means that infrastructure underdevelopment is a significant risk. “Media companies will have to become ‘marketing machines,’ which will have to have a very deep understanding of their consumers, not only regarding their content taste, but also the way they want to access and consume content,” one analyst argued. Another analyst pointed out that vastly different skills sets and organizational processes are needed when “communities” are a central part of the value chain.

As market forces and consumer demands are even more dynamic than ever before, organizational inflexibility presents a major risk. The case of mobile phones illustrates the increasing pace of product innovation. “The speed at which consumers can access, test, respond, and give feedback to new products has increased drastically, presenting a real risk for M&E companies,” said one Ernst & Young commentator. Where there was once an innovation team carefully managing product innovation, testing and roll-out, consumers are now able to create and evaluate their own new content and tools. This can mean that media companies' reputations and brands are impacted at the same rate as the innovation and evaluation of new products, further elevating the need for a dynamic and responsive organization.

Another analyst pointed out the often-overlooked human factor in rapid industry transition. “Careers are under pressure and [as a result] protective silos are created which need to be managed, and negative influences need to be diminished,” he wrote.

Steps companies can take to respond to this risk

- Develop a process and organizational infrastructure with the necessary flexibility to keep pace with the speed of innovation and to respond in a timely manner to customer assessments.
- Reevaluate and improve systems, processes and policies across both traditional and digital platforms.
- Focus on tailoring core competencies and skills to changing customer tastes and demands.

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Major media companies have become more adaptive and creative in expanding their content creation, brand and distribution to leverage fast-changing digital revenue platforms.

For many companies, digital media is considered to be a crucial component of their marketing campaigns. For example, in the UK, internet advertising is expected to surpass TV advertising for the first time in 2009. This means that to be competitive, companies need to be able to offer clients a cross-platform advertising buy — web content must be related to TV commercials, program schedules must be aligned, marketing campaigns must be coordinated, and both ratings and financial performance data must be integrated to provide a cohesive view across all platforms.

Offering this kind of cross-platform package requires integration at each stage of the value chain. Creating and distributing cross-platform content, and aggregating a cross-platform audience, requires editorial and production forces and scheduling systems to be aligned. Similarly, reporting, measuring and analyzing a cross-platform CPM in a transparent manner requires financial reporting systems to be integrated. If companies fail to achieve this integration, they will be unable to offer competitive packages to advertisers. In addition, their risk profiles increase, as they may be unable to identify and monitor overspending, and risk violating contracts.

Media companies that can meet these challenges stand to gain by enhancing their competitiveness. Integrating infrastructure across platforms will help companies to align processes and technologies, reducing costs dramatically. It should also open up greater cross-platform selling opportunities to enable integrated advertising purchases at higher cost per thousand impressions (CPMs), increasing the value of their advertising inventory.

New media maturation: integrating new platforms with the core business

For many companies, digital media is considered to be a crucial component of their marketing campaigns. For example, in the UK, internet advertising is expected to surpass TV advertising for the first time in 2009. This means that to be competitive, companies need to be able to offer clients a cross-platform advertising buy — web content must be related to TV commercials, program schedules must be aligned, marketing campaigns must be coordinated, and both ratings and financial performance data must be integrated to provide a cohesive view across all platforms.

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New media maturation: integrating new platforms with the core business

For many companies, digital media is considered to be a crucial component of their marketing campaigns. For example, in the UK, internet advertising is expected to surpass TV advertising for the first time in 2009. This means that to be competitive, companies need to be able to offer clients a cross-platform advertising buy — web content must be related to TV commercials, program schedules must be aligned, marketing campaigns must be coordinated, and both ratings and financial performance data must be integrated to provide a cohesive view across all platforms.

Offering this kind of cross-platform package requires integration at each stage of the value chain. Creating and distributing cross-platform content, and aggregating a cross-platform audience, requires editorial and production forces and scheduling systems to be aligned. Similarly, reporting, measuring and analyzing a cross-platform CPM in a transparent manner requires financial reporting systems to be integrated. If companies fail to achieve this integration, they will be unable to offer competitive packages to advertisers. In addition, their risk profiles increase, as they may be unable to identify and monitor overspending, and risk violating contracts.

Media companies that can meet these challenges stand to gain by enhancing their competitiveness. Integrating infrastructure across platforms will help companies to align processes and technologies, reducing costs dramatically. It should also open up greater cross-platform selling opportunities to enable integrated advertising purchases at higher cost per thousand impressions (CPMs), increasing the value of their advertising inventory.
Allocating investments between traditional and new media

The fifth risk for 2009 is another that is being intensified by the economic downturn, as economic volatility has lead to heightened uncertainties. Acquisitions made to reach audiences of a younger demographic have been the major strategy of firms to compensate for the contraction in markets for traditional products, but these strategies risk failing to deliver monetization. With the threat of global recession, it is even harder to forecast investment returns and strike the right balance between traditional and new media.

Companies reaching for diversification or channel control through the acquisition of highly priced internet companies are perhaps most exposed to this risk. One analyst argued that shrinking markets for traditional products have prompted M&E companies to engage in “irrational spending on acquisition of new media assets.” Investors have been paying large premiums for new media companies that provide low revenue streams and unproven profitability.

On the other hand, risks are just as substantial for companies that take the traditional path. Companies that have focused on scale effects through consolidation in mature markets risk missing new digital developments. As a US-based consultant remarked: “Traditional M&E companies need to leverage their brands into new media, even if it costs them in the short run, to maintain a future strategic position.”

The challenge of projecting revenues from new media assets has made it difficult for companies to evaluate the impacts of reallocation of their portfolios, often leading to indecisiveness and foregoing of any investment activity. This creates hesitation towards investments in new media companies that belong to a world in which successful business models are hard to foresee. “‘Nimtof’ (not in my term of office) has become a common reaction among executive management,” one Ernst & Young analyst observed.

To be sure, the downturn may help to reduce this risk in 2009 and beyond. Prices for new media companies will normalize, reducing the risk of investment misallocation. “The economic environment has caused significant reduction in available funding, so that a downward correction of prices can be expected,” noted one Ernst & Young panelist.

Neither hesitation nor boldness, but rigorous future planning will be key to successfully striking a balance between traditional and new media investments. While some M&E companies have been reluctant to reallocate their portfolios toward new media assets, others have been moving forward – albeit without a systematic analysis or approach to guide their investment allocation. While this “trial-and-error” approach may enjoy some success, it does not present a sustainable strategy. One analyst warned: “Market values are plummeting and media companies are getting very nervous, so there will be a risk of panic reactions which destroy industry profits.”

Steps companies can take to respond to this risk

- Develop a major investment strategy on the basis of future scenarios with consistent and comparable assumptions.
- Form a corporate strategic understanding of what drives the global economy and its transformations in a fast-changing environment where technological change can come from anywhere.
“Striking the right balance between traditional and new media will require M&E companies to involve financial management in designing and monitoring their investment strategy.”

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Mark Besca, Ernst & Young
Mark Besca is a M&E leader with over 25 years experience in the M&E industry, working with multinational clients.

Getting the balance right in capital investments between new and traditional media remains a key risk for M&E companies. Traditional media still supplies substantial cash flows, while monetization from new media assets often is unclear. CFOs fear expanding investments too rapidly into new media while at the same time, recognize that new media is vital for their future. As a result, companies are struggling to balance their investment strategy.

Building a major investment strategy
Striking the right balance between traditional and new media will require M&E companies to involve financial management in designing and monitoring their investment strategy.

Legislation has strengthened corporate accounting controls requiring extensive attention from CFOs. Companies have had to increase their focus on compliance, tapping resources that might have supported strategic decision-making. Now that most M&E companies have integrated the review and testing of internal controls into their routine operations and financial reporting, executives have more confidence in their controls, but are uncertain about their future in new media.

One way CFOs are helping companies to support decision-making about new media is to develop robust planning processes. One Ernst & Young client realized their business was changing in many fundamental ways — new customers, media, services, and ways to target and deliver advertising. They identified new key drivers of their business, and used those as a foundation for planning and management reporting, enabling management to understand the linkage between new drivers and company results, and test future scenarios. Not only did the company improve the effectiveness of their decision-making, they also reduced their planning and reporting detail by a factor of 10, by eliminating irrelevant detail.

Successful diversification
Diversification through investments in new media is a key element of most M&E companies’ strategies. While recognizing the value in traditional media, companies are looking to new media as a foundation of their long-term strategy.

Key elements to targeting diversification towards new media will be:
- Managing the intellectual capital of new media assets. Valuing and managing the intangible assets of new media companies can be a serious challenge (e.g., through protection of digital rights). Companies acquiring or investing in new media assets are subject to a number of transaction risks affecting asset value, including appropriate structuring of IP rights.
- Understanding the opportunities and threats of new media assets to technological innovation. The advent of new technology in M&E is unprecedented in frequency. The ability to avoid obsolescence, and to capitalize on new opportunities, is vital to success. The downward trend of physical music recordings in the face of growth of music downloads and ringtones is a great case study.
- Understanding advertising revenue potential of new media assets. Since monetization of new media assets will be advertising-based, a clear understanding of expected revenue flows is crucial for making successful portfolio investment decisions. Social sites are an example: they aggregate a large audience, but building a revenue base is challenging. New media assets offer more opportunities to target consumers or segments than traditional media.
- Weaving new media operations into efficient company infrastructure. Successful companies are mainstreaming the operational elements of their new media investments, including finance operations, planning models, management analytics, working capital management, customer care and supply chain.
- Improving planning and performance monitoring. New media has different drivers and metrics, such as subscriber content, micro-segmentation, types of interaction with advertising and volume of user-generated content. These new drivers and metrics need to be incorporated into planning and performance reporting systems.

Allocating investments between mature and emerging media — striking the right balance

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6 New market entrants and the impact on the value chain

Our sixth risk for 2009 appears for the first time in the top 10. While media revenue models are under threat, the entertainment sector remains one of the most vibrant and innovative in the developed and, increasingly, emerging economies. Incumbent media companies are now facing challenges from new entrants, notably internet companies, but also technology and telecoms companies, who wish to enter this sector. One analyst, seeing things from the incumbents’ point of view, wrote: “M&E companies have always faced competition from their peers, but are now facing competition that sneaks up behind them.”

New entrants introduce new competitive pressures. Technology companies owning internet search engines have radically changed advertising models and content distribution, and the surge in social networking sites is making the peer group one of the most powerful intermediaries. As one analyst noted: “The construction of online advertising models diminishes the impact of the traditional media organization, with its dependence on advertising to a known audience demographic.”

New entrants are driving the trend towards specialization in the M&E industry. Market entrants and incumbents increasingly become “niche” providers, leading to a disaggregation of the value chain as companies specialize in order to stay competitive. This means that M&E companies no longer enjoy the economic advantage of controlling the entire value chain. The rise of the internet as a platform for audience aggregation provides the opportunity to package content without owning a distributor network. “Online platforms have created a third party sharing in revenues where packager and distributor were previously one and the same...or consumers went straight to the content provider,” one Ernst & Young panelist noted. This disrupts incumbents’ ability to maintain pricing power.

For the most part, search engine companies and websites have not entered the film, television and music production arena, nor have they purchased networks with which to distribute that content. Instead, they have added value through savvy packaging of their offerings. Companies’ responses to the changing M&E landscape range from pessimism to taking the lead. “While some companies complain about losing control over their markets and pricing, others have made the fact that the customer decides on his own terms as a starting point to proactively driving change,” one analyst noted.

Steps companies can take to respond to this risk

- Develop an external focus on partnerships, since companies cannot afford to invest in all new technologies. This includes extending and reevaluating relationships with existing partners, as well as identifying new partners.
- Develop direct relationships with customers and partners to reconnect across multiple platforms. In particular, content providers have to devise creative ways of bringing their customers to their own website, core media products, or other platforms.
- Iteratively reevaluate both the market players and definition of the marketplace.
“The impact of piracy will continue to grow as bandwidth increases and more media assets are offered online.”

Advances in technology and distribution channels, the rising importance of less-regulated emerging markets, and the growth of open source and online video content combine to keep intellectual property protection within the top 10 risks in the M&E sector for 2009. Piracy and illegal distribution channels continue to expand in developing countries. The impact of piracy will continue to grow as bandwidth increases and more media assets are offered online.

New technologies will create further challenges. Wireless communication systems, if introduced, would allow data transmission capable of completely bypassing the web. Though this technology has not yet matured, it is rapidly developing, and has the potential to carry considerable asset protection risks, as it could make “illegal music and video file sharing almost undetectable,” one analyst argued.

To be sure, new legal enforcement strategies, along with technological developments that allow better tracking and protection, have enabled companies to recapture some revenue losses from asset exploitation. If companies can successfully enhance the value of the “paid for” alternative, through ease of use, quality of product, service, or overall experience, consumers may find pirated content less attractive. However, growing consumer comfort with accessing media content and products online, along with the attitude that internet-based content is “free,” mean that the pressure on M&E companies is still growing.

One industry analyst contended: “Companies will have to recognize when the horse has bolted and determine how best to capture value when content is available for free or at much lower price points. Software companies have done a better job at this than entertainment companies.” Indeed, high costs and uncertain returns from protection efforts have prompted an increasing number of M&E companies to try to combat losses by offering products through alternative distribution models, such as the provision of online access. Attractive paid-content models – which allow companies to recover some revenue loss by inducing consumers to pay for at least part of the content – have also started to emerge.

Steps companies can take to respond to this risk

- Dedicate internal resources to combating rights infringements and participate in industry groups in order to gather information and develop effective strategies.
- Partner with telecommunications and technology companies to develop technologies and hardware that combat pirates.
- Plan carefully around product pricing, release dates, and related distribution issues to navigate the differences in intellectual property protection and piracy in various markets around the world.
- Evaluate end-to-end production through distribution activities to determine areas of risk for piracy or unauthorized usage.
Emerged markets

Last year’s fourth-ranked risk, an inability to succeed in emerging markets, has fallen to eighth on the 2009 list. Immediate challenges posed by the economic downturn have reduced the priority of this risk in the minds of many analysts. But in the long term, emerging markets will account for much of the global growth in the sector, so companies that do not give their emerging markets strategies sufficient attention during the downturn are likely to find themselves at a serious strategic disadvantage.

To be sure, there are substantial risks in these markets. The economic downturn will increase emerging markets risks as volatility spreads and creates economic and perhaps political instability. M&E companies operating in emerging markets continue to be exposed to risks ranging from local competition to corporate governance, fraud, corruption and intellectual property.

However, in the long term, ongoing structural reforms and the development of corporate governance norms will mitigate these threats. In India, for example, the appointment of independent board members, the implementation of directives similar to the US Sarbanes Oxley regulations, and requirements of International Financial Reporting Standards (IFRS) compliance by 2011, have changed the business environment for global players.

Furthermore, the growing strategic importance of these markets is clear. Emerging media markets such as India have been experiencing double-digit growth annually in recent years and, in the view of one US-based consultant, this phenomenon is likely to cause a “shift in investment sources toward developing products for the emerging markets.” US companies are spending more executive time investigating emerging market opportunities. While the next year or two may be characterized by dramatic volatility, in the long term, the BRIC markets (Brazil, Russia, India, China) are expected to expand, driven by their fast-growing middle classes. Revenue growth has been notably vibrant in Brazil and Argentina, but M&E businesses are also growing on the back of increased content consumption in Dubai and Abu Dhabi, and among the youth in Eastern European countries such as Poland, Czech Republic or Hungary.

Steps companies can take to respond to this risk

- Take a long-term growth outlook when entering emerging markets. It is necessary to understand the economic and social fabric of the operating environment, rather than simply going and “setting up shop.”
- Develop a strong network between the emerging market management team and central management. Engagement and knowledge sharing is key to formulating successful strategic responses to emerging market trends.
- Conduct active risk management. Process monitoring is crucial to ensure continued success of emerging market operations. Process monitoring can be in the form of bi-annual reviews to ensure compliance with the Foreign Corrupt Practices Act (FCPA), or by a rigorous process of vendor selection, followed by an experimentation phase with the vendor and continued monitoring of operations.
The gloomy outlook in financial markets has reduced M&A volume significantly.

Steps companies can take to respond to this risk

- Create value and manage risk throughout the investment cycle. Acquiring organizations should set near- and medium-term goals for which the M&A team can be held accountable.

- Recognize that any investment in creative products requires a portfolio management approach. Lack of experience in the new or start-up businesses entails financial and organizational risks and can, if not managed properly, require an inordinate amount of management oversight from the acquiring company.

M&A activity and entry of private equity

Strategic transactions dropped from fifth to ninth place on the 2009 risk list, due to the financing vacuum brought on by the credit crunch. Nonetheless, transactions remain fundamental to strategies in this transforming sector: many companies aim at consolidation to achieve economies of scale, while for others, the acquisition of new media companies remains a means of diversification and catch-up with digital developments. Still others may look to dispositions of non-core business assets as a means of generating much needed cash for strategic acquisitions or core operations.

The gloomy outlook in financial markets has reduced merger and acquisition (M&A) volume significantly. One Ernst & Young analyst noted: “The number of information memoranda prepared and circulated by sellers indicates ongoing pursuit, but activity most often does not move beyond initial evaluations.” This means that making the right transactions – and sound execution – will be even more crucial when opportunities arise. As one US-based industry consultant put it: “While deals are harder to do this year, good deals are even harder to do than bad deals.”

Adverse financing conditions and pricing uncertainty have impacted the profitability of assets. Where abundant capital formerly drove up asset prices, as of this writing, sellers have not yet responded to the new market environment. At the same time, unfavorable financing terms for the traditional two-thirds of the transaction have put pressure on PE firms that need to offer above-market-rate returns to their investors.

In this environment, sound execution will be crucial. Poor due diligence and inflated valuation of purchased assets remain risks to the profitability of M&E firms. Digital media assets often are acquired at high prices in spite of unclear revenue models, and the surge of new distribution technologies can reduce asset value rapidly. Integrating acquired assets with existent business often creates risks that lower investment returns. As one analyst noted: “The strategic risk has come from a failure to realize the potential of these new firms or to find that even established firms, when acquired, become less viable and lose their growth momentum.”
A changed environment
The merger and acquisition environment in the M&E sector has undergone substantial changes since private equity (PE) entered a number of years ago. Today, transactions have greater risk and future returns are less clear. Distressed debt markets hamper the ability of PE firms to finance transactions with the traditional 30-40% share of equity and a 60%-70% share of external banking debt. PE firms often have to accept a higher risk exposure resulting from an increased share of equity in the deal. If sufficient external debt and/or equity financing to cover the traditional debt financing of two-thirds of the transaction is obtained, this external capital is considerably more expensive.

Financial market conditions have reversed roles in the M&A space. With the end of easy credit, PE firms have a less strong position and less independence in performing transactions. It is corporate entities that now have the ability to drive transactions in the market. Until market conditions become more favorable, the M&A space is unlikely to see an increase in volume, and corporate transactions – a few years ago still outbid by private equity – will prevail.

Private equity targets
In general, the multiplication of media channels drives expectations that content assets will increase in value. PE firms have taken interest in acquiring content ownership (such as rights to publishing or game rights), particularly in the education and casual/massive multiplayer gaming space.

Similarly favored is the acquisition of existent content applications diffused via new distribution channels that aggregate large audiences, and therefore are likely to attract future above-trend growth in advertising dollars.

Making partnerships work
PE firms are increasingly partnering with industry participants to increase profitability and mitigate risks. Transactions affirming these new partnerships, however, are characterized by potential misalignment of interest between the PE firm and the corporate entity. Whereas private equity approaches the transaction with an eye on a medium-term exit strategy of, historically, five years, the corporate entity involved commonly focuses on long-term growth opportunities/synergies.

Exit evaluation therefore is a key consideration to these transactions. Both parties should ensure their investment objectives are known to each other in advance: for instance, whether the investee will be sold back to the corporate entity, as well as the timing of such a proposed sale. PE firms are now holding investments they typically would have held three to five years for five to seven years or longer, as evidence that strategies and expectations are changing.

Mitigating risks
PE firms and M&E companies alike can further mitigate profitability risks by improving asset value throughout the investment cycle. This includes identifying working capital needs and better capital management, operational restructuring and cost rationalization to increase asset profitability, as well as business growth – whether organic or through additional carefully valuated acquisitions.

The surge in distribution channels for media content increases the risk that acquired assets might fall short of investment returns as the shifting landscape impacts pricing power. The music industry provides an instructive example: very profitable during the 1990s, distributors lost a large part of their pricing power when distribution via the internet emerged. The consequent fall in overall ROI left investments with notably lower returns than expected.

Asset valuation that considers potential adverse impacts on investment returns from such risks will be key for successful transactions in the M&E space. Both PE investors and corporate entities will benefit from conducting in-depth integration and market risk assessment pre- and post-transaction, including modeling disintermediation, business integration and further transaction risks.
“The weaker economic environment is providing a challenge for management to meet earnings targets and comply with what have suddenly become more restrictive debt covenants, with potentially severe consequences in the current lending environment.”

10 Corporate governance and internal controls

Failures in corporate governance or internal controls remain a significant risk in 2009, despite dropping three places since last year. The analysts felt that although the issue is not new — it received intense public scrutiny several years ago following several high profile corporate scandals — it remains a priority for management, especially in view of the economic downturn.

Both regulators and companies have focused considerable resources on reviewing and enhancing internal controls. Moreover, boards of directors have taken an increased interest in monitoring compliance with these controls. As a result, we have seen M&E companies integrating the review and testing of internal controls and corporate governance into routine operations and financial reporting processes.

Nonetheless, in the wake of the rapid changes in global economic conditions, and the perception that issues in the financial sector can be attributed in part to misaligned compensation structures, public attention has once again focused on corporate governance. This is likely to spill over into M&E. In the words of one analyst, “The search for executives to blame when things go bad will heat up as the economy softens.” Board decisions regarding executive compensation are being challenged and companies have suffered reputational damage and brand deterioration as a result.

“Clearly, the weaker economic environment is providing a challenge for management to meet earnings targets and comply with what have suddenly become more restrictive debt covenants, with potentially severe consequences in the current lending environment,” noted one Ernst & Young analyst.

The current economic environment (and related uncertainty) also lends itself to an increased risk of fraud perpetrated by rank-and-file employees (who, for example, can use their own deteriorating financial status to rationalize fraudulent behavior) and by executives involved in the financial reporting process, as well as by third-party partners.

Steps companies can take to respond to this risk

• Establish and maintain solid corporate governance models.
• Improve the effectiveness of existing controls to manage costs while accepting that investment may be required to enhance controls further.
• Focus on the financial aspects of governance. Sound governance plays an especially crucial role in difficult times, as companies’ access to capital markets becomes more difficult. Among other responsibilities, boards must more fully understand the reliability of internal forecasts and projections, challenge the sustainability of current sources of financing, question the ability of counterparties to fulfill their obligations to the company, and understand the related implications on the business.
What's below the radar?

1. Economic downturns and resultant cost control and reduction efforts
2. Consumer demand shifts
3. Shifting advertising dollars
4. Operationalizing new business models and managing the infrastructure to support them
5. Allocating investments between traditional and new media
6. New market entrants and the impact on the value chain
7. Asset exploitation and protection (including piracy and intellectual property rights)
8. Emerging markets
9. M&A activity and entry of private equity
10. Corporate governance and internal controls

In addition to identifying the top risks, we also asked our industry commentators to identify risks that sit directly “below the radar,” and which may emerge to top the risk lists in years to come.

Below the radar – the next five

11. Growing competition for top talent

The threat of growing competition for top talent remains a below the radar threat. So far, growth in global competition has been limited. Top talent in managing, acting and writing has stayed mostly local. The desire to work with the best creative and executive talent discourages supporting talent, such as cameramen, from migrating to more lucrative countries.

Financiers and producers, on the other hand, are coming increasingly from emerging markets and are likely to want to put their mark on the content they produce. The risk of top talent leaving to start their own businesses is significant, as many major entrepreneurs, actors and many musicians already run their own production companies.

Some analysts saw the challenges as increasing. One analyst contended that large-scale M&E infrastructure development – particularly in the Middle and Far East – threatens to lure away mid-level talent by offering them “a lifestyle that is hard to match in advanced economies.”

Many companies, particularly in the video and music industry, are trying to manage this risk by integrating backwards into the value chain. They are increasingly taking on the role of talent agents, and moving toward contracts that extend revenue sharing with artists to offset the decline in product sales. Beyond revenue sharing from concrete products – e.g., movies or CDs – these 360-degree contracts also foresee revenue sharing of events, merchandising and advertising. Human resources activity looks to become far more involved as the competition for talent heats up and threatens the profit potential of M&E companies, while companies’ responses to growing competition risk alienating creative talent.
Legal risks associated with the trend for user-generated content are another below the radar threat. Regulatory processes around user-generated content have yet to be implemented and, with the growth of new media firms, the risk of companies being required to undertake further expenditure to control fraud on the internet becomes more imminent.

If this legal uncertainty is not resolved, restrictive regulation of user-generated content will severely affect the volume of uploads and, by extension, interactive platform-related industry growth. M&E firms on both sides of the divide will need to invest considerable legal resources to defend their positions. However, a comprehensive clampdown on user-generated content appears unlikely in the short term. Collection agencies might not be able to keep track of all uploaded content, making overall deals with websites featuring user-generated content more challenging to enforce. Rights holders seem unlikely to raise royalty demands for non-commercial use – that is, the use by creators who do not benefit financially from content, but use it rather as a marketing tool.

Issues relating to corporate social responsibility (CSR) and environmental awareness constitute an often overlooked threat to M&E companies. Rising consumer demands for companies to deliver environmentally-friendly services are likely to extend to the M&E industry. Demands for M&E companies to reduce or compensate for environmental damage most likely will evolve around energy use of the internet, and possibly the impact of paper use on global warming.

M&E companies also face significant CSR challenges, that can negatively affect company profiles and reputations. As media companies can arguably impact society significantly, consumers are, and will continue to be, critical of the content they are offered. A tendency to produce increasingly sensational content might cross a critical threshold in some markets where a consumer backlash ensues. M&E companies’ corporate strategies need to address potential CSR issues proactively.

“Demands for M&E companies to reduce or compensate for environmental damage most likely will evolve around energy use of the internet, and possibly the impact of paper use on global warming.”
Legal and regulatory risks regarding privacy and new media also present a risk that could move into the top 10 in the future. One US-based consultant noted: “One of the potential casualties of the shift from mass to personalized media is anonymity with respect to media consumption.” Consumers are extremely susceptible to worries about “big brother.” The trend in Europe to shift from regulation to rights that are enforceable in courts may have considerable future impact given the ongoing digitization of the media. Perceived infringements of privacy offer an easy area to score for any politician whether in Europe or the US.

The accumulation of knowledge about individual media consumption patterns and its potential use for targeted advertising by digital media providers is likely to precipitate discussion about consumer and privacy protection. The benefits of collecting consumer-specific information — including the ability to produce more relevant advertising — are often unappealing to consumers. Although consumers have accepted targeted search and banner advertising and enjoy its convenience, approval is coupled with the fact that this targeting remains anonymous.

If concerns over individual privacy increase, new regulations could significantly affect the profitability and profile of M&E companies. The development of consumer rights, along with restrictions on the ability of advertisers to collect and use consumer-specific information, could strip new media companies of their most promising monetization method. Moreover, companies are likely to suffer negative reputational effects, should they infringe or be perceived to infringe on consumers’ privacy rights.

Backlash against globalization

The risk of a potential backlash against globalization remains a substantial, but below the radar threat. The challenges firms face in balancing their strategies between adaptation to local tastes and exploiting content globally will remain a potential future strategic risk to the M&E industry. In a global downturn, firms also face threats from simple protectionism. “Slower growth in the US makes overseas markets more necessary for success, while slowing economies create protectionist pressures,” observed one analyst. Potential regulatory changes related to licensing and ownership rules, such as China’s quota system, may have growing impact as expansion in emerging markets gains salience. Rising protectionism of national industries may limit product distribution in the print and music industries.

However, consumer ability in the digital age to access international content one way or another will limit the risk of a backlash against globalization. Most countries are likely to accommodate global firms in their local markets and focus on enabling the local industry to earn its share through distributing content and benefiting from advertising revenues. New technologies have helped to reduce hostility toward multinational companies by reinvigorating local firms and so causing an increased cooperation between domestic and global players.
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EYG no. AU0246

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