

Opportunities in adversity

Media and entertainment survey snapshot

Overview

Often, when the market is under the most stress, companies are forced to reexamine their business models. For media and entertainment (M&E) companies, though, this reappraisal has been going on for some time, as media consumption patterns have changed over the last several years.

Although consumers increasingly count on online content to whet their media appetites, M&E companies are still working to develop a proven method for making a profitable business out of that shift and, as a result, most industry revenues are still tied to the traditional realm. The economic downturn has merely served to accentuate the pressure to solve this challenge, as it has hastened the decline of dollars spent on newspaper, television and radio ads.

In conjunction with the Economist Intelligence Unit, Ernst & Young conducted a survey of leading M&E executives to gain insights about how they are managing during this time of economic uncertainty. By and large, respondents reported being more optimistic about their prospects than those in other industries and to being more prepared to strike when strategic market opportunities arise. But M&E respondents also sent some mixed signals about their ability to improve the efficiency of their operations.

About this survey

For this study, the Economist Intelligence Unit surveyed 569 C-suite and board-level executives.

Respondents were drawn from across the world and across industry sectors. Over half the executives polled worked for companies with an annual global revenue in excess of US\$1 billion. The research was carried out in June 2009. Responses are rounded to the nearest percentage.



The digital revolution has spawned an array of choices and M&E companies are torn between wanting to be on the leading edge of this market transformation or taking a more conservative approach by waiting to see how other companies fare.

Market challenges: addressing the digital puzzle

Ad-supported M&E companies are suffering as the global recession continues to sap advertising revenue, particularly for newspapers, TV broadcasters and radio stations. The economic downturn is also putting a dent in consumer discretionary spending on media purchases. In response to these pressures, M&E companies are accelerating cost-saving initiatives to align costs with lower levels of expected revenue. Some companies may even be considering enterprise-wide restructuring programs to obtain a sustainable cost advantage and improve the efficiencies of their digital supply chain.

Amid this economic turmoil, M&E companies are balancing between enhancing their core business and tapping new sources of revenue. The industry is embracing the digital content revolution, and many organizations have built a strong web presence. In several markets, the newspaper website is the top source for online news, and user metrics are growing. Advertisers are warming to M&E companies' online content and are shifting more of their ad dollars to these websites.

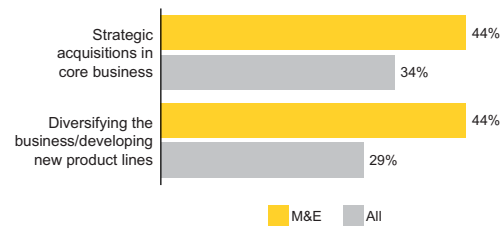
Still, M&E companies are struggling to reform their content distribution models around this digital shift. Online advertising, while growing, has not yet offset revenue declines in traditional advertising and will not do so for some time. Although several M&E companies are enjoying the growth of their online audiences, most are still challenged to find a successful strategy to monetize increasing web traffic. Expansion into less-regulated emerging markets and the growth of open-source software and online video is also creating more opportunities for piracy, further hindering revenue growth in these markets.

The digital revolution has spawned an array of choices, including user-generated content, social networks and mobile content. M&E companies are torn between wanting to be on the leading edge of this market transformation or taking a more conservative approach by waiting to see how other companies fare

A survey of the industry

Our survey of M&E leaders shows that they do not want to be left behind as the choices in the digital revolution gain traction with consumers. Most M&E firms expect to take advantage of the current economic situation to pursue new market opportunities. Compared with the general population, a higher percentage of M&E executives said that they planned to become stronger from the economic crisis by diversifying their business and developing new product lines.

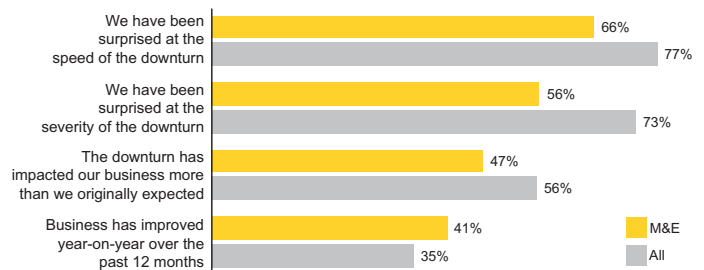
Q: In the next 12 months, what actions do you plan to take to position your business to emerge stronger from the crisis than your competitors?



Shown top two responses by percentage of M&E respondents, compared with overall.

Companies in the M&E industry may be more prepared than others to go on the offensive; they reported being less surprised at the severity of the downturn than respondents overall. In addition, a greater share of M&E respondents have seen key customers and suppliers suffer bankruptcy. They also reported being less constrained in terms of the economic downturn's impact on cash availability and share price. Another revelation was greater optimism among M&E leaders that the economic recovery will come sooner than respondents in other industries believe, with almost half of M&E industry respondents convinced that conditions will improve by the end of 2009.

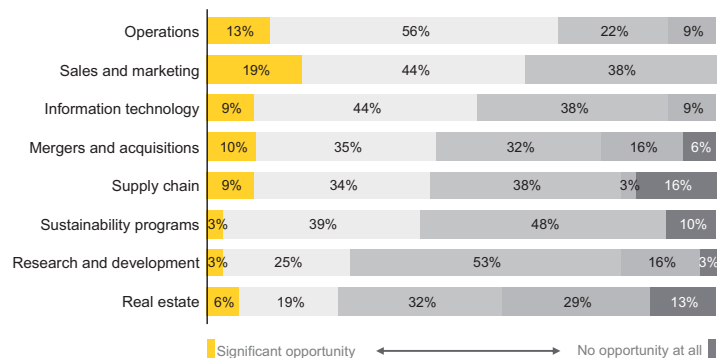
Q: Please indicate whether you agree or disagree with the following statements around the reaction to the downturn.



Shown: percentage of M&E respondents compared with overall.

At the same time, industry executives exhibited some mixed signals about their willingness to rein in costs. While a higher percentage of M&E companies saw future cost reduction opportunities in sales and marketing, many reported increasing investments in the same category. Similarly, R&D was rated a low-priority area for cost reductions, but many companies had already decreased their investments in R&D.

Q: How would you rate the additional opportunities for cost reduction over the next 12 months across the following functions in your business?



Shown: percentage of M&E respondents.

The global economic downturn may have created new near-term challenges, but it has also created an opportunity for industry participants to clear the decks and set a new strategic course for the recovery and beyond.

Market responses

In response to the global economic downturn and the increasing digitalization of media content, M&E companies are being forced to balance the need to improve near-term results while preserving the skills and assets that will be necessary to be opportunistic in the next growth cycle. Given that the industry's business models are in a state of flux, the need is greater than ever to analyze and identify which activities make the most economic sense. Ernst & Young's work with leading industry participants has helped to identify a path forward, comprising the following potential actions:

Securing your present

- ▶ **Cash management.** Limited access to capital may require companies to delay investment opportunities, and critical resources may be eliminated through cost-cutting efforts. To prevent this, M&E companies are making contingency plans for cash release a top priority. Stressed companies should be evaluating whether cash is being managed tightly and if improvements are needed for cash flow forecasting. All companies should be regularly monitoring key performance indicators for optimal cash flow performance.
- ▶ **Customer health.** Overall, there is lower risk tolerance for customers with questionable credit. Companies are shoring up their existing customer base and are working to mitigate the weakness of key customers in financial distress, such as in the automotive and financial sectors. Sales forces may need to be reorganized to give extra attention to new customer groups, which will help lessen exposure to weaker ones.

Protecting your assets

- ▶ **Intellectual property protection and exploitation.** While M&E companies fiercely protect intellectual property on a normal ongoing basis, they are redoubling efforts during the downturn to prevent further revenue leakage. When resources are limited, companies are forced to dedicate people and funds to fight piracy. In addition, companies may risk the loss of intellectual property in an effort to generate additional revenues, or they may defer or delay entry into new markets and distribution channels in an effort to protect intellectual property – even at the risk of reduced revenues.
- ▶ **Enable cost-efficient content storage, identification, tracking, privacy, security and delivery.** Investments in information technology (IT) and process improvement may be delayed due to limited access to capital or competing priorities.

Improving your performance

- ▶ **Enterprise-wide cost reduction measures and improvements in process efficiencies.** Shared services, outsourcing, offshoring and strategic supply chain (SSC) models have become critical to reducing costs and standardizing processes. Companies that have already adopted these models will be looking to make the most of the savings potential and to streamline processes. IT has become critical to growth, but at the same time, companies are looking to decrease the need for IT investments. Disruptions of crucial processes or diminished operational effectiveness can lead to serious reputational implications.
- ▶ **Develop optimal pricing models for online assets.** M&E companies are struggling to monetize intellectual property and other assets through digital channels. While companies are looking to monetize digital delivery, consumers are seeking to access online assets at minimal cost or free of charge.

Reshaping your business

- ▶ **Allocate investments between traditional and new media opportunities.** Some companies are deferring their migration to new digital delivery platforms as reduced price points add to the challenge of generating desired levels of revenue and profitability. This trend is creating opportunities for those companies that stay the course and continue to take a balanced approach between new and traditional businesses.
- ▶ **Develop new sales processes, data structures and systems to support new content delivery platforms.** Even if companies are able to capitalize on new opportunities, resources may not be available to develop or reengineer processes and systems to support these new opportunities.
- ▶ **Migrate to ad-based revenue models.** A weakened global economy is prompting cuts in advertising spend and raising competition for advertising dollars across all M&E subsectors. Reductions in consumer discretionary spending are creating additional challenges to generate returns on advertising investments. Companies must embrace new measurement approaches to provide greater insight into consumer behavior and demonstrate value to advertising buyers.

Sustaining your future

- ▶ **Consider flexible and nimble business models.** M&E companies are migrating to digital platforms to take advantage of and to make the most of new revenue opportunities, while simultaneously working to preserve and protect the traditional revenue streams that are still generating the majority of profit and cash flow.
- ▶ **Develop and deliver compelling, interactive content across multiple platforms.** While restricted access to capital and market uncertainties may slow progress, leading companies continue to invest in new delivery platforms and to develop content to deliver through these platforms.
- ▶ **Emerging market expansion.** Despite near-term economic difficulties, the growth of the middle class in emerging markets is providing new opportunities for M&E companies. Several forward-looking owners of television networks are still pursuing emerging market growth, given their attractive demographics and the growth of nascent satellite and multichannel television offerings.
- ▶ **Fostering brand loyalty among consumers.** Before the recession, M&E companies sought to develop ways to generate brand loyalty with consumers by engaging with them on multiple platforms. Now the stakes are even higher, as consumers have more options available to them and less discretionary spending for their entertainment dollars.

Conclusion

While M&E companies continue to face uncertain times, the increasing migration of consumers and advertisers to the digital world demands their attention. The global economic downturn may have created new near-term challenges in the form of capital constraints and additional downward pressure on revenues, but it has also created an opportunity for industry participants to clear the decks and set a new strategic course for the recovery and beyond. In difficult economic times, it is possible to retrench too much. In some cases, companies may emerge from the recession to find that industry leadership has shifted to more nimble or daring competitors. Making the right investments now will allow M&E companies to emerge stronger and in the best position to take advantage of the next wave of growth opportunities.

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About Ernst & Young's Global Media & Entertainment Center

Whether it's the traditional press and broadcast media, or the multitude of new media, audiences now have more choice than ever before. For media and entertainment companies, integration and adaptability are becoming critical success factors. Ernst & Young's Global Media & Entertainment Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Center works to anticipate market trends, identify the implications and develop points of view on relevant industry issues. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

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EYG No. EA0028

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