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# Sustaining shareholder value and high performance in the broadcasting industry

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How can broadcasting executives make the right strategic decisions for their companies to generate greater shareholder value and achieve high performance in a changing industry?

By almost anyone's account, the broadcasting industry continues to experience dramatic and rapid change, caused by new technologies, heightened competition, ever-increasing consumer choices and market convergence. But if broadcasting executives are to make the right strategic choices to position themselves for long-term success and high performance, they need to be guided by evidence more substantial than isolated anecdotes, vendor hype and trade press reports.

Accenture's recent in-depth shareholder value analysis (SVA) of the broadcast industry provides just that kind of compelling evidence. SVA data shows that market enthusiasm for the broadcasting segment has declined recently, and that the investment community is now favoring digital TV subscription-based models over the traditional advertising-funded, linear TV business model.

Providers leveraging these models more accurately understand today's most important broadcast trends, including people's desires to consume content based on their own schedules, and their interest in enhanced TV services such as on-demand viewing and time shifting. These services are grabbing the attention of today's consumers—especially those in the most desired demographic segments—and this trend is, in turn, permanently altering the economics of the broadcasting industry.

Broadcasting companies must begin moving in new directions to respond to changing consumer needs and to a new technology and economic environment.

## What consumers want

Other Accenture research into consumer trends in the broadcasting industry points to several important changes in consumer behaviors. For example, consumers are increasingly watching TV content on alternative devices, such as PCs and mobile phones. They are embracing enhanced TV services—including on-demand content, time shifting and play-again capabilities—that give them increased control over what and when they watch.

Consumers in the most attractive demographic categories are growing increasingly dissatisfied with traditional television. They are becoming more loyal to the content than they are to the channels themselves. "Must-see TV" certainly exists today, perhaps more than ever. But it's must-see content, not a must-see line-up on a particular channel on a particular night.

Another important finding from the Accenture research into consumer trends is that people are becoming more accepting of a pay-for-content model. Relatively high percentages (currently around 40 percent) of consumers in the 25-34 and 35-44 age brackets are willing to pay for content, either through pay-TV subscriptions or advertising that plays before a piece of content is downloaded.

## Effect of broadcast trends on shareholder value

To what extent are the industry trends mentioned above—new business models, as well as consumers' desires to watch what they want on their own schedules and on devices of their choosing—already influencing shareholder value in the broadcast and entertainment industry?

Based on a biannual shareholder value analysis conducted by Accenture with 20 listed broadcasters from across the world, research clearly points to an industry in a challenging transition period. The analysis starts from the measurement of the total return to shareholders. TRS is the calculation of the value of stock plus dividends issued, correlated with (1) the efficiency of operations and (2) the effectiveness of long-term investment decisions and strategies. Our analysis points to a general decline in TRS for this group of broadcasters over a recent 12-month period.

Further proof of this decline is evident when looking at the TRS performance across the last five years. The average compounded average growth rate, which was 21.5 percent between 2002 and 2007, has declined to only 8.7 percent in the past year or so.

Accenture analysis of this decline points to two underlying factors. First, European broadcasters have struggled compared with their US peers. Second, and perhaps more important, investor enthusiasm now appears to favor digital TV subscription-based models over the traditional advertising-funded, linear TV business model.

This last point is strongly supported by our SVA analysis. Four out of the five top performers in terms of one-year TRS have a subscription-based business model, centered around multichannel-enhanced TV services (video on demand, interactive services, personal video recorders) and offered through a digital network.

Traditional broadcasters are losing the scale effect that made them the preferred communication vehicle for large advertisers. In turn, the advertisers are increasingly turning their attention toward new digital platforms (digital terrestrial television, satellite, cable) that can provide more targeted and profiled audiences, innovative advertising formats, clear measurability and premium engagement. A better understanding of consumer segments can improve communication effectiveness and overall returns on advertising investments.

So the increasing propensity of consumers to pay for enhanced TV services means, on the one hand, that subscription revenue streams are growing faster then advertising revenues. On the other hand, it means that digital competitors are launching a direct attack on the traditionally safe revenue streams of the linear broadcasters through innovative digital advertising offers.

## Future value

Accenture's forward-looking analysis confirms the challenges faced by the traditional free-to-air, linear TV business model. It also underscores some of the doubts investors are expressing over the sustainability and attractiveness of the linear TV business model in the future.

When we turn to an analysis of the enterprise value in the broadcasting segment, the trends discussed above become even more apparent. Enterprise value stopped growing in 2007 and remains flat today at about $293 billion. At the same time, the data shows an increasing weight of the current value (associated with the profitability derived from current operations) over the future value (the component associated with the market expectations in terms of growth).

Analysis points rather starkly to the growing chasm between the future value of digital TV services compared with traditional linear services, which generate little or no premium on the basis of their future strategies.

In fact, investors appear to be turning away from many of the more traditional media players—those with business models that do not embrace changing media consumption patterns. The future value of many of these media companies from 2005 to 2007 declined precipitously—from $51.2 billion, down to $4.1 billion.

What is happening to shift value toward the digital players? Accenture believes that these companies have understood and embraced changing consumer trends and preferences more quickly than their competitors and have moved in front of the trends with timely offers.

## Conclusion: Building on distinctive strengths to generate high performance in broadcasting

Taking all the factors discussed here into consideration, we believe that the players who will succeed in the future broadcasting industry will do so based not on a traditional broadcast model but on something Accenture calls "Broadcast 2.0." This more evolved business model requires embracing the digital transformation that is at hand, and then understanding the profound implications of the evolution from “audience” to “consumer” and from “programmed content” to "consumer services."

In this context, content remains a key competitive advantage. But the focus shifts from the traditional measurement of audience share to an assessment of consumer reach: getting the right content to the right consumer at the right price and with the right service model. Consumer innovation means putting the consumer at the heart of business strategy, personalizing the consumer experience and adopting a platform neutral approach—or, perhaps more accurately, an approach that embraces all platforms.

Successful free-to-air broadcasters will be the ones who have strengths along two dimensions: the traditional mass market, with its prevailing business-to-business logic, and the new business-to-consumer market, one that requires new skills, mindsets and supporting infrastructures.

Consumer survey data here creates a strong set of imperatives for broadcasters, but the more detailed shareholder value analysis ratchets up the urgency even more. The digital transformation is not on the horizon; it's here. Stock performance is already being affected by a company's ability to embrace the digital value chain, multichannel distribution and a consumer-centric strategy across marketing, sales and service.

This is an exciting period in the history of broadcasting, but also an urgent one. Even in challenging economic times, today is not the time to take a "wait and see" attitude. The time for digital transformation is now.

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