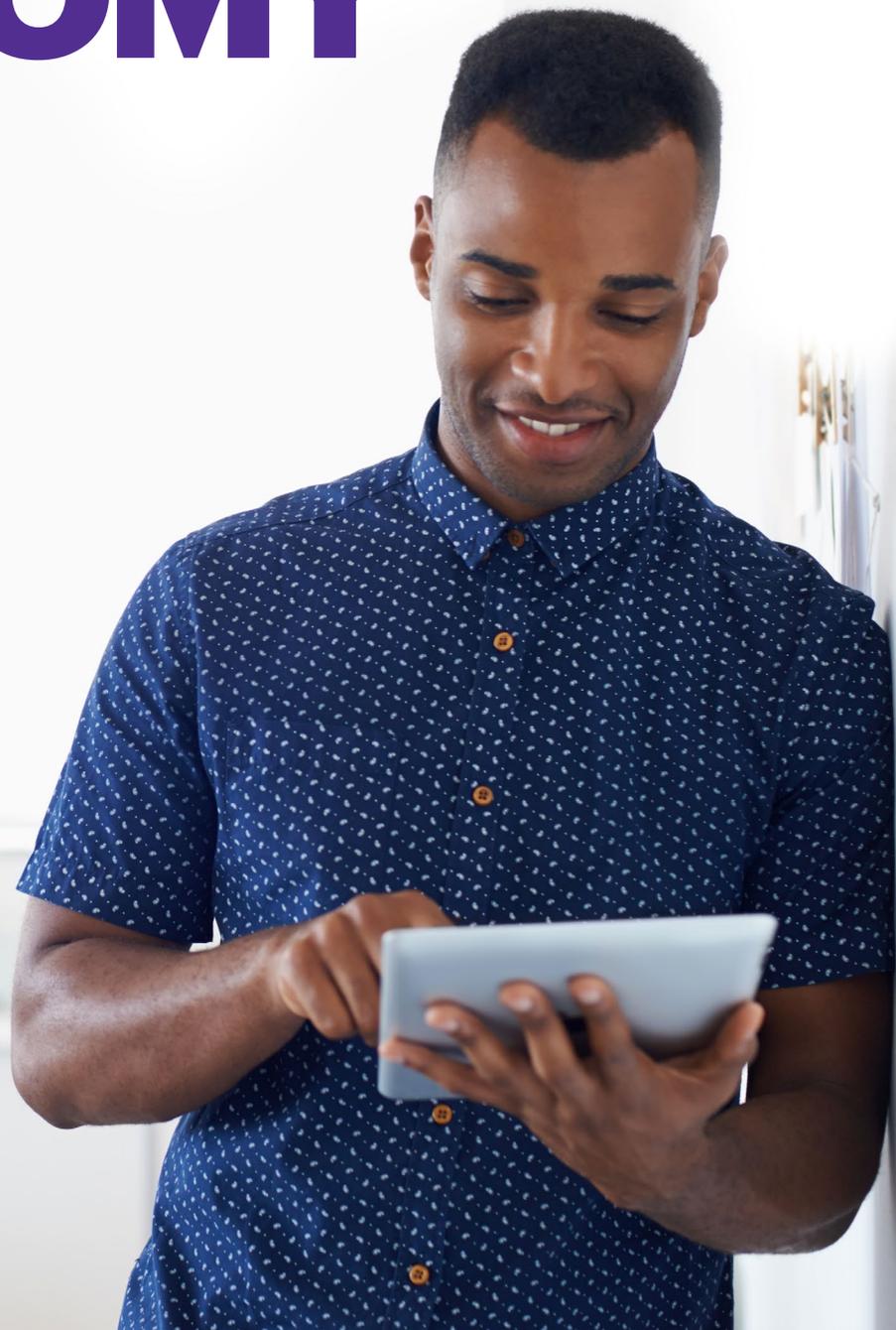


EVOLVING TO WIN IN THE NEW APP ECONOMY



DIRECT ACTION

Transforming to compete in the 'app' economy

As traditional media businesses face intense competition from digital natives and relentless financial pressure, they're increasingly responding by taking a new, direct route to the consumer. Competing in the "app" economy requires them to develop a new set of skills and capabilities, as well as make some big investments. But traditional media businesses also have some considerable strengths to bring to the fight. The key question? How they can bring the best of both worlds to present a winning case to the ultimate arbiter: the consumer.

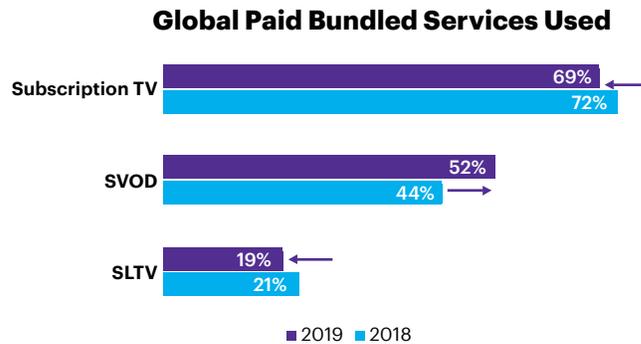
There are two key perspectives on the "app" economy. For consumers it's all about on-demand services, easy switching at will and freedom from commitments like long-term contracts. For businesses, the "app" economy is built on software-driven principles: agile development, data, test-and-learn approaches, data-driven continuous improvement and transparency. And all of this has to work at pace to keep up with consumers' liquid expectations. As consumers constantly evaluate their options, media companies need to figure out how to continuously offer a desirable value proposition from their strength: content.

However, media companies face the same financial and competitive pressures as their counterparts in other industries. They have to maintain quarterly growth and profits while sustaining a legacy business model, even as they go through a digital transformation competing with new, digital-first competitors. And there's also the powerfully disruptive force of ubiquitous broadband and fast-developing consumer device technologies that have resulted in fundamental (and accelerating) changes in media industry dynamics.

Audiences are migrating more rapidly than ever away from traditional viewing platforms and toward streaming services and other forms of entertainment as consumer screen time continues to broadly increase. Social media has created new tiers in the content creator ecosystem. And thanks to the massive, data-powered expansion of digital natives, they've changed content supply chain dynamics and enabled specialized content to be targeted at consumers with laser-like precision.

Battling on two fronts

Traditional media companies are in direct competition on two equally disruptive fronts. On the one hand, they contend with the absolute leaders in the technology sphere, like Google, Facebook and Amazon. On the other, they're competing with the frontrunners in premium streaming, like Netflix, on delivery and increasingly in the creation of high-end original content.



Sample base: respondents paying for video content FY19 n=14,005 & FY18 n=13,804
 What video services do you use?
 Source: Accenture Digital Consumer Survey 2019, 2018

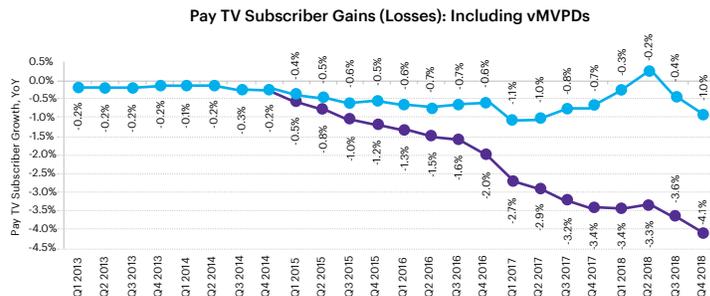
These changing market dynamics and new competitive forces exert disproportionate economic pressure on traditional media companies. That's for a variety of reasons.

Asymmetric warfare for investment and talent?

Digital platforms are growing viewers and revenues, while traditional distribution mechanisms are shrinking on both measures. Digital native competitors don't have to bear the same level of costs as traditional businesses, nor do they carry the same cost of innovation.

Decline of MVPD subs shifting towards vMVPDs to retain customers

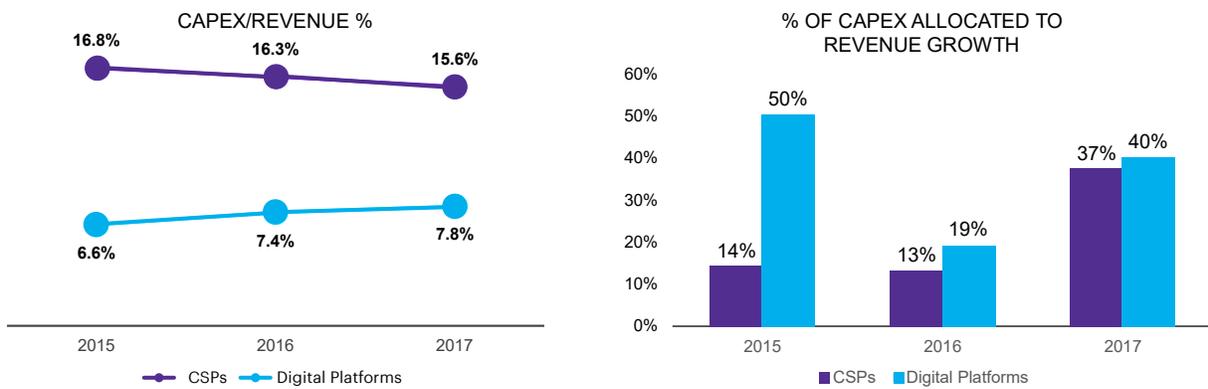
Exhibit 21



Source: Company reports, MoffettNathanson estimates and analysis

That's because the core of traditional media businesses' revenues still ties directly to their legacy costs supporting the infrastructure and supply chain associated with TV/broadcast, and cinema, as well as licensed distribution of content. For example, as Disney goes direct to consumer, it needs to consider the impact on reduced carriage fee revenue (ABC/Disney) from MPVDs and licensing fees, traditional and digital, when deciding how much to invest in the D2C business and what content will be in such a service, or more specifically exclusive to the service. What's more, the investment in new technology that's needed to address audience relevance and to position for future growth is a core operating cost for digital natives, but over and above what traditional media firms need to make just to sustain their current operations.

Growth capex of digital platforms vs CSPs

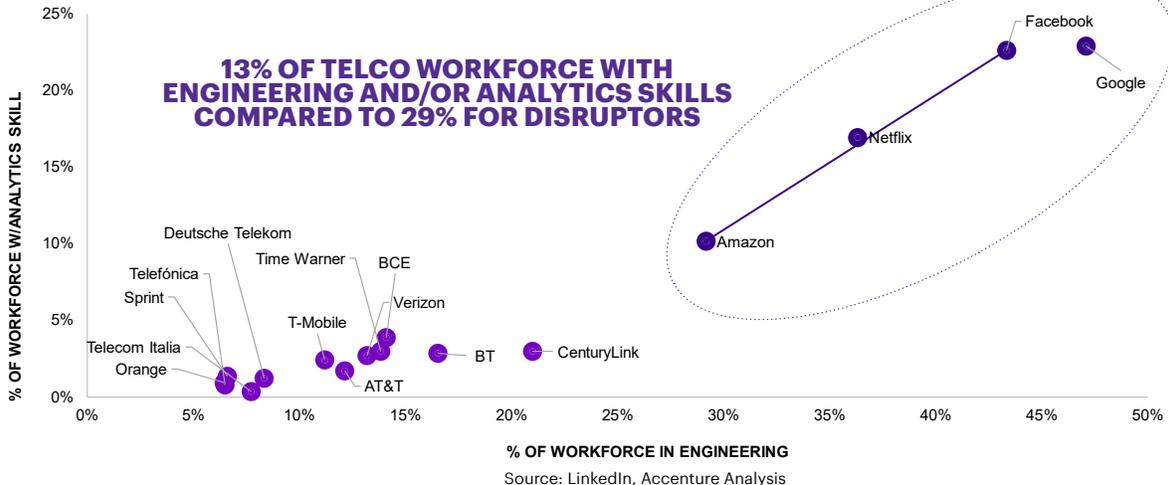


Disruptors' capital spending has helped drive 14% annual revenue growth, compared with CSPs' 5%

Source: Capital IQ, Accenture Research | Digital = Facebook, Apple, Amazon, Google and Netflix | CSP = Top 53 Global Carriers

And then, there's the question of talent. While long-established firms have a workforce that's skilled in traditional media, the new competitors' armies of technical, engineering and analytics specialists are better equipped to create and manage the machinery of the tech-centric app economy from which virtually all future growth would come.

Engineering talent differences between CSPs and digital natives

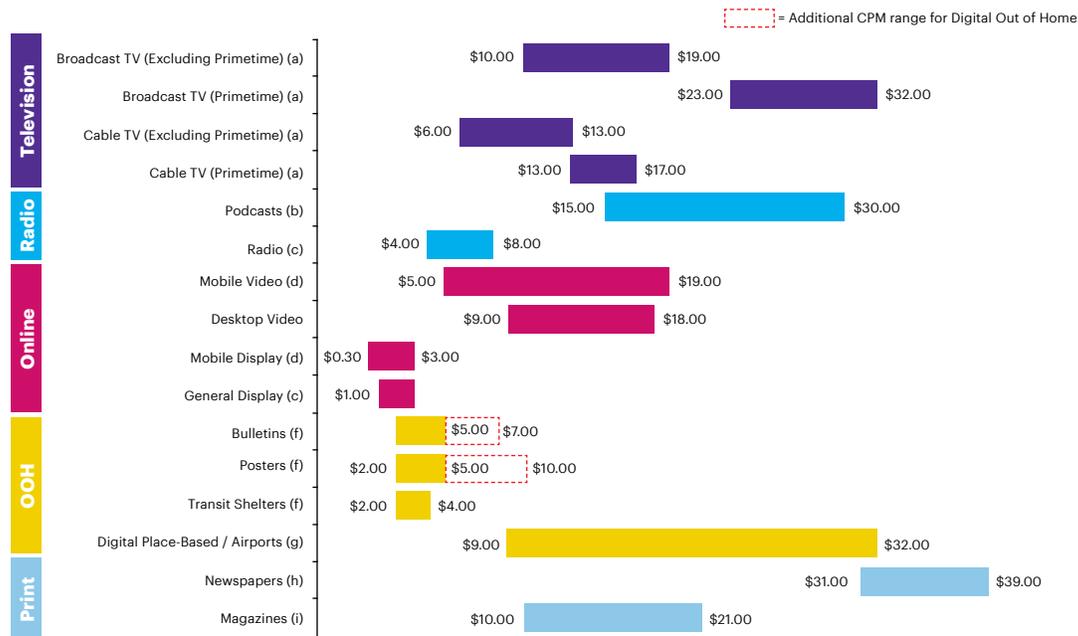


High-value content: the ace up the sleeve

But the new digital competition doesn't hold all the cards. Traditional media companies still have an advantage, for now, in the area of high-value content. This includes live sports and other major real-time events, as well as premium high-end content – both episodic and cinematic. The source of this advantage? Primarily, it's the mature, expansive, and capital-intensive creative pipelines (e.g., large studio ecosystems) they possess, as well as their specialized management and distribution infrastructure (e.g., linear broadcast networks). These continue to produce, distribute and monetize the differentiated content that attracts and retains audiences. Understanding this strength, and how to leverage it, is key to the successful commercial and technical evolution of both traditional and non-traditional media firms.



US MAJOR MEDIA CPM COMPARISON



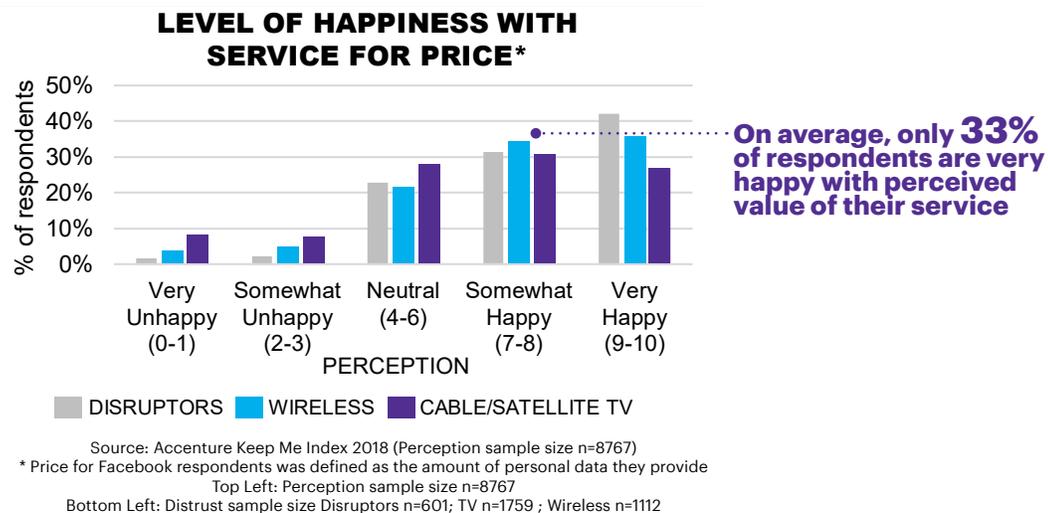
Source: PJ SOLOMON Estimates as of November 2018 based on SEC filings, news, research and other industry sources.

- (a) 30-second advertisement.
- (b) 10- to 60-second advertisements. Includes both pre-roll and mid-roll advertising.
- (c) 30-second advertisement. Includes both spot and network.
- (d) Dataset includes mobile web, phone and tablet for both Android and iPhone.
- (e) 300x250 banner ads.
- (f) Calculated using SQAD reporting from OOH media companies.
- (g) Represents data from 2014.
- (h) 1/2 page ad pre-discount. Calculated using estimated readership.
- (i) Full-page color ad. Calculated using estimated readership.

Source: Solomon estimates and analysis, 2018

In the balance

The difference between mass-market entertainment and hyper-specialization is quality over quantity, and the price value offered to consumers and advertisers. Mass-market is still, generally, dominated by large media companies, with hyper-specialized content now and forever more the property of social media and super-platforms. But it's a balance that won't last forever. In fact, it's already under assault. There's close industry attention on the original content from Netflix, Amazon and even YouTube. New technology advances coming together like 5G, gaming and extended reality may further reinvent what's possible from a premium media experience – and in the process reshape consumer expectations.



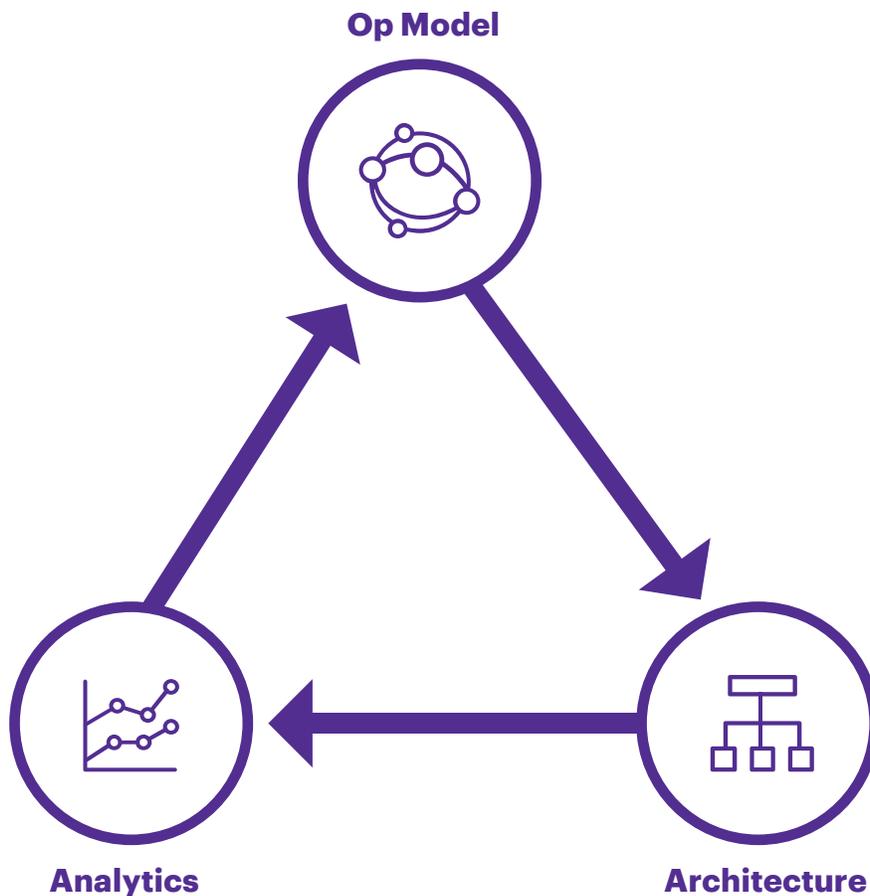
The way ahead points directly to the consumer

Traditional media companies face a tall order. They need to navigate general economic uncertainty, fend-off rising competition (on all sides), and evolve to distinguish themselves within an accelerating tech-centric consumer marketplace – all while preserving their core revenues and driving better operating efficiency. So, what is the answer?

Most major media and entertainment firms are already advancing initiatives intended to bring about transformation. Some are even in their second or third iterative cycle of what is broadly labeled a direct to consumer (DTC) migration. At the current stage of market evolution, DTC can be used interchangeably with “OTT” or “TVE”, and so on. But however it's labeled, the central idea is that the media industry, including its historical leaders, is moving into the “app economy” – where future battles for the attention of consumers, and all the related revenue, will be won or lost.

No single prescription... but a template for success

Every media business is different. They have different histories and future trajectories. So, there's clearly no one-size-fits-all prescription for success. But it is possible to apply a general template to the particulars of a given business. This can help direct activities toward realizing a tailored governance model along with a fit-for-purpose technical strategy, that will facilitate each business to compete in the digital marketplace – in a way that is characterized by informed agility, mitigated risk, and making the most of their inherent strengths.



THREE KEYS TO OPERATING IN THE APP ECONOMY

This evaluating framework defines the actionable investment and transformation path for large media firms as they seek to distinguish in the “app economy”. It centers around three basic components:

- ① **Operating Model:** How can companies organize in order to run a specific type of app-based, tech-centric media business?
- ② **Architecture:** How can they create the appropriate technical construct for executing the functional objectives of the operating business, while producing the data needed to inform the business?
- ③ **Analytics:** How can they perform analysis combining the output of the architecture (where consumer/product interactions take place) with external data (including legacy business inputs) in order to create near real-time intelligence for the operating model? The purpose? To drive fundamental business decisions – including investment against the execution plan.

BECOMING A DYNAMIC BUSINESS

Whatever the unique traits of any media firm, or its intended distinguishing content or revenue focus, a high-functioning industrialized synergy across these intertwined domains would help analytically-driven **dynamic business management**. For many firms, this may entail introducing an entirely new way of working - one that deliberately incorporates key attributes of the agile software delivery model. It's a model that is entirely appropriate for businesses operating within a software-driven economy. More importantly, however, it shapes a company that can adapt to address its business realities. That's a company:

-● Whose leadership is informed by a constant flow of real data, enabling it to react appropriately to changes in market dynamics – mitigating key risks, like prematurely sacrificing established revenue models for new ones (e.g., licensing vs subscription)
-● Whose macro strategy is better informed by “on the ground” information (e.g., data describing direct consumer interactions with products and services), and therefore better attuned to market realities
-● Whose execution teams, like members of agile development squads, are empowered to solve problems and address challenges creatively within a consistent and understood authority framework
-● Whose creative and technical thought leaders have the ability and tools to efficiently develop and test innovation initiatives within a stable framework – and with the ability to invest in scaling these when timing is appropriate

COMPETING IN THE APP ECONOMY

As media businesses make the transition to the “app” economy, they must outline a clear vision, take a pragmatic approach based on market and internal realities, and - critically - remain patient. The journey is not easy.

The pressure to create a new digital identity would drive traditional media companies to force the pace of transition. And that could lead to short-cuts being made. However, that is likely to result in the creation of unintentional technology debt, which simply compounds the complexity of the business and operating model transformation journey. In addition, falling short of false expectations for instant market leadership may test the resolve of media businesses and call investment decisions into question. So, it’s essential that they maintain a perspective that frames the transition to the “app” economy as much more than just another project to be managed; this is really about authoring the company’s digital future. While strong historical brand identities may provide traditional companies a fair opportunity to catch the attention of the consumer, any mis-steps –like under-delivery on experience – would result in lost credibility. With the ever-growing entertainment options at consumers’ fingertips, any failures could prove catastrophic.

The operating model, analytics and architecture provide a blueprint for success. But it’s also imperative for media companies to seek out talent with the right DNA to facilitate change in the business and manage the journey effectively. Real talent in the app economy is a scarce and highly sought after resource. But, it’s critical to enabling a vision, developing the culture and innovation required for success. As companies seek to build these, sometimes developing the right partnership will be what’s needed to help them get the ball rolling.

Authors

Bikash Mishra

Technology Consulting
Senior Principal

bikash.mishra@accenture.com

Curtis Kendall

Technology Consulting
Principal Director

curtis.j.kendall@accenture.com

Elizabeth A. Keating

Technology Consulting
Senior Manager

elizabeth.a.keating@accenture.com

Chris Eich

Research Manager

christopher.eich@accenture.com

About Accenture Digital Video

Accenture Digital Video is an Accenture business unit focusing on helping companies build successful digital video businesses by enabling them to capture new growth opportunities while maintaining profitability in their traditional business in a rapidly changing market. Working closely with clients, Accenture leverages a portfolio of highly relevant integrated business services enabled by open technology platforms to deliver successful video business outcomes; from thinking to planning to doing. A global industry leader, Accenture Digital Video has a 20 year track record of advancing video technology and business innovation, supported by a global workforce of more than 2,000 dedicated professionals helping clients succeed in a complex, volatile landscape.

Visit us at www.accenture.com/us-en/accenture-digitalvideo

Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world’s largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 442,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

Visit us at www.accenture.com