FUEL THE CORE OF YOUR MEDIA AND ENTERTAINMENT BUSINESS

Three growth strategies
A NEW WAVE OF CRISIS IS LOOMING FOR TRADITIONAL MEDIA COMPANIES

Recent research by Accenture and Ovum reveals that media companies are losing cash exactly when they need it most.

81% of media executives believe they will exceed their 2018 Opex budgets.

10% drop in EBITDA margins in just this past year.

With Opex spending rising faster than revenue, media companies are on the edge of a cash flow cliff. Competing in the new digital world requires traditional media companies to transform by designing, piloting and rapidly industrializing new content, services and tailored offerings that enrich the audience experience and scale the New.

These are resource-intensive investments, and most traditional media players do not have the required cash available. Instead, they will need to find and reclaim it from within their organization by transforming their core. Done effectively, they can unlock trapped value to drive optimization and fuel their transformation.

The process must begin with a clear vision for their digital future. Companies need to understand how they want to engage in the industry value chain—be it as a multi-channel operator, vertically-integrated direct to consumer provider or digital platform—and the capabilities they will need to achieve this. Following this North Star vision, they can set their course for sustained digital transformation.
MEDIA & ENTERTAINMENT BUSINESS

CAUGHT IN A SPENDING TRAP

Media companies are caught in a spending trap beyond their control. Not only have content costs ramped up, spurred by competition from newer digital over-the-top players, but non-content costs are rising as well. In fact, these non-content costs are forecasted to increase by 10% between 2017 and 2018, but the industry’s estimated growth within this timeframe is just 9%, which would lead to an anticipated 10% drop in EBITDA in 2018. These trends are anticipated to continue, but they are not sustainable.

However, it is possible for media companies to simultaneously change these trajectories—to reduce expenditures by identifying and releasing trapped value across their organization, and then reinvest these monies to fuel new growth opportunities.

Getting the right fuel for the journey

The value drawn from the existing, core business becomes cashflow that media companies can invest in the new, innovative products and services needed for lift-off of their new businesses and business models. Transforming their core to unlock this value is their first step on the S-curve journey, a process that helps media companies to jump from a mature business with declining growth to new businesses at the beginning of their growth phase.
For the purpose of this paper, we focus on the first part of this transformation. And, we see three main approaches for media companies to transform their core operations to unlock the trapped value:

**Simplify Operations**
Create simpler operating models and efficient processes to remove unnecessary cost

**Zero-Base Spend**
Budget from zero each year to surgically drive potential cost savings

**Invest in the Intelligent Enterprise**
Harness the power of artificial intelligence and analytics to find and sustain long-term potential savings
TRANSFORMING YOUR ORGANIZATION

Simplify Operations

According to our research, overhead continues to be media companies’ largest expenditure, and will account for a projected 22% of their Opex budget investment until 2020. A wide range of expenses fall into the overhead bucket—making this an area ripe for releasing trapped value.

For example, there are opportunities for organizations that operate across portfolios to consolidate functions, like HR and finance. We also see companies duplicating efforts, with duplicated advertising sales organizations for their traditional media and digital media products. Similarly, content distribution and metadata management frequently operate in multiple places across the company, despite the end goal being the same.

By consolidating and centralizing these activities, media companies can simplify the organizational structure for greater efficiency—along with the added benefits of improved performance, more focused resources and better information sharing.

Outsourcing is a possible path in the case of non-core business functions. Human resources, procurement and physical supply chain management are areas that could be explored to identify outsourcing cost saving opportunities.

Objective: Reverse declining operating margins without negatively impacting company’s short-and long-term growth trajectories.

How:
• Leveraged data and analytics to improve transparency of current costs and true spend
• Identified and quantified savings opportunities through value targeting
• Created shared service structure to lower general and administrative work and costs
• Developed go-to-market activities to improve sales motion and revenue growth

Impact: Preserved unique and differentiating aspects of the business while accelerating target margin, delivering accelerated growth, and increasing sustainable benefits.

Client is on track to increase operating margins from 24% to 30%.

ACCENTURE CASE STUDY:
Media Industry Content Delivery Network Services Provider
Zero-base Spend

Too often, the budgeting process is based on last year’s performance, with existing line items adjusted for the next year. This approach ties organizations to the past—while media companies need to be focused on the future.

Zero-base spend starts with a blank slate, forcing organizations to rethink all operating expense costs and reimagine their cost structure based on what’s needed in this new, disruptive environment. It requires companies to design the right organization from scratch, rethink all operating expenses, remove past biases, and reallocate resources that do not support their distinctive capabilities or contribute to the desired outcome.

Zero-based budgeting drives out unnecessary costs and puts 100% of media companies’ spend in line with their strategic growth plans.

Freed funds can be shifted to activities that drive sustainable growth, build innovation, and move them closer to their desired end goal.

This same zero-based methodology can be applied beyond budgeting—to areas such as supply chain, front office and organizational functions—where it can increase efficiency and agility. Released from previous constraints, companies have the flexibility to streamline activities, systems and solutions.

**Objective:** NASPERS needed to improve organizational effectiveness and reduce its cost base to prepare for the future amidst a rapidly changing TV landscape.

**How:**
- Took Accelerated Savings approach focused at activity level to identify opportunities for bottom-line results
- Built cost-conscious culture through strong leadership engagement to deliver bottom-line results
- Delivered program at pace through Value Sprints and with analytical rigor to ensure sustainability of savings

**Impact:**
$60M+ savings identified and committed in first six months.
Invest in the Intelligent Enterprise

Upfront technology expenses can be significant but are critical to creating an intelligent organization that can optimize opportunity and drive organizational efficiency.

Industry executives already recognize this importance, with more than 85% of those we surveyed believing that digital technologies will enable cost transformation in technology and marketing functions.

Digital-born companies are proving this. Free of the legacy advertising infrastructure that traditional media companies carry, Google and Facebook have a significantly higher gross margins than media companies.

Because these digital-born operations are built upon exceptional data and analytics capabilities, they have significant advantages over traditional businesses when it comes to measuring the business, tracking results and targeting customers. Data and analytics are essential for traditional players to stay competitive in the future—and advanced analytic capabilities also provide an enormous opportunity for Human + Machine enhancement to unlock value now.

INTELLIGENT ADVERTISING OPERATIONS

Intelligent Advertising brings efficiency and predictability to ad operations, creating opportunities to reduce resources and streamline tasks. In linear TV advertising, for example, humans perform much of audience forecasting. No matter how highly skilled these individual resources are, this is a costly and time-consuming process that cannot match the speed, accuracy and responsiveness of machine solutions for supporting a better pricing strategy.

Objective: Meet challenges of increasingly competitive advertising market.

How: Launched digital advertising transformation program, including implementation of Accenture Multimedia Advertising Platform

Impact:

Lowered administration expenses 20-30% and operations expenses by 10-15% through organizational changes, process standardization, reduced cost per advert, reduced headcount, and scalable operations.
INSIGHTFUL CONTENT PRODUCTION

Sophisticated planning tools, advanced analytics and machine learning can also be applied to content production, helping media companies to optimize human and technical resources, help improve efficiency and trim waste. Accenture helped Globo, South America’s leading broadcaster, optimize their artistic and production resources by applying strong production analytics and forecasting tools, coupled with a systematic approach. Now, Globo is on the path to reduced costs driven by improved planning capabilities, streamlined scheduling, increased efficiencies and minimized spare capacity.

SMART SUPPLY CHAIN

Artificial intelligence and platform-based solutions are also being applied to manage costs and improve speed across content supply chains. From document workflows to metadata and from quality checking to ingestion and delivery, the opportunities are there for digital technology and automation to lead to smaller production teams and simpler post-production processes.
Beyond Cost Cutting: Strategic Spending

While driving efficiencies across the cost base is critical to fueling traditional media companies’ transformation to the New, it is not simply about cutting costs. Strategic spending is the goal.

Rallying the organization upfront around the future “to be” vision is a critical step. Company-wide buy in will be key to galvanize the business and cement the understanding that important financial steps are needed to propel new growth and opportunities.

Then, with fuel in their tank, media companies can embark upon the future steps of their transformation journey. From here, they can invest in new growth to pivot to their target end-state.
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