Media Futures Report

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Objectives and methodology

To understand the risks, mega trends and strategic issues likely to affect trading for the media sector over the next 10 years and beyond, WTW partnered with Mack Institute's Collaborative Innovation Program (CIP) at the Wharton School, University of Pennsylvania, and forward thinking inc.

The aim of this resulting WTW Media Futures Report 2022 is to not only analyze the dramatically changing conditions and the equally profound responses of the sector, but to identify emerging risks, potential opportunities and immediate actions that might protect and grow media businesses into their futures.

In this report, we feature insight gathered by Mack researchers who conducted ten in-depth interviews with industry experts, four colleagues from within WTW, and six external experts, industry leaders and WTW L&H clients from the U.K. and U.S., to broadly understand the trends and their impact potential within the media industry. The team also conducted a survey in February 2022 to understand changing preferences and expectations, and collected quantitative customer responses from more than 200 survey respondents, split between the U.S. (95) and the U.K. (108).

We combine these research outputs with insight from forward thinking inc., a third-party consultancy commissioned by WTW. It conducted 21 interviews with industry experts within WTW (4), external experts, industry leaders (7) and clients (10) located in the U.K. and U.S., and also undertook in-depth secondary research.

We also overlayed all of the resulting research with further insights from WTW L&H leaders, as well as expert commentary from a range of WTW's people, risk and capital experts.

Overview

In this report, we explore the media and entertainment sector.

We consider one or all of the following key trends as identified by the research:

- New frontiers in technology
- Transformation of people and workforce
- Changing consumer preferences
- Climate and sustainability

Then, we offer:

- Risk alerts – areas of evolving and emerging exposures
- Opportunity watch – new openings in changing sub-sector conditions
- Action plan – next steps for your business to consider in light of our research findings.

Where appropriate, we also provide:

- Subsector specific case studies
- Focus insights on stand-out sub trends and emerging risks.

Media and entertainment

Evolving business models, securing the eyeballs of younger viewers and the creativity of diverse talent are all front of mind for entrants old and new in the media and entertainment subsector.

What new exposures is increasing data collection and how can companies stay ahead of their data liabilities and retain public trust, not to mention their loyalty in the context of 'cord cutting' by streaming customers?

Media and entertainment

New frontiers in technology

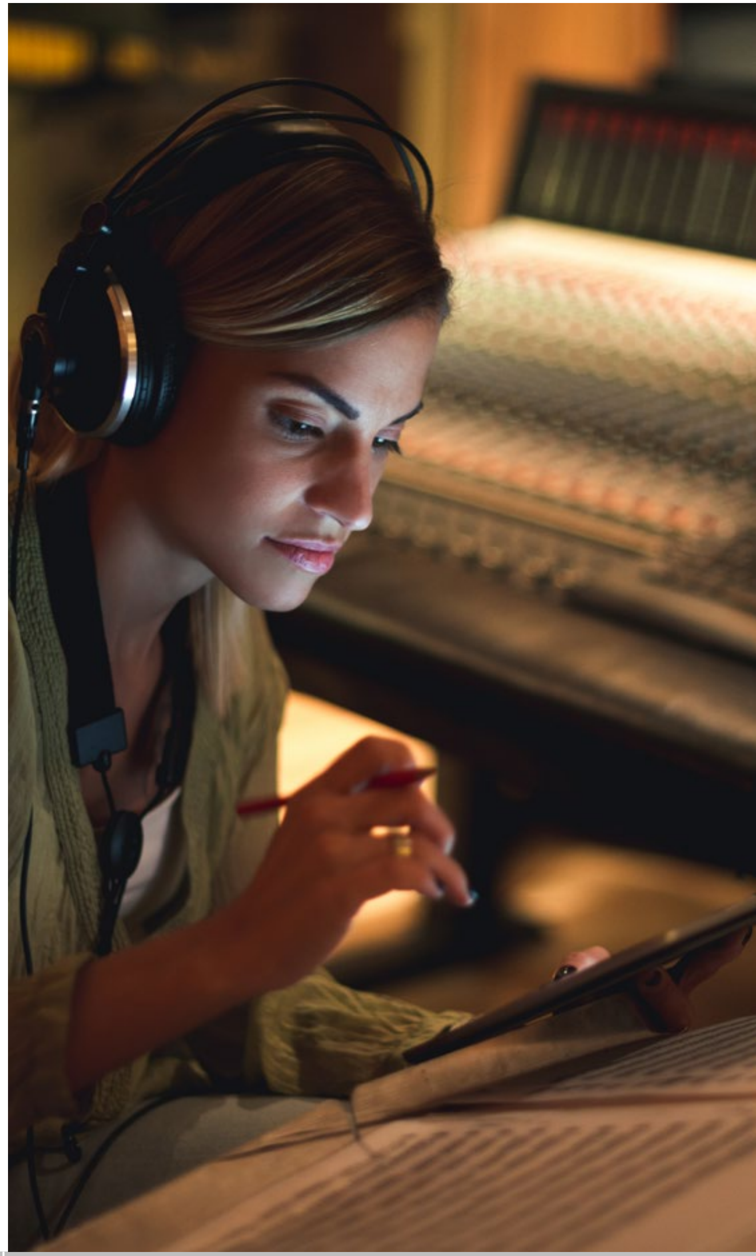
In the media and entertainment sector, connected TV (CTV) and its data collection, and AI use capabilities are all changing the way viewers interact with content. AI companies using digital advertising will be able to create bespoke ads for their target segments using CTV data. Viewers can also interact with the ads – as in the case of shoppable ads – rather than passively watch.

With streaming platforms, as competition grows, the ability to curate recommendations and push their own content forward will give streaming services a competitive edge. Investment in AI to provide seamless user experiences and differentiate in an increasingly crowded market is key.

Our research indicates most viewers of media and entertainment are either neutral or somewhat concerned about media companies collecting their data, and younger age groups are more likely to enjoy targeted ads. Nevertheless, it is important to clearly define how much and which data companies will collect, how they can use it, and what liability they have in the event of a breach.

WTW reputational risk specialist David Bennett suggests in the U.S. in particular, younger consumers are experiencing “breach fatigue,” that is, they are increasingly neutral when alerted to their data being compromised. However, this should not be cause for organizations to relax their own attitudes to data breaches, not only because it’s the right thing to do but because you can never be sure of customer loyalty when things go wrong. You might also consider establishing strategies to shore up loyalty when breaches occur. “What’s a subscriber’s ‘stickiness’ if there are data privacy issues? Can you understand whether giving them additional rewards would keep them with you, for example, and how much that would cost?“ asks Bennett.

Data can inform just these sorts of decisions around which customers to target with such loyalty schemes. “If you have the data, you might create ‘risk personas’ around this sort of thinking,” adds Bennett.



Media and entertainment

Transformation of people and workforce

Traditional media company cultures linger, hindering recruitment and retention of talented people, including staff that identify as neurodivergent, women and minority groups. Failure to diversify workforces shuts off potential pools of fresh ideas and creativity.

Diversity and inclusion efforts need to be linked to improved operational effectiveness and the positive impact on profits. The industry experts interviewed in our research all mentioned reputation as a key driver in media companies' decisions; culturally, diversity and representation are becoming a meaningful consideration for viewers and their perception of content.

There is an increasing push in the industry for increased representation both in front of and behind the camera, affecting both consumers and the workforce, with most consumers still feeling under-represented in the content they consume.

While we expect to see more minority filmmakers in the industry, consumers will increasingly demand to see a wider range of races, body types and gender roles in the content they view with findings from the Mack survey of 204 respondents for the WTW Media Futures report indicating 62% of consumers currently feeling they are rarely or only occasionally represented in the media they consume.

Even in a gig economy, media companies need to invest in programs to develop a wide range of talent to increase their retention and maintain access to high-level professionals as competition for talent grows. Large media companies run an increasing risk of bad publicity from things like an unethical executive or tv-show scandal. They should focus on finding adequate insurance for these events and appropriate strategies for bouncing back if such an event occurs.

Media and entertainment struggles with talent gaps look set to continue. "There's a real battle for talent. Many people retrained in light of the pandemic," says Bennett. He also makes the point that debates around people are increasingly centered on conditions for those in the industry. "The duty of care conversations to those on screen are now expanding into a duty of care to people behind the camera," he says.

Media and entertainment

Changing consumer preferences

In the over-the-top (OTT) media market – where film and television content platforms are provided via a high-speed internet connection instead of a cable or satellite provider-based platform – profitability among existing businesses is becoming more elusive, as the subscription model loses its power to drive long-term growth, eventually plateauing subscriber growth. Streamers are also dealing with competition both to win customers but also to license exclusive content.

There is also the risk of an undercurrent of account sharing and short-term subscriptions that lets customers cut down the total cost of their subscriptions. This emerges as a delicate issue for streaming services – while 66% of our survey respondents who said they used between one and three streaming services, only 58% said they paid for the same number.

This sizeable subscription pay gap is undoubtedly hitting profitability. Moreover, with the rising cost of living in the U.K. posing an emerging risk, OTT platforms have faced cancellation in subscriptions from 800,000 households.[1]

Streaming platforms must diversify further, both in their audiences and their revenue channels. Several are considering rolling-out ad-supported content as an additional revenue stream. This is justified in light of 51% of all the revenue currently made in the OTT market coming from ad-funded video-on-demand, while 40% from subscription video-on-demand.[2]

Viewers are receptive to this trend, too. According to the Integral Ad Science (IAS),[3] 76% of people in the U.S. will embrace video marketing if it allows them to stream content for free, and 55% plan on using free video streaming services within the next year.

As new players enter the market with a dual revenue stream, the long-term survival and growth of existing players relies on how quickly they can adapt. Businesses must consider whether these capabilities can be internally sourced, or if they require partnerships with data specialist firms.

The prospect of ad-supported content is also an opportunity for brands, as technology bridges the gap between TV and e-commerce. Shoppable ads using QR codes to enable ecommerce advertisers to create a seamless, measured journey from the point of viewing an advertisement through to purchasing the product.

From a sales and marketing perspective, this content interaction will make it easier for companies to act where impact is immediately measurable and obtain a wealth of data on advertising effectiveness.

Bennett says, "The threat of so-called cord-cutting by subscribers is front of mind from podcasts to streaming. For the whole of the media industry, the challenge is finding the young demographic who just don't watch TV. This is why some streamers are looking at ad models. One of the upsides of this model will be the great amount of data this will generate for advertisers."

In addition to moving to ad models, it's likely they'll be further cutting of programming due to drops in revenue. At the same time, streamers are increasingly focused on globalizing their offers.

[1] https://www.theguardian.com/business/2022/aug/04/thousands-cancel-netflix-or-prime-video-as-uk-cost-of-living-soars
[2] https://www.marketingweek.com/trends-2022-tv-streaming/
[3] https://explodingtopics.com/blog/streaming-trends

Media and entertainment

Focus: Prosperity polarity

Moreover, with inflation and a rising cost of living, virtually every sector in the M&E industry will face a fall in consumer demand concentrated among the younger generation.

In the face of lower real wealth, businesses will have to define their brand identity along the lines of which demographics they serve. For those serving younger generations, it may be worthwhile to reconsider pricing.

However, if passing rising costs to customers is unavoidable, then consumer segmentation is also another viable solution, to make up the loss suffered in one segment by the profit gained in another. They could also include additional product offerings that are paid-for, to give consumers the semblance of choice in determining whether they want to face the cost or not.

Media and entertainment

Climate and Sustainability

Netflix has stated it will look to achieve net zero greenhouse gas emissions by the end of 2022, and every year thereafter.[4] Bennett says, “For some younger content providers, climate is in their DNA and their quite ahead on it.”

However, media consumers for the time being appear largely motivated by the price and availability of the content while choosing a platform for consumption rather than the sustainability and ethical practices (see Mack survey conducted for WTW).

Figure 4: Mack Institute's Collaborative Innovation Program at the Wharton School, University of Pennsylvania survey conducted on behalf of WTW on The Future of Leisure and Hospitality - Most important criteria in the choice of media companies and streaming services to engage with

More than 50% of the respondents are less likely to change their viewing habits based on the sustainability and ethical practices of the company.

On the other hand, with rising cost of living, media and streaming companies need to rethink their business model to become sustainable and compete by offering customers lower prices, exclusive content to watch to attract more consumers. Even if sustainability and ethics are not on top of mind of the customers now, it is advisable to start investing in them if they are not prohibitively expensive to stand out over time and win over customers.

Bennett cautions on the dangers of greenwashing and in this context, the importance of visibility and transparency along the supply chain. “If it’s a case of ‘We are carbon neutral except that people viewing on cloud,’ there could be a perceived greenwashing element,” he says.

On data centers, the drive to reduce energy consumption is “huge,” says Bennett, as is the use of renewables. However, this is impacting insurance because insurers are less likely to want to cover anticipated outages. Here, the emphasis needs to be on the robust presentation of risk, or trading-off additional cost of cover against the reputational and associated reward. “Some media businesses are going to accept the use of renewable, for example, could cost $30k extra on property premium but they need it for investors,” says Bennett.

[4] https://about.netflix.com/en/news/net-zero-nature-our-climate-commitment

Media and entertainment

Risk alerts

- Data protection fines and regulations: Global trend of data protection policies are shifting focus from guidance to an increased and stronger enforcement. Also, lack of a clear code of conduct or guidelines on data collection, digital asset ownership, incident management, and cyber harassment in the metaverse. Failure to effectively protect a growing pool of data from breaches and cyberattacks. In addition, new entrants in media and entertainment should exercise caution and undertake extensive due diligence before entering the now highly competitive streaming market. In 2022, CNN launched its own subscription service only to shut it down within a month, losing $300 million.[5]
- Attracting the right workforce in a tight labor market that is flexible, multigenerational, and diverse may continue to prove challenging. Also, increasing reputational risk in the context of 'cancel culture', particularly, as Bennett notes, around podcasts with controversial host or guests.
- Rise in account sharing among users, consumer dissatisfaction from lack of engaging content with representation, originality, the audience's voice, are all issues media companies must tackle against pressures from the rising cost of living.
- Shift to renewables could prove costly in terms of CapEx and insurance costs.

[5] https://www.theguardian.com/media/2022/apr/21/cnn-plus-streaming-service-shuts-down

Media and entertainment

Opportunity watch

- There is an opportunity to go 'back to basics' and seek improved risk optimization. "Conversations are getting back to roots of causation and risk alongside value for money. This is in light of cyber cover having gone up some much and businesses automatically needing more coverage as they get more digitized," says Bennett.
- In a hard market, Bennett says the answer is for media and entertainment companies to examine the total cost of risk using core analytics and modelling to answer questions of, "Should I be spending more money on this?"
- Bennett also sees further opportunities in the way both data and existing content is used. "Take podcasts, for example. You could start looking at offering pre-releases and promoting the back catalog to get every last pound of value from the content, then use the data to refine your offer," he says.
- Media and entertainment could look to other subsectors for best practice on marrying climate and sustainability aims to operational supply chains to meet their goals and avoid greenwashing allegations. As WTW Research Network Head of Emerging Risks, Lucy Stanbrough comments, "No one person or industry has all the answers and change is constant for everyone. As well as learning from scientific best practice, understanding how other sectors are responding to shared problems is another opportunity. For example, while exploring supply chain risk and resilience in the food and drink sector, we uncovered an internal initiative at a leading food manufacturer where they are undertaking a program of process improvement that will create clear standards and expectations around processes across business. Could putting together something like this work for your business? What are the challenges and opportunities that need a shared plan?" she says.

Media and entertainment

Action plan: Five priority areas for media and entertainment companies

- **Identify** technology vulnerabilities, including throughout the supply chain, is key in business continuity planning, risk management and transfer. Do you have a clear picture of the infrastructure and third parties beyond the first tier of your supply chain?
- **Listen** to your employees to unlock your understanding of why employees want to work for you versus your competitors, and what you need to do to stay ahead in the war on talent to not only attract but to also retain talent.
- **Understand** your exposure to reputational risk, and have a plan of action in the event of a major event or issue, for example, disgrace of talent or impact of negative social media, to mitigate and manage your risk.
- **Identify** where you are on your climate and sustainability journey and what you need to do to reach organizational goals. Being able to document and articulate your credentials is becoming a business essential.
- **Inform** how customers would react to an adverse event by using content engagement data increased data. Can you use marketing elements such as A/B testing to try non-financial mitigation actions if customers are at risk of ending their subscription?

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About WTW
At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

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