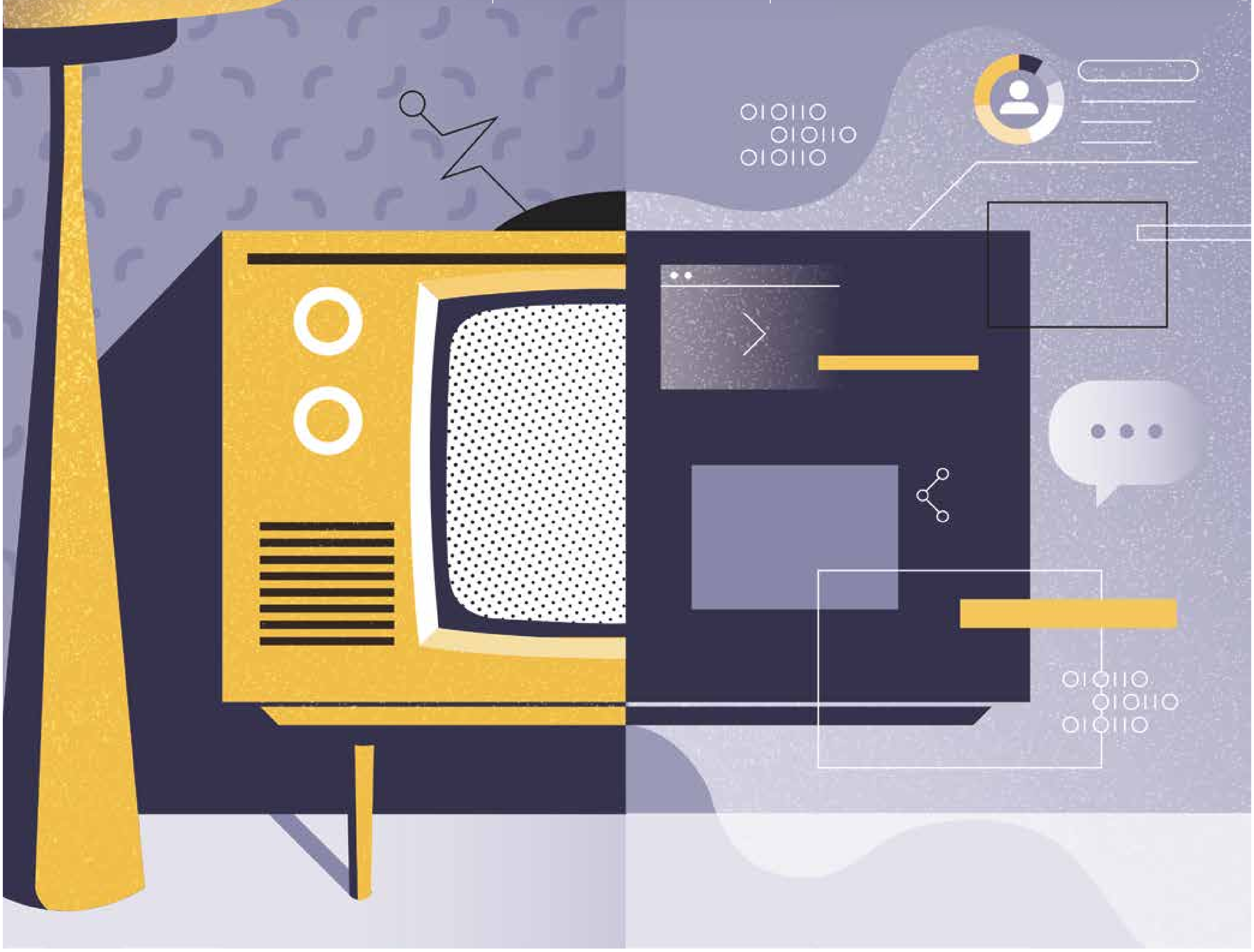
FUTURE OF MEDIA & ENTERTAINMENT



FUTURE OF MEDIA & ENTERTAINMENT

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CONTENT

Fighting to control quality content

Media and technology heavyweights are slugging it out in a fight for content which could see the biggest hitters win

ADAM FORREST

Pace of change in the media environment can be disorientating. Just when the landscape seems to be stabilising, another new player, new technology or new consumer habit comes along and shifts the contours once again.

Much of the disruption is being driven by one overwhelming force: the fight to control content. Owning content means access to audiences and everyone wants in on the action. Traditional media and entertainment operators are contending with telco companies, social media platforms and tech giants such as Amazon and Google attempting to muscle in and gain ground.

With the battle reshaping every aspect of the industry and many of the leading players no longer satisfied performing their traditional roles, what strange new structures and partnerships might we see in the years ahead? What will the successful media company of the future look like?

One of the most powerful current trends is the convergence of entities from formerly separate spheres: the distributors and the creators of content. If the planned merger of AT&T and Time Warner is sanctioned by a US judge it would give the mobile network, which already has a stake in pay TV through its subsidiary DirecTV, a grip on a stable of news and entertainment brands that includes CNN, HBO, Warner Bros and DC Comics.

"The telco operators have been watching the dramatic rise in video data moving across their networks and they desperately want a meaningful stake in it," explains Ed Barton, chief analyst at consultancy firm Ovum. "In many countries there is a recognition that regulatory constraints have to be somewhat loosened to enable traditional distributors to compete effectively against new digital platforms."

Pay TV operators are particularly worried about the threat posed by the so-called over the top (OTT) internet providers such as Netflix and the noisy entry into programming made by Facebook, Apple, Google and Amazon. The Silicon Valley behemoths are spending huge sums to offer their users exclusive shows. Last August, *The Wall Street Journal* revealed that Facebook is committing $1 billion

A potential Sky deal could strengthen Comcast's presence in sports broadcasting

(£733 million) to screen original content over the year ahead.

Competition from these global direct-to-consumer platforms help explain why US cable giant Comcast recently launched a £22-billion bid for Sky, believing the European broadcaster's content will expand its scope internationally.

Telco company dominance is far from inevitable, however. Disney remains keen to purchase 21st Century Fox's key assets, including Rupert Murdoch's 39 per cent stake in Sky, and is thought to be particularly eager to get its hands on Sky's streaming and on-demand services. Disney's ambition demonstrates what is possible for some of the largest legacy media companies, which is the ability to capture popular distribution platforms.

The emerging media ecosystem does not have to be one in which the big fish eat the smaller ones. Local broadcasters are well aware of the head start the tech giants have when it comes to data gathering and targeting different audiences with tailored ads. It's why traditional broadcasting rivals are now collaborating on targeted advertising solutions both for traditional TV and video on demand, or VoD, platforms.

Collaboration between rivals may hold the key for traditional publishers too. Newspapers and magazines are still struggling to monetise their content because of the aggregation of their stories and absorption of so much digital advertising spend by Facebook and Google.

Just as broadcasters and OTT providers are joining forces to offer subscription bundles – Sky and Netflix recently struck a deal to include Netflix in a Sky package – publishers have an opportunity to begin bundling content too. Offering readers access to multiple websites through a single monthly fee would be one way of winning over cash-conscious readers.

Fleet-footed companies have to be imaginative when it comes to forging alliances. Once unlikely partnerships have given local players much wider international reach. BBC Studios has formed co-production arrangements with Netflix and AMC. NBCUniversal and ESPN have agreed to make live video available on Twitter. *VICE*, having started life as a print magazine in Canada, is now producing video content for local broadcasters around the world.

These synergies show the media company of the future has to be willing to experiment and think strategically about every aspect of the industry. Successful companies will also have to keep the changing demands of the audience in mind. Consumers have shown they want choice and agility is required to give them the content they want whenever they want it on a wide range of devices.

Part of the challenge is making sure content, formats and advertising are suitably personalised for the individual, while making sure the whole experience is delivered with a look, feel and tone that fits consistently with the company brand.

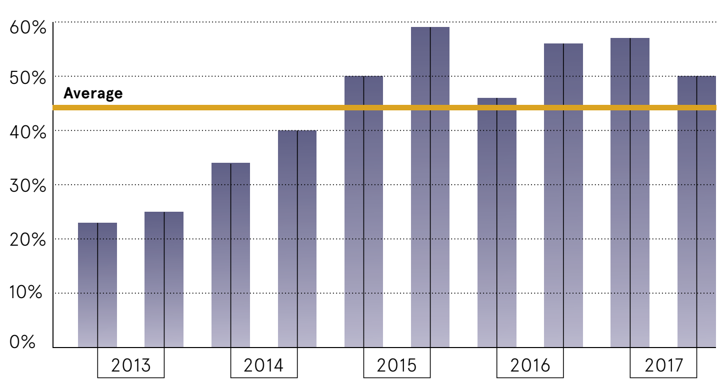
Audiences develop relationships of trust and affection with their most cherished media and entertainment companies. It's a much more delicate and intimate process than the tech giants have realised, as the Facebook-Cambridge Analytica data scandal has so clearly demonstrated.

"Technology-oriented companies tend to think of audiences as users and they are not the same," says Mr Barton. "It's important to understand what they're comfortable with in terms of respect for their data and their privacy online. You mess around with that at your peril."

As for the creative types, it's a good time to be pitching. There are more outlets and huge demand for new material. "It's going to be increasingly important to have your own content and make sure it's really good content," concludes Jesse Whittock, insight editor at *Broadcast* magazine. "Good content guarantees audiences on any platform." ◆

M&A ambitions have picked up

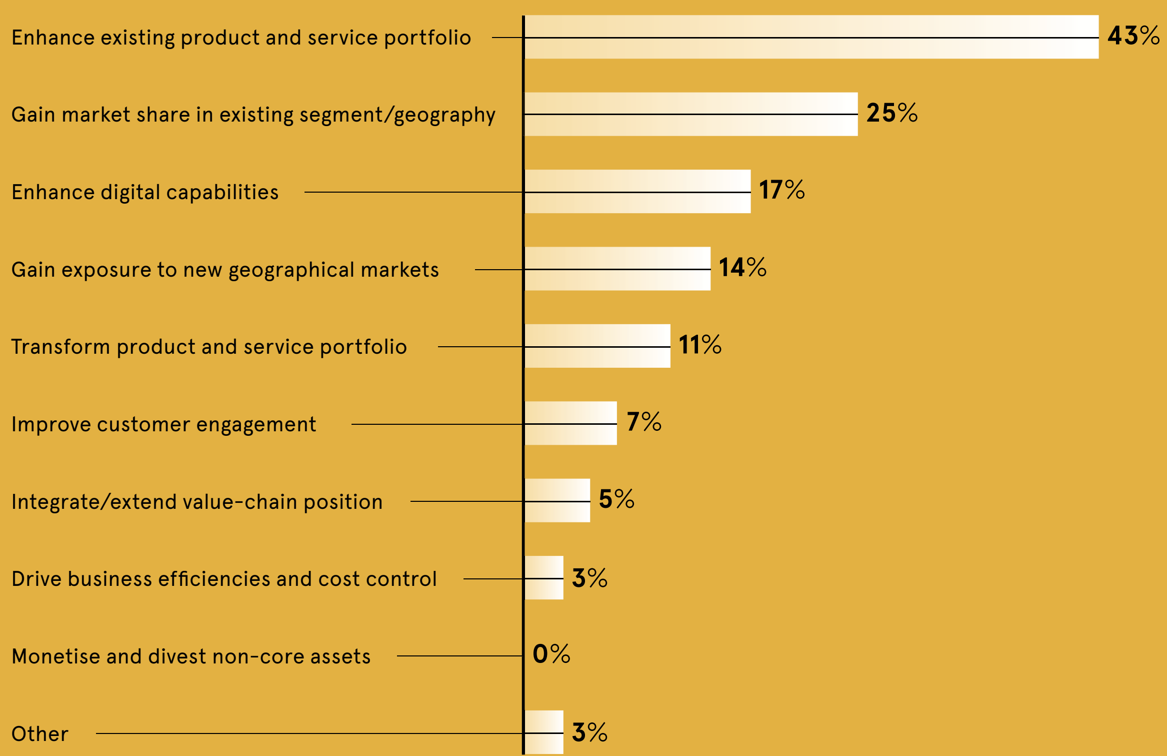
Percentage of media and entertainment companies expecting to pursue mergers and acquisitions in the next 12 months; biannual survey



EY 2017

Commercial feature

DEAL DRIVERS



AUDIENCE VALUE IS SHIFTING

26%

of 18 to 34 year olds believe the best content is on streaming services and not traditional broadcasters

MONETISATION IS INCREASINGLY COMPLEX

38%

of audiences are much more receptive to advertising on broadcast TV than on streaming services and 16 per cent of households would actually pay a premium to stream catch-up TV without adverts

M&A ACTIVITY SET TO CONTINUE

87%

of media and entertainment executives in 2018 are looking to divestments over the next two years, up from just 33 per cent in 2017

Global Media M&A Deal Drivers 2014-2017

Who will win the battle for content?

There are three qualities brands need to thrive, says **EY**

The content industry is witnessing disruption on a grand scale. Competition between brands for users cuts across platforms, across borders, and affects all demographics.

TV networks are competing with on-demand streaming. Newspapers are fighting for readers with social networks and viral websites. And new platforms are emerging.

How can content brands survive and thrive in this chaotic landscape? EY is working with the most innovative global content producers and distributors to identify the traits of success across all verticals.

"We believe the lessons are universal," says Rahul Gautam, technology, media and telecommunications leader at EY, UK and Ireland. "The market will support different business models, but the winners will exhibit common characteristics. Whether you are in video streaming, news, music, telecoms or the movies, the principles are a blueprint for growth."

The first trait is scale. Simply being larger than rivals confers advantages in a number of ways. Content creators want to broadcast their artistry to the largest number of fans, so they want to work with the largest distributors. They want the benefit of aggregated audiences and the ability to access these audiences efficiently.

Consumers have a similar outlook. They want to access the widest variety of content, so they perceive the top-ranking brands as the default choice. Niche players can prosper, but usually by picking up artists and consumers who need something out of the ordinary.

Size translates to the ability to invest in the product. For example, movie-streaming brands are able to allocate huge budgets to bespoke projects. Their size means they even out-compete national broadcasters in terms of new content spend. Scale becomes a virtuous circle, in which the rich get richer. Smaller content owners are squeezed out.

The second quality is a laser focus on the customer. "Standards are now sky high," says Mr Gautam. "Consumers expect a seamless, frictionless and personalised experience across all devices. If it takes 30 seconds to log on, forget it. If payment is troublesome, you can expect users to abandon you. Content brands ought to know this, but very few excel."

Constant focus is needed because expectations are always rising. If a customer has been watching a TV show on a tablet, they expect to be able to switch to a laptop, smartphone or other device and continue where they left off. It is simply expected. Yet not all content providers offer this.

The user experience (UX) must be optimised for the customer. Multi-variate testing can refine the UX over time, but sometimes bold decisions need to be made to impress users. A survey by EY revealed 38 per cent of audiences are much more receptive to advertising on broadcast TV than on streaming services and 16 per cent of households would actually pay a premium to stream catch-up TV without adverts. Only brands with a profound understanding of the preferences of their customers can get the big calls right.

Third is a talent for innovating in delivery, not merely with the content itself. For example, the boom in smart speakers in the home offer brands a new route to audiences. Agile content owners have developed apps to integrate with these smart speakers. Now they are able to reach tens of millions of new consumers through an innovative and brand-enhancing medium. Early movers stand to be disproportionately rewarded.

Creative thinking around delivery means experimenting with new technologies. Virtual reality (VR) is an emerging field in this regard. Sports-betting companies have toyed with VR viewing experiences. Now you can see what the jockeys see as they leap over the penultimate fence at Aintree. Is it a game-changer? It's too early to tell, but the best content brands have a track record of exploring new delivery channels.

Also there is the opportunity to transform traditionally relatively niche sports, such as cycling or horse racing. Mobile camera and internet of things technology can now capture moments, feeling and facts from sports which were once viewed statically. This not only enhances the customer experience, but also the opportunity to add commercial value by providing more real-estate space for advertisement or brand enhancement.

Scale, focus on the customer and innovation in delivery: these three qualities are found in all leading content brands. Naturally, the mission for challenger brands is to improve their performance in each category.

Rahul Gautam
UK and Ireland technology media and entertainment, telecommunications leader, EY

Will Fisher
Global media and entertainment leader, Transaction Advisory Services, EY

Scale, for example, is easy to target, but hard to achieve. "We see M&A as a great way to build scale fast," says Will Fisher, EY's Transactions Advisory Services global media and entertainment leader. "Over the past four years, the largest driver of M&A has been to enhance the product or service portfolio. And more than two thirds of deals have been to gain market share or build in new geographies."

Raising finance is a part of this drive. Capital can be used for M&A, to fund new content, to invest in R&D or marketing. Divestments are a popular method of raising cash. In 2018, 87 per cent of media and entertainment executives are looking to divestments over the next two years. That is a significant increase on just 33 per cent in in 2017.

The three qualities will apply to each company in a different way. Even the idea of "winning" will vary. "You can only define winning when you know your core proposition," says Mr Fisher. "Do you want to maximise viewer numbers to convert that to ad revenue? Is content a way to sell something else, such as subscription to an affiliated service? It's a fundamental debate you need to have."

In the heat of battle, brands often lose sight of their core objective. For example, social media is a hot topic and brands are investing in building followings on the main platforms. But do social media numbers contribute to the bottom line? Consumers are often being pushed to a third-party site, making monetisation hard or impossible.

"The market will support different business models," Mr Gautam concludes. "But it is clear that the winners possess common qualities. Scale, a focus on the customer, and product and service innovation are the three key capabilities. It may shock content creators and distributors, but without them, you can have the best content and still lose."

For advice on building a content strategy please contact Rahul Gautam, EY's UK and Ireland technology, media and telecommunications leader RGautam@uk.ey.com or Will Fisher, global media and entertainment leader, EY Transaction Advisory Services wfisher@uk.ey.com

EY
Building a better working world

Media companies must treat data with care

Targeting audiences and improving customer experience are based on using personal data with its inherent risks to privacy

Photo by Charles Deluvio on Unsplash

SHARON THIRUCHELVAM

Television's place at the heart of mass culture is no more. Streaming services provide higher revenues to entertainment companies than traditional broadcasting and media consumption is growing more atomised by the day. People formulate their own programming schedules, cherry-picking programmes from an array of providers and watching on a variety of screens.

Even when we're together, we are often alone in our own entertainment bubbles; a third of people in the UK say members of their households sit together in the same room watching different programmes on different devices, according to Ofcom.

With so much competition, media companies are vying to command a limited and in-demand resource: consumers' attention. "Unlike the captive audiences of the past, today's consumers can choose not only what type of content they want, but also how and when to enjoy it," says Kevin Westcott, vice chairman of media and entertainment at Deloitte.

Data is widely regarded as the key to unlock better user experiences. Having given consumers the power to choose what they want to watch and when, streaming companies analyse how long they watch for, what devices they use, where they are watching, what they watch next and so on.

This growing volume of data and the inferences made from it create a picture of viewing behaviours, tastes and attitudes. Netflix, which says it has around 250 million active users worldwide, divides users into "taste groups" of which there are several thousand.

In a fragmented market, delivering high-quality content is not enough. Media companies need to win the recommendation game. Those chasing economies of scale and the benefits of network effects will use algorithms and machine-learning to perceive what consumers will want to watch or listen to next.

More than 80 per cent of the TV shows people watch on Netflix are discovered through the platform's recommendation system. Spotify, the popular music streaming platform, broadens its listeners' musical horizon at the same time as narrowing the near-limitless listening options available to them by sending a personalised weekly playlist of 30 new songs based on the individual's listening history.

But entertainment media companies need to be more compliant with consumers' privacy concerns. "There are many consumers that seek personal entertainment, but a lot of personalisation features are not being done in a transparent manner," says Dirk Spacek, managing associate at law firm Walder Wyss.

Indeed, Deloitte reports that 69 per cent of consumers believe companies aren't doing enough to protect their data, and 73 per cent would be more comfortable sharing their data if they had some visibility and control.

Tristan Harris, a design ethicist and former product manager at Facebook, believes people should be concerned about how their data is used, sometimes to manipulate them. Techniques like autoplay which is used by Netflix, but not BBC iPlayer, for example, are designed to encourage immediate gratification and keep viewers hooked.

Reed Hastings, chief executive of Netflix, quips that his company's biggest competitor is sleep. Alarmingly, he has a point. According to Ofcom, 32 per cent of adults and 31 per cent of teenagers have sacrificed sleep for streaming binges.

There are alternative streaming models that don't rely on data collection, profiling or mass personalisation, but by their very nature their audiences are niche. One such, Mubi, is a film-streaming website that presents a rolling selection of 30 critically acclaimed films that are each available for 30 days, with one leaving and joining the countdown every day. Personal curation tops algorithmic personalisation, with the site's selection chosen by film critics and tastemakers to complement new cinema releases and topical events.

In the European Union, the incoming General Data Protection Regulation (GDPR) could spell the end of profiling and algorithmic decision-making in the EU entertainment industry. "Under the GDPR, the customer has a right to object to automated decision-making that involves their data. This could affect profiling and personalisation entertainment features, such as the recommendation of similar content and notices about what other viewers saw or bought," says Mr Spacek.

Across the Atlantic, the quest for dominance of data and eyeballs has sparked a trend for market consolidation. Among the FAANGs (Facebook, Amazon, Apple, Netflix and Alphabet's Google) the race is on to own the entire customer experience, says Mr. Westcott. Whichever companies can dominate content creation and delivery networks will possess an even more complete data picture from which to deliver hyper-targeted advertising and content. To this end, Facebook is licensing music and music video hosting, and Apple is branching out into Amazon territory with original TV programming.

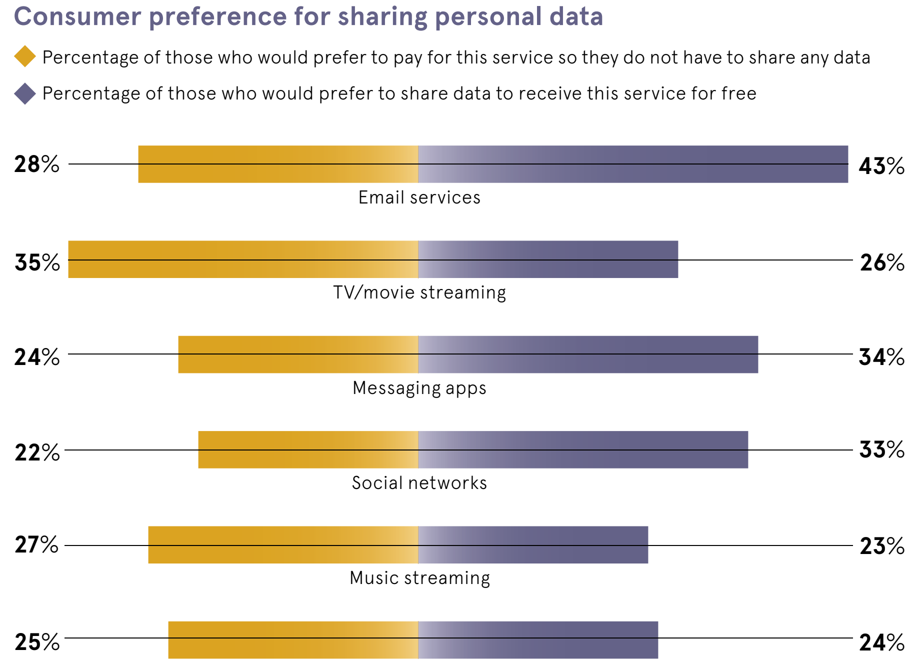
> **Data is widely regarded as the key to unlock better user experiences**

Will this scramble for data enable a better user experience? One of the enormous successes of the Netflix model has been its focus on high-quality content without any ads. Netflix, which says it is spending $8 billion on content next year, is raising the bar throughout the industry and forcing its competitors to maintain a similar commitment to quality.

However, some fear consolidation, paired with the repeal of net neutrality in the United States, which critics fear will choke off smaller content providers, could compromise content standards and consumer choice long term.

Either way, if personal data is to be the bedrock of entertainment media, ethical protocols should be established for its use. Entertainment has the potential to become evermore enthralling and immersive as technologies such as augmented reality, artificial intelligence, robotic sensors, the internet of things, virtual reality, voice interfaces and 4DX cinema effects augmentation are commercialised. While television isn't called the "idiot box" for nothing, it is by no means as ubiquitous or addictive as entertainment technologies to come. ◆

Consumer preference for sharing personal data



DMA 2017

Commercial feature

Redefining audience experiences with evolutive media platforms

Seismic market shifts are drastically altering the media and entertainment landscape as viewers, craving fresh content that engages in a more immersive, increasingly personalised way, tune in via ever-evolving devices and channels

New media and entertainment players are rising and scaling rapidly, disrupting entire market segments. Agile on-demand streaming services, such as Netflix and Red Bull TV, bring a data-driven and direct-to-consumer approach that allows them to respond faster and better to audience expectations. Their innovative offers create entire new markets and consumption models.

Social media titans, such as Facebook, YouTube and Twitter, boast advanced technology platforms and massive financial resources. They are also actively engaging in ambitious content strategies. The potency and reach of social media, with its wealth of data, ought to be leveraged. Social channels present a unique opportunity for media players to further their reach, connect with new audiences, deliver complementary experiences, and gather precious data and analytics.

"This is a new set of complex, and changing, rules for the media industry," says Arnaud Elnecave, vice president of marketing at Dalet Digital Media Systems, a leading technology and service provider that offers a media workflow platform with more than 70,000 users, including BBC, Fox Networks Group and NBCUniversal, powers 900 customer sites and thousands of channels.

Advances in technology, notably artificial intelligence (AI) and cloud, will help forge new paradigms, and power business and operational models that were not previously viable. Quickly embracing new technologies is imperative.

"The building blocks remain the same: content, operations and audiences. But everything that binds them and anything in between is being reshuffled. The ability to react faster and adapt continuously to market shifts is becoming critical," says Mr Elnecave.

"Proactive, continuous business transformation and faster adaptation is key to succeed in today's competitive environment, and to avoid being disrupted in an age of relentless innovation. This starts with a strategic investment in an open, agile technology platform with core workflow orchestration capabilities that enables them to build a cohesive and agile digital media supply chain."

> A specialist platform such as Dalet's is vital for business leaders striving to build a truly agile, data-driven media organisation

The Dalet Galaxy platform federates and streamlines the content chain by managing assets, metadata, workflows and processes across all production systems and distribution systems.

The company recently introduced Dalet Media Cortex, a framework that connects and orchestrates AI and machine-learning models at every level of the enterprise content supply chain and media operations.

"Designed specifically to bring the best value from AI to media businesses, this framework enables key AI-infused functions, such as automatic content indexing, topic extraction and content discovery, recommendation optimisation and predictive analytics," he explains.

"Ultimately it allows our customers to augment team workflows and collaboration, further empower top creatives and editors, automate more complex chains of processes, boost content performance and recommendation, and optimise provisioning with prediction to lower total costs of operations."

Dalet also fully supports Amazon Web Services, so customers can leverage cloud computing and storage for more flexibility, dynamic scaling and seamless collaboration across multiple locations.

"Businesses need to adapt faster, and this is often achieved by trying more and failing faster," says Mr Elnecave. "The cloud offers this financial paradigm. New products, services and content formats can be easily trialed with limited investment, and immediately scaled if successful."

In 2018, an agile media enterprise requires a platform, data strategy and comprehensive operations management. When combined this enables the organisation to connect better with its audience, monitoring and describing them better, and personalise the viewer's experience by leveraging data.

"New forms of content, generated with efficient multiplatform productions and designed for cross-channel, complementary experiences, drive better engagement," says Mr Elnecave. "The ability to efficiently localise, customise and refine the content to effectively align it with the audience's expectations is key. Personalised and more subtle digital advertising, such as dynamic, targeted product placement, is only a matter of quarters away."

Media organisations can redefine their business by using that data, be it for advertising, subscriptions, content licensing or other forms of revenues.

Dalet, with almost 100 third-party tech partners in its ecosystem, has opened up the digital media supply chain. This enables and encourages clients to take advantage of the latest technologies as soon as they become available, increase collaboration, build competitive advantages and operate more dynamically.

Further, the Dalet platform leverages efficient, component-based workflows, so content does not have to be rendered at every stage of its life cycle. For media organisations, this approach significantly speeds up processes, facilitates complex and mass content volume workflows, such as international versioning and multiplatform content distribution, optimises operating costs and enables better collaboration. This will ultimately reduce the industry's overall storage and compute footprint, which is a good thing for the planet.

Clearly, a specialist platform such as Dalet's is vital for business leaders striving to build a truly agile, data-driven media organisation that innovates continuously, connects directly with its audiences, and offers them new formats and experiences.

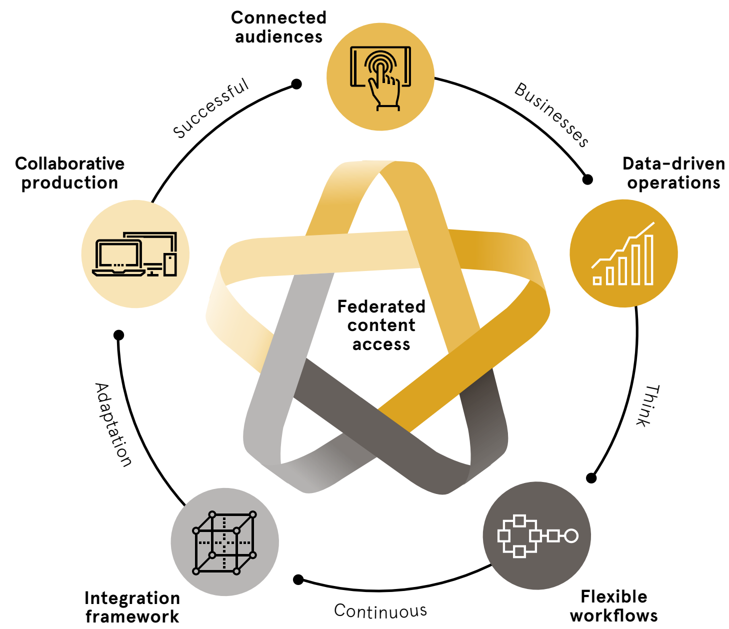
For others outside the media industry, it will also soon be necessary, predicts Mr Elnecave. "Until now Dalet has been dedicated to professional media producers and distributors as customers, but we are starting to see a new convergence on the horizon," he says. "Large corporations, government agencies, international and educational organisations, as well as every entity that needs to manage media at scale ends up requiring a complex and integrated media supply chain – and a platform like ours to power their next generation of storytelling and content operations."

Dalet helps a growing number of leading media companies define, plan and execute their strategic transformations. Most recent examples include *Euronews*, which revamped their entire operations to enable a new generation of content customisation and adaptation for multicultural audiences, and *CNNMoney Switzerland*, which launched a premium multiplatform brand in a matter of weeks, supporting an aggressive time-to-market requirement without compromising on quality.

"Time is of the essence," Mr Elnecave concludes. "For the organisations that adapt and reinvent themselves fast enough, there is a world of opportunities in the fast-shifting media landscape. For those that don't, every thing will keep becoming more of a threat. And the longer it takes to execute on the next iteration, the less revenue they will have from the legacy business to fund the next ambitions."

Going further please log on to *Euronews* customer story at www.dalet.com/customer-stories/euronews and *CNNMoney Switzerland* customer story at www.dalet.com/customer-stories/cnnmoney-switzerland or Dalet at www.dalet.com

Agile media enterprise



Dalet

50%
of adults aged 22 to 45 didn't watch any broadcast or cable TV in 2017

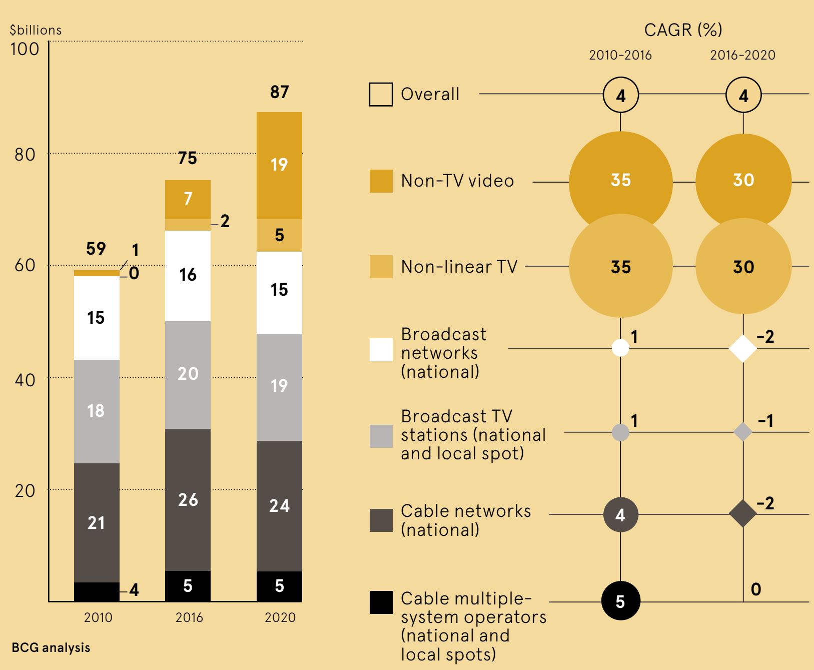
7x
increase in global mobile data traffic between 2016 and 2021

Study by the marketing agency Hearts & Science

82%
of all consumer internet traffic will be from IP video by 2021, up from 73 per cent in 2016

Cisco

Ad revenue is shifting across video distribution channels

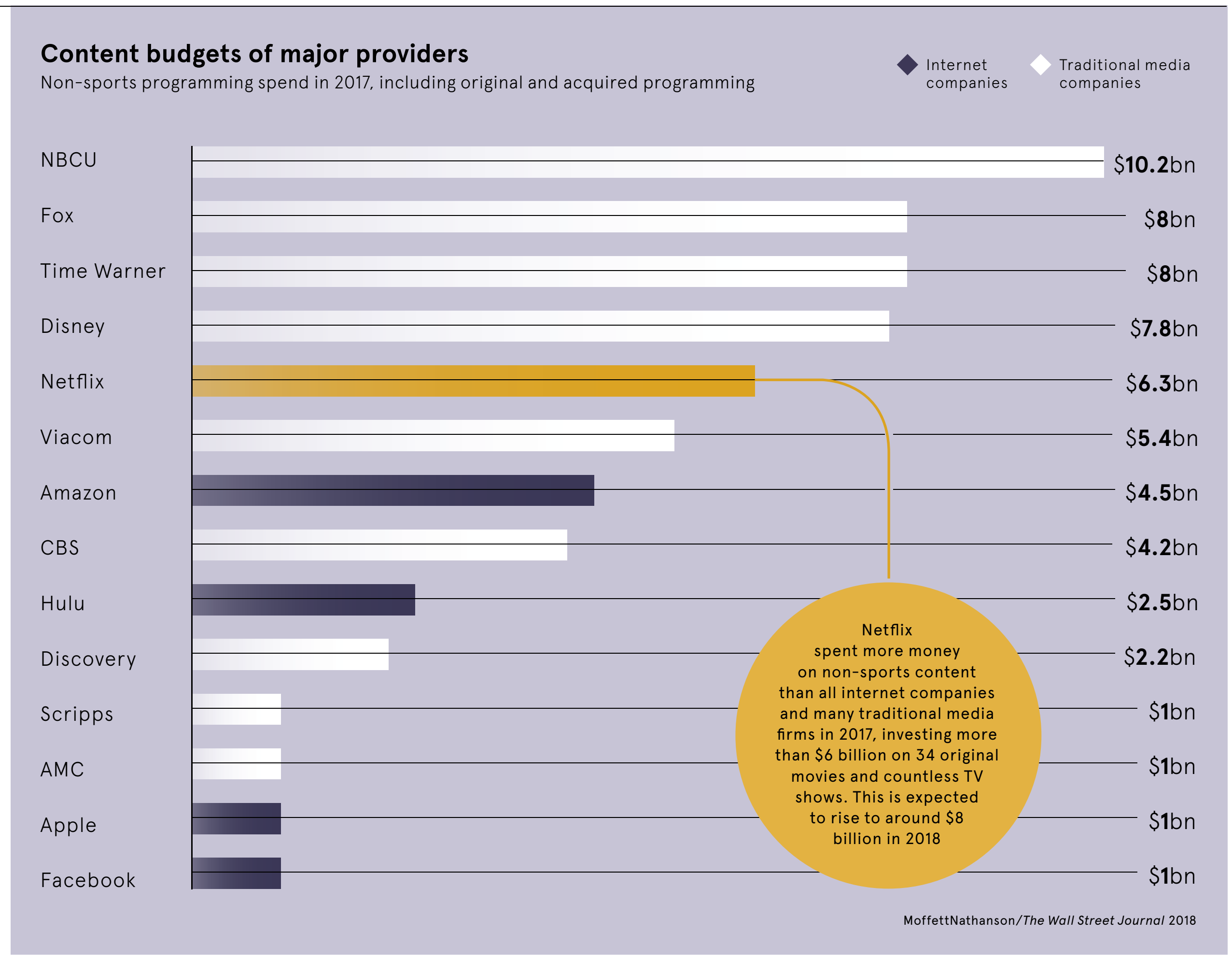


BCG analysis

TELEVISION

TV's Game of Thrones moment...

Amid a flurry of mergers and acquisitions, powerful rivalries are shaping the future of TV



JAMES SILVER

The TV industry is in the grip of a series of mega-mergers. Leading the way is AT&T's proposed $85.4-billion (£62.5-billion) acquisition of Time Warner, which would turn the telecoms giant into a content behemoth, with properties ranging from superhero franchises to CNN and *Harry Potter* to HBO. Although the deal was blocked by the US Department of Justice on public interest grounds, AT&T is challenging the move in court.

Next is Disney's blockbuster $52.4-billion (£38.3-billion) acquisition of most of 21st Century Fox, a deal that has since been complicated by NBCUniversal-owner Comcast's $31-billion (£22.6-billion) offer to buy Sky, of which Fox owns 39 per cent.

Meanwhile, Vodafone has joined the fray with an $18-billion deal to buy European cable networks from Liberty Global. Then there's CBS's still-in-the-balance reunion with Viacom, whose brands include Paramount Pictures, MTV and Nickelodeon.

With other media mergers and acquisitions reportedly in the works, television is in an unprecedented state of flux. This protracted game of media musical chairs is being driven by four main forces. First, the traditional TV business model is not so much ailing as in intensive care: TV advertising is predicted to fall behind digital for the first time this year, according to Dentsu Aegis, while Google and Facebook are carving up an ever-increasing share of the pie.

Second, over the top (OTT), where content is streamed over the internet, is on the march. In 2014, OTT accounted for just 10 per cent of the total US video industry value capture. Boston Consulting Group predict this will double in 2018, a figure which represents more than $30 billion (£22 billion) in revenues in the United States alone. The success of streaming player Roku also suggests a tipping point is on the horizon. In 2015, Roku users streamed 5.5 billion hours of content. By 2016 that number had risen to 9 billion. In the first half of 2017 alone, users streamed 7 billion hours, representing 61 per cent year-on-year growth.

Then there's the irresistible rise of the technology superpowers and of Netflix in particular. Since launching 20 years ago, the monster streaming service now has 125 million subscribers in 190 countries. Wall Street bank Piper Jaffray predicts it will reach 160 million by 2020, while Netflix says it will spend $7 billion to $8 billion on content in 2018. That level of spending places Netflix ahead of competitors such as Time Warner's HBO and Hulu. However, Netflix isn't the only tech player disrupting TV as it's estimated by J.P. Morgan analysts that Amazon spent some $4.5 billion (£3.3 billion) on original content in 2017, while Apple plans to spend about $1 billion (£733 million) this year.

So if these forces provide the backdrop, what impact will they have on the future TV landscape?

As we close in on the era of "streaming by default", it's now clear that alongside the major tech players, OTT will favour those corporates with the brand clout and content muscle to win market share. Disney is exhibit A. Ahead of pulling its content from Netflix in 2019 to launch its own streaming service, the entertainment powerhouse has long been bolstering its intellectual property via acquisitions of Lucasfilm, Marvel Studios and Pixar. Hence its play for Fox.

> **"With media mergers and acquisitions in the works, television is in an unprecedented state of flux**

But while Disney may be able to build an audience for its streaming service, few others can. To midsize and regional broadcasters, including renowned public service broadcasters such as the BBC, this headlong rush to consolidation of content and financial fire power represents an existential threat. BBC director general Lord Hall has already warned that British TV production is under serious pressure from the rise of Netflix, Amazon and Apple, and faces a £500-million shortfall.

Caught in a similar bind, commercial broadcasters are already teaming up to help weather the advertising storm. Such was the rationale behind the recent tie-up between the UK's Channel 4, France's TF1, Italy's Mediaset and Germany's ProSiebenSat.1.

Meanwhile, "cord-cutting' will accelerate. In America, according to eMarketer, 22.2 million adults will have cut the cord of their cable, satellite or telco service by the end of last year, a rise of 33 per cent from 16.7 million in 2016.

Yet these unchartered territories will throw up opportunities too, particularly for niche, disruptive content creators. In the wake of *VICE*, *BuzzFeed* and Complex Media, young media entrepreneurs in OTT and video on demand can now reach, build and monetise large audiences directly.

The third driver is TV has been somewhat late to the party with data. That's set to change. It's well known that Netflix, while closely guarding its own data, uses it to drive personalised recommendations. Deploying data to hone commissioning, promotion and even, perhaps, the creative process itself is certain to be adopted across the industry.

A fourth trend is that we've entered the age of "peak TV". A record 487 scripted shows aired in the US market last year, while producers have gone from selling to a handful of potential buyers to today's proliferation of channels, streaming platforms and services.

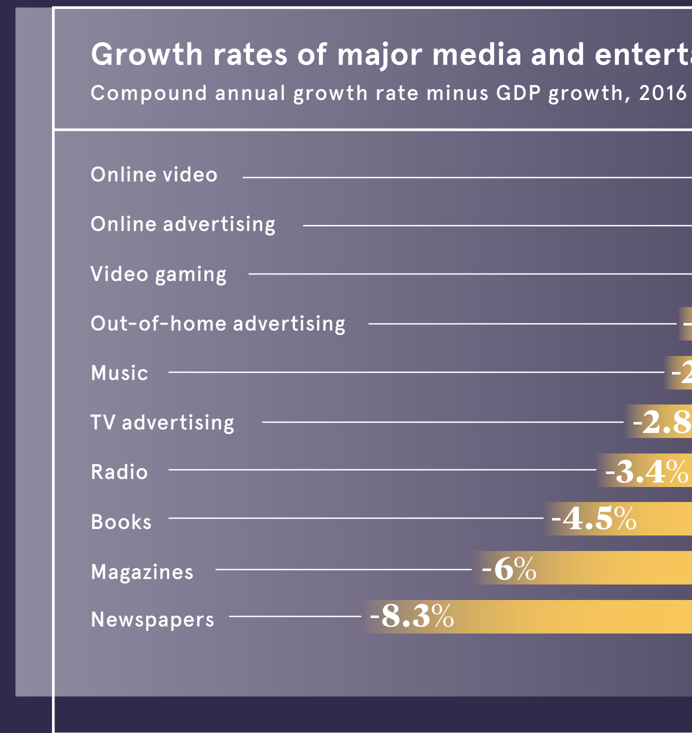
As the battle for attention intensifies, telcos, corporates, tech giants and upstarts are all jockeying for position, resulting in an alphabet soup of distribution and business models. With viewers increasingly voting with their remotes, the industry's *Game of Thrones* moment is far from over yet. ◆

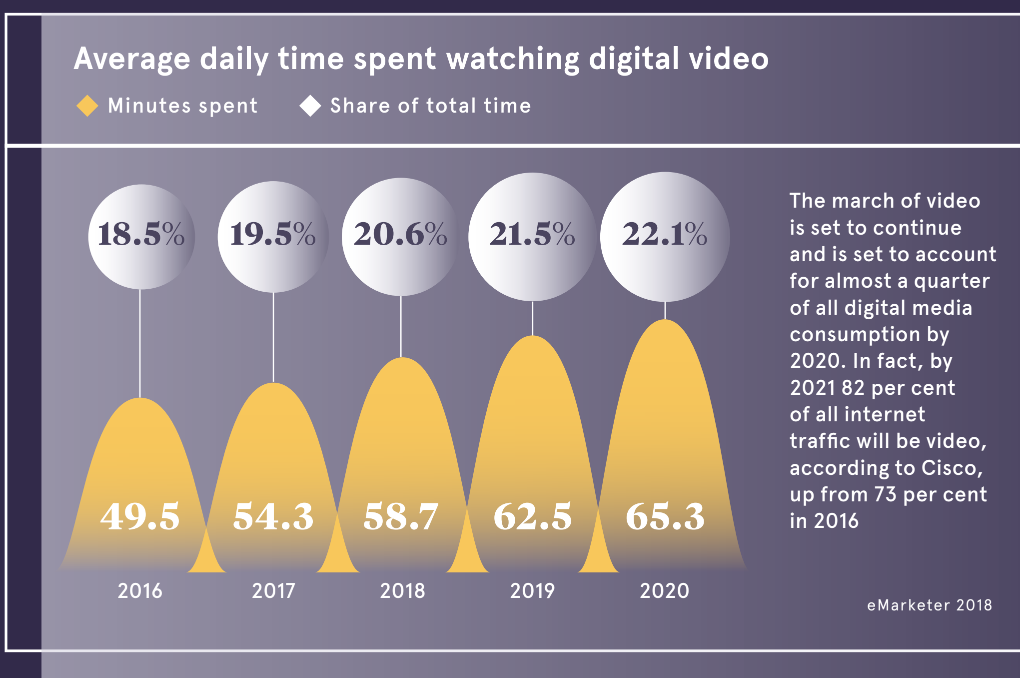
4 Trends shaping TV

M&A
OTT
Data
Peak TV

PREDICTING THE FUTURE OF MEDIA AND ENTERTAINMENT

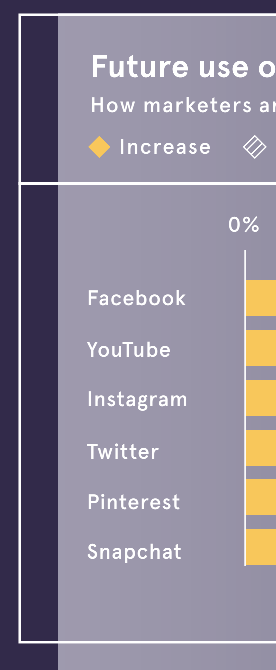
From a surge in popularity of virtual reality to downloading entire films in seconds via 5G, the media and entertainment industry will be unrecognisable in years to come

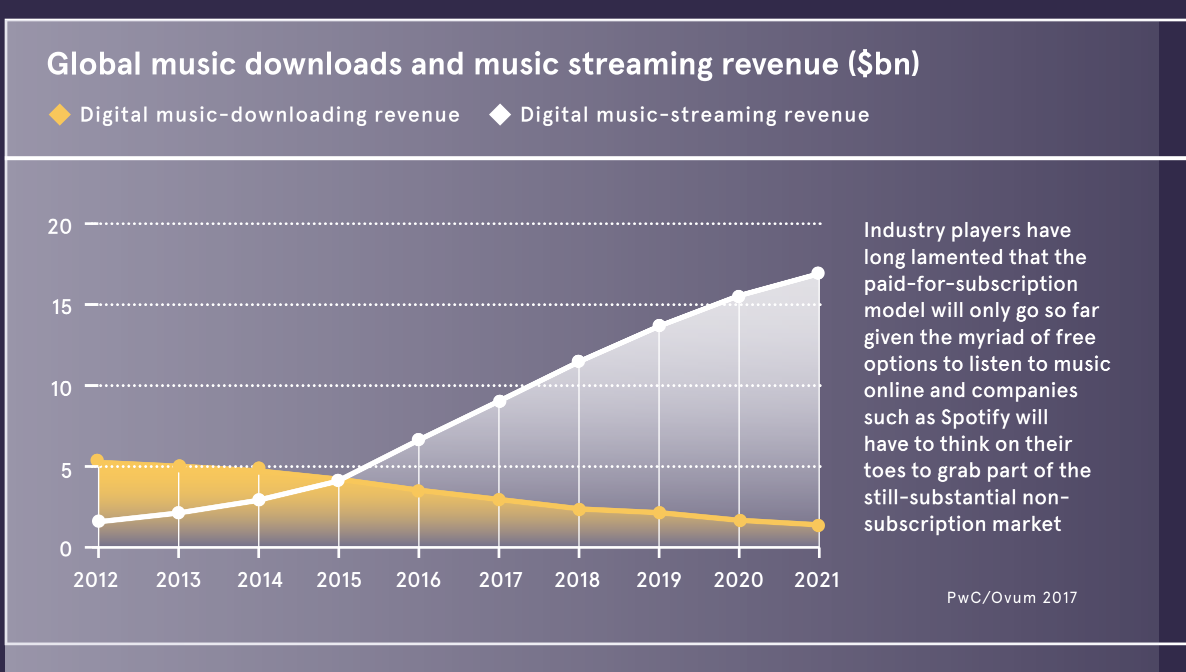




The march of video is set to continue and is set to account for almost a quarter of all digital media consumption by 2020. In fact, by 2021 82 per cent of all internet traffic will be video, according to Cisco, up from 73 per cent in 2016

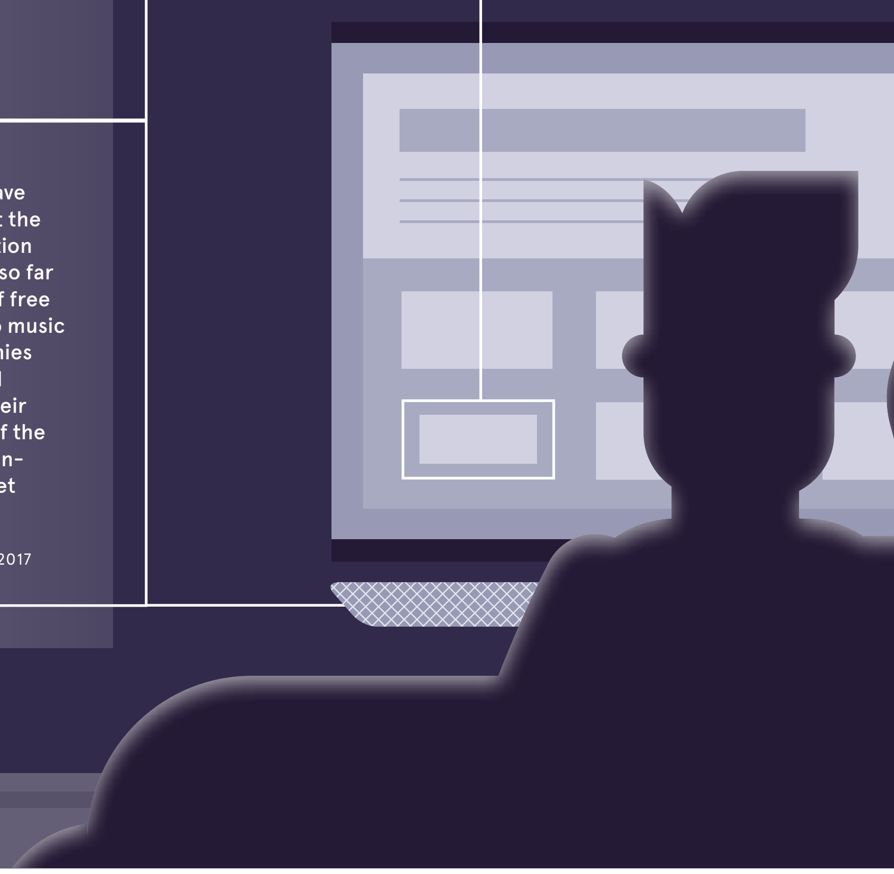
eMarketer 2018





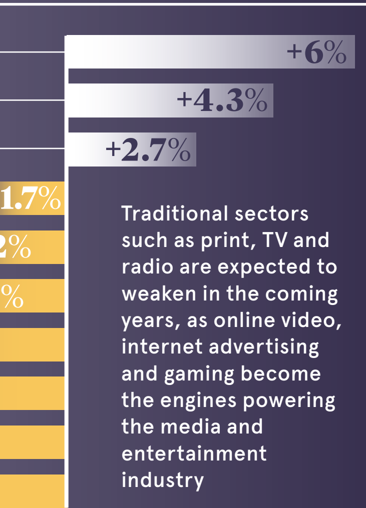
Industry players have long lamented that the paid-for-subscription model will only go so far given the myriad of free options to listen to music online and companies such as Spotify will have to think on their toes to grab part of the still-substantial non-subscription market

PwC/Ovum 2017



ainment sectors

to 2021



Traditional sectors such as print, TV and radio are expected to weaken in the coming years, as online video, internet advertising and gaming become the engines powering the media and entertainment industry

eMarketer 2018

152%

jump in the estimated size of the global e-sports market between 2017 and 2021, from $0.66 billion to $1.65 billion

Newzoo 2018

26.3m

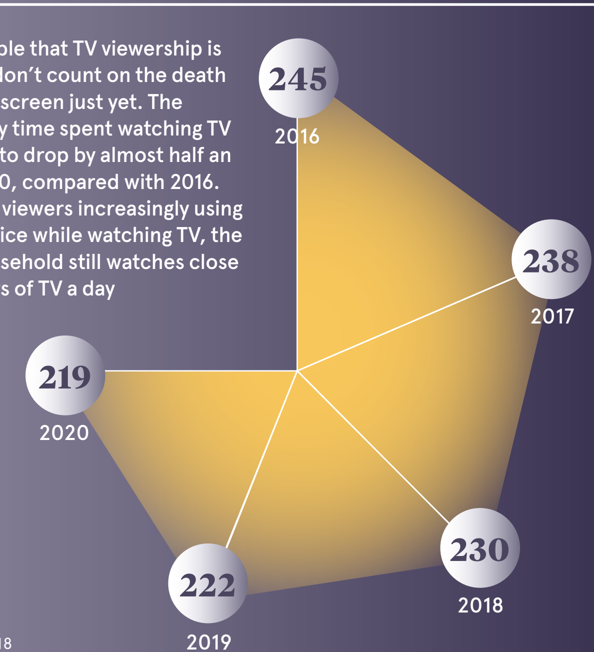
estimated virtual reality headset shipments in 2022, up from 100,000 in 2016

IDC 2018

Average daily time spent watching TV

Survey of US public; includes time simultaneously consuming other media (in minutes)

It's undeniable that TV viewership is falling, but don't count on the death of the small screen just yet. The average daily time spent watching TV is expected to drop by almost half an hour by 2020, compared with 2016. Yet, despite viewers increasingly using another device while watching TV, the average household still watches close to four hours of TV a day

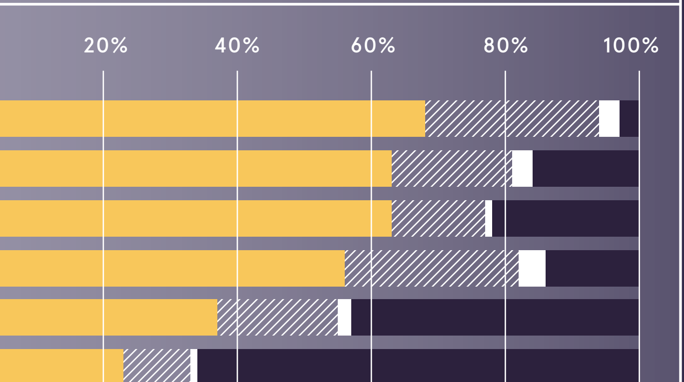


eMarketer 2018

f social media marketing

re planning to change their strategies in the future

Stay the same ◆ Decrease ◆ No plans to use

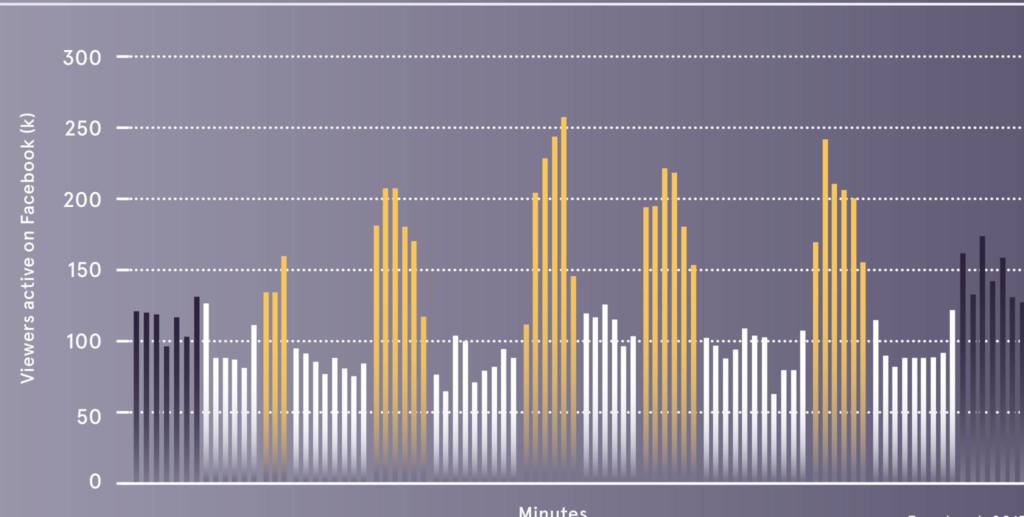


Social Media Examiner 2017

TV viewers turning to Facebook during ad breaks

Study of one million US Facebook users who indicated they were watching the season premiere of a popular cable TV programme

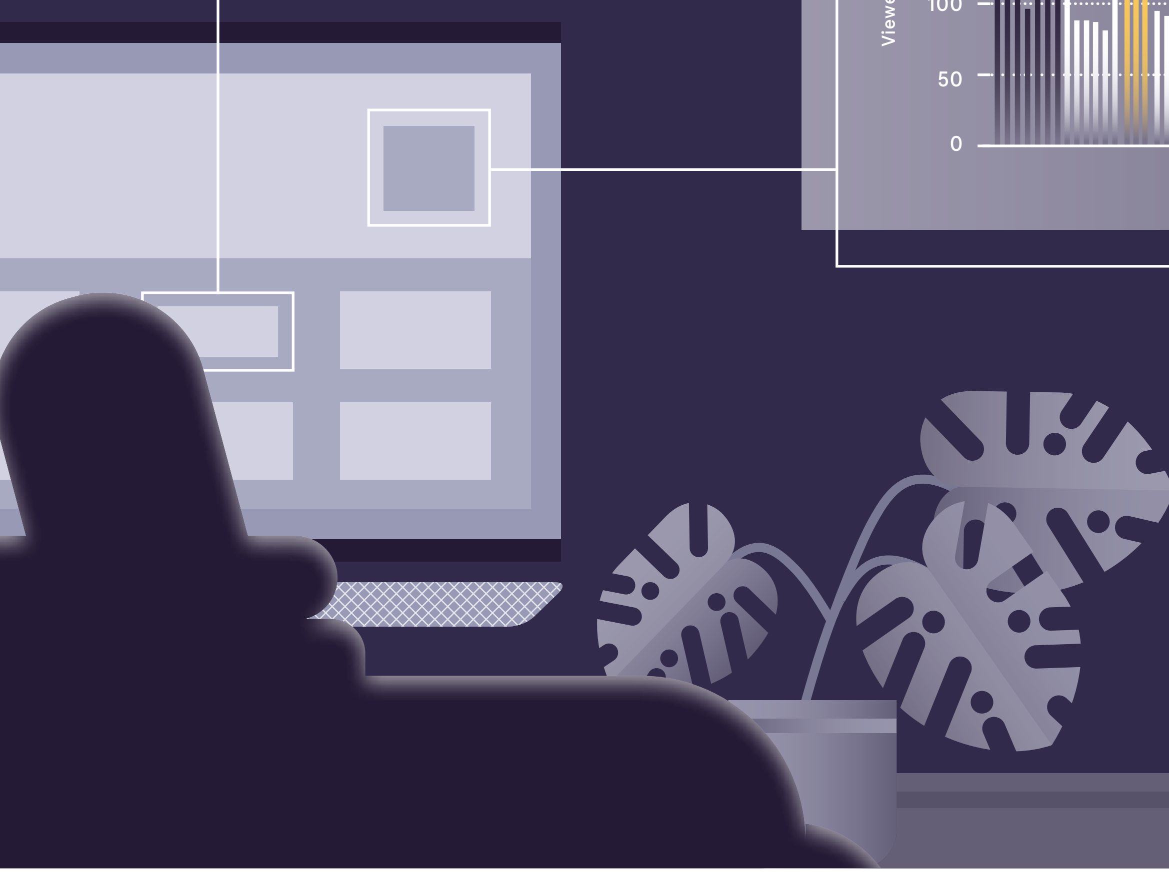
◆ Ad break ◆ During programme ◆ Pre/post programme



Facebook 2017

0.001secs

(one millisecond) expected 5G latency – the time it takes a network to respond to a request – compared with 15 to 60 milliseconds on 4G and 120 milliseconds on 3G. This will be pivotable over the next few years, with the influx of 4K and 8K movie downloads, high-resolution virtual reality and ultra-high-definition game streaming from cloud servers



OPINION COLUMN

'Viewers have more control than ever before in the way they consume and create content'

We don't have to cast our minds back very far to recall a time when, if you didn't like what you were watching on television, you had two choices: turn it over or turn it off.

Viewing used to be by appointment only, but we now live in an era of almost endless possibilities. We are all familiar with the many ways in which TV and films can be viewed: online catch-up sites allow us to stream shows we may have missed, while subscription services serve up thousands of hours of content made up by increasing amounts of original commissions.

Such changes illustrate a shift in the balance of power. Viewers have more control than ever before in the way they consume and create content. Anyone with a smartphone now has the ability to broadcast to the world, enabling a generation of YouTube stars who have millions of subscribers. Such large followings have led broadcasters to beat a path to their door, eager to tap into their ability to reach that elusive group of 16 to 24 year olds who have a thirst for online content.

This disruption and transformation of the industry has been prompted by a handful of relatively new, but powerful, digital giants, most notably Facebook, Apple, Amazon, Netflix and Google, that were recently given a collective title, the rather ominous acronym FAANG.

Such predatory imagery is in keeping with the concerns of some sectors of the industry that see them devouring advertising spend and encroaching on what had always been incumbent broadcaster territory.

This upheaval has created uncertainty, with broadcasters scrambling to consolidate or amass the scale needed to compete with the likes of Netflix, which is available in more than 190 countries. Most notably, we have seen Disney and latterly Comcast, the telecoms conglomerate and parent of NBCUniversal, enter a bidding war over pay TV giant Sky. Further mergers and acquisitions are expected as the battle for content and customers intensifies.

Broadcasters are also contending with new business models in response to changing viewing habits and eyeballs moving online, and they are grappling with increasingly complex workflows needed to deliver content to such a wide range of devices and platforms.

But the world of broadcast and media isn't the only industry dealing with the impact of FAANG. We have seen a growing backlash around the world, from governments threatening regulation and intervention in response to allegations of impropriety related to the handling of user data, to increasingly cautious brands that are anxious about the type of content their ads appear next to. All of which has contributed to some of these digital giants' efforts to build trust with their users.

And while the political climate may have undermined some news organisations, traditional broadcasters still retain the trust of millions. Despite fragmented viewing and its impact on viewing figures, broadcast news remains an important source of information for many. Broadcast brands are trusted because they are built on solid journalism, ethics and principles, stringent editorial standards and creative excellence.

It is for this reason that we have seen the likes of Apple and Facebook recruit executives from broadcasters to lead their content strategies. They know that compelling, quality content attracts and retains customers.

All this is contributing to more choice than ever before for viewers. The ways in which we capture, craft, deliver and consume programmes and movies may change, and the technology-fuelled and disruptive rapid pace of change will no doubt continue, but the one constant will be the demand for informative and inspirational content.

Michael Crimp
Chief executive
International Broadcasting Convention

SPORT

Sport is ahead of the game in innovation

Inside the Cosmos Arena, which will host six matches of the FIFA World Cup in Russia; all 64 matches will be broadcast in 360-degree virtual reality

MLADEN ANTONOV/AFP/Getty Images

By harnessing a range of new technologies, sport is blazing a trail in media and entertainment

OLIVER PICKUP

In this digital age, viewers expect to be able to gorge on as much entertainment as they please, across multiple devices and on demand. It is easy to lose sight of how far, and how quickly, the broadcasting industry has developed in less than a century. Sport has constantly been at the heart of that evolution.

Colour was first introduced for television coverage of the 1966 FIFA World Cup, for instance, and in 2010 Sky Sports launched the UK's first 3D channel. Sport continues to keep speed with disruptive megatrends, particularly the demand for enhanced user experience and personalised content, wrought by technology, by embracing change and pioneering new tools that hammer back at the boundaries of possibility.

Indeed, it is just 82 years since the British Broadcasting Corporation Television Service launched, in November 1936. The following summer saw the first sporting event to be beamed to UK viewers as a grainy half-hour package of an opening-round clash at the Wimbledon Championships was broadcast to a few thousand homes within 40 miles of the BBC's north-London transmitters.

Such has been the rapid transformation, John Logie Baird, inventor of the television, would find the current media playing surface and audience habits unbelievable. The *BBC Annual Plan 2018/19* reveals that children aged 5 to 15 spend more time online – on average 15 hours 18 minutes each week – then they do in front of the TV – an average of 14 hours. Further, 43 per cent of 12 to 15 year olds use their smartphones to watch television programmes and more than 30 per cent of all users have streamed live sporting events.

Recent tech advancements, notably in cloud computing enabling agile, over-the-top internet broadcasting, artificial intelligence (AI), big data and virtual reality (VR), have fired the starting gun for a paradigm shift to hyper-personalised broadcasting models, and sports media are leading the way.

For example, all 64 matches of this summer's FIFA World Cup in Russia will be broadcast in 360-degree VR for the first time, placing the user in the tunnel, up close and personal with the players, and in tribunes, surrounded by the fans. The best bits will be packaged for dissemination on social media channels, which have become hugely important.

Additionally, Oculus Venues, launched in May, enables users to watch live events, such as sports, concerts, comedy and other shows, around the world with thousands of other people. "VR offers the best of both worlds for sports fans, who want to be close to the action, but can't physically be there," says Madhu Muthukumar, in charge of product management at Oculus VR, an organisation acquired by tech titan Facebook in 2014 for $2 billion (£1.6 billion).

Elsewhere, World Rugby delivers HSBC Sevens Series short highlights packages for social media and even gamified coverage by overlaying computer graphics, such as flame trails from players' boots or cartoon-style impact explosions. This digital-first approach is reaping rewards.

Consumer interest in using virtual reality (VR) to watch live sports*

1/3

would watch live sports through a VR headset all the time if they were given the option

42%

want to experience an event from multiple views within a virtual stadium

27%

want to virtually experience an event that might otherwise be limited by capacity

*Survey of 500 online consumers in the United States
IBB Consulting 2017

> It is data-driven storytelling that will come to dominate sports media, sooner rather than later

"We have carved out an agile content-clip environment on our social and digital platforms, meaning we can react to and celebrate awesome Sevens moments as they happen," says Dominic Rumbles, World Rugby's head of communications.

"This year sevens content has generated 85 million video views – more than the total views generated across the entire men's and women's series combined last season – and we are on track to top 120 million views. World Rugby is continually focused on enriching fan experience by developing new content strands, prioritising innovation, acting on fan data and having fun with what we do."

It is this data-driven storytelling that will come to dominate sports media, sooner rather than later, predicts Ashok Balakrishnan, senior vice president of technology and product management at Sportradar. Over the last two years his organisation has outbid rivals to become the official data partner for most of the major American sport leagues – NBA, NFL, NHL – as well as NASCAR. By securing those rights it "allows us to be in pole position to bolt on a range of innovative media products", says Mr Balakrishnan.

"We have exclusive rights to a massive amount of innovative data, including player tracker systems," he continues. "For example, all NFL players have sensors on their shoulder pads and whenever they move that data is streamed to us and put though an AI programme which spits out key findings within seconds. Similarly, in the NBA, players are tracked 25 times a second. We are leveraging that mountain of data and AI to uncover engaging insights and providing fans with a data-driven storytelling experience that they have never had before.

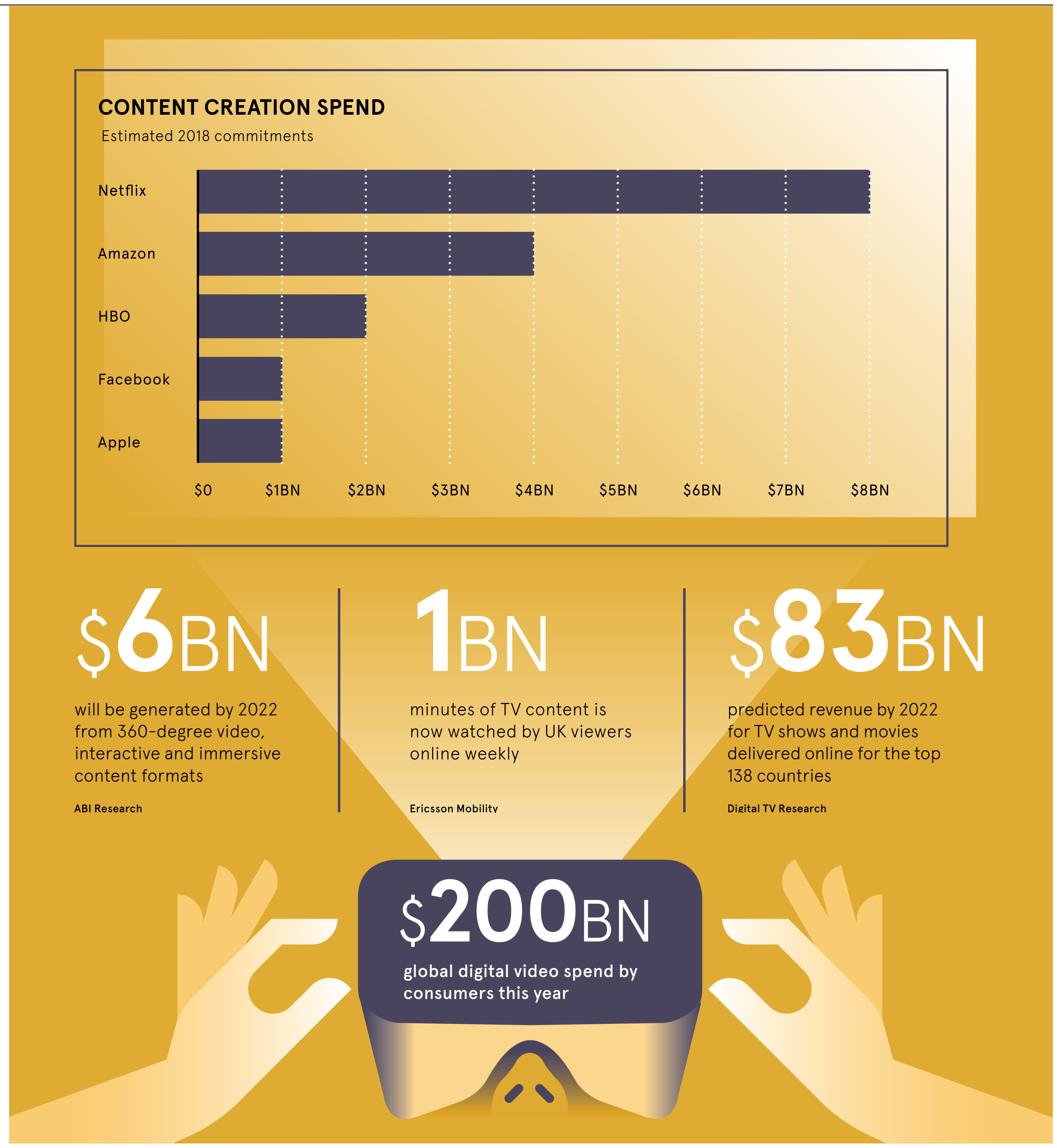
"Take the snap of the ball in an NFL game. We can enable a narrative experience that helps fans understand what has just happened. We can say 'there is a 32 per cent chance the wide receiver is going to be thrown the ball', and show which of three possible routes is likely to be most successful, just by tiny movements and our machine-learning algorithms."

This deluge of data also informs and improves analysis. "The commentators are not in the position to look at millions of data points that are being crunched by a machine," says Mr Balakrishnan. "It's a brilliant example of how man and machine can work together to provide a whole new genre of stories and experiences." ◆

Commercial feature

How content producers can be their own Netflix

Content producers are facing increasingly demanding expectations from viewers and a landscape disrupted by internet companies, but by creating a supply chain like Netflix they can ensure they are delivering content audiences want without rocketing budgets



A content arms race has emerged in media and entertainment driven by enormous sums of investment in online content licensing, and the creation of original content by Netflix and Amazon, both eager to snap up as many subscribers globally as possible.

UK viewers now watch more than a billion minutes of TV content online weekly, according to the *Ericsson Mobility Report*, while a recent *Digital TV Research* report predicted revenues for TV shows and movies delivered online for the top 138 countries will hit $83 billion in 2022, more than double the total two years ago.

Leading the charge is Netflix, the giant of the over-the-top (OTT) internet content world. In April, the company announced its global subscriber count had hit 125 million fuelled by consistent increases in content investment, including a commitment this year to spend $8 billion and make its library 50 per cent original programming. Amazon is hovering behind at around $4 billion, followed by Facebook and Apple with around $1 billion each.

While Netflix is by far best known for its end-user experience and mammoth investments in original content, its biggest differentiator is in fact its supply chain, particularly when it comes to enabling such rapid expansion into niche, regionalised markets. Rather than just localising content for India and the Philippines, for example, it is creating a significant amount of original programming for these countries.

The focus on niche audiences has a broad impact on the content supply chain in terms of the volume of content needed and how certain the producer needs to be that each piece of content it creates is more likely to be a hit than miss. This is a massive challenge for content producers and has had a big impact on how they look at the business landscape.

With a unique supply chain that is tightly controlled and completely connected, Netflix has an excellent understanding of both the cost of production and which audiences are engaging with what content. Visibility into these datasets enables it to calculate return on investment in content production in ways no other content producer is able to.

"One of the best ways to improve speed and efficiency in a content supply chain is to connect and manage it as if it was a single horizontal supply chain," says Belsasar Lepe, founder and chief technology officer at Ooyala. "However, that's not always straightforward because there is still a decided preference for best of breed, meaning most content producers have a non-linear editing suite from a different provider than their media asset management system or encoding fleet, so it's very difficult to connect their supply chain.

"Audiences are more fragmented and producers have to store more metadata because content is localised for more regions, so the complexity of the content supply chain has significantly increased both in terms of the assets being managed and the number of distribution endpoints. To reach and resonate with those audiences, content producers have to manage that complexity without drastically larger budgets."

With its Flex Media Platform, Ooyala is helping content producers be more like Netflix by enabling them to streamline that process and ultimately move through their supply chain more quickly and efficiently, generating meaningful data all the way along it.

The first phase is understanding the overall workflow. Typically, a content producer will have a media asset management system and some form of an archive. If that system isn't working well for the content producer, as is often the case, and there is no central repository of assets operating across the entire organisation, that first step is vital.

Once those initial efficiencies have occurred and existing content is no longer being recreated, the next step is building out the workflow from that core and connecting all systems and processes. Then content producers can really start to accelerate efficiencies by automating tasks, previously undertaken by humans, with artificial intelligence (AI) plug-ins such as Microsoft Cognitive Services or Amazon Rekognition.

> We can enable content producers to compete and operate with the same efficiencies you might see from an Amazon or Netflix

Automation is transforming media and entertainment, and enabling content producers to target niche markets around the world on existing budgets by multiplying capability. Media startup ZoneTV, for example, has teamed with Ooyala to use Microsoft Video Indexer, part of Microsoft Cognitive Services, to create customised channels. The same tool can also be used to subtitle content automatically.

"By automating a laborious, manually driven process, you're able to knock 80 or 90 per cent off the time it takes to regionalise a particular piece of content," says Mr Lepe. "That's why AI and automation are so important; they help customers deal with a much more fragmented market by automating the process of going after it.

"However, if your media asset management system is not talking to your distribution and ingestion point, it will be very difficult to leverage AI capabilities. This is where a platform such as Ooyala adds value because we provide a form of connective tissue, so once a customer is leveraging our or a partner's media asset management system, it's very easy to plug in new technologies, such as virtual reality."

In a rapidly evolving landscape, it's vital that producers are able to keep pace with new technologies that are transforming the way people consume content. Analyst firm IDC predicts virtual reality and augmented reality headsets will reach 80 million by 2021, by which point it will be a $75-billion market, according to Greenlight Insights.

Virtual reality is just one format content producers are keeping a close eye on. However, if they don't have a supply chain that allows them to test the relevance of new formats and technologies for their audiences and processes, they risk falling behind.

Mr Lepe concludes: "We can enable content producers to compete and operate with the same efficiencies you might see from an Amazon or Netflix by helping them connect their content supply chains and making it easier to plug in new technologies like AI and support for the new formats such as virtual reality."

For more information please visit ooyala.com

OOYALA

SOCIAL AWAKENING

Breaking the mould of endemic abuse

The media and entertainment industry currently faces its biggest shake-up and social awakening since the 1950s studio system ceased grooming stars


Oprah Winfrey at the Golden Globes

Paul Drinkwater/NBCUniversal via Getty Images

NICHI HODGSON

The Me Too and Time's Up campaigns have broken the silence on endemic sexual harassment, pay inequality, and lack of true racial and gender diversity in showbusiness and the media.

Thousands of women, BAME (black, Asian and minority ethnic), LGBT (lesbian, gay, bisexual and transgender) professionals and allies have come out to demand their stories be heard.

They demand the right to feel safe at work, free from having to use sexuality as a bartering chip. And they insist the white, heterosexual men running the industry acknowledge the world no longer only wants to see the imaginings of white, straight men on screen.

But as the industry begins reframing its entire power structure, has enough been done to ensure this is more than a passing phase?

"Speaking your truth is the most powerful tool we all have," urged Oprah Winfrey at the Golden Globes in January. Launching the Time's Up campaign against harassment in the entertainment industry, her televised *crie de coeur*, with its heavy focus on racial injustice, marked a pivotal moment in the conversation.

No longer was this merely about stopping furtive male hands on frozen knees, but taking to task an industry that had for too long sustained sedimented, white male power.

Then in February, Marvel's *Black Panther* was released. For decades, Hollywood executives had argued that the only reason BAME protagonists didn't feature was because the audience wasn't interested in them. In its first fortnight, the movie took more than $400 million at the US box office and by April had become the biggest grossing superhero film of all time. Suddenly the "no interest" argument no longer stood and the execs conceded. How truly to "represent" finally mattered.

Not that the numbers didn't already speak for themselves. In 2016, the Institute for Diversity and Empowerment at Annenberg, University of Southern California, found that during a ten-year period from 2006, 71 per cent of speaking characters on screen were white, while only 18 per cent of productions contained a gender-balanced cast. Women, in particular Latin and Asian characters, were significantly oversexualised, while only 2 per cent were LGBT. And some 70 per cent were Caucasian men.

At the Oscars in March, actress Frances McDormand had a solution. Building on Winfrey's call to arms, she championed the use of inclusion rider agreements, clauses that an A-list actor or actress can insert into contracts demanding all working on the production be a diverse mix of ethnicities, races and genders. Stateside, a plethora of stars have now pledged to use them, including Brie Lawson, John Boyega, Michael B. Jordan, Matt Damon and Ben Affleck. In the UK, the Labour Party has called for inclusion riders to be required for films to receive tax relief.

Still, what good is inclusion if there remains a secret gender pay gap? This was the next question posed by the Time's Up campaign, when it was revealed that Emma Stone, 2017's top-paid actress at $26 million, was earning $40 million less than Mark Walberg, the top-paid actor during the same period.

When news broke that *The Crown*'s Claire Foy was earning less for her role as the Queen than co-star Matt Smith was for the Duke of Edinburgh, Smith himself spoke out: "She's the Queen for god's sake. It's ridiculous." Foy has since received £200,000 back pay and an apology from the show's producers. Alluding to how things have changed since January's awakening, she said: "It's "amazing… the conversations people are having now."

While the heads of alleged harassers continue to roll – Bill Cosby and R. Kelly are but the latest – the focus is now on demonstrative inclusion and funding for those facing legal action for outing abuse. Time's Up legal defence fund has raised $21 million since its launch, helping some 2,500 individuals facing lawsuits from those who had allegedly harassed them. "The retaliation people face is real," says Fatima Goss Graves of the US National Women's Law Center.

But so is the momentum. #MeToo has trended in 85 countries, while the fashion industry, politics, advertising and Bollywood have also all called time on abuse. And now, even the press, formerly praised by Winfrey for helping to expose "tyrants and victims, and secrets and lies", is under scrutiny.

Time Up's latest collaboration is Press Forward, a coalition of female journalists campaigning against harassment in American newsrooms, sourcing funding from the Poynter Institute and McClatchy News to implement reforms. As Dianna Pierce Burgess of Press Forward explains: "It's important we create a news standards and practice document – a blueprint with a new code of conduct and 'best practices' for newsrooms, large and small."

So, what will truly change how the media and entertainment industry operates? The realisation that their bottom line depends on it, says Natalie Campbell, co-host of *Badass Women's Hour*. "If they don't change how they work, understand their responsibility to society, they simply won't exist in ten years' time," she says.

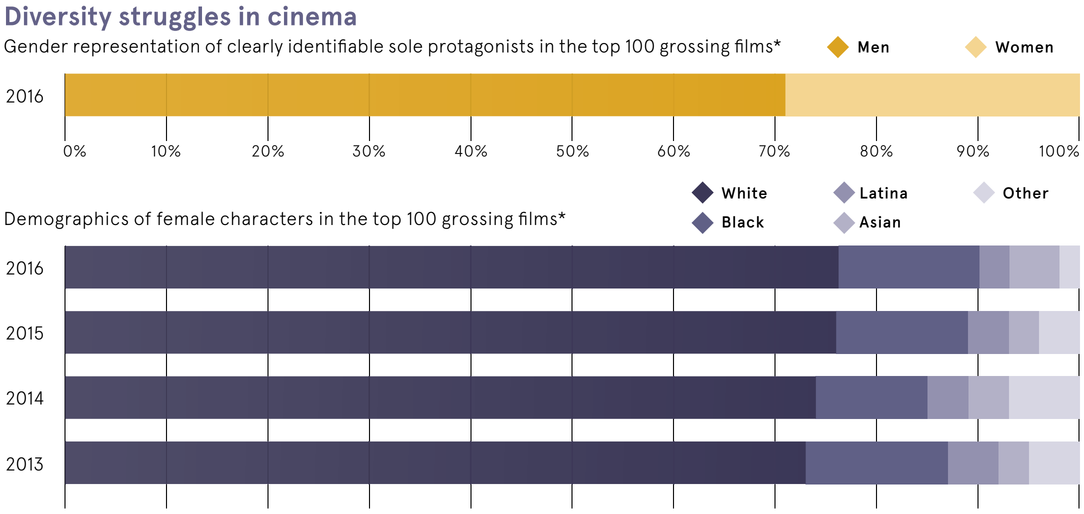
Meanwhile, as the small and silver screens teeter on the edge of "woke", getting a sudden understanding of what's really going on, one story of harassment lingers: whether that bastion of white male privilege himself, US President Donald Trump, bribed an adult actress to stay quiet about a sexual encounter. "Speaking your truth" won't yet tease apart every power struggle. But in ten years' time, who dominates that cultural conversation could look very different. ◆

> **No longer was this merely about stopping furtive male hands on frozen knees, but taking to task an industry that had sustained sedimented, white male power**

Diversity struggles in cinema

Gender representation of clearly identifiable sole protagonists in the top 100 grossing films*

Demographics of female characters in the top 100 grossing films*



*Top-grossing films in the United States only

Center for the Study of Women in Television and Film 2017

OPINION COLUMN

‘When no one knows how everything works, everyone needs someone who understands something’

Mark Harrison
Managing director
DPP – The Digital Production Partnership

Consider this. A new production company called Little Dot Studios was founded in 2013. Its purpose was to use its expertise in online video consumption to create successful new video channels. Within four years it was achieving 2.5 billion (yes, billion) views a month. And here’s the thing: much of that content was former television programming. Little Dot are simply better – as much as a hundred times better – than broadcasters at finding an audience for online video.

And now consider Cerberus Technology. The company uses software-based solutions for the delivery of live video for major content providers, including international broadcasters. They are a startup. While their staff could be counted on the fingers of one hand, they were already winning major contracts off much bigger and more established competitors.

We’ve all heard the amazing statistics for the growth of Netflix or Facebook. But the fact is the media industry is being turned upside down at every point in the content supply chain. If you suspect there’s a Little Dot or a Cerberus just around the corner that can do what you do, only completely differently, better and much cheaper, you’re almost certainly right.

When the DPP brought experts together to formulate our predictions for 2018, did they want to talk about virtual reality, blockchain or intellectual property? Did they heck. Right at the top of their predictions they put: “Transformation in media economics will cause huge instability.”

In short, nobody knows how everything works anymore. The task no one wants is to write a business case – for anything. Much has been made of the revolution in consumer habits. But far less has been said about how that revolution is now playing through the media supply chain.

There are genuine drivers for performing almost every process differently. But common understanding of best practice has collapsed, and no one has yet constructed transparent, predictable, robust cost models for the burstable, data-led, as-a-service world we were promised and which it turns out we actually need.

So does success now come down to the survival of the newest? The answer is emphatically no. At a recent DPP leaders’ event at NAB (US National Association of Broadcasters), senior executives from global companies such as Fox, Adobe and IBM came together with exciting new entrants Little Dot, Cerberus, M2A Media, Novamente and Grabyo to share strikingly similar views on the power of partnership and collaboration at a time of transformation. Major players are looking to partner with smaller, newer specialists. Meanwhile those newer specialists belie their size by smart partnering.

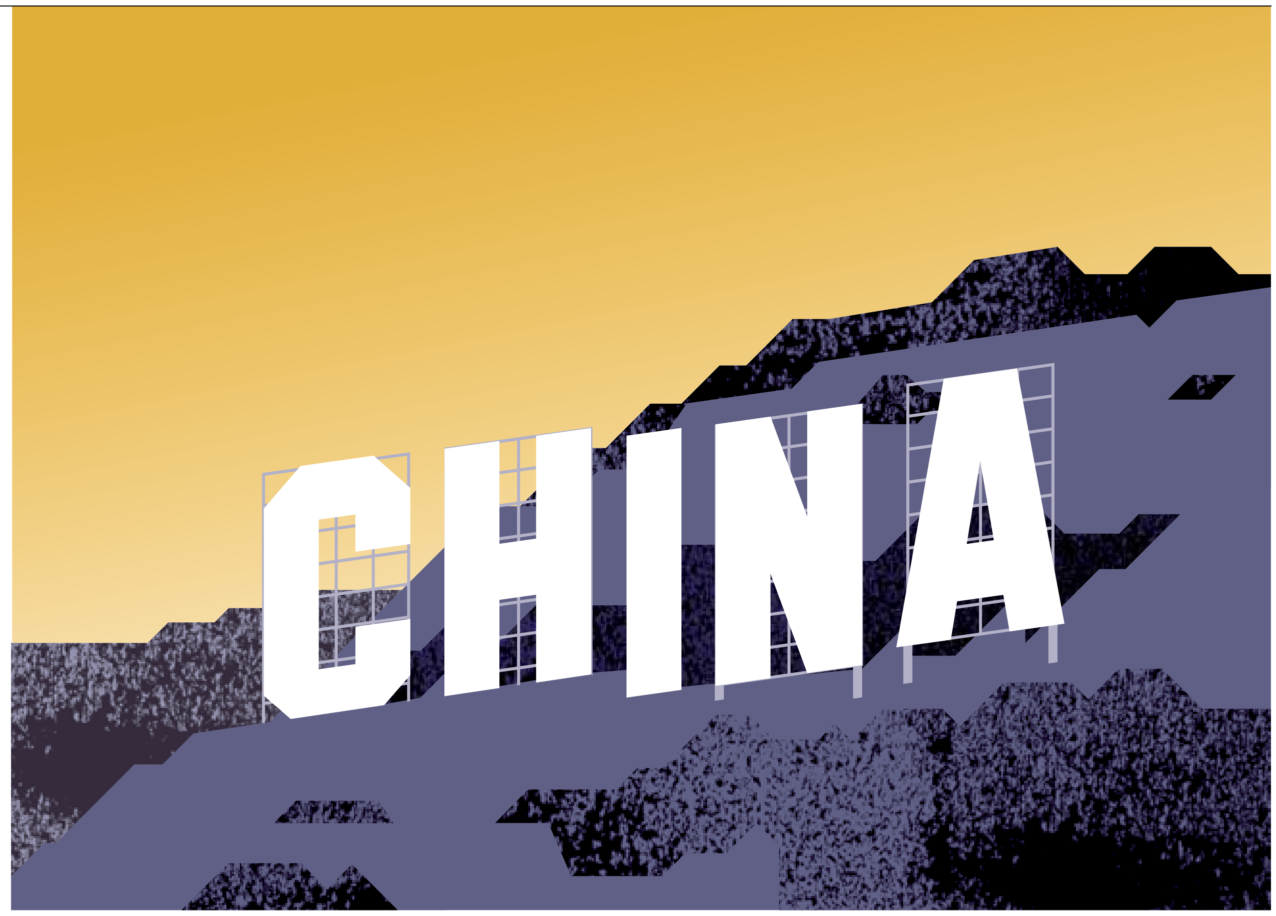
When no one knows how everything works, everyone needs someone who understands something. Lots of smart somethings can add up to big wins. Of course, the choices companies make about who they partner with and where they should go it alone may in themselves be life and death. The wrong partner could be a dead weight.

And this is why in many respects the winners and losers will be determined by how well a company knows itself, and how well equipped it is to shed what’s unnecessary and identify where value really lies. It’s far less media economics than a corporate personality test.

The DPP, as the media industry’s business change network, has the privilege of meeting companies on an almost daily basis that are exploring the relationships they need to succeed through change. They vary enormously in scale, age and activity. But they have common characteristics of reflectiveness, openness and collaboration. In short, they have a winning personality.

CHINA

Marriage of tech and data with content



China is fast developing a media and entertainment industry to rival Hollywood

NICK EASEN

We are so used to the 21th Century Fox, Disney or Warner Bros pre-titles and signature tunes fronting countless box office hits, it's hard to imagine a new one muscling in on our media lexicon. But Tencent Pictures could soon be hitting our screens.

The Chinese are all too familiar with this name. It's as pervasive there as Facebook or Google. One billion-plus people use the tech behemoth's WeChat messaging app monthly, with 66 million video subscribers. Now the company is making moves on global movie production and sales.

"Content is king," explains Wilson Chow, media leader at PwC in China. "Over the past few years, platform operators have been striving to purchase attractive content to expand their offering. In China, there's a strong shift to develop original content to meet local tastes."

Take the upcoming *Terminator* film, produced by James Cameron, Tencent are co-financing the whole thing, while distributing it in Asia. This comes after taking a stake in US Skydance Media that also produced *Mission Impossible* and *Star Trek*.

"Tencent is now the default media distributor in China, yet Tencent Video's average revenue per user is one thirteenth of Netflix's," says Tim Mulligan, senior analyst at MIDiA Research. "Tencent has a strategic imperative as the primary digital communication and engagement tool to increase the quality of its content. The aim is to retain and increase revenue from users."

As the world undergoes a dramatic shift towards digital media distribution, led by the irrepressible rise of subscription video on demand (SVOD) with the likes of Netflix and Amazon Prime, China's tech giants are also stepping up since they own the whole digital ecosystem there including search, social media, ecommerce and payments.

"The fact is 61 per cent of Chinese now consume film through the internet, only 34 per cent do so by going to movie theatres," says Stan Rosen, professor of political science at the University of Southern California and an expert on the Chinese film industry.

It is not surprising, therefore, that Baidu, Alibaba and Tencent, collectively known as BAT, have now grabbed a stake in most of the top-grossing movies at the box office, in China and beyond, serving as producers, distributors, marketers, merchandisers and even ticket vendors.

Tencent has invested in 51 entertainment companies, Alibaba 48 and Baidu 18, covering the whole supply chain. While other Chinese firms have been reigned in from overseas splurges with new regulations from Beijing, China's tech giants have been allowed to gobble up overseas assets, particularly when they're core to their strategic corporate goals; media being one focus.

"China's movie and online video market has seen breakneck growth in recent years, in contrast to the US market's stagnant growth. Many Hollywood film houses now see China as a growth market," says Mr Chow.

Unlike traditional media and entertainment companies in the West, BAT have unparalleled and eye-popping access to data on what is likely to be popular among Chinese consumers. They can search petabytes of conversations, product sales, likes and webpage views to pick up on something that could become popular; in that way their situation is unique.

"A notable example of this was Baidu together with iQiyi, an online video platform, identifying the growing popularity of rap culture when launching the *Rap of China* reality show, one of the most popular programmes of 2017," says Shann Biglione, chief strategy officer for Publicis Media Greater China.

These big tech players, because they own colossal digital ecosystems, are then able to leverage their media and entertainment content across all channels, amplifying the effect.

"For example, Tencent Video links perfectly with WeChat, while you will undoubtedly see more connections between video site YouKu and ecommerce site Tmall. They have access to the largest and most diverse ecosystems ever aggregated, so this inevitably gives them the power to scale quickly," says Mr Biglione.

The big question is where it's all heading. China's tech-come-media giants are certainly keen to make more money from their captive audiences, with their newly gained media and entertainment assets, in smarter ways.

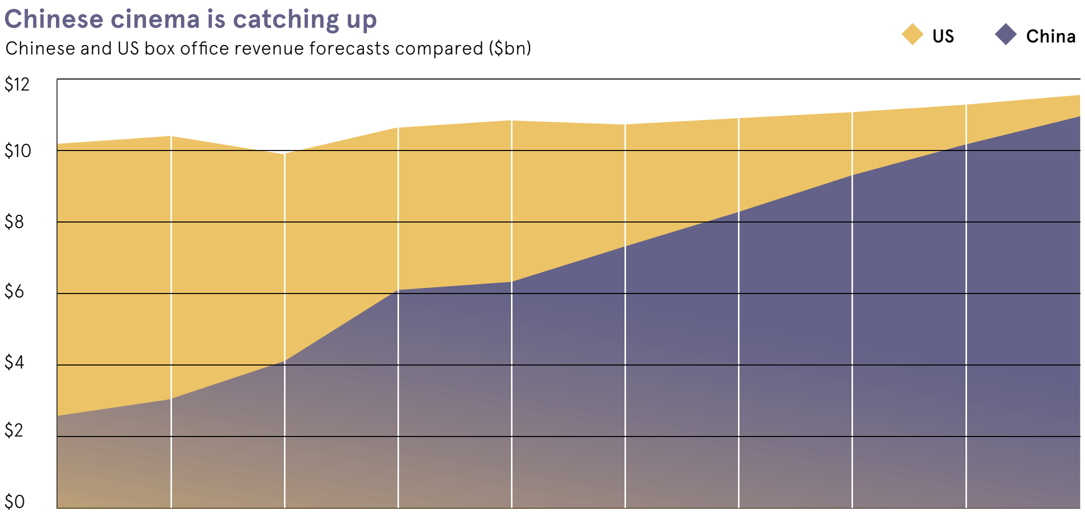
> **In China, there's a strong shift to develop original content to meet local tastes**

"Growing integration of artificial intelligence and data analytics is allowing companies to monetise users' viewing and spending patterns to create content suited to consumer taste," says Mr Chow. "Leveraging customer data also allows operators to push customised content, advertisements and new revenue streams."

The lesson from China is that great content, married with data and digital ecosystems, is a powerful proposition that's worth emulating in the West, while 5G broadband speeds will put more firepower into the media consumption space come 2019. Keep watching. ◆

Chinese cinema is catching up

Chinese and US box office revenue forecasts compared ($bn)



PwC/Ovum 2017

Insight

What next for China and Hollywood?

Hollywood players view China as the hot destination for co-productions of dramas, games and movies. It's why Netflix teamed up with video-streaming platform iQiyi, owned by Baidu. HBO and Warner Bros also have licensing deals with Tencent.

China's ecosystem approach, marrying content and consumers, allows it to market content much faster and at scale, compared with the West. China also has a much more unified and sizeable market.

"Hollywood expertise is being used to improve patriotic Chinese action blockbusters in effect helping to create films that will compete effectively with US product, domestically," says Professor Stan Rosen at the University of Southern California.

Whether China's tech giants married with Hollywood have more global ambitions remains unanswered. Some believe not at this stage. "I think a lot of these companies are focused on the Chinese domestic market still. There is a lot of potential for growth within the country," says Shann Biglione at Publicis Media Greater China.

However, China is ambitiously extending its international influence, through the likes of the One Belt One Road trade-link initiative. This could eventually involve exporting media content along the new Silk Road. Only time will tell.