Phoenix from the flames:
The future media organisation
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Summary

For many organisations in the media sector, 2009 was nothing short of an Annus Horibilis. Some businesses failed as restructuring and refinancing efforts failed to keep pace with the fall in revenues. The survivors are much weakened after severe cost cutting – and many are not yet out of the woods.

The good news is that bright spots are now appearing on the horizon, with signs of an upturn in corporate profitability and consumer spending, the lifeblood of the media sector. However, the outlook remains uncertain, and the dynamics of consumer and technological change have never been more complex to understand or harder to monetise.

Against this background, it is getting increasingly difficult to tap into new revenues and achieve further gains from restructuring initiatives. Why? Because the operating models of media companies are no longer fit-for-purpose. During this crisis, insufficient attention has been paid to the operating models that will be needed to support a growth agenda. Understandably, management has been too busy focusing on short-term tactical measures to alleviate the current pain: disposals, outsourcing, delaying or defraying expenditure, and cutting layers of management to tackle inertia and complexity.

As a result, today’s media executives face a complex and pressing challenge: how to deliver a new operating model that is fit for the future and equipped to generate rising revenues from a dynamic consumer environment.

What will this model look like? Above all, it will need to be agile, diversified and engaging:

- Agile in seeking out new opportunities and re-organising to exploit them.
- Diversified in terms of revenue streams and third-party networks to tap into new opportunities and reduce risk; and
- Engaging with employees, partners and suppliers through better alignment and incentives to ensure they all deliver their best.

This paper sets out our perspective on the operating models that tomorrow’s winners in the media industry will need, if they are to succeed in rising from the ashes of the worst recession in decades.

So, read on if the following scenarios resonate with you:

- You have cut costs to the bone – but are not sure where to go next to manage costs and/or position your organisation for future growth.
- You can see revenue growth opportunities – but are finding it difficult to capitalise on them with the speed and quality required.
- You recognise the need to diversify your revenue streams – but your efforts to re-organise the business to do this are being hampered by a dead-weight of entrenched inertia.

This paper provides you with a taste of our perspective and approach towards restructuring operating models in a way that delivers real benefit to the bottom line.
1. The shape of things to come

The media sector appears to be seeing the early signs of growth, having weathered the worst of the downturn. So how should media companies take advantage of opportunities that arise? PricewaterhouseCoopers believe that a new operating model - the unique way in which a business is organised to manage and execute its operational decisions and deliver to its strategy – should be an important part of the response.

The foundation of an operating model is a clear vision for the organisation. In turn, this requires an informed assessment of the opportunities on offer within the media landscape. These opportunities are evolving all of the time – and social and consumer dynamics are at the heart of this change. Set out below is a summary of our thoughts – our Global Media and Entertainment Outlook provides further commentary (see http://www.pwc.com/outlook).

Consumer behaviour is more complex than ever...

Consumer behaviour is more complex than ever…

Complex, and often conflicting, forces are reshaping media consumption habits. The ageing population, the rise in single person households and increasing urbanisation compels media companies to challenge the assumptions they hold about consumer behaviour. The recent austerity measures imposed by many Governments across the world will have an impact too; however, how much this will affect the ability, and willingness, of many consumers to spend on media products and services is uncertain at this stage.

Having said all of this, consumers still expect to watch, listen and use a wide range of content on multiple, connected devices. They also want fun, enjoyable experiences with their friends and family - the rise of social networks, as well as the popularity of live music events and cinema admissions over the past year is testament to this. Looking to the future, we think that their choices will be influenced and polarized by a growing set of trade-offs between the availability, quality, and price of content. ‘Free’ may mean lower quality content (or bundled with other offers), while ‘paid’ may mean more personalised, higher quality content, if they pay for it all – attitudes, and responses, to piracy will be a critical dimension. For all of this change, we shouldn’t forget that old habits die hard, or at least die slowly – so there will still be limited opportunities for products deemed by some to be old media, including newspapers, books and DVDs.

...technology is at the heart of change

Technology offers new opportunities to tap into consumer demand. The potential (and risk) of advances in technology is now firmly recognised in the boardroom, often seen as the answer to the question of how to monetise content and inventory profitably. New developments, such as Cloud Computing, are reducing the operating and capital cost of editing, storage, search and distribution. As a result, activities conducted within media companies are beginning to be reinvented, restructured and/or outsourced; the flexibility expected by consumers when they use content on multiple devices now needs to be mirrored in the operating models adopted by media companies.

What will this mean for the dynamics of media markets? Expect a period of flux, a period of experimentation. Companies are searching for new ways of making money from their content in a world in which content (particularly online) has been
hitherto provided for free, and where the metrics required to monetise the content are underdeveloped. In terms of market structure, we expect to see consolidation as companies search for economies of scale and scope. To realise the economies they need, companies will need to achieve an operational step-change, whether to prepare for future acquisitions or to support organic growth. This will require greater clarity on their part of how their own operating model can deliver their strategic intent. We will return to this perspective later in this paper. For now, suffice to say that media companies will become much clearer about their role in the industry, as illustrated below. This value map may not look that different from ones presented before; however, the characterisation is subtly different. It puts consumers at the heart of the industry, rather than institutions. In addition, this value map:

- Recognises the core activities of any media company – that is content commissioning, production and/or distribution, found and used through search, aggregation and devices. Even at a time of considerable change, it’s important to remember the roots of any media company.

- Sets out activities that supports the monetisation of content – and begs the question of which activities need to be owned or partnered with specialist service providers (we return to this theme later on).

- Highlights different ownership structures – they have a material impact on ambition and strategy, editorial output as well as the expectations of returns.

**Figure 2: An illustration of a future value map in media**
Critical questions facing media companies

Business models:

- How much of an effect will new media exploitation have on old world media (e.g. Video-on-demand on DVDs, online news distribution on hard copy newspapers, etc)? When will they reach the level that offsets the decline? What do we need to do to accelerate this trend or just be part of it?
- How will content be funded if advertising levels bounce back to lower levels than in the pre-recession period? How much of an impact will new forms of programme financing – such as product placement, and advertiser-funded programming - have on commissioning budgets, editorial choices and production?
- Who pays, and how much, for the increased traffic on IP platforms? What is the risk of network failure, and what do we need to do to manage this risk, if we can at all?
- How important is user generated content, in terms of revenue and profit?
- Have we stepped too far from our core strengths, as a result of our declining legacy businesses and the recession?
- How will the increased amount of data collected be monetised profitably, with integrity?
- How much involvement will ‘new’ distributors have, such as mobile and fixed telco operators, and technology companies, have in content creation? How much of an opportunity or threat does this present to our business?
- When will mobile content and advertising (finally) take-off? Should we be a leader or follower in this area?

Revenue growth:

- In light of growth opportunities, and the impact of the downturn in our home markets, how much should we focus in emerging markets, particularly India and China?
- How profitable will micropayments turn out to be? And what will the balance be between advertising, subscription and micropayments in the revenue mix of our business?
- When will targeted advertising take-off, and how much of a benefit will it deliver? Which issues do we need to overcome to make it a success?
- How much uplift will there be from transactional revenues to traditional advertising, e.g. click through revenues, touch point advertising?

Distribution and infrastructure:

- How much of an impact will the Cloud solutions have on content management?
- How much of an effect will on demand/intelligent search functionality have on the consumption and distribution of media – what will be the future role for channel providers in the future, for instance?
- What do I do with (stranded) distribution assets that I no longer need in a digital world?

Financing:

- How much of an impact will refinancing have on our business, and on our suppliers and partners?
- How much of the upturn will translate into increased M&A activity, and which opportunities should we tap into?
2. Five themes for the future of media

Engagement, trust and agility will be defining themes in the future media landscape.

Five themes will shape the strategies of media companies, which in turn will drive the design of operating models.

#1: The much-hyped ‘Anytime, anyplace, anywhere’ nirvana becomes a reality

- This means that content is delivered across multiple devices in a seamless way in multiple environments, facilitating greater integration of entertainment and transactions.

- The sources of content will be fragmented, with a wide selection of professional and user-generated available. The boundary between creator and consumer becomes increasingly blurred. However, expect to see professional content continuing to dominate formats requiring significant investment, such as high-end video and music.

#2: Engagement and trust underpin successful business models

- Trust becomes an important source of competitive advantage. Media companies recognise the power of collecting and using data from their consumers with security and integrity. Regulators play a more prominent, proactive and co-ordinated role in preserving trust in the industry.

- Consumers will pay when they can benefit from the quality and personalisation of content and flexibility in usage. For example, raw news content may become cheaper, and free in some cases, whilst specialist investigatory content would be charged for. The ability to use content across devices commands a premium, at least in the short-term.

- Measurement becomes increasingly centred on outcomes, rather than outputs – reach becomes challenged as the cornerstone of audience measurement. Cross-media platform measurement becomes possible, facilitated by new industry standards and measurement vehicles.

- As a consequence, payment-by-results becomes the norm. New risk-sharing mechanisms become more commonplace, particularly for content producers and advertisers. Along the way, challenges, even disputes, ensue when current deals come up for renewal before a new set of arrangements is established. A newly found clarity about the contribution to the outcome (e.g. a transaction) from various market participants, and hence the allocation of the spoils, ensues.

- Pricing models become more flexible and sophisticated, based on a wider range of factors than before – by programme, genre, location, length of storage and portability across devices.

- Platform strategy becomes increasingly centred on profit considerations, rather than prior assumptions or norms. In some cases online, on demand consumption is the first window, print/TV broadcast the second.
#3: Diversification and agility are the cornerstones of strategy

- A mixed, more balanced ecology of subscription, advertising, product placement and micropayments emerges. For each content type, the payment model is individually and dynamically adapted, shifting between business paid for models (advertising) and consumer paid-for models (subscriptions and transaction payments).

- Media owners find new ways to monetise their (display) advertising inventory, with new found confidence and innovation. Technology plays a prominent role in this journey, as targeting becomes more mainstream.

- Upfront advertising and content commitments become increasingly challenged, as organisations seek more flexibility and agility in their commercial relationships.

#4: Technology developments are at the heart of changes to commercial and operating models

- Data becomes the queen, if content is king. Powerful infrastructures develop that are capable of capturing and leveraging the full picture of consumer activity. Customer relationship management becomes a critical core competency of every media company. This data infrastructure will be complemented by wider technically-driven infrastructures such as micropayment solutions and higher server capacity. Real-time, accurate data is used systematically to develop content and the commercial models that go along with it.

- Storage expands significantly, at a price, enabling true on-demand consumption.

- Service providers that provide secure rights-cleared content, and reliable distribution platforms grow in importance, as quality of service becomes a more prominent source of competitive advantage.

- Cloud-based solutions are used to store and manage content on a widespread basis. They have radical implications for the operating models that support the development and distribution of content.

#5: Mobile content finally takes off, supported by advertising models

- By its nature – given data on geography as well as other features in the home or office – mobile enables the richest dataset possible and a true ‘anywhere’ experience, with advertising models benefitting the ability to have more active engagement with customers.

- Mobile TV finally happens on a mass scale, with back channel access via Wifi for home-based services remaining more important than 3G.
3. Winners and losers

The winners will break through inertia to look afresh at new opportunities

The outlook for 2010 is mixed. The consensus is for some small advertising market growth overall. Beyond 2010, a return to modest growth appears likely. So, who will succeed in this changing world? While – as ever – a cohesive strategy and stringent execution will be critical, there are several features of the successful media companies of the future:

- **Speed of decision-making and execution**, with the appetite to experiment and fail. This will require empowering individuals far more than ever before by devolving accountability and streamlining governance.

- **A systematic approach to talent management**, attracting and retaining the best talent for the needs of your current and future business (not the past). Aligning individuals to strategy through objective-setting, incentives and performance management will be critical.

- **Strategic flexibility** – in practice this means diversifying revenue, by proposition, geography and/or maturity of proposition.

- **Exploiting economies of scale and scope** – driving synergies hard and exploiting scale across geographic and product markets.

- **The ability to monetise brands/rights across platforms seamlessly**, leveraging the data they own and/or collect.

- **The development of skills in partnership structuring and M&A targeting and integration**, at a time of more intense competition for strategic assets than ever before.

In our view, the winners will include:

- **Content producers** with global and/or cross-genre coverage.

- **Service providers** in areas that were either hitherto insourced or provided within a single media sub-segment, offering opportunities for consolidation – e.g. the providers of payment solutions, cloud solutions, targeted advertising, rights management and measurement.

- **New entrants** – expect more involvement from retailers (in areas such as CRM and interaction with customers making frequent, large purchases) and other brand owners seeking out a new audience; advertisers becoming more involved in programming through advertising-funded content; financial service providers owning the payment channel and then moving up-stream into content.
**Aggregators** — this includes “structure providers” similar to online search who provide interfaces that help to navigate through content, music, video and radio. Key to their success will be the quality and range of content, the user interface, and their brand awareness amongst users.

Losers lack diversification or will find their role squeezed by new entrants and technology

The losers from this new world will be those with a reliance on single revenue stream, unable to restructure their fixed cost base, and with insufficient funds to invest into new platforms / technologies / skills. Business models that face significant challenges include:

- Advertising-funded broadcasters and/or distributors without direct customer relationships and/or adequate rights ownership.
- Secondary broadcast digital channels, as on demand content becomes more mass market – unless they have sufficient scale or other strong differentiators.
- Single hit/genre producer/distributors, who find themselves to susceptible to the economic climate.
Day in the Life of a Media Executive

I love the real-time information I can access on my smartphone, PC and anything else for that matter; it is so easy to review, whether it is about our sales, partner and supplier activity or employees, by channels and by brands. Finally I see the return on investment – it leaps out at me, literally, at every corner. No more daily dumps of info or long meetings going through management information; no more surprises from partners.

After the spate of network failures, and breaches of trust last year it’s good to see things settling back to normality. We’ve all realised that we all need to work far more together, and, yes, that includes with our regulators and Governments too. And, it’s led to a fundamental shift in our business – I can truly say that consumers are at the heart of what we do now. This afternoon, I met up with our new head of consumer psychology to hear a briefing on current behaviours, habits and spending patterns in all of markets. He’s moved to the content hub in the centre of our building.

Our Board meeting took place yesterday. It was quite refreshing to see more than grey hair – our colleague from Asia, and our new people’s representative (a mere 25 years old) as always stimulated some interesting discussions.

The retailers are still calling the shots – they are so much better at mining data, and they have such an important presence with our customers. Our new Chief Information Officer lives and breathes the stuff and keeps saying that data is the ‘new content’. She seems to have a big voice in our organisation.

So glad we’ve finished cost reduction programmes – yes, we’re slimmer and more agile. But it feels like we need to rebuild our identity, and redefine our brand. We are a people company after all.
Reinvigorating the media organisation will require unpicking complexity and inertia

For most of the past decade, the benign business environment has masked the negative impact of the complexity and rigidity that has crept into the operating models of many media companies.

Initiatives to restructure operating models during the past decade or so have resulted in leaner cost bases. However, with the onset of the global recession, these models were severely tested and – in many cases – found wanting. Instead of being equipped to cope with the profound challenges that arose, many media companies found their operating models were too complex to enable the necessary flexibility and efficiency to deliver business strategy in an uncompromising market.

The causes of this complexity are manifold: the expansion in the scope of media companies (for example, through organic growth, mergers, acquisitions, divestments, and joint ventures); legacy positions, for example through pension fund arrangements, old systems or cultural/regional/political positions they occupy; the increasing burden of regulation and compliance; multiple sales and distribution channels for various complex products (e.g. bundling) and offerings (e.g. limited period discounts); and complex management structures to provide governance and oversight.

Our experience shows that the development and management of these models has been characterised by three themes:

- **Transformation** through the delivery of a ‘patchwork’ of unaligned, tactical changes designed to remove cost or address market opportunities/threats (title acquisition, divestitures or ‘point in time’ partnerships).

- **Growth** through the bolt-on of additional models through acquisition without ever fully integrating them into the wider enterprise.

- **Compromise** as the longer-term benefits associated with tackling more deep-rooted issues around organisational design, business processes and technical architecture are sacrificed in the drive to realise the short-term benefits achievable through ‘work around’ solutions.

These themes have usually resulted in a single organisation having an intrinsically complex set of conflicting models masquerading as one – encompassing elements including fast yielding integrations, point cost-cutting exercises seeking to ‘get the same for less’, and divisionally orientated changes. A fictionalised case study of such an organisation — ‘Organisation X’ – is described in the information panel opposite.

The effects of this complexity have been manifold:

- **Misallocation of capital and operating expenditure through a lack of understanding of true profitability** of services, products and/or customers through poor data management and lack of focus on cost allocation.
• Missed opportunities and/or high transaction costs as a result of poor execution of product development, acquisition.

• Strategic and brand promises are not being kept, whether in dealings with customers, partners, financiers and/or suppliers through a misalignment of personal objectives and incentives.

• Myopic decision-making and ‘group think’ as a result of a lack of diversity in talent, especially outside the sector/country. There are some signs that this is beginning to be addressed, at least at Board level, but there is a long way to go.

• The true value of IP not being valued and captured fully. Outdated processes and measures mean that not all of the revenues are captured across platforms; in some cases, the terms of many contracts are outdated and in need of renegotiation.

Culture will be an important dynamic in the transition to the new world

Culture – a critical factor in the creation of such embedded barriers – has been an important dynamic throughout corporate history. In the words of Goffee and Jones, ‘without culture, a company lacks value, direction, and purpose’ (The Character of the Corporation, 1998). Over the last couple of years in particular, many media organisations, particularly those characterised as ‘traditional’ or ‘incumbent’ in their sector, have become more ‘mercenary’ in their culture by necessity. In practice, this has meant a heavy focus on corporate objectives, a low focus on sociability, and a ruthless focus on the competitive threats to their business. This ‘corporate’ management style may have been successful at avoiding financial distress. But how well suited is it to the task of building the loyalty, co-operation and agility needed to drive the innovation and growth agenda over the coming years?

New entrants – and indeed many incumbents with proud traditions – have succeeded with a more communal environment in which professional and personal lives are intertwined, investment is focused on common goals (e.g. equity shares), and a strong sense of identity is created. At their best, this culture brings the best of the organisation and its partners, enabling it to develop new products and reinvent its business model in an open, collaborative manner. But how sustainable is this model when inspirational leaders leave, or the early gains are exhausted and the next wave of growth requires a fresh approach?

Organisation X’: a case study in embedding complexity

After several years on the acquisition trail, and without a robust plan to integrate what it had acquired, media business Organisation X found itself managing significant organisational, management and infrastructural overlaps. Throughout its value chain, the organisation was paying for this duplication – including numerous editorial applications, multiple versions of Woodwing and several e-mail systems. Alongside the preservation of the acquired management and organisational constructs, each of whom cherished their respective infrastructure and the perceived value it added to them, these inefficiencies were increasingly being ‘hardwired’ into the growing organisation.

With the advent of content digitisation, the organisation was faced with a dilemma. How could it fully capture the opportunities that digitisation affords across its already fragmented infrastructure? Without a single management team driving the change and forming consensus, it was impossible to align the organisation behind a business case – so a number of incremental and tactical enhancements were made to existing technology and other infrastructure multiple times over. True, these enhancements did enable infrastructure originally designed to manage physical media to support the new channels and products. But at what cost?

Today this complex and unintegrated infrastructure is at breaking point, struggling under the strain of managing increasingly complex digital content and ever increasing levels of granularity. Where content was previously served at a series level, the same infrastructure is now being asked to support pay-away at episode or clip level. As a result, the organisation must change its operating model – or face a crisis that threatens its very existence.
The new operating model will need to support profitable growth

So what is the right operating model for the media organisation of the future? And how can media executives address the classic challenges of any transformation, and achieve the necessary change?

Before we start looking at the ‘nuts and bolts’ of the operating model itself, we set out three priorities for change as Figure 2 shows. Where to focus will depend on the degree of structural change the industry faces, the impact of the recession, and the fitness of their existing operating model; the incumbents may still be focusing on stripping out costs, whereas the more resilient organisations may now be building their platform for profitable growth.

**Figure 2: Three priorities in reshaping the operating model**

1. **Cost focus**
   - Outsourcing activities and restructuring financing
   - Sharing and disposing of assets
   - Managing talent costs

2. **Platform for profit**
   - Designing new organisational shape
   - Developing new competencies and processes
   - Improving performance management

3. **Revenue growth**
   - Scaling up and diversifying - partnerships and M&A
   - Sweating assets harder through leveraging brands more widely
   - Capturing value more effectively – new metrics, deals
Cost focus:
- Further cost reduction – in some cases, ensuring survival through outsourcing core activities and restructuring financing arrangements.
- Sharing assets and disposing of non-core assets based upon a review of the portfolio from a strategic and profitability perspective.
- Managing talent costs whether through pay and/or bonus freezes, restructuring pension arrangements and long-term incentive plans.

Providing a platform for growth:
- Restructuring towards a target operating model, particularly in relation to the organisational structure and the governance framework, continuing the process of delayering the organisation.
- Investing in better processes and new competencies – particularly with regard to CRM, sales effectiveness and portfolio management.
- Managing employee performance more actively than ever before (beyond cost reduction). This involves a focus on building greater alignment, improving performance management and building the culture that will help to deliver the vision – whether by increasing sociability (through promoting collaboration and reducing formality) or increasing solidarity (through setting focused, shared goals and defining a burning platform for change).

Delivering revenue growth:
- Scaling up and diversifying revenue streams through M&A and/or strategic partnerships.
- Sweating assets (content, brands, technology, people) in new platforms and/or geographies, and driving synergies between business units.
- Capturing value created by these assets through better metrics (cross-platform, focused on engagement and transactions and identifying, and sharing, the spoils of transactions) and developing new commercial arrangements that reflect the fundamental value of the assets involved.

Two types of media organisation will emerge

In parallel with initiatives targeted at the priorities highlighted above, a number of industry trends – including the drive towards greater collaboration, an increased focus on strategic assets (be that content libraries, printing presses or rights), flatter management structures and more flexible ways of working that enable third-party partnerships – are combining to give rise to two types of organisation: networked and conglomerate. The two types of organisation are not mutually exclusive; a fully diversified company might choose to use a networked model set out below for certain activities. However, we do think that the networked model will become prevalent, given that it is more agile and efficient.

Similar dynamics are evident in other industries; for example, this is in a similar vein to how we think the pharmaceutical industry may develop – see http://www.pwc.co.uk/eng/publications/pharma_2020_challenging_business_models.html for our perspective on future business models and operating models in pharma).
Networked

The entities in this type of structure are a group of strategically aligned, best-of-breed businesses that realise benefits from sharing transactional processes. The benefits of a networked business are in the form of increased agility and transparency, for example to third party stakeholders. The network has a mutual goal, such as consumer engagement – set through common measures. For example, while all entities were focused on platforms or brands, now the network focuses on engaging customers, irrespective of which service or platform is being used. There are two variants of this model:

- **Virtual**: this is a very low capital business, which outsources all functions. This facilitates the focus on the corporate core proposition, which could be content development or brand management. The advantage of this business is in its agility; it does rely on rigour and discipline in screening third party suppliers and partners.

- **Venture**: this media company invests in a portfolio of companies in return for a share of the intellectual assets and/or capital growth they generate. This is the private equity or holding company structure. The key to success is picking the right companies, ensuring diversification of risks, and driving synergies within the group.

Conglomerate

Many media companies have expanded from their core, or historical, business into other media segments (horizontal diversification – by segment), or other countries (horizontal diversification – by geography). This operating model requires substantial investment, and culture change. The upside is commensurately higher, as is the risk.

The accompanying information panel provides a brief definition of each model, together with examples and some of the key questions to be considered by each type of organisation.

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**Networked or conglomerate? Definitions — and key questions to ask**

1) **Networked**: Managing a network of separate entities with a common supporting infrastructure.

   Examples include: leading content producers, media investments owned by private equity organisations.

   Questions to consider: (a) How hard are you driving synergies? (b) How well do you know the true profitability and risks of your businesses; (c) Where does the balance of returns sit in the lifecycle of the business, and industry they operate in – do you have too many mature assets in your portfolio?; and (d) How well do you manage your third party relationships, and the risks of under-performance or failure?

2) **Conglomerate**: Managing a diversified portfolio of investments

   Examples include: many publishers, TV networks, music companies.

   Questions to consider: (a) Do you have sufficient scale (across segments and/or across geographies) to diversify risks, and how well can you transform your business into a new entity? (b) How well are you bringing in new talent to innovate in new markets? (c) Why does a conglomerate structure beat a market-based allocation of capital?
Defining the operating model

In combination, the priorities and industry trends highlighted above will play a significant role in influencing the future operating model of any given media organisation. But how can these changes be brought together in a coherent and consistent manner across the enterprise – and in a way that fully realises the potential benefits?

To achieve these goals, the operating model of the future will need to address its four component parts – business structures, interactions, infrastructure, and ways of working – in a joined up manner across products, channels, and territories (see Figure 3). All of these components are delicately interrelated, yet hold a unique set of challenges. We bring this to life in the media industry in the box that follows.

Figure 3: Four components of the operating model
Operating models will become agile and networked in order to deliver more diversified revenue streams

An illustration of how we see media companies developing...

**Traditional**
- Revenue contribution is focused on a small product portfolio with long life-cycles and dominated by a few products.
- Back-office infrastructure costs are actively managed but weighted and tailored to support the dominant products.
- There is a resultant overlap and duplication in front, middle and back-office costs services as operating model dimensions major on ‘product’ rather than value chain.
- Strategy, responsibility and direction-setting predominantly driven along a ‘product’ dimension with limited control from the corporate centre.

**Progressive**
- The dominance of the few key revenue contributions start to reduce as the portfolio becomes more fragmented.
- Agility and speed to market is increasingly paramount as innovation and competition shorten the product life-cycle.
- Back-office infrastructure is increasingly shared to ensure consistent and measurable delivery across the portfolio.
- There is early recognition that front and middle office infrastructure is common across the portfolio.
- Ongoing cost focus includes greater propensity to off-shore and outsource both core and non-core infrastructure.

**Dynamic**
- There is a proliferation of revenue streams with significantly shortened life-cycles forcing product segmentation (e.g. by lifecycle stage, geography et al.) and a greater degree of portfolio management.
- Life-cycles require faster decision-making and more robust ‘checks and controls’ to enhance the chances of success.
- There is a growing importance of common and shared infrastructure beyond the back-office to enable decision making.
- Agile infrastructure enables a high rate of product change and management as well as reaction.
Implementing the operating model

In our experience, companies looking to deliver transformation change of their operating model concurrently alongside running business as usual operations – and over a prolonged period – often face a particular set of challenges:

- In a growth scenario, a media organisation needs deep conviction and commitment to expand into new markets, incorporate new devices and leverage its scale in the channels it has decided to participate in.

- In a reduction scenario, uncertainty can be created by efforts to manage the balance sheet – through disposals or renegotiating covenants and further cost reductions (mostly headcount) – without affecting ‘business as usual’. Avoiding this uncertainty requires clarity of goals and honest communication with shareholders and staff alike.

Alongside these challenges, our experience highlights the following critical elements that will make the difference between success and failure:

- A compelling case for change linked to strategy.
- Commitment among the leadership to driving and embedding change.
- Enterprise-wide agreement and mobilisation around a single end-state vision.
- Consistent communication of this end-state vision.
- Identification and removal of obstacles and barriers.
- Change manifested across all aspect of the business - brought to life and embedded in everyone’s day-to-day work.

Managing your people in 2015

1. For customers to trust the organisation, employees will need to trust their organisation and engage with their leaders
   The operating model must ensure consistent and transparent decision-making and communication from leadership right the way down the organisation

2. To create an agile operating model you will need agile employees
   Different business models will require changes in the operating model and an evolution in capability. Organisations will need to invest and develop their employees to diversify and develop commercially savvy mindsets that are able to manage a wide portfolio of external and internal relationships across the enterprise.

3. There will need to be an increased focus on individual targets, performance and reward
   Traditional measures, such as quality of output, will need to be replaced by KPIs that support the organisation’s overall targets and strategy and offer performance-related pay and equity based schemes to attract and retain high performing individuals.

4. Speed of information, mobility and resource deployment will become critical differentiators
   Organisations that actively manage and share their resources across the enterprise, promote mobile and flexible methods of working and invest in leading-edge use of work-place technology will win the race for innovation and retain the best and brightest.
There are five key stages in developing an Operating Model fit for the media industry of the future:

1. **Define your strategic principles and identify your current tensions.** Taking an early pass at the broad principles from a 'customer', 'product', 'participation' and 'sales' strategy perspective and define the 'edges of the sand-box'. This step flushes out the 'nice-to-haves' from the 'must-haves' for the future. So, while we see the 'digital' agenda will become increasingly important, this step highlights any tensions inherent with the legacy – yet generally still significant – business models.

2. **Identify the key value chain components, and the characteristics that are 'essential for success'.** This allows you to maintain or develop the attributes required to support the 'essential for success' characteristics (e.g. effective media rights buying requires accuracy of historical information)

   *Steps 1 and 2 are iterative - the process of defining the components asks questions around the strategic intent. Once a reasonable level is achieved, it is time to review the options available.*

3. **Develop Operating Model 'options'.** This involves considering the variants available and landing on one that understands the key decisions required and their relationship with 'who does it' (or the execution layer).

4. **Test options by using the 'strategic principles' and running your 'suite' of transactions** (e.g. media rights buying involving channel requirements and capabilities at the outset) **through the proposed model to see how it works.** The primary motive here is to understand the relationship between decisions and execution. For example, who has the decision rights over the commercial provisions, and who delivers them once they are signed?

   *Again Steps 3 and 4 are iterative - as you test the proposed model with transactions, you refine it as a consequence of perceived tensions, non-compliance or sub-optimal interactions.*

5. **Translate the target operating model into the detailed process modelling and other 'enablers'** such as organisational design, performance management approaches, and so on.

**The road ahead – making it happen**

The media industry is at a crossroads, experiencing unprecedented change and escalating complexity. Media companies that diversify, increase scale and reshape their operating model to support their strategy will be the ones who succeed. Great ideas, fantastic content and careful use of consumer data will be critical elements along the way. A willingness to take some leaps of faith will help too. We wish you well…
5. Contacts

The following people, and many more, would be delighted to discuss the challenges and opportunities your media organisation is facing, and to explore how PwC can help:

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