

Delivering results

Key findings in the Entertainment and Media sector

*15th Annual Global
CEO Survey*

Sector summary



Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. *Delivering results: Growth and value in a volatile world* explores CEOs' confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

CEOs are adapting how they go to market, reconfiguring processes, and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

In few industries is this positive focus more evident than in Entertainment & Media (E&M), where wider economic uncertainty is overlaid by an even more powerful driver of change: the profound and accelerating shifts in consumers' spending and behaviour.

This report is a summary of the key findings in the Entertainment & Media (E&M) sector. To explore the full results of the 15th Annual Global CEO Survey, please visit www.pwc.com/ceosurvey.

Confidence strengthens – despite ongoing economic pressures

PwC's 15th Annual Global CEO Survey confirms that CEOs in the Entertainment & Media (E&M) industry are precisely in line with their peers in other sectors in their assessment of the economic outlook. When we asked E&M CEOs how they think the global economy will develop over the next 12 months, 48% believe it will decline – exactly the same proportion as in our global sample across all industries.

This realism about the economy is not reducing E&M CEOs' confidence about their own businesses' ability to grow. The proportion of E&M CEOs who are either 'somewhat' or 'very' confident about their company's prospects for revenue growth over the next 12 months is unchanged since our last survey, at 84%. Within this total there has been a modest shift towards a more confident view, with the proportion professing themselves 'very confident' rising from 27% last year to 36% this time – albeit still slightly behind the overall figure of 40% (see Figure 1 overleaf). The findings on revenue growth expectations over the next three years present a similar picture, confirming that E&M CEOs are as positive about the medium-term as the short-term outlook.

It's 'all change' for E&M CEOs

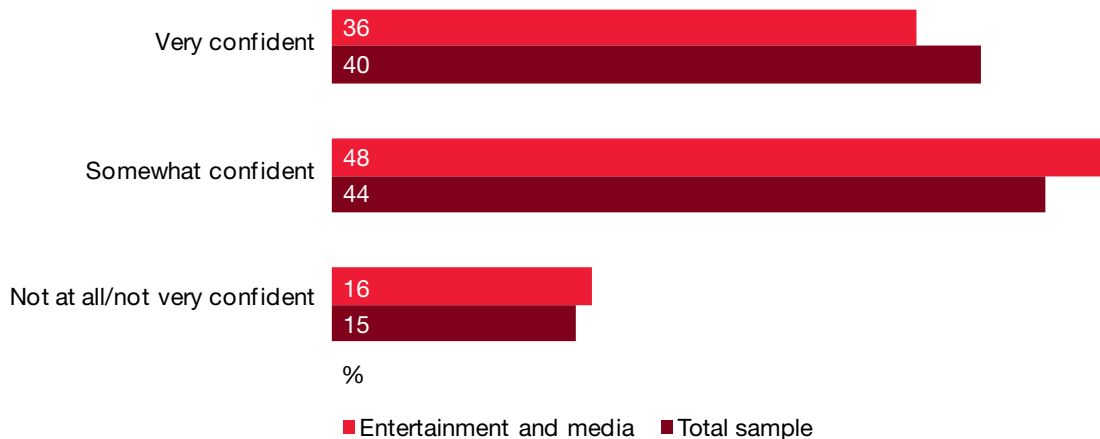
This level of optimism has been sustained despite industry challenges and irresistible change drivers that extend far beyond the economic pressures. Our survey highlights three key business-critical issues on which E&M CEOs are now focusing their attention, and we will explore each of these themes in detail. The first of these is the ongoing rapid evolution of consumer spending and behaviour, which continues to generate higher levels of concern in E&M than any other industry. To keep pace with the changing consumer, E&M CEOs are looking to invest strongly in technology, and to use new product and service development as a core driver of growth.

The other two focus areas are driven by this need to engage consumers. One is the difficulty of executing effectively to generate growth in today's fast-moving environment. The challenges here include recasting strategies to handle endemic uncertainty and disruption, and reshaping organisations to boost agility and capture rising digital revenues.

The third key focus area is talent. While headcount pressures have eased, the challenge now is finding and retaining the right skills, a shortage of which is constraining growth and even delaying major strategic initiatives. As a result, E&M CEOs are more likely than their counterparts elsewhere to require quantifiable returns on investments in workforce development.

Figure 1: E&M CEOs' view on the prospects for revenue growth

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?



Base: All respondents (Total sample, 1,258; E&M sample, 80)
Source: PricewaterhouseCoopers 15th Annual Global CEO Survey 2012

1. Consumer spending and behaviour: a major driver of change for E&M companies

The E&M CEO agenda: Three major issues

E&M CEOs are fully aware that successfully addressing the three issues around consumers, execution and talent will be critical to their organisations' future growth.

When asked how concerned they are generally about a permanent shift in consumer spending and behaviours, E&M CEOs voice the greatest concern of any industry, with 74% either 'somewhat' or 'extremely' concerned compared to just 50% across all sectors. This echoes last year's survey findings – underlining the fact that the uncertain economic conditions appear to have accelerated consumers' migration to digital offerings and behaviours.

These findings align closely with PwC's *Global Entertainment and Media Outlook: 2011-2015*, which highlights that companies across E&M sectors are being driven to create new experiences that engage today's empowered consumer.¹ This imperative reflects the fact that consumers are enjoying a 'golden age' driven by the digital explosion, in which they benefit from a choice and volume of content and services several magnitudes greater than five years ago, much of it available

'free'. So as well as needing to engage today's consumers, E&M companies must also convince them to pay.

In light of such challenges, more CEOs in E&M than in any other sector – 43%, against 24% overall – anticipate changes to their technology investments over the next 12 months to meet consumers' evolving demands (see Figure 2). This trend is underlined by comments from several participants, including Rohana Rozhan, CEO of ASTRO Malaysia Holdings (see information panel).

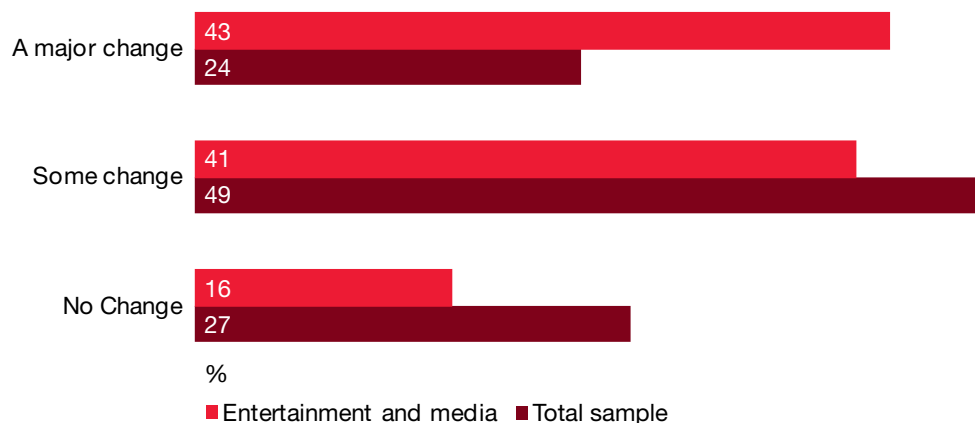
The race to stay ahead of the consumer also means that 85% of E&M CEOs anticipate making 'some' or 'a major' change to their company's R&D and innovation capacity over the next 12 months, compared to 73% of CEOs globally. This reflects E&M CEOs' intention to use new product or service development to grow their businesses – a finding that we'll examine in more detail later.

“Everything moves very fast today. We have to speed up, be agile and nimble, because product life cycles are becoming shorter. Consumer trends are changing so quickly.”

Rohana Rozhan, CEO, ASTRO Malaysia Holdings

Figure 2: More CEOs in E&M than in any other sector anticipate changes to their technology investments over the next 12 months

Q: To what extent do you anticipate changes at your company in technology investments over the next 12 months?



Base: All respondents (Total sample, 1,258; E&M sample, 80)

Source: PricewaterhouseCoopers 15th Annual Global CEO Survey 2012

¹ PwC, *Global Entertainment and Media Outlook: 2011-2015* (June 2011), www.pwc.com/outlook

“Consumers’ imaginations, especially among the younger demographics, have been fired up by the proliferation of smart mobile devices and the desire to have the latest experience generated by the latest device. Worldwide digital consumer spending will grow at 11.4% compounded annually through 2015, compared with a compound annual growth rate of just 3.3% for non-digital consumer spending.”²

2. The execution challenge: strategy, organisational change and harnessing growth opportunities

Strategic focus

Inevitably, ‘economic growth forecasts or uncertainty’ is cited by E&M CEOs as the top factor influencing their need to change their strategy. Next to this overarching economic challenge, however, the picture for E&M CEOs’ focus is one of industry disruption and competitive threats, springing from the fundamental and rapid change in consumer behaviour that is driving customer demand and posing skills availability issues (see Figure 3).

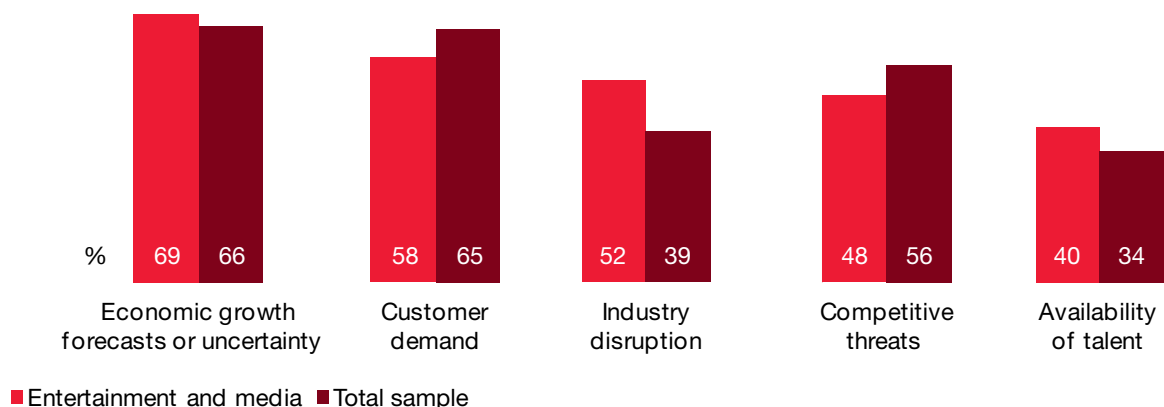
E&M CEOs are responding by reshaping their overall strategy. Some 78% intend to change their company’s strategy over the next 12 months – more than in all other industries but three – with one in five saying the changes will be ‘fundamental’.

And while ‘industry disruption’ is ranked only third by E&M CEOs as a driver of strategic change, their 52% response rate for this factor is actually the second highest across all industries, after Communications (64%) and ahead of Technology (49%).

It’s no coincidence that all three of these industries are experiencing pervasive impacts from digital transformation and convergence. According to PwC’s *Outlook*, the coming five years will see digital technologies progressively increase their influence, with rapid change in technologies and consumer behaviours continuing across all E&M segments (see information panel).²

Figure 3: Factors influencing E&M CEOs’ anticipated need to change their strategy

Q: Which of the following factors influence your anticipated need to change your strategy?



Base: All respondents (Total sample, 888; E&M sample, 62)
Source: PricewaterhouseCoopers 15th Annual Global CEO Survey 2012

Organisational change

In terms of restructuring their organisations, E&M CEOs see the coming 12 months as more settled than they did a year ago. Only 29% anticipate major organisational change – including M&A – in the next year, down from 37% in our previous survey. Nevertheless, E&M is still one of the top four industries anticipating major organisational change over the next 12 months, underlining the scale of restructuring under way.³ Again, this finding is reinforced by comments from several respondents, including Nancy McKinstry, CEO & Chair of the Executive Board of Wolters Kluwer (see information panel).

“One of the most exciting things is technological change. We’ve been transforming from a very traditional publisher into a provider of information and, increasingly, software; more than 72% of our business now comes from online software services.”

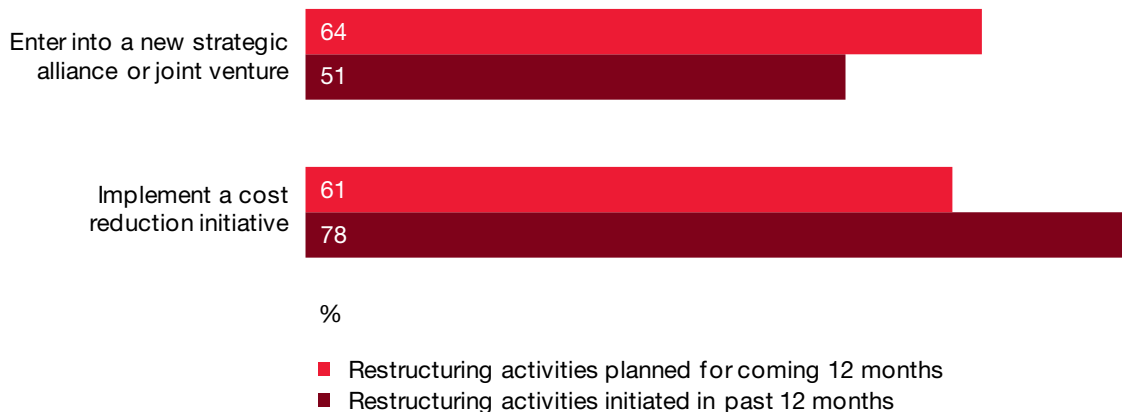
Nancy McKinstry, CEO & Chair of the Executive Board, Wolters Kluwer

Drilling down into the responses, it’s clear that E&M CEOs have been following through on the strong cost-reduction focus we saw last year. Asked about the restructuring activities they’ve initiated over the past 12 months, 78% say they’ve implemented a cost-reduction initiative – more than any other type of restructuring activity.

However, having concentrated on retrenching and protecting their core assets during a challenging year, E&M CEOs’ focus for the next 12 months is now turning elsewhere. The proportion planning cost-reduction initiatives has been leapfrogged by the numbers planning a new strategic alliance or joint venture (see Figure 4), now the highest in any industry. This echoes the view in PwC’s *Outlook* that collaboration – driven and enabled by digital transformation – will be critical to E&M companies’ future success (see information panel).⁴

Figure 4: E&M CEOs are reducing the emphasis on restructuring to build focus on collaboration

Q: Which of the following restructuring activities have you initiated in the past 12 months, and which do you plan to initiate in the coming 12 months?



Base: All respondents (E&M sample, 80)

Source: PricewaterhouseCoopers 15th Annual Global CEO Survey 2012

³ Twenty-nine percent of E&M CEOs said they anticipate a major change to their company’s organisational structure over the next 12 months, compared with 38% of Communications CEOs, 30% of Technology CEOs and 30% of Pharmaceuticals & Life Sciences CEOs.

⁴ PwC, *Global Entertainment and Media Outlook: 2011-2015* (June 2011), www.pwc.com/outlook

Towards a collaborative digital ecosystem

PwC's Global Entertainment and Media Outlook: 2011-2015 highlights the fact that 2011 saw an upsurge in collaboration, heralding the transformation of the E&M industry into a truly collaborative digital ecosystem. Increasingly, digital technologies provide the focus and opportunity for these collaborations, where digital is seen as the central driver of future operating models, consumer relationships and revenue growth.

Business growth through innovation

Turning to business growth, it's clear that innovation is key. More CEOs in E&M than any other sector – 79% in E&M, compared to 56% across all industries – are planning to increase the emphasis on new business models in their innovation portfolio. Again, this stems from the changing industry dynamics and consumer behaviours we highlighted earlier.

The consumer's growing power is underlined by several further findings in our survey. Asked to choose the main area of opportunity to grow their business in the next 12 months, 46% of E&M CEOs – more than in any other sector – rank 'new product or service development' at number one, compared to just 28% across all sectors. As Michael White, Chairman, President and CEO of DIRECTV points out, seizing this opportunity requires differentiation through constant innovation (see information panel).

“Consumers are changing, so you’ve got to be changing. And competition only gets tougher. At the end of the day you’ve got to continue to differentiate your product, and that means innovation. But you can’t just innovate on the product and the technology. You’ve got to innovate the service, to innovate across every part of your supply chain in your value propositions with consumers.”

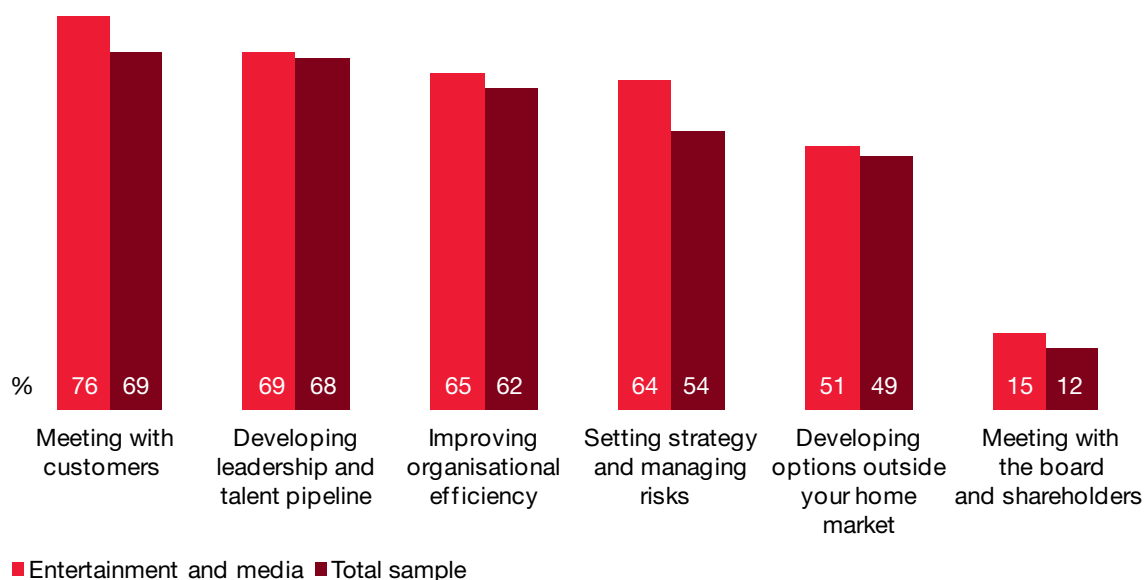
Michael White, Chairman, President & CEO, DIRECTV

To find inspiration for this innovation, E&M CEOs are looking to their customers. Asked where they would like to spend more of their time, they express a strong preference for meeting customers rather than setting strategy and managing risk (see Figure 5). This focus on developing products with customers may help to explain why – similar to last year – they see tapping into new geographic markets as a lower priority than increasing their share of existing markets.

In terms of barriers to growth, E&M CEOs’ concerns are broadly in line with other industries. This applies both to their ability to finance growth – an area about which 41% of E&M CEOs are ‘somewhat’ or ‘extremely’ concerned – and to their approach to managing risk, where 65% anticipate ‘some or a major change’ over the next 12 months. In our view, these responses indicate that E&M CEOs are not so much risk-averse as intensely aware of the greater risks of standing still. So their strategies over the next three years centre on getting the business model right for a world where risks and opportunities are globally interconnected.

Figure 5: Meeting with customers is a priority for E&M CEOs

Q: Where do you wish that you personally could spend more of your time?



Base: All respondents (Total sample, 1,258; E&M sample, 80)
 Source: PricewaterhouseCoopers 15th Annual Global CEO Survey 2012



Getting all this right requires innovation to be embedded across the enterprise – a point highlighted by Rohana Rozhan of ASTRO Malaysia Holdings (see information panel). This in turn means tapping into the innovative power of the entire workforce, a challenge explored in a recent PwC paper, “Harnessing the power of crowd sourcing: does your company stand out in a crowd?”⁵ Crowdsourcing enables a company to broadcast an issue to a diverse audience and harvest ideas in return – helping to ignite organisation-wide innovation and drive the migration to a collaborative digital enterprise with a community-centric culture.

While E&M CEOs know that creating new business models is crucial, they also acknowledge the need to develop new products and services within existing models. Some 66% of CEOs in E&M – compared to 55% overall – plan to ‘significantly’ increase their emphasis on making changes to existing products and services. This reflects the importance of maintaining revenue flows within legacy business models, to generate the investment required to build digital businesses. As Nancy McKinstry of Wolters Kluwer highlights, this requirement has transformed the way industry innovation is carried out (see information panel).

“Innovation is not just about new products and services. It’s also about doing things in a better way – whether it’s delivering an outstanding customer experience or being more cost-effective and efficient.”

Rohana Rozhan, CEO, ASTRO Malaysia Holdings

“Products are not static any longer and that’s partially because they’re now digital, so even when we produce a book that’s in digital form, the opportunity to keep enhancing that, both adding new content, adding new kinds of features, is much more apparent today than again many years ago and so the process of innovation has changed.”

Nancy McKinstry, CEO & Chairman, Wolters Kluwer

⁵ PwC, *Harnessing the power of crowd sourcing: Does your company stand out in a crowd?* (August 2011), <http://www.pwc.com/us/en/people-management/publications/power-of-crowdsourcing.jhtml>

3. The talent challenge: harnessing, applying and retaining scarce skills

Alongside developing and refining their business models, the need to keep pace with consumer change is driving a third imperative for E&M companies: ensuring access to the right skills to support future growth. But the necessary skills are scarce, and spread unevenly around the world. As a result, skills availability is a key concern for E&M CEOs – coupled with a need to ensure that investments in talent generate a tangible return.

At a general level, our survey suggests that pressure on headcount in the industry has eased off. Only 6% of E&M CEOs say their global headcount decreased by more than 8% in the past 12 months, down from 27% last year, with 25% saying that their headcount ‘stayed the same’ – similar to the global average.⁶

However, the key success factor in the talent arena is not the size of the workforce but the quality and relevance of its skills, and there are growing signs that a shortage of vital skills is now constraining growth. When asked how concerned they are generally about availability of key skills, 65% of E&M CEOs – compared to 54% across all industries – are ‘somewhat’ or ‘extremely’ concerned, a level second only to Technology.⁷

Asked why it’s been more difficult to hire workers in their industry, E&M CEOs rate a deficit in the supply of skilled candidates as the top influencing factor. More worryingly, they believe that a lack of key skills is negatively impacting the industry’s growth and profitability. Some 35% of E&M CEOs – compared with 24% across all sectors – say talent constraints have caused them to cancel or delay a key strategic initiative in the past year.

And, significantly for the industry as a whole, a lack of skills relative to other sectors is also having a greater impact on E&M companies’ ability to innovate effectively, pursue market opportunities, and achieve growth forecasts.⁸

But there’s light on the horizon. Despite their concerns over the current availability of key skills, 84% of E&M CEOs are ‘somewhat’ or ‘very’ confident of accessing the talent needed to execute their strategy over the next three years. And this is an objective they’re deeply committed to achieving – a point stressed by several respondents, including DIRECTV’s Michael White (see information panel).

“Let’s face it. There are 80 million Baby Boomers who are going to retire over the next five to seven years, and they’re going to be replaced by 40 million Gen Xers. That’s two to one, so you’d better be developing your next generation now if you’re going to be ready for that transition.”

Michael White, Chairman, President & CEO, DIRECTV

⁶ Across all industries, 22% of CEOs said their headcount ‘stayed the same’ in the past 12 months

⁷ Seventy-six percent of Technology CEOs said they are ‘somewhat’ or ‘extremely’ concerned about availability of key skills

⁸ Thirty-nine percent of E&M CEOs (compared with 31% across all industries) say they were not able to innovate effectively as a result of a lack of key skills. Thirty-four percent of E&M CEOs (compared with 29% across all industries) believe that lack of key skills has meant they were unable to pursue a market opportunity. Thirty-three percent of E&M CEOs say that they couldn’t achieve growth forecasts in the country in which they were based (compared with 24% across all industries)

Going forward, these concerns are set to affect E&M CEOs' talent strategies, with 80% anticipating 'some or a major change' in their company's strategy for managing talent over the next 12 months. Interestingly, while the majority of CEOs in E&M (55%) plan to develop and promote most of their talent from inside the company, this proportion lags behind the overall cross-industry figure of 67% – indicating that for a strong minority in E&M, the need is so immediate that they plan to hire in new talent rather than take the time necessary to develop existing resource.

Indeed, 31% of E&M CEOs – compared to only 22% overall – believe that within the next three years they will acquire other companies specifically to overcome skills shortages. Only two others sectors – Technology, and Business & Professional Services – expect to be more acquisitive than E&M in this period with the aim of acquiring the talent they need.¹¹



E&M CEOs' confidence in accessing and managing future talent is supported by their companies' understanding of the needs and expectations of consumers born between 1980 and 2000 – who are also the new generation of employees. A recent PwC paper, 'Millennials at work: Reshaping the workplace', examines how millennials differ from their predecessors, including lower levels of loyalty, a greater emphasis on work/life balance, the need for a flexible approach to work and a preference for communicating electronically.⁹ Attracting and retaining the best of this generation of workers will be critical for every business, as their career aspirations, attitudes to work and knowledge of new technologies come to define the culture of the 21st century workplace.

E&M CEOs have taken this imperative on board, as demonstrated by their ongoing investment in talent. Some 75% of E&M CEOs are making direct investments in workforce development, and 50% are looking for quantifiable returns on these investments, compared with only 44% globally.

The need for demonstrable ROI is highlighting shortcomings in the relevant management information. Some 78% of E&M CEOs say the information they currently receive on talent and skills is either 'not adequate' or 'adequate but [they] would like more'. And improving this information is a priority: asked to rate the importance of employee information when making decisions, 88% of E&M CEOs agree that it is 'important' or 'very important' to have information on ROI in human capital, against 77% across all industries. Our E&M participants also place greater importance than industries overall on having information on labour and employee turnover costs.¹⁰

Since E&M is an industry where creative talent is key, it's hardly surprising that companies are actively seeking new ways to measure creative staff's productivity. And this is another key area of concern. An overwhelming 98% of E&M CEOs believe it is 'important' or 'very important' to have information on staff productivity. But 76% believe the information they currently receive on staff productivity is either 'not adequate' or 'adequate but [they] would like more', compared to 69% overall.

Looking across all this year's findings, it's clear that E&M CEOs increasingly regard ongoing consumer change not as a threat to their businesses, but as a positive driver of growth. In the next few years, their success in harnessing its power will differentiate the winners from the also-rans in the industry-wide race to digital.

9 PwC, *Millennials at work: Reshaping the workplace* (December 2011), www.pwc.com/millennialsatwork
10 Fifty percent of E&M CEOs said that it is 'very important' to have information on labour costs when making decisions (compared with 41% across all industries), and 45% of E&M CEOs said that it is 'very important' to have information on costs of employee turnover (compared with 30% across all industries).
11 Thirty-eight percent of Technology CEOs and 32% of Business Services' CEOs agree that in three years they will have acquired other companies specifically to circumvent skills shortages

What's next?

It's not easy to strike a balance between taking advantage of growth opportunities and developing the flexibility to survive disruptions, wherever they may surface. We've distilled eight key questions from the feedback CEOs across the industries have given us in this year's CEO Survey:

1. Are your innovations creating value for your customers – or just novelty?
2. Do your strategic plans account for the macro impact of micro risks?
3. How local is your global growth strategy?
4. How are you balancing global capabilities with local opportunities?
5. Are you responding to the needs and constraints of the communities in which you operate?
6. Where are the biggest opportunities for business and government to coordinate better?
7. Does your governance model account for the ways in which organisations' and people's expectations are changing?
8. Is your talent strategy fit for growth?

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