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Advisory Outlook

Forward to normal: COVID-19 and the Media & Entertainment Industry

Entertainment and media companies are building business models that are resilient to the enduring changes in consumer behavior ushered in by COVID-19.

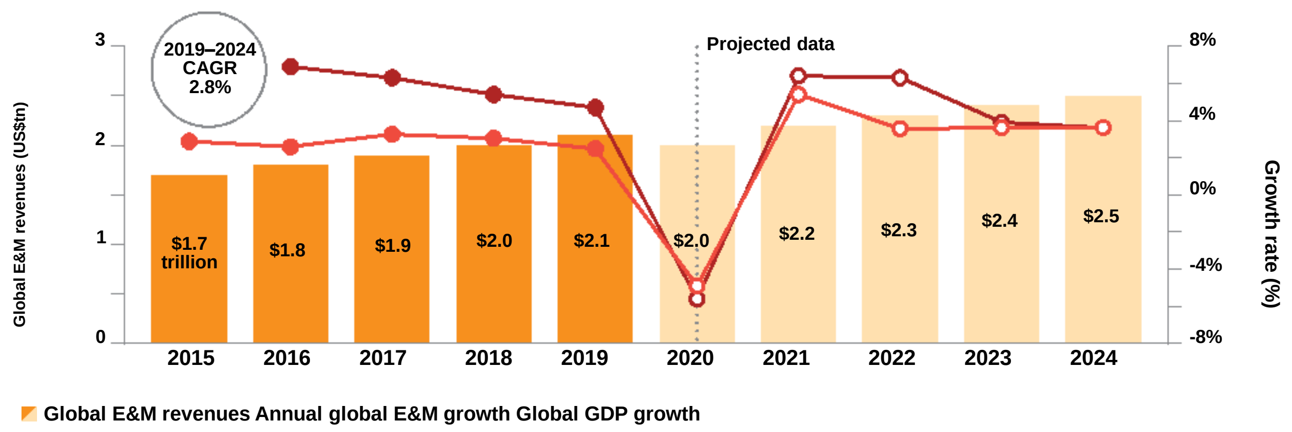
In recent years, the global entertainment and media (E&M) industry had experienced steady growth amid a series of disruptions. Between 2015 and 2019, overall spending on E&M grew at a 5.8 percent compound annual growth rate (CAGR), according to the new PwC Global Entertainment & Media Outlook. With each passing year, consumers, especially those in emerging markets, spent more, propelling impressive investment in burgeoning new segments such as virtual reality, podcasts, and esports. At the same time, ongoing structural shifts spurred digital platforms and distribution models to garner a larger share of overall revenues.

Then came 2020.

A uniquely disruptive phenomenon, COVID-19 hit the E&M industry particularly hard. As the global economy shrinks for the first time since 2009, the Outlook forecasts that the US$2.1 trillion global industry will contract in 2020 by 5.6 percent. The Outlook offers reason for hope, however. Spending is anticipated to bounce back smartly in 2021, and the industry will post a 2.8 percent CAGR through 2024, roughly equivalent to the long-term trend (see “Powering ahead”). But it’s likely to be a K-shaped recovery, in which some sectors rise and others fall. As consumers and businesses adapt in parallel, the industry is being reshaped before our eyes.

Powering ahead

Global E&M revenues recover from a 2020 decline and resume their historic growth trend.



Note: 2019 is the latest available data. 2020–2024 values are forecasts.
Source: *PwC Global Entertainment & Media Outlook 2020–2024,* Omdia, World Bank, IMF

Whether as the result of a vaccine or effective therapeutics and testing, the world will learn to live with coronavirus, learn to suppress it more effectively, or learn to manage the health of those who become infected. But the entertainment and media industry won’t revert to a world that looks anything like 2019 even when the pandemic is past — for two main reasons. First, the industry is in a constant state of evolution, and trends tend to accelerate rather than slow down. Second, and more important, the crisis has wrought changes to consumer behavior that are likely to stick. In many instances, crises pull the future forward, compressing a few years of projected growth (or shrinkage) into a few months. Here’s one example. As recently as 2015, global cinema box office revenue was three times that of the SVOD (subscription video on demand) sector. In 2019, the two sectors reported equivalent sales. But by 2024, we project SVOD revenue will be twice the size of cinema box office revenue.

In other instances, crises can sap the momentum from trends that seem powerful. Some sectors will notch gains as they claw their way back to where they were before COVID-19. But crises can also create entirely new opportunities or suddenly make business models that lacked traction before the crisis seem more compelling.

Rather than going back to normal, we may be going forward to normal. And that normal will be a state in which recent changes in consumer behavior become entrenched and gain in strength. Consumers of E&M products and services will be more likely to be at home, will engage in different ways, and will expect and demand more of the user experience. The entertainment and media businesses that thrive will be the ones that are resilient to those changes and that have the agility and capabilities to capitalize on emerging opportunities and markets. It used to be conventional wisdom in the E&M industry that proprietary content or distribution channels were the main drivers of the ability to win in any given market. Both still matter immensely. But in 2020 and beyond, companies must have the capacity to meet consumers where they are, and to match up their offerings with the personal and emotional consumer needs that are most salient. Now the winning formula is content combined with distribution, trustworthiness, the ability to offer new experiences, and the data muscle to manage analytics and recommendation engines.

Lasting changes

It is always dangerous to make predictions, especially when we are still learning about the full impact of COVID-19. But the experience of the first several months of lockdowns leads us to believe the consumer changes brought on by the pandemic, which can be grouped along three main dimensions, will endure. These dimensions include

- How people live
- How people discover and engage at home.
- The experiences they seek

Each of these dimensions has legs going forward, regardless of how the COVID-19 response develops, because of the way it speaks to powerful human needs and wants. And each has an important influence on the growth trajectory of E&M sectors.

Resilient responses

These changing consumer behaviors will require some business models to pivot. But they also open up new opportunities for capturing growth. Across the board, companies will have to meet consumers at home, online, at their convenience, and in a way that engages their need for new experiences.

Convenience and accessibility
Consumers have sought entertainment and media content that is easy to access and easy to use at home. And frequently that means that events happen on the schedule of the consumer, not the provider. This is one of the reasons that usage of over-the-top (OTT) platforms, video games, and streaming accelerated during the lockdown.

New digital content propositions
There has been a rapid evolution in expectations. Consumers don’t simply want content; they also want the experience surrounding content. Instead of just reading books on a tablet, they want to read a book and then participate in an interactive book club. Companies can focus on unmet demands by exposing consumers to new types of digital content propositions that offer ancillary experiences in compelling formats.

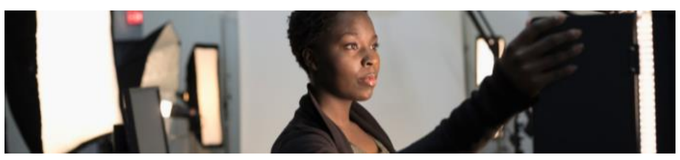
The personalisation imperative
It’s not enough simply to make content and experiences available. Amid a surfeit of choice, it will be vital for companies to harness the power of personal and computer-generated recommendations. There are two dimensions to personalization: human and machine. Companies that can use data and analytics to understand what users might like, and develop algorithms and recommendation engines to suggest choices, will benefit.

Direct consumer connections
Even before the pandemic, the notion of relying on advertising as the exclusive — or main — support for content and consumer experiences was growing more challenging. COVID-19 caused a sharp decline in ad spending, pushing it down an estimated 13 percent in 2020, according to the *Outlook*; ad spending isn’t expected to reach its 2019 level again until 2022. To be resilient in the face of this shift, and resilient to consumers’ changing habits, companies will have to double down on forming personal direct relationships with users. Although the pool of money available for subscriptions is growing, there is likely to be intense competition for it. This dynamic calls for innovation in business models.

Engendering trust
The major shifts occurring — consumers spending more time at home and focusing on a more personal relationship to content and experiences — have the effect of highlighting the importance of trust. As consumers invite more entertainment and media into intimate spaces, they have to feel comfortable.

New arrangements and alliances
In order to meet consumer demand and keep up with changing habits, resilient organizations may have to strike new types of alliances or connections. There might be potential for new asset combinations, with at-home content owners taking center stage.

For decades, through a range of disruptive economic and technological cycles, the entertainment and media industry has proven highly agile. The coming decade is likely to usher in another series of coincident transitions, as E&M becomes more home-based, more personal, and more experiential. And we have already seen an ability by the industry to adjust to new structures and changing patterns of behavior. But taking advantage of the coming waves of opportunity will require more than just agility and short-term responsiveness. The future has been brought forward in many cases. Leaders have a sense of urgency — and a mandate — to experiment and test new methods and arrangements. The task is to meet consumers where they are now and develop the strategies that will enable them to meet consumers where they will be in the near future.



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