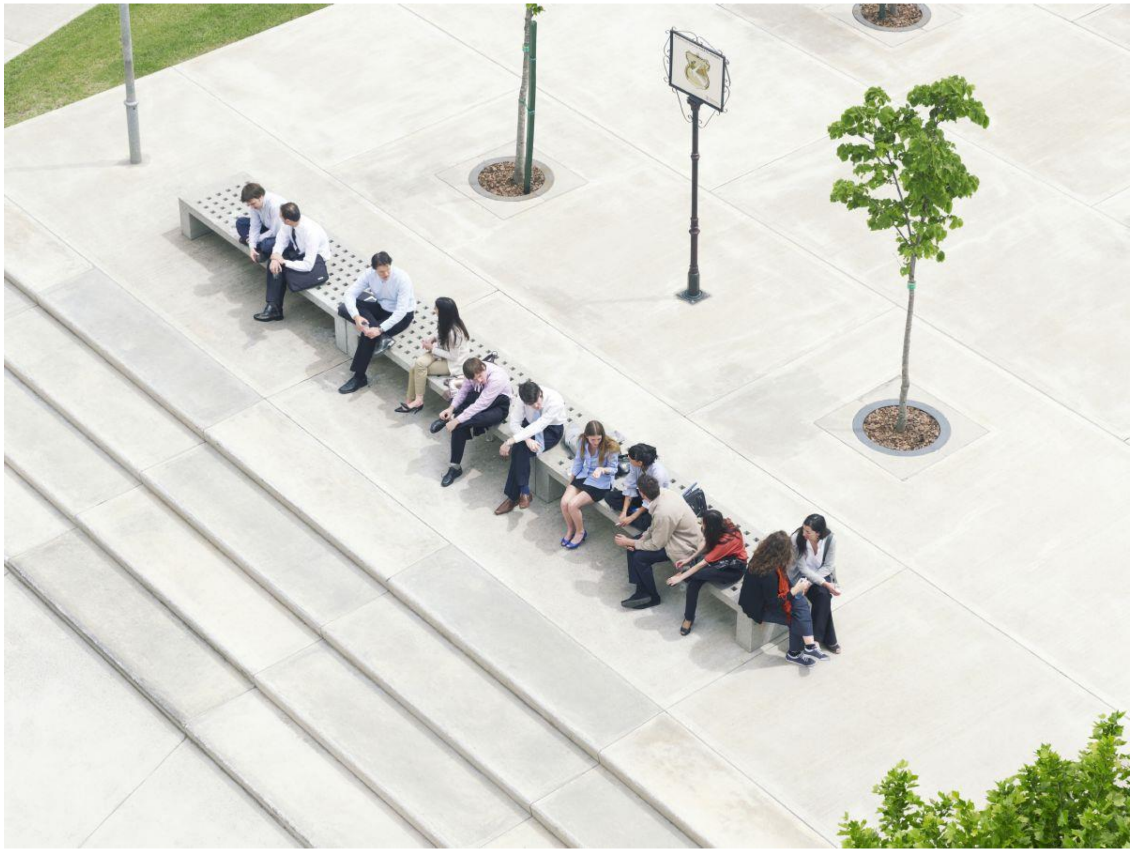
Organising for Digital success

Digital's function in the Entertainment & Media (E&M) sector



Introduction

In this publication, we explore how Digital is affecting trends in consumer behaviour. These changes in behaviour have direct and indirect implications on the operating model of many entertainment and media (E&M) companies and how they adapt and organise themselves. We look at both business-to-consumer and business-to-business operations.

E&M companies around the world have attempted to adapt their organisation to the changing landscape by 'going Digital' and are undergoing Digital transformations – some with success; others less so. More often than not, companies are aware of what needs to be done to address the changing landscape but ultimately fail at its execution. One significant component of execution is the organisation and performance management of the Digital function, which will be the prime focus of this publication. In the following pages, we will present alternatives towards organising the Digital function, incorporating lessons learnt from companies that have successfully adapted as well as best practices in the field of organisation design.

Why now?

Across Southeast Asia we see E&M companies failing to take advantage of the full profit potential from Digital. As initial enthusiasm wanes, we seek to return to the roots of the issue at hand. Our goal is to identify the original intent and purpose of Digital and help to re-emphasise why companies set out on the Digital road to begin with.

Source:
1. Closing the Gap between Knowing and Doing: How Asia Pacific Businesses can Turn Digital Strategy to Business Execution, PwC, 2014

The growth of mobile devices affects media consumption patterns in Southeast Asia

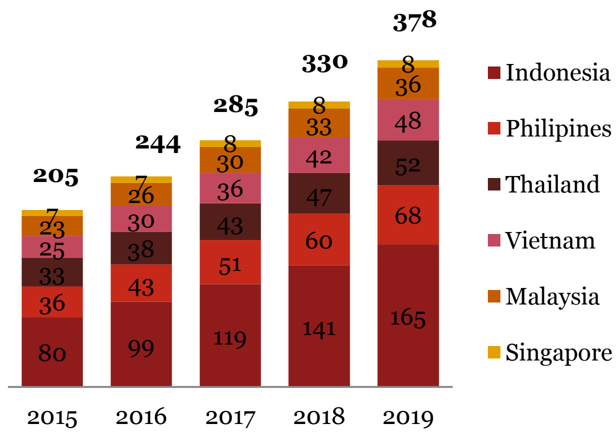
The Media landscape has gone from television and print-centric to one that is multi-dimensional, multi-platform and multi-channel, leaving a fragmented landscape that offers consumers with endless possibilities to discover and consume content.

The main driver of this trend has been the advent of affordable smart and mobile devices such as smartphones, tablets and wearables. Nowhere in the world is this more true than in Southeast Asia. The total number of smartphone and tablet users in the region is expected to grow at an annual rate of 17% and 33% respectively (Fig.1) between 2015 and 2019. Mobile internet penetration is expected to overtake fixed broadband penetration in Malaysia, Thailand, Philippines, Vietnam and Indonesia by 2019 (Fig. 2).

Business has taken note of this overwhelming shift to mobile. According to PwC's 2014 Digital IQ survey, 67% of APAC businesses are interacting "significantly" with customers using mobile technology, compared to 56% globally. More strikingly however, smartphones have also emerged as the primary technology device that APAC businesses are designing for. This is in contrast to the US and Europe, where businesses continue to favour designing for laptops or desktop computers.

Fig. 1 Smartphone and tablet users in Southeast Asia expected to grow at an average of 17% and 33% annually

Number of Smartphone and tablet users in Southeast Asia (millions)



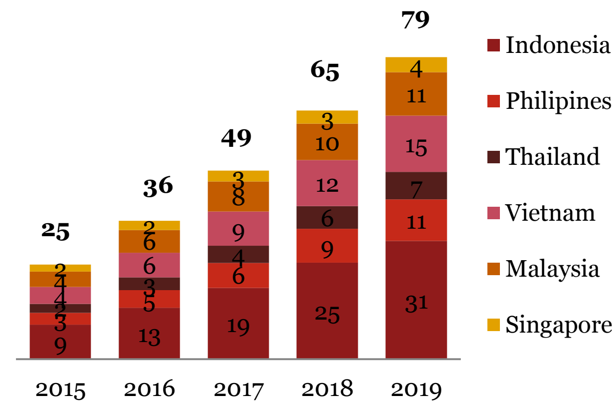


Fig. 2 Southeast Asia becomes a mobile first economy

Percentage of mobile internet and fixed broadband penetration in Southeast Asia (2019)

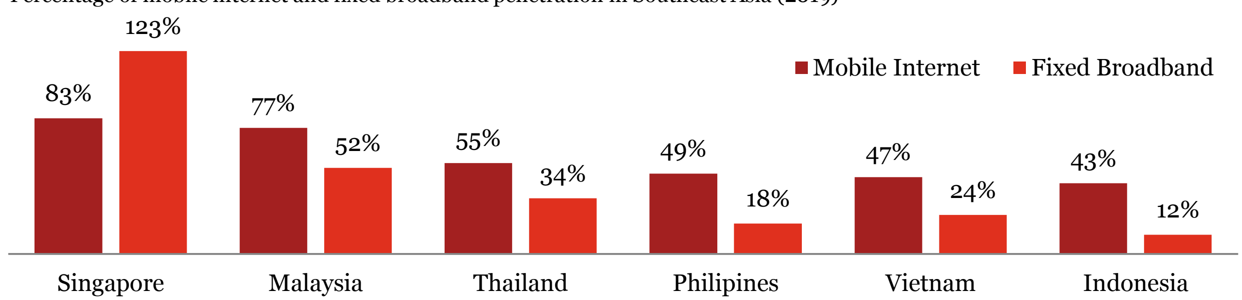
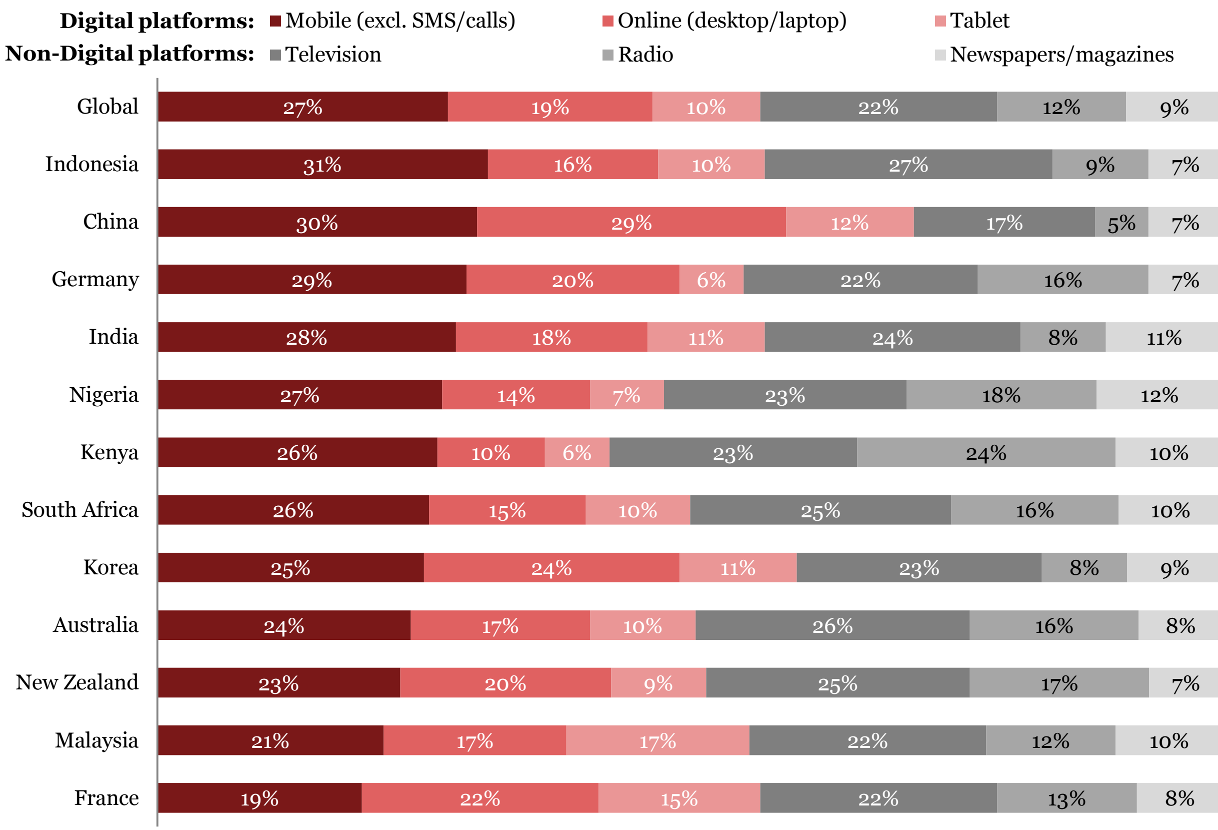


Fig. 1 & 2 Source: Entertainment & Media Outlook, PwC, 2015

The fragmented media channel usage forces E&M companies to adapt their business models and search for new ways to manage their revenues

Fig. 3 Digital takes up a significant share of media time
Percentage share of daily media consumption time by channel



Source: Global Media Consumption, InMobi, 2014

Consumers are no longer limited to 'traditional media' such as television, newspapers, magazines, cinema or radio for news and entertainment. They increasingly demand high quality print and programming content and an uninterrupted viewing experience across various media sources and devices, while avoiding content protection, platform limitations or compatibility issues. InMobi's 2014 Global Media Consumption survey reported that, globally, a 56% share of total media time is consumed by 'Digital' channels such as mobile, online and tablet devices as opposed to traditional channels such as television, radio and print (Fig. 3).

Behaviours are also changing as a result of the emergence of multiple platforms. Consumers today frequently multitask using several media and platforms simultaneously. Many combine media consumption with other activities (so -called "2nd screening"). These behaviours are a product of consumers' content needs and the availability of the mix of platforms and brands consulted during particular times, days of the week and locations. For example, in the consumption of news, consumers may turn to wired Internet to quickly search for the news and easy story sharing; smartphones for news consumption on-the-go; print for a relaxing and satisfying reading experience; and tablets for both a portable and satisfying experience.

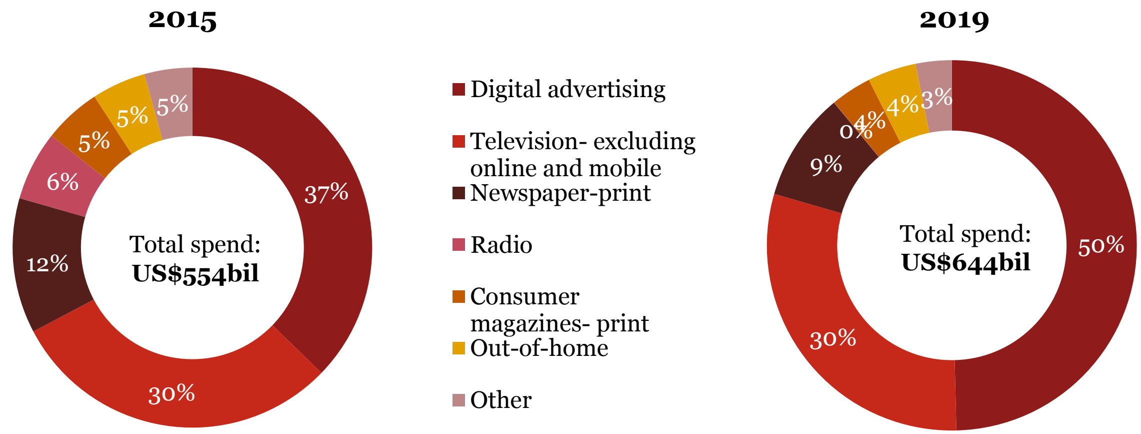
The fragmentation of media channel usage has a profound effect on how media is consumed, paid for, communicated and produced. Entertainment & Media houses are recognising this and are trying to alter their business models and organisations to try and stay relevant and adapt to the changing landscape – some with success, others less so. We see two major plays; one is an increased focus on generating new advertising revenues. The other is focused on creating additional revenue by pushing for an increase in (non-traditional) subscriptions.

E&M companies are well positioned to support advertisers that are increasingly trying to reach consumers through Digital means

The advertising universe is approaching a major tipping point. Globally, Digital advertising is gaining market share and closing the gap with television advertising. In 2019, Digital is expected to take up 50% of advertising spend, second behind television's share. By 2019, 'Digital advertising' will effectively closes the gap. In fact, in 2015 Digital share in advertising spend grew a remarkable 12 points to 37% within a year. This trend is expected to continue. TV advertising spend lost 1 point in market share since our last outlook forecast. Digital advertising as a percentage of total spend is expected to gain significantly from other media and will grow from 37% to 50% of overall spending. This growth is expected to come largely at the expense of printed newspapers.

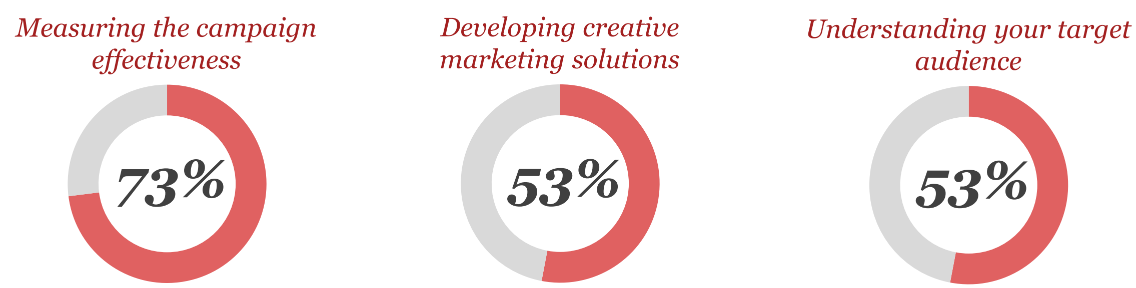
This shift of budgets towards Digital bodes well for E&M companies, offering a wide Digital audience to advertisers. However, advertisers are not simply concerned about reaching their customers through Digital. They are also looking to better understand their campaign effectiveness and target audience (Fig. 5). Indeed, advertisers today are looking for more than just ad spots to push their marketing messages – they aim to demonstrate marketing ROI and tie every single lead, customer and dollar back to the marketing initiative that created them through measureable and targetable campaigns. In addition, they are looking for campaign evaluation services to help them continuously improve their campaigns and connect better with customers and their devices through the entire customer decision funnel. This is all the more crucial with the breadth of channels (both traditional and Digital) available to the advertiser today. Advertisers increasingly expect cross-channel performance measurement grounded in data analytics that goes beyond subjective measures such as first-touch or last-touch. Verizon is an example of a US Telco recognising this need with their Precision Market Insights (PMI). PMI provides addressable advertising solutions for agencies, brands and channel partners. PMI uses an anonymous unique device identifier, which can reach the right audiences on mobile through demographic, interest and geographic targeting and enables advertisers to use their own data to reach target audiences.

Fig. 4 Digital share of advertising spend is expected to grow at the expense of print by advertising by 2019
Global advertising spend by platform (share of total spend)



Source: Entertainment & Media Outlook, PwC, 2015

Fig. 5 Southeast Asian marketers are concerned about measuring the effectiveness of their campaigns
Southeast Asian Marketers' top priorities in 2014



Source: APAC Marketers Outlook Survey, Ipsos, 2014

Growing consumer revenues from subscriptions, particularly in the video segment, presents another opportunity to increase revenue for E&M companies

Fig. 6 Print circulation revenue catches up to print advertising revenue
Global total print (newspapers & magazines) advertising & circulation revenue (US$ billions)

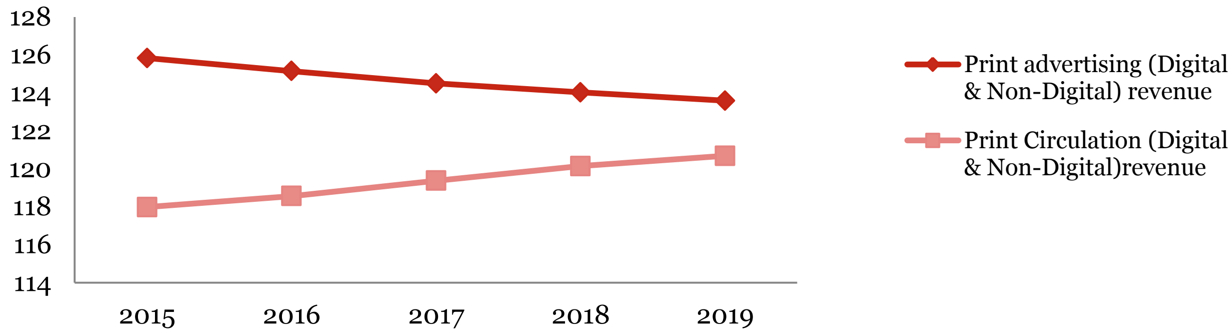
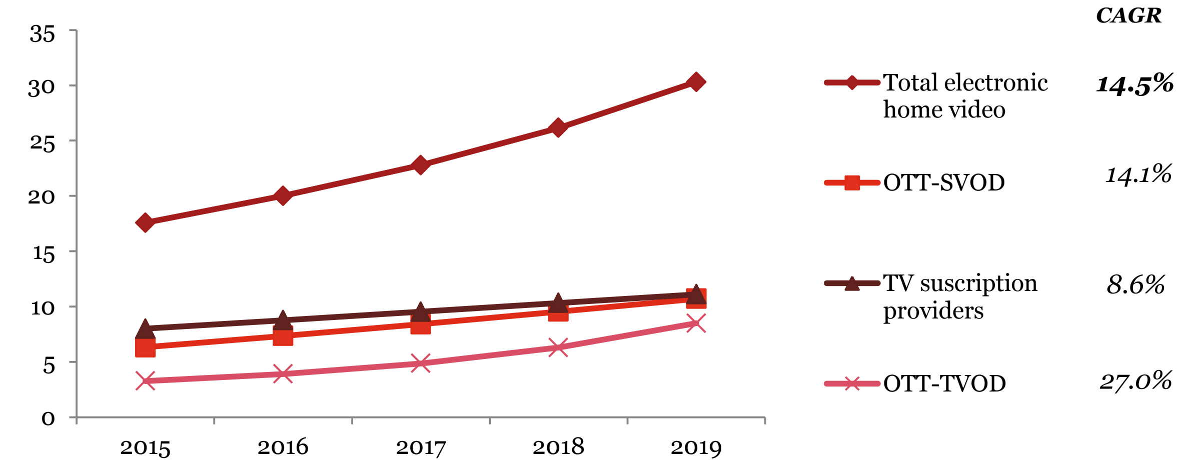


Fig. 7 OTT / Streaming revenue will drive the vast majority of growth in the global electronic home video market
Global total electronic home video spending (US$ billions)



Source: Entertainment & Media Outlook, PwC, 2015

E&M companies have typically relied heavily on advertisers for revenue (particularly in television and print) (Fig. 4). Indeed, these media still form a large portion of income for most. As print (newspapers and magazines) advertising spend erodes (Fig. 4), E&M companies will require alternative sources of revenue to offset this decline.

The Digital subscription revenue model is one such alternative for publishers, as print circulation revenues are expected to catch up with that of advertising sometime between 2015 to 2019 (Fig. 6). However, in order to attract the paying consumer, the content on offer must be exclusive and of a high standard. This requires quality and investments in consumer marketing and branding efforts. This can be challenging for E&M companies that are 'wired' towards serving business (advertising) customers. For E&M companies that own assets in television, subscription-based video on demand (SVOD) services a la Netflix and HBO Go (see also page 12), are also a possibility. While the decline of physical home video revenue will continue over the next five years, the industry will experience significant growth in revenue from electronic home video services, most notably over-the-top (OTT). The SVOD market is projected to grow at a CAGR of 27% between 2015 and 2019 (Fig. 7).

Recognising this trend, HBO announced at the end of 2014 that it plans to roll out an OTT service later this year that won't require a pay-TV subscription which has been a precondition for consumers to receive the network over its 42-year history. Multi-channel networks, companies that work with multiple channels on video platforms, such as Youtube, that assist creators in producing and funding content, along with audience development, are also on the rise, offering niche demographic segments valued by one-to-one marketers.

Globally, companies have undergone organisation-wide transformations to capitalise on the growing Digital market

A New World for Media Houses

The Internet, like TV before it, has brought new competition to the lucrative advertising income to traditional media platforms. Waiting to see how intense and disruptive the competition will become, is proving a fools errand. Behemoths like Google, Alibaba, Facebook, Youku Tudou and Wiebo will take 'industry killing' positions overnight. Alibaba's 10% stake in Singapore Post has shaken up ASEAN's e-commerce industry in a single move. Across the world, we find there are many examples of disruptors affecting the status quo; be that Craiglist's impact on profitable personal classifieds ads, YouTube's invention of the Multi-Channel Network or WeChat's effect on SMS and Voice.

Schibsted Media Group: Reinventing in the Digital Age

One newspaper realised early on the potential disruptive effect of the Internet on its legacy business. **Schibsted Media Group (SMG)**, a Norwegian newspaper publisher, began its transition into a Digital company in the early 1990s. It has emerged as a success story among newspaper companies brave enough to jettison the print business and diversify into Digital spaces. In response to a drop in its share of print auto classified business from 100% to 20% within three years, it decided to enter the online classifieds business by setting up FINN.no. FINN.no was spun off from SMG to provide greater management focus to the Digital unit and was allowed to compete directly with, and even cannibalise, its papers. The brand was re-acquired after 13 years.

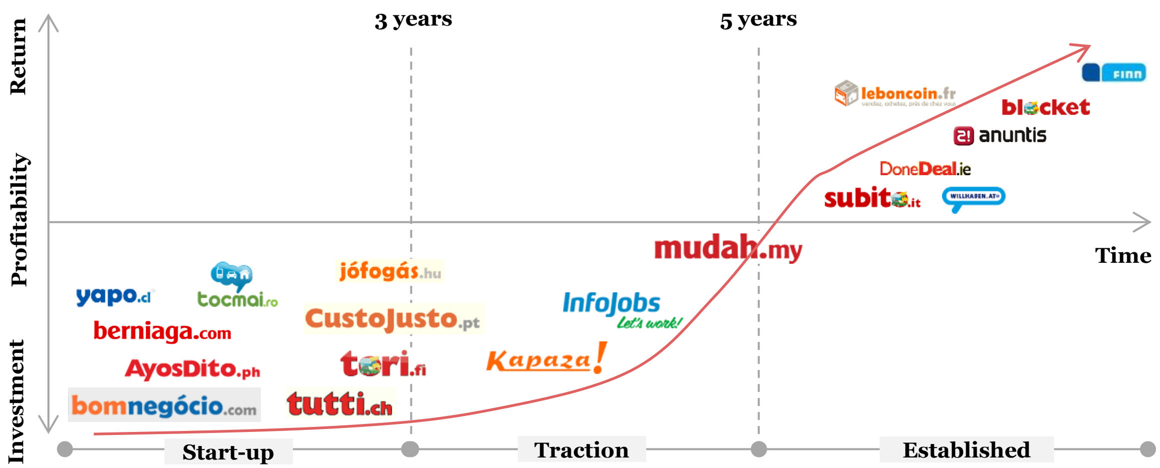
The paid auto classifieds site began as an upsell of print ads but quickly overtook print and expanded to other verticals (jobs, real estate). With the acquisition of Blocket, SMG obtained a simple-to-use classifieds platform and officially entered the cost-saving, free classifieds market. SMG's free classifieds sites carry display ads from businesses. Because the costs to operate them are minimal, profits are high. In addition, these sites typically ask users to pay a surcharge to give their listings more prominent placement. SMG has exported this business model along with the Blocket platform to 28 countries, including Mudah in Malaysia, and has since amassed a large portfolio of classifieds properties. SMG also owns a variety of web properties ranging from job-search to daily deals and loan-lending sites. These receive large amounts of traffic from the high-volume classifieds sites and also generates additional income for SMG. Most of these service sites were acquired by SMG, some after partial investment. A few were built from scratch, such as Hitta.se, a Swedish search engine that also offers mapping and Yellow Pages information (Fig. 5).

Last year, 28% of its revenue and 44% of its EBITDA is drawn from its online classifieds business. In contrast, its print advertising business and circulations make up 20% and 26% of revenues respectively. Digital now accounts for 47% (Fig. 6) and 64% of its revenues and EBITDA respectively. Although it may be too late for other publishers to follow SMG's example, publishing houses can emulate its willingness to exploit market openings speedily. Each new business was built to scale and, with minimal technology cost, became profitable. It was also willing to create an environment that fostered the growth of Digital businesses which was a completely different animal to its legacy business. This meant spinning off whole units, and to this day that strategy continues (it is currently spinning off VG web TV from the Verdens Gang newspaper group which launched it).

Key takeaway: Some novel & innovative businesses thrive better in a contained environment, free from the shackles and timelines of traditional businesses.

Fig. 8 Schibsted Media Group has investments of differing maturities in over 20 countries

Schibsted Media Group's portfolio & growth trajectory of classifieds properties



The growth trajectory of SMG's classifieds properties. FINN.no and Blocket, among the first of SMG's classifieds ventures is in its maturity. SMG is not resting on its laurels and stopping there – plenty of companies lie in the 'investment' phase with the expectation that they will yield returns in the long term.

Source: Schibsted Media Group

Newspaper Publishers in the UK: Adapting in the Digital Age

SMG illustrated how the fate of traditional media houses is not set in stone. It is indeed possible for them to reinvent themselves as Digital services companies through the exploration and development of novel revenue streams. But what of the legacy business divisions themselves? How have print and broadcasting businesses managed the transition to Digital? The UK newspaper publishing landscape illustrates the challenges faced in this endeavour. In response to declining print advertising and circulation revenues, most have scaled down their print operations and migrated to the electronic newspaper, accessible from PCs and mobile devices.

In order to mitigate the decline in print circulation revenue, most have established a paywall for their content. One company that has successfully done this is **The Financial Times** (FT) (Table 1). As evidenced by its subscriber and revenue numbers, the FT has successfully executed a metered paywall to boost Digital circulation revenues. This success could be attributed to its specialist content that has no obvious free rival (insightful and analytical business opinion pieces as opposed to breaking news).

Mainstream news titles such as **The Times** and **The Telegraph** have employed the paywall to lesser degrees of success. The Times and its sister paper The Sun erected a hard paywall (i.e. complete barrier to all non-paying visitors) in 2010 and have amassed 225,000 Digital subscribers to date but did witness a decline in overall paid readership. It also invests heavily in promotions to entice paying subscribers, for instance, offering free premium Spotify services on top of subscriptions. These marketing efforts do eat into profits of Digital circulation somewhat, with News UK (the holding company of the Times and The Sun) declaring operating losses in 2012 and 2013. There are also newspaper titles that rely more extensively on advertising as opposed to circulation revenues.

The Daily Mail online attracts a large volume of traffic and eyeballs – an average of around 7,5 million browsers per month– with visual search engine-optimised (SEO) content refreshed throughout every day.

In addition to changes in their business models, newspaper publishers have also implemented division-wide Digital transformations and reorganised towards a "Digital-First" mindset as has been done by the FT (Table 1). Across all newspaper publishers, more Digital positions have been introduced and workflows reorganised towards producing Digital content that would feed into print editions rather than in the opposite direction.

Key takeaway: If innovation cannot be incubated in a separate environment, it must permeate throughout the organisation through a 'Digital-first' mindset and operating model.

Table 1: A scan of Digital initiatives of UK-established newspapers

Source: Company websites, PwC analysis

	The Financial Times Paid Content Pioneer & Digital Leader	**The Telegraph** Towards a "Digital-First" Newsroom	**The Times** Promotion driven subscription push	**The Daily Mail** SEO-optimised Journalism	**Daily Mirror** A Focus on Advertising
Brand & Positioning	FT Specialist "quality press"	The Telegraph General interest "quality press"	THE TIMES General interest "quality press" The Sun Sensationalist "red top" tabloid	Daily Mail METRO Middle-market tabloids	Daily Mirror Sensationalist "red top" tabloid
Product transformation	• **Metered paywall** since 2007 • **Consolidate** multiple print editions into one • Content focused on **analytical pieces** & less towards breaking news • **Analytics** used to understand reader habits & facilitate product development • Content offered on **multiple platforms** – the latest being FastFT being offered via wearables	• **Metered paywall** since 2013 • Radically transforming editorial operation to focus on **Digital content as core** • Journalists are pushed to use more **interactive audio-visuals to deliver content**	• **Hard paywall** for Times since 2010; for The Sun since 2013 • Heavy investment in **marketing & promotions** to entice paying subscribers (e.g. free premium Spotify for Times subs)	• Free Mail Online site with a **search-engine optimised & visual content**, which is **updated** at a high rate – creating more revenue from ads • **Paid & more interactive** content purchased through **Mail Plus** app	• No paywall; focuses on building scale (for **advertising revenues**) • Recently unveiled Digital transformation plan – content created to hit **key Digital reader spikes** across the day; print content will be defined by Digital content
Organisational transformation	• **Workflows** & **production hours / shifts** geared towards online news consumption patterns • **Lean print team** that works closely with Digital team • Deep knowledge of reader habits developed through **data analytics**, performed by a team of 30	• Created 50 **Digital roles**; mostly print and editorial position reduced • New centralised "templatised" **print production system** • Change in **work shifts** • **Analytics tools** introduced to journalists	• A dedicated Digital team was set up, "feeding off" content from main news desks	• A **separate online development team** was built for Mail Online; articles are obtained from print journalists and optimised for web; other web sources are also used to produce content that is not featured in print • Journalism centred around search engine optimisation (**SEO) analytics**	• Has a **specialist Digital division** for non-publishing related Digital revenue streams, e.g. classifieds, recruiting, daily deals • **Digital positions** will be introduced (social media editors, planning analysts and advance content writers)
Metrics	***2014 Revenue:*** £449m ***2014 Profit:*** £55m ***2014 Audience:*** 504,000 Digital subscribers (21% y-o-y growth)	***2014 Revenue:*** £318m ***2014 Profit:*** £55m ***2014 Audience:*** 453,000 global page views	***2014 Revenue:*** not available ***2014 Profit:*** £1.7m ***2014 Audience:*** 152,000 Digital subscribers (The Times); 154,000 (The Sun)	***2014 Revenue:*** £598m ***2014Profit:*** £71m ***2015 Audience:*** Average daily unique online browsers: Mail Online – 7.5 mil; Metro – 1mil	***2014 Revenue:*** £636m ***2014 Profit:*** £105.5m ***2014 Audience: Not available***

Online Television: Engaging Consumers Anytime & Anywhere

In television, the two most popular examples used are **Netflix** and **HBO**. Both represent two exemplary companies that have evolved with both the industry and the demands of viewers; Netflix started out as a web-based video content provider and HBO's origins are in pay-TV. Time Warner's HBO is now synonymous for movies and scripted content; whereas through Netflix's series, House of Cards, is evolving into production of original programming. With comparable revenue profiles, HBO and Netflix earned USD$4.9bn and USD$4.4bn respectively in 2013 (2014 figures were not available at the time of going to press), their margins speak to differing commercial models with 35% and 5% respectively. HBO has an installed customer base on Pay platforms globally and a 1$bn per annum production war chest that dwarfs the $300mn Netflix budget.

Table 2: Business models of online TV portals

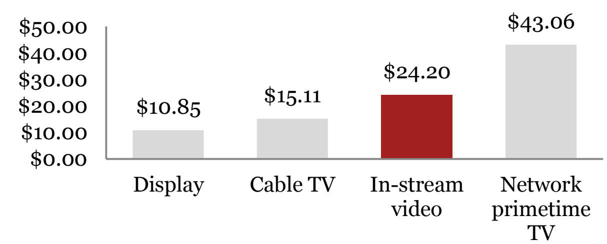
Predominantly Subscription-supported	HBO GO; NETFLIX
Hybrid subscription & advertising	Toggle
Predominantly Advertising-supported	YOUKU 优酷 .com; hulu

The carriage fee commercial model, paid for by platforms, reflects HBO's premium position in Pay-TV bundles and a commitment to story telling. HBO's own strategic thrust into OTT – HBO Go – typically is an accompaniment for a local Pay Platform, like an Astro or TrueVisions in Thailand. However, HBO US recently announced the introduction of an OTT streaming service that offers standalone programing which does not require a pay-television subscription. This move comes in the context of an increasing number of US households cancelling their pay-TV subscriptions and the belief that there is an untapped market of approximately 10 million U.S. broadband households that do not subscribe to cable or satellite TV. It is yet to be seen if this development will be witnessed globally. HBO's major priority will now be achieving a balance between not 'biting the hand that feeds you' and listening to the demands of their viewers. For Netflix, its circa 35 million US subscribers demand high quality content anywhere, anytime. Its move into original programming is well documented and will continue at pace. Netflix's global expansion has not seen much success with bumpy starts in Germany and Australia.

Whereas Netflix and HBO rely on Digital as a channel to extend reach and increase consumer revenues among those who would not normally subscribe to their services. On the other hand, predominantly free advertising-supported online television portals, such as Youku Tudou and Hulu, offer a different value proposition to a different set of customers – relevance for advertisers. CBS's Nielsen-rated "All-Access" service straddles the two different models by charging consumers to stream its more recent free-to-air programmes on demand as well as over 5000 episodes of classics such as "Star Trek" and "CSI Miami". CBS airs advertisements for the former (as it would if a subscriber was to view the programme on the television live) but not the latter. These advertising-supported portals are crucial to E&M companies that offer mostly free-to-air content. These portals use Digital as a platform to connect advertisers to target consumers. This entails more than just employing the right marketing strategy to attract consumers and a technological platform to deliver content to consumers, it requires players to deepen relationships with advertisers, invest in ad optimisation technologies and build data analytics capabilities to connect the right advertisements to the right audience. The higher level of investment may be worthwhile considering the high price of video ad spots.

Fig. 9 Digital video advertising rates rank among the highest among channels

Average Cost-Per-Mille (CPM) Rates by Channel in the USA, 2014



Source: SQAD

Although not as high as those on primetime television, video currently ranks among the highest in terms of cost-per-mille (CPM) (Fig. 10). This may go in some way towards supplementing the decline in television advertising revenues. In addition, there is evidence that the share of media consumption time is shifting away from television to other screens, such as laptops and mobile devices (Fig. 3). Advertisers are likely to demand for engaging advertising solutions that "follow" their consumers closely as they consume various media throughout the day – online video fits the bill.

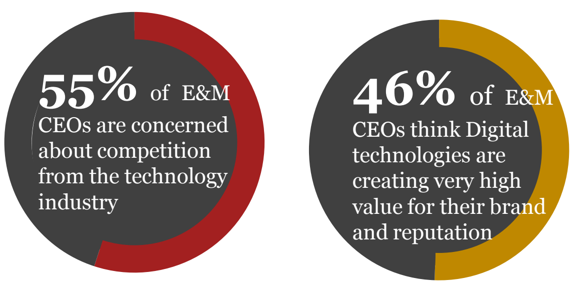
Key takeaway: There is a need for E&M companies to organise into more consumer-oriented businesses (as opposed to a business-to-business one), particularly in the moving-picture segment, in order to "follow the money" and supplement declining advertising revenues.

E&M companies give Digital different roles in their transformation based on their strategic intent and organisation's capabilities

E&M CEOs are aware that technological advances are transforming their businesses…

In our latest CEO survey, we asked CEOs globally which three global trends they feel would transform their business the most over the next five years. CEOs in the E&M sector nearly unequivocally chose "technological advances" as one of the top three.

Fig. 10 Top global trends capable of transforming E&M businesses
% E&M CEOs ranking global trends as 1st, 2nd or 3rd



Source: 18th Annual Global CEO Survey, PwC, 2015

…But how exactly do you 'go Digital'?

Digital has been gaining traction among organisations and media companies are no exception. Large companies, particularly those that spread across multiple media platforms, run the risk of Digital initiatives being executed in silos with minimal coordination between business units. This prevents the creation of consistent Digital experiences and synergies at a group company level and the execution of integrated multi-platform offerings. As a result, companies have been driven to take a more formalised approach towards 'going Digital', i.e. by establishing a Digital unit or 'hub' that coordinates how Digital strategy, initiatives and technologies are developed and deployed throughout the organisation. This hub would typically play either one or both of the following roles:

1. As a Digital support services function, providing internal technical services to other business units or 'spokes';
2. As an innovator, generating new Digital revenue streams for the company.

The Digital hub as an internal support service provider

In this arrangement, the Digital hub acts as a cost centre, delivering low-cost Digital delivery services to the rest of the organisation. Costs may be reduced from economies of scale due to a standard way of working across all internal clients, enabling greater staff and procurement synergies and reducing duplication of effort utilising common processes and systems reduces the cost to support, maintain and upgrade compared to unique and bespoke systems and fewer errors or types of errors resulting in fewer staff to 'fix' problems. In addition, there will also be improvements in financial control and transparency. Quality of service, may also improve through a focus on performance management through key performance indicators and outcome-based delivery and the experience of providing services that they have delivered many times before. Overall, the Digital hub will develop to an efficient service delivery machine, as opposed to an innovator that leads an organisation-wide Digital transformation. Digital innovation will then fall into the responsibility of the 'spokes' under guidance and direction of an R&D (or equivalent) function.

This option is challenging as it entails undertaking an organisation-wide Digital transformation which can prove to be difficult due to the conservative mindset of traditional E&M companies.

The Digital hub as both an internal support services provider & innovator

The responsibilities of this Digital hub are two-fold. It must divide its focus, resources and time between two priorities: serving its internal clients and becoming a true innovator for the company. Without a robust performance management framework and adequate resourcing, organising around this model may prove to be challenging. In addition, all other business units other than the Digital hub will not be incentivised to transform Digitally. They will continue to rest upon the merits of legacy businesses as the impetus to innovate lies only with the Digital hub.

In addition, these two competing roles require two different sets of capabilities – the tactical /technical and innovative / commercial, respectively. In serving its internal clients, it essentially plays the role of a support service provider, executing Digital delivery on behalf of content owners at the lowest cost possible.

However, in order to build capabilities as innovators, businesses require organisational conditions that more closely resemble a start-up. Typically start-ups are wired to continuously reinvent their services, recruit and retain top talent that possess a transformative mindset and accept trial and error. These firms also typically allot a portion of revenues to R&D, buy multiple start-ups and patents, take risks and develop their own proprietary assets.

The Digital hub as an innovator

In line with this, media companies have been observed to contain their Digital hub in a separate entity, maintaining only an arms' length relationship with the innovation unit. As we saw on page 7, Schibsted is one of those companies that did just that.

In this arrangement, the Digital hub is a stand-alone entity has the liberty to create, source and monetise exclusive content on Digital platforms. The hub can also attract funding from external parties to develop new revenue Digital revenue streams on behalf of the company, such as payment services. It could also provide a suite of Digital services to the company, ranging from platform delivery to content creation that would be managed by a service management framework. This would give the company's 'old media' businesses the option to outsource their Digital activities to the new entity if they wish.

The new entity would have to recruit creative talents and Digital natives with an entrepreneurial mindset and specialist such as programmers, data scientists, platform managers and search engine optimisation experts. However this could prove to be challenging, since this target group tend to gravitate towards technology firms. In addition, by completely isolating Digital from legacy businesses, the latter may not appreciate the imperative to innovate and risks being gripped by inertia as revenues continue to be eroded; the new Digital entity may even cannibalise the businesses.

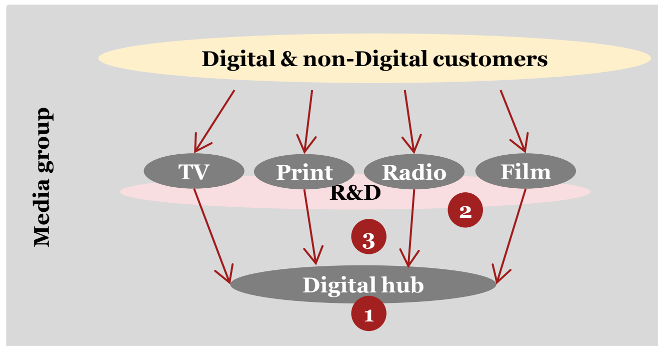
Key takeaway: The structure of the Digital function is determined, amongst other things, by its role in the organisation and the appetite of an organisation for disruptive innovation.

Box 1: Alternatives in organising Digital functions

← Customer point of entry

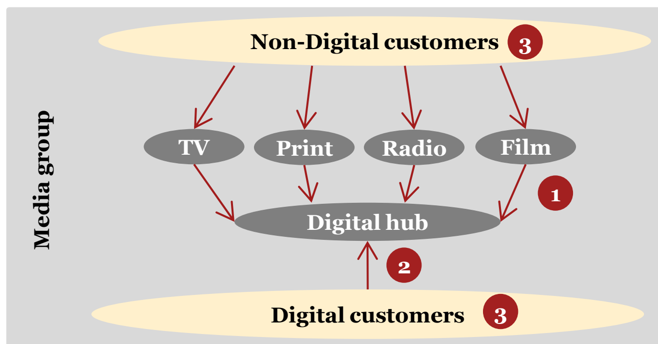
Hub as a cost centre ↑ ↓ Hub as a profit centre

A. The Digital hub as an internal support service provider



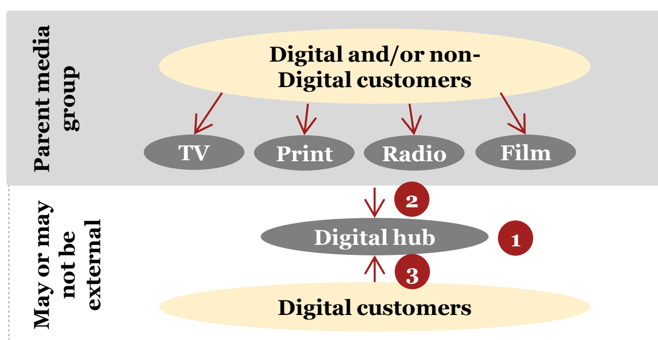
1. The Digital hub plays a support function to the media group conducting only activities that support, maintain, monitor or ensure the consistent and reliable delivery of the technical services to the group's various media platforms.
2. An R&D function coordinates the Digital innovation of respective media platforms. The R&D function may be rolled under each platform or situated centrally across all platforms.
3. Media platforms (internal clients) will be the only customers of the Digital hub. The hub will offer consistent, high quality technical services at low cost to the platforms.

B. The Digital hub as both an internal support service provider & innovator



1. The Digital hub plays a support function role, conducting the delivery of Digital services on behalf of media platforms to consumers. In addition, it could play a Digital advisory role to the platforms.
2. The hub also functions as an innovation unit, playing a market-facing role, responsible for developing new revenue streams for the group, which competes with its internal priority.
3. The customer base of 'old media' and Digital is a mix of Digital and non-Digital advertisers (B2B) and content subscribers (B2C) respectively.

C. The Digital hub as an innovator



1. The Digital hub is an isolated unit that may or may not be spun off from the media group with a responsibility to grow new Digital revenue streams, e.g. classifieds, e-commerce portals.
2. The hub may be a contractor of the parent group with its own product catalogue providing white-label services. A services agreement would govern the scope and charge rate of services to be provided by the hub to the parent group.
3. Customers of the hub include advertisers, end consumers & the parent group (as external clients). Customers will be offered innovative competitively priced Digital products borne out of an environment of experimentation.

Finding the right structure and the appropriate pace and scope of Digital transformation requires a holistic view on all influencing factors

Strategic positioning and objectives

The strategic intent of any Digital transformation shapes the necessary changes to the organisational model required to make that happen. An organisation needs to be clear on why it is 'going Digital'. Is it to achieve and maintain a market leadership position or to catch up to the competition? What is the primary objective for 'going Digital', reducing cost mainly or more driven by the need to increase (alternative forms of) revenue?

Competition and markets

External factors drive an organisation's ability to transform as much as its own strategic intent does (although the strategy should take internal factors into account as well). We see that Digital has resulted in increased competition in the E&M industry especially since its market boundaries are blurring and allowing new entrants to play a disruptive role. At the same time, regulators across Southeast Asia also play an important role with big control over market access and regulations around Digital, data and privacy.

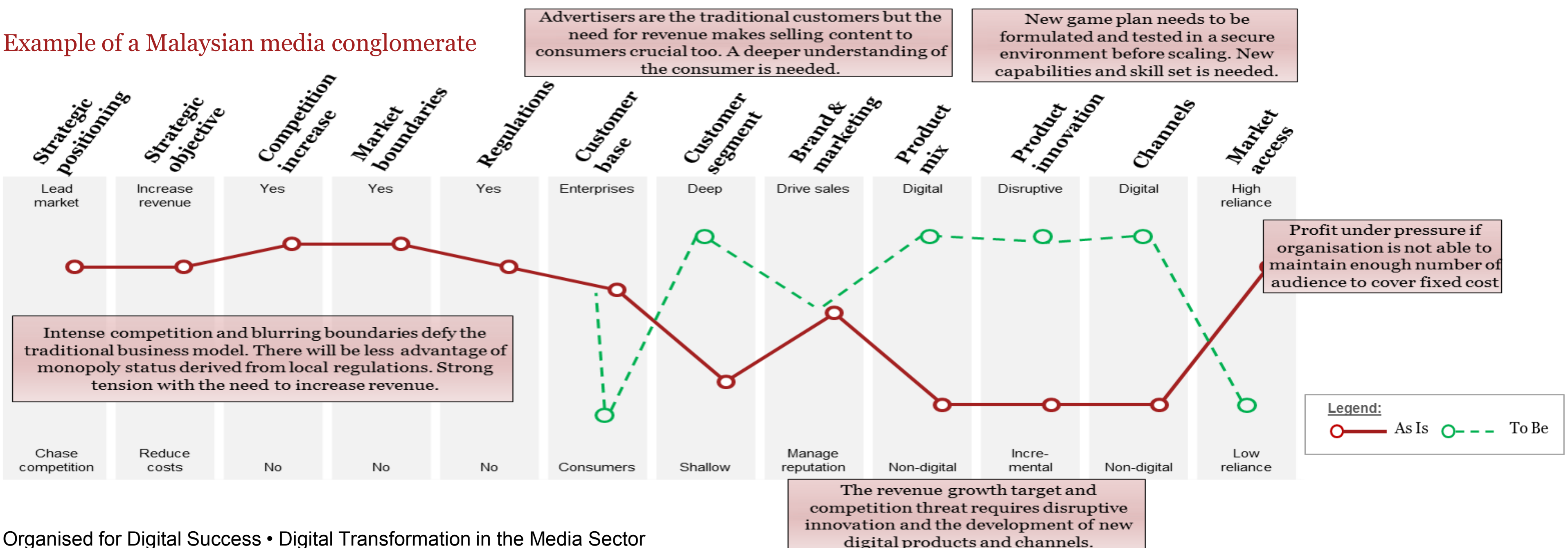
Customer

There has been an increased focus on the customer as a result of Digital. Within the E&M industry the definition of a customer can differ between organisation. Some organisations sell mostly to business clients (advertisers for instance) whereas others are more focused on consumers. Whatever the nature of the customer, a deep understanding of what drives them is crucial and will impact how businesses organise around them. This also drives the primary objectives of the branding & marketing efforts. For business customers a stronger focus on managing reputation (based on results obviously) is prevalent whereas a focus on consumers might push the branding & marketing activities more towards driving sales.

Product and Channels

Although the majority of the E&M industry is pushing for a product and service mix that is highly Digital, the mix at present is still quite traditional as shown by the type of channels that are used to sell products and services. Reliance on third parties to get access to customers or consumers is another interesting issue. Can Digital bypass this reliance and open up access to a new market (and new premiums)? These are some of the elements which drive the product innovation that is required.

Example of a Malaysian media conglomerate



This holistic view creates an overview of possible tension and challenges between ambition and reality

Malaysian Media Conglomerate

- The company must move from its traditional product mix, strong enterprise orientation & 'safe' innovative approach in order to compete
- Going Digital is imperative to defend its market leadership position in the face of stiff competition from within its market and beyond
- Democratisation of technology requires the company to innovate its products and take a more customer-centric business approach so that it may compete more effectively

Key success factor	Key challenges	Possible Digital organisation approach
Quality Digital offerings / content	• How do you generate quality and timely content that encourages consumers to return regularly and purchase? • How do you display relevant advertising in a way that will attract consumers' attentions?	• Culture change, i.e. from platform-focused approach to platform-free approach, e.g. all journalists (TV or newspaper) produce all forms of content fit for Digital, i.e. video, audio, article, photo, interactive and then push through appropriate platforms • Centralised Digital 'Centre of Excellence' headed by CxO guides transformation & standardisation of processes across different BUs • Digital talent needs to exist in all BUs for Digital delivery of Digital content • Investment in technology and education of its usage to increase efficiency and timeliness, e.g. CMS
Increased consumer / audience orientation	• How do you distinguish between different consumer segments based on their perception of value and their needs? • Is there a clear understanding of the customer experiences that matter across the customer journey for each segment? • How do you ensure that customer insights are embedded inputs when making business decisions?	• Organise legacy BUs by consumer archetypes rather than platforms • Centralised customer insight / analytics unit which analyses raw data and channels the insights into actionable activities for all BUs
Disruptive innovation approach	• How do you find and build the people and capabilities/competencies required to be successful in an environment of disruptive innovation? • How do you make disruptive innovation practical to senior management? • How do you build and sustain a culture of innovation and entrepreneurship?	• Disruptive (Digital) innovation usually 1) conflicts with core business; 2) requires different types of talent from traditional corporates; and 3) cannot thrive within corporate planning cycles and BAU activities • As a consequence, an innovation hub should therefore be housed in a start-up environment outside the corporation, mimicking the way that high technology companies operate

ILLUSTRATIVE

Critical success factors for Digital transformation

Legacy

A company may be wired to run like a traditional media business with respect to business processes, culture, information management and incentives. If innovation is urgently needed and Digital is not likely to get a company-wide buy-in, it may be worthwhile to completely separate the Digital hub from the rest of the business. If an organisation has made significant inroads towards a becoming 'Digital-first' company, the Digital hub could run as a pure internal service support centre since the 'spokes' are capable of innovating on their own.

Focus

A great strategy is nothing without great execution. Endless statistics show that when most strategies fail, the problem is not the strategy, but how it is executed. For many organisations, the delta between strategic intent and execution performance is often a disappointing and unbridgeable gap. The bigger this alignment gap, the more likely that managers at all levels will cascade and attempt to implement divergent interpretations of the strategy leading to the organisation getting pulled in many different directions and ultimately achieving underwhelming performance. Once the organisation has decided on the Digital approach and the corresponding structure, they should focus on reaching their targets. Maintaining this focus in light of other ongoing business developments requires strong leadership and smart performance management.

Willingness to invest

As with all new ventures, turning your Digital strategy into reality will take some time. Likewise, it will also take time for financial results to be seen. In general, a window of 2 to 3 years is very reasonable. This does mean however that the leadership of any organisation needs to have the willingness to invest and the patience to not expect immediate results. In traditional media companies this can be a challenge and therefore needs to be openly addressed to ensure that the new Digital structure gets enough time and opportunity to develop into a successful business.

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