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TRANSFORMATION IN MEDIA AMID A CHALLENGING INFLATIONARY AND RECESSIONARY ENVIRONMENT

ABSTRACT: As we look into the future, there is absolute certainty that further transformation and disruptions will take place in the content production and distribution business. This article discusses the recent and upcoming transformations in both content production and distribution; the business capabilities entertainment studios and distribution platforms will need to enable; and the SAP technologies that can help them succeed through the transformation.

By Jonathan Chen, Senior Director, Media Solutions, SAP

When Netflix introduced streaming video subscriptions (SVOD) 15 years ago, there were only a few competitors, primarily Hulu and Amazon. In the 15 years since, this segment of the media and entertainment industry has not only experienced tremendous growth, and change, but continuous innovation driven by technology to provide an ever-improving media engagement experience for consumers.

Today, consumers are spoiled with dozens of streaming services to choose from, can subscribe and unsubscribe with only a few clicks, can choose between free, ad-supported, or paid services, and have access to a stunning volume of quality content. All this was made possible by massive investments in content production and technology developments.

What will this industry look like 15 years from now? Will everything move to the metaverse? Anything is possible. Competitors are already seeing the next trends. And they are already preparing and transforming to succeed (or survive) the next five years. Record high inflation, fear of deepening recession, consumer subscription fatigue, and a global

THE PAST 15 YEARS HAVE DEMONSTRATED that consumer behavior has driven media companies to transform and innovate. The cycle of transformation and innovation will certainly continue for the next 15 years: to create and deliver new media experiences, produce engaging content and IP, and enable new business models and monetization methods.

push for sustainable businesses. Each studio, streaming service, or media platform will form their own strategy to address and tackle these trends, and with clear certainty, technology will be a key enabler of their strategy. At SAP, our Industry Cloud solutions for Media is ready to support and enable these strategies.

PRODUCTION INVESTMENTS AND FINANCIAL DISCIPLINE IN A HIGH INFLATION ECONOMY

According to Indiwire, the seven largest streamers will spend over $50 billion on programming in 2022. In a high inflation economy, each film or TV episode will cost even more to produce. That $50 billion might not get them as much as it did, compared to just one year ago. Focusing on financial discipline is imperative to maximizing media value. This entails investing (or betting?) on the right content that will engage with the broadest audiences and managing and controlling production costs.

While content decisioning can be informed by data science, there's still lots of art and gut feel. Technology can play a part to enhance the content decision workflow. From initial idea pitch to high level budget, to comparable analysis, SAP's Industry Cloud solution, Content Financials by Invenio, can capture all the data and enable the workflow of review and approvals for the greenlighting process. This captures all the data for the entire process, and for greenlighted projects, the data flows seamlessly to production finance project systems. And, even if the project is not approved, the data is still stored and easily accessible for query and analysis.

For production costs, do the studios and streaming platforms have visibility of where the money is spent? Do they have the ability to forecast, manage, and affect (reduce) that spend?

Additionally, more and more content is produced outside of the main studios, and across global territories to create international/local content. For these remote productions, the visibility of spend, and ability to manage and forecast cash flow becomes even more of a challenge. The good news is that in the content production industry, there are specialized production solutions (EP and C&C) that can record and capture each dollar spent on payroll, goods, and services.

Furthermore, many studios run SAP's ERP systems (S/4HANA and ECC). Realizing that providing detailed production spend visibility is imperative to driving financial discipline, some content producers are already integrating their production solutions and S/4HANA finance ERP systems. This will give corporate executives additional data, insight, and visibility, in near real-time, to make decisions to manage the bottom line. Then, an additional step would be to leverage sourcing and procurement and spend management systems such as SAP's Ariba, Fieldglass, Concur, and SAP Business Networks. This would result in streamlined purchasing and payments processes, and drive cost savings by buying within the business networks.

CONSUMER SUBSCRIPTION FATIGUE IN A DEEPENING RECESSION

Across the macro economy, businesses large and small are already acknowledging and reacting to a slowdown in the economy — with hiring freezes, and for some with employee attrition. Consequently, consumers are also preparing. One area consumers are cutting back on is streaming services. According to Ampere Analysis, average U.S. households pay for between 3-4 SVOD services. Add to that streaming audio and other cloud enabled subscription services such as storage, the number and monthly spend really adds up. With a bleak economic outlook, consumers are starting to cut back. Streaming platforms will need to find ways to make their platforms more sticky: better value, better content, more choices.

The two largest services, Disney+ and Netflix, will both launch a lower-priced AVOD service tier. This achieves multiple benefits. First, it provides consumers with a

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lower-priced, more affordable service tier, potentially becoming more "sticky" and reducing churn. Second, as Paramount+ has proven, its ad-based service tier grossed higher average revenue per user (ARPU) than the ad-free service with a higher price point, ultimately contributing to a higher topline. Third, it diversifies revenues.

New service tiers with revenue streams from both subscribers and ad buyers require back-end technology that supports different revenue streams. The complexities around billing, collecting, and reconciling cash are driven by the scale of tens of millions, and even hundreds of million subscribers, across multiple service tiers, 100-plus countries/territories, and over a dozen currencies. For advertisement revenues, a different set of complexities exist around revenue sharing and paying royalties. Managing revenue streams generated from both businesses and consumers requires a robust, flexible, and scalable technology. As part of SAP's Industry Cloud for Media, our Billing Innovation and Revenue Management (BRIM) solution along with Convergent Mediation by Digital Rout has been proven to overcome this challenge of scale and complexity. BRIM and Digital Route have been automating millions of transactions daily, generating invoice/billing documents, creating posting, and matching/reconciling transactions for some of the largest media businesses over the past decade. All this, and delivering results with practically zero revenue leakage, fully auditable transaction records, and compliant reporting, all enabled with a lean support team.

TRANSFORMING INTO SUSTAINABLE MEDIA BUSINESSES

Production of a blockbuster film emits an average of 2,840 ton of $CO2$, with 51 percent of emissions related to transportation. It takes 3,700 acres of forest to absorb the equivalent each year. Content producers (studios) are driving towards "green productions" by following best practices and guidelines such as Green Production Guide, published by the Producer's Guild of America and BAFTA's Albert.

Example practices include: reusing and recycling building materials for sets and switching to solar panels and batteries for clean power. Larger initiatives include using innovative technology like Sony's Crystal LED, to simulate on-location settings inside a studio sound stage. This results in massive reduction of carbon emissions by avoiding long-distance air-travel by the production cast and crew.

For each studio, its portfolio of sustainability initiatives and activities across dozens of productions and business areas all need to be recorded, accounted, and reported — business capabilities and processes that can be enabled with SAP's Sustainability Control Tower, and integrated as a "green ledger" into the financial S/4HANA ERP system.

The past 15 years have demonstrated that consumer behavior has driven media companies to transform and innovate. The cycle of transformation and innovation will certainly continue for the next 15 years: to create and deliver new media experiences, produce engaging content and IP, and enable new business models and monetization methods. Technology will continue to be a driver and enabler of transformation and innovation. SAP has partnered the Studios to help them transform and innovate as the industry moved from physical to digital downloads, to streaming on-demand, as well as supporting different business models from wholesale distribution and rentals to electronic sell throughs and subscriptions. SAP has supported and enabled this industry for over 20 years, and we will continue to drive this dynamic industry with innovative technology and solutions to enable further sustainable transformations in business models and media experiences. ⊞


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