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SPECIAL REPORT

GLOBAL ENTERTAINMENT AND MEDIA OUTLOOK 2016–2020: A WORLD OF DIFFERENCES

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Looking Ahead with Confidence

If you're a senior executive in the entertainment and media industry, you are probably engaged in rear-guard actions against your own past assumptions. Every sector has been struck by major technological change during the past decade — newspapers and publishing by the move to digital, video and audio by streaming, advertising by data analytics, marketing by new media opportunities, interactive games by, well, other interactive games, and everything by the smartphone and the ever-more-global Internet. But only now are these immense changes coalescing enough for us to make sense of them. The challenge is not simply to react to disruption and change, but to choose a path that allows you to look ahead with confidence.

That is the underlying premise of this special report: a joint effort between two well-established sources of strategic thinking, which have combined to provide insight that we believe is available nowhere else.

The Global Entertainment and Media Outlook, which PwC has produced for 17 years, is a compendium of data and perspective about this extraordinarily vibrant industry. Each year, it estimates the consumer spending and advertising revenues for 13 media industry segments, so that media companies can plan their growth in 54 major markets, from Argentina to Vietnam.

Strategy+business is an award-winning magazine, known for its ability to translate the complexities of business into forward-looking articles by and for incisive thinkers and enterprise leaders. In 2015, it celebrated its 20th anniversary.

We open this special report with "A World of Differences" (page 6). PwC experts Chris Lederer and Megan Brownlow summarize the Outlook's latest findings and forecasts, and describe compelling opportunities offered by pockets of growth around the world. One of the largest is India. As journalist Suvarchala Narayanan observes (page 20), the country has three rapidly growing media audiences: newspaper readers, smartphone-oriented sophisticates, and the youth of the country's villages and small cities.

We've included in-depth interviews with two of the most prescient media executives active today. Sir Martin Sorrell, founder and chief executive of the advertising network WPP, considers the prospects for his industry (page 58). Carolyn Everson, vice president, global marketing solutions, at Facebook, covers the future of the Internet (page 50). Elsewhere, journalist Sarah Ellison compiles her fantasy-league media conglomerate (page 38), researcher Erin Reilly describes a new way of understanding your fan base (page 42), and Daniel Gross, editor of this special issue, unveils a mysterious truth: how media journalists think (page 64).

Finally, in "You're a Media Company. Now What?" (page 28), Deborah Bothun and John Sviokla lay out four strategic orientations — each with its own promise and challenges — that media companies can adopt. For executives ready to expand and clarify their own outlook, this special report provides a starting point. And on page 2, you'll see how to stay in touch, so that we can look ahead with confidence together.

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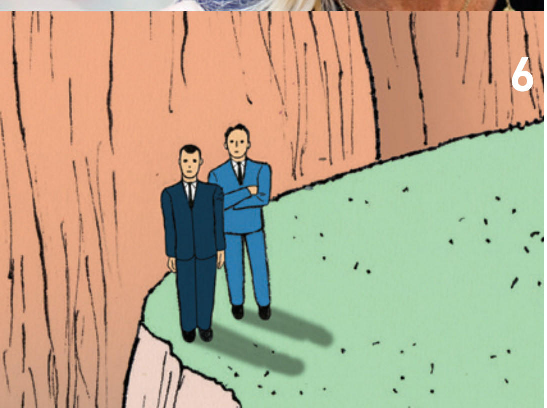

Global E&M Outlook

Cover illustration by James Yang

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Entertainment and media companies can tap into many pockets of growth and opportunity. Our intensive analysis of five shifts roiling the industry can help you identify them.

A WORLD OF DIFFERENCES

BY CHRIS LEDERER AND MEGAN BROWNLOW

Entertainment and media (E&M) companies are making great strides in pivoting to serve digital consumers around the world. However, at first glance, the outlook for E&M companies worldwide still may seem troubling. Declining pricing power, disinflation, and the trend toward free media and sharing all make it fundamentally challenging to grow organically. Despite growing 5.5 percent last year, this US$1.7 trillion global industry is likely to have difficulty keeping up with the economy as a whole. The Global Entertainment and Media Outlook 2016–2020 projects that E&M will rise at a compound annual growth rate (CAGR) of 4.4 percent in nominal terms through 2020 — lagging behind overall economic growth (*see Exhibit 1, next page*).

Illustration by Guy Billout

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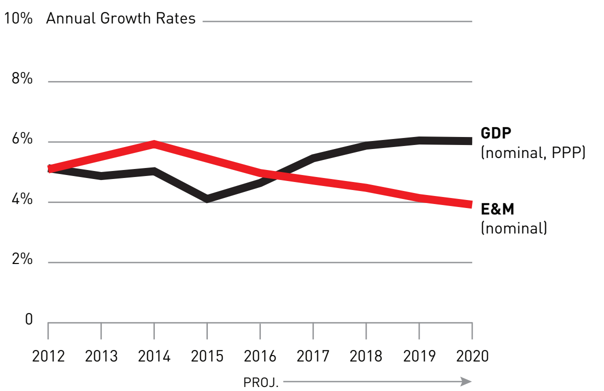
But a closer examination brings a different picture into focus. E&M is a dynamic, diverse industry with steady and sustainable growth. Although the strong aggregate growth is not shared equally by all participants, impressive growth and opportunities can be found in many areas of the industry. Drastic slowdowns in some areas and stagnation in others coexist with spectacular expansion in "hot" countries, regions, and sectors. Which is to say: This global media landscape is multi-shifting.

In fact, for the majority of the countries we looked at — 36 out of 54 — E&M spending is growing more rapidly than GDP, often by a factor of more than 50 percent. Venezuela tops the list; E&M spending growth there is likely to outpace GDP growth by more than 14 percentage points in 2016. Many of the most populous E&M markets, including Brazil, Pakistan, and Nigeria, will also produce comparatively higher E&M growth rates (*see Exhibit 2*). But that's just the beginning of the story.

At a global level, one of the most significant shifts evident is a reordering of the industry's sectors (*see Ex-*

Exhibit 1: **Growing but Slowing**

Over the next five years, growth in spending on entertainment and media will lag overall economic growth.

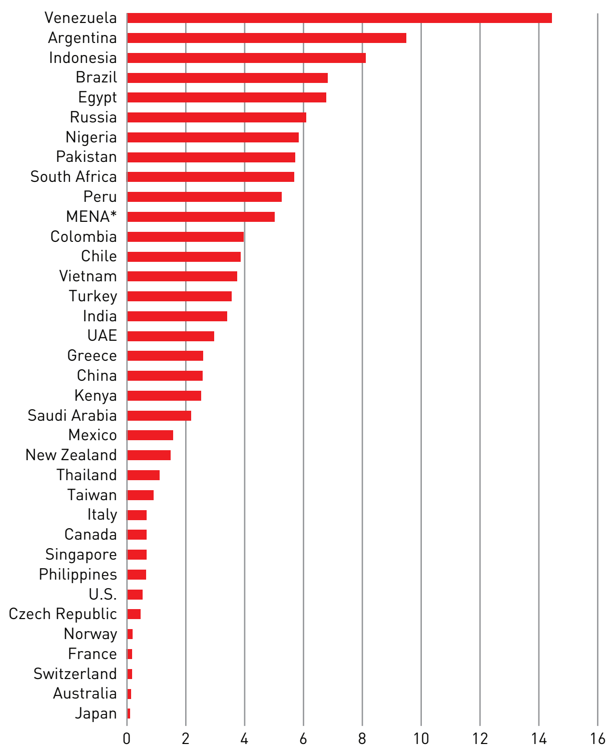


Source: Ovum, IMF

Exhibit 2: **A World of Differences**

In many developing markets, E&M spending is growing more rapidly than the economy at large.

Percentage-point difference in growth rates of E&M spending and GDP, 2016



*MENA (Middle East and North Africa) = Algeria, Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman, and Qatar. Saudi Arabia, UAE, and Egypt are broken out separately.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

FOR THE MAJORITY OF COUNTRIES WE LOOKED AT, E&M SPENDING IS GROWING MORE RAPIDLY THAN GDP.

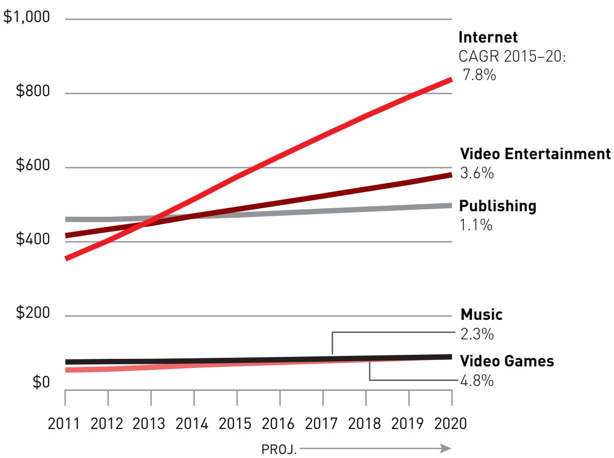
hibit 3). On the left of the exhibit, we've aggregated segments into five broad groups: Internet, video entertainment, publishing, music, and video games. As the chart shows, revenue across E&M is steadily shifting from publishing businesses to video and Internet businesses — in particular those that provide over-the-top (OTT) services and monetize consumer data. When we break down global spending by business model on the right of the exhibit, direct consumer spending models remain strong, while spending on Internet access, including mobile data, will rival advertising. This development creates more fertile ground for new entrants and traditional players alike — think OTT video and new e-commerce offerings, for example — to jump directly into new markets and segments.

We expect the transitions we've described to continue, as powerful macroeconomic, technological, and social trends work to change the face of many industries, not just E&M. But the obvious changes under way throughout E&M mask a series of counterintuitive shifts that are apparent only to those deeply immersed in the industry. Each year, in putting together the Global Entertainment and Media Outlook, we and our colleagues collect and aggregate an immense amount of data, gain insight through discussions with colleagues and industry leaders, test hypotheses, and

Exhibit 3: **A Decade of Divergence**

Differential growth rates for sectors and business models are reshaping the E&M industry.

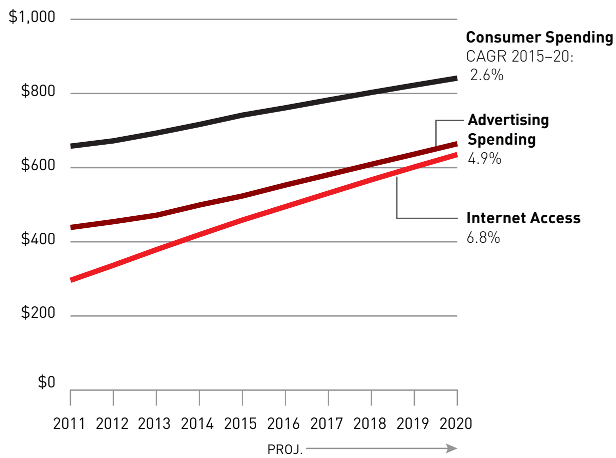
Global Spending by Sector, US$ Billions



Note: *Internet* includes Internet access, search, and online classified advertising. *Video entertainment* includes TV/video, TV advertising, and cinema. *Publishing* includes magazines, newspapers, business-to-business, and books. *Music* includes music and radio.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

Global Spending by Business Model, US$ Billions

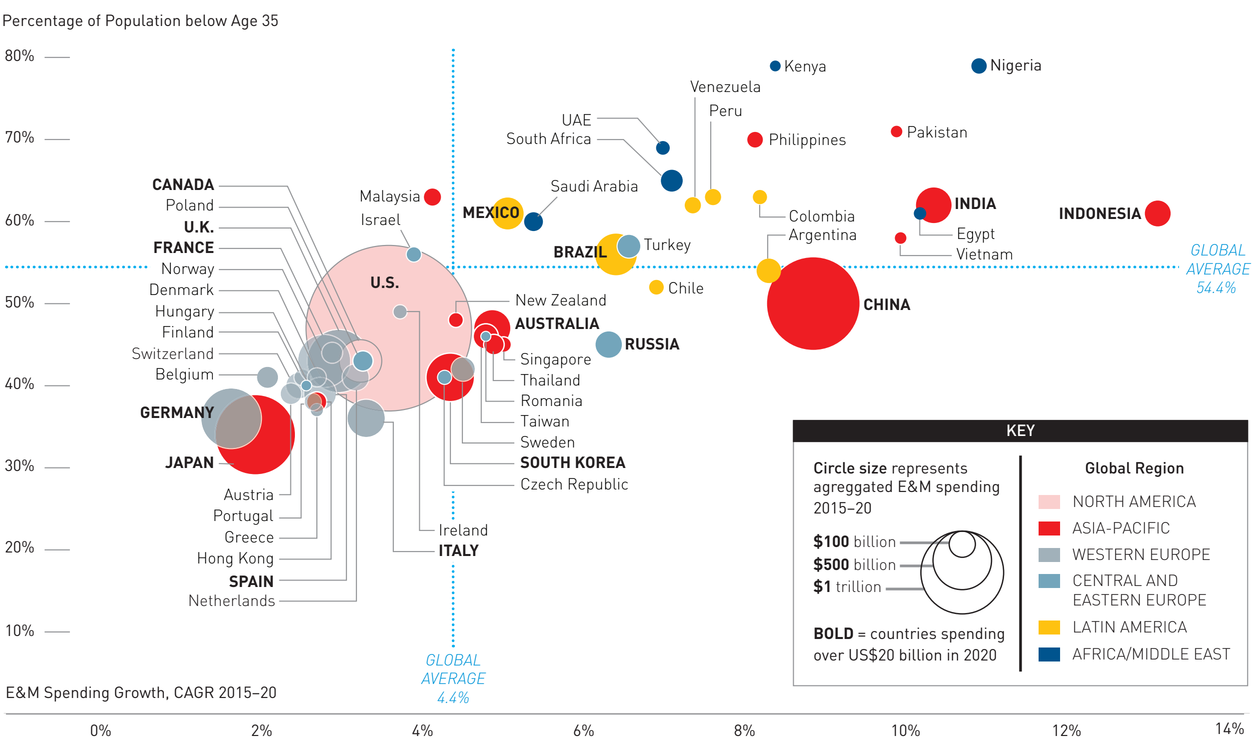


Note: *Consumer spending* includes subscription revenues (from TV and radio), ticket sales, and product purchases (books, video games, etc.). *Advertising spending* includes advertising revenue from TV, publishing, radio, Internet advertising, and out-of-home advertising. *Internet access* includes Internet subscription fees.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

Exhibit 4: **Youth Movement**

Across countries, there is a strong correlation between the relative size of the under-35 population and growth in E&M spending.



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

formulate strategies. This process enables us to pinpoint shifts that few others can see — and the ones we've identified this year promise a host of opportunities across the E&M sector. They should serve as a serious call to action for many of the industry's incumbent leaders, which can take control of their future.

The biggest of these shifts are occurring in five dimensions of the global E&M landscape: demography, competition, consumption, geography, and business models. Simultaneous and interrelated, they influence and play off one another. We'll look at each shift in turn.

Shift 1. Demography: Youth Will Be Served

A great deal is made — in the U.S. in particular — of the financial struggles of millennials. But the cultural trope of 20-somethings living in their parents' basement and cutting the cord on cable TV obscures a larger trend. We've all seen the speed at which younger consumers adopt new consumption behaviors and their startling ability to multitask in different media. These same attributes allow them to lead the way in setting trends and driving consumption in E&M markets around the world. Companies may find it easier and more comforting to pitch their products and services at putatively more affluent older people. But our data suggests that in many countries in many parts of the world, the young will propel E&M growth through 2020.

As shown by our mapping of 54 countries' population percentage under 35 against their projected E&M spending growth rates, there's an almost perfect correlation between markets with more youthful populations and those with higher E&M growth (*see Exhibit 4*).

THE OPPORTUNITY FOR MEDIA COMPANIES IS TO UNDERSTAND THE YOUNG AND BE ABLE TO PREDICT, FOR EXAMPLE, WHEN THEY WILL PIVOT FROM MUSIC DOWNLOADS TO STREAMING.

Why? Here's our hypothesis. Younger people consume more media than older people, and are more open to adopting digital behaviors — and therefore more open to digital spending. Although some analog segments remain robust, digital media is where aggregate growth is strongest globally. In addition, many of the most youthful markets have rapidly growing middle classes whose discretionary spending power is on the rise — and E&M spending is usually discretionary. The opportunity for media companies is to understand how the young spend on digital content, and to be able to predict, for example, when they will pivot from paying for music downloads to streaming music services.

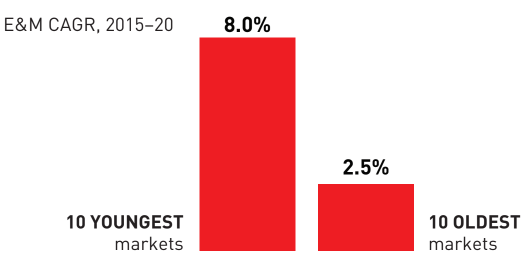
Of course, E&M providers entering new markets or seeking to accelerate growth in existing ones should take into account a country's demographics along with its wealth or rate of economic growth. A number of lower-growth, relatively older markets, such as the U.S., remain fundamentally important because of their size and absolute growth. In older, less digitized markets, it may make sense to focus more on managing the decline of legacy media — in other words, in these markets, a large base of consumers comfortable with traditional media will make it possible to sustain profitability for some time, whereas pushing new technology too hard will risk alienating the considerable number of older consumers. In Japan, for example, the average daily newspaper circulation is 45.6 million, a number that has declined by only 6.3 percent in the past four years. There's no immediate rush for Japanese newspaper companies to go all-digital.

In younger markets, by contrast, there will be a significant incentive for providers to shift completely to digital media, or to offer bundles, the better to target the large number of youthful consumers with less ingrained habits and preferences. India's growing middle class has supported print newspaper growth. But the ranks of Indian social media users surged by 26 percent in 2015, to 134 million. That suggests more digital reading is imminent. (See "India's Triple Play," by Suvarchala Narayanan, page 20.)

Our analysis of total E&M revenue growth in the world's 10 youngest and oldest markets in demographic terms further underscores the vital importance of youth (*see Exhibit 5*). On average, E&M spending in the 10 youngest markets is growing three times as rapidly as in the 10 oldest markets. In Pakistan, where around 70 percent of the population is under 35, E&M spending is projected to grow at a 10 percent CAGR through 2020; by contrast, Germany and Japan — two much wealthier countries with among the lowest proportions of people under 35 — sport a meager E&M CAGR of about 2 percent. Put another way, growth in E&M spending is more influenced by the age of a country's population than by its comparative wealth. So youth will be served.

Exhibit 5: **Age Matters**

Between 2015 and 2020, E&M spending will grow far more rapidly in the world's youngest markets than in the oldest ones.

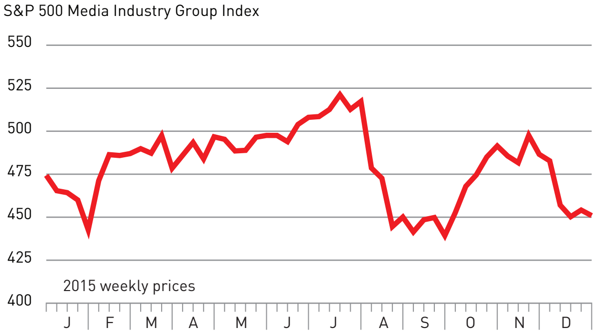


Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

MUCH OF THE E&M INDUSTRY IS GROWING MORE GLOBAL, BUT CULTURES AND TASTES IN CONTENT REMAIN STEADFASTLY LOCAL.

Exhibit 6: **Content Struggles**

In 2015, stocks of media companies encountered significant headwinds.



Source: S&P Capital IQ

Shift 2. Competition: Content Is Still King

In 2015, the stocks of many of the world's largest traditional media conglomerates, especially those based in the U.S. and Europe, suffered in comparison to both technology-driven platforms such as Netflix and communications platforms such as Verizon. Declines in media stocks were especially significant in the summer (*see Exhibit 6*).

Content was deemed to have taken a backseat to technology and communications. The symptoms: slowing ad markets for traditional, content-producing media; big ratings declines for cable and broadcast television; the currency drag from a strong dollar; and a slowdown in TV affiliate fees. As a result, it might seem that the mantra from the 1990s, "content is king," had become outdated. But in fact, in an important yet widely overlooked shift, we believe that content will reign supreme as platforms seek to differentiate and expand internationally.

In a world in which Netflix can launch its streaming services in 130 new countries in a single day, it's easy to assume that content is becoming more globally homogeneous. But the reality is that content is being redefined by forces of globalization and localization simultaneously. In the global coffee market, a homogenizing force such as Starbucks, now present in 70 countries around the world, can thrive alongside local chains and coffee shops. The same holds true in E&M. Netflix, for example, has said that locally produced content is its future.

Much of the E&M industry is growing more global, but cultures and tastes in content remain steadfastly local. The international opening weekend of *Batman v Superman: Dawn of Justice* (in March 2016) grossed $254 million globally on 40,000 screens in 66 markets outside the U.S., the fifth most successful international opening in history. But the year's biggest opening in China thus far, the Hong Kong–produced fantasy comedy *The Mermaid*, grossed $120 million on its opening weekend in February 2016.

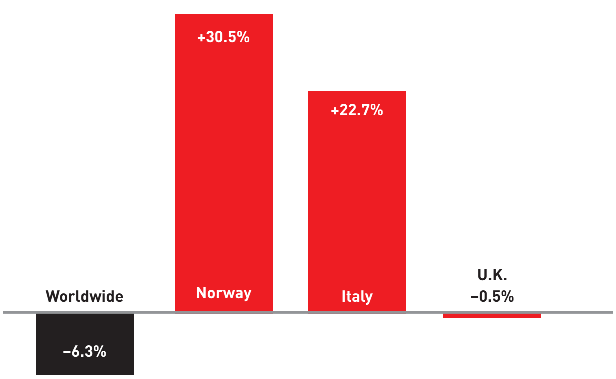
Content-based business models across the world are being transformed to support this coexistence of global and local content offers. South Africa–based Naspers has an impressive portfolio including pay-TV operations that serve 48 African countries, and Nation Media is the biggest media house in East Africa, having expanded from its origins in Kenya to build major operations in Uganda and Tanzania. Such companies thrive by blending international reach and local focus. A host of global television formats are produced domestically, in local languages with local talent. More than 100 international variations of the British-created quiz show *Who Wants to Be a Millionaire?* have been produced since the original U.K. version debuted in 1998. Talent shows, dating shows, and cooking shows have also proven to have universal appeal, but they succeed in domestic markets largely because of their local characteristics.

The dichotomy of global and local may be seen most clearly in those markets that combine well-developed digital distribution infrastructure and platforms with strong local content industries. The preference for local content over "global" (often code for *U.S.-produced*) content is evident even in a mature, developed, English-speaking country such as Australia, where locally produced sports, reality shows, news, and drama offerings, such as Shaun Micallef's political satire *Mad as Hell*, rank as the 10 most-watched television programs every year. Local tastes are even more prevalent

Exhibit 7: **Local Tastes Dominate**

Consumers in three European countries bucked the trend of sharply declining sales of physical recorded music.

2015 Spending on Physical Recorded Music



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

in India, the world's most prolific producer of movies; in Nigeria, where Nollywood produces about 1,000 films a year (more than U.S. studios do); and in China, which will overtake the U.S. in 2017 as the world's largest market for box office revenue.

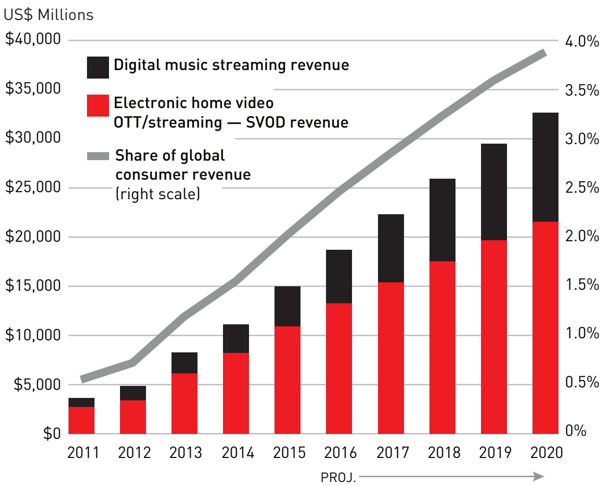
These factors carry implications for media companies' strategies. In particular, it's important not to assume that past patterns in spending on "global" content in mature markets are a valid guide to future spending in emerging markets, which often have their own, even more deeply held tastes in content and cultures, on top of a variety of native languages. As companies tailor their decisions about market entry, they also need to consider the mix of global versus local brands they will deploy in order to build audiences.

A particularly striking example of counterintuitive trends driven by local content demand can be seen in physical recorded music revenues in 2015. Global spending on physical recorded music — mainly CDs and vinyl — fell in 2015 by 6.3 percent. Yet spending on physical music formats in the U.K. was almost flat, which is quite an achievement considering the downward trend. And in Italy and Norway, the spending growth was remarkable: 22.7 percent and 30.5 percent, respectively (*see Exhibit 7*).

What happened? In each market, the impact of global music streaming was offset by specific local tastes. In the U.K., Adele's new blockbuster album, *25,* which was not made available for streaming, was almost single-handedly responsible for the strength of physical music; the legions of fans among Adele's countrymen and -women were willing to pay for CDs. In Italy, a strong domestic repertoire, led by the 13th studio album of singer–songwriter Jovanotti, *Lorenzo 2015*

Exhibit 8: **A Stream Runs Through It**

Revenues for streaming services are growing rapidly.



Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

CC, accounted for the rebound in physical music. And in Norway, where the popular electronic dance music scene promotes record-spinning DJs as rock stars, vinyl sales accounted for 24 percent of all physical music revenue, a high proportion compared with vinyl's 2 percent share of music revenue globally. Faced with an array of choices, consumers decide at the local — and indeed personal — level what to purchase. And that leads to wildly different outcomes, even in markets that might appear superficially similar.

Shift 3. Consumption: The Joy of Bundles

The ability to design and curate your own media diet has been one of the most powerful trends to emerge in the industry. Whether in the U.S. or Uzbekistan, consumers have never had a greater ability than they do now to curate their own playlists — through apps, YouTube, streaming services, social media, and OTT offerings. Broadly speaking, many pundits have proclaimed the end of the bundle — the set of offerings that radio stations, cable and record companies, or even newspapers and magazines have traditionally sold together. And indeed, the rise of subscription content streaming services has been a major feature of the E&M landscape in recent years (*see Exhibit 8*). Global subscription spending on Netflix and other OTT subscription-video-on-demand (SVOD) services grew by 33.8 percent in 2014 and 32.3 percent in 2015 — that's 77 percent in two years. The launch of Apple Music provided a major boost to digital music streaming revenue, and other streaming companies, such as Tidal, Beatport, Deezer, Earbits, Pandora, Spotify, and Rhapsody — to name but a few — arguably saw a boost due to the enhanced awareness Apple Music created among consumers. Partly as a result, global music streaming spending rose by 41.8 percent in 2015, to $4.07 billion.

But the bundle isn't dead, not by a long shot. The rapid growth in on-demand streaming revenues is starting from a very low base, and even today on-demand streaming accounts for little more than 2 percent of global consumer E&M revenue. Meanwhile, video and cable incumbents, which were initially slow off the mark, are fighting back with gusto by offering their content on an integrated omnichannel basis, on TV, laptop, tablet, and smartphone. In numerous markets, many consumers — including cord cutters — still love the convenience of having their content aggregated in one place, rather than needing to root it out across a bunch of disconnected services. In the U.K., Sky's Now TV stand-alone streaming service

IN 2017, WHEN CHINA OVERTAKES THE U.S. IN BOX OFFICE REVENUE, IT WILL BE THE FIRST TIME THE U.S. HAS NOT HELD THE LEADING POSITION IN AN E&M SEGMENT.

had more than 700,000 subscribers in early 2015. But Sky also offers those who subscribe to their main service a new multidevice streaming capability.

As such services gain traction, it's clear that some consumers may opt for a set of "pure" à la carte offerings to keep costs down. And fewer will pay a premium price for a mundane collection of channels that they can watch only on television. But the traditional bundlers are adapting rapidly, and they have substantial advantages and large customer bases. As a result, we believe the bulk of digital OTT mass-market services will gradually be reabsorbed into aggregated offerings that will echo the traditional analog-style bundle, but that will be more flexibly priced and available on a full range of devices. These offerings will have features such as intelligent integration, which permits a consumer to watch part of a movie on one device and then finish it on another.

When this happens, the competitive battle may move up a notch from the OTT service level to the realm of service aggregators, which range from giants such as Apple, Google, and Verizon to small entrants such as WeShow and Aggrega. The big battles will no longer be fought mainly over networks, cable channels, and upstarts gaining access to content. The new battles will be among cable incumbents, technology giants, and telecommunications companies, fighting over gaining access to distribution. The heightened importance of ownership of broadcast spectrum will make spectrum auctions such as the one currently under way in the U.S. potentially pivotal. Whoever buys and owns spectrum may be better placed to enter and win the race to offer streaming bundles. As bandwidth comes up for grabs, so too will the role of aggregator.

We also see bundles popping up, or reappearing, in other sectors. In Europe, newspaper publishers are enabling custom bundles by mashing content onto new digital platforms. Blendle, based in Utrecht, the Netherlands, launched an English-language version in March 2016 with 20 high-caliber publishing partners including the *New York Times* and the *Economist*. This experiment, which leverages micropayments, may prove attractive to digital consumers used to paying small amounts for apps, songs, and mobile games.

Shift 4. Geography: Growth Markets

Generally, companies have had one set of expectations about developed markets (slow growth, low regulation, easier to access) and another about developing markets (rapid growth, high regulation, more difficult to access). The result was that a company might have one strategy for developed markets, and another, somewhat generic strategy for developing markets. But the dynamics are shifting rapidly. In 2017, for example, when China overtakes the U.S. in box office revenue, it will mark the first time the U.S. has not held the leading position in an E&M segment. China is also well advanced in segments such as digital advertising. In 2016, three countries — China, the U.K., and Denmark — will become the first to reach the tipping point at which total digital advertising revenues surpass their non-digital equivalent.

Disruption is pushing markets to develop in different ways. The divergences are being driven by several factors. One is the differential growth rates among sectors. The table in Exhibit 9 (page 17) demonstrates that beyond zeroing in on the fastest-growing markets, such as Indonesia, India, and Peru, E&M companies must

REGIONAL INCONSISTENCY IN REGULATION AFFECTS BUSINESS MODELS, THE SHAPE OF THE MARKET, AND THE REVENUE OUTLOOK IN DIFFERENT TERRITORIES.

focus on those that are generating the greatest *absolute* dollar growth — namely, the U.S. and China. In addition, in every country, different sectors are driving growth to different degrees. The result of these divergences is that "opportunity" economies — even within the same region — can display significantly varied growth patterns.

In addition to understanding the where and how of growth by country, companies must grasp the importance of a third factor: regulation. In the E&M context, regulatory interventions include blocking entry of international companies, requiring a certain percentage of airtime to be dedicated to local market content, mandating government review and approval of content before content can be aired, and imposing different tax structures for local and international companies. And once again, the conventional E&M wisdom is often undermined by the facts on the ground. Simply put, some of the most heavily regulated markets are also those with the most growth.

In China, companies may face significant obstacles due to regulation. The websites of U.S. companies such as Facebook, Google, and Netflix are blocked, and the number of foreign films shown annually is limited. Yet China remains one of the most robust markets for E&M growth in terms of absolute dollars. The more restrictive environments tend to limit what media companies can broadcast and publish, and also limit who owns them, with a common focus on maintaining indigenous ownership and control. This often takes the form of governments funding local content or enacting regulations to prevent "excessive" outside cultural influence and protect local artists.

Regional inconsistency in regulation and market access affects business models, the shape of the market, and the revenue outlook in different territories. German publisher Axel Springer quit the Russian market in 2015 owing to foreign ownership limits. But other countries are improving the regulatory environment for E&M companies. In Nigeria, which in 2014 created an online copyright registration system, the government is working to enact legislation to protect publishers more effectively against copyright infringement. Malaysia's government has blocked tariffs on books in order to promote reading and literacy.

The fundamental and ingrained differences between markets represent a key factor that E&M companies must take into account when planning their global strategies. And it's clear that despite globalization, such differences won't go away anytime soon. The challenge for E&M companies is how to navigate around or through the barriers and thus gain access to these markets' expanding consumer opportunities and growing revenues. One option is creating new, tailored business models and local joint ventures or partnerships, and then localizing content and advertising experiences to comply with local regulations on such issues as decency and public health, as well as to suit local tastes.

Shift 5. Business Models: Transforming with Trust

In 2013, Netflix CEO Reed Hastings (now) famously said he wanted to build Netflix into a company that actually resembled a premium cable network. This was a technology company racing to become a new kind of hybrid content company. Meanwhile, traditional publisher Time Inc. is emerging as a hybrid technology company. In March 2016, it acquired the data-driven marketing specialist Viant Technology. Such moves

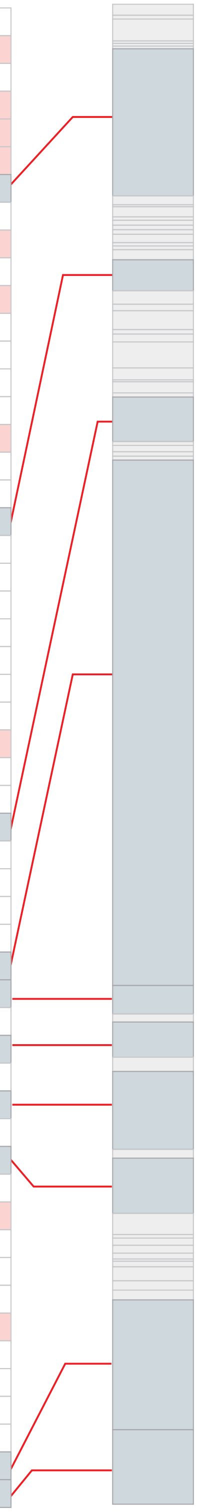
Exhibit 9: **Hot Spots**

In every country, a different mix of factors is propelling growth.

TOP 10 rank in category

BOTTOM 10 rank in category

COUNTRY	COMPOUND ANNUAL GROWTH RATES 2015–20: E&M SPENDING	INTERNET	VIDEO GAMES	VIDEO ENTERTAINMENT	MUSIC	PUBLISHING	E&M SPENDING 2015 US$ MILLIONS
Indonesia	13%	21%	8%	15%	4%	4%	$12,672
Nigeria	11%	15%	12%	4%	7%	2%	$4,311
India	10%	14%	11%	12%	7%	4%	$25,126
Egypt	10%	15%	7%	13%	11%	1%	$2,859
Vietnam	10%	13%	5%	12%	2%	3%	$3,103
Pakistan	10%	14%	5%	9%	9%	2%	$3,066
China	9%	12%	7%	9%	6%	1%	$168,826
MENA	9%	14%	4%	7%	7%	0%	$10,180
Kenya	8%	9%	14%	10%	7%	4%	$2,254
Argentina	8%	9%	9%	10%	9%	4%	$11,645
Peru	8%	12%	9%	8%	9%	2%	$3,944
Philippines	8%	12%	7%	9%	5%	2%	$5,675
Venezuela	8%	12%	6%	6%	11%	3%	$5,135
Colombia	7%	10%	10%	7%	8%	2%	$5,264
South Africa	7%	13%	6%	6%	5%	1%	$9,567
UAE	7%	10%	9%	5%	4%	-1%	$3,785
Chile	7%	10%	7%	5%	5%	3%	$4,340
Turkey	7%	10%	8%	6%	6%	2%	$11,533
Brazil	6%	10%	11%	5%	4%	2%	$35,657
Russia	6%	10%	6%	6%	0%	2%	$15,380
Saudi Arabia	5%	6%	8%	14%	6%	-1%	$7,472
Mexico	5%	7%	4%	4%	6%	3%	$21,616
Singapore	5%	9%	5%	3%	2%	2%	$5,148
Thailand	5%	8%	7%	6%	5%	2%	$9,005
Australia	5%	8%	3%	4%	0%	1%	$29,856
Taiwan	5%	8%	2%	1%	5%	2%	$13,685
Romania	5%	9%	7%	2%	1%	2%	$2,171
Sweden	5%	11%	4%	3%	5%	-1%	$12,767
New Zealand	4%	10%	5%	3%	1%	1%	$4,784
South Korea	4%	6%	6%	2%	6%	0%	$51,107
Czech Republic	4%	7%	6%	2%	0%	2%	$4,351
Malaysia	4%	8%	6%	3%	4%	2%	$7,321
Israel	4%	7%	4%	2%	0%	0%	$5,110
Ireland	4%	9%	5%	2%	4%	-1%	$4,476
U.S.	4%	8%	4%	1%	2%	2%	$602,973
Italy	3%	6%	4%	3%	1%	-1%	$32,751
Poland	3%	7%	6%	2%	0%	1%	$9,196
Canada	3%	7%	4%	1%	2%	2%	$40,329
Netherlands	3%	7%	5%	2%	2%	0%	$16,402
U.K.	3%	6%	3%	2%	1%	1%	$89,428
Norway	3%	7%	2%	2%	3%	-1%	$10,023
France	3%	6%	2%	2%	0%	1%	$63,493
Spain	3%	4%	3%	4%	4%	0%	$24,215
Greece	3%	6%	5%	2%	4%	-1%	$4,056
Denmark	3%	7%	4%	1%	2%	-1%	$8,304
Hong Kong	3%	5%	6%	1%	4%	0%	$8,797
Portugal	3%	4%	6%	3%	0%	-1%	$6,738
Hungary	3%	4%	7%	3%	2%	1%	$2,564
Finland	3%	7%	3%	1%	1%	0%	$6,413
Switzerland	3%	6%	4%	3%	2%	-1%	$16,055
Austria	2%	7%	3%	3%	1%	-1%	$10,655
Belgium	2%	5%	2%	2%	2%	0%	$11,242
Japan	2%	3%	5%	3%	-3%	-1%	$148,961
Germany	2%	4%	3%	2%	2%	0%	$85,712
GLOBAL ▶	**4.4%**	**7.8%**	**4.8%**	**3.6%**	**2.3%**	**1.1%**	**$1.7 TRILLION**



Note: *Internet* includes Internet access, search, and online classified advertising. *Video entertainment* includes TV/video, TV advertising, and cinema. *Publishing* includes magazines, newspapers, business-to-business, and books. *Music* includes music and radio.

*MENA (Middle East and North Africa) = Algeria, Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman, and Qatar. Saudi Arabia, UAE, and Egypt are broken out separately.

Source: Global Entertainment and Media Outlook 2016–2020, PwC, Ovum

E&M COMPANIES THAT COMBINE TECHNOLOGY WITH INDUSTRY-CENTRIC ASSETS — SUCH AS RELATIONSHIPS, CUSTOMERS, AND KNOWLEDGE — WILL THRIVE AND EVOLVE.

highlight another noteworthy shift. In many areas, the growth of technology and digitization acts as a powerful centrifugal force — breaking up existing relationships; pushing large, generalist entities to give way to smaller specialists; and allowing smaller, nimble competitors to beat out incumbents. But the reality is that the historic shifts now under way are forging the creation of new business models, and perhaps even new industries. Those that are able to integrate the capabilities and approaches that create value for customers will continue to thrive.

Let's take advertising as an example. The rise of large integrated data sets, smart analytics, and new visualization and delivery platforms — combined with the growth of programmatic advertising and the advent of native content — would seem to significantly undermine the role of the traditional agency and media company. This view is reinforced by a migration of advertising revenue away from companies whose core product is "the big idea" and toward those, like Google and Facebook, whose differentiator is their algorithmic buying platform. At the same time, multichannel networks, social media, and content marketing businesses are seeking to grab a slice of the advertising pie.

But what if all these changes are creating an opportunity for incumbent agencies to reorient themselves to become invaluable to markets? One might argue that the established agency holding companies are uniquely well positioned to bring together programmatic capabilities, analytics, data aggregation, and native content. And in fact, they're already doing it. The biggest holding companies are scaling world-class programmatic capabilities, while also developing software to buy digital advertising faster and more efficiently. What they cannot build, they buy or access through partnering. Enter the new "super" agency.

In September 2014, the advertising holding company WPP injected $25 million and the ad server platform from its programmatic media arm Xaxis into ad technology provider AppNexus, in return for a significant stake in the business. (See "Thought Leader Interview: Sir Martin Sorrell," by Deborah Bothun and Daniel Gross, page 58.) Announcing the deal, WPP, whose Kantar unit represents one of the largest consumer retail data sets available, said the move continued its strategy of investing in fast-growing sectors such as ad technology and programmatic media buying. Other savvy, forward-looking agencies also have large and valuable data assets, and are working to evolve them to world-class levels. For instance, Publicis bought Sapient, which includes SapientNitro and Razorfish, thus enabling the company to build a portfolio of leading technology and digital assets.

As these players in the advertising value chain develop their data strategies, the new linchpin for competitive advantage could be bundling in content marketing (or, as some say, "brand to demand") at scale. This next-generation marketing strategy offers promise not just to the agencies, but to content creators as well. In Australia, the three biggest newspaper publishers — News Corp, Fairfax, and APN News and Media — have all set up or bought a content marketing business in the last couple of years. These organizations may be very well suited to capture this opportunity because of the trust equity that lives in the brands, especially when it comes to assuring consumers who have privacy concerns. Globally, revenues from the creation and provision of content marketing grew 13.3 percent in 2014, to reach $26.47 billion, according to PQ Media. E&M companies that embrace technology and combine it with industry-centric assets — such as relationships, customers, and knowledge — will thrive and evolve.

Navigating Multispeed Markets

As the five shifts that we've described play out, so will changes in the E&M landscape. This industry is learning from experience and becoming nimble; more and more, it will position itself to seize the opportunities that appear. The E&M industry is getting used to the new normal — a multispeed marketplace that expects and plans for disruption.

Why do we say this? From the vantage point of today, it might seem that any strategy for the next five years will be rendered not just obsolete but irrelevant by 2018, let alone by 2021. Just think about how E&M companies' five-year pro forma plans from 2011 look today in light of the disruption we've seen.

Even so, E&M companies are learning, acting, and, in many parts of the world, thriving. Each of the shifts we've highlighted can help companies plan and do business better. The power of youth, the primacy of localized content, the resilience of a new kind of bundle, the deepening of developing markets, the potential for new business models: All are taking place against the backdrop of steadily growing industry-wide revenues.

For E&M companies with the right strategies and insights, the opportunities are legion. And the shifts play to the strengths of companies with big market positions, capital they can invest, strong brands, and strength in understanding local tastes and preferences. If they make the right calls, incumbents can position themselves to capitalize on the next phase of change and drive growth.

To do this, they'll need to ensure that their capabilities are both up to the job individually and aligned such that they add up to more than the sum of their parts. Strong brands must be underpinned by the best talent, which must be empowered by low-friction digitized processes that enable them to glean and use deep consumer insight from data. Companies that combine these attributes and establish positions in high-growth markets will be the most likely to succeed. +

Resources

Edward H. Baker, "The Surprising Endurance of the Boob Tube," *s+b*, Sept. 9, 2015: Author Michael Wolff's argument about why television maintains its audience.

Christopher A.H. Vollmer and Matt Egol, "Five Rules for Strategic Partnerships in a Digital World," *s+b,* Dec. 22, 2014: For leading companies in E&M, the future depends on the capabilities and insights they can tap by working with others.

We will be continuing the conversation around the Global Entertainment and Media Outlook 2016–2020 at major industry conferences, on our websites, and in future articles. Topics could include deeper dives into measurement, mobile, and privacy, as well as country-specific conversations. Go to www.pwc.com/outlook to get access to more Outlook information and subscription options.

INDIA’S TRI

PLE PLAY

What do feature phones, regional newspapers, and smartphones have in common? They’re all vehicles for the country’s remarkable move to digital broadband.

by Suvarchala Narayanan

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Also contributing to this article were Smita Jha, director and leader of the entertainment and media practice at PwC India, and Munnish Puri, managing director of India Financial Advisors and Indian Film Advisors. All statistics not otherwise attributed are adapted from the PwC Global Entertainment and Media Outlook 2016–2020 (www.pwc.com/outlook).

The tiny commuter kiosk at the train station in Andheri, a working-class suburb of Mumbai, is a hub of activity most afternoons. The proprietor, Shyam, sells dozens of prepaid mobile phone recharges each day, and he comes highly recommended for another service. “Bhaiya, ready hai?” (Brother, is it ready?) asks a 14-year-old boy. The kiosk owner nods and pulls out an SD memory card from an aluminum box. The card contains some Hollywood and Bollywood films, a playlist full of popular songs, and some episodes of *Aap ki Adalat,* a popular TV show featuring hardball interviews with leading public figures.

The boy hands over Rs150 (about US$2.25), and happily inserts the card into his mobile device. That mobile, known widely as a “feature phone,” doesn’t have a global brand name like Apple or Samsung. And it’s not as versatile as a smartphone. But it shows videos, and, unlike the shared TV in the boy’s home, it belongs entirely to him.

Although this sale would be labeled piracy in many quarters, Shyam sees himself as performing a necessary service for the young people living in his community — just a few members of a vast and underserved market that could be called *infotainment followers,* after the new media they prefer. A year or two from now, many of them may replace their feature phones with smartphones, especially if the much-anticipated high-speed 4G mobile Internet service is launched throughout India. In the meantime, they depend on their 2G connections and memory cards.

About 30 miles away, a group of young creative professionals — writers, filmmakers, and a chef — are having brunch at one of Mumbai’s many international cafes. They are representative of today’s full-fledged smartphone-based media market. Over shaksouka (a poached-egg dish from North African Jewish cuisine) and masala tea, their conversation flows freely from the Panama Papers to the new *Captain America* film to the local motion picture investment scene. Everyone at the table is well informed. But when asked if they read newspapers, only one says yes. “I always read news at breakfast — but only peruse the headlines,” she says.

This group is representative of India’s global sophisticates. In media terms, they are *digital self-aggregators*; they get their information through Twitter, Facebook, and WhatsApp, following links to particular stories on the *Times of India,* NDTV, or *New York Times* websites. A few of them regularly scan aggregator apps like Flipboard, Inshorts, or Google News. What they consider “news” is highly varied, is easily shareable, and has an extremely short life span. And they’re reading just about all of it on their mobile phones, connected wherever possible to high-speed Internet service from urban providers.

Meanwhile, rural communities throughout India constitute the largest and fastest-growing media market of all: *regional print readers.* India is one of the few parts of the world where newspapers enjoy rapid circulation growth. With free delivery, and a business model driven by advertising, newspapers cost only 5 to 10 cents per copy. For people who are largely first- or second-generation literate, the print newspaper is still a mark of status and a newly discovered window on the world. Families buy several papers daily and read them together at breakfast. Commuters read them on trains and buses, and discuss the contents during lunch and tea breaks.

In this world, Hindi and English remain the two most popular newspaper languages — Hindi is ahead

Previous pages: Illustration by Karolin Schnoor

by far — but regional papers published in vernacular languages such as Malayalam, Tamil, Marathi, Bengali, Telugu, and Gujarati are growing at a faster pace. In total, consumer print revenue from newspapers and magazines in all languages rose by an estimated 3 percent in 2015, and regional publications' revenues are expected to grow 12 to 14 percent annually for the next several years. At the same time, broadcast television remains popular, and the smartphone is increasingly prevalent. Some observers expect the heyday of English-language print in India to last only a few more years.

These three vignettes are typical of the way the India media market is evolving. While newspapers and magazines are thriving, especially in India's villages and in their non-English editions, hundreds of millions of people are moving to the smartphone as their main source of information and entertainment. Like other emerging economies, India is condensing this evolution — which took more than a century in the West — into just a few years. The leap to digital, if it continues on its current trajectory, will divide the country's media, in effect, into three business models, each targeting a different audience: infotainment followers on feature phones, digital self-aggregators on smartphones in the cities, and newspaper readers in villages and small towns. All of these audiences watch broadcast television, but they are moving to digital media for news and other entertainment — just at different speeds. Marketing, advertising, and media companies that want to win in emerging economies may find it useful to understand the differences.

As Sandeep Amar, CEO of India.com Media, puts it: "The truly big opportunity right now lies in mobile, video, and vernacular languages." The opportunities are huge, because not only are the audiences growing rapidly, but they're also poised for change. To succeed, each media company needs to decide which segments it can reach, and then carve out a business model for reaching those target segments, especially in new digital forms.

The Growth Trajectory

A confluence of factors have led to India's current media transition point. The first is accelerated access to technology. In December 2015, the Telecom Regulatory Authority of India announced that the country had more than 1 billion mobile phone subscriptions — a number second only to China's. India is also the third-largest smartphone market, after China and the U.S., with 239 million smartphone users. It is expected to overtake the United States in 2016.

The growth of mobile broadband is being promoted heavily by one of India's most influential companies. At the April 2016 media business conference hosted by the Federation of Indian Chambers of Commerce and Industry (a major industry group), Reliance Industries chairman Mukesh Ambani referred to Jio, Reliance's new $22 billion telecom venture, as "one of the largest transformational greenfield digital initiatives anywhere in the world." His description of Jio was widely noted. It would be, he said, "a 4G broadband service, slated to provide 70 percent of India's population with speeds 50 to 80 percent faster than the currently available Internet, with data prices well below current rates."

The government is also promoting accelerated access to digital technology. Its Rs1.13 trillion ($17 billion) iDigital India initiative will provide biometrically based digital identification for all citizens. It is also dramatically increasing connectivity, particularly in rural areas. Digital India has promised to install broadband in 250,000 villages by 2017, free Wi-Fi in public schools and universities, and public Wi-Fi hot spots in all major Indian cities by 2019. In addition, the government is developing electronic healthcare, education, infrastructure, and banking services, all of which are already drawing people online.

India's media habits are changing as a result. In her annual report on the Internet economy, Mary Meeker, partner at Kleiner Perkins Caufield & Byers, estimated that in 2016, 65 percent of all Internet traffic in India will take place on mobile phones. "The mobile is no longer the elitist screen, or the 'second screen,' as some used to refer to it," says Paritosh Joshi, CEO of India TV (a Hindi news channel with 90 million subscribers). "It is the most personal, ubiquitous, democratized screen, and the majority of India is on it. We are a mobile-first country."

Yet India's tremendous growth in mobile content consumption has not come at the expense of print. That's in part because of a second key factor in the nation's digital transition point: increasing literacy, and the way it has expanded the audience for print media. The country has a literacy rate of 71 percent, up from 12 percent in the 1940s, and boasts one of the highest literacy growth rates, about 9 percent per year. Moreover, compared with the rest of the world, Indian residents pay very little for newspapers. Fifty years ago, newspapers had government subsidies; today, advertising revenues allow publishers to keep the price as low as about Rs3 (5 cents) per copy. This has made the newspaper into an aspirational commodity for newly literate low-income readers.

Siddharth Varadarajan, founder of thewire.in (a news site) and former editor of the *Hindu* (a leading English-language newspaper in South India), says, "Indian newspapers are terrified of raising their prices. They believe that the phenomenal growth we have seen is because the papers are really cheap."

A third major factor, India's high-growth economy, has helped increase advertising revenues throughout the industry. India currently has the most vibrant economy of the BRIC nations. Millions of people in middle-tier cities and small towns are eagerly entering the consumer economy and building their personal wealth. In April 2016, the International Monetary Fund projected India's GDP growth at 7.5 percent annually, which is higher than China's. The entertainment and media industry directly benefits from the economy's high growth; for example, entertainment and media advertising revenues grew more than 10 percent year-over-year in 2015, and are forecast to maintain a compound annual growth rate of 8.6 percent to 2020. As one might expect in a newly industrializing economy, the categories with the largest ad spending are consumer packaged goods (known as fast-moving consumer goods), retail, and e-commerce.

"India is the fastest-growing ad market among all the major markets of the world," declares C.V.L. Srinivas, group chief executive of Southeast Asia for Group M, a global media investment group. He adds, "2015 was the best year for ad spend growth we've had in the last five years. While digital will remain the fastest-growing platform, India is one of the few large markets where all traditional media platforms will show positive growth."

Only one category of print publication appears to be headed for quicker decline: English-language newspapers. Although they continue to post strong circulation and revenue numbers, their readers tend to be younger, more educated, and more urban than the readers of other newspapers — and thus they are expected to migrate more quickly to digital content.

This finding reflects a fourth major factor: India's enormous youth population with its digitally oriented culture. Not surprisingly, millennials are forsaking the print newspapers that were the staple of their parents' generation. "More of our audiences [are] consuming content on their mobile phones," says Pankaj Mishra, former technology editor of the *Economic Times,* who left to cofound Factor Daily, a technology-oriented digital media startup. "We realized we had to move with them."

India's Media Ecologies

The audience for each of India's media subsectors is larger than the total population of many countries. Each sector is thus attracting its own unique group of entertainment and media providers — its own interrelated media ecology, consisting of the creators, the publishers and channel owners (on the Web and elsewhere), the advertisers and marketers, and those who track results.

Consider, for example, the digital self-aggregators. Like the habitués of that Mumbai restaurant, they are globally oriented, open to new ideas, and highly partial to peer curation over traditional news and entertainment channels. They use Twitter; Facebook; and DailyHunt, an Indian news aggregator app with editions in 10 languages, which have a total of 6.5 million monthly active users.

"We've been very clear from the beginning that we cater to this group," says Samir Patil, founder of Scroll, a digital news startup, which he describes as a "destination site for thinking India." He adds, "We did not lower the quality bar to chase audiences. We trusted instead that our audience would find us." Indeed, Scroll grew to a million readers in its first four months. Patil attributes that success to its social media–style ambience. Almost 80 percent of its traffic comes from Facebook and Twitter.

Many other startups are trying to reach this market, some with venture capital. Youth Ki Awaaz, a crowdsourced news and opinion site with the slogan "Public opinion is the new superpower," has 35,000 contributors and 2 million monthly visitors; it is funded by Quintillion Media, a digital content venture founded by Raghav Bahl, founder and former managing director of Network18, and his wife, Ritu Kapur. Another site aimed at young people, ScoopWhoop, raised $4 million from Kalaari Capital, which it intends to invest in ScoopWhoop Talkies, a video production unit. Inshorts, which limits the news stories it publishes to 60 words, is the fourth-most-popular Indian news app and has raised $24 million in funding from Tiger Global.

When designed to foster community (for example, when anonymity is discouraged and people post comments with their real identity), these digital efforts have social network–like qualities that actually raise the level of discourse. "There's a human psychology effect," says

THE AUDIENCE FOR EACH OF INDIA'S MEDIA SUBSECTORS IS LARGER THAN THE TOTAL POPULATION OF MANY COUNTRIES.

Patil, "where readers will share stories that make them look good."

The infotainment followers are very different. On their feature phones, they tend to follow sites that keep their articles and videos short and full of hooks. Most of these media sites offer a combination of popular headlines; film information; and sports, lifestyle, auto, and market news.

India's traditional media houses, which display a deep knowledge of their varied audience, have tapped into this market with digital offerings. For example, Indiatimes.com, the most successful English news website, belongs to the Times Group, the publishers of the *Times of India,* the world's largest-selling English daily. The site has 19 million unique visitors per month. NDTV's English and Hindi sites as well as Zee's India.com are among the largest digital crowd pullers in this market. Anant Goenka, head of new media at another major newspaper, the *Indian Express* (*IE*), celebrates the paper's digital experience by saying, "I'm very happy with the reach and revenue of the last two years."

Many publishers are focused on the regional print readers, who generally favor languages other than English. The Times Group is expanding to 12 regional-language editions. The *Hindustan Times,* the *Hindu,* and the *IE* are making similar transitions. As in the U.K., a person's choice of newspaper often reflects his or her political stance, religion, and profession as much as geographic location. For example, *Hindustan,* the flagship Hindi-language newspaper published by the *Hindustan Times,* has grown 11 percent per year in recent years, compared with 4 to 5 percent for its English-language equivalent.

Although the size of this media market is often ignored by those outside the country, India's media leaders are keenly aware of it. India TV CEO Joshi calls the English-speaking audience "a vanishingly small minority" in comparison. "Take the example of just my channel," he says, referring to one of India's most popular Hindi-language news channels. "It draws a viewership of around 80 million per week," compared with 1 million for all the English news channels in India combined. That's just one of several major channels in Hindi, which in turn is just one language; Tamil and Telugu channels each have tens of millions more viewers.

One trend has accelerated growth for all three audience categories: the increased popularity of video, especially when streamed or downloaded from the Internet. Indian investors are scouting actively for video content companies. Betting on this trend are startups like NYUSU, a self-funded venture. The self-proclaimed "one-minute, multi-lingual, video news app for Android phones" provides short videos in six regional languages, featuring opinion journalism.

Another hopeful enterprise is Ping Digital Broadcast, launched by Govindraj Ethiraj, the founder and former editor-in-chief of Bloomberg UTV. He explains that the motive behind Ping was "questioning whether we wanted to cater to the audiences of yesterday and today, or to create for the audiences of tomorrow." Ping offers infotainment categories such as food, music, gaming, fashion, and technology. For more serious topics, Ethiraj also founded Boom Live, an independent digital journalism initiative focused on what he calls "impact docu-news." One of his most popular video series, *Explained in 90 Seconds,* condenses complex issues

YOU CANNOT LET SEGMENTATION BLIND YOU TO THE ONE BIG FACTOR ALL THREE GROUPS HAVE IN COMMON: THEY ARE BECOMING MOBILE-FIRST AUDIENCES.

like the European migrant crisis into very brief primers. "Our next step is to do it in 30 seconds," he says.

These emerging video enterprises are betting, of course, that the smartphone and broadband continue to take market share. It's a reasonable expectation; an International Data Corporation report taps India as one of the fastest-growing smartphone markets in the Asia-Pacific region, with sales of 4G devices outpacing those of their 3G counterparts, and smartphones expected to move from their current 40 percent market share to 50 percent or more by the end of 2016. If projections like these are correct, then in many villages, video will not arrive through today's broadcast channels. People in India, even while watching large-screen TVs, will get their news and information through the Internet.

The Strategic Response

What do these trends mean for the business model of a major media company? To start with, the advantage is still with print over digital when it comes to advertising revenues. Close to 40 percent of 2015 advertising spending in India went to print publications, and less than a tenth of ad spending was on Internet advertising. (The rest went to various forms of broadcast.) Although Internet advertising spending grew by 24.2 percent in 2015, compared with 5.3 percent for print and 13.5 percent for broadcast television, the total amount of Internet advertising remains much smaller — about Rs32 billion ($499 million), compared with Rs163 billion ($2.5 billion) for print and Rs204 billion ($3.2 billion) for television. Print, in particular, is regarded in India as a prestige advertising play: It is the medium where brands are built, especially in consumer-oriented sectors such as food, personal care products, and real estate.

But as Scroll's Samir Patil pointed out in a 2015 white paper, these spending levels don't reflect usage habits. "Indians with Internet access spent over half their media engagement time online," he wrote. If digital advertising spending were proportional to the time spent on each platform, advertising spend on the Internet would rise to Rs192 billion (about $3 billion), or six times current levels.

One problem, of course, is the ad-subsidized model for print — and the widely held view that subscribers will not pay much for information. Digital subscription vehicles, such as paywalls, are not treated with serious consideration by a majority of publishers, for fear that their markets will erode. "When I began this job four years ago," says *IE*'s Goenka, "I believed that we would eventually institute a paywall. *IE* was creating the kind of content that was worth paying for. I quickly backtracked from that. That thinking doesn't work here."

Moreover, advertisers have yet to fully embrace the Internet as a vehicle. The Internet audience is still only one-tenth the size of the television news audience, and Internet-based news is more likely to be aimed at urban digital self-aggregators. The traffic on newspapers and TV is more varied, spread across more geographies, and more oriented to family than individual access.

Vikas Kothari, a venture capitalist at the Mumbai-based private equity firm Lightbox, argues that over time, digital startups — which can easily gather and track usage data — have an advantage over incumbent media companies, especially in countries such as India where they can leapfrog past conventional practices. "Outsiders have nothing to lose, while incumbents have to disrupt their own business models," he says.

All of these concerns may well vanish, of course, when media companies see the audiences for digital media solidify — especially when millions of people begin to watch massive amounts of video online. Because relatively few Indians have credit cards, billing through mobile carriers will probably be the most successful early payment method. It has already been employed successfully by the Indian music site Saavn and by the content distribution company PK Online, whose audience views about 50 million videos per month. Even where individuals possess credit cards, the government's two-factor authentication rules make online payments a more cumbersome (albeit safer) process. Online micropayments companies such as Yippster, which offer direct carrier billing through a simple SMS, have solved that problem.

Nickhil Jakatdar, CEO of Vuclip, a video-on-demand service, recalls Airtel's one-minute video for Rs1 as an example. "If you ask users to pay each time for each video, they won't do it. But if you offer them a one-time payment plan, like unlimited or 10 videos a day for Rs10, they readily subscribe."

Some publishers believe the subscription-based monetization and advertising models may be helped by a multiservice approach. "Pure news offerings won't be enough to sustain a business," says India.com's Amar. "Even content by itself is not enough. I see the model of the future being a combination of content, community, and personal assistance services." Some news websites in India now include curated city guides and local referrals, whereas others include partnerships with global content providers such as the Huffington Post (for Times Internet Ltd.), Quartz (for Scroll), and the *Wall Street Journal* (for livemint.com, a *Hindustan Times* property). These allow Indian media companies to provide their global news–hungry audiences with diversified international content, while enabling U.S. and European news media companies to tap into India's promising markets. They already know, from traffic on their own websites, that they have sizable potential Indian readership.

The stakes are high for media and entertainment companies in India. Overall, total entertainment and media revenue is expected to reach about Rs2.7 trillion (about $41.1 billion) by 2020, rising from Rs1.6 trillion ($25.1 billion) in 2015. Much of this will be drawn from advertisers, which tap into the consumer demand of a giant emerging middle class.

If you are a media enterprise leader — within India or looking in from another country — the three audiences of India give you a solid starting place. You may have entertainment or media tailor-made for the vast infotainment-craving population on their feature phones and smartphones. Perhaps you have niche mobile news content that caters to the sophisticated urbanites. Or your future growth may lie with the vernacular print audiences in India's smaller cities and villages. Each of these markets will require a different approach to advertising, subscriptions, and monetization.

In the end, however, you cannot let this broad segmentation blind you to the one big factor all three groups have in common. They are becoming mobile-first audiences. India, along with other developing economies, will soon have millions of connected, energetic individuals ready for digital media that meets their aspirations. They see themselves living in a world of opportunity. They want to have it all — all the media of the world delivered immediately, accessibly, and inexpensively. They want it on the one screen that is inexpensive, ubiquitous, and always on: the smartphone. As in the rest of the world, the smartphone is a gateway to news and entertainment that didn't exist just a few years ago, and that continues to evolve at digital speed. +

Resources

Dan Bricklin, "Radical Intimacy and the Smartphone," *s+b,* Apr. 5, 2016: Brief summary of the distance many companies must still travel to adapt to the close connection people have with their mobile devices.

Roger Martin, Sally R. Osberg, and Jennifer Riel, "Social Entrepreneurship by the Billions," *s+b,* Mar. 29, 2016: Looks at Nandan Nilekani's project to provide digital ID numbers throughout India as an example of how to effect large-scale change.

MediaNama website, www.medianama.com: Good source for all things digital in India.

YourStory website, http://yourstory.com: A media platform for startups and entrepreneurship in India.

NextBigWhat website, www.nextbigwhat.com: Covers digital entrepreneurship, with a strong focus on India.

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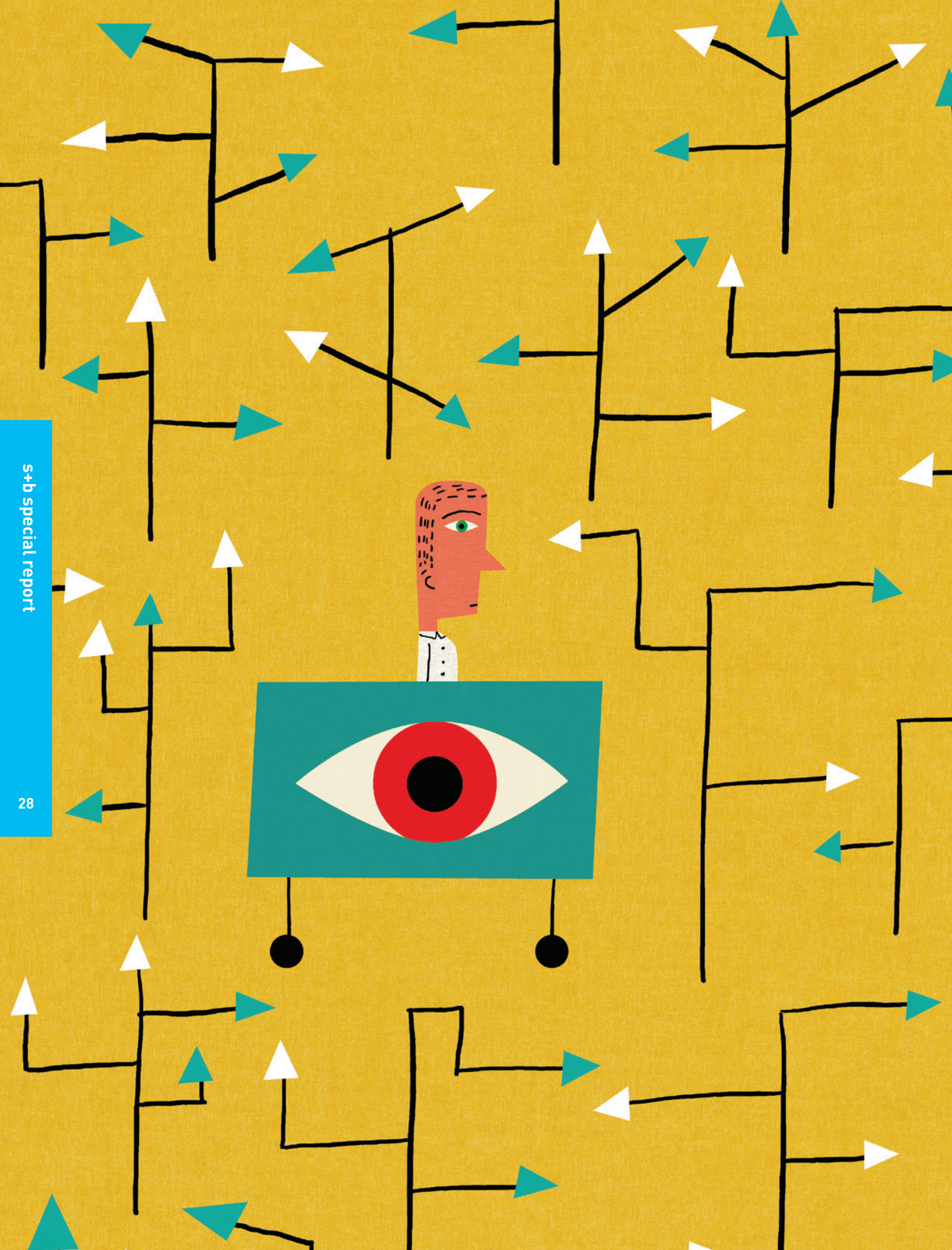

YOU'RE A MEDIA COMPANY. NOW WHAT?

Four strategies that work in this dynamic new world.

BY DEBORAH BOTHUN AND JOHN SVIOKLA

Sometime in the near future, when Tesla, or Chinese automaker BYD, or Apple produces a digitally enhanced, connected, self-driving car, it could unlock as much as a billion hours per day of customer attention now devoted to watching the road. Instead of checking the speedometer and the rearview mirror, passengers could be watching videos, playing games, reading blogs, or shopping. And it's unclear whether this new commercial real estate will be owned by automakers, retailers, entertainment studios, or wireless providers.

The possibility that the car will emerge as the next great media platform is but one example of how digitization and the resulting shifts in user behavior are eroding the once-solid borders defining industries and sectors. In a variety of industries, an eclectic mix of new players are importing new capabilities, and competitors armed with new business models are on the attack. In PwC's 2015 Global CEO Survey, 58 percent of 2,200 CEOs said they were concerned about being disrupted by new market entrants.

Nowhere are these porous and evolving borders more evident than in the entertainment and media (E&M) industry. The past 20 years have brought a wave of disruptions to distribution, formats, technologies, and consumption patterns. As a result, in many of the 156 countries in which PwC operates, companies — not just E&M companies — are investing in content and direct customer media relationships.

There has always been an intimate and complex relationship among consumer and industrial companies, on the one hand, and E&M on the other. The 1950s-era daytime serials were known as "soap operas" because they were sponsored by the companies that made soap. In 1940, at the dawn of the radio era, listeners tuned in to the Texaco Metropolitan Opera broadcasts. *The Wonderful World of Disney*, the television show that debuted in 1969, integrated media, experience, entertainment, and merchandising. Hello Kitty was born in Japan in 1975 as a way to cute-ify merchandise, and then developed into television series, comics, and video games. Still, through the 20th century, most brands relied on the creativity and expertise of the media, advertising, and entertainment companies to create content and deliver audiences.

Illustration by James Yang

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In the 21st century, however, as consumers have been gradually shifting away from traditional forms of media content and distribution, the media universe has become both more fragmented and more digital. Consumers can choose from seemingly limitless content, on their own terms and on their own devices. In parallel, new platforms and technologies have arisen that can connect marketers in all industries more directly with users and customers, through websites, blogs, apps, and social media. Meanwhile, the battle for the consumer's attention has become brutal, and requires new strategies and capabilities. Companies have recognized these developments and are reaching the same conclusion: We all have to be in the media business.

The evidence is ubiquitous. Nike has become a major presence in social media, digital video, mobile apps, and e-commerce — witness the company's recently launched YouTube miniseries focusing on a fitness bet between two sisters. ANZ Bank, one of Australia's largest financial institutions, has built a finance news portal, BlueNotes, which is staffed by well-known business journalists. Marriott has created a content studio, supported by Hollywood talent, to develop videos for distribution in social media and elsewhere, all with the business objective of increasing the hotel brand's appeal to millennials. FairPrice, a Singapore-based supermarket, maintains the highly popular food content platform *Food for Life*, which hosts 2,000 video assets in a range of languages. And the list goes on.

Empowered by digitization, compelled by competitive pressures, enabled by data, and eager to connect directly with customers, companies are now expanding their marketing playbooks to include more E&M-like capabilities. In so doing, they have forged new segments in the entertainment and media industry — especially in advertising. Native advertising, or content marketing, became a US$10.7 billion business in 2015, up 35 percent from the previous year, according to BI Intelligence. Given this simultaneous redefinition of what it means to be a media company and the rekindled investment by many, many companies in new content and in direct audience relationships, it's not too much of a stretch to say every company is a media company — or will be one soon.

But whether they are dabbling, experimenting, or going all in, companies need to proceed carefully. The media ecosystem includes many different kinds of companies: creators, packagers, distributors, service providers, and aggregators. Companies must grasp how they fit in best. They must have clarity about the type of media company they aim to be, understand who they need to hire, and discern how to design and execute high-quality offerings that meet their business requirements. To a degree, such efforts represent a strategic challenge to traditional entertainment and media players. But these developments also represent an opportunity, especially if the incumbents can reposition their capabilities to thrive in a remixed entertainment and media landscape where those that excel at capturing user attention with a digital-first approach will be those that reign supreme.

You're a Media Company. Now What?

Our insight suggests that companies need to choose a clear "way to play" based on two dimensions: the level of direct insight and data that companies have about their customers and users, and whether their products and services are sold in a linear and structured value chain or in a more circular and fluid ecosystem. MIT Sloan research scientist Peter Weill and Stephanie L. Woerner first articulated this two-variable method of characterizing digital strategy in a June 2015 *Sloan Management Review* article, "Thriving in an Increasingly Digital Ecosystem." Our structure applies Weill and Woerner's basics to the specifics of media. The four main options for media companies are Maker, Maximizer, Module, and Mash-up (*see exhibit*).

In the lower left quadrant are **Makers**. These companies are content creators that may not have a direct relationship with the target consumer. They focus on creating distinctive, compelling intellectual property and then selling it to other distributors and aggregators. Examples of Makers include film and TV studios, music labels, book and video game publishers, and creative agencies, as well as actual creators and artists themselves. Increasingly, the best Makers excel at creating content experiences across a wider variety of formats, knowing how and where to connect with fans at the ideal point of consumption. Maker strategies deliver paying audiences for traditional media companies and help define the brand of, and deepen customer engagement for, non-media companies.

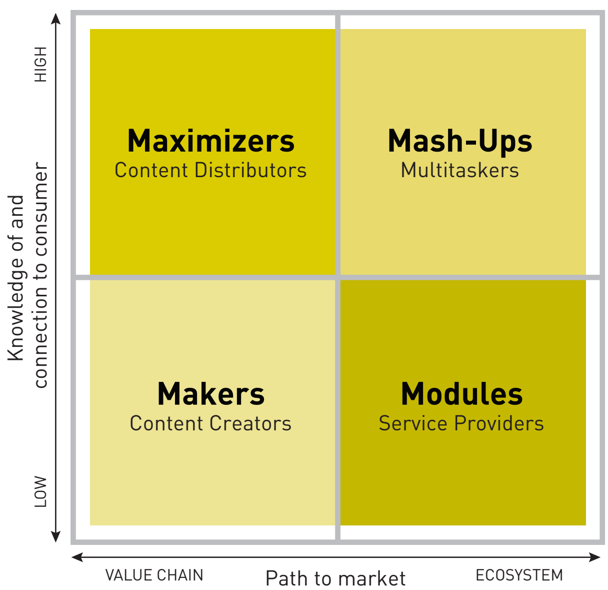
Lionsgate, the fast-growing, independent filmed entertainment studio behind the *Hunger Games, Twilight,* and *Divergent* film franchises, is the classic definition of a Maker. Lionsgate has excelled at making films and TV shows with huge audience demand, such as *Mad Men,* and then forging new distribution agreements with subscription streaming providers such as Netflix (e.g., *Orange Is the New Black,* which Lionsgate produced). More recently, Lionsgate has announced a series of new initiatives that target the over-the-top video space, partnering with comedian Kevin Hart as well as with such entities as Comic-Con International.

Non-media companies are also acting as Makers. To reach millennials, Kraft Foods has developed a vast inventory of recipes and sophisticated instructional videos available on its website and YouTube channel. In India, Dewars created a television series, *The Dewarists*. Part music documentary and part travelogue, it ran for three seasons on MTV India. Lego, the Danish toy company, has realized that more content creates more engaged fans — and more engaged fans drive more sales of Lego bricks. So over the past few years, it has increased its presence in entertainment and media in a variety of ways. Lego has linked its physical toys to the digital world through video games, including Minecraft; social media; and e-commerce. Following on the success of *The Lego Movie*, the company has developed multiple television series for boys and girls, including the *Lego Elves* fantasy stories, all of which were launched in conjunction with Lego brick sets, books, and other merchandise.

Maximizers, shown in the top left quadrant of the exhibit, enjoy a direct relationship with the customer while operating in a distribution environment characterized by their own curation and control. These players effectively own "the last mile," creating channel access to the customer as well as packaging, managing, and

Exhibit: **Media Models**

Four ways to play in the evolving media industry.



Source: Adapted from Peter Weill and Stephanie L. Woerner, "Thriving in an Increasingly Digital Ecosystem," *Sloan Management Review,* June 16, 2015 selling an assortment of products or services. Maximizer companies include cable, satellite, and mobile operators as well as theater chains and other entertainment venues. Digital-first Maximizers include Spotify, the music streaming service, and Google's YouTube. Inexpensive and extensive data on customers and the wide diffusion of complex consumer analysis models have made the Maximizer route easier for more firms to pursue. Because it is getting progressively cheaper to create and execute cross-platform efforts, Maximizers can reap many of the same rewards that Makers receive — as well as being able to deliver more multitouch campaigns and engagements.

Major retailer Target is a prominent example of a non-media Maximizer. Every day thousands of companies vie for positioning on Target's physical and digital shelves. Target understands its customers deeply enough to know how it can drive premiumization, preference, and differentiation by building distinctive assortments of merchandise and shopping experiences — in the store or online. That's why well-known Makers such as Marimekko, Lilly Pulitzer, and Missoni eagerly partner with the chain. Target has developed in-house media capabilities to balance brand demands with guest needs, whether it is engineering product placement through its owned Web and mobile assets; driving in-store sales promotions through its private television network, Channel Red; or connecting with guests in mobile through Cartwheel, a coupon mobile app, in conjunction with Facebook. Target teamed directly with Gwen Stefani, the music and style icon from NBC's *The Voice*, as part of its #MoreMusic campaign to create the video for Stefani's single "Make Me Like You," which debuted live on the 2016 Grammys and spread quickly across social media channels.

Modules reside in the lower right quadrant. Many modules are service providers that offer a specialized or technical set of plug-and-play products. These companies have little or no direct relationship with the end customer and exert less control over the environment in which their products or services are distributed. Modules in media can work with many industry sectors — music or television, print or games. And they often introduce new capabilities into the broader ecosystem. Major League Baseball Advanced Media is an example of a Module. It provides Major League Baseball with a wide range of digital services. The company builds and manages websites for the league and all its teams; manages cable and radio assets for teams; creates content advertising and traditional ad campaigns; and provides online ticketing, game streaming, fantasy games, and other digital assets. Oculus Rift, the virtual reality company purchased by Facebook for $2 billion in 2014, and audio technology company THX are other examples of Modules.

The first three ways to play have been present in the E&M business in different forms for many years. But the fourth strategic type has come to the fore only since the advent of the Internet as a robust business platform. **Mash-ups**, shown in the top right quadrant, are firms that have direct customer relationships while exerting a high level of control over the user experience, including the packaging of their own products and services alongside those of third parties. Dominant Mash-ups grow quickly and present both great opportunities and great threats for the other players. They have expertise in content, distribution, physical infrastructure, customer insight, and services. Functioning as a true Mash-up requires a company to have the status and authority to holistically broker partnerships, curate content, and orchestrate a compelling user experience. Like the eponymous art form in music, the Mash-up brings together multiple pieces from different sources to forge something new and distinctive that is in turn more valuable and compelling than its sources. Although many large entertainment and media companies may see themselves as Mash-ups, the reality is that true Mash-ups are rare.

Amazon is the archetype for an outsider Mash-up in E&M today. It started out in retail as a digital store for physical books, operating in an established value chain. In the years since, Amazon has expanded into music, filmed entertainment, and video games, and more broadly into many other categories, in-

THE MASH-UP BRINGS TOGETHER MULTIPLE PIECES FROM DIFFERENT SOURCES TO FORGE SOMETHING NEW THAT IS MORE VALUABLE AND COMPELLING THAN ITS SOURCES.

cluding consumer electronics, grocery, and fashion. As a Mash-up, Amazon now remixes multiple capabilities involving two core consumer experiences to drive monetization: shopping and media consumption. Amazon has built a connected portfolio of offerings that include devices (Amazon Kindle, Amazon Fire TV stick for streaming video, and the rapidly growing Echo home assistant), content (Amazon Video, Amazon's own publishing imprints such as Kindle Worlds and Amazon Music), services (Amazon Prime, Amazon Fresh), and, most recently, voice interfaces such as Alexa, which is available on the Echo. With all these touch points, Amazon is able to know what a user is reading or listening to, what is on her shopping list, what size jeans she wears and the brand of cosmetics she prefers, which shows she watches on Amazon Prime, where she lives, and, of course, how she pays for it all.

The benefits of this Mash-up strategy for Amazon are numerous and powerful. Each new offering is designed to integrate easily with other Amazon products, and each offering encourages new shopping occasions on Amazon.com or additional product sales. As user activity scales and widens, Amazon generates more data and insights, which in turn drive deeper personalization of the user experience and more innovation in Amazon's own products. As the home itself becomes more interactive and interconnected, and as users buy products and services to support that trend, Amazon is in a position to be the essential partner for third parties (e.g., manufacturers, studios, application developers, other Internet of Things device players) that need access to consumers as well as the infrastructure (e.g., Amazon Web Services) to connect with them. Amazon's bold move to manage and control key aspects of the consumer's home has obvious strategic implications for every major player in entertainment, media, and technology.

Non-media companies can succeed in any of these four quadrants. But we have seen firms that are "stuck in the middle" — executing half a Maker or Maximizer strategy, with predictably poor results. Firms do need to "declare a major," and concentrate their capabilities agenda accordingly in terms of partnership management, innovation, and human capital/talent. Those that are confused about their placement in the quadrants will not execute their "remix" successfully.

Remixing Your Skills and Talent

Steve Jobs had it right. The key to success is "technology married with liberal arts, married with the humanities." Thus, the mix of talent should shift depending on which of the four Ms one is pursuing. PwC's recent book *Strategy That Works: How Winning Companies Close the Strategy-to-Execution Gap* (by Paul Leinwand and Cesare Mainardi, Harvard Business Review Press, 2016) shows that successful companies choose their way to play based on the capabilities they can develop that will distinguish them and win in the marketplace. The competition for professionals who can balance art with science, and creativity with efficiency, has never been more intense in the business of entertainment and media. Writers, designers, producers, user experience and social media experts, product managers, software engineers, deal makers, and others with special minds who have the ability to weave diverse elements into something new and compelling are in high demand.

What skills and talent does your firm need to succeed in a world of remixes? The talent focus will depend

COMPARATIVELY FEW COMPANIES HAVE MASTERED THE DUAL CAPABILITIES OF INNOVATION AND EXECUTION — AT SPEED OR AT SCALE.

on which E&M quadrant your company chooses to occupy. For example, Makers need to put their emphasis squarely on creative talent: writers, designers, and editors who have a flair for storytelling that is increasingly video-centric, visually attractive, shorter, and shareable in mobile and social environments. In New Zealand, Contiki, which operates youth tours, has staffers curate the company's music channel on Guvera, a popular streaming service. In 2013, Marriott recruited a team of media veterans from companies such as Disney and CBS. The team produced short narrative videos set in major world travel destinations, and developed capabilities designed to follow world events, leverage social media influencers, and develop relevant campaigns quickly. Marriott has found that these efforts in original content are driving stronger engagement with its target consumers, which in turn is translating into more e-commerce revenue.

Maximizers need to maintain strong supplier relationships to build and sustain reliable, information-rich platforms and to orchestrate experiences that increasingly connect the physical with the digital and connect proprietary offerings with those of third parties. The talent mix should include people skilled in negotiating and maintaining partnerships with a broad variety of companies. Because the customer experience should be flawless, Maximizers will also need technologically skilled talent adept at building operational systems that effectively capture and analyze customer data. A competitive Maximizer has to know when the same customer has two homes, two landlines, three mobile devices, and multiple connectivity types (cable, Internet, mobile), and provide a compelling experience between them. Target, for example, has recognized that it needs new kinds of talent to make its in-store and digital shopping experiences more personalized, more localized, and more visually appealing. As a result, the retailer has prioritized merchandising and supply chain hires who can use data science to make smarter, more anticipatory decisions based on insights into customer behavior, purchase preferences, and location.

Modules need creative talent to develop products and services useful to a range of companies. But Modules also need to understand the value of their product, and must have the ability to broker deals in a way that optimizes revenue opportunities. Likewise, a Module's ability to plug its service into many different platforms requires deep understanding of technology infrastructure and business models. Many of the most successful Module companies, including Oculus Rift and THX, are fueled by deep engineering talent.

A Mash-up depends on the greatest variety of talent, reflecting the breadth and depth of capabilities that need to be woven together to be successful in this quadrant. On the front end, Mash-ups need customer insights and relationships. They thus need a deep pool of talent capable of acquiring and engaging users and integrating content and experiences from their own sources as well as from other Makers. Thoughtful product development and business model innovation are further required to enable Mash-ups to translate their user engagement into monetization. Behind the scenes, these companies need skills in the areas of business intelligence and analytics, as well as behavioral science, so that insights into consumption can be fed rapidly into the next version of the experience, product, or service. Netflix provides a great example.

The company's team has built a world-class streaming system, uses analytics in a sophisticated way to anticipate consumer interest, continually makes deals with studios, and directly hires A-list Hollywood talent to produce and direct original content.

Innovation and Execution

Whether your company is a Maker, a Maximizer, a Module, or a Mash-up, a focus on recruiting and retaining the "must have" talent needs to be matched with an urgency to innovate, and to make it possible to execute the strategy.

Because the digital world is so fluid, the design aspects of innovation have gained a high profile over the past five or 10 years, as "design-led thinking" and "design-led strategy" have become in-demand capabilities in many industries. In its simplest form, design thinking involves using the design process to solve in-house problems. For innovation, it starts by framing the user problem from the user's point of view and identifying the specific need that can be addressed; generating as many solutions as possible; and choosing and then prototyping those considered the most viable, desirable, and feasible. The innovation process focuses on testing and learning directly with the target user until product/market fit is achieved. Once that occurs, the object of the game is to scale the winning option as quickly as possible.

Buzzfeed is a good example in the news segment of the E&M industry of how a digital platform can be leveraged positively in the design and experimentation process. The company employs a handful of writers and editors who draft multiple headlines for a piece of content and then place those headlines on different social media platforms such as Facebook and YouTube. Proprietary technology and analytics allow editors to track how content spreads across the social Web, and let them assess quickly which content elements (headlines, listicles, GIFs, videos, etc.) attract the most users and on which platforms, and then update and adjust specific content elements on the basis of those insights. The seemingly minor adjustments can add up to big changes in audience, which gives Buzzfeed a capability advantage as it pitches its services to advertising clients.

Comparatively few companies have mastered the dual capabilities of innovation and execution — at speed or at scale. Often, it's because *execution* refers to the path a good idea takes through the decision makers of the organization before it can land in the hands of customers. Execution touches the business model, the revenue model, the partnership structure, the delivery approach, ownership, and any number of structural issues. Companies often don't pay enough attention to how important it is to be fast.

Also, executive leaders — especially in media companies — worry about cannibalization. They are reluctant

Bullish on Media

Red Bull, the Austria-based energy drink company, has had one foot in media since founder Dietrich Mateschitz, who had been a marketing executive at Unilever and Blendax, launched the company in the late 1980s. He garnered early success in earned media by convincing Austrian Formula One driver Gerhard Berger to appear on camera holding a can of Red Bull. That was the opening round in Mateschitz's long game of linking the brand to high-speed, extreme sports. Red Bull is far more today than the energy drink that bears its name. It owns Formula One teams and multiple soccer franchises (e.g., Red Bull Salzburg, New York Red Bulls), and sponsors extreme athletes in a wide range of sports. These resources give the company direct access to the talent starring in proprietary content the Red Bull team produces for its own media properties, including one of the first marketer-branded channel apps on Apple TV.

to launch products that are different from what they have been known for in the past, and they worry about channel conflict and alienating loyal audiences. As a result, many great new ideas don't come to light, or they are so altered and changed to fit within existing limitations that they aren't all that new anymore. Those firms that are willing to cannibalize themselves are often the ones that continue to grow and prosper, while their competitors try to hold on to old products and services.

In recent years, a number of core media companies have been more willing to bring new ideas and great execution together to launch products that 10 years ago would have had difficulty getting executive approval. Showtime Anytime, Showtime's streaming app for cable subscribers, is one example. Showtime has an established reputation for hits — it's the channel behind such popular shows as *Homeland* and *Ray Donovan*. But it has long been a premium cable network — a Maker, in our model, dependent entirely upon multichannel video programming distribution to reach its fan base. With Showtime Anytime, the channel can go over cable providers to meet customers directly. In so doing, it has made a move into the Maximizer quadrant.

Disney is actively pursuing an even more "upstream" approach to innovation through its own startup accelerator. The Disney Accelerator is designed to give Disney an earlier "first look" into exciting new technologies — sometimes important new Module companies — and digital products that could be amplified by the company's roster of E&M brands. These companies tend to be early-stage ventures that can also benefit from mentorship and collaboration with senior Disney executives. Launched in 2014, the Disney Accelerator has already given birth to some success stories. Sphero, a company from the Accelerator class of 2014, developed the technology for the BB-8 droid that became not only a star of *Star Wars: The Force Awakens* but also one of the hot-selling toys during the 2015 Christmas season. The most recent round of Ac-

Brand Makeover

Burberry, the classic British retailer and luxury brand, has been surprisingly innovative in plunging into media. Media innovation has today become core to both company strategy and operating culture. The brand received a major overhaul in 2007 when Angela Ahrendts took over as CEO and joined forces with design director Christopher Bailey (Bailey became CEO in 2014 when Ahrendts left to serve as Apple retail chief). Part of Burberry's reinvention involved enticing the millennial generation to embrace the trench coat, a onetime must-have that had grown a bit dusty through age and poor brand management. Modern Bailey designs were highlighted in ad campaigns staring young British stars such as Emma Watson and Rosie Huntington-Whiteley. Burberry used digital media to transform into a luxury Mash-up — producing original content, building its own media channels, reimagining its stores to connect more deeply with customers, and exerting more control over its e-commerce presence. Burberry streamed its major fashion shows in real time in stores and via social platforms. For the first time, customers saw the designs at the same time as the fashion world's elite. Those social media–savvy customers could react to and buy designs via a Burberry app before they hit the stores. Once in the store, customers can scan an RFID chip on an item to see videos about the creation of that product — artisans turning collars, for example, or a presentation on the inspiration behind the design. Most recently, Burberry became one of the first brands to curate its own channel on Apple Music. The company has also executed live-streaming experiments with Twitter's Periscope as well as a personalized fashion show experience with the messaging app WeChat (formerly Weixin).

celerator activities has focused on technologies such as social media geo-fencing, 3D printing applications for toys, and virtual reality.

Because innovation capability and experimental capacity are complicated and difficult, it is important to have innovation structures in place that allow the great ideas the best potential for success. There is not just one right answer. Some companies will find that they want to keep their innovators close. For them, a "patron" model — in which one or more company leaders support one or more in-house teams pursuing a specific innovative idea — can work. Traditional companies may find it more efficient to rely on partners with new media chops. For them, joint ventures with partners, investments, or acquisitions kept outside the core may produce the best results. This goes beyond the tried-and-true method of contracting with small, specialized shops for specific projects, such as app design or new product creation. India's MTS, a mobile telecom service provider and handset manufacturer, has struck a content agreement with Hungama Digital Media, an aggregator, publisher, and distributor of Bollywood and Asian content, to provide media to its subscribers.

Getting a Strategy That Works

Throughout the world we see the simultaneous forces of the digital redefinition of the media and content industry and a deep reinvestment by many companies in media and content of their own. These two great tectonic plates won't stop shifting anytime soon, which means that the single most important decision for leaders is which way they are going to play — which quadrant they choose. In our world of four Ms, confusion leads to waste, and often to failure. The new developments discussed above have implications for incumbent media companies. It is natural for established players to view retailers, technology companies, and financial-services companies as competitors. And in many ways, they are all competing for talent. But media companies should also view these new entrants as potential partners and customers. After all, they have a lot to learn, and who knows better than media what it really takes to capture and hold audiences? Deeply understanding the specific customer base they are targeting, knowing where those customers can be reached in the media landscape, and developing the type of content and experience the customers desire — few companies understand these issues as well as the incumbent entertainment and media companies do.

As they plunge into media, most companies will be seeking partners that can help them tell stories, distribute content, engage customers, build relationships, and employ data. And as companies from a wide range of industries look to build, buy, and borrow media capabilities to reach the customer on his own terms, core media firms will find a new set of customers seeking to establish a new set of relationships. Instead of consisting largely of transactional arrangements, these relationships will be ongoing, dynamic, and responsive. Those with the clearest vision, the strongest talent, and the best innovation and experimentation capabilities will achieve more voice, brand engagement, and returns in a media world that grows both more crowded and more complex every second of every day around the globe. +

Resources

Paul Leinwand and Cesare Mainardi, with Art Kleiner, *Strategy That Works: How Winning Companies Close the Strategy-to-Execution Gap* (Harvard Business Review Press, 2016): Describes how companies can gain the skills they need to outperform their competition.

Peter Weill and Stephanie L. Woerner, "Thriving in an Increasingly Digital Ecosystem," *Sloan Management Review,* June 16, 2015: Source of the two-variable system for defining digital strategy.

We will be continuing the conversation around the Global Entertainment and Media Outlook 2016–2020 at major industry conferences, on our websites, and in future articles. Topics could include deeper dives into measurement, mobile, and privacy, as well as country-specific conversations. Go to www.pwc.com/outlook to get access to more Outlook information and subscription options.

Fantasy-League Media

If you could draft an all-star team of entertainment and media assets and capabilities, who would you pick?

by Sarah Ellison

The media conglomerates we have known and loved (and sometimes hated) in our lifetimes are, by definition, legacy institutions. The mix of businesses assembled to create today's multibillion-dollar empires are the result of decisions media moguls began making more than 50 years ago. Back then, newspapers were profitable, vertically integrated operations (many newspaper companies owned paper mills); televisions were black and white; and the @ symbol was a rarely used feature on manual typewriters. What made perfect sense to a young Rupert Murdoch sitting in Melbourne in 1952, when he took over the family newspaper business, may not make sense to the older mogul today. For that matter, what made sense to a (slightly) younger Ev Williams or Jack Dorsey just five years ago doesn't necessarily work anymore. One moment Twitter (the company they cofounded) is helping foment revolutions across the Middle East; the next, it's a faltering stock in need of a turnaround. Legacy isn't just for the old anymore.

Most media CEOs I talk to aren't even shy about admitting that they would like to own assets that make more sense for the current environment. In the aughts, media bosses resolved this pining by spinning off slower-growing businesses and holding on to more valuable ones. But now, there is simply too much change and unpredictability to make such simple bets. And even as audiences fragment, scale is more important than it has ever been before. So a new age of media conglomeration is already upon us. Witness Time Inc.'s purchases of digital players Hello Giggles and Viant; telecom giant Verizon's purchase of AOL; and Comcast's investments in Vox Media and Buzzfeed. Some of the most unexpected new-look media conglomerates are emerging from technologically adept upstarts, such as Amazon and Netflix. But creating a thoroughly modern media empire isn't simply a matter of mashing up the mind-sets of media and technology, analog and digital, legacy and startup. From the 2000 AOL/Time Warner merger to Facebook cofounder Chris Hughes's short-lived (and disastrous) ownership of the *New Republic*, it is clear that the two realms often speak different languages.

But what if you could start from scratch? What if you could take a cue from the legions of fantasy sports players (who have themselves become key participants in the emerging media world) and assemble your own all-star team? What if you could cruise around the world in your Gulfstream G650 and assemble the optimal collection of assets, capabilities, cultures, and executive skills that would allow you to succeed not just in 2016, but in 2020 and beyond?

For the purposes of this thought experiment, I decided that money is no object. (This is fantasy, after all. Hence the G650.) I'm similarly unbound by practical concerns of relocations and separation packages that might be required to woo individual executives, or the real-life rules that make it tricky to transplant corporate cultures. However, even in this fantasy world, my company — let's call it Ellison Global Media, or EGM — does have to abide by regulations and antitrust laws.

Let's assume that people want to watch long and short stories on video, listen to them on the radio, listen to music, read stories, and communicate with one another. They want to be informed about the world. Our fantasy conglomerate must have the kind of mobile platform and products on which people want

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to spend a lot of their time, the ability to create and market top-quality content, and a global presence. It will also need the ability to incorporate data and usage knowledge to build customer loyalty and great consumer experiences.

If the future of media is controlling slivers of human attention, I'd start with Electronic Arts, the gaming company that owns EA Sports titles FIFA, Madden NFL, NCAA Football, NBA Live, NHL, and SSX, not to mention Battlefield, Need for Speed, The Sims, Medal of Honor, and Command & Conquer. EA has shown it has the capacity to hold the attention of the legions of young people who inhabit alternate universes for several hours each day. And I'd plug EA's gaming properties into the portfolio of rival Tencent. Tencent is the largest Internet portal in the world's largest country (China) and the home of WeChat, a largely unheralded social app developed for mobile phones with voice and text messaging and time lines. WeChat, with its 700 million users, drives more interactions a day than anything Facebook currently has on offer.

Illustration by Benoît Tardif, colagene.com

Controlling screen time doesn't just mean controlling the intake of media content. It means holding the keys to interactions between humans, who increasingly interact only through the language of their social apps. And so I would make sure to include Facebook's main sharing platform. Aside from being the new town square where citizens argue about politics, parents brag about their children, and exes try to make each other jealous, Facebook has implemented the most successful zero-to-60 mobile strategy of any of the major technology players today. CEO Mark

Zuckerberg understands that the future of interaction lies largely in gaming technologies and practices. He also understands the value of owning the platform on which others play. (Just ask the *New York Times*, *National Geographic*, and Buzzfeed, early partners in Facebook's Instant Articles experiment.)

The challenge for Facebook is acquiring its next billion users, in part because of the limitations to broadband connectivity, and in part because there's no guarantee the next generation of users will flock to it. Which is why I'd also want to include Snapchat in my fantasy media conglomerate. The mobile messaging application, which started as a way for college students to share impermanent photos and texts, has become one of the world's fastest-growing and most dynamic media properties. Although its user base (100 million daily users) is one-tenth the size of Facebook's (1 billion daily users), Snapchat's users spend a lot of time inside the app watching news and entertainment videos. With 21 publishing partners, Snapchat is blending communications and content on a global scale. And it's growing fast. Sixty-four percent of U.S. smartphone users between the ages of 18 and 24 used Snapchat in late 2015, up from 24 percent in early 2013, according to comScore. Penetration among 25- to 34-year-old users increased to 31 percent, up from 5 percent in 2013. What Snapchat is so good at, and what many in the media industry have missed, is that Snapchat continually reengages its users, as they check back to see what their friends are sharing.

My fantasy conglomerate is going to have to be sophisticated about using its knowledge of what customers are looking at, and what they like to look at, to deliver to them informed and surprising offerings and recommendations. Which is why we'd need Netflix for long-form content. Netflix has shown its ability to create original content, with hits such as *House of Cards* and *Orange Is the New Blac*k. But it also has a global delivery system and data that other media companies can only dream of as they scan their Nielsen numbers. While big media is still just guessing, Netflix knows exactly who Sarah Ellison is and how much she *really* lets her kids play on her iPad. (And she pays for that service.)

On the subject of long-form engaging content, I'd need a piece of the Walt Disney Company. And this time I wouldn't shy away from legacy businesses. Strip away the properties the company acquired in its 1995 merger with Capital Cities/ABC (the television and cable networks), and the pre-merger Disney had a fantastic film and television business, theme parks, and merchandising genius. Now add Disney's acquisitions of Pixar, Marvel, and Lucasfilm. Disney's dominance in the film business is astonishing. The Marvel characters and Lucasfilm's *Star Wars* franchise provide multiple universes from which to draw — for movies, yes, but also games, apps, and products. The omnipresence of *Star Wars* books, toys, costumes, and even waffle makers is evidence enough to give the Disney merchandising chief a sunny office on the top floor of my office building. Can you imagine what that kind of surround marketing could do for the products of Electronic Arts? Since this is fantasy media, EGM will also add a prestige film company, such as A24, which produced Oscar darlings *Ex Machina*, *Room*, and the documentary *Amy*, which recounts the short life of Amy Winehouse.

For short-form content: YouTube, a US$10 billion business where people are spending a tremendous amount of time. (One might argue that Snapchat is the newer version of YouTube, but I would say that the platforms are complementary; the latter is primarily focused on content creation, and the former on sharing that content with friends.) In the long run, everyone wants to move up the chain from distributing others' content to producing their own. YouTube is financing $9 million movies, and walking up the content value chain. It reminds me of when AMC wanted to stop distributing other people's movies and bought *Breaking Bad*. These transitions can happen pretty fast.

My fantasy conglomerate won't just have fantastic video. For decades, conventional wisdom held that television would kill radio. It never happened. Today, people still spend two hours of their day listening to podcasts, audiobooks, and music as they sit in traffic, walk to work, shop, and generally go about their quo-

You have to capture the attention of investors and the public 24/7, you have to gain millions of followers, you have to achieve ubiquity across a range of platforms.

tidian tasks. Where are they going to listen to all these things? On Sweden's Spotify, which has a global and mobile presence.

I'll also need some pipes. Distribution isn't sexy. But it is very valuable, and I am trying to build a profitable company. Ultimately, we're moving toward a world in which broadband is a utility, and an increasingly regulated one at that. But when I think that I may not want to own pipes, I take a look at Warren Buffett, a one-man fantasy investing sports team. Last year, Buffett boosted his investment in Charter Communications as part of the Charter/Time Warner Cable merger. Why? He recognized that like Coca-Cola, one of his longtime holdings, broadband is going to be very much around for a long time and can deliver ample cash flow. (As a thought experiment, imagine how difficult it would have been for the iPhone to succeed without Apple's deals with AT&T or Verizon.) Avoiding cable, with its expensive infrastructure costs, and looking at the billions of people around the world who are just getting online, I'd choose India's Bharti Airtel. The world's fifth-largest mobile phone carrier, Bharti Airtel has at least 350 million subscribers in India and Africa.

I want all my company's products to be beautiful, which is why I'd want Jony Ive, Apple's chief design officer, to oversee the design of the offerings. And EGM would want to have a great advocate and a ruthless negotiator on board. Sharon Jackson of Hollywood powerhouse WME (William Morris Endeavor) would head up the talent division, bringing the power deal making of her boss, Ari Emanuel, without the attitude.

This team needs a head coach, and finding the right CEO will be a challenge. I don't want a pure Internet executive. All the movie people will quit once we start adding these other capabilities. Nor do we want a media executive who is hung up on the good old days of broadcast. I'd opt for a partnership of Reed Hastings, CEO of Netflix, and Evan Spiegel, cofounder and CEO of Snapchat: two people who are in no way tied to the previous ecosystem, who have encountered roadblocks and dealt with failure (recall Hastings's Qwikster fiasco?), and who have shown a willingness to change on a dime. (Netflix's pivot from DVD rental to streaming is already legendary. But think of how quickly Snapchat has changed and updated its app.)

There's one last thing EGM is missing. Media is a business in which image, marketing, and sales matter a great deal. It's not enough simply to assemble a great set of assets. You have to capture the attention of investors and the public 24/7, you have to gain millions of followers, you have to achieve ubiquity across a range of platforms. That means I'll need a public relations department that understands how to thrive in today's media miasma like nobody else. Since money is no object, I'll hire the Kardashians to run it. +


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FAN FAVORITES

BY ERIN REILLY

In order to build engagement and loyalty in a climate of intense competition and distraction, media companies have to understand their customers, viewers, and readers as fans.

IN 2014, I spent a lot of time around soccer fans. I regularly hung out at the sports bars frequented by Los Angeles's official Real Madrid supporters club. My friends constantly shared with me, via email and social media, soccer-related websites, articles, and videos highlighting soccer fans and their love of the sport — and I clicked on them. I posted on soccer blogs, and rang up a bunch of credit card purchases in Brazil in July, during the World Cup. If my phone, the sites I visited, and the merchants I patronized had been collecting all the data associated with the places I went, the people I spoke to, and even the purchases I made, an analyst could easily have concluded that I was an ardent soccer fan (or, as people outside the U.S. would say, a football fan). But I'm not; at least, I wasn't. At the time, I was studying sports fans as part of a research project with Havas Sports and Entertainment, to understand their passions and how they engage with brands — especially the brands that sponsor players, teams, and events in hopes of giving sports fans the experiences that they want. In doing so, I wound up becoming a case study in my own project.

Illustration by Dan Page

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My data trail marked me as a soccer fan, and continues to do so to this day. As I go about my business online, I am continually served automatically generated soccer-related recommendations and ads.

My experience is, of course, not unique. The widespread use of mobile devices has shifted the way we think about, understand, and participate in the world. Sometimes by permission (but often without our awareness), we continually funnel our locations, habits, desires, and selves into a pool of knowledge that every company wants to drink from in order to better understand and serve us. Each of us increasingly leaves behind trails of data that become crucial in shaping our digital identity.

Marketers, creatives, and nearly everyone else in the entertainment and media ecosystem are doing everything in their power to acquire and understand that data. They want to create relationships with their consumers, so that they remain loyal audience members, fans, and customers who really love their shows, their teams, and their brands.

In theory, new technological advances such as big data and machine learning, combined with more direct access to audience sentiment, behaviors, and preferences via social media and over-the-top delivery channels, give the entertainment and media industry unprecedented insight into what the audience actually wants. But as a professional in the television industry put it, "We're drowning in data and starving for insights." Just as my data trail didn't trace an accurate picture of my true interest in soccer, no data set can quantify all that consumers are as humans. At USC's Annenberg Innovation Lab, our research has led us to an approach that blends data collection with a deep understanding of the social and cultural context in which the data is created. This can be a powerful practice for helping researchers understand the behavior of fans — fans of sports, brands, celebrities, and shows.

A Model for Understanding Fans

Marketers and creatives often see audiences and customers as passive assemblies of listeners or spectators. But we believe it's more useful to view them as active participants. The best analogy may be fans. Broadly characterized, fans have a continued connection with the property they are passionate about. Some are willing to declare their affinity through engagement, some have an eagerness to learn more about their passion, and some want to connect with others who share their interests. Fans are emotionally linked to the object of their passion, and experience their passion through their own subjective lenses. We all start out as audience members. But sometimes, when the combination of factors aligns in just the right way, we become engaged as fans.

For businesses, the key to building this engagement and solidifying the relationship is understanding the different types of fan motivations in different contexts, and learning how to turn the data gathered about them into actionable insights. Even if Jane Smith and her best friend are fans of the same show, the same team, or the same brand, they're likely passionate for different reasons. For example, some viewers may watch the ABC melodrama *Scandal* because they're fashionistas and can't wait to see the newest wardrobe of star Kerry Washington; others may do so because they're obsessed with politics and want to see how the newly introduced Donald Trump–like character will behave. And those differences mean fans will respond in varied ways to different situations and content.

EVEN IF JANE SMITH AND HER BEST FRIEND ARE FANS OF THE SAME SHOW, THE SAME TEAM, OR THE SAME BRAND, THEY'RE LIKELY PASSIONATE FOR DIFFERENT REASONS.

Though traditional demographics may give us basic information about who fans are and where they're located, current methods of understanding and measuring engagement are missing the answers to two essential questions: (1) *Why* is a fan motivated? and (2) *What* triggers the fan's behavior? Our Innovation Lab research group is developing a new model called Leveraging Engagement, which can be used as a framework when designing media strategy.

Fan Motivators

In his paper "Television 2.0: Reconceptualizing TV as an Engagement Medium" (2007), Ivan Askwith offered an initial framework for thinking about viewer engagement. Here, we build on that insight by identifying certain motivators of fan engagement, which describe the various ways fans approach their passion and the goals that drive their behavior. The Leveraging Engagement model is an inexhaustible, shifting set of motivations — as we explore new genres of media, from e-sports to music sharing, new motivations emerge (*see Exhibit 1*). Here are a few examples of the motivators we've seen in different fandoms:

In sports, some fans engage through *identification*, strongly associating themselves with a passion and defining themselves as fans. Being a sports fan connects some fans to the place they call home; for others, their fandom is important because they believe the team they support says something about who they are. Anyone who has ever asked a resident of New York whether he or she is a Yankees or Mets fan can instantly appreciate the power of identification.

In unscripted entertainment where fans engage with a celebrity host, *advocacy* shines through as a motivator. *Advocacy* involves championing causes on behalf of one's passion and taking positions on issues of importance to the fandom, as fans rally to support the celebrity's causes or the positive impact they have on the community. For example, when comedian Jon Stewart held a March to Restore Sanity and/or Fear in Washington in 2010, more than 200,000 people showed up.

In music, the majority of music festival fans engage through *social connection*, or integrating oneself in a fandom in order to create or deepen relationships with other fans. For fans motivated this way, being around

Exhibit 1: **Motivators: What Drives Fan Behavior**

Entertainment:	enjoying the overall experience and atmosphere surrounding one's passion
Social Connection:	integrating oneself in a fandom in order to create or deepen relationships with other fans
Mastery:	consistently learning and understanding detailed information and stories about one's passion
Immersion:	losing oneself in the parallel universe surrounding one's passion by shifting one's focus from real life
Identification:	strongly associating oneself with a passion and defining oneself as a fan
Pride:	reflecting one's fandom in outward appearance and public behavior
Advocacy:	championing one's passion and taking positions on issues of importance to the fandom
Play:	participating (virtually or in real life) in activities related to one's passion
Creation:	expressing interest in how the original subject was made, or making original content/media related to one's passion
Exploration:	seeking to discover new points of interest related to one's passion or to be in the know about what's new and on the cutting edge related to the passion
Collection:	striving to own a complete set of some specific objects or other items related to one's passion

Source: Erin Reilly

THE MAJORITY OF MUSIC FESTIVAL FANS ENGAGE THROUGH SOCIAL CONNECTION, OR INTEGRATING ONESELF IN A FANDOM IN ORDER TO DEEPEN RELATIONSHIPS WITH OTHER FANS.

others who love the same music and enjoy singing along or dancing makes the experience.

In superhero story universes, the logic of *mastery* is manifested via a pronounced interest in learning and understanding detailed information and stories about one's passion. Some fans might want to know everything there is to know about Batman's history, whereas others might focus on certain details such as a specific period in time or a deep understanding of the relationship between Batman and Superman.

Fan Mind-Sets

Motivators act as lenses through which we can examine fans' behaviors and desires to engage with a specific type of content, people, or brands. Very few, if any, fans exhibit only one of the motivators at any given time in their engagement. Instead, fans are usually engaging through mixtures of these motivators, and common mixtures are recognizable as recurring *fan mind-sets.*

For example, a common fan mind-set among Americans interested in music is the "Vocalist." As the name implies, Vocalists frequently listen to music and sing along, most often in the car. Their mood drives their choice of song and genre. Vocalists typically look for new music to listen to and enjoy learning about music and musicians, and will gladly purchase an album or other products artists might offer. However, they don't go out of their way to attend concerts or festivals, even though they are more likely than most music fans to play and create music. The Vocalist mind-set is a combination of *play, identification,* and *creation,* but a Vocalist is not motivated by *social connection* or *advocacy.*

Fans operating with the "Mixologist" mind-set listen to music just as frequently as Vocalists; in contrast, however, their passion is tied closely to friends, family, and other fans who are eager to discuss and share their knowledge about music and musicians. It is the feeling of being connected to a community of fans that matters most, regardless of whether it's in person at the Bonnaroo music festival or online via Phish fan sites. The Mixologist mind-set is a combination of *social connection, advocacy,* and *exploration.*

In our research, we've seen similar mind-sets emerge in both scripted and unscripted entertainment. There are fans of expansive story universes, such as *Star Wars,* who are just as obsessed as soccer "Connoisseurs," eager to master everything there is to know about the history, characters, locations, and plot twists within that universe, and to share their knowledge with others. However, even if fans have the same motivators, their particular fan mind-sets (or the combination of motivators they're exhibiting at any one moment) may lead them to express their passion via unique behaviors.

Understanding Triggers

Although most fans will hold just one of these fan mind-sets most of the time, they may shift to other mind-sets according to changes in their unique situational triggers. These triggers, which may take the form of tangible objects or discrete actions, can be based on a number of factors, including geographical and virtual location, level of knowledge, strength of social networks, and emotions. If media producers can understand the objects and actions that inspire certain fan mind-sets, they will be better able to create content and activities that can help these fans engage more deeply with a given team, story, or brand.

Let's return for a moment to my experience as a soccer fan. One of the soccer fan mind-sets that emerged in our "Fans, Passions, Brands" study was that of the "Follower." Followers are not likely to be aligned with any of the motivators we've identified except *entertainment*, and the most fleeting form of *social connection*, sparked largely by a desire to strengthen personal connections with friends and family. Followers enjoy watching, especially during close games or exciting finishes, but they are not deeply invested in being fans. The Follower mind-set is often held by the mothers and wives of more avid soccer fans. Followers could also be the fans who are turned off by some of the over-the-top elements of sports fandom, such as violence, excessive cheering, and poor sportsmanship. They typically don't care much about understanding details and don't possess strong opinions about the sport.

Even a year after my entry into soccer fandom, I identified myself as a Follower. But when my context changed, triggers altered my engagement and my identity. During my trip to Brazil for the World Cup, I socialized with devoted fans and attended large gatherings that shifted me from being a Follower to being a "Mascot." Mascots are loud, high-energy, high-emotion, fun-loving fans. They get wild when matches get exciting. And they have a great time being fans. They love stories about the sport, but don't pay much attention to statistics and tactics. Most importantly, Mascots are often partial to a specific team or nationality. When I went to Brazil, my favorite T-shirt featured Cristiano Ronaldo, the Portuguese striker with movie-star looks who plays for Real Madrid. But I watched the highly fraught game between Portugal and the United States — which ended in a last-second match-tying goal — in a crowded bar surrounded by screaming U.S. fans who were waving flags and chanting "U-S-A! U-S-A! U-S-A!" And when I became caught up in the moment, my behavior changed. Being united with fellow Americans, thoroughly entertained, I found that my new motivators were *identification* and *pride*. There was no way I was going to take off my USA sweatshirt to reveal the Ronaldo jersey underneath. I was right in there with everyone else, chanting loudly and feeling the pain of being robbed of our victory at the last second. In that moment, I was a Mascot of the U.S. team, and I still follow it today.

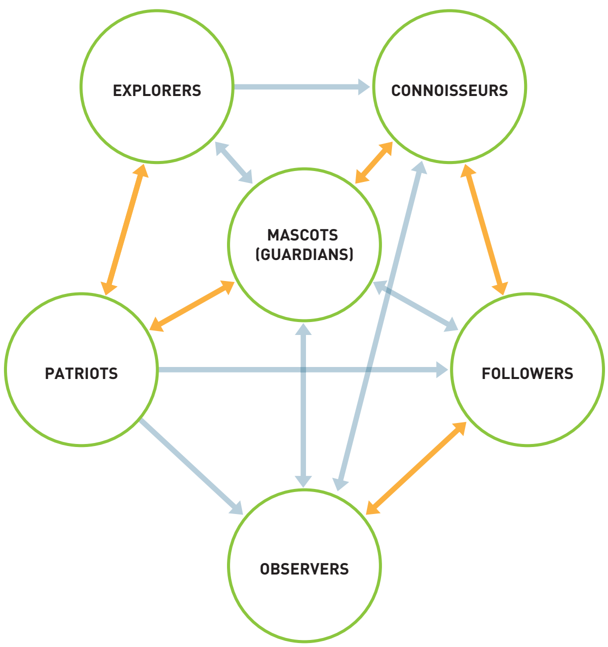
Enter on Your Own Terms

The challenge of working with the concept of fandom is the absence of a hierarchical ranking into which we can slot various fan groups. The entertainment and media industry widely believes that 80 percent of its revenue comes from the 20 percent of its audience who are frequently referred to as "superfans." Some might not consider Followers to be true fans; in contrast, Connoisseurs could be classified as superfans. But this sort of taxonomy papers over the opportunities that each mind-set offers in an engagement strategy. And when we look at fans through the lens of our two core questions of motivations and triggers, we discover multiple points of entry into a fan community, with multiple versions of meaningful engagement.

The model displayed in Exhibit 2 (next page) offers insight into the pathways of potential mind-set shifts for soccer fans. As shown by one of the orange bidirectional arrows, "Patriots" (dutiful fans of their favorite team often connecting home and family to their passion) can transition into "Explorers" when they start to

Exhibit 2: **Soccer Fan Mind-Sets**

Orange arrows indicate more likely mind-set shifts.



Source: Erin Reilly

get excited about playing actual soccer, fantasy soccer, or soccer-related games.

Now, take a look at one of the blue bidirectional arrows. "Observers" don't usually become Mascots without "leveling up" socially into the Follower mind-set first, but they can when the party atmosphere is most intense (at big international tournaments, for example). Moving in the other direction, most Mascots have too much single-team focus (rooted in *identification* and *advocacy*) to step back into a role as an Observer, but their loyalty isn't as strong as that of Patriots, so they just might make that move if their team is doing badly for a long stretch of time.

When we move away from using terminology such as *segmentation* or using profiles that rigidly relegate fans to a specific group, and instead turn toward terms such as *motivators, mind-sets,* and *situational triggers,* we have a framework that encourages agility, evolution, and relevance to each person. We recognize the importance and complexity of each fan (and each potential customer), no matter how he or she chooses to engage.

Understanding Data

As fans exercise greater autonomy with respect to their media choices, industry leaders are seeking new, more refined ways to engage the majority of the audience, all the way down to niche communities. And the data is certainly there to assist in these efforts. The Internet and communications technology can help keep track of what fans are willing to purchase. Sentiment analysis has proven to be a useful tool in gaining the pulse of a specific time or situation, but cognitive analytics will help you use data to understand motivations and triggers in a way that supports effective decision making. In our research, we identified these four steps to help prepare for better methods in understanding your fans.

1. Ask the right questions. Keep in mind exactly what question you want answered, and be ready to return often to that question and reflect on whether it's still the right one. If you make the mistake of collecting too much, then you'll be in the same situation as so many others who are "drowning in data and starving for insights."

2. Standardize data collection. Relevant data sets are often owned or managed by multiple teams within a

WE HAVE TO LEARN TO VIEW A STADIUM FILLED WITH 100,000 SOCCER FANS OR AN AUDIENCE OF 7 MILLION TELEVISION VIEWERS AS A LARGE GROUP OF INDIVIDUALS.

company or even external partners. When we studied a celebrity-driven unscripted entertainment property, we examined data sets from sources such as the show's website, the celebrity host's website, Facebook, and survey data. The lack of standardization across these platforms made it difficult to identify relationships and find deeper connections.

3. Expand your horizons. Relying only on proprietary data isn't using the power of the Internet — or the power of businesses similar to your own that are trying to reach the same audience. In both our music and entertainment studies, we distinguished between social media posts that were "authored by the brand" and those "not authored by the brand." The majority of the "authored by the brand" and celebrity endorsement "conversations" happened on Twitter and Facebook. The content shared offered minimal conversation or discussion. The motivators fans mainly engaged through were a combination of *entertainment* (for example, celebrities posting images and text such as "On set. Behind the scenes. This set is amazing!") and *social connection* (with celebrities again posting text and images such as "Circled back with some old friends"). And the conversations were not particularly rich. By contrast, most of the conversation surrounding the "not authored by the brand" category happened on sites such as Reddit and Tumblr, which offered posts of greater depth and nuance. For example, a post on Reddit shares a potential theory of the story unfolding on a television series and asks for thoughts and feedback from the community. As a result, motivators such as *creation*, *advocacy*, and *mastery* emerged more frequently.

4. Foster interdisciplinary teams and mixed methods. It's important for a research/consumer insights team to consist of both qualitative and quantitative experts, working together to develop the right set of questions to answer. Volumetric analysis, which is most prevalent in analytics today, allows researchers to identify specific performance metrics, such as the amount of time spent viewing content, comments, shares, and likes. Sentiment analysis has been widely used to address the signal-to-noise ratio inherent in volumetric analysis and provide a quick way to assess the attitude of a conversation by identifying the text as positive, negative, or neutral. Advanced approaches to cognitive analytics using both natural language processing and image recognition can help provide insights into motivations, behaviors, and situational triggers for engaging with content, people, or brands. The more your team is well-rounded in its ability to harness and analyze data, the more likely it is to grasp the patterns that are not always immediately evident.

All this work is not easy. The overriding challenge is to introduce the human element into the study of mass behavior. We have to learn to view a stadium filled with 100,000 soccer fans, or an audience of 7 million television viewers, or a collection of 900,000 Twitter followers as a large group of individuals — each with his or her own motivations, cultural context, and way of relating to others. But the effort is worth it. Putting the human touch and time into developing models will grant us the ability to model data and thus find new insights on fans' mind-sets, tastes, proclivities, and interests. Offering a nuanced view to fans will help you better understand and respect what a fan values and how you, in return, can value the fan. +

Thought Leader Interview: Carolyn Everson

Facebook's top marketing executive describes the social network's ambitious efforts to forge enduring and meaningful relationships — with employees, industry partners, and everyone on Earth.

BY DEBORAH BOTHUN AND EMMANUELLE RIVET

Photograph courtesy of Facebook

Connecting at scale: the ability to create meaningful, lasting, mutually beneficial relationships with a large number of consumers, users, and employees. This business imperative is one of the keys to success and profitability in the entertainment and media world today. Few companies are forging the depth and scale of connections that Facebook is. Far more than providing a platform for sharing status updates and photos, the 12-year-old company has emerged as a conduit for communicating through images (Instagram, 400 million users) and messaging (WhatsApp, 1 billion users). Facebook's core platform, where 1.6 billion people around the world come together every month, has emerged into a vital distribution channel for journalism and a crucial marketing venue for businesses large and small. And CEO Mark Zuckerberg continually pushes the company to replicate and enhance the Facebook experience in new realms: mobile, live video, and virtual reality.

Carolyn Everson, vice president, global marketing solutions, says connecting at scale is at once a significant competitive advantage, a responsibility, and a standard to live up to. A graduate of Villanova with a Harvard MBA, Everson gained experience in consulting, media (Zagat, Primedia, Viacom), and technology (Microsoft) before joining Facebook in 2011. Her current job has put her at the center of a continuing revolution in sharing, connectivity, and media consumption and production. At Facebook's New York office, Everson spoke with Deborah Bothun and Emmanuelle Rivet of PwC about the unique position Facebook occupies in entertainment and media, the way its ambitious initiatives serve the company mission of connecting at scale, the commitment to help employees lead whole lives, and the need to come up with better ways to measure how advertisers and marketers connect with their target audiences.

BOTHUN: Facebook has shown an impressive ability to pivot, organize, and plan — even in an environment that shifts with remarkable speed. Given the pace of change in the world, and in your

industry, how do you plan on executing on your strategy three to five years from now?

EVERSON: We start almost any strategy discussion with our mission. The mission is to make the world more open and connected. We believe connectivity is a human right, just as much as food, shelter, and water.

The framework that Mark [Zuckerberg] speaks about is increments of time: one to three years, three to five years, five to 10 years. The one to three [increment] focuses on our existing platforms and improving them. That's where the majority of our resources are still dedicated. How do we continue to improve the experience of Facebook or Instagram, every time somebody [uses] them?

The three-to-five-year horizon is about getting some of the other platforms to scale, and then figuring out a monetization strategy for those that are at scale. (WhatsApp is already at 1 billion users.) The five-to-10-year period concentrates on our long-range bets, which are about increased connectivity. Although many people are connected, we have to realize that two-thirds of the world population is unconnected, and that part of the world will fall further behind, educationally and economically, if it remains unconnected.

BOTHUN: What's the approach for the long-range bets?

EVERSON: We have an umbrella strategy called Internet.org, which has lots of components. There's Free Basics, which gives people an on-ramp to the Internet at no cost. In countries where the poverty line is US$1.90 per day, many people have to decide between feeding their family and paying for data. They're always going to choose feeding their family. We want to make Free Basics available to the billions of people who are not connected. About 19 million people have taken advantage of it. We're finding that within 30 days, many of those who can afford to do so are actually converting to paid data plans, once they see the power of the Internet.

BOTHUN: How do you market that?

EVERSON: We partner with the local telecommunications companies. Telecoms are offering free services with the belief that people will become paid subscribers. And that is playing out well. They're getting access to very basic services, often on 2G connections [see "India's Triple Play," by Suvarchala Narayanan, page 20]. The next billion people who come online will probably do so mostly on feature phones in these markets — simpler phones with very, very low-speed connections.

> **"Telecoms are offering free services with the belief that people will become paid subscribers. And that is playing out well."**

We're also investing in alternative ways of providing connectivity that are less expensive. We're testing an unmanned aircraft named Aquila, the idea being that it can fly between 60,000 and 90,000 feet above Earth and can beam connectivity down about 11 miles away, and to other unmanned aircraft. We plan to launch a satellite in sub-Saharan Africa as well this year.

BOTHUN: But even though this is a long-range bet, you're already working on it.

EVERSON: Right. It's not like we're sitting here saying, "We're going to start that in five years." It is a question of resource allocation and time frames. These things could take decades. But we're making a significant bet on artificial intelligence [AI], and really trying to figure out if machines can both learn and make decisions the way humans do, to help facilitate efficiency and allow humans to do higher-order tasks.

RIVET: Is AI just being used to organize content?

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EVERSON: We just announced, for example, that we now have, using artificial intelligence, the ability to help blind people on Facebook. Worldwide, more than 39 million people are blind and more than 246 million have a severe visual impairment. When someone who is visually impaired is on Facebook, AI reads out the compositions of photos, like "picture of Carolyn with two other people, and the sun is shining, and it's a beach." With Messenger, we're working on M, a virtual assistant. It's early days, but we are trying to train M to answer basic inquiries and do things like make reservations, order flowers, give you information. I was in Houston for the NCAA tournament, and I asked M for information about the Space Center, and it sent me a whole summary. There are more than 50 million businesses on Facebook, and we have more than 3 million advertisers that are businesses. We could help those businesses answer basic customer service inquiries with M. And then there's Oculus [the virtual reality unit], which offers a different way to experience connectivity. But it all ladders to the mission. So we are not a company of disparate bets going all over the place.

RIVET: Yes. I want to talk a little bit about Oculus. Where does it fit?
EVERSON: Oculus is in more of the five-to-10-year bucket [right now]. But the "bucket" framework isn't ironclad. (Originally, for example, Instagram wasn't in the one-to-three-year bucket, but it developed more rapidly.) The biggest hurdle to Oculus becoming a scaled solution in the market is going to be cost. It's still pricey. And the second biggest is that it requires a very powerful PC to run it. But as with any technology, over time those things will evolve.

BOTHUN: Are you looking at enterprise uses for that as well?
EVERSON: I would say that there is probably an application for Oculus in almost every industry that you can think of. Gaming is the one that's obvious and happening most actively right now. The entertainment industry is very focused on Oculus and what kind of experiences they could bring to it. But we've had inquiries from hospitals and physician groups, trying to understand if surgeons could be trained in a completely new way. It is so realistic. I mean, you literally feel like you're being transported into another world. You could imagine education applications, giving students an opportunity to visit the Louvre without ever traveling to France. We've had a lot of inquiries from retail partners and clients. Oculus is going to be limited only by imagination.

BOTHUN: When we talk about the company's overall strategy, geographic expansion has to be part of it. When you look around the markets where you are not fully penetrated, do you have particular focuses for the one-to-three-year or five-to-10-year windows?
EVERSON: India is clearly an incredibly important priority. About 133 million people a month access Facebook in India, and it will become our largest market soon, when it surpasses the United States. But the population of India is well over a billion. And there are a lot of barriers to connectivity there. We focus mostly on people. We find ways for people to use the platform, and the monetization comes later. Africa is quite important to us. Again, we have north of 120 million people in Africa using Facebook on a monthly basis (with over 80 percent on mobile), but it's a drop in the bucket

when you consider the population. And then of course there's China. And from our perspective, we won't be fulfilling our mission unless we figure out a way to connect people in China.

BOTHUN: And I'm sure you have thought about and considered whether you can partner with anybody there, and whether that makes any sense.

EVERSON: We are looking at every alternative and every type of strategy. And Mark is deeply committed. He's learned Mandarin, he's on the board of Tsinghua University. But there is really no way to say whether or when that's going to happen.

BOTHUN: It sounds like you have to tailor both connectivity solutions and user experience to different markets — at scale.

EVERSON: Right. We know that the Middle East, for example, consumes more video than almost any other market. And so we are making product changes as a result of both bandwidth challenges and consumer interest in the region. We rolled out Slideshow, which can take a video and consolidate the data usage involved with it and display it almost like flowing images. That's helping us in those markets such as the Middle East and India where users are relying on 2G or feature phones.

BOTHUN: What about people who want to connect with Facebook as an employer? Let's say I'm a sophomore in college, thinking about my major, and I really want a future with Facebook. Should I earn an engineering degree? Should I get a data and analytics background? Should I make a name for myself at another company before applying?

EVERSON: First, Facebook can't hire enough good engineers, particularly female engineers and engineers from other underrepresented demographic groups. So if I had an interest in engineering and a propensity for that, I would pursue that degree, regardless of whether I'm trying to get a job at Facebook. We as a society can't fill the number of engineering jobs that are open.

At Facebook, if we're not testing for a specific skill, like engineering, we are very much screening you for our values. I would say that the things that we mostly look at have to do with impact. Have you demonstrated a consistent desire? Are you intellectually curious? Are you bold? Are you not afraid of failure? Are you open and collaborative? We need to [concentrate on those characteristics] because we don't have a playbook. We're making it all up as we go.

We take some interns on the business side of Facebook, but it's a small group. You could start off in a small business team, which is mostly in Austin, Texas, if you're in the U.S., or São Paulo in Brazil, with-

> **"The Middle East consumes more video than almost any other market. And so we are making product changes in the region."**

out a ton of experience. On the team that I'm responsible for, we prefer to hire people with five to 10 years of experience.

BOTHUN: **Which type of experience?**
EVERSON: All different. We hire people who have had industry and vertical expertise — travel or consumer products or financial services. We hire people from the advertising agency community and from other technology companies. We hire people who have done consulting. We've hired entrepreneurs who have tried to sell, or maybe have had success at selling, companies. If I had to describe an ideal resume it would show some consulting experience, some vertical expertise, and some technology experience. Put that all together, and then the person has to be really comfortable with rapid pace, agility, and things changing all the time.

RIVET: **For the type of people you've described, there's a real war for talent. So how do you retain people and keep them engaged, and continue to be a great destination for experienced people and young people?**
EVERSON: We do not make counteroffers. Right, wrong, or indifferent, we don't. So that means the ability for us to retain people has to be in place *before* they log off and try to get another offer. Number one is the mission. People who are here and who tend to stay here just deeply believe in the mission, and can't imagine picking up and going somewhere else where the mission seems more trivial, or not as clear.

> "The first priority in the shift to mobile was to get the consumer experience right. There was no discussion of monetization initially."

The environment and the culture of how we operate is another important factor in retaining people. We make a list of all the things that people may have experienced in bigger companies, and then say, "Don't bring any of that in here. Don't bring hierarchy, don't bring bureaucracy, don't cover your rear end on decision making. Don't bring competitiveness with your colleagues."

The third is giving people a real sense of what the future holds. We're 12 years old. Some might have said, "Gee, after you go public, it's going to be so hard to recruit people, right? Anyone coming in now has missed the window." And the truth of the matter is, by our constant reminder that we're only 1 percent done with the journey, people know they can join Facebook today and feel like they have so much more to do.

BOTHUN: **Burnout has become a challenge for all companies, but particularly for technology companies in this 24/7 work environment. How do you combat that?**
EVERSON: We're working hard to give people the opportunity to feel that they can have an incredibly successful career at Facebook, but also lead a high-performance life outside. All our jobs are highly demanding. We're trying to avoid burnout. Average employee retention in companies has gone from 10 years to five, and in technology, it's three.

We encourage our team members to declare a vision: to define what's important to them within the company as well as personally. By doing this, we empower people to figure out how to make that [balance] happen. And we hold managers accountable for helping their teams actually live the kind of life they want to lead. As a leader, I have to care about people having an amazing life outside work, just as much as I care about delivering incredible results at Facebook.

BOTHUN: **That's a different approach to management and leadership. How does it work in practice?**
EVERSON: When I do my one-on-ones every couple of weeks with my team, I'm not just asking them about the business. I start by asking

how they are doing in achieving their vision and what barriers they are struggling with. The idea is that once you declare what's important to you, you can prioritize how you spend your day, what you're concentrating on. I'll give you a personal example. I had a great conference that I got invited to that was taking place over several days. But Villanova, my alma mater, was in the NCAA men's basketball championship. And it was very clear to me that this was a once-in-a-lifetime opportunity for me to experience the tournament with my family. I was easily able to make that decision to go to the game because I had outlined in my vision the importance of creating memories with my family. Someone else's vision may be that he wants to be healthy and lose weight and exercise more. And then when he prioritizes his time, he's clear that if he's not working out as many times a week as he wanted to, he needs to make adjustments. I believe company cultures are going to have to dramatically evolve. It is because, frankly, the technology is such that if we don't modify how we operate in our corporate cultures, people will be working 24/7, and the burnout rates will be terrible.

BOTHUN: Let's switch gears, to talk about mobile. Facebook's shift from having essentially no mobile revenues in 2011 to mobile generating 80 percent of its revenues today has been impressive. Was that simply a set of tactical moves? Or the result of an execution of strategy?

EVERSON: The shift that we had to make to mobile was [vital for us to] survive and stay relevant. Mobile was that much of a threat. It was right around the time we went public. More people started using Facebook on their mobile device instead of on their desktop, and suddenly the revenue lines crossed. That was a big wake-up call. Our mobile product at that time was not good. We had made a bet on HTML5 for scaling purposes, which meant that we did not build really good data for iOS or Android apps. And Mark called the company together to do an all-hands meeting, which he typically does several times a year, and declared that we not only had to be "mobile first," which we weren't, but "mobile best." Yes, the story is true that somebody walked into his conference room and showed him a product mock-up on a desktop, and Mark ended the meeting abruptly. Everyone canceled their meetings with him for two weeks after that, because no one had mobile first.

But that change was perfectly in keeping with our strategy. The first priority in the shift to mobile was to get the consumer experience right. There was no discussion about monetization initially. We had to retrain all the engineers. They had to rebuild native apps on iOS and Android, and rise from very poor ratings in the app store to much higher scores. Then, once we understood what the consumer behavior was — at that time, consumers were spending most of their time in our News Feed — we made News Feed the "real estate" for monetization. Next we needed to think about how to get an ad into News Feed that would feel organic or native and be great for the consumer and drive the business result.

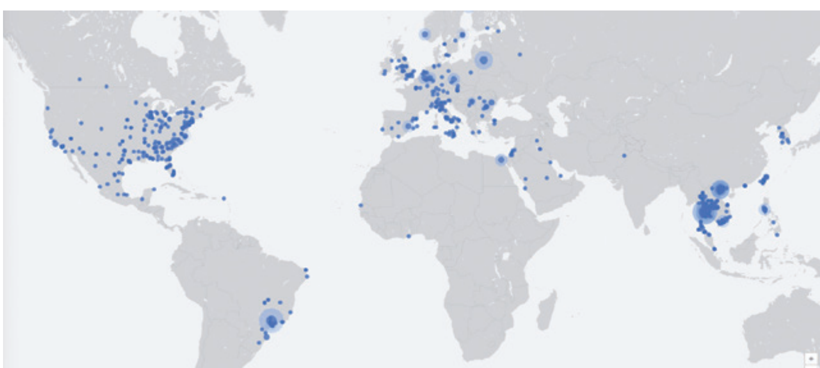
BOTHUN: So even though Facebook had an established advertising business for desktop, the connectivity and user experience preceded the monetization.

EVERSON: Yes. We are constantly refining our ad unit offerings within News Feed. Last year, we developed Carousel, which lets people scroll horizontally, and opened new real estate and new capabilities for advertisers. The next big development is Canvas, which is more like a door that opens up, and suddenly you can do so many more things. Now, that doesn't mean the market suddenly decides to start buying this, just because we made it. So there's an ongoing effort to educate and inspire and teach the market how to take advantage of the mobile opportunity. I talk about the shift to mobile day in and day out. Consumers are spending more time on mobile than they are on television these days. Depending on the demographic, they may check their phone 100 to 300 times a day. A business that doesn't think about how to build mobile presence will be irrelevant.

BOTHUN: **How do you use all the data you're gathering from this activity to personalize the experience for the user?**
EVERSON: We talk a lot about people-based marketing. And the notion there is simply that the smartphone is the most personal device consumers have ever had. Consumers' expectations for marketing are that you show up to be useful, to delight or entertain, or to create some kind of emotion — but you show up for a good reason. So we need to get the most relevant marketing in front of consumers. Because if the consumers don't like what they're seeing, they could spend less time on Facebook or Instagram, and that would be detrimental to the whole business.

So we utilize a lot of data. Sometimes it's just our own data, how consumers are experiencing Facebook, where they spend more time, what stories are of greater interest. I mean, thousands of data points go into the algorithm, to try to serve up the right content. Sometimes it is our data combined with a marketer's data. We have a product called Custom Audiences. Whether you're a credit card company like MasterCard or American Express, or a car company like Toyota or BMW, your customers expect you to know that they are using your products. And that means you have to show up with ads that acknowledge that.

RIVET: **Increasingly, it seems that the relevant content consumed and discovered on Facebook will be video.**
EVERSON: As much as mobile was a major pivot for this company, Mark says video could even be bigger. We've just had a bunch of announcements about Live [which allows users to stream live video]. You can afford every consumer — any business, any celebrity, any athlete, anyone — the opportunity to communicate in the most authentic manner possible. You can show Live to just one person or you can show it publicly to the world. Live frankly surprised us, in both how fast it's growing and how widely it's been adopted. We saw some incredible data about how people are consuming, discovering, and engaging with video content [pulls out a tablet to show map of where people are on Facebook.com/livemap]. Live attracts 10 times the user comments that normal video gets.


Live Map shows where Facebook users around the world are streaming live video.

BOTHUN: **What in general does Facebook see as competitive threats?**
EVERSON: The way we answer this question, and I really believe it's a sincere answer, is that our biggest threat is ourselves. If we don't execute, if we become too complacent, then we will be replaced. When you leave our campus, which used to be the headquarters of Sun Microsystems, you can see the old Sun sign. It's a reminder to everyone that if you get complacent, you can wind up in trouble — because Sun was really a successful company at some point. We have things called hard conversations, and we ask people all the time, "What's the last hard conversation you had?" Because our belief is that as companies get bigger, people tend to be less willing to have the hard conversation. And if you look at companies that fail, it's not like they sat there one day and suddenly said, "Oh, God, our business is gone!" People knew. They were afraid to bring it up, for fear of punishment or insulting somebody or whatever reason.

BOTHUN: **Let's talk about metrics for a minute, because that is such**

a huge issue today. How can the clients who are paying the bills measure the return on investment that they're making?

EVERSON: We think the metrics have to change dramatically. We think the media industry is measuring the wrong things. They're measuring impressions, click-throughs, and video views. And we believe there needs to be a massive shift to value. What I mean by value is actually measuring things that drive business value. Let's say you have a really cheap cost per thousand audience members [CPM]. You're just buying really cheap media. But if it's not driving your business, it doesn't matter. I tell clients all the time, "Don't give us a single dollar unless we're actually driving your business." In a simplistic way, and I'm really oversimplifying, "driving your business" means we're driving actual sales, product off the shelf, cars off the lot, e-commerce, whatever it is, or we are driving long-term brand metrics that will eventually tie back to sales. If you're not doing those two things — driving sales and driving metrics that lead to sales — and measuring them, I really think you're doing the wrong thing.

I think this shift is going to take years. The systems that tell us what we buy and sell and how the whole marketing industry and ecosystem works are all in the dark ages. And we think that all media needs to be held accountable.

> "We think the media industry is measuring the wrong things. And we believe there needs to be a massive shift to value."

BOTHUN: I want to end by asking you about something that doesn't have to do with measuring profits but is essential to the company's culture: philanthropy. How does philanthropy fit into the company's mission and its people strategy?

EVERSON: Mark's belief is that we need to deliver more social good in the world than the benefits that we've received from the markets. What we have done in the last few years, I think, is start to realize the power of what Facebook can do in the world for social good. So we don't have a foundation that writes checks. Our strategy, instead, is: How can we let NGOs, nonprofits, and so on use the benefit of the platform to potentially raise money? That's one pillar of it. Another is the way we connect to employees and their interests outside Facebook. Every month, Facebook's 13,000 employees are given an allotment of ad credits that they can use toward any organization they like. That's really empowering. And we do hacks with nonprofits. A member of my team in Canada is really passionate about Alzheimer's and dementia. He wrote in his vision two years ago that he was going to host the world's largest dementia hack. And he rallied the right resources in the company, the right external interests, and hosted the world's largest dementia hack, at the end of 2015. [See http://hackernest.com/DementiaHack/.]

So you've got everything from employees using ad credits and employees thinking boldly at an individual level to those at the global level thinking about how we can turn the power of having more than a billion people a day on our platform into social good in some way, shape, or form. +

Thought Leader Interview: Sir Martin Sorrell

WPP's CEO explains how the global agency is deploying its resources to connect effectively with clients and consumers across industry and geographic borders.

BY DEBORAH BOTHUN AND DANIEL GROSS

Photograph by Phil Adams

Sir Martin Sorrell is one of the most enduring leaders in an industry that is famously transitory and focused on the shrinking human attention span: advertising and marketing services. As CEO of WPP, he presides over a parent company stocked with more than 160 operating companies. WPP's assets include iconic advertising agencies such as J. Walter Thompson, Ogilvy & Mather, Grey, and Young & Rubicam; media agencies like MediaCom, Mindshare, and MEC; its data management arm Kantar (including Millward Brown and TNS); digital firms like Wunderman, VML, Possible, and AKQA; public relations titans like Burston-Marstellar and H+K Strategies; and public affairs outfits such as the Glover Park Group and Penn Schoen Berland — not to mention many other wholly owned operating businesses, associates, and investments. WPP is a global empire with 2015 billings of £47.6 billion (US$67.5 billion) and revenue of £12.2 billion ($17.4 billion). The company employs 190,000 people spread across 3,000 offices in 112 countries. As was said of the old British Empire, the sun never sets on WPP. Its operations touch every part of the global media industry, and, increasingly, other industries as well: technology, software, retail. And, unlike many others in the media business, WPP has managed to post steady growth in profits. Its earnings per share were up more than 10 percent in 2015.

The steady growth and solidity of this company belie the churning waters in which it operates. The term *disruption* has been so overused as to have almost become a cliché. But it is difficult to think of industries that are being disrupted more than advertising, marketing, branding, and communications, the sandboxes in which WPP plays. Consider the ability of DVRs and other technologies to block and screen ads; the growth of time shifting; the introduction of new measurement tools; and the headlong rush of consumers to access media on tiny mobile screens (and then make purchases there). *Native content* — a phrase unheard of five years ago — has become de rigueur. Sand Hill Road in Palo Alto, the ground zero of the venture-backed technology revolution, is now rivaling Madison Avenue as the geographic center of the advertising industry. As publishers give way to platforms, technology companies move into the ad business, clients develop their own content, and audience attention grows more elusive, advertising companies must develop ways to work, invest, and think collaboratively.

Sorrell sits at the center of this maelstrom. An air of calm pervades WPP's headquarters, in a small townhouse in the Mayfair area of London, whose reception area more closely resembles an economics department at a university than a glitzy 21st-century multinational. (A shelf displays the numerous Cannes Lions awards the company has won in recent years.) In a largely unadorned conference room, Sorrell sat down with Deborah Bothun and Daniel Gross and discussed the necessity of coming together more effectively.

BOTHUN: At the PwC Global Entertainment and Media Outlook, we try to look ahead to see what the media industry revenue trends will look like over a five-year period, which is difficult. What will your business look like in five years?

SORRELL: In a sense there's violent change, and in a sense there isn't. The direction remains the same. We'll be a more integrated business. We'll be a more fast-growth-market business, although those fast-growth markets are not as fast as they used to be.

BOTHUN: Will you still be an advertising agency? Because you recently said WPP isn't in the advertising business.

SORRELL: Already, half our business is media and data. And we'll be a more digital business and a more data-driven business. But I don't see any massive changes in direction from where we've been going for the last five, 10, or 15 years. Digital will be 40 to 45 percent; that's inevitable. Data will probably be the same, maybe a bit greater. But the big engine of WPP is the $73 billion of media that we buy each year. Our billings are bigger than Google's. If you add it up, especially the data and the media, three-quarters of our business comes from stuff that Don Draper wouldn't have recognized 30 years ago. We probably wouldn't have recognized it ourselves 15 years ago. It's always very difficult to figure out what will happen going forward because the nature of our competition is changing.

We buy $73 billion in media a year, and the largest single client we have does $6.5 billion. So we're about 11 times bigger than our largest client. And we can get the benefits of economies of scale. Now, it's true that our digital billings are only, say, about $23 billion out of the $73 billion. But we can get very, very great economies of scale, particularly in the highly fragmented online space.

> **"Three-quarters of our business comes from stuff that Don Draper wouldn't have recognized."**

BOTHUN: You've got your clients flirting with trying to do some of their own work, with native content.

SORRELL: There's a limit, though. I find it very difficult to believe that clients can do in-house programmatic advertising, for example, over the long term. When they've got low growth, very little pricing power, low inflation, and a focus on costs, I can't see clients spending a lot of time or money building their in-house programmatic advertising capabilities. And most of the good people in that area don't want to work on just one client, they want to work on a multiplicity of clients. You also have to keep up with the technology.

BOTHUN: Let's talk about segments. There's a big focus on reaching youth today.

SORRELL: It's a bit troubling as to why, given the fact that the older segments are growing faster and they're wealthy. But that's a subject that's been with us for 20 or 30 years.

BOTHUN: In the 54 countries where the Global Entertainment and Media Outlook measures media, there is a pretty direct correlation between growth in entertainment and media spending and the proportion of the population under 35.

SORRELL: A direct correlation? I think that's understandable. I think younger people are more interested in music and entertainment and so on. But these are very fragmented audiences.

BOTHUN: So if you were giving advice to a 22-year-old who wants to be in the advertising, media,

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and marketing business, what would you tell her to do? Get a degree in data analytics? Become an IT specialist?

SORRELL: The answer to that question is really linked to the change in how we present. We used to present a strategic plan, and then out of that came a big creative idea, and then came the media plan. Today, we'd probably start with a strategic plan based on heavy data input. We look at the behavior of the centennials (people born in 1997 or later) or the millennials. So, Snapchat versus Facebook. We do the analysis on them and the older demographics, and then we come up with an idea. It could be a single big idea or one that is segmented by media. And in a way, the medium has become more important than the message, in the sense that the nature of the medium determines what the message is. We may do one thing for a small screen like this [points to his iPhone], and, for a big screen like that [pointing to a colleague's tablet], we may have to do something different creatively or contextually. So when I'm playing a video game, instead of seeing an ad that is completely irrelevant to me, I see an offer for the latest edition of the Ford F-150 because they know I've recently done a search for pickup trucks.

Creative is still obviously very important. But the nature of the creative has changed. That's why we're not in the advertising business anymore; we're in the media, data, and digital business, predominantly. That's 75 percent of our business.

That doesn't mean that David Ogilvy's big idea or Stanley Reese's big idea or Ray Rubicam's big idea doesn't matter. But what it means is the other aspects have become very much more important. It's not just the 30-second, 60-second TV spot. So we need a creative who is prepared to employ data, to use technology.

GROSS: What type of stresses and pressures does that put on an organization and on senior executives who are not data scientists?

SORRELL: It means the skills needed are very different from the ones Don Draper had. There are also skills that you probably still need today. People in our business get very irritated when I say this, but it's a bit like King Canute and the waves, isn't it? You can't stop the tides. People are looking back with rose-tinted spectacles to a different era.

But to your question, you have to change the engines while the plane is flying. And that's difficult for anybody who has a legacy business. The disruptors have it very easy, because they're revolutionaries and can tear things down. And because the world economy isn't growing quickly, you have to focus on costs. And you have CEOs who last for six or seven years, CFOs for five or six years, and CMOs for only two years. You put those three things together, and that means it's a very tough environment.

GROSS: Given that tough environment, what do you do?

SORRELL: Three things. One, you need to move your traditional business quickly into the digital space. The second is to get your digital brands — we have five or six big digital brands like Wunderman and Possible and AKQA and VML — to move even faster within the digital space. The third is [to address] cannibalization. If you don't eat your own children, somebody else will. But the people in those traditional businesses, irrespective of whether they know what's going on digitally or beta-wise or media-wise, are emotionally tied to the business. So it's very difficult to change.

BOTHUN: One of the big points you emphasize is that firms like yours have to work with clients in new ways. You've become known for talking about "horizontality" in the ad business, meaning that people in different units and with different competencies should work together through client teams and country and regional managers. You've gone from 10 cross-group client teams in 2010 to 45 last year. How far can you take that?

SORRELL: Not far enough. The ultimate way you get to horizontality is to have one brand. That would be impossible, in my view, because the parent company would get confused with the operating company. However, we are increasingly organized by client and by country.

BOTHUN: Does horizontality also mean that you go to market by industry sector?

SORRELL: Yes. I'll show you how. We've got verticals that are sectors as well as being brands. [*See exhibit.*] The matrix is brands and function: advertising, digital, data, branding and identity, public relations, and so on. But under advertising we've got four brands: JWT, Ogilvy, Y&R, and Grey. I can't pull out somebody from here to put them in charge of all these things, because client conflicts immediately come out of that. So we have client leaders who work and manage horizontally, drawing from different units. We also have country and regional managers. Everybody looks at this image and says, gosh, that's a mess, which it is. But deliberately so, because we're just getting economies of scale.

BOTHUN: How do you incentivize people who are in five or six different groups, working for one client?

SORRELL: If they're working for the client, we're increasingly incentivizing them on the results of that client. That could be the client's revenue growth, or the client's profit, or the client's happiness and satisfaction. The biggest issue for us is how do you get everybody to think about the group as a whole? So all these people in that vertical have to think about that. And at the top of that organization it's even worse, because they are prouder. There's a sort of law of cooperation: The deeper you go down inside a company, the more cooperative people are. Also, the better the people, the more difficult they are. Average people are easy to deal with; good people are difficult to deal with.

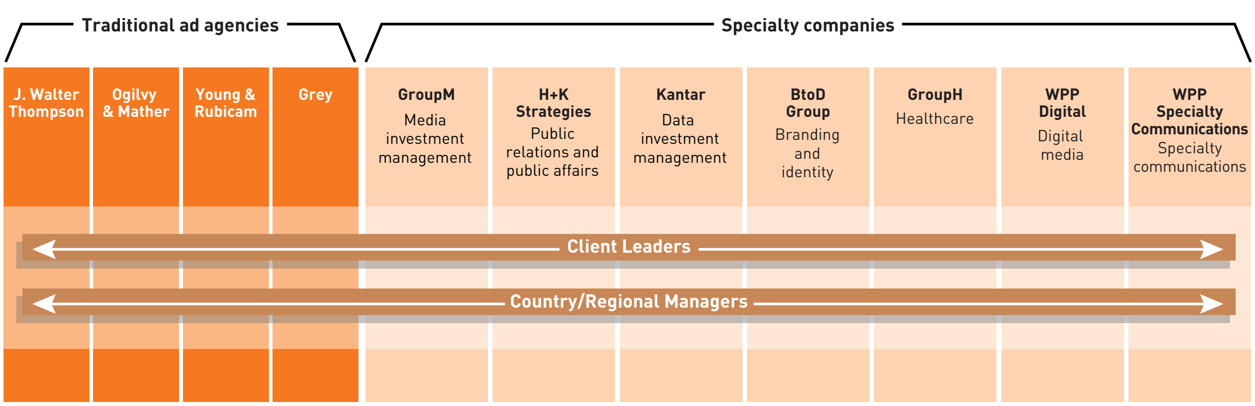
BOTHUN: What are you doing at WPP to develop your people?

SORRELL: We've got the WPP Fellowship, which is awarded to selected new hires at various points — entry, first degree, second degree, art school degree, and everything else. We have developed MBA-type training programs. Interestingly, the three countries where we've founded schools are China, in Shanghai; India, in Mumbai; and South Africa, in Cape Town. We find more flexibility and willingness among municipalities or institutions to invest in Shanghai and Mumbai and Cape Town than we find in London or New York or Paris, which is a shame.

BOTHUN: One of the things companies are struggling with is the fact that the talent in the two generations that are currently from

Exhibit: **Horizontal Approach**

By working together across vertically organized businesses, WPP can bring all its capabilities to bear on serving a single client or addressing a single geographic market.



Source: WPP

age 21 to, say, 35 is becoming so fragmented. It seems like many sectors, especially technology, are looking for the same types of people that you would look for.

SORRELL: The investment banks probably have lost ground — and the tech companies have gained ground. The consultancy companies, yourselves included, probably remain the same. I think because we're seen as being technology-related, WPP has a relative advantage. The fact that digital is 40 percent of our business has given us an advantage. It's more sexy for youngsters.

BOTHUN: But you still have quite a bit of turnover. In fact, the turnover has been increasing in the last few years.

SORRELL: Our turnover is 20 to 25 percent — 20 percent in bad times and 25 in good times. That's too high. (At the senior levels, among the top 2,000 of our people, it might be 3 to 5 percent.) And in some markets, it can be as high as a third. What our leaders have to understand is that managing a strong growth business in a strong growth market means you're going to get high turnover. You can't stop that. The young Chinese men and women want to move fast, and compensation is important. And if you have a competitor.… One of the problems in our industry is that some companies grow by stealing people.

BOTHUN: At some point, do you say that this turnover is too expensive, and you've got to change your talent model?

SORRELL: At the moment, I think the cost of trying to change is so great that it's not worth it. Our turnover rate should probably be 10 to 15 percent overall. So, could we solve that issue, if it is an issue, by increasing our salaries by 10 percent? No. Could we solve it by increasing our incentive pools by X amount? No.

BOTHUN: Over the last few years in particular, you have bought a lot of companies that are responding to the big disruptions in the industry. How do you use these acquisitions to support your strategy?

SORRELL: Most of the acquisitions, if not all, we grafted onto one of our 11 verticals. I can't remember the last acquisition that was what I would call a free-floater, increasing the horizontal span. We usually have five-year earn-outs. So over a five-year period, we learn a lot about the clients and the people, which is sufficient in our mind to make sure that everything is hunky-dory. Some of those acquisitions get grafted onto the legacy businesses. Some get grafted onto the digital businesses. And some are pure cannibalization businesses. The fact that somebody competes with you, or competes with a service that you have, or threatens to disintermediate you, doesn't mean that you should ignore it. What you should be doing is creating your own innovation or investing in it. If we have been successful, which we have, in keeping alive (because everybody said we were going to get killed by Google, and we haven't been killed yet), it is because we have done that.

The advertising and marketing services market is over a trillion dollars, $500 billion old stuff and $500 billion new stuff, and the market has continued to grow in the 30 years we've been in existence. So we try to keep our head above water by trying to find, in a world growing at 3.5 to 4 percent in nominal terms, the growth buckets.

GROSS: Where are those growth buckets?

SORRELL: This year, the growth buckets are still going to be the G2 — China and the United States. They will drive incremental growth in the world markets. In the eurozone, it will be the United Kingdom. In India, [prime minister Narendra] Modi has got some challenges. But he's done a brilliant job, just like [president Mauricio] Macri has with Argentina.

BOTHUN: One of the things you've talked about is the fragility of an economy that isn't growing that rapidly to begin with. Between terrorism, the immigration challenges, and the economic challenges, what are you most concerned about?

SORRELL: Well, you know I'm a raging bull on China. People forget that even if it is growing at only 3 or 4 percent per year, China is the world's biggest incremental source of growth. I mean, 3 or 4 percent of $11 trillion is equivalent to a little bit more than 2 percent on $16 trillion [about the size of the U.S. economy]. If China were to go south? That would be a problem. Brazil is not as critical, but it is still important. The Brexit is a big, big, serious threat. And within Brexit, Grexit, because people have forgotten about Greece. When we were in Greece last November for Stream, our big digital conference, we said that in six months' time, Greece will come back as an issue.

GROSS: You spoke before about how some industries have it easier, in the sense that they know exactly who their competitors are. So you see a startup over here, it's got a huge valuation. How do you assess whether this company is going to compete with you; is it a company you want to cooperate with or invest in; or is it someone you can ignore?

SORRELL: You have to assess whether you think they're going to be a frenemy: a friend and an enemy. You can ignore them, but sometimes you ignore them at your peril. I think the answer is, you just have to accept that this is going to be a contradictory world, that in some aspects of your operation, you might be having a constructive relationship, and in some aspects of your operation, you have a destructive one.

BOTHUN: Like the relationship between WPP and Google in some respects.

SORRELL: Oh, Google's a frenemy. The world is not segmented anymore. I mean, what is the Internet, at the end of the day? It's a big disruptor of traditional business models and business approaches. And every legacy business and even the new businesses are going to be disintermediated. Who would have thought that the automobile business would have Uber, which has a value of $60 billion, as a competitor? Or that 3D printing could challenge manufacturing? I saw a 3D-printed car, full size. Two-seater. Really pretty, with the exception of bucket seats and wheels, for $12,000, and it was produced in 10 hours (without the engine).

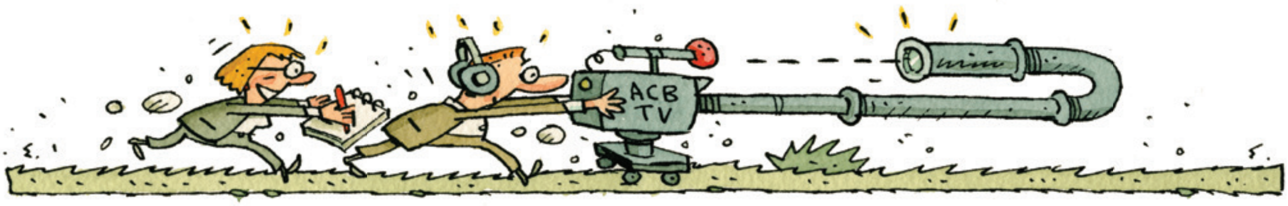
BOTHUN: So do you have proactive discussions with other CEOs in these frenemy organizations where you say, "Let's just face reality, we're your customer, and we're your competitor"?

SORRELL: Yes. Absolutely. All the time. There then may be grounds for cooperation. So take Sapient, which was acquired by Publicis in 2015. When you buy a company outright, you take the risk of buying the business, which has on it, excluded from its P&L, the stock option costs of keeping the people. And the moment you buy it out, the people fly with it. So it makes no sense [to choose that transaction]. Instead of buying Sapient for $4 billion, in 2013 we invested about $80 million in Globant [an Argentina-based company that specializes in software for digital marketing]. It has now gone public, and we own about 20 percent of it, worth about $250 million. There are lots of ways to skin a cat.

> "I'm a raging bull on China. People forget that China is the world's biggest incremental source of growth."

BOTHUN: I want to finish up with mobile, which certainly looks like the next frontier in which people in the ad industry have to learn how to work together in new ways. Facebook now gets 80 percent of its ad revenue from mobile. How do you manage your clients' explosive growth in that area?

SORRELL: If you look at the industry stats, mobile advertising has not been penetrated as rapidly as it should be. So there's more to do there. The industry hasn't figured out how to deal with the small screen yet. ✚



Story Time

Why are we so interested in media about media?

BY DANIEL GROSS

Spotlight, the movie that won the 2016 Academy Award for Best Picture, was about a team of investigative reporters at the Boston Globe. In 2011, *The Social Network*, a film about the origins of Facebook, with a crackling screenplay by Aaron Sorkin, took home three of the eight Oscars for which it was nominated. *Mad Men*, one of the best television series of the past decade, was set at an ad agency.

Sense a theme? There's more. Any lineup of classic films must include *All the President's Men*, the dramatization of the book by the *Washington Post*'s Carl Bernstein and Bob Woodward about their investigation into Watergate, as well as *Citizen Kane*, Orson Welles's epic tale about a driven newspaper magnate. Perhaps the best sitcom of the 1970s, the *Mary Tyler Moore Show*, was set at a television station. In the *Dick Van Dyke Show*, where Mary Tyler Moore got her start, the main character, Van Dyke's Rob Petrie, was…a television comedy writer.

People who work in the media like to talk about, read about, make films about, and even make magazines about the media. Every industry is insular to a degree. But, having worked in this field for 30 years and having spent lots of time interviewing people in other industries, I can testify that the self-interest is particularly acute in media-land. People who work in the ball bearings or glass industry may talk about work in their spare time, but they're not likely to watch television series about their industry.

What accounts for this level of professional navel gazing? Why do so many professional storytellers think the stories worth telling are stories about their own profession? I've spent a lot of time puzzling over this conundrum. And I think there are a few explanations for it.

First, it's a natural instinct for people to become invested in believing the endeavor that becomes their life work is interesting. Otherwise, it would be very difficult to pull yourself out of bed every morning, endure a long commute, and remain engaged throughout the day.

Second, to a degree, we have been trained from an early age to reflect on our own personal and professional experiences. For decades, English teachers, tutors, and writing coaches have been advising their charges to "write what you know." And there is a pretty high incidence of English majors going to work in various media fields. As a result, after they gain experience, people in the media are inclined to write about their own industry. Perhaps more significantly, they have access to the means of creation, production, and distribution. (It's much easier to sell a sitcom pilot if you're a novelist than if you're a realtor.)

Third, and last, media, in all its permutations, has always been about storytelling: 35,000-year-old cave paintings in Indonesia, Greek tragedies, the Bayeux Tapestry, Revolutionary War broadsides, newspapers, novels, sound, film, television. And it still is, even when the stories are told using emojis in texts that vanish soon after their viewing. A deeply elemental impulse compels people to construct narratives to make sense of their lives and world, to instill values, to pass the time, to proclaim their humanity. And that, I believe, is why we continue to find it vital to consume media, to be involved in the media business, and to write and think about it. Whether they take the form of 140-character snippets of thought, two-hour feature films, or 900-page novels, we all want to tell and hear stories. +

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Illustration by Elwood Smith