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Media and entertainment execs need new breed of technology-savvy managers

Media and entertainment executives around the world are focused on the impact of technology on their industry and believe more technology-savvy managers are critical to their companies' future success, according to a new study by Ernst & Young.

Executives participating in the study say that the digitization of content, combined with the increasing adoption of broadband distribution technologies, is creating major shifts, challenges and opportunities for their industry.

The study, Fast Forward: Technology Propels Media & Entertainment CEOs into the Future, is based on extensive industry research, including in-depth discussions with 23 CEOs, CFOs and leading industry financial stakeholders, including top executives from such major global companies as The Walt Disney Company, Viacom, Inc., Time Warner, Inc., Sony Corporation of America, Reuters Group plc, Metro-Goldwyn-Mayer, Inc., Liberty Media Corporation, EMI Group plc, BSkyB plc, Havas, Clear Channel Communications, Inc. and others.

The media and entertainment companies represented in these high-level discussions had combined annual revenues of $214 billion and a combined market cap of approximately $340 billion.

"The pace of technology-driven changes in the media and entertainment industry throughout Europe and the world has created enormous strategic challenges and uncertainty for global companies," said John Nendick, Americas Industry Leader of Media and Entertainment for Ernst & Young. "Executives believe they must bring new talents and skills onto their management teams capable of better understanding and responding to constant change."

In fact, building the right management team was cited by 75% of participants as a major internal challenge to success, far more than any other factor. Technology and financial knowledge were frequently cited skills that will differentiate the next generation of managers, according to the executives.

Among the study's findings:

- The introduction of new industry-altering technologies is occurring
at an increasingly rapid pace without any slowdown in the rate of consumer adoption.
- Executives complain of unprecedented levels of competition, creating
severe industry pressure.
- 75%of executives participating in the study cited digital
video recorders (DVRs) - more than any other new technology - as an innovation likely to disrupt the industry's status quo.

DVR use, allowing viewers to time-shift programming and thus bypass advertising, is expected to grow rapidly in Europe, reaching 6.5 million households by 2007 and some 24.7 million US homes are expected to have DVRs by 2007. These are due to be launched in South Africa in October 2005.

- Electronic game software has the fastest growth in earnings before interest, taxes, depreciation and amortization (EBITDA) profitability of any media and entertainment industry sector.
- While television broadcasting remains one of the most profitable segments of the media and entertainment industry, executives generally see it as the most challenged to thrive and grow in the future.
- Radio enjoys low marginal costs and growth as advertising shifts from TV.
- Traditional print advertising is forecast to grow steadily, but still faces potentially disruptive threats from increased Internet usage.
- The music industry, which has been hard hit by piracy enabled by content digitization, now has the lowest profitability margins of any segment in the industry.
- Cable operators in the US, more than other industry segments, are likely to thrive in the years ahead.
- The single biggest point of controversy among executives is about joining or separating content and distribution.

"While the current level of new technology adoption may differ by country and region, the overall trend remains the same worldwide," said Steve Barber, European head of Media and Entertainment for Ernst & Young.

"Content digitization and the introduction of broadband technologies are forcing media and entertainment companies to rethink every aspect of their business, from intellectual property protection to new models for distribution and revenue creation."

"This study is highly significant for the South African Media & Entertainment industry," adds David Purnell, leader of Media and Entertainment for Ernst & Young in South Africa.

"Whilst DVRs in South Africa may be slightly behind and may not impact quite so profoundly as in the US and Europe for the moment, we are anticipating the significant impact which digital migration will have on television and radio in this country. Equally significant are the global trends for the music industry, which are further exacerbated in South Africa by piracy, which extends beyond the Internet.

"We believe that local CEO's have much to learn from their peers in this survey, as the global industry faces up to the most competitive time in its history and prepares to take on the challenges of new technology and operational re-organisation," Purnell concludes.