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## 2019 Media & Entertainment Industry Outlook

A new world of content and  
advertising possibilities

Deloitte Center *for*  
Technology, Media &  
Telecommunications

## Interview with Kevin Westcott

The 2019 US rollout of fifth-generation (5G) wireless technology will create a host of new opportunities across the media & entertainment sector. At the same time, familiar themes such as video streaming, cord-cutting, personalized content and advertising, and data privacy will continue to shape the industry, says Kevin Westcott, vice chairman and US telecommunications, media & entertainment leader, Deloitte Consulting LLP.



# Where do you see opportunities for growth in 2019?

As devices proliferated, two key, closely related trends continued to grab headlines in the media & entertainment sector over the past year: 1) the skyrocketing growth of streaming and mobile video, and 2) a shift away from traditional pay TV. According to a recent Deloitte study, 55 percent of US households now subscribe to paid streaming video services, and nearly half (48 percent) of all US consumers streamed TV content every day or weekly in 2017.<sup>1</sup> Not only are consumers across all age groups streaming more content than ever before—they are doing it on smartphones and tablets. US consumers now pay about \$2 billion monthly for subscription-video services.<sup>2</sup>

Meanwhile, pay-TV subscribers are reexamining the value they receive from their providers. Nearly half of all pay-TV subscribers report dissatisfaction with their service, and 70 percent feel they get too little value for their money.<sup>3</sup>

As many consumers halt their pay-TV subscriptions in favor of streaming video on demand, they're realizing that they need several subscriptions to satisfy their content-viewing preferences. As a result, we may be entering a time of "consumer subscription fatigue," with too many subscriptions and payments to track and justify. To remedy this situation, providers will probably reaggregate some of their offerings in 2019 in an attempt to truly compete with the many options on the market. At the same time, we're seeing more and more pay-TV offerings that include subscriptions to traditional streaming services, which will also affect the market. For example, Comcast announced in summer 2018 that it would add Amazon Prime Video to the online content available through its service. Comcast subscribers already enjoy streaming services such as Netflix, YouTube, and Pandora.<sup>4</sup>

Media companies have also been reevaluating their content strategies, increasingly investing in areas such as augmented and virtual reality (AR/VR). The past two years have seen a series of investments as large and small players alike rush into the AR/VR space.<sup>5</sup> "Ask the Expert" services and job training represent two big opportunity areas for AR and VR in 2019.

Similarly, many social media companies are entering the video content broadcasting space. Modern consumers are active on social media and watch a good deal of short-form content on their smartphones. Social networks are marrying these two experiences by pushing their members to tune in to their own short-form videos as well as TV-like programming. In addition, social networks are starting to bid for live sports, entertainment, and original series.<sup>6</sup>

From a technology standpoint, 2019 appears to be the year that "voice" will truly come to the fore. Adoption and usage of voice-enabled digital assistants is growing, indicating that voice

could be the next big thing—after touch—in human-computer interaction. Voice-assisted speakers are gaining strength as well, with US penetration reaching 20 percent.<sup>7</sup> Deloitte's 2018 *Digital media trends survey* revealed that over half of US consumers use a voice-based assistant, while a third access one on a weekly basis.<sup>8</sup> Smartphones are the most favored voice-assistant platform, followed by voice-enabled digital home assistants.<sup>9</sup>

In the near future, voice-enabled digital assistants and voice-assisted speakers could also provide intriguing platforms for highly targeted advertising and content delivery, with messages informed by a user's specific actions and interests.

One other burgeoning trend bears watching in 2019—especially for entertainment companies: eSports. This new phenomenon—multiplayer video-game competitions, sometimes involving professional players—is filling arenas and boosting bottom lines for game publishers and marketers. By 2020, the global eSports market is expected to generate \$1.5 billion in annual revenues, primarily from sponsorships and advertising to an estimated global audience of 600 million fans. Marketers bestowed more than 600 brand sponsorships on eSport titles and events in 2017 alone.<sup>10</sup> Large-scale media companies are beginning to participate. In July, the Overwatch League's Grand Finals sold out New York's Barclays Center. The Overwatch games were also televised over ESPN.<sup>11</sup>



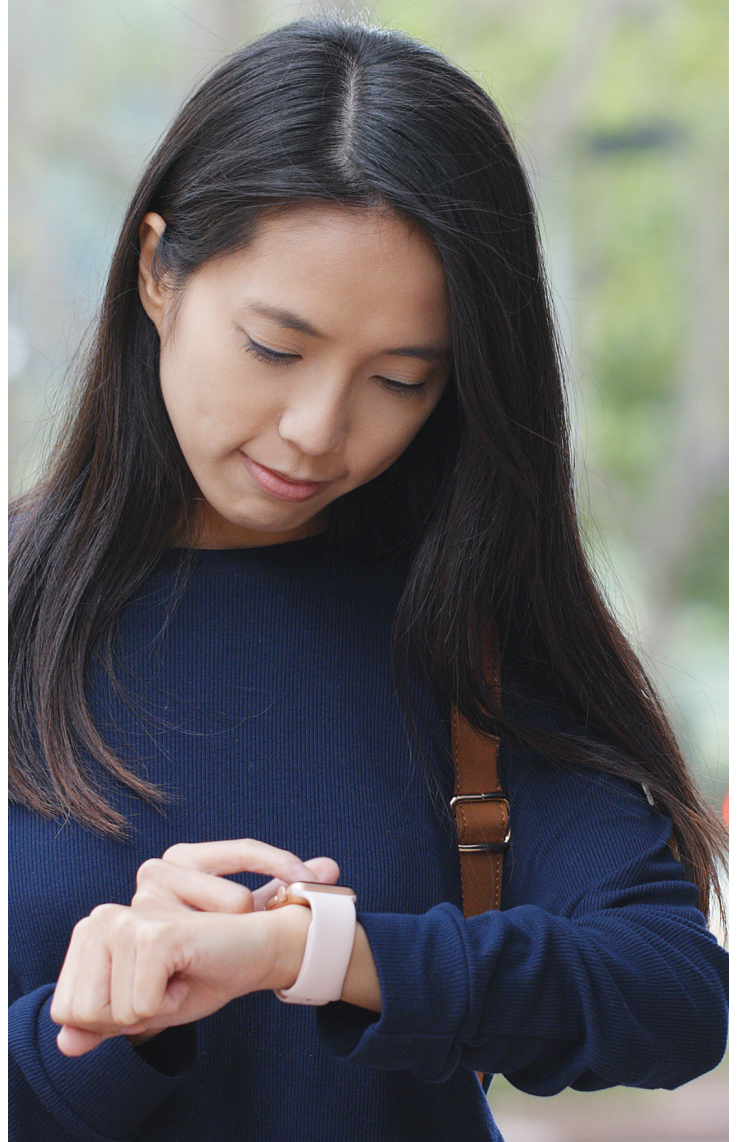
# Which markets do you see emerging in the sector?

Few technologies have been more eagerly anticipated by the industry and consumers alike than 5G. With its promise of faster data-transfer speeds, lower latency, and improved IoT connections, 5G will affect almost all aspects of the media & entertainment sector.<sup>12</sup> It will benefit other industries as well through applications like telemedicine and remote industrial control.<sup>13</sup>

Autonomous vehicles are another technology area that will benefit significantly from 5G. With 5G as a backbone, autonomous cars could become a key platform for delivering media content and advertising.

A few other markets could emerge to a larger extent in 2019:

- Connected/smart TVs are now found in nearly three-quarters of all US households,<sup>14</sup> but to date, that adoption level hasn't created a huge advertising market. However, that is starting to change: US spending on connected-TV advertising is expected to reach \$13.3 billion in 2019, up from \$4.7 billion in 2017.<sup>15</sup> Digital video advertisers are turning to connected-TV platforms to extend their customer reach, while traditional TV advertisers are considering connected TV to tap into customer segments that prefer streaming. Advertisers who use connected TV are more likely to target consumers based on behaviors rather than demographics.<sup>16</sup>
- While wearables can interact seamlessly with other devices to create highly personalized experiences, the category (including smart watches) is still awaiting its "killer app." At present, wearables seem to be delivering the greatest value in the area of health and wellness, where they have the ability to measure users' vital signs.
- Media & entertainment executives are exploring how to apply blockchain capabilities directly to their businesses—from dynamic 5G networks, digital identity, and IoT . . . to stemming piracy, enabling micropayments, and returning more royalties to content creators.<sup>17</sup> For media & entertainment companies, blockchain can create better and more secure content registries that quickly identify media assets and their owners.<sup>18</sup>



# What should businesses be mindful of as they plan for growth?

As they map their strategies for 2019, media & entertainment companies should account for a couple of key trends that have ramifications for the entire industry.

The first of those trends is the increasing investment in original content by streaming companies as a response to content pullbacks by media houses (such as Disney removing its content from Netflix and launching its own streaming service in 2019).<sup>19</sup> For example, Netflix and Amazon are investing in the production of original series and films.<sup>20</sup> Netflix's chief content officer said that 85 percent of its \$8 billion content investment in 2018 went toward original content. Amazon indicated that it would invest approximately \$5 billion in video content during 2018, with an emphasis on big-budget original shows and rights to sports programming.<sup>21</sup>

Another key trend for 2019 is the way digital is radically changing the dynamics of advertising. Spending on US TV ads fell for the first time in 2017 and was expected to slip another 0.5 percent in 2018 as more Americans move away from standard TV packages. TV's command over US advertising revenues has given way to digital, which is expected to bring in nearly half of all ad revenue in 2018.<sup>22</sup> Google and Facebook are carving up an ever-increasing share of the advertising pie.<sup>23</sup>

The industry's landscape will continue to be reshaped in 2019 by mergers and acquisitions—particularly as media companies attempt to strengthen their content libraries, quality, distribution, and value. Mega-mergers will ultimately allow a smaller number of big-name companies to control a greater portion of TV shows and films, potentially expanding their content libraries.<sup>24</sup> Changing consumer mobile-data and streaming behaviors are the primary drivers of media companies' aggressive M&A deals and strategic repositioning.

In addition to M&A activity, another key theme in 2019 will be the continued convergence of content and telecommunications networks. The rise of subscription streaming services and demand for original digital video content are pushing telecoms to incorporate digital content into their offerings. Telecoms increasingly want to own and monetize this content along with transporting it over their fixed and mobile networks. As with bundled services, many telecoms are achieving media/content integration through M&A deals, as well as partnerships. For example, T-Mobile US is planning a pay-TV offering using its acquisition of Layer 3. AT&T, meanwhile, is integrating assets of Time Warner (including HBO) in its own media offerings. Verizon, which is planning to launch 5G with a residential broadband offering, has partnered with YouTube and Apple to provide a network/content bundle.<sup>25</sup>

Meanwhile, stricter data privacy and protection regulations have forced digital advertisers to rethink and reinvent their ad-targeting strategies. The EU's General Data Protection Regulation (GDPR), for example, gives consumers more control over their personal data and forces companies to inform consumers of breaches within 72 hours.<sup>26</sup> It also states that personal data can be used only if a company receives explicit permission from consumers.<sup>27</sup>

As consumers demand greater transparency about how companies are using their personal data, some companies have started making their privacy and data protection policies more stringent. According to Deloitte's 2018 *Digital media trends survey*, 73 percent of all US consumers indicated they were concerned about sharing their personal data online and the potential for identity theft. In addition, 69 percent believe companies are not doing everything they can to protect consumers' personal data. However, 73 percent said they would be more comfortable sharing their data if they had some visibility and control.<sup>28</sup>

Regulatory changes will also continue to challenge the industry during 2019. In particular, regulatory authorities will have a key role to play in spurring 5G adoption in the United States. "Net neutrality" will be under the spotlight in 2019 as well. For example, two states—California and Washington—have passed laws that challenge the FCC's December 2017 repeal of net neutrality rules that prohibited broadband providers from blocking websites or charging for higher-quality service or content.<sup>29</sup> The net neutrality story will undoubtedly continue to develop over the coming year.



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