FILM, TV & GAMES CONFERENCE 2015

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Session 3: Disrupted or Disruptor? David Lancefield, Partner, PwC

This report summarises a session that took place at the BSAC Film, TV & Games Conference 2015.

David Lancefield, Partner, PwC, spoke about disruption to the audiovisual industries, the challenges that businesses would face as a result and how executives would need to respond in order to maximise their future success.

Summaries of other sessions from the day and a complete report of the Conference are available from www.bsac.uk.com

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ABOUT BSAC

The British Screen Advisory Council (BSAC) is an independent, industry funded membership body for the audiovisual sector.

We uniquely bring together the widest possible range of interests, knowledge and contacts to exchange ideas and information about business and policy issues. Our Members are invited to join on the basis of their personal qualities, experience and expertise, and are drawn from the major TV broadcasters, independent film and TV producers, distributors, exhibitors, US studios with major operations in the UK, trade associations, trades unions, training providers and new media companies, such as Google and Spotify.

Many of our activities take place privately, which enables business leaders to freely discuss the fast changing nature of the industry.

On policy, we provide opportunities for industry and policy makers to hear a breadth of viewpoints and, wherever possible, for the sector to speak with a single and authoritative voice. Over the years we have worked closely with the Treasury, HMRC, DCMS, BIS, IPO, the European Commission, WTO, and WIPO.

We also enjoy the support of Associate Members, which are businesses with a particular interest in the sector. These include legal firms, accountancy practices and investment management firms, and are an important port of call for obtaining views and expertise.

We commission and generate research and reports to underpin our work.

We host a series of events that are open to a broader invited audience. These include an annual Film, TV and Games Conference, an Interview Series and occasional seminars. These provide high quality debates and networking opportunities.

More information can be found at www.bsac.uk.com

DISRUPTED OR DISRUPTOR?
HOW YOU CAN PROSPER AND PROFIT IN THE MEDIA WORLD

DAVID LANCEFIELD, PARTNER, PWC

David Lancefield explained that he would be talking about disruption, in particular about personal behaviours and leadership, rather than from the perspective of value chains.

He described a trip that he had taken to visit his father-in-law's farm in Thika, in Kenya. While there he had seen a group of Chinese workers building a road. Having read some newspaper articles describing Chinese involvement as a new development and presenting the investments of British companies in a favourable light, he had made some observations about the potential business opportunities. His father in-law had calmly replied, "it's a bit too late actually, they've been here for years, what have the British actually been doing?"

Ignoring the wider politics, this was a good illustration of the ambitions of a country with the foresight and courage to make big risks and take chances. Of course, and equally applicable to media companies, there were many others that did not take these bets, arguably because they were too focussed on the near term or were complacent.

He would be offering a few thoughts on how change could potentially be introduced in the media industries and would also be seeking to offer a different lens on the world.

Conversations about mega trends tended to get one of two reactions: either passionate amazement at the potential, such as that offered by robots, the sharing economy or the millennial generation; or a sort of distain towards worrying about things that would likely not have any direct impact upon established business models for the foreseeable future. In both cases, the real challenge was to find sufficient time to consider exactly what these shifts really meant to the world, and to work out how to best respond to them.

He identified three important shifts of particular applicability to the media industries.

Firstly, the born digital generation would soon constitute the majority of the population. It was currently unclear quite what impact this would have upon media businesses, but they clearly would need to change in the ways in which they responded to developments and kept up with expectations.

Secondly, and particularly in the developed world, populations were aging. It was clear that within the next 15 years the proportion of the European population that were over 65 would increase substantially. There was often a lazy perception that older generations did not understand digital technology; this was a myth and absolute nonsense. He had recently spoken with the CEO of a local authority who, facing 28% in budget cuts, had been tasked with moving people towards online services to cut overheads, and had decided to give every pensioner in the constituency an iPad to see if this would facilitate the transition. Within hours, these people had started playing with these devices and doing all sorts of things, and had very quickly gone digital.

Lastly was the rise of the middle classes internationally. Globally, the Asian middle classes would soon overtake the West in size and total wealth; this would create new export opportunities for UK media companies, but it was difficult to predict the extent to which companies should shift their emphasis towards these emerging markets, or what the best business models for the future would be. He further noted that in developing markets the middle class was defined as having an income of just $10,000 a year, so it would also be necessary for companies to reassess their current understanding of 'middle class' in terms of income and mode of operation. He also highlighted some surprising statistics, that in terms of household budgets and decision making, 85% of consumer purchases – worth $25 trillion – were now made by women. This was something that was not always understood or even recognised by many media companies.

He also noted the trend towards automation and computerisation of jobs. PwC had recently worked with Frey and Osborne, a consultancy firm, who had produced a study that had concluded that a vast proportion of jobs in the US could potentially be computerised. It was currently unclear quite what the impact of this trend would be upon the media industries, although it was arguable that quite a lot of activities around advertising, commissioning or other analytical activities would be transformed.

He stressed that identifying the mega trends was only the first step, and that the real challenge was in knowing how to use these insights and translate them into action. PwC's survey had shown that, across all sectors, 55% of CEO's globally had named innovation as one of their key drivers of success in terms of growth, as opposed to acquisitions or organic growth through other means. However, if one were to examine the statistics, the actual growth of some of these organisations was actually far less than they should be if these were actually being put into effect, so these intentions were clearly being lost somewhere along the way.

He provided a macro overview of the global media industries. Two trends of particular interest were that mature economies, such as the UK, were very substantial in value but had quite low levels of growth; while at the other end of the spectrum a number of up and coming markets, including Indonesia, South Africa, the UAE and Peru, were considerably smaller in value but growing in aggregate approximately three times as rapidly.

His main points were that media companies needed to consider the balance of their portfolios between developed and developing economies. It was also very clear that consumers were far more demanding and fickle in their tastes than was often assumed. For example, there was often a lazy assumption that all millennials had very similar behaviour patterns, which was not the case. The challenge for many media companies lay in living up to the expectations of consumers when seeking to engage with them, as many organisations were lagging behind their customers in this regard.

Having spoken about the challenges and the mega-trends, he observed that it was one thing to have insights into the shifts that were taking place, and quite another for organisations to have the ability, capability and willingness to actually make some of the changes required to capitalise upon these.

He identified two distinct types of challenges: 'wicked' problems were those that carried a high degree of uncertainty, because they were the result of new and fast paced developing trends, so there was limited information with which to inform a response. These were quite different from 'tame' challenges, which were day-to-day business management activities or conventional crises.

PwC had recently surveyed 6,000 business leaders across a number of sectors on their capabilities to seek to ascertain how many were well positioned to deal with 'wicked' problems. Their conclusions had been that about 8% of leaders had the right sort of approach and mentality to respond to 'wicked' problems by effecting successful transformations – he termed them 'strategist leaders.' However, given the wider context and rate of change, there was currently a requirement for far more of these than were currently available.

He explained that 'strategist leaders' were those that gave their people the freedom to do things without over-managing them; interestingly, he observed that 'strategist leaders' were more likely to be drawn from the 55+ female demographic group than from any other.

However, there were a number of very positive developments in the industry; particularly the increased tendency towards movement across sub-sectors. For example, Marjorie Scardino had moved from CEO of Pearson to a non-Executive Directorship at Twitter; Eric Schmidt had moved from Google to The Economist; and Adam Crozier's career had spanned a broad range of different areas. While these moves seemed obvious today, they would not have been predictable a decade ago.

Another interesting development was that media leaders now seemed more focussed towards the executional implementation of actually doing stuff, and there was noticeably a greater sense of humility and an acceptance to talk about things that had not quite gone to plan. For example, Tony Hall had openly spoken about areas where the BBC needed to improve in a way that none of his predecessors ever had.

One characteristic of 'strategist leaders' was that they were clear on the direction of travel and prepared to stick the course, whilst not necessarily following the day-to-day numbers in meticulous detail – Thomas Rabe, CEO, Bertelsmann, was a particularly good illustration of this tendency.

One of the characteristics of many big media organisations was that they had very strong vertical structures, be it by territory, genre or platform, but often did not cooperate particularly well across these; consequently, one significant challenge lay in creating synergies across the organisation as a whole.

There was a tendency towards a more sophisticated use of data and windowing, and a movement away from the obsession with 'big data.' This was due to the recognition that companies were not effectively leveraging the data that they already had in order to achieve directly relevant goals.

Another was a move towards a different form of media organisation, one that was lighter, clearer on where it owned its assets and prepared to share resources across the sharing economy. Most importantly, there was a trend towards greater sophistication in the delivery of personalised consumer experiences, particularly a focus towards delivering desirable customer outcomes. This approach was far more customer centric and personalised in nature than had previously been the norm, and such organisations were clearer about what they wanted to achieve in terms of the customer groups that they wanted to reach and the sort of experience they wanted to deliver. This also carried over into increased clarity around the promises and opportunities offered to employees.

This was a radical change and a fundamental philosophical shift. While organisations frequently claimed to put their consumers first, it was typical for their managements to focus most upon improving their products, processes or internal structures, while treating actual customer needs as a secondary afterthought. If an organisation were to genuinely focus upon customer needs then it would need to completely rethink how it was structured, functioned, operated and incentivised its employees – the Harvard Business Review had published a great article on how Netflix operated, which brilliantly illustrated this.

One interesting omission in the knowledge based working environment of the creative economy was that, although most of the work was very cerebral, very little consideration was given to the mental health of employees. Mental illness was often stigmatised and something that sufferers tried to hide, rather than being recognised as something that organisations should seek to protect their employees against. In addition to being the right thing to do, there was a really strong potential competitive advantage to be gained from this. He described how PwC had held an event with Ruby Wax, who had argued that, for an organisation to create the conditions where its employees had sufficient freedom to be creative, they would first have to ensure that they were not always suffering from perpetual exhaustion. If organisations wanted to act in a smarter way then they should spend more time on identifying the conditions for success and focusing upon their core goals by stripping back management and process.

He stressed the importance for organisations of occasionally taking a reality check of their activities and assessing how outsiders might view their work. Companies often had an overinflated assessment of how much foresight they had, or about how experimental and innovative their approach was. There was frequently a tendency to confuse insight with knowledge or experience, and for organisations to devote resources and effort towards following processes rather than achieving outcomes. It was also particularly easy to follow the herd and to believe the myths, rather than to actually developing insights into what their real challenges were.

One of the biggest problems, particularly for traditional media companies, was nothing to do with innovation, culture or R&D; rather, it was dealing with legacy issues and creating sufficient capital and freedom from the established practices, behaviours and processes to create something new. In spite of claiming to be fleet-of-foot, many organisations were quite bureaucratic.

Executives needed to be able to work out they could change, both for themselves and within their organisations, in order to free up sufficient capacity for creativity and entrepreneurial spirit, and he identified three important roles that executives needed to fill. Firstly, correctly interpreting the trends, changes and shifts in the wider world, and deciding which would have relevance to the organisation. Secondly, being an architect for the structures that the organisation would need to build if they wanted to achieve its goals, including in terms of programs, platforms and services. And thirdly, being a catalyst who could make things happen and who could encourage and inspire other people to achieve their full potential. In order to achieve greatest success, any leader would need to master these three skills.

Personal re-examination was important and he encouraged delegates to embrace difference and to look beyond process to the people involved. All of the evidence showed that, if you could bring different people together, at the right time and in the right way, then greater levels of creativity, entrepreneurial spirit and, ultimately, shareholder and public value would be created. While irrefutable, this was still something that was frequently overlooked. Technology offered an incredible potential for connectivity, but it was vital that its users made time to unplug and to reflect upon the wider picture, including being honest about their limits and recognising when things were not working.

He illustrated this by drawing examples from some of his previous projects. He described how he had worked with a company that had desired to become the equivalent of the next Apple or Google, but who simply did not have the capacity or corporate culture to operate in a similar way. He also provided the example of a TV company that had sought to innovate and expand into the OTT world, explore partnerships and make significant acquisitions, but who, due to their size and legacy systems, would never have been able to raise sufficient capital to achieve these goals.

In both cases, the ambitions of the two companies had far exceeded their capabilities. He explained that a vital part of leadership lay in calculating what was realistically possible, identifying the existing blocks and incentive structures, and then navigating a path between the two.

He returned to his original story about the car ride with his father-in-law in Kenya. After considering the Chinese road, they had visited a Kenyan-Indian friend who had just opened a hotel in Nairobi. This friend had just sold his stake in a bank in East Africa, and they had conversed about this, and about the flower farms that he ran, and the plastic companies that he had previously run – he was quite a successful serial entrepreneur. This friend had spoken openly about his failures, but also about how he had brought different people together at different stages in his career However, and despite his successes, this friend had been very humble and incredibly curious to learn more about everything. These capabilities had made him a great example of a strategic leader, and would be great attributes for anybody seeking to transform media companies in the incredibly disruptive, uncertain, ambiguous and dynamic environment that the sector was currently experiencing.

He concluded by encouraging business leaders to think about how they spent their time in the boardroom and to work out what mattered most to them, what they needed to shift and what simple changes there were that would result in a big difference. Quite often, small risks were not particularly difficult to take and were worthwhile because, in any environment as fast paced and competitive as the media, the potential of failure was far less than the risk that other companies would seize market share by capitalising on these opportunities instead. The most important part of disruption was in recognising how companies could disrupt themselves.