



**From innovation to  
expectation – how  
M&E leaders are  
responding to Gen Z**

Media & Entertainment

Do you know  
what your  
customers  
want?



**Are you ready for Generation Z,  
their unique attitudes, preferences  
and how they consume content?**


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***"A lot of times, people don't know what they want until you show it to them."***

***- Steve Jobs <sup>1</sup>  
Co-founder, Apple Inc.***

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<sup>1</sup> "Steve Jobs' 14 most inspiring quotes,"  
Gulf Insider, 30 September 2015, via Factiva.



# Now more than ever, as M&E leaders, you need to listen to your customers.

Is the customer best placed to understand what they want? Their point of reference often is defined by their experience and influenced by what they know, so how aware are they of everything that is possible?

Snapchat's counterintuitive model is the latest example to follow in the footsteps of Apple's Steve Jobs. Auto delete takes entrenched conventions of content ownership, valued by many consumers, and turns them upside down. Snapchat, unlike many of its social media peers has no collections, no archives and no histories.

Today, the potential of media and entertainment companies to understand their customers is greater than at any time in history. Successfully capturing insights from an array of sources and translating them into viable products, services and business models will go a long way in defining the leaders of today and the leaders of tomorrow.

*"If I'd asked people what they wanted, they would have said faster horses."*

*- Henry Ford  
Founder, Ford Motor Company*


.....  
<sup>2</sup> "Ford principle still holds today; Don't ask, just innovate," Postmedia News, 21 November 2011, via Factiva.

# Are you ready for Generation Z, their unique attitudes, preferences and how they consume content?

Generation Z is different from anything we've seen before. Much has been said about millennials, but Generation Z is the first to be digitally native. They are the first to social media, the first to grow up using mobile technology and certainly the first to grow up using mobile video. Since YouTube™ was founded in 2005, most millennials remember a world without mobile video – most of Generation Z does not.

Technology aside, Generation Z also has refreshingly different attitudes. They are more entrepreneurial, they grew up with search engines and like to discover content for themselves. They also like to be involved in the process, contribute to the solution and be more immersed in experiences.

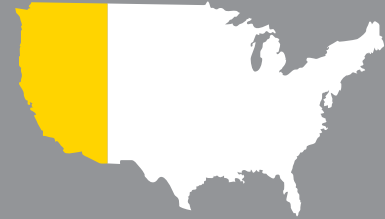
The step change for M&E companies from traditional business-to-business (B2B) models to direct consumer relationships is focusing attention on the need of more granular insight. Nowhere is this more apparent than the unique behaviors and preferences of Generation Z.

<b>Millennials</b>	<i>versus</i>	<b>Generation Z<sup>3</sup></b>
Entitled		Persistent
Idealist		Realist
Creative		Innovative
Dependent		Self-reliant
Self-centered		Self-aware

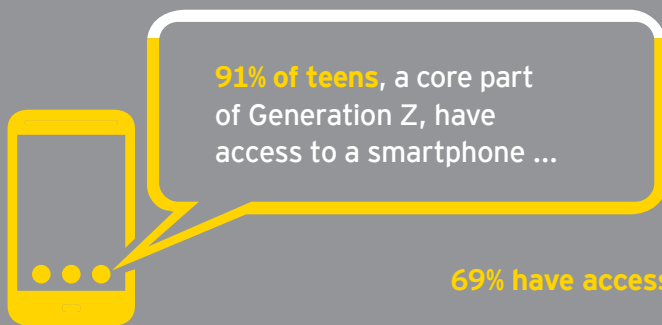
<sup>3</sup> *What if the next big disruptor isn't a what but a who?*, EY, 2015.

## Who is Generation Z?

Sometimes called the iGeneration, post-Millennial or lumped together under the broader umbrella of “digital native,” Generation Z refers to those born since the mid-1990s and represents about **25% of the US population**.



In four years, they will represent **24% of the US workforce** and as much as **40% of the US consumer market**.



**91% of teens**, a core part of Generation Z, have access to a smartphone ...

**69% have access to a tablet ...**



... and **90% watch YouTube daily**.

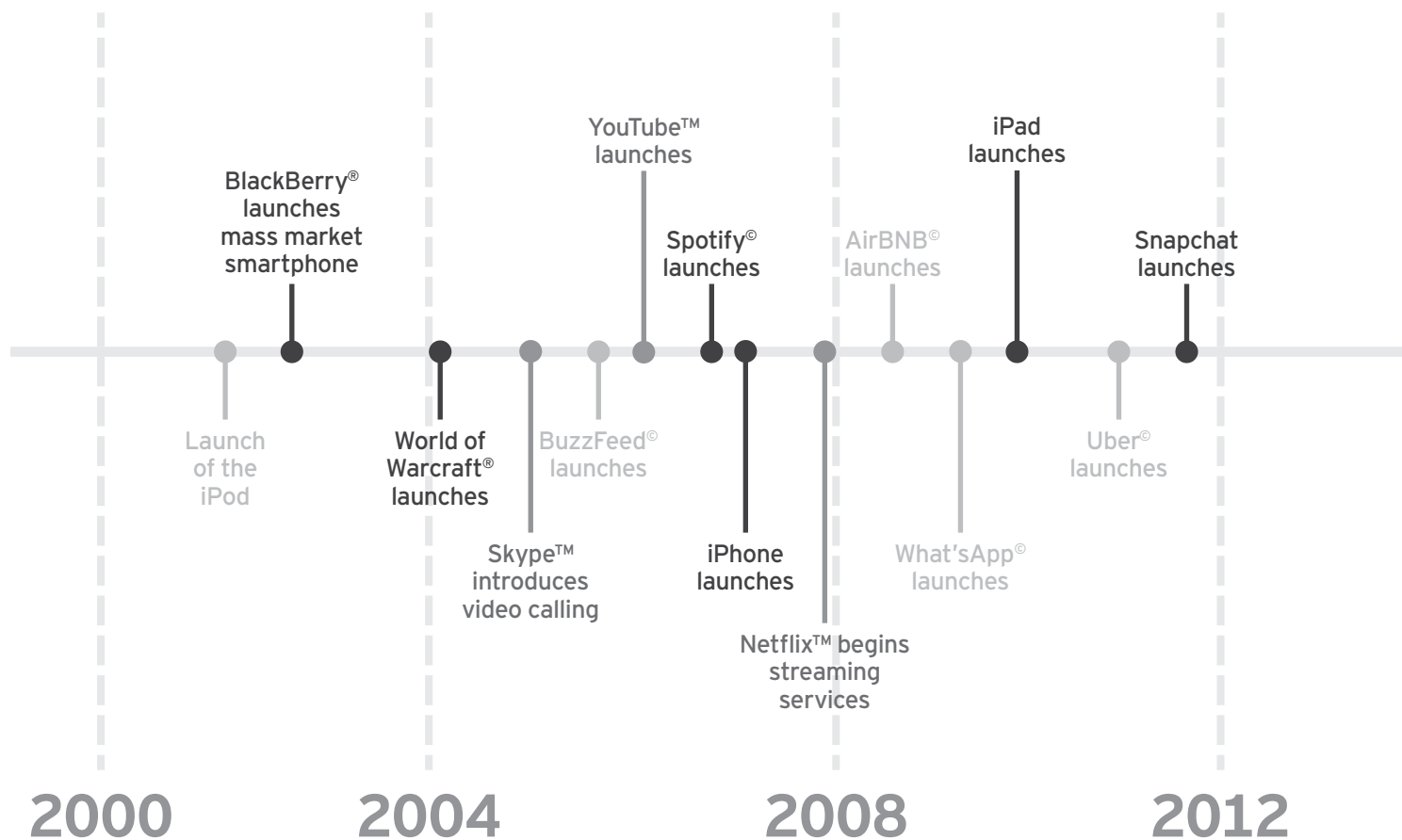


For a generation growing up with an unprecedented amount and variety of technology, new innovations are no longer seen as disruptive. They are the new

normal. Innovations such as virtual reality, driverless cars and the ability to print 3D candy bars no longer surprise Generation Z. They expect the next iteration,

and they want to play a role in its design. They are a generation that has moved “from innovation to expectation,” a generation of “not if, but when.”

## From innovation ...



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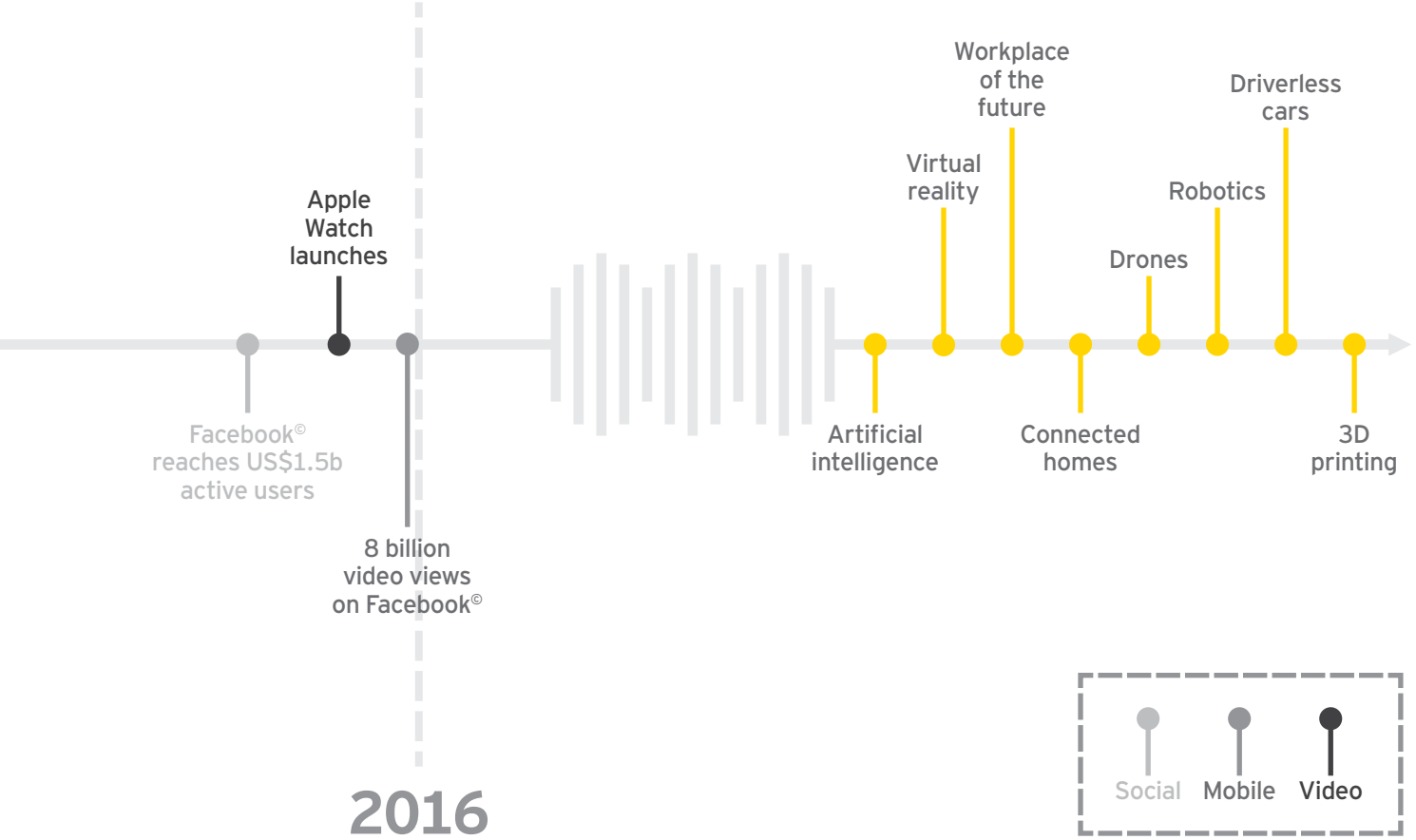
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# Generation Z and Generation C no longer see technology as disruptive ... it's the new normal.

... to expectation

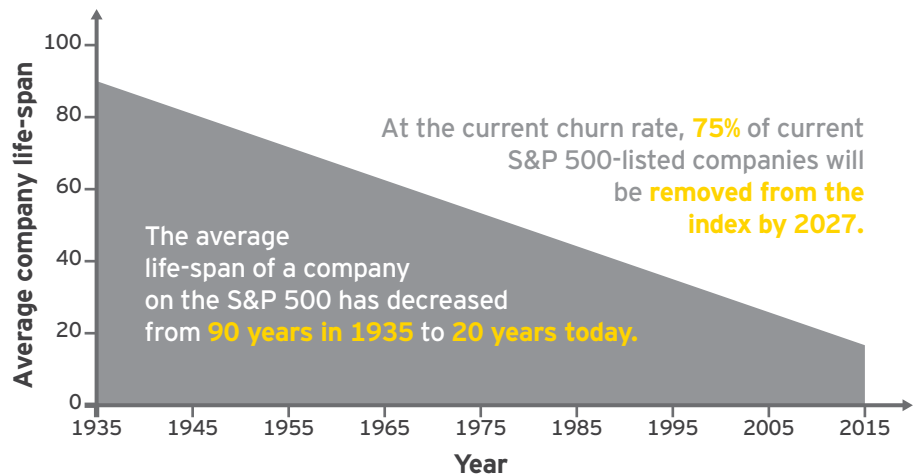


# Where are M&E leaders investing today so they are the M&E leaders of tomorrow?

Responding to changing consumption models means a rethink for M&E leaders about new business models and new investments.

To better understand where investments are being made, EY conducted proprietary analyses of two groups. These include 1) today's leading telecoms, technology and media companies but also 2) the next generation of companies in those sectors.

## Innovate or die?

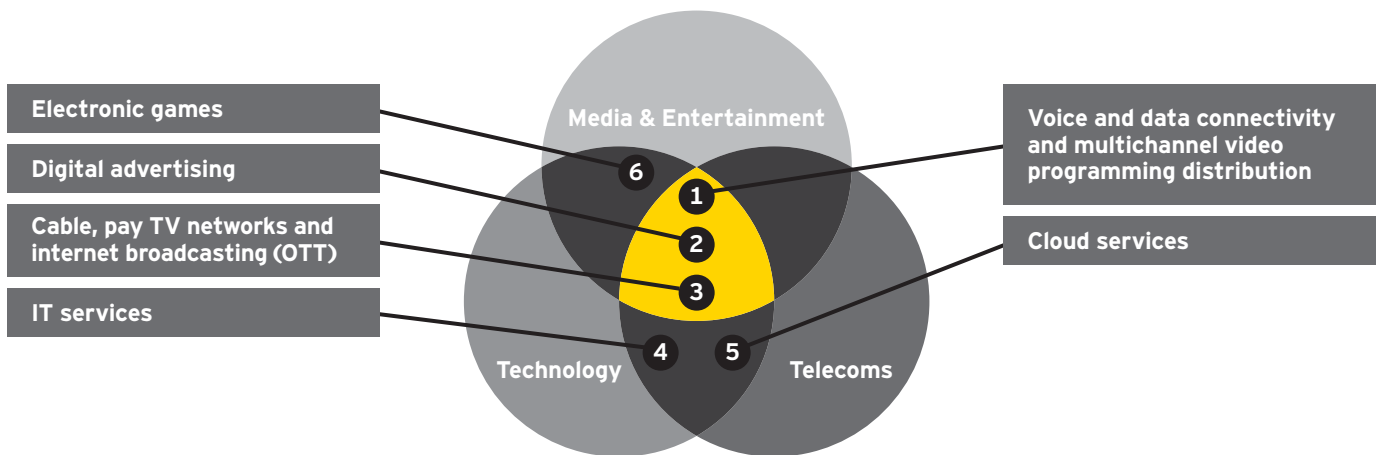


## Industry top 30

An analysis of revenue streams, as well as investments and deal activity, reveals how the top 10 in each of telecoms, technology and media remain leaders in core areas, but it also shows where overlaps are increasing. Convergence is happening in six principal areas, and by far the three most common are:

1. Digital advertising
2. Electronic games
3. Cable, pay TV networks and internet broadcasting (OTT)

In search of customers, industry leaders are increasingly investing in common areas.



### The digital advertising dilemma<sup>4</sup>

- ▶ EY's latest research on digital advertising, one of the focus areas of the industry top 30, reveals as much as US\$8 billion of lost revenue.
- ▶ Half of the loss derives from “nonhuman traffic” – fake advertising impressions that are neither generated by real advertisers nor received by actual consumers.
- ▶ The other half comes from a variety of factors, including ad blocking and content infringements such as the sharing of passwords.

<sup>4</sup> What is an untrustworthy supply chain costing the US digital advertising industry?, EY, 2015.



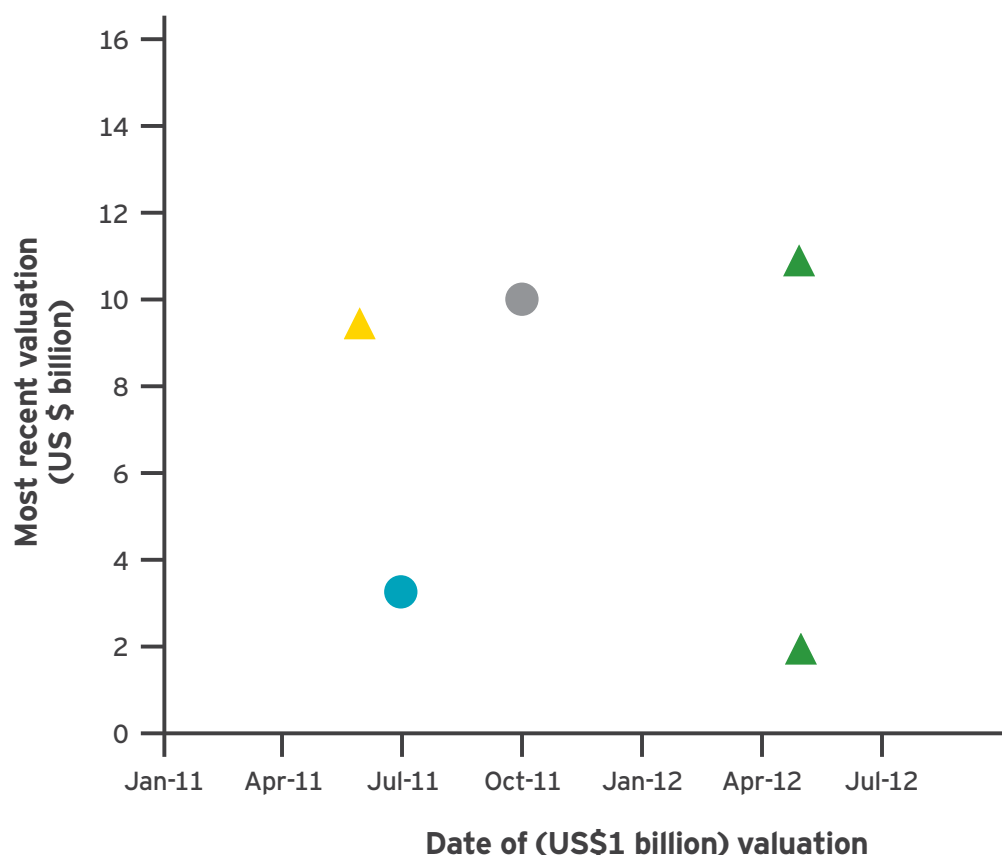
## Unicorns and decacorns

Analysis focuses on 60 Unicorns. These are the world's most value, privately held companies founded in the past 10 years with a market valuation of US\$1 billion or greater. Decacorns have a market valuation of US\$10 billion or greater.

Across telecoms, technology and media, the 60 represent US\$143 billion in value and a broad mix of services, business models and subsectors. They are digital first and adept at scaling new service offerings and at accessing new distribution channels, customer and audience segments.

Incumbents are responding, at least in part, by taking positions in unicorns and creating a tangled web of investments. Of those on our unicorn list, Vice Media has received two rounds of investment from Disney. NBCUniversal holds stakes in BuzzFeed and Vox Media. NBCUniversal's parent, Comcast, which also has a stake in Vox Media, is an investor in wearable tech company Jawbone, neighborhood social network Nextdoor and fantasy sports provider FanDuel.

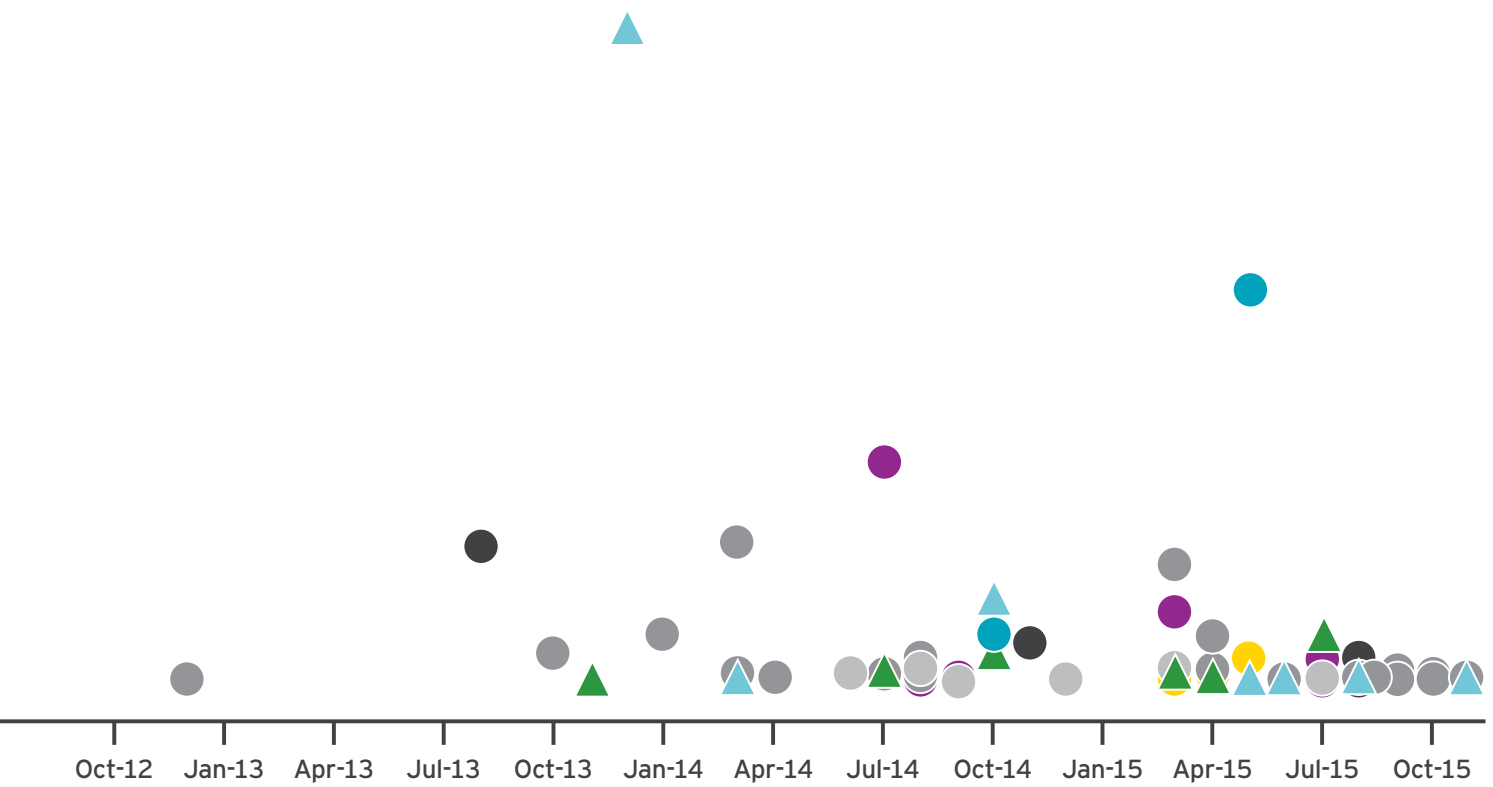
## The rise of the unicorn.<sup>5</sup>



Today's leaders are investing in unicorns to:

- ▶ Hedge against disruption to their core, existing businesses and retain customers
- ▶ Access new customers by aligning with some of the fastest-growing companies inside and adjacent to their own sectors
- ▶ Learn from businesses that frequently have more agile and innovative cultures with different talent profiles and ways of working
- ▶ Capture new talent, technology and intellectual property

<sup>5</sup> NB: Excludes MachineZone due to absence of a specific financing related valuation.  
Source: EY Analysis



- |                         |                                   |  |
|-------------------------|-----------------------------------|--|
| ● Cloud services        | ● Internet broadcasting           | ▲ Online music and audio service                   |
| ● Electronic games      | ● Online advertising              | ▲ Social media                                     |
| ● Emerging technologies | ● Information technology services | ▲ Connectivity and multichannel video distribution |



**EY's research shows M&E executives are confident in the broader economy and are likely to continue investing.<sup>6</sup>**

The rise of unicorns illustrates the relentless treadmill of disruption, and yet, there is a newfound confidence among M&E executives about the economy and the wider investment climate.

Eighty-one percent of M&E executives say the global economy is improving, compared with 52% who said that a year ago. In the year ahead, the global mergers and acquisitions (M&A) market is forecast to remain buoyant, with 73% of executives indicating it will improve, up from 49% last year.

The target areas for investment are a mix of emerging market powerhouses, such as China and India, but attention is also focused on more mature media markets such as the UK, Australia and the US.

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<sup>6</sup> *M&E 13th Capital Confidence Barometer*, EY, December 2015.



## Capital confidence continues to rise

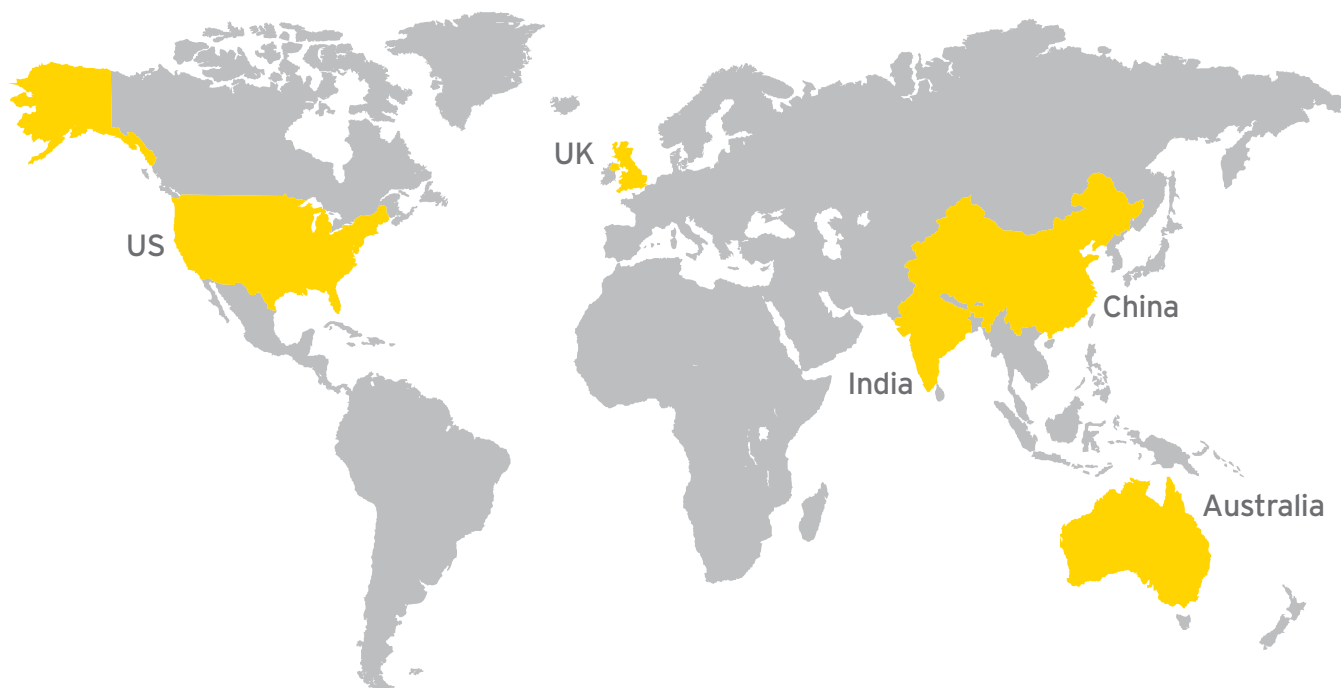
**81%**

of M&E executives say the global economy is improving

**73%**

say global M&A will stay strong in the year ahead

Digital continues to have the greatest impact on M&E companies' core business and acquisition strategies.



Top investment areas include China, the US, the UK, India and Australia.

# The Internet of Things is a reality, but how will M&E leaders capitalize?

The Internet of Things (IoT) is coming of age. The connected home, connected car, connected store and wearables already are a reality that will only grow. By 2019, the number of connected cars in the US will almost triple to 60 million. Estimates vary, but 30 billion installed IoT units are forecast to be installed by 2020.

For M&E companies, IoT offers huge potential. In its simplest form, IoT is the proliferation of sensors to capture vast and varied data about customers; their behaviors, emotions, sentiments, their physical reactions and well-being. Yet, data is only part of the picture. The next step is to make sense of it – to uncover what customers really want. And even then, it is the action it engenders that finally turns the data into a business model. In plain terms, technology and gadgets are not enough to capitalize on the IoT, but the timely, targeted and relevant delivery of content creates experiences that bring the IoT to life. Take the example of connected and autonomous cars. When we no longer need to drive, will it free up an estimated 50 billion hours in the US alone. It is time that can be filled, at least in part, by consuming content tailored to the individual and their own micro-environment. The media and entertainment industry is in a unique position, playing a role as both an enabler of greater connectivity and is at the heart of the ecosystem as a producer and distributor of content.

Utilizing data to better understand customers and create experiences is how the IoT unlocks our understanding of Generation Z. It will make them part of the solution, help to anticipate their needs and build respect and loyalty, which they crave from brands. Success relies on combining each of these three efforts:

- ▶ Doubling down on data
- ▶ Telling stories and building experiences
- ▶ Looking for partnerships (acquisitions)

## 1010110 100100 110101 Doubling down on data

Generation Z is the most willing to surrender personal data, albeit on the assumption of a value exchange. M&E leaders will take advantage of this. They will take this data and, based on predictive insights with more targeted content and advertising, they will distill it into more tailored experiences.

The competitive advantages of data are increasingly apparent to cable operators such as Comcast. They know the set-top-box, which was envisaged as a one-way distribution device, is really a treasure trove of data and insight about their subscribers. Comcast collects viewing data from almost 90% of its subscriber base with more advanced set-top-boxes collecting even richer information. By adding set-top-box data to existing CRM information, web browsing histories as well as third-party data, Comcast builds a picture of its subscribers that is sufficiently granular to open up new revenue opportunities. Comcast can monetize it themselves through personalized advertising systems like their Adtag and Adcopy solutions, but it can also make data available to third parties, such as ratings agencies, content providers and advertisers.





## Telling stories and building experiences

Storytelling is important to Generation Z. They care about seamless experiences and value engagement that builds into ongoing relationships rather than transactions. M&E companies that understand this will utilize the array of connected devices to which customers have access to in an effort to tell integrated and connected narratives.

In February 2016 Sky launched their Sky Q box in the UK. There are parallels with Comcast's Xfinity. It is a new generation of set-top-box that effectively operates as a Wi-Fi hub, bringing together multiple connected screens and devices throughout the home. Packed with 12 tuners, the new set-top-box creates a connected home, enabling seamless transition from room to room and from device to device. It allows customers to bring control of all their connected devices, not just Sky devices, through one integrated experience.



## Looking for partnerships (acquisitions)

Their investments in unicorns illustrate M&E leaders' understanding of the need for partnerships and acquisitions. It is the fastest route to expanding capabilities, accessing new business models and achieving scale. Media and entertainment companies are reaching out to work with technology and telecommunications players, cybersecurity services, venue owners, automotive companies, health providers and appliance manufacturers.

Take, for example, the recently announced partnership between NBCUniversal's Syfy Channel and leading technology firm Philips. Syfy Labs is using their app to integrate programming with Philips' Hue, their smart lighting system. Television shows are synced to lighting with the colors and brightness changing in accordance with twists in the plot. In this way, by combining two discrete elements of the IoT, Syfy and Philips are delivering far richer, more immersive experiences. Perhaps this is a small and early step, but it provides a glimpse into the potential of what can be achieved through collaboration.

**Do you know what your customers want ...  
and what that means for your business?**

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EYG No. EA0109-R  
1601-1814709

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