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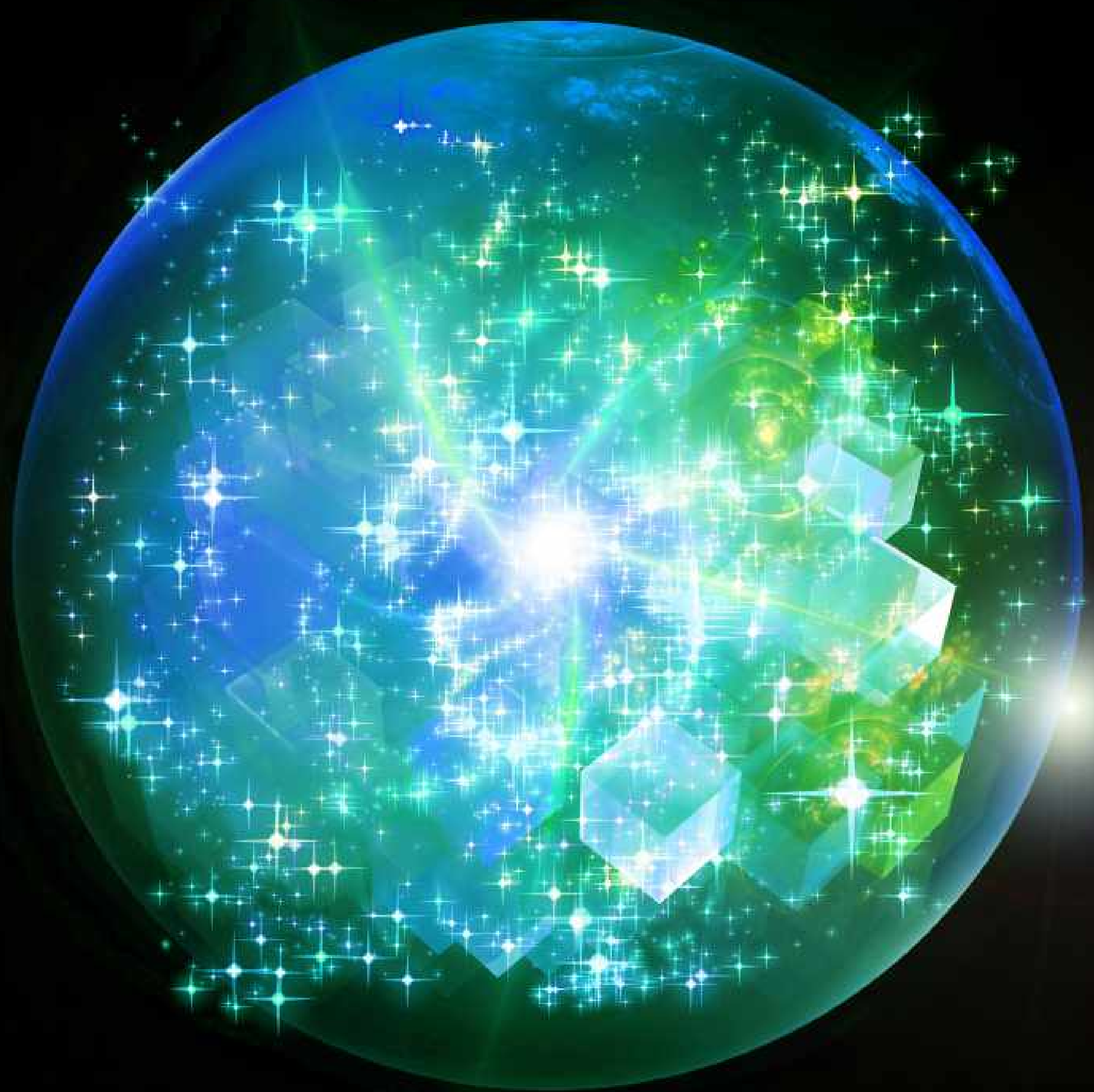

COVID-19 outlook for the US media and entertainment industry

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Deloitte Center *for*
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Positioning industries for a stronger future

The continuing COVID-19 crisis is creating enormous uncertainty and change—and questions with no obvious answers: Which changes will persist? What will the new world look like? How will people and firms adapt?

Even as technology, media, and telecommunications companies focus on responding to the global pandemic and its immediate repercussions, they hopefully will soon need to pivot toward recovering from the crisis and setting themselves up to thrive in the next era. Sudden change can loosen old foundations, creating opportunities for greater progress. Companies should reassess what and how they sell, how they operate, and how they can forge stronger and more direct relationships with customers.

About this series

This series will frame a discussion and explore what's changing, what strategic issues to consider, their impacts, key actions to take, and questions to ask. There are many different scenarios, and we may not have all the answers yet, but we can act with foresight to better position ourselves for a stronger and more resilient future.

Key takeaways

To recover from the crisis while laying the foundation for a thriving future, media and entertainment organizations should consider four key strategic opportunities:

- **How to adjust business models and technologies for better consumer engagement**
- **How to redefine relationships with advertisers during the spending pullback**
- **How to reinforce content production and distribution to be "future-proof"**
- **How to prepare for new consumer behaviors that may become permanent**

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The recovery phase will likely require M&E companies to have the determination to confidently move forward.

Rebooting and rewriting media and entertainment

As M&E organizations respond and recover, they are being forced to build a new plane while flying the old one.

Media and entertainment go off script

The evening of March 11 played out like a disaster movie scripted by a Hollywood writers' room. Within less than an hour, the National Basketball Association halted all games after a player tested positive for COVID-19, the president of the United States announced a Europe travel ban, and actor Tom Hanks tweeted from a movie set that he had contracted the coronavirus.[2]

This sent shockwaves across many in media and entertainment (M&E) and led to the shutdown of hundreds of TV and film productions throughout the United States and the world.[3] Not long after, governments at every level ordered cinemas, live entertainment venues, and theme parks to close—and those allowed to remain open found themselves with few or no customers.[4] And there are no reopening dates scheduled: A typical disaster movie ends with a resolution after two hours, but the broader reality for the M&E industry is a considerably longer period of triage, pragmatic continuity, and contemplation of the new normal, whatever that might look like.

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Making production sets, live venues, theaters, and theme parks physically and psychologically safe for employees and consumers will be a significant challenge. Some M&E sectors are better placed than others to endure the changes driven by the COVID-19 crisis, but many were already struggling with segments facing structural decline. This disruption will likely exacerbate those challenges.

Amid continued transition to subscription-based models, advertising remains important to M&E segments, and the rapid spending decline represents another challenge. Advertisers will surely resume spending, but the question is not just when, but also how and where. Additionally, new physical limitations threaten transactional revenues, especially from big-ticket items like live performances and theme parks. Finally, the road to recovery will likely hinge on the health of the broader economy. Depending on how soon the virus is contained, Deloitte's US Economic Forecast for Q1 2020 sees a 50 percent probability of a recession and a 30 percent chance of a financial crisis.[5] Even after employers begin to rehire millions of those whose jobs have vanished in recent weeks,[6] the aftershocks could affect how much consumers are willing to spend on movies, live shows, vacations, and even subscription services.

To respond and recover, M&E companies face some key concerns:

- Will customers return to live venues when they are allowed?
- When advertisers come back, where will they go?
- With what platforms will consumers engage most going forward?
- What changes are needed to make content creation and distribution nimbler and more resilient?

Bringing people back

The successful containment of COVID-19 will likely largely determine when employees and consumers will be allowed to leave their homes and to return to cinemas, concerts, and theme parks. The question is how soon, once shelter-in-place orders are lifted, they will feel comfortable returning to potentially crowded public spaces.[7] More broadly, how might this health and economic crisis reshape media and entertainment for a changed society?

When people do return to venues, M&E companies can take steps to alleviate concerns by putting in place smart practices. This includes how to best safely return employees to the workplace and train staff to enforce space limits, maintain health standards, conduct temperature checks, and provide personal protective equipment to employees and consumers.

Restoring advertising

Just as physical impacts related to the COVID-19 crisis are hampering many M&E segments, the economic impacts have led to an unprecedented decline in advertising revenue for publishers, broadcasters, and social and other digital channels.[8] Additionally, the advertisers producing new spots and ads have changed messaging and tone, often dramatically.[9] Advertising revenue will likely return as the economy recovers and as consumer spending is restored, but there are significant uncertainties around what amount will return and what form it will take. The Great Recession triggered a significant shift from traditional to digital advertising, and the industry took almost a decade to recover.[10] As things evolve and begin to settle over time, it may be critical to build an understanding of which platforms—new and old—can help M&E companies engage consumers.

Advancing direct-to-consumer

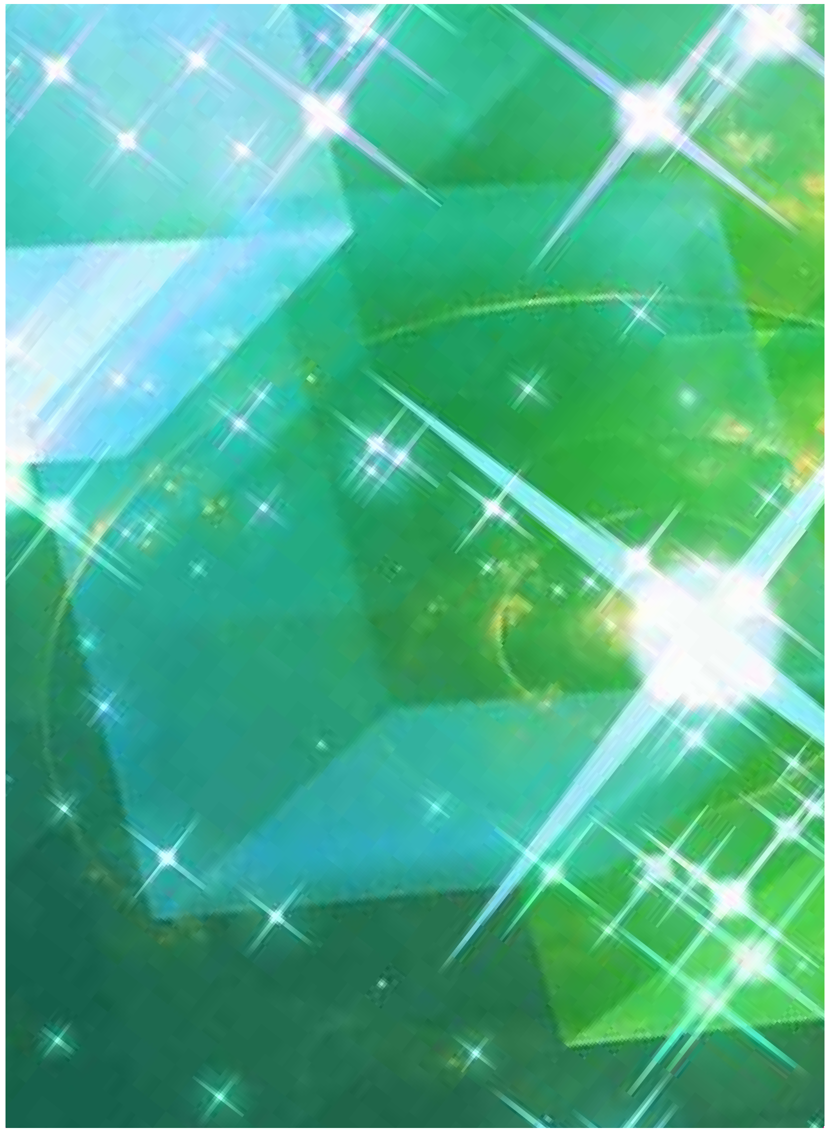
Before the pandemic, many M&E companies were already shifting significant resources to their direct-to-consumer (DTC) platforms. Now, with most people at home and streaming service usage exploding, the imperative to mobilize DTC models could hardly be clearer.[11] This will likely drive some companies to accelerate their technology transformation plans and partnerships and others to modify their business models to enable a strong shift to DTC distribution and sales.

In the midst of the crisis, DTC experiments for live music and new and recently released movies may suggest how traditional content distribution might be reformed after the crisis.[12] This unprecedented period could lead to some potentially lasting changes in both media creation and consumption across devices, content types, and platforms. Companies should closely monitor consumers to distinguish transitory behaviors from permanent changes.

Adjusting content creation

The COVID-19 crisis has dramatically disrupted the content pipeline. For instance, it has halted the production of all TV, except for some select live and news programming.[13] This has caused many broadcasters to reduce their number of premieres and conserve new episodes, filling time on their schedules by airing reruns. Some networks have scrambled to replace normal programming with expanded live news coverage to meet the appetite for crisis-related information.[14] With film studios pushing back theatrical runs indefinitely, delays in movie production and scheduling could potentially cascade for years.[15]

The resumption of film and TV content production will likely rely on employees and staff—as well as on-camera performers—being able to leave their homes and feel safe returning to work. M&E companies may adjust production to get back to work as fast as possible while considering what editorial or technological adjustments may be necessary to create content under physical restrictions. This could include such things as the increased use of virtual writers' rooms and casting via videoconference.[16] To prepare for the longer term, companies may also be rethinking the structure of their workforce to make content creation and production more efficient, capable, and resilient.



How to recover stronger than ever

M&E companies have made significant job cuts and business changes to survive the initial disruption due to the COVID-19 crisis, but as they transition from response to recovery, they can develop strategies that can position them to be more successful after the pandemic subsides.[17]

Enhance consumer engagement and service

With more and more people getting their content digitally, companies should have a laser focus on consumer engagement and retention. Companies that provide video streaming, gaming, news, and broadcasting may be affected by the cutbacks in advertising revenue, but they should capitalize on the increased traffic to their digital platforms. This can be an opportunity to capture more data around usage and engagement in order to deepen relationships with consumers, enabling people to get access to what they want, when they want it, and how they want it.

Actions to take:

To better understand their customers and audiences, companies should accelerate efforts to enhance the consumer experience; improve communications and customer service; and utilize advanced data, analytics, and artificial intelligence to deliver more fine-grained insights and segmenting. Building strong and sustained engagement now can help even more once the economy recovers. This can not only deliver greater value to consumers, but also enhance advertising (more data around who is watching what) and improve financial returns (what content could potentially be more popular—or cheaper to produce). Since content is a critical driver for retention on direct-to-consumer services, companies should seek ways to make more relevant content easier to discover and access.

Questions to ask:

- How can customer service operating models better optimize for engagement?
- How can data about consumer preferences enable 360-degree digital relationships with them?
- Which new digital channels are attracting consumers? How do they enable faster or cheaper engagement?

Rethink physical spaces

When distancing restrictions begin to lift, many entertainment venues, such as theme parks and cinemas, may be forced to adapt to new requirements for spacing and seating capacity;[18] reduced venue capacity could be the new normal for some time. But a redesign to meet such requirements could be an opportunity to remodel and optimize venues—for example, more premium-style seating and services. This could differentiate the theater experience while potentially opening additional revenue streams. At the same time, venues could explore how they can affordably—and dynamically—deliver both live and broadcast experiences to remote audiences.

Actions to take:

Companies may need to re-evaluate their staffing and infrastructure to meet crowd control and spacing needs while training people on new standards and regulations when those materialize. This could be an opportunity to experiment with concierge-like services for attendees. Companies should also explore how technologies that enable greater safety—such as "touchless" environments—can tie into rewards programs, consumer engagement opportunities, and exclusive experiences.

Questions to ask:

- Do ticket sales and event management systems have the capacity to manage new physical requirements? Can the systems handle consumer profiles and incentive programs?
- If venues must operate on reduced capacity for some time, what additional ways can they create revenue? Are there other experiences or remote services that can tie into live events?
- What else could be done to venues during a possible remodel for spacing? How could they be transformed into something new and different?

Use the crisis to build resiliency

The crisis has highlighted how risk can get baked into contract and insurance decisions. Some live event organizers have canceled events and refunded consumers; others have postponed events. The pandemic caught some music festivals with no disaster insurance, forcing promoters into financial hardship, making refunds even more difficult.[19] These serve as reminders for live entertainment event companies to consider potential shocks and disasters when planning payments and contracts. Wimbledon's All England Club, which canceled its premier tennis championship for the first time in its history, was able to mitigate its exposure to the COVID-19 crisis, having paid for pandemic insurance for more than a decade.[20]

Actions to take:

Live event and ticketing companies should give greater priority to resilience against unexpected crises. Rethinking disaster planning can ensure that companies have greater operational flexibility when they need it most. Leaders can also look to build out remote and streaming capabilities, not only as a fallback when disaster strikes, but also as a way to expand audiences beyond the venue. Perhaps more venues could become modern multichannel broadcast studios.

Questions to ask:

- Are there ways to redesign event contracts to build in greater resiliency for when disaster strikes? How much should be committed to insurance coverage?
- Are adequate risk management policies in place for managing the health and safety of employees and consumers?
- How could telepresence and live streaming expand access to audiences—and revenues—for live events while building in options to respond more effectively to disruptions? Are there contractual provisions that allow for multiple distribution scenarios?

How to thrive in the next era

The recovery phase will likely require M&E companies to have the determination to confidently move forward. But to thrive, companies may need to break old models and build new ones that support a return to growth. Many content creators are celebrated for their rich heritage and connection to a romanticized era. This crisis is an opportunity to preserve the best of the old era while moving forward to imagine and create a renewed industry.

Reimagine the creative workforce

Many M&E companies have been forced to lay off or furlough large segments of their workforce; some companies that initially avoided drastic job cuts have had to implement pay cuts and reduce hours for employees in order to retain their talent and stay liquid.[21] Additionally, many senior executives have pledged to forgo a salary until the crisis is over.

However grave the situation, the disruption could be an opportunity for creative industries to institute overdue changes to traditional structures and practices. Companies are gaining new experience by being forced to implement flexible work arrangements and minimize on-site work. Aggressive transformation could help M&E companies compete by taking better advantage of the technological disruptions of the past two decades.

Actions to take:

Once the crisis has abated and workforces can return, organizations should conduct a formal "lessons learned" to better understand how work was done during the crisis, both on-site and remotely. Companies can identify roles that truly need to be based on-site and those that can potentially be more flexible, looking at what technologies they might need to best enable a remote workforce, including cloud computing and virtual collaboration platforms. With more remote work, companies should prioritize their physical and cybersecurity capabilities to help ensure the protection of intellectual property across its life cycle.

Questions to ask:

- How can this experience inform a more flexible workforce and unlock new efficiency gains?
- What new technologies, skills, and processes will be necessary to enable more remote work?
- How can portfolios include more content that can be created "at a distance"?

Drive flexible and tech-enabled production

Before the COVID-19 crisis, content producers could use the volume of original content to boost the chance of producing hits. Now, production on thousands of projects across film and TV has halted, and funding and production constraints will likely disrupt the critical fall season. With at-home demand higher than ever, content producers may need to get more efficient and creative, making do with less while still producing fresh and appealing content. With a portfolio of content types, some can optimize for costs and time to produce, while others create signature high-value experiences.

Actions to take:

Producers should continue late-night shows' experiments with new and nontraditional content production formats and structures.[22] Possible options include shooting programs on smartphones or webcams and moving away from traditional standards for episode length and count. Liberating creators and giving them more flexibility to tell their stories can foster good long-term relationships and may generate more creative content. Producers should also gain experience with virtual production capabilities such as volumetric capture, 3D projection systems, real-time collaboration platforms, and augmented and virtual reality.[23]

Questions to ask:

- How can studios offer creators more flexibility in format and structure?
- Which emerging technologies for production help reduce costs, improve collaboration, and unlock new creative capabilities?
- How can a portfolio use more content that can be created at a distance, such as animation and CGI-driven stories?

Enable faster experimentation and diversify delivery

During the crisis, creators and distributors have been faced with pressing decisions around their content. What should be postponed or canceled? What should be shifted to a different platform or medium? A lot of these questions may seem direct, but the answers could dramatically affect the M&E industry for years to come. For example, movie studios have made recently released and new titles available directly to premium video-on-demand (VOD) and streaming services. Although VOD distribution may seem like a simple solution for the time being, it could call cinemas' future into question. Additionally, consumers have proved willing to experiment by blending different types of content and distribution channels—for example, watching theatrical productions via a streaming service, livestreaming video games and concerts, watching virtualized sporting events, and using social platforms to view content with friends.

Actions to take:

Companies should explore how to diversify their cost points, audience types, distribution channels, and content portfolio. As new channels emerge and gain in popularity, being able to rapidly meet audiences and address their needs will likely be increasingly important. To help, organizations should work to improve their capabilities for fast experimentation and explore the impacts of more flexible monetization approaches. To quickly assess new and emerging customer behaviors, companies should consider using more data-driven solutions. Finally, M&E companies may wish to re-evaluate how streaming, telepresence, and social platforms could augment live entertainment.[24]

Questions to ask:

- How can companies develop new distribution channels and pricing models that won't cannibalize existing ones? Conversely, which channels could enable cheaper and faster content development?
- How can studios and publishers enable faster experimentation with content and delivery? How can they quickly test new behaviors and segments with minimal risk?
- How can M&E companies use multichannel, social, and telepresence platforms to create more intimate live experiences? What kinds of new storytelling might these tools enable?

Rebooting and rewriting media and entertainment

With consumers re-evaluating and experimenting with how they live, work, and play because of the COVID-19 crisis, the imperative for robust digital platforms, mature direct-to-consumer connections, and innovative content has never been clearer.

As much as venues reopening will likely be a positive signal for the industry—and for society in general—things will not return completely to normal right away.[25] All M&E companies should ensure that their operational plans and longer-term strategies account for an extended period of adjustment. Companies that rely on physical experiences and spaces will likely be challenged to reinvent their practices and content to ensure they are more agile and prepared when the next crisis eventually comes. Doing so can unlock new opportunities, capabilities, and experiences that can expand revenues while building resiliency.

As many M&E organizations respond and recover, they are being forced to build a new plane while flying the old one. And the pandemic has only exacerbated many structural challenges and trends that companies already faced. Leaders should address those and determine how to create a new future in which M&E companies can grow and thrive. The chance to rebuild such a mature industry is rare. M&E leaders should seize the opportunity.

Get in touch

Kevin Westcott
Vice Chairman, US Telecom, Media & Entertainment Sector Leader
Deloitte LLP
Tel/direct: +1 213 553 1714
kewestcott@deloitte.com
LinkedIn

Susan Goldsmith
Principal, US Telecom, Media & Entertainment
Deloitte Consulting LLP
Tel/direct: +1 213 688 3313
sugoldsmith@deloitte.com
LinkedIn

Mic Locker
Principal, US Telecom, Media & Entertainment Consulting Leader
Deloitte Consulting LLP
Tel/direct: +1 203 423 4727
miclocker@deloitte.com
LinkedIn

Danny Ledger
Principal, US Entertainment Subsector Consulting Leader
Deloitte Consulting LLP
Tel/direct: +1 213 553 1722
dledger@deloitte.com
LinkedIn

Authors

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