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When the content consumer is king: Adapting to the media and marketing power shift

With competition as fierce as ever, media companies and marketers must relentlessly engage consumers to win them and keep them.

By Adam Bird, Ryan Durham, Sarah Holcomb, and Shamal Thakar

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How can media companies and marketers:

1.

Strengthen direct relationships with end consumers?

2.

Identify and group consumers to engage them with curated content?

3.

Ensure that they invest in the right content, content types, and formats?

4.

Maintain relevance and engagement in the face of increasing global competition and consolidation?

5.

Adapt their teams, mind-sets and processes to meet changing consumer preferences while defending their businesses from both traditional and new competitors?

The global media industry is grappling with constant disruption: well-funded upstarts that support new formats and experiences crowd more traditional media companies, which seek to differentiate their own offerings from the increasing volume of content rolled out by a growing roster of competitors. Predictably, competition for consumers' attention and spending remains intense, with widespread connectivity giving consumers access to new content from an array of increasingly global providers.

McKinsey's Global Media Report indicates that, for all the turmoil in the industry, a core macrotrend remains steady: traditional media continues to fight for relevance as increasing broadband penetration brings with it new formats and channels through which consumers can access content. With 11 percent compound annual growth rate (CAGR) globally from 2012 to 2018, the steady growth in broadband access and the availability of attractive, cheap streaming video services have enabled a growing number of "cord-cutters" who cancel their traditional media subscriptions in favor of online content, and "cord-nevers" who never become connectivity customers at all. In developing markets, broadband speeds facilitate exclusively mobile-media consumption that bypasses traditional media companies and motivates providers to offer their content on mobile channels and in mobile-friendly formats. One notable example of this trend is Star India's (now owned by Disney), streaming video platform Hotstar, which uses low-cost broadband access to reach hundreds of millions of consumers with a high-quality, mobile-first over-the-top (OTT) video offering.[1]

In addition, more consumers than ever before prefer to pay for access to media over owning physical media, especially in developed markets. Spending on streaming media, which includes one-time purchases as well as subscriptions, grew at a compound rate of 33 percent per year during the same period. The growth of on-demand media consumption in turn supports an environment that can facilitate both old and new brands' connections to consumers (Exhibit 1).

Exhibit 1

The growth rates in the media industry vary by region and subsector.

Sector revenue CAGR by region

'18–'22 / '14–'18

| | <0% | 0–4.9% | 5–9.9% | ≥10% |
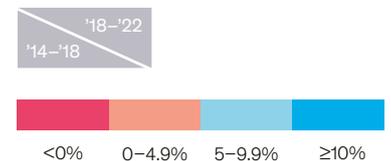
	Europe	North America	Asia–Pacific	Latin America	
Audio	3.3 / 5.1	4.7 / 4.7	2.1 / 3.4	7.3 / 6.8	A few high-growth streaming companies have significantly increased music revenues.
Digital advertising	7.4 / 11.8	10.2 / 19.9	10.5 / 18.6	15.2 / 27.2	Rapid growth of mobile and desktop consumption strengthens the sector's long-term prospects.
Over-the-top services	16.1 / 37.4	16.7 / 25.4	14.6 / 49.2	16.1 / 35.6	Traditional media companies roll out their own offerings in response to customer adoption of large technology companies' offerings.
Pay TV	2.6 / 3.6	-1.2 / 0.3	6.1 / 9.1	5.8 / 6.7	The majority of growth through 2022 will come from China and India.
Out-of-home advertising	2.4 / 2.6	2.5 / 3.0	3.7 / 3.8	5.7 / 7.0	Ad placement will shift away from billboards to street furniture and digital advertising in indoor locations.
Sports	4.8 / 8.0	3.0 / 4.6	5.0 / 6.6	4.2 / 3.1	Gate revenues, sponsorship, and media rights are event-driven; World Cup and Olympic years will support 2022 growth.
TV advertising	1.5 / 2.8	1.6 / 3.5	2.7 / 2.6	3.1 / 5.3	Growth in demand for OTT services puts pressure on traditional TV viewing and traditional TV advertising.
Video games	7.6 / 11.4	10.3 / 10.2	11.8 / 17.7	10.1 / 13.3	Continued success from hit franchise games and launch of new hardware platforms supports strong long-term growth.

SOURCE: McKinsey Global Media Report

[1] OTT providers distribute streaming media as a standalone product.

As media companies and brands seek profitable growth in an uncertain and changing landscape, the next stage for the industry will lie in an intense focus on direct-to-consumer engagement. It is the best way for media companies to sustain strong relationships with consumers, prevent competitors from diverting them, and win back the disengaged by tailoring offers to evolving preferences. Meanwhile, competitors have increased in kind as well as number; social media and technology platform providers are daunting competitors for consumers' attention, in no small part because of their direct connection to their users.

In such a competitive environment, the most powerful tools for media companies and brands to build and strengthen relationships with consumers—and achieve sustainable growth—will be

— Distinctive content **creation**, sourced and created with a focus on strategic goals,

— **Curation** of content and experiences to maximize consumer engagement, and

— Using industry-wide **consolidation** as an opportunity to reset their operating models.

Give consumers what they want

In many ways, it's an extraordinary time to be a media consumer. More content is available than ever before and increasing at a breakneck pace: 300 hours of content is uploaded to YouTube every minute, and Netflix released more than 1,000 hours of original content in 2018, up from 600 in 2016. Motivated to win and secure consumers in pursuit of scale, both established and new media companies continue to increase content output. In an environment of such plenty, choices can be as overwhelming as they are satisfying (Exhibit 2).

Against a backdrop of consumer-choice overload, it's increasingly difficult to win and hold their attention. Since the most effective way for media companies to grow is by reaching and delighting audiences, the central mission of media companies must be to place consumers at the center of all strategic decisions. And the best way to win—and maintain—consumer engagement does not necessarily lie in content quantity but in quality and relevance.

Companies must personalize their approach to maintain that relevance and achieve scale and profitability. Vital considerations begin with providing content in formats and varieties that appeal to the evolving preferences of passionate fans—often the most profitable customers. Fan-centric offerings include environments that nurture fan cultures and communities. Media companies must also offer platform-specific experiences to maximize the ease of use and likelihood of engagement. Finally, insight into consumers' willingness to pay for content will allow media companies to serve them to their desired level using a range of monetization models.

Exhibit 2
Consumers are inundated with content.
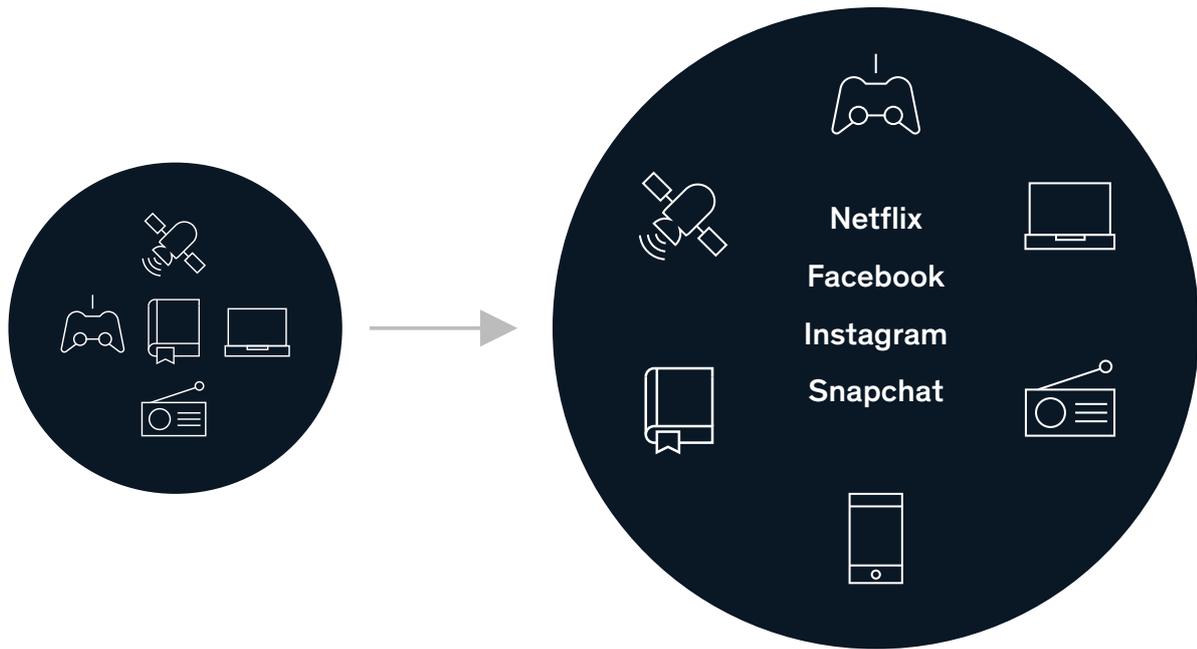
2000

Users engage with 1–2 mediums at a time with limited options

2018

Users engage with multiple mediums simultaneously, with multiple access options available (eg, mobile, TV)

New content formats and types.

Interactive storytelling
Netflix produces interactive content for viewers to make decisions that guide plot

Mobile-first content
Hollywood and China invest $1 billion in WndrCo, Katzenberg's mobile-first venture

Short-form
Discovery agrees to create short-form videos exclusively for Snapchat

Virtual reality
Facebook launches new stand-alone virtual reality headset, Oculus Go

E-sports
World's first esports town built in Hangzhou, China

Live streaming
SpaceX's Falcon Heavy launch reached more than 2.3 million concurrent views in 2018

SOURCES:

1. Brian Raftery, "Netfix 'Black Mirror: Bandersnatch' success means more choose-your-own-adventure fun ahead," *Fortune*, March 12, 2019, http://fortune.com.

2. Carolyn Giardina, "Facebook launches Oculus Go VR headset," *Hollywood Reporter*, May 1, 2018, https://www.hollywoodreporter.com.

3. Todd Spangler, "Jeffrey Katzenberg-led WndrCo's NewTV closes $1 billion funding; Disney, Fox, WB among investors," *Variety*, July 26, 2018, https://variety.com.

4. Adam Fitch, "Hangzhou opens its own esports town," *Esportsinsider*, November 21, 2018, https://esportsinsider.com.

5. David Lieberman, "Discovery to boost its short form production in deal with Snapchat," *Deadline*, February 16, 2017, https://deadline.com.

6. Micah Singleton, "SpaceX's Falcon Heavy launch was YouTube's second biggest live stream ever," *the Verge*, February 6 2018, https://www.theverge.com.

A personalized approach also gives media companies and their brand partners opportunities to strengthen direct relationships with consumers. For example, Netflix frames each user's experience as a product to improve. This focus on serving individual consumers helps maintain a high level of engagement and limits churn. More broadly, media companies can boost growth by identifying and serving consumers' critical wants and needs.

Because there is so much content to choose from, many brands increasingly behave like content creators. When there is advertising, it should be directly linked to and integrated with consumers' media experiences and engagement. If the content consumer is now king, then advertisers and brands must become more relevant to that discerning target audience.

Support the consumer focus

With consumers' experiences the key to media companies' success, it is clear that media companies must align the creation and curation of content and even the industry's wave of consolidation around catering to that audience.

Create distinctive content that serves the customer first

Consumer tastes and expectations have changed as new services and formats have emerged. For instance, short-form content has become more important as consumers have gotten used to "bite-sized" content from social-media platforms such as Instagram and YouTube. The rise of mobile-first content has dovetailed with short-form content's popularity, as more and more consumers rely on their mobile devices for personalized media consumption.
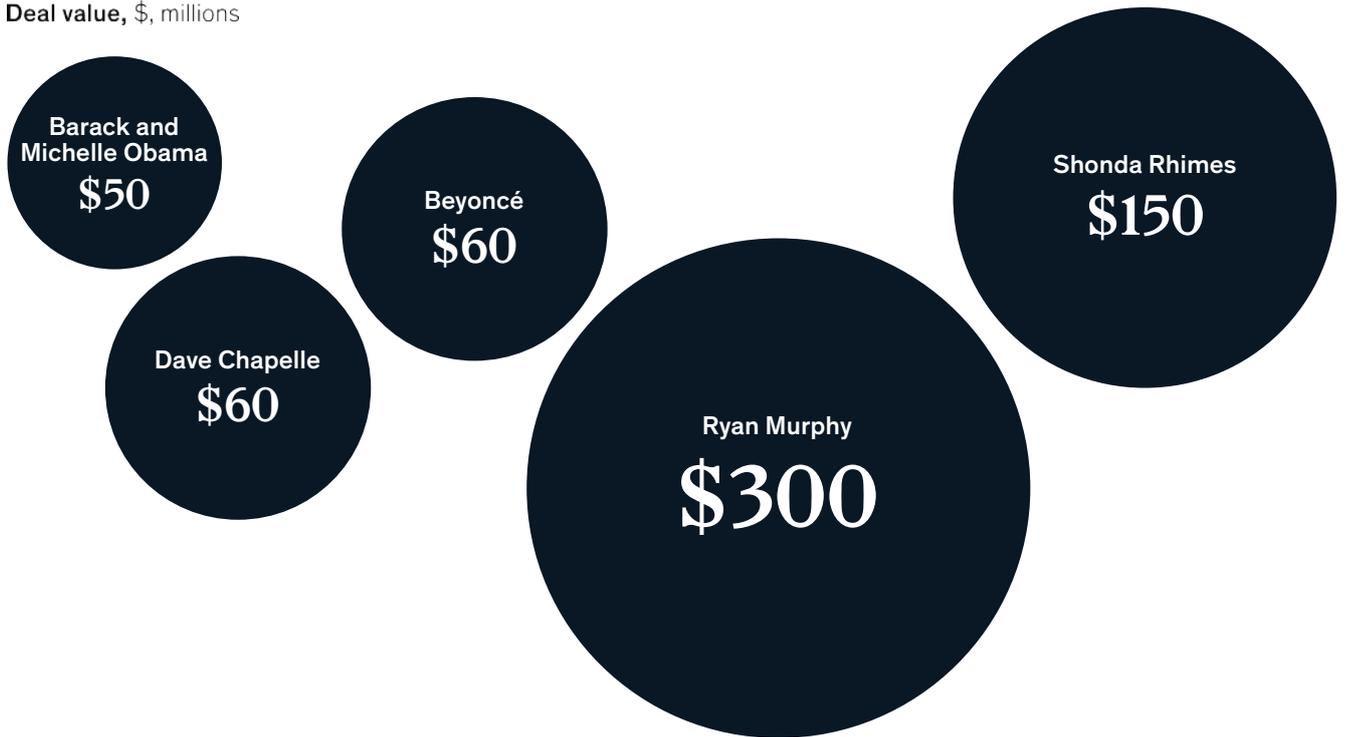
Media franchises have capitalized on short-form bonus content to capture additional consumer engagement.

For example, AMC complements the Walking Dead franchise with *The Walking Dead: Red Machete,* a short-form digital series that streams on the AMC site. Still, distinctive and engaging content remains difficult and expensive to create and secure, whatever the format.

This demand for content has also caused large technology companies to secure creative talent from traditional media companies. Indeed, the need for more content on different platforms has resulted in higher compensation for marquee content creators, with Netflix striking some of the most highly publicized content deals (Exhibit 3).

Exhibit 3

Netflix invests heavily in content with high-profile creators.

Deal value, $, millions

Barack and
Michelle Obama
$50

Dave Chapelle
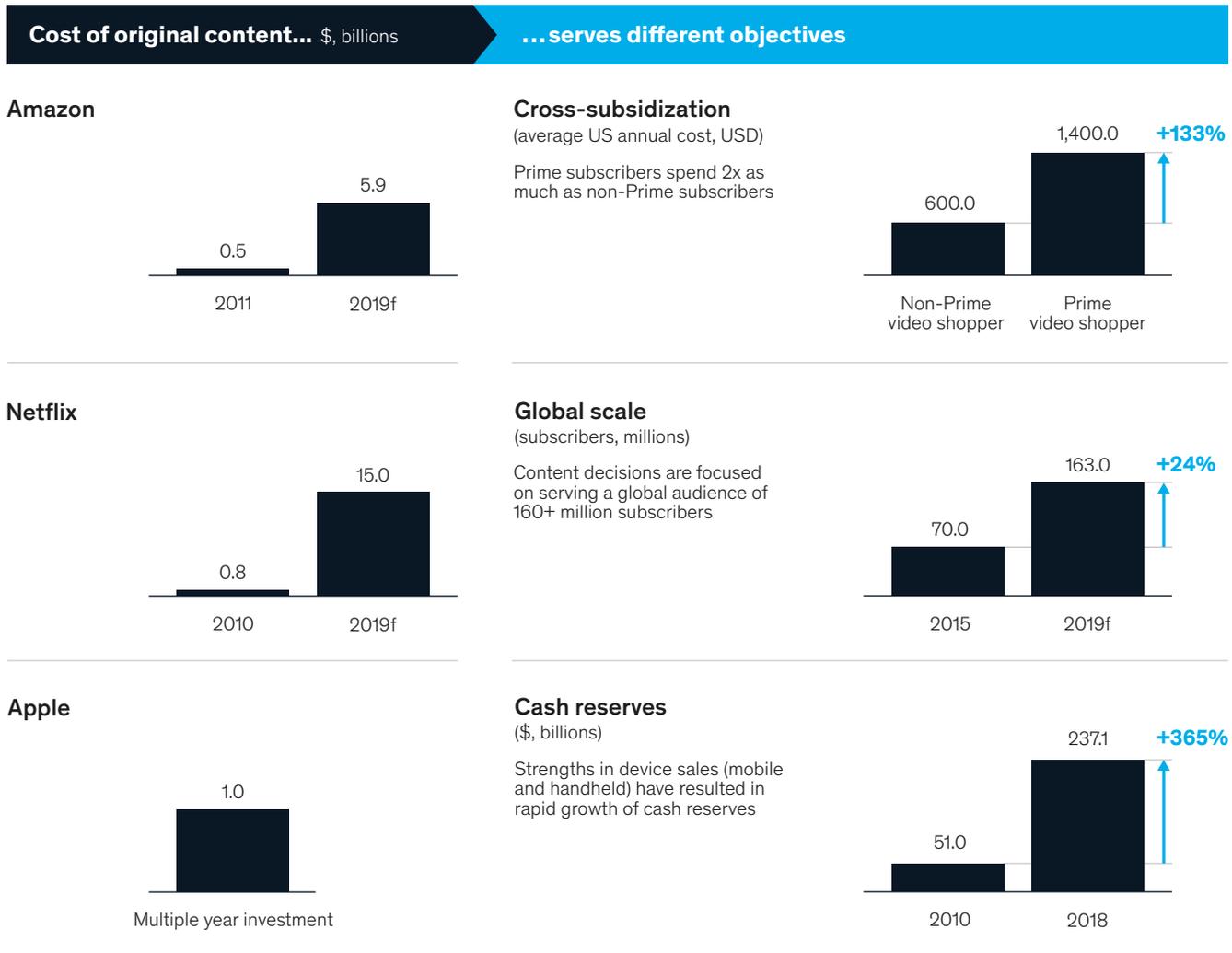$60

Beyoncé
$60

Ryan Murphy
$300

Shonda Rhimes
$150

SOURCES:

1. Emily Goodin, "Obamas' Netflix deal happened after streaming giant's chief content officer raised $600,000 for former president—who made his wife ambassador to the Bahamas," *DailyMail*, May 31, 2018, https://www.dailymail.co.uk.

2. Jem Aswad and Shirley Halperin, "Beyonce's Netflix deal worth a whopping $60 million (exclusive)," *Variety*, April 19, 2019, https://variety.com.

3. Toni Fitzgerald, "Inside Shonda Rhimes' $150 million Netflix deal and how it could change TV," *Forbes*, July 20, 2018, https://www.forbes.com.

4. Lacey Rose, "TV's first $300M man: The wild and weepy backstory of Ryan Murphy's blockbuster Netflix deal," *Hollywood Reporter*, April 4, 2018, https://www.hollywoodreporter.com.

5. Jethro Nededog, "Dave Chappelle is reportedly making $60 million for his Netflix comedy specials," *Business Insider*, November 22, 2016, https://www.businessinsider.com.

Exhibit 4

Media fulfills different strategic objectives for new entrants.

Digital media giants have rapidly scaled content costs, but they are compelled by different needs.

f = Fiscal years

| Cost of original content... $, billions | ...serves different objectives |

Amazon

0.5 — 2011
5.9 — 2019f

Cross-subsidization
(average US annual cost, USD)

Prime subscribers spend 2x as much as non-Prime subscribers

600.0 — Non-Prime video shopper
1,400.0 — Prime video shopper
+133%

Netflix

0.8 — 2010
15.0 — 2019f

Global scale
(subscribers, millions)

Content decisions are focused on serving a global audience of 160+ million subscribers

70.0 — 2015
163.0 — 2019f
+24%

Apple

1.0 — Multiple year investment

Cash reserves
($, billions)

Strengths in device sales (mobile and handheld) have resulted in rapid growth of cash reserves

51.0 — 2010
237.1 — 2018
+365%

SOURCES:

1. IHSMarkit programming spend, Amazon channels and programming intelligence," (database entry), *IHS Markit*, April 24, 2019, ihsmarkit.com.

2. Todd Spangler, "Netflix spent $12 billion on content in 2018. Analysts expect that to grow to $15 billion this year," *Variety*, January 18, 2019, https://variety.com.

3. Michelle Castillo, "Apple just explained why it's going to make original TV shows," *CNBC*, August 1, 2018, https://www.cnbc.com.

4. Dennis Green, "Prime members spend way more on Amazon than other customers—and the difference is growing," *Business Insider*, October 21, 2018, https://www.businessinsider.com.

5. S&P Global Market Intelligence, *Apple*, April 24, 2019, https://www.spglobal.com; and *Lauren Feiner*, "Apple now has $237.1 billion in cash on hand," CNBC, November 1, 2018, https://www.cnbc.com.

For all the value that content generates in views and consumer engagement, scale is required to profitably monetize a large audience. This in reality means that companies must be ever more selective about content choices, and they must integrate strategic objectives into content-creation decisions. For instance, large technology firms that are relatively recent entrants to content creation approach it through the lens of scale, business-line cross-subsidization, and ownership of a preferred customer platform that spans content as well as devices (Exhibit 4).

At the same time, companies must be comfortable with different kinds of content styles, creation strategies, and distribution methods. This flexibility will be crucial to the success of any media company in the coming years.

Curate content to facilitate consumer engagement

Consumers and fans want to engage with content on their terms, and digital technology makes it easier than ever. Media companies can play a bigger role in creating environments and experiences to facilitate that consumer connection, both to the content and to other consumers.
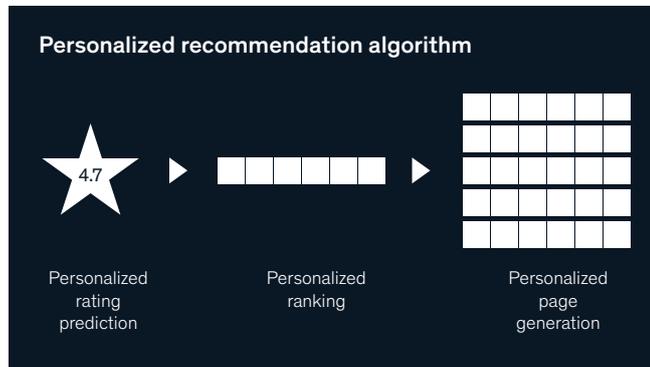
Even without media companies' involvement, "superfans" have built global communities on social media. Media companies can "super-serve" these always-on superfans with bonus- and metacontent. For example, *the Wine Down* is a postepisode HBO minishow dedicated to discussions of *Insecure*, featuring the performers and creators of the show. This kind of immersion in the series helps the show and the network maintain its connections to its core audience. What's more, if media companies can encourage superfans to create their own content based on existing intellectual property—in effect giving fans ownership of their fandom—they can strengthen the brand equity of existing properties and creators. Stronger brand equity and fan involvement more effectively sets the stage for monetization based on content, merchandise, and experiences, such as theme parks.

Exhibit 5

Netflix and YouTube personalize users' experiences using AI and analytics.

Netflix

— Uses algorithms to personalize homepage
— Has more than 100 million products instead of a single one—thanks to **personalized visuals and recommendations:**

Personalized recommendation algorithm

4.7

Personalized rating prediction

Personalized ranking

Personalized page generation

YouTube

— Designed a new homepage with a feed of users' interests using **AI and machine-learning**
— Uses algorithmic recommendations, which drive more than **70% of time spent** watching video
— Aggregate time spent watching videos on homepage has **grown 20 times** compared with three years ago

SOURCES:

1. Josefina Blattmann, "Netflix: Binging on the algorithm," *Medium*, August 2, 2018, https://uxplanet.org.
2. Ashok Chandrashekar et al., "Artwork personalization at Netflix," *Medium*, December 7, 2017, https://medium.com.
3. Casey Newton, "How YouTube perfected the feed," *the Verge*, August 30, 2017, https://www.theverge.com.

Outside of current superfan communities, additional curated offerings—in both content as well as advertising—can create more value for media companies. One way that media companies are pursuing this is by curating content for advertising purposes, which has been part of the impetus for a number of recent acquisitions of advertising technology companies.

Indeed, media companies must identify ways to use technology to inform content discovery and curation and help monetize consumer attention. Netflix and YouTube already have arguably set the standard for this personalization of user experience by employing artificial intelligence and analytics to populate individual users' homepages and recommendations (Exhibit 5).
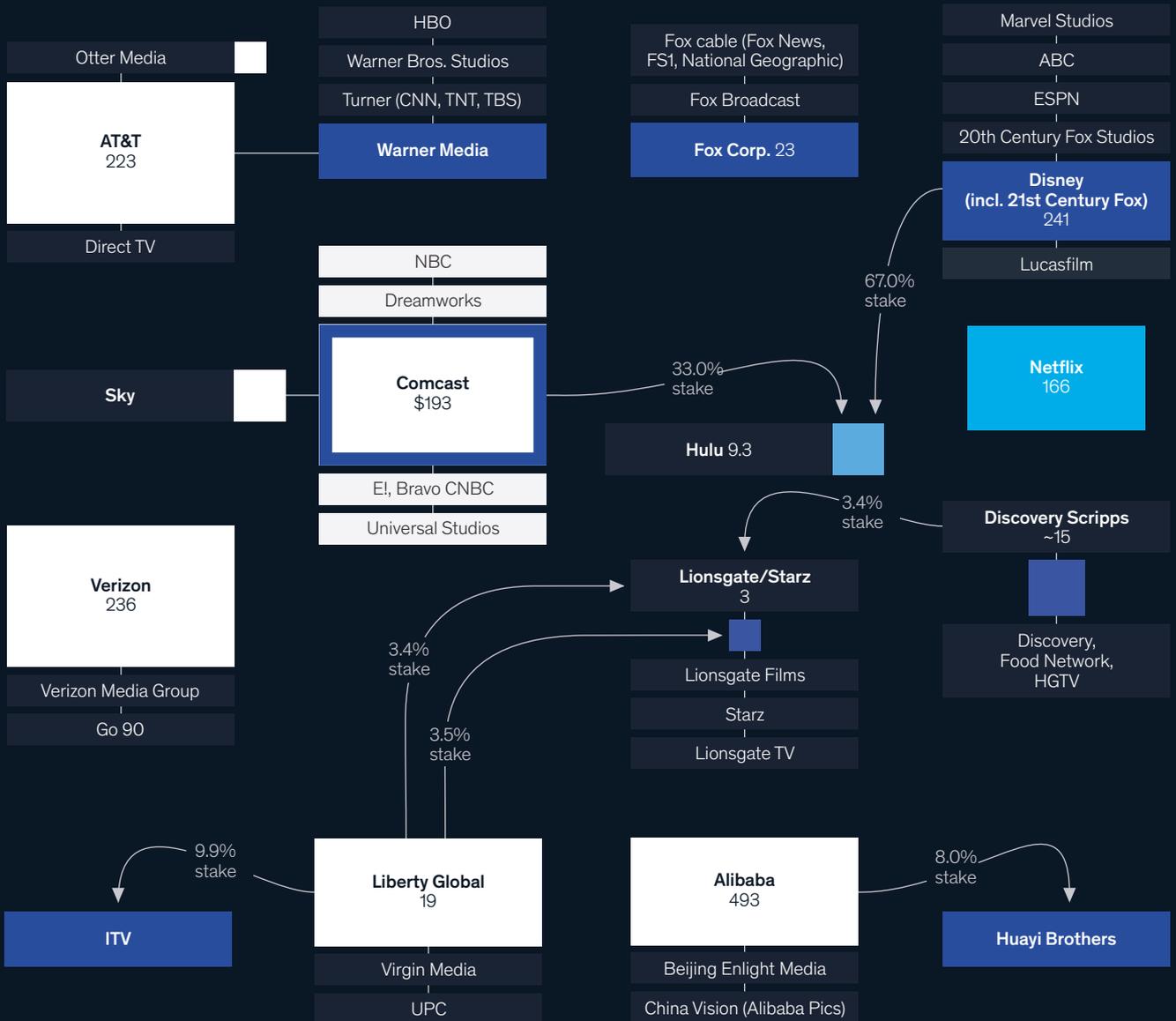
Finally, OTT services serve as critical content curators with their stores of aggregated content and personalization capabilities. This role also enables them to bundle new kinds of ad inventory for both consumers and advertisers. Audiences' embrace of paid OTT services supports this possibility: the total number of global subscribers to OTT services is projected to grow at 18.9 percent CAGR for the next five years, and their potential as advertising vehicles is still largely untapped.

Exhibit 6

Consolidation continues as media companies reorganize to compete.

Global Media,[1] market cap,[2] $, billions

● Distribution
● Content
● Streaming video

	HBO		Fox cable (Fox News, FS1, National Geographic)	Marvel Studios
Otter Media	Warner Bros. Studios			ABC
	Turner (CNN, TNT, TBS)		Fox Broadcast	ESPN
AT&T 223	**Warner Media**		**Fox Corp.** 23	20th Century Fox Studios
				Disney (incl. 21st Century Fox) 241
Direct TV				Lucasfilm

NBC

Dreamworks

Comcast $193

Sky

67.0% stake

33.0% stake

Hulu 9.3

Netflix 166

E!, Bravo CNBC

Universal Studios

3.4% stake

Discovery Scripps ~15

Verizon 236

Verizon Media Group

Go 90

3.4% stake

3.5% stake

Lionsgate/Starz 3

Lionsgate Films

Starz

Lionsgate TV

Discovery, Food Network, HGTV

9.9% stake

ITV

Liberty Global 19

Virgin Media

UPC

Alibaba 493

Beijing Enlight Media

China Vision (Alibaba Pics)

8.0% stake

Huayi Brothers

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[1] Includes traditional and new media, consumer tech, and fixed distribution.
[2] As of May 3, 2019.

SOURCES:
1. "Company," AT&T, accessed May 6, 2019, https://about.att.com.
2. Fox corporation, accessed May 6, 2019, https://www.foxcorporation.com.
3. "About," Walt Disney Company, accessed May 6, 2019, https://www.thewaltdisneycompany.com.
4. "Company," Comcast, accessed May 6, 2019, https://corporate.comcast.com.
5. "Who we are," Liberty Global, accessed May 6, 2019, https://www.libertyglobal.com.
6. "Company overview," Alibaba, accessed May 6, 2019, https://www.alibabagroup.com.
7. "About," Verizon, accessed May 6, 2019, https://www.verizon.com.

Consolidate to pool capabilities and win audiences

In uncertain times, most industries consolidate to gain scale and competitive advantage. That is no different from today's media industry landscape, in which larger players looking to expand their creative capacity and libraries acquire smaller entities that are seeking ways to more efficiently monetize their assets.

A more-consolidated media industry should give consumers access to more content options and give media companies more resources with which to invest in the high-quality content they need to cultivate fan communities and brand partnerships (Exhibit 6).

Although not all content will find a wide audience, media companies and brands must still learn from, monetize, and automate the use of consumer-data insights. Consolidated entities are likely to have more data and a deeper pool of capabilities from which to extract insights from their data. Over time, this data can give media companies

and brands insights into consumer preferences and behavior and help build a road map to better content and ways to consume it. To fulfill brands' need for data-driven choices, ad teams must be multidisciplinary—fluent enough in analytics to work with data-science teams to arrive at insights and adept at making creative decisions that make full use of those insights. Such ad teams could even contribute to improving the consumer experience in service of brands' marketing goals.

As the media industry evolves, companies must prioritize serving consumers in direct relationships. This service model means creating content, curating it, and even reorganizing the industry to better meet consumers' shifting needs and provide them with unique experiences. Advertisers and brands, meanwhile, must align their offerings with content and fan communities that are judged to be a natural fit. With both sides of the media industry working in their interests, consumers have reason to feel like the ultimate showrunners.

Adam Bird is a senior partner in McKinsey's Munich office, **Ryan Durham** is a consultant in the Denver office, and **Sarah Holcomb** is an associate partner in the London office, where **Shamal Thakar** is a consultant.