Making direct contact

The future of TV and D2C operating models

The traditional barriers between consumers and content producers are breaking down. To remain relevant in the future, all broadcasters require a strategy and operating model to manage the shift to direct-to-consumer (D2C) across the industry.

The COVID-19 pandemic, specifically its lockdowns, have significantly disrupted the ways consumers engage with media and entertainment, rapidly driving the uptake of video streaming.

It has also been a challenging time for media companies to produce content, and the closure of movie theaters has forced Hollywood studios to experiment with their 'windowing' strategies.

COVID-19 may be a 'once-in-a-century' event, but its effects on consumers, broadcasters and platforms are nevertheless likely to be long-lasting.

In 2015, the average US viewer spent 4:30 hours every day watching video content – TV, long-form and short-form content. This has steadily increased by 3% every year.

In 2020, however, average daily video consumption spiked at 5:29 hours, a rise of 8% from 2019. Video consumption is expected to drop as lockdown restrictions are lifted, but forecasts still suggest viewing time will remain higher than pre-pandemic.

Online TV made up 30% of the average US viewer's total video media consumption in 2019; in 2020 that had risen to 40%. Digital share is expected to continue growing, reaching 46% by 2024 as consumers adjust to the 'new normal'.

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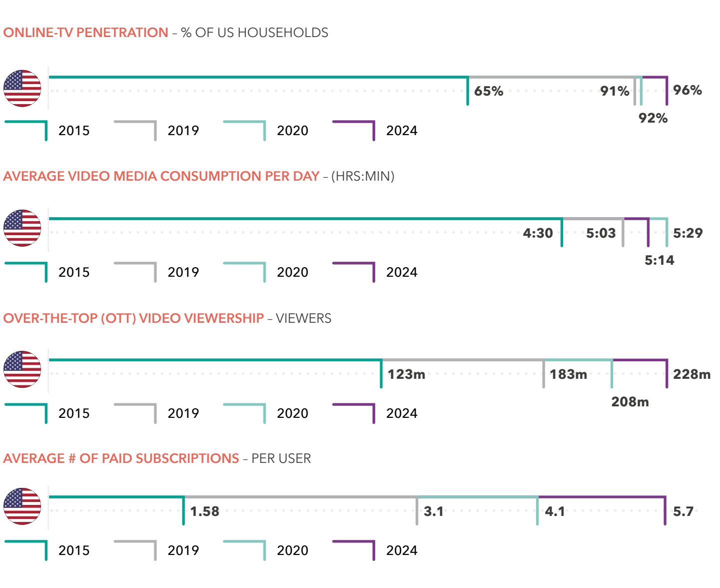


Given the dramatic changes in consumer viewing behaviors and preferences, the traditional mindset around D2C for media companies is evolving as well. Many broadcasters and media historically considered D2C channels as a 'nice to have' incremental channel that supplemented their core proposition – often with mixed results.

The challenge now is to shift a business focused on B2B 'wholesale' relationships (e.g. carrier negotiations, ad sales) towards an operating model that must also serve direct consumer relationships.

In the past, many media companies have failed to successfully strike a balance between growth and profit objectives for their new D2C businesses; that is, until they either start to face significant internal friction between the 'legacy' and 'digital' elements of the organization, or in the worst cases, the D2C business becomes starved of oxygen and fails to achieve traction.

This report outlines the lessons traditional media organizations need to learn to build new D2C-focused operating models, while maximizing the value of their traditional core.

The findings outlined in this report were informed by a broad expert interview program

We conducted 25 interviews with global leaders across the media and entertainment landscape. The interview participants shared their perspectives on their own D2C journeys and reflections on what it takes to truly succeed in D2C – giving rise to lessons from broadcasters, digital publishers and platforms.

VIDEO

CINEDIGM, tvplayer, Funimation, WWE, Eleven Sports, NOW TV, britbox, abc, ViacomCBS, HBO, hulu, NBC Universal

NEWS & JOURNALISM

The New York Times, WSJ, NBC News, abc News

AUDIO & MUSIC

SiriusXM, Spotify

OTHER

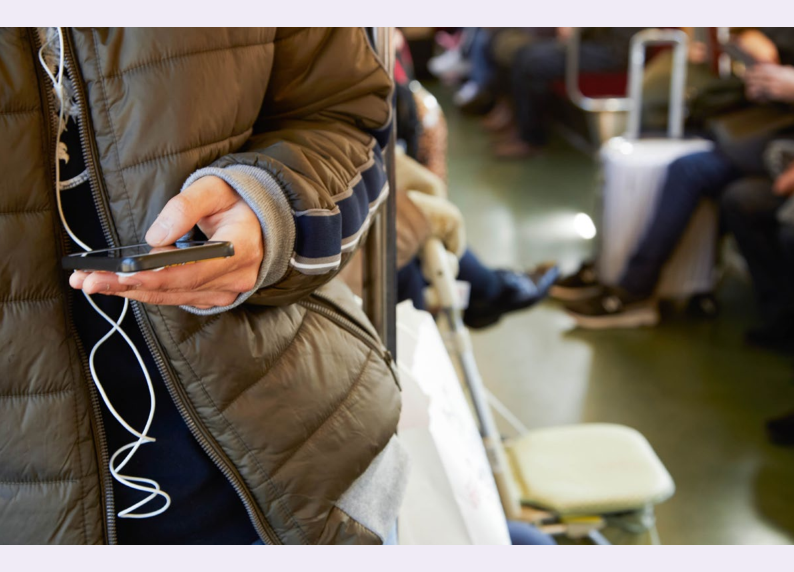
Harvard Business School, Unilever, deltatre

Optimize to maximize:

The 4 key priorities traditional TV media companies must optimize to succeed in building and growing a new D2C business

The needs of D2C businesses are fundamentally different from those of traditional media businesses – different in structure and incentives, in technical and human resources, and in leadership and cultures. There are **4 key areas** executives must optimize to enable successful transition:

1. Ambidextrous operating model
2. Digital focused behavioral changes
3. Effective management of cultural frictions
4. Instilling agile and data-driven decision-making processes



QUESTIONS TO CONSIDER WHEN SHIFTING TOWARDS A D2C OPERATING MODEL

Areas to prioritize	Questions to consider
1 Ambidextrous operating model	Which new structures outside the legacy business can we implement? How do we introduce visible, committed and ambidextrous leadership?
2 Digital focused behavioral changes	How do we incentivize based on the goals of D2C? What kind of new guidelines will ensure commitment to D2C?
3 Effective management of cultural frictions	What does a cohesive, firmwide identity and set of goals look like? How do we minimize reliance on existing legacy resources?
4 Agile and data-driven decision-making	Which different consumer metrics are the most useful for D2C? How do we adopt an entrepreneurial 'testing and learning' mindset?

1. The ambidextrous operating model

Success in any D2C strategy needs an operating model that brings the '**new**' and the '**legacy**' **businesses into alignment**.

The challenge of making improvements to a core, traditional business while driving innovation through a new business unit is one that's been faced by many businesses within the media industry and beyond. Those who have been successful all share important ambidextrous characteristics:

- A targeted integration of the exploratory (new) unit to ensure efficiency
- A strong ability to exploit the value of their organizations' existing assets and links across units
- A committed executive level that demonstrates clear alignment
- Effective leadership that resolves inevitable cultural friction

Studies show more than 90% of ambidextrous organizations achieved their innovation goals and realized improved performance to their existing business.[1] The media and entertainment space is no different. Aligning the new exploratory D2C business unit and the legacy core is a critical first step.

D2C operating models exist along a broad spectrum, ranging from treating D2C as merely a sub-unit of the core business, to fundamentally redesigning the entire business to focus on D2C. There are four broad categories of D2C operating models among traditional media companies:

- **Core Expanded** – D2C positioned as 'just another channel' for content distribution
- **Digital Separated** – D2C treated as a separate business unit – allowing it autonomy, but effectively siloing it (and its learnings) from the broader business
- **Digital Elevated** – D2C treated as an integral part of the broader business, managed directly alongside the legacy business, and supported by a set of cross-functional services (ambidextrous organization)
- **Digital Redesigned** – D2C wholly incorporated into the business model, as the organization is fundamentally redesigned for the new digital world

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[1] The study focused on 35 attempts to launch breakthrough innovations undertaken by 15 business units in nine different industries, and studied the structure and results of the breakthrough projects as well as their impact on the operations and performance of the traditional businesses

	PROS	CONS
Core Expanded	• Low barrier to entry for less digitally mature organizations • Lower risks of distraction to the core	• Low barrier to entry for less digitally mature organizations • Lower risks of distraction to the core
Digital Separated	• Direct support from the CEO and executive team • Lower risks of distraction to the core • Lower risks of legacy organization "suffocating" the new business	• Inability to unlock material D2C growth given restricted / no cross-functional resources • Limited visibility and support from the rest of the organization • Likely to be spun off if successful, restricting the opportunity for cross-fertilization across legacy units
Digital Elevated	• Direct support from the CEO and executive team • Aligned incentives across the organization for driving D2C success while managing a resilient core • Well-resourced team with support from the legacy organization • Some 'front office' cross-functional teams supporting both sides	• Higher likelihood to bring cultural frictions and budget disputes to the surface • Potential distractions to legacy core, although this could be avoided with behavior changes, culture alignment and data-driven decision-making
Digital Redesigned	• CEO full commitment to the transformation towards digital first organization • Increased efficiency with majority of teams cross-functional across digital and legacy core	• Potential risks of value destruction of the legacy core • Radical culture reset required to improve ways of working

These operating models are rarely static. Many players in the Over The Top (OTT) landscape started out initially treating D2C as 'just another' distribution channel.

As the industry continues to mature, leading media companies are increasingly moving towards the 'Digital Elevated' model. This model encourages alignment of D2C and legacy goals and helps prevent D2C from being siloed from the rest of the business. However, this requires a behavioral shift in the organization and a strong top-down 'Ambidextrous Leader' to manage conflicts between the core and new business units.

While there are examples of more drastic shifts in the operating models of media companies, along the lines of the 'Digital Redesigned' models, they're less common. *The New York Times* is a famous example, but not all organizations can afford to go through the same level of transformation and disruption to its core business before emerging stronger out of the other side.

'Ambidextrous Leader'

Someone who can balance the distinct strategic and operational needs of the D2C and legacy businesses. The Ambidextrous Leader should come from the legacy organization rather than being an external hire because they are more likely to have sufficient political capital and leverage to mitigate unforeseen frictions within the legacy business and to drive transformation.

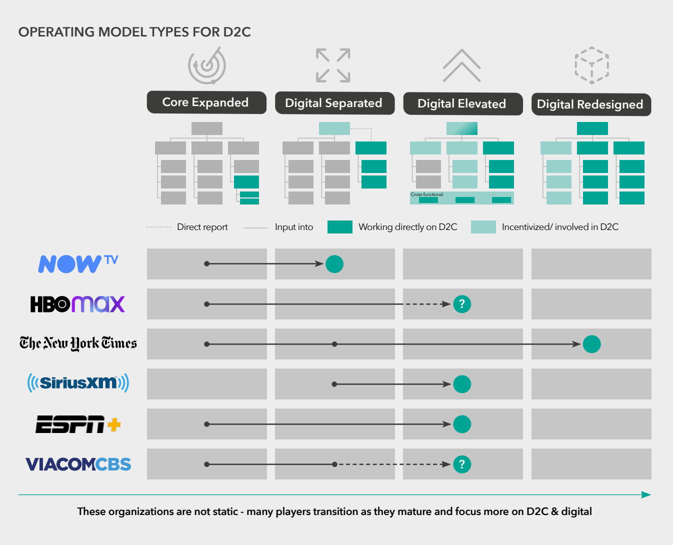
CASE STUDY

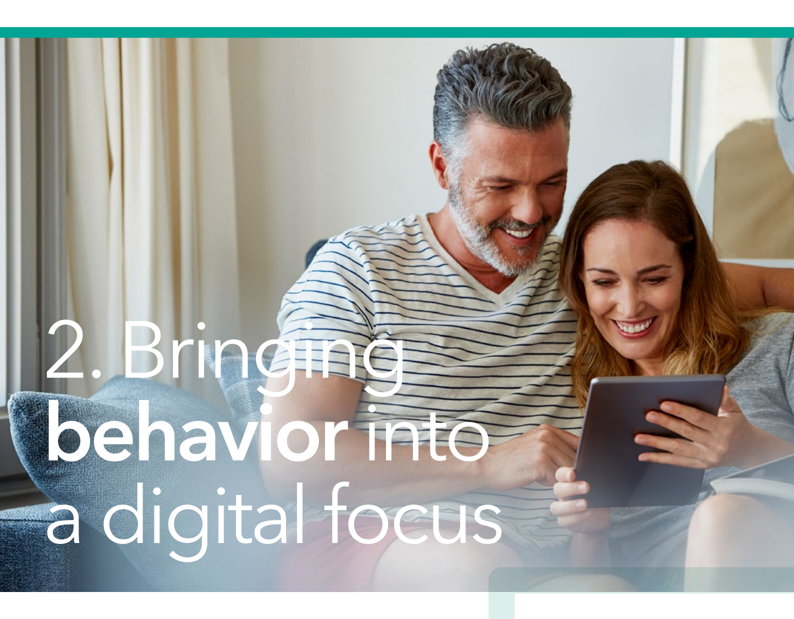
The New York Times

The New York Times conducted six months of internal evaluation in 2014 and published an innovation report that calls for a digital transformation of the organization.

Although the resulting organization successfully established the *Times* as a pioneer in digitalization, the transformation initially created cultural and ideological divides between the legacy 'Timesian' journalists and the new 'digital' recruits. Significant investment in cross-company open discourse and debate was required to bridge the gap and ensure alignment.

A digital transformation





2. Bringing behavior into a digital focus

For D2C to work, legacy businesses need to make **fundamental changes** to how they behave.

Best-in-class players in the OTT space employed a broad range of levers to promote the behavioral change needed for their organization's legacy core to be supportive of the ambitions of D2C.

They expressed commitment to D2C through both 'hard' and 'soft' mechanisms, for example; they established clear guidelines as to how and when D2C interfaces with the legacy business; and – critically – they designed incentives to drive structural changes across every level of the business, including the senior team.

Visibly commit to D2C

- **Ensure the CEO visibly commits to D2C** through regular communications
- **Assign a senior leader to D2C** – ideally reporting directly to the CEO
- **Ensure D2C leader is a core member of the management board** – not isolated or hidden from other functional leaders

"We tried to create a D2C prior to the acquisition. Although the team reported into the CEO, ***it was kept separated from the rest of the management team and the team struggled to get content to make the D2C work****"*

Provide clear guidelines for how D2C interfaces with the legacy

- **Ring-fence budgets and resources for D2C** with support from the executive office
- **Introduce institutional cross-marketing guidelines** to encourage D2C brand & proposition promotion

"During early phase, it was critical we agreed on a ***consistent approach to pricing content and splitting ad inventory share*** *among us and the other JV shareholders"*

"We tried to have our cake and eat it, but this did not work. ***Big content decisions ended up having to be deferred to the CEO and CFO****"*

Drive changes in behavior via hard-wired incentives

- **Incentivize senior executives** by aligning their compensation to D2C success
- Create clear **'transfer pricing' principles & incentives for content licensing teams** to ensure the D2C has a valuable library
- **Unify ad sales P&Ls** to encourage growth across legacy and D2C channels

*"****Ad sales is relatively easy to incentivize.*** *You just need a joint team with a* ***combined P&L****"*

3. Managing cultural frictions

Friction between the cultures of legacy and D2C organizations is inevitable but can be managed through **best practices**.

D2C requires a fundamentally different operating model from legacy 'wholesale' media, with a distinct working culture. D2C propositions often need power to make agile micro-decisions as they 'test and learn' without the burden of extensive corporate oversight. On top of that, they need both the monetary and cultural means to attract and retain top digital talent.

Promoting this distinct culture within the new D2C team while simultaneously integrating D2C into the legacy organization frequently presents a challenge. It requires buy-in from the legacy organization to share resources and content with the D2C team, while allowing the digital talent to preserve the freedom to experiment that is needed for D2C to grow rapidly.

KEY LESSONS FOR MANAGING CULTURE

#1	Align the legacy organization behind D2C as soon as possible	*"It was important to* ***make sure my team members were on board with D2C.*** *I made them set up a committee to evaluate where we needed to go for growth and also hired a consultant. It took longer, but it helped them buy into the idea"*
#2	Clarify the key interdependencies between cross-cultural teams	*"We had operational issues post acquisition as they didn't always follow the same protocols. This caused* ***friction with our large advertisers****"*
#3	Don't force-fit legacy culture and stifle agility and creativity	*"We* ***didn't give them enough room to breathe and grow.*** *We cut them off too soon"*
#4	Empower the D2C organization to make agile micro-decisions	*"Traditional media companies are like wholesalers who make deliberate macro decisions. D2C is like retail and relies on* ***small micro-decisions that are made on a daily basis****"*
#5	Maintain different ways of working – but ensure a common identity	*"It's* ***impossible to avoid different ways of working*** *because D2C is fundamentally different. That said, you need to make sure everyone is* ***working towards common goals****"*
#6	Ensure creative digital talent feels valued	*"We had to ensure that the* ***creative talents felt valued*** *and that they had* ***control over their own teams****"*
#7	Ensure your HR policies do not restrict your ability to attract top digital talent	*"It was a challenge having* ***different compensation schemes for D2C*** *when there was a company-wide hiring freeze, but there was no real way to avoid this. Many of those people* ***can leave the building and get paid double*** *just down the street"*

4. Agile and data-driven decision making

D2C success relies upon a truly agile, **data-driven approach** to decisions

Many legacy media businesses like to think of themselves as 'data-driven', but this is often a misnomer. Weekly reports and BI dashboards using Nielsen ratings might allow legacy media to create an average customer persona, but they can't track the interactions of every user or collect the extensive data accessible in real-time that would make their businesses truly data-driven.

Consumer behavior datasets have been critical to the success of global OTT leaders such as Netflix and Disney. Global leaders in these areas have invested heavily to build a sophisticated and deep understanding of user preferences so that they can offer more customized user recommendations and inform more effective decision-making about content and marketing.

The initial lack of data-driven decision-making is a key hurdle for legacy businesses to overcome, and one which often requires a top-down change in mindset across the whole company. Adopting a data-driven mindset that enables fast decision making is critical for the long-standing success of D2C.

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DATA-DRIVEN DECISION MAKING

- **Be proactively data-driven** – to consistently inform proposition decisions
- **Embrace agile decision-making** – managing micro-decisions on a daily-basis
- **Adopt an entrepreneurial mindset** – with continuous 'testing-and-learning'

*"****Lots of people in the old cable industry have had it good for so long.*** *A lot of their success was attributable to the historical cable bundle. Now, with D2C, they need to* ***make real decisions using data****"*

"To be honest, we still rely on gut feel in many cases. The best D2C players and legacy companies really ***do their research to understand what the consumers want****, and they give it to them"*

"D2C is like retail and ***relies on fast-paced micro-decisions.*** *Traditional media companies are not used to this way of working"*

"For me, ***agility and speed*** *are the most important factors for success. They come at a small cost, but no one makes money in the first few years anyway"*

"We didn't get it right the first time, and no one I know really did. ***This space is so fast-paced*** *– you need to* ***constantly keep testing and learning*** *to keep up. This needs to start from the top"*

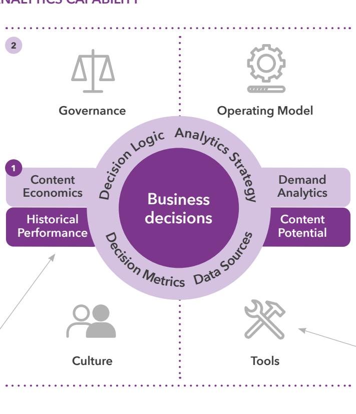
Best-in-class content analytics

In our experience, best-in-class content analytics is about focusing on developing an overall capability rather than simply building a 'tool'. A successful analytics strategy will require the right tools, operating model, governance, and culture, while also leveraging extensive internal and external data to build a holistic view about content economics and consumer demand.

BEST-IN-CLASS CONTENT ANALYTICS CAPABILITY

1 Analytical approach

- The decision logic and metrics drive the analytical approach given business priorities
- Two perspectives are needed:
  - **Content-economics lens:** Inward & backward looking – what results were achieved historically given the conditions at the time (actuals)
  - **Demand – analytics lens:** Outward & forward looking – what results should be achievable given the level of audience attention



Capability mechanics 2

- To become valuable, the analytical approach needs to be embedded in an overall capability:
  - **The tools** that provide the right metrics to the relevant decision-makers with regularity
  - **The operating model** that ensures a proactive analytics capability
  - **The governance** that permanently evolves the analytics capability within a rapidly changing ecosystem
  - **The culture** that values data-driven decisions and executes them

Buy the platform or build your own? A critical choice

Broadcasters entering D2C will have to **consider** whether to buy an existing platform already in the market, or build it internally using existing technology resources.

While there may be a temptation to build a proprietary solution and keep the technology IP for yourself, real-world experiences suggest the challenges – for example slower time to market, or a development effort focused on commoditized low value components in the tech stack – frequently outweigh the potential benefits.

Our research found that for the majority of successful D2C operators, building the platform internally is often a false economy. All the interviewees in our research indicated that either they used a third-party partner to support them or they wished that they had.

The bigger question to ask is: *Does building this OTT platform give me a potential competitive advantage?* When it comes to technology, the answer is frequently no, as broadcasters struggle to compete with the scale and resources of global OTT giants such as Netflix and Amazon Prime.

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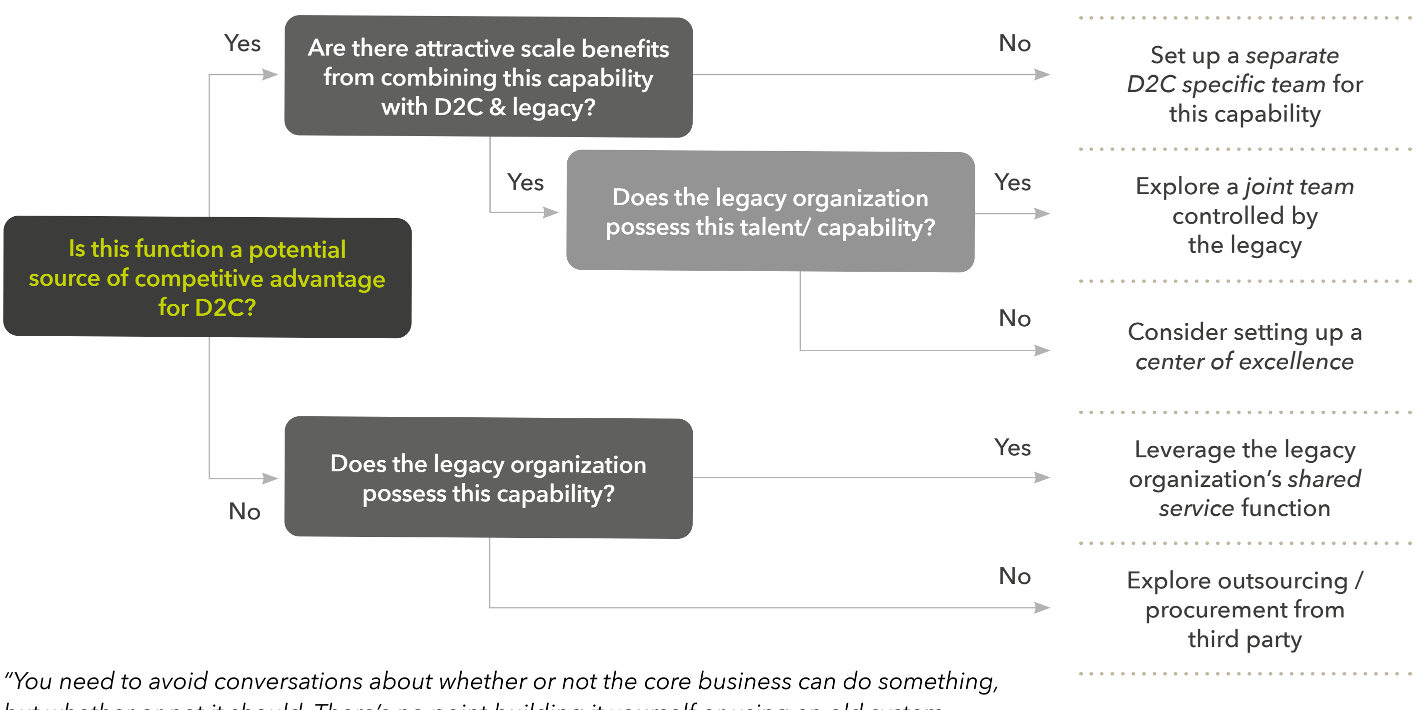
OPERATING MODEL SET UP DECISION TREE FOR D2C



"You need to avoid conversations about whether or not the core business can do something, but whether or not it should. There's no point building it yourself or using an old system if its going to slow down the D2C team and is not competitive differentiating"

Conclusions for future D2C leaders in TV broadcasting

In the increasingly competitive global OTT landscape, succeeding with D2C propositions is not easy – particularly for traditional legacy media businesses used to a different rhythm of working. But significant changes in consumer viewing habits means TV broadcasters can't afford to avoid the question of what it might take to gain a foothold in D2C.

Here are **5 key takeaways** for maximizing the odds of success for TV broadcasters exploring D2C

1 Top-down commitment is critical

Commit to a clear vision and strategy for D2C and communicate it across the entire organization to overcome internal hurdles facing new business units.

2 Ambidextrous models are more likely to succeed

Build an ambidextrous operating model that 'elevates' the new D2C business while leveraging the legacy core.

3 Anticipate and actively manage the culture clash

Integrating D2C and legacy core media businesses will lead to inevitable cultural challenges, but with clearly established guide-rails and incentive programs it's possible to ensure alignment.

4 Leverage D2C capabilities to turbo-charge your decision-making across the entire organization

Do not underestimate the challenge of embedding data into your standard way of working and invest early in analytics capabilities.

5 Avoid over-relying on existing legacy capabilities

Leverage cost benefits from scale, but avoid resourcing decisions that hamper the agility of the new D2C business unit; many legacy organizations underestimated the degree of change required to adapt existing capabilities (e.g. marketing, analytics) for the new D2C world.

Citation

O'reilly, Charles A., and Michael L. Tushman. "Organizational Ambidexterity: Past, Present, And Future." *Academy of Management Perspectives 27*

If you would like to discuss any of the themes covered in this report, we'd be delighted to talk.

Sebastian Blum, Partner
sebastian.blum@occstrategy.com

Ye Chen, Associate Partner
ye.chen@occstrategy.com

Mostyn Goodwin, Partner
mostyn.goodwin@occstrategy.com

Kim Guthrie, Senior Advisor
kim.guthrie@occstrategy.com

OC&C Strategy consultants

uncommon sense