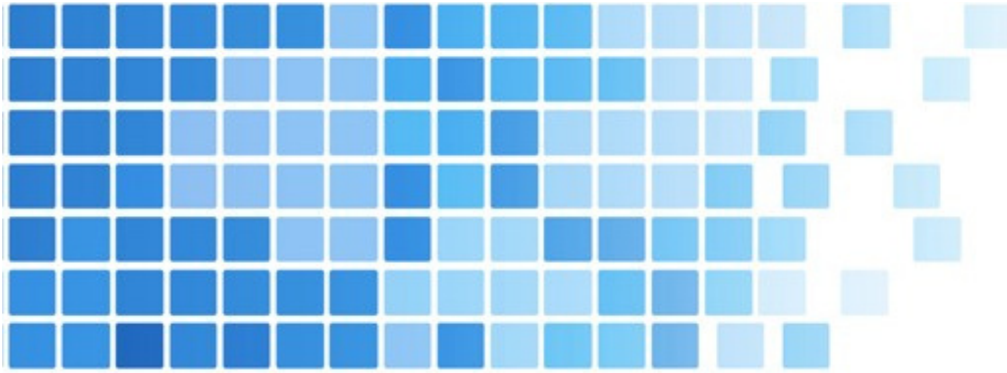




LOS ANGELES ENTERTAINMENT SUMMIT JULY 21 - 23, 2014



State of the Industry



LOS ANGELES ENTERTAINMENT SUMMIT JULY 21 - 23, 2014



Kevin Westcott

US National Sector Lead for the Media & Entertainment Practice,
Deloitte Consulting

Deloitte.

Talking About the Generations

The survey focuses on four generations, and five distinct age groups:



Trailing Millennials

Ages: 14-24
Birth Years:
1999 -1989



Leading Millennials

Ages: 25-30
Birth Years:
1988 -1983



Generation X (Xers)

Ages: 31-47
Birth Years:
1982 -1966



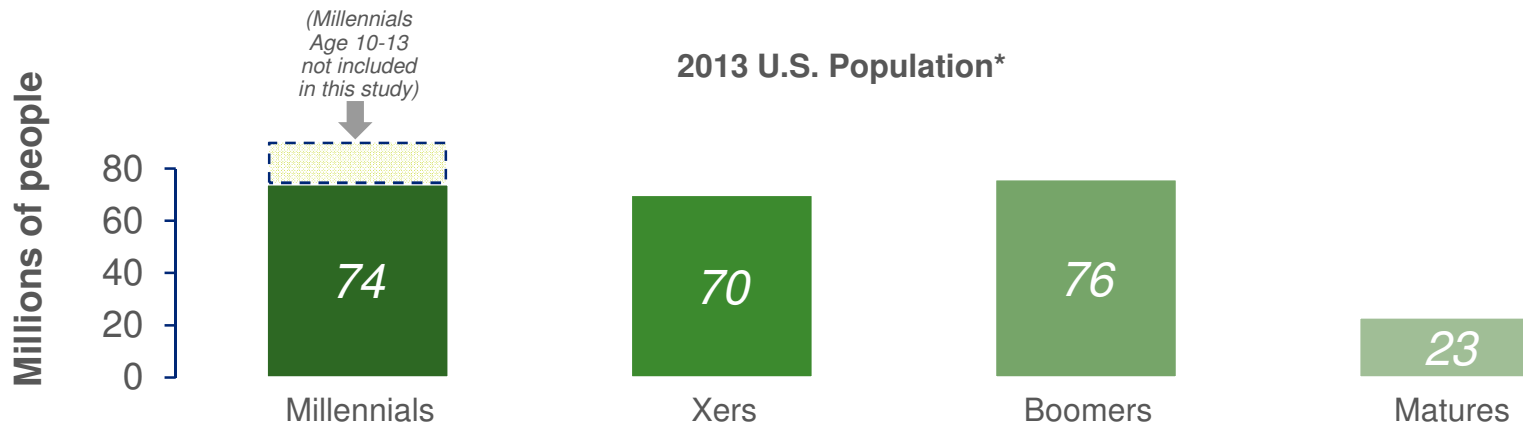
Boomers

Ages: 48-66
Birth Years:
1965 -1947



Matures

Ages: 67+
Birth Years:
1946 and prior



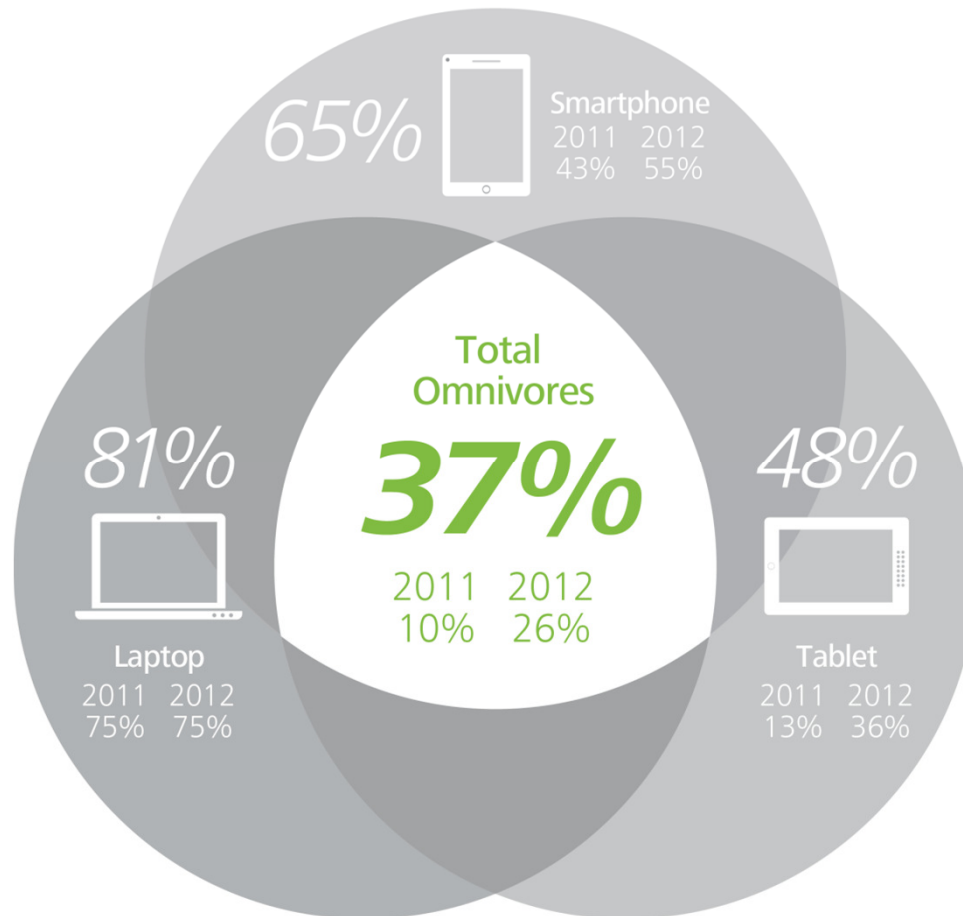
*2010 U.S. Census Bureau – Population Division
U.S. Interim Projections 2000-2050

The Digital Omnivore

Rise of the Omnivore

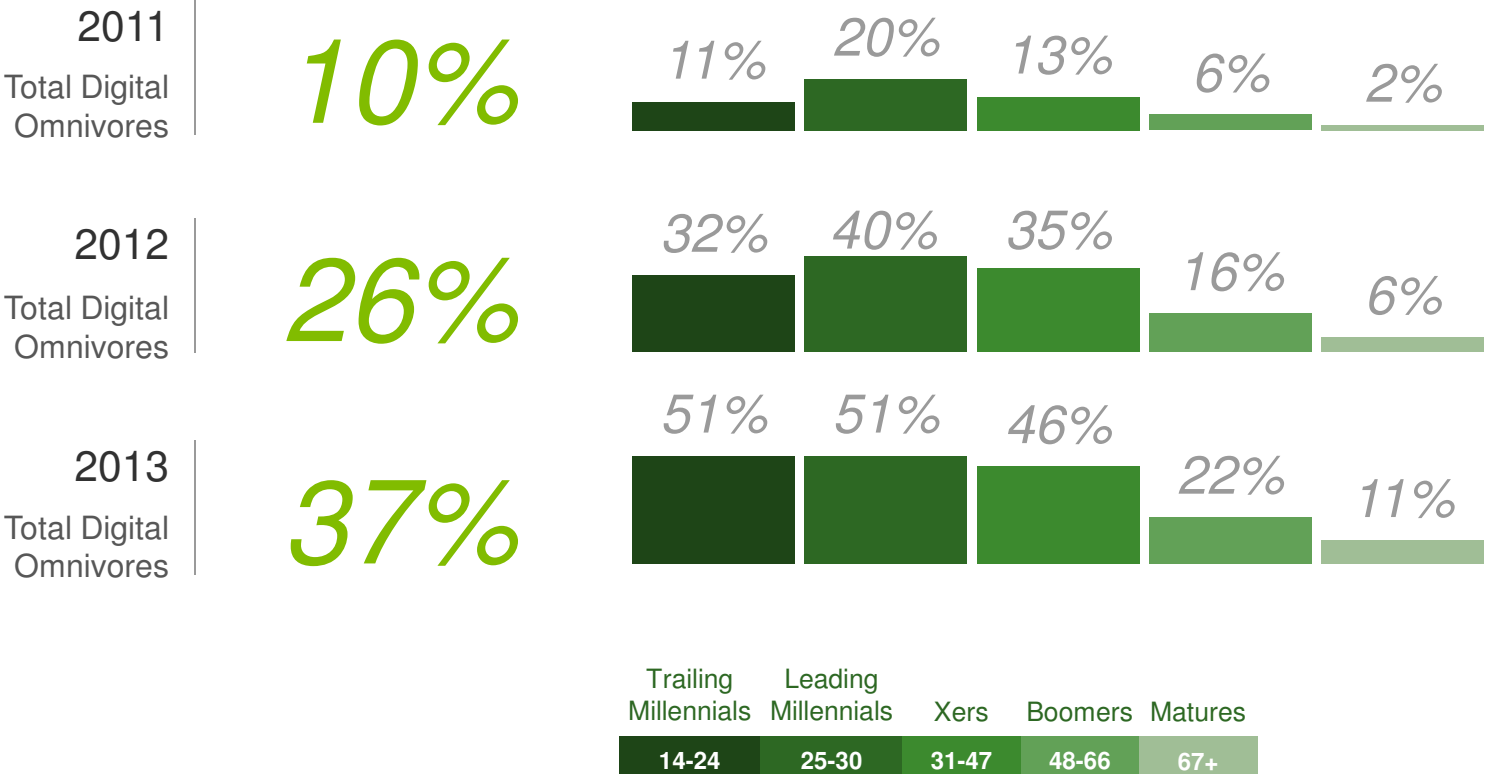


Over one third of U.S. consumers are Digital Omnivores, principally due to strong adoption of tablets



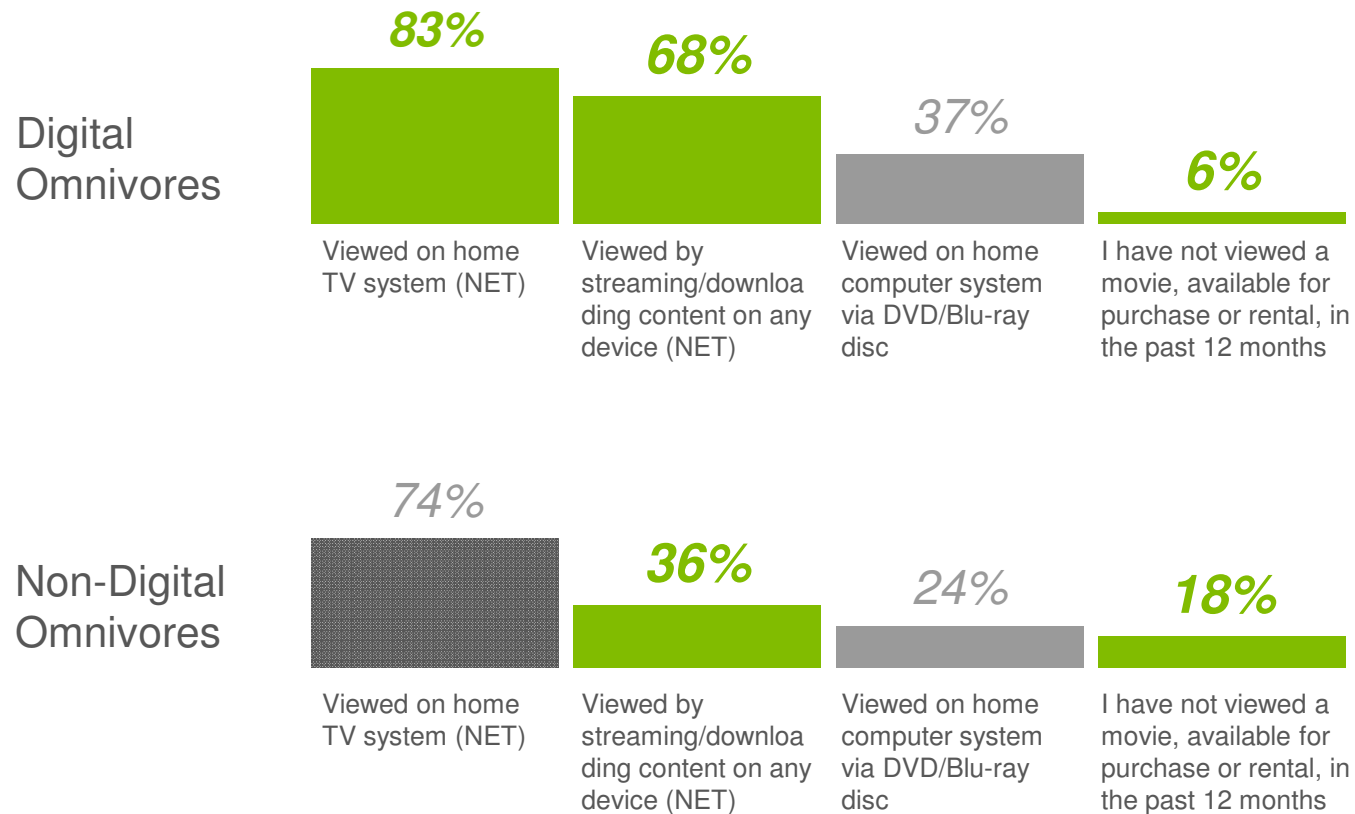
Digital Omnivore growth driven by Xers and Millennials

Percentage Digital Omnivores by Generation



Digital Omnivores stream movies nearly twice as often as non-Omnivores

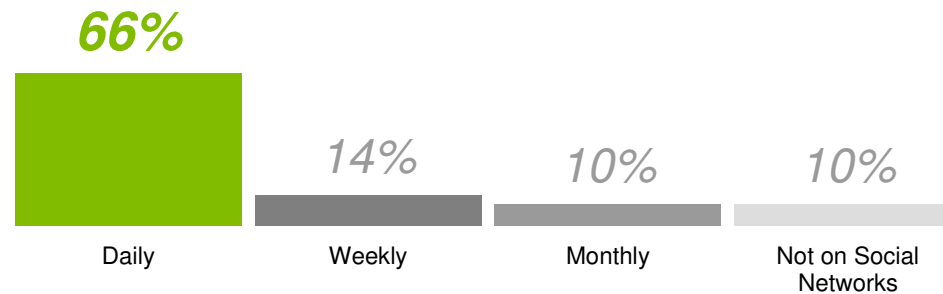
Q. What methods have you used to view a movie, available for purchase or rental, in the past 12 months?



90% of Digital Omnivores are on social networks and two-thirds are checking profiles at least daily

Q. How often do you update/check your profile/social network?

Among Digital Omnivores



Among U.S. Consumers (%)	Digital Omnivores	Non-Digital Omnivores
1-3 times/day	38	30
4-10 times/day	17	8
10-20 times/day	7	5
More than 20 times/day	4	3
Weekly	14	15
Monthly	10	16
Not on social networks	10	22

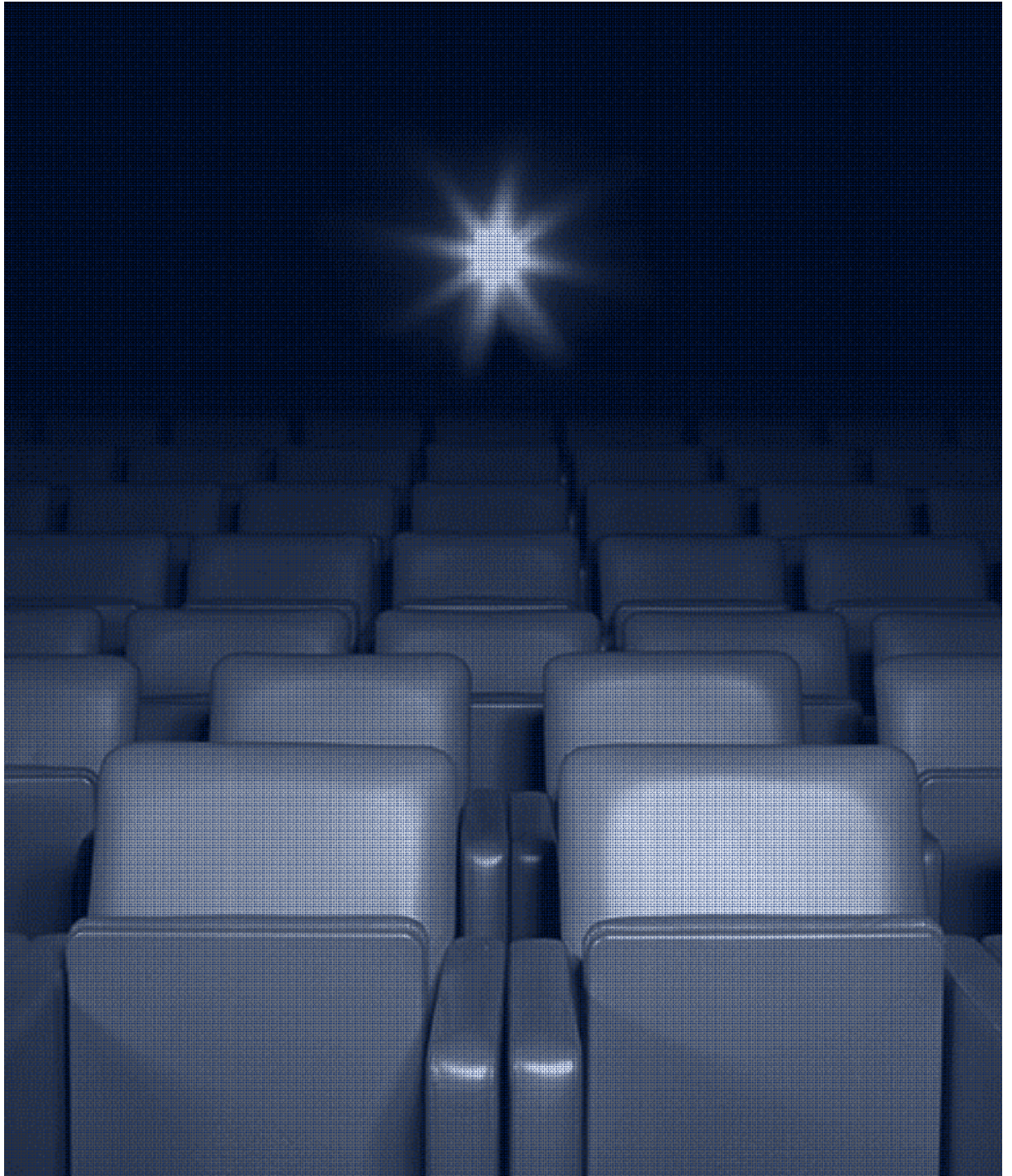
Trailing Millennials 14-24	Leading Millennials 25-30	Xers 31-47	Boomers 48-66	Matures 67+
39	37	44	30	^
21	23	17	10	^
13	10	5	0	^
11	6	1	0	^
5	14	18	18	^
5	8	9	17	^
7	2	7	25	^

Male	Female
37	40
16	19
6	8
3	5
16	11
9	11
13	8

^ Base size too small to show.

Broadcast, Cable & Filmed Entertainment

Shift to Digital



Home Internet is the most valued service across all generations

Q. Of the services you indicated your household purchases, which three do you value the most?

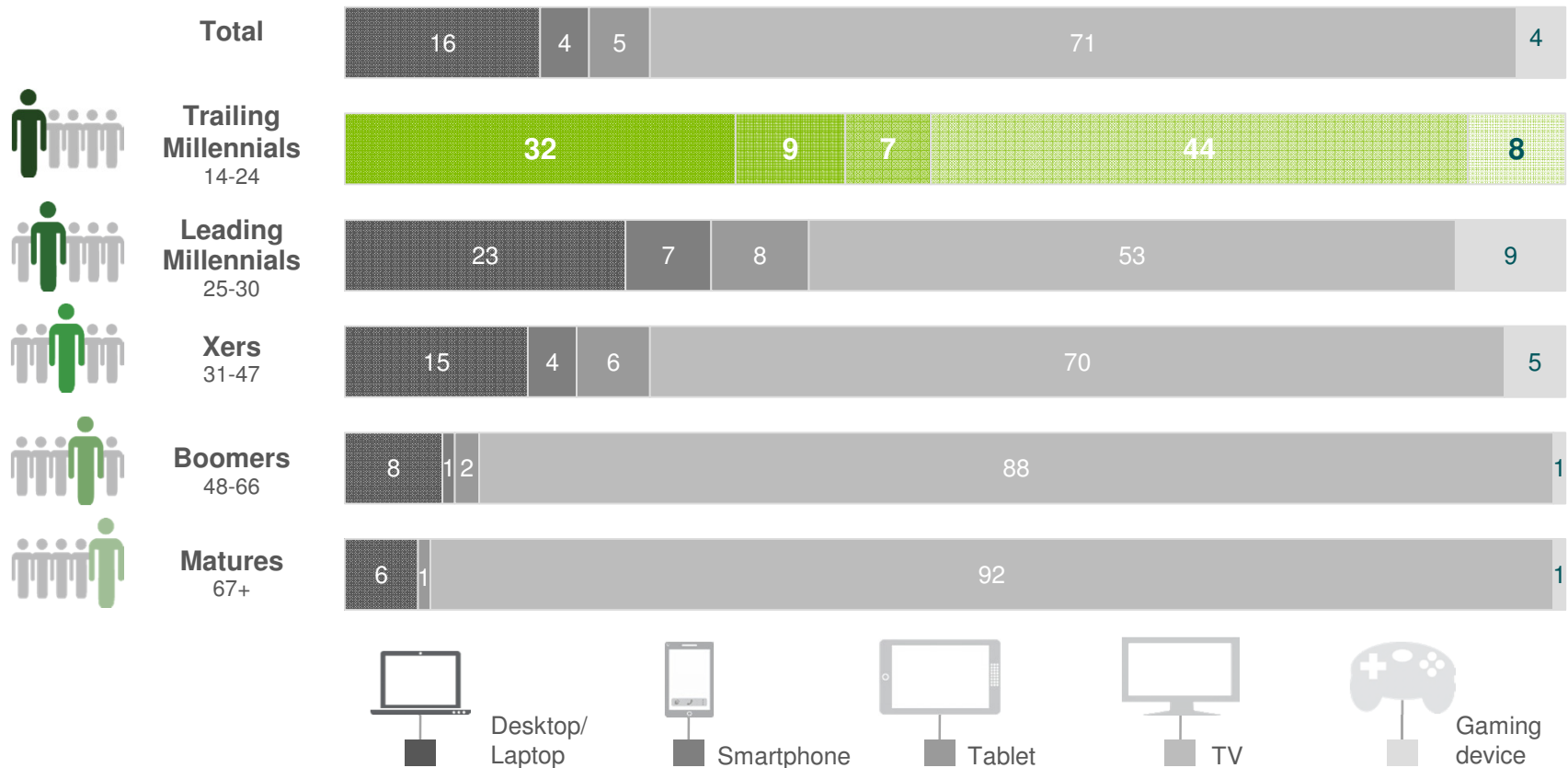
Among Total U.S. Consumers (%) Top three ranking	Total 2013
Home Internet	86
Pay TV (cable and/or satellite)	61
Mobile data plan	30
Mobile voice	30
Landline telephone	25
Streaming video service	20
Gaming	11
News/Newspaper (print or digital)	9
Magazine (print or digital)	8
Streaming music service	4

2013				
Trailing Millennials 14-24	Leading Millennials 25-30	Xers 31-47	Boomers 48-66	Matures 67+
86	85	83	90	86
44	51	61	71	70
47	35	36	20	7
24	31	33	33	23
9	10	20	37	52
35	32	23	10	7
23	20	15	2	0
2	3	4	11	33
5	10	7	9	10
8	6	5	2	0

Trailing Millennials are spending more time watching TV shows and movies on non-traditional devices than they are on TVs

Q. Of the hours you spend watching movies and/or TV shows per week, what percentage of time is spent watching on the following devices?

Percentage of time spent watching movies and or TV shows on each device



More than half of consumers have connected their TV to the Internet; a third prefer to connect directly if possible

42%
Not connected



58%
Connected

Among those who have their TV connected to the Internet to view content

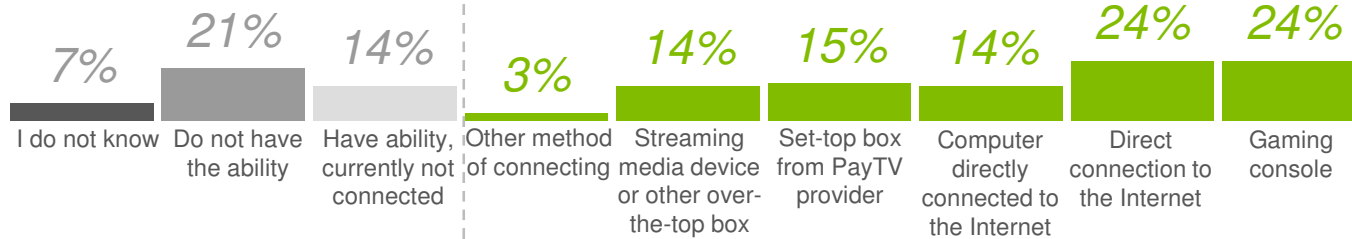
62% 

From Traditional Sources

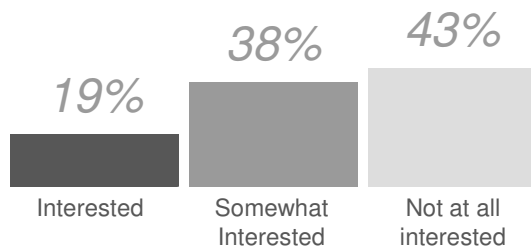
38% 

From Online Sources

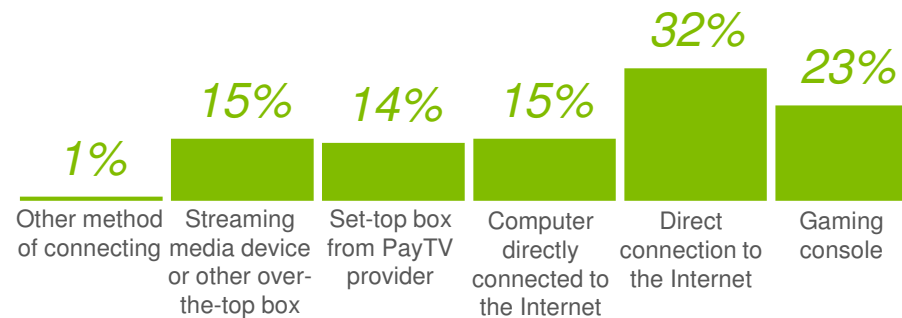
Q. In what ways is your TV presently connected to the Internet?



Q. Of those not connected, how interested are you in connecting your TV to the Internet in the next 12 months?

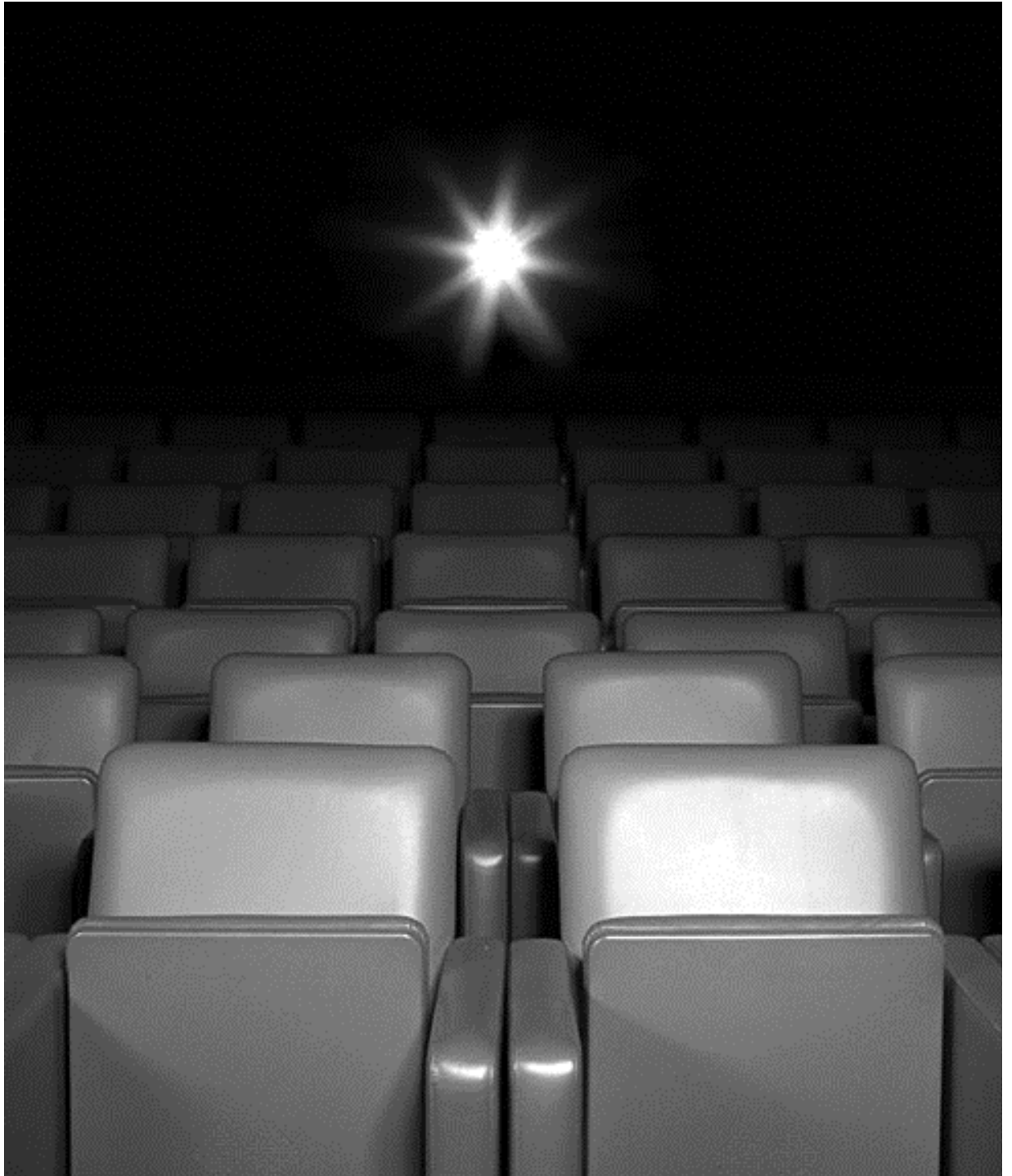


Q. Which is your preferred way of accessing content from the Internet on your TV?



Broadcast

Multitasking



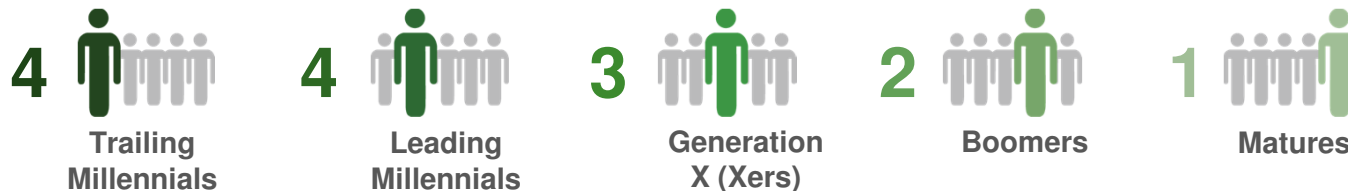
Viewers are increasingly distracted; 86% of all consumers are multitasking while watching TV

Q. Which are things you typically do while watching your home TV?

Among Total U.S. Consumers (%) Summary of Always/Almost Always	Total 2012	Total 2013
Browse and surf the web	27	35
Read email	26	30
Text message	23	26
Use a social network	23	26
Write email	19	22
Browse for products and services online	17	21
Play video games	16	18
Talk on the phone	17	18
Purchase products and services online	11	16
Microblogging	9	14
Read for pleasure	14	14
Read for work and/or school	12	13
Nothing else - just watch TV	19	14

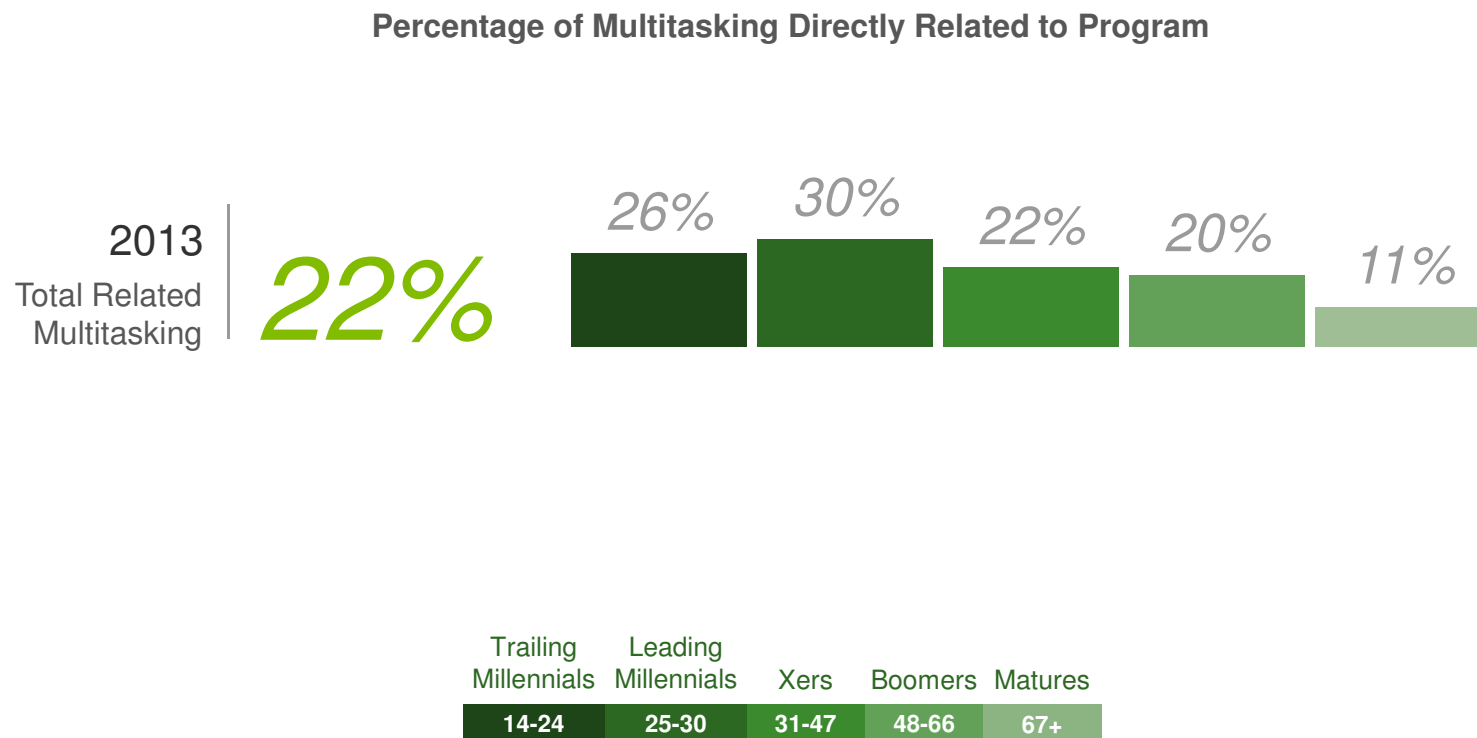
2013				
Trailing Millennials 14-24	Leading Millennials 25-30	Xers 31-47	Boomers 48-66	Matures 67+
52	51	35	26	10
35	39	29	30	16
51	41	25	13	3
48	48	26	14	5
25	33	22	19	12
32	36	21	15	5
25	26	20	13	8
21	27	22	14	6
23	23	18	10	4
35	28	12	2	1
16	25	15	9	8
24	27	14	3	1
7	9	12	16	27

Average number of additional activities while watching TV



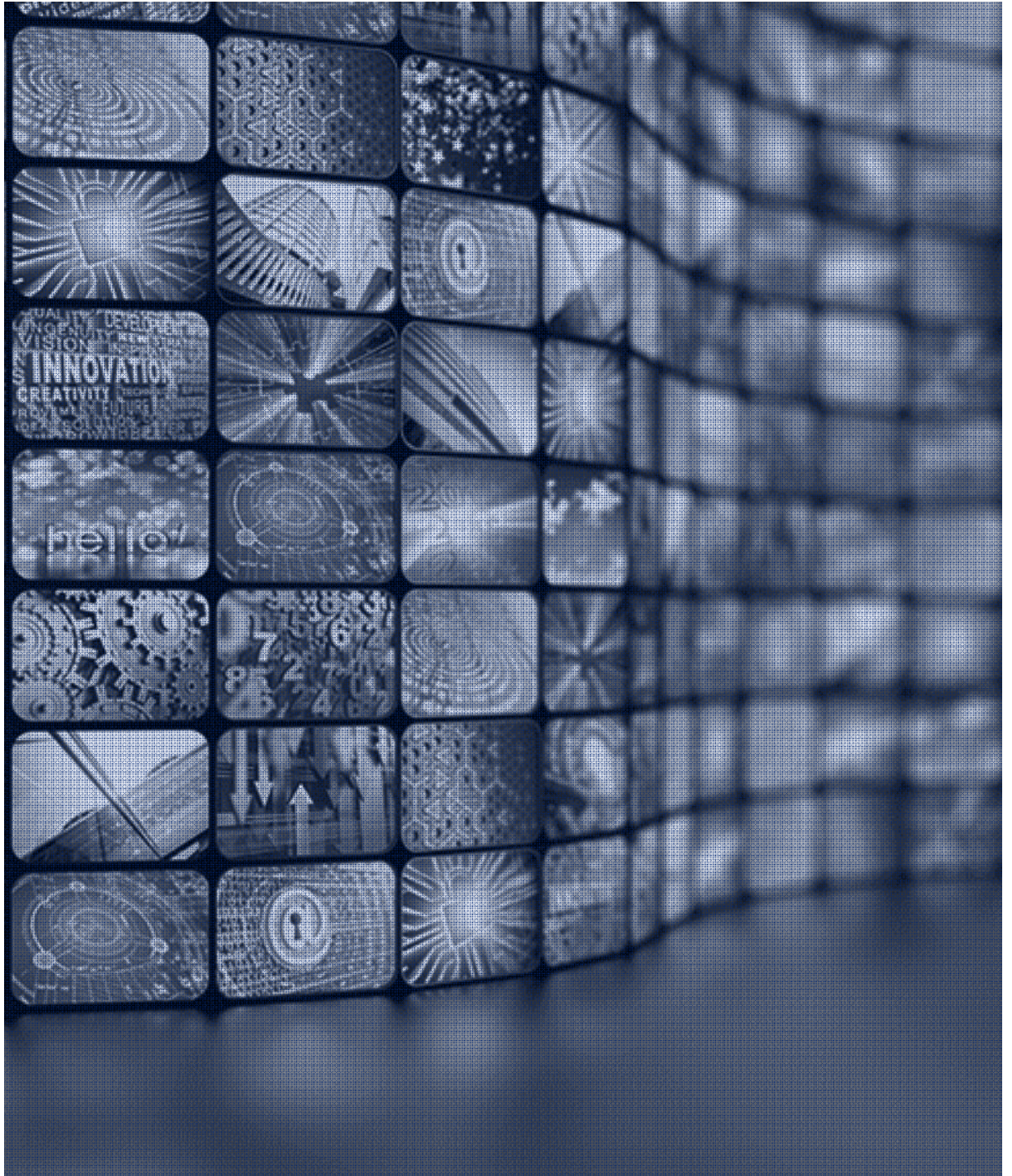
However, fewer than one-quarter of multitasking activities are directly related to the programs that consumers are watching

Q. What percentage of your multitasking activities are directly related to the program you are watching?



Advertising

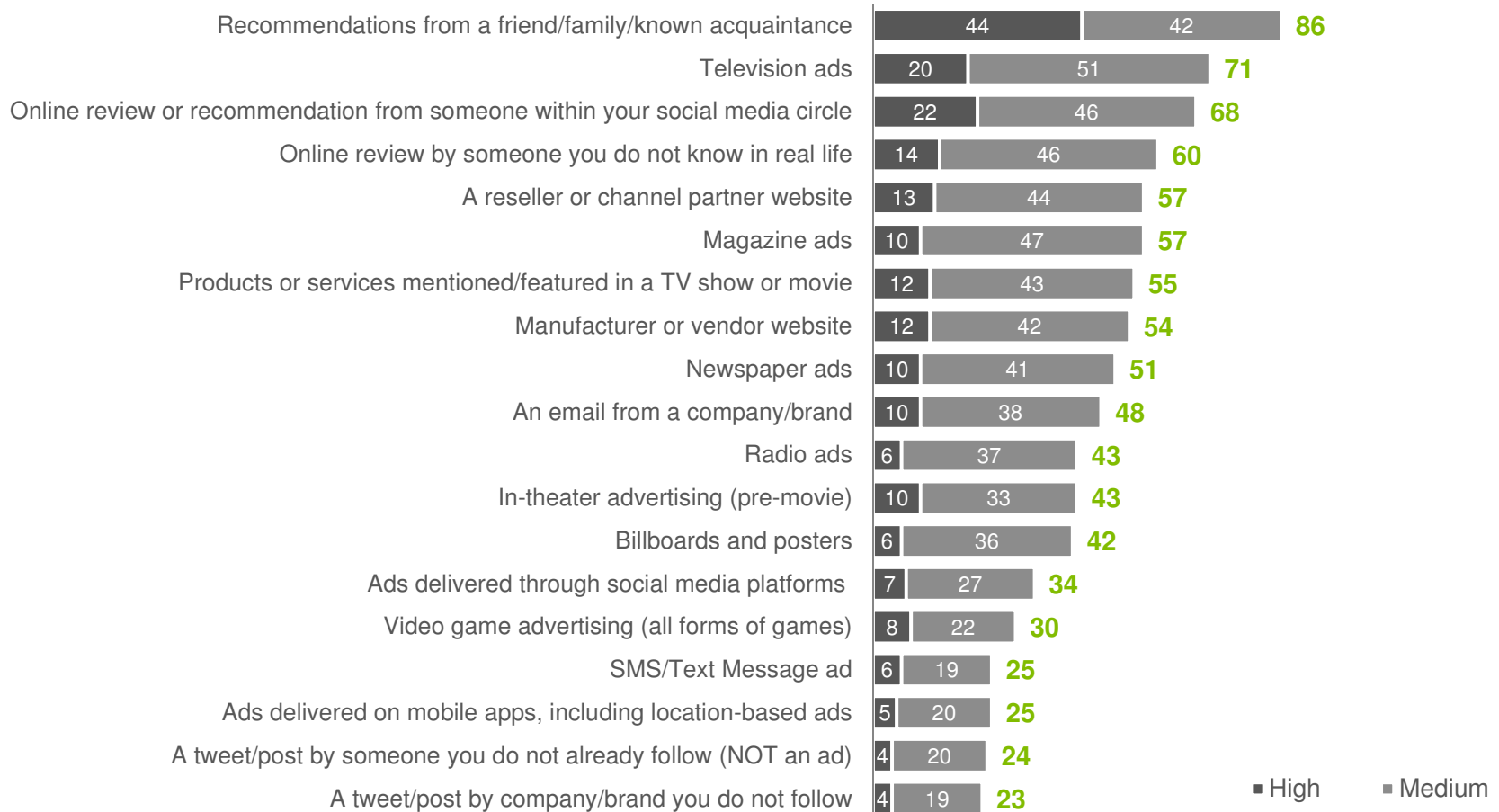
Recommendations Rule



Personal recommendations, including those from within social media circles, continue to play a major role in buying decisions

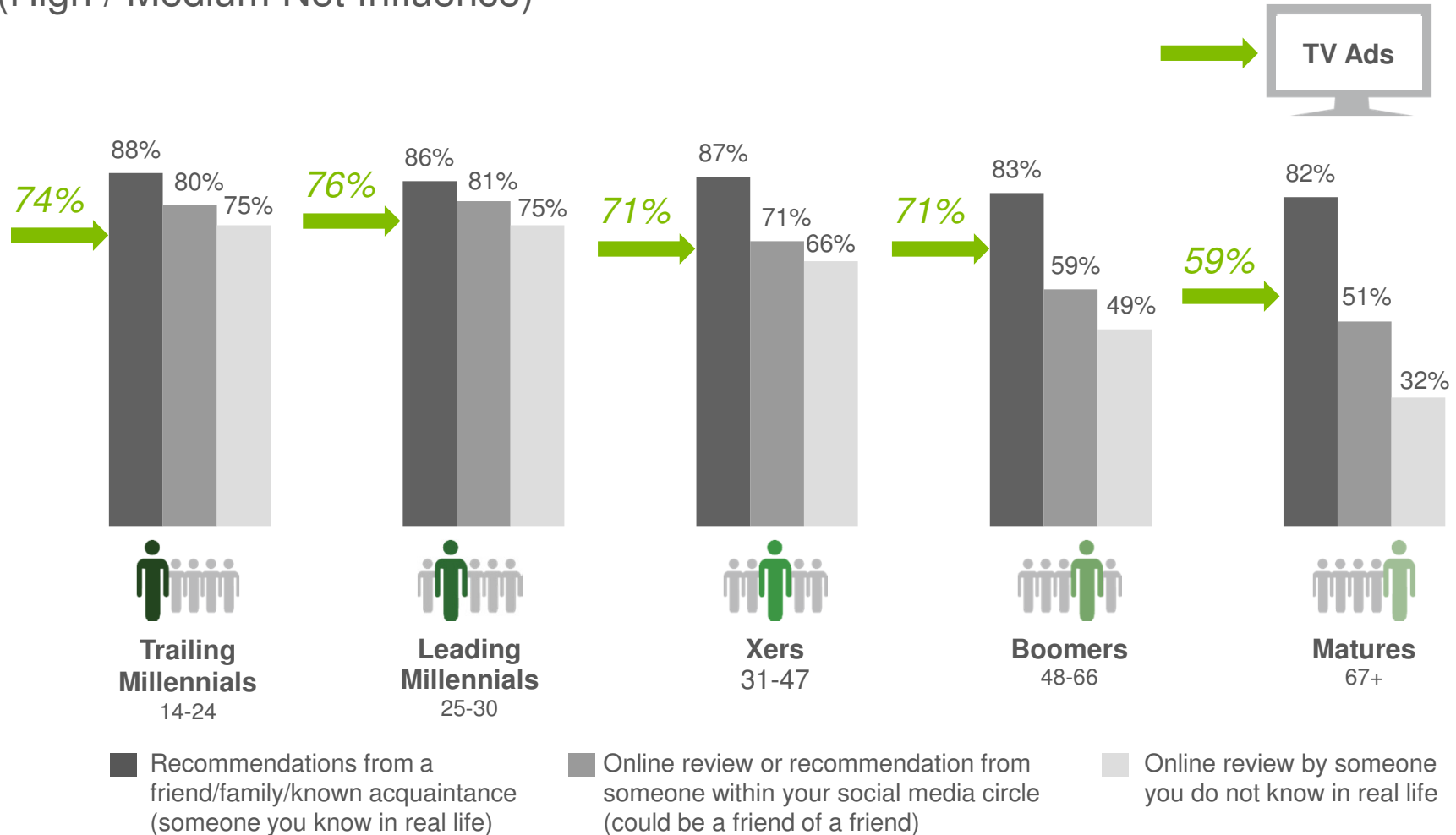
Q. To what degree do the following influence your buying decisions?

Total U.S. Consumers 2013 (%)



Personal recommendations continue to outpace television ads' influence on consumer buying decisions

Q. To what degree do the following influence your buying decisions?
(High / Medium Net Influence)



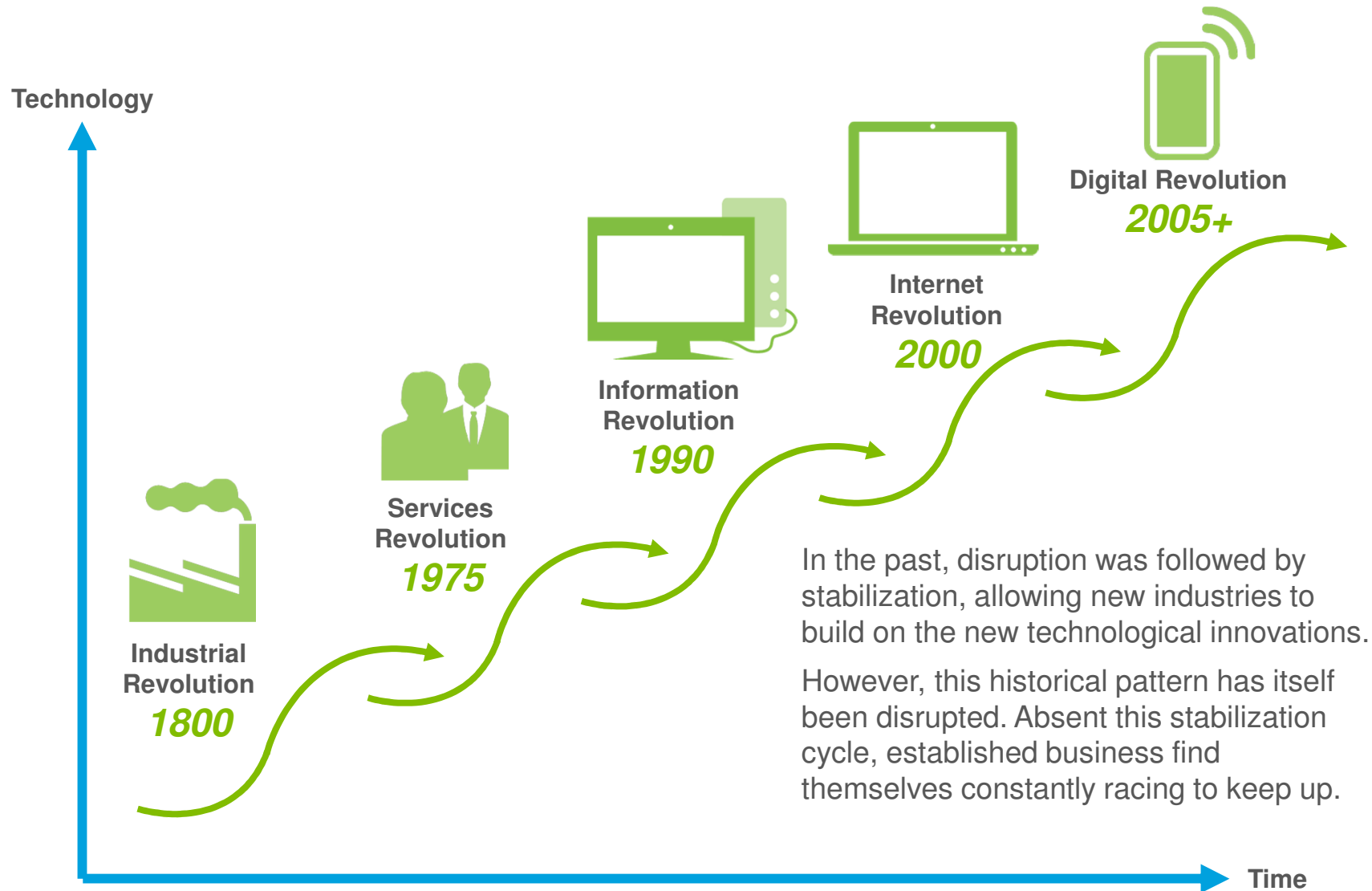
The future of home entertainment

A Deloitte Perspective

June, 2014



New business eras are driven by technology disruption



Technology + business models are ripe targets for innovation



Hammered by relentless technological change, many companies take a reactive stance: They focus solely on keeping up, protecting their existing markets, and improving their performance.



- John Hagel III and John Seeley Brown, Lang Davison Harvard Business Review, Oct 2008

Harvard Business Review

A company's bid to rally an industry ecosystem around a new competitive view is an uncertain gamble. But the right strategic approach and the availability of modern digital infrastructures improve the odds for success.

Shaping Strategy in a World of Constant Disruption

by John Hagel III, John Seeley Brown, and Lang Davison

The Ten Types of Innovation

	How you...
CONFIGURATION	Profit Model make money
	Network connect with others to create value
	Structure align your talent and assets
OFFERING	Process use signature or superior methods to do your work
	Product Performance employ distinguishing features and functionality
	Product System create complementary products and services
EXPERIENCE	Service support and enhance the value of your offerings
	Channel deliver your offerings to customers and users
	Brand represent your offerings and business
	Customer Engagement foster distinctive interactions

Business Model Risk

Deloitte.

Risk Transformation
Aligning risk and the pursuit of shareholder value



Challenging our assumptions:

A traditional view of the home entertainment business

- 1** “Better experience” means larger TVs and higher resolution
- 2** Home entertainment technology and format will be evolutionary (e.g., Blu-ray □ 4K TV)
- 3** Theatrical success drives home entertainment sales
- 4** Big retailers and pay TV providers own the primary direct viewer relationship
- 5** Blockbusters drive bulk of demand
- 6** “Home Entertainment” = Professional Movie and TV Content
- 7** Mainstream viewers are willing to pay a la carte for premium content
- 8** Regulations will protect content owners access to viewers, and vice versa

But, what if these assumptions are no longer true?



Challenging our assumptions:

A traditional view of the home entertainment business

1 “Better experience” **does not mean** larger TVs and higher resolution

2 Home entertainment technology and format will **not** be evolutionary (e.g., Blu-ray □ 4K TV)



3 Theatrical success **does not drive** home entertainment sales

4 Big retailers and pay TV providers **do not own** the primary direct viewer relationship



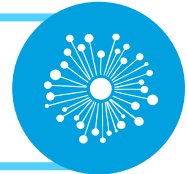
5 Blockbusters **do not** drive bulk of demand

6 “Home Entertainment” ≠ Professional Movie and TV Content



7 Mainstream viewers **are not** willing to pay a la carte for premium content

8 Regulations **will not** protect content owners access to viewers, and vice versa

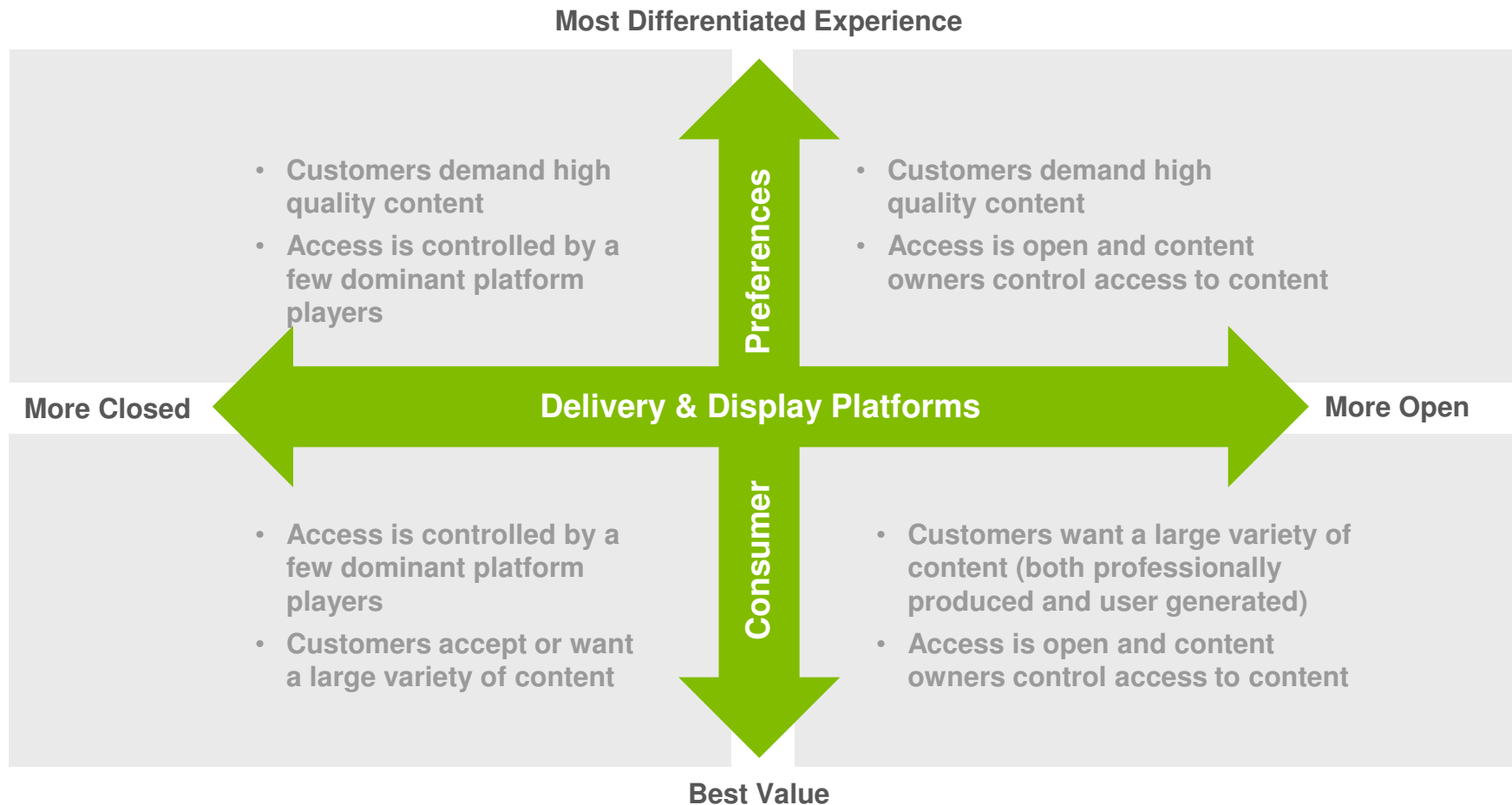


But, what if these assumptions are no longer true?



Challenging our assumptions:

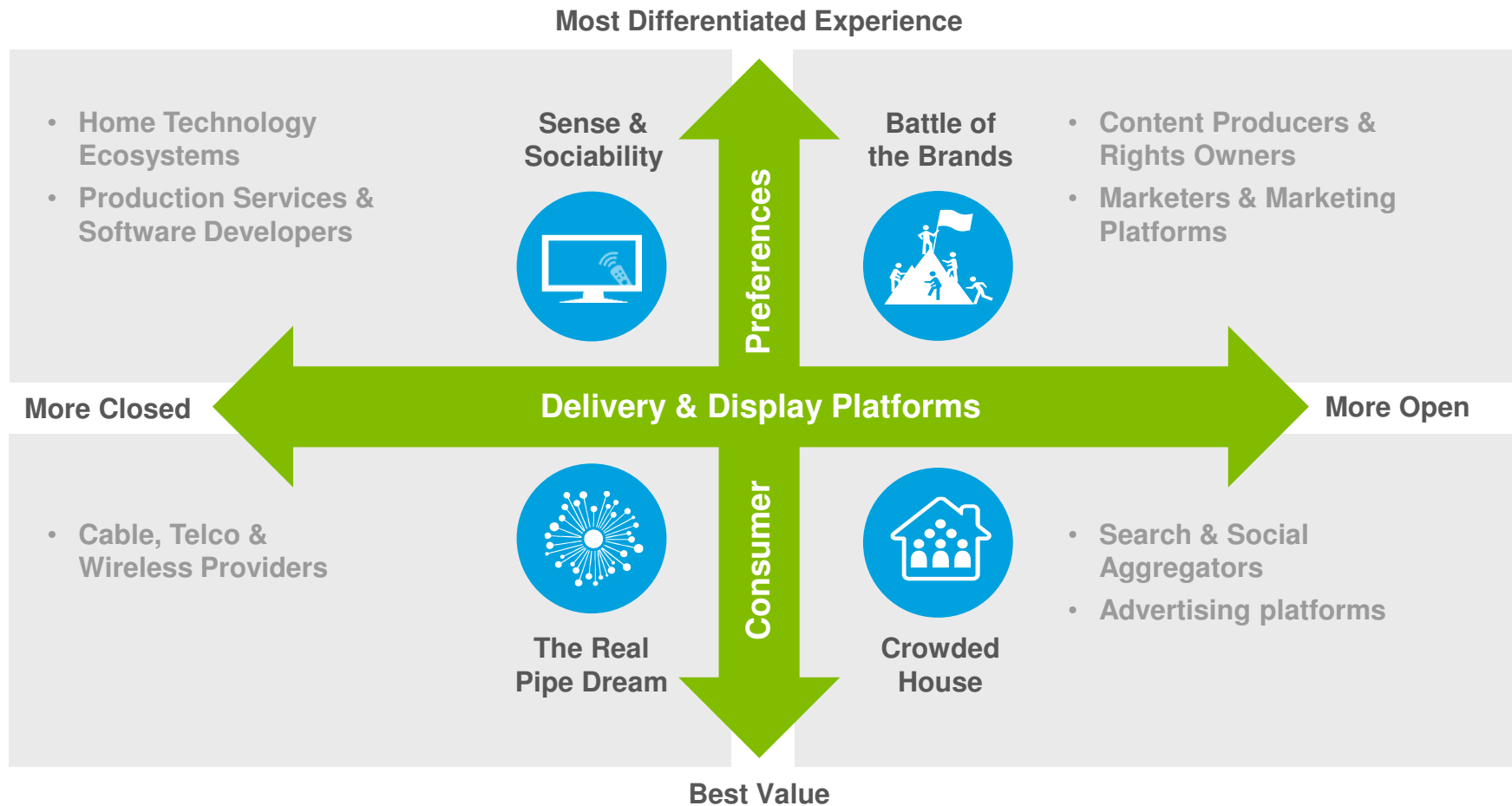
Each future scenario describe a shift in preferences, power, and profit pool



Challenging our assumptions:

Each future scenario describe a shift in preferences, power, and profit pool

“Who will be the winners?”



Kevin Westcott
kewestcott@deloitte.com

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