

TELECOM AND MEDIA/ENTERTAINMENT
COMPANIES IN THE CRUCIBLE

CMO-CIO COLLABORATION

ESSENTIAL FOR GROWTH

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Introduction

In business, crucibles, known metaphorically for their transformational force, are not entered by choice; rather, uncontrolled circumstances place companies there. What businesses do as a result, however, is well within their control.

Through inherent adversity, crucibles morph companies or new business models into stronger and more refined iterations of themselves. Those that recognize the crucible and fail to act, however, could perish. Across industries today, the crucible's refining fire is marked by simultaneous construction and deconstruction that continually incinerates long-standing companies, spawns new businesses and redefines what is possible. See the examples below.

Disruption is the new reality for business leaders, extinction the ever-present threat. Unpredictable, explosive change is obsoleting time-honored companies and long-standing industries and birthing new business life forms to replace the old. Varying levels of vulnerability and volatility are cycling across industries like wildfires, fanned by digital developments.

Now it is telecom, media and entertainment's (TME) turn. TME's longstanding firewall of high barriers to entry is getting thin with nimble, cost-effective competitors, like Netflix, breaking down traditional barriers. Thus, after a few years of escalating temperatures, TME companies are now fully immersed in the blistering heat of the crucible, fighting for their survival by scorching traditional, outdated business models to enable refinement, agility and rebirth.

The imperative that Chief Marketing Officers (CMOs) and Chief Information or Technology Officers (CIOs) merge their agendas to collaborate for success of their companies, their CEOs and their futures is at the crux of the TME industry's fight for customer retention, new skill sets and fresh sources of revenue growth.

DAVID AND GOLIATH

Online razors via Dollar Shave Club and Harry's are taking on Gillette and supported by a \$3 billion market.



FIRST-EVER CATEGORIES

New entrants like Airbnb and Birchbox are creating new categories.

AirBNB is valued at \$26 billion



Both Airbnb and Birchbox are spawning new competitors and new industries³

INDUSTRIES REDEFINED

Uber is redefining transportation.

Uber is valued at \$62 billion



Expanding into autonomous vehicles⁴

Consider these multi-dimensional TME transformations. Content producers are morphing their business models to capitalize on the growing demand for anywhere, anytime content in three ways:

1 // DIRECT-TO-CONSUMER



HBO NOW and Tribeca Shortlist, a collaboration of Tribeca and Lionsgate SVOD service provide direct access to content without a cable subscription.

2 // CHANNEL PROLIFERATIONS



Over-the-top (OTT) player and aggregators such as Netflix; services like Hulu, owned by Comcast, Disney and 21st Century Fox

3 // DEFENSIVE CONSOLIDATIONS



Defensive consolidations formed such as ATT/DIRECTV, Comcast/NBCUniversal and Charter/Time Warner Cable

These different business models are driving demand for new kinds of networks and cost models. Further revenue and cost changes are amplified by the expanding power and popularity of “over-the-top” (OTT) players, such as Netflix and Amazon Prime, that offer video, audio and other services on top of existing networks. For example:

- Twitter is the new TV. They announced their newly formed rights to stream Thursday night NFL starting with the 2016 season.
- Almost half (46%) of U.S. households have dropped their landlines and are solely wireless.⁵
- T-Mobile created a new no-contract category with their un-carrier campaign and added over 12 million new subscribers in the last two years, earning its place as the third largest and fastest-growing mobile provider.⁶

In the area of opportunity, advertising presents a promising revenue source for TMEs. Large investments to quickly expand capabilities into cross-channel advertising reflect the intense race for competitiveness across cable companies, OTT, content providers, subscription video on-demand (SVOD) providers and

others. Consider Verizon’s potential \$4.8 billion acquisition of Yahoo and AOL. The advertising opportunity stems from the need for targeted, data-driven, value-based digital advertising across multiple channels. TMEs must enter this space to catalyze future revenue streams and sustainable competitiveness.

THE HEAT IS ON.

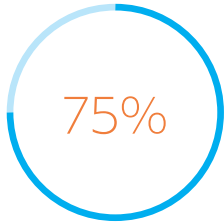
TME companies are at an unprecedented inflection point. C-level executives are under extreme pressure to pivot and prosper or face potential extinction.

Additionally, this change must be pursued aggressively, not in baby steps, as evolutionary approaches will not move at the speed required for survival. For TMEs that embrace the crucible, a newer, better business is required. However, as with all things worth pursuing, the journey to the other side will not be an easy one.



Three Intense Hot Spots

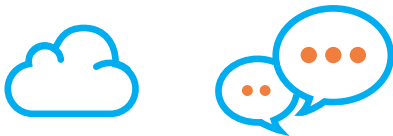
What is generating the heat? TMEs are facing massive technology disruptions (CIO) and tectonic customer shifts (CMO) that shatter the stability of their very existence. According to CEOs, these forces interacting together are a highly potent combination producing pressure and chaos in three key areas:



75% of telecom CEOs concerned about disruptive competition

1 // Disruptive competition. The digitization of business and industries is happening at mind-numbing velocity, imploding TME barriers to entry and introducing new competitors that can obsolete traditional TME businesses seemingly overnight. Combined with uncertain regulatory change, such as data privacy legislation, the future landscape is murky and unpredictable. Thus, adopting a nimble organizational model is the best, and only, way to prepare. In a recent survey, 75% of CEOs cite new competitors as their number one threat. Specifically, OTT players have expanded their scope and crept into the TME's home field and are cited by 91% of TME executives as most likely to alter customer demand scenarios in the future.⁷

Conglomerations in the TME space are spawning competitors with broader capabilities and intensifying cannibalization threats to legacy revenue streams. Cross-channel advertising, driven by data and analytics, is a burgeoning TME opportunity. Verizon's potential \$4.8 billion cash acquisition of Yahoo and AOL is the most recent and significant example of this, done to fast-track revenue generation in cross-channel digital advertising. As a result, Verizon/Yahoo/AOL will now compete with ATT/DIRECTV and NBCUniversal/Comcast.

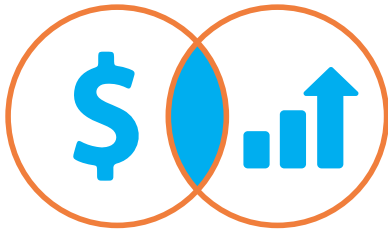


\$1.5 TRILLION



\$1.5 trillion of telecom opportunity in cloud, mobile, social and big data

2 // Customer centricity. TMEs need to figure out how to put customers at the nexus of their existence. On the consumer side, current offerings are largely undifferentiated products and services at the same price point therefore competitive differentiation is based solely on customer experience. Consumers can get the same content, apps and devices from all suppliers. In undifferentiated markets, improved customer service and personalized customer interactions become the product and are now minimum requirements for competitiveness. Opportunities exist within cloud, mobile, social and big data technologies, all of which are forecasted to grow to \$3.8 trillion in 2019 with the majority of that, \$1.5 trillion, within communications services, according to Gartner.⁸ Sixty-eight percent of telecom CEOs recognize this shift and put customer experience management as a top priority on their strategic agenda.⁹ Operationalizing this shift and finding the right focus for TME expansion, customer experience optimization and service expansion, however, requires deft balance.



There's a yawning gap and interdependence of costly upgrades required for future revenue.

3 // Critical and costly upgrades. TME firms face a yawning gap between the cost to expand, upgrade and maintain technology platforms for exploding traffic, and the revenue they can generate from that traffic. The paradox is that two interdependent requirements are both mission-critical and simultaneously contradictory: capital-intensive technology platform upgrades are an essential element to customer-centricity. Consider this: legacy infrastructure limits customer experience capability; it obstructs the billing support required to deliver dynamic content bundles, new buy flows and pre/post pay models for video services. Springboarding on platform enhancements, TMEs need to stave off further customer defection by tapping into expanding ecosystems and conglomerations that help to quickly expand capabilities to build broader offerings that meet rising customer demands.

New revenue opportunities present the need for TME investment on multiple fronts. Addressable advertising is a long-standing capability for digital advertising. TMEs need to apply similar principles to video in order to enable ads that are relevant, to the right person at the right time and on the right device(s). This will take investment in systems as well as new skill-based areas such as learning how to develop and deliver the new offering portfolio and generate incremental revenue from it.

CMO-CIO collaboration is vital to navigate the interdependent, “perfect storm” of massive technology disruptions, tectonic customer shifts and the requirement to implement critical and costly upgrades. These high-pressure, time-sensitive challenges also represent an extraordinary and pivotal growth opportunity for TMEs, enabled by CMO-CIO co-creation.

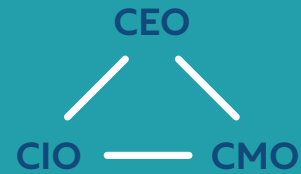


Bridging the CMO-CIO Gap

TME CEOs feel the pressure and are calling on their teams to band together in order to solve these challenges. More pointedly, CEOs place the major crux of their company's future on the shoulders of the CMO (customer shifts) and CIO (technology disruptions) and their ability to move from disparate perspectives to highly collaborative approaches. (See sidebar for more detail.)

CMO-CIO collaboration will take several forms and require an ongoing give-and-take for the greater good of the organization. For example, to catalyze customer-centricity and adopt a focus on customer experience, there needs to be a corresponding shift in technology spend across the portfolio, away from traditional concentrations of spend, toward enablers of multi-dimensional customer experiences. Enablers such as capturing an in-depth understanding of the customer, leveraging actionable customer insights, providing tailored service offerings, managing customer churn and crafting positive customer interactions across touch points will fuel customer experience excellence. Large-scale changes like these must be forged, led and governed very differently than historical TME approaches.

Disney is a role model in delivering customer-centric experiences. Disney's omnichannel customer experience seamlessly connects the face-to-device to the face-to-face experience via an elegantly detailed and technologically augmented platform. First, Disney's beautiful website is mobile-responsive. Easy enough. From there, Disney-goers use their phone and a Magic Band as their map, their wallet, their photo album and their room key. Want to know how long the line is for Space Mountain? Check. Need to know where the closest restroom is? The map is right there in your pocket, real-time and readable, not a crumpled up messy piece of paper. And it all works—seamlessly. Disney's brand reputation for considering every detail is not spared in its exemplary omnichannel customer experience that spans technology and human interactions.



The CIO's World //

MASSIVE TECHNOLOGY DISRUPTIONS

- TME firms face a yawning gap between the cost to expand, upgrade and maintain networks for exploding traffic and the revenue they can generate from that traffic. Additionally, legacy billing and care systems impede customer experience enhancements and growth.
- Cloud, mobile, social and big data technologies will grow to \$3.8 trillion in 2019 with the majority of that, \$1.5 trillion, within communications services, according to Gartner.¹⁰
- The digitization of business and industries is happening at mind-numbing velocity, lowering TME barriers to entry and introducing new competitors that can obsolete traditional TME businesses seemingly overnight.

The CMO's World //

TECTONIC CUSTOMER SHIFTS

- Global access to information across multiple personal and in-home devices has instantly put customers in control. That control is enabling enormous shifts in spending while placing growing demands on businesses to meet escalating customer expectations and provide exceptional customer experiences. TMEs need to figure out how to put customers at the nexus of their existence. This is a steep learning curve for TMEs: Telecoms are no longer the sole choice for consumers; Media and entertainment companies have to shift focus from audience to consumers. It's a new world for TME's and customer-centricity is crucial.
- Ecosystems are morphing, introducing cross-industry opportunities, joint ownership models and collaborative partnerships to more quickly scale to provide broader customer needs and in turn, provide better customer experience. The synergies from these new ecosystems are not intuitive, but they are essential to customer retention in a world where simplicity, sophistication and fluidity throughout the customer journey are the minimum cost of entry for loyalty.
- Business must blend physical and digital worlds in order to engage customers and deliver a multi-faceted, holistic experience that resonates and meets customers at the point of their needs and in the channel they prefer. TMEs need to provide individualized experiences and addressable advertising built upon the personalized needs and preferences of customers.



Survival of the Fittest

As technology disruptions and customer shifts increase in magnitude and unpredictability, and the cost of connectivity spirals downward, threats and need for urgent mitigation increase exponentially for TMEs. The crucible will quickly separate the strong and nimble from the fragile, fragmented and inflexible. TMEs must proactively and urgently pivot and meld CMO-CIO forces as if their life depended on it. Because it does.

What, then, should TMEs do to become the fittest?



FIRST

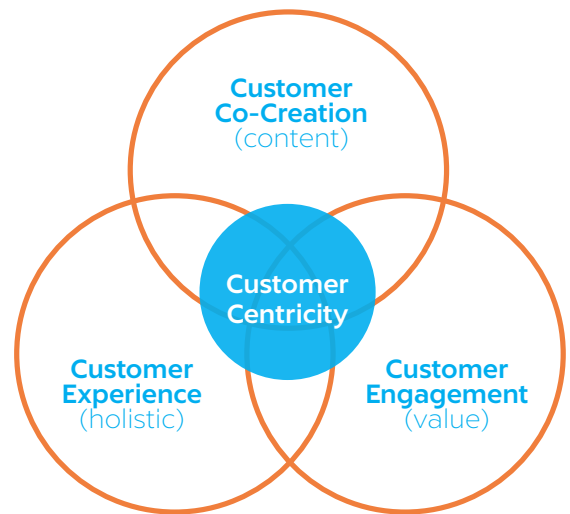


TMEs need to fully embrace customer control and infuse customer-centricity into everything they do, including engaging customers in “running their business.”

This will require erasing the lines between marketing and IT, to craft a technology-driven customer engagement and experience model built around customer needs.¹¹



Giffgaff, a British mobile phone operator, solicits assistance from its customers and rewards them for that support. Giffgaff awards assistance points, which can be converted into cash, to loyal customers who promote its brand and help service other customers. The success has been such that a similar approach is currently being applied to Giffgaff's loan business.



SECOND



New revenue growth opportunities need to be developed, using a creative lens and open mind.

As the cost to grow technology platforms requires incremental revenue that justifies the investment, TMEs are expanding their ecosystems to cross-industry platforms to catalyze new revenue opportunities. Ecosystems require IT expertise together with marketing skills to generate customer adoption and greater reach in order to realize the prize: incremental revenue.



Using joint ventures, acquisitions, investment funds for incubators and start-ups that foster next-generation service ideas and collaborative research and development efforts, TME providers are pursuing new growth via intentional and funded innovation and novel ecosystem expansion around the world:¹²

- Sweden's TeliaSonera is now a stakeholder in fashion accessories for electronics via Zound Industries
- Telstra in Australia invested in DocuSign for digital signatures and Ooyala for video platforms
- Deutsche Telekom Capital Partners established an investment fund of US\$620 million to seed German startup companies.
- LionsGate bought Starz for \$4.4 billion to ensure a direct route to consumers.
- T-Mobile and Sprint partnered with Google for Project Fi, a network of networks that allows access to multiple carriers for Wi-Fi when traveling around the neighborhood, country or globe, that would improve connectivity as individuals move throughout their day.



THIRD



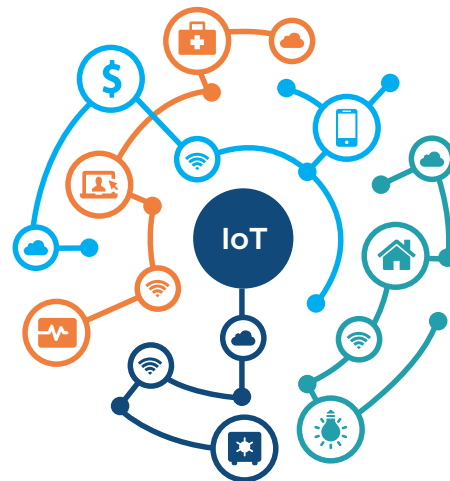
TMEs must navigate the iterative, unpredictable nature of digitization in the TME industry by becoming nimble and fluid, as digitization is both a looming threat and nascent opportunity for TME companies.

TMEs that can turn legacy systems, sequential operations and siloed customer experiences into agile, iterative, collaborative “hives,” are the ones poised for a strong future.



The burgeoning opportunity for TMEs is based on the world's growing connectedness via exploding network growth, known as the Internet of Things (IoT). From coffee makers to automobiles to entire cities, the web of connectivity and information sharing, all accessible via personal devices, is a natural and colossal opportunity for the TME industry. While media and entertainment companies are not yet “all in,” investment is increasing rapidly, from \$47.6 million in 2015 to \$72.6 million in 2018. Investment is focused on data sensors that can monitor device usage and inform media and entertainment companies when and where to serve up content. For example, data sensors have the ability to monitor if kids are in a room and serve up content and advertising accordingly. Also consider:

- M-PESA launched by Vodafone in Kenya has now expanded its wildly successful mobile phone micro financing and money transfer app to Tanzania, Afghanistan, South Africa, India, Romania and Albania, connecting disparate people, cities and now countries.
- Telefónica in Spain launched “Thinking Things” that allows people to remotely change temperature, lighting, equipment and other home and office settings.
- Machine-to-machine (M2M) communication capabilities are exploding across industries. T-Mobile is offering BeClose, a home healthcare monitoring solution. Coca-Cola connects vending machine data to drivers, communicating the type, amount and of soda needed by specific machine location.
- Bhari Airtel in India formed a joint venture with the State Bank of India to create customer-centered mobile banking apps for people unable to get to local branches.





LASTLY

To facilitate the most effective level of CMO-CIO cooperation, an external resource—one with objectivity and specific expertise—is often beneficial to forge agendas and define with crystal clarity what needs to be done, by whom, how and by when.

Moving into tangential areas of market opportunity puts additional pressure on TMEs to shift their business models and develop or acquire new capabilities. New frontiers of capability include areas such as finding and vetting the right partnership opportunities, constructing application program development initiatives, creating an advanced analytics based portfolio of offerings, building a suite of digital solutions and doing all of this with secure, protected, reliable, high-quality networks. For seismic and disruptive initiatives like this, it is very difficult for TME C-Suite executives to see clearly, without bias and affinity for traditional approaches, and come with fresh eyes to craft a new and promising frontier.



The Time is Now

CMO-CIO collaboration is the first challenge to conquer in the quest to survive the TME crucible. Customer centricity, new revenue sources from an expanded ecosystem/conglomeration, a dramatically revised offering portfolio and the agility to capitalize on the exploding IoT will all require CMOs and CIOs to be in lockstep in order to capitalize on budding opportunities.

In TME, everyone will be tested in the crucible. Only a handful will emerge stronger, wiser, reconstructed and more solidly fortified for the future ahead. Change will occur quickly. For TMEs, the time to act is right now.

ABOUT THE AUTHOR //

Capto CEO and Co-Founder, Tracy Currie, is driven to get results. He has brokered numerous deals, created and launched new product and service lines, and revamped business models for many of the world's largest telecom, media and entertainment, financial services and healthcare organizations. His career is full of strategic initiatives where technology, marketing and customer or patient experience connect across C-Suite leadership teams.

ABOUT CAPTO //

So here's a vision: a management consulting firm that doesn't hand you off once the check clears; you get senior advisors from start to finish. A consulting firm that tells you what you need to do—not what you want to hear—and then helps you do it. A consulting firm that isn't about trends or formulas or generic catchall solutions for specific situations. In short, a consulting firm that dramatically improves the operation, economics and efficacy of your company through management consultation with an emphasis on IT innovation and solutions. A firm that brings a mindset and skills garnered from a diverse M&A advisory practice to bear in technology contexts. Tracy Currie and Nick Vennaro conceived Capto Consulting with these things in mind, and they've actualized it by 1) assembling a unique senior leadership corps possessing vast experience from both sides of the vendor-user gap and 2) developing a hands-on, results-based customized methodology called SYNAPTIC. Capto is known for high-velocity problem identification, roadmap creation and custom solution implementation. Capto delivers results. This isn't bragging—it's a track record.

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