Creating a Zero-Based Media Organization

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Media viewership in the US is more fragmented than ever. In the over-the-top (OTT) market, viewers can choose from hundreds of services (our 2021 survey of consumer viewing habits included more than 40), and the list keeps growing. That's on top of five traditional TV networks in the US and some 1,700 commercial TV stations and channels.

The problem for media companies is twofold. First, they continue to organize themselves and to operate largely as they did 10 or 20 years ago, with each channel or streaming service constituting its own profit center. It's not unusual today for one company to maintain up to a dozen largely siloed business units spanning streaming and linear TV. Not only is this model enormously expensive and inefficient, it also undermines the programming synergies that can be achieved with a collaborative cross-distribution channel approach. At a time of skyrocketing global spending on content (it has almost doubled, from $87 billion in 2010 to $160 billion in 2020), the ramifications for the economics of media companies are huge.

Second, it will take years (and a significant industry shakeout or consolidation) for most streaming services to reach profitable scale. Other than the largest providers, or those with deep-pocketed corporate parents, companies need to either cut costs to meet margin targets or fund the investment in content that attracts and retains viewers. This is a far cry from the traditional cable network business model that in the past enjoyed substantial double-digit margins.

A few media companies are beginning to rethink their organizations, budgets, and operating models. One approach that we have found effective is zero-based budgeting (ZBB), which is popular in consumer goods and has spread to many other industries. Combining an annual ZBB process with a one-time zero-based reset of the organization and operating model enables media companies to put themselves on a much more cost-conscious and profitable course for the future.

WHY ZBB?

When implemented effectively, ZBB has the power to transform an organization, and many companies have reaped big benefits from this bottom-up approach to managing costs. But to view ZBB strictly as a cost control tool is to underestimate its power. When applied strategically, ZBB can foster top-line benefits, reconfigure cost structures, and free up investment funds. ZBB started with a focus on readily accessible indirect costs, such as T&E and IT, but it has evolved to encompass entire functions, such as sales and marketing and supply chain management. In the last few years, it has expanded further to include full operating model transformation underpinned by a strong strategic lens, an approach that results in what we call the zero-based organization (ZBO).

The objective of ZBB is to rigorously reset the cost base and value delivery of an organization to ensure that it's kept lean, with improved long-term efficiency and effectiveness. ZBB can deliver unprecedented transparency and gross savings of between 10% and 30% of costs. The identified savings are used by organizations in the ways they most value, such as reinvesting for transformation, funding M&A, or returning cash to shareholders.

ZBB is not a one-time effort but a cultural change embedded through a set of new roles, responsibilities, and processes. ZBB creates new ways of working and establishes a new culture of cost consciousness and simplicity based on an "owner-operator" mindset. We apply ZBB in two main ways: to design a lean organizational structure with streamlined layers and spans of control and to reset the cost base and institute a culture of cost consciousness.

PRESSURE ON THE CURRENT MODEL

In the last 15 years, several waves of new players have inflated the media content bubble, especially for video. The first wave saw the rise of digital platforms built around user-generated content, such as YouTube. Then came the surge in OTT video providers, such as Netflix and Amazon Prime Video. The most recent wave saw the expansion of the OTT universe as both tech companies and traditional media companies have gone direct to the consumer.

Consumers are sending conflicting signals about all this choice. Our latest research shows that viewers have not only increased the amount of time they spend watching TV or streaming video, but plan to continue to do so even after COVID-related restrictions ease. At the same time, the number of services they subscribe to has held roughly stable at three since the beginning of the pandemic. Viewership remains concentrated in four core subscription video services: Netflix, Amazon Prime Video, Hulu, and Disney+. A long tail of noncore and niche services competes for the remaining attention.

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The big OTT companies can subsidize content cost

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increases on the backs of other revenue streams, and their investors are often more focused on metrics such as customer growth than on profitability. For other film and video providers, though, hit movies and shows that produce continuing revenue streams are harder to come by. Success rates are low and falling. The combination of rising costs and viewing consolidated around a few consumer favorites heightens the importance of well-focused content strategies and efficient business models.

Right now, most media companies still operate as collections of individual film, broadcast, cable, or streaming brands. A general manager leads the unit and owns the budget. He or she makes programming (acquisition, greenlighting) and marketing decisions for dedicated brand teams to execute. Each brand effectively competes in the market with other brands for the same audience and sometimes for the same content. Performance is assessed—and rewarded—on an individual brand basis, so there is little incentive for collaboration among siloes.

Current market trends are putting pressure on this model, not least because content is so costly. Spreading these costs across multiple linear networks and OTT platforms and services in the same stable is possible, but only if there is much more fluid decision making and coordination among brands.

TOWARD A ZERO-BASED ORGANIZATION

Our approach starts with a strategy for operating more as a single company in which content travels across channels and services. A bottom-up budgeting process optimizes spending for the entire company rather than for individual brands. Executing such a budget, however, requires breaking down brand siloes and moving to more centralized functions with underlying brand stewards. For instance, a central content acquisition team handles programming acquisitions across all brands, creating a single purchasing interface with the market. A central programming strategy determines what content goes where (that is, to which linear channels and OTT services) and at what intervals. Some companies maintain brand leaders to manage brand identity (which can also be handled in marketing), but ultimately decisions are centralized—especially those with cost implications.

A central marketing organization, which can include brand stewards who have expertise with specific brand audiences and can tailor messages appropriately, ensures that the marketing budget is allocated across brands in line with the overarching company strategy. Our research shows that providers need to cut through the competitive noise to gain attention. Viewers look to providers, as well as friends, for suggestions about what to watch next, underscoring the importance of effective marketing.

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THE ZBB MEDIA MINDSET

The annual ZBB process supports targeted cost reduction while freeing up funds for growth. Because expenditures are classified according to type rather than point of origin, ZBB brings once-hidden costs to the surface. This added transparency, together with clear cost accountability and cost management methods, facilitates and encourages the much-needed discipline that helps companies better identify high- and low-value costs and make deliberate strategic decisions.

Using a ZBB approach, media companies can rethink costs from the ground up in multiple areas, including four of the largest and most important: content, marketing, ad sales, and technology.

Content. This is the biggest investment for any media company, of course, and the heart of the product that consumers (and advertisers) pay for. Content costs, especially in video, are often amortized over several years, making current operating expenses heavily dependent on decisions made in the past. Companies also face greater unpredictability in the future, when they will no longer be able to rely on the resale or licensing value of content. As a result, many now hold onto content in order to build a library for a direct-to-consumer service.

But content investments can still be carefully budgeted from the ground up. To start, the content budget should consider the ultimate outcome: acquiring and retaining consumers across various segments. Our research shows that content remains king with consumers, and that retaining customers, especially new customers, is companies' paramount concern, particularly in the highly competitive streaming-service market. Viewers consistently say that interesting shows bring them to the platforms they watch, and they will keep their subscriptions if those platforms continue to offer content that interests them.

Companies therefore must plan, and ultimately budget for, content acquisition or creation according to the audiences they are trying to attract and retain, and according to their assessment of the content that will draw viewers to their channels or streaming services. Key questions include:

- Who are the target viewers (teenagers, for example, or fans of comedy or suspense)?
- What content do these consumers want or need in order to stay engaged?
- How much new customer acquisition and retention content is needed every week or month to achieve target ratings and subscriber engagement?
- How much of which content is made available through which channels and in what sequence?
- How much new and old content is needed for each segment and outlet at any given time?

Based on the answers, management can decide how much new content of what quality the company needs to acquire for each of its distribution channels or services. A linear channel requires programming for 24 hours a day, of course. BCG estimates that OTT services targeting specific audience segments, such as horror or sports documentary enthusiasts, typically need to release about one to three hours of new content every week to hold viewers' interest.

Companies can then determine their total gross content needs across all outlets. They can start to figure out how much of this content can serve more than one distribution channel, thereby reducing the total number of unique assets they need to buy. Many companies, especially at the higher end, are hedging the content costs and gaining predictability in cost and output volume by putting hard-to-access talent on the payroll. Going into the pandemic, multiyear deals of $30 million to $100 million a year for top behind-the-camera creative talent were increasingly common. But companies still need these deals to pay off. Premium programming now involves production budgets of $10 million to $15 million per episode (compared with an average of $3 million to $4 million for US cable TV shows), which sets a high bar for profitable financial returns.

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Marketing. The traditional media focus on building awareness and ratings typically leads to high-level decisions ("It takes $X million to drive an audience of Y") and simple choices and allocations (choosing among TV sports, billboard, and bus wraps, for example). Today's far more specialized marketplace presents a more complex universe of options (email, all types of social media posts, and targeted video messages, to name a few) and requires campaigns that can be measured and optimized according to different hours of the day. Media companies can no longer rely on simply adding 5% or 10% to what they spent in the past; they must start from scratch and determine how many consumers they need to retain or acquire in each channel or service, how and where they can reach those consumers, and what the best digital media mix is to do so—in other words, they need to build a marketing budget from the bottom up.

These budgets also need to be more granular (in terms of campaign, channel, media mix, action, and timing), as well as more flexible. Allowing for a test-and-learn approach so that effectiveness can be improved over time is critical. Given the critical importance of retention, especially for subscriber services, outreach designed at retention is key for long-term success, especially determining what matters to viewers and what influences their decision making (such as content, tenure, and price).

Ad Sales. Viewership isn't the only aspect of the media business that has fragmented. With the rise of digital advertising and real-time bidding models, TV and video networks have to embrace many more models and budget for them accordingly. Moreover, the rise of TV everywhere, DVRs, ad-supported video on demand, and FAST (free ad-supported streaming TV), in addition to traditional linear TV, means that the inventory of advertising options and packages that companies have to sell is much more diffuse than it was in the past. Selling takes place in different cycles through varying systems and processes, and with varying effectiveness in terms of make-goods versus viewability. Advertisers and agencies often require more assistance and guidance than they used to.

Ad sales expense budgets should reflect this new reality and be flexible in response. Sales teams must have a diverse mix of capabilities, including people who know how to make the large upfront TV deals (highest resource efficiency) and those who know how to travel through the complex world of digital advertising (lower resource efficiency). They also need support from media planners who can build multiplatform schedules for maximum yield.

Advertising sales teams must develop much more sophisticated solutions and integrations to wow agencies and advertisers, but the expense of these efforts (which can be more significant than in the past) should be carefully planned. Teams need to focus on the ROI of their efforts and budgets, with particular attention to which deals are worth investing in (and at what cost), and which standard versus custom solutions are worth offering, given inevitably limited resources.

Compensation, too, should be budgeted from the bottom up to drive the desired behaviors from sales teams and reward performance.

Technology. The new realities of distribution have big implications for technology (both legacy and digital) and technology budgets. Legacy tech for TV broadcasting with premium standards of redundancy and resiliency may no longer be necessary, which can result in significant savings. On the other hand, new technology supporting multiple distribution platforms, standards, and content packages needs to be acquired or built. Media companies must be able to rapidly scale technology as new distribution deals get made, which makes it critical to estimate work volumes from budgeting and avoid costly overruns and overtime (as many parts of the media technology chain continue to rely on manual activities). Bottom-up budgeting can help management spot inefficiencies, in unit cost or in volume of work, and chart a path to a strategic transformation of technology operations.

The media business looks—and operates—very differently than it did a decade or two ago. It's time for operating models, organizations, and the budgeting process to catch up.

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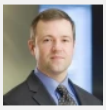

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