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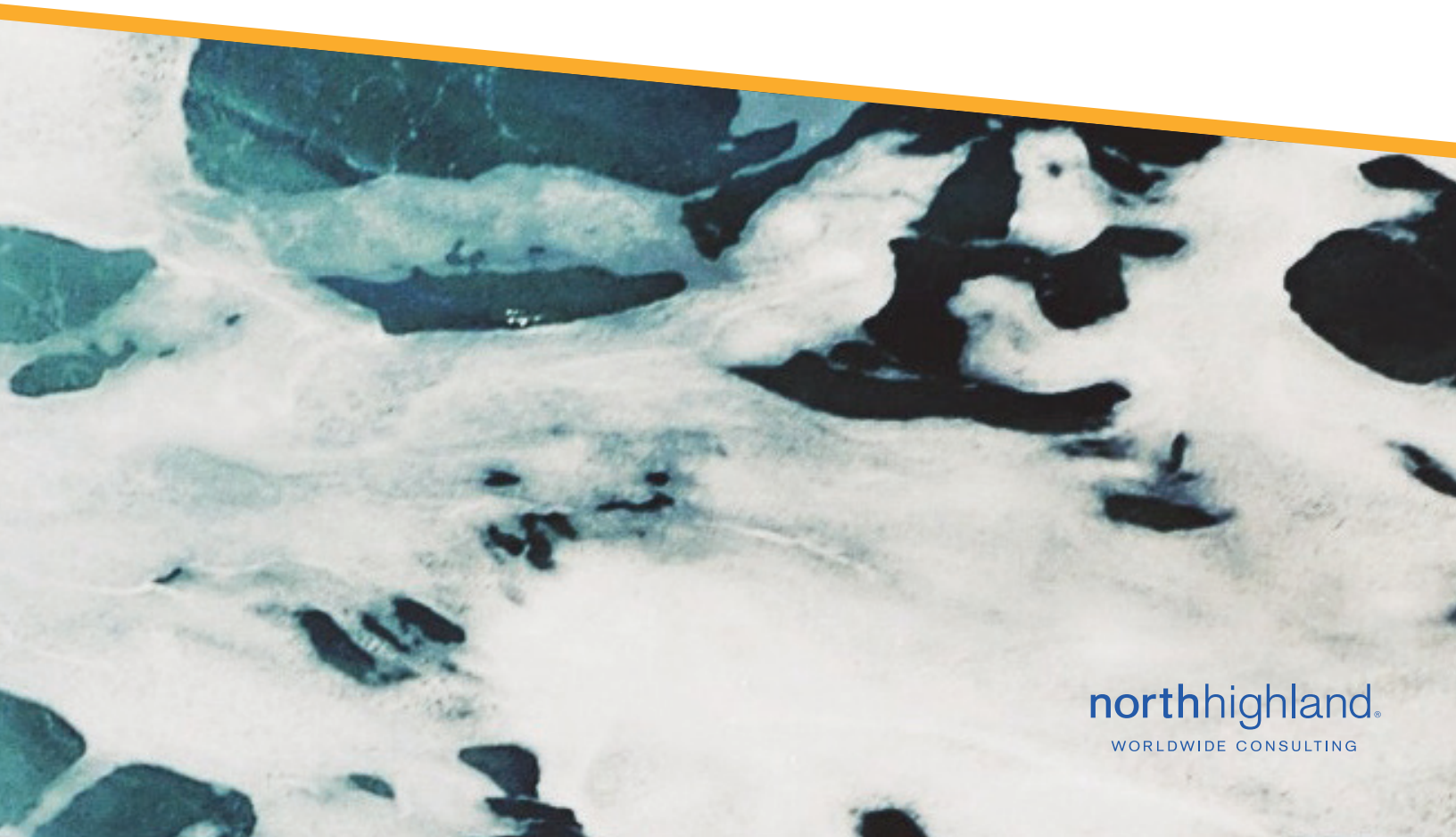
NORTH HIGHLAND / 2018

a **MEDIA, ENTERTAINMENT, AND TELECOMMUNICATIONS**
industry guide to thinking forward for the year ahead



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Media, Entertainment, and Telecom Leaders see Adaptation to Changing Customer Needs as Priority One

Address Digital Now or Become as Extinct as the VCR

NORTH HIGHLAND INSIGHTS: Survey data that helps guide business decisions.

To explore business leader mindset, North Highland surveyed more than 600 senior level employees in energy, financial services, healthcare, retail, and media, entertainment, and telecom at companies with 2016 revenues in excess of $1 billion and operations across the globe. This report draws on input from media, entertainment, and telecom leaders from October 2017.

The media, entertainment, and telecommunications (ME&T) industry, once tightly defined by incumbent, monopolistic content and delivery providers, has blown wide open. Today, companies such as Amazon, Google, and new over-the-top (OTT) players like Netflix are in the business of creating and delivering content. Consumers have also spoken. They like content on-demand and a-la-carte. They will choose the provider that does the best job of delivering what they want, when, and where they want it.

North Highland's survey found that adapting to changing customer needs, transformation, cyber security, and digitization were key priorities for this sector, but not all were seen as offering competitive advantage. Interestingly, in spite of slowing growth and uncertainty in direction and purpose, ME&T industry respondents claim to be optimistic.

There is some cause for excitement. The industry is in a state of massive transformation in the form of new mergers, alliances, players, and systems investments. Increased access to operating capital is leading to a build-out of new networks and content delivery technologies, and more freedom to diversify business models and service offerings.

On the human side, there is a renewed focus on people and culture. Driven by two imperatives, cyber security and digitization, ME&T firms must evolve their cultures to better embrace new norms of organizing and working.

KEY INSIGHT

While survey results illustrate that optimism is high in the ME&T industry, it also shows a lack of preparedness for transformation and agility. Incumbents face considerable challenges in evolving to the agile, rapid-action organizational models of new-to-market players. **The entrenched approach to transformation, taking months or years to change or agree on new initiatives, will not drive innovation fast enough.** Operating on past practices or gut feelings is being replaced by insights from data analytics. Strategic decisions must be made within weeks, not months. Making this shift will require significant cultural development.

HIGHLIGHTS AND INSIGHTS

Cyber security—is the No. 1 priority for ME&T organizations with 59 percent of respondents ranking it as very high. However, it ranked moderately (39 percent) as a competitive advantage. Less than half (42 percent) feel very prepared to address cyber security.

This result is not surprising. An increase in significant security failures has led to more awareness. The industry understands that any organization or network can be hacked, and a breach can bring a whole company down. In speaking with North Highland's clients in the sector, privacy is also a big concern, as more ME&T companies store significant amounts of consumer and business data.

Digital capabilities, adapting to changing customer needs, and transforming to be more efficient ranked second, third, and fourth respectively. All scored higher than cyber security as a competitive advantage and in terms of preparedness to address:

- **Digital capabilities:** 55 percent cited this as a competitive advantage; 45 percent feel prepared to address it.
- **Adapting to customer needs:** 70 percent cited this as a competitive advantage; 43 percent feel prepared to address it.
- **Transformation:** 53 percent cited this as a competitive advantage; 27 percent feel prepared to address it.

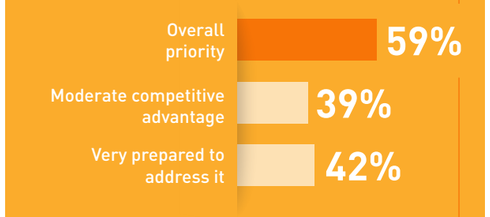
In order to capture the competitive advantage, ME&T organizations will have to adopt agile cultures. Lead from customer experience and take iterative approaches to transformation as opposed to trying to change everything at once. Take one product at a time, put a cross-functional team together, and let the "voice of the customer" guide the product design. When the product is ready, rapidly roll out new ways of working toward its success.

Growing/Entering new markets and new strategic direction ranked moderately as priorities, but indexed high as competitive advantages at

CHANGING CUSTOMER NEEDS

91% 91 percent of ME&T leaders see adaptation to changing customer needs as priority one

CYBER SECURITY

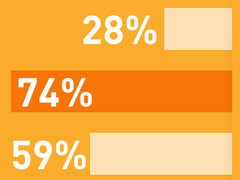


TOP STRATEGIC PRIORITIES

NEW STRATEGIC DIRECTION

93 percent of respondents called out new strategic direction as more or much more of a priority for 2018

ARTIFICIAL INTELLIGENCE



72 percent and 71 percent, respectively. 93 percent of respondents called out new strategic direction as more or much more of a priority for 2018.

The ME&T industry has entered into an age of commoditization. Voice, text, and data services function essentially the same across providers and devices. Content distribution is becoming less and less profitable as consumers migrate to OTT players like Netflix and Amazon. Owning content can be a differentiator, but the market is becoming overcrowded with too many sources. With diminishing service differentiation, ME&T companies must focus on delivering positive experiences. Data analytics will allow providers to distill consumer preferences and behaviors. Those that can act quickly to match content to specific interests will have the upper hand. In terms of new direction, internet of things (IoT) technology and services is another growth frontier. Companies that own high quality network infrastructure and have connectivity expertise will thrive in this space.

Optimizing cross-channel customer experience had a moderate priority ranking at 47 percent, but ranked high as a competitive advantage (72 percent).

Optimizing customer experience must be done cross-functionally, looking at how to eliminate friction at every touchpoint. Different customers want to interact in different ways—in person, by phone, or online—but they all share the desire to have what they want quickly and painlessly.

Artificial intelligence—ranked low on the priority list (only 28 percent called it very high), but ranked highest as a definite competitive advantage (74 percent). Respondents also felt confident to address AI (59 percent said they were very prepared).

The sentiment that the industry is very prepared to leverage AI is surprising. AI is in the same place that cyber security was a few years ago. Awareness is increasing, though there are limited use cases for the industry to replicate. Once a few leaders blaze the trail, the rest will follow.

The renewed interest in people and culture, with 46 percent calling it much more of a priority for 2018, is refreshing given the scale of transformation, mergers, and acquisitions taking place in the industry. Leaders are recognizing that efficiency, transformation, and customer experience can only be enabled by changes in behavior and ways of working. The companies who humanize transformation to create collaborative cultures will become faster and more agile. The companies that think agility is only about technology will find it difficult and more costly to succeed.

For more information, visit northhighland.com or contact:

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