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Future proof plans

Technology, communications, and entertainment
& media industry summary

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Recent events have clearly demonstrated the extent to which the world is interconnected. The crisis which began in the US banking system has spread through the global economy as a whole – and no region has emerged unscathed. This historic moment provides an unprecedented opportunity for companies, governments and individuals to think more deeply about the sophisticated eco-systems of which we are all a part.

The current crisis has highlighted the need for new institutions, new mechanisms, new strategies and – most critically, perhaps – a different mindset among those leading the world's most important institutions and companies. Every CEO will have to make tough decisions about what actions are required to ensure his or her company's short-term survival. Yet none can afford to ignore the need to build a business that is agile enough to respond to new situations as they emerge, durable enough to grow over the long term and responsive to the requirements of all its stakeholders.

Redefining success, the PricewaterhouseCoopers 12th Annual Global CEO Survey, explores how CEOs are reconsidering the fundamentals of business in response to extreme operating conditions and assuming responsibility for issues that were once considered outside the scope of industry. We interviewed 1,124 CEOs around the world between early September to early December, 2008. Our findings show that they are collaborating more extensively to balance the interests of increasingly influential stakeholders. They are also seeking new kinds of information to help them anticipate changes in critical business drivers.

Here, we look specifically at what the 107 CEOs in the technology, communications, and entertainment & media industry think, and how they are dealing with a combination of challenges such as mankind has never seen before.

A global downturn requires a steady focus

Just as a rising tide raises all boats, so a receding tide lowers them. When we first started surveying CEOs in September 2008, they were optimistic about the prospects for revenue growth. But, as the symptoms of worldwide recession became more acute, the mood turned increasingly sombre. Many executives are scaling back their expectations for a quick recovery and adjusting their plans accordingly.

Dame Marjorie Scardino, CEO of international education and media company Pearson, describes the current global economy as 'chaotic'. Of particular concern, she explains, is the fact that 'trust and confidence appears to be the greatest problem'. However, she adds, Pearson is a company that takes a long-term perspective. Practically speaking, this means that while the group may be cautious in this climate, efforts to be more efficient are a part of its approach to the business, and it will not lose sight of its long-term goals or strategy.

That's an approach likely to resonate with John Donahoe, President and CEO of online marketplace eBay Inc. The hard

part of any recession, he says, 'is that you never know how deep it's going to go or how long it's going to last'. But no matter what transpires, Donahoe notes, it's vital that a company stays focused on its game. In fact, 'there is more market share shift in turbulent times than there is in good times – more of an opportunity for a strong company to gain ground'.

Donahoe believes that landing on your feet and further ahead of the competition begins with staying 'more customer-focused'. Even when customers are buying less, he says, 'if you make [them] happier, you can get a greater share of what they are spending'. And though all companies must pay greater attention to costs in a downturn, 'you can't stop investing', he insists. Rather, 'you have to make sure you're investing in the right things'.

Of course, many CEOs are assuming that the global economy will recover by late 2010. But what happens if the situation is worse than they realise? José Antonio Aranda, Executive Vice-President of Argentine media conglomerate Grupo Clarín, thinks that 'we are still in the eye of the storm and have no idea when it is going to end'. In fact, Aranda says, while optimism is

important, management should keep in mind ‘that this may be a long-term crisis’. For some countries, such as the US, it may prove ‘similar to what happened in Japan in the 1990s’.

Fighting the financial crisis with innovation, collaboration and agility

A financial downturn is nothing new for technology, communications, and entertainment & media companies. Many of today’s executives are veterans of the dotcom crash in 2001. Yet there is a general feeling that this crisis is different. This time, it is not just their sectors that are suffering; their financiers, suppliers and customers are struggling, too.

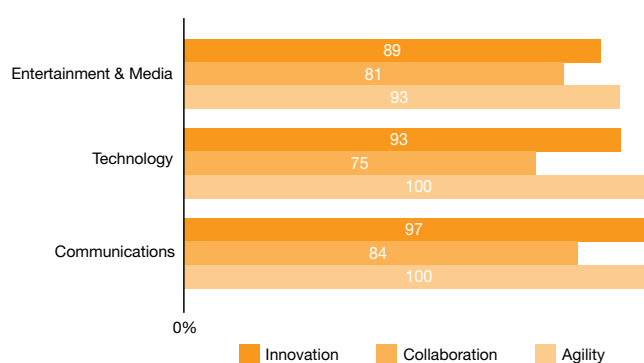
CEOs in these three sectors are particularly concerned about the rise of low-cost competition; 62% of those we polled expressed anxiety on this score, compared with 48% of the total survey population. As rivals launch price wars – and the competition between traditional and online providers of digital news, entertainment and related products surges – technology, communications, and entertainment & media CEOs are embracing several specific strategies to a greater degree than those in other areas (see figure 1).

Ninety-three percent report that technological innovation is important or critical, for example, compared with just 83% of the overall survey sample. Many of these respondents are also much more likely to collaborate with external organisations to improve their access to intellectual property, talent, sources of capital and marketing channels. CEOs in the communications sector are especially interested in collaborating with third parties; indeed, they already collaborate with the media, supply chain partners and customers in greater numbers (73%, 80% and 100%, respectively) than the survey population as a whole.

Moving beyond collaboration, a number of companies are turning to mergers and acquisitions. CEOs in the entertainment & media sector are twice as likely as respondents in general to view deals as an important source of revenue growth (27% versus 13%). Those technology, communications, and entertainment & media executives who are on the hunt will probably favour profitable targets with established revenue models to ensure that cash keeps flowing.

Figure 1

The percentage of CEOs who believe innovation, collaboration and agility are important or critical to the success of their companies



Q: Which of these sources of competitive advantage are important to sustain your growth over the long term?

Base: Entertainment & Media: 26; Technology: 51; Communications: 30

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Almost all the CEOs in these three sectors also see the ability to adapt to change as important to their organisations. Aranda explains: ‘We sell entertainment, ways of communicating, news and credibility.’ To succeed in these areas, he says, requires ‘the capacity to adapt to constant change’. He believes that his company must remain on the cutting edge to ‘keep this bond with an audience that every day has a choice. We have to evolve to keep pace with our customers.’ Donahoe clearly agrees: ‘The most enduring way of staying agile is to make sure that the voice of the customer is heard loudly and clearly throughout the organisation,’ he remarks.

The green theme still dominates

While executives in the technology, communications, and entertainment and media sectors recognise that their companies make a relatively small imprint on the environment, compared with those in other industries, ‘green’ issues still weigh heavily on their minds. As Léo Apotheker, Co-CEO of software maker SAP, observes, more than one crisis is unfolding. ‘We have an economic downturn, but we also have an environmental crisis of significant proportions,’ he says. In addition to global warming

and an energy crisis, there's also a resource scarcity challenge. 'There are seven billion human beings on the planet, so we have serious issues to address.' As for the role of technology, he adds, 'I actually believe that my industry, software in particular, can help provide solutions.'

Many executives in the technology, communications, and entertainment & media sectors feel impelled to react to rising consumer demand for green products as well as green operations. From end-of-life issues for computer manufacturers to the use of digital distribution to avoid excessive packaging of content, all three sectors are responding to environmental challenges and opportunities. In fact, for many companies in these sectors, devotion to green is part of the organisational DNA as they respond to employees and customers expectations.

But though protecting the environment is a fine objective, it is the promise of profits and an aversion to rising energy costs that is driving much of the impetus for change. Data centres, says eBay's Donahoe, 'tend to be energy hogs'. So, being a server-intensive enterprise, eBay is working hard 'to build and manage our data centres in environmentally responsible ways'. Its newest facility, housing PayPal operations, is actually 'the first building to be built to LEED Gold standards in San Jose. Eighteen percent of our power on that campus is now powered by 60,000 solar panels. We have the largest commercial solar array in the city.'

Looking forward

There is no doubt these are tough times for the global economy. While executives in the technology, communications, and entertainment and media sectors remain relatively upbeat,

we anticipate that their attention will necessarily begin to drift from long-term issues to short-term survival. They will focus on producing must-have, innovative products and target customers who can pay. Knowing that customers are their lifeblood, they will also heighten their commitment to delivering high-quality customer service, as nearly all respondents in all three sectors have indicated that they plan on doing.

And though they will always pursue innovation, CEOs in these sectors will put more emphasis on immediate results than on long-term rewards. However, given that nearly 60% of them cite access to key skills as critical (compared with 46% of the total survey population), they will probably concentrate any workforce reductions in non-core areas. Finally, even as they place greater importance on maintaining their brands and reputation (something which 96% think is important or critical), they will spend every dollar, euro, pound, dinar, renminbi or yen as if it is their last.

No matter the challenge, the way forward is to keep a cool head, balance objectives, set clear expectations and, most importantly, continue moving quickly. It's a matter of survival of the swiftest. Fortunately, moving quickly is a hallmark of the technology, communications, and entertainment & media sectors.

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Full findings of the PricewaterhouseCoopers 12th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers' technology, communications, and entertainment & media sector practice, please visit www.pwc.com/tice