2023 media & entertainment industry outlook

Contents

About Deloitte's outlooks
Deloitte's 2023 media & entertainment industry outlook seeks to identify the strategic issues that media & entertainment organizations should consider in the coming year, including their impacts, key actions to take, and critical questions to ask. The goal is to equip US media & entertainment organizations with the information needed to position themselves for a robust, resilient future.

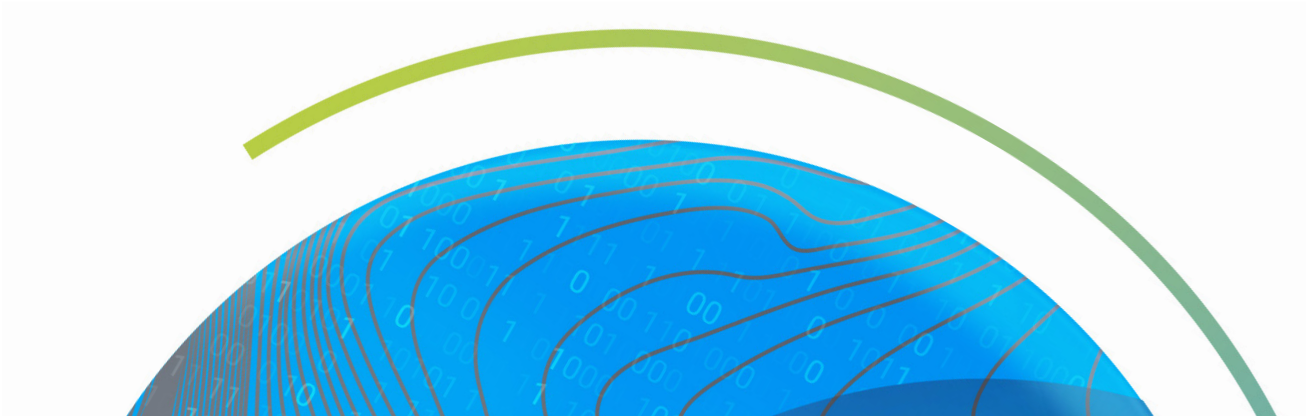
Executive summary

In 2023, indications show that change in the media and entertainment business is likely to continue.

Studios and video streamers face the reality of their own market disruption, trying to find profits in a less profitable business. They compete with not only each other for attention, time, and revenues, but also with social media, user-generated content, and video games. The latter have evolved more quickly, staying close to younger demographics.

While streaming video-on-demand services spend billions on content to tempt fickle subscribers, social media services have more free video content than they can manage. Indeed, top social media services are leaning into user-generated video content (UGC), emphasizing users' interests more than their connections—and looking more like a new kind of personalized TV. While the creator economy has supported social media and brought independent creators closer to their audiences, creator incomes are still lean and unreliable. Leading UGC services seem unsure how best to support their content creators and brand ambassadors while keeping their own costs down. At the same time, more socializing may be shifting into messaging services that lean into utility more than entertainment.

This year's outlook doesn't have its own chapter on video games. Instead, gaming is represented throughout. In 2023, the story of gaming is that it has an impact on every part of the media and entertainment industry. All entertainment strategies should consider video games, from simple mobile games to massive multiplayer services and rich, hyper-realistic narrative game worlds. Gaming may also highlight the tight communities and fandoms that can help sustain and amplify entertainment franchises. In 2023, it may become clear that video, social, messaging, and interactive are all part of the same ecosystem of engagement.



Streaming video services seek profitability amid more competition

It's been 15 years since the streaming video revolution began, and we can now see the impact of its disruption. In 2022, SVOD services in the United States—the most mature market for SVOD—finally surpassed cable and broadcast TV.[1] Leading US providers have established global footprints, and media companies in more countries have launched their own domestic SVOD offerings. As a delivery technology, on-demand streaming has radically disrupted video consumption, upending the entire entertainment industry.

Streaming has also disrupted profitability. Gone are the revenues enjoyed during the cable TV era, which formerly approached those of the global energy sector; by some estimates, streaming generates one-sixth as much revenue per home as pay TV.[2] Audiences are fragmented, cancelling subscriptions is easy, and advertising has yet to unlock revenues. Content has only become more expensive to acquire and produce.

Operational costs are high, and competition for subscribers is fierce. Amid declining economic conditions and expected high subscription cancellations, most US streamers now offer cheaper, ad-supported tiers. Some are launching yearlong contracts at discounted rates.[3] So-called FAST services—free ad-supported television—provide live and on-demand programming with a more lean-back, ad-heavy approach.

These pathways lower the price of subscriptions and can make profitability harder. Providers are testing how much people will spend for content with, say, six minutes of ads per hour versus a premium, ad-free subscription. Many are raising the prices of premium offerings, exploring whether "business class" can subsidize the economy seats.[4] The year ahead may see more experiments with content windowing, with cheaper subscriptions having to wait 15 or 30 days to see top new releases.

Streamers are also working to re-create more of the lucrative cable TV advertising model in their streaming services.[5] If more advertisers get on board, ad revenues could offset subscription pricing and content spend. Successful advertising requires more data and better ad tech to get the right ads in front of the right eyes. With so many new, ad-supported streaming offerings hitting the market, 2023 may see considerable movement and innovation in streaming advertising. A renewed focus on live entertainment could further aggregate audiences around key events. Still, streamers will likely be pressured to put their data assets to work, build out the ad platforms needed to deliver ads more effectively, and provide advertisers with better metrics on actual viewership. The industry may focus less on subscriber count and more on viewership per household.

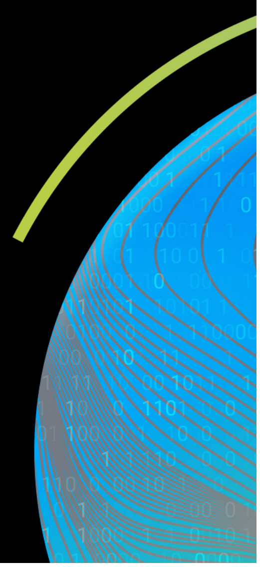
While competition among streamers is expected to continue, likely amplified by more acquisitions to consolidate their positions, such internecine struggles should not overlook the broader changes shaping media and entertainment. More people across generations are likely giving some of their entertainment time to UGC and interactive video gaming.

Instead of betting billions on content, UGC-based services focus on data technologies that target users with streams of personalized content and advertising in shoppable interfaces. Such services are no additional cost to users, and the content is almost free to the services. Gaming can soak up idle time with mobile games, offers sophisticated narrative and social multiplayer experiences, and directly monetizes content expansions and digital goods. Both UGC services and gaming are competing more directly with streaming video, but each offers them opportunities as well.

More SVOD companies are expected to expand their portfolios into gaming, either through IP deals or acquisitions. They will likely also work to better leverage social media and content creators without having to become social networks and UGC providers themselves. They may never regain the historic revenues of cable's prime years (before the great streaming disruption), but the path forward will likely reveal new innovations, business models, and opportunities.

Strategic questions to consider:

- What is the right balance of pricing, advertising, and spend on content and marketing? How does this balance differ for top-tier services versus second-tier and niche providers?
- What is the best path for a given streaming video company to grow its portfolios, within the video market but also with gaming and UGC?
- What is the distinct value of streaming video within the broader landscape of media and entertainment? How can streamers reinforce this value, especially to younger generations, who may be more engaged with UGC and gaming?



Social media is looking more like 21st century TV

Streaming video may have disrupted an entire industry, but social media has disrupted the whole world. By amplifying the most fundamental aspect of humanity—communication—social media has enabled us to forge global relationships, collaborate beyond our geographies, attain the celebrity once guarded by Hollywood, and potentially wield influence over millions of followers … all from the palm of our hand.

Now, perhaps due to the impossible weight of content moderation, the looming regulatory guardrails aiming to contain its business model, or simply the need to reinforce its value for advertisers, social media seems to be growing less social.

We can look at three key trends. First, leading social media services have been shifting from social graphs to interests.[6] Instead of organizing content around whom we follow, feeds are becoming more algorithmic, using our interactions and interests to deliver more "suggested" content, ads, and recommendations, personalized to each user. Social media is still interactive, and the content is influenced by the crowd, but it's becoming a more lean-back-and-watch experience. This may put them in more direct competition with streaming video services.

The algorithmic feeds of user-generated video offer endless bite-sized entertainment. Audiences can interact with the content, share their own and reshare others', and even shop directly in the highly clickable interfaces. Reaching beyond Gen Z, additional generations are seeing UGC become as popular as TV and movies.[7] However, in prioritizing the interest feed, services risk alienating their own influencers and the creator economy that provides most of the content.[8] In 2023, social media may face even choppier waters through its own transformation.

Second, while social media may be growing less social, more people—especially younger generations—are socializing in multiplayer video games.[9] In social gaming, they find competition, collaboration, and community; they chatter over headsets and express themselves through virtual clothing and traits; and they join millions across the globe to engage with larger-than-life entertainment events.[10] Top multiplayer games are also becoming global stages for gameplay, e-sports competitions, brands, concerts, and video franchises.[11] For these reasons, social gaming is increasingly considered by many to be the proto-metaverse. It has become a glimpse into how immersive places that aggregate, embody, and monetize our digital behaviors offer an untapped experience.

Third, messaging apps offer smaller and more intimate social experiences to billions of people globally.[12] If social media is a firehose of content and connections filtered into a few billion mostly similar streams, messaging apps are hundreds of millions of small puddles, mostly discrete and unique. Quite popular outside the United States, top messaging services offer end-to-end encryption, are not visible to the masses, and still have "subscription" capabilities that look a bit like a hybrid of "following" and newsletters.[13] Brands can establish a presence, as can influencers. Top services offer an array of retail and banking capabilities, becoming all-in-one applications that support many of the practical, daily needs of large populations. If social media apps are tilting toward entertainment, messaging apps deliver utility.

The year ahead is expected to underscore these trends while roiling the waters they sail in. More social media users—and some very large influencers—resist the algorithmic interest feed.[14] The creator economy they rely on for content is getting restless and looking elsewhere.[15] Advertising shrank considerably in 2022,[16] and slowing growth could force more pivots and reversals.[17]

Mobile gaming still makes up half of gaming revenues, while developing big games and maintaining multiplayer game services can be very expensive.[18] More gamers are tiring of the trend to monetize with in-game purchasing.[19] Full-featured messaging services have been very popular everywhere outside the United States, but regulators and justice departments may turn their attention toward encrypted messaging and the dark corners of the internet as these services gain more popularity.

Communication and socialization will likely continue to shape the internet, just as they have shaped us before for eons. But in 2023 social media may look more like an open stage for performers than a social network.

Strategic questions to consider:

- What does it mean for the future of social media companies if they become less focused on "social" and more on entertainment? What does it mean for TV, movies, and streaming video?
- How can media companies, brands, and creators leverage the evolution of top social media services to their advantage?
- Where are media and entertainment being led by social gamers and digital natives, who increasingly organize their sense of self and belonging around digital networks and virtual experiences?

Creators outgrow the social feed and go direct-to-consumer

Creators and the content they produce are taking over social media feeds—with around seven in 10 US consumers saying they follow at least one of these personalities online.[20] Creators are directly supporting the social commerce marketplace, creating viral trends, and contributing to the time consumers spend watching user-generated videos on social platforms. And many of these creators are considered successful—they earn money from their content, employ teams and work with agencies, and consider their work a profession.

However, most creators make less than US$50,000 per year, and many are actively looking to diversify their sources of revenue.[21] Currently, creators report that more than half of their revenue comes from brand partnerships, with smaller shares of their income coming from follower contributions. Notably, they don't receive much revenue from the platforms[22] despite established "creator funds" on some traditional social media services.

So, while the creator economy could seem like a win-win-win for creators, brands, and social platforms, many experienced creators are looking for alternatives that might take them away from the top social media services.[23] They are seeking ways to better reach their audiences, curate and connect with communities, monetize their content, and break free from the confines of often finnicky algorithmic feeds. The reliance on social algorithms to surface the best content is a challenge for many creators—as it often stifles their potential reach and requires them to depend on "going viral." And often, the social media services who fine-tune the algorithms aren't giving creators enough cash to pay the bills.

Enter the independent creator. These creators are shifting to rely less on traditional social platforms and, instead, are taking their content, communities, brand partnerships—and their incomes—directly to consumers on different platforms and services.[24] In this emerging model, consumers can subscribe directly to their favorite creator or purchase a membership to access a creator's content, advice, and promotional deals. Notably, this model also removes a barrier—the social media services and the algorithms they rely on—between the creators and their community members and allows for more control over their content, creativity, partnerships, and livelihood.

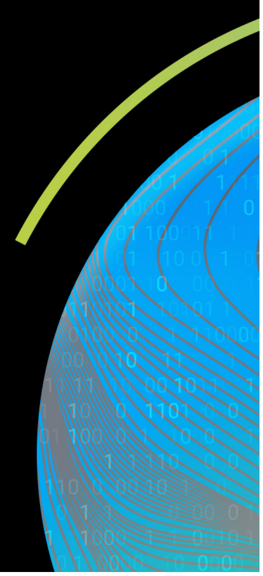
The music industry presents an illustrative blueprint for this emerging model, with several artists bypassing traditional processes and gaining fame first on user-generated video services before becoming household names.[25] However, they still rely on social media to create awareness and reach audiences. It will be a delicate balance for creators and may favor those with the largest and most dedicated audiences. As the consumer metaverse emerges, will game platforms relying on their own 3D content creators face a similar reckoning?

This shifting creator economy model presents both challenges and opportunities for creators, brands, and platforms. Creators have more options than ever in the marketplace, and they have an opportunity to capitalize on their content, partnerships, and audiences in whatever ways suit them best. However, creators who go independent may have a harder time partnering with brands who are focused on virality and extensive reach—and they may have to do more to convince brands they've curated a community worth investing in.

For brands themselves, this expanded creator economy model allows them to find creators who truly represent their products and can reach their core niche audience. However, with so many creators and so many places to find them, brands may have a hard time tracking down their ideal partners. Traditional social platforms will likely remain the go-to for creators, but they may lose some audiences if creators detach from or leave platforms and take their followers with them. However, social platforms have an opportunity to expand programs that support existing creators and develop initiatives to welcome new creators to the community.

Strategic questions to consider:

- How can social media platforms form better partnerships with creators and leverage their collective knowledge to improve processes, payments, and partnerships for all creators?
- How can brands continue to partner strategically with a diverse and inclusive cohort of creators—across platforms, services, and experiences—given the emergence of this new, decentralized model?
- How can companies that are building game worlds and metaverses attract the next wave of creators?



Gen Zs are defining the future of media and entertainment

The media and entertainment landscape is ever shifting and evolving to become more personalized, more interactive, and more user created. Much of that evolution is being driven by the needs and desires of Generation Z—those born between 1997 and 2012—the oldest of whom turns 26 this year.

Many members of this digitally savvy cohort were raised in technology-filled homes and had early and regular access to smartphones and tablets, on-demand digital content, and gamified learning and entertainment experiences. In turn, using digital technology comes quite naturally to Gen Zs, and they often gravitate towards more social and immersive media. For instance, Gen Zs surveyed in the United States say playing video games is their top favorite entertainment activity.[26] They are more likely than those in some older generations to watch user-generated video content online, follow online creators, and use social media. They are also early adopters of emerging behaviors, such as attending live events in game worlds, participating in virtual and augmented reality experiences, and shopping on social media.[27]

Coupled with this appetite for more engaging, personalized, and interactive entertainment experiences is their interest in social causes and advocacy. A Deloitte Global survey of Gen Zs and millennials found that Gen Z respondents consider the cost of living, climate change, and mental health to be among their top concerns.[28] Many are also more mindful about their purchasing decisions and use discretion when choosing which companies to support. Most Gen Z respondents said they are actively making efforts to reduce their impact on the environment—and even said they're willing to pay more to purchase an environmentally sustainable product compared to a cheaper one that is not as sustainable.[29] As such, many Gen Zs are acting on their values more than seeking out value.

Media and entertainment companies and brands should consider paying attention to this budding Gen Z cohort as they mature into adulthood and gain purchasing power. Currently, Gen Zs make up approximately 20% of the US population,[30] and they are more racially and ethnically diverse, and on track to be more educated than any generation before them.[31] Recognizing the diversity of this generation; their increasing spending power; their passion for advancing social issues; and their evolving, digitally focused entertainment preferences could likely be crucial to companies looking to win favor with this young cohort.

Since most Gen Zs are hyper-connected and will be responsible for driving numerous trends into 2023 and likely well beyond, brands, streamers, studios, content creators, and developers may want to tap into the collective intelligence generated by these young consumers in public online spaces. Gen Zs (and younger) occupy a vast and fragmented web of niche communities—in social networks, social streaming services, user-generated content services, messaging services, and multiplayer game titles—and many may form their identities around these niches.[32] These media are inherently social, interactive, trend-driven, prone to social swarming and virality—and are becoming major drivers of culture. Keeping a pulse on those viral and cultural shifts may help separate the "fire" brands from those that get left behind.

Strategic questions to consider:

- How can brands better understand Gen Z consumers (and those generations that follow them) and their preferences to help predict what's coming next and best serve these young audiences?
- How will the media and entertainment behaviors of Gen Zs shift, or not, as they age? Will generations that follow them show similar—or even greater—digital and connected behaviors?
- How can brands earn favor and loyalty with these young consumers *now* so that they remain the preferred brands for Gen Zs as they mature?

Brands focus on harnessing the power of fandom and communities

Fans and fan communities may be an under-recognized asset in the media and entertainment industry. In an ecosystem filled to the brim with choices, these networks of devoted enthusiasts swarm around content, teams, creators, video games, celebrities, musicians, moments and more—and are often responsible for making something a hit or a miss. While people's fandom usually maps to a media and entertainment company, object, or experience, their fandom is also usually closely linked to their identity and deeply held beliefs—making them important evangelists for the media and entertainment companies and creators they choose to support.[33] As media and entertainment companies and creators grapple with views, subscriptions, downloads, and boosting their bottom line, they may want to consider focusing on harnessing the collective power of these fans and the communities they create.

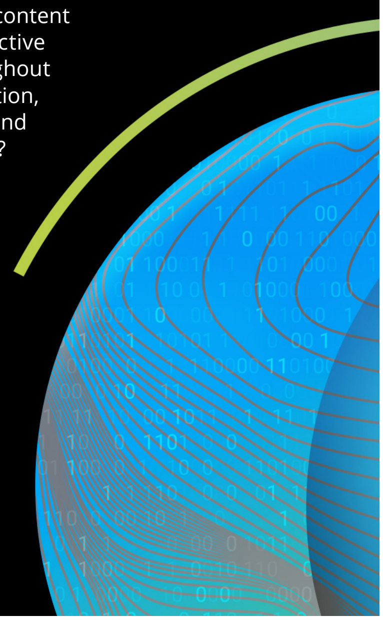
As ardent consumers and evangelizers of their fandom—paying for access to content, buying related merchandise, attending events, and sharing their passions—fans are good for business. For streaming services battling subscriber churn, accessing and curating fan communities could enhance retention and add value to subscriptions. These fans could be offered early or exclusive access to content, behind-the-scenes materials, social chats, and in-person events. Many of them may also be gamers eager to see their favorite franchises move into game experiences and top game worlds. Studios and streamers should think strategically about creating digital experiences that meet fans across these channels while enabling additional revenue streams that leverage their enthusiasm.

However, media companies and creators should consider working to establish a bidirectional relationship with their fans—one that isn't just focused on profits. Instead, it may help businesses to keep the fans' motivations and needs top of mind during all phases of a project—from development to production and promotion. Media companies and creators could also rely on their fans for honest feedback that can improve products and the audience experience. To succeed with fans, media companies and creators could consider adopting a fan-first mentality and be agile enough to respond to feedback.

Media companies and creators have an opportunity to explore existing fan communities for feedback and set up new channels to gather insights directly from fans. They can work to have a holistic understanding of exactly who their fans are, how they came to fandom, where they are in their fan life cycle, and how they can best be served. Still, challenges may exist for businesses. Simply locating and identifying enthusiastic fan communities can be difficult since they can often be decentralized across digital properties. At the same time, media companies and creators might do well to remember that they can't cater to everyone, all the time. Listening to and engaging authentically with loyal fans is likely to only improve the product, expand reach, and build stronger connections—and keep fans coming back for more.

Strategic questions to consider:

- How can brands, studios, and content creators ensure their relationship with fans is mutually beneficial—advancing their own bottom line as well as meeting the needs of the community?
- What can brands or companies do to learn more about their fans? How can they work to better understand who fans are, what they need from the brand, and what draws them in?
- Can brands, studios, and content creators harness the collective enthusiasm of fans throughout the development, production, and promotion of media and entertainment properties?



Signposts for the future

Streaming video, social media, and gaming are all considered strong categories on their own, helping to enable new business models and reshape media and entertainment and beyond.

Many parts of these businesses are firmly innovating in the 21st century, while other parts may feel stuck in the past. The real story for 2023 is that these three sectors increasingly interpenetrate and are becoming more interdependent as part of a broader and richer media and entertainment ecosystem. Successful companies will likely develop strong visions that span these sectors and pull their entire industries forward.

However, by moving closer together, these sectors may recombine as platforms, enabling greater innovation and driving further disruption. This likely demands broader strategies and more robust partnerships while still staying lean and agile. And it's likely to be expensive. More mature companies could expect to face the difficult balance of squeezing out profitability from their legacy businesses while trying to fund growth in new ventures that may be less certain.

Again, some businesses may have a head start on adapting to the continuous change that has been spooling out from the arrival of the internet, the smartphone, and the globalization of connectivity. For younger generations, the world has always looked this way. Businesses that are still straining to hang on to the gains of the prior era may find themselves less fit for a world steadily turning to meet its digital natives.

Contact

Jana Arbanas
Vice Chair
US Telecom, Media & Entertainment Sector Leader
+1 415 987 0436
jarbanas@deloitte.com

Jana Arbanas would like to thank Chris Arkenberg and Brooke Auxier from Deloitte's Center for Technology, Media & Telecommunications (TMT Center) for their contributions to the research and writing of this outlook.

About the TMT Center

Deloitte's Center for Technology, Media & Telecommunications (TMT Center) conducts research and develops insights to help business leaders see their options more clearly. Beneath the surface of new technologies and trends, the TMT Center's research can help executives simplify complex business issues and frame smart questions. The TMT Center can help executives better discern risk and reward, capture opportunities, and solve tough challenges amid the rapidly evolving TMT landscape.

Endnotes

1. Wynne Davis, "Streaming outperforms both cable and broadcast TV for the first time ever," NPR, August 18, 2022.
2. Doug Shapiro, "One clear casualty of the streaming wars: Profit," Medium, October 27, 2020.
3. A Good Movie To Watch, "6 best streaming services that offer yearly subscription," January 1, 2023.
4. Diane Garrett and Todd Spangler, "Streamers hike prices: How the big players stack up now," *Variety*, August 19, 2022.
5. Lucas Shaw, "Streaming is starting to look a lot like cable TV," Bloomberg, August 14, 2022.
6. Ashley Joseph, "How the social media landscape is shifting for brands and creators," *Ad Age*, September 20, 2022.
7. Kevin Westcott et al., *2022 digital media trends, 16th edition*, Deloitte Insights, March 28, 2022.
8. Abby Ohlheiser, "How aspiring influencers are forced to fight the algorithm," *MIT Technology Review*, July 14, 2022.
9. Heather Kelly, "They laughed, they cried, they killed monsters: How friendships thrived in video games during the pandemic," *Washington Post,* March 20, 2021.
10. Westcott et al., *2022 digital media trends,16th edition*.
11. James Batchelor, "Video games are the new battleground for big brands," *GamesIndustry*, October 24, 2022.
12. Josh Markarian, "Popular social media & messaging apps ranked by monthly annual users," TERIS, November 29, 2022.
13. Alex Heath, "WhatsApp sets its sights on the US," *The Verge*, January 28, 2022.
14. Kalhan Rosenblatt and Kat Tenbarge, "Instagram responds to backlash over its changes after Kim Kardashian, Kylie Jenner joined the list of vocal haters," NBC News, July 26, 2022.
15. Kaya Yurieff, "Meta responds to its next threat: Apps that link Instagram influencers and superfans," *The Information*, October 26, 2022.
16. Aaron Baar, "Ad spend declines for fourth consecutive month in September, report finds," *Marketing Dive*, October 21, 2022.
17. Kaya Yurieff and Sylvia Varnham O'Regan, "TikTok pushes social features as growth cools," *The Information*, December 7, 2022.
18. Nick Statt, "Mobile gaming will surpass $100 billion this year," *Protocol*, May 5, 2022.
19. SJN Insights, "Gaming monetization will continue to evolve like it has for the last 20 years," Seeking Alpha, April 27, 2022.
20. Westcott et al., *2022 digital media trends, 16th edition.*
21. Deloitte, "Creator economy in 3D," 2022.
22. Ibid.
23. Yurieff, "Meta responds to its next threat."
24. Nicole LaPorte, "Move over, Instagram influencers: Welcome to the era of the independent creator," *Fast Company*, October 27, 2021.
25. Dan Whateley, "How TikTok is changing the music industry," *Insider,* November 25, 2022.
26. Westcott et al., *2022 digital media trends, 16th edition*.
27. Ibid.
28. Deloitte, *Deloitte global 2022 Gen Z & millennial survey: Striving for balance, advocating for change*, 2022.
29. Ibid.
30. Meaghan Yuen, "Resident population in the United States in 2021, by generation," *Insider Intelligence*, December 14, 2021.
31. Kim Parker and Ruth Igielnik, "On the cusp of adulthood and facing an uncertain future: What we know about Gen Z so far," Pew Research Center, May 14, 2020.
32. Sara Fischer, "Gen Z shapes new social media era," Axios, July 26, 2022.
33. Natasha Morrison, "The power of fandom: What social media marketers can learn from teenage fans," Medium, July 26, 2021.

This publication contains general information and predictions only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.