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2022 media & entertainment industry outlook

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About outlooks

Deloitte's 2022 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.

In 2021, the media & entertainment industry saw continued changes from technological progress, evolving generational behaviors, and ongoing impacts from the global pandemic. Amid recurring COVID-19 surges, people sought more media & entertainment at home, while often avoiding larger in-person events.[1] Digital media engagement even remained strong over the healthier summer, evidence that the pandemic has only accelerated preexisting trends toward the digital world.

Another trend that continued this year: the growing number of people embracing a proliferation of streaming video offerings from both new and old providers, as well as the billions being spent to deliver original, high-quality content. Social media continued to engage massive global audiences with video, news, music, and gaming content, while weaving user-generated content, social influencers, and retail into the next generation of shoppable media. Video games—the preferred form of entertainment for Gen Z[2]—continued to grow, expanding into services that keenly monetize the social nature of top game worlds, drawing in more brands and entertainers all tilting toward the metaverse. Alongside it all, cryptocurrency and blockchains have been weaving their way into media & entertainment with the surprise hit of the year: nonfungible tokens (NFTs).[3]

On the cusp of 2022, the broader socioeconomic dynamics animating the modern age appear to be converging with technology and amplifying change. This is driving more innovation and competition but is also putting pressure on business models to keep up with changing behaviors. The media & entertainment industry, embedded in the business of imagination, is riding a wave of tremendous opportunity amid the turbulence that attends times of significant change like the one we're in.

In this year's media & entertainment outlook, we examine five areas we believe will touch the most people and grab the most attention; we address the fundamental human elements of socialization and entertainment; and we reveal the edges of large-scale technological change.

Our 2022 outlook in brief:

- We will see the streaming video industry mature as metrics evolve beyond subscriber counts to lifetime customer value, and existing business models expand to find greater profitability amid global competition.
- Live entertainment—and the businesses and venues that rely on it—will face greater pressure to go beyond simply bringing people out of their pandemic cocoons, by offering enhanced experiences that are different from those in the living room.
- Social media, the largest digital aggregator of humanity, will find itself at a turning point, moving to build out the next generation of retail shopping.
- The sudden rise of NFTs and their success in bringing scarcity and exclusivity to digital goods will drive new models of customer engagement and loyalty. They'll also lead to more digital product innovation, greater empowerment for their creators, and a fuller realization of the grand ambitions for blockchain, cryptocurrency, and the decentralized web.
- Each of these trends is slowly marching humanity closer toward the metaverse (or metaverses), where people will spend more of their time in immersive, social, digital worlds, while the digital world will move further into the physical one.

On the surface, 2022's changes to the media & entertainment industry may appear incremental, with the usual jockeying for relevance and success among providers vying for audiences. But the reality is that they are riding atop deep currents that are reshaping the world. Content is coming from everywhere. Everything digital is becoming more social and shoppable. Interactivity and immersion are competing with passive experiences. As the physical and digital worlds blur, the structural foundations of the internet are on the cusp of a massive reorganization—a sea change that will drive enormous opportunity and, with it, the potential for collateral damage.

Streaming video services and shifting business models

Heading into 2022, competition among streaming video on-demand (SVOD) providers for the time, attention, and bank accounts of viewers will continue, fueled by customers juggling multiple subscriptions, showing more cost sensitivity and savviness, and displaying generational differences in entertainment preferences. With top SVOD players spending billions on content development and global expansion, the business models that got them this far may not provide the future profitability needed for the industry to grow.[4]

In the more mature US market, subscription churn—the rate at which people add and cancel paid streaming services—averages around 35%, driven by subscribers' efforts to manage subscription costs while chasing new content and entertaining competing offers from other entertainment options.[5] Providers are under pressure to keep producing hit content, get it in front of the right audiences, figure out how to keep subscription prices low enough for a given market, and determine how much advertising is needed to subsidize operating expenses and subscription costs. They should also manage emerging competition across global markets and the required delivery infrastructure and business partnerships. But the real challenge is in finding profitability among all these costs in a business that offers nothing near the margins of cable TV.

Streaming video providers may also need to reckon with an existing business model that focuses on subscriptions as the most important metric of success. Subscribers are necessary, but providers should increasingly focus on how much revenue they generate. In 2022, more streaming providers may offer pricing tiers, like a premium, all-access tier that includes first-run movies and requires an annual subscription; an ad-free secondary tier that requires additional payment for new movies and top content; a tertiary tier that includes advertising in return for a lower subscription; and finally, free services with limited content and more advertising. Alternatively, some providers could experiment with pay-per-view style pricing for top content, no subscription required.

As the pandemic recedes and theaters become more active, streaming providers—who may also be studios operating a streaming platform as a vehicle for their content—will likely struggle to balance windowed theatrical releases with direct-to-streaming releases for their subscribers. In 2022, the windowing system that determines the sequence of releasing a new film exclusively to theaters, then to TV screens and other channels, will likely evolve further as streamers use studio releases to draw more subscribers to their platforms. With streaming services led by a handful of top-tier providers, smaller providers may need to decide whether they want to compete as content aggregators, or instead become pure creators selling original content to the leading services. Of course, making high-quality content is often expensive, and all studios can benefit from lowering their production costs via more insightful content choices, cloud and virtual production technologies, and predictive modeling of success rates.

Only some providers are big enough to compete globally. 2022 will further underscore these winners, some of whom are likely to see more M&A activity from consolidation across multiple markets. Relying on a single line of business could become increasingly risky, and more top providers may look to expand their portfolios across entertainment categories. Portfolios will look to anchor media properties in developing markets but may also look to access younger audiences with new social media and gaming offerings. By the end of 2022, top providers might look more like digital platform companies, with premium SVOD and advertising-based video on-demand (AVOD) capabilities, user-generated content, gaming properties, and social integration. This evolving business model will likely test the willingness of shareholders to underwrite expansion, so pressures on profitability may become even more significant.

Strategic questions to consider:

- How can large studios determine if they are suited to being content aggregators and streaming providers, or if they should focus on content development and licensing?
- How can innovations in pricing tiers, paid content, and loyalty programs help streamers reach larger audiences and retain them longer?
- What are the best levers for lowering content production costs and de-risking larger productions?

Enhancing venues and live entertainment

Amid the pandemic, widespread closures and social distancing guidelines kept people consuming entertainment at home. As of August 2021, 84% said they were spending more time on online entertainment in the home and less time on in-person entertainment outside it[6]—hardly the grand reopening envisioned earlier in the year.

Even when the pandemic subsides in a meaningful way, it will likely leave a mark on behaviors for some time to come. What does that mean for the future of in-person entertainment?

The challenge for entertainment venues—like concert halls, sports stadiums, and movie theaters—may be attracting those less eager to venture outside the home. How can they show people that the experience they offer onsite is enhanced beyond those available at home?

One way for entertainment venues to drive revenue and increase foot traffic is to evolve into flexible spaces. Large sports stadiums are often deployed as multipurpose spaces, hosting sports games, concerts, and trade shows all in a single weekend. Other venues should reimagine how their spaces can support different kinds of events.

Venues should also consider investing in technology updates to offer more mixed-media, live-streaming, and AR/VR experiences. In larger venues, giant LED screens can provide alternative viewing or playing experiences, in addition to supporting advertising.

Livestreams from venues could reach a broader audience, or venues could show live streams of onsite events, such as concerts, festivals, or sporting events that may be far away, sold out, or too large for those not yet ready to brave the crowds.

Elevating the venues themselves (and subsequently the overall experience) may also be key. Though many sporting events can be enjoyed from home, research has shown that a good stadium experience boosts in-person attendance and fan loyalty.[7] Other venue operators, such as movie theaters and concert venues, should consider which live elements increase consumer loyalty and make the in-venue experience unbeatable. How can venues leverage mobile apps or social networks to help people find each other during events, or add value to enhance the experience in other unique ways?

For production companies, although content can go direct-to-consumers through streaming services or social media platforms, there might be opportunities to create bespoke experiences that only exist in person and can't be accessed on a screen. Exclusive experiences (e.g., meet-and-greets), live perks (e.g., giveaways), or digital experiences (e.g., supplemental AR/VR capabilities) are possibilities to consider.

Sports stadiums, many of which have already mastered the art of versatility, should consider focusing on expanding in-stadium offerings. Interactive mobile experiences, such as AR/VR experiences, gaming opportunities, or deals and promotions, could be accessed exclusively by in-person attendees—before, during, and after the event—to supplement the experience.[8]

Companies and venues that can master the art of integration stand to benefit the most, as a result of their ability to cater to the broadest population of consumers. Experiences that embrace a hybrid approach, integrating in-person experiences with options like remote viewing, live streaming, and virtual co-presence, can appeal to both those who can't wait to leave home, and those who'd prefer to stay within their own four walls.[9] Other options could include live events that are broadcast on streaming video services or in game worlds.[10] These hybrid events could help venues, artists, and content creators expand their reach to global audiences while potentially offering larger-than-life performances in virtual worlds.

The future of live entertainment is exclusive, multipurpose, and, well, hybrid—a blend of the real and digital worlds.

Strategic questions to consider:

- How can entertainment companies cater to everyone and create experiences that blend the in-person with the virtual?
- Can entertainment venues broaden their scope and offerings to become in-demand, multipurpose places?
- What exclusive, insulated VIP experiences can venues offer to high-paying customers interested in live events?

Making media more shoppable

Imagine scrolling through a social media feed and encountering a post for a new clothing brand that enables purchasing after just a few clicks. Or seeing an ad pop-up while playing a video game on your smartphone. That's shoppable media: an interactive buying experience sitting at the intersection of content and commerce.

Commerce on social media platforms is a popular form of shoppable media, and people are buying in increasing numbers, with social commerce sales expected to reach more than US$36 billion in 2021 and US$45 billion in 2022.[11] In 2021, about three in ten consumers had made a purchase directly on social media, including about 39% of Gen Z and 50% of millennials.[12] Purchasing overall may be making a comeback: 39% of US consumers say they are spending more on goods (versus experiences) than they did 12 months ago.[13]

On social media, the shoppable media space is largely enabled by the independent creator economy, with "influencers" proving very successful at living up to their moniker. Once again, generational differences appear, with nearly seven in ten Gen Z and millennial social media users reporting that they follow an influencer. These younger users are more likely to find recommendations from influencers important to their purchasing decisions.[14] In order to attract and maintain creator talent willing to promote their products, companies will likely increasingly find themselves tasked with exploring ways to support the development and monetization of these creators.

The creator economy is bolstering more than individual creatives, however. It's also allowing newer and less established brands to launch with lower overhead, helping them expand globally and allowing them to enable more curated shopping experiences.

Simply put, content and buying experiences are converging, and the relationship is bidirectional. People can now buy where they consume content and consume content where they buy. Soon, it may become commonplace to purchase products directly on social media,[15] gaming environments,[16] and streaming video services.[17]

Shoppable media's retail penetration could be next. Digital commerce spaces such as mobile apps and websites are prime real estate for shoppable content; consider how it would be to click on an in-app cooking video and have all the necessary ingredients instantly added to your cart.

Across platforms, these experiences look to boost revenues and opportunities for both advertisers and creatives, but perhaps more importantly, these integrated experiences may also increase consumer engagement and brand loyalty.

Opportunities abound, but companies—especially video streamers—who enter this realm might be forced to make significant investments in infrastructure and technology that enables a seamless and integrated shoppable media ecosystem on their existing platforms. It may require rethinking integration across content, buying supply chains, and payment systems.[18] And with the rise in popularity of ad-supported video streaming services, shoppable media could be integrated into advertising models and interactive ad formats to bolster engagement and sales.[19] This tactic could be especially important for retaining audiences that might otherwise wander off to social media or gaming.

More broadly, shoppable media may shift the commerce ecosystem to favor smaller, more nimble creators, rather than more established brands. Media & entertainment companies that are willing to adapt and reinvent may be first in line.

Strategic questions to consider:

- Where can streaming video, streaming music, gaming, and social media companies integrate shoppable media experiences into their existing customer journey?
- What strategic partnerships can content producers and streaming companies forge to enable seamless, integrated shoppable media environments and to promote the adoption of mobile and digital payments?
- How can companies leverage the virality and power of the creator economy to boost awareness and revenues?

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NFTs offer digital scarcity and product innovation

In 2022, nonfungible tokens (NFTs) will likely generate more innovations and revenues beyond collectibles, while the emerging ecosystem makes it easier for more people to participate. This growth will likely expose some challenges, but it could also open the door for much greater innovation in NFTs, cryptocurrencies, and blockchains.

Based mostly on the Ethereum blockchain and sold through digital marketplaces, NFTs are essentially a bundle of rights governed by code, anchored to a blockchain as a unique and immutable digital object. Though not all NFTs are created equal, they bring scarcity and ownership to digital assets that might otherwise be easily copyable, while enabling additional layers of programmability and rights management.

In one successful example, a media group sold digital art as NFTs that gave owners a unique digital identity, the rights to reuse and profit from any derivatives of the image, and access to an exclusive online club. In 2021, the group's tokens generated $1 billion.[20] By their programmability, different NFTs can specify different kinds of ownership. For media companies and other rights holders, NFTs offer entirely new lines of revenue with authentication and traceability built right in. Deloitte's 2021 Global Blockchain Survey found that 78% of senior executives believe digital assets will be important to their industry within two years.[21]

By Q3 2021, NFT sales had generated an estimated $10 billion, compared to around $100 million in 2020.[22] The most popular NFTs have been collectibles like digital images, sports highlights, and historical moments from the internet. NFT collectibles have enabled celebrities, athletes, and artists to sell directly to their fans by removing the need for resellers and arbitrage. They also support greater customer relationships and loyalty by offering exclusive goods that unfold value over time, like a season pass that pays a dividend based on the team's performance.

Musicians and bands can use NFTs to offer exclusive collectibles or extend VIP services to fans. They may attach usage rights directly to songs that would automatically pay artists and labels if, for example, the song was used in a video online. Fans could buy a share of royalties when they purchase a special NFT version of an album, underwriting the artist while enjoying a stake in their future success.

Here's where things get interesting: NFTs also hold the potential to establish digital identity and the rights, entitlements, and asset ownership that are attached to that identity. NFTs' ability to bridge the physical and digital worlds is why they're increasingly seen as part of large-scale emerging trends like Web 3.0 and the metaverse.

In 2022, NFTs could evolve from a novelty into a utility. More content creators will likely experiment with NFTs to sell directly to fans while innovating on the kinds of additional value they can attach to the asset. Music labels and rights holders could advance efforts to understand how NFTs, and the blockchains that support them, may impact their business models. Gaming companies will likely continue experimenting with NFT virtual goods while eyeing a future of blockchain-based "play-to-earn" games.[23]

With so much money being invested, the popularity of NFTs is likely accelerating the use and adoption of decentralized ledgers, like blockchains, and crypotcurrencies that contain the potential to radically recompose many aspects of the economy.

Strategic questions to consider:

- How can media & entertainment companies help make it easier for people to buy and sell NFTs?
- What existing assets are good fits for NFTs? How can NFTs be used to add additional value, exclusivity, and transparency to those assets?
- How does the design of an NFT (legal interpretation and technological architecture) affect the classification of that NFT for tax, accounting, and broader regulatory purposes?

The metaverse moves toward reality

In 2022, money and hype will animate "the metaverse," summoning the potential future of a 3D digital "place" where people meet and interact through digital representations of themselves—a seeming eventuality that could take some time to fully realize. The metaverse won't likely be a single entity and may take different shapes based on the different industries and uses being addressed. Because the term is so encompassing and potentially transformational, it will likely continue to suffer from generalization and speculation. For that reason, companies and investors should be cautious and disciplined in evaluating near-term metaverse opportunities.

Combining platforms, experiences, audiences, and marketplaces, a metaverse is a 3D digital "place" where people interact through digital representations of themselves. By most definitions, a metaverse is an alternative world to the physical one, with activities, events, and virtual goods that are compelling enough to gather users and businesses. It can include augmented (AR), virtual (VR), and mixed reality experiences and may operate across physical and digital spaces. An enterprise or industrial metaverse, for example, could integrate digital twins, remote collaboration, and 3D simulations, blending the built and virtual worlds.[24] Indeed, a metaverse may simply be known by its ability to weave the digital and physical together seamlessly.

In 2021, very popular social games and social-gaming platforms are perhaps the closest to being metaverses. They host tens of millions of users in immersive environments offering competition, entertainment, and socialization. Some support user-generated environments and experiences. Players buy virtual clothing and gestures to personalize their avatars, brands advertise and sell virtual goods,[25] media franchises build in-game experiences around their IP,[26] and top artists hold larger-than-life concerts reaching millions of fans around the world.[27] All this happens without metaverse harbingers like AR and VR, NFTs, or spatial computing, begging the critical question: Is the metaverse already here?

Trends like shoppable media, virtual meetings, social camera filters, motion capture, AR for clothing and furniture shopping, spatial computing, immersive learning, and an array of brand and enterprise experiments in AR and VR could all converge toward a metaverse. However, to become reality, they would require significant adoption, standardization, and interoperability, while establishing greater trust and safety.

Many definitions place the metaverse inside VR, and some see a role for AR. How are these technologies combined in a metaverse? Consumer AR still lives in the smartphone, and consumer VR has sold an estimated 16 million headsets,[28] compared to more than 1 billion smartphones sold every year.[29] Both can introduce hardware limitations, ergonomic challenges, and the potential for problems. If a metaverse requires advanced AR or VR hardware and a hundred million users willing to wear them as often as they check social media, then adoption could take 20 years or more. However, hyperscale technology platforms are eyeing the competitive advantages of controlling a metaverse—and they are investing accordingly.[30]

A metaverse also requires community for stickiness and monetization. Like social media, a metaverse that demands even greater engagement could amplify bullying, harassment, misinformation, and algorithmic biases. Companies pursuing a metaverse strategy should prioritize the wellness of their communities and consider the ways they can mitigate social problems before they arise. What might it mean, for example, when diversity and representation become expressed through customized avatars?[31] What are the potential social and psychological implications of broad virtual immersion?

As more of the internet connects to the physical world, more of our lives are spent in digital worlds. Despite the many challenges, a future of multiple metaverses threading in and out of virtual and physical spaces does seem to be the likely evolution of technology. But its full realization and broad adoption could take many years. In 2022, companies should focus on the building blocks, near-term use cases, and early metaverses that can achieve success now while laying the foundation for the future.

Strategic questions to consider:

- How can brands and services think about their role and presence in a young metaverse?
- What are the implications for existing media & entertainment companies that may need to differentiate from—or participate in—the expectations shaped by a metaverse experience?
- What is the role of NFTs and blockchains for supporting virtual economies and asset ownership? Can these tools also enable, for example, a user to easily move their avatar (the digital image they wear in a metaverse)—and its identity—across different metaverses?

Signposts for the future

In 2022, media & entertainment will continue to evolve quickly, not only reckoning with ongoing trends and disruptions within the industry, but also in its continued response to pandemic-led behavioral changes. Just as streaming video seems primed to fully transform linear TV and cable, companies face competition to retain subscribers from other streamers, as well as from social media and gaming.

The largest global audiences are using social media to discover video, music, and news, often from a long tail of small content creators empowered to attract hundreds of millions of viewers. As social media becomes increasingly shoppable, NFTs could prove to be the key element in bringing scarcity and exclusivity to the internet. And while the most popular games are social destinations with their own economies, hosting more than just gameplay, AR and VR are lighting up (and clouding) exuberance for another giant transformation: the metaverse.

In the year ahead, media & entertainment companies should consider the following:

- Subscriber growth and retention for streaming video providers, new pricing tiers and exclusives, and efforts to drive down production costs in the pursuit of profitability.
- The potential for consolidation as studios consider whether they should run their own streaming service or sell into leading aggregators.
- The effect of the pandemic on live entertainment for in-person venues that were already competing with the capabilities of the modern living room.
- The ways that social media—and gaming—are evolving to play a larger role in retail, creating direct connections with sellers through shoppable media (and potentially leveraging NFTs along the way).
- How the creator economy—the long tail of user-generated content and the creators and influencers that reach massive global audiences—plays a larger role in retail, marketing, and video entertainment.
- The arrival of NFTs and their transformative ability to bring scarcity, exclusivity, and programmability to digital assets, enabling an explosion in innovation and the potential to reshape economies.
- The ways that a metaverse may exist already, the near-term potential to develop broader and more integrated metaverses, and the legitimate challenges to grand hardware-based experiences beckoning future metaverses.

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