

Media Tech Intelligence Briefing:

Outsourcing Globalization

September 2021



Outsourcing Globalization

The global streaming opportunity (and challenge)

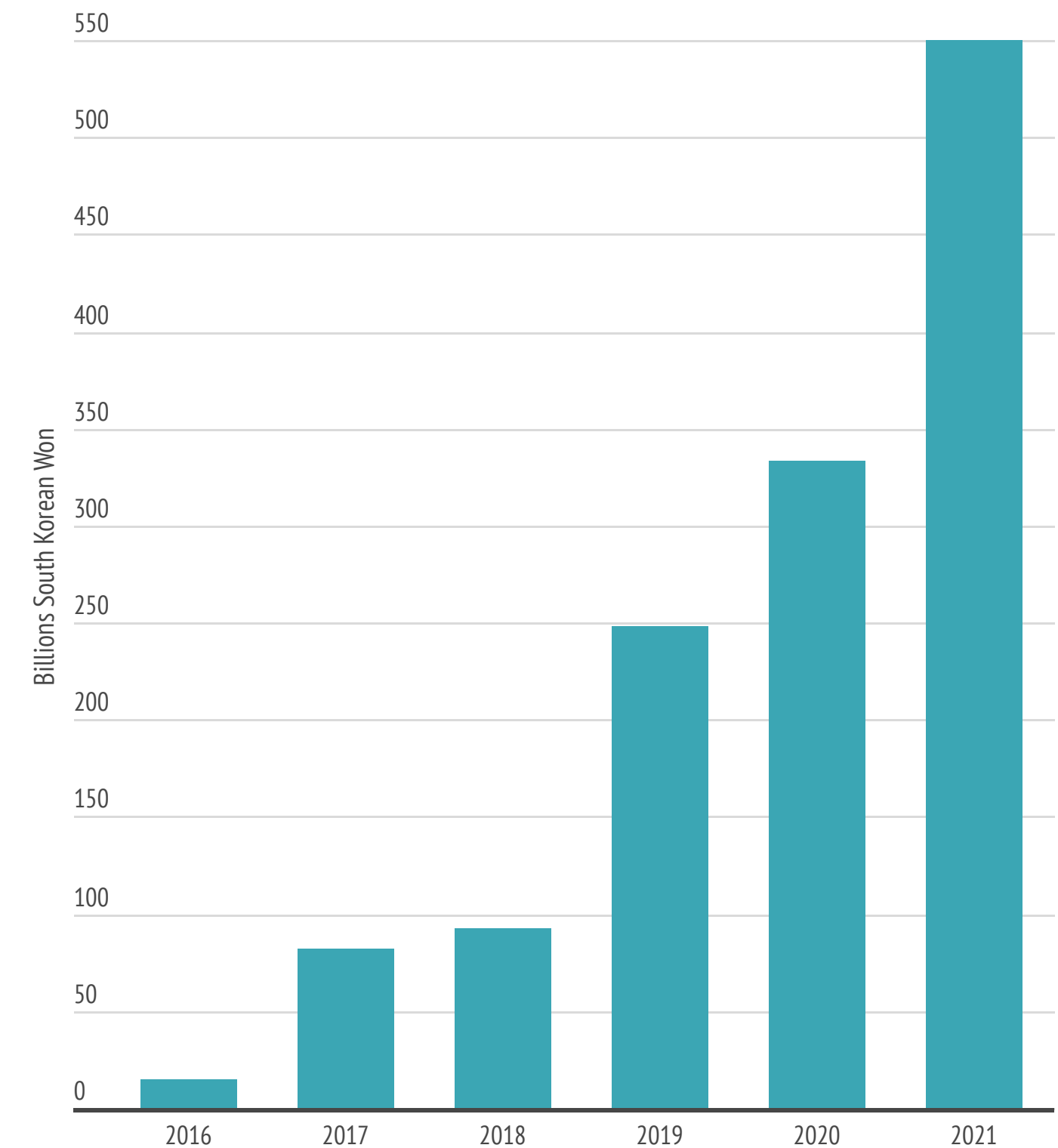
There is no doubt that the future growth of media hyperscalers such as Netflix and Disney will come from significant global expansion. Bob Bakish, CEO of ViacomCBS, said of this in its company's Q1 2021 earnings call: *"I look at the international streaming opportunity, and it's clearly global, and we're going after it. As I mentioned, we'll now be in 45 markets by the end of 2022."* Netflix's Q2 2021 results showed this too as the company reported declining subscriber numbers in North America, with most of its net subscriber additions coming from emerging territories in Asia. Other large media businesses such as Disney have highlighted the challenges of international growth. Disney's CEO Bob Chapek spoke of this at a Morgan Stanley Conference in March 2021: *"[Global expansion] is really the programming investment in entertainment and sports that we're making. But at the same time, we realize this is a very unique market, right? So, we've got distribution partnerships, Jio in India and Telkomsel in Indonesia. But it doesn't even end there because the product localizations are absolutely critical here because there's low broadband speeds, and it's a mobile-first market. So all that has to be taken into consideration as you sort of create your plan."* This is a kind of multi-dimensional localization that includes business relationships, specific technical requirements, and programming. As the number of territories (and platforms) rises, this can become quite complex to manage.

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Content focus

We could argue that media companies may prioritize the content dimension when and if they need to do so. Disney hinted at this in the quote above. Netflix has been also pouring money into local programming to drive its global growth. The exponential growth in Netflix's investment in Korean content is an example of this, but we can see this happening in different countries and at different media companies as well. Content has become key to driving growth at large OTT platforms. As reported by [our first Content Chain Trends report](#), although content money has been increasingly moving to Asia over the last year, production geography remains vulnerable to COVID-19. The pandemic has also driven media businesses to become more resilient to content shortages through more effective digital archiving initiatives. The interplay of the trends above has been nicely highlighted in a media technology supplier's recent financial filing.

Netflix' investments in Korean content, 2016-2021

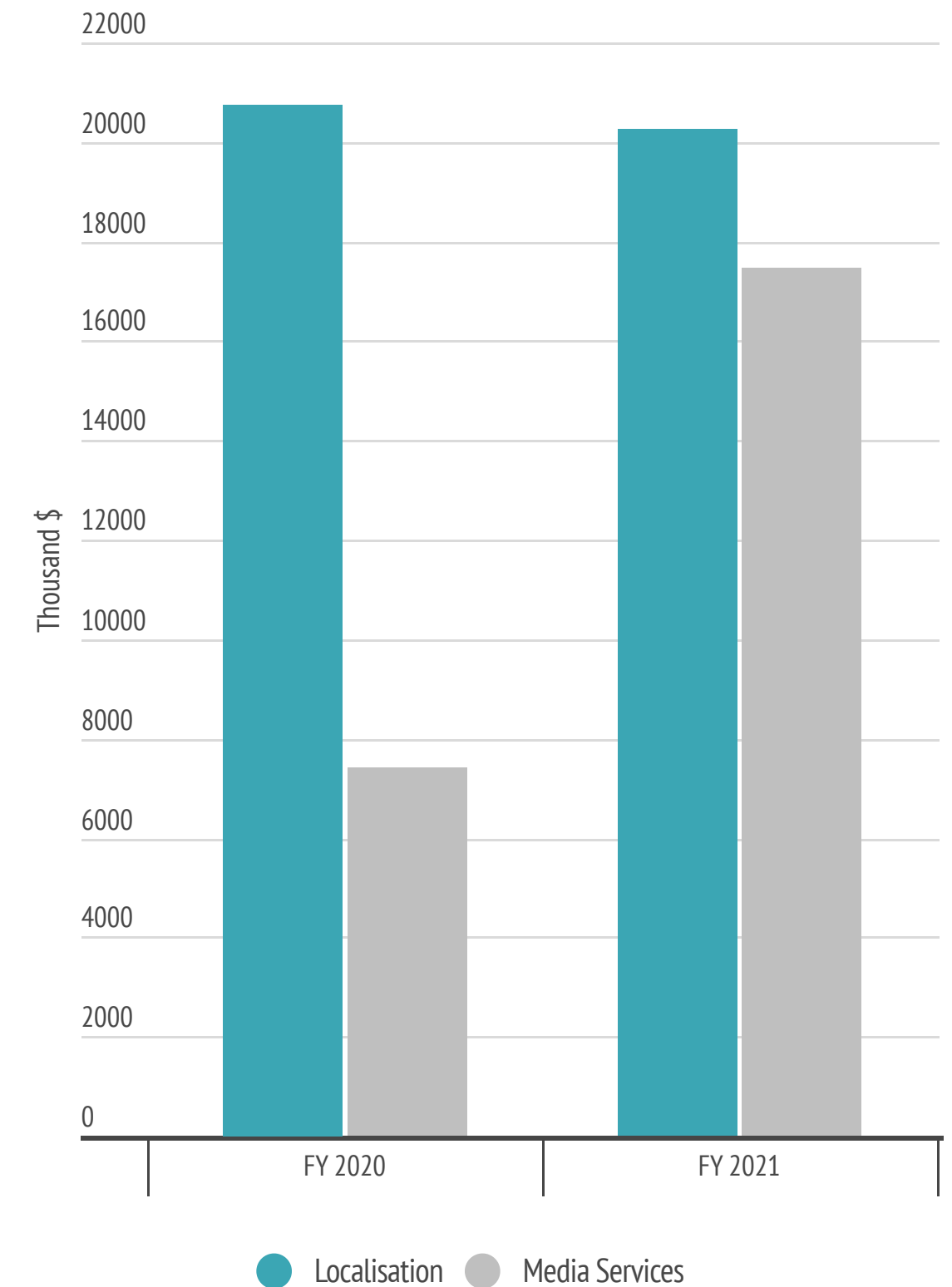


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Zoo Digital case study

Zoo Digital reported its FY 2020 annual results in July 2021. While overall revenues increased by 33%, its localization division experienced a 2% decline in sales. Zoo imputed this slowdown to the vulnerability of content productions due to COVID-19. However, Zoo's media services division experienced a whopping 136% growth fueled by the boom in streaming services in 2020. In its strategic report, Zoo's management stated that the content production shortages in 2020 led media businesses to shift their focus towards archives, lowering localization requirements while driving spending on content preparation services. More specifically, Zoo's report states: *"Requirements can be significantly greater when working with catalogue titles which may need to be brought up to the technical specifications and quality standards required by modern streaming platforms,"* which really illustrates how the focus on archives has affected demand patterns for media technology.

Zoo Digital, Segmental Revenue, 2020 & 2021



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Zoo Digital case study

Zoo Digital also reported that, within its media services division, areas such as metadata preparation and "asset health checks" grew significantly as archived content migrated to OTT distribution. The latter service analyses archived content to make sure it is appropriately packaged for high-quality OTT distribution. This illustrates that the globalization of media content spurred by the boom in streaming platforms worldwide is a significant driver of spending on content preparation (and localization). Global media businesses offering their streaming services worldwide may be slightly tweaking their sourcing paradigms when it comes to preparing their content for distribution, shifting towards an outsourcing model similar to the European managed playout services model. In that model, broadcasters send their content assets to playout operators tasked with finishing them for local distribution, ensuring conformity with standards and regulations.

Two of the service lines that have grown significantly in the period are metadata preparation and "asset health checks". The large back catalogues of content that have migrated to OTT platforms over the past year have necessitated the preparation of compliant metadata, which is then localised into each language for which the content is available. ZOO's "asset health check" assesses materials to determine what work will be necessary to enable their preparation for OTT distribution and estimates the associated cost. One such assignment completed by ZOO in January 2021 involved 780,000 items of metadata across 13 languages.

Zoo Digital's Group Annual Report
July 2021

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Zoo Digital case study

This could be a cyclical effect of the pandemic on Zoo Digital revenues though the company highlights that *"Due to increased demand, we have made infrastructure investments and recruited additional staff to expand our capacity for mastering... We anticipate a growing demand for mastering services in FY22 and beyond, primarily because of the shift by customers to the E2E [end-to-end] model."* Again, the increasing complexity of handling distribution to different territories, platforms, and devices may be pushing M&E businesses to outsource some content preparation activities such as mastering. Interestingly, Zoo's management also refers to a customer shift to end-to-end when it comes to content preparation, with the providers handling different elements of this: *"There is a growing preference of buyers within the sector to select E2E vendors due to the convenience and administrative ease of working with fewer, more capable suppliers."* According to IABM research, this is not the overall preference for M&E businesses, who generally prefer best-of-breed solutions, though preferences do vary across different media activities, as often reported by media organizations. The move to end-to-end platforms for international content preparation is, from our perspective, a less clear development though one that is worth following as media businesses increasingly prioritize out of necessity. What is becoming clear is instead the sheer scale of services needed by global media services, which is pushing the media technology supply to adapt.

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Media globalization needs scale

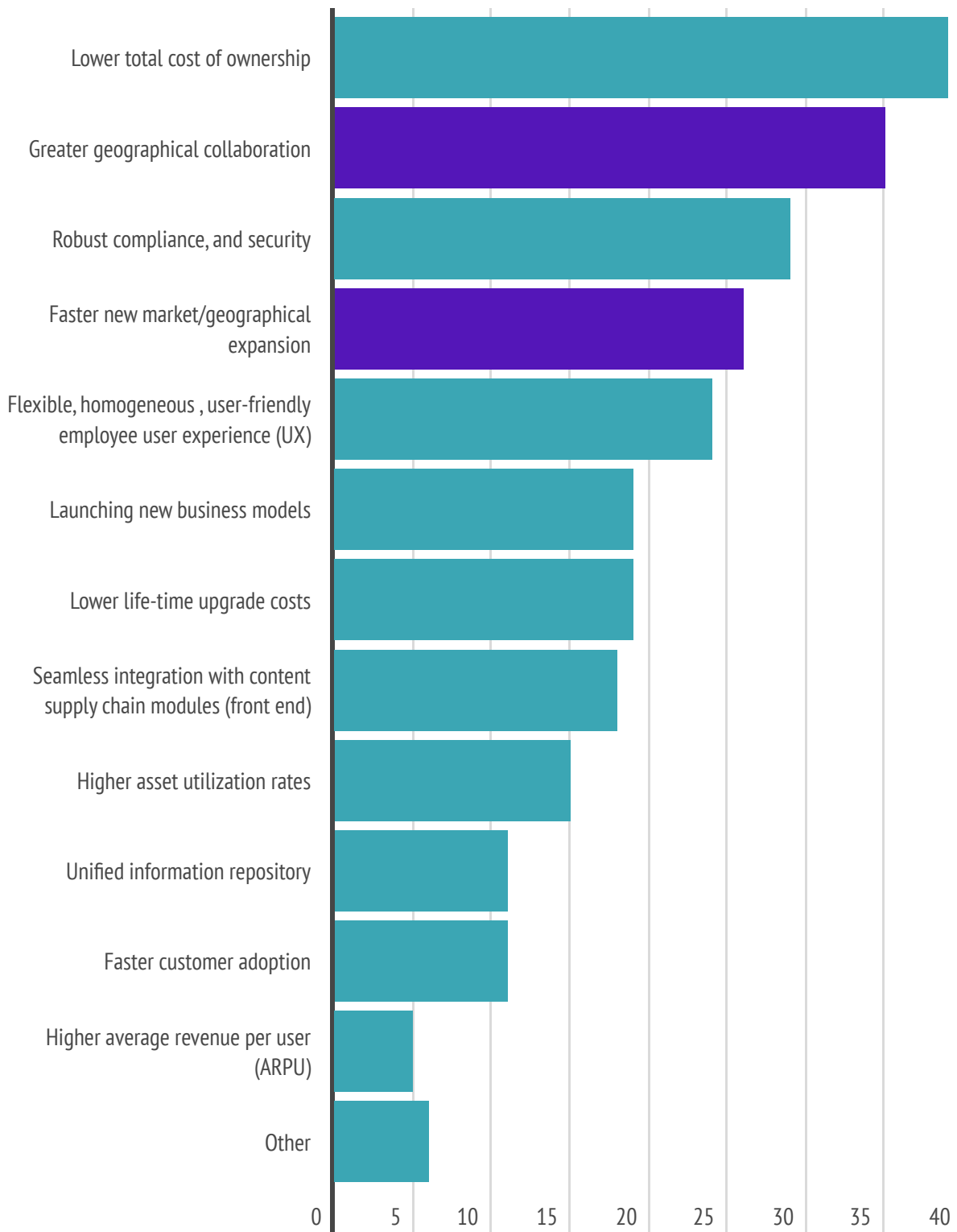
There have been some recent signs of this adaptation. In March 2021, the localization provider Iyuno Media Group completed its acquisition of SDI Media to form the newly combined business Iyuno-SDI Group. Mark Howorth, the former SDI Media CEO, said of the deal: *"We're delighted to be joining Iyuno. This combination gives us the necessary scale to meet increasingly challenging customer demands."* This followed Deluxe's acquisition of Sundog Media Toolkit in January 2021 - Sundog provides a platform for multi-format, multi-language files for theatrical distribution and streaming platforms. Commenting on the acquisition, Cyril Drabinsky, CEO of Deluxe, said: *"This acquisition confirms our commitment to innovation that puts us ahead of the increasing complexity and scale needs of our customers' multiplatform releases."* Increased M&A activity in this area again points to the potential of scaling global preparation services, including content packaging and localization for multi-platform. As mentioned earlier, this is a very interesting phenomenon as it may see media businesses outsourcing this activity while they are insourcing others. This trend may be sustained by the global expansion of media companies as well as the rise in content production budgets. Making outsourced operations as efficient as possible through technologies such as cloud and AI/ML will arguably represent the differentiating selling factor for service providers.

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Media globalization needs scale

And, if you think about it, the scale needs of media globalization are also exemplified by the correlation between the geographical expansion of OTT platforms and their cloud adoption. In fact, cloud can be viewed as a particular type of outsourcing model through which businesses are really externalizing the costs of running data centers. IABM research shows that greater geographical collaboration and expansion are important drivers of cloud adoption in media. Large media businesses that have recently expanded into new territories such as DAZN and Disney have doubled down on cloud transformation. Most recently, Disney has expanded its relationship with AWS for its global expansion: *"With AWS as its preferred public cloud infrastructure provider, The Walt Disney Company leverages AWS's proven global infrastructure to improve performance and reliability for Disney+ as the streaming service continues to scale globally."* This shift in emphasis within media companies will see an increase in both insourcing and outsourcing simulataneously within future media technology strategies.

Cloud Adoption Drivers



Sources: IABM