

Structural Trends

Insourcing

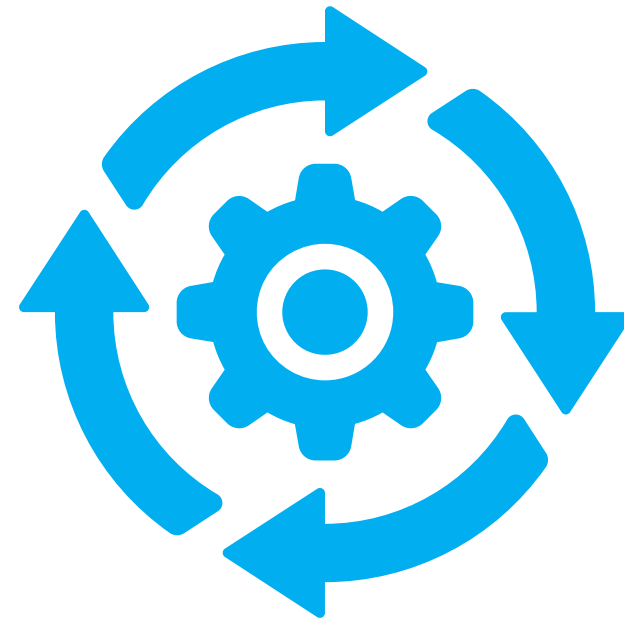


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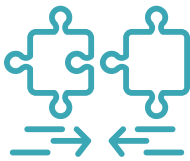
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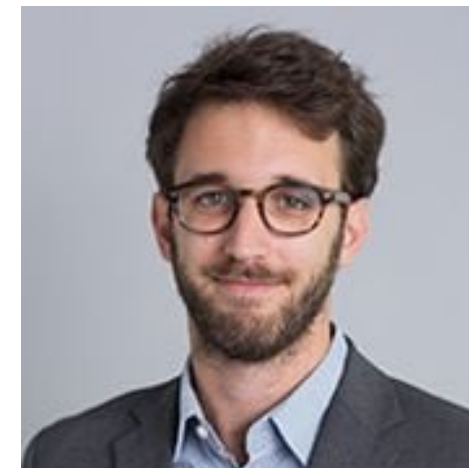


Introduction

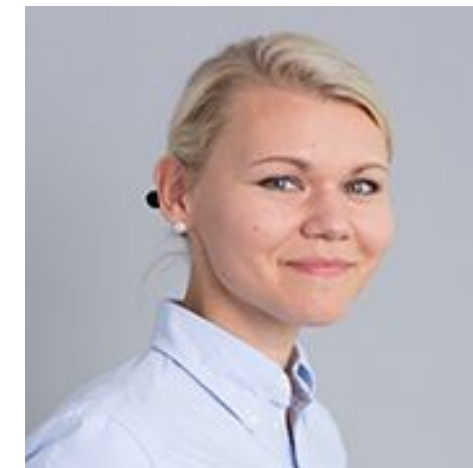
IABM Structural Trends Reports track the developments in specific technology business models as well as other structural changes within the broadcast and media sector. The purpose of these reports is to enable member companies to better understand the drivers of change in the industry as well as emerging best practices at media companies. This should provide member companies with more tools to better address the challenges ahead, from new product development to marketing strategy. These reports contain actionable insights for both suppliers and media companies.



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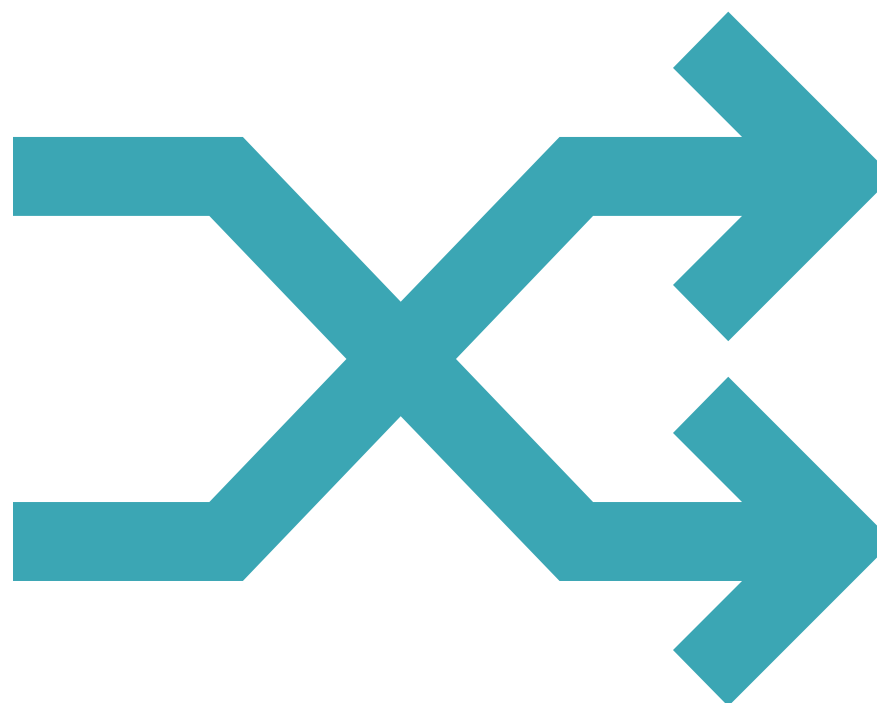


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Drivers of Change



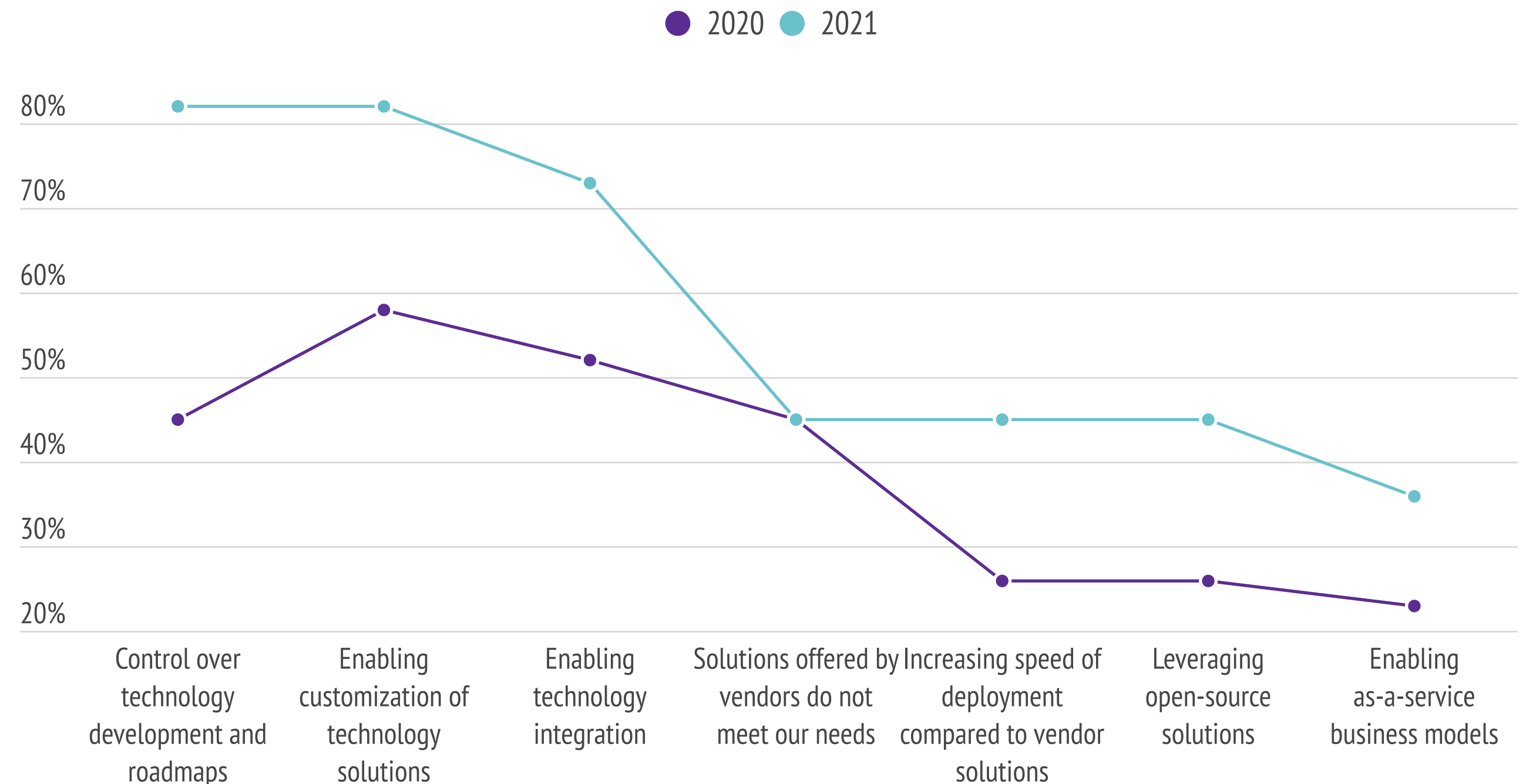


Drivers of Change

The move to D2C created a need for end-users to have more control over media technology

The ultimate origin of the demand for insourcing – i.e., increasing internal technology development spending – is the move to the direct-to-consumer business model. This move created a significant disconnect between demand and supply of media technology, with technology users increasingly wanting to control the development of new technology solutions – this is one of the main drivers behind insourcing.

Insourcing Drivers



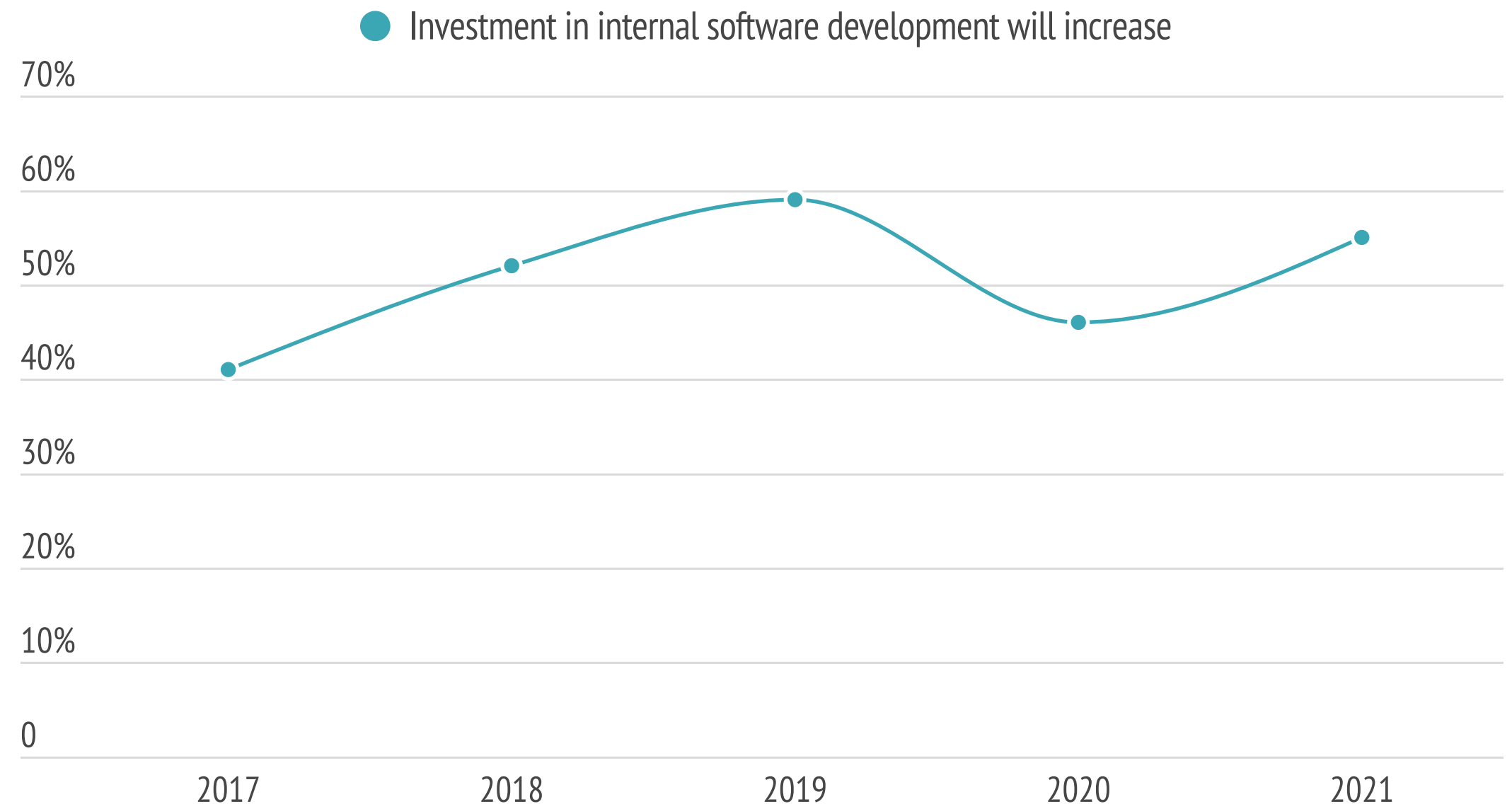
Source: IABM

Drivers of Change

Investment in internal technology capabilities by users of media technology is growing

The unpredictability of the broadcast and media market caused by the move to direct-to-consumer drove this need for control over technology developments, as well as for scale in technology platforms. According to IABM research, investment in internal technology capabilities by users of media technology is growing and has almost reached the pre-pandemic level, when almost 60% of end-users were saying that internal software development would increase. None of the end-users surveyed in 2021 stated that investment in internal software development would decline; to compare, there were 16% of them in 2020.

Insourcing Investment Outlook



Note regarding data limitations: in 2017, we asked about the sourcing of OTT platforms, and from 2018 onwards – about software overall, which still helps to illustrate the growing insourcing trend affected by COVID-19.

Source: IABM

Drivers of Change

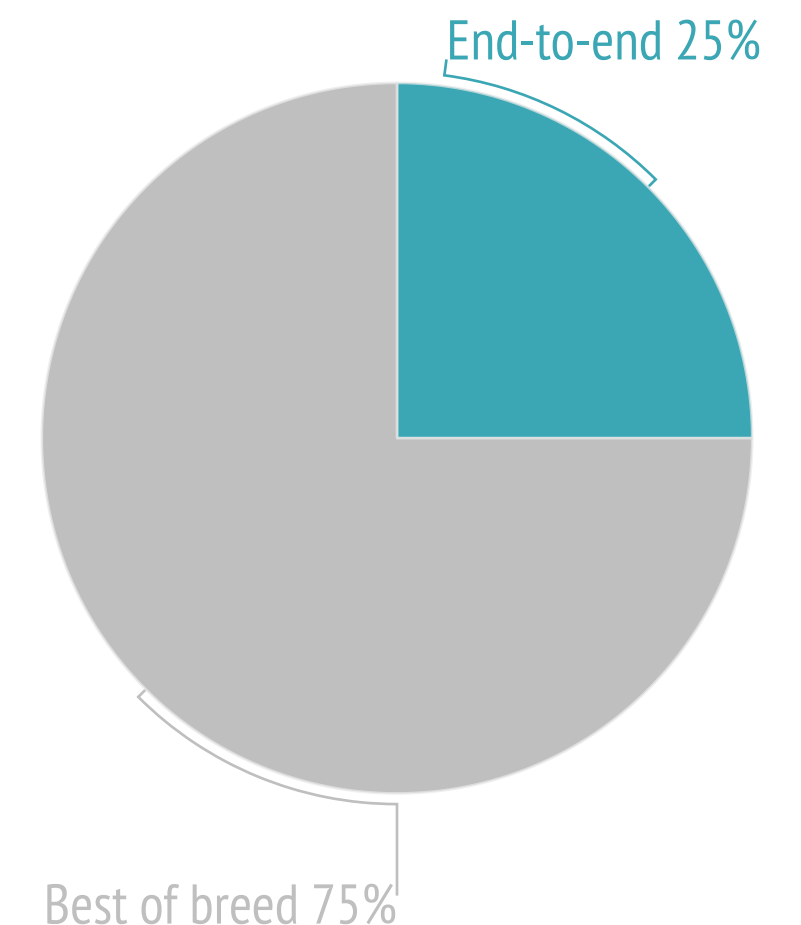
Three-quarters of end-users prefer best of breed solutions

It is not just about control, though, but also about scale, speed, and customization. The need for scale is required by consolidation and polarization of the industry's business models. With the entry of larger players into the industry, the need for scale in content, technology, and revenues has become a more important driver of change in the industry.

The need for speed was also evidenced as an important driver, with some buyers highlighting that vendors are "not going fast enough" in their transition to flexible payment models that enable them to spin resources up and down.

Partnerships between suppliers and buyers increasingly rely on customization from both a business and a technology perspective. From a business perspective, customers are asking suppliers to move to flexible business models, according to IABM research. From a technology perspective, technology development is increasingly influenced by buyers of media technology. Buyers highlight the need to build functionalities on top of existing platforms or bridges to enable interoperability between different solutions.

Buying Preferences
(data collected over 2020-21)



Source: IABM

Drivers of Change

The focus on long-term partnerships and business outcomes has increased

Another reason for insourcing is the increasing focus on the business outcomes of technology solutions. Most users and suppliers agree that the focus has moved to **long-term partnerships built on continuous engagement and flexible financial arrangements**. In these partnerships, all parties need to make concessions and focus both on what is working now and what is going to work in the future. The focus of partnerships between users and suppliers has also shifted away from pure technology discussions to the **business outcomes of technology projects**. Users are generally becoming more focused on use cases and what a new solution is going to enable rather than on technology specifications. **This is driving increased insourcing due to the disconnect between users' preferences and technology suppliers' plans.**



The move to long-term partnerships and flexible financial agreements between users and technology suppliers.



The move from pure technology discussions towards the business outcomes of technology projects.

Source: IABM

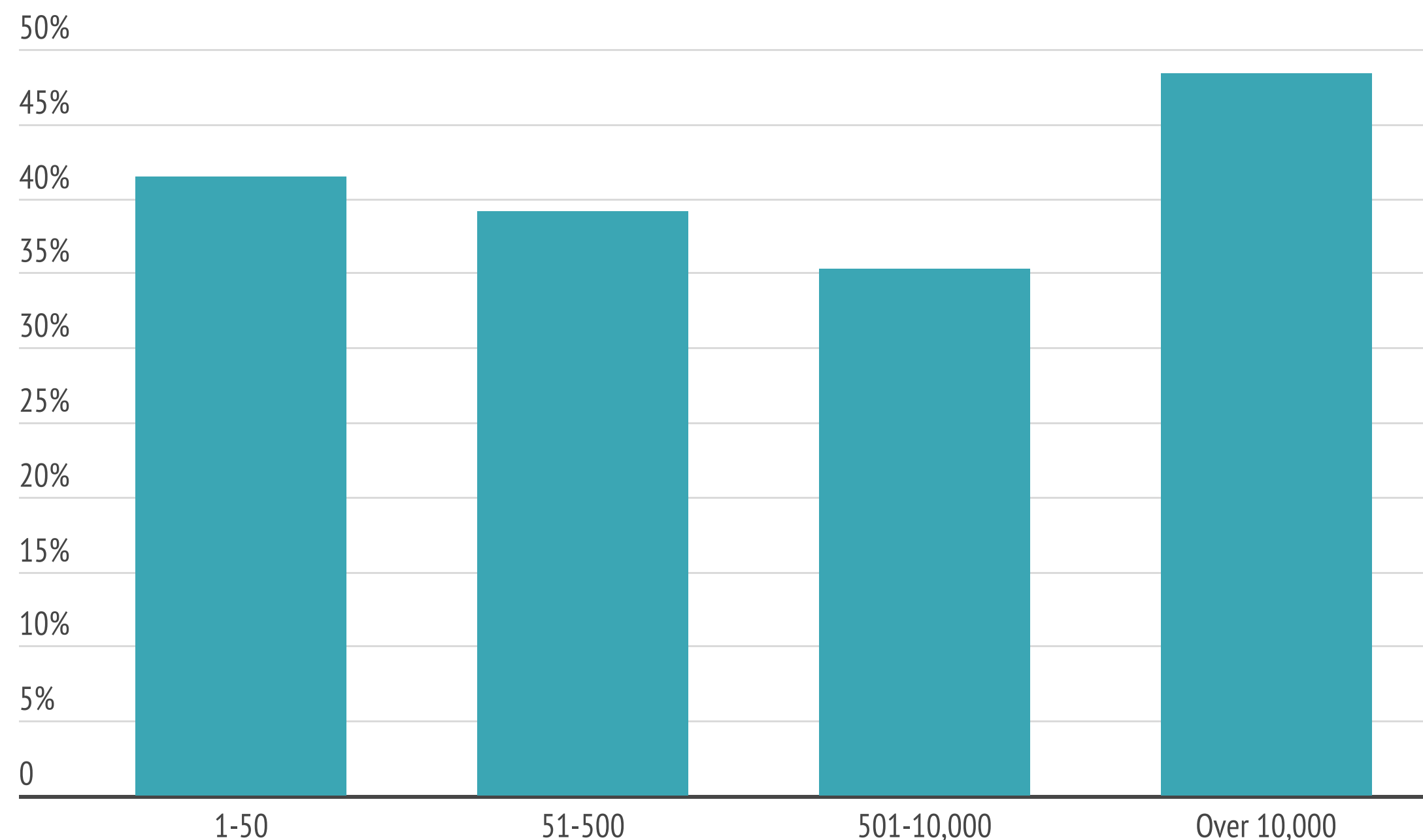
Drivers of Change

Large and developed companies insource

According to IABM research, large organizations in developed geographies are more inclined to invest resources in internal technology capabilities. This is consistent with IABM data which shows that these organizations are, on average, more likely to invest in in-house technology solutions. The size factor should come as no surprise as insourcing requires broadcast and media companies to ramp up their spending – either through direct investment or targeted acquisitions – in in-house technology capabilities, including investment in a highly skilled development department.

% of Media Technology Insourced,

data collected by IABM over 2019-2021



Source: IABM



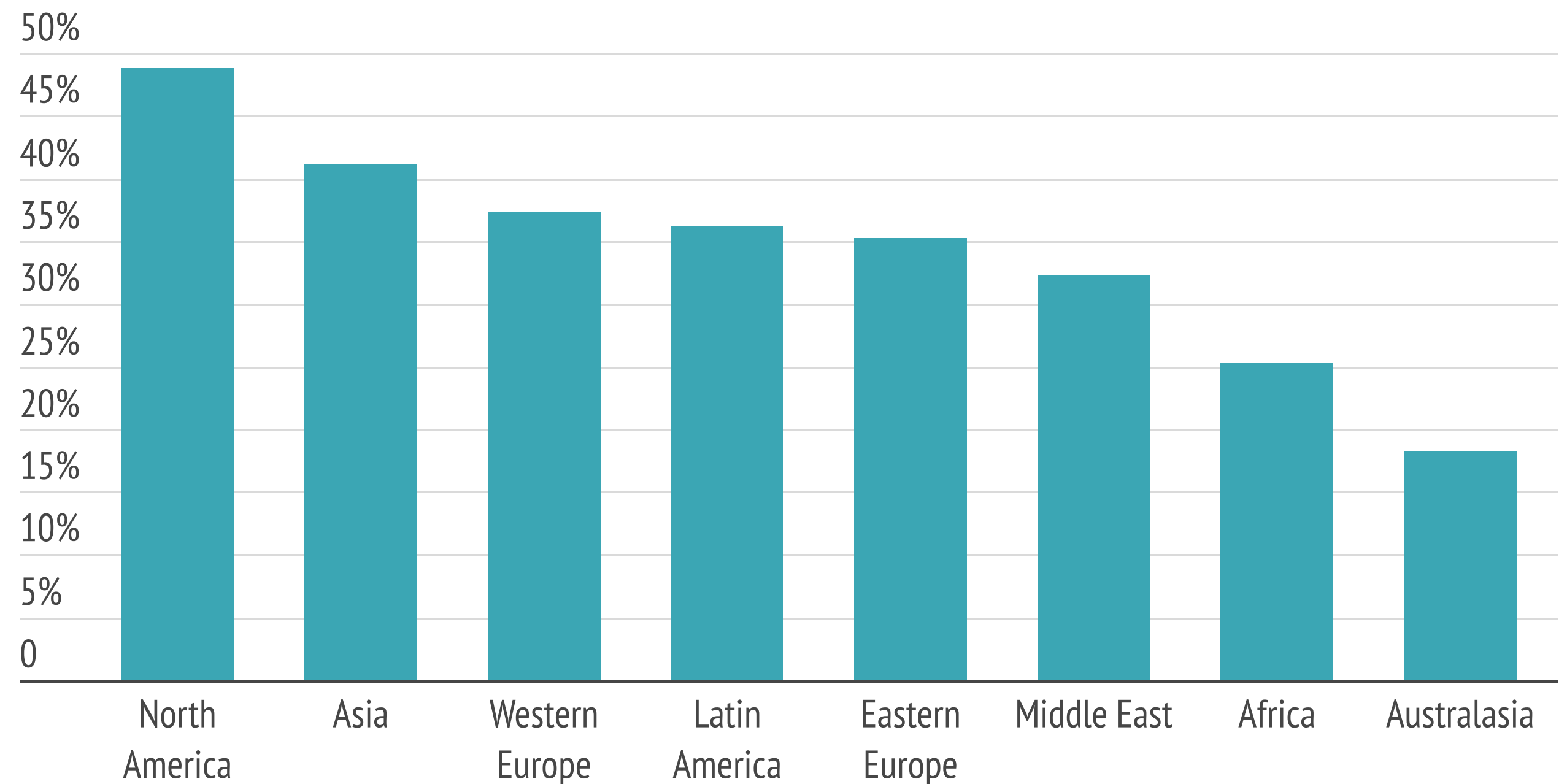
Drivers of Change

Developed regions insource more

From a geographical perspective, organizations from developed territories such as North America and Northern Europe were described as more inclined to take on the risk of investment in insourcing due to the more competitive nature of these markets – i.e., higher penetration of OTT services. Our research shows that these organizations are also more likely to have invested already in software-based technology teams.

% of Media Technology Insourced,

data collected by IABM over 2019-2021



Source: IABM

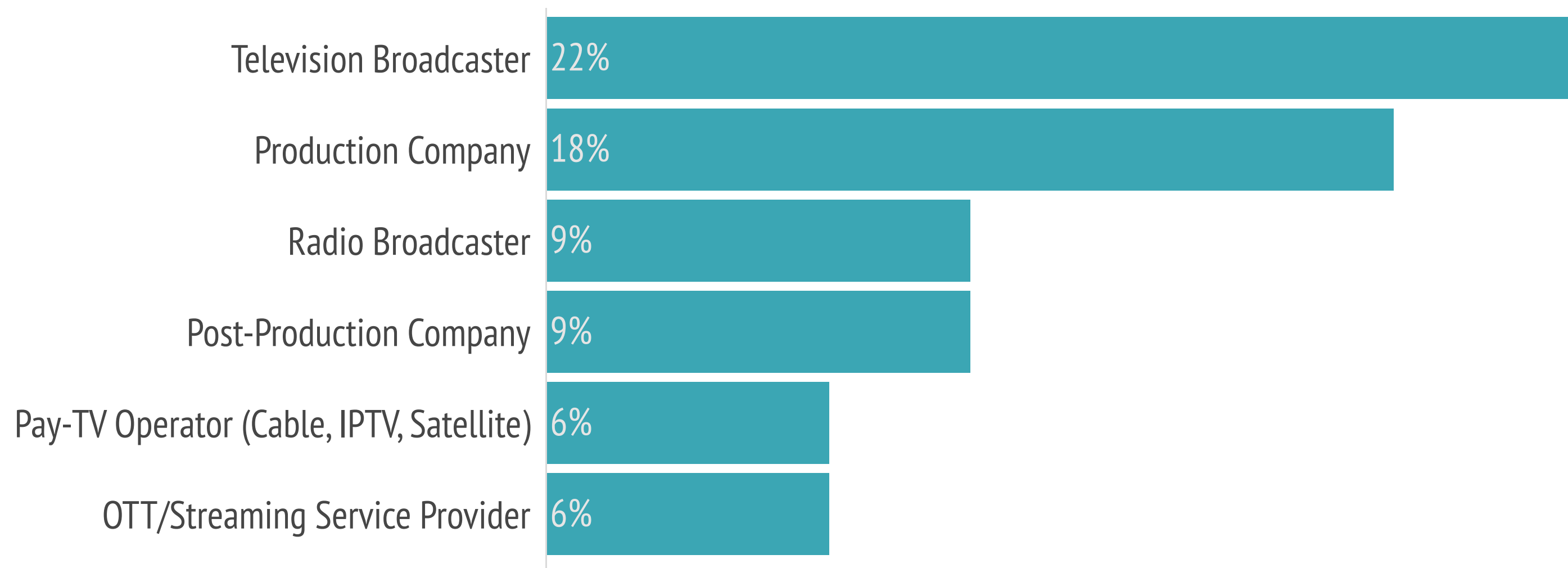
Drivers of Change

Broadcasters and production companies insource media technology the most

From an organizational perspective, television broadcasters and production companies were indicated as the categories of buyers most likely to build internal technology capabilities.

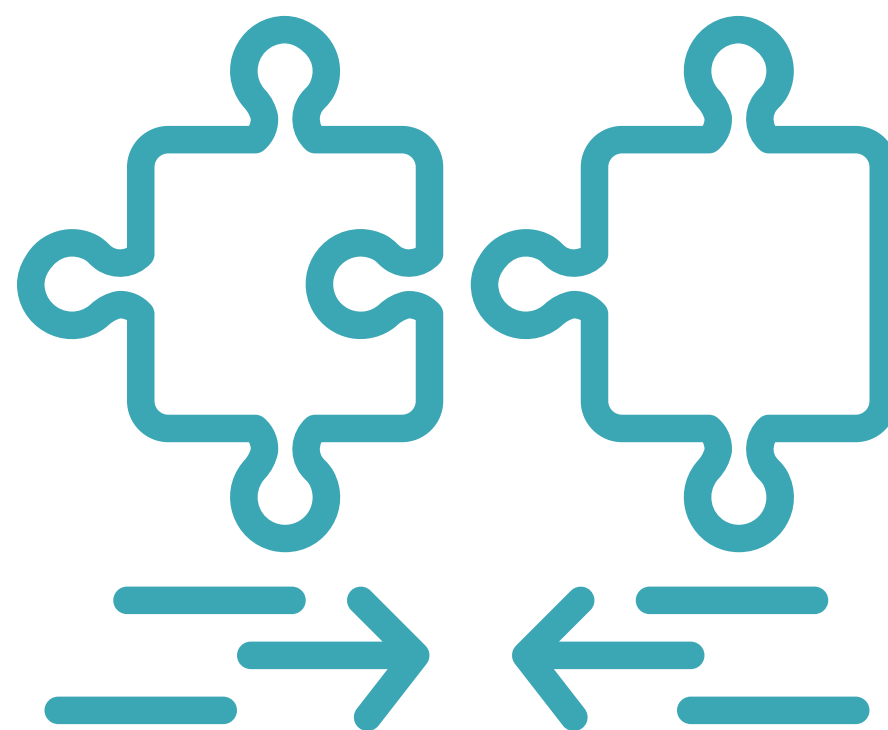
Percentage of Media Technology Insourced by Type of Media Company

data collected by IABM over 2019-21



Source: IABM

Business Implications



Business Implications

High costs are the main barrier for media technology insourcing

The main challenge related to insourcing is cost. While the initial set-up costs of a project may be small, maintaining an in-house technology solution is very costly.

According to some interviews carried out for this report, this has often led some technology buyers to shelve in-house projects or ask for suppliers' support a few years after the project launch. This trend has been more common at smaller, less developed buyers, consistent with trends we mentioned earlier.

The costs associated with maintaining in-house technology capabilities are multi-faceted and include capital expenses and – more importantly – staffing costs. In fact, to develop successful in-house technology projects, investing in skills is essential. This includes hiring and training new staff.

Most users dislike insourcing due to the cost and staffing implications mentioned earlier.

Media technology buyers told us that they would rather buy vendor solutions if they were not forced to build technology in-house. Smaller buyers also highlighted the need to hire external software development resources, sometimes without the industry-specific skills when in need of additional technology capabilities.

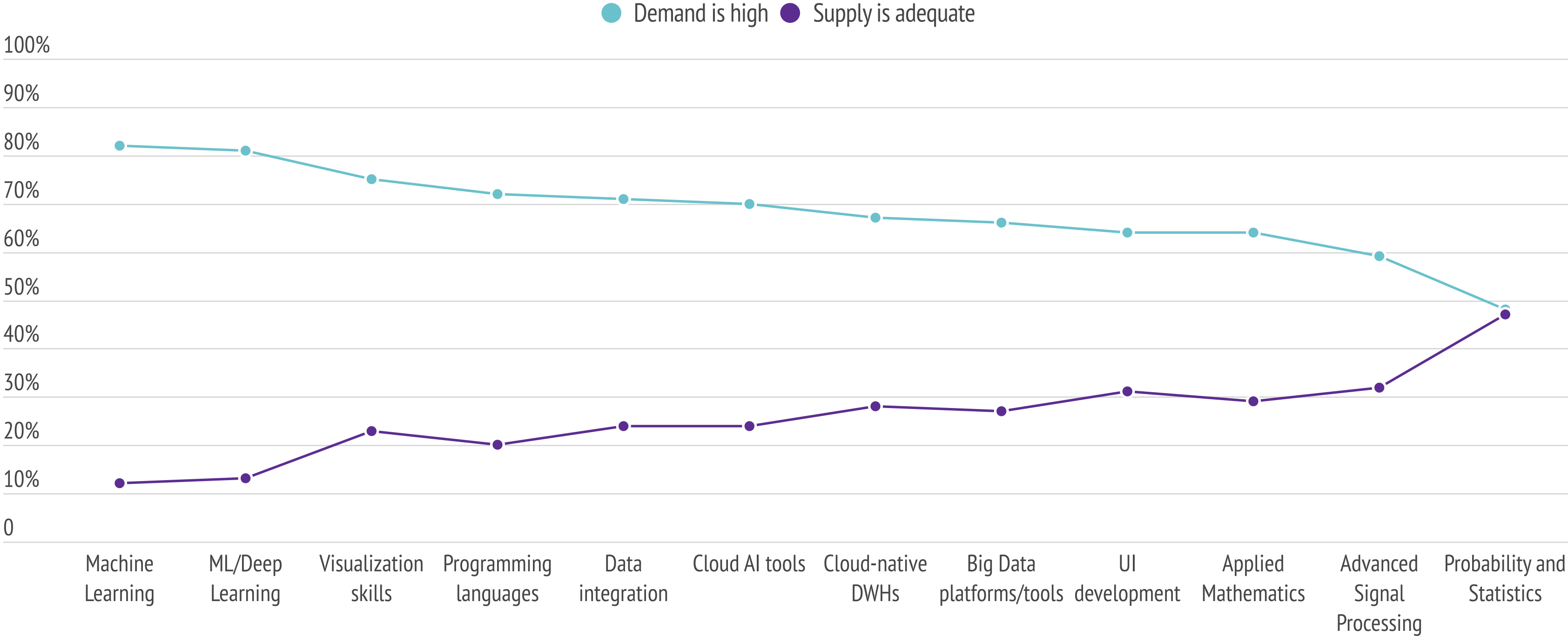


Source: IABM

Business Implications

The disconnect between demand and supply for AI-related skills in large companies

Demand and supply for AI-related skills in large organizations/enterprises worldwide in 2020



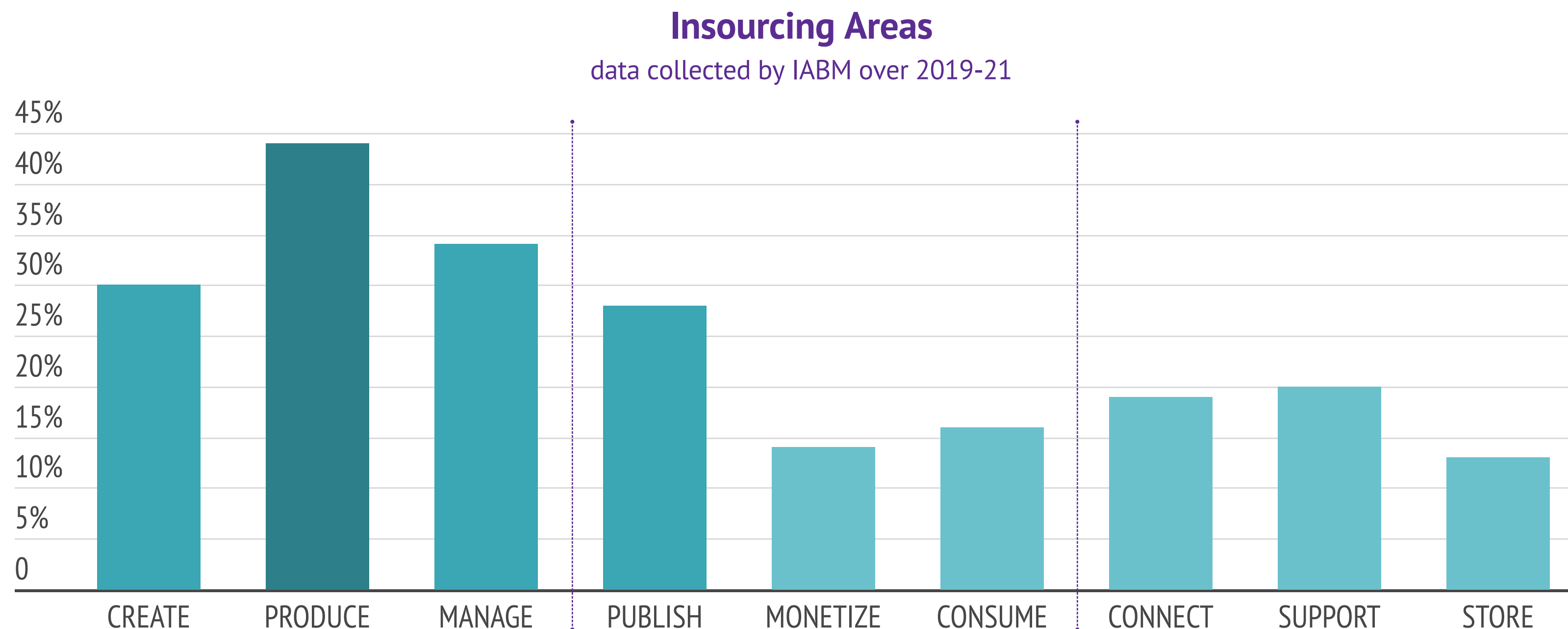
Sources: IABM, Capgemini



Business Implications

Insourcing Focusing on Produce

According to IABM data, most technology buyers plan to focus their in-house technology investment on the Produce part of the **BaM Content Chain®**.



Source: IABM

Business Implications

Insourcing Focusing on Manage

Content management systems have historically been associated with large, complex, and expensive installations, requiring extensive customization and integration work by technology suppliers. More recently, technology users have brought some of this work in-house, building new functionalities on top of existing systems and enabling interoperability with new tools needed to manage digital assets, for example.

The increased propensity to internalize technology development of asset management tools is consistent with the central role played by these systems in broadcast and media companies' operations. In fact, as they sit at the center of media workflows, efficiencies gained in content management systems can translate into widespread savings throughout the **BaM Content Chain®**. Also, broadcasters have shifted away from the large and complex installations of the past towards a more flexible deployment approach increasingly reliant on microservice architecture.



Source: IABM

Business Implications

Insourcing Focusing on Frontends

In-house investment has focused on the front end of a media technology solution with a vendor platform powering it on the back end.

Building the front end of a technology solution in-house has major benefits for broadcast and media companies, including the possibility to optimize and simplify the use of the platform for users as well as enable the interface to pull data from different internal systems that may not interoperate with the vendor solution used.

Optimizing the user interface (UI) is particularly important for a variety of reasons, including operational efficiency, as well as employee branding and retention. In fact, research participants evidenced that a great UI is associated with increased users' productivity and a lower likelihood of making mistakes. Also, as engineering departments in broadcast and media organizations are increasingly made up of engineers with IT skills, a slick UI is seen as a projection of organizations' technology development and a way to attract and retain high-skilled employees from other verticals.



Source: IABM

Business Implications

Smaller media technology buyers rely on cloud service providers' services

Smaller buyers highlighted that their lack of software development resources prevented them from building major platforms in-house. However, some of them pointed out that they are using some cloud service providers' services (e.g., AWS Lambda) to build smaller pieces of software such as middleware. It is important to note that we have observed this trend also in the deployment of AI/ML solutions as many technology buyers often tell us that they use cloud service providers' capabilities for the deployment of AI/ML algorithms. For example, FOX relies on AWS analytics services, including Amazon Kinesis and machine learning services such as Amazon SageMaker, to enhance live video streams and enable real-time data capabilities to deliver better programming. In May 2021, Globo entered a seven-year strategic partnership with Google Cloud, moving 100% of their data centers to the cloud. Over the next seven years, Globo will use Google's experience in data management, AI/ML, and cloud infrastructure in Globo's move to D2C.

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This strategic partnership will help us accelerate the main pillars of our transformation, such as focusing on the customer and creating new, more innovative business models. In this sense, we believe that Google Cloud offers us the best solution to face these challenges, bringing innovation and also gains in scale and efficiency to our operation

Jorge Nóbrega, Globo's CEO.

Sources: IABM, IBC365, Globo

Business Implications

The emergence of holacracy

Coming back to constant technology delivery, emerging organizational models such as holacracy fit into this cultural shift and enable technology teams to be quicker in responding to market changes – RTS used holacracy to develop its in-house AI platform. Holacracy goes beyond a hierarchical model to empower individuals in a technical team with more freedom and responsibilities.



As mentioned earlier, it is worth noting that these trends have been accelerated by the COVID-19 pandemic, which has forced technology users to adapt to dire business circumstances in a very short amount of time. A good example of this is sports, where users have had to launch brand new services to fill the programming holes left by events cancellations.





Business Implications

The Future of Insourcing

There is no consensus on whether insourcing is a cyclical or structural trend in the industry. Although everyone recognizes the increasing propensity of buyers to build technology by themselves, some highlight how this may be just a cyclical trend destined to end when the industry becomes more accustomed to the changing business dynamics, and vendors will catch up with users' needs. Others point out that it is a more structural shift in the relationships between suppliers and buyers. IABM's research in this area points more towards the latter argument, and we believe that insourcing will radically change technology relationships between demand and supply.

The only certain thing about insourcing is the increased collaboration between users and suppliers, where suppliers are more and earlier involved in buyers' tech roadmaps, streamlining customization of products and services, and providing opportunities for the structural shift.



It is clear that insourcing is generally disliked by both technology users and suppliers. In fact, most users would prefer to focus their resources on their core business of creating and publishing content, while most suppliers see insourcing as detrimental to their businesses.

Business Implications

The Future of Insourcing

As noted earlier, users remain focused on the frontend of technology solutions, which provides suppliers the opportunity to design offerings that allow users to build customized frontends. Many suppliers highlight the need to do so and be open through APIs that enable further customization by their customers on the front end.

This is echoed by users who identify the openness of solutions as a key factor driving technology purchase decisions. The lack of open solutions may even lead technology users to prioritize end-to-end platforms that cover more content supply chain areas of interest - to minimize the cost of integrations, which are always described as "very high" by technology users.

