



# Journey to the centre

Restructuring international media  
businesses for growth



**OC&C**  
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uncommon sense





Some international media businesses are shifting senior management and front-office roles away from London and back to their central HQs in order to strengthen strategic alignment – and Brexit is accelerating this trend.

For some time now, London has been a magnet for media business. Alongside finance, the creative industries have contributed greatly to London's image as a global economic powerhouse. However, in a marketplace where competition is fierce, new entrants pose a disruptive threat and margins are getting thinner, international media businesses face unprecedented challenges. While some are responding with salami-slicing cuts year-on-year, the industry's leaders are now on the front foot. They're seizing opportunities to restructure their businesses for growth by engaging in radical change.

In this article we consider the form that this restructuring is taking, what's behind recent moves, and key questions managers should ask when tackling the challenge of international re-organisation. First of all, what do we see international media companies doing differently today?

If you would like to discuss these issues, explore the challenges and opportunities for your business, or learn more about our work, we would be delighted to hear from you. Please contact the authors:

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FIGURE 1: UK REVENUES OF INTERNATIONAL MEDIA COMPANIES BY SECTOR, 2014-16 (£M)

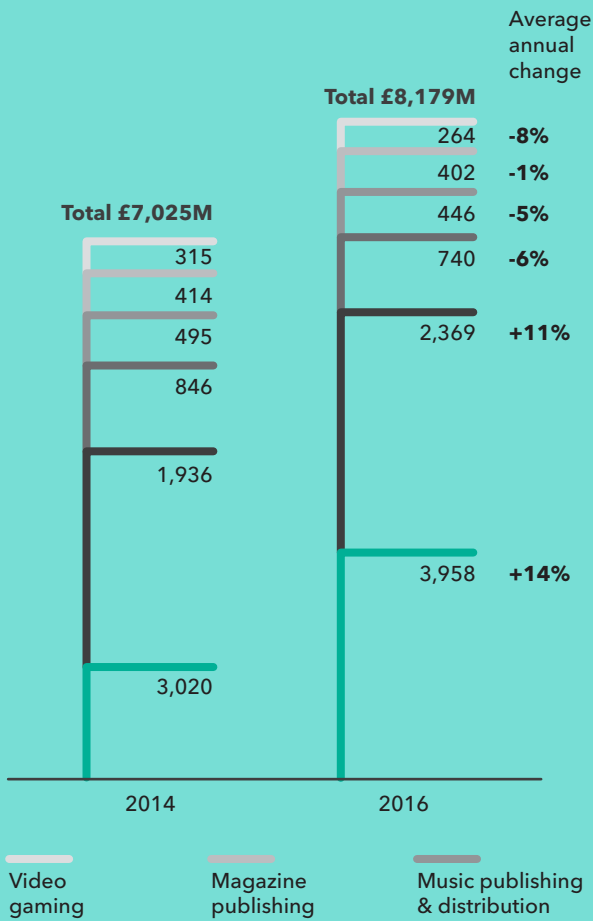


FIGURE 2: UK EMPLOYEES OF INTERNATIONAL MEDIA COMPANIES BY INDUSTRY, 2014-16 (000s)



### INTERNATIONAL RESTRUCTURING

International media companies based in the UK are reducing their headcount. Our research shows that the 20 largest international consumer-facing media companies with a presence in the UK (representing c. £8bn in revenues) reduced the size of their workforce by around 7% between 2014 and 2016 - the equivalent of more than 750 jobs - in a period in which revenues grew at a rate of 8% pa. And, from interviews that we conducted last year with almost 30 leading media executives, it's clear that this trend is continuing.

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### OPERATIONS MOVE TO THE CENTRE...

This reduction in headcount reflects a clear trend. As media businesses seek to take a strategic view of the right operating model to adopt in the future, more middle-office roles are joining those in back-office departments, which are already located at the centre. For example, Discovery recently announced that it is to close its European playout hub in London and replace this with a US-based transmission system, affecting up to 100 jobs. We see a similar trend at work in Condé Nast International – see the Case Study opposite.

### ... ALONG WITH DECISION MAKERS

But something else important is going on too. Some businesses are hollowing out the middle layer of their management structures. International HQ and regional management posts – which have historically been London-based – are being pulled back to global headquarters or eliminated altogether. Often UK country management remains in place, but various other layers of management are disappearing, thus reducing overhead costs. This is a pattern we have observed at NBCUniversal – with Kevin MacLellan, Chairman, Global Distribution & International, relocating from London to Los Angeles to run both US & international distribution and new media, and at Discovery, with six major roles at the “international” level eliminated in London. Confidential conversations also suggest that other media companies are planning to make similar moves in the near future.

### WHAT DOES THIS MEAN FOR CONSUMERS?

With some players even centralising the creation of some content – such as the Condé Nast example opposite – you would be forgiven for thinking this trend will drive greater homogeneity in media for consumers around the world. To an extent this is true, but only in those elements of media that global consumers find universally appealing. Consumers continue to have strong local preferences – and media companies have to give them what they want if they are to compete. Witness the investment of Netflix into local market shows such as *Dark* in Germany, *Sacred Games* in India and *3%* in Brazil – which both help them grow subscribers in these newer markets and also appeal to international viewers. The optimal mix of central and local content varies by genre, from children’s TV (often internationally appealing) through to current affairs and fashion with their much more local viewpoints. This is reflected in the bulk of Condé Nast’s content production remaining at the local country level.





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## **CASE STUDY** **CONDÉ NAST INTERNATIONAL**

Luxury magazine publisher Condé Nast International (CNI) is another key example – they have developed a central global digital editorial hub.

This is one example of centralisation which is actually benefiting London: they are centralising their brands' digital editorial efforts across 21 markets with an editorial hub in London, starting with Vogue. This editorial hub creates content that can be used globally – particularly visual coverage of the 430 runway shows Vogue covers each year – with local content on top of this produced by each local edition. Wolfgang Blau, President of CNI, explained the rationale to Digiday: it is more about investment rather than cost-cutting: "Now is the time to invest more into Vogue. That's the beauty of the internet; there's always a latecomer advantage". The business is also moving all Vogue online editions to a single content management system (CMS) and plans to run more global advertising campaigns in future.

# So what's driving these changes?

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## FIRST, STRATEGIC ALIGNMENT

This shift is about more than just cost savings. The rationale is fundamentally strategic: By moving to the global head office, decision makers and other key staff are coming closer to the centre and thus they are better able to manage in line with the business's overall strategy and its most pressing priorities.

There is a case for cost savings, but most of those we interviewed did not emphasise cost savings as the primary motivation for centralisation.

## THE CASE FOR COST SAVINGS

Centralisation can clearly lead to various kinds of savings:

- Economies of scale through increasing output
- Savings achieved by eliminating duplicate roles in different countries
- Savings on purchasing (more clout through agglomeration of buying power)

## THE STRATEGIC ADVANTAGES OF THIS CENTRALISATION

- Decisions can be better aligned with overall strategy and priorities
- Market data can be collated and analysed centrally, leading to smarter management decisions
- Closer collaboration on meeting international challenges leads to more informed decision-making
- Accountability for international outcomes becomes clearer and it's easier to offer appropriate incentives
- Effectiveness is improved through learning from best practices throughout the organisation

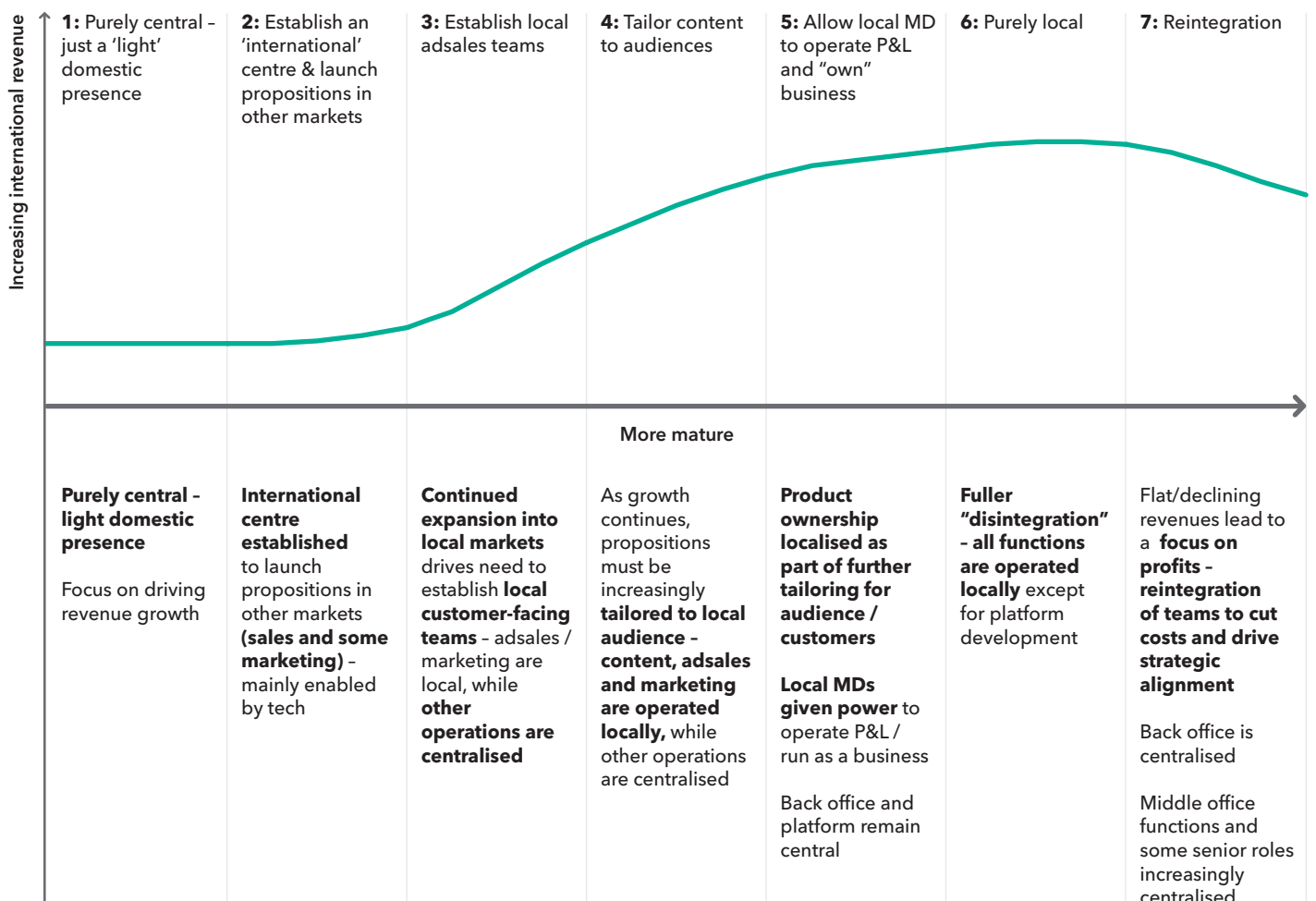
The playout hub centralisation at Discovery was done primarily for strategic reasons: to build a global digital platform and ensure operational alignment. "This is part of our vision to move to a more agile operational technology model," a spokeswoman for Discovery said. "This has nothing to do with Brexit and everything to do with technology innovation being core to our company and brand."

These moves were partly made possible by previous back and middle-office centralisation, which brought key market data more rapidly into focus. Information that once would have taken weeks to flow in from markets around the world is now available centrally in real time, enabling strategic decisions to be taken quickly and effectively.

The objective was only partially cost reduction, but also the ability to accelerate growth through shared knowledge and the creation of centres of excellence

FIGURE 3: WHERE INTERNATIONAL MEDIA COMPANIES DECIDE TO LOCATE OPERATIONS IS LARGELY A QUESTION OF MATURITY: THE MOST MATURE PLAYERS ARE CENTRALISING THEIR OPERATIONS

Stages of internationalisation







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## INTERNATIONAL COLLABORATION

Managing from the centre also boosts collaboration in an environment where media businesses in different markets face similar challenges and opportunities. When digital platforms are cross-border, for example, and when advertisers increasingly want global campaigns, it makes sense for both decision makers and middle-office staff to move to the centre.

## M&A EFFECTS

A further factor is increased M&A activity. As companies consolidate, they are able to eliminate duplicate roles. For example, following the recent acquisition of Scripps by Discovery, more than half of the 120 Scripps jobs in London are said to be at risk.

## WHAT ABOUT BREXIT?

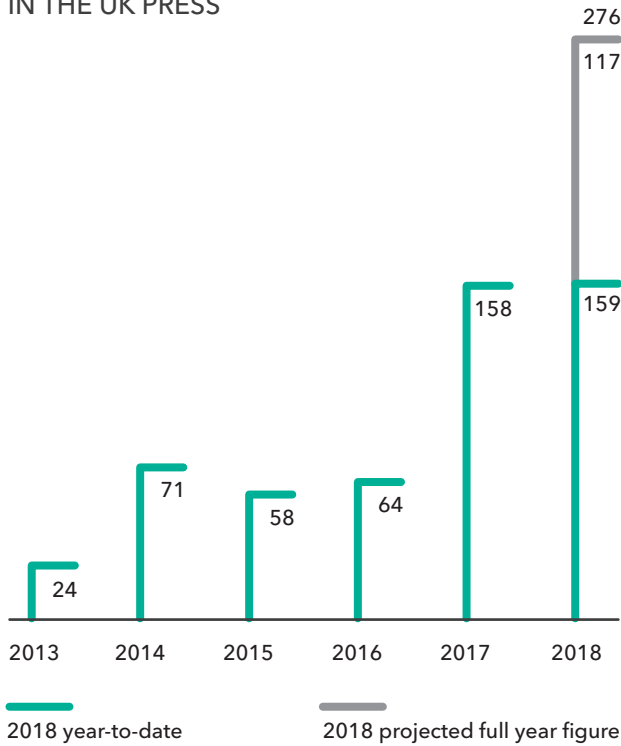
The overarching rationale is clearly strategic but, in addition, Brexit is accelerating the shift away from London. This is reflected in the proliferation of articles in the UK press about media companies restructuring – from c.70 in 2014, to c.160 in 2017 and c.160 already in 2018.

Brexit is of particular concern to the many international TV channel operators that run their European channels out of London using EU licences issued by Ofcom. Uncertainty as to the future validity of these licenses is prompting a rethink of the wisdom of staying in London. The UK Government's July 2018 White Paper The Future Relationship Between The UK & the EU stated that this "country of origin" principle "will no longer apply". It is currently unknown what arrangement will replace it.





### NUMBER OF ANNUAL MENTIONS OF "MEDIA COMPANY RESTRUCTURING" IN THE UK PRESS



In February the Commercial Broadcasters Association (COBA) predicted that losing access to EU markets through Brexit could cost the UK's television market £1bn per year in investment from international broadcasters. Although no major players have yet completely moved away from London, Discovery reportedly has alternative options lined up in Amsterdam and Warsaw, while Bloomberg recently opened an Amsterdam office in addition to their London HQ, partially to provide insurance against anticipated regulatory change after Brexit. London headquartered DAZN - the sports streaming service - has also recently announced plans to create 300 jobs in Amsterdam by 2022 in a new development centre.

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# A roadmap for restructuring

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To centralise or not to centralise...  
If the benefits of centralisation are clear,  
the best way to secure them is less so.  
There is no one-size-fits-all strategy for  
international media businesses of  
different shapes and sizes and with  
different degrees of international  
maturity.

But we recommend starting with a review of strategy. Business leaders now need to think about where they want their organisation to be in three years' time - and how they will get there. In what ways might their core strategy need to change?

In this context, the best approach is to weigh up the benefits that centralisation is expected to bring - to what extent, for example, will moving specific roles deliver strategic alignment, improved data visibility, increased collaboration or clearer accountability? And what cost savings will accrue, even if, as we have shown, this is a secondary benefit? The actions of peers may well be instructive - departments that have commonly been centralised by other media businesses are likely to be easier for you to move.



"Head of" indicates presence of a senior figure at the centre

"Solid line" reporting reflects ability to hire & fire; "dotted line" is reporting without this power

## IS IT POSSIBLE TO IDENTIFY A CLEAR PATTERN IN THE LOCATION OF FUNCTIONS?

'Natural' location of functions

		Purely local	Central strategy / control, local execution		Purely central
			'Dotted line' reporting into the centre	'Solid line' reporting into the centre	
Front office	Content creation	Most common location	Rarely / never located here	Rarely / never located here	Secondary location
	Adsales		Secondary location	Secondary location	Rarely / never located here
Middle office	Content support		Rarely / never located here	Rarely / never located here	Secondary location
	Adsales support		Rarely / never located here	Secondary location	Rarely / never located here
	Marketing		Rarely / never located here	Rarely / never located here	Secondary location
	Production & distribution		Rarely / never located here	Rarely / never located here	Secondary location
	Adsales ops		Secondary location	Most common location	Rarely / never located here
Digital tech	Rarely / never located here	Rarely / never located here	Rarely / never located here	Most common location	
Back office	HR	Secondary location	Most common location	Secondary location	Rarely / never located here
	Finance	Rarely / never located here	Most common location	Secondary location	Secondary location
	I.T.	Rarely / never located here	Most common location	Most common location	
	Syndication / rights	Secondary location	Most common location	Rarely / never located here	
	Regulatory / legal	Secondary location	Rarely / never located here	Most common location	
Management function	Most common location	Rarely / never located here	Rarely / never located here	Secondary location	

■ Most common location    
 ■ Secondary location    
 ■ Rarely / never located here

Here are some key questions you should ask yourself:

### SHOULD YOUR BUSINESS CENTRALISE?

- 1) Have (many of) your peers centralised a particular function? How difficult was it?
- 2) Were there clear benefits, beyond cost savings? Think of improved quality through implementing best practices company-wide, more insights based on data, greater consistency, strategic alignment of operations, more collaboration, better decision-making, and clearer accountability and incentive structures.

### HOW MUCH SHOULD YOU CENTRALISE?

- 1) Is some local operational execution still required? Are there particular activities that need to take place at the local level, for example if face-to-face contact is important, or there is valuable physical infrastructure in place?
- 2) Is there a need to retain some elements of decision-making at the local level? This might be because of a need to remain close to customers to accommodate their cultural preferences or other needs.

- 3) Is local strategy or control required? In most cases, the answer to these questions will determine whether a function or role should be purely local, entirely central, or somewhere in between (e.g. local execution with central decision-making). Only after carefully examining the strategic logic of centralisation, ask yourself whether (as an added bonus) financial savings can be made.

The bottom line, however, is that in the current climate more of the same is not sustainable. All media businesses need to think imaginatively about how they could restructure for growth; one thing is clear: salami slicing alone isn't going to cut it.

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