

Structural Trends

Insourcing - Updated July 2020

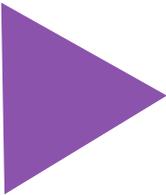


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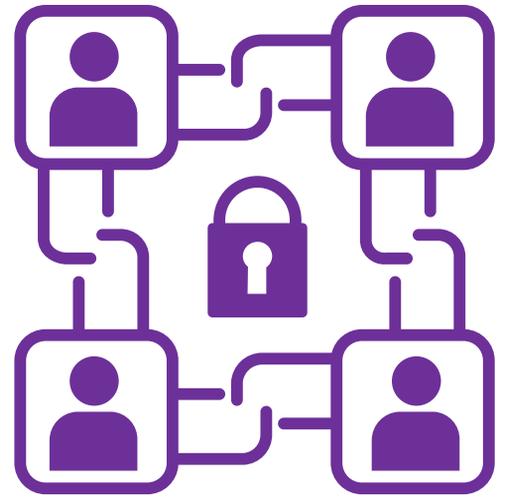
Introduction



**Drivers of
Change**

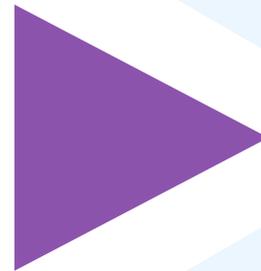


**Business
Implications**

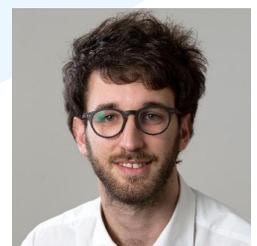


Introduction

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 change in the industry as well as emerging best practices at media companies. This should provide member companies more tools to better address the challenges lying ahead, from new product development to marketing strategy. These reports contain actionable insights for both suppliers and media companies.



Contact us at:
insight@theiabm.org



Lorenzo Zanni, Head of Insight & Analysis

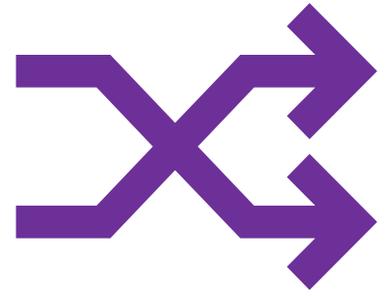


Riikka Koponen, Principal Analyst



Olga Nevinchana, Senior Analyst

Drivers of Change

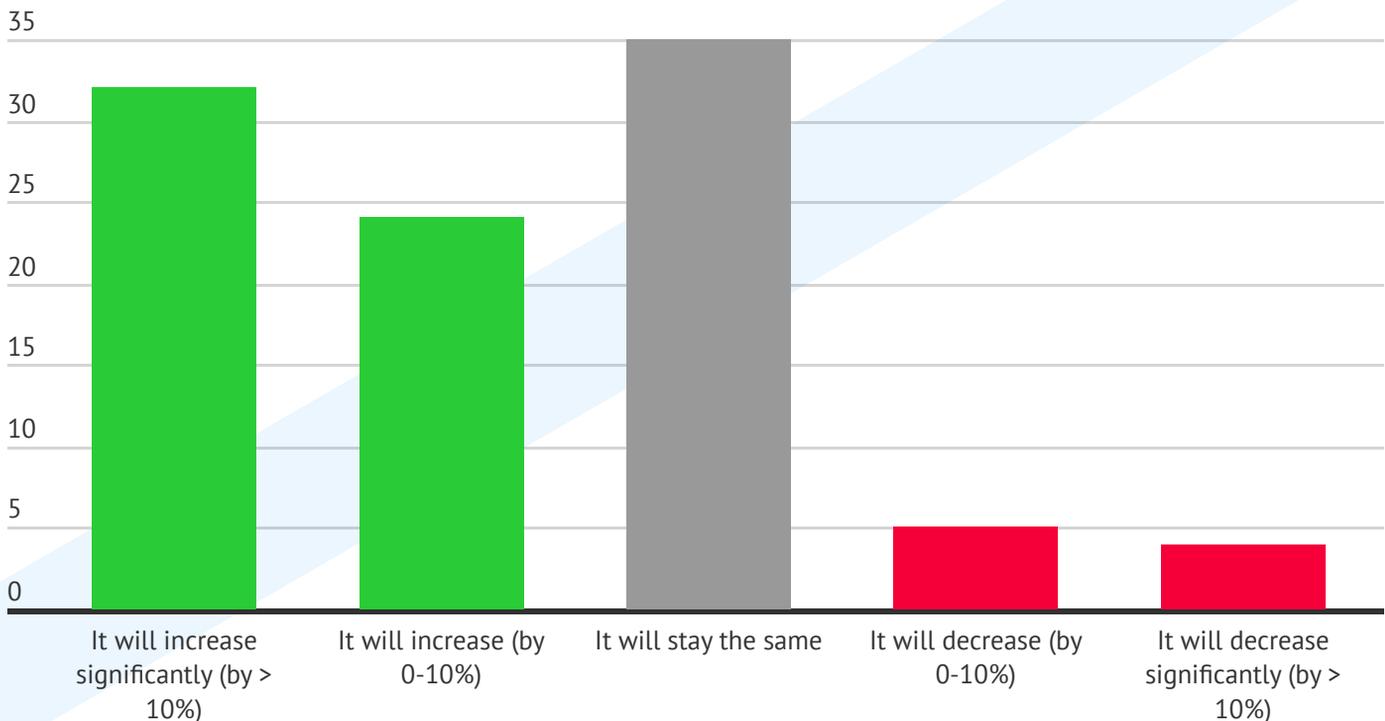


Demand for Insourcing

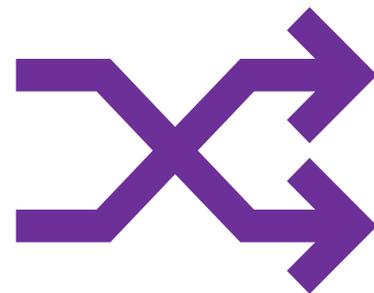
The ultimate origin of the demand for insourcing - i.e. increasing internal technology development spending - is the move to direct-to-consumer platforms. This move created a significant disconnect between demand and supply of media technology with technology users wanting to increasingly control the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

The unpredictability of the broadcast and media market caused by direct-to-consumer drove this need for control as well as scale in technology platforms. According to IABM research, investment in internal technology capabilities by users of media technology has increased significantly in recent years.

Insourcing Investment Outlook



Drivers of Change

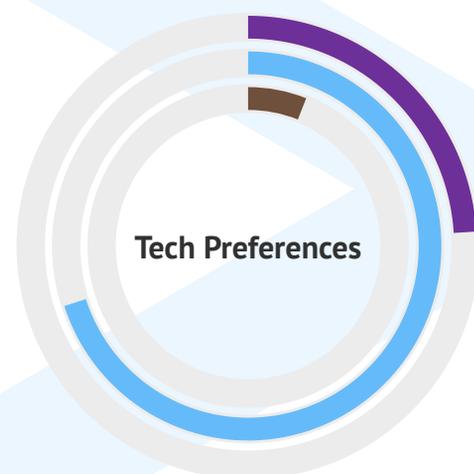


It is not just about control though, but also scale, speed, and customization.

The need for scale is required by the 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.

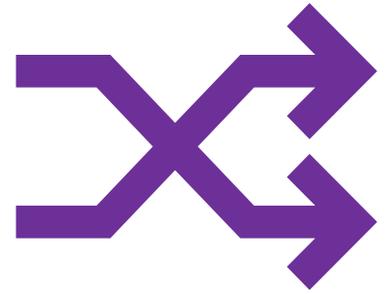
Need for speed was also evidenced as an important driver with some buyers highlighting that vendors are “not going fast enough” in their transition to flexible payment models that enable them to spin resources up and down. This is well illustrated by a comment we received in one of our recent Buying Trends surveys:

The 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.



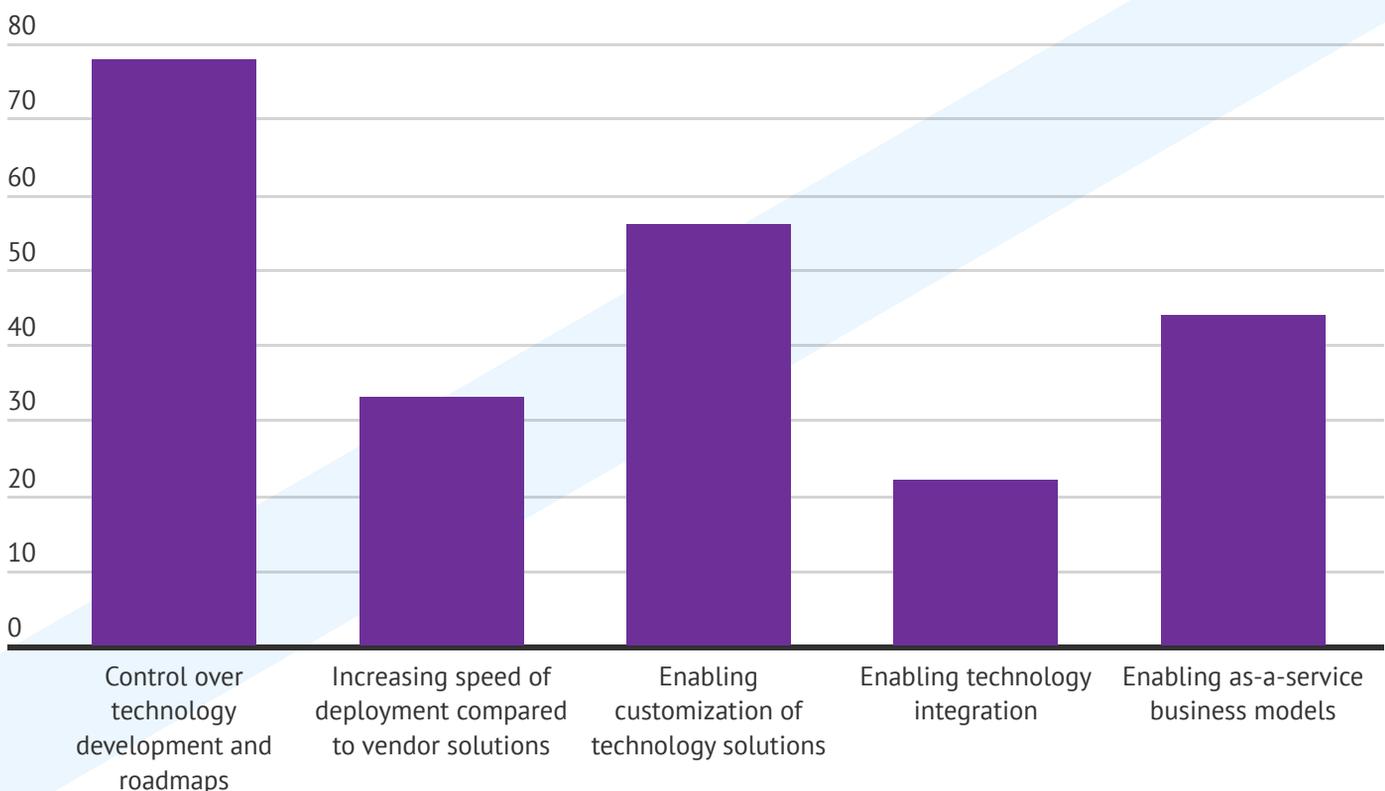
-  Prefer end-to-end system
-  Prefer "best-of-breed" solution
-  Don't know

Drivers of Change

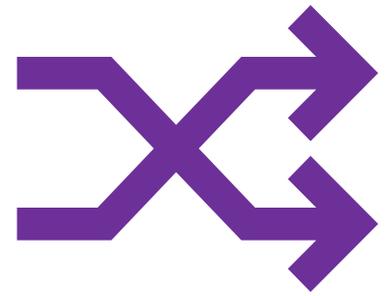


Another reason for insourcing is the increasing focus on the business outcomes of technology solutions. Most users and suppliers agree that the focus has moved to long-term partnerships built on continuous engagement and flexible financial arrangements. In these partnerships, all parties need to make 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 towards 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.

Main Reasons for Insourcing



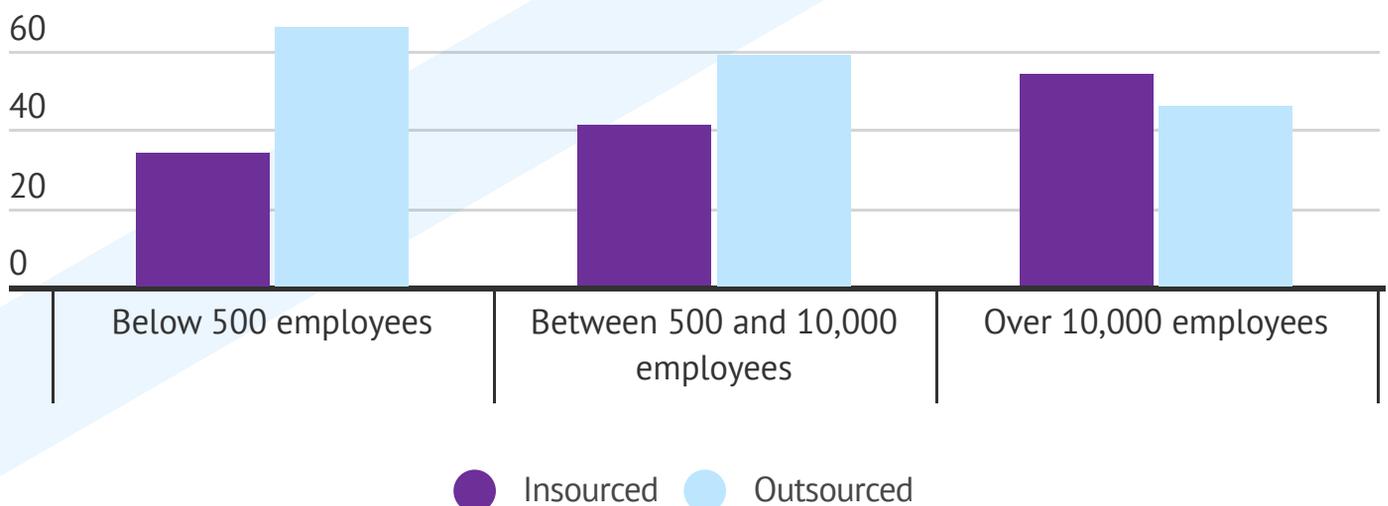
Drivers of Change



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. 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 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 modern technology teams. From an organization perspective, broadcasters were indicated as the category of buyers most likely to build internal technology capabilities.

Company Size & Insourcing Investment



Business Implications



Insourcing Costs

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 what 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 and told us that they would rather buy vendor solutions if they were not forced to build technology in-house due to the BIY drivers mentioned earlier. Smaller buyers also highlighted the need to hire external software development resources without the necessary industry-specific skills when in need of additional technology capabilities.

Average Base Pay in the US



- Broadcast Engineer
- Software Engineer
- Data Scientist

Source: Glassdoor

Business Implications

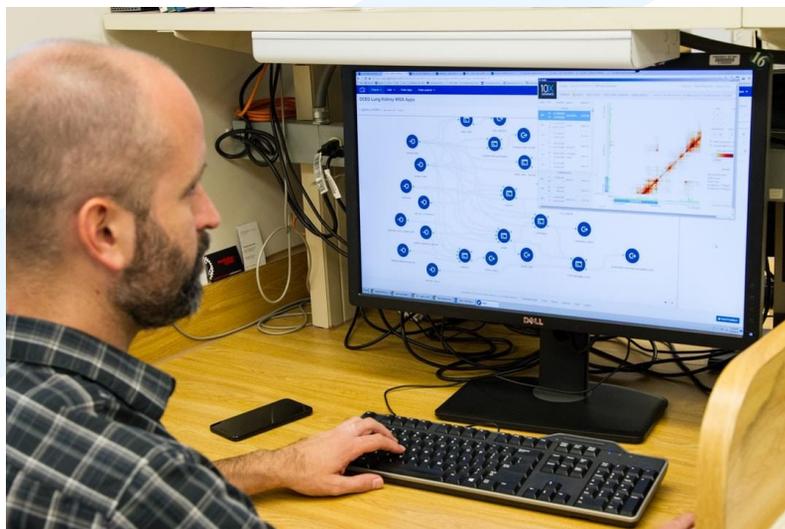


Insourcing Focusing on Manage

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

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.



Business Implications



Insourcing Focusing on Frontends

In-house investment has focused on the frontend of a media technology solution with a vendor platform powering it on the backend.

Building the frontend 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 to make 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.

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.

Business Implications



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.

Discovery's move to a cloud-based media supply chain

In 2015, Discovery started its major move to the cloud which included a transition to cloud playout and a renovation of its media supply chain. Discovery relied on SDVI's Rally platform for the backend of its media supply chain solution but built the UI in-house. Discovery built the UI on top of its existing Producer's Portal to simplify file delivery for its suppliers. This brought several technical benefits to the media organization.



Our internal development teams wanted to add the new media file delivery capabilities to this existing platform, creating a unified delivery experience for our suppliers

Josh Derby, Vice President, Technology Development & Strategy, Discovery



Source: IABM, IBC 365

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. Others point out that it is a more structural shift in the relationships between suppliers and buyers. We do have reasons to agree with the latter argument and 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, which provides opportunities for the latter.

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

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 frontend. 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.

Business Implications

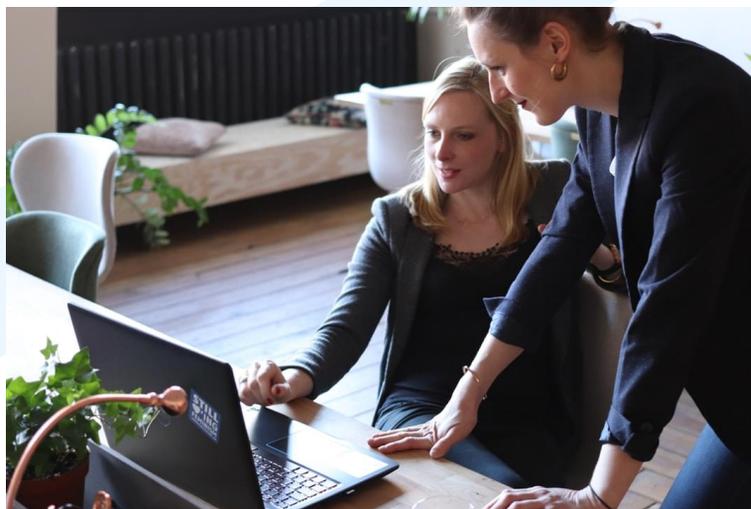


Another reason behind insourcing is the move to flexible payment models. Most users highlight this as a strategic objective for their organizations. Suppliers that understand this, by providing consumption-based options or owning some of the risk inherent to the launch of new platforms - particularly in project-based work, may find themselves to be more likely to win customers in the future.

In terms of speed of deployment, the new demands require customers to launch new platforms in weeks and not months, which in turn forces vendors to live up to these expectations, always being transparent on what they can achieve in specific timelines. This is, of course, being accelerated by the COVID-19 pandemic.

Also, the demand for business consultation by customers is increasing, even in insourcing projects, which may provide vendors the opportunity to offer these services. This is consistent with users being more focused on the business outcomes of technology solutions.

Generally, suppliers should be very flexible when evaluating customer requirements and collaborative in their approach, should their customers want to develop things they cannot offer.



Business Implications



The COVID-19 crisis may prove to be a significant driver of insourcing initiatives. COVID-19 is polarizing the industry and causing some financial distress, particularly on the supply side of the industry. It is important to note that financial distress may lead large technology users to acquire suppliers, particularly if financially distressed suppliers supply them critical products and services. This has already happened in the past and may be accelerated by the disruption of COVID-19.

Also, insourcing is linked with the deployment of new technologies at media organizations. New technologies such as AI/ML, for example, lend themselves perfectly to internal development - on cloud-based platforms. Media companies increasingly relying on data are embracing this by building internal data analytics capabilities and using cloud service providers' AI/ML services to achieve their business goals.

