PARAMOUNT GLOBAL

A Strategic Analysis of the Company formerly known as ViacomCBS;
or, How to Future-Proof an Entertainment Company

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EXECUTIVE SUMMARY

The company formerly known as ViacomCBS has seen rapid growth in the last year. Paramount Global relaunched its streaming service as Paramount+ and saw a massive uptick in viewership, partly due to the COVID-19 pandemic. This has placed it firmly in the top echelon of the Streaming Video-On-Demand (SVOD) market. However, this high placement is not guaranteed.

The entertainment landscape is changing and for now Paramount is keeping its own. However, low ratings on major shows and the influx of more SVOD services into the market might shake up the current regime. Financially, Paramount has seen amazing fiscal records. With high revenue and plenty of cash reserves, the company seems to be financially healthy. However, some of these finances appear to be one-time occurrences due to dispositions. It is yet to be seen how the company will fair without these cash windfalls.

Taking into account the current environment, this paper makes three strategic recommendations for the business. The first suggestion entails restructuring its media divisions and corporate hierarchy. The second involves content creation and two potential triggers of success. Lastly, the author discusses diversifying Paramount by expanding into physical experiences.

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PARAMOUNT: THEN AND NOW

Before diving into the analysis of the company, it's essential that one understands the origins of the company and its current standing. Though this paper will not deeply discuss National Amusements, it is worth noting beforehand the relationship between National Amusements and Paramount Global. National Amusements is a private holding company that owns approximately 80% voting shares of the public company Paramount Global.

The Before Times

Paramount Global, formerly ViacomCBS, is a multinational entertainment conglomerate headquartered in New York, USA. The company is the current incarnation of a merger between Viacom, CBS, and Paramount Pictures. These three companies have long been associated with each other through mergers, splits, buyouts, and spin-offs.

Paramount Pictures and CBS were founded in the early 20th century during the so-called Golden Age of Hollywood. In 1970, one of CBS's divisions was renamed to Viacom and later spun off into a separate entity. In 1986, National Amusements, a media holding company and theatre operator, bought a majority stake in Viacom. Viacom would subsequently buy CBS and Paramount until splitting off once again in 2005. National Amusements pressured the companies to remerge, finally doing so in 2019 and becoming ViacomCBS. Finally, in February of 2022, the company announced a name change and restructure that led to Paramount Global.

Version 6.1

Currently, the corporation is split into six divisions, with various other holdings and assets intermingled: CBS, Paramount Pictures, Media Networks, Streaming, Global Distribution, and Consumer Products. Half of the business is focused primarily on content production. CBS, Pictures, and Media Networks tell stories that entertain all walks of life. These three divisions are the content creation arm of Paramount, with various brands such as Nickelodeon, MTV, and BET.

Paramount Streaming is one of the newer divisions to the company, focusing on delivering entertainment directly to consumers. Though they have their flagship product Paramount+, the company has multiple streaming services such as Showtime, Pluto TV, and BET+. On the more traditional end, Global Distribution works to distribute film and television across the different countries in which Paramount operates. Local CBS news, however, falls under the CBS Entertainment Group. Lastly, Consumer Products is in charge of licensing and merchandising of intellectual property (IP) owned by Paramount such as TMNT, Star Trek, and Dora the Explorer.

Beliefs and Structure

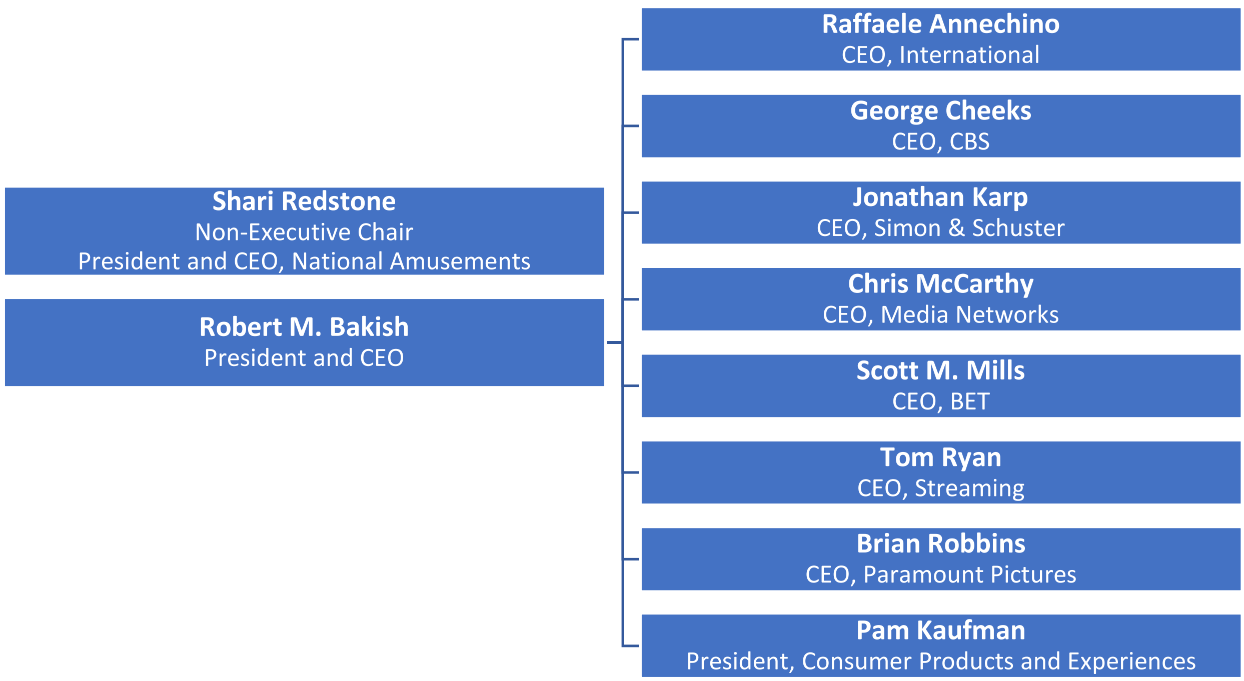
The mission and vision of Paramount is not readily accessible. However, following is the mission and vision stated by ViacomCBS before the name change. It is assumed by the author that the mission, vision, and values of Paramount Global reflect the ones set forth by its predecessor ViacomCBS.

> *Viacom's goal is to be the world's leading, branded entertainment company across television, motion pictures and digital media platforms. We focus on our consumers, enhancing our existing brands, developing new brands and executing on our multiplatform strategy to reach this objective and sustain growth. By capitalizing on our creative strengths*

and deepening our relationships with audiences, advertisers, distribution affiliates, talent and licensees, Viacom is positioned to achieve continued or greater global success.

Our vision is that, collectively, our initiatives add up to the whole package: a culture of inclusion and belonging that is embedded in our company and values.

As discussed in a subsequent section, the management structure of Paramount is complex and not immediately obvious. However, in an effort to understand the company, this paper distils the multitude of senior management into what the author believes are key people. This includes Shari Redstone, Chairperson of Paramount and President of National Amusements; Robert M. Bakish, President and CEO of Paramount Global; Pam Kaufman, President of Consumer Products and Experiences; and seven men who have the title of CEO within the company.



ANALYSING THE LANDSCAPE

Paramount, of course, is not an insulated island from the global market. There are factors both internal and external that will impact the company's performance. This section will look at some of these factors and analyse the potential effects on the organisation. Additionally, analyses of two major competitors – the Walt Disney Company and Warner Bros Discovery – will grant the reader a better understanding of the entertainment landscape.

PESTLE Analysis – Paramount

Political

With political tensions increasing both domestically and internationally, Paramount finds itself in a tough position as a content creator. To look at one example market, China is notorious for its regulations in what content is allowed within its borders. If Paramount wants to have deep market penetration, they will have to either create content exclusively for China or create content that is "safe for China" and is also accessible to its international audience. With the former, this will increase the cost of content production. For all intents and purposes, this will lead to duplication of current production solely for a single country. With the latter, this can lead to audiences considering some content “watered down” for fear of repercussion. Audiences might respond negatively if content is considered pandering to one particular group or country.

Economic

Current SVOD competition leads to the unsavoury question: is this a bubble? From an outside perspective, it’s hard to judge whether the move to an SVOD model by Paramount and many competitors is part of a technological shift or the upward swing of a bubble. Looking at the data, it’s true that more and more consumers are cutting cable, satellite, and other forms of Pay TV. And this correlates with a rise in consumption and subscription to various SVOD services. However, if many households are cutting the cord and switching to SVOD for price and interest, when does it become too much? When do SVOD services become the very industry that they usurped? Will there be a future where households cut SVOD services for the same reason they cut the cord (too expensive and not enough content that interests them)? If so, will Paramount come out the other side a winner or just another outdated media company?

Social

As social attitudes change, media companies must follow suit. As audiences clamour for diversity in casting, for example, media should oblige or face extinction. Paramount finds itself in a strong position to increase its goodwill by increasing its diversity in various media. Especially with its ownership of BET, Paramount has the option to leverage diverse stories in the media. Still, social attitudes affect more than who should appear onscreen.

There is a growing movement that looks critically at large conglomerates such as Paramount or its rivals The Walt Disney Company, NBCUniversal (owned by Comcast), and Warner Bros. Discovery (formerly owned by AT&T). This is further exacerbated by Paramount being controlled by a single entity, majority stakeholder National Amusement. Paramount, along with these other companies, might find itself in the crosshairs of social attitudes against big business. This could, in turn, lead to political action that might lead to regulatory changes domestically and internationally.

A lesser social issue is one that relates to the world of Mixed Martial Arts. As the owner of MMA promoter Bellator, Paramount should keep its eyes open for changing attitudes towards MMA. Though the market for MMA entertainment is growing, so is the rift of opinions for and against it.

Technological

The single largest factor affecting Paramount Global is the rise of streaming video-on-demand (SVOD) services. Pre-pandemic, the outlook for a streaming service from the company was slim at best. CBS All-Access was a third-tier platform and BET+ was considered a niche service. In 2019, ViacomCBS decided to reinvent themselves and purchased Pluto TV in their first move towards the future of streaming. A few years later, the new company – Paramount – is no longer a small player in streaming. In fact, Paramount+ alone ended Q4 of 2021 with 56 million subscribers. Paramount is poised to be a major contender in the streaming wars.

Legal

The number one legal concern that Paramount faces is its use and distribution of Intellectual Property (IP) by various entities. One example is the use of the Nickelodeon brand and IP in physical experiences not directly controlled by Paramount – such as SpongeBob SquarePants in Universal Studios Parks and Resorts. Though this is not unusual, Paramount might want to consider retaining stronger control of its original IP, as well as any IP it may acquire.

Environmental

As a media company, Paramount currently has no major environmental concerns. As it sells Simon & Schuster, then it will no longer be dealing with physical goods at a large scale. If, however, Paramount were to move into physical experiences, that will open up a can of worms of environmental concerns.

SWOT Analysis – Paramount

Strengths

Paramount has portfolios of popular brands that can reach across demographics. Two examples are its Star Trek portfolio and its Nickelodeon portfolio. The latter itself covers brands and stories aimed at different age groups such as Paw Patrol for young children, Avatar for teens and young adults, and Mission Impossible for young and middle-aged adults.

Weaknesses

Though Paramount has strong brands, it currently has weak reuse of portfolios. To pick one example, the Avatar brand (Last Airbender and Legend of Korra) has seen no development in eight years despite a strong fan base and following. Similarly, Paramount has diminished in market share, currently being the smallest of the Big Five Hollywood production with approximately 6% market share.

Another weakness comes from its corporate structure. Paramount has a confusing and inefficient corporate structure. As listed on its investor relations website, Paramount has 26 senior managers, eight of which hold the title CEO and four others who hold the title President. This sort of wide configuration can make an organisation difficult to navigate. As a reference, the Walt Disney Company, which arguably has a more diverse business, lists 17 senior managers. Warner Bros. Discovery, on the other hand, lists 10 senior managers. Comcast lists 36 senior managers, but it must be noted that Comcast operates more lines of business than Paramount.

Opportunities

The meteoric rise of Paramount+, especially following the success of Star Trek: Picard, has allowed Paramount to join the ranks of other mid-tier streaming services such as Hulu and HBOMax. With continuing support and fresh content, Paramount could easily become a top-tier player in the SVOD market alongside Disney+ and Netflix.

Threats

As more companies develop new SVOD platforms, there is a likely scenario in which consumers fragment the market so that only a handful of large platforms dominate while others compete for niche groups. If Paramount+ does not continue to push for content that consumers ask for, then it will find itself in that second category.

Another threat Paramount might soon face is the end of the COVID-19 pandemic. As people leave their homes and return to outside activities, there exists the chance that consumers will stop paying for SVOD services. As a possible indicator of this, in early 2022 Netflix announced its first ever drop in subscribers.

SWOT Analysis – The Walt Disney Company

Strengths

Disney has a wide range of brand portfolios that reach multiple audiences. With brands such as Marvel, Lucasfilm, Pixar, and Disney Animation, the company has a highly diverse portfolio of content that appeals to most audience demographics. Currently, they have the largest market share of media content at 25% and the second largest subscriber base in the SVOD market behind Netflix (not including Amazon Prime). The company is also well-diversified having a division of physical experiences that includes theme parks, cruises, and free-standing retail stores.

Weaknesses

This wide diversification can make the Walt Disney Company hard to steer and has made it a magnet for criticism. As one of the best examples of large media conglomerates, Disney is constantly under fire for its business practices. Similarly, the "Disney brand" has always associated itself as "family-friendly" which can severely limit the content they can work with. This in turn has effects on people's perception and expectations of the company. For example, the Walt Disney Company has always been considered an ally to the LGBT+ which draws ire from homophobic groups. Yet, the company also attempts to "walk the line" and appeal to these latter groups so as to not alienate consumers.

Opportunities

With the purchase of 20th Century Fox and majority stake in Hulu, Disney has perhaps finally found a medium with which to develop more adult-oriented content that wouldn't fit with the "Disney brand" (similar to their creation of Buena Vista Productions in the 90s). In physical experiences, Disney has the opportunity to create smaller experiences that would fill in the market gap of consumers who can't travel to one of their theme park locations.

Threats

As sentiment against large conglomerates increase, the Walt Disney Company might find itself in the crosshairs of new antitrust regulations aimed at breaking up perceived monopolies. As Disney pushes content with its major brands (e.g. Marvel, Star Wars, Disney Princess), the company runs the risk of creating fatigue with consumers. Too much of one thing, even if it's a beloved brand or story, can quickly turn sour.

SWOT Analysis – Warner Bros Discovery

Strengths

The merger of Warner Bros Discovery has brought together a line-up of content that covers an extraordinarily wide range of different content. With brands like Cartoon Network, Adult Swim, CNN, HGTV, Food Network, Rooster Teeth, and TBS, this new conglomerate has content that cuts across various segments of consumer demographics. Similarly, HBOMax has proven to be a strong mid-tier SVOD service with classics like Friends and originals like The Flight Attendant.

Weaknesses

One weakness for the company is that Discovery+ has yet to find a strong foothold. Currently, it could see itself become a niche SVOD service for unscripted content. However, the audience it currently has puts it at the bottom of the SVOD market. Similarly, Warner Bros Discovery has many popular brands and portfolios that have not been able to become mass market hits. One example is the multiple failed attempts to create a DC Superhero Universe that would rival the likes of the Marvel Cinematic Universe.

Opportunities

The popularity of HBOMax and the integration of Discovery+ allows for this new company to create a bundle system similar to the one pushed by the Walt Disney Company with Disney+, Hulu, and ESPN+. These two SVOD services could create a strong relationship of scripted and unscripted content that compliment each other and service both overlapping and distinct market segments.

Threats

One of the largest threats for the company is survival in the SVOD marketplace. As previously mentioned, there is a scenario where consumers might find themselves cutting the number of SVOD services they subscribe to. It’s currently not clear if HBOMax or Discovery+ would survive this purge.

MONEY MAKES THE GLOBE GO ‘ROUND

In order to properly assess the health of any major company, one must assess the financial status of the company. To that end, this section investigates the three main financial statements provided by any major public company: the income statement, the balance sheet, and the cash flow statement. As of this writing, the two most recent reports filed were the 10-K for fiscal year 2021 and the 10-Q for the first quarter of fiscal year 2022. Note that the fiscal year 2022 will be the first year of operations under the new name Paramount Global and subsequent restructuring.

Income Statement

At first glance, the top line sales of the company improved for the fiscal year ending in December 2021. Though higher than the previous two years, the change is about ten percentage points. This is not negligeable, though perhaps not significant. This seems to indicate that Paramount is in a mature state of growth. They could continue to grow consistently, though one should not expect large increases in revenue.

However, the net earnings tell us a very different story. Net earnings nearly doubled year over year from 2020 to 2021. Taking into account the dip in 2020 due to the COVID-19 pandemic, net earnings in 2021 still saw over a 25% increase in comparison to 2019. This suggests that Paramount has potentially cut costs and found ways to increase net earnings. On closer inspection, this major increase appears attributable to a higher-than-normal net gain on sales of assets. Considering this, the net earnings might fall back to previous years. This would mean modest but regular increases in net earnings, similar to the company’s increase in revenue. Evidently, Paramount will remain profitable for the foreseeable future.

In terms of costs the company faces, there is a mixed bag. As the merger of ViacomCBS and restructuring into Paramount Global finalises, cost of corporate matters has decreased over the last few years. However, the company has experienced an increase in operating costs. A note in their financial statements points to an increase in content creation investments, especially after a general shutdown of production in 2020 due to the COVID-19 pandemic. As with any investments, one should consider the risk involved. However, with the release of Paramount+ and impressive viewership numbers, the investment in content creation will most likely be profitable.

Focusing on the first quarter of 2022, earnings for the company have decreased compared to the first quarter of 2021. Though revenue is similar, the main reason for this is an increase in cost and expenses. Some of these are operating expenses having to do with content creation and distribution. The other is related to general and administrative costs. For the former, it has been mentioned that Paramount is increasing spending in content, especially as it has restarted productions and revamped its streaming service. As for the latter, the growth of Paramount+ and other SVOD services has led to an increase in labour costs and expansion of the direct-to-consumer segment.

Balance Sheet

For their balance sheet reported at December 2021, Paramount has strengthened its balance sheets from the previous fiscal year. Starting with assets, the company has increased both current and long-term assets. One example of this is the long-term holding of programming and inventory. As Paramount focuses its content investments on direct-to-consumer, the value of their media assets will evidently increase. Another major contributor to the increase in assets in 2021 is an increase in cash, however this will be further discussed in the following section.

Other factors that have strengthened the company's balance sheet include a reduction in property and equipment, as well as long-term liabilities. Following a shut down of production and move to work-from-home due to the COVID-19 pandemic, it is understandable that the company would move to reduce itself of physical assets as much as possible. As for long-term liabilities, reduction indicates a healthy growth that does not compromise financial stability. Lastly, Paramount had increased its retained earnings by nearly 140% which, combined with previous factors, have led to an increase in equity of over 140% in a financial year.

After the first quarter of 2022, financials seem to continue steadily with a few changes. After the first quarter, there was a reduction in cash and current programming. These have led to a small but noticeable loss of assets. Still, a continued reduction of long-term liabilities has kept equity at a similar yet slightly higher value.

Cash Flow Statement

Starting at the bottom line, the company has doubled its cash to over $6.2 billion USD. This one figure alone shows that the company is cash positive and has steadily increased its cash reserves over the last few years. Digging into the three types of cash activities, however, the story becomes a bit muddied. Starting with operating activities, positive cash flow in 2021 was cut by more than half from fiscal year 2020 despite higher earnings. The biggest contributor is a massive loss in sales.

Curiously, this reported loss ties in with a massive gain from investing activities. The company, in its investing activities, reports $3 billion in proceeds from dispositions – mainly physical building locations.

The reported loss in operating activities of $2.3 billion is noted as being from those sales. It has been previously noted that Paramount wishes to divest itself of physical assets such as business headquarters.

Lastly, a small negative cash flow in financing activities yields a net of increase in cash flow of $3.15 billion for the year ending December 2021.

Looking at Q1 2022, however, Paramount has decreased its cash reserves. In operating activities, net earnings were lower than the first quarter of 2021 while a change in assets in liabilities caused a loss of cash. This led to cash flow that was less than a quarter of the gains seen in Q1 2021. As for investing and financing activities, negative cash flow was caused by low proceeds from dispositions as well as no issuance of new stock. This caused a decrease in cash flow of $965 million for the quarter.

SUGGESTIONS FOR THE WAY FORWARD

Paramount is in prime position to become a major player in the entertainment landscape moving forward. However, there are a few hurdles it must cross in order to compete with other major players. Outlined here are three strategic recommendations for Paramount Global to improve its business.

Re-Restructure

As previously discussed, the corporate structure of Paramount Global is wide at best, confusing at worst. There is corporate bloat that can be best exemplified by the fact that there are eight people listed as senior managers with the title of Chief Executive Officer. It would not be a leap to imagine that this causes poor communication between segments, as one channel is unaware of the projects being completed by another.

In the age of streaming, companies are moving to consolidate brands, not divide them. While having separate channels within a platform is encouraged, having separate corporate hierarchies for each channel is cluttered. As Paramount is clearly signalling that it is moving primarily to streaming, the corporate structure should reflect that. Content creation should be headed by one single division that oversees investments in content. While each channel will still have its own team, having them all under one umbrella will greatly help prevent any communication issues.

One argument for restructuring the content creation division of Paramount is that this will better allow for absorption of any new media channels.

Fresh Content

Speaking of content, as Paramount is an entertainment company, content is the lifeblood of the organisation. Yet, according to some reviewers, the content on Paramount+ is not living up to expectations. For example, highly anticipated shows such as Star Trek: Discovery, Picard, and Halo currently have audience scores on Rotten Tomatoes of 36%, 41%, and 51% respectively. This indicates dissatisfaction from viewers with the treatment of beloved franchises.

This dissatisfaction extends beyond major franchises such as Star Trek and Halo. With franchises such as Avatar (Last Airbender/Legend of Korra), Teenage Mutant Ninja Turtles, and Twilight Zone seeing little to no investment, fans are left disappointed. Another example comes from cult classic Fifth Element which, though not appropriate for a reboot, has a rich world left unexplored. Similarly, Paramount has allowed major franchises that were under its wings such as Jack Ryan and Cloverfield to be developed by other studios. This points to brand mismanagement, potentially caused by the above-mentioned corporate structure.

Fresh Content Sidebar

Besides investing in brand-new content and fresh perspectives on existing IP, there is another move that might allow Paramount to skyrocket: purchasing another film studio such as Lionsgate.

The author does recognise that this is antithetical to the previously mentioned public distrust of mergers. However, purchasing a studio such as Lionsgate will bring more recognisable and popular brands such as Hunger Games, John Wick, the Twilight Saga, and Now You See Me. Financially speaking, Paramount is in a healthy enough state to make an all-cash offer if it wanted to. Currently, Paramount has cash reserves of approximately $5.3 billion while Lionsgate has total equity of $2.7 billion and a market cap of $2.4 billion. Besides helping Paramount round out its IP with strong stories, it will also allow Paramount to return to the physical world more easily.

The Experiences Portion of Products and Experiences

Once upon a time, the company formerly known as Old Paramount ran a division called Paramount Parks. It owned and operated five theme parks which were then sold to Cedar Fair. Since then, the new Paramount has not had much of a presence in physical experiences other than through partnerships, such as those with Universal Studios and Holiday Inn. Though building out full theme parks might be a tall order, Paramount should look into creating smaller attractions that synergistically promote their IP.

Instead of comparing to theme parks such as those run by Disney or Universal, a better goal might be to look at Lionsgate Entertainment World (LEW) in China. The theme park is, at its essence, a large-scale family entertainment centre. These are usually smaller parks with less attractions that are meant to entertain the entire family for a day at most. These entertainment centres, however, are meant to be local experiences that entice repeat visits instead of a once-in-a-lifetime visit. LEW has taken this concept and scaled it into a massive “vertical theme park” that rivals major operators.

Paramount could leverage their beloved IP and create physical experiences that give guests a memorable experience with their favourite characters. This will not only help diversify Paramount by creating a new revenue stream, but also promote the fresh content being produced by the media division – which is only viewable on Paramount+ of course. This synergy of branding will help create more loyalty and value for consumers.

CONCLUSION

Paramount has seen tremendous growth and healthy profit thanks to the restructure and relaunch of its organisation and streaming service. However, the company is still lagging behind corporations such as the Walt Disney Company, Comcast, Warner Bros. Discovery, and even MGM – which was recently purchased by Amazon. In the past, Paramount (along with Viacom and CBS) has suffered limits to its growth due to mismanagement and short-sightedness. Though the strategy recommendations made herein are the opinions of the author, they represent just a few ways for the company to break through the glass ceiling.