

Is 2023 Annus Horribilis for Tech & Media?

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(Tayfun Coşkun - Anadolu Agency)

Many pointers indicate that 2023 will be a tough year for the tech and media sectors. Since the start of the year, 297 tech companies furloughed nearly 95,000 workers and the big tech players also known as GAFAM (Google, Apple, Facebook, Amazon, and Microsoft) embarked on an austerity drive cutting costs at every corner. This policy outlook attempts to examine the state of affairs in the tech and media sectors, exploring the factors that led to the current performance and assessing whether the current crisis has a silver lining.

Introduction

2022 was bad for the media and tech sectors. Last year has witnessed a significant decrease in the value of media groups and mega tech companies in the stock exchange market. Companies like Spotify, Warner Bros, Netflix, Walt Disney, and others have seen their shares head for historic drops. Similarly, top social media apps such as Facebook and Snapchat have struggled, with the stock price of Facebook plummeting more than 60 per cent and Snap, the maker of Snapchat, falling more than 80 per cent. The decline in the value of media groups in the stock exchange market reflects serious structural issues but also paves the way for innovation breakthroughs in certain areas.

The worst year on record

Merely a year ago, the technology sector was booming. At the end of 2021, companies went on a recruitment spree, and stock values were higher than ever. Fast forward one year, and the situation has been turned upside down. According to [CNBC](#), the tech sector lost \$7.4 trillion in twelve months.

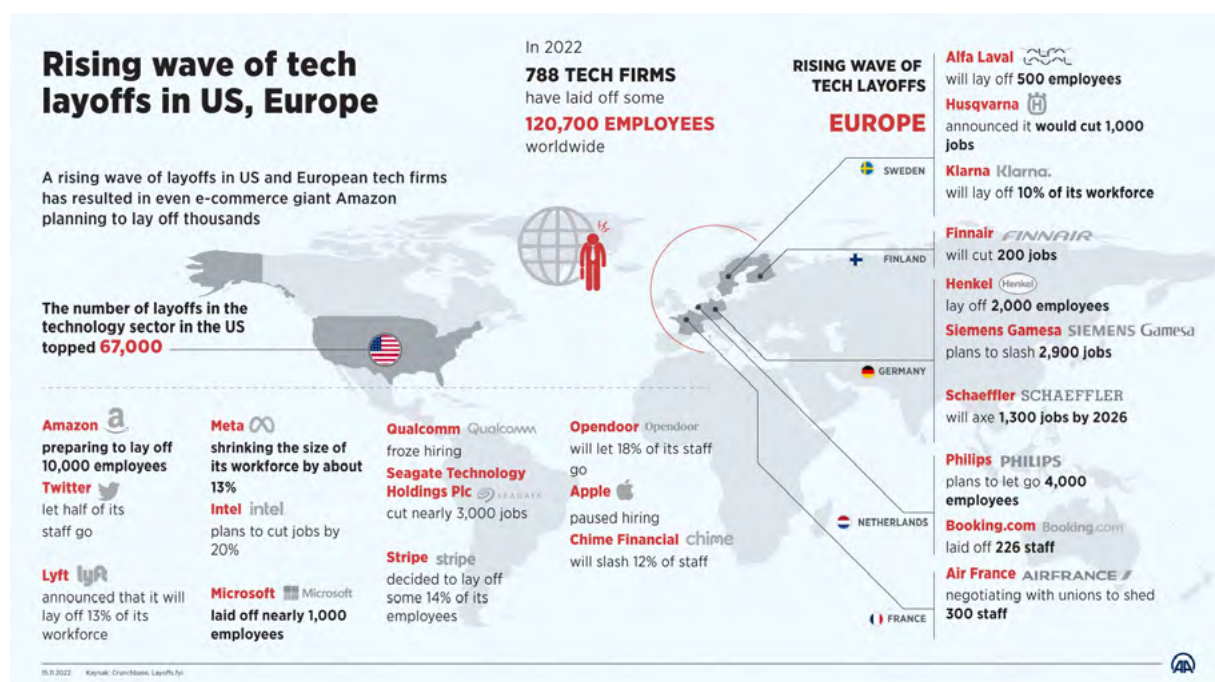
None of the top 15 tech firms produced a positive return in 2022. Worth \$1 trillion only a year ago, Meta has lost more than 70% (three-quarters) of its stock market value or the equivalent of \$700 billion in market capitalisation. Such substantial losses led investors to avoid other high-growth tech companies, such as [Apple](#), [Amazon](#), [Alphabet](#) (Google's parent company), [Microsoft](#), [Netflix](#), [Uber](#) and [Nvidia](#), to varying degrees. This negative spiral led to the decline of the entire S&P 500, which has fallen roughly 17 per cent over 12 months.

A cut-throat environment

There are several reasons behind this decline in the value of tech and media groups. One of the main reasons is the increase in competition. In the media field, the proliferation of streaming platforms and the rise of online content creators meant that traditional media companies faced more competition than ever. This factor has led to a decrease in demand for products and services, resulting in a decline in stock prices. In the past, media companies relied on traditional distribution forms, such as cable and satellite television, and physical media, like DVDs and CDs. However, with the advent of streaming platforms, the market changed drastically.

Since [introducing](#) streaming services in 2007, Netflix has been steadily taking over market shares until becoming one of the largest global entertainment/media companies in terms of subscribers during the pandemic. Because of Covid-19, the company witnessed considerable gains in 2020 and 2021 as people were confined at home. However, in 2022, Netflix [lost](#) all its profits from the pandemic, [shedding](#) 970,000 Subscribers in the second quarter, as the public opted for other types of entertainment.

Moreover, Netflix, once the dominant service, faces mounting competition from a wide array of competitors such as Hulu, Amazon Prime, HBO Max, and Disney+. Disney is the number one [competitor](#), blazing its way to the top and disturbing the financial forecasts of Netflix. 235 million subscribers chose the Disney bundle (Disney+, Hulu and ESPN+) at the end of Q4 2022—this represents a growth of 61 million in a year. Disney's flagship brand Disney+ expanded to attain 164.2 million customers, up from the 118.1 million it reached at the end of 2021.



Heightened competition means that streaming revenues will continue to increase but at a rate slower than before (8 per cent in 2023 as opposed to 25 per cent growth in 2022). In addition, with the proliferation of streaming platforms and the pervasiveness of online content, there are now more options than ever for people to choose from. This aspect has led to market fragmentation and made it more difficult for media companies to differentiate themselves and attract a loyal audience. As a result, streaming platforms have seen competition affect their market shares, as consumers are not ready to subscribe to more than a few providers. Thus, many streaming companies reviewed their strategies, and some, such as [Yahoo View](#) and NBC's comedy-oriented [Seeso](#), abandoned this field a couple of years ago.

Domino Effect

The rise of streaming platforms, combined with a deteriorating global economy, soaring costs and under-par revenues, have affected traditional media negatively. The latter witnessed a boom in spending in the past decade (the total worldwide spending jumped from \$128bn to \$243bn), leading to increased original cinematic productions. However, experts foresee that 2023 will witness a decline in budgets. The latter is anticipated to decrease from 6 per cent in 2022 to 2 per cent in 2023. The prospects are gloomy for traditional broadcasters, such as RTL, Mediaset and ITV. Research group Ampere Analysis forecasts that total original spending will fall by 3 per cent. This decline is caused by an advertising downturn, increasing production costs and dwindling audiences for traditional broadcasters.

According to Ampere [Analysis](#), series orders for shows aimed at US audiences are down year over year in the second half of 2022 -- a sharp turnaround from their frenzied rate in the first six months of the year. Orders are off by around 40% compared to the last half of 2019. Ampere stated that 2022 witnessed just 467 scripted series orders for US audiences, compared with the 468 ordered in 2020 when production studios were largely closed amid the Covid-19 pandemic.

Netflix's [announcement](#) that it had lost subscribers for the first time in a decade caused a massive snowball effect with falling share prices for Netflix and other competitors. This episode, in turn, triggered considerable unease amidst Hollywood production companies, which would not agree on new projects unless they were sure of pocketing guaranteed profits.

Worsening financial results that affect the largest US media companies — Disney, Warner Bros Discovery, Paramount and NBCUniversal — have created a ripple [effect](#). These companies lost large sums, estimated to be more than \$10bn in operating income in 2022, because of their venture into streaming. Consequently, they embarked on a journey of downsizing (e.g., Warner Bros Discovery, the

owner of HBO, has furloughed hundreds of staff lately) and restructuring. In addition, HBO dropped dozens of shows to cut costs.

But it is not just streaming. The large cinema chains face gloomy prospects as audiences have not [returned](#) to their pre-pandemic routines. In addition, the major movie studios have been unwilling to release films in theatres. Cineworld, the second-largest cinema owner, filed for [bankruptcy](#) in September 2022. Adding insult to injury, the Hollywood studios face the eventuality of a potential writers' strike in 2023, which would stop work at these studios for the first time in 15 years.

Heightened competition, falling revenues, and fewer customer entertainment choices will amplify the problem, stalling growth even further. If Netflix and others do not provide more original content, subscriptions will fall even faster, leaving only a few deep-pocketed companies in operation.

The Tech Sector in Ebullition

The new year started badly for Meta, which suffered a major discomfiture on 4 January 2023 after European Union (EU) regulators [found](#) that the company had illegally forced users to accept personalised ads. Subsequently, the parent company of Facebook, Instagram and WhatsApp was fined 390 million euros by the EU for non-compliance. The ensuing legal restrictions could severely undercut its Facebook and Instagram advertising business and put 5 to 7 per cent of Meta's overall advertising revenue [at risk](#).

However, these restrictions pale in comparison with the new rules that Apple adopted recently, in which the company made considerable changes to the privacy [settings](#) of its mobile operating system. The new settings allow iPhone users to choose whether advertisers can track them or not. Since Apple introduced this option, most iPhone users have opted to block tracking. According to data an-



European Executive Vice-President Margrethe Vestager and European Commissioner in charge of internal market Thierry Breton (not seen) hold a press conference on artificial intelligence (AI) following the weekly meeting of the EU Commission in Brussels on April 21, 2021. in Brussels on April 21, 2021. (European Commission / Pool - Anadolu Agency)

analytics [company](#) Flurry, only 24 per cent of iPhone users worldwide have consented to be tracked by advertisers.

Apple's privacy features would cost Meta \$10 billion in sales this year. Apple's strategy, combined with Meta's inflated plans concerning the metaverse, caused a drop in Meta's stock, which has plummeted more than 60 per cent in the past year. Additional announcements by Google had a similar impact after the tech giant reportedly mulled proposals to abandon traditional tracking [mechanisms](#) for serving ads on Chrome, the world's most widely used web browser. This move has been presented as an effort to protect user privacy and make online advertising more secure.

Google's move could cause a considerable paradigm [shift](#) in the digital advertising industry. Digital marketers worldwide currently prepare for life after third-party cookies. Meanwhile, Google is looking at ways to use contextual information to select relevant ads, such as the content of a webpage, rather than tracking users across different websites. Google is also exploring ways to use machine learning to better target ads to users while still respecting their privacy. Paradoxically, Google's new proposals are not any less alarming to advertisers and regulators.

An Impetus for Innovation

Even though the new year has started off poorly for many tech and media companies, huge strides can be made in innovation, for they say that with each crisis comes an opportunity. Even though large tech companies have been facing issues ranging from falling profitability to existential threats, this period can be very rewarding for them both in terms of profit and prestige, but only if handled effectively.

The year 2023 is witnessing the resurgence of a famed rivalry between Google and Microsoft after a truce that lasted six years. Both corporations appear to be battling it out over the ["future of search"](#), where results presented in response to search engine queries are succinct and intelligible answers generated by artificial intelligence (AI) rather than the typical format of links and clickable boxes. Google has recently unveiled its Bard chatbot, which shares similarities in query handling with OpenAI's ChatGPT, which Microsoft has [heavily invested in](#). Microsoft is expected to further its aspirations for Microsoft Bing search by introducing a ChatGPT-like interface that will answer questions in a novel, personalised manner. If executed well, this is likely to be uncomfortable for Google, which has dominated the search engine market for years. This new feature signals a potentially stunning comeback for Microsoft Bing, once deemed a ["failure"](#) due to its inability to compete with Google. Not to be left behind in the battle for AI-powered search engines, Google has also invested 300 million USD in Anthropic, an AI firm founded by former OpenAI researchers. Anthropic has also built a rival

AI chatbot similar to ChatGPT named ["Claude"](#). Anthropic recently revealed that Google Cloud is its ["preferred cloud provider"](#), just like ChatGPT is for Microsoft, paving the way for two distinct AI ecosystems, which can only mean more choices for technology consumers. Microsoft and Google are looking to offer a more intelligent and intuitive search experience for users to gain a competitive advantage over the other. This rivalry is likely to drive innovation and progress in AI and search engines, improving productivity and output in many fields.

Another technology company that is worth following is Meta. As mentioned above, Apple's new privacy features are expected to cost Meta 10 billion USD in sales in 2023. This setback, combined with Wall Street's criticism of the Metaverse, has caused a significant drop in Meta's stock in the past year. In the fourth quarter of 2022, the division producing virtual and augmented reality hardware and software experienced a significant loss of nearly \$4.3 billion. However, Meta CEO Mark Zuckerberg indicated that Meta Reality Labs would not change its [strategy for the Metaverse](#), despite its record loss of \$13.7 billion in 2022. Moreover, Zuckerberg announced that Meta would launch a next-generation consumer virtual reality (VR) headset in 2023.

Meta focuses on the Metaverse for several reasons. Firstly, to understand Meta's continued investment in the Metaverse despite very high costs with no return on investment in sight, it is important to examine Meta's (then operating under the brand of Facebook) investment in Free Basics. In 2014, a researcher called Ian Maude from Enders Analysis wrote that the decline in growth is "inevitable because Facebook is [running out of humans](#)", given that it had already signed up more than [50% of all Internet users](#) on the planet by that time. Free Basics was launched as a platform to provide users [without Internet access](#), access to a limited number of websites and services, with the expressed desire to support the mission of providing free Internet access to people in need. Upon further examination, critics claimed that Facebook was looking to reach new users and maintain its growth trajectory because Internet penetration rates in developed markets, particularly in the West, approached saturation. Developing countries, where many people were still not connected to the Internet, [represented a significant opportunity for the company](#) to expand its user base. By investing in Free Basics, Facebook not only provided people in these markets with access to the Internet, as was its purported mission, but also, by extension, provided its services that created new opportunities for its growth and engagement, extending its influence into new markets. At the end of 2018, Facebook announced that it had [connected 100 million people](#) to the Internet for the first time.

Given that backstory, Meta may now be investing in the Metaverse - a virtual world or shared space where [people can interact](#) with each other and digital objects con-

tinuously, [approximating reality](#) - as another frontier of sorts that could be used to onboard new users. Secondly, Meta may be positioning itself to be at the forefront of this emerging market and to tap into its potential for profit as the technology offers new and unique experiences as it expands the physical world for users and can transform industries such as gaming, entertainment, fashion, and commerce. As per McKinsey, the "[global value creation opportunity](#)" from the Metaverse could be in the trillions". If Meta builds the best Metaverse or at least the most ubiquitous one, similar to the social media giant Facebook in its heyday, the gains from advertising and marketing alone could be massive. This push for the Metaverse [can be very useful](#) as, while it can be a question of survival for Meta itself, the Metaverse also has the potential to be beneficial for people by providing increased connectivity, accessibility, creative expression, economic opportunities, and education and training. It can break down distance barriers and allow people to connect and learn from each other in new and meaningful ways. This enhanced connectivity can also lead to a greater sense of community and belonging, as communities will form around shared interests and experiences.

The media and tech industries will see increased investment in 2023 in both AI and machine learning as companies look to innovate for growth in a cutthroat environment and the emergence of new technologies such as 5G, VR, Augmented Reality (AR), and the Internet of Things (IoT) will have a significant impact on them. The worst year on record in terms of profits may prove to be the best for innovation. After all, necessity is the mother of invention.

Moving Forward

As stated above, innovation will likely stem from the debacle that has been in the tech and media industries in recent months. New ideas and technologies will permeate and propel growth in the media and tech industries and give birth to new ones.

With that said, the recent decline in the tech and media industries has provided several important lessons. Firstly, it has demonstrated the importance of diversifying revenue streams and not relying too heavily on a single source of income, such as advertising. [Many advertisers fled](#) Twitter after its new CEO Elon Musk allowed some controversial figures back on the platform, exposing the company to further financial risk. That has also prompted the new Twitter leadership to seek out new revenue streams, such as Twitter Blue and enable payments for content in the future. Whether these initiatives successfully replace advertising as a major source of revenue remains to be seen. By December 2022, quarterly ad revenue projections had [fallen to 1.1 billion USD](#) from 1.4 billion USD.

Secondly, the recent decline has shown the significance of careful evaluation of an ever-changing market, as technology and consumer behaviour evolve continuously.

That means not [over-hiring](#) or over-extending available resources as many tech and media companies did during the Covid-19 pandemic. That was tied to an (eventually) unsustainable demand for media consumption linked to many people being unable to leave their homes for that period. Companies that were able to respond quickly and pivot to changing circumstances by so-called "[blitzscaling](#)" were better able to serve their users or customers and make excellent profits, but little thought seemed to have gone into post-pandemic planning. With that said, hiring and compensation have long been an issue in the tech industry especially, as it "is a poorly kept secret in Silicon Valley that companies ranging from Google to Meta to Twitter to Uber could [achieve similar levels of revenue with far fewer people](#)", as per tech investor Brad Gerstner at Altimeter Capital.

Thirdly, the macroeconomic environment must be addressed. The rather abrupt realisation on the part of US stakeholders that high inflation was not transitory led to the US Federal Reserve taking bold measures and raising interest rates throughout 2022, which came as a shock, causing a significant shift of economic gears. It has been widely observed that technology stocks, particularly, are susceptible to the increase in interest rates "as stock evaluations involve determining the current worth of a [company's future earnings](#)". While the industry's essence is future-oriented, it would be wise to look at recent errors of judgment to move forward from here. Careful risk assessments and prudent decision-making, combined with a drive to innovate, are in order for the media and technology industry to resume their trailblazing momentum.