

# Costs of Streaming

Video producers learn to film for the season, not by episode.

Accountants entrenched in the entertainment industry have started providing peripheral services to streaming platforms, as the relatively new industry vies for consumer attention.

Firms such as **Miller Kaplan**, No. 1 on the Business Journal's list of Accounting Firms, provide tangential services for streaming companies, including revenue measurement, services in the licensing and royalties space, and strategic consulting.

"When it comes to streaming – video streaming, audio streaming – the companies that basically control most of those environments really are part of a public conglomerate,"



Rosen

said **Andrew Rosen**, partner at Miller Kaplan. "We're not doing the auditing and accounting, per say, of the public entities as it relates to streaming. What we do is a series of tangential services that all kind of evaluate different parts of the operation."

The North Hollywood-based firm provides services to ensure production costs are in line with agreed contracts too, as it relates to streaming services.

The Big Four accounting firms, Rosen explained, include **EY, KPMG, PWC** and

**Deloitte** and they handle the large companies such as Burbank-based **Walt Disney Co.**, with its streaming operations Disney+ and Hulu.

"You have Hulu, which is both a (subscription video on demand) and (advertising-based video on demand) service. They're owned by Disney, so obviously as much as Miller Kaplan would love to be associated with an audit of Disney, it's far too big an operation," said Rosen.

"When you look at Pandora as part of SiriusXM, iHeart Radio as part of iHeart Media, they're all kind of bundled together with other companies."

Compared to other emerging practices, services offered to streaming clients are much more limited, Rosen added. However, the industry is still maturing and not yet streamlined.

"It's still evolving," said **Anthony De La Rosa**, vice president of residuals for Burbank payroll and software company **Entertainment Partners**. "Because of the way the content is being distributed and that more people have choices, it's going to continue to evolve, both on the regulation of it and the accounting for it. I don't think it's hit its stride or standardized the process for it yet."

### No ancillary income

Firms specializing in the entertainment industry and in-house accounting services are still seeking to shore up a business model that better fits streaming, De La Rosa added.

"Traditionally, to pick on 'Friends,' it was made at Warner Bros. and it was a huge success, but the success wasn't necessarily what transpired for NBC and the primetime network

run – it was really all these supplemental markets or ancillary markets," said De La Rosa.

"That model has changed, because essentially now you don't have this whole pilot season where we're going to make a decision on a pilot and they're going to air it and we'll see if the show is successful."



De La Rosa

Instead of sinking money into development and writing costs for a show that may or may not be successful, streaming platforms are paying for a producer's costs up front, and

then giving them a premium on top of that, the Entertainment Partners executive said.

"If you do an agreement with a streaming model, you're basically buying out the whole world so a producer cannot sell anything to a supplemental market or ancillary market," De La Rosa explained.

One major hurdle when tasked with streamlining accounting services, De La Rosa added, is tied up in how episodes are shot. With more content made quickly on streaming platforms, production teams have adopted "cross boarding," a technique where multiple episodes are filmed at the same time based on location.

"A perfect example of a show that does cross boarding is 'Game of Thrones.' They are going to all of these exotic locations and they are filming. They can't afford to fly people week after week to the same place, so they kind of shoot it

all in one swoop," explained De La Rosa.

"That's one of the challenging things from an accounting perspective, because the way Hollywood operates, is that a product, what we like to call a widget, is an actual episode in an episodic television show. That rolls up into a season, and that rolls up into a series. With a cross board, basically what they're saying is hey, they're filming everything at the season level, so for royalties and pure accounting, it's hard to decipher or distinct those costs to each particular episode."

### Data analytics

Where accounting firms can add value, Rosen said, is in data analytics as it relates to streaming platforms. It's effectively the largest of available tangential services and fits in with a burgeoning specialty for Miller Kaplan.

"They all understand exactly what's happening because it's a digital ingestion of information," continued Rosen, on the topic of streaming and data analytics. "The aggregation of the data and making sure things are being managed properly from the expense side are where firms like us can excel."

"Data analytics skills are more important because of the large amount of data that is generated in the streaming space," added **Vince Leoni**, another partner at Miller Kaplan. "In the last five years or so we've really increased our investment in the technology and software, training our staff to be able to analyze large data stacks. ... In the digital space, we've had to evolve."

– Amy Stulick



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of Wells Fargo Advisors

805.373.8249

fa.wellsfargoadvisors.com/valdez-group

2829 Townsgate Road, Suite 200

Westlake Village, CA 91361

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