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ABOUT COMCAST TECHNOLOGY SOLUTIONS

Comcast Technology Solutions, a division of Comcast Cable, serves the advertiser, content provider, multichannel video programming distributor (MVPD) and technology markets with a complete portfolio of products and capabilities to meet the evolving needs for content distribution and monetisation in a multiplatform world. Built on Comcast’s robust media and entertainment infrastructure, Comcast Technology Solutions offers an unmatched breadth and depth of expertise, spanning twenty years in broadcast and digital, to help customers deliver engaging experiences and forge new business models.

For more information, visit http://www.comcasttechnologysolutions.com.

ABOUT MTM

MTM is an international research and strategy consulting firm, focused on the media and technology industries. MTM helps companies understand and respond to digitally-driven change, providing award-winning consumer insight and industry research and analysis, strategic advice, and hands-on support for growth initiatives, business development, and organisational change.
The TV industry is in a state of transition, as the growth and development of digital video services creates new challenges and opportunities for industry participants. The twin revenue pillars of the industry, advertising and affiliate fees, have remained resilient, but under more pressure than ever before.

Ten years into the online video revolution, most major broadcasters across Europe are well advanced in developing and deploying online video services, responding to rapid changes in consumer behavior and the growth and development of new platforms. However, industry participants anticipate that disruption will gain pace and the industry will become more polarised – between scale players, with leverage over advertisers and/or pay operators, and smaller businesses with well-defined thematic specialisms, appealing to particular audiences.

As a result, business model innovation is now widely believed to be a priority, as broadcasters look to integrate OTT offerings and broadcast services more closely, to maximise overall reach and revenues. At this stage, European broadcasters are pursuing a range of business initiatives to strengthen and improve their multiplatform offerings and to remain competitive in a multiplatform TV market:

1. **Revenue diversification and flexible pricing**: Accessing new revenue streams by launching new services and introducing pricing and packaging innovations such as hybrid monetisation models, tiering, bundling and promotions

2. **Targeted products**: Creating specialised or curated products, targeting well-defined audience segments

3. **Windowing innovation**: Creatively leveraging content windows to support the development of new services and distribution models, to maximize the returns from investment in content

4. **Adtech**: Developing new advertising capabilities, formats, and solutions – including programmatic trading and various forms of data-driven targeting

As broadcasters scale up their in-house teams, acquire and invest in content producers and digital businesses, and develop partnerships with best-in-breed technology suppliers, these business model responses will gradually transform the European market over the next five years, as the transition to multiplatform TV accelerates – creating further upheaval and disruption, not only at the channel and service level, but also at the platform level, as a new OTT aggregator battleground develops.

Achieving differentiated, sustainable scale will be critical, either with mass audiences or with well-defined segments, to avoid the squeezed middle ground. To succeed, tomorrow’s TV businesses will need to address clear strategic priorities, including:

- A willingness to invest in content innovation and experimentation.
- Flexible operating models that can deliver TV and video services across multiple platforms.
- A relentless focus on audiences and customers, and on understanding their needs.
- A diversity of revenue streams, hedging against increased risk and uncertainty.

**AT A GLANCE**

The TV industry is in a state of transition, as the growth and development of digital video services creates new challenges and opportunities for industry participants. The twin revenue pillars of the industry, advertising and affiliate fees, have remained resilient, but under more pressure than ever before.

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- A diversity of revenue streams, hedging against increased risk and uncertainty.
1 - THE TV FUTURES INITIATIVE: A NEW INTERNATIONAL PROGRAMME

The TV industry is in a state of transition, as the growth and development of digital video services creates new challenges and opportunities for industry participants. Traditional industry revenue streams, business models and value chain relationships are changing – forcing incumbents to reinvent themselves, as broadcasting transitions into a multiplatform TV market. Broadcasters, TV platforms and other video businesses face important challenges, as they look to future-proof their business models, expand their portfolios and strengthen their operating models, in a time of accelerating change and increased uncertainty.

How will the broadcasters and video content businesses of the future fund investment and maintain their profitability and competitiveness? How do broadcasting industry business models need to evolve, as the divisions between OTT and broadcast erode? What steps do TV businesses need to take to build sustainable multiplatform video offerings?

To support the industry in answering these important questions, Comcast Technology Solutions and MTM have launched the TV Futures Initiative – an ambitious new international programme designed to help the TV and video industries explore business model innovation in a converging media market and to develop new strategies for success.

This report represents the findings from the inaugural stage of the programme, exploring developments across Europe and the Middle East during the next 3-5 years and presenting a set of industry perspectives on the future. Inevitably, this paper provides a partial view of a highly complex industry: it represents a snapshot of industry perspectives at a particular moment in time.

MTM and Comcast Technology Solutions would like to thank all those who contributed to the research:
2 - BROADCASTER BUSINESS MODELS AND DIGITAL DISRUPTION

Ten years into the online video revolution, the TV industry is being gradually disrupted, under pressure from digital businesses competing for ad budgets, consumer spend and consumer attention.

To date, disruption has been relatively limited and most major broadcasters have responded successfully, launching online video services and extending their offerings.

However, participants argue that disruption will gain pace as the industry becomes more polarised – between scale players with leverage over advertisers and/or pay operators, and smaller businesses with well-defined thematic niches that appeal to targeted groups.

As a result, business model innovation is now the priority, as broadcasters look to integrate OTT offerings and broadcast services more closely, to maximise overall reach and revenues.

At the turn of the millennium, broadcaster business models across Europe and the Middle East were in rude health, supported by a robust advertising market and fast-growing pay-TV industry revenues. Businesses producing TV programmes and operating broadcast channels could expect healthy margins and consistent growth. For many companies across the region, this remains the case – but the market has clearly changed.

Today, almost a decade has passed since Google acquired YouTube and the UK’s Channel 4 launched 4OD, one of the very first European broadcaster OTT services. 2006 was also the year in which iTunes expanded its TV and film content, while 2017 will mark ten years since the launch of the iPhone and the roll out of Netflix’s streaming service in the US.

EXHIBIT 1: TEN YEARS OF OTT INNOVATION

Google acquires YouTube for $1.65bn
Channel 4 launch 4OD in UK
First iPhone unveiled
Netflix launches streaming
BBC iPlayer launches in UK
iTunes store launches movie rentals
Roku announces first streaming device
Comcast launches TV Everywhere beta, Xfinity

OCT 2006
Channel 4 launches 4OD in UK
First iPhone unveiled
Netflix launches streaming
BBC iPlayer launches in UK
iTunes store launches movie rentals
Roku announces first streaming device
Comcast launches TV Everywhere beta, Xfinity

Facebook launches autoplay video ads
Maker Studios sells to Disney
Google Chromecast is unveiled
BT launches BT TV brand for OTT and hybrid TV services
First Netflix original launches
Sky introduces Now TV
MTG launches Viaplay in the Nordics
Amazon acquires LoveFilm

MAR 2014
Online advertising grows to £36.2bn in 2015, surpassing the £33.2bn European TV ad market
Several OTT services are launched by content creators
Netflix available worldwide
Facebook Live rolled out globally
Perform Group launches OTT sports service, DAZN, in Germany, Austria and Switzerland

2015
JAN 2016
FEB 2016
AUG 2016

Facebook launches autoplay video ads
Maker Studios sells to Disney
Google Chromecast is unveiled
BT launches BT TV brand for OTT and hybrid TV services
First Netflix original launches
Sky launches Now TV
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Before the wave of online video innovation, broadcaster relationships with consumers were typically indirect, with services distributed over transmission networks and platforms generally operated by third-party companies. Channels were monetised through advertising, generally sold to a small number of media agencies through large annual deals, and via income generated from distribution deals with pay-TV platforms, most often based on a fixed cost-per-subscriber basis. Broadcasters with production capacity would also raise some income from home entertainment and programme sales – but for most broadcasters outside of the US, this has historically been a relatively small share of revenue.

Although these revenue streams have remained robust across most of Europe and the Middle East, broadcasting is clearly transitioning into a more complex and competitive multiplatform market. So far, traditional TV ad spend has remained resilient, in part due to robust legacy trading models, but in advanced markets, linear TV consumption is generally believed to have peaked. For example, in the UK, average linear TV viewing time decreased by 11% between 2010 and 2015 for the entire population – and by 27% for 16-24 year olds.¹ Viewing is fragmenting across a growing range of services and devices, and these new contexts are often lower value for broadcasters.

There is still nothing more valuable to advertisers than a linear channel working for millennials. All other contexts and audiences are worth less and fragmentation therefore puts us under significant pressure.

Competition for video advertising budgets is gradually increasing, initially driven by buy-side planning priorities as advertisers look to online video to provide incremental reach with TV-light younger demographics. However, convergence is now also happening on the sell-side, with major digital players like Facebook and Google shifting their product focus and sales efforts to brand budgets traditionally earmarked for TV. At the same time, broadcasters are beginning to deploy tools and techniques such as programmatic trading platforms and data-driven targeting.

Broadcasters are adapting to keep up, but some anticipate that a tipping point may be approaching:

TV is sinking but at the moment there isn’t really another option when you look at it from the advertiser’s perspective. There will come a tipping point when brand advertisers really start to move from linear TV to digital, platforms like Facebook and Snapchat. TV’s challenge will be ensuring that they have competitive digital products so don’t get left behind.

The pressure generated by viewing fragmentation and digital competition is driving a slow-down in certain advanced markets. Sweden saw a 4% decline in its TV advertising market in 2015, and Denmark, Belgium and the Netherlands are widely expected to see similar declines in 2016.²

Given this backdrop, advertising-funded broadcasters see innovation and diversification as an urgent priority.

¹ Ofcom, Communications Market Report (2016)
² GroupM, This Year Next Year (2016)
It’s no secret to anybody that traditional TV is not a growth business – it is flat at best, and with declining viewership. We are not yet seeing the mass decline in TV advertising, but it feels inevitable, and broadcasters will have to innovate to stay afloat.

Affiliate fee revenues are also under significant pressure. Industry revenues from pay-TV continue to grow across much of EMEA, but growth has slowed in many markets, with low-cost OTT offerings and bundled deals now responsible for the majority of net additions in most markets. Pricing pressures are increasing, as pay-TV platforms restructure their services, re-think their channel line-ups, and look to cut costs as premium content becomes more expensive. New challengers are undercutting traditional pay platforms on price – SVOD OTT services and bundled TV services from telecommunications providers. Whilst evidence of cord-cutting remains scarce, new competitors are impacting pay operator margins.

We don’t have many cord-cutters yet and it will take some time for this to change. It will happen but pay will not lose too much over the next five years, even if SVOD grows strongly. In the meantime though, margins come under more and more pressure.

As well as dealing with this margin squeeze, pay platforms have had to respond with product innovations such as on-demand and TV Everywhere, which require additional grants of rights from broadcasters – imposing real additional costs and requiring flexible new technology solutions. In addition, many of these new products focus on specific, high-value programmes, rather than building volume of channels and catalogue content.

The increasing availability of content made possible by IP-delivery means greater choice for consumers, but also for platforms looking for the right mix of programming. As a result, many executives believe that a rationalisation of channel portfolios is inevitable across Europe, as platforms look to cherry pick a smaller number of titles, rather than channel brands, to drive acquisition and retention.

We are probably at peak channel – channels used to be the only construct available, so it used to be to get more choice you had to get more channels. That is no longer the case. People are spending more time and money than ever on content, so people will focus their time on what they really want to watch rather than filler. Platforms are adjusting their approach to match this.
2.1 - CREATIVE DESTRUCTION AND BUSINESS MODEL INNOVATION

Industry participants expect to put pressure on these two revenue streams – advertising and affiliate fees – to build as the distinctions between broadcast and OTT businesses continue to break down. As a result, many anticipate a high degree of creative destruction and experimentation over the next 2-5 years.

In particular, the industry is likely to become more polarised – between scale players with content and business models that give them leverage over advertisers and/or pay operators, and smaller businesses with low-cost models and well-defined thematic niches that appeal to targeted groups of consumers. Players in the middle are likely to feel the squeeze, as pay operators look to rationalise their portfolios to the providers that deliver most value, and as advertisers start to use digital video to replace lower value TV advertising inventory.

Content is valuable, but affiliates are getting pickier and are focusing more heavily on the real subscription-drivers, the top content, and on putting clear blue water between pay-TV and FTA experiences, through 4k, advanced boxes, box sets, and so on.

In a landscape where the majority of homes have access to an overwhelming amount of choice, industry participants believe that content that is neither premium nor distinctive will lose out.

The tier two providers with general entertainment content or lower-value channels face huge challenges, as consumers have so much choice now. You don’t have to watch middle of the road programming now, you’ve got lots of better choices. Look at Netflix and Amazon – they don’t have deals with Discovery or NatGeo. Those providers will have to look at alternative business models, like FTA and OTT, and they will have to develop their brands to be more distinctive.

The result will be a period of creative destruction, as a range of different video businesses compete to drive audience to their properties: second tier channels moving between pay-TV platforms and OTT, top tier providers launching targeted OTT products, start-up OTT services, MCNs with off-YouTube strategies (either pay or ad-funded), and non-traditional publishers investing to grow their video offerings. These businesses will compete on an increasingly level playing field, as the competitive advantage conferred by pay-TV distribution reduces. Broadcasters (and, by extension, their content suppliers) are therefore dealing with a much more uncertain future, as TV continues its transition towards a truly multiplatform market environment.
OTT and video on demand are really taking off now. The large media groups have got onto it – Axel Springer, Bertelsmann, RTL, ProSieben, Deutsche Telekom. These are big businesses that understand the market and know how to execute. I expect consumer behaviour to change fast.

Executives agree that competition has heated up, but that the challenge remains willingness to pay in a market dominated by free-to-air.

The penetration of pay-TV is low for historic reasons, so it’s hard to persuade people to pay for content, but on-demand usage is exploding. Free, ad-funded tiers with the potential to upsell will be an advantage here. There’s so much potential, and local businesses want to make sure the market is not dominated by Netflix and Amazon, so there are competitors like Magine, Zattoo and Maxdome.

Industry participants argue that whilst Amazon in particular has made inroads (with a customer base for Prime estimated at 3.4m), local competitors will fare well, due to German preferences for local content.

The German market likes everything to be localised, German people love local culture and identity. American content is only interesting for a small part of the population but the rest love German actors and German TV series. As an operator if we want to reach this mass of the population we have to make everything very localised. If you do that they will pay for it, and Netflix and Amazon will have to invest in this too if they want to succeed.
3 - BUSINESS MODEL INNOVATION

Over the next five years, four areas will become increasingly important to broadcasters and content owners seeking to remain competitive in a multiplatform TV market:

1. **Diversification and flexible pricing**: Accessing new revenue streams by launching new services and pricing innovations such as hybrid monetisation models, tiering, bundling and promotions.

2. **Targeted products**: Creating specialised or curated products targeting a specific fan base or demographic.

3. **Windowing innovation**: Leveraging windows to explore new distribution models, specifically tailored to different types of content and service.

4. **Adtech**: Developing new advertising formats and solutions – including programmatic trading and data-driven targeting.

For larger groups, acquisitions and corporate venturing have become an important means of developing the required capabilities and offerings, but all broadcasters and content owners will need to prioritise strong relationships with scaled technology providers in order to deliver against these four business priorities.

Broadcasting groups across Europe and the Middle East are already advanced in adapting to market changes, with the majority having now launched OTT services – 78% of broadcasting groups have at least one offering, and 10% have multiple services. Looking forward, industry participants identify four main innovation areas which will shape the next phase of transition.

EXHIBIT 2: BUSINESS MODEL INNOVATIONS ACROSS THE BROADCASTING VALUE CHAIN

![Feedback loops diagram](image)

- **CONTENT INVESTMENT**
  - What content to produce or acquire?

- **PACKAGING**
  - How to package content into products and services?
    - 1. Diversification and flexible pricing
    - 2. Targeted products

- **DISTRIBUTION**
  - How should these products and services be distributed?
    - 3. Windowing innovation

- **MONETISATION**
  - How should these products be monetised to maximise returns?
    - 4. Adtech

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3. MTM Analysis, November 2016. Base = all EMEA broadcasting groups (n=111). For more detail on the analysis see Method section.
3.1 - DIVERSIFICATION AND FLEXIBLE PRICING

PAY/FREE DIVERSIFICATION

"Pay channels and SVOD are interesting new options for us … there’s no growth in TV advertising, so this is part of a larger diversification strategy."

Across Europe and the Middle East, broadcasting groups are diversifying – a majority (59%) of broadcasting groups now have both free and pay offerings, with just 22% remaining fully free and 19% fully pay for consumers.

EXHIBIT 3: EMEA BROADCASTING GROUPS SPLIT BY LINEAR AND OTT MONETISATION MODEL

<table>
<thead>
<tr>
<th></th>
<th>FTA Linear</th>
<th>Pay Linear</th>
<th>Free + Pay Linear</th>
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<tbody>
<tr>
<td>Free Linear</td>
<td>22%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Pay Linear</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>Free + Pay Linear</td>
<td>13%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

This sort of diversification is not, of course, straightforward. Developing a pay model involves either establishing value and willingness to pay for something that has previously been available for free, or building a new independent consumer brand and content portfolio. On the other hand, affiliate relationships often make it more difficult to offer a free service – and, for the time being, these are the relationships that drive real value for many international broadcasters.

"It’s easy to go from pay to free, but very hard to go from free to pay. Once you have established value, you can now do a light version with some of the features and some of the content, but for us to establish value in something that has always been free is very hard."

"I don’t see many opportunities for organic growth in pay-TV, at present. Some of our competitors have dealt with this by moving into free-to-air and free OTT products, but that dilutes their pay-TV offerings – and reduces their value to affiliates."
HYBRIDITY, TIERING AND BUNDLING

As well as diversifying their business models through launching new services, broadcasters are also starting to introduce more pricing flexibility within existing offerings. OTT services have traditionally had relatively straightforward, one-size-fits-all pricing models, with limited use of bundling, price tiering, promotions and merchandising. Many services have made a virtue of this simplicity, in part to build consumer understanding of OTT services and to drive take-up with simple marketing messages. As the market develops, OTT providers are evolving their pricing models, and we expect broadcasters to experiment with more flexible monetisation models in order to maximise take-up and revenue generation – for example, different price points for movies and sport, ad-light and ad-free subscription tiers, or price promotions and refer-a-friend functionality.

EXHIBIT 4: TAKE-UP OF PRICING INNOVATIONS5

<table>
<thead>
<tr>
<th>HYBRID MODELS</th>
<th>26%</th>
</tr>
</thead>
<tbody>
<tr>
<td>SVOD WITH BUNDLING</td>
<td>38%</td>
</tr>
<tr>
<td>SVOD WITH TIERED PRICING</td>
<td>55%</td>
</tr>
<tr>
<td>TVOD/EST WITH PRICE PROMOTIONS</td>
<td>31%</td>
</tr>
</tbody>
</table>

5. MTM analysis, 2016. Base: all OTT services (n=101); all SVOD services (n=44); all TVOD services (n=19)
Industry participants identify four principal types of pricing innovation:

- **Hybrid business models** – Combining advertising, subscription and transactional models within the same service. Today, 14% of broadcaster OTT services combine subscription with advertising – for example, ITV in the UK and SBS in the Nordics offer ad-free SVOD tiers, MBC in the UAE holds back some premium content behind a paywall, and Canal+ in France charges for access to Canalplay on connected TV sets. Subscription and transactional offerings are less common (7% of broadcaster OTT services), but can be used to provide add-ons to subscription packages – for example, Viaplay in Sweden offers transactional movies and box sets in addition to the core subscription service while Sky’s NOW TV service offers pay-per-day for football matches.

- **Bundling** – Sales and distribution partnerships that bundle an OTT service with another product or service. The most common types of bundling partner are telecommunications providers (usually mobile network operators) and device manufacturers, offering OTT subscriptions packaged with mobile contracts or devices – such as Vodafone promoting free Now TV Entertainment Passes in the UK and Samsung offering a 50% reduction on TVN Player in Poland.

**CASE STUDY**

When Denmark’s largest cable company, TDC chose to give new life to the iconic Blockbuster brand in December 2014, more than 300,000 people registered to use the TVOD and electronic sell-through service. As the new BLOCKBUSTER® grew in popularity, TDC realised that the business needed a truly robust and scalable OTT platform, if they were to deliver the best customer experience every time and ensure customer loyalty. The solution also had to be quick to market with the initial 8000 titles, to retain its customer base in the face of a rise in streaming services in the Nordics.

TDC selected trusted technology partner Comcast Technology Solutions for its proven video management solution, mpx, which provides the main CMS infrastructure backbone. Most importantly, mpx offers easy configuration for flexible payment, promotional activities, and token payments supporting the BLOCKBUSTER® promotions, such as three movies for DKK99 - the leading marketing message of the past, which resonated with consumers, and will now play a key part in the introduction of the brand into the Nordic streaming space.

Casper Hald, Head of BLOCKBUSTER at TDC Group, said, “We developed our initial version in-house, but after one year in the Danish market, we realised we needed to bring in industry experts to make the service easy to sign up, easy to pay, and easy to work instantaneously with robust scalability.”
• Tiered pricing – Multiple pricing levels within an SVOD service. In the majority of cases providers use tiering structures to separate different content packages. For example, C More in Denmark offers separate tiers for golf programming and for movies, RTL XL in the Netherlands charges extra for 12 months of catch-up content rather than 7 days, and MTG’s Viaplay offers a range of tiers for different content packages. In some cases, tiering is based on functionality – for example, TV2 in Denmark features a premium tier for access to live TV channels rather than the same programming available on-demand.

• Price promotions – Flexible use of merchandising techniques. This can include techniques such as time-limited promotional prices and multi-buy deals, such as Atresplayer in Spain which offers bundles of 3, 5 and 10 new movies for a set amount. TDC-owned service Blockbuster in Denmark showcases many of these innovations in its approach to TVOD (see case study for more detail), whilst NBCU’s hayu services offer gifting and refer-a-friend to help encourage sampling.

These types of flexible approaches to pricing help to manage and optimise several of the business model challenges for paid OTT services. For example, special offer pricing and ad-funded or low-priced entry tiers drive sampling behaviours, overcoming the often-reported barrier of getting consumers to understand the value of something they have not tried.

“Our biggest challenge around monetisation is the same thing we’ve always had – explaining the value of a product that they haven’t experienced.”

In markets where illegal downloading and streaming remain a significant drain on willingness to pay, entry-level pricing tactics can also act as an on-ramp for paid services, and participants see innovation in this area as part of the medium-term solution to piracy.
Having a lower price point radically changes the customer conversion – €2.99 gives 4-5 times more conversion than €6.99 and can help to introduce consumers to paid models.

Some industry participants see hybridity both as a necessary next step to find more growth in maturing markets, and also as a way to provide an entry-level product in lower value markets.

Netflix is now buying AVOD rights in their deals, they’re definitely looking at growing an ad-funded layer and they will need this both in lower value markets and in markets where growth will run out in the medium-term.

I would hazard a guess that many big players will add advertising and put the ‘A’ into their SVOD. It won’t be as littered with adverts as a pure AVOD, but you can see this hybrid world coming.

UNITED KINGDOM

The UK leads the way in EMEA for TV business model innovation, characterised by strong competition between traditional TV businesses and digital-first media companies for both paid and advertising revenues.

Industry giants Sky, Amazon and Netflix are competing for market share in the paid OTT space, in part by using different pricing strategies to differentiate:

Netflix, Amazon and Sky are differentiating both on the content that they offer and the way they charge for it. Netflix is basically a fixed price per month; Amazon offers a huge bundle with a yearly payment, plus an integrated TVOD service; and Sky offers a more tiered approach with different prices for TV, film, kids and sports content.

The UK’s advertising-funded TV businesses are also well-advanced in the transition to multiplatform TV, using data-driven targeting, dynamic ad insertion and programmatic to maximise revenues. Channel 4 has delivered programmatic trading and demographic targeting for its VOD product, whilst Sky enables dynamic ad insertion and cross-platform targeting for linear TV advertising.

Digital companies] are working really hard to convince advertisers to move spend from TV to digital, especially online video. To respond, we have to show the value of TV content and TV advertising both online and over broadcast – but also adopt some of their techniques, such as individual targeting and programmatic sales.

The highly competitive nature of the UK content industry market is also driven in part by major US content businesses seeing the UK as a key international market for investment, due to cultural fit and a regulatory environment that protects rights holders.

The UK is a great market for content owners in that rights are protected – it makes us very happy to invest money here. At the same time, there’s huge competition from the big US content companies, who are increasingly focusing on international as their home market is being squeezed.
3.2 - TARGETED PRODUCTS

You have the mass-market feeds with general entertainment content going after 70% of households, but we want to be really targeted and give our customers exactly what they want. I’m going after less than 5% of the population, but across every country in the world – and these people are happy to pay for something they are passionate about.

The last few years have seen the launch of several OTT services targeting specific thematic niches with cut-down content propositions and highly-tailored approaches to sales and marketing. Industry participants expect this trend to continue, driven by broadcasters and other content owners looking to find new windows and maximise the reach and value of their content.

Netflix has shown that consumers will pay and has really defined the consumer value proposition, but the tide has started to turn. We’re encouraging our partners to launch their own offerings and to compete. The major studios want competition – and multiple windows.

UNITED ARAB EMIRATES

The UAE, and the Middle East in general, presents very different dynamics from the rest of EMEA. Traditional pay-TV is still growing in reach and revenues. TV advertising, held back by poor measurement infrastructure, is undervalued relative to consumer spending, and is expected to continue growing strongly.

Nevertheless, broadcasters have been quick to roll out OTT. MBC and Dubai Media Incorporated both operate hybrid advertising/subscription platforms services, called Shahid and Awaan respectively, and Starzplay leads the SVOD market bringing US content to the Middle East. In a population over 80% of which is overseas workers, industry participants acknowledge the potential for expat OTT services targeting expats, such as The Filipino Channel and Zee TV.

There are large expat communities all looking for a connection to home – Filipino, Farsi, South African, British, Indian, Bangladeshi – but services will have to be keenly priced to take off.

Very significant barriers, however, are holding back growth for these providers. Collecting payments is challenging in markets with low credit card penetration and piracy remains rampant amongst populations accustomed to getting entertainment content for free.

Piracy is a major challenge: satellite and pay-TV piracy as well as online. People believe they have an innate right to have access things for free. It’s so ubiquitous and crosses over all media. We just don’t have the legal weight to take things down and it would require coordination across the whole region.

Payment models are a big issue – most of the US companies that come over here have no idea how difficult it is. Imagine you’re a member of the Turkish diaspora now living in Dubai – what’s your billing address, where are you living?
The economics of niche or thematic OTT offerings are challenging, given the high costs of licensing content and acquiring customers. To date, four different categories of industry participants have entered the market, with more expected to follow:

- Thematic OTT plays from major studios, such as NBCU’s hayu reality TV service (see case study), exploiting specific parts of large studio content libraries and cross-promoting the service through other established channels such as broadcast TV and social media.

- Sports rights holders aim to identify content that is undervalued or not covered by existing rights agreements and leverage existing relationships to upsell digital products – for example, Perform Group’s recently launched DAZN service making a range of sports content available OTT in Germany. In some cases, however, these digital offshoots may simply be loss leaders designed to connect fans more closely to the rights holder and build loyalty.

- Startups aim to find a secure, differentiated and reasonably-priced pipeline of content neglected by incumbents and then build a fanbase quickly to become defensible, ideally through a low cost marketing route. Eros Now targets expats with Bollywood content they cannot get anywhere else, whilst Mubi negotiates a unique 30-day window with film distributors to create a curated service for cinephiles.

- Arts and music services create their own pipeline of content that is too niche for traditional broadcast and make it available in high quality to fans in any part of the world – a model pursued by the Vienna State Opera for classical music and by Be.at TV for dance music.

**CASE STUDY**

NBCUniversal International’s hayu is the first all-reality SVOD service of its kind. Curated and fully integrated with social media, hayu launched in the UK, Ireland and Australia in March 2016 on a full array of devices (mobile, tablet, laptop and connected TV) and is now available for Apple, Android and Amazon Fire TV devices.

Consumers can view over 3,000 episodes of reality content. 500+ episodes will be added each year, the majority of which will debut on the service on the same day as they premiere in the US. Titles include Keeping Up with the Kardashians and its spin-offs, along with The Real Housewives, Million Dollar Listing and Top Chef franchises, among many others.

hayu uses Comcast Technology Solution’s cloud-based mpx video publishing system with fully integrated commerce to deliver on-demand and live streaming video services. mpx provides centralised video uploads, easy workflow management, metadata management, subscriber management, transactions, viewing rights enforcement, and automated publishing across online streaming platforms and connected devices.

hayu has a range of SVOD innovations, including full integration with social media where consumers can share short-form snippets of content whilst giving instant access to the social media accounts of the world’s most famous reality stars. Additionally, newsfeeds from multiple sources covering the shows and talent featured on hayu are also fully integrated into the service.
Where these services succeed, they create passion brands with committed subscribers that will be happy to spend money with the brand across more than just digital content. Inspiring this sort of fandom requires a consumer-centric approach that builds products and services around real user wants, needs and passions. For example, CrunchyRoll recognised that its target audience wanted new anime shows as soon as possible after their release in Japan and invested in a translation capability that allows them to provide passionate fans with a unique service.
It’s important to look at the value chain around the content and create adjacencies around the experience – thinking in the direction of passion brands – trying to create a 360 experience. I call it the segment of one: understanding your customer, wrapping the entertainment experience into a bigger experience and finding ways to differentiate through product and user understanding as well as content.

Broadcasters in EMEA are gradually beginning to explore specialist and targeted OTT services, with only a small number of examples thus far – such as Kividoo (a children’s service from RTL), BBC3 (formerly a broadcast channel targeted a younger audiences and now available exclusively OTT), and Walter Presents (an AVOD foreign drama service delivered as a sub-brand through Channel 4’s All4). However, industry participants believe that these sorts of targeted offerings will proliferate, as broadcasters look for new ways of connecting with specific audiences and re-think distribution models for different genres of content.

SWEDEN

Sweden, so often the canary in the media coalmine, was the first EMEA country to feel the impact of the transition to multiplatform TV – seeing declines in TV advertising and pay-TV revenues in 2015. A market of early adopters, both in terms of businesses and consumers, it is often treated as testing ground for innovations. HBO launched its standalone service, HBO Now, in Sweden in 2012 before importing it back to the US in 2015.

SVOD has been complementary to pay-TV so far but I expect the transition from traditional pay to SVOD to gain pace over the next few years. Pay-TV market might lose as much as 5% over next 5 years and SVOD will probably grow 60% a year.

Incumbent broadcasters and video businesses have innovated their models across advertising and paid models to adapt to these changes. Media group Bonnier has launched a programmatic video sales platform bringing together inventory from all its subsidiaries including broadcaster TV4 and newspaper Expressen. MTG is leading the market with Viaplay, the OTT offshoot of its pay-TV platform Viasat. Viaplay, powered by Comcast Technology Solutions, uses a hybrid subscription/transactional OTT model to give consumers the flexibility to pay for what they want to watch, as well as to deliver a differentiated viewing experience, especially for sports.

Consumers are voting with their feet. They would rather watch Champions League on Viaplay than on a linear channel – it’s a better experience.

Industry participants, however, foresee consolidation. In a small market there will only be room for a limited number of local services, and these will have to focus on local content in order to find differentiation against scaled international players like Netflix and HBO.

There are a lot of people entering the market who will find out it’s not that easy. We’re a small market and we will not be able to support that many services. We will see lots dropping out in the next few years.
3.3 - WINDOWING INNOVATION

Through its ability to deliver content on-demand to any corner of the globe, OTT distribution has been fundamentally disruptive from the outset to traditional windowing structures built on limiting availability to specific time periods and geographies. The extent of disruption has grown over time, as traditional windowing models come under pressure.

The SVOD model has been particularly disruptive to the traditional windowing structures that support US studios and super-indie production companies. Executives argue that after several years of these content creators seeing Netflix and Amazon as lucrative new buyers rather than as a threat, the last 12 months have seen a steady change of attitude. Studios, broadcasters and producers are increasingly nervous about complete SVOD buy-out deals that mean no downstream windows for monetisation, especially since these environments offer no attribution back to the parent brand.

**Why have attitudes changed on Netflix and Amazon?** Because they aggregate our content under their brands and don’t give any channel attribution. The strategy is changing as a result. At the moment we are just fuelling the Netflix and Amazon brands and we need to start driving more competition, building our own audiences, getting more attribution. This necessitates new approaches to windowing.

Production companies have built their businesses on existing windowing structures that allow them to retain rights for distribution and backend exploitation. The SVOD buyout model removes this capability and caps their potential upside, and major production groups are starting to push back on these deals as a result.

**Distribution and windowing is super critical for our business model as a producer.** When Netflix commissions us to produce a show they take away all of our other rights. Even with Netflix paying fair price it is not the type of deal we are used to and it caps our upside. We prefer to look at what the windowing opportunities are for the content – it’s really at the core of what we do and how we make money.
The industry is turning the corner on Netflix, because they buy out all the back-end participation – which hugely limits the commercial potential for procedures. OTT works well for second windows but not for first, in my view.

EXHIBIT 6: NEW WINDOWING APPROACHES CREATED BY OTT INNOVATION

TYPICAL PRE-DIGITAL WINDOWING STRUCTURE

<table>
<thead>
<tr>
<th>THEATRICAL</th>
<th>DVD BUY</th>
<th>DVD RENT</th>
<th>PAY-TV</th>
<th>FTA TV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Release</td>
<td>3-6 months</td>
<td>1 year</td>
<td>2 years</td>
<td></td>
</tr>
</tbody>
</table>

NEW WINDOWING APPROACHES

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLLAPSE</td>
<td>Full global buyout of all rights and windows – typically by SVOD providers, but studios experimenting, too</td>
</tr>
<tr>
<td>INVENTION</td>
<td>New windows created to build new product offerings and services</td>
</tr>
<tr>
<td>COMPRESSION</td>
<td>Windows shortening in order to extract more value in shorter time frame and combat piracy</td>
</tr>
<tr>
<td>RESHUFFLE</td>
<td>Premiering content through OTT before transferring to broadcast for second window</td>
</tr>
<tr>
<td>PARTNERING</td>
<td>Collaborations between global OTT services and national ad-funded broadcasters to fund premium content</td>
</tr>
</tbody>
</table>

Netflix reportedly spend $100m for The Crown and will recoup this only through subscribers. Studios also using day and date release for SVOD services – e.g. NBCU’s hayu

The BBC is premiering its show New Blood on its OTT service prior to its linear channels, to cater to younger audiences used to binge-watching shows

Netflix is co-producing several shows with European broadcasters such as ZDF in Germany and Channel 4 in the UK, typically receiving out-of-country and second window streaming rights

We're worried about Netflix eating our lunch so we have adjusted our approach. We now sell very little content to them but do co-productions where we premiere it and they get second window global rights.
3.4 - ADVANCED ADVERTISING

Industry participants see advanced advertising as the final key area of focus in the transition to multiplatform TV. To compete with growing competition from digital video providers, broadcasters need to build scale, provide high quality context for brands and develop data-driven advertising capabilities.

_The big challenge for broadcasters at the moment is that video advertising is seen as one of the most important types of advertising for building brands and for driving response. Google has been hugely dominant for search but are now wanting to get into TV ad revenues. That’s where the business threats are coming from and broadcasters will need to deliver advanced targeting alongside scale if they are to compete._

Adtech comes in many forms, but three categories are especially common and were covered by our analysis: registration walls in front of content (an important first step towards developing a first-party data strategy), dynamic ad insertion (DAI, the ability to replace ad spots within a stream, either broadcast or OTT) and programmatic advertising sales (the use of automated systems and processes to buy and sell inventory). These capabilities are prevalent across many European broadcaster OTT services:

**EXHIBIT 7: EUROPEAN BROADCASTING GROUPS TAKE-UP OF ADVANCED ADVERTISING CAPABILITIES**

<table>
<thead>
<tr>
<th>First-party data strategies</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynamic ad insertion</td>
<td>22%</td>
</tr>
<tr>
<td>Programmatic sales</td>
<td>28%</td>
</tr>
</tbody>
</table>

Broadcasters are deploying these advanced advertising capabilities through different routes. Whilst some of the major groups have made acquisitions, others have built platforms in partnership with suppliers – for example, MTG’s advanced advertising platform based on Freewheel’s SSP. MTG is able to deploy this capability across their services in the Nordics but also the Baltics, Bulgaria and Czech Republic, meaning one upfront investment can be leveraged across several markets and products. In other cases, suppliers have been able to build scale in a single market by bringing multiple broadcasters into cooperative partnerships. StickyADS.tv used its strong position in France to bring TF1, M6 and France Télévisions together into a private exchange. The Aunia marketplace in Spain similarly combines inventory from Atresmedia and Mediaset Espana.

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6. MTM analysis, 2016. Base: first party data = all OTT containing advertising (n=58); dynamic ad insertion and programmatic = all broadcasters carrying advertising on linear or OTT (n=102)
In the vast majority of these cases, broadcasters are deploying advanced advertising capabilities on only a small portion of their inventory – usually at the lower value end, such as using DAI to sell otherwise un-monetised OTT simulcast inventory or using marketplaces to sell run of site AVOD inventory not sold through direct deals.

As advanced advertising solutions develop and mature, these techniques will be rolled out to smaller broadcasting groups as well as to higher value inventory for larger groups. In the UK, Sky are building DAI at scale with linear inventory through their AdSmart platform, and Channel 4 has extended its programmatic platform PVX into premium VOD inventory, delivering data-driven targeting for connected TV and set-top box VOD as well as mobile and PC inventory.

Executives identify three significant challenges for advertising-funded broadcasters investing in adtech to make the transition to multiplatform TV:

1. Different inventory sources deliver very different CPMs, regardless of audience profile. Achieving monetisation neutrality across devices, platforms and inventory types is of paramount importance for advertising-funded broadcasters, since it will allow them to reduce the negative impact of fragmentation and not have to prioritise linear broadcast within their distribution strategies.

   "We’ll work with any platform or device to achieve screen neutrality, but we also need to work towards monetisation neutrality. The revenue from an ad on any platform should be similar, effectively meaning that we don’t need to shift views in any particular direction. But this requires big changes, not least in measurement and attribution."

2. Industry participants believe there is significant innovation to come in advertising formats that will be more suited to the multiplatform TV future, especially for younger demographics. A number of trends intersect here, from personalised ads to shorter formats and branded content, but the challenge being addressed is common – how to find new forms of advertising that deliver value not only for advertisers but also for audiences that have grown up with the ability to block or skip ads.

   "There is a breach in the industry right now – we have learned to adapt our D2C offerings to younger audiences, but not the advertising model. They’re not tolerant of 30-second spot ads, it’s super boring, they’ll walk away from the content. Advertising needs to be more appealing, branded content, more personalised, integrated advertising, shorter formats, more narrative. Advertising that delivers real value to the audience and is appropriate to the context."

3. Competing effectively with video advertising platforms like Facebook and YouTube will require scale in terms of data as well as inventory, and executives believe that new industry partnerships and collaborations will be required in order to deliver products and services that work for agencies and advertisers. The challenge here is political rather than technical – how platforms and broadcasters can work together in ways that deliver fair value on both sides, that create incentives that reward investment and collaboration, and that stay on the right side of the competition regulator.

   "The landscape is so much more complicated now. How do we best monetise digital video with advertising? Part of the challenge is technical, but the really hard bit is political. Platforms and broadcasters will need to collaborate – how do you get ITV and Sky to work together?"
3.5 - DELIVERING BUSINESS MODEL INNOVATION

In delivering against these four areas of business model innovation, broadcasters have faced the perennial choice of building, buying or partnering. Larger broadcasting groups have pursued new capabilities in part through corporate venturing and acquisitions. Over a quarter (26%) of EMEA broadcasting groups have invested in multichannel networks (MCNs), with larger groups also investing in adtech (e.g. RTL/SpotX), music (MTG/Trace), gaming (MTG/ESL), virtual reality (Sky/Jaunt), platforms (Sky/Pluto), ecommerce (MBC/glambox) and online communities (MBC/Supermama).

EXHIBIT 8: CORPORATE VENTURING AND INVESTMENT ACTIVITIES BY LEADING EMEA MEDIA GROUPS

Whichever route is being followed, however, industry participants agree that developing strong relationships with scaled technology suppliers is essential to deploying these new capabilities, balancing them with existing approaches and developing new integrated operating models. Through working in partnership with vendors, broadcasters and content owners of all sizes can gain access to market-leading innovations and accelerate the transition to multiplatform TV. But how is this transition likely to play out, what sort of future is the industry heading for, and what do tomorrow’s TV businesses need to succeed?
Many of the business model innovations discussed in the previous section are currently found most often in products and services provided by larger broadcasting groups in more advanced markets. As the transition to multiplatform TV gains pace over the next five years we expect to see them spread across EMEA, facilitated by best-in-breed technology suppliers helping broadcasters and content creators to transform their business models. For instance, we forecast that the proportion of SVOD services using tiered pricing models will rise from 57% to 65% whilst the proportion of AVOD services using programmatic technology will increase from 28% to 55% (see exhibit below).
The areas expected to grow the fastest represent the opportunities that are likely to benefit a wide range of services. Most TVOD services could benefit from increased pricing flexibility, such as being able to target individual users with deals that will keep them within the service. Similarly, the majority of advertising-funded services can benefit from using programmatic trading tools to make the sales process more efficient and to offer data-driven targeting products to advertisers. Finally, most subscription services should be able to find and benefit from bundling and distribution partnerships, to extend their marketing reach and reduce customer acquisition costs.
As these new technologies and monetisation models roll out into the market along with the other elements laid out in section 3, senior executives expect further upheaval and disruption. The effects will be highly unpredictable, but participants do see some scenarios as more likely than others – as reflected in our snapshot of industry perspectives:

EXHIBIT 10: INDUSTRY PERSPECTIVES ON THE MARKET IN 2022

FIVE TRENDS FOR THE NEXT FIVE YEARS – A SNAPSHOT OF INDUSTRY PERSPECTIVES

10 VERY LIKELY

- **THEMATIC CHANNELS and video businesses converge** and compete for audiences, ad revenues and affiliate spend

- **THEMATIC PAID OTT** services take off – 10 services in the UK with 100k subs each

- **WE ARE AT “PEAK CHANNEL”** – the number of linear channels carried on pay platforms declines by 20%

- **NEW OTT AGGREGATORS** take share – 20% of households are fully OTT-only with no TV signals

- **PRODUCTION COMPANIES** diversify into D2C – all of the top 5 groups are running paid OTT services

1 VERY UNLIKELY

Industry participants anticipate upheaval at the service level, as the number of channels being carried on pay platforms is set to decline and as the distinction between thematic channels and specialist OTT video businesses continues to break down. However, in parallel with this, participants also expect a new battleground at the platform level, as a range of businesses compete to displace traditional TV platforms as the primary control layer for video content.
There will be a couple of big OTT aggregators in each market, requiring a lot of investment. I don’t think that the consumer is going to have 30 different apps for different channels – discovery is still poor and solving it will be the next big battleground.

These platforms will aim to provide an aggregation layer connecting consumers with video content and services, managing the complexity of discovering (and subscribing to) multiple offerings. The key players here will be pay platforms launching OTT offshoots (e.g. Now TV, Viaplay), startups reinventing the TV experience (e.g. Magine, Pluto, Molotov), technology giants leveraging their scale, device footprints and consumer relationships (e.g. Amazon, Apple, Google (YouTube/Android TV), and social platforms expanding into professionally-produced video (e.g. Facebook, Snapchat). Of these, senior content executives are most wary of Amazon – its brand and trusted position with consumers, its ability to subsidise huge investments in content through its core ecommerce business, and its track record of execution in other markets such as ebooks.

Amazon is doing aggregation in the US – will this roll out across the world? We’re very impressed by Amazon, they’re seeking to create a cable business by aggregating the smaller providers. I worry more about them than Netflix. Netflix just makes money from content. Amazon doesn’t have to make money from content, and they don’t need to make money at all.

Success as an aggregator, however, will require substantial investment and patience. The commercial deals necessary to deliver a truly integrated experience will take time to execute and consumer behaviours are deeply entrenched – although early adopters may be shifting to OTT-only, the mainstream will be slow to follow. In addition, some worry about whether network infrastructure can support such a shift to IP-delivery.

We don’t have broadband infrastructure that can support that many people watching video, plus people already have broadcast connections into their homes so most will carry on using them – consumers tend to take a long time to shift TV behaviours.
4.1 - STRATEGIC PRIORITIES: MANAGING THE TRANSITION

Across Europe, industry executives expect the next five years to see sweeping changes across the TV and video landscape, as the transition to multiplatform TV accelerates. Many of the behaviours, services, and underlying technologies that have driven the online video revolution are still immature and are only now starting to come of age. Although existing commercial relationships and industry structures may slow the pace of change in some areas, the broadcasting market of the mid-2020s will surely look very different.

The traditional revenue streams, partnerships and industry structures that have underpinned the success of the broadcasting and content industries during the previous 30 years will come under pressure. To survive and thrive, managing the transition to a more competitive, fragmented multiplatform TV market, industry participants across the European broadcasting market will need to change, cultivating new capabilities and capacities.

The TV companies of the next decade will be defined by their brands and the content they create, and their ability to match that content with the right audiences, on the right devices and platforms, with the right monetisation model or models. These audience relationships and the ability of broadcasters to sustain them, in markets that will be characterised by far greater choice and competition, will be central.

Beyond this, strategies will vary – but achieving differentiated, sustainable scale will be critical, either with mass audiences or with well-defined segments, avoiding the squeezed middle.

To succeed, tomorrow’s TV businesses will need to address clear strategic priorities, including:

• A willingness to invest in content innovation and experimentation, through in-house capabilities, acquisitions or partnerships with content creators.

• Flexible operating models that can deliver TV and video services across multiple platforms, investing in the people, platforms and partners required to manage competitive offerings in a more complex, distributed video ecosystem.

• A relentless focus on audiences and customers and on understanding their needs and preferences.

• A diversity of revenue streams, hedging against increased risk and uncertainty by monetising content offerings and brands across different windows, platforms and geographies.

As one executive argued:

“The environment we are operating in is moving so fast. What brought us here won’t keep us here, and certainly won’t get us where we are going. So we really need business model innovation – new approaches, new partnerships and new operating models.”
5 - APPROACH TO THE STUDY

The findings in this report were developed between September and December 2016 and are based on MTM research and analysis as well as extensive engagement with senior content industry executives across EMEA. Unless otherwise attributed, all quotations used in the report come from either in-depth interviews or roundtable seminars with industry leaders held in Stockholm, Munich, Dubai and London. All sessions were conducted under the Chatham House Rule (no attribution without prior permission), with participants speaking as individuals and not as company representatives.

In addition to the seminars and interviews, we reviewed the linear and OTT offerings of broadcasting groups with a viewing share over 1% in Austria, Belgium, Czech Republic, Denmark, France, Germany, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, the United Arab Emirates and the United Kingdom. We also explored the offerings of 12 international broadcasting groups, for a total of 110 broadcasting groups and 111 OTT services. The review and analysis focuses on video business models – including channel line-up, OTT offerings, content types, monetisation strategies and use of new technology and innovative business models.

Many of the larger broadcaster groups span multiple territories, offering different solutions in each market. For example, RTL runs TV channels in Germany, Belgium, Austria, Switzerland and the Netherlands, with different solutions in Netherlands and Belgium, but with the German TV channels and OTT services also offered in Austria and Switzerland. We have profiled the broadcasters on an offering-by-offering basis, looking at the services that they offer in each country – e.g. RTL in Belgium and Germany offers different services in each country and is therefore counted twice, but ARD offering the exact same services in Germany and Austria is counted only once.

The opinions expressed in this paper are solely those of the authors and reflect MTM’s judgement at the time of writing, based upon the available information. These views do not necessarily represent the views of the interviewees and contributors. Any errors or mistakes are entirely the responsibility of the project team. Inevitably, this paper provides a partial view of a highly complex industry: it represents a snapshot of industry perspectives at a particular moment in time.