



TV FUTURES INITIATIVE

BUSINESS MODEL INNOVATION
IN A MULTI-PLATFORM WORLD

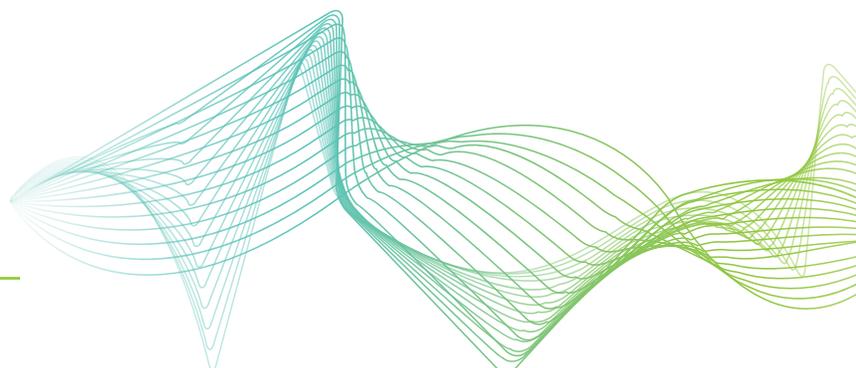
U.S. REPORT

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AT A GLANCE

This report details the findings of a collaborative research program undertaken by Comcast Technology Solutions and MTM in early 2017, exploring the key trends and developments impacting the U.S. TV industry during the next 3-5 years and identifying the strategic priorities for broadcasters, as they look to adapt and grow in a fast-changing market.

The TV industry is clearly experiencing a period of dramatic change, as broadcasting transitions into multi-platform TV, consumers fundamentally change their behaviors and preferences, and competitors across multiple screens compete for ad budgets, consumer spend, and consumer attention.

In many respects, the U.S. industry has adapted successfully to many of these changes during recent years, but there is a strong consensus across the industry that more change is coming – and that digitally-driven disruption may even intensify during the coming years. Industry executives expect the next stage in the evolution of the market to be characterized by fragmentation, convergence, and competition with:

1. Increased convergence and competition between broadcast TV and digital video businesses
2. Shifting affiliate demand for channels and content, as MVPDs adapt and change
3. An increasingly complex landscape for content windowing, delivery and distribution
4. Greater provision of thematic, niche and targeted video services
5. Increased competition in the advertising market

TV networks that have already invested heavily in new products, technologies, and ventures are now gearing up for the next stage of digital transformation. To remain competitive, broadcasters need to execute against seven strategic priorities:

1. Building the insight capabilities to understand changing audiences
2. Establishing a content innovation capability that can experiment and learn
3. Ensuring that brand, channel, and content portfolios are fit for purpose
4. Establishing flexible windowing and distribution strategies
5. Marketing core show and channel brands across platforms to ensure attribution
6. Establishing the capabilities to compete for advertiser spending
7. Developing flexible content management and multi-platform delivery solutions

THE TV FUTURES INITIATIVE – A NEW PROGRAM

Around the world, the TV industry is in a state of transition, as the growth and development of digital video services creates new challenges and opportunities for video content providers. Traditional industry revenue streams, business models, and value chain relationships are changing, as broadcasting transitions into a multi-platform TV market. New entrants, ranging from major international aggregators like Netflix and Amazon to Multichannel Networks (MCNs) on the YouTube platform, are attracting audiences, advertisers, and affiliates and stimulating competition, investment, and innovation both in the U.S. and internationally.

How will the video content businesses of the future fund investment and maintain their profitability and competitiveness? How does the business and operating models need to evolve, as the divisions between digital and linear continue to erode? What steps do TV businesses need to take to build sustainable multi-platform video offerings?

To help the industry answer these important questions, Comcast Technology Solutions and MTM collaborated on this report 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 exploring developments in the U.S. during the next 3-5 years and presenting a set of industry perspectives on the future development of the industry. The first stage of the program explored developments across EMEA.

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:



The findings in this report were developed during the first half of 2017 and are based on MTM research and analysis, as well as extensive engagement with senior industry executives across the U.S. Unless otherwise attributed, all quotations used in the report come from either depth interviews or roundtable seminars with industry leaders held in New York and Los Angeles. All sessions were conducted under the Chatham House Rule (no attribution without prior permission), with participants speaking as individuals and not as company representatives.

1 - DIGITAL VIDEO SERVICES ARE TRANSFORMING THE TV INDUSTRY

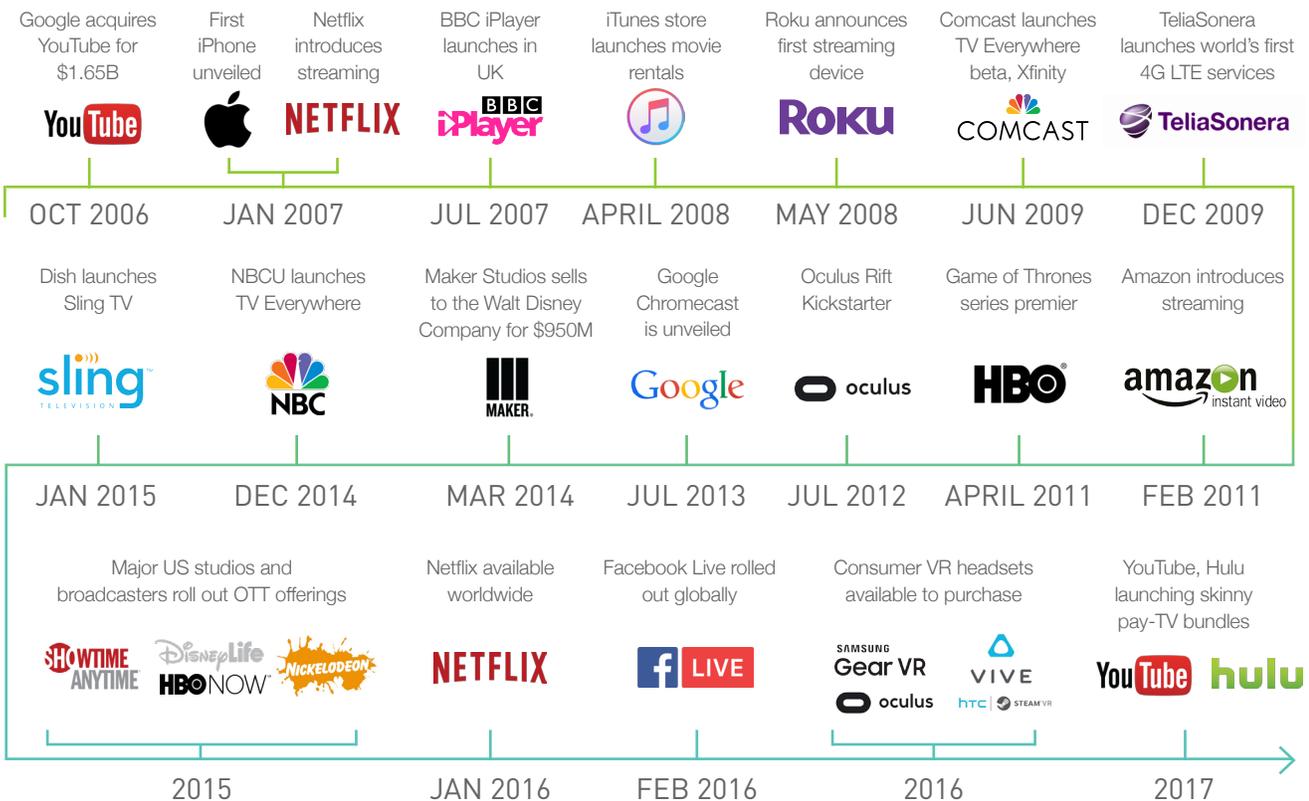
The TV industry is in the midst of a period of change, with traditional business models changing as consumers are adopting new ways to consume content, and multiple screens are competing for ad budgets, consumer spend, and consumer attention.

To date, revenues in the U.S. TV market have held steady – and the opportunity is now to explore how to evolve business models to be successful in a multi-platform world.

For many years, the U.S. TV ecosystem has been instrumental in the growth and development of television around the world. The combination of a large, wealthy, and competitive marketplace, a vibrant and inventive advertising industry, world-leading content producers and studios, and powerful networks and pay-TV providers has helped the U.S. market to maintain its global position of leadership, sustaining high levels of investment in channels, programming, technology, and infrastructure.

Ten years ago, Google acquired YouTube, Netflix announced the launch of its new streaming video service, and Apple launched the first iPhone – and fueled by the growth of broadband connectivity and the proliferation of high-quality connected devices, the pace of change has not slowed down. YouTube’s launch in April 2017 of a TV subscription service is the latest in a series of potentially transformative innovations for the industry.

EXHIBIT: DIGITAL VIDEO SERVICES ARE TRANSFORMING THE BROADCASTING INDUSTRY, IN THE U.S. AND INTERNATIONALLY



As a result, the U.S. TV market is experiencing a period of significant change and development, with shifts in content production and investment, distribution, and consumption. New digital entrants have scaled rapidly, in the U.S. and internationally, supporting very high levels of investment in high-quality content with Netflix and Amazon now spending more on original content than all but a few major studio-broadcasters, supporting their investments with debt- and venture-funding, international scale and cross-subsidies from other lines of business.

The growth of non-linear viewing, digital video consumption, OTT subscription offerings and large-scale digital video advertising platforms is evolving the landscape as it relates to the TV industry's main revenue streams, changing investment to new capabilities and offerings – TV Everywhere services, catch-up video players, authenticated apps, YouTube channels, subscription OTT offerings and other new video businesses. The audience is fragmenting across a range of devices – while 93% of the population still watched TV on a TV screen in 2016, 46% of adults watched video on their smartphones and 34% on their tablets – up from 13% and 6% respectively in 2011.¹ The economics of video content are also changing, with budgets for scripted entertainment shows and premium sports rights escalating, while at the same time, MCNs and the new digital studios are attracting large audiences with content that is often produced at very low cost.

It is easy to overstate the impact of these developments. Most major U.S. broadcasters remain highly profitable, linear channels are still attracting large audiences, millions of households still subscribe to pay-TV, and TV remains a uniquely powerful medium for advertisers.

Since the start of the decade, U.S. industry revenues have grown, but only gradually. According to Nielsen,² between 2012 and 2016 TV advertising in the U.S. grew from \$72.2B to \$77.9B, around 9%, and pay-TV revenues increased from \$100B to \$110B, as declining subscriber numbers were offset by increasing ARPUs. However, during the same period, online video ad revenues increased 45%, from \$2.3B to \$10.2B, and Netflix more than doubled its U.S. streaming subscriber base, from 22.0M in Q1 2012 to 49.4M by the end of 2016.

Consumer expectations about what a compelling TV service should provide are changing, as deep content libraries, advanced features and functionalities, and the flexibility to view content on any device and across any network, become more widespread. For example, Comcast reports that its X1 box (with features like Cloud PVR, recommendations, voice control and a large on-demand library) has helped to “significantly reduce voluntary churn” since its launch in 2012.

1. Emarketer, 2016

2. Nielsen Total Audience Reports, 2012-2016

2 - EVOLUTION OF TV NETWORKS IN A MULTI-PLATFORM WORLD

TV networks have invested significantly in new technology and products already – executives believe that the initial technology roll-out phase is ending, and the next phase of creating a sustainable multi-platform business is commencing.

Developments to date typically fall under three key categories:

1. OTT products and services: adapting to new consumer behaviors and market dynamics
2. Advanced TV and video advertising solutions: enabling new digitally-driven formats, measurement, and planning
3. Technology and operations: ensuring innovation and flexibility in a fast-changing market

To date, U.S. TV networks have been quick to embrace and respond to the challenges and opportunities presented by the growth of digital video and multi-platform TV. For example, research firm Frost & Sullivan³ estimates that the OVP (online video platform) market is now worth an estimated \$600M, driven primarily by investments from TV networks and pay-TV platforms.

2.1 - TV NETWORK OTT OFFERINGS

Looking at the major U.S. TV network groups, 32% have launched an OTT service and 44% have launched multiple OTT services, mainly the larger, diversified groups such as Viacom and NBC Universal. Small- to mid-size TV network groups such as Starz and Fuse generally have one OTT service each. However, 24% of broadcasting groups that have not launched any OTT services – mainly smaller groups.

EXHIBIT: U.S. TV NETWORK GROUPS, NUMBER OF OWNED OTT SERVICES⁴

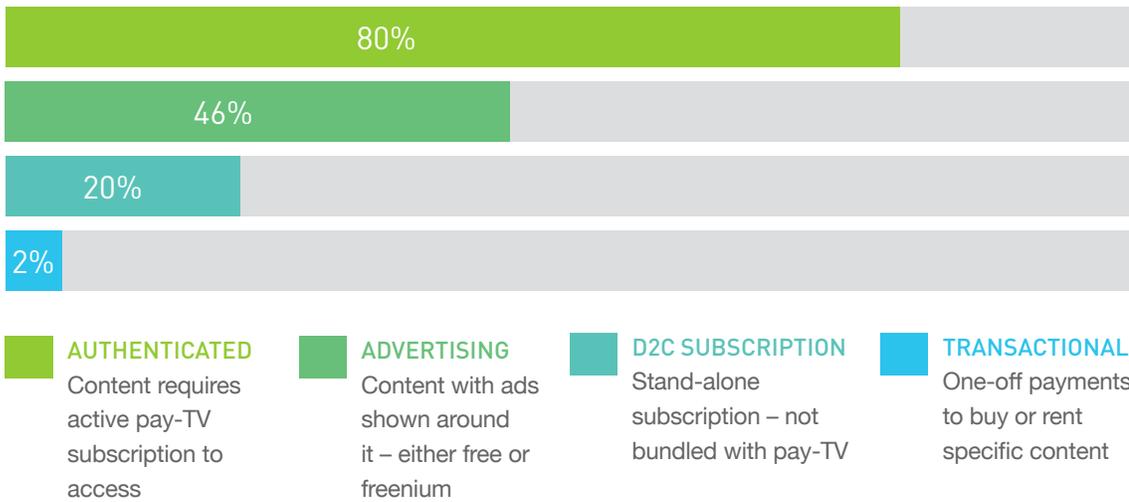


The majority of OTT services – 80% – are authenticated TV Everywhere apps, relying on pay-TV providers to manage the customer relationship. 46% of TV network OTT services include some form of advertising-funded content and around 20% currently offer stand-alone direct-to-consumer subscriptions, including services such as HBO Go, CBS All Access and NBCUniversal's Seeso. Most industry participants expect this number to increase in coming years.

3. Frost & Sullivan, Global online video platforms – Market leadership award, 2016

4. MTM analysis of 42 U.S. broadcasting groups, 2016

EXHIBIT: TV NETWORK OTT SERVICES MONETIZATION MODELS

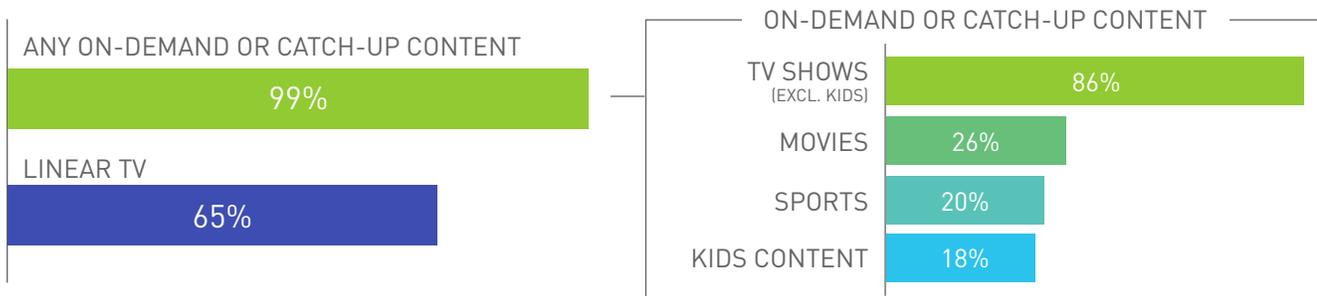


44% of TV network OTT services currently combine multiple monetization models, providing both free/ ad-funded content and content behind a pay wall, or offering a stand-alone subscription alongside pay-TV authentication. Industry participants believe that revenue diversification will become increasingly common, with consumers able to customize their content packages with tiered pricing models or add-on packages for specific sports or events:

“ Especially in the SVOD space, we have seen the first wave of pricing, where there’s basically one price, the Netflix or Amazon model. I think the next step is aggregation and add-ons – in addition to the basic package, you can add some niche content for an additional \$3 per month, like sports or premium film or anime. Or you pay a bit less but get advertising, or you share content on social media and get credits – the pricing model will become more flexible and smarter. ”

As the majority of OTT services are supporting TV channels, most currently offer only TV content – 86% of TV network OTT services offer on-demand TV shows; 65% offer live linear channels; and around one in four offer movies, sports, or kids content.

EXHIBIT: BROADCASTER OTT SERVICES - CONTENT TYPES



As OTT and on-demand platforms gain traction with consumers, U.S. viewers are being presented with far more choice – consumers now have access to a wide and growing range of substantial content libraries. As a result, viewing is becoming more diversified, and the industry needs to evolve to invest more to produce content that stands out – original, exclusive, high-end scripted content.

For major OTT businesses entrants such as Netflix and Amazon, original content is a key driver of customer acquisition – Netflix’s content budget for 2016 was \$5B,⁵ higher than any other TV network, excluding sports rights. The number of original scripted series in production has increased dramatically in recent years. FX research noted there were 455 scripted original programs in 2016 compared to 192 in 2006 - and many TV networks are growing their programming budgets by 5-10% year-over-year to compete:

“ The cost of content has gone through the roof – it’s not uncommon now to spend \$5M per episode, and Netflix is spending \$13M per episode for the Crown. We’re spending more on content every year, and really need to be clever with how we make the economics work. ”

Windowing and distribution strategies are increasingly complex, with content owners balancing the trade-offs between bringing audiences to owned-and-operated channels in the U.S. and internationally, and licensing rights to the highest OTT bidder:

“ As OTT grows, there are so many more [windowing and distribution] options, for the best content. If you have U.S. and international channels and are spending a lot of money on shows, your own channels may not always be the best way to monetize that investment, when Netflix will buy a full set of international rights. It does raise questions about the future of our international channel portfolio and our business model. ”

EXHIBIT: NEW WINDOWING STRATEGIES

	DESCRIPTION	EXAMPLE
<p>COLLAPSE</p>	Full global buyout of all rights and windows – typically by SVOD providers, but studios experimenting, too	Netflix and Amazon investing in original content monetised purely in SVOD window – e.g. The Crown costing \$130M to produce
<p>INVENTION</p>	New windows created to build new product offerings and services	SVOD service MUBI offers 30 hand-picked films at any one time, available for 30 days each – meaning that the actual release date of the content is irrelevant
<p>COMPRESSION</p>	Windows shortening in order to extract more value in shorter time frame and combat piracy	Crunchyroll obtaining day-and-date release of Japanese anime series – ensuring that hardcore fans visit the service rather than pirate sites
<p>RESHUFFLE</p>	Premiering content through OTT before transferring to broadcast for second window	Disney-owned TV network Freeform put the entire season of new series Beyond on digital and on-demand platforms prior to broadcasting it on their channel.
<p>PARTNERING</p>	Collaborations between global OTT services and national TV networks to fund premium content	Netflix partnering with CBS for the new Star Trek TV series – with CBS broadcasting each episode in the US, followed by global distribution by Netflix within 24 hours

5. Netflix annual reports

2.2 - ADVANCED TV AND VIDEO ADVERTISING

U.S. TV networks are also responding to the rapid growth of digital advertising by investing in new advanced advertising capabilities. While the majority of this spend is from online video, certain TV network groups such as Fox and NBCUniversal are also experimenting with automating linear TV inventory sales, to streamline the transaction process:

■ ■ *Automated advertising helps keep costs low for selling standard ad formats in standard ways ... we're not using addressable targeting, but just automating the sales process, freeing up our staff to focus on higher-value activities.* ■ ■

TV network deployments of advanced capabilities are uneven, in part because the assets and capabilities required to unlock the full potential of the market are shared between MVPDs and networks – and reaching commercial agreement has often proved difficult. Current deployments are unevenly distributed across the U.S. TV market, with much work required to deliver common solutions like cross-platform attribution:

■ ■ *The market is moving forward, but not always at the same speed or in the same direction.* ■ ■

TV networks are more advanced in their use of advertising technology for online video inventory compared to linear inventory, due to the ease of implementation. Technologies such as dynamic ad insertion on linear TV often requires collaboration between MVPDs and TV networks, which can be challenging in the highly competitive U.S. TV market. In addition, the lack of integrated platforms create significant challenges:

■ ■ *Fragmentation is still a huge challenge. We have significant DAI deployments, linear deployments – but very siloed. If you wanted to run campaigns across them, they're not compatible – you need to do separate planning, and get separate analytics.* ■ ■

However, most industry participants see 2017 as a crucial year for developing the infrastructure and standards around advanced TV advertising. Most MVPDs and TV networks have been trailing advanced TV advertising solutions for a few years, and executives believe that the next 12-24 months will see a number of market implementations:

■ ■ *2017 is a year of establishing the infrastructure, after which things will start to move fast. So far, we've seen integrations, proofs of concept, analytics, validation – we're rapidly approaching large-scale deployment, and hopefully standardization and unification.* ■ ■

To increase consumer engagement while maintaining advertising revenues, many TV networks are experimenting with native advertising. As of December 2016, around a third of major U.S. TV network groups had launched, invested in, or acquired a native advertising or branded content studio. These studios typically work both internally, creating content to support the network's TV shows and marketing campaigns, and with advertisers, creating content that integrates advertiser messaging with TV shows.

■ ■ *I think that native advertising and content marketing will really be the solution to drive advertiser revenues going forward – our viewers are more engaged both with the shows and the marketing messages, and it adds value for advertisers above and beyond traditional spot ads.* ■ ■

2.3 - TECHNOLOGY AND OPERATIONS

To support their growing digital ambitions, TV networks are investing in technology solutions and in-house development teams. Executives believe that having strong technology capabilities and partnerships has become crucially important – TV networks need to develop and deliver solutions across an increasing number of platforms, competing for audiences, and advertisers with digital-first companies.

In the online video space, the first phase of delivering digital technology solutions is largely in place – nearly all broadcasters now have some in-house development capability for new digital products and services, supported by a well-developed vendor ecosystem for OTT solutions. The next step is making online video technology cheaper and easier to use off-the-shelf. Many vendor solutions are increasingly modular and pre-integrated, making it easier to use a range of providers – and at the other end of the spectrum, vendors are developing turn-key solutions that provide end-to-end functionality out of the box:

“*The actual technology is now pretty well established and mature ... new developments are largely incremental – features, functionality, and ease of use. There’s still a long way to go – to build a truly competitive product takes time and resources, with internal teams working alongside suppliers.*”

To support their development efforts, many TV network groups are investing heavily to grow their internal teams, organically and through acquisitions:

“*We see technology as core to our business. As we’ve invested to remain competitive, we’re increasingly seeing interest from third party businesses, which could definitely be an attractive opportunity going forward.*”

Some industry participants believe that the industry faces enormous challenges in developing the required capabilities to compete effectively. Many of the new digital competitors benefit from significant economies of scale, in terms of new product development and operating costs – economies that even larger U.S. TV networks find hard to replicate. Technology obsolescence is also a growing concern, as hardware and software cycles accelerate, increasing the cost of development, maintenance, and support. As TV networks look to increase their spending on content, some are looking at alternative solutions, as the costs and complexity of maintaining a competitive multi-platform offering increases:

“*The argument of build versus buy is probably more important than ever. Technology cycles are shortening, and you need to invest more and more to stay on top of the game. If you decide to go down the capex route, you really need to make sure that the tech will bring you a competitive advantage.*”

3 - MARKET EVOLUTION – CHALLENGES AND OPPORTUNITIES

In the coming years, industry participants expect that the market will be characterized by fragmentation, convergence, and competition – as the offerings from TV networks, pay-TV companies and digital video providers become more interchangeable. Industry participants highlight five key themes:

1. Increased convergence between broadcast TV and digital video, as audiences choose between an ever-growing range of devices, platforms, and viewing patterns
2. Shifting affiliate demand for channels and content, as pay-TV providers adjust to shifting revenue models
3. A more complex windowing, delivery, and distribution landscape across owned and third-party platforms and channels
4. Increased provision of thematic, niche, and targeted video services in the OTT space taking advantage of the lower barriers to entry and distribution costs
5. A more competitive advertising market, as audiences tailor their viewing habits and digital video businesses promise better personalization

How will the U.S. broadcasting market develop during the next three to five years, and what challenges and opportunities will this create for industry participants?

Industry executives across the U.S. TV and video markets anticipate that the next few years will be characterized by diversification, convergence, and competition. Audiences will be faced with a growing range of content offerings across a range of platforms, services and devices – and will look for strong, distinctive brands, reliable cross-platform services, and access to the right content at the right time and at the right price. Competition between TV networks, pay-TV companies, and a growing range of digital video providers will intensify as online video and broadcast TV become increasingly substitutable in the eyes of consumers and advertisers. Needless to say, there will be considerable opportunities for TV networks to evolve.

3.1 - CONVERGENCE, FRAGMENTATION, AND COMPETITION

Many industry participants are expecting their revenues over the next few years to remain stable, because of multi-year pay-TV contracts and advertising upfronts. Some executives are cautious that this may cause a false sense of security.

As digital distribution technology and broadband infrastructure keep improving, TV and online video will continue to converge, with TV networks and digital video businesses competing for content, talent, audiences and advertiser spend.

“ There is a lot more crossover between linear and digital than there was five years ago – YouTube celebrities getting TV shows, and TV shows making content for YouTube. We plan all new shows from a multi-platform perspective ... social is not just about marketing, it’s about extending and expanding the story. ”

The increased substitutability of TV and online video is driving up the cost of premium content and rights. TV networks are already spending significantly more on programming than 5-10 years ago,⁶ and content and rights costs are expected to keep increasing, as well-funded competitors are trying to win audiences through top-tier exclusive content. Importantly, the competitive set is widening beyond subscription services – ad-funded social media players such as Twitter and Facebook acquired live event rights in 2016 for streaming through their platforms.

“ It’s interesting how social media platforms are approaching video content – some are focusing on encouraging their influencers, and others are paying for professional content. Both are potentially risky – we can’t really compete in the influencer space, and if they start focusing on premium content it will make them more direct competitors. ”

As the quantity and quality of video increases, audiences are tailoring their viewing habits – watching TV and video content on a range of screens and platforms, across different windows and timescales, with new monetization models. The pace is unlikely to slow down – as broadband infrastructure and technology improves, video is expected to become ubiquitous, and the competitive set even larger.

“ Basically, all online media companies have video high on their list of strategic priorities today – social media platforms, traditional and digital-first news companies, tech companies – competition is growing every day. ”

3.2 - SHIFTING AFFILIATE DEMAND FOR CHANNELS AND CONTENT

To date, pay-TV revenues are steady – but industry participants expect that the changing nature of consumer demand will affect revenues and profit margins in coming years. Industry participants believe that there is a risk of cannibalization or further price competition, where pay-TV providers will need to address changing revenue models to adapt to the market.

As a result, many industry participants believe that the nature of affiliate demand for content and channels will change. Pay-TV providers will likely prioritize top-tier premium content and a smaller number of key brands that can help to attract and retain subscribers. Content providers will need to work harder to demonstrate their value to affiliates. In 2014 and 2015, two pay-TV providers decided to drop Viacom from their line-up – and were nearly joined by Dish in 2016, after the two MVPDs showed limited subscriber losses and improved operating profits. However, industry participants believe that this was an exception rather than the norm:

“ I don't think that the pay-TV providers will kick many channels directly off their platforms – but as some create new slimmer products with fewer channels, it will incentivize the broadcasters to focus on their top brands and close their lower-tier channels. ”

3.3 - A COMPLEX DELIVERY AND DISTRIBUTION LANDSCAPE

The TV delivery and distribution landscape is becoming much more complex, with growing penetration of connected devices. The device and OS market for online video is highly varied – a TV network wanting to launch a mass-market consumer-facing product has to consider numerous platforms and operating systems, and optimize for each one.

“ The user experience is super important – if someone is watching a piece of content on their phone or tablet when they're out, the TV has to know and pick up from the right place when they come home. ”

TV networks are also distributing their content across an increasing set of third-party platforms and intermediaries. Many TV networks are co-funding new productions with, or licensing existing shows to, SVOD providers, taking advantage of their demand for high-end content and global distribution network. Ad-funded and social video platforms, such as Facebook, YouTube, Snapchat, and Twitch, are growing in importance as distribution platforms and content partners. For TV networks able to optimize their distribution and marketing strategies, there are more opportunities than ever to engage with audiences – but it is difficult to manage and optimize the growing number of touchpoints in a cost-effective way.

“ You have to manage an ever-growing number of platforms and touchpoints, and you have to make them work together. The content that you have on Snapchat is different from Facebook – but they have to be a part of the same story ... and it has to cost the same as for when you were only doing linear TV. ”

3.4 - THEMATIC, NICHE, AND TARGETED VIDEO SERVICES

Alongside the major digital video companies, a new breed of thematic or niche video services are entering the market. These new video services aim to super-serve specific fan-bases, ranging from the relatively popular to the hyper-niche: baseball, hockey, and cycling fans; art-house film and Korean drama lovers; knitters, cooks, and yogis. In many ways, these services are similar to thematic TV channels, but the lower cost of content creation and distribution means that the services can be profitable with a smaller subscriber base.

“ Over the next few years, we will see a ton of new niche SVOD services launch. If you have the right cost model, you can be profitable with 50,000 subscribers – others will not be stand-alone sustainable, but can be a nice add-on revenue stream for certain types of content. ”

In the short term, industry participants expect to see a proliferation of niche services, both from broadcasters looking to gain value by repackaging content assets, and from new independent providers. Industry participants believe that new aggregators can help niche SVOD services gain traction, by providing a common platform for discovery and managing the customer relationship.

“ It’s scary how fast things have moved – two years ago, we talked about how disaggregation was the future, but reaggregation and bundling is already happening in a big way. ”

New aggregator services and platforms are launching, such as the Amazon Channels program and Crunchyroll’s VRV platform. These services are hoping to help stand-alone subscription services with streaming infrastructure, customer service, billing, and marketing.

“ I think that there are good prospects for aggregator platforms for SVOD services – consumers don’t want to manage 30 billing relationships. Especially for niche SVOD services, it helps them with discovery and a lot of the back-end management, which can be hard to do if you’re small. ”

In addition, some MVPDs are starting to offer OTT subscription services through their set-top boxes – for example, Comcast now offers Netflix through its Xfinity boxes. Some industry participants believe that pay-TV providers will be able to act as an aggregator for stand-alone OTT services – essentially playing the same consumer-facing role that they currently do with linear TV channels.

3.5 - A MORE COMPETITIVE ADVERTISING MARKET

TV advertising has remained resilient to date, and is not expected to disappear in the next few years. Online video providers are working hard to make a dent TV advertiser spend, courting advertisers with data-driven solutions offering better targeting and attribution, plus access to attractive, TV-like audiences. The issue is exacerbated by the fragmentation of TV audiences – it's harder to give advertisers the concurrent scale and reach that TV once commanded:

■ ■ *TV has always been the dominant platform for scale – it was the only place you could reach 20 or 30 million people on a regular basis – but that scale is reducing. People are still watching video, but on-demand, on social media, or on other devices. It's still the best option, but for how much longer?* ■ ■

Viewing is also increasingly shifting to non-linear platforms, where linear TV advertisements and ad breaks are less effective. A growing proportion of audience time is on platforms with no ads, such as Netflix and Amazon Prime:

■ ■ *Audiences are getting used to watching TV with no commercials ... so the experience of linear channels with ad breaks feels more interruptive – so they will watch more Netflix and Amazon.* ■ ■

The evolution of TV advertising revenues over the next three to five years remains uncertain. Some executives believe that trading models will help keep prices high – as traditional commercial impacts become scarcer, price will increase as demand outstrips supply:

■ ■ *TV is still a powerful medium, and trading models and upfronts will help keep revenues high. It'll decline, but not drop off a cliff.* ■ ■

Others believe that growing fragmentation across platforms will lead to price deflations as advertisers use new options – and that the TV advertising market will see revenue declines as volume and price both drop:

■ ■ *I think that we're heading towards a tipping point – advertisers have spent a few years testing the waters with online video, slowly increasing their spend. If they are happy that it is cheaper and more efficient, there is definitely a risk that they will move a large chunk of spend away from TV – it is what they did to newspapers. We're not as unique as we like to think.* ■ ■

3.6 - PROVIDERS WILL PURSUE SCALE OR DIFFERENTIATION

So what does this mean? Industry participants believe that two potential paths for TV network groups will be sustainable under the new market conditions – pursuing scale or differentiation. As consumers have increased choice of what, when and how to watch TV, the most valuable shows will be those who can drive a passionate audience.

“ *The best content for on-demand and online video is not necessarily the high-end drama – certain ‘trashy’ shows command a hugely engaged fan base ... [shows that are] definitely not high-end, but a brilliant, distinctive brand.* ”

For TV network groups pursuing scale, significant investments in content and distribution will be required to regularly reach mass audiences – we have seen the costs of content increase in recent years, with SVOD providers and broadcasters competing for the most distinctive, high-quality TV shows. To leverage the benefits of scale, we are likely to see increased consolidation – both within TV network groups, who may offer fewer, bigger show and channel brands; and through mergers and acquisitions.

“ *The cost of content has increased quickly in recent years, with more competition for exclusive rights. For smaller broadcasters the sums are not viable ... I think that we will see fewer, bigger broadcasting groups.* ”

On the other side of the equation, smaller video businesses will have to be differentiated – creating brands that have a distinct tone of voice and set of values, and that appeal strongly to its specific target audience. In this space, we are likely to see convergence between TV networks and online video businesses competing for the same consumers, advertisers and affiliate spend. The brands will need to establish credibility and authenticity with their fan bases – as a result, the companies are likely to remain small- to mid-sized or retaining independence as part of a larger conglomerate.

“ *Creating content for online is fundamentally different to TV – it is about authenticity, reaching and engaging with a small sub-section of core fans. You cannot throw money at it and expect that it will work – the audience is turned off straight away if it does not feel genuine.* ”

We are facing a period of opportunity spurred by technology, where TV networks, pay-TV providers and digital video businesses will respond to new consumer behaviors and market dynamics. TV businesses and operating models will need to adapt.

4 - TV NETWORK BUSINESS MODEL INNOVATION

Over the next five years, TV networks will have to continue their transition toward multi-platform TV businesses.

In particular, executives highlight seven areas of focus:

- 1. Build the insight capabilities to understand changing TV audiences.**
As audiences diversify across new platforms, devices and viewing behaviors, TV networks need to invest in more advanced data science and analytics capabilities.
- 2. Establish a content innovation capability that can experiment and learn.**
TV networks need to be able to innovate with new content forms and formats across a range of platforms, and rapidly test and learn how audiences react.
- 3. Ensure that brand, channel, and product portfolios are fit-for-purpose.**
As linear TV becomes only one of many content channels, the next challenge is to integrate and optimize the touchpoints and workflows to serve the right content in the right context.
- 4. Establish flexible windowing and distribution strategies.**
Digital distribution has created new windows, content purchasers, and distribution strategies – TV networks need to innovate, test, and learn to understand how to maximize reach and revenue across windows.
- 5. Market core show and channel brands across platforms to ensure attribution.**
Content and marketing strategies are increasingly intertwined – best-in-class TV networks need to integrate content, commercial, and marketing teams at every stage of the content lifecycle.
- 6. Establish the capabilities to compete for advertiser spending.**
As new digital entrants are competing for share of TV advertising spend, TV networks need to develop new digital advertising products and formats, while at the same time protecting traditional TV spot revenues.
- 7. Develop flexible content management and multi-platform delivery solutions.**
As the TV and digital video market become increasingly converged, TV networks will need to establish a flexible, cost-effective approach to innovation, adapting to an increasingly rapid pace of change.

As the transition to a multi-platform market progresses, traditional TV industry business models will continue to evolve. The same changes also present opportunities – to forge powerful new commercial partnerships, enhance the value of premium content, and deepen and extend relationships with audiences and advertisers.

What steps do U.S. TV networks need to take to strengthen their business models and capitalize upon the new opportunities presented by the changes impacting the industry? To succeed, TV networks will need to address seven building blocks, the strategic foundations of the next-generation business models that will sustain the industry.

EXHIBIT: NEXT-GENERATION BROADCASTER BUSINESS MODELS – THE STRATEGIC FOUNDATIONS



4.1 - BUILD THE INSIGHT CAPABILITIES TO UNDERSTAND CHANGING TV AUDIENCES

TV networks are looking to understand how audiences are engaging with video content across an increasing range of devices and platforms. To date, traditional measurement panels have struggled to keep up with new forms of video viewing, and broadcasters are using a growing number of data sources and tools:

“ TV panel data is just one source; suddenly you need to understand all kinds ...the volume, velocity, and variety of data is increasing. And the growing variety is the biggest issue. ”

Broadcasters need to invest in skills and capabilities to interpret this data in a meaningful way:

“ It’s not easy to take many different bits of data from multiple sources and look at them together... we test different combinations of metrics until something fits together and starts making sense. ”

Leading broadcasters are re-inventing themselves as data-driven businesses, who support business decisions with accurate data and insight across increasing set of functions and roles. Self-serve analytics tools can empower employees across the business to use data more effectively on a day-to-day basis.

“ We are developing self-serve analytics, and working to make this part of our culture. It has been easier to implement for the commercial teams than for the creative teams ... it is making a difference in the amount of data that is used across the business, and is cheaper than having the data team answer questions on a daily basis. ”

4.2 - ESTABLISH A CONTENT INNOVATION CAPABILITY THAT CAN EXPERIMENT AND LEARN

As audience behaviors and preferences are changing, studio broadcasters will need to experiment and innovate with new content forms and formats across a range of platforms, and rapidly testing and learning how audiences react. The economics of online video can be very different to traditional TV. For non-premium online video, the optimal business model is contingent on having very low costs and overheads. Few executives are expecting that their online video channels will drive significant revenues for the overall TV network business. The revenue share deals with the platforms are often unattractive, with up to 50% of ad spend going to the social platform – and typical CPMs are relatively low.

“ It’s incredibly hard to make money from ad-funded online video alone. CPMs are low to begin with, and then you give half of it away to the platform. Most people who do this well pursue off-platform strategies – native advertising, own platforms, t-shirts – to make it a viable business. ”

Few TV network groups have managed to build successful stand-alone online video brands from scratch, and many are choosing to collaborate with, invest in or acquire existing online video specialists, such as MCNs. Traditional TV and online video properties are often run separately, but executives believe that TV networks will keep experimenting with how the businesses can be more integrated in coming years. In the meantime, TV network groups use their digital brands and businesses as digital evangelists, helping other departments understand best practice in the online video space.

“ Our partnerships are helping us move in the right direction. We look to engage with partners who are doing the best jobs in their market, who can help us with our thinking and strategies ... they have helped us change the way we work across all aspects of the business. ”

EXHIBIT: U.S. BROADCASTERS WITH STAKES IN MCNs

4.3 - ENSURE THAT BRAND, CHANNEL, AND PRODUCT PORTFOLIOS ARE FIT-FOR-PURPOSE

TV networks today are fairly well established in their roll-out of digital products, including OTT products, websites, social media channels and apps. The next challenge is to integrate and optimize the touchpoints and workflows, to serve the right content in the right context.

■ ■ *We're thinking a lot about balancing reach, revenue, and control across the various platforms – you nearly always have to make a trade-off, so it's about understanding what needs you are serving at the different stages, and how it all ties together.* ■ ■

Brands take a long time to build, and can be reinvigorated with the right support and investment. Executives believe that distinctive brands can resonate across different platforms and timelines while staying true to their core values. Broadcasters can learn from the news industry, who have had to adapt to changing consumption behaviors and time-scales. Certain news brands have used the changing market to reinvent and reinvigorate their products – and broadcasters have a chance to do the same.

■ ■ *You have one story and translate it across the various platforms, with different approaches but all on-brand. We communicate to different audiences in different timelines – by the time it goes on air, it's old news – the latest news will be breaking online. It's about building a 360 franchise, owning feeds on Snapchat and Facebook and Twitter and linear, and making them all work together.* ■ ■

4.4 - ESTABLISH FLEXIBLE WINDOWING AND DISTRIBUTION STRATEGIES

The growth of digital has created new windows and content purchasers, such as TVOD and SVOD providers, and new forms of distribution, such as large on-demand catalogs, instant global distribution, and reshuffling of traditional windowing models.

■ ■ *Content distribution is becoming much more central to the planning process – there are many new windows to be managed, and as the cost of content rises, it becomes more important to get this right.* ■ ■

Content owners are already experimenting with new forms of windowing to appeal to specific demographics. For example, TBS provides all episodes of its new series, *Angie Tribeca*, through VOD platforms, hoping to attract younger audiences used to binge viewing.

■ ■ *It's such a crazy changing time. You have to embrace new models, but also be aware of cannibalization. We will see a lot of new models, trialing and tweaking to learn what works where.* ■ ■

International co-production has been growing strongly in Europe in recent years, and has started to become more prevalent in the US. For example, 2016 mini-series *The Night Manager* was a co-production between BBC in the UK and AMC in the U.S. TV networks are increasingly interested in reducing the financial risk associated with a big-budget TV series, and co-productions can be appealing – but they come with their own challenges, such as creative tensions and having to share revenues.

■ ■ *We're interested in doing more co-productions – for projects with international appeal, they can be a great way to spread the risk. But of course, you have to manage a bigger team, more opinions – you need to be careful upfront that you have similar goals and visions.* ■ ■

TV networks are also increasingly co-producing content with the major SVOD providers, Netflix, Amazon and Hulu. As CBS is relaunching the new Star Trek TV series they have production funding from Netflix, who will have global distribution rights outside of the U.S. and Canada. In addition, many TV networks are signing over the global distribution rights for existing shows to Netflix, choosing to do one large global deal instead of multiple small deals with local providers.

■ ■ *We've signed a lot of deals with Netflix, we've looked at the business case for it and decided to work with them. We don't have a huge distribution arm, so it has made sense to use their global network.* ■ ■

Experimentation in windowing is still very new, and broadcasters will need to utilize their insight functions to test and learn about how content performs across various platforms, devices and contexts. Not all new models will be successful, but TV networks who are willing to try out new ideas and models are likely to have an advantage over their competitors.

■ ■ *There are huge opportunities, but everyone is still learning about how different windows will work together and about how returns will be distributed. Does selling a show to an OTT provider destroy the value of all the later broadcast windows?* ■ ■

4.5 - MARKET CORE SHOW AND CHANNEL BRANDS ACROSS PLATFORMS TO ENSURE ATTRIBUTION

For best-in-class TV networks, content strategies are increasingly intertwined with marketing strategies. Marketing, commercial, and content teams need to work together to plan and execute engagement across touchpoints – it is no longer sufficient for the content team to send a trailer to marketing and ask them to promote it.

■ ■ *There is no longer a clear divide between the content that's on-air and supporting content. We have to work much more collaboratively across producers, creators, talents, marketers – and increasingly also bringing in the fans, making them an influential part of the process.* ■ ■

Social media plays a key role in brand building, allowing fans to consume, comment on and share content with friends and followers. As consumers navigate the sea of content, the most trusted recommendations come from friends – and clever marketers are able to encourage organic sharing. Building a core, passionate audience willing to share and evangelize is difficult, but incredibly valuable. Through audience focus groups and data, TV networks can gain some insight into behaviors and preferences – but it is even more important to feel authentic and true to core values.

■ ■ *Our goal is to turn viewers to fans, and fans to evangelists ... we converse with them as we would with friends – not just sharing the big things, but the small things. We have a great community who really drum up support for the show, and we try to show them that they are super important to us.* ■ ■

As TV networks provide their content across an increasing range of third-party platforms, attribution management is crucial. Contrary to traditional EPGs, SVOD platforms such as Netflix and Amazon Prime categorize shows by genre rather than by channel or content creator, focusing on the show brand. Industry participants are concerned about how while consumers are enjoying their content, they are associating it more strongly with the SVOD service rather than the original creator.

■ ■ *I keep having conversations where they say [TV network show] is my favorite Netflix show – and they have no idea that we made it, they just think it's Netflix. Attribution is a huge issue – there's zero brand loyalty to the content creators.* ■ ■

4.6 - ESTABLISH THE CAPABILITIES TO COMPETE FOR ADVERTISER SPENDING

While the TV advertising market remains robust and uniquely powerful in the face of digital change, competition for video advertising has grown strong in recent years with new digital entrants developing video advertising products and trying to take share of advertiser spend. TV networks need to focus their efforts on developing new digital advertising products and formats, while at the same time protecting traditional TV spot revenues.

Traditional TV ad spend is a mature market – but as TVs become increasingly connected, new technologies like dynamic ad insertion have the potential to protect and potentially even grow revenues.

“ I think that we as an industry are taking steps in the right direction to protect TV ad spend. In the long run, it’ll go down, but TV is still hugely attractive to advertisers – especially if we can pick up some digital technologies, like better measurement and attribution. ”

As viewing shifts online, digital CPMs are low compared to linear TV GRPs – reaching a similar audience through online platforms will not drive similar revenues. However, TV networks will still need to invest in digital to future-proof their business, take market share and develop new skill sets, revenue streams and competitive offerings.

“ Online video is tough – you can’t leave it until the money’s there because then it’s too late. Our effort in online video is absolutely disproportionate – it’s about future-proofing the business. ”

TV networks will need to explore new advertising formats that drive ad spend while keeping viewers engaged on new screens and in new contexts.

“ Traditional TV ads are optimized for TV screens – you’re on the sofa, not directly engaging with your screen, and it’s OK to have ad breaks. On mobile, it’s a whole different experience – you’re holding the screen in your hand, it’s much more intrusive. I’m not sure what the final mobile ad format will be – but what I do know is that it will be different from what we have today. ”

In 2016, Turner⁷ tested out new advertising strategies, including reducing ad loads and developing new native advertising content, to generate revenues in a less intrusive and more engaging model. Such initiatives will be important in the next few years, as broadcasters seek to convince advertisers to spend money on TV content over other online video. By focusing on high-value, story-driven advertising, TV networks are already seeing great results in terms of commercial ratings and brand recall.

“ I’m fairly confident that native advertising is the future of TV – making advertising that people actually want to watch. TV is such a high-quality medium, so if we can raise the quality of advertising, the audiences, advertisers, and broadcasters will all win. ”

7. AdWeek, “Turner will continue reduced ad loads on TNT next year”, 2016

4.7 - DEVELOP FLEXIBLE CONTENT MANAGEMENT AND MULTI-PLATFORM DELIVERY SOLUTIONS

With broadcast TV and OTT become increasingly converged in terms of audience and workflow, flexibility, innovation, and agility are key to adapting to new platforms, consumer behaviors, and revenue streams.

■ ■ *We are all skating to where the hockey puck is going – we are going to where we think developments are headed, where we think success will be. But of course we may be completely wrong – and some of us will be. The people who will win are the ones who can change direction.* ■ ■

TV networks are unable to invest in every new technology and develop for every platform. Market leaders will need to respond to new trends, test, and iterate ideas with limited investment of time and budget – learning how to “fail fast” from technology companies.

■ ■ *There’s been a shift in mindset in recent years, people are more comfortable with not knowing everything about a technology, because it’s changing too fast. You don’t want to build a specific technology for Snapchat – you build technology that can be flexible and smart and can chase a selected number of shiny objects fast.* ■ ■

Most broadcasting and video businesses have one of two approaches to technology – those that believe that tech is crucial to their business and want to control the roadmap; and those that believe that their core capabilities are content creation and curation and prefer to buy in technology from third parties.

■ ■ *We built it all in house – going forward, we think that we can build a technology stack and monetize it across other channels, either by hosting third-party content or by reselling it as a white label solution.* ■ ■

■ ■ *There is no way that we can be best-in-class in everything – we focus on our core capabilities of creating great content and partnering with leading tech suppliers. It’s too much for us to keep track of all the things that are going on.* ■ ■

For many TV networks, the ideal solution is a combination of in-house developers working with specialist suppliers. There are still challenges relating to standardization, like between back-end and front-end technology, where the cost and time associated with integration can be prohibitive. Best-in-class vendors are working together to become more flexible and modularized – for example, by standardizing API calls or pre-integrating partner solutions.

■ ■ *From a tech perspective, it’s still way too hard to connect your OTT offering and get a consistent user experience across multiple screens and devices ... and you have all these rights, but understanding the metadata, geos, and windows could be so much better.* ■ ■

To conclude, the U.S. TV market is experiencing a period of significant change and development, where existing models for content production and investment, distribution, and consumption will no longer be adequate. To survive, TV networks will have to transform, emerging as multi-platform video businesses – adopting new workflows, technology solutions and revenue streams.

5 - METHOD

The findings in this report were developed between October 2016 and January 2017, and are based on MTM research and analysis as well as extensive engagement with senior content industry executives across the U.S. Unless otherwise attributed, all quotations used in the report come from either in-depth interviews or roundtable seminars with industry leaders held in New York and Los Angeles. 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 channel brand with viewing share over 1%, for a total of 43 TV network groups, 92 channel brands and 90 OTT services. The review and analysis focuses on video business models – including channel line-up, OTT offerings, content types, monetization strategies, and use of new technology and innovative business models.

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.

ABOUT COMCAST TECHNOLOGY SOLUTIONS

Comcast Technology Solutions, a division of Comcast Cable, serves the advertiser, content provider, multi-channel video programming distributor (MVPD) and technology markets with a complete portfolio of products and capabilities to meet the evolving needs for content distribution and monetization in a multi-platform 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 www.comcasttechnologysolutions.com.

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