TV 2020 – The TV Ecosystem

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High performance. Delivered.
TV Viewing Shifts: Mixed Implications for Broadcasters

U.S. over-the-air TV viewing households are expected to grow nominally, but the amount of time that consumers spend viewing time-shifted and multiscreen TV is expected to double by 2020.

### U.S. TV Viewing by Distribution Channel (millions of HHs)

<table>
<thead>
<tr>
<th>Channel</th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay TV + OTA</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Pay TV Only</td>
<td>12.3</td>
<td>10.8</td>
</tr>
<tr>
<td>OTA + OTT</td>
<td>2.9</td>
<td>6.5</td>
</tr>
</tbody>
</table>

### Time Spent Viewing TV (weekly hours per viewer)

- **2016**
  - Live & Same Day: 84%
  - Multi-Screen: 10%
  - Time-Shifted: 6%

- **2020**
  - Live & Same Day: 65%
  - Multi-Screen: 15%
  - Time-Shifted: 20%

Source: Nielsen, SNL Kagan, Accenture Analysis
Video Complexity Abounds for Viewers & Broadcasters

TV content distribution fragmentation accelerates as the definition of TV continues to evolve, becoming more complex for both consumers and broadcasters to navigate.

How Do Broadcasters Stay Relevant in an Era of Video Disruption?
# Digital Disruptors Setting The Bar

Digital viewing options are redefining what consumers expect from entertainment providers, and what TV programmers need from video distributors and broadcasters.

## Consumer Needs

<table>
<thead>
<tr>
<th><strong>Viewing Quality</strong></th>
<th>higher resolution, less wait / buffer, minimized ad disruptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Simplicity &amp; Ease-of-Use</strong></td>
<td>intuitive UX with fast / easy access (esp. non-millennials)</td>
</tr>
<tr>
<td><strong>Value-Relevant Pricing</strong></td>
<td>market relevant price vs. perceived value (device &amp; service)</td>
</tr>
<tr>
<td><strong>Intelligent Aggregation</strong></td>
<td>simple but flexible experience; reduced payment friction</td>
</tr>
<tr>
<td><strong>Curation &amp; Discovery</strong></td>
<td>smarter curation, deeper search &amp; recommendation, social discovery</td>
</tr>
<tr>
<td><strong>Diversified Video Mix</strong></td>
<td>including emerging categories gaining prominence (e.g., eSports)</td>
</tr>
<tr>
<td><strong>Content Beyond Video</strong></td>
<td>as music and gaming grow; and to drive related video viewing</td>
</tr>
<tr>
<td><strong>Enhanced Experiences</strong></td>
<td>time / place / device shift table-stakes; high interest in VR video</td>
</tr>
</tbody>
</table>

## Programmer Needs

| **New Ad Experiences** | less disruptive and support linear + digital campaigns (vs. ad free) |
| **Expanded MVPD Product** | more robust VOD offering; full distribution of all channels in line-up |
| **Program Promotion** | as time shifting erodes value of lead-ins; proliferation of options |
| **Path to “Cutter” Monetization** | more effective methods for monetizing non pay TV viewers |
| **New Outlets for Catalogs** | as providers shift budgets from licensing to originals & exclusives |
| **Audience Data & Analytics** | to drive advertising and optimize content investments |
| **Brand Relevance** | as affinities shift from providers to where viewers consume content |
| **“Better” Experiences** | simplified offering – national, OTT, streamlined pricing, etc. |
TV Experience Expectations are Generational

Millennials index higher on enhanced video experiences while non-millennials value ease-of-use; leading TV experiences will encompass both aspects to satisfy a broad demographic of users.

**% of Viewers with High Interest in TV Feature**

**Millennials**
- Access to Live TV: 41%
- UHD Video: 40%
- Device Shifting: 26%
- Interact with Community: 19%
- Simplified Tech: 26%
- Universal Listing: 24%

**Non-Millennials**
- Access to Live TV: 40%
- UHD Video: 24%
- Device Shifting: 19%
- Interact with Community: 9%
- Simplified Tech: 6%
- Universal Listing: 28%

Source: Verizon digital media survey, Accenture Analysis
Embracing the New ‘Viewer Value Equation’

Consumers continue to stitch together video solutions that meet their diverse and changing demands, balancing access to content catalogues with household spending on video.

Value-Driven Customer Segments

Drivers of Changing Behavior

- Expanded TV Viewing Alternatives
- Lack of Holistic Video Offerings
- Lifestyle vs. Perceived Content Value
- Enhanced Experiences at Lower Costs
- Time-Shifting & Binge Viewing
- Collapsing Windows & Persistent Viewing
- Content Portability & BYOD
Emerging TV Market Trends Fuel Disruption

Accenture Strategy sees several key trends with potential disruptive impacts that will reshape TV over the next 3 - 5 years.

1. Growth of OTT Live Linear Offerings
2. Ubiquitous, Ecosystem-Centric ‘Entertainment’ Platforms
3. Data-powered, Immersive TV Experiences & Viewer Control
4. Unbounded TV Viewing & Advertising Markets
5. Disruption of Video Services Bundling & Retailing
6. Expansion of TV Monetization Options
The growth of OTT live linear offerings could become a distribution opportunity or threat for broadcasters, depending on the composition of the offering.

**Potential OTT Live Linear TV Entrants**

- DIRECTV NOW (Q4’16)
- Cable-type offering (Q1’17)
- ‘Unplugged’ Service (2017)

**Broadcaster Benefits**

- Greater audience reach thru digital distribution
- Addresses ‘lost segment’ of viewers outside Pay TV
- Potential advertising & retransmission revenue growth opportunities

**Broadcaster Risks**

- Cannibalization of over-the-air TV eyeballs to less-measured digital distribution
- Conditions viewers for enhanced TV experiences and features versus over-the-air
- Selective inclusion of local broadcaster feeds dampens advertising & retransmission revenue upside

**Broadcasters Have to Participate in Emerging OTT Live Bundles to Capture Value**
Ubiquitous, Ecosystem-Centric ‘Entertainment’ Platforms

The platform – not the device, is becoming the differentiator in video, with leading providers extending next-generation functionality and established ecosystems to the TV.

Key Platform Elements

- **Innovative Economics**: All IP, 4K / HDR video support, Enhanced audio
- **All IP, High Quality**
- **Expansive Entertainment**: Broader array of entertainment content (e.g., VR, games, music, long / short / mid-form video)
- **Platform Ecosystem Integration**: Device-agnostic & Untethered
- **Device-Agnostic & Untethered**: Device-agnostic, app-capable, and mobile-first
- **UX Focused**: User experience focused versus content focused
- **Blended economics that are less dependent on video revenue**
- **Platform-based ecosystem integration versus device integration**

**Broadcasters Require an Ecosystem Play to Drive Greater Viewer Engagement**
Data-Powered, Immersive TV Experiences & Viewer Control

Innovations in the TV experience will be influenced by diverse content catalogues and experience designs from leading SVOD providers, MVPDs and Consumer Electronics OEMs.

### Emerging Interaction Models

<table>
<thead>
<tr>
<th>Integrated &amp; Intelligent Discovery</th>
<th>Simpler &amp; More Intuitive Controls</th>
<th>Relevant Advertising</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Integrated search and playback across live TV, VoD and OTT—with dynamic discovery &amp; EPGs</td>
<td>• Innovations to simplify &amp; “flatten” the viewing experience</td>
<td>• More targeted, cross-platform campaigns</td>
</tr>
<tr>
<td>• Long form, episodic &amp; short-form content catalogues – across all screens</td>
<td>• Multiple controls – with paths to voice, wearables and gesture controls</td>
<td>• Less intrusive advertising experiences:</td>
</tr>
<tr>
<td>• Data-powered TV with predictive &amp; algorithmically-driven viewing experiences</td>
<td>• Trends toward passive listening with more rich and intelligent response, spanning devices</td>
<td>o Reduced ad loads where appropriate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Ad-free viewing options &amp; business models</td>
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Unbounded TV Viewing & Advertising Markets

Digital will further disrupt traditional TV viewer and advertising footprints, diminishing the relevance of the DMA for broadcasters over time.

New ‘View of the Viewer’

- Broadcasters remain primarily DMA-focused for both TV viewership and advertising
- Benefits to broadcasters from DMA primacy decline as TV market boundaries become less defined
- Emerging TV & ad network players utilizing digital to enter into broadcasters’ backyards
- Advertising based on the ‘new view of the viewer’ reaches individual viewers using location & other criteria
- Leverage dynamic ad insertion and addressability for ad serving to viewers within and across DMAs
Emerging video packaging and retailing models could further alter viewer consumption, and fundamentally change content distribution models and video economics.

**Video Packaging**

- **Curated ‘Skinny’ bundles**
  segment-tailored channel packs versus slimmer programmer-centric channel bundles

- **Premium OTT bundles**
  moderately-sized channel packages and add-ons at lower price points

- **‘Millennial+’ bundles**
  short & long form content channel packages and enhanced features

- **Social TV**
  social feeds’ recommendations to content entitlements across video services (algorithmic curation & discovery, preferences, moods, etc.)

**Video Retailing**

- **Broadband-led**
  increasing use of BB to pull thru and subsidize video (app-based services, mobile broadband ‘zero-rating’)

- **Device-led**
  leverage mid-tier Pay TV package or next-gen OTA + OTT; customer premise device to control experience

- **Indirect Partners**
  programmer-defined packages for retail partner sales; potential for national / local direct-to-consumer

- **Connected Home**
  as a gateway to pull through entertainment services
Video monetization moves beyond the traditional dual revenue model to encompass new revenue opportunities that extract value from the entire platform / stack and ecosystem.

Expansion of TV Monetization Options

- Advertising (primarily linear TV spots)
- Retransmission
- Content Licensing
- X-Service Subsidies (broadband, connected home)
- Data & Info Services
- Platform Wholesale
- Commerce Enablement
- Brand & Franchise Monetization

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Leading TV Providers Boldly Repositioning

Leading video providers are already attempting to build a TV playbook for this future through massive value chain investments and acquisitions that reshape the video landscape.

**Change the TV Distribution Paradigm**

**DIRECTV**

*Futureproofed Multiplatform Video & Mobility Ecosystem*

- Content creation + premium TV content + Pay TV aggregation
- Traditional TV + Disruptive OTT TV bundles
- All IP video + device-agnostic video platform
- 5G mobile broadband + disruptive mobile-first video
- Video monetization & cost structure transformation

**TimeWarner** *(pending)*

**Own the Home – Pay TV & Advanced Advertising**

**COMCAST**

*Cable Multiplatform Ecosystem w/Ad Tech & Connected Home*

- Content creation + premium TV content + Pay TV aggregation
- X1 cloud-based platform + Xfinity apps + Xfinity Home
- Wi Fi + Wireless (Q2 2017)
- Advertising tech ecosystem (e.g., Visible World, FreeWheel)
- NBCU+ targeted advertising + ‘Symphony’ cross-promotion

**Leverage TV to Increase Customer Loyalty**

**Amazon**

*Entertainment & Device Ecosystem w/Retailing*

- Content creation + original programming + licensed video
- “Freemium” TV offering + Amazon Partners retailing
- Cloud platform with global scale + information services
- Branded device ecosystem + Native Video + BYOD
- Entertainment + eCommerce

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ATSC 3.0 is a potential first step for broadcasters to position themselves for a more competitive future as the TV market continues to experience dramatic change.

4K UHD HDR IP Video, extensible to 8K

Datacasting – broadcasting to mobile devices

Video on Demand

Interactive TV (e.g., polling, RIFs, commerce)

Digital Video Recording (DVR)

Advanced Electronic Program Guide (EPG)

Advanced Advertising

Data Monetization
The Challenges Ahead

However, broadcasters will need to work through a complex set of challenges as they evaluate TV viewer growth and retention options and chart the path forward.

Challenges for Broadcasters

► Proliferation of primetime TV-type content beyond broadcasters

► Content catalog availability outside of locally-produced assets (i.e., news, sports, weather)

► Continued downward trending of live TV ratings

► Retransmission revenue dependency & sustainable growth rates

► Next-gen TV deployment speed & market coverage

► Scale challenges for smaller broadcasters – new capabilities
Key Imperatives for Broadcasters

Broadcasters should focus on breakthrough next-generation strategies that reposition their businesses for success in an increasingly ecosystem-driven and multiplatform TV marketplace:

1. Think Beyond ‘Towers & TV's’
   - develop a multiplatform broadcaster ecosystem as a defense play within the DMA and offensive play outside of it where appropriate

2. Increase Relevance in Digital; Expand Content Offerings
   - leverage local content assets and market presence, combined with selective catalog expansions, to increase relevance in digital

3. Exploit TV's Advertising Halo Advantages
   - utilize advantages of multiplatform TV content in the advertising marketplace to maximize MROI for advertisers

4. Build the Future of Broadcast TV Collectively; Don’t Go At It Alone
   - develop broadcaster cooperatives that can build next-gen capabilities at scale while sharing deployment costs and risks
Q & A Session

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