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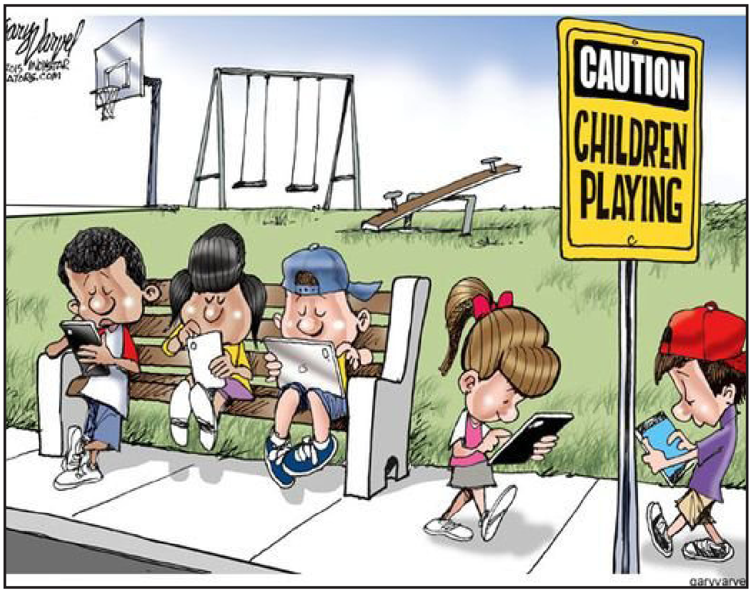
Media/Advertising

THE NEW VIDEO PARADIGM: ACCEPTANCE AND ACCELERATION

In October 2018, DAZN (pronounced da-ZONE), an over-the-top (OTT) sports provider run by former ESPN president John Skipper, signed boxer Canelo Alvarez to a $365 million contract, the richest individual deal in sports history. In a first, the average U.S. adult is likely to spend more time using mobile devices than watching conventional TV, including broadcast, cable or other over-the-air channels, whether live or on DVR, according to an early June report from eMarketer. Already, viewers in the 18-to-34-year-old demographic spend a greater share of their media-consumption time using a smartphone than a TV. All of these facts suggest a continuation of the New Video Paradigm context, which we wrote about last summer. At the time, we suggested that this new paradigm consisted of providing video to consumers "when they want it, where they want it and how they want it" and would be centered on expanded OTT video offerings, including sports and news. The continuing consumer adoption of OTT services and video streaming is only one part of the story, however. Over the past year, content providers and video distributors have accepted this new paradigm, and there is now an acceleration of business-model experimentation and advertising for streaming video. (See **inF 1310**; *Broadcasting Cable*, 3/19/19; *Business Insider*, 6/5/19; *Crain's New York,* 5/19/19)



TAKE AWAYS

- Cable companies and traditional broadcasters have accepted the new streaming and on-demand video-distribution paradigm and are transitioning to meet consumer desires.
- Numerous over-the-top (OTT) platforms are utilizing ad-supported streaming models, which should make the transition to streaming less expensive for consumers.
- Content providers and video distributors are experimenting with targeted, addressable advertising and shoppable advertising.

IMPLICATIONS

- Advertising dollars will increasingly move from both broadcast television and online sites (*e.g.,* news, search, etc.) to streaming content offered by major video producers.
- Big technology platforms that have had a monopoly on Internet advertising dollars (*i.e.*, Facebook and Google) will see new competition from targeted OTT streaming advertising and lose market share in the U.S.
- Streaming giants Netflix and YouTube will increasingly face new competition and will lose video audience market share in the Battle for Consumer Time.
- Cable companies will have the ability to raise broadband prices and/or benefit from more customers using more than their allotted data even as these companies continue to lose video customers.

Consumer Adoption of OTT Continues

Live, as-it-airs broadcast or cable TV is still the most popular way to watch video, with 41 percent of people with online access choosing that option, according to a survey from Magid, the research company. But when it comes to Millennials, 49 percent prefer to stream video, while only 30 percent prefer to watch live TV. It's not just Millennials utilizing streaming video, though. In April 2018, 59.5 million U.S. homes were using OTT services, 17 percent more than one year earlier. In the same time period, OTT viewing time increased 28 percent. The number of people joining this OTT paradigm is likely to continue to grow. In November, 7.9 percent of pay-TV subscribers aged 18 to 64 said they are very likely to cancel their subscription in the next 12 months, up from 6.1 percent the prior year. (*Multichannel News*, 1/7/19)

Also, consider:

• In the third quarter of 2018, Roku had 23.8 million active accounts, an increase of 43 percent from the year-earlier period. Over that same timeframe, the number of streaming hours increased 57 percent, and Roku's video ad revenue more than doubled.

• Consumers today watch video from an average of 4.5 sources, spanning both traditional TV subscriptions, video subscription services and free streaming-video platforms. Further, households with kids watched video from an average of 5.2 sources.

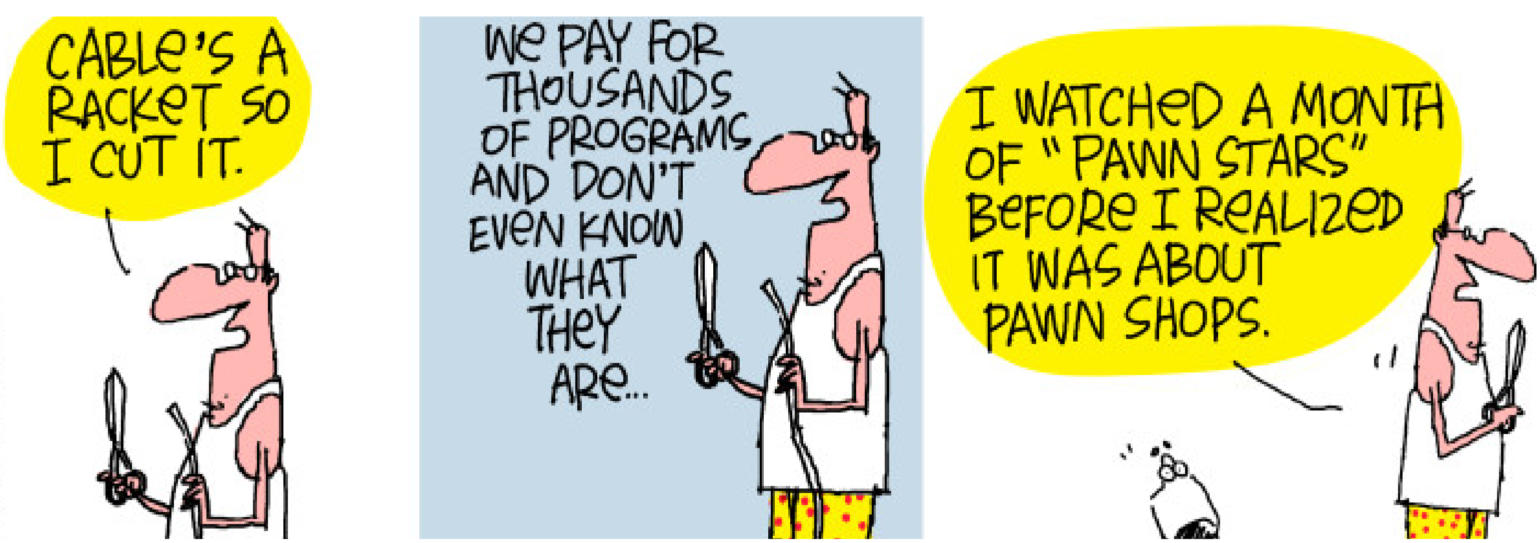
• In 2011, roughly half of the 100 most-watched television broadcasts were live sporting events. By 2018, more than 90 percent of the most-watched broadcasts were live sports events.

(*Multichannel News,* 1/7/19; *Broadcasting Cable,* 3/19/19; *MediaPost*, 6/14/19)

What's a Cable Company to Do? Accept the New Paradigm

In 2018, cable and satellite TV providers in the U.S. lost more than 3 million **video** subscribers while the top cable operators alone added 2.9 million **broadband subscribers**. Over the past two years, Comcast has seemingly accepted this new video paradigm by focusing on both OTT content aggregation and on broadband. Since launching its X1 cable platform, Comcast has added OTT services from Netflix, Amazon, YouTube and Movies Everywhere. Earlier this year, the company's vice president of entertainment services, Daniel Spinosa, commented that what the company wants to do "is aggregate all this fantastic programming" and added that Comcast's "stated strategic position is to be the aggregator of aggregators." Comcast also announced that it will launch Flex, a $5-per-month streaming platform targeted at their broadband-only customers. Flex includes a set-top box, the X1 voice remote and more than 10,000 free online movies and TV shows, including live-streaming TV from ESPN3, Xumo, Pluto, Tubi TV, Cheddar and YouTube. (*Multichannel News,* 1/7/19 and 2/11/19; *Ars Technica*, 3/7/19; *The Verge,* 3/21/19)

The growth of OTT and streaming video has been, not surprisingly, a boon for broadband. The percentage of broadband users exceeding 1 Terabyte (TB) a month more than doubled in 2018 to 4.1 percent. Two years ago, Comcast noted that 99 percent of its customers did not come close to their data cap of 1TB. The cable company said median data usage by its residential broadband customers increased 34 percent in the first quarter compared to last year, to around 200 gigabytes. The company's CEO, Brian Robert, was very clear about Comcast's growth being tied to streaming video moving



forward, saying that it is "more friend than foe" and that "if people consume more bits, and video clearly does that and 4K video does even more than that, that's in the sweet spot of where the company is going to grow." (*Multichannel News,* 2/11/19, *The Verge,* 4/28/19)

Charter Communications also appears to be benefitting from OTT-induced broadband growth. The company said that among users defined as "cord cutters," usage of its broadband increased to about 400 GB each month with the median monthly usage around 200 GB. In comments earlier this year, the company's CEO, Tom Rutledge, appeared to accept the new paradigm when he said the company was "open to being a supermarket of video services, however those services develop," and then added that Charter would position itself to sell "bundled packages, streaming packages, à la carte packages…in a way that is coherent and consumer friendly." (*Multichannel News*, 2/11/19; *The Verge*, 3/21/19)

Content Providers Accept the New Paradigm and Accelerate Their Offerings

Sixty-seven percent of streaming consumers claim that the top things they stream are existing shows that they used to watch on broadcast media, according to a recent Nielsen study. If much of the content that consumers are watching via streaming is the same as that of traditional broadcast TV, it is even more logical for traditional broadcasters to accept the new paradigm and ensure that their content is available wherever and whenever viewers want it. Both traditional broadcasters and companies relatively new to video distribution are adding new streaming services. Disney and Apple, representing the two ends of that spectrum, have received significant attention, but also consider these recent moves toward OTT:

• In 2018, T-Mobile acquired Layer3 TV, a multi-channel video programming distributor.

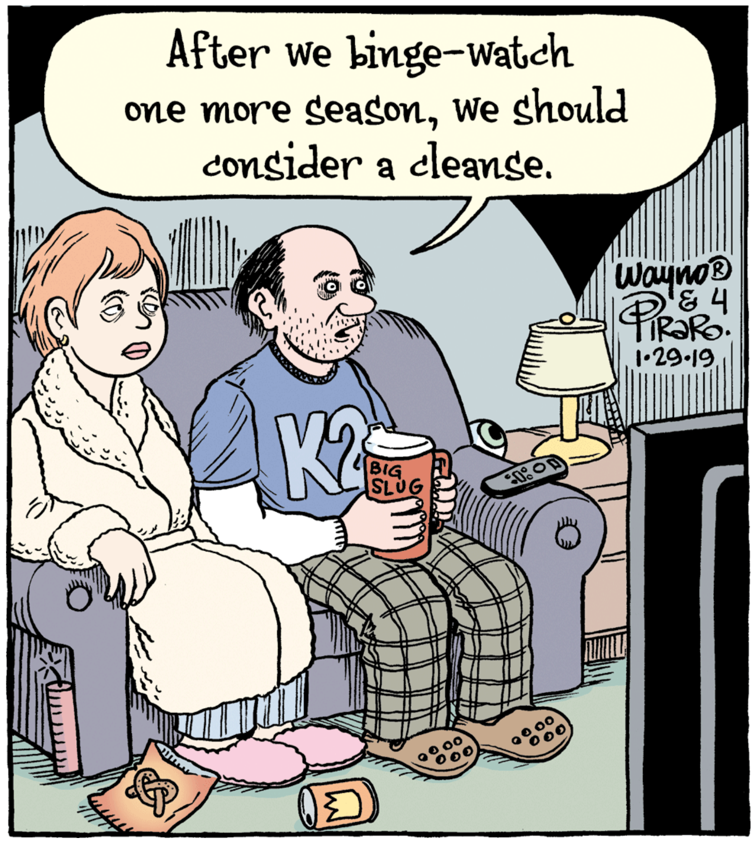
• In January, Amazon launched IMDB Freedive, an ad-supported service on its Internet Movie Database (IMDb) platform, which will allow viewers to stream fairly recent major studio films for free. The company is reportedly working on a second free (*i.e.*, ad-supported) streaming service for news programming.

• NBC Universal (NBCU) said it will launch a free, ad-supported streaming service including new originals as well as older NBCU shows.

• Both NBC News and ABC News now have live-streaming channels.

• In January, Viacom acquired Pluto TV, an ad-supported streaming platform with 16 million monthly users, for $340 million.

(*Broadcasting Cable*, 3/19/19; *Multichannel News,* 1/28/19 and 5/20/19; *Hollywood Reporter*, 5/29/19)



How Much Streaming Is Too Much?

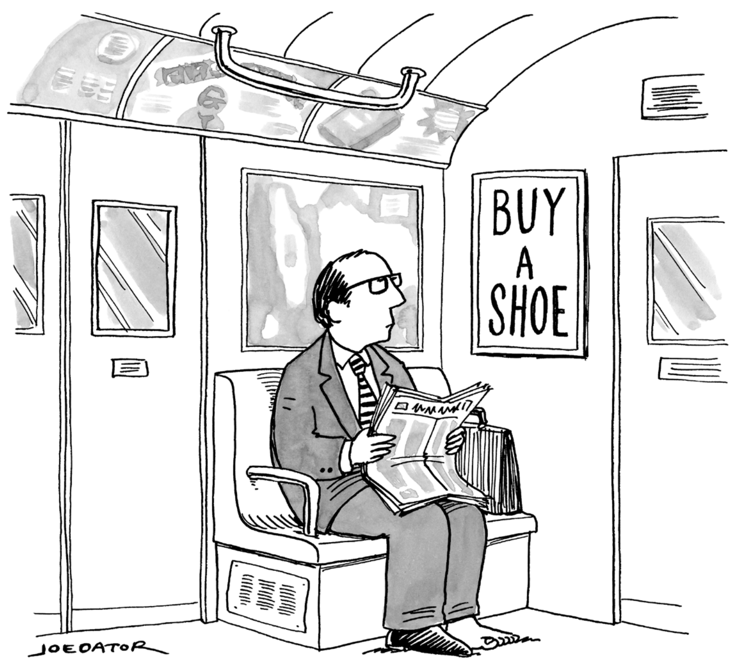
Add the streaming services listed above to the more than 200 that are already available and it leads to questions and debates over how many OTT services, and which ones, people will actually pay for. Consumers are willing to pay for about six services, costing approximately $38 on average, according to recent data from Magid. Another firm, Hub Entertainment Research, found that 24 percent of consumers say they already have too many streaming services and don't intend to subscribe to new ones, up from 14 percent last year. Additionally, 36 percent of respondents said they would cancel an existing service before subscribing to a new one. In a different study, 72 percent of OTT users said they understand how sharing their data for ads helps provide free content. This may partially explain why the majority of the new services listed above will be ad-supported and free for the viewer. Farhad Massoudi, the CEO of streaming channel Tubi TV, offered his perspective that an advertising-supported streaming model would be preferred by viewers, saying, "The average household has an income of $54,000 a year. They're not buying $8 avocado toast." (*Multichannel News*, 1/7/19; *Adweek*, 5/6/19; *MediaPost*, 6/4/19)

Advertisers, Come on Down

Earlier this year, OTT platform Roku announced that ad sales within its OTT ecosystem, and specifically on its Roku Channel, had become by far its biggest revenue driver, surpassing hardware sales. Now, big and small streaming and OTT platforms are increasingly focusing their attention on the advertising market and attempting to make streaming video more attractive for marketers. Hulu's recent actions illustrate this strategy. Last year, Hulu's ad revenue increased 45 percent, to $1.5 billion. In January, the platform actually lowered the price for the ad-supported version of its full on-demand catalog. Then, in May, Hulu announced plans to cap ad frequency to four times per viewer per day to ensure that the same viewer doesn't consistently see the same advertisement. Hulu also announced a new product that puts an ad on the screen when the viewer pauses a program. Finally, Hulu is working on ads specifically designed to be shown when a viewer binge-watches a series. (*AdWeek*, 5/6/19; *Multichannel News,* 2/18/19 and 4/29/19)

Advertising Experiment #1: Addressable TV

In the third quarter of 2018, Americans' use of connected devices and smart TVs saw its biggest jump ever. FreeWheel, which serves up video ads and is owned by Comcast, reported 53 percent growth in connected-TV ad views in 2018. Video distributors and OTT providers as well as some advertisers are trying to take advantage of this increase by experimenting with delivering targeted ads to individual households via smart TVs, known as addressable advertising. Spending on addressable advertising, which is currently available in about 70 million households, increased from $2.1 billion in 2017 to $2.5 billion in 2018. While this market is still immature when compared to the $70 billion TV-ad business, earlier this year numerous media players including NBCU, CBS, Disney, Turner and Comcast formed a consortium to establish standards for addressable advertising called Open Addressable Ready (OAR), in an attempt to grow the market. Inscape, a subsidiary of TV maker Vizio, will offer the technology that automatically recognizes content displayed on a screen so that OAR will be able to track viewing data across Vizio's footprint. The data will be used by networks and advertisers for measurement and targeting. AT&T-owned Xandr, which is also part of the OAR coalition, recently began cross-targeting ads based on AT&T's data sets for networks like Turner to reach "cord cutters" and "cord nevers." Ad-tech providers are also moving toward facilitating ads via these connected TVs. OTT start-up Tru Optik, which helps media buyers and sellers measure the reach and impact of ad campaigns, announced it raised $10 million in a funding round in order to expand its offerings in TV, while a similar firm, DataXu, announced layoffs for employees who didn't fit with the company's new focus on the TV market. (*Ad Age,* 3/12/19; *NScreenMedia*, 3/24/19)



TARGETED ADVERTISING

As one example of a marketer attempting to take advantage of addressable advertising, Hershey's has begun buying spots for TV audiences based on data from purchase- and affinity-based audience segments that are combined with individual identifiers from both linear and streaming providers. However, in this early experimental stage, addressable advertising could face headwinds due to the fact that the price of these ads can be two or three times that of a traditional television ad. (*AdWeek*, 5/6/19)

Advertising Experiment #2: Shoppable TV

This spring, Walmart held its first-ever direct pitch to the advertising community. The retailer, which intends to hire 300 people for its ad business, recently acquired Polymorph Labs, a start-up, to help build its advertising business. Walmart claims that a recent poll of its customers found that most would be willing to sit through some commercials if it mean paying less for video on Walmart's Vudu streaming platform, which has more than 150,000 titles and is the third-largest video storefront in the U.S., behind Apple's (formerly named) iTunes and Amazon Video. The retailer will experiment by running shoppable ads that can be clicked on with a remote control. Viewers will then be directly connected to their own Walmart.com account. The company claims that ads will be shaped by online purchase behavior as well as by what consumers buy in its physical stores, before and after they see an ad. Walmart will then be able to tell an advertiser if an ad campaign resulted in more of their product being bought at Walmart stores or on Walmart.com. The retailer has already been able to convince some major advertisers to pledge tens of millions of dollars in upfront ad commitments, according to Bloomberg. While it may not be able to match the number of viewers or direct metrics of Walmart, in May NBC Universal revealed that it is launching Shoppable TV on linear television, which will give viewers the opportunity to purchase products within a TV show by using a TV remote and QR code. It will be the first time the technology will be used on national television to activate direct sales. The company first tested shoppable ads on "The Today Show" to drive traffic to Jill's Steals and Deals. The company got 50,000 scans for the test that ran at 8:30 in the morning. NBCU hasn't yet announced if this technology will be available on its upcoming OTT platform. (*Multichannel News*, 2/18/19 and 5/6/19; *Women's Wear Daily,* 5/13/19; *MediaPost,* 5/31/19)

The video-watching audience's move toward streaming and over-the-top video platforms is continuing while content providers and video distributors are increasingly providing new offerings to make this transition easier. Ad-supported streaming channels on which customers can watch the same shows that they have on broadcast television should quicken the transition as it provides access when they want it, how they want it, where they want it – at virtually no cost. At the same time, content providers are experimenting with different models to entice advertisers to move dollars from broadcast and other online content to streaming and OTT. The new paradigm in video distribution has arrived, and now almost all invested parties are on board.