CONTENT CONNECT INITIATIVE

A Content Connect Initiative White Paper

The Transformation of TV
Industry Perspectives on the Road to 2030

By [The Project X Institute] in Partnership with MEDIAGENIX

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Foreword

The Content Connect Initiative is a brand-new industry programme, exploring the challenges and opportunities facing the global media and entertainment industries during the 2020s – with a particular focus on the production, distribution, and monetization of TV content in fast-changing markets. We have focused predominantly on the US and on Europe's five largest markets: the UK, Germany, France, Italy, and Spain.

The project has been delivered by The Project X Institute, a think tank and strategic advisory collective for the media and advertising industries. A specialist team of experienced Advisors-in-Residence has explored the key trends and developments changing the market, exploring the future of the US media market, the evolution of streaming, the prospects for commercial broadcasting in Europe, the development of the TV production sector, and the transformation of children's TV during the 2020s. We have also completed interviews with 20 senior executives from across the US and European media industry, facilitated three seminars for senior executives, and have also drawn on an extensive survey of senior business and operational leaders undertaken by MEDIAGENIX.

We would like to thank everyone who contributed their insights and expertise to the study.

The paper also contains four specially commissioned articles from The Project X Institute's team of expert advisors, exploring future developments in streaming, the US market, European commercial broadcasting, and kids media. We would like to thank Christy Tanner, Mike Darcey, Ian Whittaker, and Emily Horgan for their expert input in the development of our four scenarios for 2030.

Findings and quotations from the research are used throughout this paper. All interviews were completed under the Chatham House Rule and, as such, have been attributed to interviewees only when they have provided permission.

The views expressed within this paper are solely those of the authors and do not necessarily represent the views of the interviewees and contributors. The project team has also drawn upon and synthesised research and analysis from a wide range of industry sources. All sources have been attributed.

A note on terminology

We have used the terms “TV industry” and “TV companies” to refer to broadcasters and programmers, most of whom are now well advanced in re-inventing themselves as multi-platform media and entertainment companies. In the US, the largest TV businesses are major media conglomerates, with investments in TV production and distribution, film studios, theme parks, games developers, ticketing companies, ecommerce businesses and other ventures, and many have sizeable investments in European companies. Europe’s largest TV companies are also diversified, although most are substantially smaller than their US peers.

We have used the following terms interchangeably, to avoid undue repetition:

- “MVPD” and “pay-TV provider”, used to refer to traditional pay-TV offerings, typically delivered via a set-top box. Clearly, most major providers are well advanced in offering their own streaming services.
- “Streaming services”, “OTT” and “DTC”.

About The Project X Institute

The Project X Institute (PXI) is a new strategic think tank and advisory collective, dedicated to solving complex challenges in the media and advertising industries. PXI brings together some of the most experienced executives and sharpest minds in the industry to help companies, policy makers and investors develop sustainable solutions that balance business needs, innovation, and responsibility.

Founded by seasoned industry veterans Jon Watts and Ian Maude, the Institute's team of senior executives – our Advisors in Residence – leverage their unique domain expertise, strong industry relationships and networks, and proven ability to provide expert advice at the highest levels to bear on some of the most challenging issues facing the media and advertising industries.

PXI offers an alternative to traditional consulting firms, providing strategic advice based on heavyweight real-world industry experience and expertise, combined with a leaner and more nimble approach.

See https://www.projectxinstitute.com/ for more information.

About MEDIAGENIX

MEDIAGENIX ranks among the top tech vendors in the international media industry with Media Business Management Platform WHATS'ON, employing more than 250 employees in Europe, America, Asia, and Australia.

Over 150 media companies around the world rely on WHATS'ON to unify their content supply chain across linear and nonlinear and to streamline all workflows related to content, content rights, planning, and curation, with a view to ensuring agility and profitability. Clients include OTT streamers and VOD platforms, public and commercial radio and TV stations, telcos, and video service provider, managing a total of more than 2,500 channels and services.

WHATS'ON allows clients to offer the right content at the right time to the right audience on the right device, across any platform, delivery method and business model. This flexibility propels efficiencies and innovations, across content acquisition, rights management, planning, multichannel/multiplatform scheduling and curation, content publication and promotion, and smart analytics.

See https://www.MEDIAGENIX.tv/ for more information.

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EXECUTIVE SUMMARY

Executive summary – key points at a glance

The TV industry has experienced a decade of change, as streaming services and new forms of digital entertainment have proliferated, competition has intensified, and consumer behaviours and preferences have shifted. During the 2010s, these developments have fundamentally changed the TV market, lowering barriers to entry, and stimulating investment and innovation.

In response to these developments, TV companies, broadcasters, and programmers, have invested in digitally transforming their operations and supply chains and in rolling out streaming services and advanced advertising offerings. Most have been relatively successful in defending their businesses. These investments are widely believed to have laid strong foundations for future growth in the 2020s, although new offerings generally account for only a small but fast-growing proportion of the revenues currently generated by most TV companies.

How will the market develop during the 2020s? Views about the next decade vary significantly, with executives identifying a range of constraining factors that could limit the potential for further change – but there are also potentially disruptive developments, that could lead to very different outcomes by 2030.

We have developed four scenarios for 2030, illustrative stories potential futures, based on plausible extrapolations from current market conditions:

- **Scenario 1: Steady as We Go** is perhaps the most likely scenario, a steady but slowing continuation of the trends and developments that have shaped the market during the last decade.
- **Scenario 2: Growth of the Digital Giants** raises the prospect of intensified competition from the major international digital businesses, investing heavily to capture a growing share of the TV marketplace.
- **Scenario 4: The Perfect Storm** flags the risk of intense competition in the TV marketplace from the digital giants and from increasingly sophisticated digital entertainment offerings (games, online video, social media, the metaverse), attracting new audiences and a growing share of attention and advertiser investment.
- **Scenario 4: TV's Golden Age** is an upside case, a bright future for the TV industry in which the full potential of the industry is unlocked, as investments in streaming services and advanced advertising capabilities deliver on their promise.

These scenarios pose various questions for the industry, but intense competition and the need to modernise operations are a constant in all. TV companies will need to complete their digital transformations, modernising their operations and supply chains to unlock the full potential of streaming and advanced advertising, if they are to remain relevant and competitive in 2030.

Our research suggests that there is still considerable work to be done to realise the full potential of the investments already made, with industry participants suggesting that our two indices – Data-driven Decisioning and Content Connectivity – are still immature, scoring only 1.6/5 and 1.7/5 respectively, during this first wave of research.

The next stage of the Content Connect Initiative will explore these steps in more detail, identifying the practices and priorities that can help TV companies to unlock the full potential of digital transformation.

1. Introduction – the media market in transition (or – what just happened?)

Since the beginning of the 2000s, the TV industry in the US and Western Europe has experienced a period of dramatic change and development, as the rapid growth of broadband penetration and connectivity has enabled new opportunities for distribution, supporting a proliferation of new video services, and stimulating growing competition for viewers, paying customers and advertiser investment. Across the US and Europe's five largest markets, the UK, Germany, France, Italy and Spain, pay-TV and TV advertising revenues have matured, while AVOD and SVOD streaming services have experienced dramatic growth.

Exhibit: A decade of change in the US and Europe

		Europe's Big Five			USA		
		2010	2015	2020	2010	2015	2020
TV Households	M	129.9	134.3	135.9	115.4	116.4	120.6
Broadband penetration	%	66%	80%	89%	72%	80%	95%
Pay TV subscriptions	M	65.2	68.6	73.7	99.9	99.9	91.7
SVOD subscriptions	M	3.4	18.9	105.5	17.1	82.0	325.0
TV advertising revenue	$Bn	18.8	21.2	19.8	66.0	65.2	67.1
AVOD revenue	$Bn	0.3	1.2	3.7	0.7	2.1	9.7
SVOD revenue	$Bn	0.2	1.3	9.2	0.5	5.1	21.1
Pay TV revenue	$Bn	23.2	28.6	26.8	97.4	121.5	80.3

Notes:

- Europe's big five markets are the UK, Germany, France, Italy, and Spain.
- These figures do not include public service funding for PSBs, such as the BBC's Licence Fee.
- Broadband penetration is the number of fixed-line high-speed internet connections, expressed as a percentage of the number of households in each market. In line with the ITU, high speed is defined as a connection with a downstream speed of 256kbit/s or greater – although many industry participants argue that this is a very low benchmark.
- SVOD revenue includes revenue from online subscription channels (e.g., Netflix, Amazon Prime and Disney+), but excludes vMVPD services like Sling TV.
- Pay TV revenue includes all revenue from content from cable, satellite, IPTV, and vMVPD operators, it excludes revenue from telephony services and other revenue streams (e.g., fees for set top box rentals, home security). Most industry sources treat SVOD as a separate line of business, despite being subscription television delivered over the internet.
- Revenue data is nominal, no adjustments have been made or inflation..
- Where necessary, any exchange rate calculations have been made using the average exchange rate for the corresponding year.

Sources: Nielsen, ITU Data Hub, Digital TV Research, Group M, IHS Markit (2010, 2015), OMDIA (via DEG) (2020), Ampere Analysis (2015, 2020), OFCOM, Eurostat, i.Stat, DE Statis, ONS, US Census Bureau, Internal Revenue Service, PXI analysis. All sources are for the noted year, unless otherwise noted.

How have these changes impacted the market? What is the story of the last ten years?

To explore these questions, we reached out to industry executives across the US and Europe to explore their views on what changed during the last decade and their perspectives on the challenges and opportunities ahead. Our research uncovers a picture of an industry that is in transition, embracing change, innovating, re-organising, and re-inventing itself for the multi-platform streaming era.

The industry is becoming a more diverse, dynamic, and innovative sector, with a growing range of services distributed across a wider range of aggregation platforms, more efficient and agile operating models, faster development cycles, and a far greater diversity of strategies and business models.

As a result, many executives believe that TV is becoming a less useful term to describe the industry, especially when positioned as an alternative to streaming:

> *TV and OTT aren't helpful terms. Netflix is TV, it's not different, and most broadcasters now offer streaming services, over-the top. We're becoming a content, media, and technology business.*
>
> **US broadcasting industry executive.**

Let's start by looking at the story of the 2010s. What really changed in the TV market?

- **New streamers have intensified competition and stimulated innovation:** Around the world, broadband connectivity has facilitated a wide range of new video services and advanced advertising offerings. Barriers to entry have fallen dramatically, opening the door to a wide range of new entrants, ranging from large-scale vertically-integrated services providers like Netflix, Amazon, Google, and Apple, to offerings from international and national broadcasters, large and small, pay-TV providers and telcos, producers, rights holders, and a long tail of niche streaming services. Access to new video services shifted into the mass market during the 2010s, with varying consequences. In the US, streaming has had a dramatic impact on the US TV industry, driving cord-cutting and cord-shaving, leading to real declines in traditional pay-TV subscriptions, shifts away from linear TV viewing, and flatlining television advertising revenues. These declines have also affected cable programmers or multichannel broadcasters, some of whom have experienced declining affiliate fees, as well as declining audiences. Europe's broadcasters have experienced similar challenges during the 2010s, as discussed below.

- **Streamers have helped to drive innovation across the industry:** Streaming is different to other delivery platforms, allowing streamers to capture customer data from every transaction and view, on every device, second-by-second, supporting wide-ranging innovation in the delivery and monetisation of video services. Streamers have used data to optimise their marketing activities around behavioural segmentations and other vectors, improving customer acquisition and retention, and have also been able to provide personalised interfaces, recommendations, and improved user experiences. Data about consumption can be used to support content commissioning, windowing, and monetisation, and can also power advanced advertising offerings, supporting data-driven targeting, programmatic buying, attribution, and other capabilities. In this respect, streamers have significant competitive advantages over traditional broadcasters.
- **However, growing a large-scale streaming service still requires very high levels of investment:** Although the technologies underpinning the delivery of streaming services have matured, growing a mass-market international SVOD business remains extremely expensive, requiring very high levels of investment in technology, content, and marketing. Only a few major digital businesses, either relying heavily on the willingness of investors to fund growth or cross-subsidising from other lines of business, have successfully attracted millions of subscribers. AVOD business models are equally challenging, with most services remaining small-scale. However, streaming has allowed a wide range of video providers to enter the market.
- **At the same time, new forms of digital entertainment have proliferated:** Platforms like YouTube, TikTok, Facebook, Instagram and Snap have grown dramatically, creating new distribution opportunities for established media owners, producers, marketers, and video creators. Gaming and streaming audio services have also become more and more popular. These offerings have captured a significant share of media time, especially (but not exclusively) with children, teens, and younger adults, many of whom have dramatically changed their media consumption habits, although most still watch TV as well. However, the media landscape is increasingly fragmented, and consumption has become more widely distributed across different platforms and devices during the decade, especially for younger audiences.

> *Outside of the US, most [digitally native] AVOD services are small or niche. The main barrier is access to content. In the US, there's a lot of content available to license – and smaller streamers have been able to scale up. In Europe, content travels less well and there's not much to license. You need access to a library.*
>
> **European streaming executive.**

- **New platform gatekeepers have emerged:** As connected platforms have become more important for the distribution of video services, TV companies have found themselves in increasingly complex negotiations with new gatekeepers, for distribution and prominence on Smart TVs and other platforms. In the US, these new distribution relationships often involve granting inventory rights to content, with platform operators building their own advertising offerings. App stores are also proliferating on TV platforms, lowering barriers to entry, and supporting access to new services. The proliferation of new platforms has encouraged pay-TV providers to develop their own streaming portfolios, as well as aggregating streaming services onto their platforms, dramatically expanding the range of content available to their customer. Interfaces have also evolved, to accommodate these new offerings, as consumer expectations have changed, although many audiences appear comfortable navigating across different video services and devices and appear to value aggregation less.

> *We've re-thought the value of aggregation. A lot of what we're now offering is convenience. We're packaging it and making it easy to search and discover. Consumers could cobble together this stuff without us, but it's complicated. We work hard to integrate and to offer cross-service search, with integrated metadata. We see huge increases in usage, by integrating different services and making them easy to search across. The next wave is recommendations and personalisation. We must do a better job at surfacing content for individual consumers.*
>
> **US pay-TV industry executive.**

- **The US TV industry responded by consolidating and investing in streaming services:** The US market experienced a wave of consolidation during the 2010s, as major US media conglomerates combined forces and invested heavily in the roll out of their own streaming services and advanced TV advertising offerings. With US affiliate fees under pressure, major media players have increasingly looked to roll their streaming services out into major international markets, in some cases substituting for existing pay-TV channel portfolios, as companies look to realise economies of scale and grow subscriber numbers. Domestic channels have gone multi-platform, following audiences onto connected devices, and incorporating new forms of inventory into their advertising sales. Larger MVPDs have responded by diversifying, rolling out their own streaming services and capitalising on strong demand for broadband and in-home connectivity, while some smaller providers have looked to exit subscription television completely.

- **Streaming has also grown dramatically in Europe:** In Europe, pay-TV has generally been more resilient than in the US, although the market matured during the 2010s. However, streaming has still delivered significant changes to the market. The major US SVOD providers, led by Netflix and Amazon, have steadily gained traction, as have streaming services provided by the major US media conglomerates, some of which are being positioned as replacements for existing multi-channel portfolios, as carriage agreements come up for renewal. SVOD services originally sat outside of the bundle, as an alternative, but these services now sit side-by-side in pay-TV bundles across Europe, and linear channel counts are starting to decline.

> *We're well advanced in developing our plans to roll-out services internationally. It's clearly challenging, but the issues are more about content, marketing and subscriber management than about delivery challenges – the technology to offer online services is here, it works and it's scalable. We won't replace our international channels immediately, but I expect it will happen over time.*
>
> **US TV industry executive.**

- **European broadcasters have responded – but face challenges:** Major national broadcasters in every European market have also rolled out their own streaming services, often attracting considerable user bases, but with mixed commercial fortunes. Pay-TV providers across Europe have also extended their offerings into streaming and launching low-cost subscription streaming services to attract new paying customers. As streaming services have proliferated, linear viewing has declined markedly in most major European markets, and broadcasters have seen their share of viewing fall, despite the relative success of their streaming services. Some large broadcasters have trimmed their channel portfolios, looking to focus on quality rather than quantity, and some smaller channels have moved to OTT-only offerings.

> *Our international channel portfolio hasn't changed that much, although more and more of our content is commissioned locally rather than licensed from the US. However, streaming is no longer a bolt-on, it's a 20% of our revenue and growing fast. We're more widely distributed now, on traditional pay-TV platforms but also on streaming platforms and Smart TVs, where we're growing subscription revenues, while our free-to-air channels are declining.*
>
> **European multichannel executive.**

- **These changes have driven growth in content investment:** The growth in competition has stimulated a dramatic increase in content investment, especially premium scripted entertainment, and kids content, as well as fuelling a continued boom in the value of sports rights, which might otherwise have declined in many markets. Major new players, from outside of the traditional TV industry, have invested heavily in content origination and licensing, driving inflation in content costs, and dramatically increasing the range of content available to consumers. More and more content is now available across multiple platforms and devices, complicating distribution strategies and supply chains. The first half of 2022 was another record year for US investment in premium scripted entertainment.

> *We've been able to roll out a range of SVOD and AVOD services, leveraging our existing video libraries and programme assets. We're realistic. We're not going to attract millions of subscribers or make huge amounts of money – but we can grow a portfolio of small-scale, profitable video businesses, using self-service platforms and being smart about marketing and distribution. We see it as a replacement for lost DVD revenues.*
>
> **European TV production executive.**

- **The pace of innovation in advertising has also accelerated:** As TV viewing has migrated to connected platforms and advertisers have grown investment in online channels, the TV industry has invested heavily in advertising innovation. Addressable TV offerings first launched in the mid to late 2000s, followed by data-enabled advanced advertising on streaming services and connected TVs, programmatic offerings, and self-service platforms for smaller advertisers. These investments, along with robust viewing of TV channels, have helped to maintain advertiser investment in TV, albeit distributed across a wider range of advertising offerings. However, ad revenues remain under pressure, and broadcasters in most markets have experienced much lower growth than the major online video platforms during the 2010s.

- **Broadcasters have migrated services to the cloud, software, and IP:** To support these shifts, TV companies across the US and Europe have increasingly shifted their operations and content supply chain into the cloud, virtualising their operations, migrating from hardware- to software-defined platforms and architectures, and transitioning to IP-based delivery. This transition has been underway since the 2010s, but it is now accelerating, as the underlying technologies and platforms mature, offering the promise of greater agility, faster innovation, and improved customer experiences. However, streaming distribution has created added complexity, as most broadcasters have not switched old channels off and multi-platform distribution can be challenging, especially for companies looking to align streaming with broadcasting and streaming live shows. Operating models vary widely, with different combinations of internal and external resource to support streaming services, and different levels of complexity, depending in large part on the degree of alignment between broadcast channels and streaming services, around live simulcasts, catch-up windows, and monetization models.

> *Digital transformation in TV is a two-stage process. The first stage was about offering OTT services as a bolt-on or extension to a traditional TV offering. The second stage, now underway, is shifting the organisation to thinking digital-first, which means converging all distribution platforms into a unified TV service, that looks the same to end users, regardless of where, when and on what device they are viewing. This is going to be a long journey, while we still have broadcast channels.*
>
> **European broadcasting industry executive.**

- **The production sector has consolidated, as rights exploitation has become more challenging:** For major TV content producers, the boom in investment has supported dramatic growth in scripted entertainment, with high-end TV increasingly converging with the film industry – but other genres have faced declining budgets. In many cases, major content buyers are looking to secure global rights in perpetuity, with limited upside for producers. Sales of major entertainment formats have slowed, with few major new break-out show launches. The sector has consolidated, with the major production houses scaling up their production and distribution operations to drive economies of scale and improved financial efficiency.

> *Consumers have far more choice about what they view and when. The result has been that weaker channels have tended to decline, while stronger channels have generally done well and strengthened their positions. Lots of big shows are relatively bigger now than they were, while lots of smaller shows and channels have declined.*
>
> **European multichannel executive.**

- **SVOD growth has started to slow, shifting focus to ad-funded services:** By mid-2022, the growth of SVOD services in the US and major Western European markets has started to slow, as the most popular services began to approach maturity and consumer investment in connected devices and TV sets decelerated. The slowdown has driven a renewed focus on ad-funded tiers and hybrid business models in the US and some major conglomerates are looking to cut costs, consolidating their streaming services, and looking again for new growth opportunities, as competition for subscribers, audience impressions and ad spending intensifies.

After two decades of change, a new market structure is emerging, including the major international digital businesses, larger TV networks and their portfolios of channels and streaming services, a middle tier of TV companies and streaming services, distributed across a range of video platforms, and a range of online video offerings and publishers. A range of companies, including pay-TV platforms, TV OEMs, digital businesses like Amazon, Alphabet and Apple, are competing to own the TV interface and consumer relationship. Consumer preferences and expectations have changed, viewers have access to more content than ever before, and the quality of TV services has increased significantly.

> *There's no doubt that the TV industry is all-in on streaming. It's a growing part of our business, and we're investing heavily and working hard to evolve into a multi-platform video business – but there are some big uncertainties about our future. Streaming is a growing part of our viewing and business model, but will it ever fully replace our broadcast channels? We're pretty sure that many of the smaller channels will be gone, that's already happening, but will the major networks be turned off by 2030? I very much doubt it – so the future is probably hybrid, for lots of TV businesses.*
>
> **US broadcasting industry executive.**

Despite these dramatic shifts, the TV industry has remained relatively resilient. Industry revenues are clearly under pressure, especially for Europe's PSBs, but levels of investment have remained relatively stable, audiences continue to view linear services, although viewing is declining. and TV industry streaming revenues are growing steadily. The industry is transitioning into a more diverse, dynamic, and innovative sector, with a growing range of paid-for services and aggregation platforms, more efficient and agile operating models, faster development cycles, and a far greater diversity of strategies and business models.

> *We've moved much of our service platform from hardware to software, and into virtualised environments and the cloud. The development cycle for new products is now completely different. In the old world, updates took months, with long development cycles, limiting us to 2-3 upgrades a year. Now, we're pushing out code updates on a regular basis, even daily. It's a totally different way of working and thinking. We're now more agile and we have better products.*
>
> **US pay-TV industry executive.**

But – what happens next? Will the 2020s see a similar or even accelerating pace of change and disruption or does a different future lie ahead?

2. The 2020s – thinking about what lies ahead

The rapid changes of the last few years undoubtedly make predictions about the future of the marketplace more complex, with a wide range of new services, major new market entrants, and changing consumer behaviours. Interactions between the US, the world's largest exporter of entertainment content and home to many of the world's largest media and technology companies, and the major Western European territories, each of which has its own unique characteristics, market structures and dynamics, are complex and vary widely, market by market. In this marketplace, the strategic decisions of a small number of major international companies could be crucial to shaping the evolution of the marketplace, shifting market structures and competitive dynamics, technology standards and consumer expectations.

Continuing trends during the 2020s – industry expectations

Across the industry, there is a strong consensus that the 2020s will see a continuation of many of the market trends that are already underway across the US and Western Europe. These are developments that are widely believed to be significant and high impact, but relatively predictable.

These continuing trends include:

- **Changes to viewing behaviours:** TV viewing will continue to become more diverse, with non-linear viewing capturing a growing share of viewing. Although linear viewing is widely expected to persist, and not just for live formats such as sports, major events, news, and some entertainment formats. on broadcast channels and streaming platforms, it will continue to decline overall and, for some audiences, will make up only a relatively small proportion of total viewing.
- **The growth of streaming:** Streaming services have moved into the mainstream and continue to improve, with increasing content budgets, better user experiences, and ongoing refinements to business models. Streaming services, including services operated by major TV businesses, will continue to capture a growing share of viewing and industry revenues, both subscription and advertising.
- **The persistence of broadcasting:** Despite the growth of streaming, traditional linear broadcasting will persist through to 2030 and beyond, although viewing is likely to continue to decline during the decade ahead. Despite the declines of the 2010s, viewing of over-the-air (OTA) broadcast channels still accounts for a significant share of viewing in many markets, and remains an efficient way of distributing and monetising content. A complete switchover to streaming, like analogue switchover, does not appear to be a realistic prospect by 2030. The future will be hybrid, for the foreseeable future.
- **Advanced advertising continues to gain traction:** TV advertising will continue to become more addressable over time, as addressable enablement encompasses larger pools of inventory and as planning and buying systems are upgraded and improved.

- **TV workflows and supply chains evolve:** TV companies, producers, and broadcasters alike, are well advanced in upgrading their operations and infrastructure, although most are still running complex hybrid supply chains, often with largely separate broadcasting and streaming operations. These workflows will continue to transition gradually to IP, with fibre and 5G supporting increases in video traffic, and broadcasters will continue to shift services – content contribution, media management, playout, distribution – to software-based solutions and cloud-based infrastructure. However, there is no sign of older services yet being shut down – the future looks to be hybrid.

Drivers and barriers

Despite these important trends, many of the senior executives interviewed during our research are cautious about the prospects for further dramatic change, citing a range of factors with the potential to limit future disruption and slow the pace of change. Economists sometimes refer to these constraints as the path-dependent features of a marketplace, the dependence of future outcomes on the path of previous outcomes, historic decisions, and earlier market conditions. Market characteristics that can give rise to path dependence include the durability of capital equipment and the technical interrelatedness of systems, which may slow replacement and upgrade cycles, the duration of commercial contracts such as carriage deals and content licensing arrangements, and the ability of large firms to invest establish strong, durable moats that protect their market share.

What are the main factors limiting or constraining the evolution of the media marketplace and the prospects for further disruptive change during the 2020s?

Limiting factors

- **Connected infrastructure rollouts are largely complete:** Broadband and Smart TVs have been critical enablers for streaming services, but penetration is now close to mass market in the US and many major European markets. Future growth is unlikely to be a major driver of future take-up during the 2020s. Most consumers who want access to new TV services can get them and many already have access.
- **TV ad spend has been relatively slow to change:** Despite the changes of the last decade, TV ad spend has remained relatively stable in most markets, with investments in streaming and addressable TV advertising growing steadily, but relatively slowly. Industry participants believe it will take time to see dramatic shifts in budgets, as long as viewing holds up, with addressable supporting the market to some extent.
- **Future macro-economic conditions may impede spending and investment:** With high inflation and low forecasts for growth during the next few years, economic conditions do not appear to favour significant expansion of consumer spending on entertainment services or dramatic growth in ad spending in US or major European markets – and some executives are anticipating significant downwards pressure.

Consumer spending on home entertainment is generally robust during recessions, but low growth seems most plausible outcome, and many consumers are widely expected to cut back on some of their entertainment subscriptions.

- **Regulatory constraints and interventions will continue to impose restrictions:** During the 2020s, most executives expect regulation to be remain an important constraint on the evolution and digital disruption of major media markets. Governments will continue intervening to limit the extent of future market consolidation, regulating infrastructure and technical standards, supporting European public service media, especially broadcasters, and to prevent and penalize anti-competitive behaviours, especially on the part of the major digital platforms. However, this may require defining new forms of anti-competitive behaviour and imposing new constraints.
- **Many TV viewers appear relatively satisfied with their entertainment choices:** The range and quality of services available to consumers expanded dramatically during the 2010s and many consumers adopted new offerings, cutting the cord, experimenting with new services, and adopting new consumption behaviours. Today, many consumers claim to be relatively satisfied with their current choices and entertainment options, and most major streaming services are now available across almost all TV platforms, reducing the need to switch.
- **Barriers to entry for large-scale new international services remain very high:** At the top end of the streaming market, barriers to entry remain extremely high, with content costs alone running to billions of dollars of investment. Major new entrants will most likely need to cross-subsidise from other lines of business and be prepared to soak up years of losses while gaining scale, in highly competitive markets. Expanding across Europe remains especially challenging. Most executives do not expect to see major new entrants coming into the market at this stage, arguing that most or indeed all the major services have already been launched.
- **European PSBs will continue to face funding challenges:** Across Europe, public service broadcasters have often played an important role in their local markets, supporting growth and innovation. PSBs have had various funding models but have generally relied on public funding and commercial revenues, with strict constraints on their market activities. However, as macroeconomic conditions deteriorate in many countries and the pressures on commercial broadcasters mount, PSBs across Europe are likely to experience increasingly severe funding pressures, which will limit their investments in content and new services. The 2020s are likely to see PSBs reducing their portfolios and fighting to maintain their market positions.
- **Investor sentiment towards streaming services is shifting:** As SVOD take-up has slowed, investors have started to shift away from focusing primarily on subscriber growth at any cost to a focus on ARPU growth and profitability. This shift is likely to result a more sustainable marketplace with more reasonable levels of content investment and a greater focus on monetization and unit economics.

- **Smaller services will proliferate but face significant growth challenges:** Although barriers to entry for smaller services remain very low, scaling up and growing audiences and subscribers will be challenging for most, in a crowded market. From time to time, executives do expect to see services breaking out, especially creative companies bringing something new to the market, and some will doubtless be acquired by larger players looking for some new capability, talent, or technology – but this appears unlikely to be highly disruptive.
- **Major TV incumbents have largely settled on their strategies:** Across the US and Europe, major broadcasters, pay-TV providers and telcos have deployed their own streaming services and taken steps to defend and support their existing services, often with considerable success. Most are committed and are well advanced in adapting their operating models to support multi-platform delivery. Our executives do expect some smaller services to be shuttered and envisage potential consolidation of streaming services in some markets, as companies look to expand their streaming bundles, but these changes are unlikely to significantly re-shape the market.
- **Consumer tastes are unlikely to change dramatically:** Despite a surge in content investment, consumer tastes and preferences for TV content have not changed that dramatically. Today's TV households have far more choice and control over what they watch, when and how, which has inevitably resulted in viewing becoming more fragmented across a wider range of services, but they are still excited to watch great drama, sports, documentaries, and other popular genres. Audiences still congregate around major live events, season finales, and breaking news stories, searching for water-cooler moments and a sense of participation and connection to the zeitgeist.

Potential drivers of disruptive change

Despite these limiting factors, industry participants also believe that there are possibilities for further disruptive change during the 2020s – highlighting a range of potential developments:

- **Diversified digital players could ramp up investment in video services:** The major global digital businesses – Alphabet, Apple, Amazon, Microsoft and, potentially, Facebook – have the financial means to significantly increase their investments in content and video services, even over and above current levels of investment. This could be highly disruptive, accelerating current rates of take-up and viewing for their video services, supporting new ad-funded services, and increasing content costs across the board.
- **Digital players could increase investment in sports rights:** Digital businesses are already investing in sports rights and could step up to compete with existing TV businesses. This could have a negative impact on major domestic broadcasters, for whom sports is a key driver of live audiences, and for the pay-TV industry, with many providers seeing sports rights as the lynchpin of their services.

- **Smart TV OEMs could establish themselves as gatekeepers:** Smart TV penetration has grown rapidly in most major markets, notably including the US and UK, giving OEMs considerable leverage. Many of the major OEMs are rolling out their own advertising services and are ramping up investment in their own content services, supported by the promotional capabilities of their interfaces. The major OEMs could potentially become powerful gatekeepers, owning consumer relationships, and charging for access and positioning.
- **TV advertising could decline sharply:** If linear audiences continue to decline sharply and digital revenues do not fully compensate, broadcasters in some markets could experience a vicious cycle of decline, with falling ad revenues leading to declining content investment and further falls in viewing. Broadcasters in many markets are already under considerable pressure, with little or no growth in adspend and some networks experiencing real declines. The roll out of new ad-funded tiers on popular SVOD services could accelerate this trend.
- **Young audiences may continue to move away from television:** Younger audiences continue to demonstrate very different viewing behaviours to other audiences, spending far more time with online video services, gaming, and social media platforms. As these computer- and connectivity-enabled services continue to improve, these shifts could accelerate resulting in a generation that (continues to) consume far less television than its predecessors. These behaviours are also taking hold with older audiences, as digital entertainment offerings come of age.
- **New forms of entertainment could become stronger competitors to television:** TV already faces a battle for attention from new forms of digital entertainment, which are widely expected to become increasingly sophisticated during the 2022s. Audiences of all ages are already embracing gaming, social media and, potentially, the metaverse, and traditional TV services could find it challenging to keep up.

3. Perspectives on future market developments – expert contributions

To support our analysis of the future, we commissioned articles – expert opinions – from four members of The Project X Institute's team of expert advisors, to explore future developments in the US media market, the roll out of SVOD streaming services, the prospects for European commercial broadcasters, and the evolution of kids media.

We would like to thank Christy Tanner, Mike Darcey, Ian Whittaker, and Emily Horgan for their contributions and for their expert input into the development of our four scenarios for 2030. We have included short biographies, along with each essay, to help readers understand the experience and expertise of each writer.

Please note that the opinions expressed in these articles are those of the authors and do not necessarily reflect the opinions or views of The Project X Institute or of MEDIAGENIX.

Essay 1:
The digital transformation of the US media sector: where it started, how it's going, where it's headed

By Christy Tanner

The US media business currently is undergoing a radical transformation driven by how audiences view video and what those audiences find engaging, entertaining, and informative. Just how radical may be a matter of opinion. But consider that we now have a world in which competitors for video attention have multiplied, along with the ways in which those competitors monetize viewers' attention.

Picture a viewer, in lean-back mode during prime time, choosing among the following: Tik Tok, Disney+, Samsung TV+, Peacock, Pluto, Twitter, The Roku Channel – and many more. Picture broadcast and cable companies that once competed in a relatively simple annual "Upfront" marketplace for advertising dollars, now sharing the sale process with 1) social media giants such as YouTube and Facebook 2) companies that once were categorized primarily as hardware manufacturers and software developers, such as Samsung and Roku and 3) the latest entrant category, retailers such as Walmart and Target. At the heart of these changes all is a battle for data that can be used to sell products, goods, and services more efficiently to leaning-back viewers.

The companies formerly categorized as hardware, software and retail experts now are building out both advertising sales teams and content development teams. While much of the trade and business press coverage is focused on "the streaming wars" among a half dozen major media companies, in fact, the definition of media itself is changing – and at an accelerated pace -- in the US market. It's likely that as you read this, more media news is breaking, shifting the marketplace yet again.

The beginning of the transformation

The 2000s and 2010s were a period of relatively slow transition for major media companies: Chief Digital Officers were hired. Digital "centres of excellence" were created to build websites and apps. Distribution teams created carefully windowed deals for entertainment, sports, and news properties.

Meanwhile, many digital and linear media executives directed their competitive attention on Netflix's rising valuation and market-stressing payouts to creators, declaring that someday soon this bubble would burst. For the most part, these same executives stuck to their respective digital and linear areas of expertise as the market developed, cooperating when necessary to create mutually beneficial deals with their largest advertisers and with distribution newcomers such as Roku.

This cooperation allowed them to take advantage of tech platforms' hardware and software to reach cord-cutters and cord-nevers, as audiences increasingly began to tune out of linear channels. Early-to-market SVOD and OTT products, such as CBS All

Access, demonstrated to the media industry how to use technology to own a piece of the distribution pipeline and to accumulate valuable user data. Early-to-market AVOD products, such as CBS News's CBSN, demonstrated that there was a place for free, ad-supported trusted information. Start-ups such as Roku demonstrated how to use digital technology to recreate video consumption experiences.

As the market grew, measuring the rapidly fragmenting distribution and consumption became increasingly difficult – with dozens of devices, services, and platforms to measure and an exponentially multiplying set of KPIs across mobile, web, social, CTV and more. No reliable third-party digital measurement provider emerged to take the place that Nielsen held for linear ratings, leading to advertising sales teams "grading their own homework." Following the lead of social platforms, many OTT platforms created environments and secured deals in which they revealed very little about what audiences viewed and who they were.

Through it all, audiences adapted rapidly to a wide variety of new consumption habits, including:

- Binge-watching.
- Starting to view a show or movie on one device and finishing viewing on another device.
- Subscribing to multiple SVOD services at once, and in many cases, managing spending by password-sharing or cancelling and/or renewing based on when favourite shows were available; and
- Sampling and adopting new, free, ad supported platforms such as Pluto, Tubi, and Xumo.

Without trying to identify a single tipping point, it's fair to say that at some point in the 2010s, linear executives realized that digital was a new centre of power. This realization led to new efforts to control the digital centre of power and tout its success to the marketplace rather than continue to spin increasingly difficult narratives about rapidly declining broadcast and cable Nielsen ratings. This shift within legacy media companies, and the lower barriers to entry in digital competition allowing for new entrants, set up the current state, leading to how it's going.

Industry progress

In 2021, a Nielsen forecast predicted that in fall of 2022, linear and non-linear viewing would converge, representing equal amounts of viewing for the average US viewer. This simple statistic belies a significantly more complex media environment in which:

- Content tastes are continuing to fragment, especially for younger and more diverse audiences,
- Shattered consumption timelines make data analysis challenging,

- Advertisers now are shifting spend to OTT more than to social and other digital advertising platforms,
- Operating systems and hardware manufacturers are also programmers and distributors – and vice versa, and
- Executive roles are changing – with linear/digital decision-making converging, which creates a new need for training, information sharing and best practices.

The US media market has demonstrated that consumers will support both SVOD and AVOD — watching ads in exchange for free content — while also paying for sports, seemingly endless Marvel and "Star Wars" spinoffs, and reruns of "The Office." In a Deloitte 2021 survey, 60% of those surveyed said they are okay with watching a light amount of ads (six or fewer minutes per hour) for a lower monthly subscription cost, while 39% of those surveyed said they would watch 12 minutes of ads per hour if the service was free.

These factors are changing the definition of competition — with new players, alliances, and partnerships. Monetization is no longer as straightforward as it was, even a few years ago. In the advertising market, there's a lack of transparency and new complexities in measurement, as well as changes to targeting, bundling tactics and practices. In the licensing space, we are seeing content owners struggle with the strategic challenge of being 1) a broker to the highest bidder or 2) pursuing exclusivity behind their own walled garden – or 3) a hybrid strategy. In the subscription space, we're seeing evolving playbooks for pricing, freemium models, and churn management.

As the 2022 Upfronts play out, they reflect the reality of that 2021 Nielsen forecast and the 2021 Deloitte survey, and overall, a major shift in this annual massive transaction of advertising dollars. Media company sales teams that once were split into digital and linear experts now are one team, transacting on bundles of linear and digital ad inventory rather than conducting separate sales processes on different timelines. Most of these teams tout their ability to use data to target consumers, justifying stable prices.

These trends are placing significant supply pressure on traditional linear ad sellers, motivating many to accelerate their streaming strategies to diversify revenues from dependence on linear ad sales. The most significant streaming strategies employed in response to this pressure are driving growth of AVOD and FAST strategies. In fact, according to MarketCast, AVOD grew twice as quickly as SVOD in 2021. Magid's 2021 Entertainment Pulse survey found that growth of FAST/vLinear services and viewer adoption of them is surging, with the most significant adoption won by Peacock, Roku Channels, Pluto and Tubi, in that order.

The prevalent 2010s concern that social media would decimate linear TV's share of ad dollars has evolved to a new set of concerns about much more powerful competitors – those who can tout capabilities in hardware, software, content, and data, including Amazon, Google, Samsung, and Comcast. A few developments in spring of 2022 stand out as setting up a new phase of competition:

- The "streaming wars" among SVOD services expanding to include AVOD as both Disney+ and Netflix announced that they would create lower-priced, ad-supported tiers,
- An internal Netflix document was leaked showing that executives asked advertisers how they could do a "better" job of serving them than the media companies who have been their partners for decades, and
- Comcast and Charter partnering to expand the reach of a new streaming platform called "Flex."

This new phase of competition promises to create new corporate giants, and inevitably, a few more corporate broken hearts. As for who will make the decisions in these new centres of digital power, in many cases, it is long-time linear executives who are consolidating oversight, creating an interesting path ahead for the convergence of digital and linear business models.

Prospects for the 2020s

Looking toward 2030, media companies are at a crossroads. Their businesses will increasingly be more complex than ever. Many executives charting strategies for future growth have spent their careers primarily in linear content creation and are challenged even to use the correct terminology – interchangeably mixing up "digital" and "social" for instance. Now, these executives must make significant strategic decisions regarding relationships with companies that own one or many aspects of the digital value chain.

Even for veterans of digital transformation – experts in new and ever-evolving technology and strategies – the crowded landscape can be difficult to track. It will be increasingly difficult to distinguish among competitors, "frenemies," and partners. A few key macro trends in this landscape can help identify what to expect:

- Audiences will become even more fragmented and hard to reach for a few reasons – for both content creators and advertisers. Why? First, the number of devices, services and platforms will continue to proliferate. Second, increasing privacy concerns and the difficulty of third-party measurement mean identifying consumers will be difficult and the inefficiency of ad spending will continue.
- New entrants will amass significant market share, overtaking traditional players. Will it be Samsung and Walmart at opposite ends of the market – with luxury Samsung retail environments and lower-priced Walmart-branded TVs – targeting consumers with precision and personalized ads? A player such as Google could be in-between, with an operating system, numerous hardware deals with TV manufacturers and the content generation machine that is YouTube.
- Gaming will be a meaningful part of the lean-back mix. No longer will Twitch or another game-oriented service be a separate entertainment experience. Instead, prime time entertainment will include simultaneous gaming and video consumption in what looks a lot like what we now call "the metaverse."

- For all the reasons mentioned above, monetizing oneself also will be a seamless part of the entertainment experience. Imagine livestreaming what one is doing (sitting on one's couch via OnlyFans) while consuming another's livestream (top gamers battling via Twitch.) In fact, this behaviour already is happening, though the monetization and delivery options are crude.

Challenges and growth opportunities ahead

The radical transformation of US media presents numerous opportunities for innovation -- creating more valuable consumer experiences and new monetization options. Picture again, a viewer, in lean-back mode during prime time, attempting to make a consumption choice and consider some of the key challenges and growth opportunities in improving that experience:

- **User experiences, interfaces, and personalization:** Many have promised to improve and deliver this, and nobody has quite nailed it – yet. We need a new utility to simplify decision-making, as the TV Guide "grid" decades ago solved the display paradigm for the new medium of television. Simply put: Please fix this, someone.
- **Production:** We've already seen reduced costs of production ease the path for News space entrants (Newsy, Cheddar, NewsMax). Drivers of this change include cloud-based production, remote capabilities, and widespread broadband/fast wireless. For the Entertainment and Sports verticals, the combination of creativity and cost pressures will allow new entrants to evolve standard production methods.
- **Measurement:** Media players and observers agree that this is a major gap in the marketplace right now, and the question is: Who will be the next Nielsen(s)?
- **Skills and/or outsourced expertise:** Media companies need next generation talent with new skill sets for every stage of value creation including content development, ad sales, subscription management and, especially, data management and analysis. As one example, data experts now are required to understand how viewers interact with each platform, understanding differences of OS, hardware, and business models. This expertise can't be gained overnight.
- **Personal data:** Can we conceive of an annual Upfront for one's personal data? Though it might seem like a dystopian future in which one is asked whether they'd prefer to harvest their own organs versus having someone else do the harvesting, it is perhaps a new category combining consumer privacy and capitalist entrepreneurship.

In summary, 2022 already has been a wild ride for streaming: In April alone, CNN+ launched and died, Netflix announced its new ad strategy, and IMDb TV was renamed Freevee. As we look ahead to 2030, across devices, services and platforms, media companies have more need than ever for expertise, guidance, and leadership – so that they can develop products and business models to evolve, compete and continue to win the loyalty and trust of consumers. Though it may seem like the US media industry is nearing digital maturity, it's early days in the streaming evolution. By the end of the decade, old and new players will be upended once again and positioned to provide audiences with new experiences and the marketplace with new value.

About Christy Tanner

Christy is a C-level media executive with 20+ years of experience in digital business and culture transformations.

Most recently, Christy spent eight years leading the News and Media divisions for CBS Interactive, overseeing all aspects of the digital businesses and content, including the massive growth of global and local streaming services for CBS News Digital. Prior to this, as CEO of TV Guide Digital, she led its sale to CBSi, after holding senior executive roles with Lionsgate, The Washington Post Company, Wolters Kluwer, and Reed Elsevier.

Her expertise includes building entrepreneurial profit- and growth-driven teams; targeted strategies for direct-to-consumer AVOD, SVOD, FAST, CTV, social, and mobile consumer media habits; and creative marketing to reach Entertainment, News and Sports audiences via evolving linear and digital distribution channels.

Before earning her MBA from Columbia Business School, Christy began her career as a reporter and editor for The AP and the Memphis Commercial Appeal.

Essay 2: Streaming and the SVOD revolution in the 2020s

By Mike Darcey

Most would agree that the advent of streaming, starting with Netflix more than ten years ago but with many imitators since, has ushered in a revolution in the TV industry.

The last ten years has seen the emergence of several new major content players on the world stage (including Netflix, Amazon, and Apple) who have delivered a significant increase in content investment. At a structural level we have seen significant unbundling, especially in the US, large swathes of content removed from the linear world and a material degree of disintermediation with many content owners choosing to distribute for themselves.

This has delivered lower consumer prices and the fulfilment of the promise of choice and control that started with multichannel and continued with PVRs and the early days of on-demand. We can debate whether series-stacking and binge viewing is really the pinnacle of human achievement, but it seems to have been embraced by consumers, so who am I to argue.

At the same time, however, as we take stock in 2022, it is also reasonable to argue that not much has changed at all. There are indeed a handful of new content names, but only a handful, and none of the old guard has been displaced. Content continues to be funded as before, through a mixture of direct payment (subscription) and interruptive advertising with no genuinely new funding model emerging. There was a period of content spend from telcos and other tech players, hinting at new models of content being funded by the benefit accruing in other linked lines of business, whether broadband connections or device sales, but this has already faded.

And we are already seeing a degree of re-bundling of content offerings, with the leading aggregators of today looking largely the same as ten years ago. The content genres have not changed – the last significant development here was the emergence of reality TV but that predates streaming – and linear viewing remains remarkably strong, especially in Europe where broadcast still accounts for 80% of viewing across the five main territories. Alongside that, linear TV advertising has also remained highly resilient. We are even seeing a modest rebound from binge viewing and are rediscovering the merit of anticipating the weekly drop of a new episode and the connection that comes from watching when others are watching.

Following on from this, as we look forward to the role streaming will play through to 2030, I would argue that the most likely scenario is for only modest change from here, more evolution than further dramatic revolution.

I expect that the current landgrab phase of SVOD growth will calm and the growth in aggregate content spend will moderate. There will more re-bundling of disparate content offerings because the economic benefits on the demand and supply side are as compelling as ever, and no new significant aggregators will emerge. The line-up of content players will be roughly as it is now, with similar shares, and the claims about reduced barriers to entry will ring rather hollow. Yes, it is easy to assemble a pool of content and launch a streaming service, but pervasive economies of scale remain. It will be hard enough for the likes of Peacock and Discovery to succeed, let along other new players to make any meaningful impact.

By 2030 I expect streaming to account for a significant block of consumer viewing time, but it will still not be the majority. In this case, apart from the few pure play streamers, streaming will remain one monetisation window alongside linear and others, all of which contribute to the funding of new content.

This should not be a major surprise because history has seen this story repeated many times. Innovation tends to be absorbed by the industry rather than the industry being completely disrupted. The home entertainment industry has worked roughly the way it has for a long time for good reason, consumers do not change very much, neither do the principles of economics, and most important new technologies are quickly adopted by incumbents to preserve their position.

Indeed, the degree of disruption from streaming, which at its heart is merely a modest change in distribution technology, is not likely to be as dramatic as some past changes in the media industry. It is not, for example, as dramatic as the arrival of TV per se and the impact this had on cinema and radio. Nor does it appear as dramatic as the impact of pay TV on ad-funded broadcast television. And it seems less challenging than the arrival of search and online news and the impact this had on printed media, which proved to be a near-extinction event.

But even if this is the central and most likely scenario, it is certainly not guaranteed. Notwithstanding the inherent stabilising tendency of the industry, it is still possible we will see a more disruptive revolution and a materially different future. On the other side, it is even possible that the revolution will be cancelled or at least scaled back. In this spirit, three possible significant departures from the central scenario for streaming are considered below, focusing on the question of what you need to believe to think a materially different outcome could arise.

Key sports rights move to the streamers

The first disruption scenario flows from a shift in who controls the key sports rights, reflecting the fact that these rights inspire such unmatched passion among significant numbers of fans, and because they are unique and cannot be replicated. If these rights were to transition en masse from the incumbent broadcasters, pay and free, to streamers, this would tip the industry on its head. But it has not happened yet, so what needs to change to bring this about?

Such a shift probably requires the emergence of a materially superior monetisation model than we see today, as has occurred in previous generations. In the UK, for example, pay TV emerged and was able to extract systematically more value from sports rights than any ad-funded broadcaster, and over time most major sports rights moved across to pay TV and this underpinned a 20+ year reshaping of the UK market. The same pattern played out in many markets around the world.

The dominant business model today, the one that can systematically outbid all others for top tier of sports rights, is the vertically integrated aggregator enjoying the benefits of triple play and other ancillary service offerings. These players, such as Sky and their equivalents around the world, can outbid all others, even standalone pay sport channels, for any rights they want. Sports bodies have worried for several years that competitive tension among this group of players is receding and have hoped that the streamers will provide the next boost to competitive intensity. But it has not happened yet. Why is that?

The reason is that, in the end, the streamers are exploiting the same basic economic model of pay TV, but within a smaller bundle and so lacking some of the economic benefits enjoyed by the incumbents. The fact that it is called streaming brings no magic for sports, which demands to be offered live, and the parlous profit position of DAZN tends to confirm this. Amazon and some others have made initial forays into sports rights but, so far, they are largely picking up rights that the incumbents are willing to let go, and we have seen very few genuine head-to-head battles in which a streamer has outbid an incumbent that is determined to defend.

But this does not mean it won't happen in the future. There has been speculation that Amazon may ultimately have an economically superior model, that they will be able to outbid existing pay channels, including vertically integrated aggregators, because of the additional benefits that accrue to their broader retailing operations. Indeed, sports rights owners have been hoping this is true. One possibility is that this is true, but Amazon are still assembling the evidence to prove it to themselves. If they do conclude they have a superior monetisation model, if they do then mount a concerted attack on top tier sports rights around the world and if other streamers are prompted to follow to try to keep pace, then the whole television industry would change dramatically, directly and indirectly.

In the UK, for example, if Sky were to lose control of the key sports rights, its primary aggregation play starts to unravel. It would lose large numbers of satellite customers, which in turn would undermine the incentive of other content providers – linear channels and streamers – to remain part of the Sky bundle and this could trigger a downward spiral. In this world, it is more likely that other strong aggregators could emerge, whether they be co-operating terrestrial broadcasters or smart TV manufacturers.

In some other European markets, the effect would be more dramatic, because Sky in the UK has a significant presence in original content to fall back on and this could underpin a reduced aggregation play. But some others are not as well developed in this regard and would be less well placed to survive the loss of the sport centrepiece to their bundle.

In the US, the linear pay sports channels – ESPN and others like Turner Sports, NBC Sports, and Fox Sports – are a major underpinning of the cable and satellite bundles that remain. Cable and satellite homes are declining through cord-cutting, but the rate of decline is expected to slow as we get closer to the residual hard core of sports fans. But if the sports rights materially disappeared from this environment cord-cutting would not slow down and might even accelerate again, creating a similar downward spiral with other linear channels suffering as a consequence and being forced to abandon the old model.

In all cases, the traditional pay TV house of cards could start to collapse. If the traditional platforms wither, the economics of linear pay channels are materially undermined, and we could see a much sharper shift towards streaming as the primary engine of new content investment, across all genres, and as the principal form of video consumption.

That said, at the same time, in Europe there could be a resurgence of the free broadcast model. In the UK, for example, the decline of Sky/cable-plus-streamers makes room for a further boost to Freeview-plus-streamers as the primary choice for the majority of homes. And the decline of linear pay channels, sport and others, would release TV ad revenue, some of which would be picked up by free linear broadcast channels.

Digital advertising finally makes a meaningful breakthrough

A second disruption scenario could be triggered by a step change in the flow of money out of traditional linear television advertising into digital video advertising. This feels like a story that has been brewing for many years, but so far remains the dog that has not barked.

The digital revolution has long promised improvements in video advertising, harnessing the benefits of detailed data on viewers and the ability to deliver advertising messages in a much more targeted manner. Set against the decades old linear TV advertising model in which the same ad is shown to all viewers of a given programme, much was expected. Often, we have heard the mantra that half of advertising spend is wasted, if only we knew which half, with the claim that digital delivery would solve the problem and prompt a major shift in the way money is deployed.

This is certainly what happened to print advertising. The advent of search and online display advertising more generally quickly proved to be more efficient and effective than advertising in a newspaper or magazine. This was largely because of the degree of targeting that was possible, as well as the proximity to the purchase decision, especially as e-commerce habits become more embedded. The result was that all classified print advertising and then the great majority of display print advertising was stripped away from print titles as budgets moved to digital, with catastrophic impacts on the newspaper industry, large numbers of closures and major restructuring and cutbacks among those that survived.

After watching this scenario play out, there was a thought that, with most of the ad revenue having been stripped away from print, the continued growth of search and digital display advertising generally would require new pots of money to be raided, with linear TV advertising the largest and most attractive target. Then if YouTube and other new non-linear video formats embraced advertising and exploited the same data-based targeting magic, traditional linear TV advertising budgets could start to come under severe pressure, exacerbating the underlying pressure from falling linear audiences.

But it has not happened, so far and traditional linear television advertising has held up remarkably well, for example showing no absolute decline over the last five years in the main European territories. The explanation for this resilience is complex and remains contested. Perhaps the benefit of precise targeting is not so great when set against the old approach of placing an ad in a programme expected to attract mainly the right kind of audience – certainly the gap seems less than the gap between precise digital targeting and an ad in a newspaper where you have to pay for the whole universe of readers of that title. Perhaps there has not yet been sufficient non-linear digital video inventory to take advantage of the targeting opportunity, or perhaps such inventory has so far mainly been offered by BVOD providers who are less inclined to compete with their traditional offerings. Perhaps there has been too much financial leakage, with margins squirreled away by intermediaries, payments to technology providers and even concerns about fraud. Perhaps the problems of unified audience measurement and tracking remain to be fully solved and are still holding back the revolution. Or perhaps all of these have combined such that the advertisers and agencies have, so far, remained comfortably wedded to the old “siloed” model which has served them well and have been too stuck in their ways to make a major switch.

Whatever the explanation, there is no guarantee that the current position will hold indefinitely. If some or all of the various issues identified above are resolved, if YouTube and others continue to grow, if smart TV manufacturers make further progress as new advertising platforms, then some advertisers and agencies could start to change their habits, seeing an opportunity to capture new clients with promises of a better model of deploying ad budgets. When this happens, others will tend to follow and overall industry sentiment could shift quickly, triggering a material drop in the share of budgets directed to linear television advertising.

This in turn would have second-order effects, triggering major shifts in the balance of the industry, in the direction of streaming playing a much greater role. A shift of money away from linear advertising towards digital video would add to the incentive of the streamers to introduce advertising into their business model and would further accelerate the shift in spend. This would help to underpin a higher level of content spend by streamers at equilibrium and see greater penetration of the streaming model. At the same time, a fall in linear adverting would undermine the content investment model for free linear broadcast and indeed damages the economics for all linear channels, free and pay, who currently remain on traditional (satellite and cable) platforms. The latter, including major content offerings like ESPN, will find that their incentive to remain on linear platforms is reduced and they are more likely to take the plunge and flip to a streaming model instead.

As above, this could set off a downward spiral for these platforms and further shift the industry towards greater dominance by streamers. In this version, however, there is no silver lining for the free linear broadcasters, with the move away from linear advertising meaning that they too see their basic economic model in retreat, unless they can follow the money into free streaming models.

Recent market wobbles escalate into a genuine shift in sentiment against the streamers

The third potential departure from what seems to be the central case is one that operates in the opposite direction to the first two, a loss of faith in the streaming model.

Much has been made of recent share price collapse for Netflix, down from over $700 in late 2021 to barely $200 in recent months, and the fact that most other streamers have also seen significant hits to their prices. The implicit assumption in the central scenario is that this is a short-term wobble that the industry will navigate, and the streaming train will remain on the tracks, with sustained broad financial market support for a steady wholesale shift away from traditional models and towards streaming.

But what if this does not happen, what if the questions about Netflix's cash burn grow from here, if they cannot get the password-sharing genie back in the bottle, if the attempt to include advertising merely adds to their problems? And the what if this leads the market, worried about a deteriorating macroeconomic situation, to shift its focus in the direction of profits today and away from customer and share growth regardless of costs with the idea that profits might come later. What if the markets start to question whether the other streamers, especially those who are mid-transition from the old media model that had served then well, are unlikely to be able to turn a profit and will never make as much as they did in the old model?

In this world, we could see a retrenchment in the streaming story, a reversion back towards the old world in which linear channels play a leading role. Of course, streaming does not go away in this scenario, because the merits of on-demand access to stacked series on all connected devices is just too great. But the likes of Netflix could find that sustainable profits are only possible at a reduced level of content spend and with a tighter link into bigger bundles, becoming more like a modern version of the earlier HBO channel.

Meanwhile, the likes of Disney and the other global content groups could quietly start to calm their headlong plunge into streaming at the expense of all else and rediscover the merits of linear channels and content licensing, perhaps encouraged by the durability of linear advertising, perhaps further encouraged by growth in the use of targeting in linear environments. They would retain their streaming options, but they would no longer be the absolute priority and start to look more like one window among many, something close to a catch-up or library proposition for enthusiasts, with scheduled linear channels re-established to the position of being the primary place to launch new content and make new shows famous.

In this world, relative to a central scenario, streaming growth slows and then levels out, as does the decline in linear viewing. Cord cutting moderates, the traditional platforms settle at a higher level and the explosion in aggregate content investment also calms. At the same time, the threat to the linear model is less and so the free linear broadcasters enjoy improved prospects.

Conclusion

It is always challenging to predict the future, but in this case the central scenario of a gentle evolution reflecting a steady maturing of recent trends seems particularly robust. It is possible to conceive of different outcomes, and three such departures have been considered here. But perhaps the most noteworthy feature of these three thought experiments is just how much work is required to assemble a credible mechanism by which a material departure from the central case would come about.

About Mike Darcey

Mike has an extensive background on the strategic and commercial side of television, publishing and telecoms and now undertakes a series of non-executive roles alongside strategy advisory services in these sectors.

Mike is currently a board director for Sky New Zealand and for Arqiva. His previous board positions include Chair of M247 (connectivity and cloud services) and of Dennis Publishing. Mike's current and recent strategy advisory clients include an array of broadcasters and platforms, both pay and free, and sports rights bodies, in the UK and beyond.

Before turning to plural life, Mike was CEO of News International (Times, Sunday Times, Sun) for three years. Prior to this, Mike spent 15 years at Sky, initially as Director of Strategy, then as Chief Operating Officer. During this time, Mike was integrally involved in all the main strategic decisions and commercial deals, especially with content suppliers and distribution partners. Mike's involvement in major sports deals included five renewals of the EPL rights. Mike was also closely involved in Sky's engagement with policy and regulatory issues.

Mike started his career as an economic advisor, working especially on contested legal and regulatory proceedings.

Essay 3:
Prospects for Europe's commercial broadcasting sector

By Ian Whittaker

Looking at the European Free to Air Broadcasting space over the past 20 years seems like a classic case of the French phrase "the more things change, the more they stay the same". On the one hand, linear TV audiences have declined, new technologies such as PVRs have changed the landscape, the rise of multiple alternative video viewing platforms such as YouTube, Facebook, Instagram and now TikTok have taken away both younger audiences and advertising money while the rise of streaming services such as Netflix have changed fundamentally the way consumers watch video content.

On the other hand, the major players in the European Broadcasting space, at least in the major markets, remain the same, the regulatory structures – both at the European and the national levels - remain largely in place, the sector's advertising revenues over the past 20 years (at least in nominal terms) have continued to grow and the FTA players remain the only way to reach a simultaneous mass market audience, especially in markets such as Italy and Spain. Television still maintains its position as the only true mass market platform for advertisers that can reach a very large audience simultaneously.

Revenue diversification has been a feature of the European Broadcasting space for well over a decade as they looked to reduce reliance on cyclical advertising revenues. However, it has taken many different forms and has also differed from country to country. Several groups expanded into the radio space, particularly in France, Germany, and Spain. M6 and TF1 pursued a particularly notable diversification strategy moving into areas such as home shopping / e-commerce and even football clubs. The German broadcasters were also notable for their diversification moves, with ProSieben building up substantial assets in the dating, price comparison and beauty space, partly through Media for Equity deals. The recent 'sale' of magazine publisher Gruner & Jahr to RTL by the RTL's majority shareholder Bertelsmann shows the practice is still alive.

Where we stand now

Ironically, the pandemic may, in the long-term, prove to be a case of short-term pain, long-term gain for the Broadcasters in part because it brought audiences back to FTA television, part because it accelerated the share shift of revenues coming from alternative services, particularly Advertising Video on Demand, and because the pandemic spawned a range of new businesses that advertised on television. There are signs that spending from the latter has started to decline as the rise in interest rates reverses the flow of cheap money to challenger firms and this has also had an impact on several the online players, such as Snap.

There are also two other more subtle ways the pandemic may have benefitted Broadcasters. Firstly, it is likely to have strengthened the view of Governments, both at the national and the European level, that FTA Broadcasters are a vital part of the media landscape and need to be protected. This is evident in for example, the UK's new Broadcasting Bill. The second is it may have helped with one of television's biggest problems – at least when it comes to advertising money – namely the perception by decision makers that television is a dying business which nobody watches. It can be easy to forget that the media habits of decision makers are not the same as ordinary households, and the pandemic may have helped to dispel that perception.

The Broadcasters have also benefited from the need of major advertisers, particularly in the Consumer-Packaged Goods (CPG) sector to push through significant price increases to customers. A recent feature of the company reporting season has been the upwards revision to full year revenue growth from companies such as Unilever, Reckitt, Kimberly-Clark and so forth, who have been able to pass on the cost of rising commodity prices to consumers more than had been anticipated six months ago. The message from such advertisers is that price increases are set to remain high into 2H at least and possibly longer if inflation continues. As major platforms for CPG advertising spend, Broadcasters are likely to benefit.

That is not to say the picture is all rosy. There is mounting dissatisfaction amongst advertisers regarding TV price inflation as linear audiences decline yet the Cost Per Thousand rates increase. This is likely to remain a source of tension between advertisers, agencies, and broadcasters for the foreseeable future, especially given the unresolved issues surrounding measurement. Broadcasters are likely to maintain the view that the scarcity of their reach means that their product deserves to command a premium. Advertisers, facing high-cost inflation in other parts of their businesses, are unlikely to accept such increases lightly.

That tension has meant that it is more important for the Broadcasters to become less conservative in their ways of dealing with the market. It also has meant an evolution of the revenue diversification strategy. Most Broadcasters have attempted to launch Subscription Video on Demand (SVOD) services but with mixed success with BritBox (ITV) in the UK and Salto in France (TF1 / M6) gaining little traction but RTL having more success in Germany and the Netherlands.

The focus now, though, for virtually all the names is on growing the Advertising Video on Demand (AVOD), where Broadcasters can leverage off both their core strengths and key relationships. It has also meant that the sector has at last accepted the need to embrace programmatic, to which it had traditionally been hostile or lukewarm. The launch of ITVX in Q4 22, backed by substantial programming commitments, and the targeting of at least £750m of digital revenues (not all of it advertising) is one example of how Broadcasters are committing to ambitious targets to transform their businesses.

Overall, the position of the sector looks much better than many would probably have predicted several years ago. The results coming from the European Free to Air Broadcasters have generally backed the view that the Broadcasting industry is – at the very least – in a state of recovery. Advertising revenues for several the names - ITV, RTL and M6 etc – surpassed 2019 levels in 2021 and, for most of the others, they have nearly recovered their pandemic losses. This pattern has continued into 2022 and, while the short-term advertising outlook may be uncertain given the macroeconomic uncertainty plus the effects of the war in Ukraine, the timing of the World Cup in Q4 is expected to mean a strong end to the year. In this way, the European FTA sector does not look to be going the same way as the Newspaper industry did more than a decade ago post-the 2008 Global Financial Crisis when advertisers used the crisis as a catalyst to shift money permanently out of print into online. That is likely to continue.

Television as video

The most important shift though will be that the Broadcasters will no longer be seen as linear TV businesses but video content distributors. That may appear a subtle choice of words, but it has fundamental implications. For a start, it implies the Broadcasters are platform agnostic and can tap into the growth of online viewing through their Advertising Video on Demand services, which are likely to provide a growing share of overall revenues and capture at least a significant proportion of the loss in overall viewing share.

It also raises several more fundamental questions. If the Broadcasters are video content distributors, then surely that puts them in the same category of other online platforms such as YouTube. In which case, why should the Broadcasters not consider going into other forms of content currently occupied by the video services, for example premium short-form content. More to the point, why should the Broadcasters, via their AVOD services and other online revenues, not trying to grab a share of the online video spending pie in the same way platforms such as YouTube and Facebook have been trying to persuade advertisers that their platforms are a substitute for Television?

This desiloing of advertising money is likely to be one of – if not – the critical question for the long-term prospects of the European FTA Broadcasting industry. Advertising money, both at the advertising and agency levels, still tends to be silo-ed into different pots according to the platform (so a ‘pot’ for television, a ‘pot’ for online etc). The general assumption has been that the growth in AVOD will merely cannibalise existing linear TV revenues but there is a case that AVOD – as a ‘digital’ platform (and the IAB, for example, already includes both AVOD and Digital Out of Home within ‘digital’ revenues) – can capture a share of digital budgets.

An opportunity for broadcasters?

This scenario is increasingly viable because of growing questions being raised about the effectiveness of online advertising. Many of these questions have been raised before but, given the change in circumstances due to Apple's changing privacy policies, the elimination of third-party cookies, and growing concerns about the use of data, the major digital giants may experience some headwinds. Recent results for YouTube and Meta suggest that growth rates may be slowing down significantly.

The weak performance of the online names in recent quarters have reinforced the view that advertising sentiment may be shifting against particularly lower-funnel activities such as Direct Response. Snap, Meta, Twitter, and YouTube all have reported revenue numbers in the past several quarters that have generally disappointed the markets. This weakness has been particularly noted because it has come at a time when agencies have been raising their organic revenue growth forecasts one quarter after another and other parts of the online (and non-online) advertising system, such as Search and Amazon's advertising, has been showing strong growth.

If the Broadcasters can take even a modest share of online advertising budgets through their AVOD / digital offerings, the potential upside could be huge. Group M's most recent forecasts point to television advertising revenues globally of approximately $177 billion in 2025. If the Broadcasters can capture 10% of the digital advertising market ex-Search, then that would be the equivalent of an extra $46.3 billion of advertising money, or a 26% uplift to forecasts.

To unlock this opportunity, unified media measurement will be critical. Attempts have been mixed despite advertisers increasingly demanding such a standard. No small part of this has been due to fears by the Broadcasters that the major online platforms will "rig" the process and produce a standard that is favourable to the latter and not to the former. However, initiatives coming out of markets such as Brazil from the likes of Kantar, showing television doing unexpectedly well on a unified audience measurement standard compared with YouTube, suggest that these fears may be over-stated.

The future

What does this mean for the Broadcasters' moving forwards? Firstly, the future is probably more positive than the consensus expects. The growth of Advertising Video on Demand revenues – which offers a brand-safe and non-fraudulent platform to advertisers – will ensure that the Broadcasters continue– and this has been a strategy that has been pursued for years – have gone down the route of revenue diversification, whether that be with adjacent sectors (e.g. the RTL family of Broadcasters historically have branched out into Radio) or more diverse ones (circa 30% of ProSieben's 2021 revenues came from Dating, Commerce and Ventures). It is likely though that there will be a growing focus on IP / content, a strategy which ITV has pursued over the years, as has RTL with Fremantle.

There is also positive news on the content side. While there have been issues with monetising non-English language content globally, the global streaming services have done the European Broadcasters a great favour in two ways, one by popularising globally the concept of content from diverse markets and / or which is non-English-language; the second is that their demand for such content has spurred a massive investment in European content production facilities. If the streamers retreat in their spending, there may be opportunities for Broadcasters to utilise that content. In Europe, the national Broadcasters should also benefit from the general preference of European audiences for content in their own language.

Subscription is a more difficult issue. The evidence so far suggests that the Broadcasters should not invest heavily into the market. Europe is not the United States when it comes to consumer habits and propensities. The FTA Broadcasters in Europe have never managed to do pay well (remember ITV Digital) and, to do it well, requires massive investments. There may also be the issue of a Free to Air mindset trying to adjust to a subscription mindset.

However, the need to "do something" on subscription may be less. The past six months has shown a stunning implosion of the view that the streaming giants are set to dominate the world, a reversal that has been reflected in the share price declines of most of the major players. There are clear signs of subscriber fatigue across the major players. NBCU's Peacock's subscriber base is stagnating. Netflix lost 770,000 subscribers in Europe in Q2. The threat to the Broadcasters from the streamers may be far less than imagined.

What about technology? Don't be surprised if things do not change too dramatically. The idea of switching off the terrestrial channels and moving everyone over to streaming is one that may occur naturally to those living in Zones 1 and 2 of London but there are still plenty of areas in every country, particularly outside the big cities, where high-speed broadband remains distant / non-existent and where the terrestrial signal remains the best way to reach households. Thus, terrestrial is likely to remain. AVOD is likely to grow in importance for the Broadcasters and that will mean that technology / solutions focused around these areas will continue. Comcast's use of Sky in the UK as a testing bed for new technologies is also likely to lead to some interesting developments (Sky Glass is one area).

Within all this, the role of linear TV should not be overlooked. Yes, its share of both audience and advertising revenue will continue to decline and there will be technical issues that are likely to raise questions (for example, the question over digital terrestrial frequencies and what is to be done with them). However, for many people – especially older ones and less wealthier households – it is likely to remain the main way to watch television content. It is also more family friendly.

On a corporate level, we may see more consolidation moving forwards although (ironically) the recovery of the Broadcasting sector may work against that trend. While there have already been several noticeable mergers announced, particularly in France

(TF1-M6) and the Netherlands (RTL Nederland-Talpa), there are signs regulatory approval may be more difficult to get than imagined. In the UK the Government's plans to sell off Channel 4, where ITV is seen as one of the most likely bidders, as well as Sky, look unlikely to pass Parliament before the next General Election. It is therefore unclear whether the regulatory approach will be to consider Broadcasting in the traditional way when it comes to share or for it to evolve so that the relevant market is the video advertising space.

Overall, then, the European FTA Broadcasters are probably in a better shape than what most people imagine. The linear TV model is likely to be more resilient (and last longer) than expected, and AVOD allows the Broadcasters to tap potentially into new revenue sources, as well offset some of their structural issues around audiences and viewing, particularly amongst the young. Plus ca change indeed.

About Ian Whittaker

Ian is an experienced, commercially minded equities analyst with 20 years' experience and is recognised and highly regarded for his industry and financial knowledge and expertise across all parts of the media, digital and marcoms industries.

Ian is the current City AM Analyst of the Year and twice previous winner of the award. He writes monthly columns on the TMT sector for City AM, leading media and marketing business magazine Campaign, and video-focused trade publication VideoWeek. He is Editor of The Bigger Picture, a subscription service providing in-depth market analysis for executives in creative agencies, advertising, broadcasting and the media and tech industries.

Ian is the founder and MD of Liberty Sky Advisors, providing bespoke advisory and consultancy services focusing on the media, digital, tech, marketing industries for a wide variety of clients including corporates, private equity, venture capital and start-ups. He is a co-founder of Bearstone Advisors, offering corporate and strategic guidance, as well as advice on fundraising, to companies in the tech and media sectors.

He is a member of the board of advisors at Songtradr, Inc., and an advisor to the Board of Mirriad Plc and consultant to JC Decaux UK.

Ian is a regular speaker at major national and international industry events and conferences and frequently quoted in the print and broadcast media, including Bloomberg, Sky News, CNBC, and Radio 4.

Essay 4:
The transformation of the kids media market

By Emily Horgan

2010 must have been a wonderful time for US kids media executives. International channels Cartoon Network, Nickelodeon and Disney Channel had successfully launched across the '90s and noughties. They had then set fire to franchises on a global scale. High School Musical, iCarly, SpongeBob SquarePants, Peppa Pig, Ben 10... the list is not short. Many of these IPs have been legacy plays and are still delivering dividends today.

In 2010 YouTube was also quietly solidifying itself as a go-to platform for kids. Although yet to hit a billion users, or a billion dollars in annual revenue, the platform had (and still has) several key things going for it with parents: free at the point of use, no requirement to sign up, and accessible on any device with the internet. In that year, the skew on desktop to mobile obviously would have been higher than it is today; however, with families a core behaviour was being established. Kids content was available on demand, and at scale.

This development was supporting a burgeoning cottage industry of production. Creators, with backgrounds from both inside and outside the entertainment industry, were realizing that there was money to be made serving younger audiences on YouTube. Perturbing as it was for parents and industry executives alike, toy unboxing was a major content trend. An adult creator, under username DisneyCollector BR, would be one of the first mega unboxers. Videos showing just her hands unboxing toys, with a childlike, slightly accented English voiceover, delivered hundreds of millions of views. For older kids the "let's play" genre of gaming content was also growing. PewDiePie would be the most subscribed YouTube channel by 2013. Major media companies were starting to take notice.

Low-budget animated nursery rhymes were also proving themselves a viable YouTube business model. 2011 would see a UK husband and wife team launch Little Baby Bum, a nursery rhyme channel targeted at pre-schoolers. It would be YouTube's fifth most popular channel by 2015.

As the 2010s progressed, streaming would hold an increasingly central position in kids' viewing patterns. On-demand consumption would become an expectation for young viewers. Families have long been known as a loyal and lucrative consumer segment, first by cable companies, then by their streaming successors. Industry disrupter Netflix would recognize the value in driving this audience. As many as 60% of their members access kids content today. As their content factory for Originals enjoyed global success with Stranger Things, they were also staffing up on the kids side. Creative talent would be cherry-picked, many from Walt Disney Animation Studios (Glen Keane), Pixar (Chris Williams, Darla K Anderson, Ronnie del Carmen), and Disney Channel (Chris Nee, Kenny Ortega).

As digital-first IPs and creators from YouTube matured, their business models diversified. Companies like Moonbug Entertainment and PocketWatch entered the space to support enhanced commercialization across content distribution and consumer products. Kid YouTuber unboxer Ryan Kaji would have a live-action show on Nick Jr by 2019. Little Baby Bum and its nursery rhyme successor CoComelon would secure deals with Netflix and Amazon Prime. They would even go on to feature on PSB, CBeebies. For kids content at least, exclusivity has never been key. When you have a hit, broader distribution means bigger revenue. More is more.

Recent market developments

The advent of the COVID-19 pandemic thoroughly underscored on-demand media consumption patterns we see with kids. Its synergy with the global rollout of multiple new streaming services gave parents more viewing options as the working/parenting juggle of lockdown took hold.

It also emphasized and normalized time spent by older kids on platforms like Roblox and Minecraft. Suddenly, online was the only option to socialize with friends. Whilst adults question when the metaverse is coming, kids are already there, and it's so innate they don't really see it as a separate sphere – just an extension of a space where they already play.

This is the reality of building a brand for kids today. A stand-alone hit series or game isn't going to be enough to push franchise levels of success. A YouTube channel, a Roblox presence, and distribution on multiple platforms also need to form part of the mix. That mix still includes free-to-air exposure, if you can get it, particularly for Europe where the penetration of OTT streamers isn't as strong as in the US. If your IP isn't in these spaces, someone else's will be, and they'll be reaping the rewards from it.

Brand origination continues to come from multiple places. Digital-first IPs like CoComelon and Blippi are currently enjoying great success. Netflix preschool series Gabby's Dollhouse from DreamWorks has landed as a streaming-first original franchise. That's not to say that traditional avenues are defunct. Bluey from ABC Australia is now a global franchise, after onward distribution on Disney Channel internationally, followed by Disney+.

Bluey also exemplifies the potential that animation affords truly international shows. It's very specific Sydney location, with all Australian accents, hasn't been a barrier to the show being enjoyed at large in the US, UK and beyond. Animation delivers on both fronts, considering local vs. global content. As needed, well-contemplated dubbing can make a show ring locally where live action cannot. Netflix obviously see benefit in this, having made the effort to dub numerous preschool Originals (Trash Truck, Ridley Jones, Go Dog Go, and Ada Twist, Scientist) into British, as well as American, English.

One group that appears slightly underserved by traditional media formats is young teens/tweens. High School Musical and iCarly from Disney Channel and Nickelodeon respectively were rebooted for newly formed streaming offerings Disney+ and

Paramount+, but the same cultural cut-through was not evident. Viewing by this group often bleeds into content targeted at adults. Nielsen Streaming Content Ratings from 2021 saw the ultra-violent Squid Game pop in engagement with this demo. Netflix have made an excellent play for this audience more broadly, with investment in a vast volume of "teen" movies. To All the Boys I've Loved Before, The Kissing Booth and The Princess Switch have all been successful enough to receive not just sequels, but threequels. In terms of transitioning the audience, this dovetails nicely with marquee Originals like Stranger Things which will hold undoubted appeal for teens, alongside YA book adaptations like Shadow and Bone.

Discoverability and data disclosure

As we move forward there are key problems that need to be solved regarding discoverability and data disclosure. Legacy series from the 2010s may not have enjoyed the same level of success if they hadn't been nurtured on their home platforms, through marketing and programming. The scant 7- and 28-day benchmarks shared by Netflix with program makers measure the bingeability of a show. This works for drama, but kids binge television in a very different manner. Fandom needs to be grown and from there repeat viewing is impressive. We see this across multiple metrics for shows like PAW Patrol, and movie franchises like Frozen and Minions. An independent solution seems to be the best answer.

Gearing discovery algorithms and visual real estate completely towards a narrow perception of bingeability will likely be doing a disservice to the pipeline of new shows that need space to grow and find an audience. Netflix are yet to have a kids Original which has broken through at a franchise level. Their recent tumultuousness has hit their kids offering hard, resulting in multiple series cancellations. Top 10s, themed lists, "you might likes"... it still feels like we're only scratching the surface of discoverability strategies in streaming.

On the other side of the coin is YouTube. Content performance data here is as transparent as you like, though this radical availability isn't as helpful as it might sound. Too much data is nearly as difficult to assess as none. However, the platform has more of a basis on social media UX than other streamers. There is also a playbook, regularly iterated through creators sharing their experiences. The algorithm is understood somewhat. That's not to say it can't change on a dime, like it did for kids content creators in early 2020, after the platform was heavily sanctioned by the Federal Communications Commission for violations against the Children's Online Privacy Protection Act (COPPA).

Where the market is heading

As we look to the future, I think it's fair to say that, as far as kids content is concerned, YouTube hasn't killed and won't kill the television star. Both will have their share of attention, though the television star will also be the streaming star. Could we be at a similar moment to 2010 and YouTube? Could there potentially be a cottage industry growing in the metaverse that will be a new source of kids IP for the next decade?

Certainly, any kids media company that's dipping their toe in this space now will need to be all in by 2030.

The other question is the space YouTube inhabits in the daily lives of kids worldwide. The platform didn't do right by younger audiences for more than a decade. The sweeping changes introduced since 2020 are said to impact creator income by as much as 90%. Taking this into account, it seems unlikely that the platform will continue to thrive as a hotbed of creative industriousness in the same way. What's already big will remain big, but creators will need to find alternative means to pay their bills in the early days. Another factor to consider is how the kids AVOD space is evolving. There are multiple stand-alone services serving just kids, including Kidoodle, Sensical and Playground TV. Four-quadrant services with dedicated kids spaces like The Roku Channel have already seen great engagement. As Netflix enter this space, with others potentially following, it feels like YouTube's position might not be as solid as it once was.

About Emily Horgan

Emily is an independent media consultant and former Disney executive. She currently works with clients focusing on creative and strategic development of kids IP, distribution landscape analysis, and digital anti-piracy enforcement.

She has undertaken extensive research and published analysis on the Netflix kids' strategy. She also has significant first-hand experience in SVOD and YouTube from her time at Disney.

Emily's background is television, where her specialty was driving content distribution strategies across EMEA that synergized with other businesses including consumer products, publishing, and gaming. She has worked with many leading franchises including Star Wars, Marvel, Disney Princess, and Mickey Mouse, devising approaches for all release windows from theatrical to social.

Before joining Disney, Emily worked in production and broadcast management in Toronto and her native city Dublin.

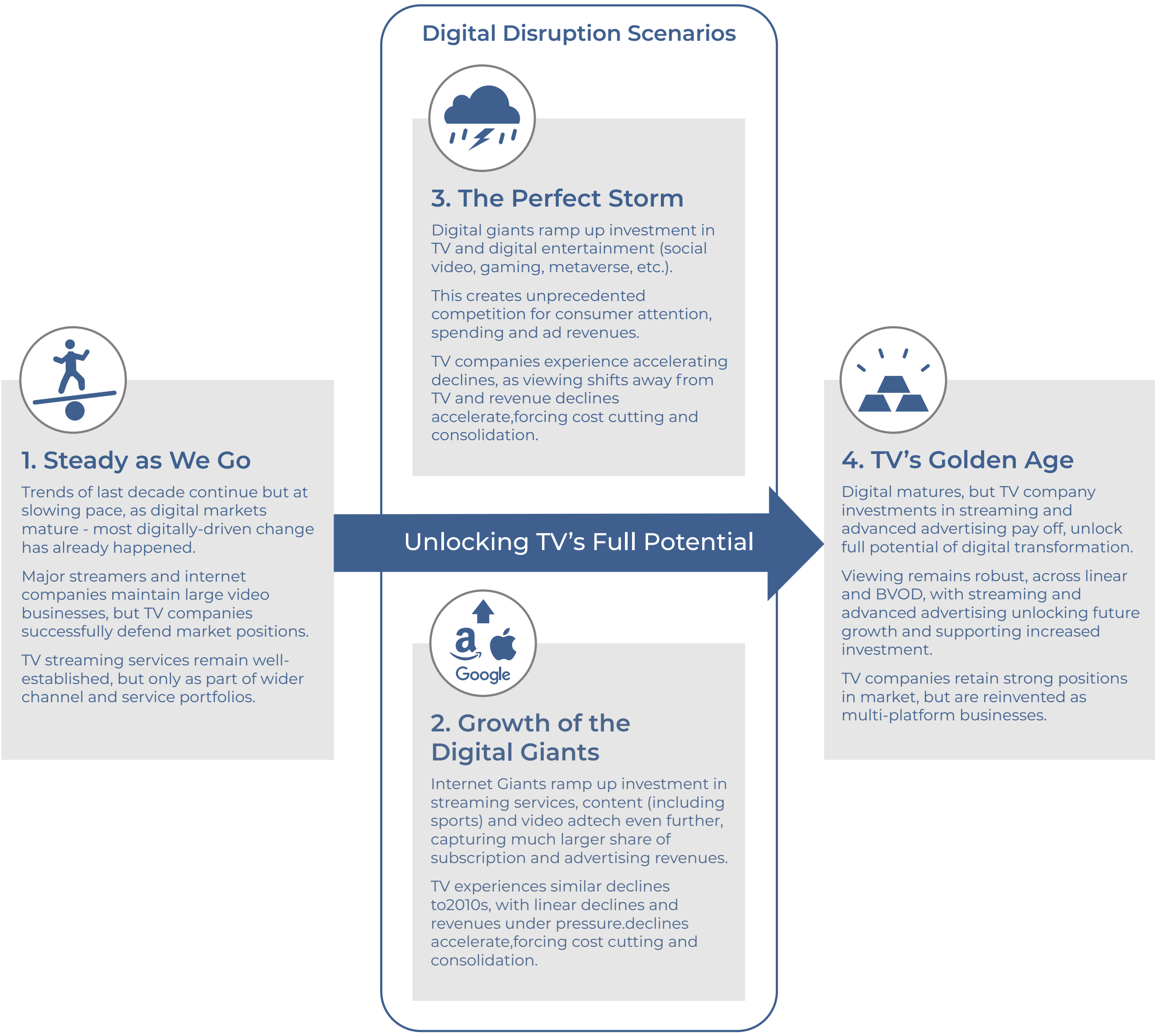
4. Scenarios for 2030 – possible futures

Scenarios are illustrative stories about potential futures, based on plausible extrapolations from current market conditions, designed to help industry participants explore the long-term implications of recent developments. They are not forecasts or predictions, but narratives about possible future market outcomes that can support the development of robust strategies and preparations.

The scenarios have been developed by extrapolating from our analysis of the constraints and potential drivers of change, assessing their potential implications and the degree of uncertainty associated with each factor. We have tried to create four plausible scenarios that reflect the prospects for future disruptive change, while taking account of the factors that could limit future market developments.

The analysis has been supported by an extensive programme of interviews with experienced industry executives and by work with The Project X Institute's team of industry experts.

Exhibit: Four scenarios for 2030 – possible futures



As our work progressed, we have come to see our four scenarios as strongly interrelated outcomes, with different implications for the TV industry, for broadcasters, networks, programmers, and content producers:

- **Scenario 1: Steady as We Go** is perhaps the most likely scenario, a steady but slowing continuation of the trends and developments that have shaped the market during the last decade. It suggests that much of the change impacting the TV industry has already happened, with many of the underlying drivers now mass market and starting to mature
- **Scenario 2: Growth of the Digital Giants and Scenario 3: The Perfect Storm** are risk scenarios, warnings about possible futures and what lies ahead, as TV's digital competitors capture a growing share of the market and as digital entertainment offerings continue to improve, attracting new audiences and a growing share of attention and advertiser investment.
- **Scenario 4: TV's Golden Age** is an upside case, a bright future for the TV industry in which the full potential of the industry is unlocked, as investments in streaming services and advanced advertising capabilities deliver on their promise. The question is poses is clear: what practical steps can the industry take to unlock TV's full potential in the years ahead?

For each scenario, we have used to various datasets to support our descriptions of the market in 2030, providing illustrative estimates of what the market might look like in 2030. These data points are intended to be illustrations of potential market outcomes in each scenario, not forecasts. We have used the same sources and methodological assumptions as referenced in Section 1, above.

It's important to note that we are currently in a period of unusually high inflation. Unsurprisingly, we have not attempted to project the duration or extremity of this period. As such, all projections for revenues and costs use the 2022 value of the US dollar.

Please note that broadcaster shares of SVOD subscribers and AVOD revenues relate only to national broadcasters in each market, not to international broadcasters. For example, this means that Disney+ is accounted for as a local service in the US, while Eurosport, despite being US-owned, is considered native to the Big 5 because that region functions as its home market. This categorisation demonstrates the competitive threats facing national broadcasters in each market, although complex international shareholdings complicate this analysis. These market share estimates are intended to be illustrative and are not forecasts.

For the avoidance of doubt, pay TV and linear TV advertising revenue estimates are market totals.

Scenario 1: Steady as We Go – a decade of continuing change

In Scenario 1, current trends continue, but at a slowing pace, as the market begins to mature. Connectivity is already mass market, smartphones and Smart TVs are already mass-market, and most large-scale services have already been deployed, by the major international digital businesses, US media conglomerates, and national broadcasters in each market. Media behaviours have already changed dramatically – and are still changing – because of these developments, but most of the change has already happened.

1. Steady as We Go

Trends of last decade continue but at slowing pace, as digital markets mature - most digitally-driven change has already happened.

Major streamers and internet companies maintain large video businesses, but TV companies successfully defend market positions.

TV streaming services remain well- established, but only as part of wider channel and service portfolios.

In this scenario, the 2020s will see an accommodation. Major broadcasters and digital businesses co-exist in each market, competing for subscribers, viewers and ad spend, resulting in a dynamic, competitive ecosystem. Revenues from new services continue to grow, helping to grow the overall market, but the market gradually stabilises as services mature.

Broadcasting persists, with linear channels co-existing with streaming services, continuing to attract relatively large audiences, with many consumers remaining loyal to brands attuned to local tastes and preferences. In the US, the major media conglomerates capture a significant share of SVOD and AVOD revenues but continue to face intense competition from digital businesses. In Europe, the major commercial broadcasters continue to see growth in AVOD revenues, but SVOD remains challenging.

Exhibit: Scenario 1 – key data points

		Europe's Big 5			USA		
		2021	2030	% Change	2021	2030	% Change
Total TV Revenue	$Bn	67.0	78.5	17.0%	184.7	203.8	10.0%
Broadcasters' share of AVOD revenue	$Bn	2.4	4.0	66.1%	9.5	15.3	61.4%
	%	58.0%	57.0%	-1.7%	63.0%	61.0%	3.2%
Broadcasters' share of SVOD subscriptions	M	12.73	18.62	46.3%	145.14	168.21	15.9%
	%	10.0%	11.0%	10%	41.0%	42.0%	2.4%

Scenario 2: Growth of the Digital Giants

In Scenario 2, the major international digital businesses – Alphabet, Amazon, Apple, Facebook, Microsoft, and Netflix – accelerate their investments in streaming services and advanced advertising, in content, marketing, technology and distribution, competing head-to-head with TV companies and capture a far greater share of the traditional TV market.

2. Growth of the Digital Giants

Internet Giants ramp up investment in streaming services, content (including sports) and video adtech even further, capturing much larger share of subscription and advertising revenues.

TV experiences similar declines to2010s, with linear declines and revenues under pressure. declines accelerate,forcing cost cutting and consolidation.

Cross-subsidising from other lines of business, the digital giants establish strong positions in the TV marketplace, buying distribution and prominence on connected devices, including televisions. Investing heavily to localise their services, the giants capture a growing share of viewing, consumer spending and advertiser investment, impacting traditional pay-TV and TV advertising revenues. Investment in content grows in each market, for a period at least, as TV companies and the digital giants compete for audiences, but traditional TV companies are outgunned and struggle to retain key rights and talent.

Sports rights emerge as a key battleground, as the digital giants build on their investments to date. A share of major live rights in each territory moving to digital platforms, putting mounting pressure on traditional pay-TV bundles. Viewing shifts strongly away from linear channels, as viewers migrate towards streaming services.

TV groups experience significant pressures, with weaker channels closing or consolidating into streaming services. Broadcaster AVOD and SVOD offerings experience only limited growth, losing share to better-funded digital competitors. Pressures for regulatory intervention intensify.

Exhibit: Scenario 2 – key data points

		Europe's Big 5			USA		
		2021	2030	% Change	2021	2030	% Change
Total TV Revenue	$Bn	67.0	84.2	26.0%	184.7	196.0	6.0%
Broadcasters' share of AVOD revenue	$Bn	2.4	3.7	51.1%	9.5	14.5	53.1%
	%	58.0%	40.0%	-31.0%	63.0%	36.0%	-42.9%
Broadcasters' share of SVOD subscriptions	M	12.73	13.12	3.0%	145.14	151.90	4.7%
	%	10.0%	5.0%	-50.0%	41.0%	35.0%	-14.6%

Scenario 3: The Perfect Storm

In Scenario 3, the pressures on TV companies intensify dramatically, as the digital giants ramp up their investment in streaming services and, in addition, new forms of digital entertainment capture a growing share of consumer spending and attention. The digital giants ramp up their investments in content and sports rights, technology, marketing, and distribution, and capture a growing share of the traditional TV market. Cord-cutting and -shaving accelerate in Europe, as the pressures facing US pay-TV are replicated, ultimately resulting in declining investment in TV content. Traditional broadcasters come under growing pressure.

3. The Perfect Storm

Digital giants ramp up investment in TV and digital entertainment (social video, gaming, metaverse, etc.).

This creates unprecedented competition for consumer attention, spending and ad revenues.

TV companies experience accelerating declines, as viewing shifts away from TV and revenue declines accelerate,forcing cost cutting and consolidation.

At the same time, digital entertainment offerings – gaming, online video, social media and the metaverse – continue to improve and grow steadily, pulling audiences away from TV services, which are increasingly seen as unattractive, old fashioned and even frustrating by many viewers. Snacking and grazing on short-form video, sharing, and chatting capture an even greater share of media time.

Some major TV shows continue to attract relatively large audiences, but smaller shows and weaker services decline, and many are shuttered. The economics of most commercial broadcasters deteriorate, as audiences and advertisers flock to a fragmented ecosystem of digital properties, and investment levels decline. TV ad revenues fall, as advertisers continue to shift budgets to digital advertising platforms. SVOD and AVOD offerings pick up some scale, but cash- and time-short viewers focus on a few major services, with other offerings falling by the wayside. The TV market becomes more concentrated and homogenous. TV stagnates and ultimately declines, losing its cultural salience.

Exhibit: Scenario 3 – key data points

		Europe's Big 5			USA		
		2021	2030	% Change	2021	2030	% Change
Total TV Revenue	$Bn	67.0	53.5	-20.0%	184.7	144.1	-22.0%
Broadcasters' share of AVOD revenue	$Bn	2.4	2.8	15.3%	9.5	11.2	18.7%
	%	58.0%	36.0%	-37.9%	63.0%	33.0%	-47.6%
Broadcasters' share of SVOD subscriptions	M	12.73	5.44	-57.3%	145.14	103.01	-29.0%
	%	10.0%	4.0%	-60.0%	41.0%	27.0%	-31.4%

Scenario 4: TV's Golden Age

In Scenario 4, TV emerges from the 2020s in rude health, with a vibrant, dynamic ecosystem of multi-platform TV companies, unlocking the full promise of digital transformation and a golden age for TV.

4. TV's Golden Age

Digital matures, but TV company investments in streaming and advanced advertising pay off, unlock full potential of digital transformation.

Viewing remains robust, across linear and BVOD, with streaming and advanced advertising unlocking future growth and supporting increased investment.

TV companies retain strong positions in market, but are reinvented as multi-platform businesses.

Broadcaster streaming services grow steadily, unlocking new revenue streams for TV companies and providing audiences with a rich diet of high-quality content, across a range of services with varying price points, catering for the diverse needs of different audience segments. New services help to grow the market, attracting new paying subscribers to the market and creating new monetisation opportunities for content. Digital players remain important, stimulating competition and innovation, but capture only a limited share of the market. With the benefit of hindsight, Netflix's slowing subscriber growth in 2022 marked digital's high tide of growth.

At the same time, addressable advertising, data enablement, programmatic buying, and advanced attribution approaches are widely deployed across the majority of TV, adding value to existing inventory and bringing new advertisers into the market. Careful management of reach and frequency, and better targeting, help to improve the advertising experience for viewers.

Barriers to entry in TV come down, as streaming creates wide-ranging opportunities, supporting the development of niche video services, many of which become a testing ground for new TV shows and talents. Digital entertainment platforms also create opportunities to extend key programme titles and to engage with audiences, unlocking new revenues and amplifying the power of TV.

Exhibit: Scenario 4 – key data points

		Europe's Big 5			USA		
		2021	2030	% Change	2021	2030	% Change
Total TV Revenue	$Bn	67.0	93.4	39.0%	184.7	251.5	36.0%
Broadcasters' share of AVOD revenue	$Bn	2.4	5.6	128.6%	9.5	24.8	161.9%
	%	58.0%	64.0%	10.3%	63.0%	68.0%	7.9%
Broadcasters' share of SVOD subscriptions	M	12.73	52.80	314.8%	145.14	284.76	96.2%
	%	10.0%	24.0%	140.0%	41.0%	63.0%	53.7%

Summary: A decade of change

Our four scenarios suggest that there is considerable scope for very divergent futures ahead, as competition with digital businesses and new forms of entertainment intensifies. The differences between Scenarios 1, 2, 3 and 4 are stark.

Exhibit: Summaries of the scenarios – illustrative data

Europe's Big 5												
					2030 scenarios				% Change 2021 vs 2030			
		2017	2019	2021	1. Steady as We Go	2. Growth of the Digital Giants	3. The Perfect Storm	4. TV's Golden Age	1. Steady as We Go	2. Growth of the Digital Giants	3. The Perfect Storm	4. TV's Golden Age
Pay TV subscriptions	M	73.8	77.2	72.1	67.6	59.5	54.3	71	-6%	-17%	-25%	-2%
SVOD subscriptions	M	35.5	68	127.3	169.3	262.3	136.3	220	33%	106%	7%	73%
• Local broadcasters' share of SVOD subs.	%			10%	11%	5%	4%	24%	8%	-51%	-61%	135%
TV advertising revenue	$Bn	22.0	22.0	22.1	21.7	18.5	15.5	24.5	-2%	-17%	-30%	15%
AVOD revenue	$Bn	2.0	3.4	4.2	7.1	9.2	7.8	8.7	69%	118%	86%	107%
• Local broadcasters' share of AVOD rev.	%			58%	57%	40%	36%	64%	-2%	-31%	-38%	10%
SVOD revenues	$Bn	2.9	5.9	13.0	18.5	35.6	13.6	25.1	43%	174%	5%	93%
Pay TV revenue	$Bn	24.7	27.0	27.6	31.2	21.0	16.6	34.2	13%	-24%	-40%	24%
Total TV revenue	$Bn	51.6	58.4	67.0	78.5	84.2	53.5	93.4	17%	26%	-20%	39%
Share of TV set viewing:												
Broadcast	%			80%	73%	61%	53%	79%	-9%	-24%	-34%	-1%
Streaming	%			17%	23%	35%	29%	18%	39%	108%	72%	6%
Other	%			3%	4%	5%	18%	3%	16%	41%	469%	-3%

USA												
					2030 scenarios				% Change 2021 vs 2030			
		2017	2019	2021	1. Steady as We Go	2. Growth of the Digital Giants	3. The Perfect Storm	4. TV's Golden Age	1. Steady as We Go	2. Growth of the Digital Giants	3. The Perfect Storm	4. TV's Golden Age
Pay TV subscriptions	M	97.9	95.6	87.3	79	65	57	84	-10%	-26%	-35%	-4%
SVOD subscriptions	M	125.2	202.7	354	400.5	434	381.5	452	13%	23%	8%	28%
• Local broadcasters' share of SVOD subs.	%			41%	42%	35%	27%	63%	2%	-15%	-34%	54%
TV advertising revenue	$Bn	66.7	67.2	69.8	70.3	50.4	38.2	75.0	1%	-28%	-45%	7%
AVOD revenue	$Bn	3.1	6.9	15.2	25.0	40.2	34.0	36.4	64%	164%	124%	140%
• Local broadcasters' share of AVOD rev.	%			63%	61%	36%	33%	68%	-3%	-43%	-48%	8%
SVOD revenues	$Bn	9.9	15.9	25.3	38.4	53.1	33.0	56.4	52%	110%	30%	123%
Pay TV revenue	$Bn	97.5	84.2	74.4	70.23	52.3	39	83.7	-6%	-30%	-48%	12%
Total TV revenue	$Bn	177.2	174.3	184.7	203.8	196.0	144.1	251.5	10%	6%	-22%	36%
Share of TV set viewing:												
Broadcast	%			61%	60%	52%	42%	62%	-2%	-15%	-31%	2%
Streaming	%			32%	36%	43%	52%	32%	14%	34%	62%	2%
Other	%			7%	4%	5%	6%	5%	-42%	-25%	-14%	-26%

Notes:

- Big 5 is France, Germany, Italy, Spain, UK.
- SVOD revenue includes revenue from online subscription channels (e.g., Netflix, Amazon Prime and Disney+) and excludes vMVPD services like Sling TV.
- Pay TV revenue includes all revenue from content from cable, satellite, IPTV, and vMVPD operators, it excludes revenue from telephony services and other revenue streams (e.g., fees for set top box rentals, home security).
- Historical revenue data is nominal, no adjustments have been made for inflation. Scenario projections use the 2022 value of the US dollar for revenues and costs, in light of the current macroeconomic climate and unusually high rate of inflation..
- Any exchange rate calculations have been made using the average exchange rate for the corresponding year. 2030 projections assume the average 2021 exchange rate.

Sources:

All sources used for every year, unless otherwise noted. ITU Data Hub, Digital TV Research Group, IHS Markit (via DEG) (2017), OMDIA (via DEG) (2020), Ampere Analysis (2015, 2021), European Audiovisual Observatory (2021), Nielsen (2021), ThinkBox (2021) (leveraging BARB / Broadcaster stream data / Comscore / IPA TouchPoints 2021 (Wave 1 and 2), Pornhub), OFCOM, Internal Revenue Service, and PXI analysis

5. Preparing for the future – is the industry ready?

Looking at our four scenarios, TV companies have good reasons to be satisfied with the progress of digital transformation during the last few years. Historically, the TV industry operated three largely separate content supply chains, for production, content management, and content distribution, with their own suppliers and operational infrastructure. Each system generated data, but data was rarely shared across the three systems, in part because the insights and business benefits available were of limited value.

However, these supply chains have changed significantly during the 2000s, as major broadcasters and leading producers in the US and across Western Europe launched successful streaming services, ranging from large-scale international offerings to smaller-scale services on self-service platforms. Advanced advertising offerings, from linear addressable to programmatic buying, have also developed steadily, often involving commercial collaborations between multiple parties.

To support these new offerings, TV companies have increasingly migrated towards connected tools and services and cloud-based delivery for some parts of their content supply chains, although content production, broadcast playout and streaming services have generally remained distinct, with their own supplier ecosystems and delivery infrastructure.

> *The biggest transformation challenge is operational speed and agility, as we look to keep up with customer demand. We must be able to change the entire customer journey quickly, and that can be complicated. Content and distribution are key, but it's different with a streaming service and DTC relationships. It's about how you price and package, how customers can upgrade or downgrade, how you offer additional content and more choice and control and flexibility. The architecture must be more flexible, but it is challenging. You have to think like a retailer.*
>
> **European broadcasting industry executive.**

Positively, streaming services have become increasingly sophisticated, with the largest broadcasters building well-resourced internal teams, adopting DevOps and agile development practices, migrating to sophisticated microservices architectures, and developing smart, integrated back-end services. Many describe themselves as systems integrators, with internal teams and external suppliers working on discrete components, integrated onto shared platforms.

The growth and development of streaming also presents new opportunities to leverage new sources of data, allowing every video view on every device to be measured, second-by-second – providing insights into device usage, content preferences, location, viewing behaviours, quality of the viewing experience, and ad exposures, reach and frequency.

These insights can be used to inform content marketing, discovery, windowing and distribution, and monetization, as well as supporting addressable advertising.

Many TV companies have become extremely sophisticated in evolving their streaming services and advanced advertising offerings, responding to audience and advertiser demand, and moving quickly to capitalise on the opportunities presented by changes across the ecosystem. It has become far easier to improve interfaces, stand up new branded services and applications using common back-end solutions, and to leverage machine learning and automation to improve workflows.

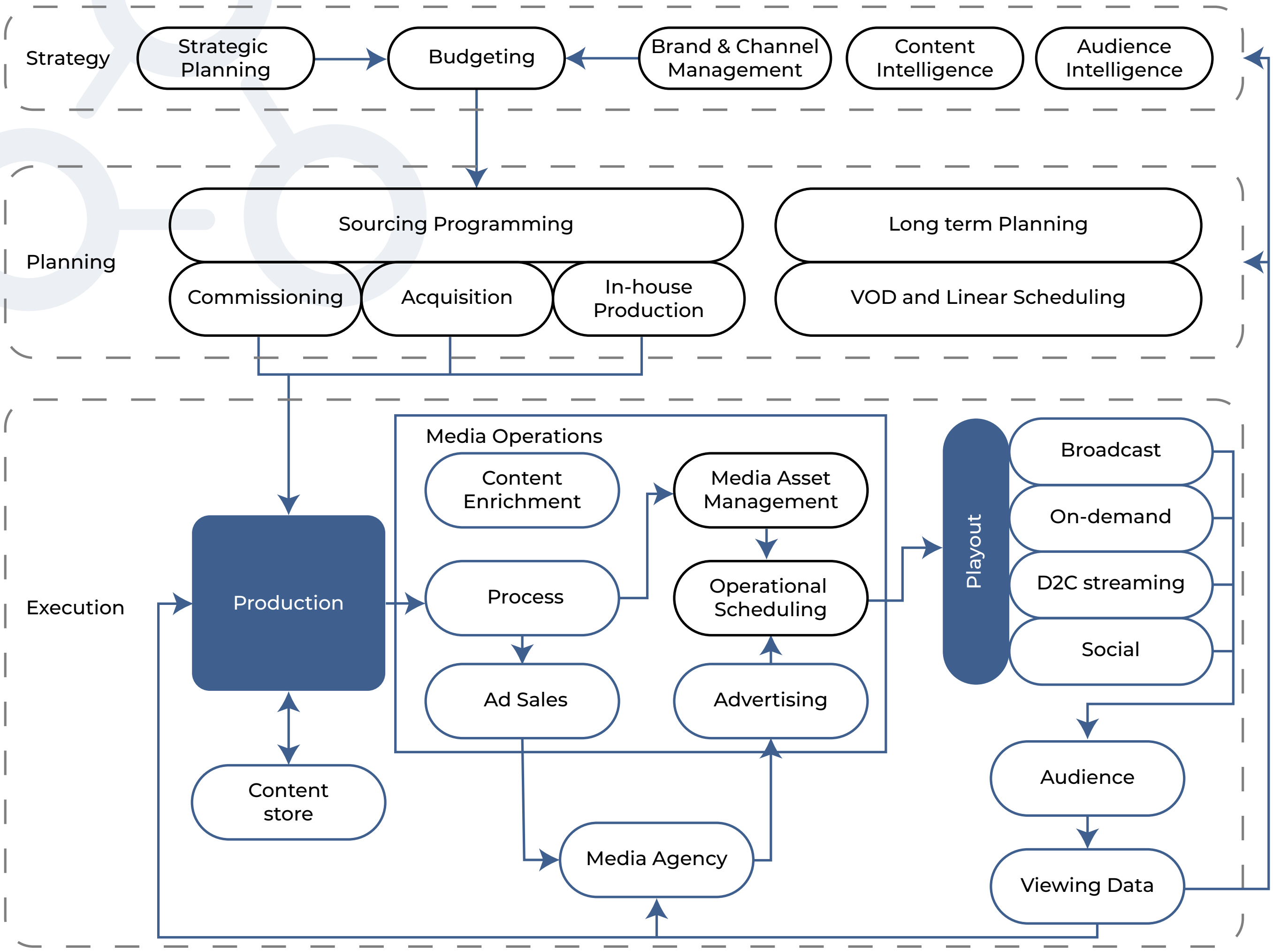
This mix of legacy and state-of-the-art technologies and platforms has created its own challenges, necessitating bespoke extensions, workarounds and bolt-ons, which some executives compare to adding a modern extension to an old house, leading to inevitable compromises. For example, hybrid models can lead to very different development cycles:

> *The challenge now is upgrade our traditional infrastructure, so that our broadcasting systems don't become a millstone, slowing down our ability to innovate at internet speed.*
>
> **Major European broadcaster.**

Despite this progress, our scenarios suggest that the industry is now at a turning point. The challenge is to build on the progress that has already been made and to unlock the full potential of data and connectivity across the media enterprise.

To unlock this potential, TV players will have to arm themselves with the digital-first toolchains that the digital insurgents were conceived around. To do this TV companies know they will need to take critical view at their established content supply chain with an objective to bring it at a level to play in the same league as the digitally native platforms.

Exhibit: Simplified content supply chain



The current state of the industry – data and connectivity

As part of our research, we asked 148 senior industry executes about the progress that their organizations have made in unlocking the full potential of the datasets created by streaming and workflow connectivity.

Their responses have been used to develop two indices, charting the current state of the industry's supply chain transformation.

Data-driven decision-making

TV companies have been data focused for a long time, with a strong tradition of using a wide variety of metrics including audience sizes and demographics, content costs and ROI, subscribers, ad sales and impression counts, etc. But the rise of digital distribution brought with it a step change in the richness of the data the industry has access to as the traditional methods of surveys and ratings panels have been enriched first by service-level data and, more recently, by data tied to specific users across devices and locations.

This has enabled a host of new applications and far deeper understanding of audience behaviours, with use cases including:

- Behavioural segmentation and clustering that can be used for personalised recommendations and marketing content to existing users and marketing the service to carefully targeted groups of new customers.

- Churn-reduction, identifying the characteristics of customers most likely to cancel subscriptions and taking actions to retain them as paying customers.
- Facilitating content sales by identifying shows that are likely to appeal to customers' audiences.
- More granular content commissioning and acquisition, based on insights into potential levels of demand from different audience segments.
- The development of data-driven audience segments and contextual targeting solutions to support advertising sales.

These, and other applications, have been adopted at different speeds across different companies and within different groups within companies depending on the technical progress of the platforms that they serve. Simply put, the process of re-instrumenting TV companies to take full advantage of digital data is complex and generally progresses in fits and starts. Progress is complex and moving to an operating model that takes full advantage of the "digital data dividend" requires change in multiple dimensions across the organisation.

The ultimate objective is a truly closed loop approach to the content life cycle where the seamless integration of systems allows strategic audience and content insights drive, monitor, refine and optimise the entire content supply chain from acquisition, production and planning to operations and execution across different distribution platforms.

This evolution requires every stage in the content supply chain (see exhibit, above) needs to be critically reassessed on the data it generates, the data it can leverage today, the data it needs to be truly successful that it cannot yet access, and the data it should generate for its operations to be transparent to the rest of the organisation. This assessment process needs to ensure that data is not only actionable but also sufficiently understandable for the humans managing each stage of the process.

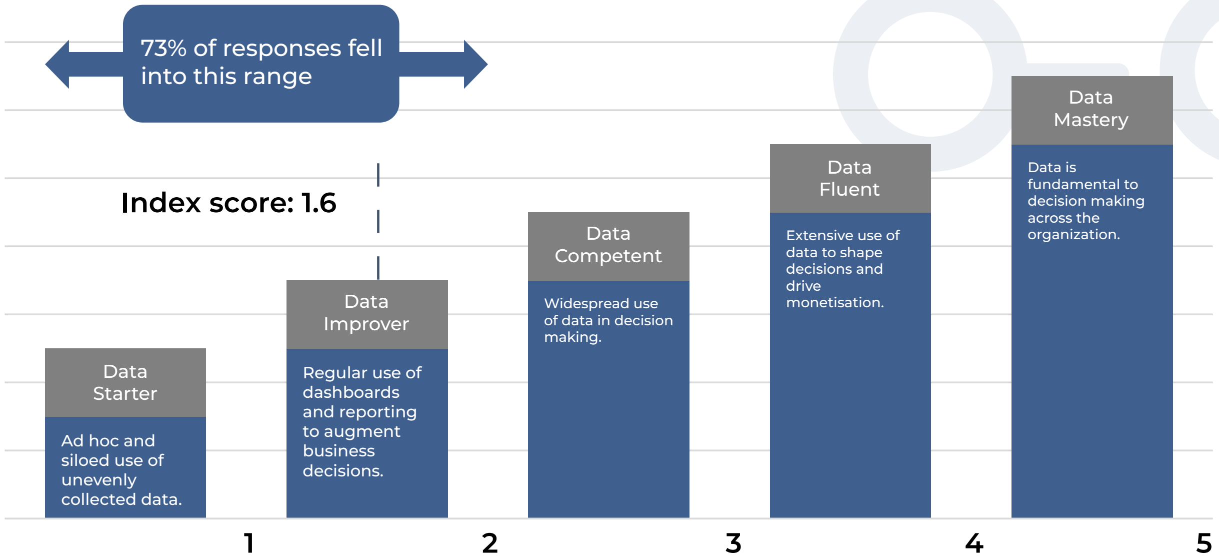
Exhibit: Digital decision-making – developmental stages

	Data Starter	Data Improver
Data strategy and goals	Senior management relies on standard financial reporting and traditional industry reporting. (e.g., Nielsen)	Senior management keen to develop data usage across the organization but happy to focus on a few strategic priorities for now rather than redevelop the enterprise
Data literacy and skillsets	Skills concentrated in traditional reporting functions, with little cross-functional collaboration between those organizations.	Data teams are resourced to deliver specific applications (e.g., content recommendation) but much decision making remains grounded in traditional approaches.
Data sourcing and processing	Use of first- and third-party data is often rigorous, but not systematised and often limited to Excel and static visualization. Different groups frequently use different data and sources.	Some systematization of data processes e.g., for financial reporting or addressable ad sales that blend first and third-party data. But no company-wide initiatives.
Data management	Usage concentrated on teams with specific functions no wider "source of truth" for the company as a whole	Islands of digital dividend data becoming common place, but little systematic connection between islands

Data Competent	Data Fluent	Data Mastery
Senior management sees value in systematic data connections. Work to develop roadmap for using digital data across functions in a systematic way has begun	Companywide initiative to ensure the widespread use of data to enhance monetisation is well under way	As a TV company, data fuels, much of the decision-making process but management understands it cannot become completely algorithmic.
Standardised processes and tools for ingestion, quality, and governance are widely used. The company sporadic deployment of internal applications and data workflows beyond traditional use cases	Data teams driving key applications (e.g., optimizing marketing campaign effectiveness) and automated reporting is used to enhance other functions e.g., program sales	Data is no longer prerogative of data/analyst teams but supports operations of the entire organization in different capacities.
First party digital data and new audience segmentation techniques are used to augment some traditional processes. The number of data-first applications has increased.	Most major decisions are now informed by a combination of third-party data and first party digital data, e.g., content acquisition for underserved interest clusters that are in danger of churning	Seamless bending of first- and third-party data is used to drive key decision making across the organization
Growing use of data automation to aid in the decision making and planning processes e.g., use of rights data to automate planning broadcast and VOD schedules	Data is widely available to those who need it in an either self-service or well-managed fashion.	Data is used widely across the entire organization from enhancing marketing, user acquisition and churn reduction, to content sales and acquisitions and addressable ad sales.

Although data from streaming services clearly has the potential to help the industry unlock the full potential of its investments in streaming services, many respondents participating in our research suggested that their companies remain relatively early stage in this transformation.

Exhibit: Data-driven decision-making – index of responses



The connected content supply chain

The move to digital distribution has coincided with a wealth of other technological innovations that have transformed the way that programming is made and processed. This move towards a more digital supply chain has allowed TV companies to increasingly become content-first, ready to meet audiences wherever they may be rather than the more traditional approach that was intertwined with broadcast platforms.

Common benefits reported from moving to a connected supply chain include:

- Increased flexibility to launch content on new platforms/services quickly.
- Rapid deployment of international versions (e.g., launching a show to over 100 territories the day after home market transmission).
- Improving efficiency by uniting digital and broadcast supply chains.
- Facilitating program sales with easy deployment of international versions.
- Avoid supply chain waste induced by duplication of work throughout the media operation due to manual processes or manually interconnected processes within the media operation.
- Establish collaborative content-centric workflows not just throughout the internal media operation but also with upstream and downstream partners (e.g., upstream fulfilment of both material and metadata flows by the production companies).

As with the transition to digital decision making the transition towards connected content does not happen uniformly. While it is not trivial, for example, for a company to refresh its internal processes and have content and metadata travel together in-house, it is an order of magnitude more complex to arrange seamless integration of content and metadata with third party production companies.

The exhibit below captures that complexity and the multiple dimensions that need to be addressed for companies to take full advantage of connected content throughout the content supply chain.

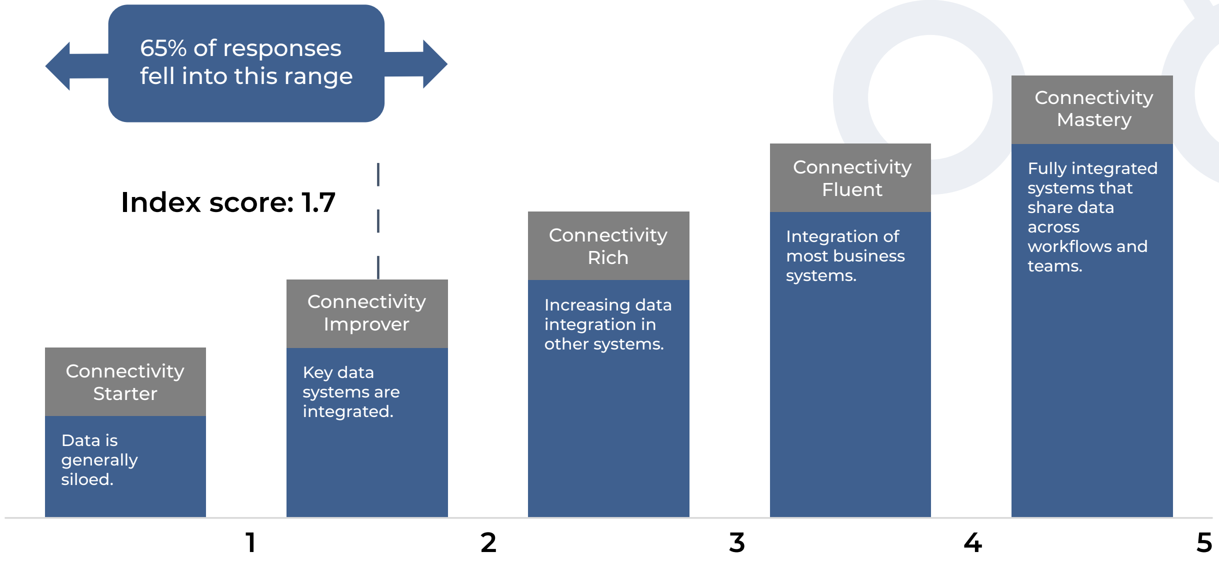
Exhibit: Building the connected content supply chain – development stages

	Connectivity Starter	Connectivity Improver
Connected content strategy	Senior management sees value in improving content and data connectivity, and some high-priority use cases have been deployed but it is not a strategic priority	Content and data connectivity is of growing importance to management. Roadmap to expand existing deployments is being developed.
Content roles and responsibilities	Content and metadata workflows are only partially joined up. Operational data is mostly siloed within specific teams and functions.	Key workflows are joined up. Operational data integration supports many key processes
Content sourcing and processing	Content is files based but does not move easily between systems. Associated data is mostly siloed without systematic integration of third-party information	Key content workflows are joined up. Roadmap developed for third party content and data integration, with some partners already fully on board
Connected content management	Integration of key business systems (e.g., finance and sales data), and major components of the content supply chain (e.g., automated asset preparation from mezzanine files)	Core systems are connected, but there are still process efficiency gains to be had with the use of more automation.

Connectivity Rich	Connectivity Fluent	Connectivity Mastery
An efficient and flexible content supply chain is a strategic priority, a roadmap has been developed but it has not been fully executed	Resourcing for a continuous content supply chain, an execution plan, and a measurement strategy has been developed.	As a TV company, content and distribution are the core strategic assets but management prioritises content supply chain automation and data connectivity to manage, deliver and monetise as effectively as possible
Assets and metadata need some manual assistance to move across the organization from third party production to playout. Operational data integration supports most internal processes	Most content assets, metadata and operational data is move easily across the organization	Data and content assets flow easily across the organization, including connecting everything from subtitling to search, scheduling to press, finance to rights management etc.
Majority of third-party production companies have integrated content and metadata with core systems; however, some gaps still need to be entered manually.	Data is consistently used to inform content and resourcing decisions at key stages in the supply chain. Key individuals within departments have access to this data and are consulted by execution teams to inform the next move.	Systems smoothly integrate a wide variety of external content and data sources including external production companies and social media data.
Connectivity and automation are being used more widely e.g., automated international version generation based on partner platform's specification for format, metadata, synopsis etc.	Processes are automated and instrumented for detailed tracking of business implications. Reporting and visualization of this data is beginning to be standardised and data literate employees can self-serve data to achieve business results.	Seamless and instrumented movement of content and data are the operational backbone of the organization, making processes smoother and more automated.

As with the use of data, most industry respondents participating in our research claim to be at an early stage in building integrated content supply chains, using data across different workflows and joining up key systems.

Exhibit: Building connected content supply chains – index of responses



6. Conclusions

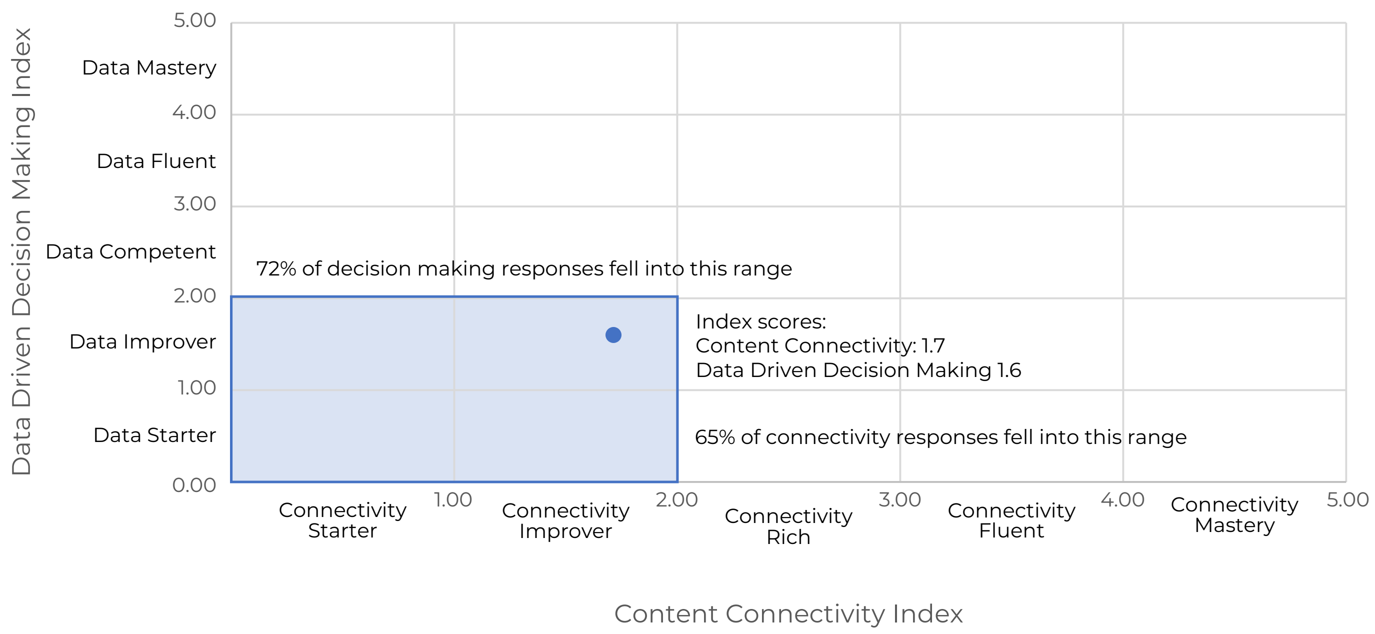
The TV industry is clearly heading into an exciting, challenging future, in which hybridity is likely to remain the norm, although streaming services will increasingly be the priority.

Although our four scenarios present very different potential futures, the urgency of transformation is a common thread – to deliver efficiencies in the face of commercial pressures, to be as flexible and agile as possible to compete effectively with the technology and investment capabilities of the internet giants, and to provide high-quality experiences that can match the best digital entertainment offerings. If the industry succeeds, the opportunity to unlock the full potential of the new ecosystem is compelling, promising a golden age for TV in 2030.

As the risk scenarios indicate, there is, however, no room for complacency. Delivering on this promise will undoubtedly require cooperation and collaboration across the industry, capitalising on the successful alliances, partnerships and joint initiatives that have characterised the industry during the last few decades.

At the same time, TV companies, broadcasters and producers alike need to maintain their existing trajectories, looking to leverage data and connected supply chains more effectively to support the transformation of the industry, as the future of TV is defined. Our research suggests that this transformation still has a considerable distance to run.

Exhibit: Combining the indexes – a view of industry progress



The Content Connectivity and Data Driven Decision making indexes represent our first attempt to measure the digital evolution of content supply chains and the operational enhancements that they enable. It is a stake in the ground, and we expect it to evolve over time along, with the wider Content Connect Initiative, to capture other capabilities, segments and geographies – as well as becoming more granular, to offer insights into the main enablers and roadblocks of digital transformation.