

The Future of Broadcasting V

The Search for Fundamental Growth

UPDATED

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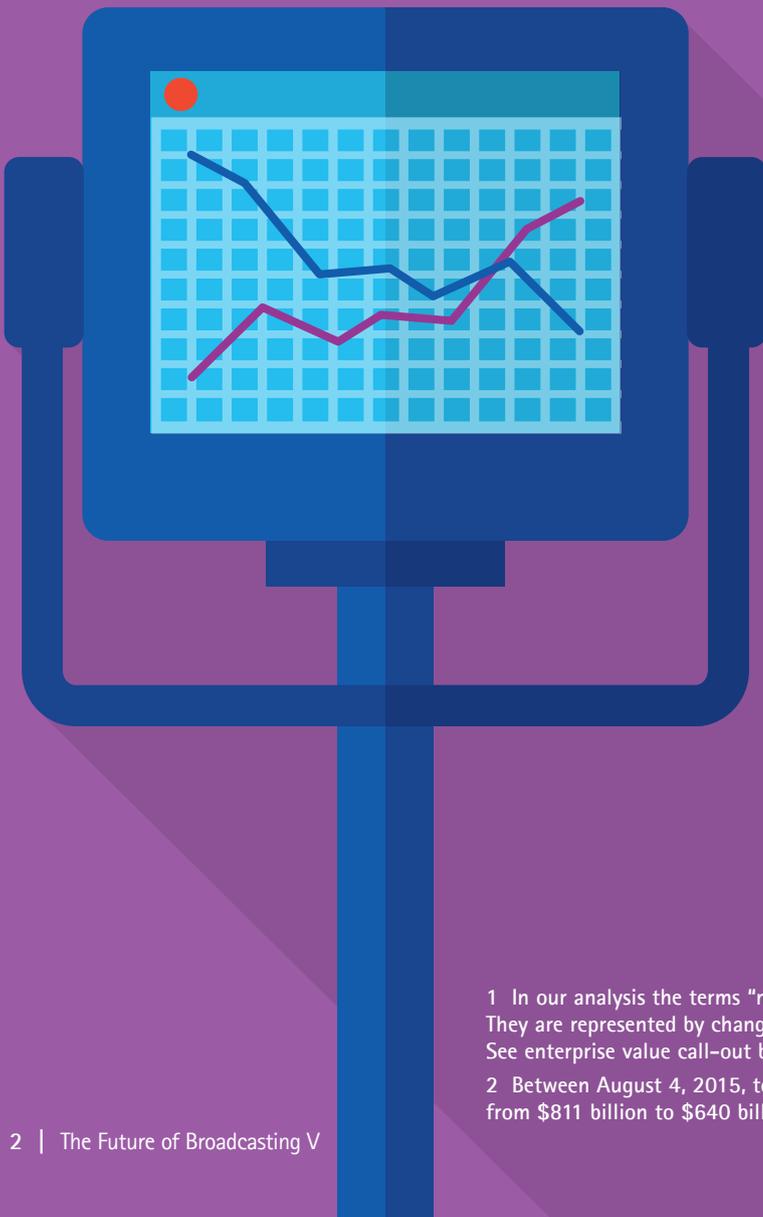


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The Search for Fundamental Growth

In last year's issue, [The Future of Broadcasting IV](#), we observed that market expectations¹ within the broadcasting sector had soared, and asked where growth would come from to justify these lofty future values. This year, market expectations have continued to climb despite a \$171 billion plunge in the value of the wider media market between August 2015 and February 2016.² The widening gap between future value and current value makes the search for fundamental growth increasingly pressing for broadcasters.



¹ In our analysis the terms "market expectations" and "market optimism" are used interchangeably. They are represented by changes in the total future value of the broadcasters in our peer set. See enterprise value call-out box for an explanation of our future value calculation

² Between August 4, 2015, to February 10, 2016, the value of the Dow Jones Media Index fell from \$811 billion to \$640 billion

In this year's edition we have identified four key industry themes.

1. Content strategies

pay off—a number of broadcasters have made a strategic shift to content production, generating revenue from international licensing deals and global/local syndication. This has provided protection from slowing growth in advertising revenues and rising costs of premium content. This trend can be seen globally with investment in content leading to the creation of new content kingdoms, beyond Hollywood.

2. Consolidation for scale drives M&A activity

—as the benefits of vertical integration diminish and margins become increasingly under pressure, we see continued M&A activity as broadcasters look to achieve scale through consolidation.

3. Growth of direct to

consumer offerings—increasing investments in direct to consumer propositions and supporting capabilities, such as data analytics and marketing.

4. Diversification of

business models—these are emerging as broadcasters move past their fears of cannibalizing existing linear TV revenues and begin to develop OTT services.

In response to these themes, we have identified three opportunities for value creation: how to capitalize on service as a point of differentiation; how data analytics can be used as a strategic tool for content decisions; and how incumbent broadcasters can exploit the "broadcast advantage." We believe these value-creation opportunities will help broadcasters in their search for new sources of fundamental growth.

Many of these themes and trends are being discussed online. If you would like to contribute to the discussion, please join us online at [Pulse of Media](#).



Overview

Accenture's The Future of Broadcasting series, now in its fifth year, is grounded in our Shareholder Value Analysis of key players in the global broadcasting industry. Our work around the world with broadcasters and other media, entertainment and consumer-technology companies allows us to build on this value analysis, and to draw a set of "moment in time" conclusions about this rapidly evolving sector.

Growth in the broadcasting industry has been slowing. Industry revenues increased to \$430 billion in 2015 but fell short of the \$448 billion analysts had forecast earlier that year. That shortfall of \$18 billion, although small in relative terms, represents a 4 percent reduction in projected revenue growth. This slow-down in growth may not have registered yet, but its impact is likely to be felt over the next few years, with industry revenues in 2018 (\$486 billion) set to be \$34 billion lower than analysts' projections last year³.

In spite of this slow-down, the findings of our Shareholder Value Analysis 2015 indicate a continuation of market optimism. The future value of broadcasters has now reached an all-time high and, for the first time, accounts for almost half of enterprise value. Despite shares in media companies plunging by \$130 billion in August 2015, broadcasting future value has grown by 6 percent since last year⁴. The gap between expectations and performance is widening, raising a crucial question. How will current value rise?

In the 2015 edition of The Future of Broadcasting we identify four industry themes that are shaping developments in the broadcasting industry. We also assess the implications of these themes and share three value-creation opportunities that we believe broadcasters should act on to improve fundamental growth.

INDUSTRY THEME 1 Content strategies pay off

To create value, some broadcasters have invested in original content production/commissions and maximized revenues from international rights deals and local/global syndication. These content-led broadcasters have achieved higher levels of capital efficiency and higher operating margins than those peers who have relied on advertising income alone.

INDUSTRY THEME 2 Consolidation for scale drives M&A activity

Broadcasters have sought to create value from M&A activity. We have seen two types of M&A activity. Firstly, consolidation has been taking place at both ends of the value chain—in content creation and distribution—with broadcasters looking to achieve scale. Secondly, we have observed broadcasting organizations acquire multi-channel networks (MCNs) to reach new audiences and advertising revenue pools.

INDUSTRY THEME 3 Growth of direct to consumer offerings

Broadcasters traditionally relied on the services of TV platform operators to reach audiences. However, in the last few years leading broadcasters and a range of content creators have adopted Direct to Consumer (D2C) offerings through OTT (Over The Top) services and Multi Channel Networks. These offer broadcasters the opportunity to own the consumer relationship and access new markets. At the same time, being successful

requires consideration of, and investment in, B2C capabilities and skills such as technology, marketing and data analytics.

INDUSTRY THEME 4 Diversification of business models

While broadcasters have traditionally been wary of introducing OTT service propositions alongside traditional offerings the tide is beginning to change. Faced with the option to cannibalize themselves through developing OTT services that could eat into more lucrative large bundles, or watch others cannibalize them, they have chosen the former. Consequently, more and more broadcasters are developing complementary and standalone OTT packages.

Based on the insights of our proprietary Shareholder Value Analysis and our observations from our work with broadcasters worldwide, Accenture proposes three value creation opportunities that we believe will help broadcasters in the search for fundamental growth. Firstly, we suggest that, thanks to the proliferation of new content platforms, service has become a key differentiator and broadcasters need to develop a multitude of heavily tailored offerings to meet customers' needs and their willingness to pay. Secondly, we look at how broadcasting organizations can use data analytics as a strategic tool to inform content-commissioning decisions and programming choices.

And finally, we analyze how incumbent broadcasters can "exploit the broadcast advantage" to compete against digital natives entering the broadcasting ecosystem.

³ Forecasts were based on analysis of data from PWC

⁴ Before the correction in the media market, broadcasting future value had increased by 25% since last year (May 2014 to May 2015)

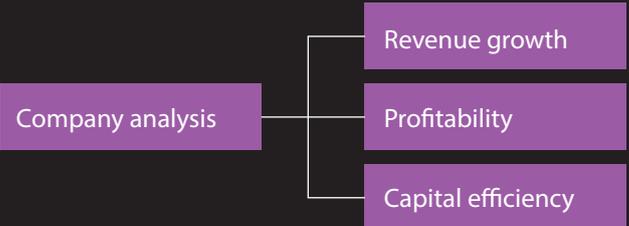
The Future of Broadcasting peer set

Using our proprietary financial analysis methodology, we conducted in depth analysis of the three key factors to delivering high performance: revenue growth, profitability and capital efficiency⁵.

BROADCASTERS ANALYZED IN OUR POV

- ProSieben
- Netflix
- CBS
- ITV
- Comcast
- RTL
- DirecTV
- Disney
- Atresmedia
- BSkyB
- Televisa
- TF1
- Nippon
- CANAL+
- Mediaset

COMPONENTS OF OUR PROPRIETARY FINANCIAL ANALYSIS



Value Performance

$$EV = CV + FV$$

Enterprise Value = Current Value + Future Value

Enterprise Value is the sum of market capitalization plus net debt—intuitively, it's what you would pay if you were to purchase a listed company. It is comprised of two components:

Current Value is the value of the firm, or group of firms, today. It is calculated by dividing profitability (NOPAT or Net Operating Profit After Tax) by cost of capital (WACC or Weighted Average Cost of Capital).

Future Value represents the market's expectation of a firm (or group of firms) to grow above current operations.

⁵ Our peer set has remained broadly the same over the last 5 years with the exception of changes that were necessary due to M&A activity

SECTION 1 | Value Performance—SVA Insight

The media industry has outperformed other industry sectors in terms of returns generated for shareholders over the past 5 years (see Figure 1) with broadcasting specifically seeing an increase in future value significantly above other industry segments (see Figure 2).

FIGURE 1 | Year Total Returns to Shareholders (TRS) 2010–2015

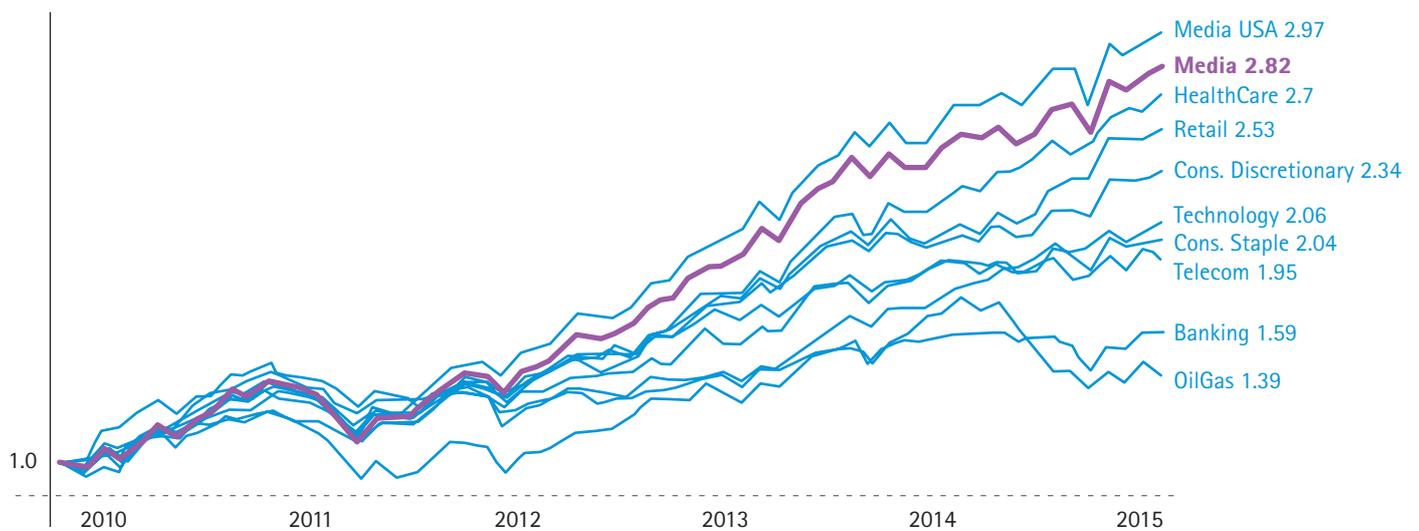
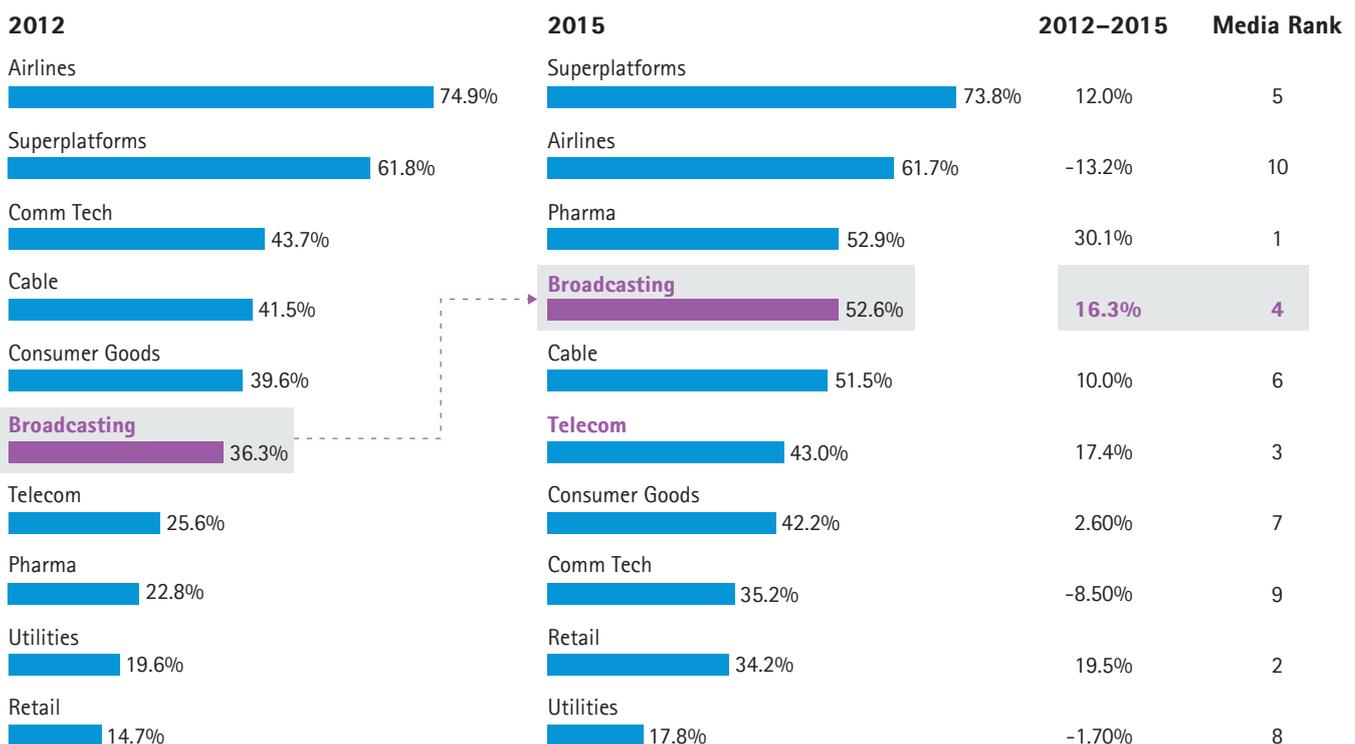


FIGURE 2 | Future value as a percentage of enterprise value 2012 vs 2015



The result of this outperformance is a widening gap between the future value and current value of the broadcasters tracked in our analysis with future value growing 31.4 percent per year⁶ between 2012 and 2015 (see Figure 3), and now accounting for 50 percent of enterprise value, up from 44 percent last year. A closer look at the performance of individual broadcasters reveals a divergence between those broadcasters where Future Value is high (typically greater than 70%) as a percentage of Enterprise Value, including Netflix, BskyB, Liberty Global, Antenna3 and MediaSet vs. those where Future Value is much lower (below 50%). This could be a signal that the industry is becoming Darwinian in nature with a small number of hugely successful organizations, such as Netflix, growing very fast and leaving a number of casualties in their path.

The Netflix case is particularly noteworthy. In January 2016 shares surged 15 percent after the company announced it would reach 200 global markets by 2016 and forecast material global profits. At the time of writing the Netflix share price 52-week high (\$133.27) was over double that of the 52-week low (\$58.46). While there will be infra-structure, licensing and country specific challenges—Kenya has already voiced concern around the appropriateness of Netflix content—the expansion outlook for Netflix looks positive. Furthermore, if Netflix is successful in expanding into new territories it may open the door for other technology companies.

At the same time, the wider media market has seen a substantial fall in value. In just three weeks, \$130 billion was wiped off the Dow Jones Media Index—a fall of 16 percent—after Disney issued revised guidance in August 2015 relating to subscriber losses at its sports cable network ESPN⁷. Since then market performance has fluctuated greatly but been unable to reach pre-August levels.

FIGURE 3 | Enterprise value / current value split 2012–2015, \$bn

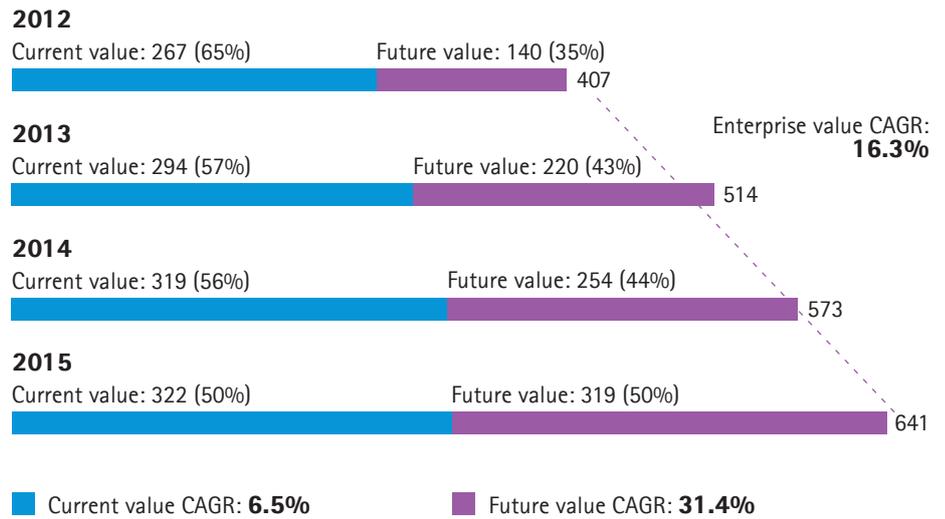
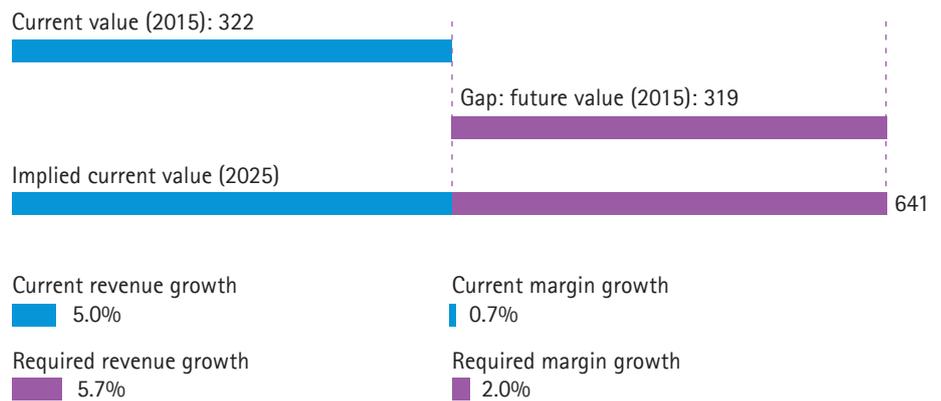


FIGURE 4 | Implied market expectations of current value in 2025 and revenue and margin growth required to meet expectations⁹



As of the end of February 2016 the market stood at \$696.46 billion. However, the impact on the global broadcasting market⁸ has been moderate. Over the same three weeks (when global markets were also affected by a significant crash of the Chinese market), the enterprise value of the broadcasters we track decreased by approximately 5% (or ~\$30 billion). Only three of these broadcasters saw a decline in enterprise value greater or equal to 10 percent (and, in one case, this was the result of a currency devaluation).

Meeting soaring future values will require broadcasting peers to perform well above historic trends in relation to growth of revenue and margin. Broadcasters will need to significantly increase fundamental performance in order to meet implied market expectations (see Figure 4).

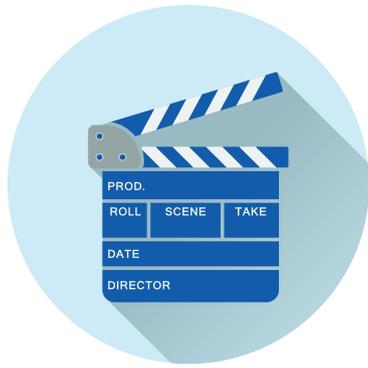
Strong expectations in the broadcasting market raise one important question. With broadcasting future value at an all-time high, how will current value rise?

6 As measured by Compound Annual Growth (CAGR), which is used throughout this analysis to represent annual growth rates

7 Over the past six months, the Pay TV industry has lost about 500,000 subscribers, according to analyst Craig Moffett. While small in comparison to the total number of subscribers (100 million), this loss still marks one of the worst periods in cable history. Until 2010 the industry had never experienced a quarter of net subscriber losses

8 As represented by our broadcasting peer set.

9 Current revenue and margin growth is based on average year on year growth from 2012–2015



INDUSTRY THEME 1 Content strategies pay off

For the majority of Pay TV broadcasters tracked in this analysis, the slowing growth of advertising revenues has become significant. The traditional linear TV window is losing its appeal with advertisers and consumers preferring more targeted campaigns focused on specific segments.

Between 2011 and 2014 most broadcasters in the peer set saw their advertising revenues fall as a share of overall revenue, in one case by as much as 10 percent (see Figure 5).

A number of broadcasters have successfully made up for this shortfall by generating more revenue from content (acquired from a combination of international rights deals and local or global syndication). Our analysis found that those broadcasters who earn 20 percent or more of revenue from content production and licensing have outperformed their peers who rely on advertising income alone, achieving higher levels of capital efficiency and larger operating margins (see Figure 6).

FIGURE 5 | Change in advertising revenue as a % of total revenue 2011–2104

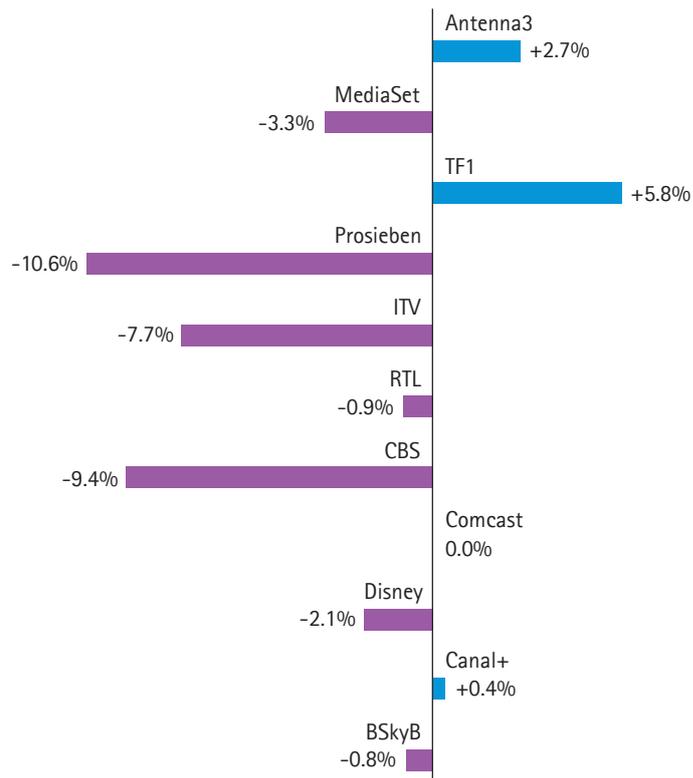
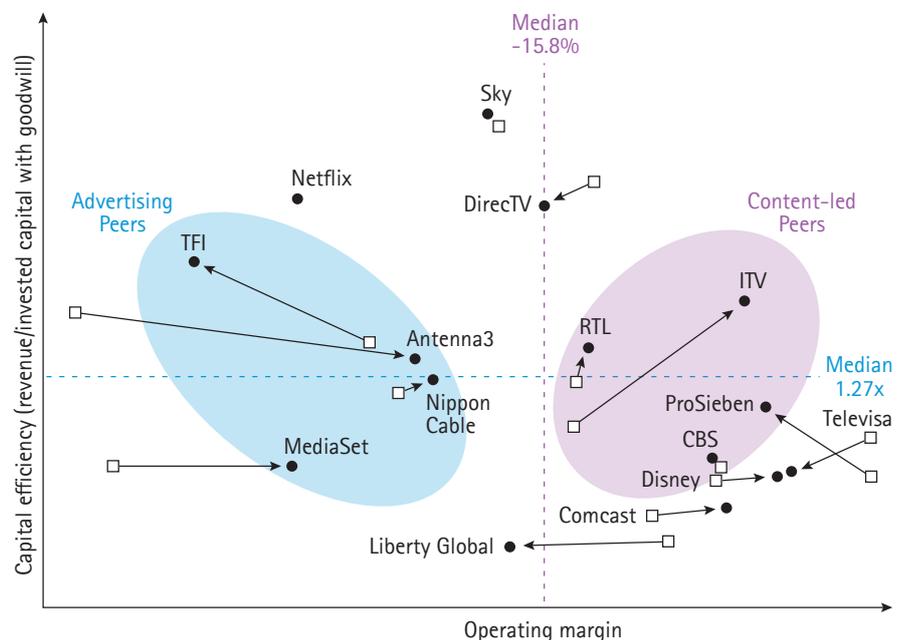


FIGURE 6 | Changes in ROIC, 12/2012–TM 3/2015



Fostering a culture of creative entrepreneurship is key—and success depends on a careful cultural balance of creativity, with focused business skills to maintain commercial viability.

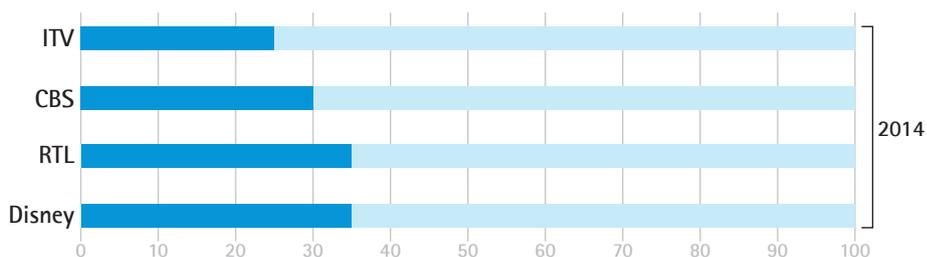
Some broadcasters in the peer set have traditionally produced content, but others have developed content strategies more recently. ITV, for example, has made a substantial investment in original content, creating a B2B "movie-studio" model (see case study on page 10). This move has helped increase the contribution of ITV's international business, as a proportion of total revenue, by 19 percent over the last five years.

Adopting a content strategy has been popular in the US for many years, where cable networks completely transformed their business by moving into content production and licensing. Recently, this approach has gained traction in Europe, where it is considered a less risky option than digital for generating revenue. A broadcaster setting up a digital service, such as an OTT platform, has no guarantee that it will attract sufficient viewers to pay off the sizeable up-front investment in technology that is needed. A broadcaster moving into content production, however, will spread investment across different strands of content and have numerous options of broadcasters and platforms as prospective buyers. As we observed in our Pulse of Media 2015 report, broadcasters are enjoying a content "renaissance."

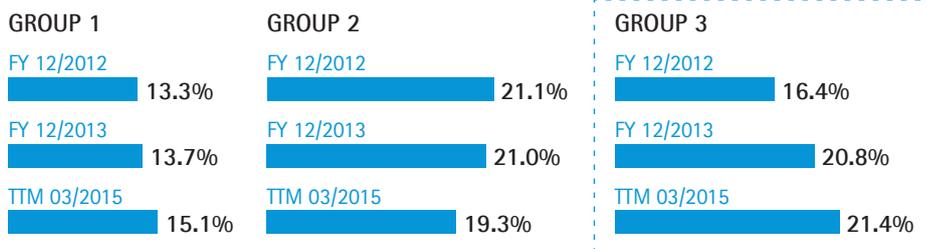
Our research shows that content revenues now account for more than 20% of total revenues for those peers deploying content led strategies, and that content-led broadcasters¹⁰ achieved higher levels of return on invested capital (ROIC) than those who relied on advertising revenues alone (see Figure 7).

While our analysis has shown that a shift to content production can provide

FIGURE 7 | ROIC for peers with growing content revenues (>20% of total revenue in 2014)



Peers adopting a content strategy — Group 3 outperformed others



Notes: Group 1: TF1, Nippon TV, Televisia, Antenna 3, ProSieben; Group 2: Comcast, Canal+, BSkyB, DirecTV, Mediaset, Netflix. Source: Bloomberg, Accenture analysis.

financial rewards, these rewards are not without significant investment. In-house production capabilities require the very DNA of an organization to change. A shift to content production requires companies to embrace risk taking, experimentation and (some) failure.

Fostering a culture of creative entrepreneurship is key—and success depends on a careful cultural balance of creativity, with focused business skills to maintain commercial viability. Companies must establish an operating model which develops this culture, and within it the right talent, skills and processes to obtain a competitive edge in content-making. Although already established, the BBC is one such organization revisiting its approach to in-house production, through the creation of a new division, BBC Studios. Operating as a wholly-owned

commercial subsidiary of the BBC, the division aims to produce content for third party media companies (as well as continuing to serve the BBC itself), and represents a strategic response to significant shifts in the content production market in recent years.

Reinvigorated investment in content has also led to the creation of new content kingdoms beyond Hollywood. Increasingly Brazil and India are becoming content hubs, with a wealth of content being created for consumption locally and around the world. Globo and Televisa are good examples of broadcasters who are focused on original content production and that have emerged as "export giants." These broadcasters are emerging as real challengers to the Netflix expansion strategy.

10 We define content-led broadcasters as those who earn 20% or more of their revenue from content production and licensing



Five years ago ITV, a UK-based broadcaster, was heavily reliant on advertising income, with 69 percent of its revenue coming from advertising. This dependence left it vulnerable to the 2008 financial crisis where a loss of advertising revenues contributed to a 7.3 percent fall in ITV's 2009 revenue.

Falling revenues accelerated a change in strategy for ITV, which sought to rebalance its revenues and reduce its reliance on UK advertising income. In the last five years, the broadcaster has made a considerable investment in its production arm, ITV Studios, acquiring eleven production companies as well as UTV's television business, UTV Media in October 2015¹¹. By investing in content, ITV has been able to increase the contribution of its international business as a proportion of total revenue by 19 percent over the last five years. Boosted by these investments, revenue (UK and international) from ITV Studios has grown by 68 percent over the same period (see Figure 8). Today, eight years on from ITV's original "content led recovery plan," their Net Advertising revenue vs. non-Net Advertising revenue stands at 51:49.



FIGURE 8 | ITV Studio revenues 2010-2014

Source: ITV Annual reports 2014

ITV's content strategy is centered on the assembly of a large portfolio of successful series and formats with wide appeal. The broadcaster generally showcases new programs and formats on local linear channels before licensing them across multiple platforms in the UK and abroad.

Thanks to the international success of shows such as *Hell's Kitchen* and *I'm a Celebrity...*, ITV sold 36 formats around the world last year and has become the largest independent producer of unscripted content in the US.

More examples

Content-led broadcasters are making their shows and formats widely available across devices

and geographies in order to achieve sustainable scale. Fox Studios, for instance, has increased the number of TV series it produces from 27 to 43 over the last five years. Consequently, these broadcasters are likely to continue placing their premium content on as many devices and platforms (including streaming services such as Hulu, NOW TV and Sling TV) in as many regions as possible.

Other broadcasters have also been turning to content strategies to diversify their revenue streams away from advertising. RTL, a major European broadcaster, has invested in content by acquiring American production company 495 and a 25 percent stake in Corona Television, a new UK-based drama producer.

11 As reported in *The Guardian*, October 2015

FIGURE 9 | Number and average value of media deals 2011–2015



INDUSTRY THEME 2 Consolidation for scale drives M&A activity

The value of media-sector M&A deals in 2015 hit \$180bn, exceeding the combined value of transactions completed over the preceding four years (see Figure 9). This upswing in deal value was propelled by the creation of two new broadcasting behemoths—AT&T/DirecTV and Charter Communications/Time Warner Cable—and by three significant trends in M&A activity. Firstly, consolidation took place at both ends of the value chain, in content creation and distribution. Secondly, broadcasters acquired multi-channel networks (MCNs), to reach new audiences and advertising revenue pool (see Figure 10). Thirdly, broadcasters acquired technology companies specializing in areas such as OTT and programmatic advertising.

1. Consolidation to provide scale

Over recent years the broadcasting industry has seen some major changes: barriers to entry within broadcasting have diminished, broadband has become mainstream and Digital Terrestrial Television (DTT) and satellite networks (and their associated licenses) have lost significant value. This has led to the emergence of numerous new players, from telcos to digital natives—with significant cash reserves and market capitalization.

FIGURE 10 | Number of media deals by segment

	TARGET					
	Cable/ Satellite TV	Broadcasting	Publishing	Radio	TV Content	Telecom
Cable/ Satellite TV	75.7(26)				17.0(7)	38.4(21)
Broadcasting	6.8(6)	-(11)			2.3(10)	
Publishing		-(6)	9.1(130)	0.3(1)	6.1(4)	
Radio				-(8)		
TV Content		2.0(8)			1(29)	
Telecom	33.6(21)		0.1(1)		2.0(8)	

Legend: Consolidation (Purple), Content (Blue)

In this new environment it is less rewarding to remain vertically integrated at scale. Consequently broadcasters have sought to create value through obtaining scale at either end of the value chain.

Upstream, content companies are acquiring other content companies. The Fox/Time Warner deal in 2014, in spite of the bid ultimately being withdrawn by Fox, looked to support Fox's strategic imperatives of investing more in quality content, breaking out of traditional TV cycles and processes and innovating in development, marketing and distribution.

At the other end of the value chain it is access to growing audiences that is the strategic imperative. Consolidation in distribution, customer service and channel ownership (for instance, Sky Europe and AT&T/DirecTV) can be used to maximize investment in content. More significantly,

the acquisition of customer bases provides greater ROI through economies of scale. This explains the increase in deals between Telcos and Cable/Satellite Operators. (see Figure 10)

The AT&T/DirecTV deal has increased AT&T's market share of TV subscribers from 6 percent to around 28 percent. If the deal between Charter Communications and Time Warner Cable is approved, the combined entity will have an 18.2 percent share of US TV subscribers and will achieve 3rd position in TV subscriber market share. In the case of Rupert Murdoch's empire, razor thin margins (more prevalent in Pay TV than Free to Air), have made consolidation within the B2C business, Sky Europe, a necessity and enabled investment upstream in Fox.

ProSiebenSat.1 and Collective Digital Studios

German broadcaster

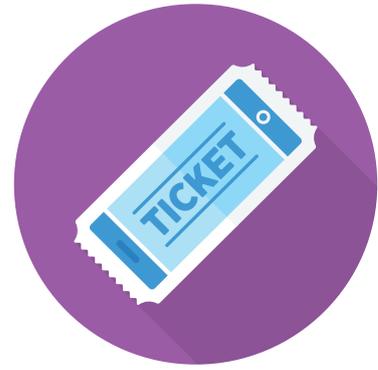
ProSiebenSat.1's acquisition of a majority stake in Collective Digital Studios is a recent example of a traditional broadcaster assuming control of a major MCN. With an investment of \$83 million in July 2015, the broadcaster increased its interest in the MCN from 20 percent to 75 percent, enabling it to merge Collective Digital Studios with its smaller in-house MCN, Studio 71. The combined entity, known as CS71, is valued at \$240 million and set to attract 2 billion video views a month.

ProSiebenSat.1 joins RTL (which owns MCNs Broadband TV and StyleHaul), Disney (which acquired Maker Studios in a deal valued at \$500 million) and DreamWorks (owner of AwesomenessTV after a \$95-million transaction) as the largest groups on YouTube.

What is a Multi-Channel Network?

Multi-Channel Networks (MCNs) are a new type of player in the broadcasting industry, whose innovative business model has sprung up in the wake of YouTube's explosive growth. MCNs team up with digital talent to produce video content skewed towards younger viewers, which is then distributed, promoted and monetized through partnerships with YouTube or other video-streaming platforms.

MCNs vary in scale but the biggest control thousands of YouTube channels, have millions of subscribers and attract billions of views a month. One of the largest MCNs, Maker Studios, has more than 650 million subscribers and its content is viewed over 10 billion times a month.



2. Acquisition of content

Although transactions involving MCNs have been smaller in deal value (estimated to be in the range of \$1.6 billion in 2014¹²), the increased popularity of MCNs among content providers, traditional broadcasters and telecom companies is likely to have a significant effect on the market. This impact is likely to be felt in a number of ways, as MCNs:

- provide direct access (B2C) to new global audiences who are beyond the reach of saturated domestic markets
- allow broadcasters to take advantage of existing relationships with media buyers to increase advertising revenues
- enable broadcasters to develop and experiment with new formats
- support access to burgeoning advertising revenue pools.

The last point has substantial significance for future revenues. YouTube's annual advertising revenue stands at approximately \$4 billion, while Facebook, Twitter and Snapchat have all underlined the importance of video to their strategies. Moreover, mobile advertising still has substantial room for growth, especially relative to the amount of time that consumers spend using their mobile devices.

3. Acquisition of technology

The emergence of technology-led media organizations has had a profound impact on the industry, prompting traditional broadcasters to quickly develop OTT (over the top services) to support on-demand services and improve customer experience. The result has been the creation of a

"technology media sector" where technology as much as content is a competitive advantage. This raises a challenge: How do you quickly acquire technology skills and capabilities?

In response to these challenges, multiple broadcasters have acquired technology companies specializing in areas such as OTT and programmatic advertising. In March 2014 Comcast acquired the video advertising company FreeWheel for \$360mn. In July 2014 RTL Group acquired the online video advertising group SpotXchange. And in August 2015 Turner acquired a majority stake in technology provider iStreamPlanet, to enable live event streaming and OTT multiplatform solutions.

Acquisition to acquire technology skills and capabilities is a risky strategy. Integration is likely to be tricky and the perceived lack of independence may quickly reduce revenues of the acquired organization. More importantly the pace of technology change will date tangible assets and current offerings. What is needed is a fundamental organization-wide shift to becoming a technology media organization. This requires a culture where employees are incentivized to take risks and experiment and where failure is acceptable as long as you learn from your mistakes. It's only when technology lives within the DNA of a broadcasting organization will it be able to successfully compete within this new technology media sector.

INDUSTRY THEME 3 Growth of Direct to Consumer Offerings

Although digital natives such as Netflix and Hulu have been distributing content directly to audiences for a number of years now, more and more broadcasters are also beginning to offer Direct to Consumer (D2C) propositions alongside traditional distribution routes. Premium content providers such as HBO, CBS, Discovery and Shine have all developed D2C propositions, and there are plans underway by other broadcasters (for example ShowTime, ESPN and Starz) to develop D2C OTT services.

The D2C model offers broadcasters multiple key strategic benefits. Firstly, it allows broadcasters to own the end-to-end customer relationship giving broadcasters access to valuable consumer data, from consumption patterns to individual user preferences. Savvy broadcasters mine this data and uncover insights to support strategic business decisions: broadcasters are then better equipped to make decisions around content commissioning and product or service optimization. With increased understanding of its consumers, and more personalised interactions with individuals, greater customer loyalty and brand stickiness can be achieved. Broadcasters can also better target cross- sell and up-sell opportunities. Furthermore, revenues derived from advertising can be boosted when intelligently targeted advertising commands premium rates from agencies. With the recent US Federal Communications Commission (FCC) ruling allowing broadcasters to go Direct to Consumers, barriers to entry are lower than ever.



The Direct to Consumer model also provides access to growing audience bases that may never have considered traditional models. MCNs are an example of the increasing popularity of D2C model. MCNs provide direct access to growing markets at a lower cost, enabling millions of previously unobtainable eyeballs to be reached. Enabling access to audiences through the use of a D2C platform (e.g. YouTube) means niche content creators no longer need to negotiate with operators or distributors and can look for associated revenue streams (e.g. advertising).

In order to support D2C offerings, broadcasters must think about how to manage new capabilities such as data analytics and consumer marketing, and choose between building capabilities in-house versus outsourced solutions. In the new D2C world these new capabilities are core. The ability to market content successfully is an increasingly key factor in determining success, especially with long form content. This requires the knowledge and skills to market in a way that ensures visibility to, and connection with, target audiences. This is not a capability broadcasters have, and as with technology skills (see page 12: Acquisition for technology), fostering a consumer-first marketing organization necessitates a cultural shift.

Likewise, the ability to analyze the data being collected through D2C propositions can have a significant impact on revenue and costs. The success of the Netflix *House of Cards* series through the use of analytics to understand consumer preferences was build upon Netflix's technological prowess and ability to analyze and process large amounts of audience data. These skills are widely sought after across industries globally. To fully take advantage of the D2C propositions requires broadcasters to optimize scarce resources and redefine operating models.

INDUSTRY THEME 4 Diversification of business models

TV viewing on traditional platforms is declining at an accelerated pace. In the UK average viewing per person per day has fallen from 232 minutes in 2014, to 220 minutes in 2015¹³. Conversely, OTT and IPTV are gaining traction driven by increasing broadband penetration and changing content consumption behaviors. While starting from a small base, OTT revenue growth is projected at 19% CAGR to 2019, compared to 4% for Pay TV¹⁴. At IBC 2015, Time Warner Cable Media predicted that 50% of its revenue maybe generated by VOD in less than five years.¹⁵

In the past, broadcasters have viewed OTT as a threat to traditional revenues. Despite changes in viewing patterns and a strong consumer demand for OTT services broadcasters have been slow to offer these services themselves in fear of cannibalizing core revenues. Where OTT services are offered they have been limited to full cable subscribers, for example Comcast and the Xfinity TV Go app.

This trend looks set to change. Faced with the option of cannibalizing their own revenues or allowing others to cannibalize their revenue streams, broadcasters have chosen the former. In the UK Sky has launched the OTT service Now TV. Similarly, Dish TV in the US has launched the pay light OTT service Sling TV, and Comcast has recently announced the launch of a new streaming cable TV service, Stream. Stream will let Xfinity internet customers pay \$15 a month on top of their internet bill to watch shows from around a dozen networks on tablet, laptop and smartphone.

These services often referred to as "skinny bundles" offer lower price entry points and are a timely bid by broadcasters to retain the growing customer segments labelled "cord cutters" or "cord shavers." Specifically they permit consumers to pay lower subscriptions in exchange for a limited selection of perceived high quality channels that can be consumed on connected devices whenever and wherever the consumer chooses.

While margins associated to "skinny bundles" are significantly smaller than traditional cable packages, OTT services provide much richer audience data allowing better understanding of preferences and more targeted advertising opportunities. However, the major factor in determining the success of OTT services will be the extent to which cable companies are able to access new audience bases and gain scale, and of course, the extent to which traditional revenues are impacted. One factor that may play to their favor is their broadband infrastructure. Comcast states that data used through accessing their new stream service will not count against data caps as it will be routed through bandwidth that is not being paid for. Comcast is also testing what it calls usage-based pricing, or charging higher broadband prices to customers who go over a set monthly usage limit.

AT&T and T-Mobile have trialed similar initiatives—T-Mobile's "Binge On" offers free data for some online video (also referred to as zero-rated) that is not counted towards a customer's limited-data plan. While the FCC has been quick to initiate discussions with these carriers to ensure net neutrality regulations are upheld, these offers could pan out to be a key differentiator to competing services such as Netflix and Sling TV.

13 OFCOM

14 Accenture Research PwC's Global M&E Outlook, 2015–2019; SNL Kagan's Multichannel Database

15 <http://www.ibcce.org/>

SECTION 2 | Value Themes— Opportunities for value creation

Our value analysis has identified three important financial trends. The widening gap between future value and performance makes the search for fundamental growth ever-more pressing. Broadcasters have—with some success—turned to content strategies to improve performance.

At the same time, broadcasting organizations have sought to create value through increased M&A activity and consolidation in the industry. But it is unlikely that these initiatives alone will be sufficient to close the gap between expectations and performance. We have identified three opportunities for value creation, which we believe will help broadcasters in their search for new sources of fundamental growth.





VALUE THEME 1 Service is king

Digital natives have redefined customer experiences and expectations, not just in broadcasting but across every customer-facing industry worldwide. At the same time, the proliferation of new content platforms has meant that consumers now have far more choices in where to spend their entertainment dollars. (This is especially true for video-on-demand transactions, where the same content can be on multiple platforms.) This has meant that the service itself becomes an integral part of the customer experience, with the potential to make content more accessible, attractive and engaging. In this new world, high-quality content is indispensable, but "service is king."

At the same time audiences will continue to want what they want, when they want it. A recent survey¹⁶ discovered that consumers abandon video streaming if it is delayed by more than two seconds. Broadcasters, now more than ever, have to be able to offer content anywhere (on and off network), anytime (live or time-shifted) and on any device (laptops, PCs, tablets and smartphones), at a low latency and in an easy-to-use, intuitive format.

The unbundling of packages and the establishment of direct-to-consumer models (such as EROS's and Lionsgate's OTT streaming services) have contributed to an increase in transactional video on demand. Despite this, transactions have seen relatively slow growth, as subscriptions have remained the dominant form of video on demand, both in transaction numbers and value. It has, however, accustomed consumers to being more selective over the content they want, which is affecting consumer attitudes toward subscription services. More and more, consumers want bundled services¹⁷ but with the option of customizing these packages to provide what they consider to be best value for money.

Price, alongside content and service, has become crucial in an increasingly competitive market. As we noted earlier, broadcasters such as Verizon Fios–Custom TV, Sky–NOW TV and Dish–Sling TV have created stand-alone OTT and direct-to-consumer offerings: skinny bundles with low price points. These bundles have had some success to date: Sling TV, for instance, has nearly 250,000 subscribers, and Now TV has attracted 1 million subscribers within two years of its launch.

The key for broadcasters looking to create value is to develop a more fragmented market with a mixture of propositions tailored to customers' needs and their willingness to pay. The use of analytics, driven by the collection of accurate usage, content-preference and subscription data, provides an opportunity for broadcasters to truly understand segment dynamics and offer segment-only propositions

based on deep insights. This enables broadcasters to establish direct-to-consumer models and offer low-cost bundles, attracting "cord nevers" and "cord shavers" while minimizing cannibalization from cord cutting. If successful, the net impact of these innovations would be to increase the size of the broadcasting market by attracting consumers who would never have subscribed to a traditional broadcast package.

Over the last few years, efforts to meet service expectations have centered on content discovery through mining insights to improve personalized recommendations. This has been a long-time differentiator for Netflix and other digital natives. Broadcasters now need to develop this concept further, not just to meet service expectations but to better understand their customer base. This knowledge can then be used to drive advertising revenues and inform a segment-driven approach to pricing propositions. Again, the ability to succeed will require a deep understanding of how technology has changed the provision of good customer service. Gone are days where better service means more call centers or onshore vs. offshore customer service. The look and feel of communications with a new generation of digitally enabled customer requires a new way of interaction. In today's world customer interactions don't start at sell and end at churn, they are constant. Customer desires need to be predicted and acted on and every customer interaction must be viewed as an opportunity to surprise and delight customers.

¹⁶ State of the Internet, 2015, Akamai

¹⁷ In Accenture's Annual Digital Consumer Survey, 2015, 79% of respondents stated they would prefer a bundled solution from the same provider



VALUE THEME 2 Content decision-making

Uncertainty exists around many aspects of the future of broadcasting, but we can be confident that two trends will continue. Firstly, audiences will continue to favor high-value content and, secondly, technological advances will enable better-quality access to content across a greater number of devices. Over the coming years these trends are likely to fuel demand for content, which, in turn, will boost its cost.

Supporting content investments in these circumstances poses a challenge to broadcasters. For those that have acquired content capabilities of their own, the increased cost of content signifies a higher opportunity cost for failure, and for those that have not, it means the stakes are raised when it comes to making programming decisions.

To meet this challenge, broadcasters need to become better at exploiting and analyzing the data they collect. Analytics are vital in meeting service expectations and supporting pricing propositions, but they also provide a strategic tool for content decision-making. Insights about how viewers engage with content can help broadcasters with crucial decisions: whether to build or buy in a new series or re-commission an existing show, what talent to attach to projects, what genres (scripted versus non-scripted, sports versus drama) to build content strategies around, and how best to format and distribute content (exclusive versus exhaustive, binge-watching on OTT versus Sunday evening network primetime).

The use of analytics to inform content strategies was pioneered by Netflix when determining whether to green light its original production of *House of Cards*. Today Netflix has over 76,000 micro genres of Movies and TV shows (including witty movies directed by Woody Allen, visually-striking dark dramas and suspenseful Japanese movies from the 1960s, to name a few). This approach enables the creation of multiple archetypes or customer segments. Deep understanding of customer segment preferences ensures that insights derived are accurate and can be relied upon for pricing and programmatic decision making. Furthermore they allow customer segment behavior to be predicted based on the behavior of other customers within the same grouping. Netflix's recent decision not to renew its deal with Epix (which means popular films like *The Hunger Games: Catching Fire* and *World War Z* have disappeared from Netflix) is likely to have been informed by insights from predictive analytics of its users' content-consumption patterns.

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A siloed approach to analytics will not lead to an improved return on content investments. Only a tightly integrated analytics strategy, driven by coordinating content strategy, viewing recommendations for users and audience measurement, will boost the returns on content investments while also building customer satisfaction and brand loyalty.



VALUE THEME 3 Exploiting the broadcast advantage

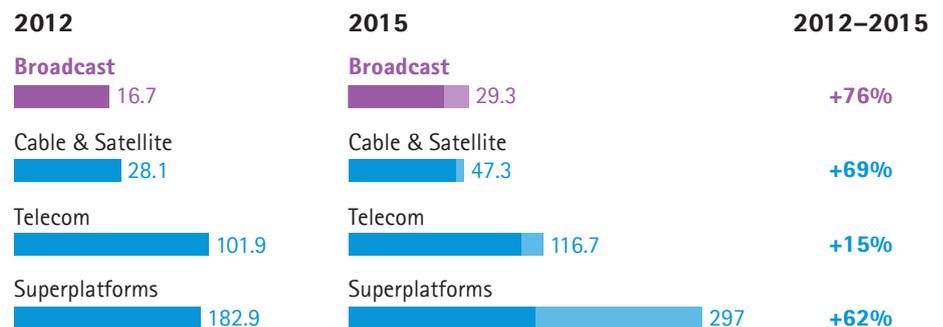
The broadcasting ecosystem continues to expand rapidly beyond traditional broadcasters, as digital natives increasingly use content to drive growth within their wider business (as illustrated by Amazon's loss-leading Prime bundle, Rakuten's acquisition of Wukai.tv, and Alibaba's announcement of the launch of Tmall Box Office). While growth in enterprise value across the broadcasting industry has increased, a typical broadcaster's average market capitalization still stands at just over 10 percent of an average super platform's (see Figure 11).

This is a significant disadvantage in an industry where cash for investments in high-quality content and the best platforms or services to showcase it on, coupled with scale to access new and far-reaching audience bases, are major differentiators.

Moreover, as Accenture's recent report *Bringing TV to Life V* highlighted, the uniquely digital heritage of these new entrants to the broadcasting industry gives them an inherent understanding of how digital consumers behave and what they want. Digital natives, such as super platforms, also possess a mastery of the capabilities needed to target and serve consumers effectively on a global scale.

At first sight, the picture looks bleak for broadcasters who, having evolved from traditional terrestrial networks, tend to lack the agile operations and digital skills of their new competitors. But broadcasters have two significant advantages over other industry players.

FIGURE 11 | Average market capitalization of the top industry players in the broadcast, cable, telecom and super platform industries 12/2012–05/2015, \$bn



The first can be summed up in one word: trust. Most broadcasters have been at the heart of their national cultural life for decades, and audiences have grown up with them in their lives. Accenture's Digital Consumer Survey found that a greater number of respondents (31 percent) trusted broadcasters to provide a high-quality service than internet-video providers (15 percent) and social-media service providers (5 percent) combined.

Furthermore, consumers show a clear preference for obtaining digital services from one provider, rather than several. Broadcasters have a significant opportunity to use this customer trust and preference for bundled services to increase their share of customer wallet.

The second advantage centers on a broadcaster's greatest asset: its people. Human curation is vital. Digital natives are likely to have the edge in deriving insights from analytics, but they may lack the human input needed to make content and services resonate emotionally with audiences. For broadcasters this human element is second nature, as it has been at the heart of decisions about content commissioning, scheduling and advertising inventory for many years.

In addition, consumers increasingly value real-life experiences (as demonstrated by the enduring appeal of live concerts and sports events in the age of digital and social media). Broadcasters can use their employees to create shared real-life moments for viewers, which help forge deeper relationships and trust with audiences.

Broadcasters wishing to exploit the human advantage must reintegrate people into the interface, providing human interaction and curation at the points that really matter. To achieve this, they will need to strategically consider which services are appropriate to manage with machines and which with humans. They need to ensure that human interaction makes a fundamental difference at the points along the customer journey where it matters most, for example when things go wrong, when viewers need help deciding what to watch and when customers are considering leaving.

This will require a shift in organizational culture and performance management. However, early adopters fusing analytics with human curation are seeing success. MUBI, a curated online cinema streaming service, combines insights from analytics with those of their in-house film buffs to bring an element of human curation to their audiences. Every day they introduce a new film curated by their experts, which can be watched by users over the subsequent 30 days.

To succeed, broadcast employees will need to become more open to using data in decision-making and become accustomed to combining art with science. To achieve this, broadcasters need to value their people for that undefinable "human" element and measure them on the quality, and not the quantity, of their interactions with consumers.



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About the series

The Future of Broadcasting series is now in its fifth year. Since 2011 we have charted the rapid evolution of the broadcasting industry.

In the first edition of *The Future of Broadcasting* we saw the market's clear preference for pay broadcasters' subscription-based models over the advertiser-funded free to air (FTA) model. By the second issue, enterprise value across the sector had increased significantly with all broadcasters enjoying a recovery in value. By 2012/13 the distinction between FTA and pay business models had become even less relevant, with investors looking for all broadcasters to embrace more sophisticated strategies adapted to an era of constant change. Last year we saw the distinction between business models continuing to disappear and noted another large increase in enterprise value (up 43 percent from 2012), fueled by future value, signifying rising market optimism within broadcasting.

This year we observe that the gap between future value and current value is widening, with future value at an all-time high. We also assess the strategies that broadcasters are implementing to create value: investing in content production and licensing, and achieving scale through consolidation.

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.