OTTS VS TV NETWORKS ~ 3 WINNING STRATEGIES

Whitepaper

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1.1 Introduction

Digital TV and video has seen the battle between OTT (Over the Top) players and traditional networks pushed to the forefront. In this whitepaper we identify 3 winning strategies, relating to the digital TV and video industry.

1.2 Market Trends & Disruption

1.2.1 OTT Back-Catalogues & Original Content

OTT libraries have mostly been stocked with licensed back catalogues of movies and TV shows, such as Netflix's partnership with Disney (due to expire at the end of 2018) which allows the OTT player to deliver Disney and Marvel content to its customers.

However, in an attempt to both differentiate themselves, and reduce the need to rely on expensive content partnerships, OTTs are increasingly seeking to produce their own content, giving consumers a wealth of media to choose from.

i. Provision of Older Content

As discussed, one of the major selling points for OTT platforms has been the provision of a wealth of older content. A recent study by Nielsen found that SVOD viewers spent 80% of their viewing time watching content from back catalogues.

In the following table Juniper analyses the levels of content provided by 3 leading OTT players, across 4 key countries. It is worth noting that OTT providers do have popular content partnerships expire, with Netflix in particular displaying a re-evaluation of its approach, making a concerted push to providing greater levels of original content as a means of attracting new customers.

Table 1: Number of Movies & TV Shows Available on Popular OTT Platforms

	US	UK	Germany	Australia
Netflix	4,740 (of which 975 TV)	4,005 (893 TV)	2,621 (583 TV)	3,531 (839 TV)
Amazon Prime Instant Video	10,799 (of which 732 TV)	5,412 (413 TV)	5,145 (525 TV)	1,340 (112 TV)
Hulu	2,710 (of which 1,226 TV)	-	-	-

Source: JustWatch, Netflix, Amazon, Hulu

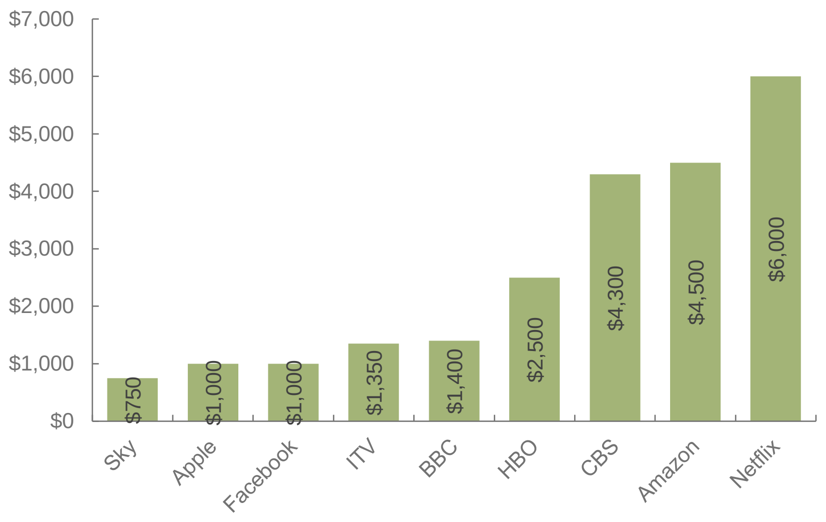
In addition, some OTT providers have an edge over their competitors in that investors are themselves media companies. For example Hulu has investment from Disney, Fox, NBC Universal and Time Warner, allowing it to offer content from these players.

Thus when Disney launches its own OTT platform in 2019, removing its content from Netflix, we may see Hulu able to offer Disney content as a unique selling point for its service.

ii. OTTs Push for Original Content

Both Netflix and Amazon audiences have soared on the back of an extensive range of high quality content. As the figure below demonstrates, these 2 companies now have the largest annual spend levels on original TV content. These companies now comfortably eclipse not only leading free-to-air broadcasters such as the BBC and ITV (UK) and CBS (US), but also pay-TV players such as Sky (UK) and HBO (US). However, while Netflix and Amazon currently dominate this arena, it should be noted that both Apple and Facebook announced plans to invest $1 billion in original content during 2017.

Figure 2: Annual Budgets for Original TV Programming ($m), Selected Content Providers, 2017-2018



Source: Juniper Research based on corporate data.

In August 2017, Facebook launched a 'Watch' tab for original content, which is currently being trialled by a small number of US beta testers. The tab will feature personalised recommendations of both live and recorded programmes.

Much of the content will be ad-funded, with a revenue distribution model of 55% to content providers and 45% to Facebook. Additionally, Facebook has reportedly indicated that it is prepared to pay providers up to $3 million per 30 minute episode for premium content, with the company also rumoured to be paying 'six-figure' prices per episode for sit-com programming. Apple is also believed to be expanding its own range of original content, with the Wall Street Journal suggesting the company will add at least 10 new original series in the coming year.

1.2.2 Social Media Providers Target Live Content

One of the growth areas for 2018 will be the delivery of live video content via social media channels, as users increase the volume of live broadcast content posted to these platforms.

To date several popular social media providers have sought to promote such content, including Facebook which offers its 'Live' feature, encouraging users to broadcast live video to their friends and followers.

This content will increasingly be of interest to advertisers, especially in view of Facebook's MAU (Monthly Active User) base of over 2 billion people. The company is set to launch a website 'Facebook for Creators' to help users refine video content to generate viewership.

Figure 3: Facebook Live

Source: Facebook

Facebook's Vice President of Product, Fidji Simo, stated in a blog post:

'To help creators grow on Facebook, it's important that we continue building tools for them to be successful.'

Other services seeking to utilise live media are Twitter via 'Periscope' and YouTube Live.

i. Caution from Brands

However, brands will be concerned about which content their adverts appear alongside. In 2017 there was a furore surrounding the placement of adverts on YouTube alongside extremist and banned content, which broke the Google-owned platform's own rules.

In addition, the growing use of social media for divisive content and the spreading of so-called 'fake news' will mean that brands will be cautious about putting their names on a platform which is being increasingly scrutinised.

1.2.3 Sporting Rights: A Whole New Ball Game?

As we anticipated, a number of OTT players are now investing in major sporting events. Twitter was the first leading OTT to enter the space when, in April 2016, it acquired the streaming rights for 10 Thursday night National Football League games for a reported $10 million, beating off competition from Verizon, Yahoo and Amazon; these games were also simulcast on a free-to-air broadcaster.

Figure 4: Amazon Data on NFL Viewership

Source: Amazon

However, the following year, Amazon paid 5 times this amount ($50 million) for an identical package, with streaming limited to customers of Amazon Prime. In the first 4 NFL games which Amazon streamed, the provider recorded a total of 7.1 million views, with its reach extending to 187 countries and territories.

Amazon announced in November 2017 that it had secured the rights to exclusively stream 37 top men's tennis tournaments from 2019 to its Amazon Prime Video subscribers in the UK after it won ATP broadcast rights from Sky.

Amazon, however, is not alone. In May 2017, it was confirmed that Facebook would live-stream at least 20 Friday MLB (Major League Baseball) games during this year’s regular season. These games are not exclusive to Facebook (the company will stream from the feed of a local rights holder), but would appear to a test to gauge consumer receptiveness of watching the fixtures on social media.

Certainly, key players in the sporting industry now expect the OTTs to become more aggressive in their bids. Ed Woodward, the VC of English Premier League football team Manchester United, said in September 2017: ‘We are hearing that around the Premier League table [that the OTTs will bid], but we're also hearing that from a European perspective as well, in terms of interest in the Champions League and in Europa [League] rights… We are going to see an increasing engagement from those organisations and it is going to be increasingly important to digitally engage with fans.'

At present, English Premier League broadcasting rights are owned by Sky and BT, which together paid £5.14 billion ($6.95 billion) in February 2015 for 3 seasons’ games. The current deal expires at the end of the 2017-2018 season, with bidding for the next package expected to take place early in 2018. Facebook would be unable to acquire exclusive rights for the League, but it, or another leading OTT, might well seek to acquire one of the packages on offer.

1.2.4 Monetising Sporting Content

i. The Telco Approach

With the increasing prevalence of quad-play, a number of telcos have themselves moved into sports rights acquisition. BT first signalled its intent in this arena in June 2012 when it acquired the rights to 38 English Premier League football matches per season over 3 seasons for £738 million ($1.10 billion). In February 2015, it expanded this offering to 42 matches per season, paying £960 million ($1.43 billion) for a further 3 seasons’ rights.

Figure 5: English Premier League Key Rights/Viewing Figure Statistics

$10.3 million

Price per day paid by BT per English Premier League football match screened, 2015-2018.

600,000

Average number of viewers per match on BT Sports, 2016-2017 season

Source: Juniper Research

The company enhanced its coverage by paying £897 million ($1.21 billion) for exclusive Champions' League and Europa League coverage in late 2013, with the 3 season contract beginning in September 2015. In March 2017, BT retained these rights, this time paying £1.18 billion ($1.6 billion) for a renewed 3 season package.

BT also sought to acquire the rights to popular events in other major sports, including (in July 2017) the exclusive rights to screen the European Rugby Champions Cup and Challenge Cup from the 2018-2019 season to the end of 2021-2022.

This strategy was also employed by Telefonica, which in January 2016 paid Mediaproduccion €2.4 billion ($2.61 billion) for the rights to La Liga, the 2 domestic cup tournaments and Champtions League football.

In the US, the telcos have yet to engage directly in the sporting rights sphere, opting to purchase packages from sports broadcasters, such as ESPN, rather than acquire broadcast rights themselves. The same is true when it comes to films, with AT&T and Verizon bundling channels such as STARZ, Showtime and HBO in their movie packages.

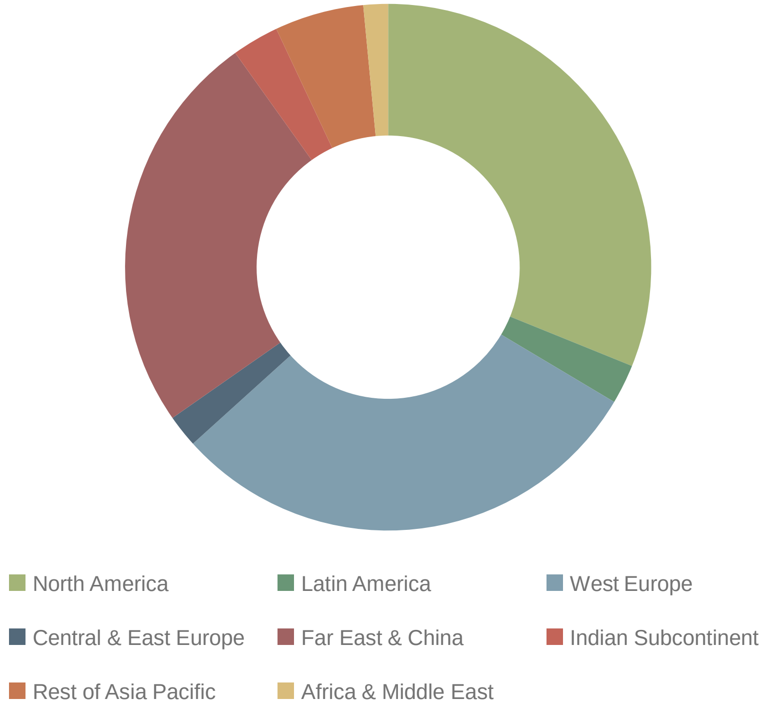
1.3 Digital TV & Video: OTT Forecast Summary

Juniper forecasts the industry to grow by a CAGR (Compound Annual Growth Rate) of 13.2%, from $64.0 billion in 2017 to $119.2 billion in 2022.

Juniper found that throughout the period, Western regions will lead in terms of digital TV revenues. This largely due to the immense popularity of SVOD (Subscription Video on Demand) and TVOD (Timed Video on Demand) services, as there is a switch away from traditional broadcast media.

Whilst the Far East will have significant gains in revenues, by and large due to the popularity of IPTV in China, we note the considerable uptake of FVOD (Free Video on Demand) services over SVOD and TVOD content.

Figure 6: Total OTT Revenues ($m), Split by 8 Key Regions in 2022: $119.2 billion



Source: Juniper Research

Juniper believes that IPTV (Internet Protocol TV) uptake in North America will stagnate to some extent, but the overall loss in IPTV subscribers will be minimal, should FCC regulations on net neutrality change. The throttling of Internet services will drive consumers back to the larger players, helping consumer adoption and retention.

However, throughout the period SVOD will gain ground, not only because of new service launches across the globe, but also due to a consumer switch to the idea of 'skinny bundles', or slimmed down packages which will, in some cases, mean cable companies' customers cancel their packages.

1.4 Digital TV & Video Industry Movers & Shakers

Susan Wojcicki

YouTube

CEO

In February 2014 Susan Wojcicki became CEO of YouTube, following the departure of former CEO Salar Kamanga.

She has been with Google since its founding in 1998 and dealt with 2 of Google's largest acquisitions; the $1.65 billion purchase of YouTube in 2006 and the $3.1 billion purchase of DoubleClick in 2007.

Since Wojcicki became CEO, YouTube has grown to over 1 billion users, which is almost a third of global Internet users; 1 billion hours of video content are watched on the site every day.

Randy Freer

Hulu

CEO

Prior to being appointed to his current position, Randy Freer was President and COO of Fox Networks Group where he oversaw revenue, distribution, operations, business development and strategy for all aspects of the Fox Television Group, FX, FOX Sports and National Geographic Partners. He was also responsible for rights acquisitions and team and league relationships on behalf of FOX Sports.

Earlier Freer was Co-President and COO, FOX Sports Media Group, where he focused on growing and enhancing FOX Sports' prestigious portfolio of league, conference and team media rights.

Reed Hastings

Netflix

CEO, Co-Founder

Reed Hastings is CEO and co-founder at Netflix.

He founded Pure Software in 1991, which made tools for software developers. After a 1995 IPO and several acquisitions, Pure was acquired by Rational Software and in 1997 he co-founded Netflix.

Netflix is the largest SVOD provider globally in terms of subscribers; with over 100 million as of Q3 2017.

Hastings received a BA from Bowdoin College in 1983 and an MSCS in Artificial Intelligence from Stanford University in 1988.

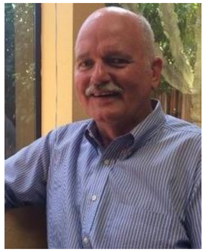
Anthony Wood

Roku

CEO, Founder

Anthony Wood is the inventor of the DVR and founder of ReplayTV, where he was President and CEO before the company's acquisition and subsequent sale to DirecTV.

Wood was also the co-founder and CEO of iBand, an Internet software company sold to Macromedia in 1996. The code base developed by Wood at iBand became a central part of the original core code of Macromedia, now known as Adobe Dreamweaver.



Jim Long

Didja

CEO

Jim Long has over 20 years' experience in the TV and video industry, having previously founded Starlight Networks, where he was CEO. The company pioneered video streaming, with key clients including Bloomberg.

Long became CEO of Didja in 2014. A major asset to the company, he has a strong background as an innovator in the TV and video industry. To date he has led the development of 'Clippit', and of Didja's local broadcast product offering.

He received a BS in Electrical Engineering and Computer Science from UC Berkeley and an MBA from Harvard University.

Jeff Bewkes

HBO (Time Warner)

Chairman of the Board, CEO

Jeffrey Bewkes has been CEO of HBO parent, Time Warner, since 2008 and President of the company since 2005.

During his tenure at the business, Time Warner has been established as the third largest entertainment company in the world, in terms of revenue. Currently the business is being acquired by telecoms giant AT&T for $108 billion. Time Warner's subdivision, HBO, has been a significant entity in the recent OTT evolution of the television industry. Launching its own on demand app, as well as an SVOD service.

Prior to working at Time Warner, Bewkes attained a philosophy BA from Yale and an MBA from Stanford.