



Redefining the cord by playing offense in the rapidly changing TV industry

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It's no secret TV viewing habits are changing. Although total video consumption is projected to increase at a 0.8 percent CAGR from 2016 to 2020, consumers are shifting eyeballs away from traditional TV screens to tablets and mobile phones. In fact, the proportion of time viewers consume video over "second screens" is expected to grow 13 percent by 2020,¹ aided by a 5.8 percent boost in connected devices.²

The impact on traditional TV has been dramatic. TV providers lost almost 700,000 subscribers in the second quarter of 2016, while continuing to see high content costs.³ This should be a wake-up call for TV providers: Instead of playing defense and trying to protect their legacy business, TV providers must radically redefine their packages and adopt proactive strategies to capitalize on changing TV viewing habits and technology advances.

TV providers should consider three actions: Reduce TV package content and pricing to increase profits, deliver differentiated "anytime, anywhere" TV features, and provide seamless broadcast and OTT cross-platform content and recommendations. These actions will help TV providers prove that the best defense is a good offense.

How to play offense: Three key actions for TV providers

Doing so requires re-examining how pricing and content accessibility can increase viewership. TV providers can influence both of these levers by taking three critical actions.

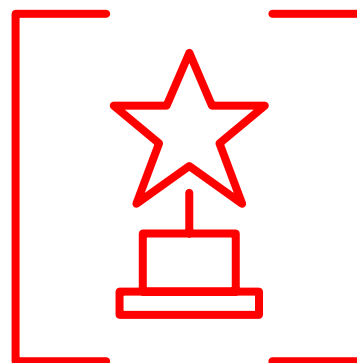
Action #1: Reduce TV package pricing while increasing profits

Year after year, consumers continue to watch more video, but they concentrate on a smaller range of content. In fact, Accenture analysis found that 80 percent of viewership is concentrated on 15 channels and consumers only watch 20 percent to 30 percent of subscribed content on average.⁴ Clearly, the “more channels for more money” legacy strategy TV providers commonly deploy is losing traction with consumers.

We believe TV providers should adopt a strategy of offering smaller packages tailored to what people want to watch. This will be a difficult change for the industry given the complexity of long-term contracts for content rights. Content producers will want to maximize distribution and fees while TV providers need to change packaging to remain compelling to consumers. Even in situations where regulatory bodies are mandating this change, support from TV providers has been lukewarm. However, there are encouraging signs of change. Some progressive regional TV providers have started providing consumers increased flexibility in building smaller packages. This allows these TV providers to buy substantially fewer channels—and lower their content costs—while charging fees comparable to those of their competitors. Network providers are also responding. A leading US media and entertainment company recently announced plans to purge smaller TV channels from its lineup while continuing to invest in its larger channels.⁶

The key to this strategy is using viewership analytics—based on individual viewership tracking, not on panel-based audience measurement—to understand what shows consumers watch, for how long, and how frequently. Such analytics enable TV providers to make better programming decisions and negotiate programming rates more effectively with content providers.

By using viewership analytics to offer smaller, flexible and more relevant packaging, TV providers can mitigate cord-cutting and improve overall package margins by at least five percent to 10 percent.⁵



Having access to the right data is table stakes. To truly compete TV providers need to integrate viewership and behavioral data into aspects of their daily decision-making. Progressive TV providers are already implementing and leveraging this capability to design streamlined content packages, address regulatory requirements for "skinny TV," position OTT offerings, and determine how best to integrate third-party OTT offerings like Netflix into their TV guide. Organizations like Netflix are also using detailed viewership analytics to influence investments in new original programming. The show "Stranger Things" is a good example. Netflix found their teenage customers viewing original content in a family environment were increasingly watching retro sci-fi content. In response, Netflix added "Stranger Things" to its content catalog, and it has been a resounding success: Within just the first 16 days of its launch, 8.2 million people watched the show.⁷

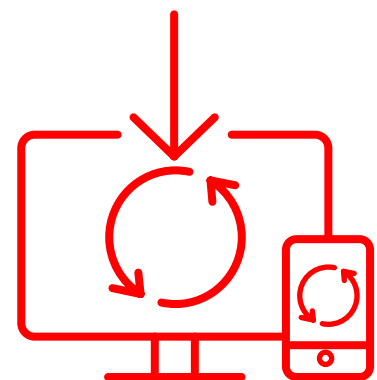
Action #2: Differentiate anytime, anywhere TV features

Time-shifted viewing continues to grow as a percentage of total content viewing hours. In 2015, 47 percent of all video content hours was time-shifted, and consumers under 40 years watched more than 75 percent of their content at times other than the scheduled airing.⁸

Consumers also increasingly want to view content anywhere, particularly as mobile, 4G video becomes faster and more affordable.

Providers need to look beyond traditional time-shifting technologies like Personal Video Recorder (PVR), On Demand, and Over-the-Top (OTT) streaming to offer unique new time-shifting feature sets. Some providers are beginning to not only offer restart capabilities, catch-up/lookback content for select periods of time, and enhanced Video on Demand (VOD) libraries, but are uniquely monetizing these features. Swisscom is offering 30 hours of catch-up television with basic packages and up to seven days in higher-tier packages.⁹ TV providers are also disrupting content windows by offering future-looking viewing opportunities. For example, content

47 percent of all video content hours was time-shifted in 2015



windows for new movie releases are three to four weeks shorter now that providers like Comcast have formed partnerships with studios to offer in-home movie rentals before DVD releases.¹⁰

Anywhere TV has become critical as well, and video disruptor specialist Netflix has capitalized on this emerging trend. Netflix allows customers to watch screens simultaneously both in and out of the home and, because consumers value access to content concurrently across multiple connected devices, 20 percent of customers are willing to pay for it.¹¹ For TV providers, this presents a lucrative new approach to the set-top-box (STB): A shift away from one STB per device to watch content in favor of a managed-service OTT environment conducive to accessing television anywhere.

But as they add more screens, TV providers must also create a richer and differentiated multiscreen experience. The streaming TV and radio service launched by a UK-based media company is a good example. Among other features, it will soon include Info Boxes that allow viewers to learn more about what they're watching, such as key statistics and information about an athlete while watching a sporting event.¹²

Other place-shifting measures providers are implementing include cloud PVR that lets consumers access recordings across multiple devices, both online and offline, through features like download and go. Further advancements include auto-record content based on recommendations; bookmarking content within recordings; and potentially deleting ads on recorded content.

Anytime and anywhere TV will soon be table stakes. Providers need to continually revisit their feature roadmap to make sure they are delivering a richer in-home and out-of-home experience, thereby generating additional revenues to offset increasing content costs.

Action #3: Provide seamless broadcast and OTT cross-platform content and recommendations

Contrary to popular belief, consumers expect TV providers to carry content from OTT providers like Netflix or Hulu so they don't have to leave their cable experience to cobble together content from different sources.

In fact, Accenture has found that 79 percent of consumers prefer a bundled content solution from the same provider.¹³

Some TV providers are working to super-aggregate content across disparate sources and platforms, including content from digital-only providers. For example, Comcast¹⁴, Bell¹⁵, KPN¹⁶ and another leading European telco have recently struck deals to integrate Netflix with their video platforms.

But providers need to do more. They should consider creating discounted packages for multiple OTT subscriptions to give consumers lower-priced access to aggregated content. And they should make it easier for consumers to find what appeals to them across this bounty of new content. This calls for investing in search and discoverability capabilities far more potent than the current channel guide.

It also requires implementing sophisticated recommendation engines, powered by advanced analytics on customer-level data, that deliver very specific, personalized and timely content suggestions. Belgian cable operator Voo, for example, has added a recommendation engine to its STB. It enables Voo customers to get recommendations tailored to what they've watched and when—regardless of whether it was linear-TV, VOD, catch-up or OTT content sources.¹⁷

79 percent of consumers prefer a bundled content solution from the same provider



Redefining the cord by playing offense

Current video viewing trends present difficult times for TV providers. Consumers expect to watch what they want, when they want, where they want, and across any device.

That's at odds with the traditional TV offering: Many channels bundled into a fixed package and broadcast on a fixed schedule. But even as providers look to acquire broader "anytime, anywhere" viewing rights to meet consumer demands, they find these rights more costly than ever. Consequently, they face a growing exodus of dissatisfied customers and declining profitability.

To avoid being a casualty, providers must aggressively redefine their TV package and viewership experience. They have to generate and act on insights from their customers' viewership habits, provide a differentiated "anytime, anywhere" experience, and ensure that all content—broadcast and OTT—is easily available for consumption. Playing offense will enable TV providers to compete more effectively in this rapidly changing environment, strengthen their relationship with consumers, and increase profits.

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