BRINGING TV TO LIFE

CHARTING THE COURSE TO SUCCESS
WELCOME TO THE SEVENTH EDITION
of Accenture Digital Video’s popular series, “Bringing TV to Life.”
This year’s report, “Charting the Course to Success,” comes at a time of almost unprecedented disruption and intense competition among a growing array of players in the video industry.

Digital natives are rewriting the rules of competition in the digital video industry. They position themselves as innovators, with platforms that enable other businesses to innovate alongside. Platform economics allows them to enter new markets fast and at scale, and to monetize original content rapidly. Though their data-driven operating models, they deliver rich and compelling video experience to consumers, decisively raising expectations.

Traditional players are not standing still, of course, whether they are aggregators or distributors. Aggregators will need to live up to their name: they must be the easiest and most engaging place to find the content that consumers love across a number of traditional distributors and digital native providers. Many aggregators are beginning to look harder at their technology investments to make sure they are structured in a way that helps them compete effectively in a more liquid marketplace.

Distributors are threatened by the shift in consumer behaviors. As customers fragment their media consumption, distributors will need to drive higher customer engagement to increase loyalty and revenue per user. This means that they need to figure out how to better understand content performance, launch new direct to consumer digital businesses and command a premium on their own advertising inventory.

To truly attack the digital market in a manner that allows incumbents to continue to grow their traditional business while leveraging their advantages in the new, they must navigate an S-curve, transforming their core business to fuel growth while enabling the company to launch new services.

It’s important to deal with both vision and reality—that is, where companies’ money is right now versus later, as well as their ability to disrupt themselves in the midst of organizational and technological legacy, and to deal with disruption while protecting their existing business. Many of the things incumbents must do might seem counterintuitive because the actions go against traditional thinking or motivations in their current business model. But it’s the only course to success as companies navigate through digital disruption.

SEF TUMA
Managing Director
Accenture Digital Video
Digital disruption is redefining the video industry. It is challenging the established industry value chain, redefining the rules of competition and altering traditional key success factors. The industry as a whole continues to grow materially. Yet much of the growth is coming from digital-born disrupters, and traditional businesses are struggling to respond.
Looking first at the challenges posed by disrupters, this report identifies strengths of incumbents that can be used to position those companies for success in the future. It looks at weaknesses that need to be addressed, and discusses ways that incumbents can use organic and inorganic growth strategies to help them be future winners.

In addition, the report discusses strategies that can be adopted to drive transformation and growth within a business, setting out priority areas for immediate investment.
NAVIGATING THE STORMY SEAS

Digital video providers face numerous challenges as they strive to navigate through an increasingly disrupted market. Among the challenges are:

- Responding to new and nimble competitors offering new pricing models that threaten core revenue
- Dealing with rising costs to create and acquire content
- Creating new business-to-consumer products and services rapidly and at scale
- Transforming the business operating model to make it responsive to insights from customer data, and using that data to improve monetization
- Maintaining engagement and loyalty across diverse digital platforms
Disrupters are fast-growing, platform-based businesses built as cross-industrial ecosystems, with agile business and operating models.

Disrupters use their acquired strengths across verticals, fueling differentiation and innovation around customer needs. Digital disrupters such as Google, Amazon and Apple enjoy healthy future valuations, unlike many traditional media companies. (See FIGURE 1.)

**FIGURE 1 |** Comparing future value of traditional media companies and disrupters  
Source: Accenture analysis, 2017
Disrupters are rewriting the rules of the video industry (see FIGURE 2) by:

1. **USING THEIR SCALE AND RANGE OF SERVICES TO SHIFT VALUE**

Many traditional media players are paying the price for the lack of scale caused by their local/regional focus. Disrupters can acquire scale at unprecedented rates, mainly driven by the low cost of customer acquisition and network effects. Disrupters have large budgets and are now even commissioning content and providing access to premium sports.

2. **GENERATING A NEW VALUE EQUATION**

Consumer expectations have been raised by disrupters, and many incumbents struggle to keep up. “Liquid” consumers (those who consume content across devices and channels) demand the same level of great service and experience across all areas of their lifestyle. Disrupters have consistently invested in user interface and front-end capabilities to delight customers. They have also established experience standards that incumbents cannot easily match or exceed. With loss of customer stickiness and loyalty, incumbents face an expensive war to win back and retain customers.

3. **REINVENTING THE PLAYBOOK**

Digital disrupters operate as a two-sided platform with a new playbook to fuel differentiation and innovation around customer needs—and to generate asymmetric growth—with a lean operating model and collaboration across a broad ecosystem.

Disrupters have raised the bar for consumer expectations and incumbents now face an expensive war for customers.
Traditional incumbents are not standing still, of course. Content providers look to boost monetization through syndication. Operators are experimenting with competitive bundles to defend their customer base, while streamlining their organization through large cost take-out initiatives. As their growth slows, they must capture new growth while protecting their existing business profitability and sustainability.

Yet many incumbents are at risk of getting stuck with declining legacy business models and organizations.

By contrast, disrupters are using their platform-based business to drive four key competitive advantages:

1. **ECOSYSTEM POWER**

   Digital disrupters position themselves as innovators, with open platforms that enable other businesses to innovate alongside. Ecosystem members use the platform to create new services for the platform’s customers. These enterprises accelerate innovation and develop features at a pace that is not possible when they operate alone. They bring their own customers, too.

2. **ADJACENT MARKET PLAYS**

   Disrupters can operate across industries, aggregated around specific consumer use cases, and into several adjacent markets (retail, search advertising, etc.). Platform economics allows them to use a number of similar capabilities across multiple businesses and to develop an extensive knowledge of customers across several aspects of their lives. (See FIGURE 3.)
3. A CASH ADVANTAGE

Disrupters’ platforms can serve multiple business models economically. The platforms enable the company’s core, but also release money for other investments. For example, Amazon is estimated to have spent more than $3 billion in 2016 on music/video content, aiming to boost renewals for Amazon Prime memberships. From about October 2015 to October 2016, Prime members spent about $2,500 through Amazon, compared with $544 by non-members.

For incumbents, especially telecom operators, this cash disadvantage is a stark reality. They must spend enormous amounts maintaining and expanding their asset base. Our free cash flow analysis (see FIGURE 4) shows that traditional businesses are typically left with 5 to 10 percent free cash flow, compared with the disrupter internet software and services businesses, where 20 to 25 percent is free).

Meanwhile, disrupters are also generating significant cash stockpiles. Alphabet, for example, has a huge bank balance: Its cash-to-revenue ratio is at 0.91 compared with incumbents. Alphabet could use that cash for acquisitions or innovation. (See FIGURE 5, where Alphabet is compared with ITV (UK) and Time Warner.

4. ORIGINAL CONTENT DIFFERENTIATION AND GLOBAL MONETIZATION

Disrupters are investing heavily in content, even where local markets have been difficult to penetrate due to limitations such as content rights. Disrupters increase competition among traditional and internet platforms to succeed with local content.
In early 2016 Netflix expanded to cover 190 countries. One driver of that expansion was creating original content in local languages, currently extending to 12 countries alongside English-language programming. Netflix has already surpassed two million subscribers in Germany and France, and eight of the top-ten shows there are Netflix originals.

**THE CALL TO ACTION FOR INCUMBENTS.**

Many traditional video industry players have been unable to mobilize fast enough to execute and harness innovation, disruption and the advantages of new technologies. Incumbents should lay foundations for the “new” to defend and extend value using their existing strengths:

- Original content production
- Editorial voice and brand power

- Strategic use of technology to augment current advantages while building new, monetizable assets
- Control of the access point: The home footprint
- Local service capabilities

In the next sections, we look at how different types of video businesses can invest wisely to capitalize on their strengths.

The digital video phenomenon has set sail, with players leaping on board from all directions. Only those that build the right capabilities from the start—advertising, data capture and analytics—will win today and be ready for the future.
Traditional aggregators as well as distributors have a challenging journey ahead of them to become fully digital in both how they operate and how they monetize. Both types of companies are starting to make short-term and long-term moves, both to control their cost base and to maximize their access to the market.
Distributors and aggregators alike must evolve the right collaborative business model. In some cases, both types may reside within the same company. In other cases, they will continue to compete to establish the strongest position in their value chain.

In last year’s Accenture report, “Bringing TV to Life VI—The Digital Video Business,” we proposed that the video industry would bifurcate into Digital Content Providers (DCPs) and Digital Content Aggregators (DCAs). The initial view was that programmers and broadcasters would migrate to DCPs while operators would evolve into DCAs.

We believe this evolution is still valid but the industry is in a state where the shift to digital is only partially complete. To become fully digital, industry players will need to make a leap from the growth curve of a traditional business to a new growth curve of a digital business. (See FIGURE 6.) In this way, traditional aggregators will eventually become Digital Content Aggregators, and traditional distributors will become Digital Content Providers. (Note that we discuss the S-curve model of business growth in more detail in Chapter 3.)

For the purposes of this report, a “distributor” is an organization that owns or acquires content rights. However, instead of syndicating them the company distributes content through traditional means while exploring digital business models as a DCP, such as a traditional broadcaster or programmer. An “aggregator” is an organization that operates a traditional aggregation platform and is in the process of determining how to monetize its capabilities over IP as a DCA, such as a traditional pay TV operator or cable company.

FIGURE 6 | Evolving from a traditional business to a digital business
Source: Accenture, 2017.
DISTRIBUTORS: CHALLENGES AND INITIAL OPPORTUNITIES

Distributors are threatened by the shift in consumer behaviors. As customers fragment their media consumption, the channels-to-market of a distributor are also fragmenting. This means that distributors need to figure out how to monetize these audiences.

That means serving them similarly on every channel that they may use and in a way that is consistent and ubiquitous, while remaining highly responsive to their needs.

Customer engagement therefore becomes one of the most important KPIs to a distributor (e.g., number of visits, number of items watched per visit) helping them promote and sustain loyalty. Engagement is essential for a distributor to sustain its digital ad-based business models while also reducing marginalization of their brand in digital.

At the same time, distributors may also look at subscription video-on-demand (SVoD) models. These models would deliver higher average revenue per user (ARPU) than advertising but audiences would be smaller. Meeting customer expectations for premium drama as well as premium sports requires considerable upfront speculative investment. Needing to serve customers across numerous channels and react to their preferences with a lean operating model only adds to the challenge.

Not everything can be a hit, so distributors are looking to data and analytics to reduce their risks. However, analytics is part of an organizational model not consistent with how distributors have operated in the past.

Distributors have been moving quickly to position themselves to overcome these challenges. The following are some of the actions distributors have made or should consider in the short term.
DIVERSIFY INTO A NUMBER OF DIRECT-TO-CONSUMER DIGITAL BUSINESSES

In general, all distributors wanting to become DCPs need to develop a direct consumer proposition or risk being cut off from the consumer insights they need to compete. A B2C company needs many capabilities unfamiliar to most distributors because they have traditionally been B2B businesses.

An example of a key capability is identity management, because a holistic view of the relationship with each customer is critical to success. Mass-market D2C businesses can be challenging to launch.

Given their significant supply of archive content and the continued decline of their retail channels, many distributors instead invest in niche areas where they are already strong and could command a larger ARPU in SVoD. This generally needs to be done a number of times per niche to reach scale, requiring economies of scale in the distribution platform but also a common platform across all properties in order to cross-market and increase loyalty. An additional benefit of this strategy is to create loyalty online—an important step for distributors if they do not want to be disintermediated as B2C business models begin to dominate.

INCREASE UNDERSTANDING OF CONTENT PERFORMANCE WHILE MAINTAINING EXISTING ROLES

Distributors are getting better at understanding the performance of content across distribution channels and across the different segments of their audiences. Distributors need to be able to look at their entire portfolio, taking a broad view of their distribution channels and how their content is performing.

A distributor’s supply chain must become more intelligent so the company can distribute, track and optimize. Such a supply chain requires investments in analytics platforms as well as changes to the business operating model to enable data-driven decision making. It also increases the need to own integrated digital distribution channels, even if it is just for brand marketing and engagement purposes.

The BBC’s recent moves with iPlayer provide a good example of product development with both marketing and engagement in mind. These moves are partly a value-add for the existing iPlayer audience. However, the BBC are also cleverly using the capabilities of their myBBC personalization platform to market and optimize the yield on content while also building brand loyalty. myBBC looks to big data analytics to build a one-to-one, personalized relationship across its online product portfolio. A simple, flexible, reliable webscale identity platform was especially important to this work. Working with a service provider, myBBC helped to address challenges arising from an aging identity system with custom integration into more than 30 products and apps across the BBC estate.
AGGREGATORS: CHALLENGES AND INITIAL OPPORTUNITIES

Aggregators must often make immense investments in infrastructure, even though the physical delivery of content is becoming commoditized. Many households in wealthy nations already boast regular DSL, 4G cellular, cable and satellite connections.

These investments can be recouped by selling high-speed connectivity, using video as a way of both acquiring consumers and (hopefully) upselling them. However, as connection speed becomes more commoditized and an increasing number of video services become deliverable over IP, customers can choose the cheapest pipes and the cheapest online video providers. That means that ownership of the physical transport layer is no longer enough to defend market share.

In this emerging digital video market, there are just three simple considerations that matter to consumers: price, connection speed and content portfolio / discovery experience.

Thus, aggregators will need to live up to their name: they must be the easiest and most engaging place to find the content that consumers love across a number of distributors and digital native providers such as Netflix and Amazon.

Many aggregators are beginning to look harder at their technology investments to make sure they are structured in a way that helps them compete effectively in a more liquid marketplace. This investment strategy is driven by the pressures on their stock price, plus analysts’ general skepticism of their ability to drive exponential growth through their capital investments.

The following are some of the actions aggregators have made or should consider in the short term.
BECOME A MORE DATA-DRIVEN ORGANIZATION

Aggregators are acting assertively to avoid customer churn and maintain revenue-generating units (RGUs). Data is key: Consumption information, driving a tuned “next-best-action” engine, can recommend the optimum retention offer. This capability is absolutely required, especially as aggregators start launching products that create 1:1 relationships with household members. At the moment, much of the data from product interactions is siloed across the business. Because of this, engagement cannot be correlated with the core KPIs that drive either revenue or profitability, a significant disadvantage to the disrupters.

SOLIDIFY THE DEVICE STRATEGY AS A LEVERAGE POINT

Aggregators are also investing in the capabilities of consumer premises equipment (CPE)—set-top boxes and home networking equipment—to ensure that customers receive excellent quality of experience. Using standardized CPE stacks like Reference Design Kit (RDK) can free up resources to concentrate on the customer experience at a household level and decouple innovation from legacy or third parties.

The Reference Design Kit (RDK) is an open software bundle that provides a common framework for powering customer premises equipment for TV and internet service providers. The intent of RDK is to create the appropriate separation in the stack to allow for innovation, including data collection to power existing (and eventually new) business models.

CPE rollout is a challenge, however. Legacy video-playing boxes need to be replaced with multi-purpose devices that can unlock new offerings in the home.

That said, a strong in-home footprint can anchor new business models. In the UK, Sky has expanded a satellite TV business into a quad-play proposition. The recent SkyQ launch was a clear investment in the home platform as a basis for further services, both video- and non-video related.

Consider the symmetry: Disrupters start with a full-service platform and are now focusing on video as their most strategic revenue stream. At the same time, aggregators are looking to diversify from a video business to a full digital home service—something we will explore later in this paper.
Although addressing initial opportunities will get distributors and aggregators on the right course, incumbents need to start acting now to build a more sustainable foundation for their digital business. This chapter looks at broader strategies that can strengthen their core business while adequately preparing for new ones.
Releasing trapped value while maintaining and evolving businesses is difficult. You can’t weaken the business models that supply the bulk of your current revenues. And it’s not just “migrating to digital.” It’s about transforming the core business to enable investments in future growth.

So investments (both organic and inorganic) must deliver common benefits between the core and the new. The “S-curve” model depicts the steps that help a traditional business transform: First, transforming and growing the core; then, as revenues start to level off, experimenting in new business models before eventually pivoting or leaping to a new S-curve. (See FIGURE 7.)
TRANSFORMING THE CORE

To start the journey, one must assess where deep-rooted transformation of the legacy business is required. The critical needs here are agility and efficiency. Driving out costs delivers a renewed ability to invest before the cash runs out.

WHAT ACTUALLY IS YOUR CORE?

Distributors should ask themselves some tough questions: Are broadcast operations still part of our core business or something that must simply get done? What about infrastructure support? There are many business capabilities (for both distributors and aggregators) that are effectively commoditized and that don’t differentiate one service from another. That said, the ability of many aggregators to provide fast networks with cost efficiencies continues to be a differentiator—though only to enable more profitability in any “race to the bottom” price wars.

LEGACY FOR AGGREGATORS

• Back-office systems that support vertical silo services
• Customer equipment/apps that can’t generate data or be integrated into platform services
• “Black boxes” that may serve some critical function to keep the legacy services online but are not part of the next-generation software architecture

LEGACY FOR DISTRIBUTORS

• Systems put in place to support legacy content distribution. For example, tapes or distribution of metadata through manual or semi-manual channels such as rekeying—or older broadcast equipment
• Release window management tools that are not part of a multi-territory, multi-business model
• Advertising sales solutions that can only transact and operate using traditional advertising/audience measurement currency
An important aspect of the analysis of the core business is whether it is time to start divesting in areas that were once strategic but are becoming commoditized. For example, many distributors still own and are considering upgrading broadcast automation and playout equipment, and many aggregators still handle logistics for various types of equipment. These were necessities at a time when the traditional value chain was driven more by infrastructure and there was leverage to be gained by owning the components to manage the infrastructure.

Although “carriage” and “re-transmission” fees are certainly still an important aspect of the existing value chain and associated negotiations, the real value these days is more around who is investing in B2C capabilities—capabilities that are evolving rapidly in the digital era. So what was once seen as a “must” to maintain leverage in the traditional value chain becomes increasingly commoditized (and perhaps a prime candidate for outsourcing). In this way, innovation and associated spend can be shifted to more agile platforms that enable a direct relationship with the consumer, whether that is achieved through creative curation or highly personalized aggregation.

Whether a business chooses to transform legacy or isolate it, the business needs to take control of the process. The analytics techniques discussed earlier are essential to the process of refining and optimizing the operating model.

The key thing to ensure is that each initiative creates future platform capabilities while also reducing costs. For example, every product launched should provide tools to collect data (as companies deliver great customer experiences) so that the business can understand and serve those customers better.

This evolution applies to the whole business—the business model, operating model, technology architecture and human resources.
The following are important considerations for growing the core business.

THE POWER OF EXPERIMENTATION: USING DATA

Both distributors and aggregators can use the power of analytics to optimize their spending. If leveraged appropriately, analytics can enable a company’s existing operating model to drive market share and revenue in the core business.

An important first principle of this analytics-based strategy is hypothesis-driven service evolution. Although it’s tempting to intuit, based on experience, what might work with a customer segment, successful companies instead start by identifying the actionable metrics that would conclusively prove that an innovative new service is a winner. They then develop and iterate against the metrics, improving along the way.

Usage and consumption data, along with customer data derived from the direct-to-consumer billing relationship, can be analyzed to inform marketing decisions and focused customer-retention activities. The insights offered up by this data are powerful. They enable identification of previously unknown segments, further empowering content providers to target interactions and ultimately drive customer loyalty.

Distributors can also use the data to address niche audiences with a highly curated content offering. NBC Universal’s OTT comedy series Seeso is a good example of a tailored service delivered directly to a niche audience. Broadcasters are not competing with generalist TV services, but seeking to augment them.

Aggregators must draw on the rich data available from their privileged consumer relationships to tailor and personalize interactions. Catering to the individual as well as the household is something that digital natives have already nailed, and aggregators will have to catch up here to remain competitive.

An enriched consumer experience can drive customer stickiness. But customers also want choice. To respond to this demand, and to make the most of their platform investments, aggregators will need to allow distributors to benefit from their platforms.
FROM HOUSEHOLDS TO INDIVIDUALS: BUILDING ON TRUST

Aggregators must evolve so they understand more about the household’s makeup and can provide a broad catalog of digital services on top of connectivity. Media is clearly a key part of that catalog, but it need not be all of it. Expanding horizontally into new business areas using the existing customer footprint is a classic strategy of disruptors—one that can be used against them.

An aggregator must also build confidence within a household. Services must be reliable and of consistently high quality. Modern customer premises equipment can allow a business to monitor the customers’ quality of experience. The company can then proactively manage quality issues.

WORKING WITHIN THE ECOSYSTEM: THE RISING TIDE THAT LIFTS ALL SHIPS

Aggregators and distributors have a mixed and complicated history of cooperation. In the future, the linkages must be stronger and more open: A flow of content, metadata and curation in one direction, matched by a flow of revenue, data and insights in the other.

Distributors generally lack access to data. They need to know things like: Which scenes didn’t work? Which characters in this drama are a switch-off? How far into the show does its audience get?

Disrupters lack access to data. Meanwhile, aggregators struggle to editorialize content engagingly without incurring huge creative and content supply chain costs. How can content brands express themselves on-product? How can individual episodes be best marketed to consumers? What augmented experiences can be delivered alongside the video assets?

Distributors need tools to drive the curation of content, so that the company can express its unique voice through multiple aggregators without requiring huge amounts of customization. This is an important element of the increasingly close relationship that distributors and aggregators should have, spanning curation, metadata, analytics and optimization.

The kind of CRM that which drives engagement and loyalty for a distributor based on consumer media is much different than core CRM. The number of combinations around how a consumer interacts with content as well as the complexities of metadata topologies creates a unique opportunity for distributors to use data science as a way to truly enable the creative organization.

Consider the number of ways one can interact with content (read, follow, view, stop viewing, vote, comment, etc.) and the number of different ways content can be categorized (genre, families, cast, crew, author, topic, subjects). The combinations are significant. If one can leverage analytics to determine statistically interesting patterns of consumption, it would greatly enable equally interesting ways to serve and engage consumers.
ORGANIC GROWTH THROUGH INCREASED DISTRIBUTION

For distributors, successful monetization of a premium content portfolio requires a distribution plan that moves beyond restricted, “walled garden” channels and embraces multiple platforms. Firms seek to recover content costs in an open market by selling rights to the highest bidder and/or distributing to as many platforms as possible.

It is also increasingly the norm for distributors to extend an open hand to mobile and social channels to further increase the number of eyeballs. Consider BBC Worldwide (along with NBC Universal, BuzzFeed and Turner) developing exclusive content for the youth-focused platform Snapchat. The strategy has enabled BBC to cast its net wider and engage a younger demographic.

Meanwhile, 2015 saw NBC Universal invest in Vox and BuzzFeed—both youth-oriented media companies focusing on the sort of short-form content that appeals to millennial audiences. Univision’s acquisition of the blog network Gawker in 2016 was a similar move.

Content creators are also taking content to new, international audiences. Early-mover distributors are exploiting the new distribution opportunities that are now available to them through digital. They are also capitalizing on the incremental investments required to add a new geography, excluding content costs.

MAXIMIZING AD REVENUE: TARGETING THE INDIVIDUAL

Even as eyeballs shift to digital, a distributor must use all tools at its disposal to demonstrate the value of its inventory to command a premium. M6, for example, recognized that it needed to make greater use of its large amount of digital data as a means to achieve higher revenues. Using big data platforms and advanced analytics features (machine learning algorithms and dashboards) allowed M6 to build a segmentation of its audience based on behaviors across websites, enriched with anonymized offline data. This improved relevance and personalization through targeting. It also enabled M6 to manage advertising yield more effectively and enhance its data-forecasting capabilities. An added benefit of this analytics approach is that it is possible to leverage that same data to power campaigns and other B2C capabilities to increase loyalty as its businesses becomes more and more digital.

Effective targeting is also at the heart of Viacom Vantage. Vantage’s optimization, prediction and measurement capabilities enable marketers to go beyond broad demographics to identify, predict and reach custom audiences. Instead of simply using strategic audience segments to build media plans that deliver high concentrations of the target segment, Vantage can support a wide range of marketing goals including the performance and delivery of standardized targets. Vantage provides transparency and continual optimization. This includes higher ad engagement through second-by-second viewing data, brand affinity and purchase intent.
BUILD THE NEW. SCALE THE NEW. PIVOT WISELY.

As a business grows its core and optimizes its operations, there should be cash flow to fund new ventures. As we discussed earlier, some enabling capabilities should be established through canny use of technology to support both core and new operations.

The time is right for new growth—assertively entering new markets and scaling new businesses using investments that serve the core business and seed new business monetization.

Opportunities nurtured now will be the lead propositions in the next generation of the business. But to get there, growth is required now to establish the foundation for a “wise pivot.”

It’s important to bear in mind, however, that the investments from growing the core should go into creating the foundation for building the new—and then for pivoting. Here’s an example: For aggregators, becoming more data-driven to grow the core (data collection, automation digital channels) can create the foundation for a platform model where they can begin to provide services off-network. And as they continue to grow their reach, they can expose those same services so that they can be monetized in the broader ecosystem.

REDEFINE THE BUSINESS

A strategy for both distributors and aggregators to consider is a gradual redefinition of the business. By migrating customers to high-margin, low-cost, low-maintenance propositions, a company can increase reach and reduce the cost-to-serve—though a company must always beware of cannibalization.

A platform strategy can help. Aggregators should learn how to create a platform that allows new business models to be introduced to customers. They should use data and other trapped-value assets to drive uptake, loyalty and stickiness. These capabilities were leveraged to maintain ARPU in the core business, and now they can be leveraged as services into the digital services ecosystem, including distributors who, as previously mentioned, do not have these types of B2C capabilities.

Companies need to focus on the sort of data that enables high-margin, low-cost, hyper-personal service creation, especially as they launch OTT propositions.

Distributors should determine how their content skills can strengthen their relationship with consumers—for example, through direct marketing and by innovating content services beyond basic audio/visual provision—while building capabilities allowing them to work with multiple digital platforms including their own.
Those advantages for a distributor might be content performance and economics, or they could be creative skills and curation. An Aggregator’s advantages might be existing household and/or mobile relationships, in-home hardware, service capability or the network.

The challenge of using these advantages to boost new models is making them platform-compatible. Such an approach can deliver greater power in the value chain—exposing newly gathered data to the internal business to drive agility, or spreading customer insight across the product set, or aiding ecosystem monetization.

Comcast recently (and famously) described itself as having turned into a “software and services” company, with an aggressive vision to go global by syndicating their platform. Aggregators face challenges to achieve that kind of global reach—including the fact that they are starting with a non-global customer base, and also facing complex regional variations in the relationships with content owners. However, Comcast’s strategy is a smart response.

Beyond content, aggregators should focus on hyper-personalized services that make effective use of their built-in advantages. They should start to see premium audio/visual content as part of a portfolio of services, perhaps including virtual reality, home automation and more. They should also consider how they can augment this portfolio in ways that pure distributors or digital natives can’t.
The use of data and hypothesis-testing techniques may allow a business to try out a market—perhaps “renting” capabilities or using quick-to-stand-up SaaS platforms ahead of a full commitment.

INVESTMENT STRATEGIES FOR AGGREGATORS

Aggregators today are more intensively focusing on existing cash flow, and they will struggle to justify an all-in commitment to a new venture, especially if it may cannibalize or, at the very least, disrupt the core. Typically, they should try out a new venture in trial markets or partner with another company, with the ultimate goal of taking over the activity if it proves successful. The problem is that incumbent providers are typically siloed and unable to move fast enough. That makes it harder to take advantage of the new capabilities that can be built using the latest technologies and operating models.

Aggregators that operate on a hub/spoke model with regional operating companies can find it difficult to align the individual territories against a common toolset. Many are also nervous about cannibalizing their existing businesses as they move into new services. They need to balance growth against defense, and reach against ARPU. Sometimes the new services are deliberately marketed in a “no frills” style. Yet, while it’s important to put clear water between premium services and new models, the different services must all feed into the same household ecosystem and drive one-to-one relationships with different household members.

Finally, some aggregators have ambitions for globally scaled services—for example, Sky Europe/NowTV. As a way of franchising a successful model, this is as much a growth play as a defense play.

THE INVESTMENT CASE

How should a distributor or aggregator build an investment case for growth? Capital justification to enter peripheral business models must be assessed carefully. Some companies will want to make an initial hedge. Some will want to go all-in.
INVESTMENT STRATEGIES FOR DISTRIBUTORS

Distributors are in a tougher spot. Moving from B2B to B2C is a more difficult pivot as there is less capital efficiency in the associated investments. This situation often results in aggregators to acquire distributors or to explore working through them. Either approach provides a vehicle for entering B2C markets, disrupting the core business.

In general, it is difficult for distributors to launch a direct-to-consumer proposition. Distributors will likely have content brands they can use to market their services. However, to create a compelling proposition these companies will need to offer exclusive content. Unfortunately, the business case for creating that content may be weak outside the context of a bigger strategic play.

What other investments can be made to find new revenue streams while not detracting from the core business? Aggressive syndication of content with global appeal has been a recent strategy. However, this requires both an infusion of new content talent as well as extremely disciplined portfolio management to manage the associated increased investments.

One option is to broaden the content portfolio even further, attacking local content markets in a way that fills the gap between user-generated and studio-produced content to target local advertising markets more effectively.

In the past, local interest stories, sports and news were generally the content of choice. Now, with the proliferation of cheaper production, content providers can not only enable a broader set of productions but also find an avenue, through appropriate branding, to target interested “diaspora” consumers who may no longer reside in those locations.

Making that happen, however, requires an operating model around local production affiliates that is much more agile and most likely platform-based. Such a model can enable the ecosystem while reducing the amount of capital required to reach the numbers of consumers that would make a difference to the distributor’s business.

However, this is a gap in the market where distributors continue to have some leverage. They should certainly determine whether their digital investment strategies can onboard an ecosystem to unlock their current advantage, even if it means sharing revenues where they haven’t in the past.
MAKING THE PIVOT

The pivot is an important step once the most profitable (and scalable) business models have been launched and validated. The pivot doesn’t happen at once, and it often doesn’t happen completely. However, there needs to be a time when the new business model is embraced, industrialized and scaled into the organization.

For aggregators following a more platform-based approach, the pivot is a complicated matter, as consumer ARPU may decrease significantly with an expectation of scale and reach, with ecosystem revenue to make up for the erosion of revenue. The timing can be controlled if a data-driven operating model is in place where the various impacted channels can make the decisions about whether certain consumers are no longer going to be a high-ARPU consumer and that their value needs to be repositioned to the ecosystem.

For distributors, there will be a moment of choice: They can abandon the majority of their B2C aspirations and only embrace affiliate partnerships with highly innovative content production initiatives that create brand engagement through their product. Alternatively, they can “double down” so that their operating model is fully informed by their digital channels, being aggressive with their affiliate partners to serve the consumer directly and monetize the one-to-one relationship. Being stuck between these two strategies will result in a squeeze across both content production and distribution partnerships, with players on each side of the value chain eating into margins.
Both innovation and courage will be necessary to accelerate distributors and aggregators toward their digital destination. We have discussed the organic strategies that can grow a business.

Inorganic strategies can include mergers and acquisitions, vertical integration and joint ventures or alliances.

These are moves that distributors and aggregators can make to compete more effectively in this dynamic marketplace.
INORGANIC GROWTH: DISTRIBUTOR-AGGREGATOR MERGERS AND ACQUISITIONS

Historically, acquisitions within the industry have proven to be tricky. We need only look to the challenges faced by AOL and Time Warner Cable way back in 2001, or more recently at Disney and the Multi-Channel Network Maker Studios, where synergies have been slow to materialize.

These challenges have led to the failure to meet revenue targets, resulting in layoffs and executive shake ups. The key to realizing digital synergies is a clear, scaled distribution strategy that increases the value of content assets in the marketplace. The businesses must be worth more together than apart.
INORGANIC GROWTH: VERTICAL INTEGRATION

Becoming vertically integrated and strengthening a business’s role in the value chain is one way of growing the core.

For aggregators, this move gives them virtually unlimited access to content assets and content production capabilities, which helps cut costs. It also provides new revenue streams as the aggregator absorbs income from the distributor’s existing carriage and syndication deals.

Aggregators looking to enter new geographical markets can acquire distributors with existing content agreements in a particular market. These acquisitions can also help distributors strike better carriage deals in markets where they already operate. For distributors, the guaranteed exposure to the aggregator’s user base can result in healthy advertising revenues. However, even vertically integrated distributors and aggregators must look to improve the return on their content investment by exploiting content beyond what they actually own.

Vertically integrated aggregators and distributors must share the precious granular household usage data captured by the aggregator so the data can inform content decisions. In turn, distributors’ content curation and brand identity should be channeled through aggregators to present the content to the consumer in an engaging way.

For aggregators, acquiring a distributor may well provide them with access to content which they have long been denied. If the proposed deal between a top U.S. telecommunications conglomerate and a top U.S. media powerhouse goes ahead, the U.S. telecommunication giant will gain access to premium media brands. And for the media powerhouse, getting married to someone who owns the pipes would grant them access to a massive user base and a treasure trove of data.

Fox’s bid to acquire Sky would also bring together content and distribution assets. The deal would provide Fox with an opportunity to diversify its revenue streams. Fox stands to gain subscription revenues from Sky’s PayTV platform in five core markets along with access to the video streaming platforms in international markets. This would provide welcome diversification for Fox, which is seeking to balance revenue streams and grow international revenues. Sky’s direct-to-consumer acumen and strengths in combining entertainment with technology is something that Fox is keen to embrace and embed in its corporate culture.

For Sky, which faces rising content costs and increased competition, a marriage to a TV, film and news juggernaut would give them the financial freedom to pursue growth runways in key markets, further strengthening their position as the leading pay-TV company in Europe.
INORGANIC GROWTH: JOINT VENTURES AND INDUSTRY ALLIANCES

Strategies whereby distributors join with other distributors, or aggregators join with other aggregators (or, in some cases distributors joining with aggregators) have had mixed results.

This is especially true if any new business model has channel conflict with the traditional models of the participants—for example, a distributor direct-to-consumer offering cannibalizing existing cable bundles. However, pooling investments and assets (whether that means content, data or technology) as a way to provide an attractive yet profitable proposition to clients continues to be an option, especially for distributors whose technology budgets are limited.

Hulu’s initial strategy to fend off piracy by providing next-day access to current hit TV series in an ad-supported model then turned into a strategy focused on subscription and mobile access. Unfortunately, this approach appeared to position Hulu’s offering as a kind of “cable lite” option, appealing to cord cutters. To move away from this perception, Hulu’s recent strategic focus has switched to live streaming and original content (though Time Warner has threatened to cut access to current shows). This evolving model has caused some friction with shareholders. Because owning (and therefore exercising some control over) a new service can potentially help or harm the core business, it is not always possible to achieve total buy-in to the strategy from all stakeholders.

For joint ventures to work, the value proposition for each entity must be clear. The alignment of intent is key, along with governance to manage that alignment so that the joint venture can focus on its overall business goals with an efficient operating and decision-making model.
WORKING WITH DISRUPTERS

Digital natives naturally think in terms of platforms. A big part of platform thinking is helping others to make money on that platform.

Although there has been trepidation in the past in the distributor world about “engaging with the enemy,” the fact that digital natives have data, scale, existing compatible ecosystems and focus is something that needs to be considered now, before traditional models become threatened enough that the leverage in any negotiation dissipates.

Amazon and its streaming partners program is an example of a platform opening the door for others. In this model, Amazon is the wholesaler for distributors, permitting users to create their own bundle, with Amazon owning the gateway and smoothing out the user experience. This gives distributors access to a much larger footprint than they would otherwise get in digital. However, there is a trade-off: They lose some of the creative and experiential control that they would have had if they developed an in-house, direct-to-consumer offering. If Amazon were to take things a step further and develop tools that allowed distributors to have a conversation and direct relationship with the user base through both consumption and marketing channels, the relationship would be stronger.

On balance, however, distributors stand to benefit from this sort of arrangement. As things stand right now, distributors still have leverage with great content and strong brands so it would be wise to move quickly to cooperate with digital natives, figuring out the models sooner rather than later.

Aggregators are also recognizing the pull on the consumer exerted by disrupters with their slick user experiences, tailored interactions and content portability. In attempts to maintain ownership of the consumer while providing a more comprehensive video offering, traditional aggregators are embracing digital natives.

For aggregators, a platform strategy is the winning approach. Platform thinking is about helping others make money from your platform, which in turn will generate revenue for you.
AGGREGATOR PLATFORM INVESTMENTS

To get into digital video quickly, some organizations are building product stacks from scratch. However, there is risk inherent in this strategy. Without building the capabilities right from the start that handle data capture and analytics, omnichannel enablement and future asset building, this approach could be shortsighted and unsustainable.

It is getting much harder to monetize video products. And for platform investments to be optimized, multiple business models must be considered, along with the supporting platform architecture to accommodate those business models. A top U.S. telecommunications giant’s strategy with its acquisition of a leading U.S. satellite TV provider is to monetize through subs, but also through advertising and data.

An ecosystem play could also be a smart move for an aggregator looking to drive return on any platform investment. Aggregators should seek further optimization of platform investments by considering the broader ecosystem play available to them—that is, the provision of B2B2C services as the platform services they leverage internally mature. Distributors with limited technology budgets but D2C aspirations have a need that the aggregators are in a perfect position to meet: A managed D2C gateway with a return flow of consumption data for the data-deprived distributors.

To be successful, platform investments must drive stability in the core business and release trapped value in the assets. Platforms that fully harness the power of analytics and data can drive uptake, loyalty and customer stickiness.

Adopting a platform-based strategy also helps to transform the core of the business on the journey towards the wise pivot, as discussed earlier—the leap to a new business and a new S-curve. A multi-business-model platform permits a future redefinition of the core business at the moment of the wise pivot.

Providing enough flexibility to move into other ecosystems at some point is a useful hedge against an unpredictable future.

Importantly, this multi-ecosystem approach requires capabilities such as business- or ecosystem-relevant analytics, externally exposable technical services, and platform-based, monetizable asset building. From a valuation perspective, this approach can open up access to new streams of revenue and help keep aggregators competitive in future landscapes when connectivity becomes commoditized.

Many organizations have already invested in platforms, with an expected return on invested capital based on cost optimization. Future investments must be viewed through two additional lenses: Unlocking trapped value in the core business (e.g., data-driven operating model enablement) and supporting the new business (e.g., orchestration of ecosystems with platform assets at the center). It is important to consider and embed these features and principles at the platform design stage.

It’s getting harder to monetize video products. Consumers will pay for content, but don’t want to navigate multiple discovery experiences to get what they want. Operators must structure their businesses to be flexible.
CONCLUSION

REACHING YOUR DESTINATION

Successful aggregators and distributors will be the ones that embrace change, but use the value of their traditional assets and capabilities in the emerging value chain. These companies will make sure that investments can strengthen their core assets and capabilities while positioning them effectively for new business partnerships and models.
Many digital initiatives have mostly been hedges or experimentation. However, as disruption accelerates, decisions will be required that carry more potential risk. Although full-on transformation is difficult to justify on new business models that are dwarfed by the core, strategic moves now have to be made in a more disciplined, integrated way—enabling traditional business models while building the foundation for digital businesses.

This strategy can be achieved and even accelerated through a number of different partnership models. But the toughest decision will be the wise pivot—a decision that may cannibalize the core, trading ARPU for reach or trading scale for premium. These types of moves require a learning culture in organizations, allowing more agility in the operating model. They also require informed risk-taking, because measurement and response must be executed at high velocity to react to rapidly changing consumer habits and preferences.

This is no longer a race for change. It is a race about positioning for strength. The journey has already begun and only the most skilled captains of aggregator and distributor organizations will pilot them towards success.

The journey is challenging but it is clear that steering the organization properly is now all about focused execution.

For many years, aggregators and distributors have made a number of business moves that have been aligned directly to growth in the core business—protecting investments around content and infrastructure by ensuring that traditional revenue models are maintained as the main driver of growth.
Accenture Digital Video is an Accenture business unit focusing on helping companies build successful digital video businesses by enabling them to capture new growth opportunities while maintaining profitability in their traditional business in a rapidly changing market. Working closely with clients, Accenture leverages a portfolio of highly relevant integrated business services enabled by open technology platforms to deliver successful video business outcomes; from thinking to planning to doing. A global industry leader, Accenture Digital Video has a 20 year track record of advancing video technology and business innovation, supported by a global workforce of more than 2,000 dedicated professionals helping clients succeed in a complex, volatile landscape. Visit us at www.accenture.com/us-en/accenture-digital-video

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