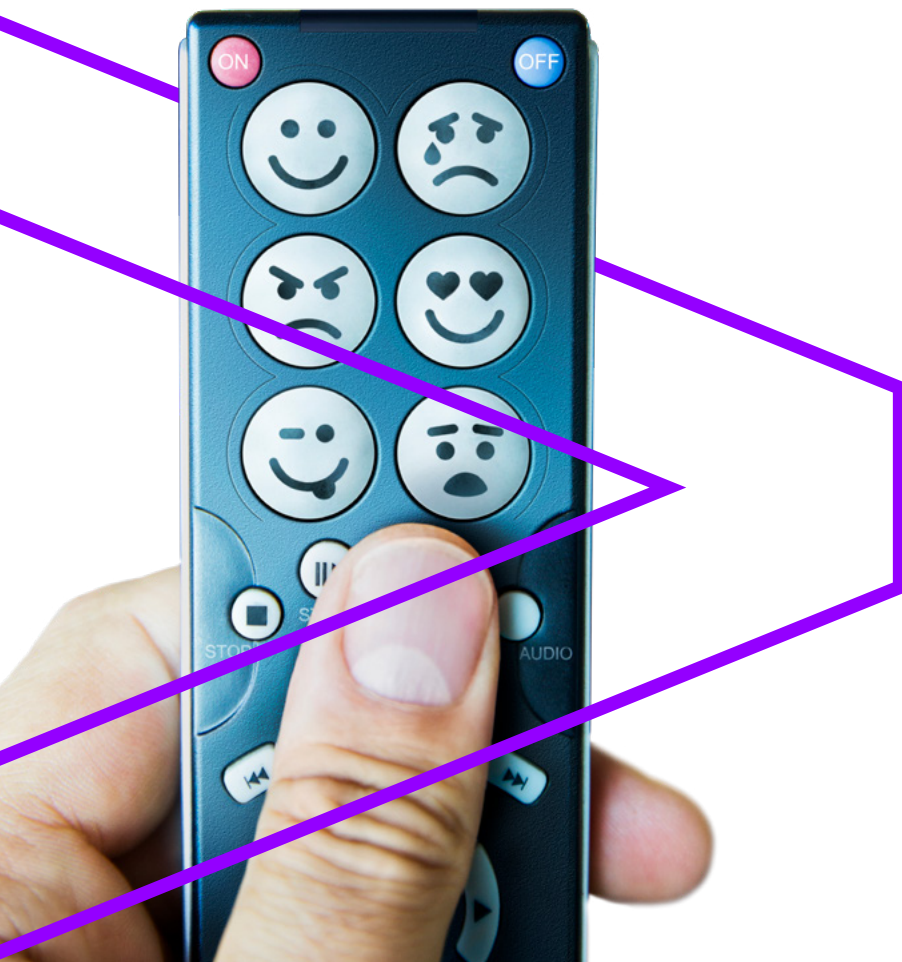accenture

Bringing TV to Life VIII

INNOVATION. APPLIED NOW.

Reframing innovation as a competitive advantage in Video, Advertising and Content

Contents

Content is king. Content is a commodity.

Bundled video products are a cost center. Bundled video is the essential differentiator of any connectivity product.

OTT companies are friends. OTT companies are enemies.

Conflicting opinions thrive in our market. Debates around digital video, its benefits and its drawbacks, push large players to seek differentiation in a value chain buffeted by digital disruption. How do you continue to benefit from your core business while preparing yourself for the new? Even if the new model doesn't make up for the decline in (or worse, cannibalizes) your core? Stuck between proverbial rocks and hard places, dichotomies are expected. It takes very careful navigation to continue buoying your traditional business while exploiting advantages to set new foundations for innovations and competition in completely different business models.

In BTTL VI and VII we described how the video market is changing and gave practical, executable insights on how digital businesses can adapt. We introduced the S-curve framework for your transformation: an approach where investments that drive growth in core revenue models also underpin emerging

digital ones. We surmised that this was possible only by unlocking innovation and exploiting trapped value in your current organization, decoupling from legacy operating models and systems. By doing this, video businesses can augment their existing advantages with enterprise intelligence, enabled by data. This is an operating model that promotes the integration of cross-disciplined capabilities, and a methodology that allows for agile, attributable decision making.

In this issue of Bringing TV to Life, we dig deeper into why innovation remains essential to your success, and how you can embrace the latest ideas to keep it alive in your products, engineering, operating model, workforce, commercial models and ecosystems.

Once you've started on your journey, investing in the required capabilities that allow your business to respond faster to your digital customers' needs while maximizing your revenues from serving them, we believe there are numerous ways you can position yourself for growth and leverage your strengths.

Innovation is the key.

The word is so heavily laced through corporate white papers it can lose its lustre. But we should never take it for granted. In this issue we're aiming to give you insight, backed by pragmatic advice and concrete examples, of what we mean when a video business unshackles itself from traditional processes, architectures and cultures and re-invents its functional organizational models to drive continuous transformation. Such businesses continuously evolve to meet and monetize the rapidly changing and segmenting demands of the liquid customer. *That's* innovation.

We'll explore how you can build innovation into your corporate DNA and drive synergies through the combined creative forces within your key business functions.

And do it in a way that maximizes revenue, streamlines operating costs and reduces waste in capital spend.

S-Curve Model
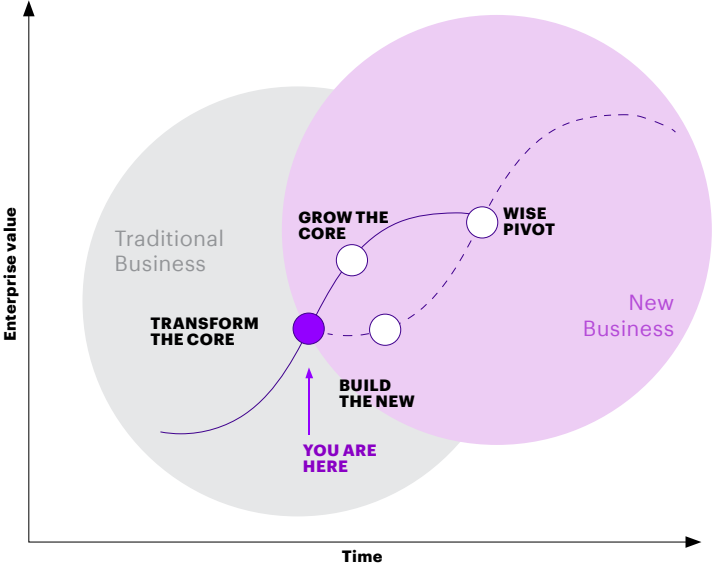
The S-Curve model helps you manage three waves of transformation and lies behind all of the transformation ideas we discuss in this paper.
1. **Transform the core:** investing in efficiencies
2. **Grow the core:** investing to grow the existing business
3. **Building the new:** incubate new, disruptive ideas; the Next Big Thing

The industry has pushed boundaries since its beginning. To avoid unwanted endings, players need to pick up the innovation pace.

Television understands innovation

From revolutions in display (black & white to color, screen formats), to step changes in choice with the entry of non-terrestrial media (satellite and cable), through to the relative explosion of variety as countries transition from analog to digital, television providers have always combined technology, insight and opportunity to stay ahead. This drive for creative transformation has been a constant, even though in many countries broadcasters and platform operators alike have followed a well-trodden path – from single, national institutions at the birth of the industry to today's modern competitors.

The recent, rapid growth of platform players offering IP-based video consumption has created a new urgency for innovation, driven both by investor perceptions – and reality on the ground.

Investors have bought into the huge future valuations of platform players, who have created scaled global footprints based on new technologies, value chains and business models. Investors remember the slow-to-adapt industries, or those simply on point when the first digital shots were fired. For video to avoid the fates of so many music and newspaper companies, investors expect a strong digital narrative which sets out steps to survive and thrive in this new context.

Around the world, investors are seeing the chilling effects of platform-enabled consumption on the health of established video businesses:
- **Elevated levels of churn among pay-TV subscribers**
- **Flat to low growth in traditional television advertising revenues in some markets**
- **The slow but steady move of major platforms into rights acquisition, where fierce competition had always been within an established inner circle**

Twitter, Facebook, Amazon and YouTube are all, for example, expanding in live sports streaming. Amazon won live-stream rights for NFL's Thursday Night Football in 2017, while Twitter is ramping up its live content sports partnerships in Asia with the NBA, Fox Sports Asia, Riot Games, Melbourne Cup and Eleven Sports. Facebook has hired Eurosport's former CEO to manage global sports deals. Apple's recent talent acquisition includes hiring UK broadcaster Channel 4's chief creative officer to become their creative director for Europe within a new worldwide video division.

Meanwhile, platforms are expected to outspend US-based traditional networks by 2020 in programming investment. Original shows increased at a CAGR of 73% at platform companies between 2011 and 2016, while traditional media companies grew their stables by only 7% in the same period.[1]

Viewers are growing, too. In just 11 years, Netflix streaming has reached 100 million subscribers; equivalent to all US television-watching households, and with about 60% of that growth achieved in the last five years.

All of this is eroding the strength of traditional content creators.

In response, investors expect established video businesses to articulate clear strategies. They want to see real, sustained innovation along this journey, differentiation and energetic competitiveness.

The difference in premium on invested capital between established media companies testified to the size of the

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[1] SNL Kagan, Accenture Research, FX Research & Moffett Nathanson SNL Kagan, Accenture Research, FX Research & Moffett Nathanson

gap that needs to be filled. Investors are not placing the same level of value in capital invested in established businesses, with disruptors achieving much higher enterprise values on lower capital bases.

In short, they are placing less value on innovation in established businesses, and significantly more on innovation in "the new".

Library Competition

Content spending landscape has changed dramatically as new media companies drive competition

New media companies are expected to outspend U.S. based traditional networks by 2020
Programming Spend Broken Out by Year 2015-2020, in USD Billion
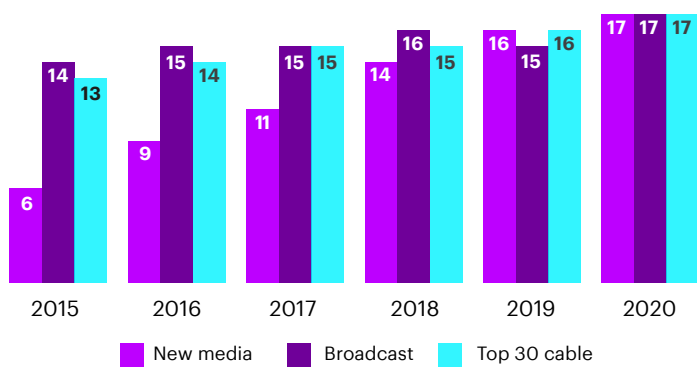
Original content volume is growing at CAGR of 12% per year
# of Originals 2011 v. 2016, # of shows

Legend (left chart): New media | Broadcast | Top 30 cable

Legend (right chart): Basic Cable | Pay Cable | Broadcast | Online services
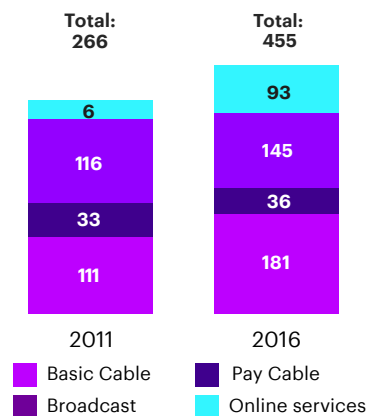
Notes: New Media consists of Amazon, Hulu, Netflix; Top 30 Basic Cable Networks by Programming Spend (Excluding Sports genre); Source: SNL Kagan, Accenture Research, FX Research

Premium on Invested Capital

Factor based on Enterprise Value / Invested Capital

Legend: Netflix | Amazon, Facebook, Google | Broadcasters | Operators

Source: Accenture analysis, company reports

Here's the paradox. The established players in an industry known for innovation, both on screen and off, appear curiously slow to respond to digital, and are delivering comparatively low premiums relative to the capital invested.

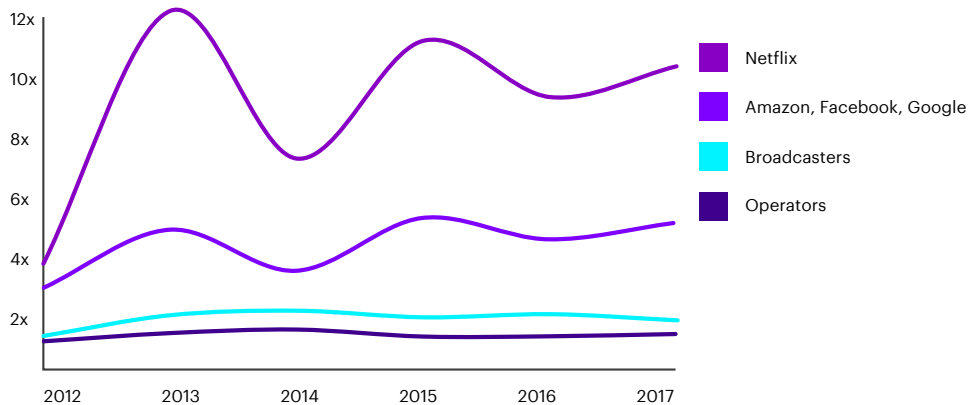They face a range of constraints which makes it harder for them to innovate like their platform-based competitors. But they're not facing a cliff-edge moment yet. In many markets, the aggregate consumer transition to digital is more gradual than the hype suggests. Linear television remains an essential medium for advertisers, especially for the mass market, and millions of consumers are still paying high prices for premium-pay TV products.

In this context, many industry leaders fear the risks that come with innovation.

They worry about disruption and potential cannibalization. They dread undermining the strategic advantages they enjoy. (Regulated channel prominence, high barriers to entry limiting choice and protecting market shares.) Installed bases of millions of set-top-boxes and proprietary satellite and cable networks represent powerful gatekeeper positions.

And so established players are balancing between the innovation necessary to support new business models and the maintenance of the benefits of their incumbency. Thus limited, results have largely been in digital product innovation at the periphery of their businesses, like catch-up TV services for broadcasters and TV everywhere extensions for platform operators.

We believe that the incumbency mindset is unnecessarily constraining established video businesses. It doesn't have to be this way.

Established players *can,* and need to, apply the full force of digital innovation across their entire business, decoupling decision making and operational processes from legacy ways of working. They'll realise benefits in almost every domain of a traditional video business:
- Driving revenue growth
- Finding cost efficiencies
- Unlocking trapped value to be deployed more profitably

Driving innovation from within lays the strongest possible foundations for the competitive positioning of any video business. It seeks to create a lean, agile culture of rapid innovation and experimentation, which is alive to the major decision points and options in a company's future.

In the rest of this paper, we're going to explain how you can do it.

Market dynamics are constantly shifting. Customer tastes are just as fluid, though their expectations rise in a constant trajectory. These factors demand regular innovation just to keep up. No one providing digital video is exempt, though your prescription for innovation, and your likely path of evolution, differs depending on the kind of company you are today.

CONTENT CREATORS & BROADCASTERS

Content creators and broadcasters are caught between aggressive platform companies and fickle consumers. The former are outspending them in creative talent and exploiting a ruthless, sophisticated focus on data. The latter take 24x7 access to the best stories for granted, pretend brand consistency across properties but stray to social networks where traditional linear product and advertising approaches to get them back are expensive.

Most of these companies don't come from a B2C background; they're new to CRM and unused to flexing and scaling to customer needs the way platform companies do.

On a more positive note, they're currently poised at a unique window of advertising opportunity. Though internet advertising is expected to surpass linear TV advertising for the first time in 2018, and digital advertising continues to grow nearly 10% per year (it will nearly equal non-digital ad spend by 2020), content owners and broadcasters still control access to a desirable audience that can command advertising spend with the right approach.

To unlock and harness the innovation they need to compete, these companies must both diversify and hone their content intelligence through a common platform model. To do so, they can:
- Transform the core business including a) product definition, b) monetization strategy, c) content production and supply chain, and d) technology platform

- Transform the operating models behind both platforms and software
- Carve out the required growth and efficiency in areas like advertising sales, rights acquisition and multi-channel video distribution
- Pivot the new businesses (including digital advertising) to expand into international markets and adopt new business models
- Introduce a new passion for the customer across the organization

After the "me too" wave in IP content streaming, broadcasters and content owners are moving on to consolidate their multiple, multi-layered and monolithic legacy architectures. They're evolving into a modern, lightweight, cloud-first set of microservices. They trade data and avoid continued investment in commoditized services like transcoding and encoding. Instead, they seek to differentiate and test their "market voice" through cognitive metadata management, digital identity management and data monetization.

Such a comprehensive transformation should always go hand-in-hand with a culture shift. New ways of working put content and consumer identity as the primary assets of the operating model.

The new customer passion leads to a new paradigm driven by data. Each direct-to-consumer entity will build consumer identities from content consumption. They might create content to collect data or target micro-segments at a reduced cost per hour. For companies not natively familiar with Customer Relationship Management or Business-to-Consumer strategies this might not be an easy journey, but approaching it with a focus on content intelligence and the right common platform model smooths the way.

Data and intelligence also steer you towards the right operating model for advertising monetization, whether it's an integrated linear or digital approach. Data strategy and sales automation increase segmentation accuracy. Companies boost

their efficiency by selling through an integrated, silo-free approach that mixes and matches capabilities based on need.

OPERATORS AND CSPs

This core business has commoditised. As profits fall, customers substitute the old core services with low cost, digital alternatives.

Proprietary infrastructures aren't distinctive capabilities anymore. Vertical and hyper-specialized, siloed operating models don't offer the agility the business needs to face competition from disruptors. These days they're more likely to reveal operating barriers. Many CSPs have legacy operating and technology models they can't scale,

with legacy skills in their engineering-intensive workforce. With free OTT services riding on their networks, maintenance costs spiral while customer value and profitability goes to someone else. And yet, "legacy" often also brings the benefit of established, strong, trusted brands.

To unlock and harness the innovation they need to compete, operators and CSPs must trash the rules adopted in the past. Specifically, they need to:
- Reassert their role in the customer's life, becoming an essential part of the daily digital and video routine
- Pick the play that's right for them
- Change their corporate DNA in five key ways

Increasing investment in the pipe has not directly benefitted CSPs ⎯⎯⎯⎯⎯⎯⎯⎯⎯⎯

Rising investment levels have yielded lower returns…

And marginal returns have declined

EBITA Margin
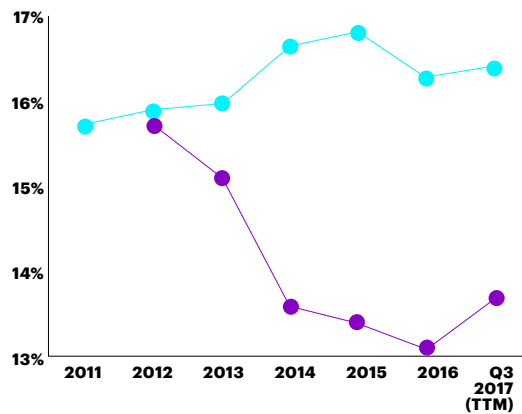
■ Capex/Revenue
■ Pre-Tax ROIC

Source : Company reports, Accenture Analysis

We're talking about bold reinvention. There are four business models we most often see as options for transformation. Pick the best play for your circumstances.

The multi-sided platform

Establish a platform ecosystem enriched by third party service providers, including OTT services. Become the daily, one-stop shop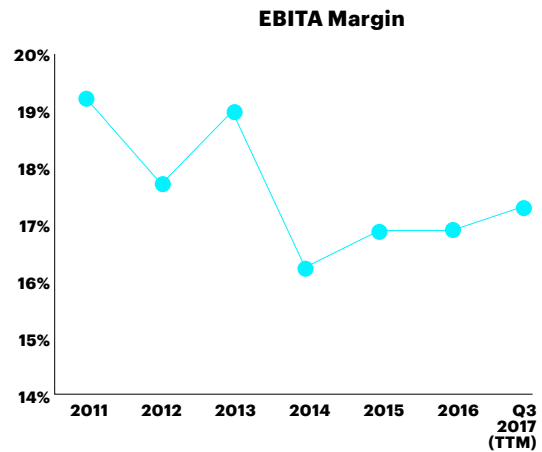 for users accessing a variety of content and services, providing cross-service search and discovery to boost user experience. This builds a high-value consumer identity worth more than the current billing relationship.

Digital mobile-only attacker

Monetize the core business with digital services and a mobile-first customer interaction model. Include content co-marketing initiatives and a mobile service factory that includes monetizing large inventories of impressions with a phased digital advertising strategy. Acquire and resell enriched digital advertising inventory to marketers first; create large video inventories later.

Vertically-integrated service provider

Monetize the core business with differentiated services and content bundles. This requires strong capex efficiency to pay for premium content. Then create high-value bundles of services and content. Video becomes the main channel within an omnichannel strategy able to handle advanced customer segmentation and targeting thanks to user analytics on content/viewership.

Connected industry orchestrator

Manage an intelligent, open, self-service digital network for the Tier 2 market segment. Provide a "white label" platform, content and distribution as a service.

Choice made, CSPs will need to change their DNA in five main areas:
1. **Customers:** Focus on a system of engagement rather than a system of records. Continuously fuel engagement through a multi-variate, "fail fast" approach to improve the customers' end-to-end video experience.
2. **Business Model:** Leave the one-size-fits-all tradition for hyper-personalization. Move away from ARPU only to a trade-off between REACH and ARPU.
3. **Operating Model:** Establish a new culture looking at the velocity of value (rather than velocity as a stand-alone concept). Embed a data scientist in each DevOps squad. Create a multi-speed approach, data first, tech later, versus legacy approaches that put tech first.
4. **Tech Stack:** Operate a multi-speed platform and network approach with the video platform clearly decoupled from the network platform. Move away from commoditized services and focus on business orchestration instead of vertical integration.
5. **Network:** Bring in software-defined network stacks. Have a clear internalization vs. externalization strategy.

PLATFORMS

Though many of these disruptors have enviable growth statistics and market positions, they're not exempt from the need to change. Increased competition for consumer viewership, content creators and advertising spend won't allow them to rest on their laurels.

To maintain the levels of innovation that helped them disrupt the market in the first place, platform companies will need to:
- Constantly improve consumer experience, experimenting with ways to help users find what they want faster (improved search, discovery, recommendations and shortened ad formats)
- Win the competition for content; it's the foundation for the consumer experience and the base of the revenue generation model (whether that's advertising or subscriptions)
- Be the platform of choice for digital ad spend

Leading platform companies believe that simplification is the key to continuing as a part of consumers' daily lives. Providing access to content in a contextual, personalized way will give them the edge.

Meanwhile, the battle for the home is heating up as digital in-home assistants play a key part in the way consumers get to content. Platforms will need to find ways to be a part of or lead that user experience.

Platform companies are experimenting with new ad formats like six-second ads, collections and innovative product placement to drive advertiser interest and increase ad spend. They're also investing to ensure the safety of their brand platform, innovating with technologies like AI. Advertisers will increasingly want the assurance of security before placing their business.

A sophisticated approach to data and analytics will continue as the essential foundation for all these innovations.

A FRAMEWORK
FOR INNOVATION

In Bringing TV To Life VII, we introduced the concept of the S-Curve, a model that helps leaders understand and cope with the balances to be struck between stages of their development. Broadcasters and operators use the S-Curve to meet the challenge of investing in innovation with confidence.

It's a way of thinking that lies behind all the transformation we discuss in this paper. The S-Curve helps you manage three waves of transformation.

1. **Transforming the core:** invest in efficiencies
2. **Growing the core:** invest to grow the existing business
3. **Building the new:** incubate new, disruptive ideas; the Next Big Thing

S-Curve Model
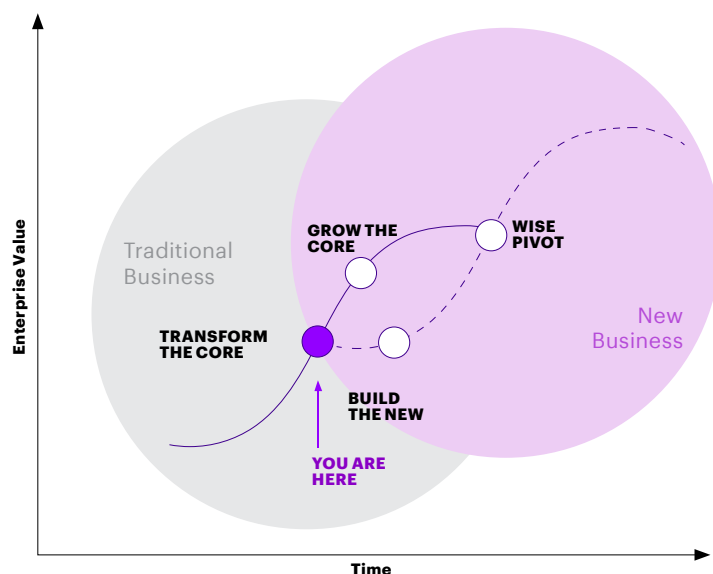
And you'll need to think across three facets: **business model, operating model** and **technology.**

For **content creators and broadcasters** obliged to find ways to drive continuing growth in the tough advertising and carriage agreement businesses, the "core" might represent efficiency gains, greater reach and more profitable advertising. The "new" could be increasing direct connections with the audience, using content intelligently and trying different business models to increase return while retaining editorial tone-of-voice. You may be using data that's partly outside your control.

For **operators and CSPs** facing high network costs and a commoditising market, the "core" could be streamlining services and enhanced bundling to protect ARPU. It might be extending the number of "control points" in your customer relationships. These include the trusted billing relationship, subscriptions, physical hardware, retail footprint, customer support and a field force.

The "new" may lie in expanding your footprint in the household, then developing new business models on top. Operators have a significant advantage: the holistic data view of their customer held across a wide range of data points. Use that to

innovate advertising products, perhaps even on linear – driving more value out of skinny bundles and adding leverage to carriage agreements.

For **platform companies** looking to, amongst other things, establish themselves deeper within the premium content and advertising ecosystems the "core" represents continuous improvement of scaled consumer experiences driven by advertising models and a breadth of content creators. The "new" is defined by the shift to delivering premium experiences with differing quality and content expectations. Platform companies will explore ways to manage advertising and subscription business models while maintaining consumer and advertiser trust.

With a few exceptions, traditional premium video margins are beginning to become thinner, cashflow scarce and shareholders nervous. Leaders know that for each dollar invested in innovation, they must answer two questions:
1. What problem does this solve today?
2. How will this position the organization for the future?

It's tempting to take a short-term view, but problematic in the long-run. Instead, you need to find no-regret investments: ones that can answer both points. A no-regret investment is fully justifiable in the core business because it will unlock trapped value through digital capabilities. But it will be foundational to innovate new business models, too.

ITERATIVE INNOVATION

Looking at **"Grow The Core"** innovation, organizations will likely take an **iterative** approach. This drives steady change, with modest but important impact on the operating model or tech stack. Techniques include Agile "pod" methodology and innovation centers. Organizations must decide between buying or building technology capability.

For **content creators and broadcasters,** iterative innovation "core" projects might

be: new integrated multi-channel content experiences, supply chain projects that support intelligent content distribution, curation, direct marketing and ad or content optimisation.

For **operators and CSPs:** Core innovation is about transforming your organization's technology and operating model, focusing on data as your most valuable asset. These are marketing products embedded in the digital routine of consumers, and providing platforms and vertical services for enterprises.

For **platforms:** Core innovation projects are ones that bring new types of data back from customer engagement – data that spark new products and services.

Iterative projects have the benefit of being tractable, fundable and require little long-term commitment. They are important, but can provide only incremental improvements. For a dramatic change of paradigm, you need to think bigger.

BROADER INNOVATION

What to do when iteration isn't enough and you need to "build the new"? You need broader innovations, still based on the core strengths, but augmented by a new, digital approach to the market. Typically, this requires change to all three pillars: the business model, operating model and technology. It may even entail spinning off whole new businesses, to self-cannibalize.

For **content creators and broadcasters,** broader innovation projects might include global, exclusive, Direct-to-Consumer propositions, or changes that significantly affect their position in the value chain. For example: enablement of broader digital aggregation models through acquisition or ecosystem partnerships where content is the seed.

For **operators and CSPs,** broader innovation projects are likely to center around platform thinking and the industry ecosystem. Explore business models in new horizontal markets using the data you

already have. Your existing control points with the customer will help, including handsets, routers, access to the home, retail footprint, customer care, billing, STBs and content subscriptions.
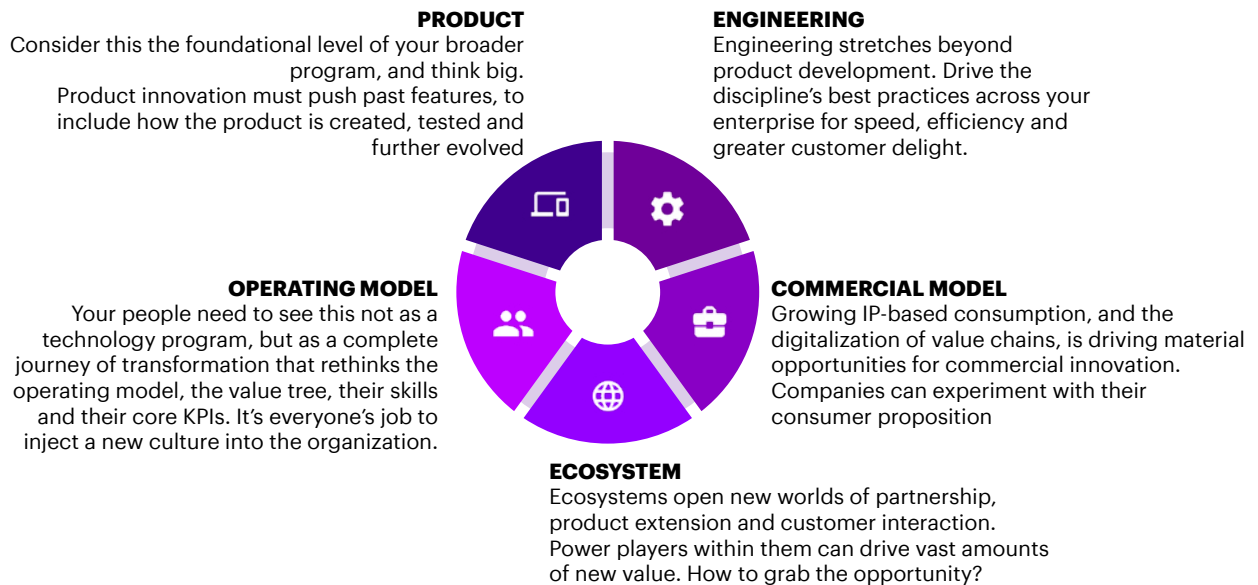
For **platforms,** the focus is on significant and continual reshaping of the organization around their customer relationships and data: their leadership, culture, capabilities and relationships with adjacent ecosystem players.

AN INNOVATION FRAMEWORK

Video businesses, inevitably, must play both the short and long games. Use iterative innovation to consolidate your core, and broader approaches that blend existing advantages with platforms to drive new models.

How, exactly, can you unlock innovation as you move along the S-Curve? In the rest of this paper we'll get specific about possible strategies, looking at your business from five angles: **products, engineering, operating model, commercial models** and your place in the **ecosystem.**

Framework

PRODUCT
Consider this the foundational level of your broader program, and think big. Product innovation must push past features, to include how the product is created, tested and further evolved

ENGINEERING
Engineering stretches beyond product development. Drive the discipline's best practices across your enterprise for speed, efficiency and greater customer delight.

OPERATING MODEL
Your people need to see this not as a technology program, but as a complete journey of transformation that rethinks the operating model, the value tree, their skills and their core KPIs. It's everyone's job to inject a new culture into the organization.

COMMERCIAL MODEL
Growing IP-based consumption, and the digitalization of value chains, is driving material opportunities for commercial innovation. Companies can experiment with their consumer proposition

ECOSYSTEM
Ecosystems open new worlds of partnership, product extension and customer interaction. Power players within them can drive vast amounts of new value. How to grab the opportunity?

Whether brand new or much improved, products are where most organizations start their improvements. And where too many stop. Consider this the foundational level of your broader program, and think big.

It's important to get the basics right. But these days product innovation pushes past technology, features and functionality to include how the product is created, tested and further evolved. You're creating a cycle of product innovation to meet new consumer needs, solve consumer pain points and differentiate yourself in the marketplace.
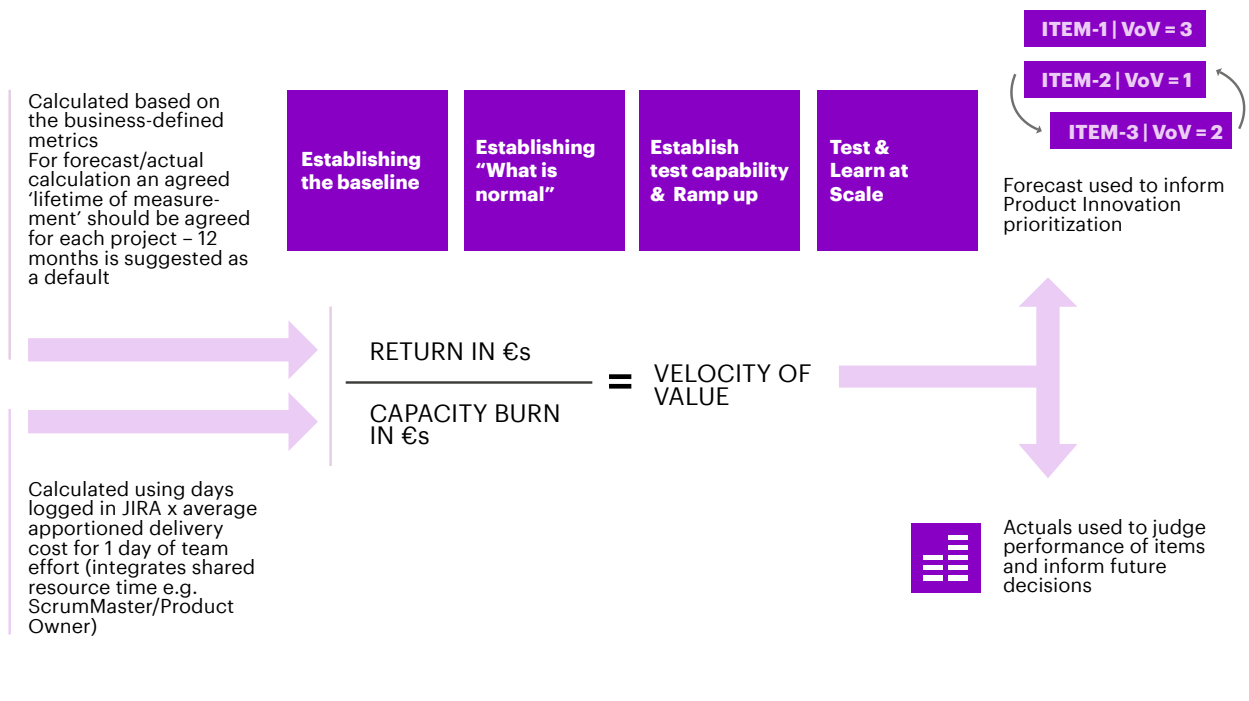
Content creators, broadcasters, operators and CSPs need only to look at platform companies for the kind of innovation blueprint we're talking about. Netflix's product innovation started with a data-driven ratings and viewership-based recommendation engine that improved engagement and loyalty despite Netflix having a limited content library at the time. This allowed them to keep their content licensing costs in check while maintaining a reasonable value proposition at a low price point.

Meanwhile, Netflix's beta testing approach, continuous measurement and focus on omni-channel helped them continuously refine customer experience. Using DevOps for improvements meant minimal impact to the core service, and thus to the enjoyment of most customers.

For operators, it is important to remember that the product is the most engaging channel that they have. While consumers seek content on the product, operators must remember that the product isn't a cost centre but a way to drive engagement, maintain loyalty and generate data.

Correlation studies to drive Velocity-of-Value and prioritization

Calculated based on the business-defined metrics
For forecast/actual calculation an agreed 'lifetime of measurement' should be agreed for each project – 12 months is suggested as a default

| Establishing the baseline | Establishing "What is normal" | Establish test capability & Ramp up | Test & Learn at Scale |

ITEM-1 | VoV = 3
ITEM-2 | VoV = 1
ITEM-3 | VoV = 2

Forecast used to inform Product Innovation prioritization

$$\frac{\text{RETURN IN €s}}{\text{CAPACITY BURN IN €s}} = \text{VELOCITY OF VALUE}$$

Calculated using days logged in JIRA x average apportioned delivery cost for 1 day of team effort (integrates shared resource time e.g. ScrumMaster/Product Owner)

Actuals used to judge performance of items and inform future decisions

The product is itself a channel

Comcast X1 is a great example of an operator evolving their thinking to deliver omni-channel innovation by providing ways to engage consumers with a better experience – from access to content in an integrated manner (DVR, VOD, Netflix, YouTube), remote access to content, simplified billing and payments via apps.

All video providers should start by looking to their own advantages, such as presence in the home or existing billing relationships. After that, we think there are three key areas to concentrate on when driving product innovation.

DATA

As championed by platform companies, data-driven product development underpins iterative product innovation. The approach is only as good as the data that feeds the system, so make sure you instrument products appropriately and that all products drive data back into the development cycle.

NEW TECHNOLOGY

Integrating new technologies like AI, AR and VR with traditional products (ie. live viewing) can create experiences that fit into everyday life and create product loyalty especially when implemented across devices and applications.

TRUST

Consumers using products must be able to trust that their data is being used responsibly and ethically. They will need to make a trade-off between the amount of data they share, the permissions they give and the value they see in return. Service providers must be overt about the choices and responsive to changes of mind. And these days, every product needs security built in from the start.
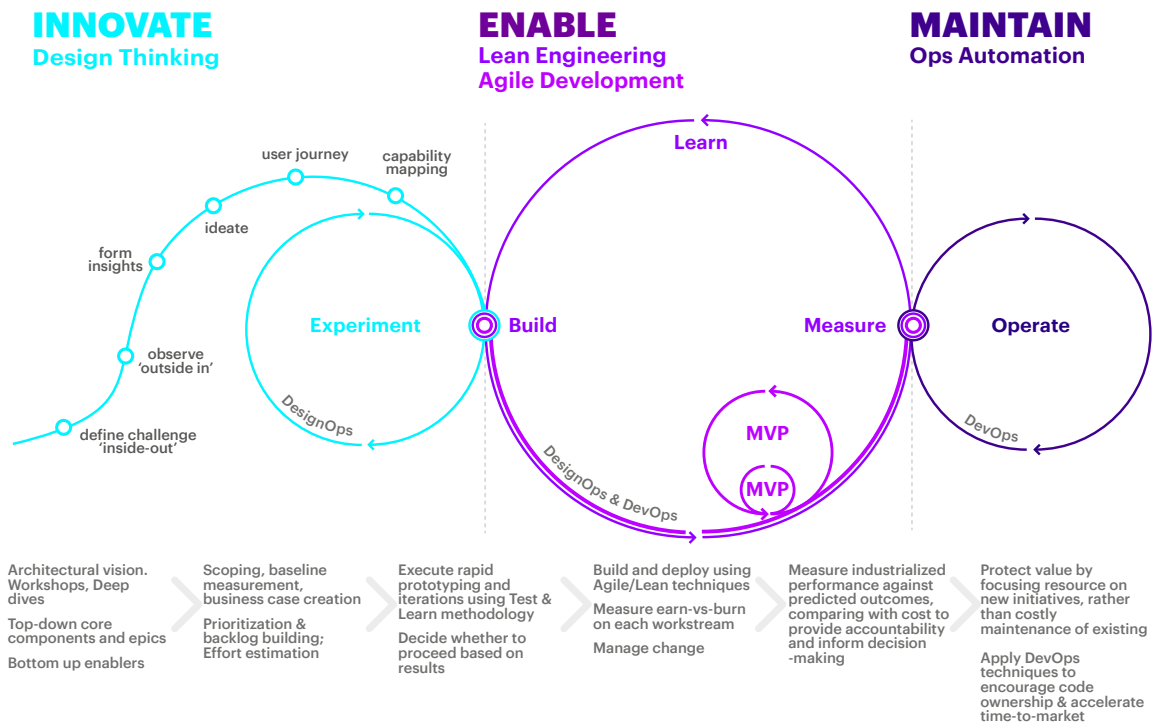
Engineering stretches beyond product development. Drive the discipline's best practices across your enterprise for speed, efficiency and greater customer delight.

When engineers ensure their every development, whether for internal or external systems, supports the company's broader customer mission, they'll find and employ best practice engineering innovations. Data-driven innovation will demand cross-functional data insights (informing all aspects of the business), a flexible, agile architecture and engineering delivery excellence.

Leading innovation through the operating model

INNOVATE
Design Thinking

ENABLE
Lean Engineering
Agile Development

MAINTAIN
Ops Automation

INNOVATE		ENABLE			MAINTAIN
Architectural vision. Workshops, Deep dives	Scoping, baseline measurement, business case creation	Execute rapid prototyping and iterations using Test & Learn methodology	Build and deploy using Agile/Lean techniques	Measure industrialized performance against predicted outcomes, comparing with cost to provide accountability and inform decision-making	Protect value by focusing resource on new initiatives, rather than costly maintenance of existing
Top-down core components and epics	Prioritization & backlog building; Effort estimation	Decide whether to proceed based on results	Measure earn-vs-burn on each workstream		Apply DevOps techniques to encourage code ownership & accelerate time-to-market
Bottom up enablers			Manage change		

Innovating along the S-Curve can pit agility against financial control. Engineering can help with an integrated framework of architectural patterns, tools and processes. We recommend following some key principles while you establish it.

- Integrate tightly across engineering, data analytics and the business. Try cross-disciplinary scrum teams to ensure you measure the value you deliver not just in technical outcome, but in business impact.
- Decouple from the legacy – this helps unlock innovation that can be applied across the organization, driving intelligence and agility
- Leverage the power of machine learning and AI to derive actionable insights from the data you collect

- Make extensive use of automation and integration for continuous delivery
- Embrace real-time measurement, tracking and reporting, driven directly from project tooling
- Have a DevOps mindset: Automate everything; deploy often; learn, adapt, optimise and repeat

Leading organizations are evolving their delivery metrics to create sophisticated comparisons of effort spent vs. value earned during development. By introducing the measurement of return into their metrics, engineers are speaking a common language with the business, allowing everyone to weigh up the anticipated value of each item before development starts, track the impact of each item over

time as it is delivered and rapidly adjust development priorities based on returns.

Content creators, broadcasters, operators and CSPs all have significant legacy infrastructure usually from system integrations of multiple 3rd party vendors and their own systems. This environment makes it hard to innovate at speed; changes must be synchronised across many systems simultaneously. Leading organizations are evolving towards a platform architecture rooted in a strategic engineering plan.

Data collected across all aspects of the enterprise informs business decisions; data analysts embedded in the engineering teams use a toolset including AI and machine learning to validate business hypotheses.

Engineering best practice helps business agility by setting up decoupling layers for the legacy back-end systems. You can then separate innovation in the services layer from the purely transactional in the legacy. Focus service layer innovation on producing horizontal services you leverage across a wide variety of new products and services, supported through an ever-expanding set of robust APIs.

Modern engineering design patterns, API gateways and microservice architectures make engineers the critical capability providers for the rapid construction of new services. Coupled with data-driven insights, they provide the capability to rapidly trial, test and learn from new product innovations.

With this strategic technology vision and architecture in place, iterative innovation can move on to smaller initiatives steadily adding the digital capabilities required to move to a platform-oriented future architecture.

All of these initiatives demand a unified team. You'll need to rip the silos out of your operating model and workforce which may push you to the greatest innovations of all.
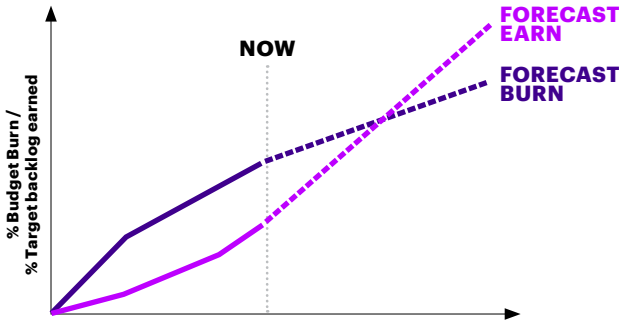
More Engineers Needed: Analysis of the workforce distribution in CSPs vs. Disruptors reveals only 14% of CSPs' workforce is equipped with Engineering and/or Analytics skills, compared to 53% for Disruptors.

Source: LinkedIn, Accenture Analysis

Your people need to see this not as a technology program, but as a complete journey of transformation that rethinks the operating model, the value tree, their skills and their core KPIs. It's everyone's job to inject a new culture into the organization.

We've challenged you to trash your rule book and quickly change your DNA to accelerate growth in the digital landscape. We know it's easier said than done. You will need to build "test and learn" into the way you do things, blending multi-disciplinary agile "pod" teams that combine the capabilities of the organization to unlock value. Insight drawn from the product side (value) and cost measured from the content and engineering side (velocity) becomes a new "velocity of value" that drives your culture. Most importantly, your people need to become obsessed with data which is quickly becoming a currency more valuable than oil.

Start by transforming your data adoption path from vertical and sequential (where separate teams respectively produce data, check quality, analyze data and make product decisions) to a one that's fractal, parallel and iterative. Starting from an initial TV value tree at different scales creates alternative hypotheses and metrics. You may expect many of your hypotheses to fail, but any outcome generates user stories executed by a set of parallel pods to maximize velocity of value.

As your people start to work together in this way, they become a new company "brain" that shakes down the old silos of marketing, engineering, operations and analytics. The new, product-led, agile way of working shortens your path to meeting customers' preferences across devices, channels and brands.

These skills will be critical for your people to develop the new organizational brain.
- **Experience and Data-First Product Strategy:** Design products to maximize customer experience and data generation (reach) before you even

think about your monetization strategy (ARPU). Take an industry-horizontal, omnichannel vision. That's thinking like a digital native.
- **Big Data Intimacy and Machine Learning:** All levels, from CxO to managers and developers, will have to cope with huge amounts of data. Teach them to prioritize, understand what data to trust, share data across the organization and take actions on owned and external data.
- **Intelligent Investment:** Assess the complexity and size of your investment decisions versus their impact on business outcomes. Prioritize according to different waves of innovation.
- **Outcome-Based Business Value Measurement:** Get used to measuring everything against established KPIs.
- **Tailored Delivery and Value Models:** Tailor analytical delivery models and value measurements to specific hypotheses.
- **Earn vs Burn Approach:** Be able to see, in close to real-time and against a set of established metrics, the business value derived from your cost. Then use the information for continuous re-prioritization.
- **Cloud-First product management:** Deciding to build something that already exists can drain valuable capacity. Informed teams check public clouds first.
- **Security:** Leaving security to a CISO's centralized organization is an outdated approach. A passion for data security needs to be embedded in all your people, every neuron of your brain.

Consider establishing or improving these corporate functions to help your people embrace new ways of working.

INNOVATION HUB

Develop use cases here to feed the innovation funnel. Leveraging your R&D internal capacity, continuously scouting, enabling, attracting and testing the ecosystem through hackathons, designing and building proofs of concept (PoC) as

part of multi-variate testing campaigns. Hubs often include venture capital funding to inject new skills and accelerate innovation paths.

INDUSTRIALIZATION DEVOPS FACTORY

Turn proofs of concept into marketable services faster. Promote innovation from incubation to production grade by pushing strategic resources to high value activities and industrialising low value tasks like integration testing and performance testing.

ECOSYSTEM ENABLEMENT

Create value for an ecosystem of partners by establishing a frictionless business. Leverage smart contracts. Use blockchain to expose data and assets in a secure and controlled way.

DESIGN AND STANDARDIZATION AUTHORITY

Make sure your innovation is compatible with your core business. Bring in governance to implement it across ideation, design, investment and value, ways of working and change, data

strategy, technology standardization and microservice maturity framework maintenance.

Some CSPs are setting the benchmark for using innovation hubs. Telstra Labs' version, launched in 2017, combines all the company's innovation, technology development and IoT R&D under one umbrella. The Labs contain multiple innovation centers including their Gurrowa Innovation Lab, a co-creation space for Telstra and its associated enterprise customers, vendors, research institutes and incubators. They come together there to work on technological projects such as geolocation, robotics and IoT via open-source platform-as-a-service software provided by the Pivotal and Cloud Foundry Foundation.

Content creators like The Walt Disney Studios are moving in the same direction. They recently appointed Accenture as a founding member and innovation partner of StudioLAB, an initiative dedicated to reimagining, designing and prototyping the entertainment experiences and production capabilities of the future using innovative technologies.

Accenture's Research has found that business leaders are still reluctantly investing in upskilling their people to meet new role demands of digital and AI. In an Accenture survey of 1,200 CEOs and top executives working with AI, though almost half of business leaders identified skills shortages as a key workforce challenge, only three percent say their organization plans to increase investment in training programs significantly in the next three years. This low level of commitment will radically curtail their ability to innovate at scale.

Source: Accenture report, "Future Workforce: Reworking the Revolution"

The growth of IP-based consumption and the digitalization of "value" chains is driving material opportunities for commercial innovation. It's time to get creative.

Companies' business models are no longer constrained by the proprietary technology of their particular domain. Today there is significant scope for companies to experiment with their consumer proposition, how they go to market as well as how they support and manage commercial decisions internally. Much of this innovation stems from how companies are starting to think differently about the "assets" they have, be they customers, content curation expertise or brand, for example, and how they can leverage the value of these in the emerging IP paradigm.

We see a number of emerging trends by different types of video business:

CONTENT CREATORS & BROADCASTERS

We are starting to see innovative new partnerships between broadcasters in the advertising space, be that Fox, Turner and Viacom's OpenAP initiative, or The European Broadcaster Exchange, founded by ProsiebenSat.1, TF1, Mediaset and Channel 4. Broadcasters appear, by and large, to have recognized that new kinds of partnership in the advertising space are required to compete with the reach and scale of the digital disruptors.

Beyond advertising we are seeing broadcasters make major moves to create meaningful direct-to-consumer propositions. Disney's sustained acquisition of content creators (including Pixar, LucasFilm, Marvel) has given it the propositional firepower to launch new subscription based services.

Upstream, we expect content creators to drive innovation in their business models. The application of Blockchain in how rights are sold and managed offers the potential for materially greater flexibility in how deals are structured. Block-chain enabled funding models create new avenues for individual investors.

And within broadcasters' walls we also expect new technologies such as blockchain to enable innovation in content windowing and rights deals, and for broadcasters' content supply chains to become more sophisticated and analytically driven.

OPERATORS & CSPs

Established operators (whether they be pay TV incumbents or CSPs) have a significant "asset" in their presence in the home, and their gatekeeper position to their customers.

Just as Amazon, Google and Apple have all now launched physical devices, established operators are themselves seeking to better harness the position they have in the home. As a first step, many are starting to push much more sophisticated analytics through their existing customer bases, to understand how to better serve their customers and to extract value from their existing lines of business.

In the coming months and years, though, we expect leading businesses to go one of two ways: aggressively acquiring content to compete for users or new markets or opening up their customer bases using platform-based propositions, allowing third parties to serve their customers, too. This shift from walled-garden to platform-based business models offers the potential of creating value for all concerned, building on the network effects that this kind of collaboration can drive.

Looking further out, we expect this platform-based approach to be deployed by leading players to enter new markets, where their knowledge of how to serve consumers is valuable, but their access to rights more limited.

Doing this is not simple, and others will opt for vertical integration, for example Liberty Global's acquisition of All3Media in the Europe, or Comcast's acquisition of NBC Universal in the US.

PLATFORMS

New platform-based entrants (such as Amazon) are innovating in the other direction – seeking to build relationships content providers as they build out their video offerings for their customer bases.

Here, we expect to see significant innovation in the types of services which content providers receive from the platforms to which they licence their content.

These could include analytical services leveraging the platform businesses' huge levels of consumer insight to help content providers commission, acquire and curate content more effectively than they can elsewhere – or to experiment seamlessly with multiple business models across geographic footprints.

Platform operators will explicitly seek to demonstrate that these services enable their content partners to drive more revenue, and at lower cost than alternative more traditional options. Established operators should be mindful that they need not just compete for customers – but for the loyalty of the content suppliers which underpin their businesses.

In Accenture's Digital Consumer Survey 2018, half of respondents (51%) believe they are paying for content they don't want, an indication that the market is ripe for flexible bundles that can be customized to consumer preferences and new business models that can fulfil unmet consumer demand.

Source: Accenture Digital Consumer Survey 2018

Ecosystems open new worlds of partnership, product extension and customer interaction. Power players within them can drive vast amounts of new value. How to grab the opportunity?

Few recognised just how ground-breaking Apple's App Store would be when it launched. Now we understand it as the best contemporary example of ecosystem innovation: a new world of content and method of monetization, on top of core device revenue. It also created a new niche market, changed mobile software and drove a cultural phenomenon.

Most digital video providers already have their own ecosystems, and are now looking to expand them. Those ecosystems allow new, often external, businesses to grow in partnership with the digital video providers – providing additional content, services and products to consumers. The benefit to the digital video provider is clear: a broader proposition and increased customer engagement, incremental revenue and low risk. The path to achieving this sort of innovation will differ depending on their starting point.

CONTENT CREATORS AND BROADCASTERS

Ecosystem innovation could come from how these companies manage their distribution partners for content, either clips or full shows, within emerging spaces like AR and VR to build new ecosystems of creatives, content partners, technology partners and advertisers. Another angle for ecosystem innovation is the business model around IP usage, including potential rewards programs for consumers (with appropriate tracking mechanisms in place). New licensing models within AR and VR, and the ecosystem within them, could be interesting. Thinking outside of the box is key, to provide incentives for broadcaster and partner to both benefit from an ecosystem relationship.

OPERATORS AND CSPs

Connecting other products and services with video is the logical innovation here. Within this it is critical for operators and CSPs to be able to develop a multi-sided business model to better compete with platform companies that already have that advantage. Operators and CSPs should look to create the right value exchange with high speed internet services and smart connectivity within and outside the home to drive ecosystem partnerships. They can do this by leveraging concepts like outcome-based connectivity monetization and wholesale and retail smart connectivity.

Smart homes offer a rapidly-growing opportunity to leverage current brand loyalty to create platforms for a broad range of services. Innovation could come in the form of an Alexa-type model where new skills can be added to create a stronger value proposition. The key is to identify areas where third parties can be brought into an ecosystem to drive greater consumer value, while you provide foundational tools and reach for things for which you can charge a fee.

Comcast's Xfinity is one example. It started as a bundled Internet, TV and phone service, but has evolved into an innovative ecosystem powering consumers' needs for personalized entertainment, communications and smart home services. Comcast is now looking to turn Xfinity broadband into a "home operating system," bringing home-automation controls for multiple devices to Xfinity Internet customers at no extra cost. At the CES this year, Comcast unveiled a "Works With Xfinity" home-automation partner program, demonstrating different ways it plans to let Xfinity customers use its TV and broadband services to control devices in a Wi-Fi-connected home. For example, a Comcast customer could use the X1 voice remote to say, "Good night" — and the system would automatically lock all the doors, turn off lights, adjust thermostats and arm the home-security system.

PLATFORMS

Ecosystem innovation is almost inherent here, since the platform typically enables an ecosystem.

For example, YouTube is a platform that supports a network of content creators and advertisers. YouTube collects revenue from providing tools for creation, upload, playback and monetization without ever having to create content. This is the model many others aspire to as they seek to build platforms.

But platform companies can't sit still, or others seeking innovation will pass them by. They will need to build more premium ecosystems and evolve their business model of traditional content creators while leveraging the attributes of the scaled ecosystem. Short-term differentiation can also be achieved by innovating on enterprise needs of content and advertising partners. Platforms can provide them more value with cloud-based tools and services, improved transparency into performance of content/advertising and more sophisticated forms of monetization via better consumer segmentation and targeting.

BRINGING IT ALL
TOGETHER

There's nothing new about innovation, and you're probably doing lots of it already. To get the full benefit, you need to unite your efforts in one joined-up, strategic, silo-free push that shakes off your unwanted legacy.

It's a commonly agreed point of view that companies that consistently invest in innovation and brand have the highest return in shareholder value.

While there is certainly a good amount of innovation being done piecemeal at many companies that monetize video, we believe you can extract more value if your investments align business evolution, operational capabilities and technology in a way that provides both acceleration and scale. That's not to say that tactical innovation enabling the core business isn't important. (Quite the opposite – it is essential.) But relying on short-term, isolated benefits will only make the broader need to drive new growth while leveraging current advantages more difficult to achieve.

We appreciate that this is easier said than done, but that's also the crux of our point of view: you unlock true innovation when you are unencumbered by legacy operating models and technology still enabling your legacy business models. Once you unlock that kind of innovation, you must integrate product, engineering, broader operating models, content strategies and ecosystems, then be organized to take advantage of the synergies.

That's how you go after profitable growth in the core business while creating leverage in new business models, all while those new digital business models are evolving. That's how you maintain capital efficiency to appease shareholders, while providing your organization the space to experiment with confidence in the new.

There's never been a more urgent time to make these important moves. Tactical, short-term successes will not create the foundation you need to compete in the accelerating digital video industry. Only continuous innovation, unencumbered by the limits brought by years of operating the core, offers the true path forward. Companies that start focusing their investment and transformation strategies this way will be well positioned to serve, and profit from, the ever-changing demands of the digital consumer for many years to come.

PRIMARY AUTHORS

YOUSSEF (SEF) TUMA
Managing Director,
Accenture Digital Video
youssef.d.tuma@accenture.com

JAMES WEEKS
Senior Manager,
Accenture Digital Video
james.weeks@accenture.com

ACCENTURE DIGITAL VIDEO CONTRIBUTORS

Gino Galassi
John Maguire
Bikash Mishra
Matthew Gay
John Ibbotson

ABOUT ACCENTURE DIGITAL VIDEO

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.
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