

accenture

FUTURE OF BROADCASTING VI



OUR POINT OF VIEW IS GROUNDED IN ACCENTURE'S LATEST SHAREHOLDER VALUE ANALYSIS (SVA) OF KEY PLAYERS IN THE GLOBAL BROADCASTING AND DIGITAL VIDEO INDUSTRY



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EXECUTIVE SUMMARY

SVA HEADLINES

- TRS has fallen to negative levels in the last year and Future Values have also dropped
- Margin erosion continues
- But overall industry Growth still expected – greatest growth rates from digital sub-segments e.g. digital advertising and OTT streaming

THEMES

- Rising Cost of Premium Content
- The rise of hybrid organisations to service more channels, products and business models
- Tech developments in audience measurement and tracking to drive monetisation of digital advertising

VALUE CREATION OPPORTUNITIES

- Continue to use Competitive Advantage
- Refine Operating Model to support hybrid organisation
- Multi-speed IT – Develop next generation IT Platform to support breadth of services and teams

SHAREHOLDER VALUE ANALYSIS HEADLINES



TRS has fallen to negative levels in the last year and Future Values have also dropped



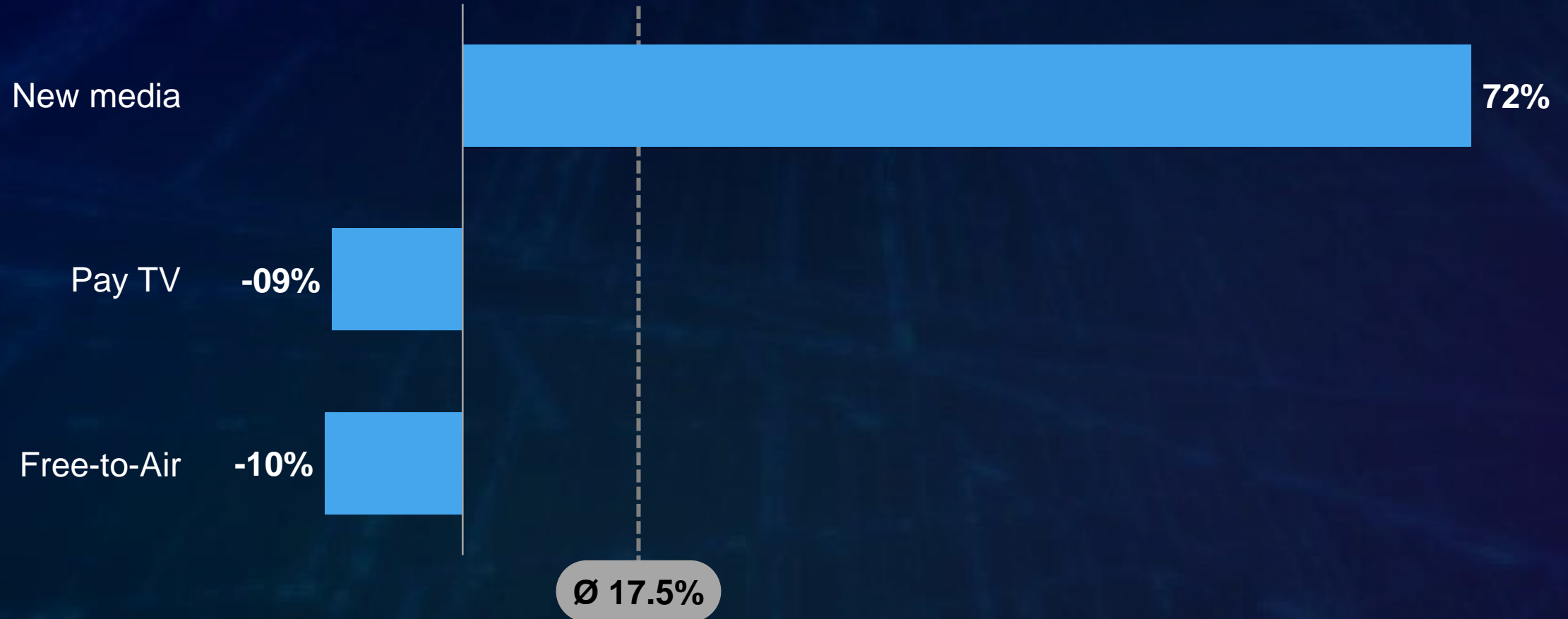
Margin erosion continues



But overall industry growth still expected – greatest growth rates from digital sub-segments e.g. digital advertising and OTT streaming

OVER THE LAST FIVE YEARS BROADCASTERS HAVE DEMONSTRATED POSITIVE TRS, BUT FROM 2015 TO 2016 GROWTH HAS FALLEN DRAMATICALLY IN FREE-TO-AIR AND PAY TV SEGMENTS TO NEGATIVE LEVELS...

1-Yr Avg TRS (03/31/2015 – 03/31/2016)



Source: S&P Capital IQ, Accenture Analysis

MARGINS ARE BEING ERODED YEAR-ON-YEAR ACROSS THE THREE SEGMENTS (PAY TV, FREE TO AIR AND NEW MEDIA)

EBIT Margin (%) – 1, 3, 5 Year Period

5-Yr Average Margin

03/31/2011 – 03/31/2016

Ø 15.8%

3-Yr Average Margin

03/31/2013 – 03/31/2016

Ø 15.5%

1-Yr Average Margin

03/31/2015 – 03/31/2016

Ø 14.8%

This is especially true for Netflix which has seen its large investments and international expansion strategy hit profitability.

Notes: Margin refers to EBIT margin. For Walt Disney, Vivendi and BCE, only broadcasting segment margin has been taken.

Source: S&P Capital IQ, Accenture Analysis. New Media includes only Netflix, For 'Pay TV' and 'Free-to-Air', please refer Appendix

THE NEED FOR IN-HOUSE ORIGINAL CONTENT ALONGSIDE DIGITAL CAPABILITIES HAS ALSO DRIVEN INVESTMENTS

Broadcasting and Cable / Satellite



Broadcasting, Cable and Satellite companies acquired \$4.4bn of TV content businesses in 2015

As licensing fees have risen and viewers demand high quality content the need for in-house original content has increased

Cable / Satellite



They acquired \$1.4bn of technology companies in 2015

Acquisitions are made to build the capabilities necessary to compete as industries digitise

BUILDING ON THE SHAREHOLDER VALUE ANALYSIS, WE HAVE DRAWN SET OF “MOMENT IN TIME” CONCLUSIONS ABOUT THIS RAPIDLY EVOLVING SECTOR

We have identified three key themes



Rising content costs



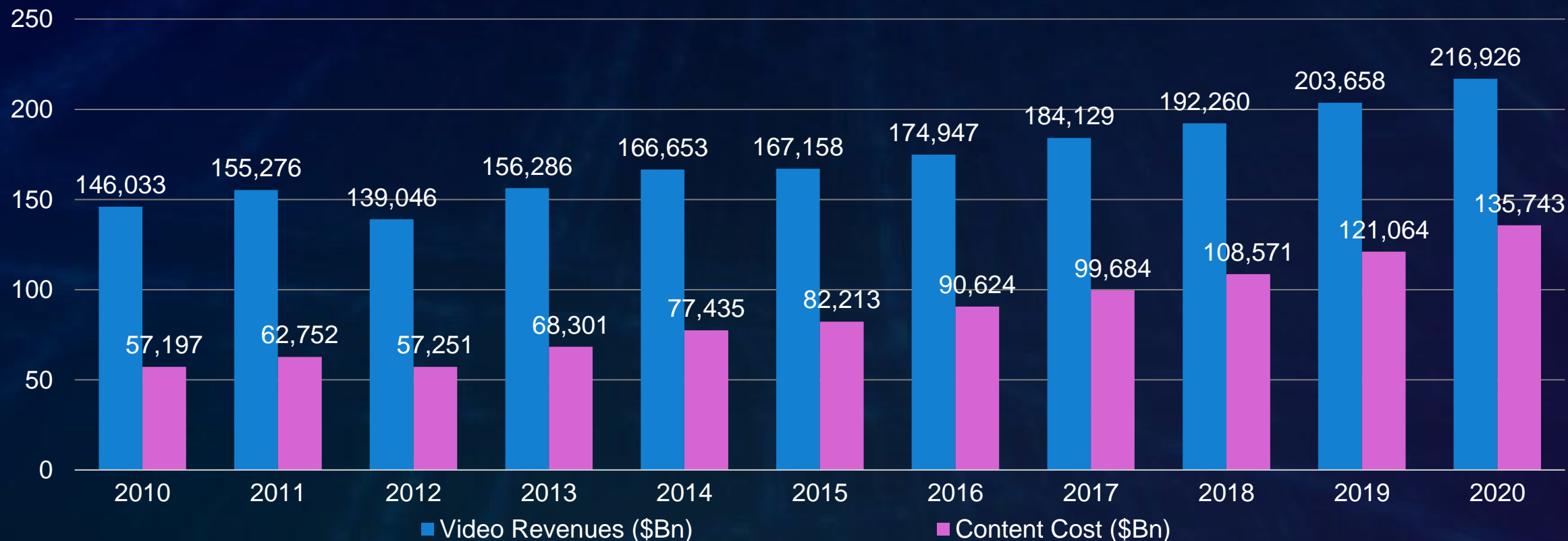
The rise of hybrid organisations



New technical advances in audience measurement will drive monetisation

IN NEXT 3 YEARS, WE FORECAST CONTENT COSTS TO GROW BY 36% WHILE VIDEO REVENUES WILL GROW ONLY 18%

Revenue vs. Content Costs – US Video Providers



Sources:
Revenue data pertains to major US video players – Scripps, Discovery, Viacom, Walt Disney, Time Warner, CBS, 21ST Century, Dish Network, Netflix.
Content costs are calculated using a proxy from SNL Kagan data.
Capital IQ, SNL Kagan, Accenture Research

THE MEDIA AND BROADCASTING ECOSYSTEM HAS EVOLVED AND ORGANISATIONS ARE DIVERSIFYING TO STAY COMPETITIVE

The new hybrids support multiple revenue, distribution, cost and offering models



REVENUE

Players continue to experiment with new business models which combine advertising, subscriptions, transactions and licensing.



DISTRIBUTION

As incumbents spread their offerings across multiple channels, players globally see value in OTT propositions. Over half the main players in US launched OTT services in the second half of 2015.



COST

The desire to play and compete in multiple pockets of the video value-chain leads to additional cost burden for companies, in the form of content acquisition or production charges as well as carriage fees.



OFFERING

The new ecosystem contains a growing number of players adding video to enhance their offerings. These organizations spread offerings across and outside traditional segment lines.

Hotstar

ITV

Starz

HBONOW

MUBI

Discovery

Facebook

Amazon

SO FAR THE ABILITY TO UNDERSTAND THE ACTIVITY OF THE DIGITAL AUDIENCE HAS PROVED CHALLENGING BUT NEW TECHNOLOGY COULD MAKE THIS A PROBLEM OF THE PAST

Online Advertising – User Tracking



Aspiration / challenge

Emerging solutions

Nielsen has created a **Total Audience Measurement** framework. The aim is to enable the measurement of audiences across **all digital content types and platforms** with metrics comparable with television. The first release in 2016 is **in partnership with Facebook** to enable publishers to access digital content ratings for their Instant Articles.

Barb's Project Dovetail aims to combine insights from **meta data tags** in content and ads along with **panel insights**. This will provide a means of understanding **cross-platform viewing**. Beta reports will be available from 2015 with full cross-platform insights expected **by 2017**.

IN A FAST-EVOLVING ENVIRONMENT, IT IS IMPORTANT TO SHAPE STRATEGIES, BUSINESSES AND PLATFORMS FOR THE FUTURE



Evolving viewership

Changing viewer behaviour moving away from linear broadcast towards on-demand and personalised content delivery



Evolving delivery infrastructure

Dramatic changes in scale and capabilities of available cloud, network and CPE platform technologies



Evolving viewing experience

Maintaining high quality of viewing experience to a fragmenting device base

- Whole home multiscreen
- Out-of-home mobile



Evolving delivery organizations

Reducing time to detect and resolve end-user issues without delaying feature rollout is driving organizations towards DevOps



Evolving development processes

With service velocity at high quality as the highest priority, agile development and automation processes are essential



Evolving business and operating models

Digital video business models require different operating models and capabilities in order to maintain growth and profitability

WE HAVE IDENTIFIED THREE OPPORTUNITIES FOR VALUE CREATION, WHICH WE BELIEVE WILL HELP BROADCASTERS IN THEIR SEARCH FOR FUNDAMENTAL GROWTH

Value Creation Opportunities



Use Competitive Advantage



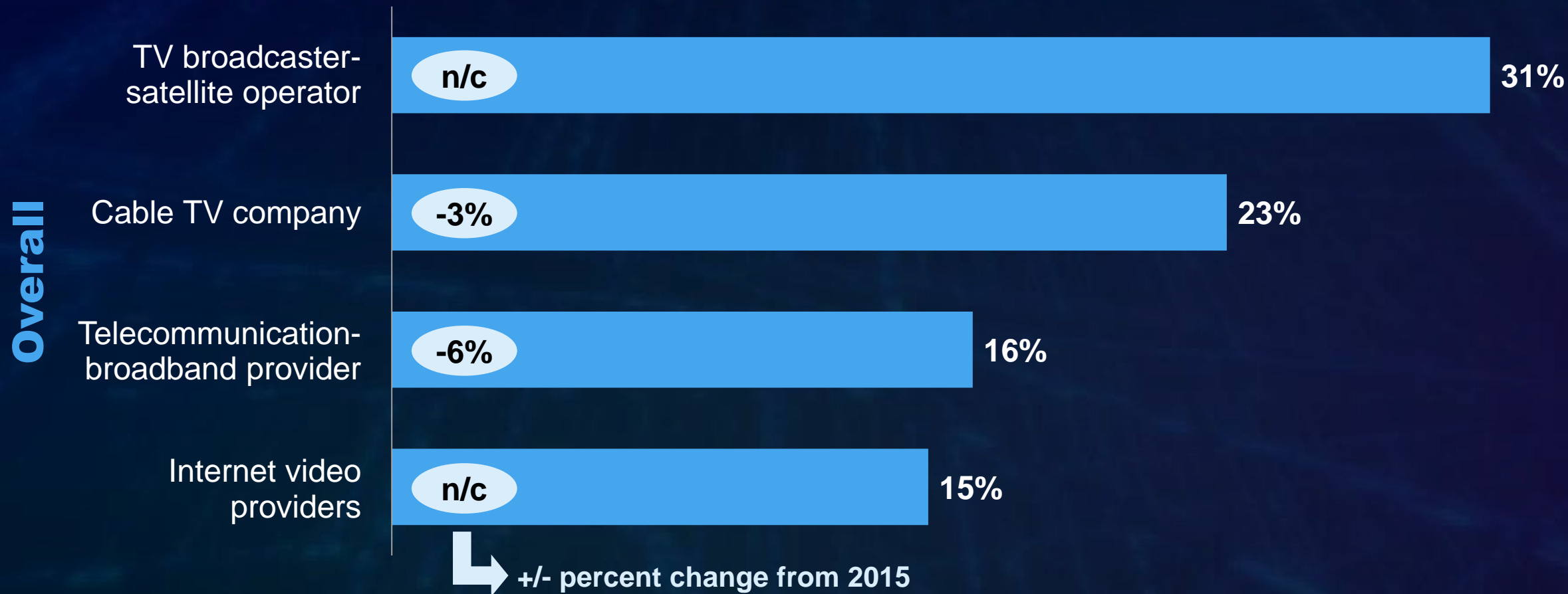
Refine Operating Model



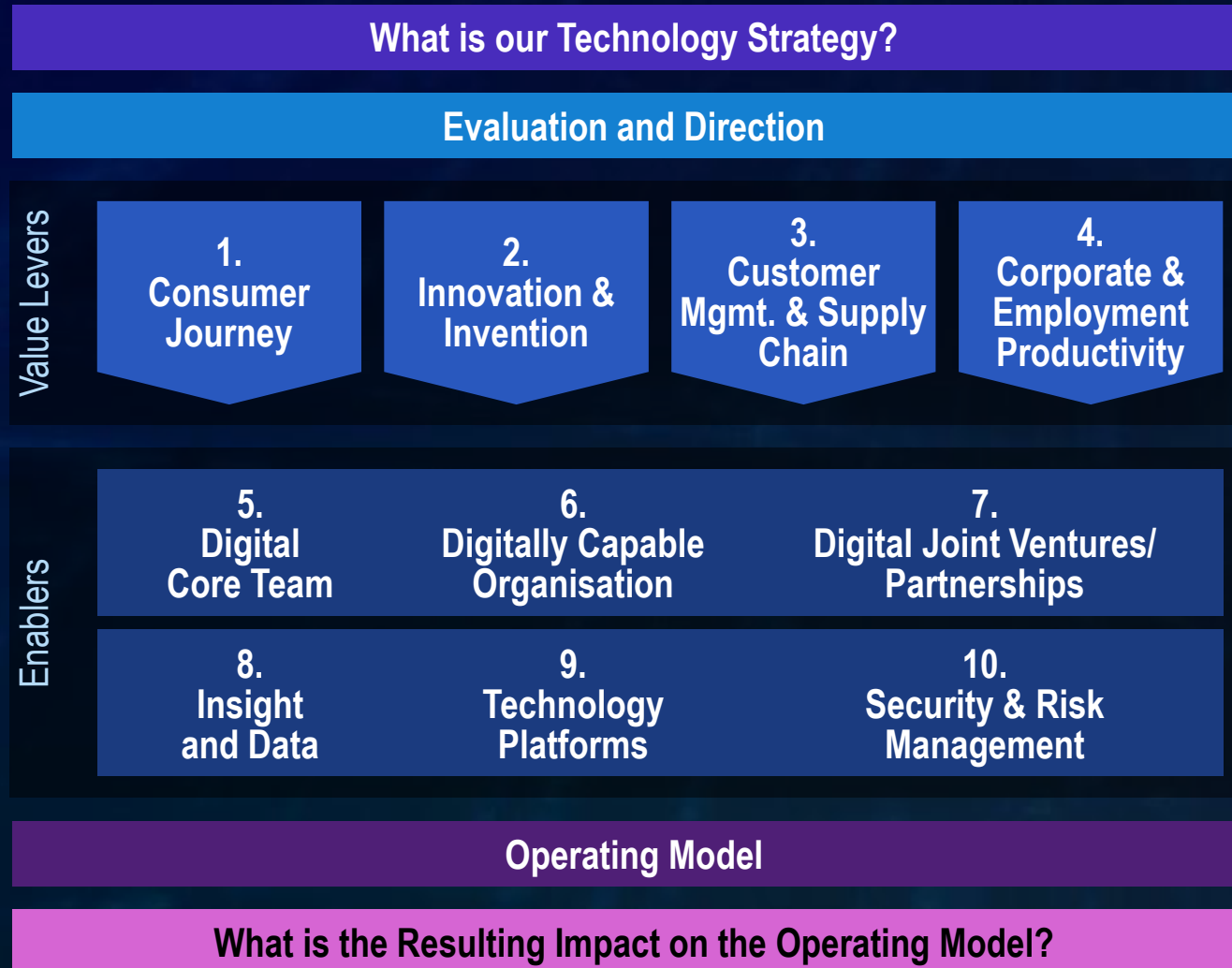
Multispeed IT Delivery

USE AND MAINTAIN COMPETITIVE ADVANTAGE – BROADCASTERS CURRENTLY HAVE THE LEAD ON CONSUMER TRUST BUT THIS MAY SHIFT IF SERVICE QUALITY, PREMIUM CONTENT AND INNOVATION ARE NOT SUSTAINED

Trusted Service Providers – % of users selecting one preferred provider from the below options



THE COMPLEXITY OF MULTIPLE CHANNELS, PRODUCTS, BUSINESS PARTNERS, ETC. REQUIRES HYBRID ORGANISATIONS TO RECONSIDER END - END OPERATING MODELS...



Digital Governance & Execution

...AT THE SAME TIME THE INTEGRATION OF NEW TECHNOLOGY ALSO NEEDS TO BE CONSIDERED IN THE CONTEXT OF THE BUSINESS AND OPERATING MODEL

DEPLOY MULTI-SPEED TECHNOLOGY DELIVERY CAPABILITIES

Set the strategy

Know where to start...



Pilot

...and start fast



Transform the Technology Operating Model

Enable multi-speed delivery in your organisation

