State of the Broadcast Industry 2016

OTT Moves to Center Stage

2015 was the year that premium OTT video content moved decisively to center stage. The shift from traditional TV continues and shift-deniers have been pushed to the curb. Broadcasters and operators have accepted OTT as a fait accompli, and the repercussions are affecting all areas of the business.

Meanwhile, consumers continue to demand change across the whole of their viewing experience – from the content they watch, to the devices they use to watch it and the methods they choose to pay for it.

Our 2nd annual report looks at the end-of-year broadcast landscape and what lies ahead for 2016. The spotlight is on and this show is just getting started.

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CONSUMERS

Consumer viewing habits that have been changing since the start of the decade were cemented in place in 2015. Consumers are watching in the home or out of it and technology is delivering content everywhere. They're watching live and on-demand and programmers are serving it up their way. Viewers are voting to pay for it with money or with time spent viewing ads and providers are responding with more choices. Most notably, whether viewers are cutting the cord or doubling down on screens, the industry is becoming closer to consumers than ever.

> "The disruption that we've all been talking about is happening right now. We're seeing the breakdown of the traditional media landscape. The control and power is shifting into the hands of the consumer."
>
> **– Bob Bejan, global executive creative dir., AOL, as quoted in *Adweek***

Location, Location, Location

Content viewing has become a whatever, wherever, whenever experience. Traditional scheduled TV watching is **no longer the norm** (at just over 45% of adult viewers). Instead, over-the-top (OTT) video accessible anytime and anywhere is now the mainstream. Ironically, **TV Everywhere** (TVE) is often now just TV Next To The TV – watched on mobile and connected TV (**CTV**) devices within the home. Viewers are diverging while platforms are converging. That poses daunting challenges for the industry as it looks for new ways to meet consumer desires.

Where viewers live is also having a major impact on how they choose to watch. **SVOD growth** in both emerging and established regions is influenced by a multitude of market-specific factors: they include maturity of the broadband infrastructure, pay TV and smartphone penetration, regulatory environments, free and low-cost TV options, **piracy** issues, shared **credentials** and greater access to payment methods. Expansion in major global markets like Japan, Brazil and Mexico is not going unnoticed. Companies like Liberty Global are seeking to find new customers and grow their footprint beyond areas with saturated screens.

> "Researcher GfK pegged Latin America as the fastest- growing smartphone market in the world, adding users even faster than China or North America."
>
> **– *Ooyala Q2 2015 Video Index***

Mobile Majority

Not surprisingly, consumers around the globe are **watching more on mobile screens** than ever. The shift is partly because viewers prefer individually-tailored content experiences, but also due to the increase in quality content available and created just for those screens. The end of TV as the first screen is nigh.

The appetite for **longer-form content** on mobile devices is also growing. 30% of North American **smartphone** owners now watch full-length TV shows on their smartphones, and 20% watch full-length movies. Other global regions are also on par with those figures. Mobile apps, with their stronger user experience, are now **preferred** over mobile browsers. Add more advanced smartphones to the mix, and **mobile video ad spend** will continue to grow, slowly **catching up** to reflect the real percentage of mobile viewers. Content providers like Verizon and **AT&T** are also in hot pursuit, focusing more and more on mobile-first video options (both subscription and ad-supported) that are geared towards younger adults.

> "In 2015, U.S. consumers spent 198 minutes in mobile apps per day compared to 168 minutes watching TV."
>
> **– Flurry Report, as reported in *Mashable***

New Viewers

In 2015, Millennials **became** the largest segment of the U.S. population; with over 75 million members, they've surpassed the Baby Boomers. 18-24 year-olds in this group are fleeing traditional TV in record **numbers**; during the early weeks of the fall 2015 season, for instance, Millennials showed a 16% decrease in traditional TV viewing. Studies have shown that Millennials increasingly prefer time-shifted TV on online **platforms**. They also make use of search and recommendations **more** than their older counterparts do.

Significantly for providers **reports say** that a quarter of Millennials without children currently don't have cable.

Convenience, lower costs, connectivity and content options continue to be among key **drivers** towards online video and away from pay TV. Those with children are **more likely to be** tied to the cord, but they are are also apt to eventually cut, shave or **cheat** it – and they're raising a new generation that likely won't have it at all. Cord-cutter parents beget cord-never kids. Result: look for more standalone OTT and mobile SVOD services for pre-schoolers like **Noggin** and Disney Life in the U.K., building early relationships with audiences who may never have a TV, let alone cable.

Meanwhile, the influence of digitally-dominant multicultural audiences continues to rise. Studies have shown that **multicultural** TV users favor OTT viewing and are **high** users of subscription video (whether it's cable, pay, OTT or SVOD). **Hispanics** in particular like OTT-friendly binge-viewing and are highly **social**, so **online** services like **Univision's MCN** are targeting them with content they can happily share within their social media circles.

Even older audiences–TV's core **traditional** viewers–are **adopting** online video more and more these days. Look for more providers to offer flexible content options for these forward-thinking consumers. Age is just a state of mind–and that mind is increasingly thinking about OTT video.

> "The rationale that TV is best enjoyed at a designated time with family or friends is outdated. A recent study of 2–12 year-olds found that 57% of them preferred watching video on a mobile device because they could take it anywhere; it gave them a sense of independence and they could easily navigate to the content they wanted."
>
> – ***Ooyala Q2 2015 Video Index***

TAKEAWAY

Viewers are no longer limited by program schedules, location, device or even age. The only limits are (perhaps) price and their own time. Look for providers to experiment more with truly custom, social and on-the-go offerings in the battle for consumer mindshare.

INDUSTRY

2015 was a landmark year in the broadcast business, with a flurry of deals among the old and new guards. OTT arrived as the superstar it has always promised to be. Controversial guidelines emerged on how ISPs can play fairly with content providers in the Internet sandbox. And the industry continued to explore how content will be packaged and consumed going forward to best serve global audiences and deliver higher profits.

> "As competition in the pay-TV market increases, quality of content, innovations and service pricing are among the important factors for pay-TV operators to maintain customer base."
>
> **– Industry Analyst Khin Sandi Lynn, as quoted in *Rapid TV News***

Pay TV Fights for Its Future

Viewers may increasingly become **highly-engaged**, super-consumers of multi-screen content and **premium** features. But with the aforementioned generational shifts and behaviors, they are more likely to be broadband and digital screen-only **consumers**–like the ones who are starting to embrace good ole' over-the-air (**OTA**) again for broadcast channels and live events. In fact, among the roughly 16 million homes without pay TV, **45% now use OTA** for at least a portion of their TV viewing.

Pay TV providers are scrambling to serve both ends with new **offerings** to thwart the rise of OTT competitors–those same competitors that the networks helped create via SVOD licensing deals and de facto promoting of ad-free or ad-light environments. (It seemed like a good idea at the time!) Look for networks to do more windowing of content (as **AMC** prefers to do) to reduce cannibalization. With streaming service **penetration** rising, broadcasters are **re-evaluating** and **fighting back** against SVOD's impact on consumer migration.

That migration has **spurred** cord-cutting's rise to 6% of the population in the U.S., where the phenomenon is most often seen. 2015 was the first year that saw U.S. pay TV providers experience a **net loss in subscribers** during Q1, which is traditionally a strong period for them. **TVE**, which was created to stop this flight, has still not reached its potential. Providers are working to raise TVE **awareness** and usage, cut friction through streamlined authentication (including **home-based**), and improve personalization and discovery among the multitude of TVE apps available. The industry has further responded by forming marriages of convenience with OTT services like **Hulu** to expand audiences and revenues. If you can't beat 'em, join 'em.

Providers like Verizon and AOL, AT&T and DirecTV agree. In 2015, Charter picked up where Comcast left off with Time Warner, and France's Altice continued a global shopping spree, acquiring Cablevision and Sudden Link. International markets continue to be prime growth opportunities: **Liberty Global** is looking beyond Europe, buying Britain Cable & Wireless to expand further into Latin America and the Caribbean. Even the broadcast networks are in the shopping mood, particularly for digital investments that can pay off with increased ad dollars targeting younger viewers. (Just ask **NBC** and **A&E**.) Other **mergers** abound; look for more strategic pairings to fill up gaps in service offerings, produce and distribute content more efficiently, and expand technological capabilities.

While the FCC's net neutrality **ruling** that ISPs are common carriers still faces challenges, the 2016 U.S. broadcaster spectrum incentive **auction** will also spur more wireless activity, growth and partnerships. This will involve companies beyond Comcast and Verizon (whether separately or **together**), thus offering more options for consumers and content providers. Incredibly, U.S. cable companies could even start to compete **nationally**. That's thanks to the proliferation of OTT services they're looking at now, which reach beyond mere cable franchise agreements. As the traditional pay TV bundle continues to morph, look for some smaller-tier cable **networks** to be left out in the cold as operators decide the price/value equation is unbalanced. But those smaller networks may find shelter in the OTT space.

> "While 79% of the U.S. population has some sort of pay-TV service, 78% now subscribe to at least one streaming video-on-demand service."
>
> **– From PwC survey,**
> **as reported in *Ooyala Videomind***

OTT Offers an Opportunity To Thrive

Everybody who's anybody in the broadcast business has OTT at the top of their to-do lists these days… if they haven't already checked it off. It's not only top companies like Dish with Sling TV, Sony with PlayStation Vue, **Alibaba** with TBO and **Youku**, **Showtime** with Hulu, and YouTube with its **Red** subscription-only service who are executing new deployments, partnerships and monetization models. Smaller networks, which may ultimately need OTT to survive, are joining in.

Recent **research** indicates that 15-20 prominent niche services will rise by 2018 to eat into share now held by Netflix, and the premium OTT market as a whole will total $8-10 billion by that time. According to the **Ooyala Q3 2015 Global Video Index**, traditional linear channels will remain for the foreseeable future, but will be further cast aside by a multitude of other options, including broadcast OTT channels, operator OTT services, catch-up TV like the **BBC iPlayer** and **Televisa's VEO**, and multi-channel networks (**MCNs**). Netflix is itself the **3rd largest broadcaster** now, capturing nearly 30% of total viewing in the U.S.

Consumers are still deciding how many of these offerings they're willing to take on, manage and pay for going forward. **OTT churn** is rising as viewers experiment. **Amazon is stepping up** to help consumers and other OTT content providers figure it out through their new **Streaming Partners Program**. This aggregation, which includes central back-end management and a discovery engine for unearthing additional content, is not unexpected. Look for other major OTT services to consider acquiring smaller players and expanding into specific verticals and non-content services. Specialist services may think about re-aggregating into larger mass ones, and consumers will **seek help** in finding and coordinating it all.

Early OTT and SVOD pioneers–both mass and niche–have done much more than just land and plant a flag; they have also expanded their content menus. CBS All-Access is making Trekkies happy with an upcoming original series built from the **Star Trek** franchise. The channel is now also offering live streams from local affiliates. Newer niche entrants like NBC's **SeeSo** are also stepping up to super-serve passionate audiences. HBO has seen OTT success and found **younger** viewers independent of pay TV-- in the U.S. with HBO Now and internationally with HBO Nordics. Look for content providers to find more ways to harness iconic brands, top talent, originals, back catalogs and data, and use them to complement (for now) their core pay TV channels and build out their OTT offerings globally. The TV-web lines continue to blur as we march ever closer to a screen-agnostic or OTT-only future.

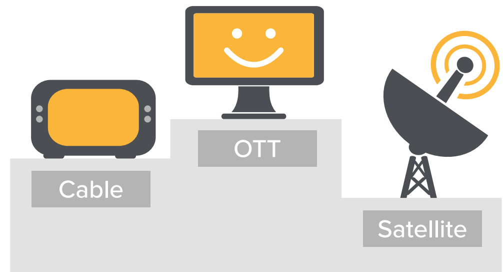
Mobile OTT is the next iteration in the space. Services like Verizon's ad-based **Go90**, **Comcast Watchable** and T Mobile's **BingeOn** (with free data for select SVOD provider binging) are making the most of mobile viewing trends and data network capabilities. Look for them to continue seeking new partnerships and carriage agreements, and building compelling service and content packages, going forward.

"In Q4 2014 research, The Diffusion Group (TDG) estimated that the average weekly time US Internet users spent watching OTT TV would rise 425% between 2014 and 2020, from 3.6 hours to 18.9 hours. In 2015 alone, time spent with OTT programming was expected to nearly double to almost 7 hours per week."

– ***eMarketer***

"Seventy-seven percent of U.S. adults said they would like "à la carte pricing" which would allow consumers to pick their own channels. Only 23 percent said they would prefer bundles."

– From Reuters/Ipsos poll, as reported in *Reuters*



Bundling Gets Creative

Networks, pay TV providers, and mobile carriers are all looking at strategic ways they can make the most of their content and infrastructure to create compelling consumer service offerings–particularly for Millennials. AT&T partnered with **Hulu** for mobile and Internet customers, and Time Warner has a **new Internet TV** service. **Cablevision** in the U.S. has a cord-cutter package linking broadband, OTA digital antenna and in some areas, wifi phone service—but no base video networks. The slimmed-down Verizon Fios **Custom TV** bundle starts to give a glimpse at what a pay TV **à la carte** world might look like, and networks like **ESPN** and Fox haven't been happy about it. And, Comcast's "mobile-first IPTV service," **Stream TV**, which focuses on broadband-only customers without impacting their XFINITY data plans, has been rolling out in select markets. Look for even more services to come.

Other regions are in the game as well. Live-streaming **ITV Hub** and the **Freeview Play** connected TV service are some of the U.K.'s new offerings in the space. All this activity makes it clear that the expansion of mobile and broadband network data capacity and connected screens is going to be critical for future revenues and growth throughout the sector.

TAKEAWAY

OTT is undoubtedly part of the mainstream content experience now, whether it's broadly or narrowly focused. The industry is experiencing déjà vu: harkening back to a time when broadcasters first faced the rise of cable. Look for re-aggregation of content and services by multiple players as competitors, partnerships and opportunities in the space expand.

TECHNOLOGY

Providers are going big on technology but also getting back to basics. They've realized that infrastructure, wired or wireless, is their competitive advantage and profit-driver in this new order. As screens get both smaller and larger, the consumer experience is key to survival.

"Maybe it's time to stop calling them 'cable TV' companies. 'Connectivity is our No. 1 product now; it is no longer video... That is a significant change to our model."

– *Deadline.com*, quoting Cablevision CEO Jim Dolan

Broadband is the New Black

The bright spot for pay TV providers like **Comcast** is broadband, which continues to provide higher profits than video. Broadband home growth driven by OTT gains is helping to offset the higher programming costs and the decline in video revenue caused by cord-cutting. In fact, **57% of broadband households** in the U.S. are OTT subscribers these days. Broadband is a strong alternative to video, one the networks don't have. That's true for larger operators like Cablevision and for the **smaller operators** who may be most likely go back to basics, making broadband more of their future focus. The largest cable providers currently **control 60% of the broadband market**. Look for them to continue lining up their chips for data delivery vs. video, and expand **usage-based** broadband pricing and data caps as demand grows.

In emerging global markets like **Mexico**, mobile broadband is driving further video expansion. Mobile data **traffic** is increasing everywhere due to rising amounts of video and users. The video share of total mobile traffic is forecast to **grow to 70%** in 2021 and smartphone subscriptions worldwide will rise to 6.4 billion by then, driven by developing markets. Look for the broadband and wireless to keep influencing the content bundle. **Larger offerings** (like BT's **quad-play** in the U.K.), faster data speeds with **4G LTE** in regions like Asia, lower device costs and more robust and connected screens will all play a role in that.

> "For the first time, the country's No. 1 cable provider... has more Internet subscribers than cable subscribers, Comcast executive Neil Smit said during an earnings call Monday."
>
> – ***New York Post***

Super-Sized TV is the Way Forward

As OTT rises and streaming media now **reaches 70%** of peak North American Internet traffic, it's no surprise that **smart TV** and connected TV video-streaming devices also continue to lure audiences back into the living room. Remarkably, roughly **10% of Americans** now stream video to a connected TV every day, and streaming media homes **will likely overtake** pay TV homes in 2016. **Chromecast is now tops** among streaming media devices, while Samsung leads among smart TVs. Look for exclusive content deals and better streaming quality to be key differentiators going forward. Another differentiator will be improved search and discovery functionality for a better user experience, such as via **Tivo's** online streaming offering for DVR and live content.

Pay TV providers are starting to use different strategies to deliver linear and streaming TV. Comcast has been investing heavily in their X1 set-top boxes and ancillary **home products**. The flexibility of the **cloud** is becoming more important to operators like Charter, who wisely foresee a time when cable boxes become extinct. This is also true for media companies creating content workflows for 4K and other formats. Operators like **DirecTV** continue to see 4K as a **differentiator** as **4K TV** sales rise, as companies like Roku deliver 4K streaming devices, and producers like the U.K.'s BT catch up with **content**. With rising interest in streaming and in-theatre-like experiences in the home and **on the go**, it's no wonder that the industry is looking ahead to a new and more immersive reality.

> "US connected TV viewers will top 200 million by 2019, up from around 140 million this year."
>
> – ***eMarketer***

Virtual is the Face of Reality

As **virtual reality** (VR) technology moves further into the consumer arena, the industry is keenly interested in its potential impact on storytelling, audiences and revenue. In the broadcast sector, live events (think **sports** and music) and games will help pave the way for VR adoption. "Immersive journalism" could connect audiences with major news **stories** in dynamic new ways. That means that **mobile** and **gaming** devices will be important entry points.

Both old- and new-guard companies like Turner, Hulu, Google and **Facebook** are investing in VR technology, apps, content and ads. Time will tell if VR will become another 3D TV (with a similar obstacle of clunky viewing gear) or a true game-changer that moves us into a future where we won't even need **screens**; we'll all just live happily among the content.

> "Oculus, Sony, HTC, and MergeVR are all shipping VR headsets to consumers within the next year. Analysts forecast 12.2 million VR headset sales in 2016."
>
> – ***Fortune***

TAKEAWAY

Technology will continue to steer both industry and consumer in new and exciting directions. Look for mobile to drive broadband, streaming media, and immersive content in the future, cementing its role as a personalized and omnipresent content hub.

PROGRAMMING

On the content front, operators and broadcasters are catching on to the importance of data. Within OTT, live linear and genres are beginning to rise, and sports is still the Holy Grail everywhere. Binge-watching is big but not always best. Originals will build global brands as both fragmentation and expansion continue, and OTT is creating premier content previously reserved for their linear frenemies. Welcome to The Golden Age of Television Across All Platforms.

> "We are just a learning machine. Every time we put out a new show we are analyzing it, figuring out what worked and what didn't so we get better next time"
>
> **– Reed Hastings, Chairmand and CEO of Netflix, as quoted on *CSNBC.com***

Fragmentation Grows & Brands Evolve

Consumer movement across platforms has created a domino effect in how content is made, distributed and monetized. The success of mainstream OTT has brought a multitude of new players to the scene, players who once might have gone to broadcast or cable. That creates more content opportunities for producers, more **fragmentation** of outlets for audiences, and more complicated global and multi-platform content rights systems for distributors.

Networks are giving shows longer to find an audience again, and those audiences are likely to be more targeted. The **great expectations** for audience sizes even from earlier this decade are a distant memory. With over 400 scripted shows on TV and a trend toward year-round programming, there's **more content** now than most of us can absorb and share.

Amazon and Epix want to help by offering downloadable **offline** content for playback. YouTube is **seeking** streaming rights for premium content, too. **Netflix will spend $5 billion** on content next year. They and other premium OTT services continue to prioritize **original** and exclusive content with **top talent** over library acquisitions–the better to stand out and grow in a crowded marketplace. They also continue to explore new types of originals, like feature films, and curate content for specialized audience segments like teens. Look for that to continue as they solidify their brands, expand internationally, and reduce their supply reliance on the networks. The networks, meanwhile, are pushing for **more branding** on OTT services, as audiences have trouble remembering who makes their favorite programs anymore. **ABC**, for one, is pushing to differentiate itself with original series for its TVE app.

Serialized content is back in favor in a binge-happy streaming world. Over **90% of Tivo users** are binge-viewers who use the service for watching catch-up TV and avoiding ads. But many viewers still lament the loss of a shared watercooler experience from the days of appointment viewing. **Hulu** has agreed, launching its new series like *Casual* and its revival of the former Fox sitcom *The Mindy Project* on a traditional TV weekly premiere schedule rather than launching the entire season at once. Data continues to provide rich insights in this area; Netflix noted that 70% of viewers **who got hooked by a key episode** went on to watch the whole season. That's partly why an all-at-once launch strategy helps form passionate fan bases, and this could guide Netflix and other outlets as fan genres like sports come more into play.

> "The top 25 TV networks, broadcast and cable, in terms of viewership–which in theory is what most consumers would want–amounts to 75% of all TV viewing. Those 25 networks garner 57% share of all subscriber fees."
>
> **– MoffettNathanson Research, as reported in *MediaPost***

Sports Rule & Genres Rise

Sports (particularly **live sports**) continues to be the most expensive and most sought-after TV content around the globe. (Just ask **Discovery Eurosports** and **NBC**.) That's a key reason consumers stick with and **come back** to pay TV, and also why **ESPN** has resisted launching its own OTT service. Sports is a driver for **TVE**, and 4K and mobile continue to be drivers for sports. In the U.K. and Ireland for example, Ooyala has **found** that more than 45% of sports viewing occurs on smartphones and tablets.

Everyone is trying to get in on the game. Operators have emphasized sports in new offerings–Verizon Go90 for example, has NBA content. **Yahoo** streamed the first regular-season NFL game to over 15 million viewers. CBS All Access could eventually carry the **NFL**; it has already **streamed** some live NFL games to mobile devices. But Netflix is interested in live sports **only if they can own** and build the event themselves.

Ooyala recently looked at **sports streaming habits** across top U.S. sports markets to examine regional differences and help providers with their content targeting strategy. Going forward, look for sports content providers to focus on insights like these and on **rights deals** that can work across platforms. Also, look for providers to continue prioritizing video performance quality and speed, which according to *eMarketer* **research** is particularly important for sports fans who don't want to miss a play. Additionally, according to ***SNL Kagan***, nearly 90% of OTT sports subscribers also pay for a multichannel TV service, enabling avid sports fans see all of their team's games despite factors like game blackouts and travel.

Niche OTT content is also growing among other fanbases. AMC is scaring up thrills with **Shudder**, while Netflix is looking at news, **Bollywood** and anime content. Children's content **remains key** for SVOD players, broadcasters like the BBC with its kids **iPlay**, and premium content providers like HBO. It's also attractive to parents looking for year-round content and ad-free environments. Celebrities are also looking to control their own destinies through owned **apps** and live streaming video, which can provide them with direct audience relationships, greater earnings and easy social sharing. Look for all of these areas to expand, as live content across genres, platforms and the globe is the next big thing.

> "Among consumers who have cut the pay-TV cord within the last two years, but have expressed an interest in subscribing again, 39% say sports channels are a reason to return, according to the survey commissioned by One World Sports."
>
> **– *Multichannel News***

Live Expands & International Gains

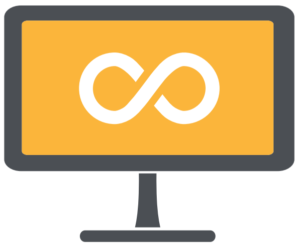
Live linear TV delivered via OTT is becoming a core need for providers who want to remain competitive and grow. This is particularly true as sports and news remain key **content** categories. **Globo** understands this; it recently became the first Brazilian broadcaster to offer live and VOD content in an SVOD service. Amazon is **thinking about live**, too. So are networks like **Nat Geo**, and Comcast through its **XFINITY Share** app.

Social media companies like **Facebook** are embracing live streaming video as well, bringing more competition to the **space**. 2015 saw the explosion of live streaming video from the likes of Periscope (**Apple's** app of the year) and Snapchat, which got nearly 25 million **views** for a live 24-hour snowstorm video before it disappeared, as Snapchat videos are wont to do. Look for live streaming to heat up as a real-time connector of people around the globe.

OTT services are also rolling out internationally with local content. These include France's freemium service, **Molotov**, which provides live streaming and a large selection of French and international channels. **Netflix** continues to prioritize local content internationally, with plans to be in 200 countries by the end of 2016. The company is trying to differentiate itself in **Asian** markets like **Japan**, where audiences are used to free TV options. **Starz Play Arabia** launched in the Middle East and Africa, with some of the channel's top programming and local partner content, too. Look for China as a market to watch, as providers set their sights on the enormous opportunities there. Live and local programming is sure to appeal not only to providers and audiences worldwide, but to advertisers as well.

Live linear content is important or somewhat important to 81% of respondents (broadcasters) - “Over-the-top Video Delivery” report infographic, Level 3 Communications and Unisphere Research.

– as reported in *StreamingMedia.com*



TAKEAWAY

The rise of OTT has created a bonanza of available video and an endless amount of program time to fill. There’s now truly something for everyone around the globe, whether it’s mass-market or niche, live or on-demand. Data will help sort it all out. The next big viewer question is: How do I find and manage what I want, and who will help me do that? Look for more companies to try to gain market share by helping consumers organize their content and spend their video time and dollars wisely.

ADVERTISING

The ad industry continues to be dynamic. Cross-platform measurement is driving more platform convergence, retenching, consolidation and data-driven automation. As companies grapple with shifting audiences who are tiring of the ad experience in general, the focus is turning to better ways to reach viewers in the ways they want to be reached.

> “The marketplace has shown that data is overwhelmingly the new currency.”
>
> **– Peter Naylor, SVP Advertising for Hulu, quoted in *Adweek***

Ratings Conversation Changes

Viewers continue to drift from linear TV to digital platforms. TV ratings are still nosediving, led by networks focused on Millennials, even though **only 30% of their viewing time** is spent watching live TV. Ad dollars will continue to follow audiences; in fact, U.S. digital ad spend will **surpass TV spend** in 2016. Audiences have historically been **hard to measure** away from TV, but the arrival of cross-platform ratings like **Comscore’s Xmedia** and **Nielsen’s Total Audience Measurement** has answered the industry’s cries for help.

Current measurements suggest that viewers have stopped watching TV content, but in reality they’re just watching it someplace (and sometime) else. **Fox has decreed** that overnight ratings are obsolete, particularly for their Millennial audience, because OTT viewers are happy to watch shows 2 days or even 2 years after their original air date. Look for ad dollars to keep moving to OTT, **TVE** and **connected tv** devices in response. Also, look for **cross-screen attribution** to become the next mile-marker on the journey towards full audience tracking.

Companies like **Time Warner and Viacom** are also trying to change the ratings conversation. They want to move away from guarantees based on Nielsen ratings that often miss viewers, and focus more on interactions or impact on purchase habits. In addition, networks are increasingly focused on **better targeting** through **data** to help advertisers (and themselves) make smarter decisions. Companies like Cablevision and Comcast are also interested in **selling viewer set-top box** (STB) data to networks. Look for data to be the vehicle that drives ad transactions going forward, particularly as the industry moves closer to true programmatic TV.

> “A report from FTI Consulting claims digital ad spending will surpass TV spots this year. The report predicts digital ad spend will jump 11% to hit $41.8 billion in 2015, whereas broadcast ad revenue will increase to $38.9 billion.”
>
> **– *AdExchanger***

Programmatic Pushes Alignment

Besides aiming for better ratings and **targeting platforms**, companies are turning to programmatic advertising to make better use of their full digital and linear video portfolios. **70% of U.S. advertisers** have moved at least some of their TV budgets to programmatic video, driven by the need for more precise audience targeting. The industry is waking up to the opportunities and efficiencies of programmatic trading. It can link inventory, data and audiences, including for video and mobile. **Hulu** is offering programmatic for its premium video inventory, and **Dish** is using a programmatic TV platform for addressable TV ads. Fraud and viewability are problems for digital video, but increases in premium inventory and better metrics will help address those. Look for increased consolidation in the advertising industry as a response to all of this convergence.

Private programmatic marketplaces (**PMPs**) like the Aunia marketplace for broadcasters in **Spain** are also on the rise. Ooyala recently **reported** that in Q3 2015, the number of overall deals made using private programmatic more than doubled, at a quarter-over-quarter rate of 103%. With the benefits PMPs offer in increased inventory controls and revenues, and with advances like **header bidding**, look for open auctions to decrease in use over time.

Challenges remain for the rollout of **programmatic TV**, specifically regarding the standardization and full automation needed for more active buy-in from all participants. Those will continue to improve as audience-first approaches gain favor. Look for 2016 anchor events like the presidential election in the U.S. and the **Summer Olympics** to be catalysts that drive more rapid experimentation and adoption in the space. Better forecasting tools and more personalized ads tailored to screens, as with **dynamic ad insertion** (DAI), will become key differentiators and revenue-drivers for companies who make those smart investments in the coming year.

Look for **mobile** to be a programmatic driver as dollars catch up to viewers. This will be particularly true in emerging regions like **Latin America**. Also, look for more personalized ads that are customized for the **screen** experience, as **marketers** and broadcasters try harder to reach audiences who want to avoid them.

> "According to eMarketer's latest forecast, by 2017, programmatic will account for 65%, or $7.43 billion, of total online video ad spending of $11.4 billion."
>
> **– *Videonuze***

Ad Avoidance Rebellion Grows –

Ad avoidance is a key challenge for content providers today. More audiences (especially Millennials) are blocking ads, skipping them or simply opting for ad-free OTT environments. Consumers often pay little attention to the implicit value exchange that requires them to pay for content with their time or their money to keep the entire ecosystem in balance. Networks like TruTV have been **chopping** linear TV ad time to appeal to Millennials who have moved to services like Netflix (still **ad-free**) or the higher priced, reduced-ad version of **Hulu**. Tivo's **ad-skipping DVR** isn't helping matters. In **Australia**, viewers are bothered by catch-up TV ads that they don't have to endure on SVOD.

Online broadcasters aren't having an easy time of it either. Consumers used to skipping ads on their DVRs are now using ad blockers to do the same online. Ad blocking is **still highest in Europe**, according to *eMarketer*, and has grown into a huge global problem driven by Millennials -- and in some ways, by the industry itself. A recent study noted that **over 60% of online viewers** would be more agreeable to advertising if they could have control over the ads they see, and over 40% responded favorably to personalized ads. The same study showed that nearly 50% of mobile users dislike ads in video content.

It's no wonder then that mobile users are excited about mobile ad blocking via Apple's **iOS 9**. The 2016 **elections** in the U.S. will be influenced in part by whether target audiences even see campaign ads, particularly digital and mobile ones. In response, look for smarter ad blocking technology that unlocks ad inventory; more targeted **interactive ad creative** and compelling website environments; **deeper personalization** based on screen types; and hybrid monetization models. All will help address these issues and improve communication with audiences, as the industry works toward improving the ad and content experience for all.

> "The global cost of ad-blocking, meanwhile, is likely to reach $41.8 billion before 2016 is over."
>
> **– From PageFair and Adobe report, as reported in *PCMag***

CONCLUSION

As OTT steps into the spotlight, so do new methods and opportunities to drive growth and revenues in the broadcast industry. The answers are already here: The smartest companies will remain strategically focused on the sweet spot where audiences, data, content and technology meet.

TAKEAWAY

The advertising industry is finally beginning to realize its dream of finding consumers efficiently across the video universe. Look for rapid ad tech advances and new formats to drive even deeper value and innovation in the coming year, as companies test them out during the major events of 2016.

> "This is a time of transformative change in our industry. It's the kind of change that demands equal measures of clear thinking and of calculated risk-taking."
>
> **– Lachlan Murdoch, Exec. Chairman, 21st Century Fox, as quoted in *Broadcasting & Cable***