

State of the Broadcast Industry 2019

Broadcasters and OTT: It's all in the family

INTRODUCTION

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It's hard to believe that just a few years ago, streaming was the supplement to traditional broadcast television and pay TV. There were issues with quality of service, quality of experience and the belief that any major event — the Super Bowl, the World Cup or any other major happening streamed live — would “break the Internet.”

Netflix's move into streaming video on demand was met with a shrug of shoulders and, occasionally, outright dismissal. Remember, in 2010, when Time Warner CEO Jeff Bewkes compared **Netflix's chance of disrupting the traditional TV ecosystem with that of the Albanian Army taking over the world?** Or, when former NBCUniversal boss Jeff Zucker — in 2008 — cautioned that the industry “not end up trading analog dollars for digital pennies?”

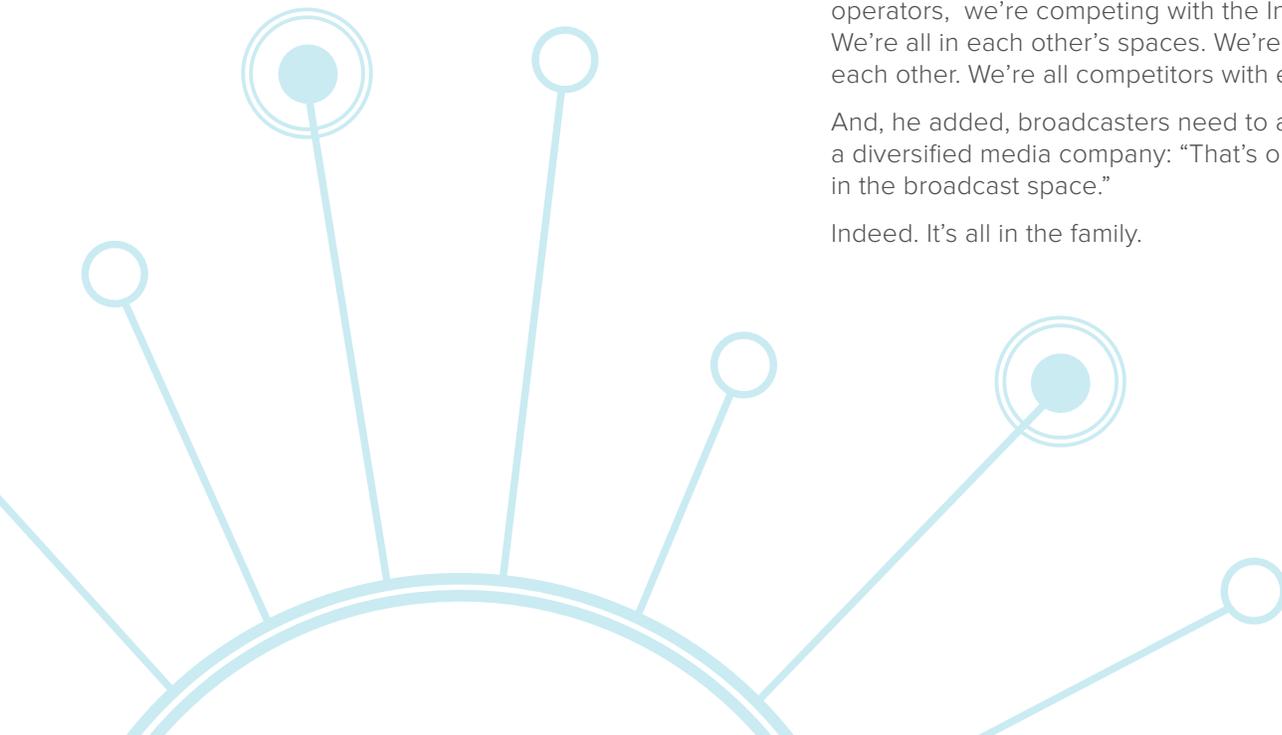
In less than a decade, Netflix has become the world's first — and biggest — global television channel. Time Warner has been gobbled up by AT&T and, along with NBCUniversal parent Comcast and Disney, is a partner in streamer Hulu. AT&T this year plans to launch multiple streaming services, and NBCUniversal CEO Steve Burke hinted at a **potential streaming service launch** in the company's annual holiday card earlier this month. Broadcasters CBS and NBCU have turned selling content to streamers into an art, even calling out impressive revenue streams from OTT sales as highlights in quarterly earnings calls.

That, more than anything else, shines a bright light on the future of broadcasting and the future of streaming. The kinship — like it or not — streamers and broadcasters share is at the core of this year's *State of the Broadcast Industry* report.

As Christopher Ripley, Sinclair Broadcast Group's president and CEO, said: **“The notion of a separate broadcast space is totally antiquated.** We're competing with the diversified media companies, we're competing with the telecom operators, we're competing with the Internet companies. We're all in each other's spaces. We're all customers of each other. We're all competitors with each other.”

And, he added, broadcasters need to adopt the mindset of a diversified media company: “That's our space. We're not in the broadcast space.”

Indeed. It's all in the family.



CONSUMERS

Gen X, Boomers Join Millennials in OTT Adoption

A headline in *The Washington Post* — way back in 2014 — said: **TV is increasingly for old people**. The story was based on a report from MoffettNathanson Research, which found that the median age of viewers watching broadcast or cable television had increased 6% to 44.4 years old over the previous four years. ABC, CBS, NBC and Fox audiences for major shows were even older — 53.9 years old, up 7% from 2010. CBS's audience averaged 58.7, while Fox had the youngest broadcast audience, with a median age of 47.8 years.

“The shift in demographic viewing is caused by a combination of factors ranging from lower TV penetration rates of under-25 year old households to increasing use of time-shifting technologies in most under-55 year old households,” the researcher wrote.

While older viewers remain the lifeblood of traditional broadcasters, increasingly, they too are adopting OTT.

“The core demographic which drives a large proportion of television viewership (50-64) is now starting to see **viewership shift to OTT platforms**,” researcher Barclays wrote in a recent report, noting that online video consumption in the U.S. is growing across all demographics. Among adults 50-64, OTT viewing increased 45% between 2016 and 2017; among adults 65+, viewing was up 36%. A report from subscription services company Paywizard found that older audiences globally also are jumping on the OTT bandwagon, with **42% of consumers 45-54 years old having at least one SVOD subscription in 2016**, up from 25% a year earlier. In 2017, nearly one-third of consumers 55+ subscribed to a video service, up from 19% in 2016.

A Q3 2018 Kagan survey of U.S. consumers, meanwhile, showed that VOD-only viewing among Internet adults had doubled to 12% from 6% a year earlier. The number of respondents who said they watched broadcast TV only declined to 36% from 40% and respondents who said they watched mostly VOD and some broadcast TV increased to 14% from 11% a year earlier. Boomers and the Silent Generation - those born before World War II - showed the biggest shift toward VOD.

An even better indication of how viewing is changing? 18 to 34-year-olds spent just 25% of their media consuming time with the TV, compared to 58% on connected devices.

There's no doubt that, as **Nielsen's Q2 2018 Total Audience Report** showed, traditional TV remains the most-used device for watching content in the United States, with 42% of American adults' media time being tied to the TV. But Among viewers 35-49, those numbers were 35% and 48% respectively. Clearly, multiple devices have become the norm, rather than the exception, with Boomers and even the Silent Generation learning new ways to connect with content. Technology has made it simpler.

“With the increased penetration of subscription video-on-demand services, we have also seen increases in the use of devices used to stream content” said Peter Katsingris, SVP of audience insights at Nielsen. “This is happening across all races and ethnicities as consumers continue to have the unique ability to choose the content they wish to view. Empowerment of content choice appeals to everyone.”

The pace of change is accelerating. Broadband delivery and skinny bundles are a transitory step toward mobile delivery over next-gen 5G networks that will open the door to true *à la carte* services that make content from anywhere available everywhere, and on any device.

Buying Bigger, Connected, 4K Screens

While mobile viewing soars, size still matters to a majority of consumers, as sales of larger-screen TVs have shown. The NPD Group found that 40% of U.S. consumers who replaced a TV between October 2016 and October 2018 said they wanted **to purchase a bigger screen**. TV sales of 55-inch and larger screens grew 6% and represented 63% of dollar sales and 32% of unit sales in the 12 months ending October 2018. Screens of 75 inches and larger now make up 10% of dollar sales.

“Consumers are purchasing bigger and better TV screens, especially for the primary viewing room — the living room — and we expect that trend to continue beyond the holiday season and into the New Year, as manufacturers and retailers gear up for Super Bowl sales,”

— **Stephen Baker, vice president, industry advisor for the NPD Group.**

Consumers also have gone all-in on 4K UHD screens, with researcher Futuresource predicting double-digit growth into 2022 as UHD TV shipments “power past 100 million units” in 2018. High dynamic range (HDR) likely will be included in more than half of 4K UHD TVs sold worldwide in 2018, said Tristan Veale, market analyst at Futuresource. China is making APAC the world-leader in 4K shipments, followed by North America. Europe should see 4K UHD TV shipments increase 30% in 2018. Futuresource also called out the growth of UHD-compatible media streaming devices, which have increased 85% year-over-year in 2018, and make up nearly half of all media streamer shipments.

The driver, of course, remains SVOD services, especially Netflix. Veale said 20%-30% of consumers “have opted for the UHD premium tier.” Broadcasters have upped their UHD game as well. The promise of 4K and UHD content



from the Winter Olympics and FIFA World Cup helped drive consumer interest and prompted more broadcasters to make those streams available.

Cost remains a concern, but Veale noted that IP delivery could help reduce costs of simultaneous HD and UHD delivery in the short term. ABI Research industry analyst Khin Sandi Lynn agreed, saying 4K is “quickly becoming the standard for TV sales.”

The transition from HD to 4K is expected to spur growth, especially as 4K content becomes more widely available to viewers. ABI said it expects there to be **more than 600 million homes worldwide with a UHD TV by 2023.** Nearly two-thirds of North American homes will have a UHD TV by 2023, with the Asia Pacific region supporting over 275 million sets.

Obviously, those TVs will be Internet-ready as SVOD continues to drive expansion. In the U.S., **83% of smart TV owners have connected their devices to the Internet,** according to Parks Associates, up from just 70% four years ago. At the same time, ownership of streaming media players has increased to 40% of U.S. broadband households from 21% in 2014. Those additional connections create additional opportunities for streaming and OTT services.

Globally, there are more than one billion connected TV devices in use. Smart TVs have nearly 60% of the total installed base of devices.

“The popularity of connected TV devices, in particular Smart TVs and dedicated media streaming devices such as Roku, Amazon Fire TV and Chromecast, has grown dramatically over the last few years and has led to a fundamental shift in how consumers view and engage with content on the TV set,” said David Watkins, director at Strategy Analytics. “We expect more than 55 million digital media streamers to ship globally this year although this will be overshadowed by the 150 million plus Smart TV market.”

Will Antennas Make a Comeback?

TV antenna shipments grew 2% in 2018 and are up 8% since 2016, surprisingly. But the likelihood that they play a prominent role in TV’s future is a small one. In the era before pay TV virtually every house in every neighborhood had a TV antenna on the roof that pulled in — if you were lucky — two networks... and perhaps PBS. Then came pay TV, a flood of hundreds of channels, and a monthly bill that now tops — according to conservative estimates — \$107 a month.

So, it’s no surprise that bargain-hunting consumers have turned back to an older technology. If viewers are lucky and live within range of various broadcast towers, antennas designed to take advantage of the switch from analog to digital broadcast signals in 2009 can pull in several iterations of all the major networks, PBS, several smaller networks and whatever local broadcasters are available. But the market is a small one, just over 16 million TV homes (about 14% of U.S. HH), which is up from 12 million four years ago. And it’s decidedly older, about 50, much like the majority of the traditional TV audience itself.

“The market is primed right now,” **Joe Bingochea, president of antenna manufacturer Channel Master, told the *Los Angeles Times*.** “We’re trying to capitalize on it as much as we can.”

INDUSTRY

New OTT Services Aren’t Saturating the Market, they ARE the Market

Is the influx of new OTT services creating saturation in the market? Not by a long shot. While there’s likely a limit as to how many SVOD services users really are ready to pay for, that upper limit hasn’t yet been reached. And, as we see more channels become available a la carte, that limit may continue to rise, especially as younger consumers — who see streaming as the norm — grow older.

Consider:

- ◆ Nielsen says **Americans watch in excess of 8 billion hours of content monthly** on connected TV devices alone
- ◆ Netflix claims its original movie, *Bird Box*, was viewed by 45 million accounts in its first week
- ◆ Pew Research Center reported that **61% of 18-29 year olds watch TV primarily via streaming services**
- ◆ 47% of adults 22 to 45 **watch no content on traditional TV platforms**
- ◆ Among all adults **28% said they “usually” use a streaming service to watch TV**, up from 20% a year earlier

For the first time ever, more Americans said they found their newest favorite show on Netflix (32%) than on any other specific outlet (26%), per a recent Hub Research report, *Conquering Content*. 57% said they watch their favorite show online, up from 43% in 2015.

Nearly half of consumers told Hub that there are “so many shows it’s hard to know where to start” (49%, up from 42% in 2014). But, that’s not a measure of saturation, it’s more an indication of evolving discovery mechanisms used by younger audiences that eschew advertising. More than one-third (35%) of online viewers said they found out about



a show via word of mouth or on social media, and 29% said they heard about it through advertising. For traditional TV consumers, 54% said they found out through advertising (just 20% cited word of mouth or social).

Bottom line: Subscription and ad-supported OTT services are steadily replacing traditional content delivery and there's no end to the opportunity to create connections with a global audience. OTT *is not* traditional TV. It thrives upon consumer choice, often random interaction, the convenience of viewing when, where and on what device a consumer wants to use. It thrives upon its own ability to iterate to respond to the changing conditions of the new TV environment.

More than 76% of America's 128 million broadband households take at least one major streaming service — Netflix, Amazon or Hulu — according to The Diffusion Group. Another 8% take a virtual pay-TV service like YouTube TV or DirecTV Now. A Deloitte study found **the average streaming household subscribes to three services**, and that doesn't include ad-supported services.

“Consumers now enjoy unparalleled freedom in selecting media and entertainment options and their expectations are at an all-time high,”

— Kevin Westcott, Deloitte's vice chairman for U.S. media and entertainment.

The United States was expected to have **168 million aggregate OTT subscriptions generating \$13 billion in revenue** by the end of 2018, according to researcher S&P Global. New services like ESPN, AT&T, Turner Sports and Crown Family Media Networks experienced strong traction. S&P Global sees subscriptions topping 208 million by the end of 2022 as more new services join the market, including NBC Universal and “a bunch of different” plays from parent Comcast.

Premium **OTT services are predicted to grow at an average CAGR of 9.7% by 2020** globally, with much of that growth coming from local, niche and direct-to-consumer (D2C) providers, according to researcher MTM, which posits:

- ◆ The U.K. will be Western Europe's largest premium OTT market, with revenues increasing to \$1.63 billion by 2020, from \$1.18 billion in 2017
- ◆ Netflix, Amazon and Hulu will continue to dominate U.S. SVOD services, but will be pushed by D2C bids from broadcasters and content creators as well as live sports. Revenues are forecast to hit \$21.22 billion in 2020, up from \$16.38 billion in 2017

- ◆ APAC will see regional players like iFlix, HOOQ and Viu leverage local content and affordable prices to carve out a significant niche in the market. Lower starting points will drive higher CAGR in the region, in some cases as high as 40% (Indonesia), with Australia's market increasing 14.5% to \$420 million by 2020 from \$280 million in 2017
- ◆ Latin America's increasing broadband availability — wired and wireless — will drive growth, with Mexico becoming the region's largest market with 2020 revenues forecast at \$678 million, up from \$410 million in 2017.

Content Growth Drives OTT Growth Drives Content Growth, Etcetera

The amount of content going over the top continues to grow as the number of subscribers and services grows, a new-media virtuous cycle that will continue as OTT adoption grows.

There are expected to be **more than 777 million global SVOD subscriptions by 2023**, more than double the 368 million there were in 2017. Netflix is forecast to have 192 million subs, about 25%. About 351 million of those subs will be in APAC, with China contributing 235 million. The U.S. is forecast to have 208 million subscriptions, an increase of more than 76 million since 2017 in one of the most mature markets in the world.

At the start of 2018, consulting firm **Deloitte said there were some 375 million OTT subscribers globally**, and posits that in developed countries 20% of adults had at least five subscriptions to online media services from video to music and books. That number, it said, is expected to double to 10 by next year.

In the U.S. alone, there were more than 200 streaming services available to consumers, with a lot more poised to join the fray by the end of this year. AT&T has committed to a three-tier array, Disney plans to roll out its D2C play by the end of the year and Apple, well, it has announced a content play but it's moving at a glacial pace.

Regardless, each will need content. In the case of AT&T, its entertainment group chief, John Stankey, reportedly told HBO staffers that the company should expect to see the pace of content creation accelerate markedly, because to succeed in today's marketplace, HBO had to be more like Netflix... a daily, rather than weekly, destination.

Also in play will be the number of virtual pay-TV services like YouTube TV, DirecTV Now, Philo, Sling TV and more. And, in an effort to maximize content library exposure, more content owners will slice and dice those libraries into thinner pieces, hoping that offering niche collections of content will generate more multiple-subscription customers. That “less-is-more” recipe could pay major dividends, especially for companies like Disney, which has deeply siloed content categories, more so now that it's acquired Fox.



Regardless of existing libraries, the consumer demand for new content appears insatiable.

2018 saw a record **495 scripted shows available to audiences in the U.S.**, up from 487 in 2017. Streamers rolled out 160 originals, compared to 146 for broadcasters and 144 on basic cable. That number likely will hit 525-550 in 2019. Production of originals for the European market also is accelerating. Netflix, for example, plans to produce or co-produce **221 projects in Europe next year** — up from the 141 it's put together in 2018. In addition to giving audiences the local, original content they crave online, those assets will go a long way toward satisfying pending laws from the European Parliament requiring 30% of streaming services' libraries to be content of European origin. That increase will demand a response from European content distributors as Netflix plans "10 to 12 (shows) in each country" and possibly more in some markets, up from the current handful.

Ampere Analysis calculates that the merger of Disney with Fox will result in **the combined company spending a staggering \$22 billion for content**. Comcast's acquisition of Sky will result in nearly \$21 billion in original and acquired content spend by the end of 2018. The combined \$43 billion represents about 20% of global spending on content. Netflix — which has been rumored to be on track to spend as much as \$13 billion this year — is actually a somewhat distant third.

But it does underscore the trend toward content creation consolidation, the desire to create huge content empires that can share costs in an effort to keep expenses in check. That, of course will continue as traditional media looks to fend off the rising tide of online video.

Combining Strengths to Create Digital Powers

Bigger is better, and nowhere is that more obvious than in the U.S. media space, which saw more than \$323 billion of announced media deals in the first half of 2018 alone. Increasingly, media companies are learning that they "**need scale**" to compete, as 21st Century Fox Vice Chair Chase Carey said last year: "To be successful, you either need scale that enables you to compete with the world you are heading into or really unique franchises that enable you to distinguish and build value off those unique strengths." Last year's first-half deals were up 440% over the same period in 2017 and, while the size of the deals may slip a bit this year, the mergers and acquisitions are expected to continue.

Carey sees the issue as scale, especially in terms of media libraries. Others see it as a shift in philosophies necessary to move forward in an increasingly technological space, with the idea of broadcasting being a stand-alone category an "antiquated" one, as Christopher Ripley, Sinclair Broadcast Group's president and CEO said. "**We're competing with the diversified media companies,**" Ripley said. "We're competing with the telecom operators, we're competing with the Internet companies. We're all in each other's spaces. We're all customers of each other. We're

all competitors with each other." Sinclair, he said, is moving toward becoming a diversified media company because, "That's our space. We're not in the broadcast space."

It's the resources of tech companies like Amazon, Google and Apple — not to mention Netflix — that have the media industry looking for acquisition targets that make them more able to compete. AT&T's acquisition of Time Warner could be a game changer for the telecom and a harbinger of how the industry will evolve. AT&T will combine its ability to deliver residential gigabit Internet and 5G wireless with the content power of Time Warner's properties to create multiple streaming products that — it hopes — will appeal to Millennial audiences. And, in the process, have direct control over a huge piece of its content supply chain.

Media companies have struggled with how best to compete with streaming companies. The answer increasingly has been to compete in the same space.

TECHNOLOGY

The Dawn of a New Era — 5G (Sorry, ATSC 3.0)

5G — the next iteration of wireless networking — already has begun to roll out trials across the globe. As of mid-December, there were **192 operators in 81 countries already demonstrating, testing or trialing 5G** technologies, according to the Global Mobile Suppliers Association. More than two dozen wireless operators across the world are promising to roll out working models of the technology in the next few months. **Some, like Verizon, are already offering 5G home wireless service**, while others are offering limited mobile trials. They're ahead of the mid-2020 timeline for a broad launch globally and are likely to keep pushing the pace. This is definitely a situation where being first scores big points (and big numbers of subscribers).

If, and it's a pretty big if, **5G technology delivers on its promises** — the ability to deliver wireless gigabit Internet service, massive bandwidth, ridiculously low-latency video, and five-9s reliability — it's a game changer.

5G will have a huge impact for telecommunications companies. It's likely to launch a new cord-cutting epidemic as consumers cut their home broadband, will give a helping hand to AR & VR technologies, finally allowing lightweight, eyeglass-style wireless headsets, and may even bring 3D back into the conversation. It has that much potential.

Some estimates say **video could make up as much as 90% of all 5G traffic**. For OTT services, that means faster and smoother delivery of video, no buffering, higher resolution, a better, more engaging experience for users; for AVOD companies specifically, it will foster the collection of better, deeper data that could be used to better personalize advertising. Obviously, live delivery of sporting events has the potential to be better than over traditional broadcast or pay-TV delivery, especially by incorporating AR during games.



5G is designed to be a primary delivery service for video and data into the home, as well. Forecasters maintain OTT subscriptions eventually will dominate traditional pay-TV subscriptions globally as they already do in some markets. An added bonus? No more digging up subscribers' lawns to bring a signal from the street to the home. That would all be RF delivery.

Is ATSC 3.0 Really DOA?

ATSC 3.0 is broadcasting's Next-Gen TV, a technology that is transformative in its own right. It allows broadcasters to offer many more channels, services, interactivity, addressable ads and more. It's better able to manage bandwidth to the point where broadcasters hope to see a 4x-5x increase in channel and other data service offerings.

But the standards have been debated for years. Every major broadcasting conference contains multiple sessions to talk about its future, and several major players have promised to support it. The bigger problem may be a simple one: Consumers. Television sets need the right chips to take advantage of ATSC 3.0, so consumer electronics manufacturers have to be onboard. So far, that's a fuzzy screen

"It's time to declare ATSC 3.0 DOA," said Frank Aycock, a theoretical televisionist and professor at Appalachian State University. "Just like Mobile DTV before it, ATSC 3.0 has not lived (and is not living) up to the hype that heralded its introduction to the 21st Century Television audience."

Merrill Lynch analyst Jessica Reif also **doesn't see a bright future for ATSC 3.0 uptake.** Reif believes that it will take at least two more years for broadcasters to fully switch over to the standard, and for those chips to get built into new connected TVs and other devices and begin to be adopted.

Mark Aitken, President of ONE Media 3.0, sees a different path for ATSC 3.0: Convergence with 5G, based on the IP base of each technology. He **pitched the FCC in October on using 3.0** "as the baseline for terrestrial broadcasters to provide a new, combined broadcast and broadband, cloud-native network system architecture," based on a "virtualized, shared IP core."

The bottom line may be that 5G is already winning the content delivery race before it has even officially begun.

Is There Room for AR/VR?

Is this a pivotal year for virtual reality? Probably not. Consumers are still flirting with it — it's not a full-blown romance — but the numbers are good enough to keep it in play. The media industry, meanwhile, likely is willing to sit through a few more conferences where its potential is discussed... but little forward motion is seen. It has to be because of researchers who continue to place huge bets on its future, throwing around **CAGR numbers like 38%**,

and projecting that it will be the fastest-growing M&E industry by revenue over the next five years.

In the U.S. alone, VR is expected to grow to a \$7.1 billion market in 2022, up from \$3.1 billion in 2018, says **PwC in its Global Media & Entertainment Outlook 2018-2022.**

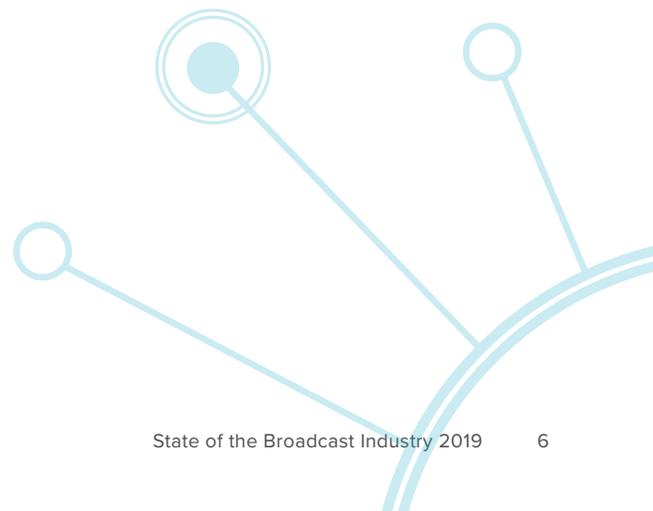
VR's growth has not been as rapid as many expected, primarily because of a dearth of content — aside from gaming — and the expense and weight of headsets needed to experience it. But PwC says it expects that by 2022, 175.2 million VR headsets will be in consumers' hands in the 10 markets it reported on, up from 37.6 million at the end of 2017.

A potential rocket that VR may be able to ride is the next-gen 5G wireless networks that should see moderate adoption by 2021 or 2022. 5G will allow manufacturers to scale back on the size of headsets — think Google Glass or *Minority Report* — and eliminate the need to be tethered to a computer. The reason? 5G networks are designed to handle significantly more data than 4G networks and even most residential Internet services.

One of the biggest issues that VR has faced — as did 3D several years ago — is the lack of general VR content. Virtual pay-TV provider Sling TV is trying to remedy that by **launching on Oculus GO VR Headset**, the first such service to offer streaming TV on the standalone virtual reality headset. Sling TV describes the experience as having "your own go-anywhere personal theater." ESPN and Fox Now also are available on Oculus.

Augmented reality is in a very different place: it already has found a home in the advertising industry and is projected to reach **revenues of \$60.55 billion by 2023**, up from \$4.21 billion in 2017. It also has seen rapid uptake from news, weather and sports broadcasters looking to layer more information onto assets for consumers, creating stickier engagements and truly immersive experiences.

Brands see AR as an opportunity to engage with consumers and give them a 360-degree tour of their products, creating unique experiences that include virtual tours, performance examples and more. Broadcasters will increasingly be able to use AR to deliver additional information, like allowing viewers to watch a football game on a TV screen while they track player performance analytics on their smartphones.



PROGRAMMING

Virtual Pay-TV Services Move into the Spotlight

Virtual pay-TV services — vMVPDs for short — have seen reasonably strong success in the past year. They've added an estimated 4.1 million subscribers in the U.S. over the past year, and **UBS estimates** they'll end the year with roughly 9.2 million customers. That's a drop in the bucket in the pay-TV world, but vMVPDs are expected to own about 25% of the U.S. pay-TV market by 2022, counting about 24 million total users.

In Q3, Sling TV and DirecTV Now added just 75,000 subscribers each, but remain the big dogs in the space. Nipping at their heels? YouTube TV, which is estimated to have seen the strongest growth through the year, and Hulu's live streaming service, which also has seen strong growth and claims more than 1 million subscribers.

"As these offerings continue to improve — closing programming gaps, adding features and improving transmission quality — and traditional TV consumption falls, we expect the streamers to become increasingly attractive," the UBS report noted.

Pay TV, meanwhile, had one of its worst quarters ever in Q3, losing more than 1.1 million subscribers. It's expected to continue hemorrhaging subscribers. eMarketer, earlier this year, said about 33 million Americans have cut the cord and forecast that number to climb to 55.1 million by 2022.

The primary reason remains a lack of perceived value for pay TV, poor customer service and seemingly inflexible infrastructure. By contrast, according to consumer satisfaction surveys, consumers have generally positive experiences with SVOD and vMVPD services, something that will drive the wedge between consumers and traditional pay TV even deeper.

In a USB survey, for example, one-third of respondents said they were likely or very likely to subscribe to a vMVPD with Hulu and YouTube TV as their most likely choices. Researcher SNL Kagan expects vMVPDs will hit \$2.8 billion in revenue this year, growing nearly 3X to \$7.8 billion in 2022.

But consumers' love of vMVPDs doesn't necessarily pay all the bills, as they generally pay less than half of the \$107 average pay-TV subscription costs of traditional pay TV (YouTube TV and Hulu Live are both about \$40/mo. for a range of channels that includes all the major networks and about 75 other channels, along with potential add-on movie channels and the like). And that means vMVPDs currently aren't money makers for their owners. In fact, Bernstein Research analyst Todd Juenger earlier this year estimated that YouTube TV loses about \$5 per customer, or close to \$60 million a year (not even a rounding error for Alphabet, he notes, but a loss just the same).

For YouTube TV, these early losses really don't matter. Google wants a piece of the TV ad pie and YouTube TV is its entrée. AT&T has also acknowledged that it isn't making much — if any — money on DirecTV Now, but its acquisition of Time Warner could help ameliorate those losses in time. It's also looking to use its content play to drive broadband and, eventually, 5G subscriptions.

Google and AT&T are good examples of companies looking at the big picture, the long game, and integrating next-gen TV services into their product lines in an effort to further their other businesses as well.

But that's not necessarily the case for Hulu, for example, which recently reduced the size of its basic bundle (as did Sling TV). One question moving forward will be just how long are they willing to maintain a low-margin business, or perhaps subsidize one that's losing money?

Sports Continues its Move Over the Top

Sports is a double-edged sword for broadcasters. The live nature of the events is one of the last vestiges of appointment TV and, while it might be fine to watch a Giants' football game on delay, it's unlikely a viewer would be willing to do the same for the Super Bowl. A global sports event = an engaged audience. The problem, of course, is the cost of the rights to broadcast the game.

But for hybrid SVOD services like Amazon Prime Video, sporting events are intriguing. **That's why Amazon is in the running to acquire Disney's 22 regional sports networks** that the Mouse Network has to offload as part of its deal for 21st Century Fox. Amazon's got plenty of company, including: Sinclair Broadcast Group, KKR, The Blackstone Group, Tegna, and Apollo Global Management. Fox, which had been seen as having the inside track to reacquiring the sportsnets at a discount, so far has remained on the sidelines.

Acquiring some or all of the nets, which include YES (New York Yankees), Fox Sports West/Prime Ticket (UCLA, USC, Los Angeles Chargers, Los Angeles Clippers) and Fox Sports Ohio/SportsTime Ohio (Cleveland Cavaliers, Cincinnati Reds, Ohio State University) would be a major coup.

The question? Is streaming sports, specifically RSNs, a business worth going into? For Amazon, which has had success with Thursday Night NFL Football, Premier League soccer, and several other high-profile sports events, a deal for the regional sports networks would launch it into the sports streaming business in a big way.

Viewership of Amazon's Thursday Night Football streams is up 86% over 2017. The biggest audiences were the 2.4 million fans who watched the Patriots-Colts game on Oct. 4 and the 2.4 million who tuned in the following week for the Eagles-Giants. Those games — and three others so far — have all topped 2017's best game viewership.



The bottom line? Sports are going to be a major catalyst for live streaming in general, and streaming is a much-needed tonic for sports leagues that have seen a decline in ratings and ad revenues. Streaming live games helps leagues gain access to younger audiences that have cut the cord, or were never attached to the cord in the first place, and it helps mitigate the ongoing decline in viewership brought about by cord-cutting.

Still, acquiring sports rights isn't going to be easy, especially exclusive rights of ancillary rights to major event.

“Snatching popular sports rights away from pay-TV broadcasters will be a challenge for any SVOD platform, but **the pay-off would likely be well worth the investment,**” said Joe Dimmock, Technology Analyst at GlobalData. SVOD providers in the U.S. do also have to contend with Disney and its ESPN+ streaming service.

“If global sports SVOD services want to really scale their businesses and become the Netflix of live sports, they need to find a way to attract the world's biggest and most popular sports,” Dimmock said. “The investment would be well worth it to encourage viewers to cut the cord.”

ADVERTISING

5.1 Measurement across platforms major issue

Want to start an argument in a room full of broadcasters? Just say “Nielsen” — as in the audience measurement company whose data is at the core of setting advertiser rates — and stand back. There's little love lost between the company and its broadcaster clients, as evidenced in the contract brouhaha between it and CBS. Broadcasters have long complained that Nielsen didn't accurately reflect the true total viewership of its products, especially as more and more consumers turned to OTT.

As CBS said in a statement earlier this year: “The entire media industry is aware of the need for complete and accurate measurement across platforms. While Nielsen has made some strides in this area, progress has not been what we and many clients would like, and local TV measurement is particularly challenged. Despite this backdrop, Nielsen continues to use their market power to bundle disparate services and raise prices for services that don't sufficiently address ongoing changes in the industry. As a result, we are currently at a contractual impasse, although we continue to be open to negotiating a fair deal that makes strategic and financial sense.”

Millennials and Gen X viewers increasingly can't be targeted or measured by existing services, a study for Omnicom Media Group by Hearts & Science found, with less than one-third of the two groups' engagement

accounted for. The bulk of their viewing is on smartphones and streaming devices like Roku and Apple TV. As mentioned earlier, almost half of adults 22 to 45 years old are watching no content on traditional TV platforms.

“It's pretty scary,” says Hearts & Science CEO Scott Hagedorn, referring to the group as “unreachable” by marketers. “We are not reaching young audiences effectively, just over-indexing on older viewers on TV.”

Audiences are more fragmented than ever and measurement across platforms remains a problem, one that Comscore and Nielsen in particular have been coping with for years. While both measure some OTT viewing, their data is far from complete. Both have offered — and continue to roll out — solutions, but to date none have really met broadcasters' needs.

That may change this year as each is championing new measurement tools.

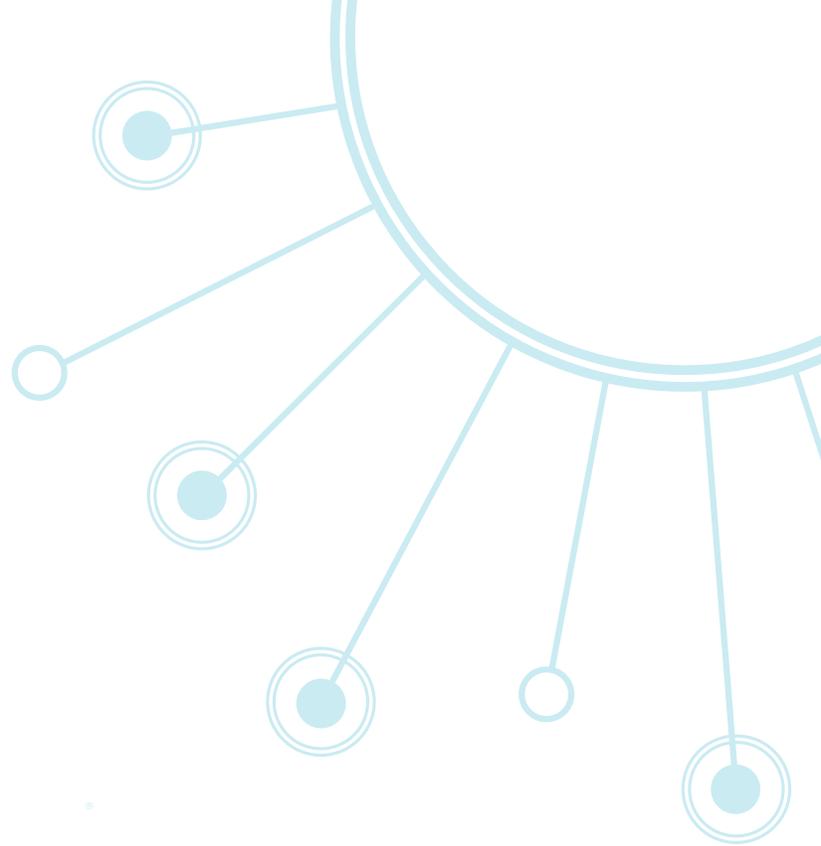
“Where we are with cross-platform measurement is Comscore and Nielsen are sort of the only games in town from the traditional measurement side,” Jonathan Steuer, chief research officer at Omnicom Media Group, **told Digiday**. “They started from opposite directions, and cross-platform measurement is in the middle, and nobody's made it into the middle yet.”



CONCLUSION

OTT has firmly planted its flag in the media industry and become mainstream. As cord cutting continues and Millennials and Gen Edge viewers continue to turn away from traditional TCV, more media companies are joining, rather than fighting, the push into OTT. As 5G wireless delivery takes hold over the next few years, viewers will find an even better experience that provides jitter- and buffer-free SVOD, AVOD and live sports.

Content owners have seen a massive increase in the demand for their products. That will continue as OTT services push out across the globe and original content maintains — and grows — its value. Diversified media companies will find it increasingly important to monitor and control their content supply chain.



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