



2017 Media and Entertainment Industry Outlook

Interview with Kevin Westcott

On demand is now dominating the media and entertainment industry, says Kevin Westcott, Vice Chairman and U.S. Media and Entertainment leader, Deloitte Consulting LLP. This is prompting many distributors to come up with different ways to bundle and disseminate content, creating new revenue models, and opening up opportunities to push the envelope on content creation.

Where do you see opportunities for growth in 2017?

The way in which we consume news and entertainment has changed dramatically over the past decade, creating both challenges and opportunities for traditional broadcasters. Think about it: Millennials spend more time streaming content than watching it on television, and more than 20 percent of them are viewing shows on their mobile devices.¹ Streaming services are growing rapidly, with around 60 percent of consumers using them monthly.² Video-on-demand viewers in the US are expected to reach 209 million by 2021, up from 181 million in 2015.³

With consumers in the driver's seat, traditional business models are hitting some speed bumps. In response, many content providers and advertisers are finding new ways to reach customers and make content available to them. For example, over the past year or so, "skinny bundles" have become increasingly popular. These pared-down, less costly subscriptions to a selected group of channels are being offered by many traditional cable and satellite companies, as well as by over-the-top (OTT) providers like Netflix or Amazon. For example, Dish Network's Sling TV skinny bundle was launched in 2015, garnering 700,000 subscribers within a year.⁴ Hulu TV has announced it will launch a skinny TV bundle in 2017, and AT&T announced a new OTT package of 100 channels for just \$35 through DirecTV.⁵

The expansion of distribution to OTT services that offer advertising-free content has put pressure on the margins of many traditional home entertainment companies.

But there is good news for content creators: consumers are as hungry for content as ever—lots of it in fact—and the number of distribution outlets has exploded. As a result, we expect there to be a rise in alternative content formats. No longer tethered to traditional hour or half-hour segments with commercial breaks, content creators can begin to experiment. For instance, we are seeing—especially with millennials—an interest in shorter forms of content such as serialized web and YouTube segments that are a mere six to 10 minutes in length. Inspired by the success of these formats, several professional content producers have begun to move into this space. Changes in consumption patterns, in particular "binge watching," have created a huge market for extended formats as well. These serialized programs with a single plotline that continues from one episode to the next are being produced not just by many traditional studios, but also by several OTT providers.

The rise of on-demand content is challenging the traditional advertising model, pushing advertisers to explore other avenues for promoting their products. Social media is an obvious option—one that is, not surprisingly, more influential with millennials than television advertising. The move away from television also creates multiple opportunities for advertising experimentation. For example, ads can be shorter, blasting out a brief message, or longer, creating a sense of drama and telling a story. We are also starting to see more sponsorships or product placements within content.

Social media and the Internet in general have created another enormous opportunity for both advertisers and content creators: the ability to create a direct relationship with end consumers. With unparalleled access to the hearts and minds of consumers—and even to their location and specific activities—content creators can take personalization to a whole new level. If a content distributor can understand a viewer's personal preferences, it can then tailor content and ads that are appropriate for the context, including, for example, time of day. Such micro-targeting has been shown to be far more effective than broadcasting to a general audience. The success of these efforts will likely depend on companies' ability to harness the power of data analytics to derive true insights about their customers.

Finally, the area of content discovery may be one of the most important and interesting opportunities over the next year or two. It used to be simple—if a network wanted to get the word out about a show, they would advertise it during another popular show. But with today's highly fractured distribution channels that has become much more difficult, and once again an intimate understanding of the end-user is a key to success. Companies that can figure out how to push discovery of their content to consumers or help them discover it for themselves will likely have a leg up in this competitive space.



What should businesses be mindful of as they plan for growth?

Business models and the economics of the industry are changing—something many traditional enterprises are only now beginning to acknowledge. Given the continued fragmentation of audiences, companies need to focus on expanding the reach of their content to the broadest audience possible. That means recognizing that many of their viewers, particularly millennials, are “cord-nevers” and may only be reachable via Internet-streaming channels.

Innovative content has gained a lot of traction with consumers, especially since it no longer needs to be all things to all people. Non-traditional studios such as

Amazon, Netflix, and Hulu are amassing growing libraries of original content that has been enthusiastically received: More than 76 percent of Netflix subscribers viewed some Netflix original content in 2015 up from 64 percent in 2014.⁶ The question is, will original content continue to bring in new viewers, or will companies need to explore innovative platforms such as virtual reality (VR) or 360 video to keep audiences engaged? Other ways to experiment include allowing viewers to watch shows, particularly sporting events, from different angles, or giving them the option of selecting different storyline perspectives.

The success of the leading OTT services has led to an influx of new players, and a shakeout is likely inevitable. If consumers sign up for more than a handful, they may reach the point where they have recreated a costly bundle, and they will start to pare back. In fact, we may see the re-emergence of content aggregators, as limits on consumer spending may get in the way of the continued growth of these platforms.



Which markets do you see emerging in the sector?

One of the most exciting emerging developments in media and entertainment is augmented and virtual reality. These technologies offer an entirely new set of opportunities for content creation. An arms race has already begun: As of October 2015, 234 companies working on VR had raised a total of \$3.8 billion in capital according to VentureBeat, with a combined market value of \$13 billion.⁷

In the past, we have seen a lot of hype around VR and clearly not every application will meet the market's breathless expectations. But what will truly allow the technology to move beyond its current focus on gaming is the advent of 5G mobile networks. As bandwidth improves, companies will be able to deliver immersive

content to mobile headsets, paving the way for VR applications that are not tied to a physical location. That should spark a shift to using these technologies in other promising areas like training and education.

Another important trend is the continued explosion of wearables. These devices, which began with the simple tracking of steps and other physical activity, today have the capacity to measure such functions as pulse and heartrate—and to store that information. Now wearables are poised to become important participants in the Internet of Things, interacting seamlessly with other screens and devices and creating ever-more personalized experiences for their owners. Imagine a scenario in which someone with a wearable device goes to

their local gym, and can log onto a treadmill that has stored their content preferences—including the fact that they like to watch the news in the morning and their favorite OTT series in the evening. That's is a level of personalization that may be just around the corner!

Finally, as on-demand, "build-your-own" offerings fight to replace traditional television and cable services, consumers will likely generate more and more data about themselves, including their preferences, relationships, habits, location, and what they own. This will open up new opportunities for companies that are able to leverage this data to hyper-target their content, advertising, and brands.

Endnotes

1. Deloitte, 'Digital Democracy Survey', April 2016, <https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/digital-democracy-survey-generational-media-consumption-trends.html>
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