2018 Media and Entertainment Industry Outlook

Reaching new heights through personalization and mobility

Deloitte Center *for*
Technology, Media & Telecommunications

Where do you see opportunities for growth in 2018?

Interview with Kevin Westcott
Video on demand...content streaming...hyper-targeted content and advertising...direct-to-consumer relationships...mergers and acquisitions. These key themes will likely continue to dominate headlines in a fast-paced industry that changes almost daily, says Kevin Westcott, vice chairman and US media and entertainment leader, Deloitte Consulting LLP.

More than ever before, when it comes to content, consumers want it "their way." And, thanks to advances in mobile, video, and wireless technologies, consumers now enjoy an abundance of options. As a result, the popularity of streaming services continues to explode. Nearly half of US households had subscribed to a streaming service as of 2016, with millennials subscribing to an average of four streaming services. Overall, 60 percent of US consumers (and 82 percent of millennials) stream TV shows at least monthly.[1]

The growing adoption of streaming has helped spawn several other important developments.

One of these is the emergence of *vMVPDs*—virtual multichannel video programming distributors. vMVPDs differ from traditional cable or satellite providers by delivering linear television via an Internet connection rather than through a hard-wired set-top box. They offer "skinny bundles"—pared-down, less-costly subscriptions to a select group of channels. vMVPDs include DirecTV Now, Sling TV, and YouTube TV, among others, and they currently hold about 20 percent of the overall US subscriber market.[2]

Another rising trend is cord-shaving—in the third quarter of 2017 alone, one million US viewers canceled their multichannel subscription television services,[3] opting instead for some combination of broadband Internet and IPTV, digital video recorders, digital terrestrial television broadcasts, or free-to-air satellite television.[4] These viewers clearly represent an enormous opportunity for media companies nimble enough to meet their needs.

In response to these trends, media companies are increasingly going direct-to-consumer with their own digital streaming services. For example, Disney recently acquired a tech firm that will help it launch its own streaming services, ending its distribution agreement with Netflix.[5]

Yet another area of opportunity for media firms is exclusive content for viewing in the home and on mobile devices. Consumers have an almost insatiable appetite for high-quality content, and a primary reason they subscribe to a platform is to access content they can't get anywhere else.[6]

One challenge, however, is that consumers may be reluctant to pay for exclusive content on top of their other paid subscription services. Consumers may find multiple subscription services both costly and inconvenient, and scale back. For this reason, we may see some form of reaggregation over the next year or two as limits on consumer spending potentially hinder the growth of some content platforms.

Targeted advertising represents another key growth opportunity for media companies in 2018. Success will likely depend heavily upon gaining more insights into customers' demographics and viewing behaviors. We are seeing pockets of innovation regarding data analytics and personalization in the media and entertainment space. The next step is to augment this customer information with social media data.

Looking more into the future, virtual and augmented reality continue to garner increasing attention from media companies searching for ways to differentiate their content. In 2016, VR/AR investments by media companies grew by 137 percent, encompassing 38 equity deals.[7] A leading application of VR and AR will likely be those that use that technology to enhance storytelling, rather than attempting to provide the entire experience. For this reason, you may not be using VR, for example, to watch full-length movies.

eSports—multiplayer video-game competitions, sometimes involving professional players—is a $700 million industry that is expected to more than double by 2020.[8] Although the market is currently relatively small, eSports' players are often highly desirable from an advertising and marketing standpoint. One key question is whether the market will expand beyond its traditional male-dominated demographic.

Which markets do you see emerging in the sector?

Increasingly, we are witnessing a mass customization of experience across all content, advertising, and brands. A challenge for media companies is figuring out how to create an experience that each consumer feels is tailored specifically for her or him. Fortunately, consumers will likely continue to generate more and more data about themselves—including their preferences, relationships, habits, location, and what they own—via the web and social media. Companies that leverage this information can hyper-target their content and advertising, thereby maximizing customer experiences and value.

Today's highly fractured media-distribution channels have often made it increasingly difficult for media companies to promote specific pieces of content—and for consumers to find them. As a result, the area of content discovery can be more critical than ever to gain a competitive advantage. Success may lie in developing an intimate understanding of the consumers media companies are trying to reach. This includes tapping social media, which, for example, has become the No. 1 way people learn about new TV shows.

From a technology perspective, 4K video will likely continue to raise the bar on what consumers expect in terms of quality. As more and more 4K televisions enter the home, consumers may become dissatisfied with any viewing experience that doesn't match what they can get in their living rooms.

In the not-too-distant future, we are also likely going to see the emergence of autonomous vehicles as powerful media-delivery devices. These vehicles will likely have wireless connectivity and, most important, passengers with time on their hands. Media companies should start thinking about how to optimize content creation and delivery to take full advantage of this new mobile opportunity. This includes producing multiple content formats to address a wide range of viewing windows—from short, cross-town hops to longer journeys.

Although 5G wireless is still likely at least two to three years away from large-scale adoption, it's not too early for media companies to start thinking about how they'll take advantage of this pivotal technology. 5G will undoubtedly accelerate content consumption and improve experiences across a broad range of mobile devices—including autonomous vehicles. Which applications can media companies develop to maximize this opportunity? Two other key areas will likely be virtual and augmented reality—both of which will require 5G-enabled capabilities to attain mass adoption.

Finally, last year we talked about the potential of wearables to interact seamlessly with other devices and create personalized experiences. While this trend remains, wearables will likely deliver their biggest value in the area of health and wellness during 2018. This includes the ability to measure more vital signs to give a better picture of the user's health.

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

High-quality content will likely always be in demand. A challenge for media companies is twofold: maintaining or even increasing content quality, while also finding ways to extract maximum value for that content.

In the past, media companies commonly thrived through content scarcity—they made it available in specific windows at specific times (for example, in movie theaters, then through rentals, and finally via TV broadcast). Technology is now enabling content availability through multiple "windows" simultaneously, changing consumer behaviors and expectations. As a result, content has become more difficult to monetize. One potential solution for media companies is to begin offering true demand-based pricing ("premium video on demand") for content through even more viewing windows than are available today. Pricing would vary depending on the window through which consumers view it (theater, at home, via mobile device, and so on). By harnessing the power of data analytics, media companies could match variable pricing with consumer demographics and shopping behaviors to drive additional value for both themselves and their customers.

Mergers and acquisitions may provide another means for media companies to strengthen content quality, distribution, and value. M&A activity will likely increase as media companies look to grow larger. By growing in size, developing exclusive content, and maximizing value through every content-viewing window, media companies can increase their negotiating power with players in the technology, media, and telecommunications sectors. For example, Discovery Communications is acquiring Scripps Networks Interactive, helping the networks of both organizations to avoid being excluded from skinny bundles, and to have more leverage with advertising companies.[9]

As they grow and fortify their content, media organizations also have the potential to become distributors. This could help media companies create direct relationships with consumers—an advantage many media companies don't enjoy today. One reason is that traditional distributors generally have not shared their customer data with content creators. By developing direct consumer relationships, media firms could test various content ideas with consumers, helping to strengthen their offerings—and the value they derive from them.

In the coming year, we may also see media companies complete even more deals with telecommunications companies. Some of these may result from telecoms seeking to become re-aggregators of content. Many telecoms also view high-quality content as a critical means of differentiating themselves from their competition.

It's also time for content creators to consider rethinking programming in traditional time blocks, such as the 30-minute sitcom or the 60-minute drama. Media companies should explore alternative content formats geared to smaller screens and shorter attention spans. These could include both short-form content (6–10 minutes in length) as well as extended formats that target binge-watchers of serialized programming. All this content should be optimized for mobile devices: By 2021, mobile video will drive 24 percent of all Internet video traffic.[10]

Endnotes

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4. Note: Since Nielsen includes vMVPDs in its cable household universe estimates, vMVPD subscribers are not considered cord-cutters.
5. "Disney to End NetFlix Deal, Sets Launch of ESPN and Disney-Branded Steaming Services," Variety, August 8, 2017, http://variety.com/2017/digital/news/disney-netflix-end-acquires-bamtech-espn-ott-services-1202519917/.
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10. Source: Cisco VNI, 2017.

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