

think:act CONTENT

Fresh thinking for decision makers

Video-Endgame | The
battle for the future of
television has begun |
Technology, players, con-
tent – all are changing
dramatically | Cross-
media "experience worlds"
are one possible answer

TURN OF TIDES: THE SITUATION OF TELEVISION INDUSTRY

Soon gone with the wind:

- A manageable number of key TV stations
- One-way communication
- A largely anonymous group of viewers
- TV content available at fixed times only
- Clearly defined value chain

A TV evening in 2020.
But does "prime time" still exist?

Where's the TV
guide magazine? And what's happened
to all our familiar TV channels?

ZAPP



ON MY WAY HOME FROM WORK IN 2020

I check my Android phone to see what my Facebook friends have to say about the latest Boardwalk Empire season. Or would I rather watch the new season of 24? It became available for download yesterday. At home I quickly click through the Google TV reviews on the flat screen with my smartphone (remote controls disappeared a long time ago). Something on YouTube catches my eye and I buy the new blockbuster online.

It's quite certain that television as we know it today will no longer exist in 2020. Technology, players, content – all will change dramatically, moving toward a networked world of experience made up of linear TV content, video, communities, Internet and user-(gene)rated content.

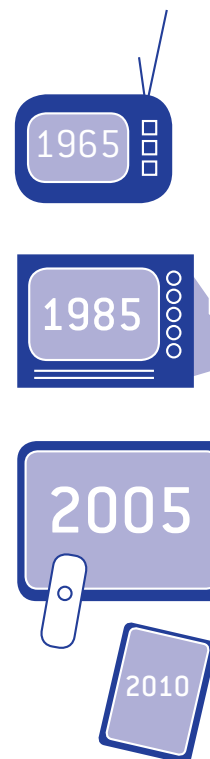
THE BALANCE OF POWER IS CHANGING

THE PLAYERS: In the future, technological innovation will boost the number of possible business models. New players will gain a foothold. Companies from very different fields, such as Facebook, Apple and Amazon, are increasingly focusing on videos, bringing these companies more and more into competition with traditional players. These "over-the-top" providers (OTT) deliver content directly to the viewers, bypassing the present value chain. That might make some of today's players superfluous in the future. With video-on-demand (VoD), OTTs are initiating the process of delinearizing television: making content independent of channels and broadcasting times.

THE TECHNOLOGY: The accustomed pattern of broadcasting certain programs at certain times is disappearing, accelerated by technological innovations like digital video recorders and content-on-demand distributed via superfast landline and mobile connections. The Internet is becoming ubiquitous – also on mobile devices – and OTT providers are generating a lot of competition for traditional TV distributors and broadcasters. As a result, technical reach alone no longer counts for much: these days most content is not only free to be used by anyone, it can even be made available again by anyone.

THE CONTENT: In this future system, the provider who generates genuine viewer interest – and thus creates "talk-of-the-town" programs – has the biggest monetization potential. Ideally, this provider also dominates the entry page to the TV ecosystem, as Google does in many cases today with Internet homepages. The concern used to be access made exclusive by technology, but this is now giving way to "attention exclusivity" driven by content. However, given the number of providers, the only ones that will attract attention will be those that radiate quality content – like a lighthouse over the gray sea of the television mainstream – and market their own diversified formats. The trend is moving toward the TV station as a networked ecosystem which develops "experience worlds". These are made up of e-commerce, gaming, music and the increasingly important field of social media built around the lighthouse content, with the station refinancing itself multidimensionally as it goes.

THE TIMES THEY ARE A-CHANGIN'



Exclusiveness generated by advanced technology will soon be swept away by "attention exclusivity" driven by content.

THE CUSTOMERS: In the future, viewers will design their own television schedules, guided by brand promises, lighthouse content and, not least, reviews by friends. The motto will be: "I only watch what has gotten 500 'likes' in my social network." This won't mean the loss of the passive consumption, or "leaning back" – but the benchmarks are changing. For the first time, viewers are becoming relevant as opinion makers because they publicly review TV content. They are even becoming program makers themselves – by linking videos on Facebook. Feedback culture is becoming more democratic and, above all, much faster.

YOUR CHOICE

250

TV provider

1000

VoD providers, in Germany alone



FAST-MOTION REVIEW OF INNOVATION – TECHNOLOGY, PLAYERS, CONTENT

Looking back, television in 2000 looks rather antiquated. Market power was held by the TV stations with the most easily accessible modes of reception (via cable and/or satellite), those that were featured first in the relevant TV guide magazines and were stored on one of the first nine buttons on your remote control. The news came on at the same time every night. Overall, people's daily media use was highly structured and spread over radio, print and television.

By 2010, the TV market had already changed enormously, mainly as a result of new usage formats. Media centers like Hulu/Netflix or the BBC's iPlayer were making international premium content globally available, leading the way to the business model of the future: the station/broadcaster as a "content store". The interactive standard Hybrid Broadcast Broadband made it possible to use web and TV content simultaneously on one platform. Linear and non-linear content were becoming increasingly mixed.

Increasingly, however, the established broadcasters are experiencing competition from OTT offerings such as Apple TV or Amazon's Instant Video. Their advantage is that they operate globally and independently of the infrastructure: all users can access the content, irrespective of where they are and what device they use. They just need to be online. Platforms operating illegally or in a gray area, like kino.to or its successor movie2k.to, are intensifying the competition. In total, customers in Germany, for example, can choose between 250 TV and 1,000 VoD providers. Linear television, meanwhile, is going cross-media: the talent show X-Factor has a Facebook page with more than 3,750,000 fans, and American Idol has seven pages with more than 7,000,000 fans. Even the "normal" flat screens are now beginning to look old-fashioned. Samsung's new 8000 series already features an integrated WiFi function, enabling viewers to continue watching a film on their cell phone, for example, while they go to the kitchen to fetch the wine. Loewe is up-grading its devices into media centers, enabling direct access to VoD and social networks. Sony has moved in the same direction with its PlayStation 3, and Microsoft has signed comprehensive content contracts for its Xbox – e.g. with the BBC, HBO and Sky.

A GLIMPSE INTO THE FUTURE

By 2020, the balance of power will have shifted further. Global OTTs will have become perfectly normal players in the TV industry and will include networks such as Facebook or Google+ and portals such as Apple TV/iTunes, YouTube, Netflix and Hulu. They will compete with traditional broadcasters (which will focus primarily on local content, celebrities and events), former network operators such as BT Vision and Virgin Media (which have long since been providing their own OTT offerings) and pay channels, e.g. Sky, HBO or Showtime

TWO CURRENT TRENDS WILL DETERMINE TOMORROW:

1. Television goes social

What specific effects will these developments have? We call one effect TV Goes Social. At present social media are riding the Facebook wave. But will things stay that way? Or will we all soon be meeting at Google+? Over 50 million users have already registered there. Ultimately, this is only a brand issue of little relevance to the future of TV. Fundamentally speaking, the industry must position itself much more flexibly. Some much-hyped sites (like Second Life or MySpace) have had their day. However, we predict that there will always be one (or more) social networks generating real competition for the TV stations. Facebook is already the second-biggest video-sharing platform in the world and is expanding its power by collaborating with other sites.

2. How YouTube & Co manifest their power

OTTs that deliver content direct to the viewer – bypassing existing value chains – are independent of upstream and downstream suppliers. This has two advantages: it boosts both ROI and direct user interaction.

Heinrich Arnold has intensively studied future video and TV scenarios as Head of Innovation Development at Deutsche Telekom Laboratories. He expects "quality content in our future TV landscape" to be "YouTubized." The very existence of programs on offer will soon generate an audience, he adds.

YouTube is currently the most powerful of these platforms with three billion video views a day. Even firms from completely different industries are turning into broadcasters, spurred on by ever-lower barriers to entry in this digital age. Computing power and IT knowledge are outsourced into clouds. And no one needs giant warehouses for film reels any more.

SUPPLY CREATES DEMAND



YouTube is currently the most powerful platform with three billion video views a day

THE CHALLENGES

In this race against the new rivals, the incumbents face a number of hurdles.

1. Developing multimedia worlds of experience

Lighthouse content will always form the core of successful video experience worlds. As far as the business model is concerned, it matters little whether this content is self-produced or purchased. The only important thing is that it should attract exclusive attention. It needs to be surrounded by a clever mix of long-tail content (i.e. recurring program standards) as a basic service and video content like movies. As in an ecosystem, these areas need to be intelligently linked. From the point of view of monetization, it is also important to strengthen the lighthouses before, during and after broadcasting. Up to now, the sales activities backing most formats in Germany have been rather haphazard, if there are any sales activities at all: they include video clips, fan articles and collaborations with print media. In the future, TV, online, mobile and social media, live interaction (e.g. chats with the actors), merchandising, e-commerce and advertising will be merged on a single platform.

ABC's *Lost* is already moving in this direction: on ABC.com you can discuss the episodes, buy DVD packages and watch bonus videos. The portal is linked to the series' Facebook page, which already has 8.4 million fans. From here you can go directly to the *Lost* fan shop and various NBC show portals. This is certainly one of the first examples on the road to a self-sufficient experience world.

Anyone who wants to create such worlds must position themselves in a state-of-the-art way. Many decision-makers still think in terms of clear-cut top-down structures with the brand at the top and the premium content following underneath. There is rarely a meaningful connection with the commercial aspects that must form the basis. In the future, the structure will have to be more like an integrative ecosystem that links content, commerce, gaming, branding and the community – this is the only way that multimedia marketing and monetization will work.

2. Being adventurous with new content

But what will the "lighthouses" be? Talent shows, exclusive series and live sporting events are certain to be among them. Even if every user can produce videos themselves – there will always be a difference between premium and low-quality content. And only high-quality lighthouse content will also generate exclusivity in the future – we need only think of the original version of *American Idol*. We also believe that interactive narrative forms have good prospects. Experiments in the USA and Japan with "free viewpoint TV" – where the viewer decides which angle to watch a program from – also look exciting. "These are basically walk-in pictures. You can be part of the "matrix" and choose the perspective yourself – e.g. using the field of vision of a football player on the pitch – except that it's transferred to the television," says Arnold. The advantage of these forms is that the TV stations find out know more about their audiences, because they can communicate with them interactively.

THE TV OF THE FUTURE OFFERS CROSS-MEDIA "EXPERIENCE WORLDS"



The so-called lighthouse content will always form the core of successful video experience worlds

INTERACTIVE NARRATIVE FORMS



The viewer decides which angle to watch a program from

3. Seeking a dialog

Successful programs are the ones the viewers want to see, which will make it all the more worthwhile in the future to invest in target-group analysis using CRM and single sign-on. The US web portal newmediatrendwatch.com is already calling investment in feedback systems one of the great challenges of 2012: user reviews have a massive effect on consumer decisions. The German TV Station ZDF – despite its undeserved conservative image – is the innovator here: the station launched a blog called "TVLab" in August where users can vote on ideas for future series. ZDF is not that interested in what the "broad masses" think; the decisive people are the 20% that we classify as "early adopters". They are looking for exclusivity and innovation; they are the ones who buy the latest OLED devices and anticipate in their media consumption the things that will soon dominate the mass market. Roland Berger predicts that as early as 2015 they will be getting as much as 10% of their TV/video consumption via the Internet and apps – three times as many as today. The importance of VoD will also triple; by 2015, it will be the second largest segment (with 17%) after linear TV. Its share among the early adopters will be reduced from over 60% today to only 40%.

4. Getting the start page right

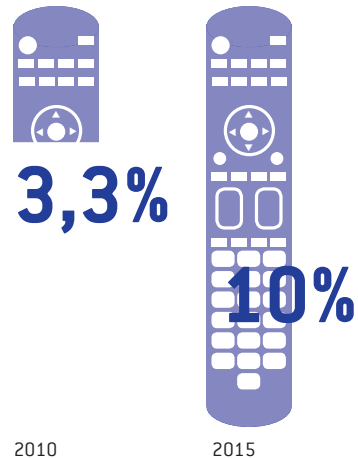
Given the surplus of content, it is becoming increasingly important to pick up the audience at the point where they enter the TV ecosystem – as Google has done in establishing itself as the default search engine. "Whoever manages that has the potential to become the dominant player," predicts telecom expert Arnold.

OUTLOOK

Who is best positioned in the current TV endgame? Who has what strengths? Who knows how to use them, and in what way? Of course the online giants like Facebook, Amazon and Apple are excellently positioned. Their great strengths lie in their global reach, international contracts (we regard national content agreements as only a transitional solution), and good contacts with loyal users. They already know their customers' needs and can therefore advertise in a targeted and individual way. Yet the prospects for existing TV stations and infrastructure providers also look good. BBC, UPC and BSKyB will benefit from the fact that they stand for quality. The more complex and chaotic the market becomes, the more important this advantage will be. Their priority should be to develop a multisource business model that works like a cycle: the stations translate content into commerce, thus developing their branding, and build up an (inter)active community via a strong brand. In turn, this will help them develop new content.

In this way, a multimedia store will emerge from which the consumers – led by big brands – choose what appeals to them. They will talk about it (on social media, but also around the water cooler), thereby strengthening the brand and in turn generating more revenue for the station. If today's TV broadcasters manage this change, they will still be an important part of evening TV in 2020. We won't need to surf our way to YouTube or Facebook, but will be able to do our multimedia shopping directly at our broadcaster's store.

THE DECISIVE PEOPLE ARE THE 20%
THAT WE CLASSIFY AS "EARLY ADOPTERS"



Three times as many: "Early adopters" TV/video consumption via the Internet and apps

IF YOU HAVE ANY QUESTIONS,
PLEASE FEEL FREE TO CONTACT US:

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