Five Pressing Issues Shaping the Future of TV & Video

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Executive Overview

The video entertainment sector faces significant changes as technological innovations, shifting consumer behavior, and new business models reshape the industry. The challenges as well as the opportunities in this dynamic space are many, for both established industry players and new entrants. What does the future hold for the video sector? And how should executives think about industry issues as they navigate their firms through this era of dramatic, rapid change?

This report combines rigorous industry analysis with the collective wisdom of top video executives in order to glimpse the future and provide recommendations for navigating the sector’s pressing challenges.

Introduction

The communications, media, and entertainment industries face significant changes as technological innovations, shifting consumer behavior, and new business models reshape the industry. The video entertainment sector, which spans these industries, exemplifies how the traditional linear value chain transforms as platforms play more pronounced mediation roles. It illustrates how new players with different business models become powerful forces. And it demonstrates the significant shifts in consumer expectations and demands that force incumbent firms to change their businesses.

Falling barriers to entry enable small players to offer “long tail” content that competes for the attention and discretionary spending of consumers. The growing number of video venues is fragmenting the audience and revenue streams. Firms can now bypass steps in the value chain formerly controlled by traditional gatekeepers. Physical delivery infrastructures are decoupling from content services, allowing firms to deliver content and services “over-the-top” (OTT) using the open internet. This technology shift empowers firms to use infrastructure owners’ own networks to compete against them without remuneration.

Changing technological paradigms are altering customer preferences. Consumers have embraced smartphones, laptops, tablets, and different forms of wireless internet. In turn they are adopting an anywhere, anytime, any device (AWATAD) lifestyle and increasingly demand this access from all of their service providers. Advances in one type of consumer technology create the expectation that other offerings will provide comparable experiences, which translates into the demand for all types of firms to offer easy-to-use, mobile solutions.

Platforms that provide connectivity by matching different types of users are playing a more pronounced role in the video ecosystem. Many industry platforms used to be limited in scope, such as movie theatres which match film studio content with audience members, or TV networks that match video programming, advertisements, and viewers. But today, the most prominent platforms have significant scope, covering books, music, games, video, and software applications. New players are becoming powerful forces and dominating other firms through these new platform-based business models. Platforms such as Amazon, iTunes, and Android increasingly define the ecosystem.

The dynamism within the video space provides both challenges and opportunities. Drawing on trends, current events, and interviews with senior executives throughout the video value chain, this report highlights the current industry trajectory by identifying characteristics of the industry within a five-year horizon. The report also identifies five pressing issues and provides strategic recommendations for executives as they confront these challenges.
Report Overview

This study draws upon industry trends and interviews with senior executives throughout the video ecosystem, including those from feature film studios, TV networks, over-the-top platforms, advertising agencies, internet service providers, and pay TV providers (see “About the Participants”). We analyzed the interview data to make sense of industry changes and to tap the collective wisdom of the study participants in order to provide recommendations for firms in this market.

About the Participants

Chief Executive Officer  Global Advertising Agency
Chief Operating Officer  Mini Major Studio
Chief Financial Officer  Major Movie Studio
Chief Digital Officer  Major Media Company
Chief Technical Officer  Major Movie Studio
President  Major Movie Studio
Principal, Executive Creative Director  Advertising Agency
EVP, Strategy & Business Development  Major Movie Studio
SVP, Home Entertainment  Major Movie Studio
SVP Business Development  OTT Video Platform
Former SVP, Digital  Major Movie Studio
Senior Vice President  MSO
VP, Strategic Initiatives  Television Network
VP, Global Development Director  Global Advertising Agency
VP, Application Development  MSO
Vice President  MSO
Vice President  Advertising Insertion Platform
Former VP, Direct to Consumer  Major Movie Studio
Associate Vice President  OTT Video Platform
Senior Director, Technology Policy & Products  Major Movie Studio
Director, Consumer Platforms  MSO
Director, Digital Video Platform  Leading Consumer Device Maker

This report presents likely characteristics of the future video market. These characteristics arise from a general consensus of the executives participating in the study, as well as an analysis of current events and industry trends. The pressing issues address key uncertainties within the industry that emerged from the interviews.
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Future Vision

Forecasting market changes reliably requires an understanding of the past and present, as well as insights into the initiatives that drive industry-leading executives. After a rigorous review of market data, trends, and detailed analysis of executive interviews at firms throughout the video value chain, this report ascertains characteristics of the industry evolution within the next five years.

The future painted by the executives participating in the study offers a vision with surprisingly consistent traits, all of which represent significant changes from the historical practices.

**Smaller pay TV content bundles**
Pay TV providers and the media companies that own TV networks will give in to the overwhelming consumer demands for lower priced entry-level bundles that include less unwanted programming.

**Increased overall video consumption, but at lower average unit price**
The trend of increased video viewing will continue, but consumer spending will not increase at the same rate as consumption.

**Larger ad inventory pushes CPM down**
Greater consumption of ad-supported video-on-demand will increase the overall ad inventory, but spending by advertisers will remain relatively static. The increased supply coupled with stable demand will reduce prices.

**Anywhere, anytime, any device (AWATAD) content viewing**
Video firms will accommodate consumers’ demands to watch content they pay for wherever and whenever they want. The extent and quality of AWATAD, however, remains uncertain.

**TV and video subscriptions move from household- to individual-based accounts**
In order to offer AWATAD service, firms must be able to identify individual users not just household accounts. Individually identified accounts will help ensure access to content while preventing fraudulent account sharing.

**Real-time targeted ad insertions**
To stay competitive with advances in website advertising, TV and video platforms will insert microsegmented commercials in real-time.

**Consolidation of players in the market**
The video market is subject to network effects. As a result, after a period characterized by increased market entry, a few leading firms will dominate the market.
Pressing Issues

There are pressing issues at the fore of many executives’ minds as they prepare for the future. This section offers a way to think about how these issues will shape the future, and what to do about it.

Who will come out of top as the video market transforms?

The dynamism in the video sector drives executives to contemplate the future of their firms within the industry ecosystem. Will the producers have the most leverage, will TV channels and internet video platforms subjugate the rest of the value chain, or will the MSOs that control the last mile delivery capabilities be the final chokepoint that shapes everything upstream?

While the drama of a wide-open playing field may present an emotionally compelling story perfect for a Hollywood picture, it provides an unnavigable scenario for the executives charged with shaping their companies’ futures. We look at the value chain in terms of three types of roles: production, search, and delivery (see PSD sidebar). While all firms face changes, certain firms will face much more certainty than others.

Production companies

While issues of licensing revenue, pay TV retransmission fees, and questions about the sell-thru market create uncertainty for production companies, they can rely on the fact that despite the changes they face, content will remain king.

“But it really is at the end of the day about the content, and people will pay for content that they want to see. If it turns out the only way to get Boardwalk Empire or whatever show they want to see is on HBO GO, they’re going to subscribe to HBO.” – SVP, Home Entertainment, Major Studio

Shifting consumption patterns will affect the different revenue streams associated with the various types of content. For example, changes in retransmission fees from MSOs will impact TV producers most, while a rise or fall in the sell-thru market will disproportionately affect feature film studios. Therefore, large media companies that provide an umbrella for diversified types of content creation are poised to remain strong regardless of overall industry dynamics, as long as they produce compelling content.

Delivery firms

Firms that control the last-mile delivery infrastructure for both pay TV and broadband service are well positioned to profit from the video industry regardless of the whether pay TV revenues grow or consumers begin cord cutting en masse. These firms will capture new profits from the growing demand (and willingness-to-pay) for broadband, and they are in the position to offset declines in pay TV profits with increases in broadband charges, although there may be a time lag between the decrease in pay TV and the rise in internet revenues.

 “[They] are reinforcing the need for our network if they are going over-the-top. So we’ve got that going for us. It’s really just the offset of us losing the video subscription business.” – VP, Application Development, MSO

These delivery firms also find themselves in the position to preserve their TV business while growing their data revenues. They can bundle the two services so that it becomes unattractive to cut the TV cord or subscribe to TV but not to broadband.
While firms offering both television and broadband are poised to weather changes in the market, single play firms, like satellite-based TV services that do not also own broadband infrastructure, are less prepared to confront the future, as they lack the last-mile data lines necessary to hedge uncertainty in the pay TV space.

**Search firms**

Whereas producers and delivery firms will experience a degree of stability, firms that manage search – matching people with the content they want, when they want it, wherever they want to watch it – will face the most dynamic and contentious battles in the video sector. Because of network economies of scale, the market is likely to tip to a few dominant platforms.

“You’re going to have a handful of players. First of all Apple has the market share on video. It’s not that different than it was for music. It’s pretty significant.” – CFO, Major Studio

“I think three to four big boys will get 80% of the business...”— Chief Digital Officer, Media Conglomerate

Three critical success factors will determine the winners: availability of compelling content, ease-of-use in content discovery, and effectiveness in recommending content that suits the viewers' tastes.

Although search capabilities will determine which platforms thrive in the digital future, control of the market is still wide open. Few, if any firms, have established themselves as clear leaders in discovery technology.

“It still is bringing the eighties video store shelf, which just happens to be online instead of at your local video store. It’s all the box art. It’s organized by category, you know what I mean? Occasionally with some curation, whether it’s Dave the Video Guy’s picks or recommendations based on metadata. I haven’t really seen much to be honest with you.” – AVP, OTT Platform

**Recommendations**

- **Video service platforms should produce content and enter exclusive licensing agreements for aggregating marquee programming.** Aggregating unique content will draw viewers to the platform because it cannot be found elsewhere.
- **Production companies should seek deals to produce content for diverse media like TV, OTT, and feature films to keep diversity in their revenue portfolios.**
- **OTT firms must invest in superior search and discovery tools.** Effectiveness and ease-of-use will determine which platforms consumers prefer.
- **MSOs need to increase the search tools for their linear and VoD programming.** Creating an OTT channel with deep discovery capabilities can mitigate a key advantage of OTT competitors.
- **Single-play satellite providers should team with telcos to offer multi-play bundles** in areas where the telcos do not offer IPTV. This will not protect the single-play firms from losing revenue to cord cutting, but it will enable them to provide consumers with a competitive alternative to the bundles from firms that own both TV and broadband infrastructure.
**Will people own content or only subscribe to video services?**

Major companies are launching new subscription platforms like Xfinity, Streampix, and Redbox Instant, adding more venues for content-hungry consumers. As the number of subscription-based platforms proliferates, the home video sell-thru market wanes. A key question that shapes video executives’ strategic planning is whether consumers will continue to purchase content en masse, or whether the market will default to a fee-based subscription market. Experts have different predictions for the future.

“Digital ownership is really attractive once you feel like you can access your content from any device, as long as it’s you.” – Former SVP, Major Studio

“Everything’s going to low cost or bundles. Redbox seems to be starting to thrive. 99¢ movie rentals for an hour or for a night seem to resonate. It seems to be gravitating towards a combination of bundles or cheap a la carte, one-time viewing.” – AVP, OTT Platform

“I think you’ll see a mix of both ownership offers that come with a variety of different benefits, as well as different subscription and transactional offers.” – CTO, Major Studio

Almost two-thirds of North American media and entertainment content is delivered via subscription. Over 90% of American households subscribe to pay TV, and ever-growing numbers of people subscribe to video-on-demand subscriptions. There is a culture built around the subscription model, which leaves little doubt that consumers will continue subscribing to video services. The question is whether people will make substantial content purchases. While consumer preferences and behaviors are in flux, two necessary precursors to a robust sell-thru market become clear: future proof content and anywhere, anytime, and device (AWATAD) delivery.

**Consumers want future proof content**

Consumers still feel the sting from the industry switch from DVD to Blu-ray. Entertainment fans repurchased their VHS titles in the DVD format. They built extensive collections, spending hundreds or thousands of dollars on content. Those investments – in content they could enjoy forever – did not pay off, as those fans must repurchase the titles in new formats so they can watch them on their tablets and ultrabooks. Their recently purchased DVDs appear lackluster on their new HDTV sets, and they must pay $20+ for new discs or give Walmart $5 per title to upgrade them to high-definition UltraViolet files.

“A lot of consumers who purchased VHS had to convert to DVD, and they have a big library of DVD. Now that they’ve come up with the Droid, they have to go back and repurchase. I think it’s been quite an expensive process.” – Director, Digital Video Platform, Major Consumer Device Maker

Consumers will hesitate to purchase new content unless they know in advance the upgrade path to forthcoming formats. In addition to knowing that there will be a clear upgrade path, the price must seem reasonable in the era of 99¢ rentals.

Future proofing requires more than a clear upgrade path. Viewers must have confidence that their digital purchases will be accessible forever. Consumers must have faith that the ecosystem they invest in will continue to support their purchase in perpetuity.

“When you’re buying a digital product, you’re putting a lot of trust in the company that’s providing that particular digital content. You’re trusting that the company’s going to be around to stream your content. You trust that company is going to be around to make sure that if you buy a new device that it will be supported.” – Director, Digital Video Platform, Major Consumer Device Maker
Consumers want ATAWAD access to their content

Viewing behavior is changing. While the living room remains the television beachhead, consumers are increasingly watching video on their laptops, tablets, and smartphones. Consumers are beginning to demand the ability to watch content anytime, anywhere, and on any device. AWATAD delivery is becoming a necessary ante in the video space, whether it is for access to subscription content or a collection of content a person owns. Cloud-based delivery of purchased content – stand alone or as a complement to disc ownership – offers consumers an attractive product.

The bundling of UltraViolet licenses with disc sales is proving to be an effective strategy for introducing consumers to cloud-based ownership models. At the same time, however, the promise of AWATAD delivery faces two material obstacles: platform fragmentation and bandwidth limitations.

Much of the digital sell-thru market occurs via semi-closed platforms, fragmenting the market. Many digital ecosystems are using content to lock-in customers to their devices or operating systems. This chills the sell-thru market by placing consumers in limbo like they were during the HD-DVD / Blu-ray standards war.

“Why did you have to buy a movie on DVD and then you also had to buy it on iTunes, and then you also had to buy it on Android?” – SVP, Business Development, OTT Platform

Realizing the value proposition of cloud-based AWATAD content delivery requires ubiquitous access to sufficient broadband to stream content. One of the benefits of digital ownership is the ability to access spontaneously any content one owns. The AWATAD value proposition is weakened by bandwidth constraints that force pre-planned consumption decisions, such as downloading specific content onto a specific device in advance of viewing it.

“The big challenge I think for this – the answer to this question – is whether or not OTT can be distributed in real time, linearly, in a massive scale. And the answer today is no.” – Chief Digital Officer, Media Conglomerate

“Eighty meg, although it sounds fantastic, is not great for a multi-screen, multi-iPad, multi-whole home experience.” – Director, Consumer Platforms, MSO

In addition to reducing fragmentation through more open DRM standards, upgrading physical last-mile infrastructure, improving compression algorithms, and lifting restrictive bandwidth caps are necessary preconditions for a sell-thru renaissance.

Recommendations

- **Producers should future-proof their sell-thru products by offering a clear upgrade path.** At a minimum, this upgrade path should include the next generation of video technology (i.e. 4K).
- **Producers and major digital retailers (e.g., iTunes and Amazon) should work together to incorporate their CODECs into the UltraViolet ecosystem.** iTunes’ sustained success in the music market shows that loosening DRM restrictions can be a winning strategy.
- **Broadband providers should continue rolling out WiFi networks and expanding their data capabilities.** A robust sell-thru market will drive demand for more internet service, increasing data revenues and providing an additional opportunity for MSOs with superior broadband to differentiate themselves in the market.
- **Producers, search firms (retail aggregators), and internet delivery firms should collaborate to improve compression and allocation algorithms.** All three roles in the video value chain will benefit from effective streaming and instant downloads of purchased content.
How can television survive the advertising inversion?

Competition for advertising dollars is greater than ever. The proliferation of pay TV networks, wide-scale use of DVRs to skip commercials, and the introduction of ad-supported OTT video platforms put downward pressure on TV networks’ pricing power.

“Our challenge is that our traditional business model is slowly eroding. You used to be able to put up a TV show and make quite a bit of money off of advertising. As the cable channels came in they took quite a bit of market share, and then as DVRs were adopted they reduced the amount of commercials that people were viewing.” – VP, Strategic Initiatives, Television Network.

Despite a larger inventory, overall television advertising is at an all-time high, although it is spread across more channels. Despite record revenues, television faces the proliferation of indirect substitutes, which include the near-infinite number of ad-support websites as ad insertion platforms enable most sites to capture ad revenue. The growth in advertising opportunities is at odds with global ad spending, which is relatively inelastic. Historically, growth in one medium’s ad revenue resulted from the reallocation of money formerly spent in another. The current explosion in available advertising inventory is not matched by a comparable increase in advertising budgets. The glut of advertising space puts downward pressure on ad-supported firms.

“You have a finite amount of advertising. You have unlimited supply and limited demand, and therefore, you have an advertising inversion. And that cost inversion costs you - the more advertising you put out, the less that advertising is worth. So the market doesn’t grow.” – Chief Digital Officer, Media Conglomerate

Highly targeted ad insertions are replacing the “spray and pray” approach of the analog era. Websites offer these advertising capabilities and major television broadcasters will offer them in the near future. Targeting will soon be an ante rather than an advantage in advertising. Differentiation will come from capturing the attention of over-targeted consumers who are increasingly skilled at ignoring advertising.

Broadband limitations provide partial reprieve

Much advertising strategy wisely focuses on the growing use of the information superhighway. At the same time, it is vital to consider the substantial digital divide that still shapes the advertising market. Although 82% of Americans use the internet, including over half of those 65 and older, not everyone views video content online. While many of the coveted 18-35 year old demographic stream video in one form or another, other demographic groups are much more difficult to reach online.

“We’ve got an entire class of people in parts of this country that really have no real access to high speed Internet. They have no access to that kind of interactive ecosystem. These are people who don’t have smart phones. These are people who don’t have access to Hulu; who wouldn’t know what Hulu is.” – Principle, Executive Creative Director, Ad Agency

Nineteen million Americans lack access to wireline broadband service. Only 40% subscribe to broadband that delivers a 3Mb download speed and only 27.6% have broadband at or exceeding 6Mbps. For millions, television and DVD are the only ways they consume video content. Advertisers who want to reach these 100 million customers with compelling audio-visual commercials must deliver their ads via television channels. The ad inventory for reaching these customers remains more or less unaffected by the growing presence of OTT video platforms and remains relatively immune from other websites because the data connections are too slow for them to receive real time, high-quality video insertions.
This digital divide provides some stability in the size of the ad-supported video space. **Television delivery capabilities – over-the-air, through cable, and via satellite – remain a critical strategic resource that affords a competitive advantage.** As internet speeds increase and broadband networks reach more customers, this advantage will decline. Nevertheless, in the near term, it provides a strategic negotiating point that will help TV networks command top dollar for insertion orders while they formulate and execute new strategies to differentiate TV from the zillions of other advertising venues.

**Integrated advertising will enable premium ad payments**

Banner ads are easy to ignore and people can surf the web during long commercial breaks. Viewer engagement becomes a material challenge.

> “The consumer is no longer tolerating low quality ads, or non-innovative ads, or not interesting, not engaging ads.” – Chief Digital Officer, Media Conglomerate

Professionally-produced TV and video programs\(^1\) have a key competitive advantage when it comes to viewer engagement. They allow tight integration of advertising messages within the show itself. Product placement opportunities abound, but a more compelling advantage of professionally-produced video programs arises from “infotainment” sponsorship opportunities, in which advertisers’ messages are deeply intertwined with the program itself. Close collaboration (or integration) between production studios and advertising firms can take advantage of this opportunity to differentiate TV advertising from the indirect substitutes that compete for slices of the same ad budgets.

> “I think what advertisers and everybody else is realizing is that no matter what you are in this world, you are a content producer. You can call yourself an advertiser or a marketer, but you’re a content producer. We’ve had to shift to either channel other ways, so this programming is sponsored by, or product integration into the content, or developing our own content that is, rightly or wrongly, produced by us with a benefit to us, but intended for broader consumption than would typically be found with advertising.” – VP, Global Development Director, Global Ad Agency

Close integration between content and advertisers can be relatively seamless, as the plot of the show can emphasize the need for a product or create a positive affinity for a brand. Of course, care must be taken to maintain high story standards in order to create content that will draw and engage viewers.

**Recommendations**

- **TV Networks must shun real-time bidding to sell inventory.** Continue to sell TV advertising at premium, pre-agreed prices. Auctioning unused inventory will be a race to the bottom.

- **TV Networks and MSOs must build / implement capabilities to target specific (but anonymous) individuals ASAP.** Many internet-based ad platforms have a head start. Delays in offering microsegmented TV advertising may cause media buyers to reallocate spending from TV to internet insertion platforms, funding that might not return to TV.

- **Advertising firms should engage more closely in content development with producers and TV networks.** Sponsored programming that embeds advertised products into the heart of the show will differentiate TV and long-form video content from other forms of advertising. Care must be taken to create compelling, entertaining content that draws viewers.

- **TV networks should leverage their ability to reach those without broadband when negotiating rates.** Advertisers can shift money away from TV to internet-based platforms, but doing so will disconnect them from tens of millions of consumers.

\(^1\) This includes professionally produced content for OTT platforms.
**Will the linear TV model remain the dominant form of video consumption?**

Scheduled, linear television remains incredibly popular, even in a market experiencing a big growth in video on-demand viewership. The sustained popularity of the format continues into the future strategies of many of the video executives participating in this study. While linear television has a long history, it is difficult to tell objectively whether it will stand the test of time. There are strong forces favoring the continuity of regularly scheduled programming, but there are also compelling counter arguments. *This issue requires a look at the forces that compete for the future of scheduled television.*

**Vested interests versus consumer demands**

There are many compelling reasons to believe the linear television model will remain prevalent well into the future. First, and perhaps foremost, are the vested business interests of the established industry-leading firms. Viewers will pay a monthly fee to watch their favorite programs, part of which is passed on to the network. This fee-based relationship is something both pay TV providers and the networks are eager to protect. Additionally, TV networks rely on the linear model to promote their new shows and develop content blocks that can make shows into instant hits by virtue of the shows airing before and after them. This ability to create “Animation Domination” and “Must See TV” blocks is built around a linear model in which people watching one program also tend to watch the one that airs after it. A non-linear environment presents material challenges to building an audience for a platform’s other programs.

*Irrespective of vested interests, consumers are changing their behavior.* Sixty percent of people now watch video-on-demand each week. VoD viewership is growing faster than scheduled programming. Perhaps more important: linear television is increasingly relegated to a background function whereas VoD is at the forefront of video viewing.

> “What I have seen is a lot of the mobile video consumption actually happens at home. And it’s not actually outside. So a lot of people spend time watching their mobile content, the video content on their mobile devices, actually at home in their living room.” – Director, Digital Video Platform, Major Consumer Device Maker

Industries that do not give customers what they want poise themselves for disruption from outsiders who better satisfy consumer preferences. As such, consumer preference ultimately may trump the incumbents’ interests.

**Cost and availability of bandwidth**

In addition to the television networks’ and MSOs’ material interest in keeping the linear television model alive and well, *today’s internet bandwidth limitations also conjure a linear TV future.*

> “…today you just can’t massively broadcast on OTT. You just can’t. So you still need to revert to a traditional TV experience for the high definition video.” – Chief Digital Officer, Media Conglomerate

Even if the delivery capabilities are physically available, the cost of transmitting a separate signal to each viewer can be staggering compared to the efficiency of linear broadcast delivery.

> “When you’re running a linear network, you have one broadcast feed that goes out to many. On the digital side, it’s a one to one relationship. Each person has their individual connection through their stream. So what does that mean? That obviously means a lot more problems for buffering, and whether it’s the computer, or the wireless connection, or the last mile, there’s many more points of failure. But also what people don’t understand is the costs that come with that.” – SVP, Business Development, OTT Platform
While broadband infrastructure will determine the degree of individual video streams versus the one-to-many model of linear TV, history teaches that the price and capabilities of information and communication technologies change at exponential rates. It is therefore possible that the capacity and cost differences between broadcast and individual streaming will evaporate within a reasonable time horizon.

The coach potato effect

After a hard day at work, most people want to relax in front of the television. Few want to spend twenty minutes searching for something to watch. They know their favorite show airs at a specific time each week and understand what types of programs appear on the different networks.

“There’s a lot of people out there that are couch potatoes that surf. And non-linear consumption requires people to really go out and search for things that may be of interest.” – CFO, Major Studio

“I think customers still want to sit down and watch on their big screen. It’s a ‘sit back’ instead of ‘move forward’ type of model. And they don’t know what they want to watch, and they have that capability on the linear, as well as on demand. I think they’re complementary to each other, and I see all three of those [linear, DVR, VoD] staying.” – VP, MSO

The “couch potato” argument resonates because television has long been a source of passive entertainment. Those who want to sit down, relax, and watch TV don’t want to search an endless library of VoD content to find content. Advances in search and discovery tools, however, can make video-on-demand more convenient than linear television. For example, a search algorithm that factors in past viewing habits and favorite shows, could present a simple list of 5 choices consisting of your favorite programs and shows that you may not watch but that you would probably like. A short list of suggested content would not cause too much frustration, and actually would have significantly lower search costs than locating an acceptable show on a 300 channel linear system. Companies are already developing these capabilities and expect to introduce them to the market in the near future.

Recommendations for preserving linear TV

• Continue to build programming blocks around time sensitive programs, such as live sports, news and current events programs, and voting shows (i.e. The Voice, X-Factor, etc.)
• Implement second screen initiatives that encourage real-time “arm chair” participation such as tweeting, commenting, or other forms of concurrent interaction with the program.
• Make linear content into “event television” by including surprises that may be spoiled if not watched during the first run or adding bonus content only available during the linear broadcast.

Recommendations for disrupting linear TV

• Shift consumers away from the serial, episodic mindset by encouraging alternative viewing patterns. This can be accomplished through video-on-demand or non-traditional program schedules, such as ION Television’s binge blocks of back-to-back episodes of a single series.
• Launch intelligent recommendation engines to minimize search costs for “couch potatoes.” Suggesting content airing at the time of a search can change the mindset of passive viewers without sophisticated VoD integration. The strategy is to encourage consumers to rely on recommendation engines rather than linear programming blocks.
• Launch a single interface that Integrates pay TV VoD, DVR, and on-demand OTT to offer high-quality alternative to linear programming, leveraging the various available technologies to minimize the impact of bandwidth constraints.
Will advertising agencies maintain control of media buying?

Businesses emerge and industry structures develop over time to reduce transaction costs throughout the value chain.9, 10 After long periods of stability, these structures may become rigid,11 optimized to manage yesterday’s transaction costs rather than to increase efficiencies in tomorrow’s market.

Toward a new market structure

The emergence of data-driven, real-time segmentation and ad insertions is redefining the advertising market. Whereas advertising agencies built trading desks upon relationships with ad venues and two centuries of expertise, the nature of media placement is changing. Advertising is increasingly micro-segmented and firms with the best access to “big data” will have a key strategic advantage in managing the search costs associated with matching advertisers and consumers.

Ad insertion platforms collect data from participating partners, such as websites, TV networks, newspapers, etc. The larger and more diverse the platform partners, the richer the platform’s data. Therefore, the size of an ad platform’s user base will determine its ability to offer superior advertising service. Because of network effects, it is likely that a few platforms will dominate the advertising landscape.

“You will necessarily have a small group of very large players on a global basis.” – CEO, Global Ad Agency

While advertising agencies are building capabilities for a real-time, data-driven market, technology companies like Google and Facebook have a substantial data advantage over other platforms and they have armies of data scientists building superior analytics capabilities. It is likely that a handful of these firms will handle the lion’s share of global advertising placement.

“...we may end up in a world where we just need key partnerships with some critical players. I mean, it’s the obvious four or five, right? In the world dominance, if you will, that is Google, Facebook, Amazon, Apple, and possibly Twitter.” – VP, Global Development Director, Global Ad Agency

The tech firms that control the large digital platforms collaborate and co-existing with agency media desks, but in actuality are gaining control of the advertising market. In 2011, for instance, Google earned more revenue than the three largest global ad agencies combined.12-15 Google likely will earn more revenue than the top five agencies in 2013. The super-dominance of a handful of ad placement platforms raises a multi-billion dollar question: Will advertisers continue to pay billions in commissions to ad agencies for funneling media placement to a handful of third-party companies? Or will they allocate the money directly to the platforms that actually make the placements?

Many leading platforms are placing themselves in positions of leverage. Whether or not they will use their clout to reshape the market, the large ad insertion platforms are becoming a potentially disruptive force in the market.

“The way to really control the user experience, and the way to guarantee margins, is to own that value chain. And I think the big players are looking to leverage their number one position in that market, whatever market they’re in, to get the rest.” – Chief Digital Officer, Media Conglomerate

“Our approach is the way that we control the data and access to the data and really uphold our privacy promise with the data is that we don’t let anybody else touch it. So when we go to Madison Avenue we say: ‘Hey listen if you’d like to get access to this really cool data we have, that’s great. We don’t sell data. What we sell is targeted impressions. And so we will deliver your ad to those people, but we won’t just give you that data.’” – VP, Advertising Insertion Platform
Support for the current system

Although there are factors that raise questions about whether ad agencies will continue to control media spending, a change in control of the advertising market is not a foregone conclusion. Ad agencies manage media buying because of the fragmented ad market – the companies paying to promote their products do not want the burden of managing relationships with a plethora of ad venues. Therefore, as long as the ad insertion marketplace contains sufficient rival platforms, agency trading desks can still charge for deciding how to divvy up clients’ ad budgets. Although network effects and scale economies will foster market consolidation of global power players, the market may remain fragmented as different power groups control power at the global, regional, and local levels. While a handful of global platforms may control the global campaigns, a handful of localized platforms may offer exclusive data and/or provide solutions that are more effective for ads designed for specific cultures and locales.

“You have the same kind of things at the country level, so you will have 100 countries and you will have 10 per country. This would be 1,000 [and] you would have maybe 20 on a global basis. I’m just making a quick calculation. In reality, it would be a little bit more complicated.” – CEO, Global Ad Agency

Despite the economic forces pressing for concentration, the market is still in its formative stages. In fact, at the present time, the market is witnessing an explosion of placement platforms, not a consolidation.

“So for ever and ever people have said: ‘oh it’s going to consolidate, it’s going to consolidate, it’s going to consolidate.’ In reality it never does. It keeps getting more complicated. We keep putting on layers and layers and layers of services that deal with it.” – VP, Advertising Insertion Platform

Recommendations for ad agencies

- **Agencies should carefully monitor the relationship between the largest platforms and clients.** The largest platforms through which agencies place advertisements are increasingly in a position to supplant the agency as the manager of the media buying role.

- **Advertising firms should encourage fragmentation in the market.** The competition will keep ad rates low, which will benefit clients. Fragmentation will also reinforce the need for the agency to act as a coordinator who allocates clients’ budgets among the many different platforms.

- **Ad agencies should acquire regional or local insertion platforms.** Large global players have established scale and capabilities advantage, but small power players at the local (national) level can keep the market fragmented.

Recommendations for insertion platforms

- **Large digital I/O platforms should maintain symbiotic relationship with ad agencies** – at least in the short term. The bigger the portion of an ad budget allocated to a platform, the better positioned the platform will be to own the client relationship in the future.

- **Digital advertising platforms should enlist as many ad venues into their ecosystem as possible.** A network of separate companies acting as one ecosystem will increase network effects and give the platform more leverage in the value chain.

- **Advertising platforms with global or regional reach should increase their capabilities at the local level.** This will allow the platforms to offer end-to-end solutions and the disintermediation of agency trading desks.
Conclusion
The future painted by the executives participating in the study represents acceptance of changing technological paradigms and shifting consumer preferences. These industry changes will be significant departures from historical practices. While many market characteristics are likely to evolve in a foreseeable way, key uncertainties still exist, providing both challenges and opportunities.

Study data suggest that the platforms that match consumers with content will face the most contentious battles and that the winners will be defined by availability of compelling content, ease-of-use, and effective recommendation engines. Companies reliant on a strong sell-thru market must address two preconditions to a robust market: the future proofing of content and anytime, anywhere, any device delivery of video. Television can retain its premium advertising revenues by integrating brands and products into the core content of programs. Television networks and other companies reliant on the linear TV model must pay attention to changing consumer behavior and technological improvements that may disrupt the popularity of scheduled programming. The fragmented advertising market sustains the need for ad agency trading desks, but large global ad platforms increasingly are positioned to take control of the media buying role.

About the Author
Gregory Gimpel is a Postdoctoral Associate at the MIT Center for Digital Business. He offers over a decade of senior management experience, with a focus on entertainment and media, start-up ventures and corporate restructuring. He received a B.A. and B.S. from The University of Texas at Austin, an M.B.A. in international business from the University of Southern California and a Ph.D. in information systems from Copenhagen Business School. Gregory’s research investigates digital business transformation, leveraging IT for strategic advantage and the adoption and use of new technology. He has taught undergraduate and graduate courses in change management, business strategy and IT management. He frequently presents his research at leading information systems conferences, has published in leading journals and serves on the editorial board of Electronic Commerce Research and Applications. He can be reached at Gimpel@mit.edu.

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