

# THE FUTURE OF (Digital) TV

## A Collaborative Perspective on Convergence



*LUMA believes there is a great opportunity in video, yet there are misconceptions on how the convergence of TV and digital video will take place. We spent the last year collaborating with the leading companies in linear TV, OTT and digital video to create our thesis on convergence. It is a working draft as we continue our collaborative meetings. We hope you enjoy it.*



# Traditional

vs.

# Digital



*The dialogue around convergent TV seems to be taking place in silos. The traditional players until recently have not been that concerned about digital largely because they don't count in numbers that small. The digital players are equally ignorant and assume they will crush TV just like what happened in music or newspapers. This is decidedly not the case.*



# Traditional

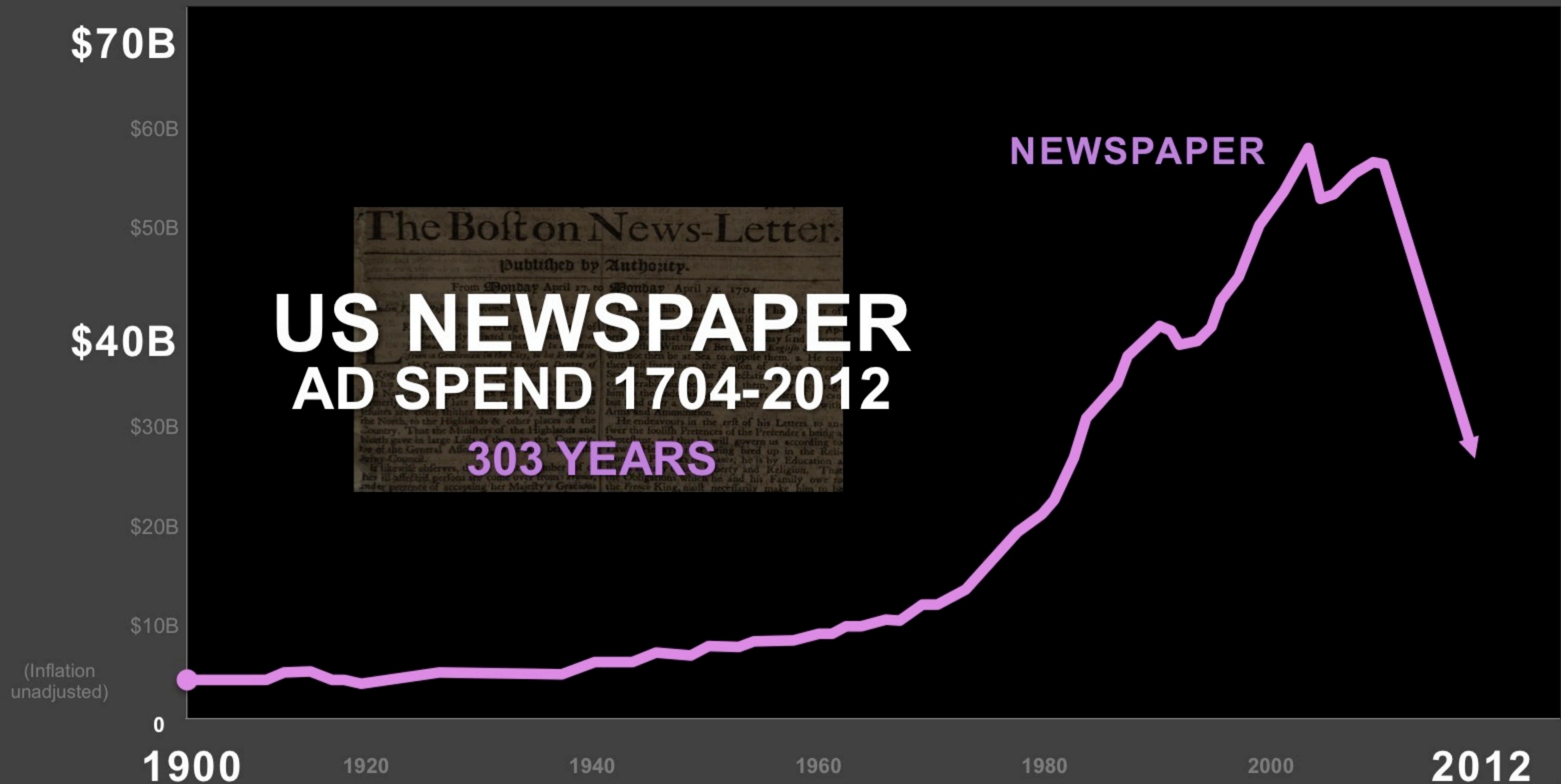
# vs.

# Digital



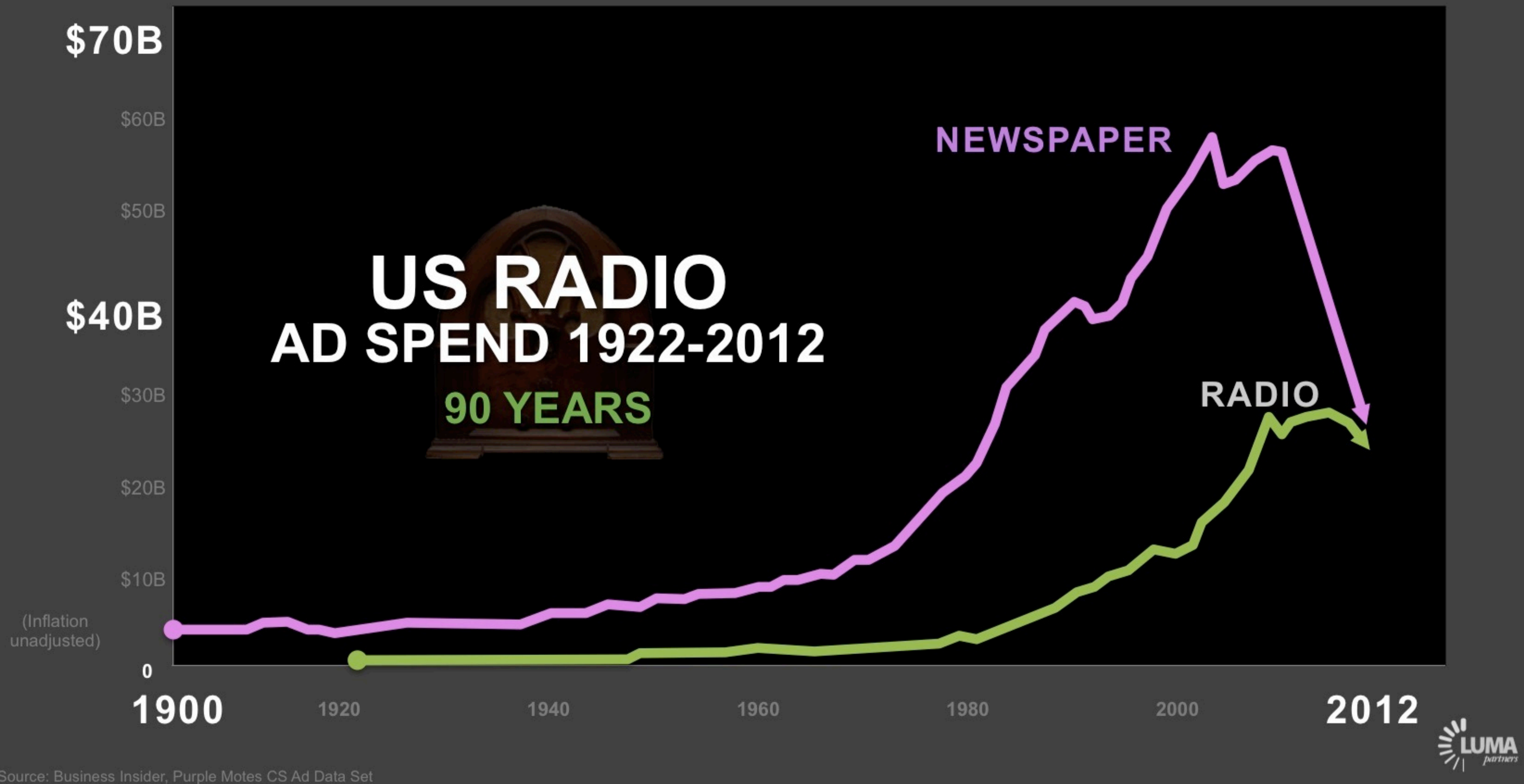
*The motivations of traditional TV and digital video players differ vastly.. Traditional TV guys are worried about losing share of their large, incumbent business whereas the digital guys see the \$70 billion in TV spend and want a piece of the action.*





We need to look back at all of the traditionally ad-supported industries to understand how we got to where we are today. The newspaper industry has suffered greatly with digital disruption. There has been a significant downturn in the industry's profits and the traditional business models are being challenged.

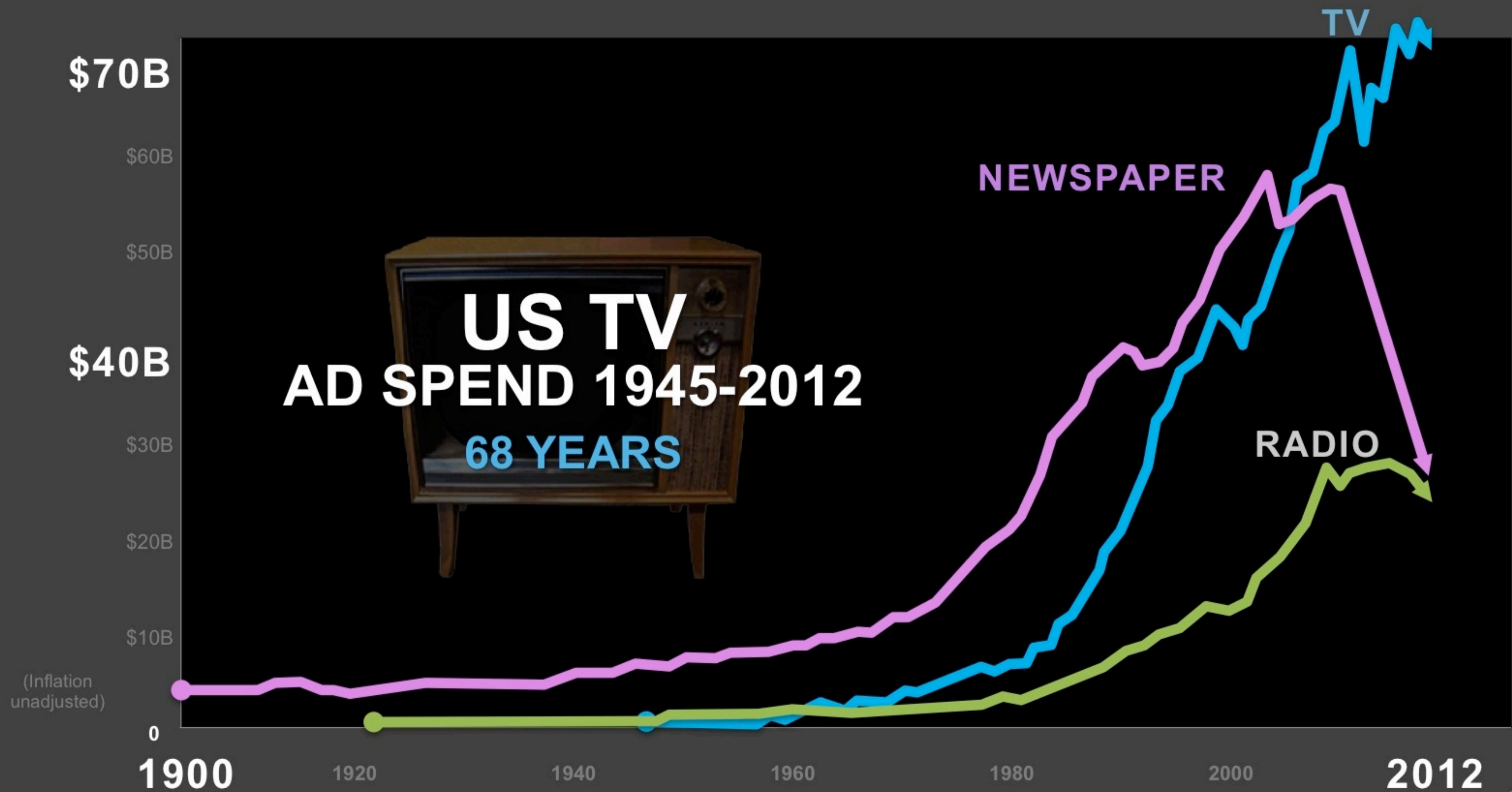




*Radio and the music industry have suffered a similar mass disruption from digital.*



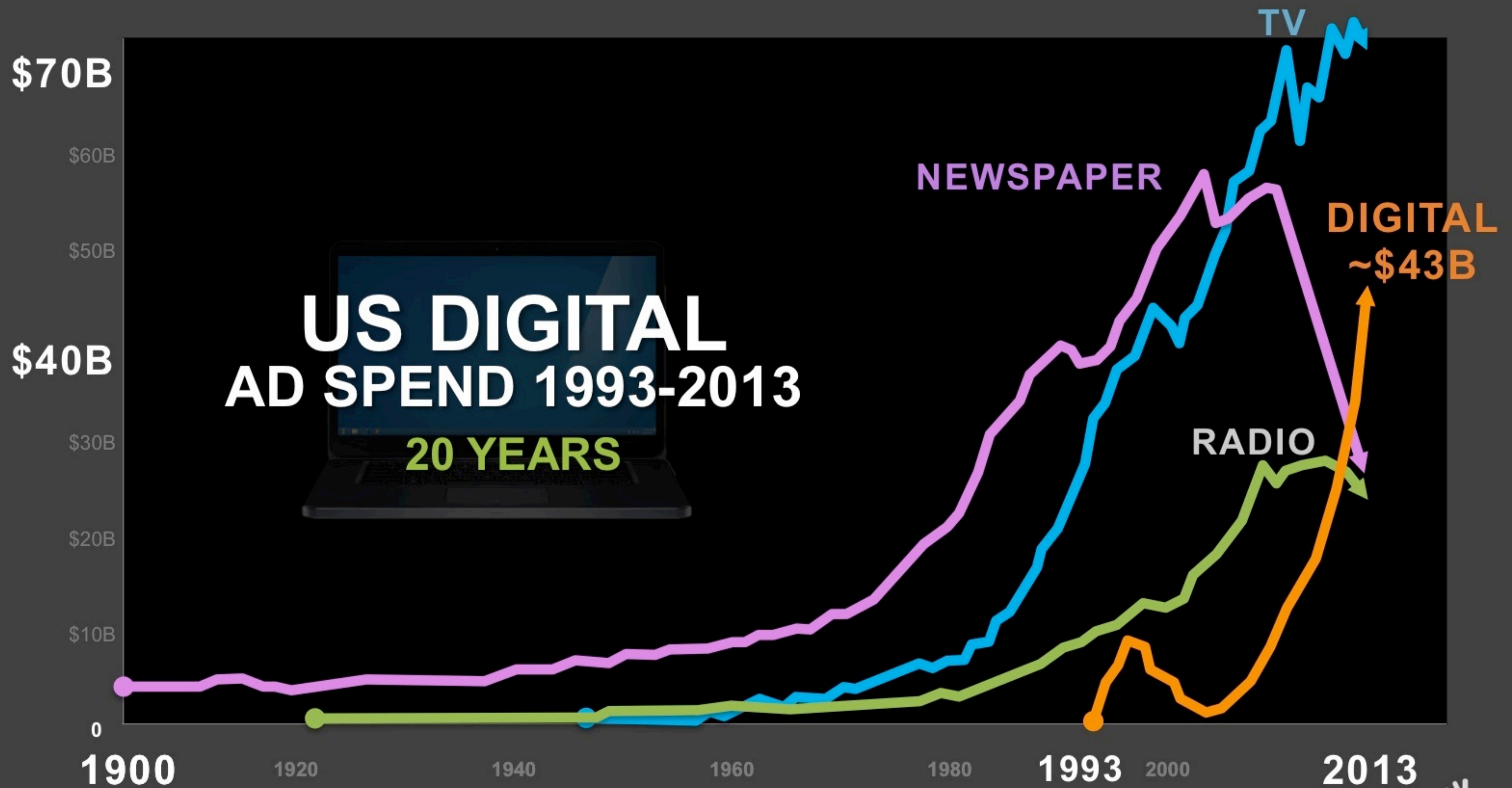




However, TV continues to grow.





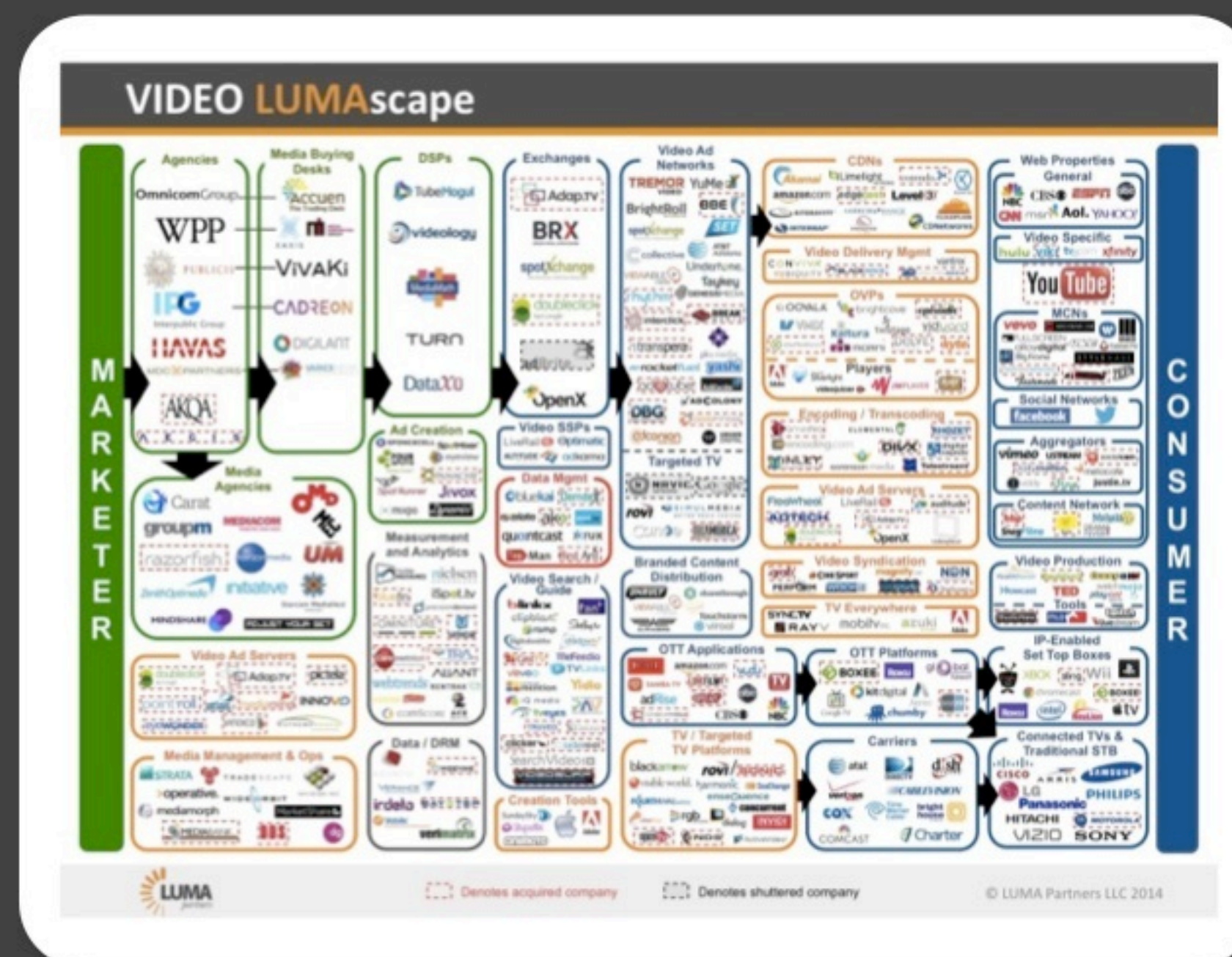
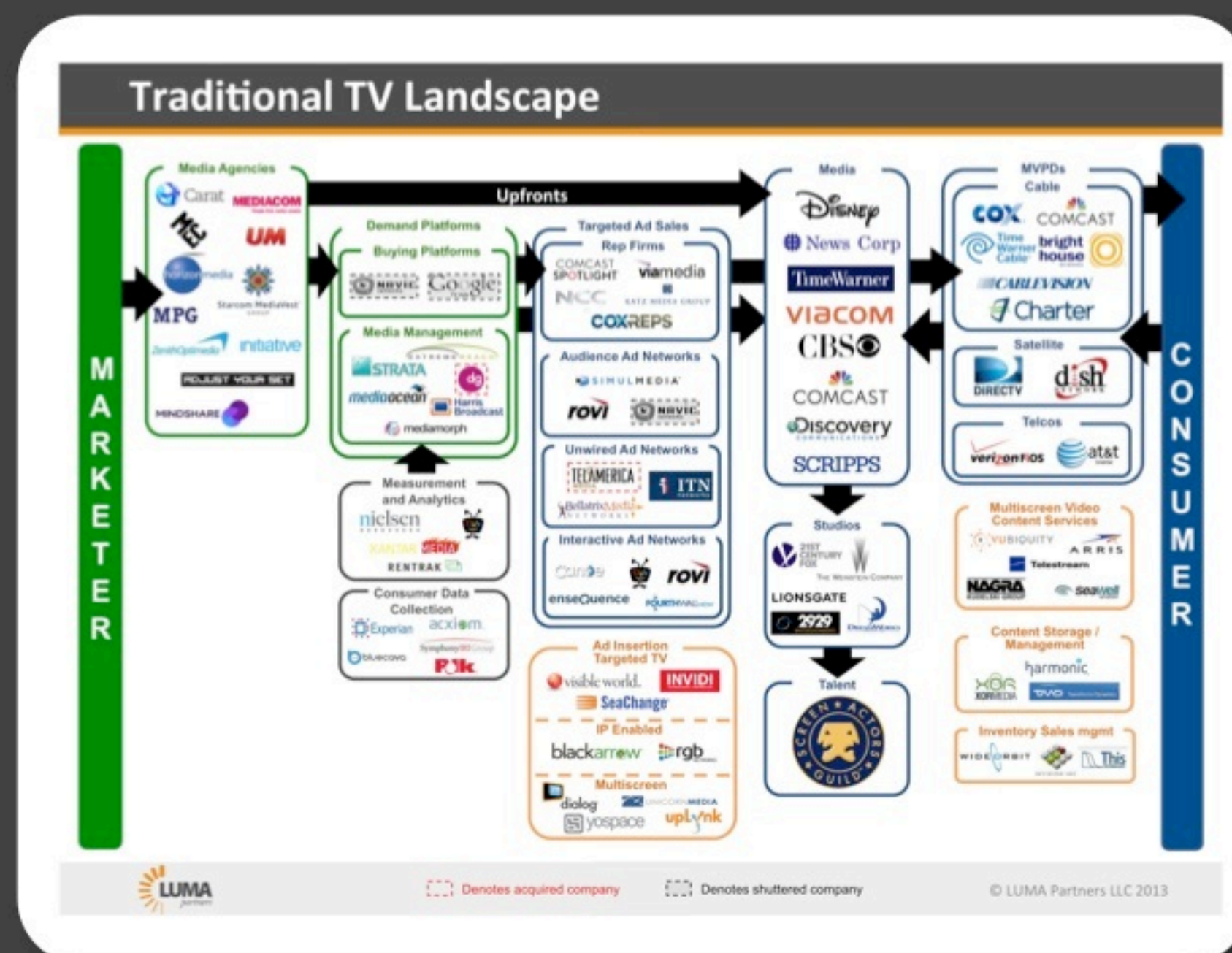


*... and digital is on fire. So the notion that TV will be cratered by the advent of digital video is simply untrue.*





# Traditional TV vs. Digital Video Players



19	Buckets	36
~ 100	Companies	~ 400
\$150 billion	Total Spend	\$6 billion
\$1.5 Billion	\$ / Company	\$15 Million



*Traditional TV and digital video are two fundamentally different ecosystems. The traditional TV landscape has half as many categories of companies and a quarter of the number of players as compared to digital video.*





# Traditional TV vs. Digital Video Players



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\$1.5 Billion	<b>\$ / Company</b>	\$15 Million

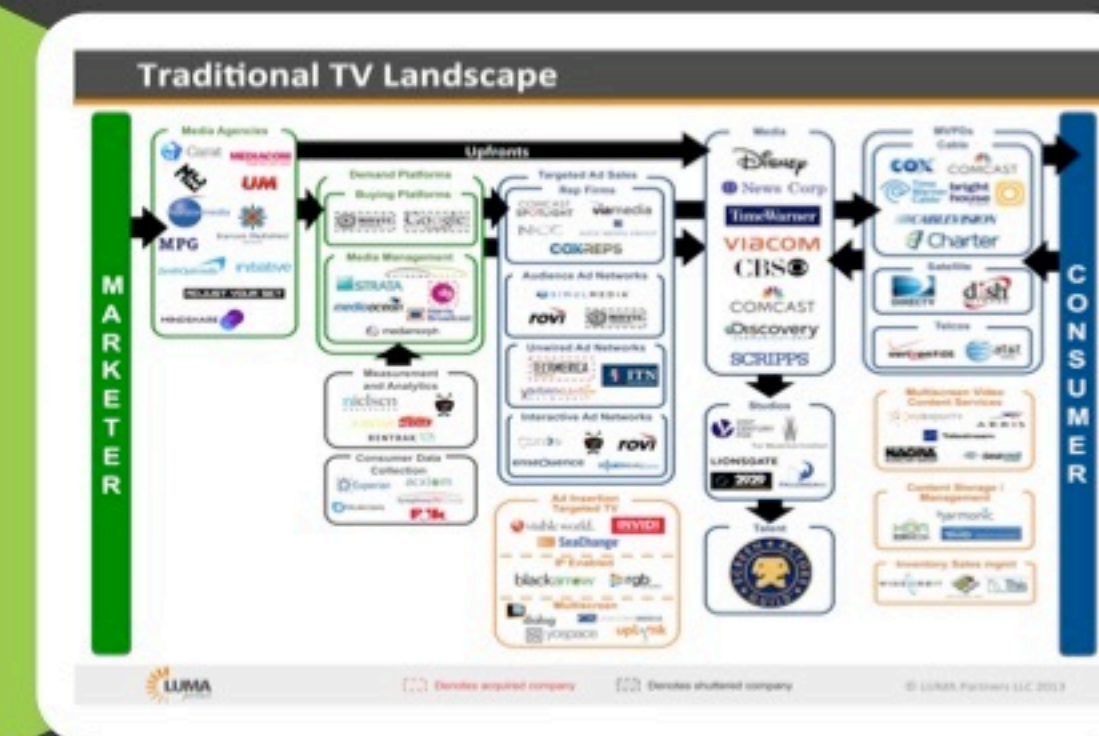
When you factor in the amount of spend per company in each of these ecosystems it's a 100 to 1 ratio between traditional TV and digital video. So the great change we're all expecting might not necessarily come from the smaller, VC-backed companies.



# Cash on hand is 5x more than the market cap of all 4 major TV networks!



5x  
Cash



100 : 1

Market Cap: \$1.6 Trillion  
Cash: \$400 Billion



*However, there are some new entrants that are very powerful. These are household names like Google, Apple, Verizon, Samsung, Amazon, Netflix, Microsoft and Sony that have combined market caps and cash that are multiple times greater than the entire traditional TV market.*

Source: Needham & Co. estimates the TV ecosystem to be ~\$400 Billion



# 2008 was so simple: Traditional & Digital Silos

Screens



Delivery



Content

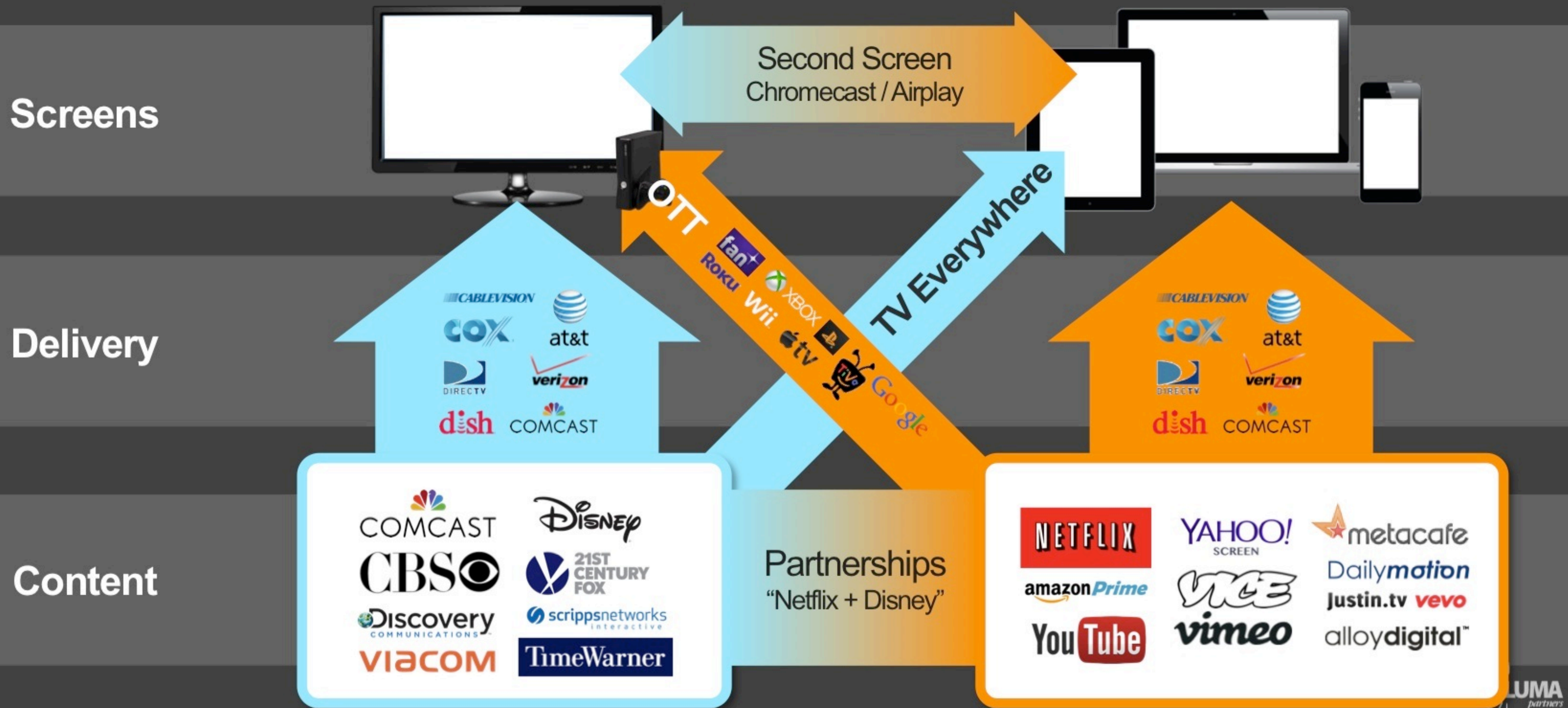


*The world used to be simple. TV content was consumed on televisions and digital content was consumed via digital channels. It was straightforward and bifurcated.*





# Convergence begins with device proliferation



*Then came the adoption of multiple screens. With this we saw the beginnings of content partnerships between traditional and digital-first players. OTT emerged as a means to bring digital content to traditional screens. This was then complemented by TV Everywhere to bring television content to digital screens.*



Screens



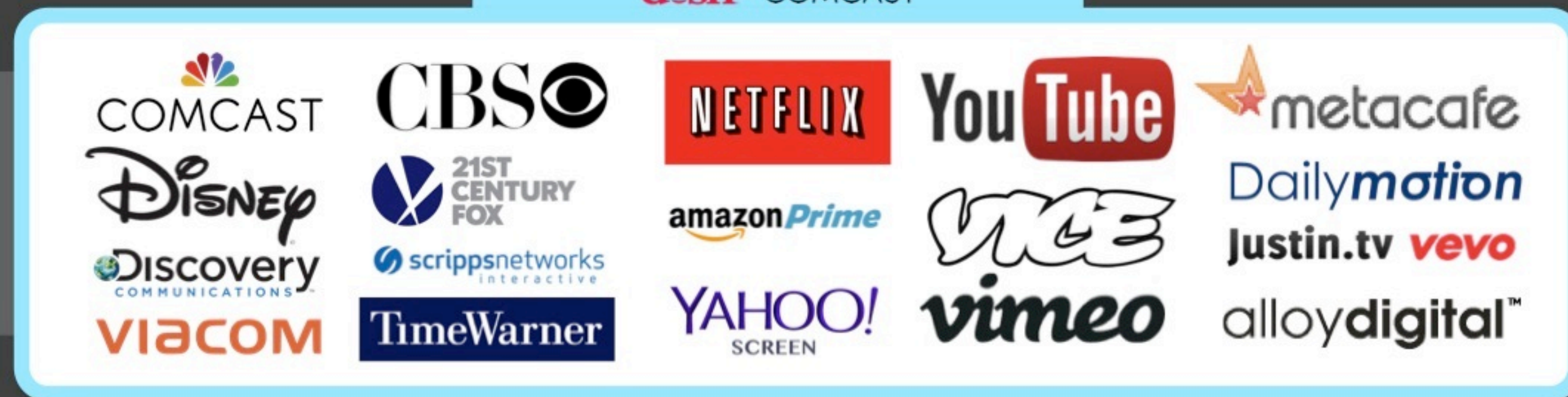
OTT/CTV



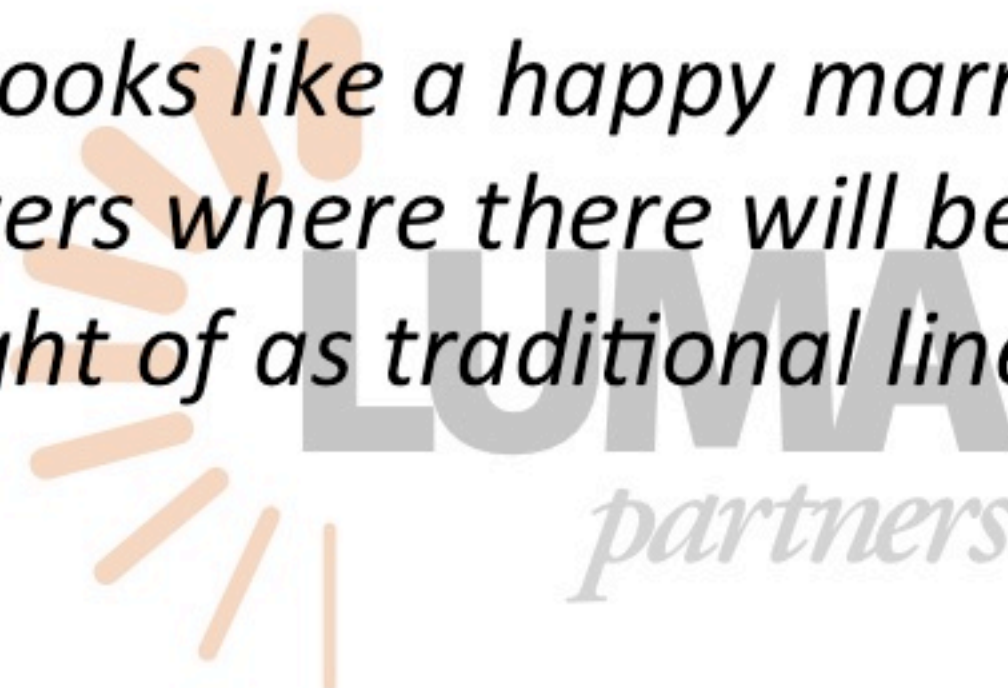
Delivery



Content



*LUMA believes the future looks like a happy marriage between the traditional and digital players where there will be little distinction between what was previously thought of as traditional linear and digital delivery.*





# Kevin Spacey at Edinburgh TV Festival



*"Studios and networks who ignore either shift, whether the increasing sophistication of story telling or the constantly shifting sands of technological advancement, will be left behind."*

*- Kevin Spacey, Keynote at Edinburgh TV Festival*



# A Collaborative Effort With Industry Leaders



*LUMA is collaborating with the major constituents of both the linear and digital ecosystems to garner their expert input on this analysis. Accordingly, you can expect it to evolve as we have more meetings. If you have a perspective you would like to share and would like to schedule a meeting, please contact us at [info@lumapartners.com](mailto:info@lumapartners.com)*



**TV Business**

**Trends**

**Issues**

**Theses**

**Facts**

**Analysis**



*The deck is composed of four sections in two categories*





## TV Business

## Trends

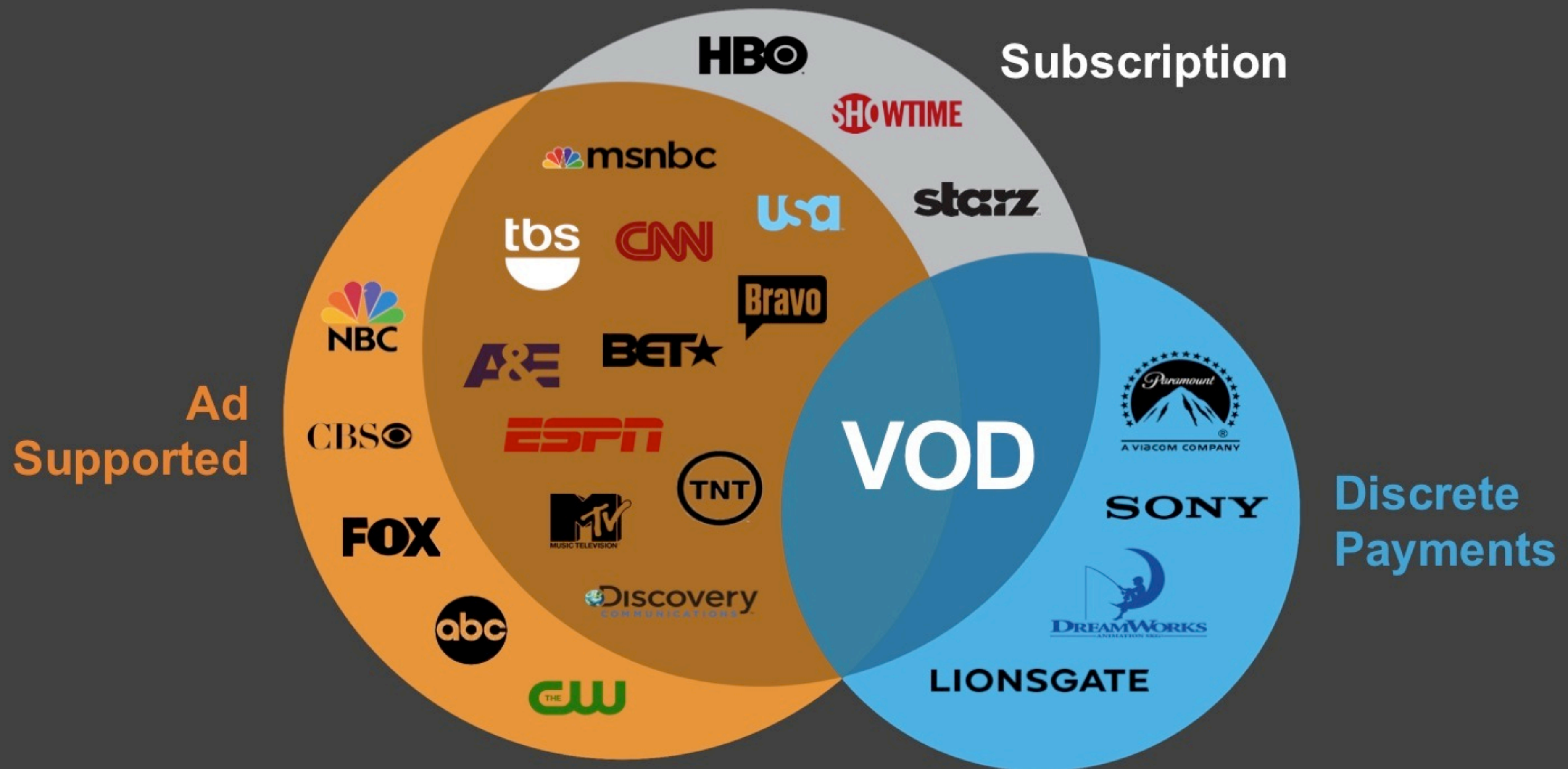
## Issues

## Theses

1. Business Models
2. Content Pre-Funding
3. Standardized Measurement
4. Inertia / Trust



# The Traditional Business Models



*The TV business has a fundamentally different business model than digital video. While TV is the single largest ad spend category at \$70 billion, this is only one of TV's revenue streams.*





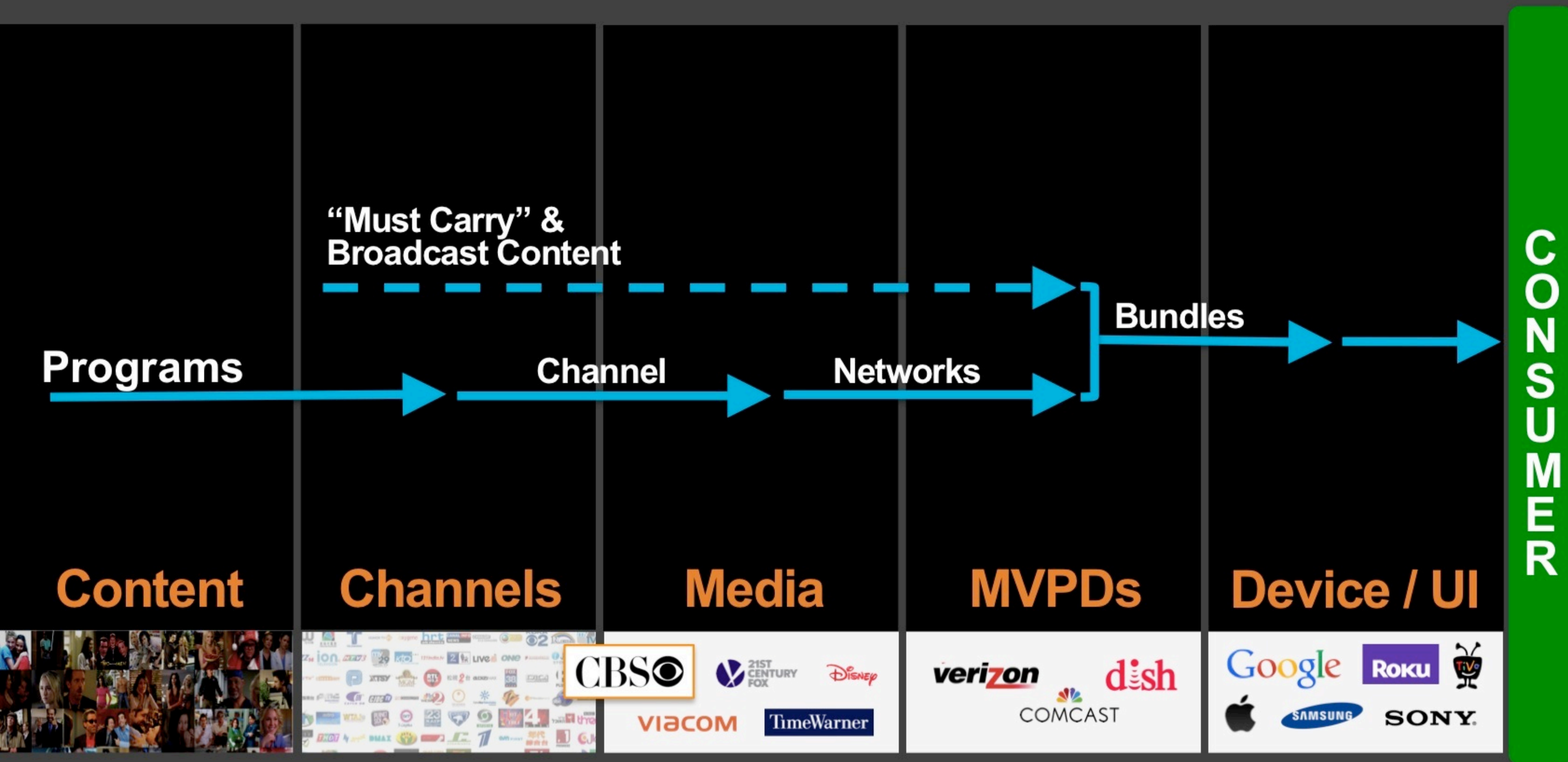
# Traditional TV Content Model



*The traditional TV content model can be boiled down to the following: Content gets grouped into channels, which then get packaged by media companies, that are then again packaged and delivered by MVPDs, which ultimately gets viewed on the consumer's devices.*



# Traditional TV Content Model

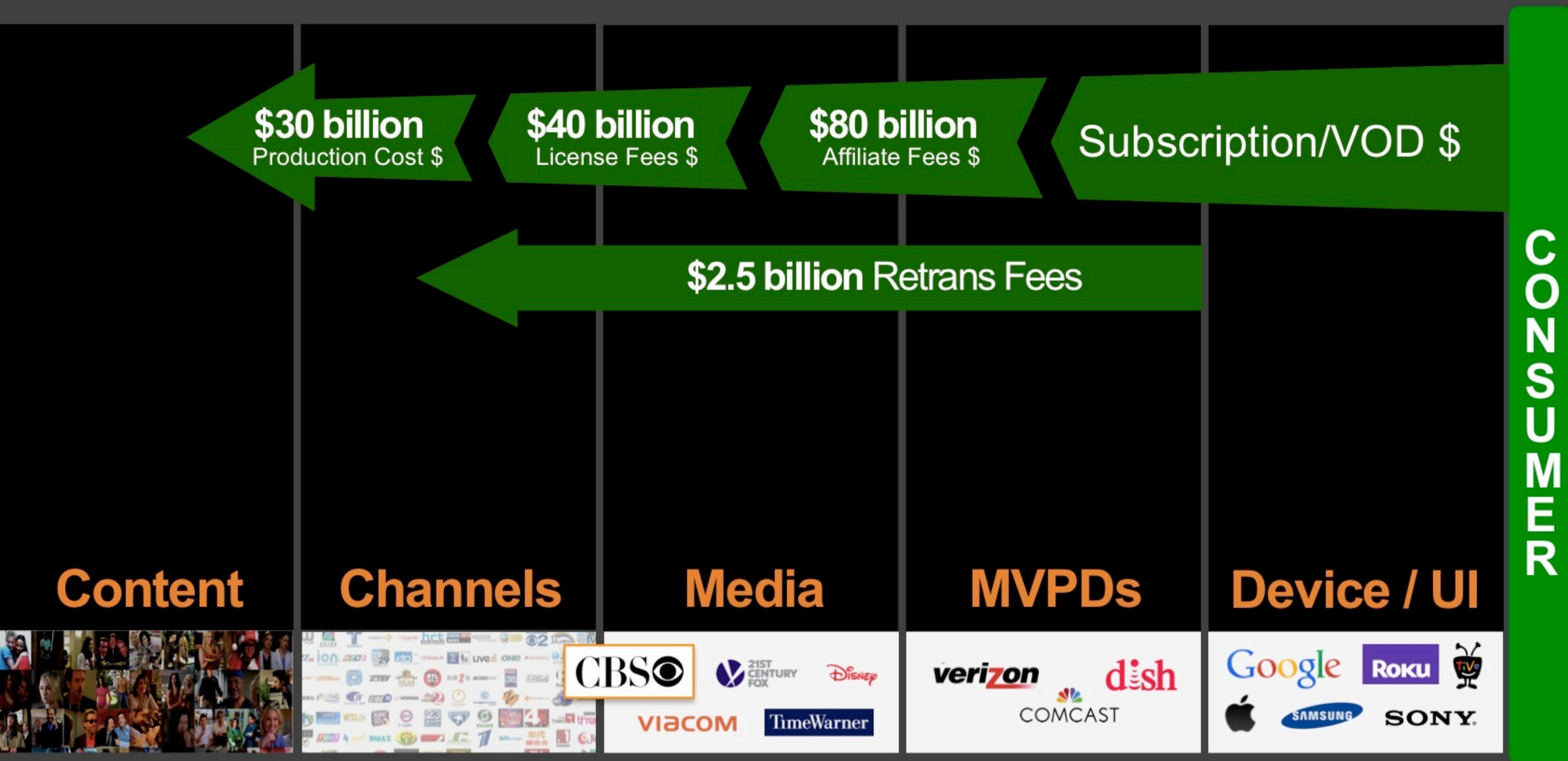


*This is another way of looking at how the content flows to the consumer.*





# Traditional TV Content Model

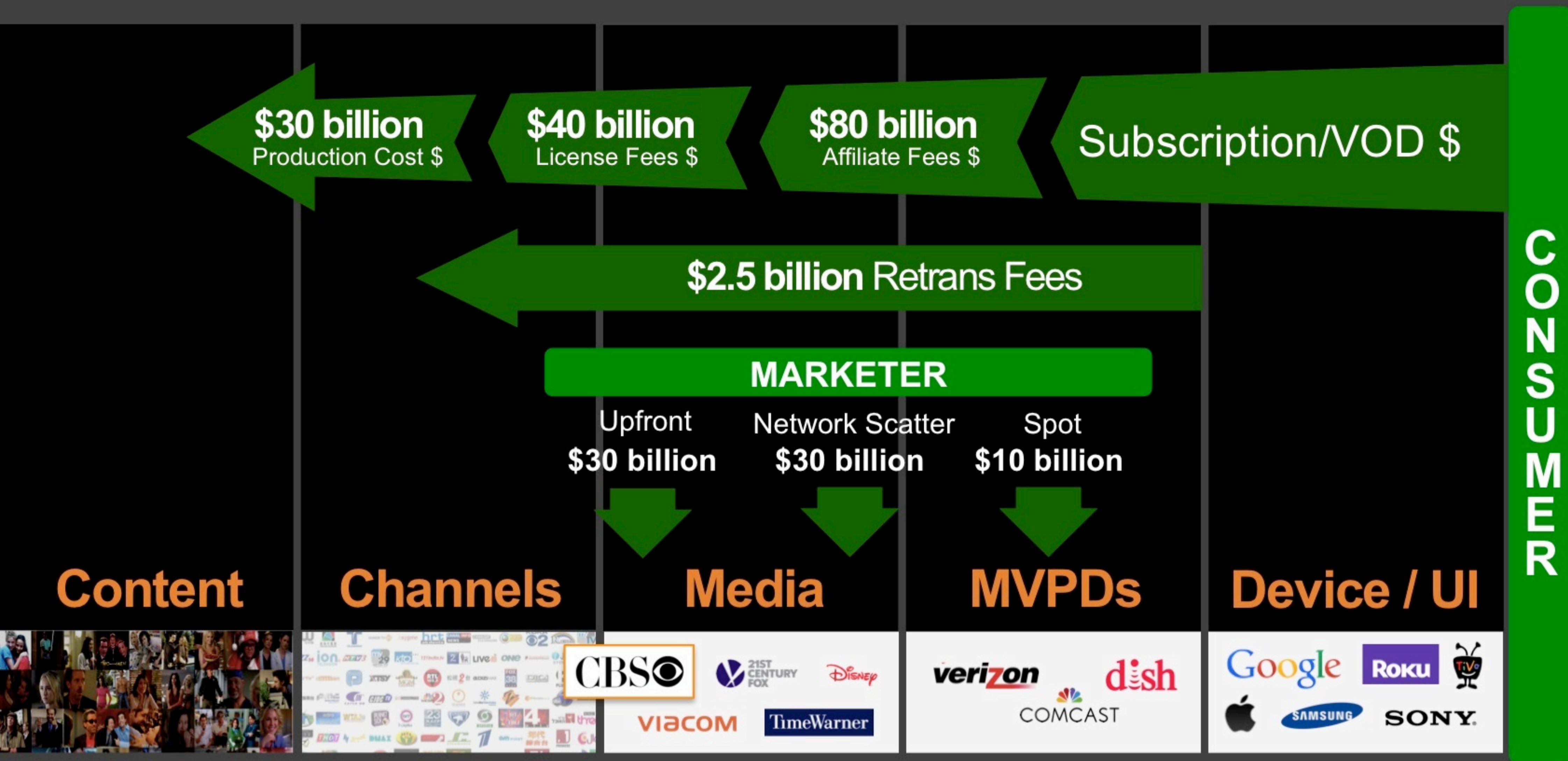


*The return path is dollars. The \$80 billion of subscription dollars gets shared between the delivery companies, the media companies and all the way back to the beginning to fund the creation and production of new high-quality, long-form content.*





# Traditional TV Content Model



The marketing dollars are a separate, additional revenue stream. The \$70 billion of TV ad spend comprises \$30 billion of upfront buys that are committed to at the beginning of the year, \$30 billion in network scatter for inventory that is not bought on an upfront, annual basis, and \$10 billion in spot buys reserved for local markets.



## TV Business

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# Bundling Enables Pre-Funding of Content



10% Support 100%

*Media companies use the revenue committed upfront towards investing in new content. Traditionally, high-quality content has been very expensive as only a small minority of pilots produced may be picked up to actually air on TV. This means that the 10% that is picked up supports 100% of what is created.*



# Bundling Enables Pre-Funding of Content



*This economic model differs from digital because in digital the publisher only gets paid well after an ad actually runs. There is no upfront payment.*





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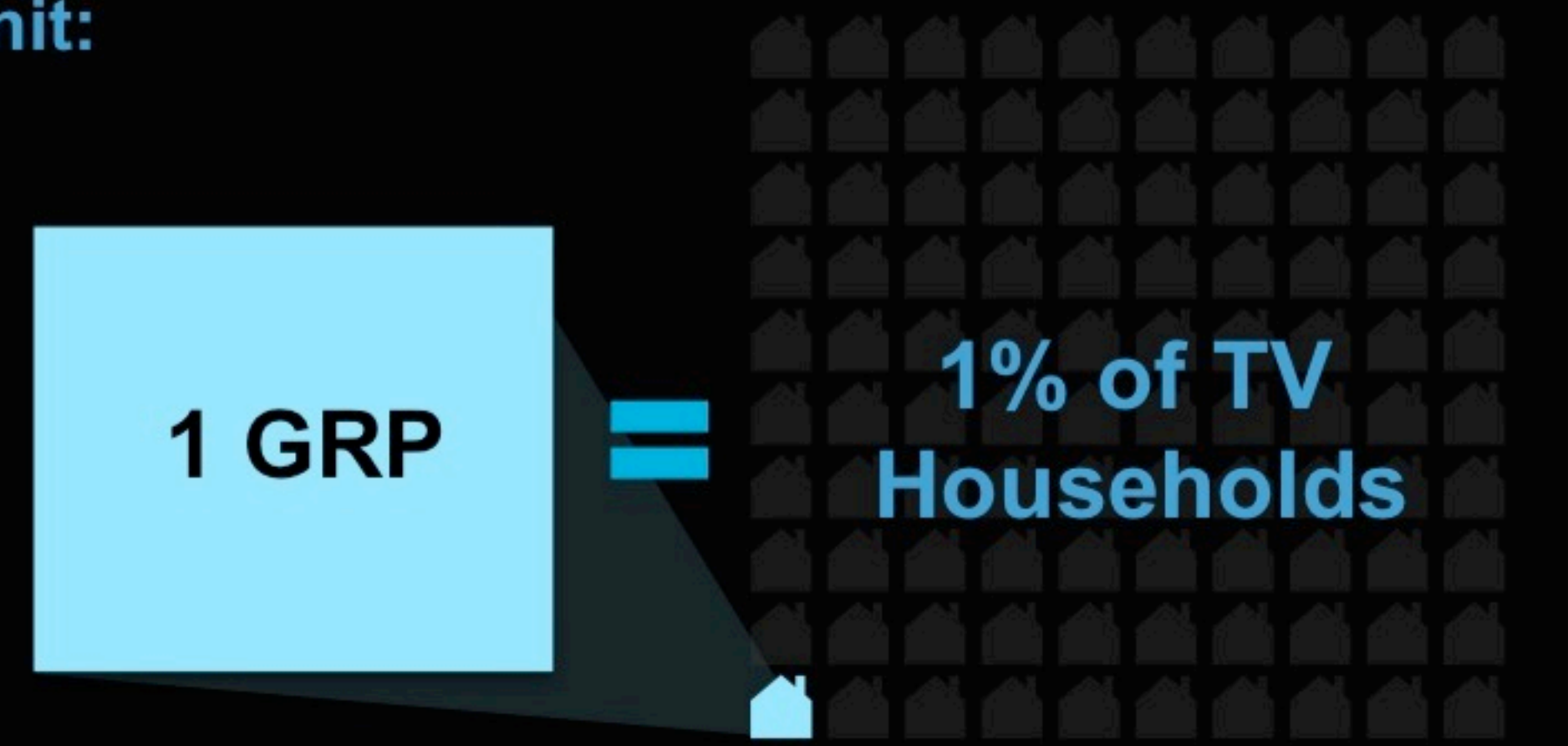
# Nielsen GRP is the Currency for TV

**GRP:** A unit of measurement of audience size for TV programming

## Calculation:



## Unit:



**Purpose:** Used to measure the exposure to one or more programs or commercials, without regard to multiple exposures of the same advertising to individuals

**Importance:** The ubiquitous currency driving all TV economics

*TV also has very different standards for measurement. Nielsen's GRP (Gross Rating Point) has long served as the single form of measurement / currency for all TV buying. This certainly differs from digital, which has multiple measurement metrics and multiple companies that perform those measurements.*



## TV Business

## Trends

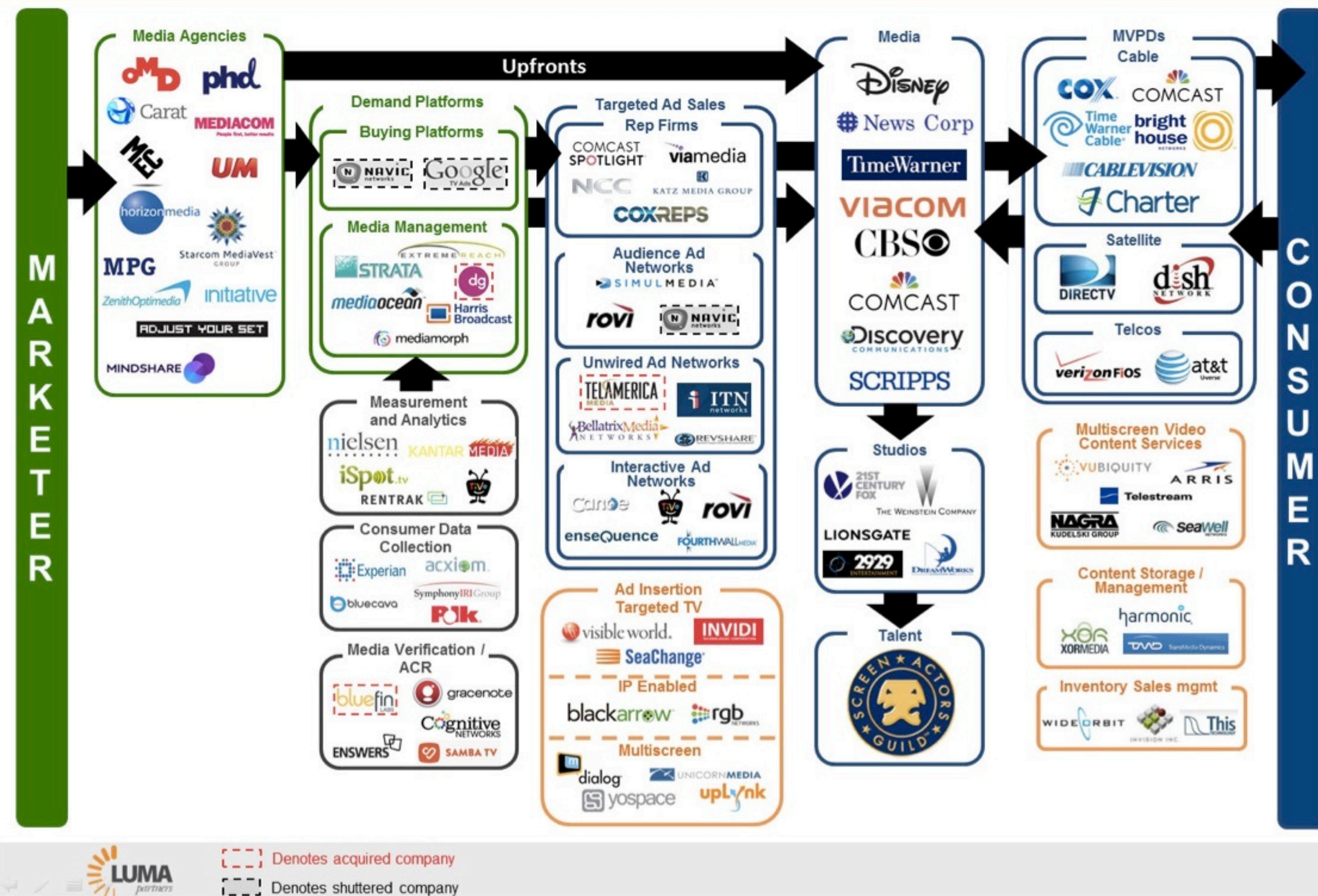
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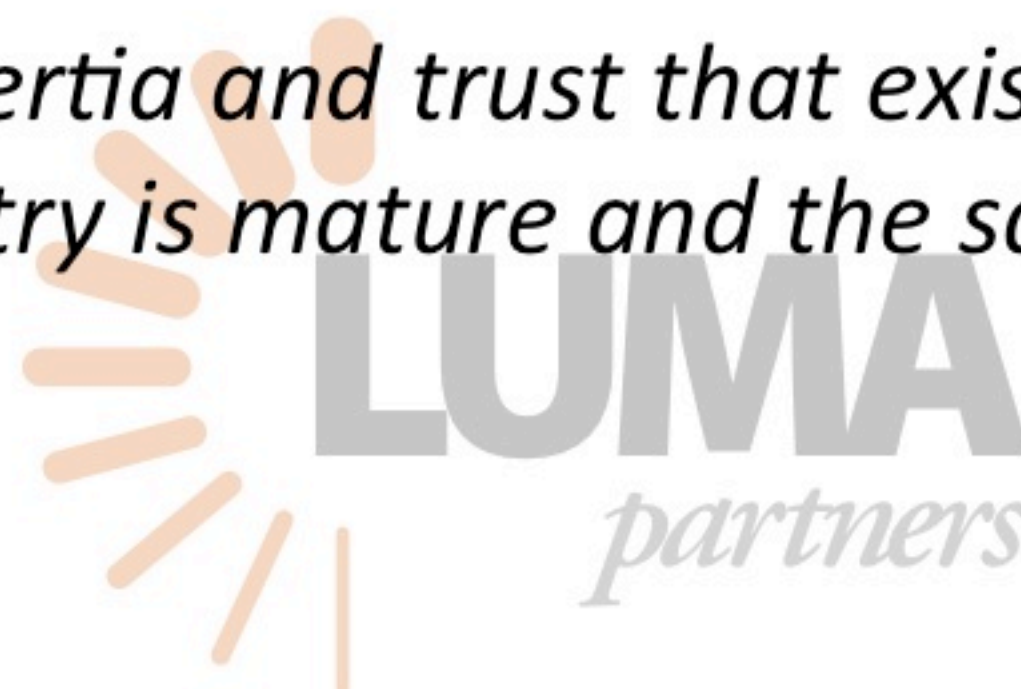
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# Traditional TV Landscape

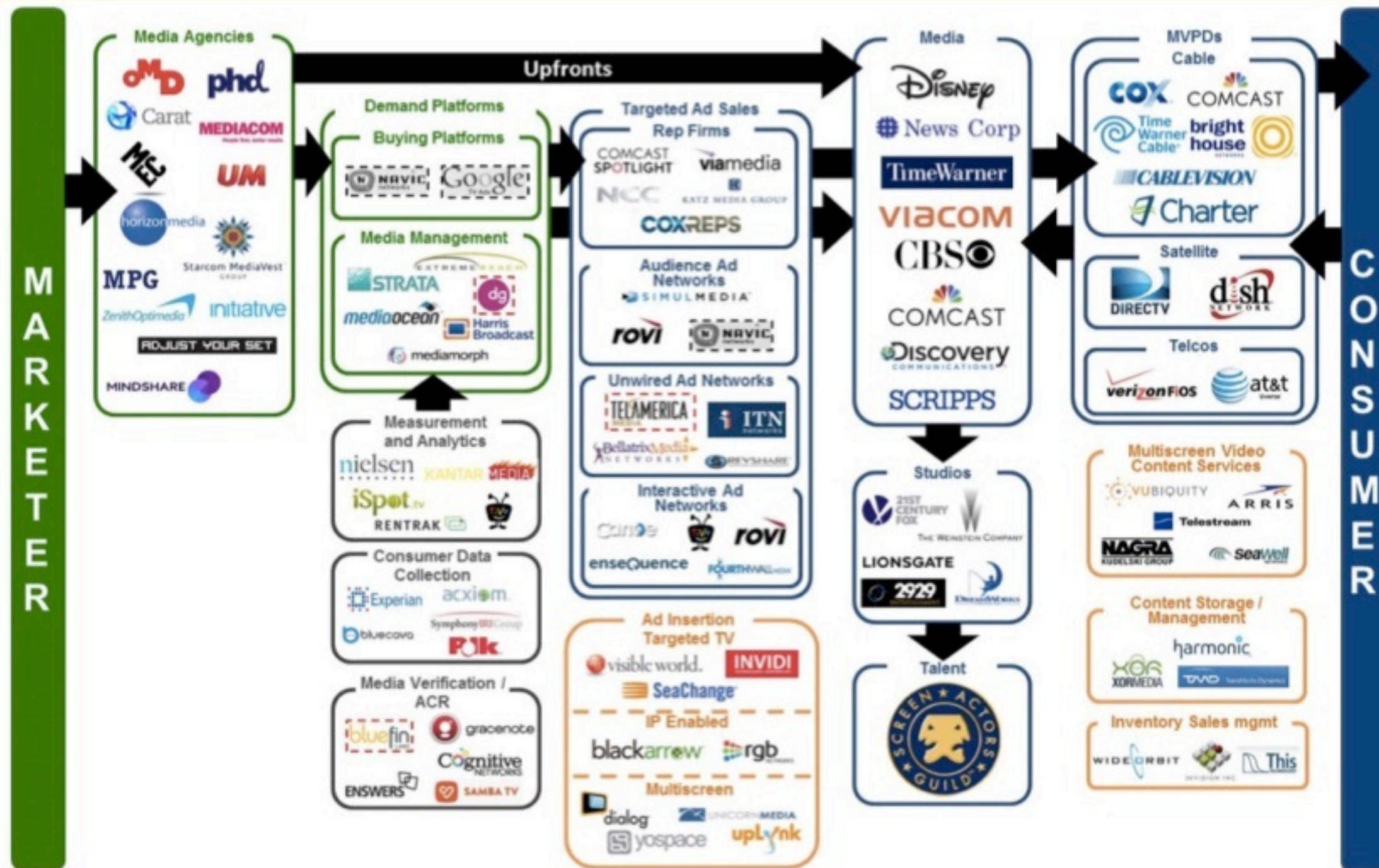


There's a deep sense of inertia and trust that exists in the traditional TV ecosystem since the industry is mature and the same players have existed together for decades.





## Traditional TV Landscape



**Observations**

- MATURITY** of Ecosystem
- SCALE** of Audience
- TRANSPARENCY** of Data
- SIMPLICITY** of Workflow
- PRE-FUNDING** of Content





**TV Business**

**Trends**

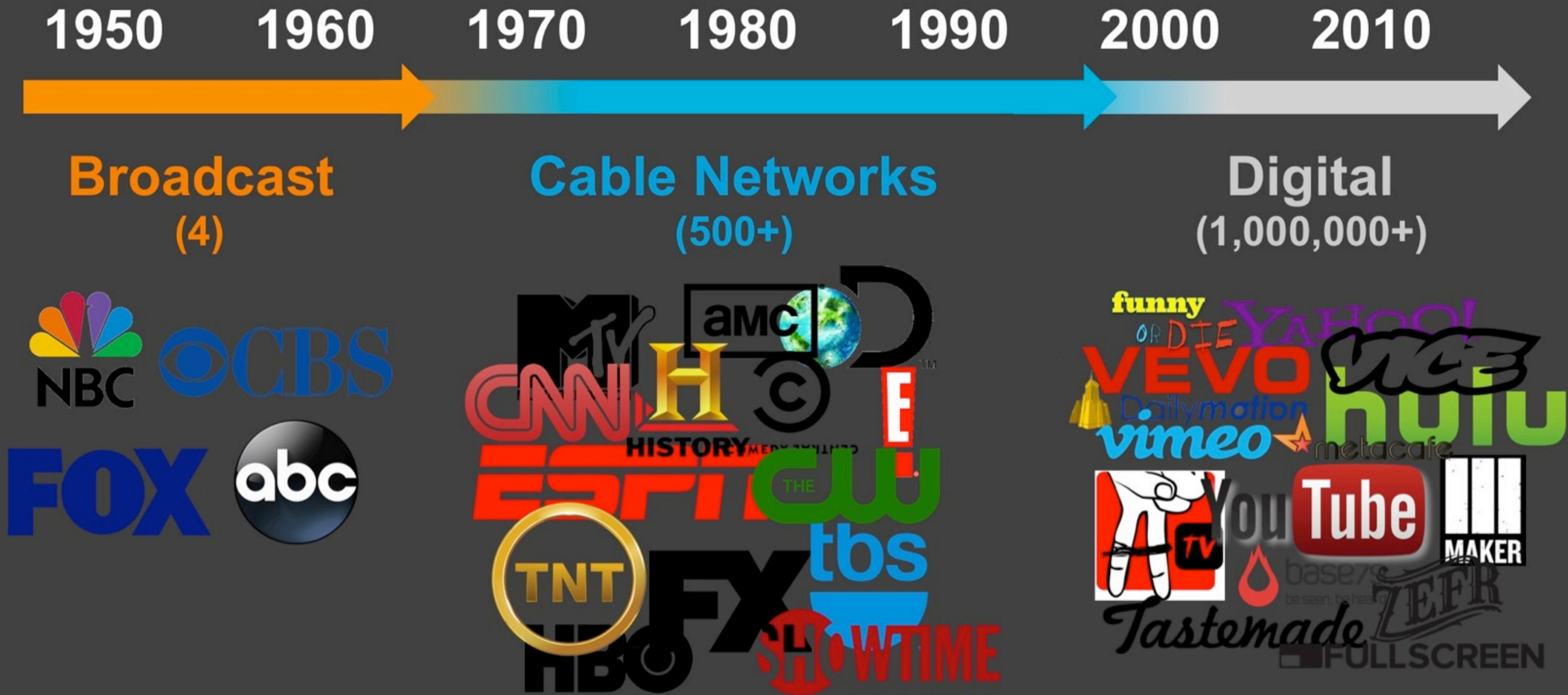
**Issues**

**Theses**

1. **Fragmentation**
2. Device Proliferation
3. Second Screen
4. New Entrants
5. Original Content Production



# Evolution of Channels



*As television has evolved, the channels available to consumers have proliferated exponentially with each new medium. Cable networks brought consumers new, fresh programming across a variety of channels, while digital has provided nearly limitless options to consumers.*





# Traditional TV Content Model



1993

80MM

Most Viewed  
Episode



1992

52MM

Final Late  
Night Episode

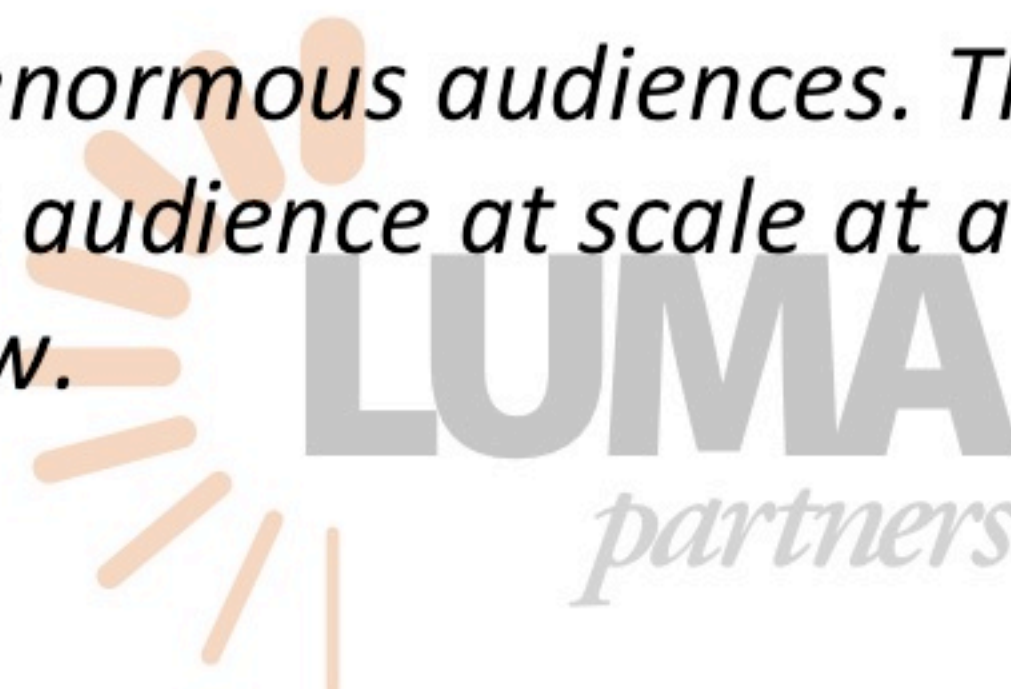


1990

38MM

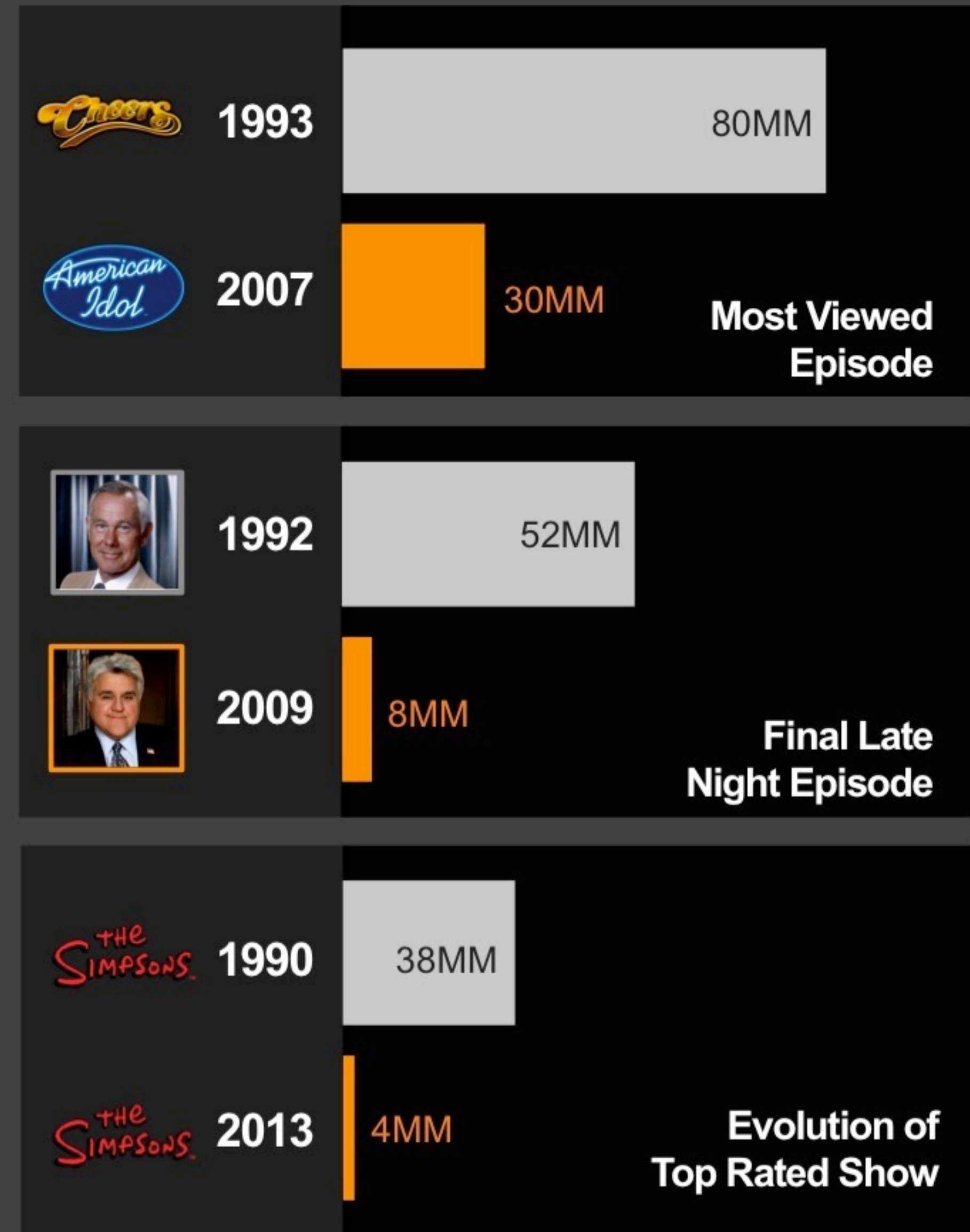
Evolution of  
Top Rated Show

*Hit shows used to deliver enormous audiences. This meant that it was easy for a marketer to reach an audience at scale at a specific time in conjunction with a specific event / show.*

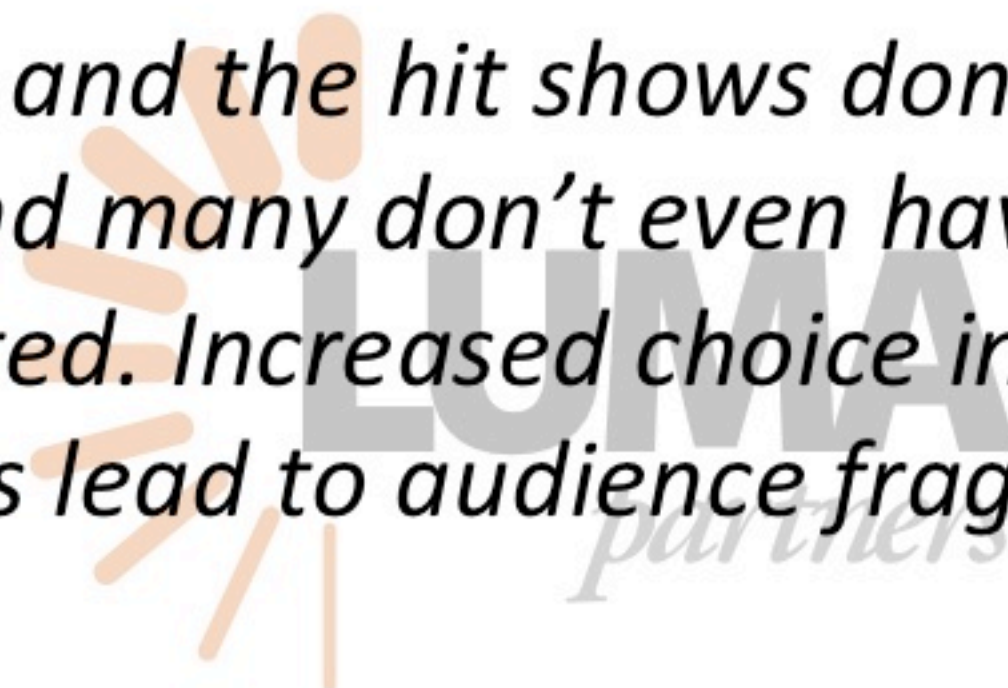




# Cross channel devices killed the television star!



*Fast forward twenty years and the hit shows don't even have a fifth of the audience they once had and many don't even have a fraction of the audience they once attracted. Increased choice in what and where to consume video content has lead to audience fragmentation.*





**TV Business**

**Trends**

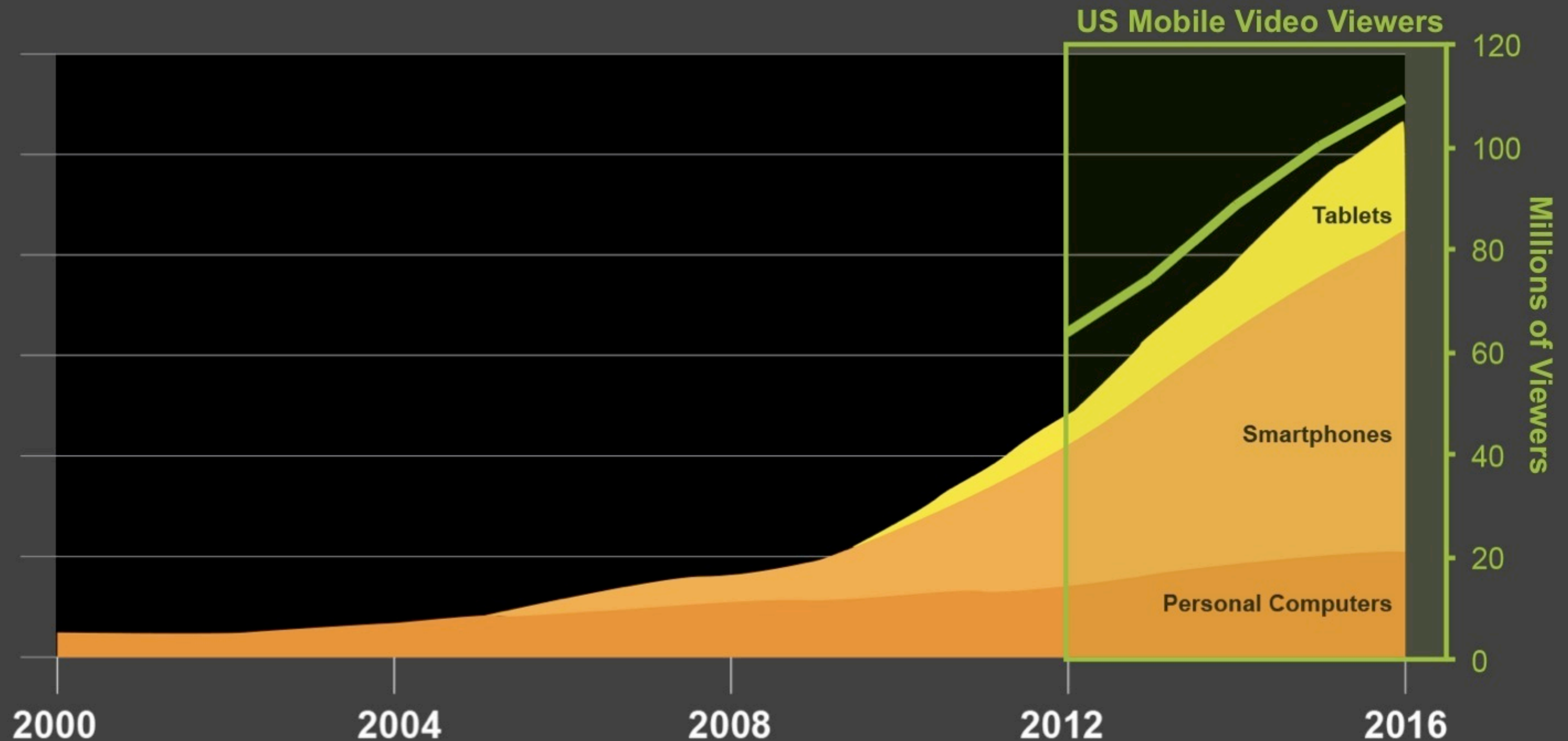
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# Global Device Sales



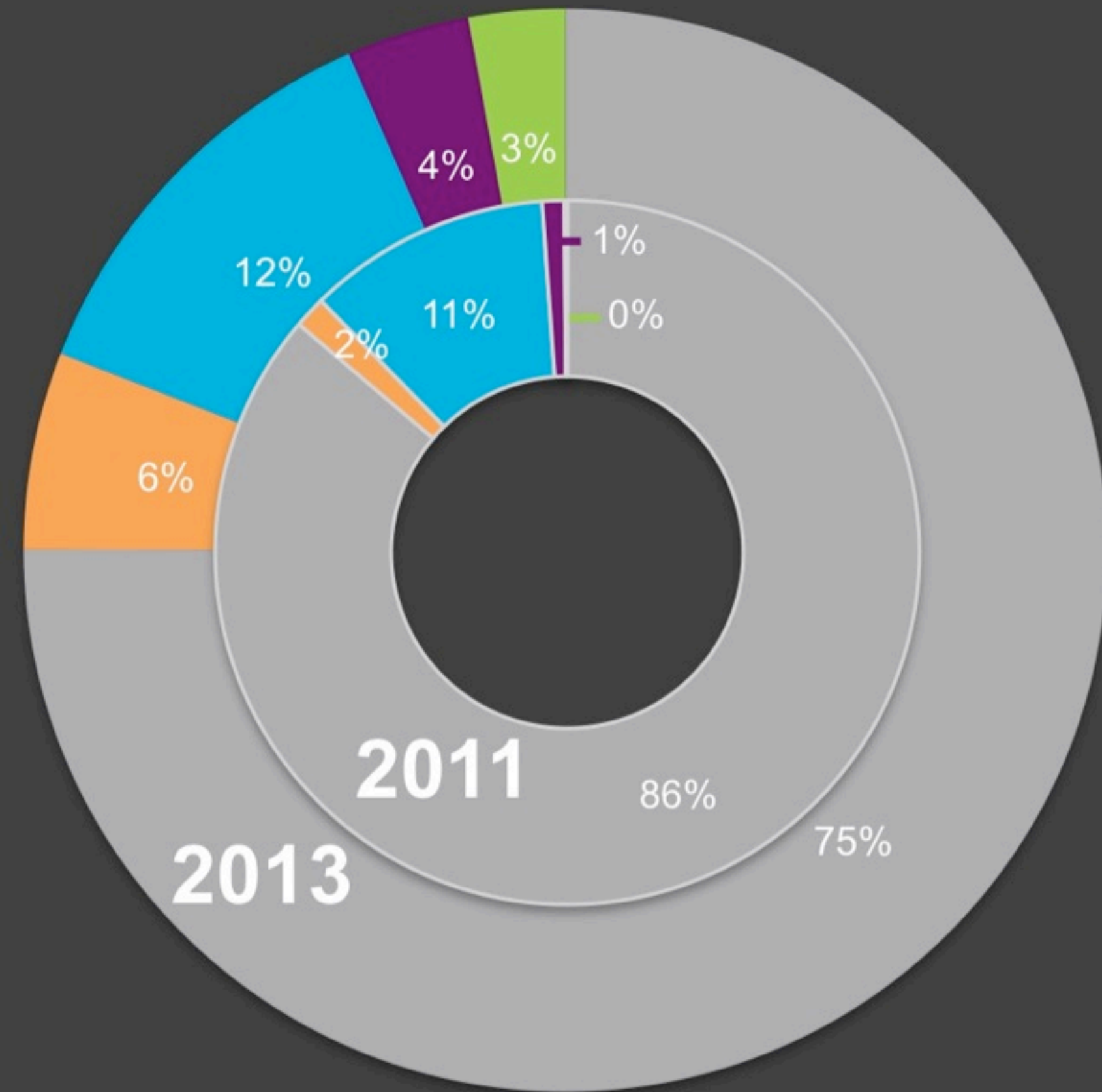
Source: Gartner, IDC, Strategy Analytics, Company Filings, BI Intelligence estimates, eMarketer

*The number of devices per household has increased rapidly. We've seen an explosion in smartphone and tablet sales. In line with this device proliferation and bandwidth availability, consumers are spending more time watching video on their mobile devices.*



# Time Spent is Continuing to Fragment Quickly

Time Spent by Format / Device



Source: Nielsen

*Viewing has also timeshifted. People will watch what they want, when they want. We expect this trend to become more pronounced over time.*





**TV Business**

**Trends**

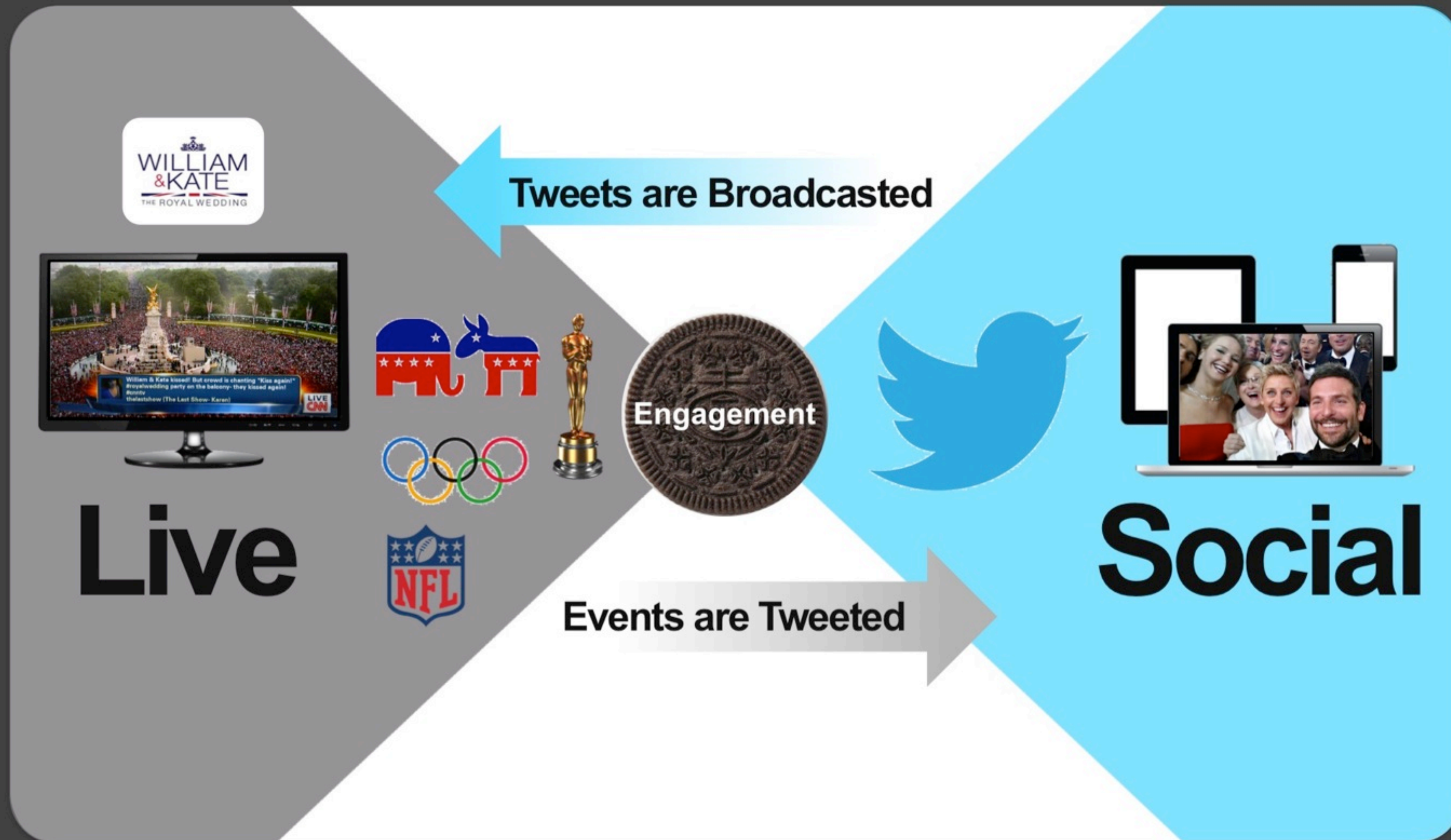
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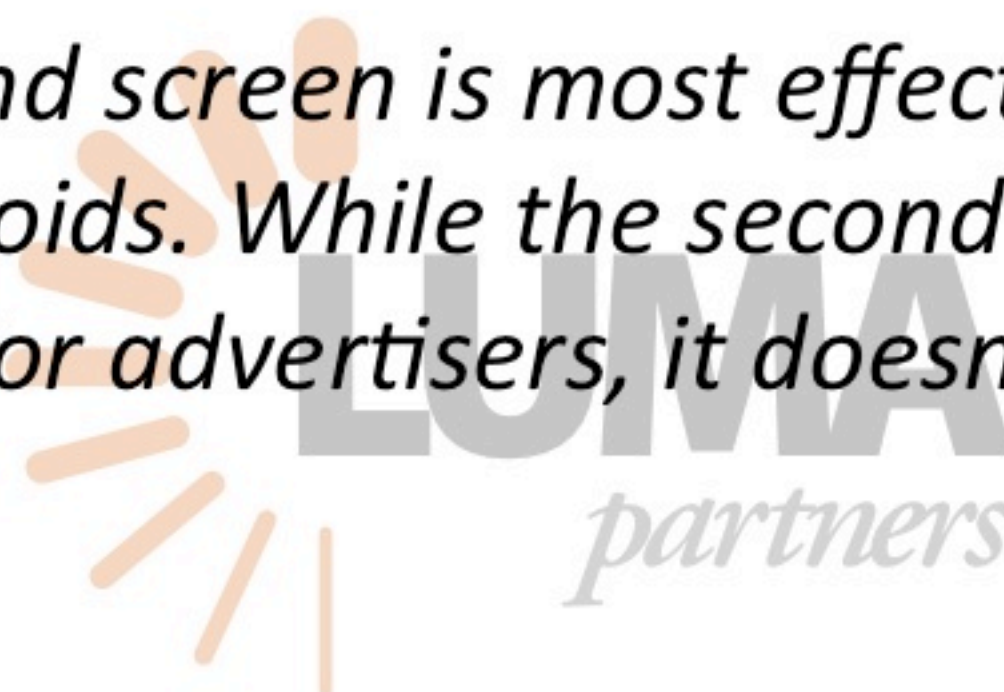
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# Live Events are an Example of Convergence



*The growing use of a second screen is most effective for live TV, allowing a water cooler effect on steroids. While the second screen provides a great engagement opportunity for advertisers, it doesn't have a significant impact on TV ad revenue.*





**TV Business**

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# New Entrants: Pursuing Different Strategies

	amazon.com	Apple	Google	verizon	Microsoft	NETFLIX	SAMSUNG	SONY
Licensed Content								
Original Content								
Premium Subscription								
Pay-TV Service								
Discrete Payments (Commerce model)								
Television Screen								
Tablet/Mobile Screen								
Cross-Screen Communication								
OTT Device								
OTT Application								
Linear TV UI								
VOD UI								

*The various new entrants take unique approaches to the opportunity with assets deployed across the spectrum from hardware, software, content and consumer services*





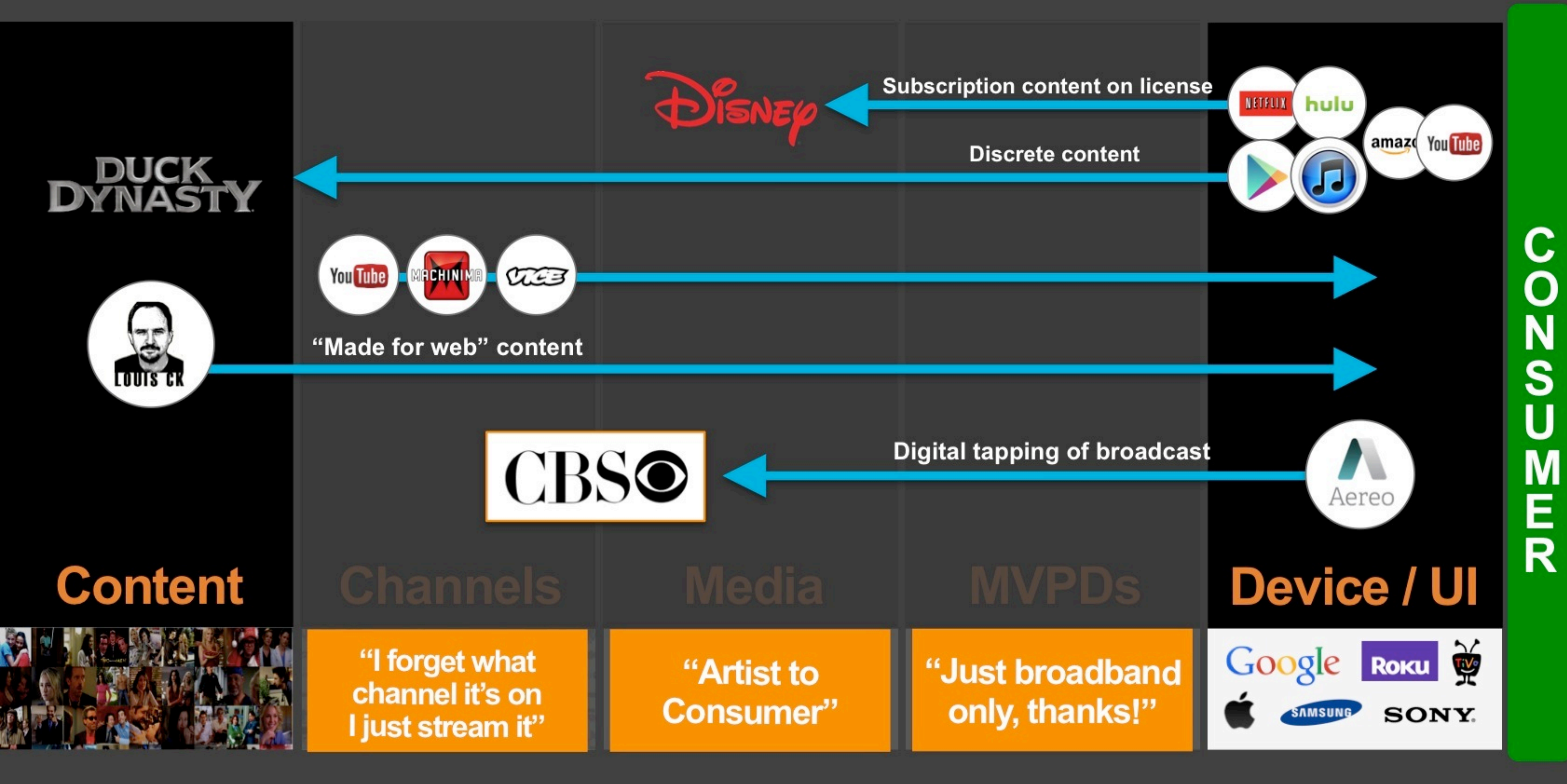
	Apple	COMCAST	Google	amazon
Monetization	iAd	SPOTLIGHT	doubleclick by Google	Digital Ad Sales amazon.com
Screens			nexus	
OS	iOS X		android	Fire OS
App Store			Google play	amazon apps Prime
Browser				
OTT				
Delivery		xfinity FreeWheel Time Warner Cable	Google fiber	
Hardware / Cloud				amazon web services S3
Content Production		NBC UNIVERSAL	You Tube +\$200MM	amazon studios

*The four players with potentially the most impact have lined up assets to capture the converged TV market.*





# New entrants open different distribution and content strategies



New entrants have varying disruption strategies. Some are coming forward with content solutions while others are focused on delivery, new pricing models or hardware. Netflix and Hulu are disrupting delivery but partnering with the traditional content players while others are bringing their own content directly to the consumer, bypassing all others in the middle.



**TV Business**

**Trends**

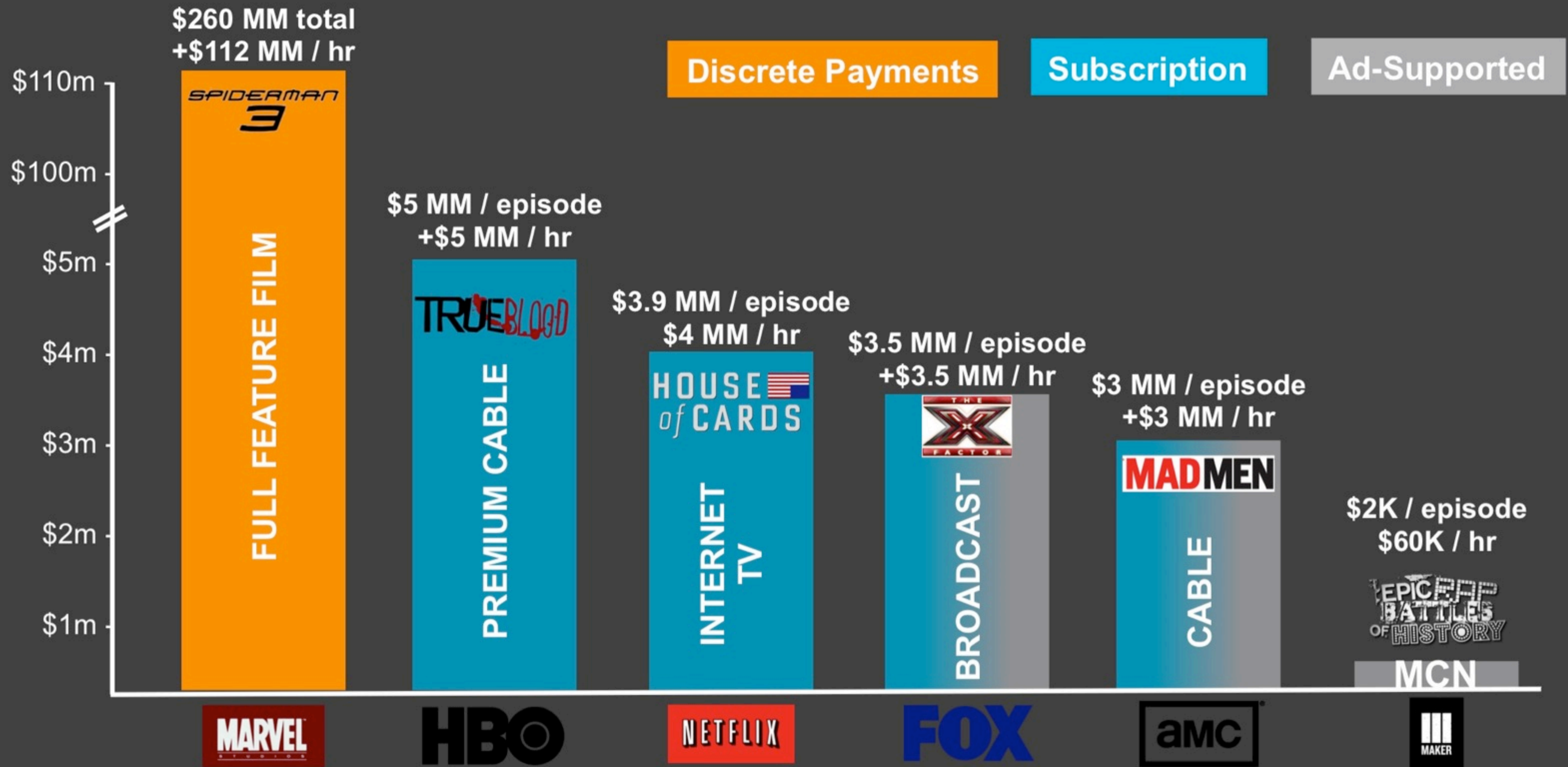
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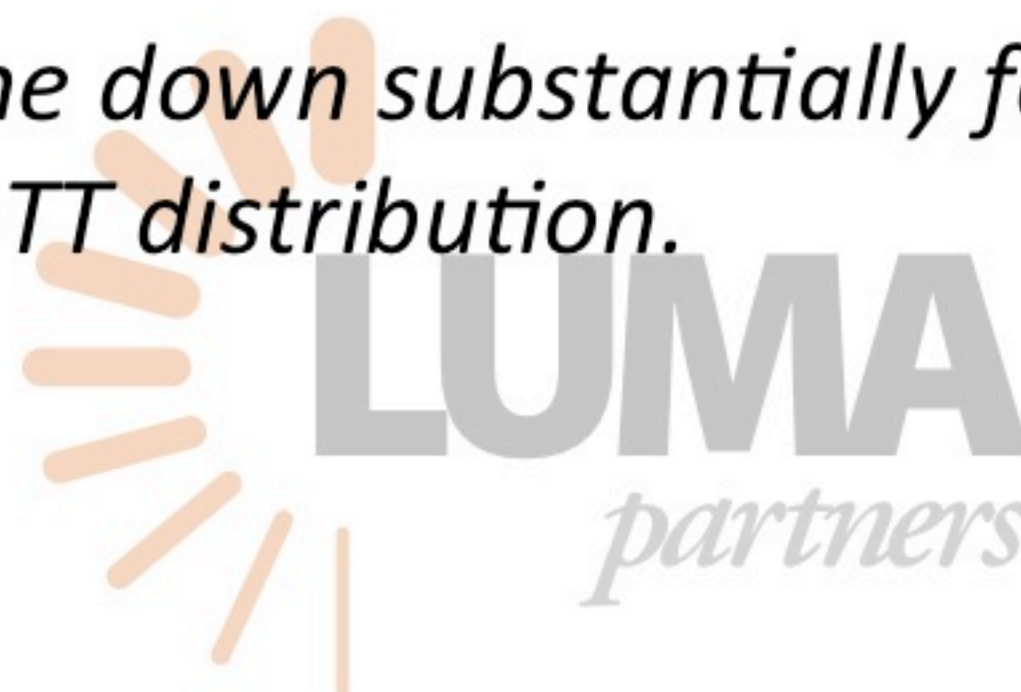
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# Production Costs per Hour of Content

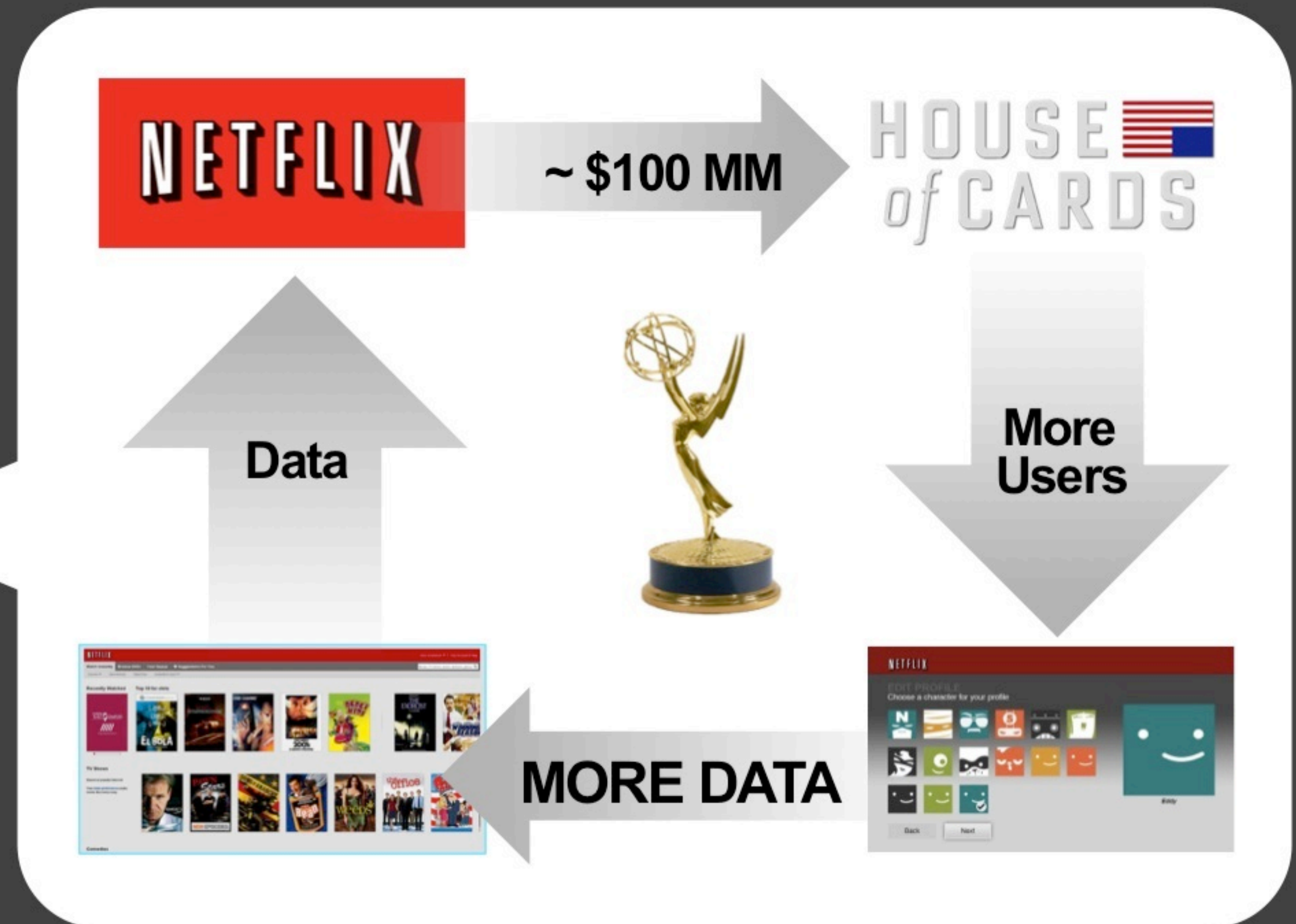


*Production costs have come down substantially for high quality content produced for digital and OTT distribution.*





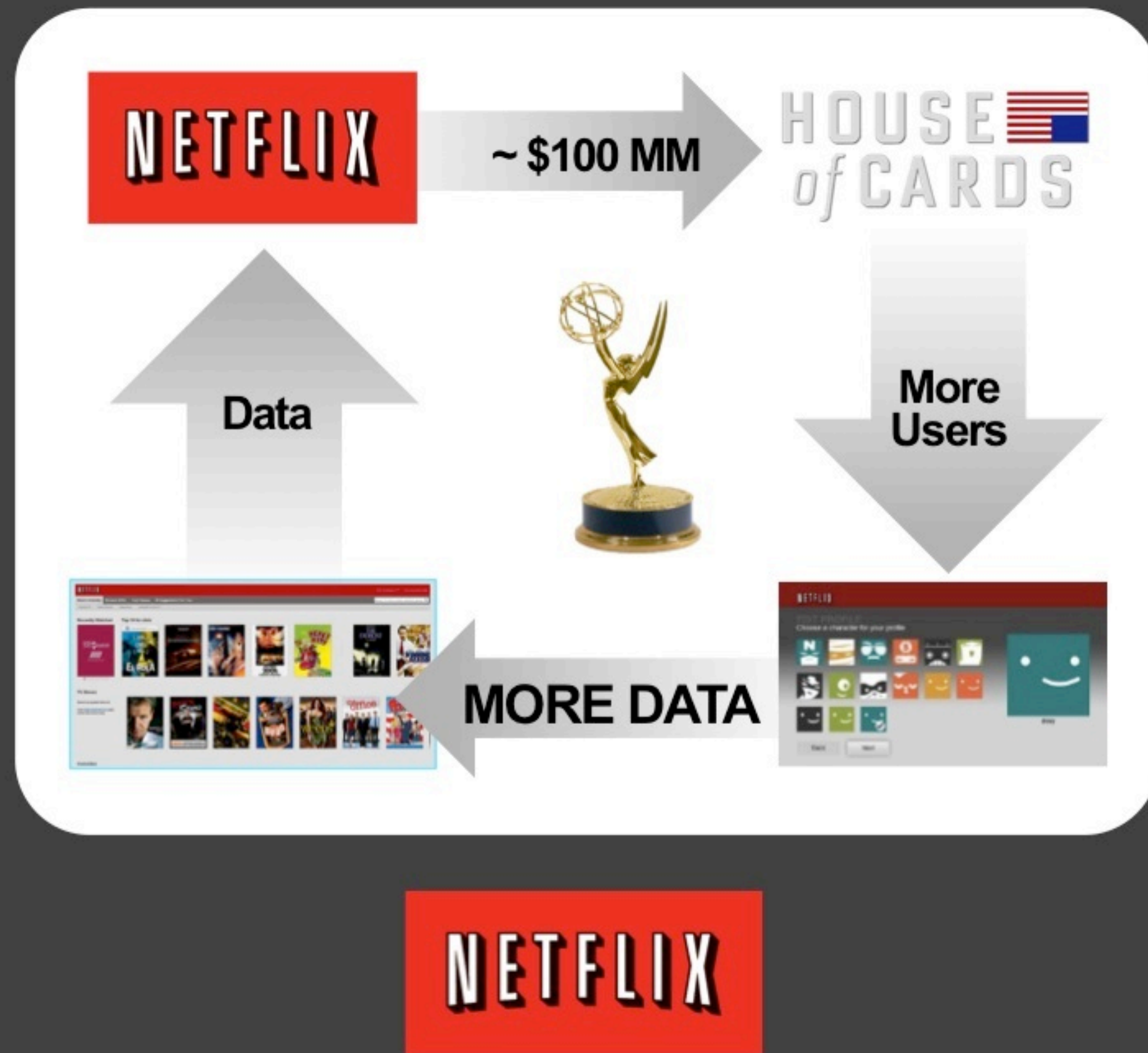
# Data Driven Decisioning



*Digital has brought data-driven decisioning to video content creation. A great example of this is Netflix making a two season commitment to House of Cards without seeing a single pilot.*



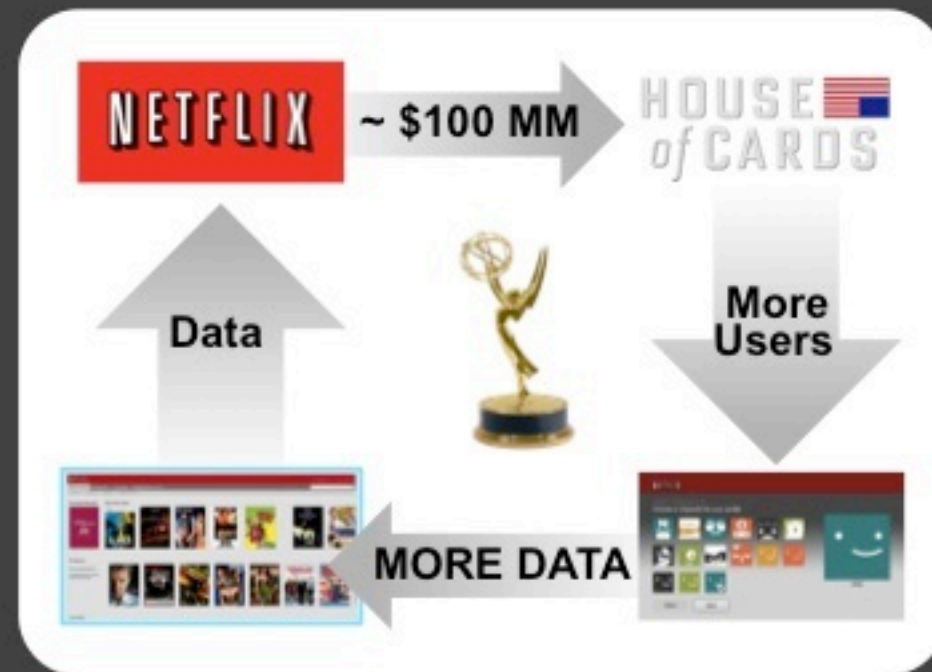
# Fundamental reduction in risk to launch pilots and tier 1 shows



Amazon is also leveraging data but in a different manner. It is crowdsourcing ideas for pilots then creating mini-pilots that they then test with their actual consumer base. The constant feedback loop that this creates reduces risk and increases the efficiency of creating high-quality content that consumer want to watch.



# New entrants launching 20+ new tier 1 shows in 2014



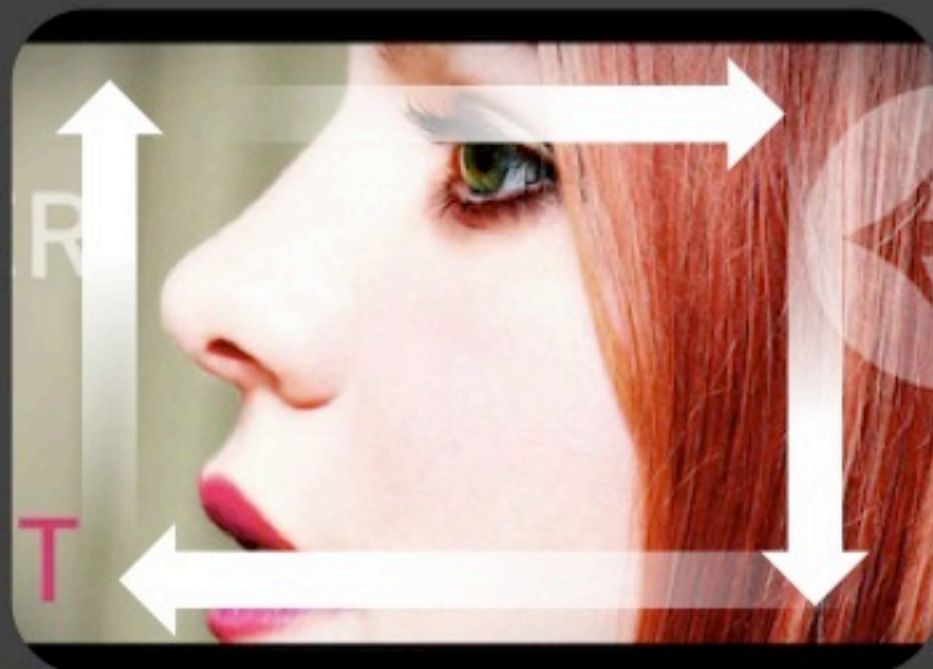
NETFLIX



Microsoft



amazon  
instant video



MODE MEDIA



YAHOO!  
SCREEN



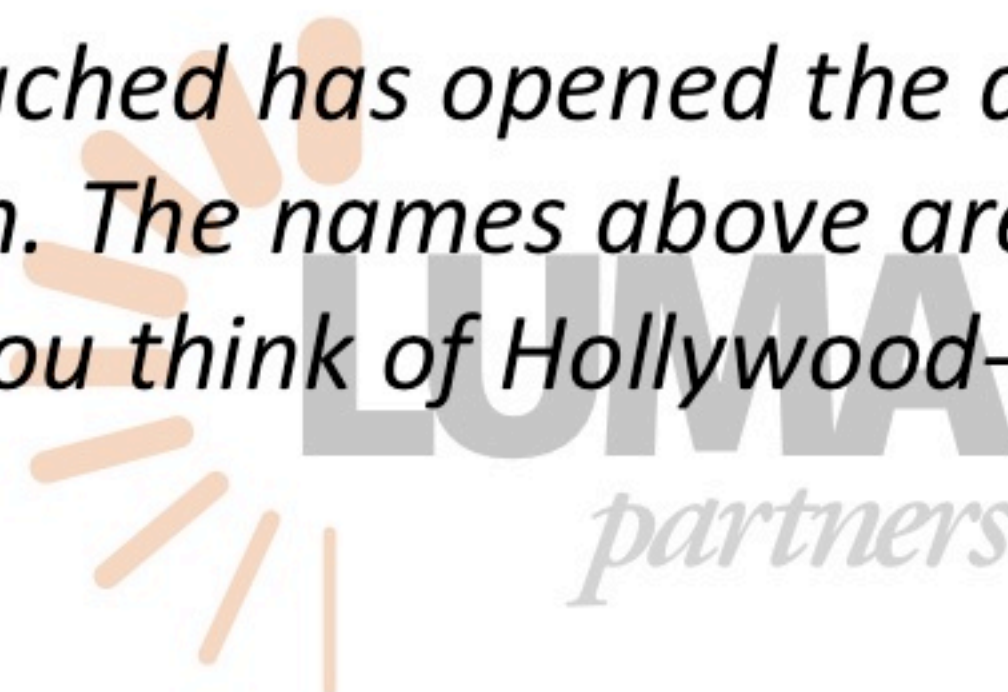
hulu



Aol.

LUMA  
partners

*This data-informed approach has opened the door for other players to move into content creation. The names above are not the usual suspects that come to mind when you think of Hollywood-quality content.*





# These new tier 1 shows are backed by serious tier 1 talent on the set



NETFLIX



Microsoft



amazon  
instant video



MODE MEDIA



YAHOO!  
SCREEN



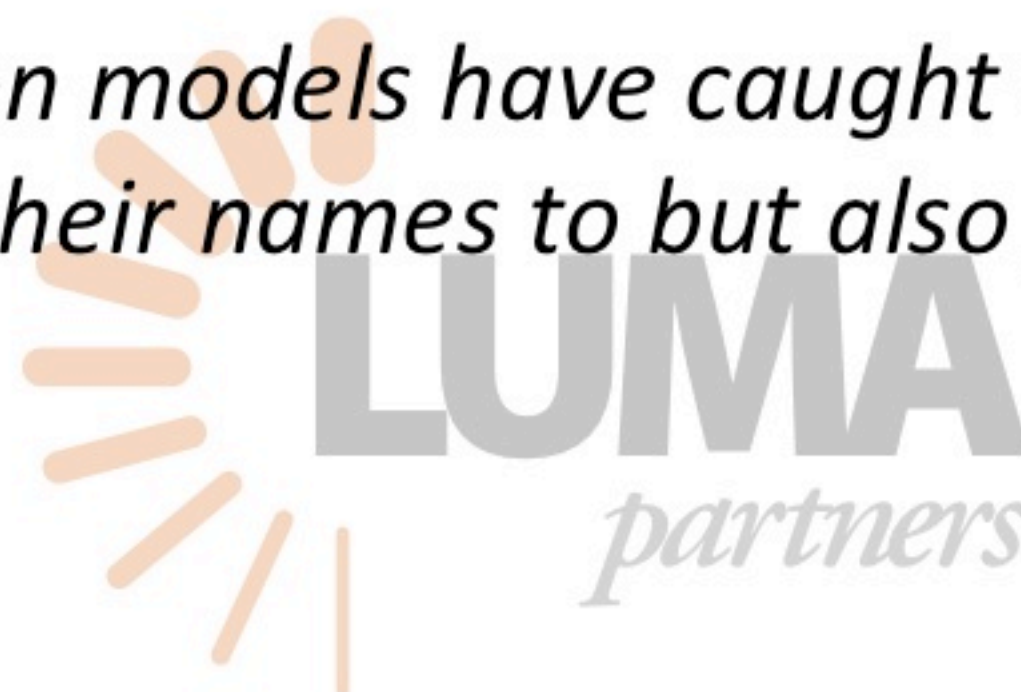
hulu



Aol.



*These new content creation models have caught the eye of tier-one talent who are not only lending their names to but also funding these new ventures.*





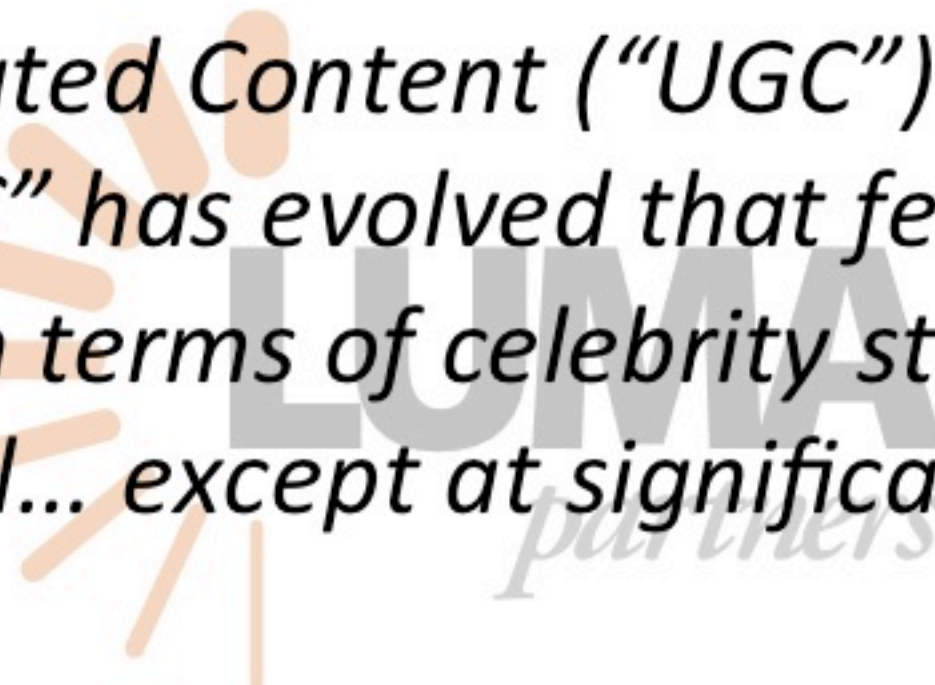
# Premium UGC = TV



<b>Very Soon</b>	<b>Household Name</b>	<b>Yes</b>
<b>Yes</b>	<b>Lead Role Celeb Status</b>	<b>Yes</b>
<b>1.1 million</b>	<b>Episode Views</b>	<b>3.3 million</b>
<b>\$7.60 (overall)</b>	<b>Average CPMs</b>	<b>\$15.63 (cable)</b>
<b>\$23.03 (in-stream)</b>		<b>\$44.11 (network)</b>
<b>~\$60K per hour</b>	<b>Avg. Production Cost</b>	<b>\$3 - \$5MM per hour</b>
<b>Yes</b>	<b>Available on Guaranteed Basis</b>	<b>Yes</b>

Source: YouTube, The Hollywood Reporter, Ooyala, Tubefilter

*Additionally, as User Generated Content ("UGC") has continued to improve, a new tier of "Premium UGC" has evolved that features characters that begin to look more like TV in terms of celebrity status, viewership and advertising income potential... except at significantly lower production costs.*





**TV Business**

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**Theses**

1. **Digital Disproportionism**
2. Antiquated UI/Navigation
3. Standardized Measurement
4. Audience Targeting

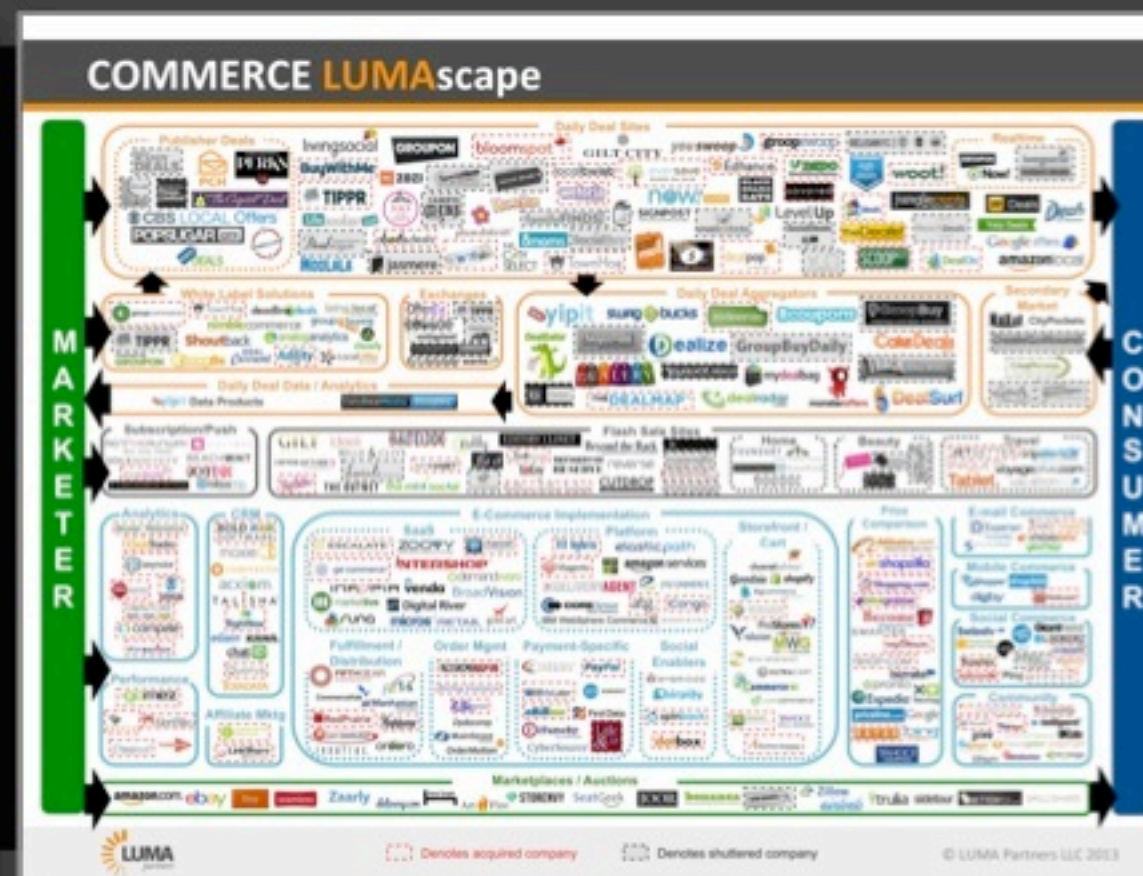


# What we do online

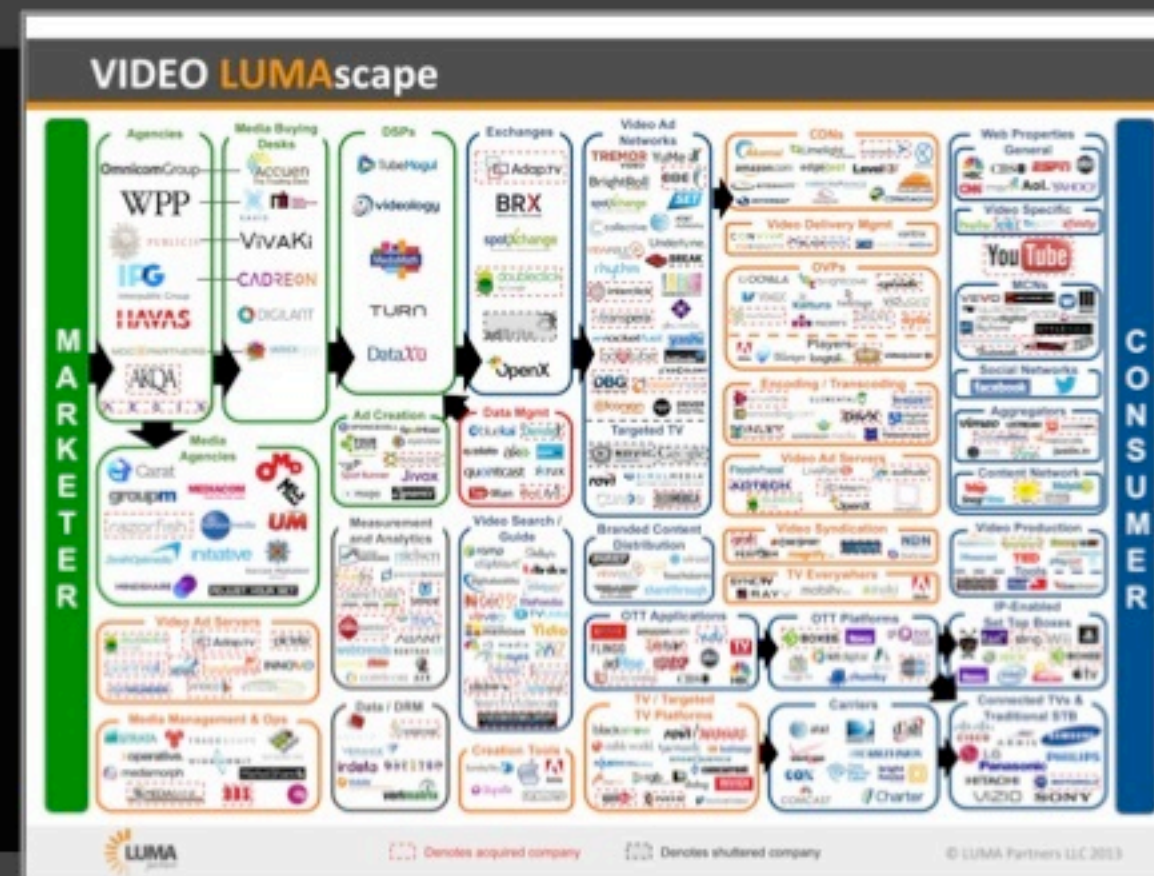
Search



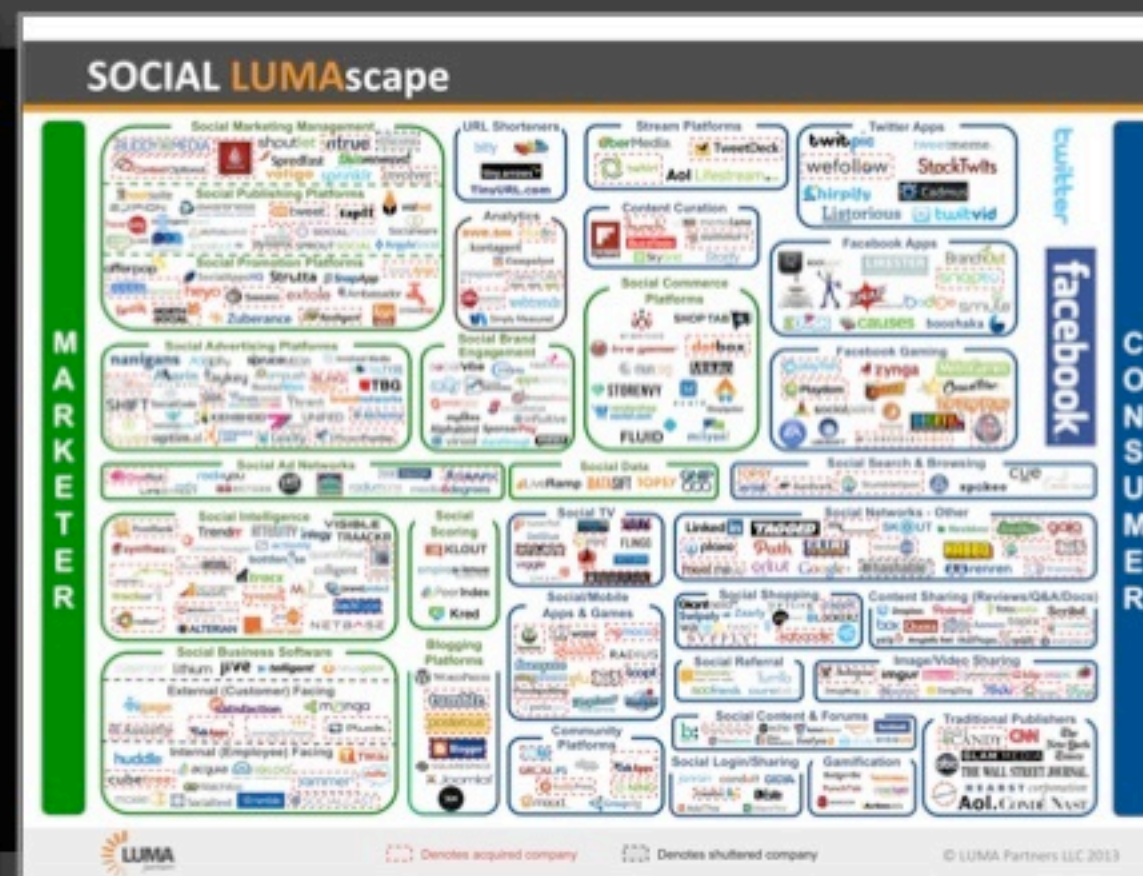
Buy



View



Share





# Dominating Forces

Search



Buy



View



Share



Source: 1,2: Comscore, 3: RBC, 4: Facebook

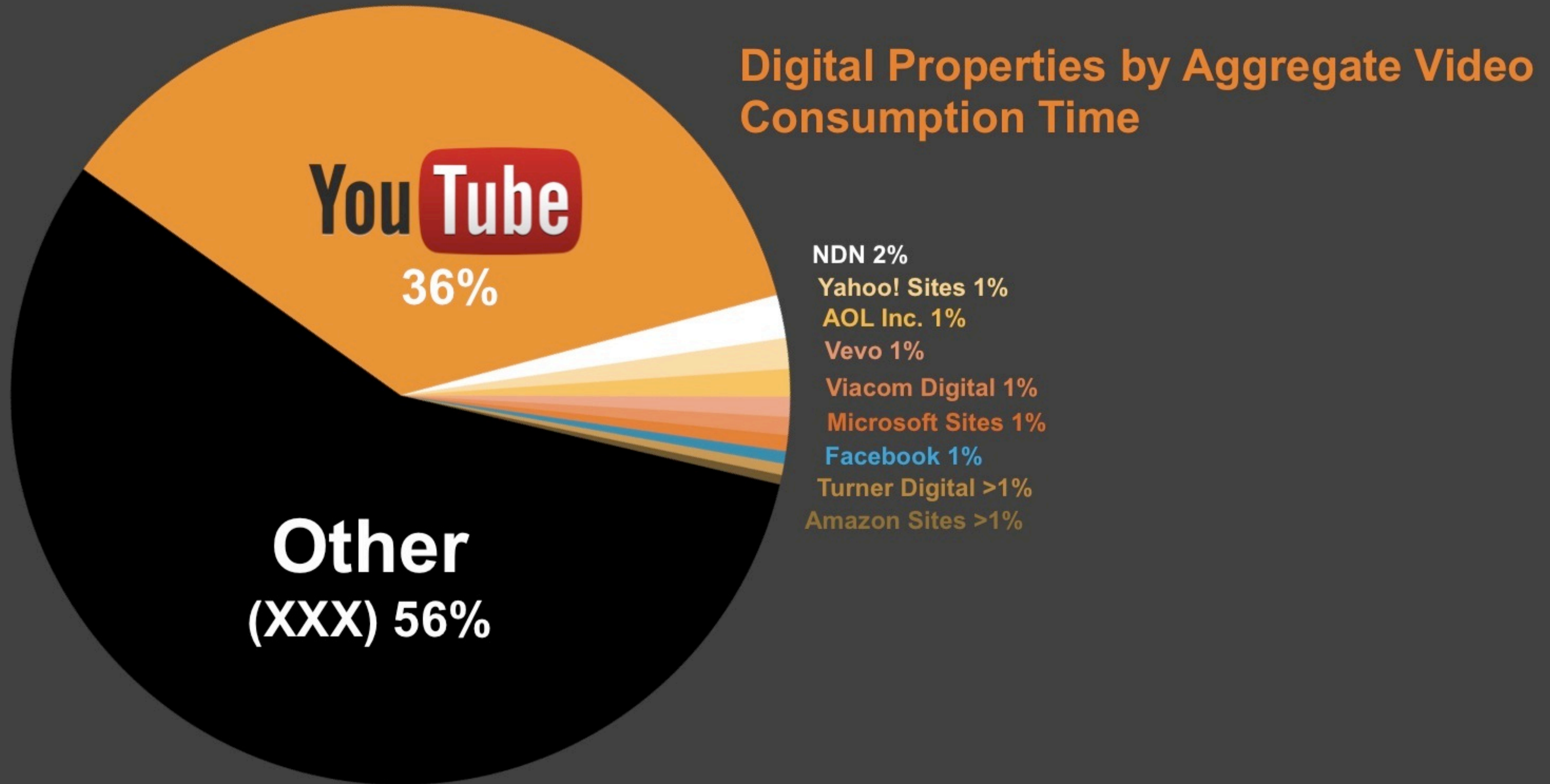


*Our concept of digital disproportionism stands for the proposition that often when a channel is dominated by one player, it tends to have a material dampening effect on the entire ecosystem.*





# Video Disproportionism



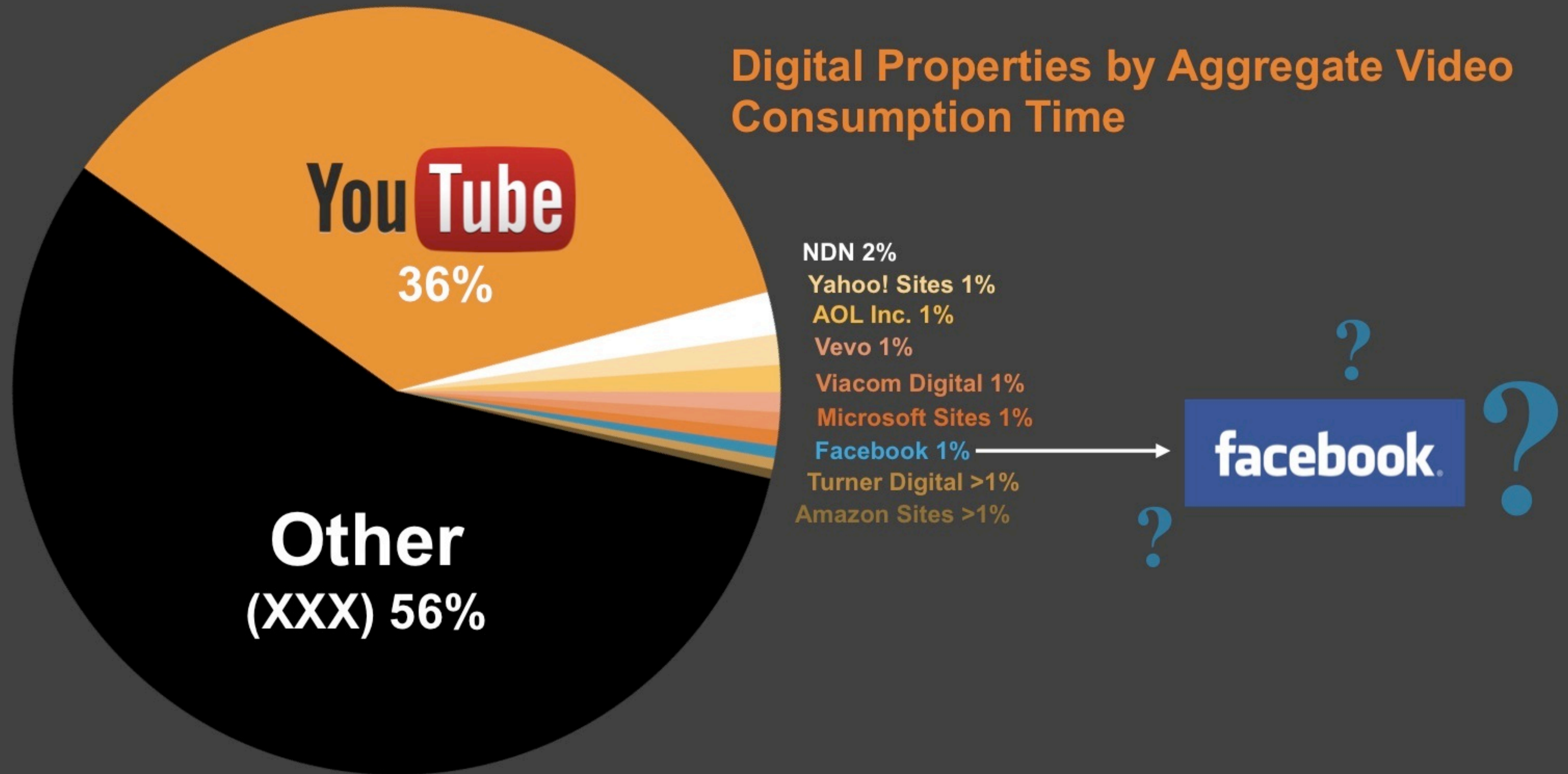
Source: comScore

*YouTube accounts for over 1/3 of all digital video views, whereas the next largest online property only accounts for 2%. It would likely help the ecosystem if there were a second and third player that were closer in scale to YouTube.*





# Video Disproportionism – A Rising Force?



Source: comScore

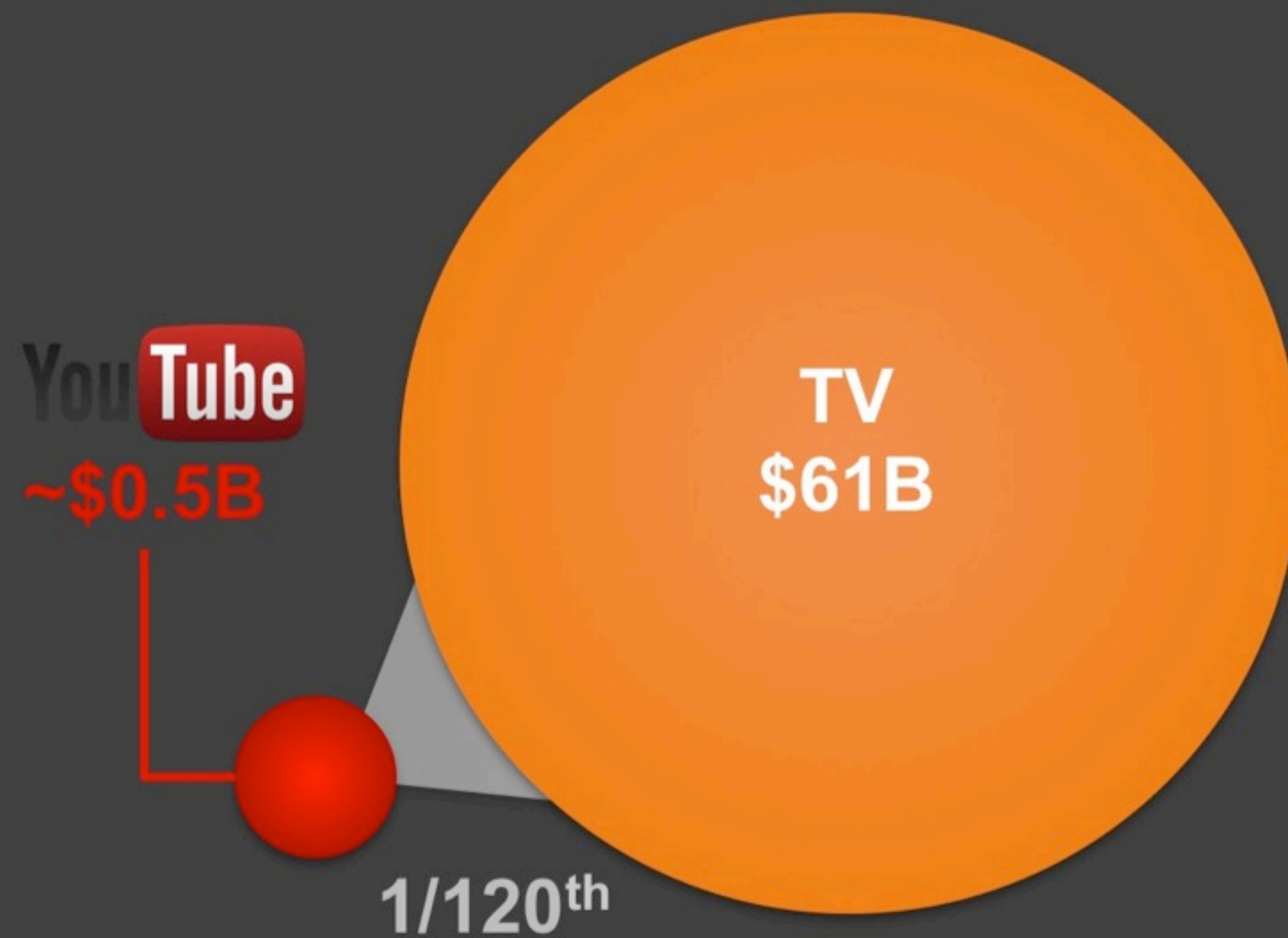
*All eyes are now set on Facebook as it has recently made a variety of video-related product announcements. Given Facebook's 1.1 billion users, it is a strong contender to be the next large digital video property.*



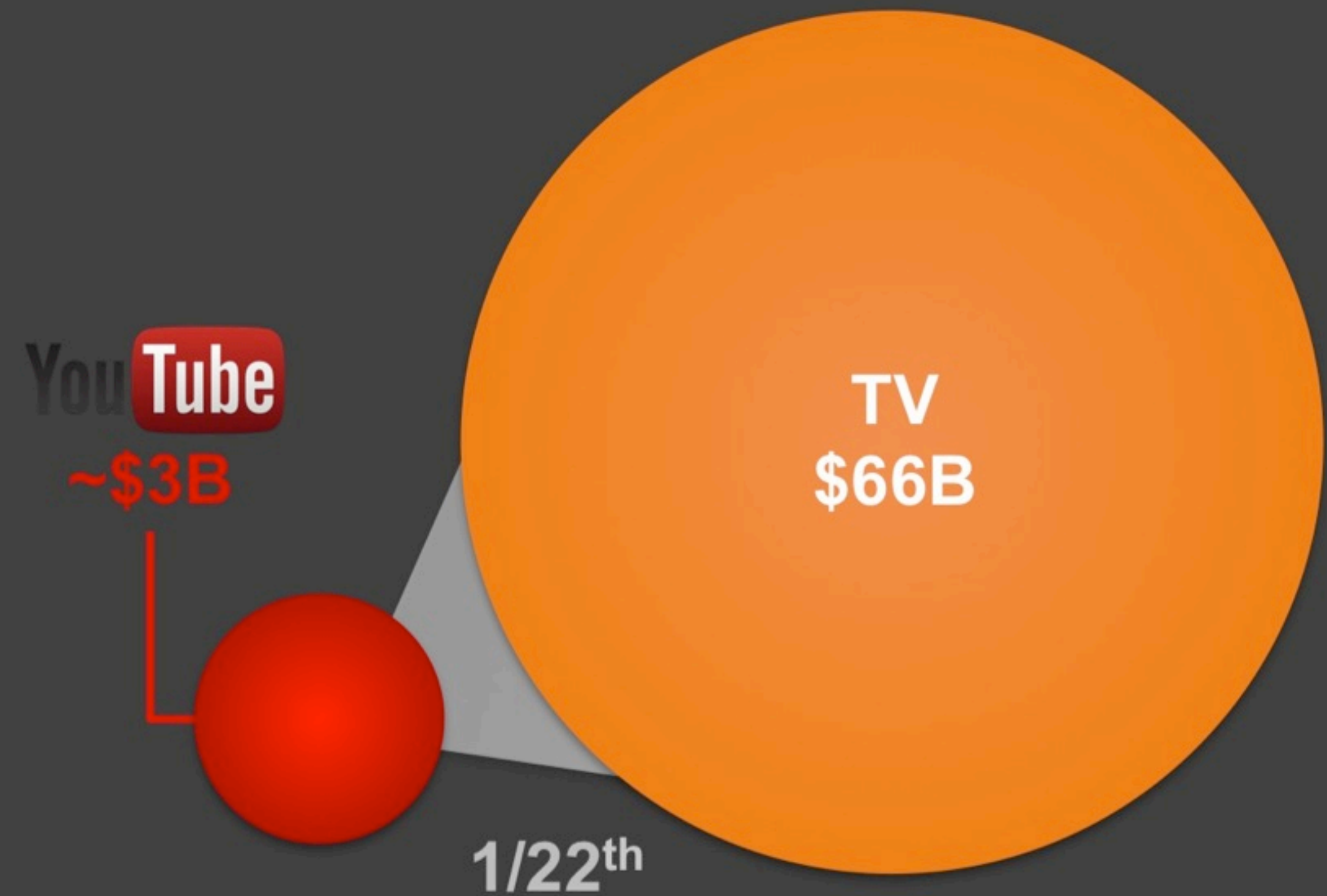


# Viabile Option for TV Brand Dollars

2011

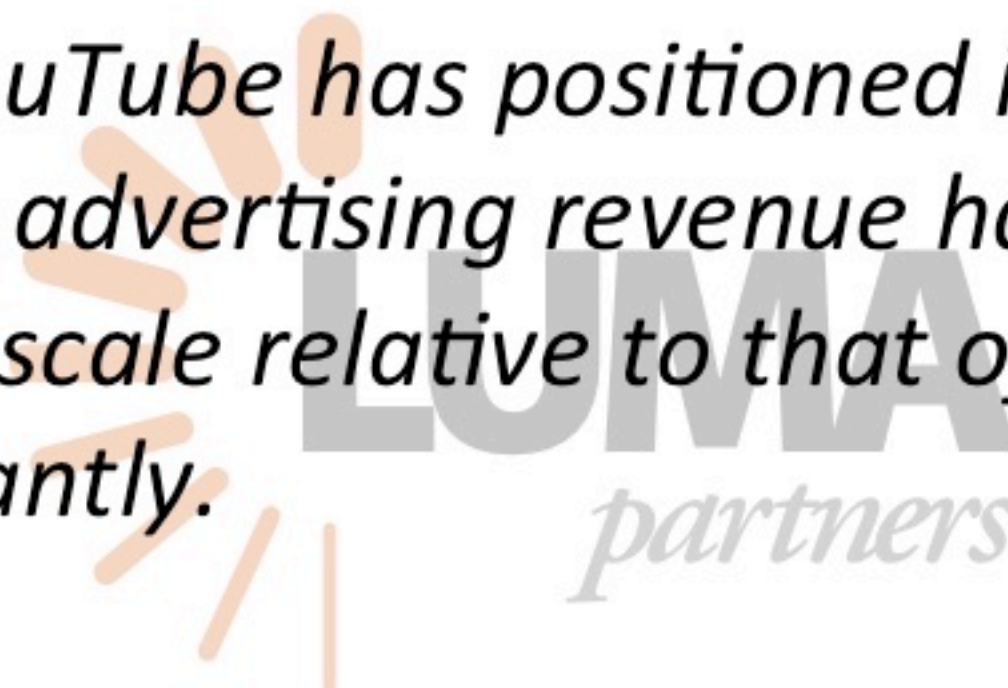


2013



Source: eMarketer, Statista, TechCrunch, LUMA estimates

*Over the last few years, YouTube has positioned itself as a viable option for TV brand dollars. YouTube advertising revenue has increased by six-fold from 2011 to 2013 and its scale relative to that of the US TV advertising market has grown significantly.*





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# Navigation Has Evolved



For users and producers' sakes,  
**Simplify discovery!**

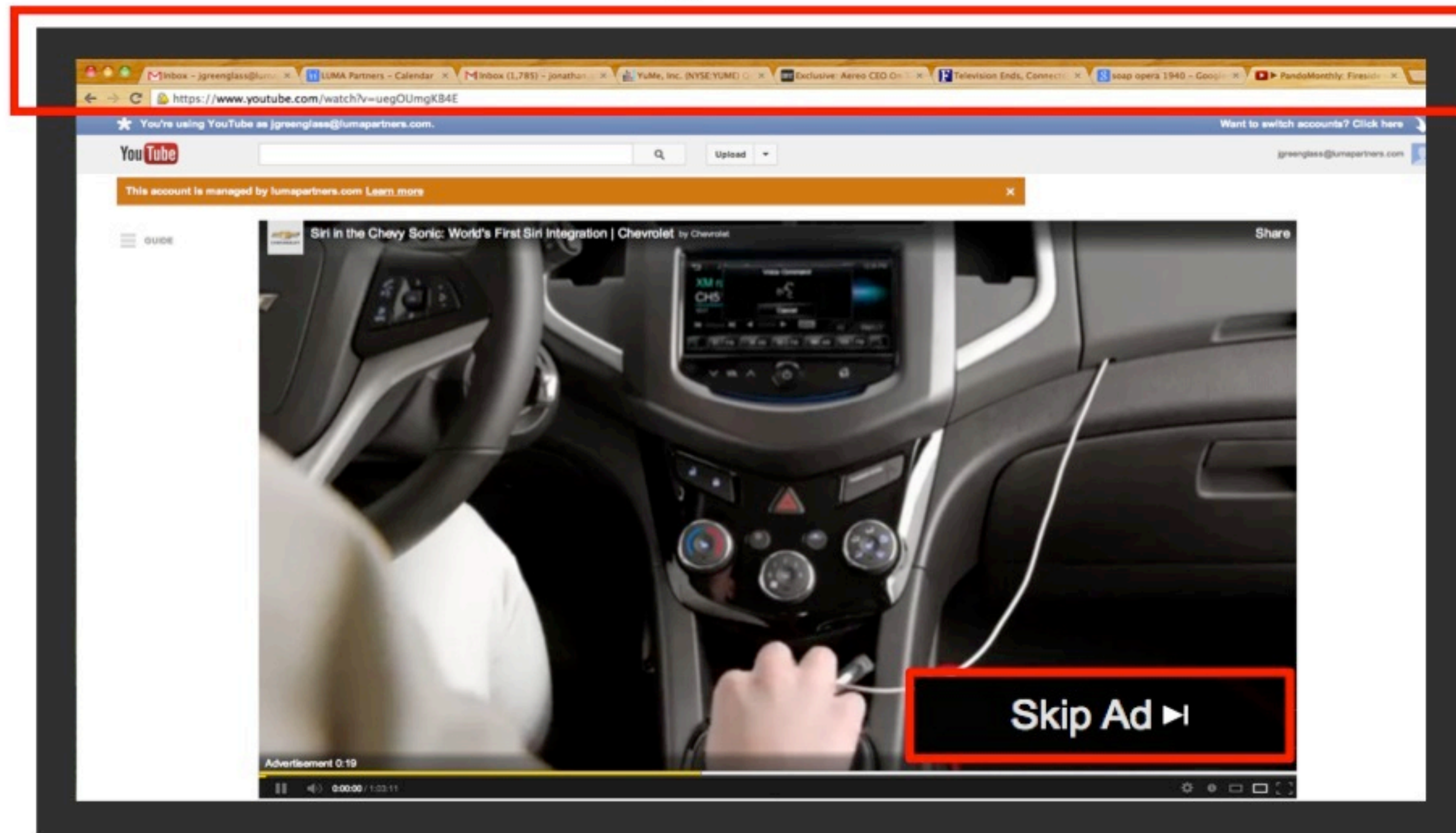
*Marketing & advertising often add ~40% production cost!*

*Navigation plays a crucial role in the content discovery process. When the discovery of content evolves from linear navigation (old school remotes) to more software-based search and recommendation-driven, it will fundamentally change the economics. A large percentage of ad budgets go to tune in but this will change as consumers go directly to the content.*



# Consumer is in Control

Eight tabs! ↓



**Control in the digital realm**

*Consumers now have choice and we might soon see the day when they flip between tabs on their TVs just as they do today on their laptops, let alone skip ads.*



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# Standardized Measurement: Adapted for Digital

nielsen

iGRP

OCR



**Online Campaign Ratings**

Facebook assigns demographics

XCR

**Cross-Platform Campaign Ratings**

Shows unduplicated reach

comSCORE

vCE



**Audience Verification**

Leverages panels for demo



**Brand Safety**



**Ad Viewability, Fraud**



*Nielsen owns the currency when it comes to traditional TV. In digital video there are two leading competitors, Nielsen and comScore, with products that help measure audiences with actual census data. The emergence of one clear standard will help accelerate the convergence of TV and digital video.*



**TV Business**

**Trends**

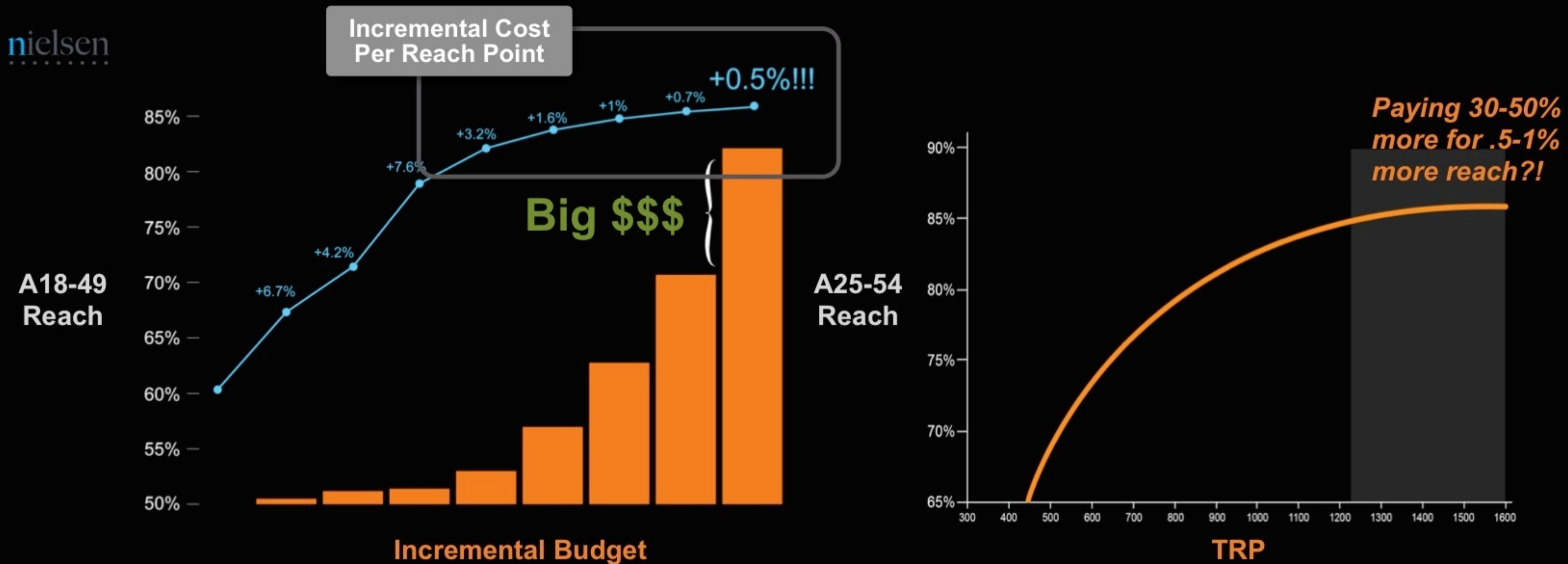
**Issues**

**Theses**

1. Digital Disproportionism
2. Antiquated UI/Navigation
3. Standardized Measurement
4. Audience Targeting



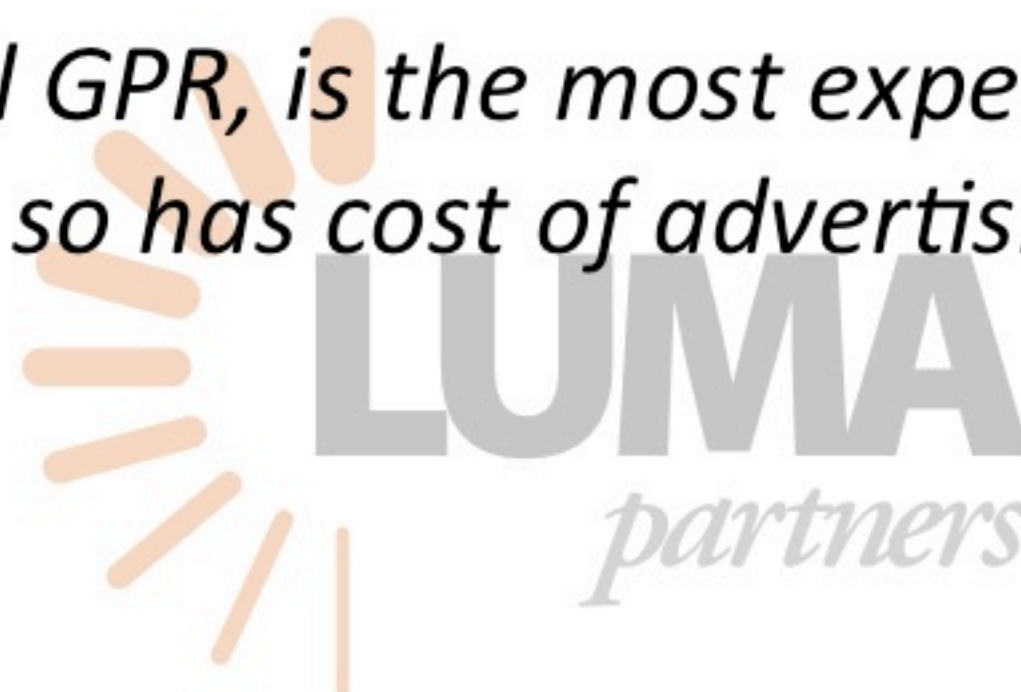
# Incremental is increasingly expensive on TV!



Source: Needham & Co., Nielsen



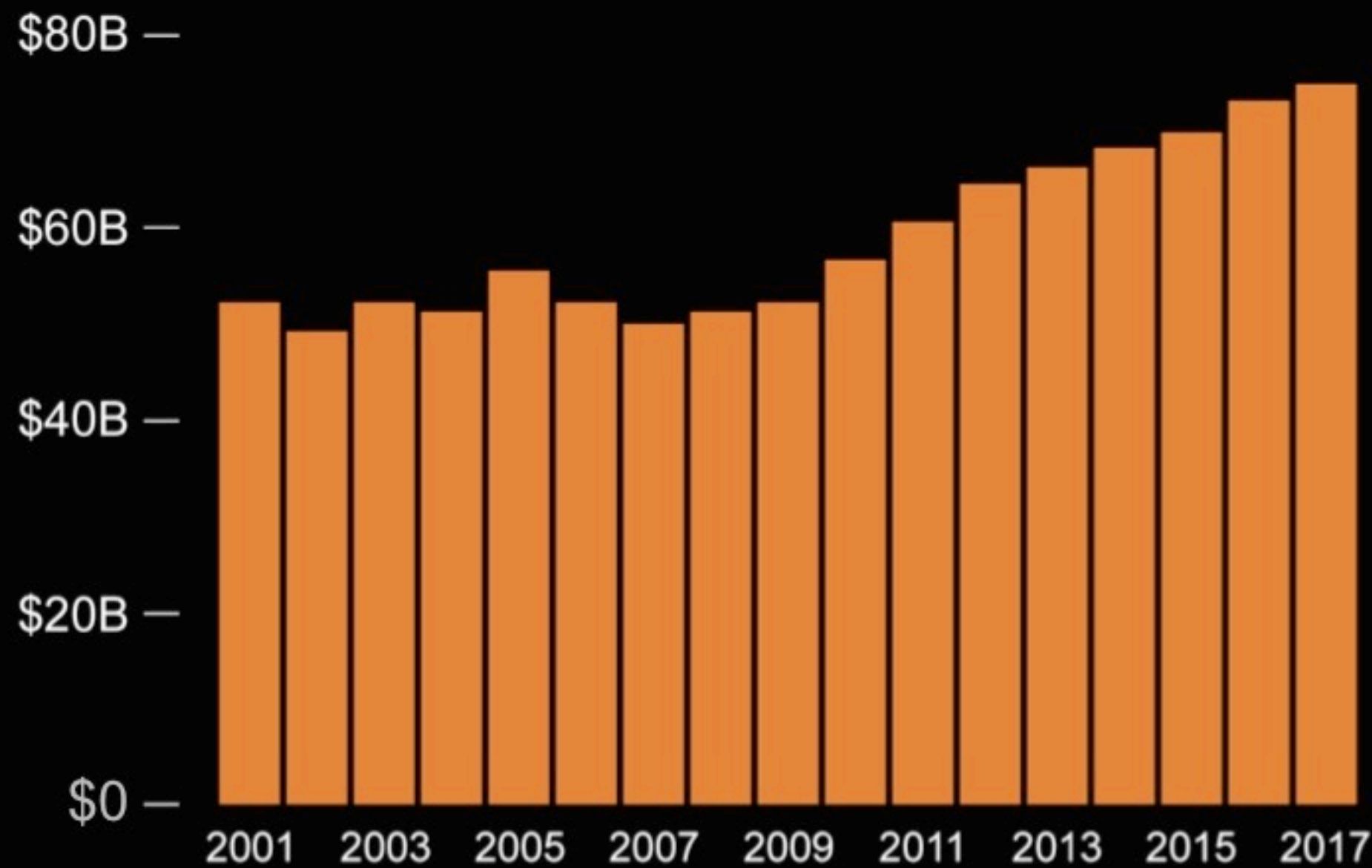
*The last GRP, the marginal GPR, is the most expensive. So, with TV fragmentation increasing, so has cost of advertising in an effort to gain the same, large audiences.*



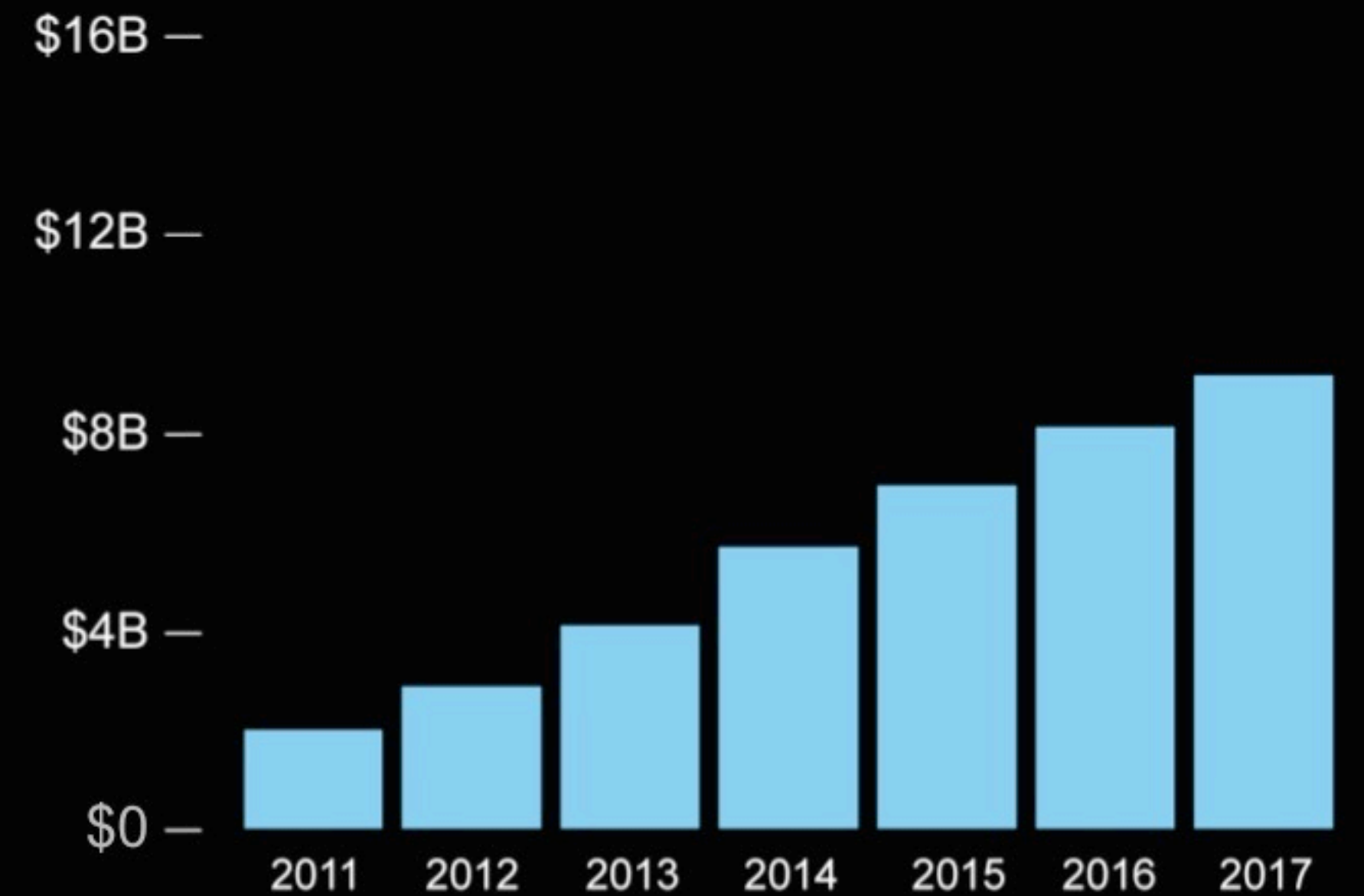


# Yet TV Dollars aren't slowing...

eMarketer **TV Spend** Projection



eMarketer **Digital Video Spend** Projection

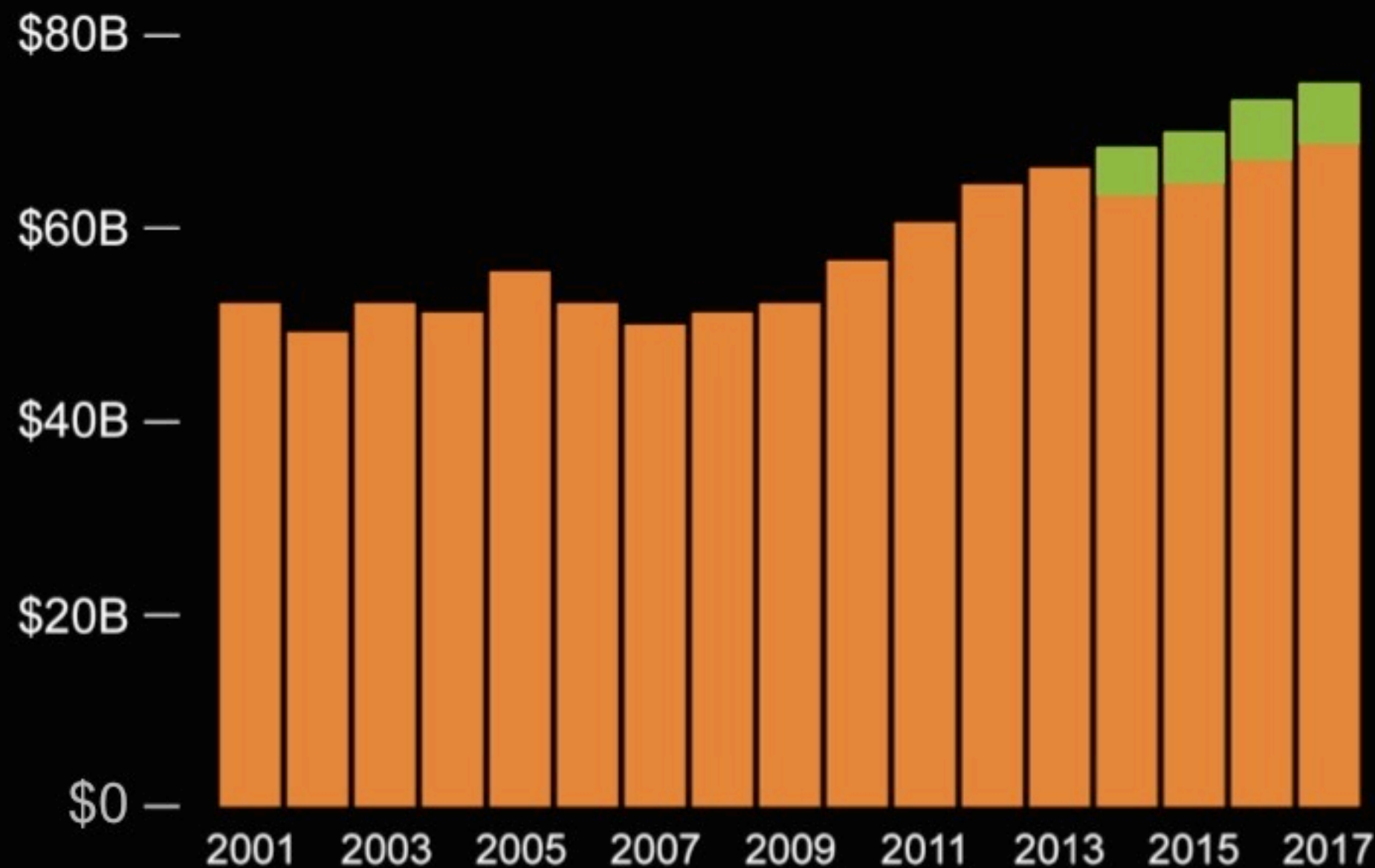


*And even with the increasing cost to reach the same audience, TV spend shows no sign of slowing down. Linear television, the one everyone says is going to die, is a growth industry. In fact, television is growing more in absolute dollars than the size of the entire digital video industry.*

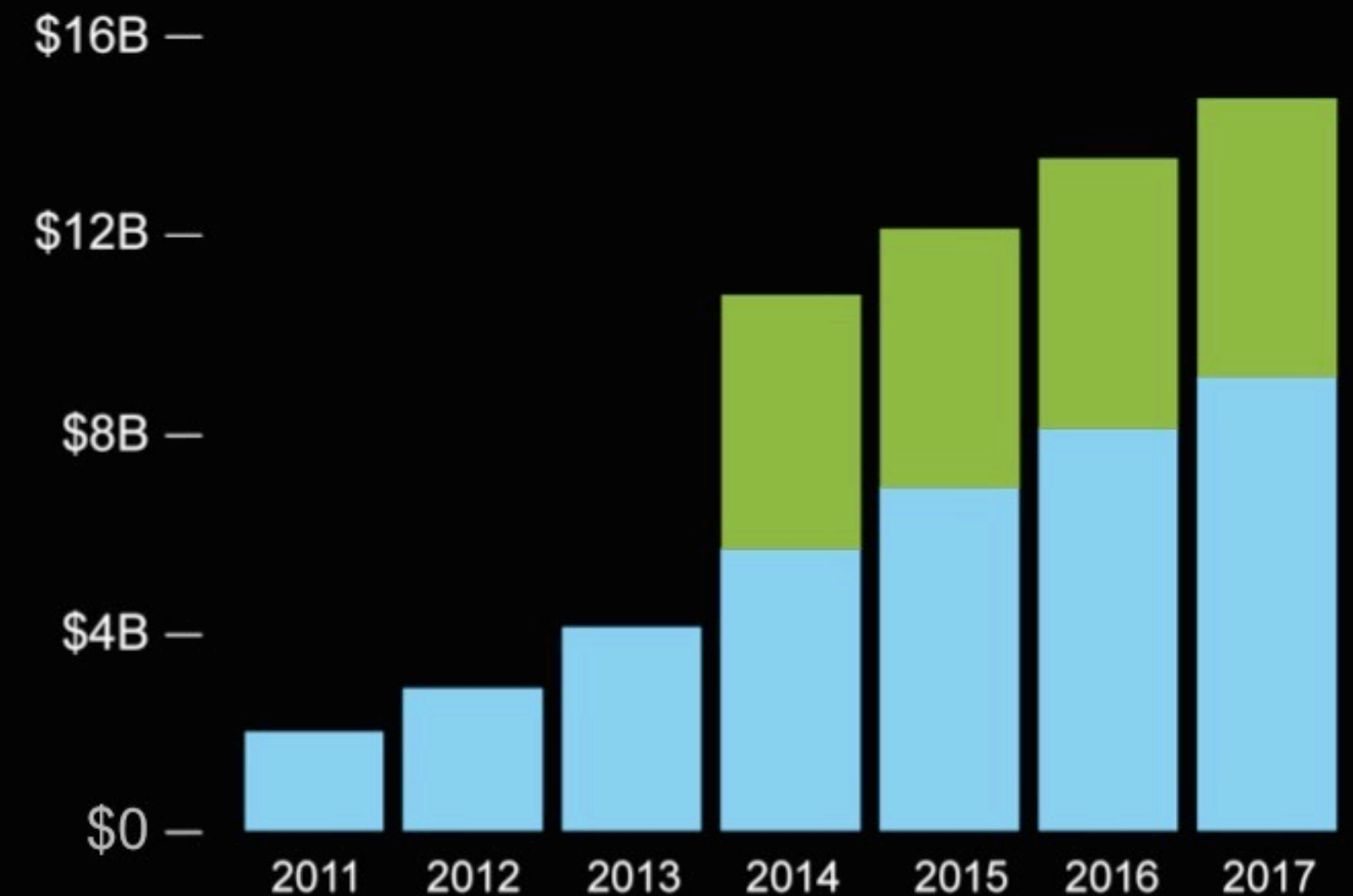


# Digital Video Doubles overnight if 7% inefficient TV is shifted to Digital Video!!!

eMarketer **TV Spend** Projection



eMarketer **Digital Video Spend** Projection



(1) Assumes 7.5% of TV Spend Shifts to Digital  
Source: eMarketer

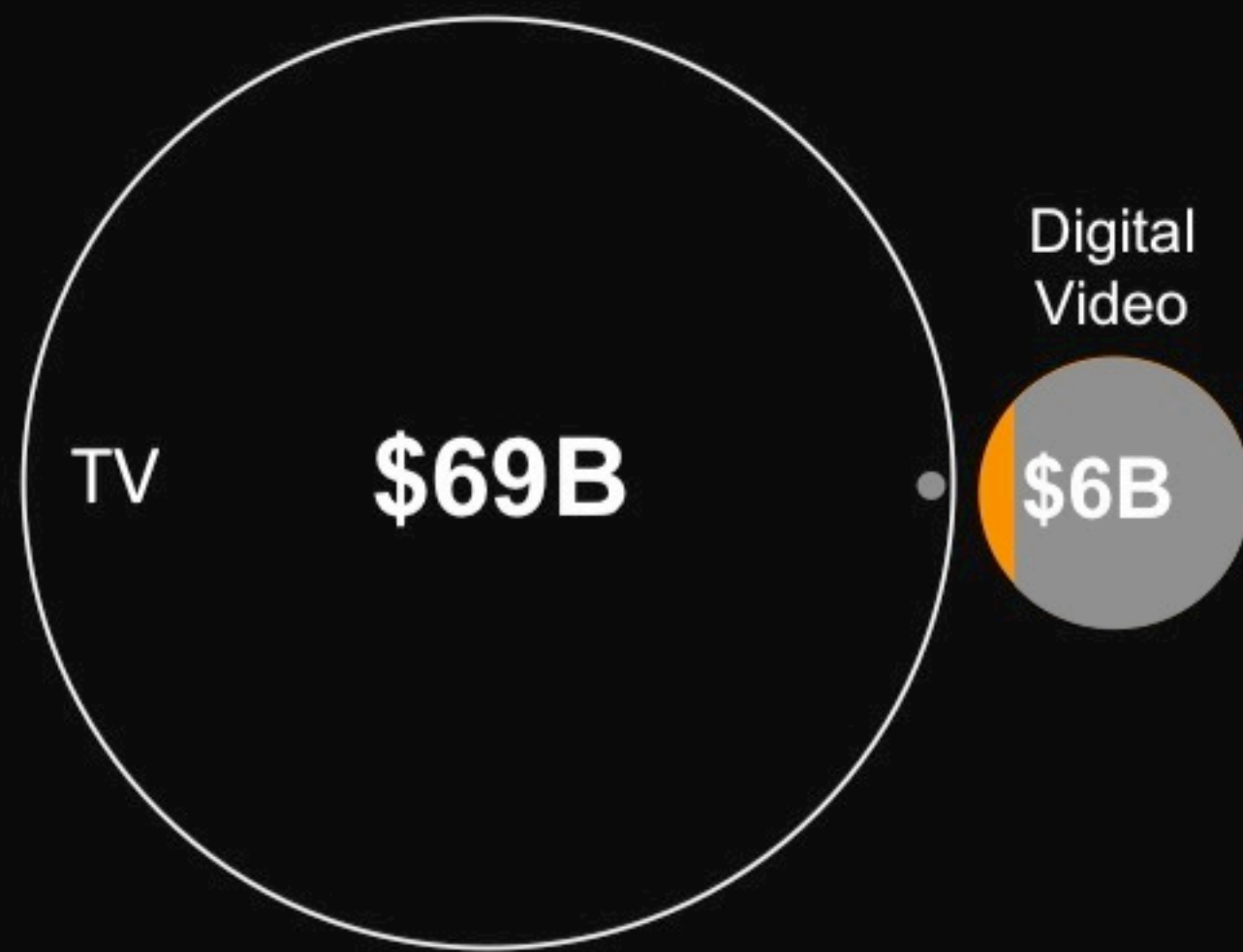


*If you were to take the last 7% of television spend, which is arguably the most inefficient due to getting the least scale per dollar, and apply it to digital, you would double the size of the digital video market. Some studies would argue that up to 25% of that TV spend would be more efficiently used in the digital channel.*

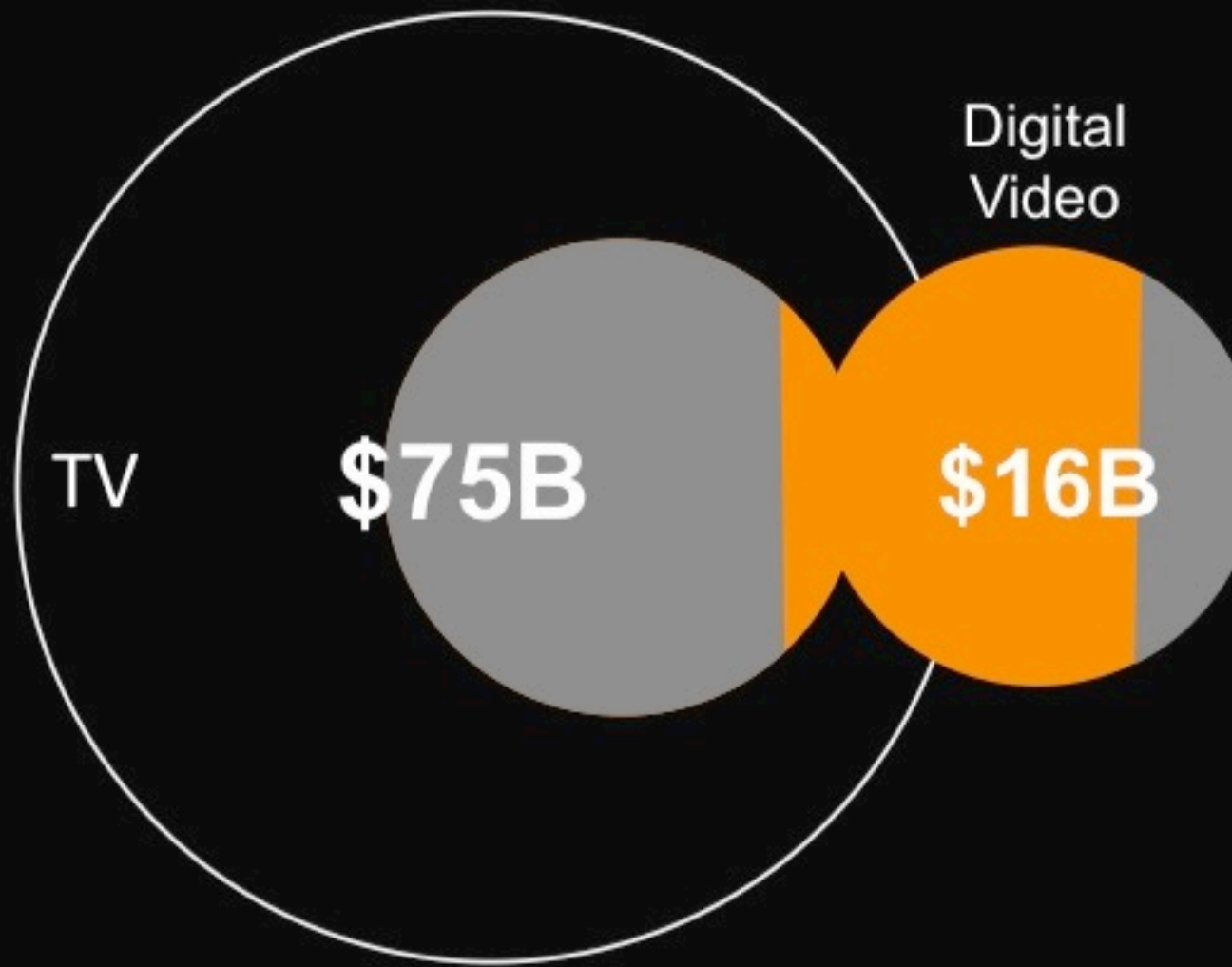


# Audience Targeting: Programmatic

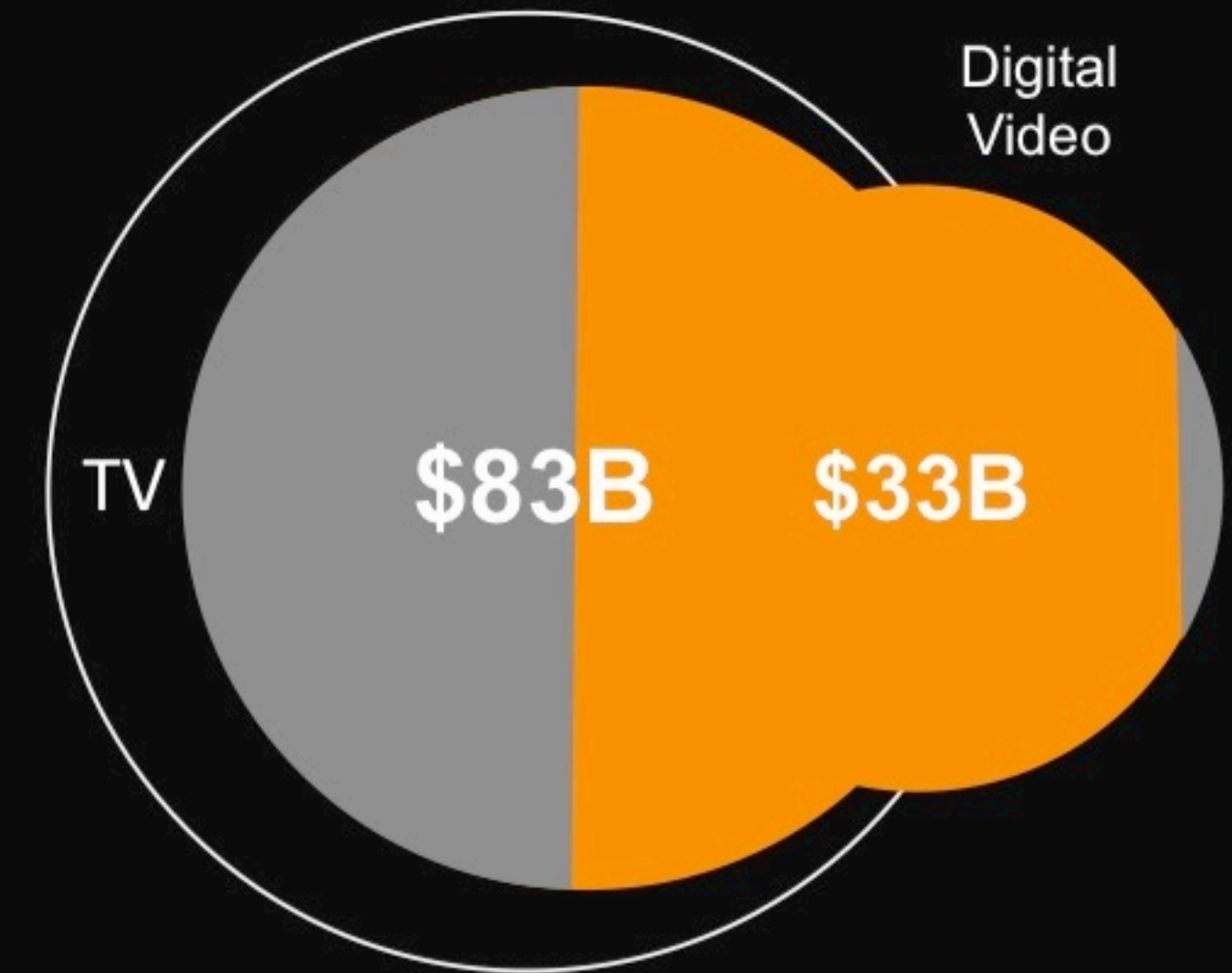
○ Hand-sold/Media-Based    ■ Audience-Based    ■ Programmatic



**2013** Little Cross-Channel  
Buying Coordination  
**No Integration**



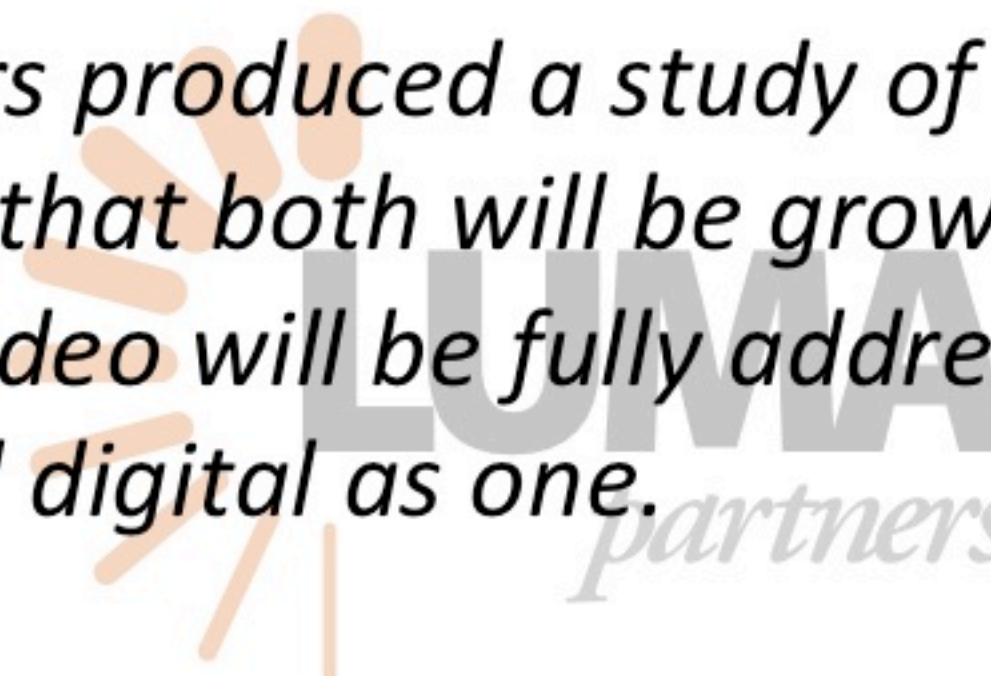
**2016** Some Cross-Channel  
Buying Coordination  
**Some Integration**



**2020** Full Cross-Channel  
Buying Coordination  
**Full Integration**

Source: Simulmedia and Jack Myers

*Simulmedia and Jack Myers produced a study of what video would look like in the future. They predict that both will be growing and both will leverage programmatic. By 2020, video will be fully addressable so marketers will be able to buy traditional and digital as one.*





**TV Business**

**Trends**

**Issues**

**Theses**

1. Convergence
2. Change & Convergence Drive M&A





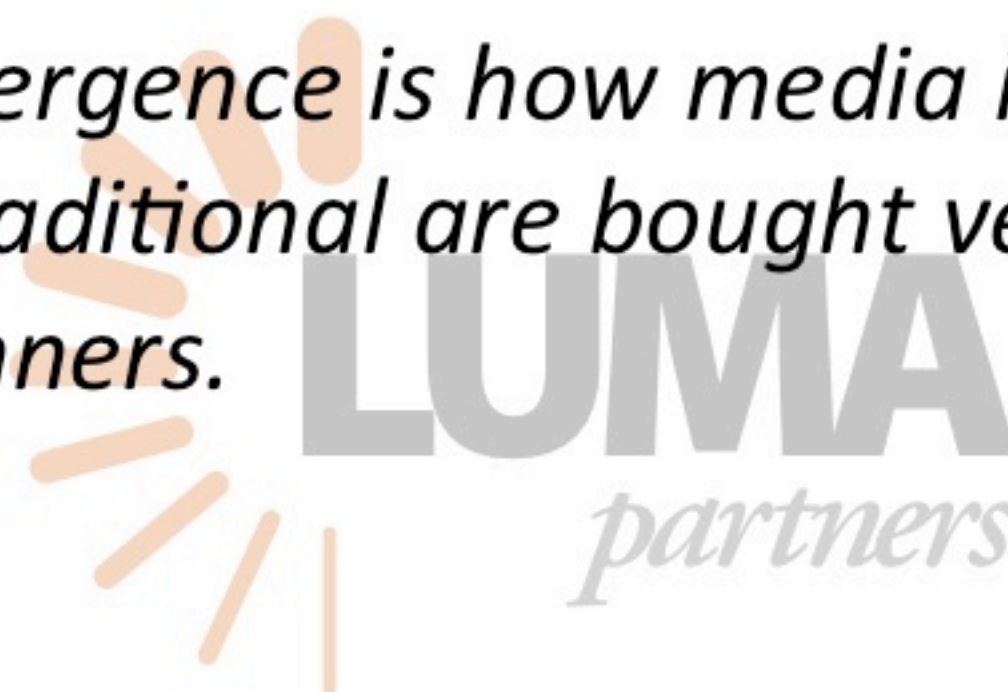
**TV Media  
Planner**

# A Tale of Two Planners

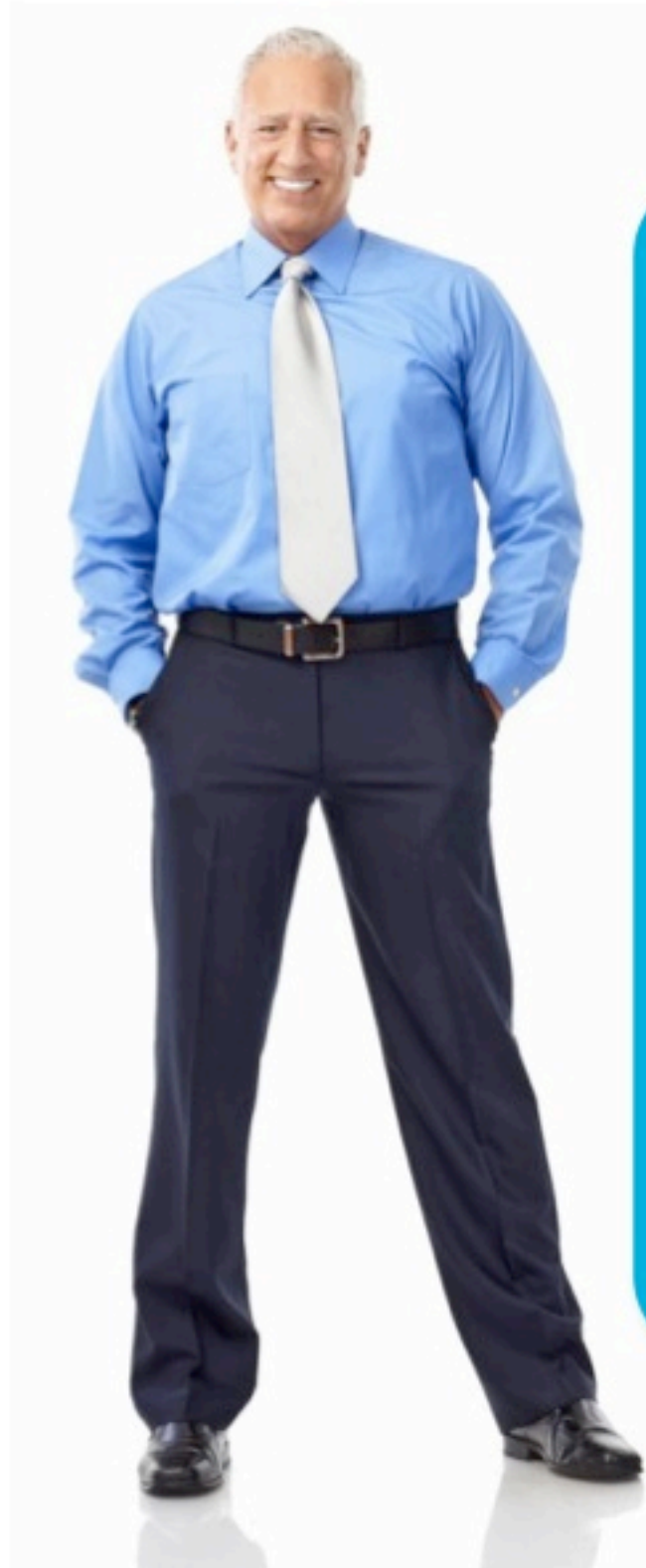


**Digital Media  
Planner**

*The first challenge of convergence is how media is bought in each channel. Today, digital video and traditional are bought very differently and by two very different types of planners.*







**TV Media  
Planner**

**AGE  
GENDER**

**CPC  
CPA  
CPMA  
Behavioral**



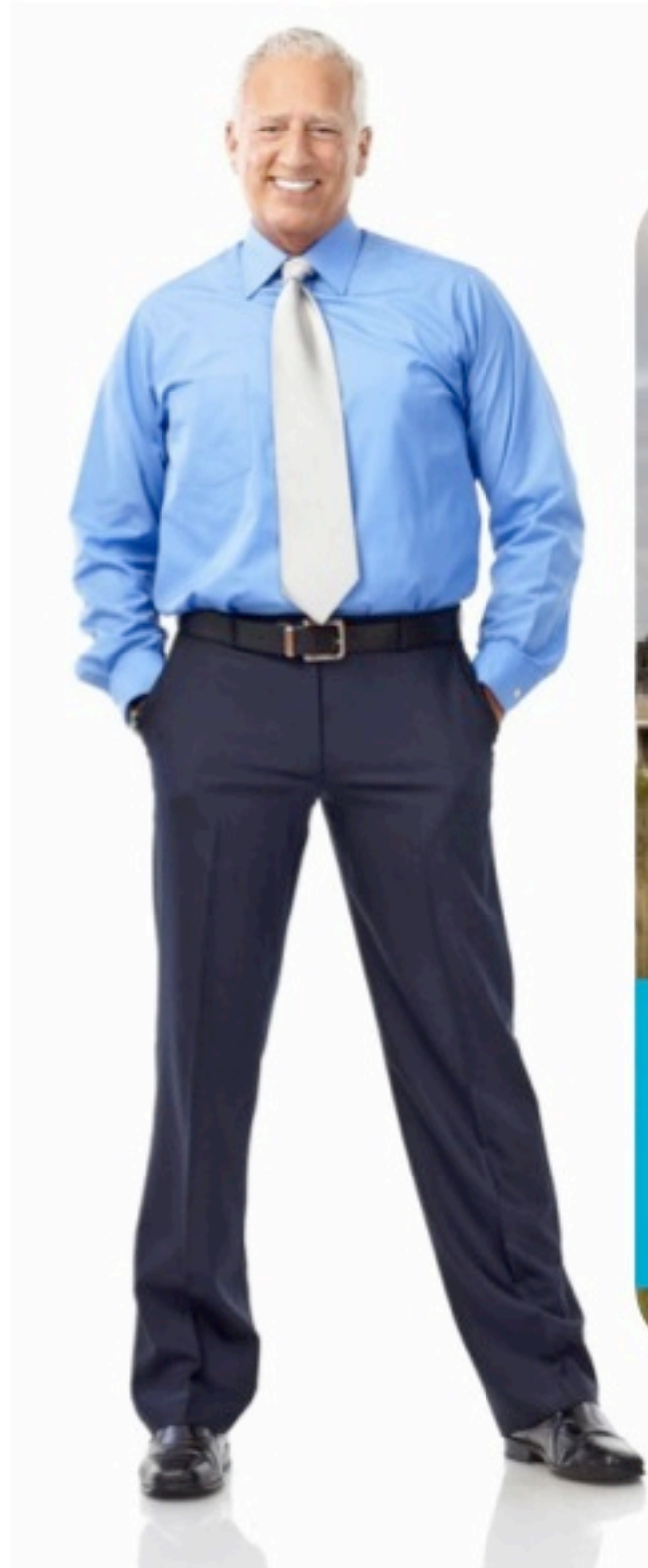
**Digital Media  
Planner**

## How they buy

*Their buying goals differ vastly. The TV planner cares about two things: age and gender. The digital planner, on the other hand, is focused on targeted attributes and performance.*







**TV Media  
Planner**



**2<sup>nd</sup> home in the  
Hamptons!**



**200 Sq. ft  
apartment**



**Digital Media  
Planner**

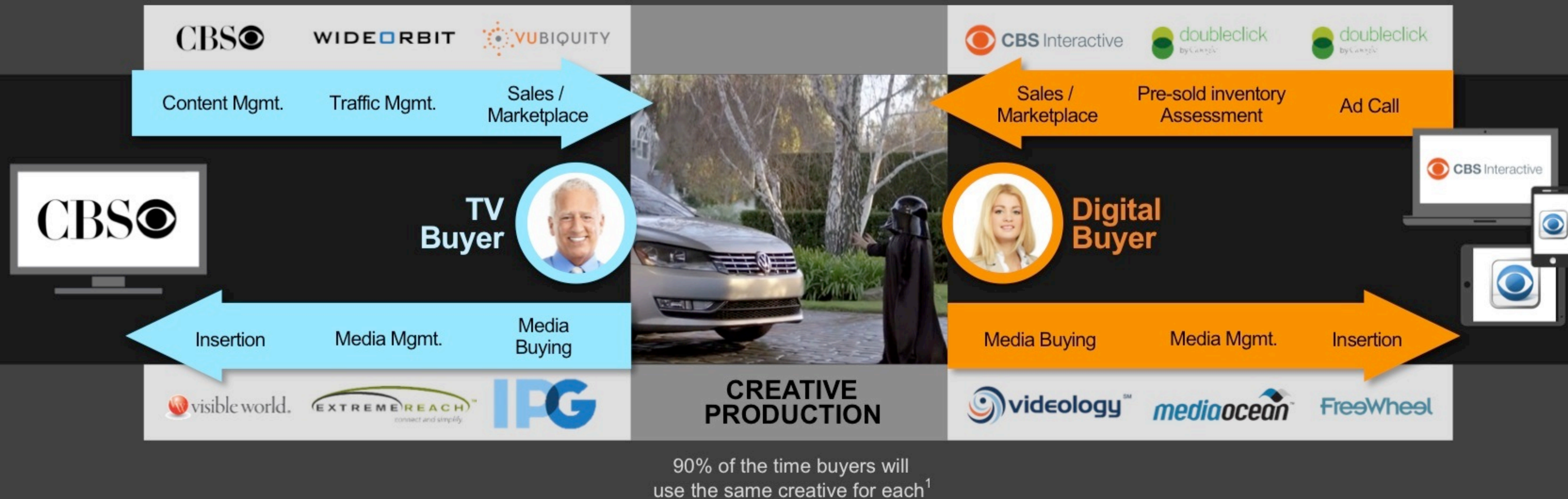
# How they party

*How you sell to these different personalities needs to be tailored as they have different incentives.*



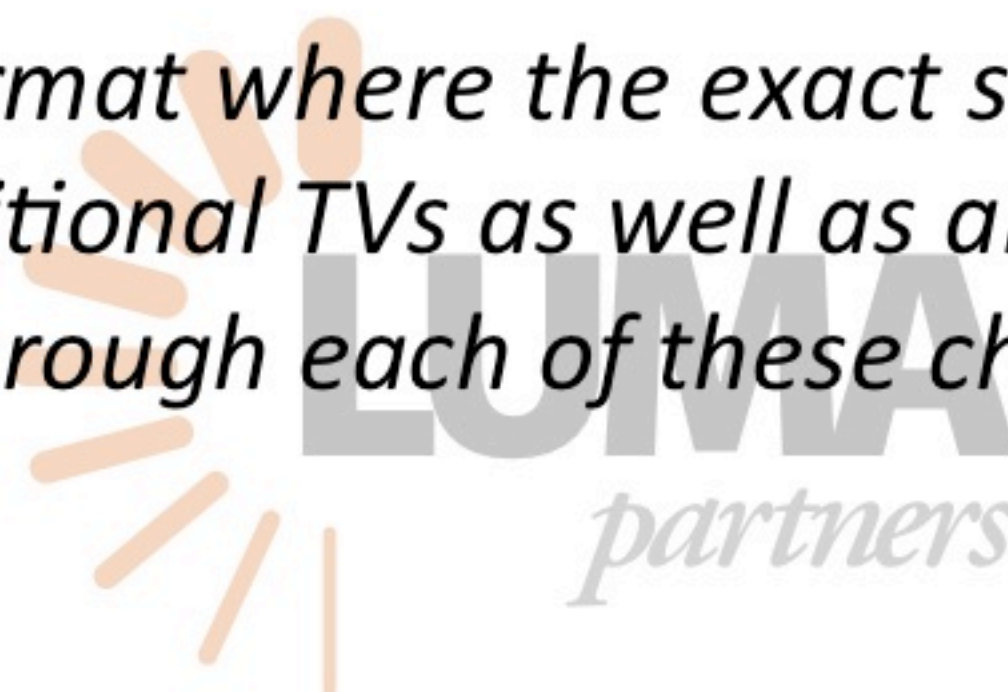


# Convergence changes workflow



(1) Based on Extreme Reach's customers

*Video is the only media format where the exact same creative can be utilized both on large-screen, traditional TVs as well as any other screen. However, the workflow for buying through each of these channels is different and will need to converge.*





**TV Business**

**Trends**

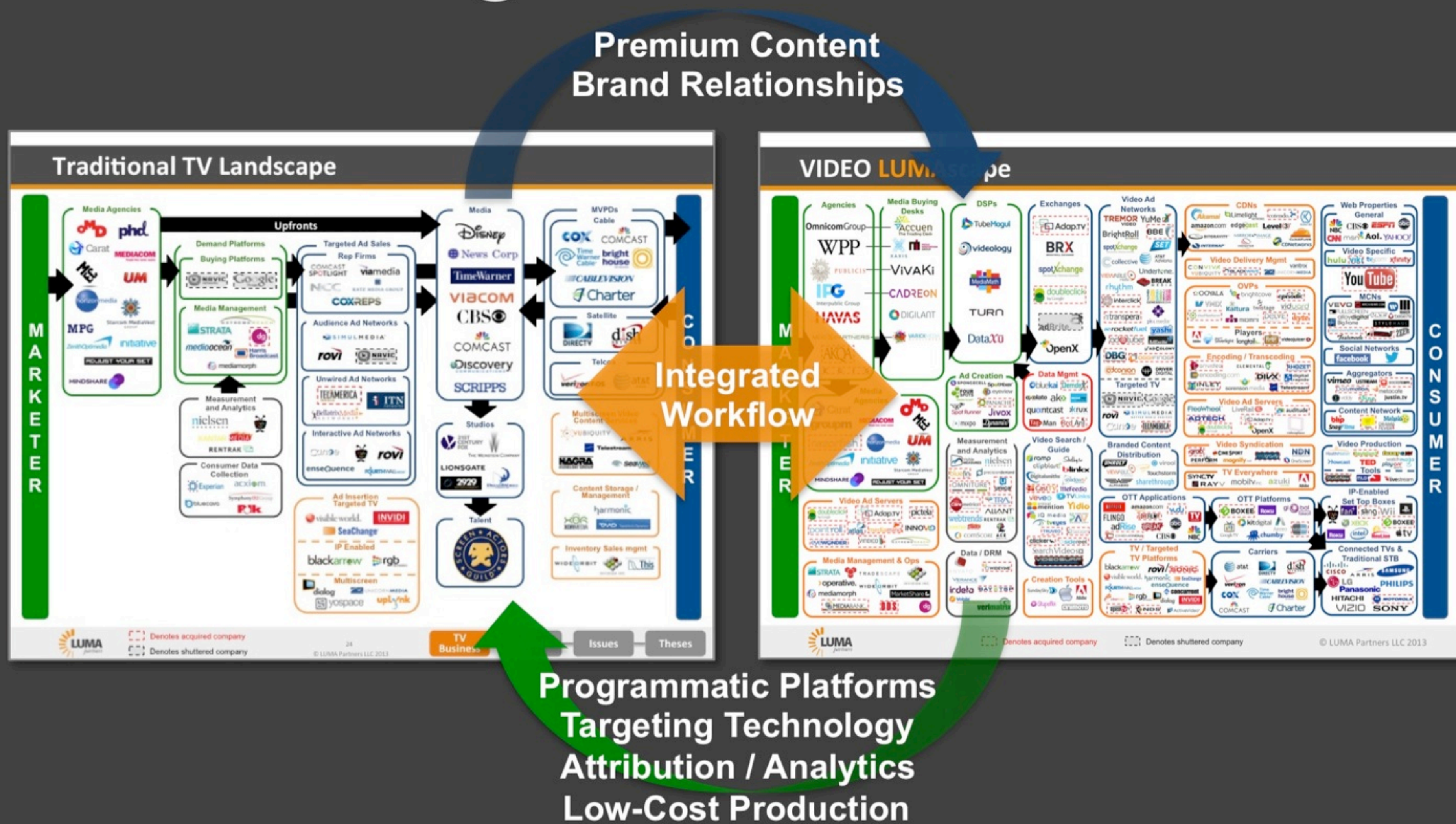
**Issues**

**Theses**

1. Convergence
2. Change & Convergence Drive M&A



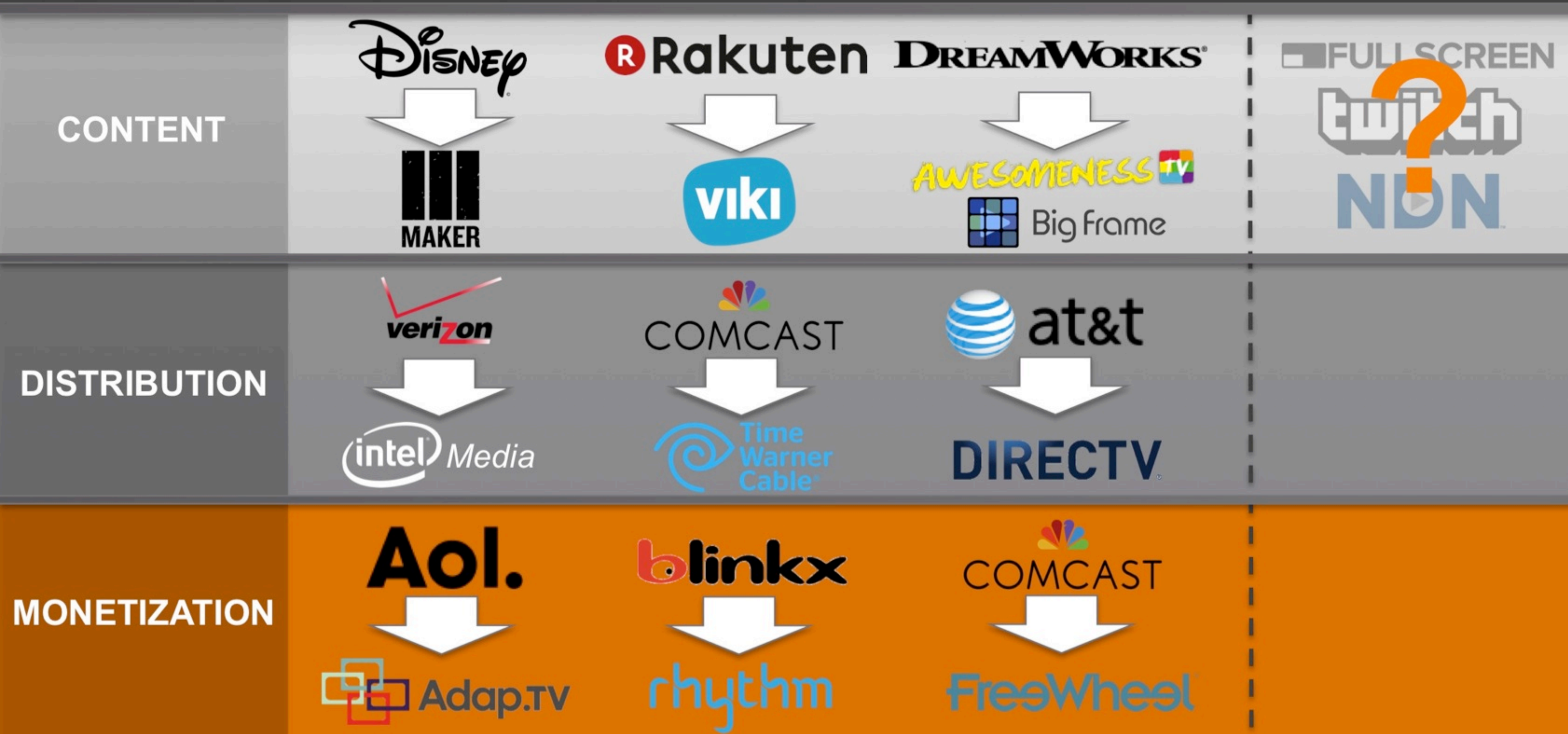
# Convergence of Two Worlds



A key to this convergence will be M&A. The traditional linear TV world brings premium content, brand relationships and a sense of standardization to digital. The digital players bring targeting, attribution, programmatic capabilities and innovative, lower-cost content production. What will ultimately fuse them together will be an integrated workflow.



# Convergent TV via M&A



*All you have to do is look at recent activity to see that M&A will be the way traditional TV and digital video converge.*





# Thank You.

@tkawaja



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