FRIEND OR FOE?

Platform for success: How online video platforms can deliver benefits for TV producers and broadcasters at home and abroad

OC&C Strategy Consultants

INTRODUCTION AND SUMMARY

QUESTIONS ADDRESSED IN THIS REPORT

1. HOW LARGE AN OPPORTUNITY OR THREAT ARE 3RD PARTY OPEN VIDEO PLATFORMS[1]?
2. HOW CAN PRODUCERS AND BROADCASTERS BENEFIT FROM THE 3RD PARTY OPEN VIDEO OPPORTUNITY?
3. WHAT MIGHT THE OUTLOOK BE FOR 3RD PARTY OPEN VIDEO PLATFORMS?

SUMMARY OF FINDINGS

1 Online video viewership is increasing, diverse and international

Online videos (long and shortform) are being watched by an audience that is:

- A Growing – in some genres online audiences can now reach 20% of linear
- B Diverse across demographic groups and genres – with growth supported by new types of content for viewers
- C International – the UK is a major exporter of content to both English and non-English speaking countries. Views of UK content (uploaded in the UK) are 5-10x higher outside than inside the UK

2 Broadcasters and producers are experimenting with a range of online strategies

Some businesses are being highly proactive in engaging platforms as partners and innovating fast, whereas others are shying away from a perceived threat. We have seen several examples of strategies working well from idea creation through to final monetisation but there is no 'winning formula'. Interesting examples include:

- Talent identification and nurturing
- Audience assembly and support
- Content promotion and marketing
- International testing and reach

3 Online video will continue to grow and 'professionalise'

Given experimentation from professional players and support from online platform owners, we expect online video to increase its share and reach:

- Total audience will continue to grow
- Content quality should keep improving in terms of production value
- International reach will continue to grow

With the value of eyeballs increasing, and the average 'quality' of content increasing supported by 'premium' offerings (eg, Google Preferred[2], Vessel[3]) brands must surely continue to experiment with their advertising dollars in the space.

OVERVIEW OF WORK CONDUCTED

In Autumn 2014, OC&C conducted research focused on the use of 3rd party open video platforms by 'professional' TV players (eg broadcasters and content producers). We relied on a range of external and publicly available data sources for our analyses, alongside non-proprietary YouTube data on 19 'entertainment' genres[4] where professional players' content is most commonly present to supplement our findings. To give depth to our research, we conducted two dozen interviews with key broadcasters and production companies. We are particularly grateful to executives from ITV, UKTV, Channel 4, Fremantle, Endemol and Little Dot Studios for their valuable thoughts.

1. Third-party open platforms are defined as a) Open: mostly advertising-funded, not broadcaster-owned platforms which are openly accessible and support uploads of user-generated content (eg YouTube, DailyMotion, Vevo) and b) 3rd Party: not broadcaster operated or controlled
2. Recently launched initiative which enables advertisers to bid for a premium pool of adspace on YouTube (top 5% of most popular channels)
3. Online video platform which will be launched in 2015, offering subscription-based early access to premium short-form content
4. These represent the 19 sub-genres within the TV & Film genre – this represents the most relevant area for TV content. 2014YTD data represents the 10 months to October 2014

HOW LARGE AN OPPORTUNITY OR THREAT ARE ONLINE 3RD PARTY OPEN PLATFORMS?

ONLINE VIDEO HAS A LARGE AND GROWING AUDIENCE

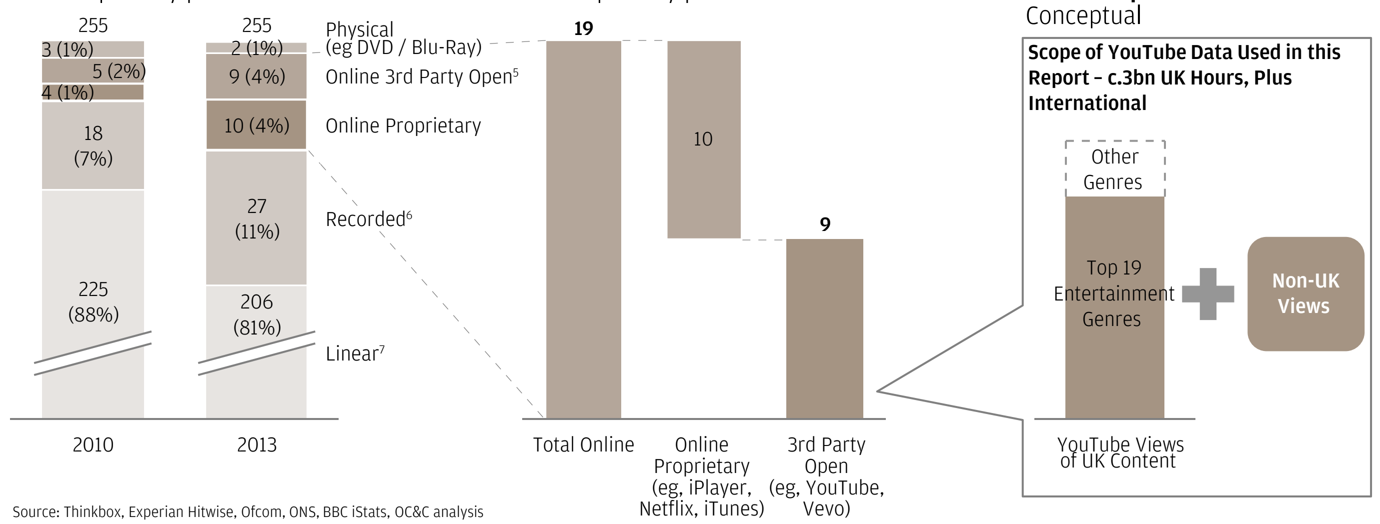
A Growing:

It is well reported that, although small today, 3rd party open video is becoming a larger and larger share of overall consumption. In 2013, c.3-4% of all UK video hours were 3rd party open VoD (worth around 9 minutes per person per day – up from 5 minutes in 2010).

Total UK Video Consumption
Minutes per Day per Person

UK Online Video on Demand Viewership
Minutes per Day per Person 2013

YouTube Entertainment Data in this Report
Conceptual



Source: Thinkbox, Experian Hitwise, Ofcom, ONS, BBC iStats, OC&C analysis

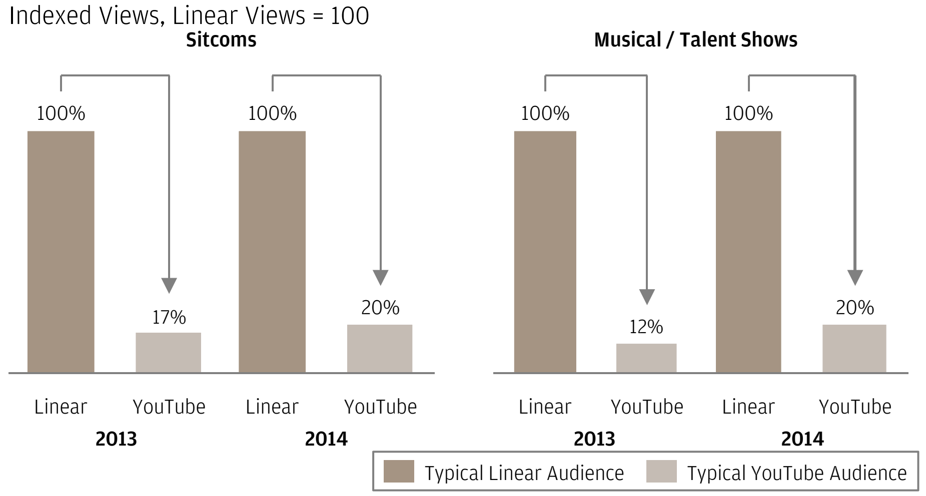
CONSEQUENTLY THERE IS LIKELY TO EXIST AN INCREMENTAL OPPORTUNITY TO UK TV COMPANIES

Total monthly audiences on YouTube for content brands can now regularly exceed 3m for Sitcoms and 8m for Musical / Talent Shows. By examining cohorts of selected shows, we can see the relative size of the YouTube audience (up to 20% linear) plus the growth being seen year on year.

Linear and Online Audiences

- Looking at a basket of selected UK genres on a monthly basis, an audience of approximately 10-20% of the typical linear audience is available through online platforms
- This is especially evident for UK genres Sitcoms and Musical / Talent Shows, where online audiences have grown by as much as 80% between 2013-14

Average Monthly Audience Sizes, 2013-14[8]
Indexed Views, Linear Views = 100



Source: YouTube data, BARB, Social Bakers, OC&C analysis

5. Commonly referred to as short form, however long form content also available on online 3rd party open platforms
6. Playback of recorded live TV (for all windows ie, 28 day+)
7. Includes live streaming (simulcast), which accounts for c.0.5 minutes in 2013 (0.2 minutes in 2010)
8. Linear audience: individual monthly averages of screenings for specific shows, averaged for genre cohort; YouTube audience: monthly views for individual shows, averaged for genre cohort, only included when linear screening occurred during same period

HOW LARGE AN OPPORTUNITY OR THREAT ARE 3RD PARTY OPEN VIDEO PLATFORMS?

MEDIA COMPANIES ARE INVESTING IN ONLINE VIDEO CONTENT

Media companies have invested in both proprietary broadcaster platforms (eg 4oD, iPlayer) and increased their presence on third party platforms (eg YouTube, Vevo). This has in turn increased the importance of MCNs (Multi-Channel Networks) to manage this increasingly complex ecosystem of content, channels and platforms.

Illustrative Acquisitions to End 2014

Asset	Amount	Date	Investors
Alloy Digital/ Defy Media	N/A (minority)	Jun-14	Viacom
Awesomeness TV	$81.25m (25%)	Dec-14	Hearst Corporation
	$33m-$117m (100%)	May-13	Dreamworks Animation (amount contingent on performance targets)
Base79	Up to $85m	Summer 14	Rightster
Big Frame	$25m	Summer 12	Awesomeness - Dreamworks Animation
	$3.4m	Jun-12	Various VCs
BroadbandTV	$36m (51%)	Jun-13	RTL Group
Creative Digital Studios	Multi-million (20%)	Mar-14	ProSieben Sat1 (German broadcaster)
ChannelFlip	Multi-million (100%)	Jan-12	Shine
Fullscreen	N/A (majority)	Sep-14	Otter Media (JV between AT&T and Chernin Group)
Machinima	$18m (stake)	Mar-14	Warner Bros.
Maker Studio	$500m-$950m (100%)	Mar-14	Walt Disney Co.
Revision3	$40m-$50m (100%)	May-12	Discovery Communications
Stylehaul	$6.0m, $6.5m	May 13, Feb 13	RTL Group, Bertelsmann Digital Media Investment
Tastemade	$25m	Summer 14	Scripps and Liberty
Vevo	$40m-$50m (7-10%)	Jun-13	Google minority (owned by Universal Music, Sony Music, Abu Dhabi Media Group)
Vice News	$70m (5%), $250m (10%)	Aug-13, Sep-14	21st Century Fox/Rupert Murdoch, A&E Networks

Source: Press search, OC&C analysis

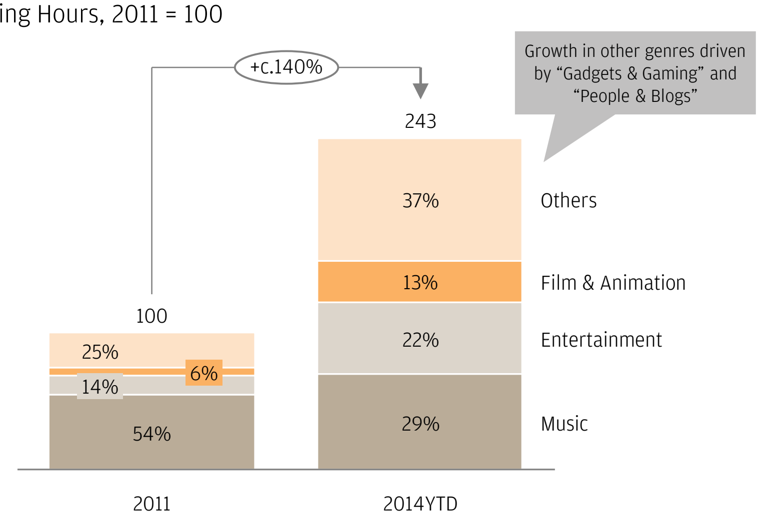
ONLINE 3RD PARTY OPEN VIDEO PLATFORMS ARE BECOMING INCREASINGLY DIVERSIFIED ACROSS DEMOGRAPHICS AND GENRES

B Diversified:

Anecdotally 3rd party open video platforms are increasingly appealing to older and female viewers. The young male demographic is still the largest audience segment, but is responsible for an increasingly small share of viewing hours. There has also been an increase in the diversity of genres now consumed on YouTube. The 3 largest entertainment genres in terms of viewing hours in our sample (Music, Entertainment, Film & Animation) account for a smaller share of overall views with other genres such as People & Blogs and Gadgets & Gaming growing strongly over the period.

Genre Mix Evolution of All Users[9]

Indexed Viewing Hours, 2011 = 100



9. 19 'Entertainment' YouTube Genres, Indexed Viewing Hours, 2011 = 100Source: Comscore, YouTube data, Google Media Pack Q1 2015, OC&C analysis

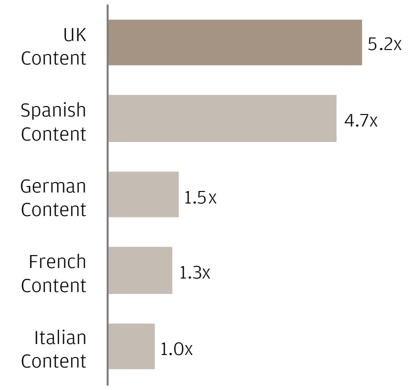
THE UK IS A MAJOR "EXPORTER" OF VIDEO CONTENT ACROSS THE GLOBE...

C International:

UK content is valued across the globe and there is a large pool of demand. Examining views of YouTube content uploaded in the UK, we observed that over 80% of views of this content are **outside** the UK, predominantly in North America, Western Europe and East Asia. This compares strongly against other large European countries (eg, Germany, France and Italy) which only export 40% or less, with only Spain as another major exporter of content (mainly to Latin America and North America), driven by the scale of English and Spanish speaking global markets.

International Consumption of Content, 2014 YTD

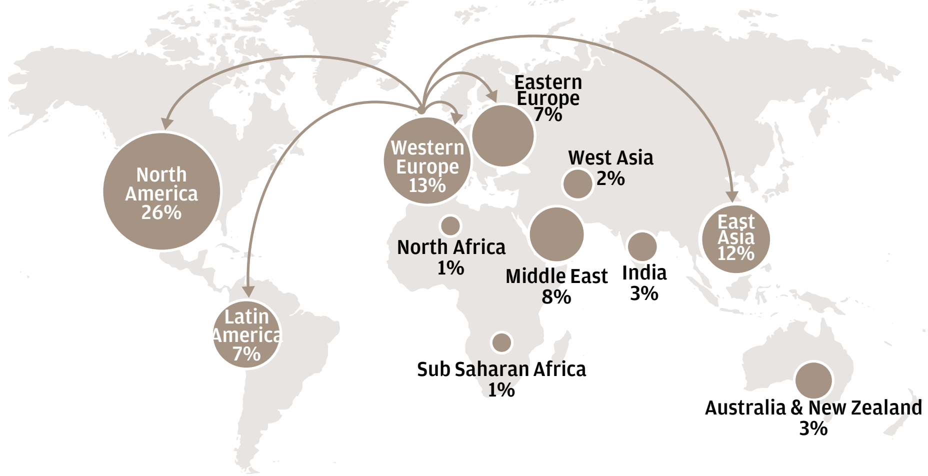
Proportion of International vs Domestic Consumption, 5 Largest European Markets for Creation



Source: YouTube data, OC&C analysis

International Consumption of UK Content in 19 Entertainment YouTube Genres, 2014YTD

% YouTube Views

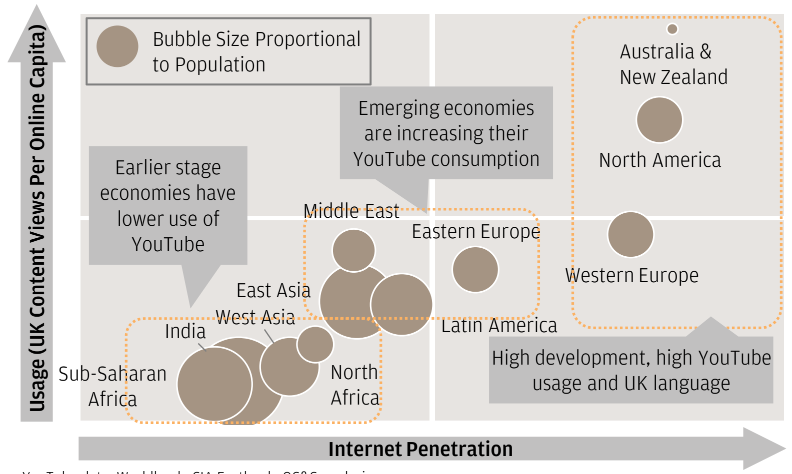


...AND AS BROADBAND INFRASTRUCTURE GROWS, ESPECIALLY IN EMERGING MARKETS, THIS 'EXPORT' MARKET WILL GROW

This international audience is only set to grow; a strong relationship is visible between viewership of UK content in a region and its online development. As regions continue to develop their online infrastructure, we would expect continued internationalisation of 'UK content'. Naturally, the commonality of English language in certain geographies, makes the spread of UK content particularly pronounced.

Region Maturity: Usage Intensity and Internet Penetration of Global Regions

YouTube Views of UK Content Per Online Capita vs Internet Penetration (2014YTD)



Source: YouTube data, Worldbank, CIA Factbook, OC&C analysis

HOW CAN PRODUCERS AND BROADCASTERS BENEFIT FROM THE 3RD PARTY OPEN VIDEO OPPORTUNITY?

The rapid growth of 3rd party open platforms has caused some media companies to worry about the implications for their core business. However, many of the companies we have spoken to have seen the development as an opportunity to innovate and learn, and many have been rewarded with incremental data, audience and sometimes revenue.

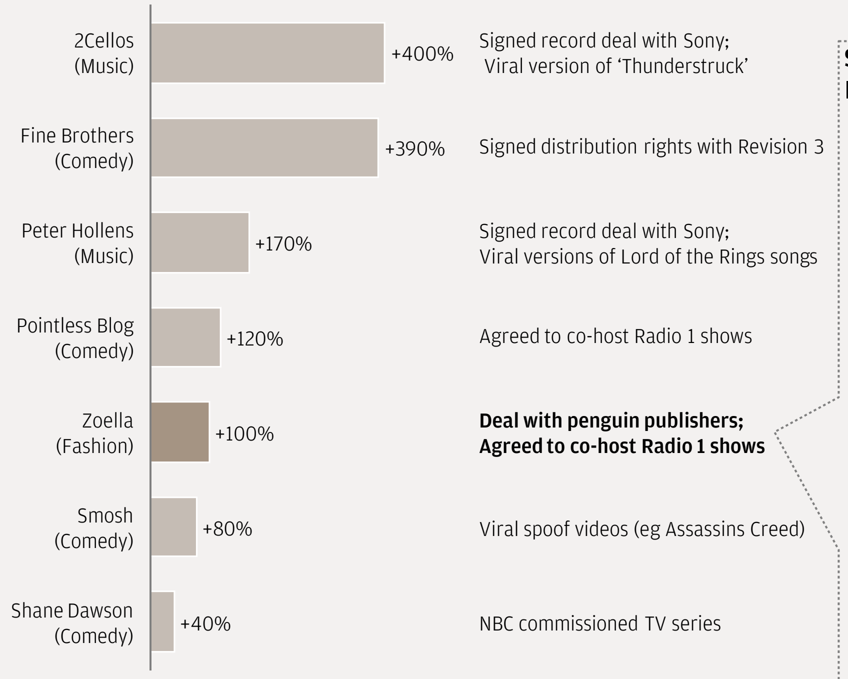
Our conversations with leading executives have revealed that online video strategies are being deployed across the content value chain. We have selected several strategies here that have been successful in delivering against corporate objectives. These are one important part of an overall online platform strategy involving numerous forms of engagement including Twitter, Vine, Instagram and the like.

STRATEGY #1: IDENTIFY LATENT TALENT

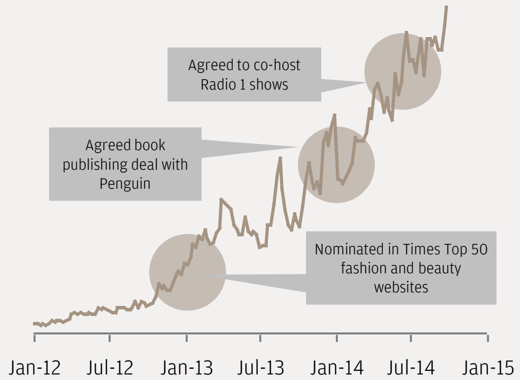
3rd party open platforms offer a large pool of discoverable talent. A single event can elevate talent into short term worldwide fame. In some instances, offline media companies have been able to nurture and further grow the overall appeal of those talents by also taking them into other, more traditional mainstream channels such as TV, radio and print. This has led in some cases to reverse spillover effects back to 3rd party open platforms.

SELECTED EXAMPLES OF YOUTUBE TALENT TRANSITIONED TO MORE MAINSTREAM AUDIENCES

YouTube Searches Following Transition to Mainstream[10]
12 Month YoY Growth Following Key Event



Searches for Zoella, 2012-14
Indexed YouTube Searches



- Zoella, aka Zoe Sugg is a UK-based fashion and beauty vlogger with 7.5m YouTube subscribers and more than 370m views
- One of a select number of acts (alongside Vice News and the Slow Mo Guys) that YouTube have recently decided to advertise offline to drive traffic onto YouTube
- 2015 has seen talks with UK broadcasters re linear content

Source: Press search, YouTube search data, Google Trends, Social Blade, OC&C analysis

10. 'Transition to the mainstream' represents an interaction with a traditional offline media business, eg, hosting a radio show, signing a book deal, distribution deal for linear TV, etc

STRATEGY #2:
SUSTAIN AUDIENCES BETWEEN SHOWS

3rd party open video platforms enable users to engage with content at any point in time, and increasingly from any location. The increasing growth of dual-screen viewing and share of content being watched on mobile devices only substantiates this trend (45% of YouTube's UK content was consumed on mobile phones / tablets in 2014). Effective use of additional content can help to retain audience for flagship shows during downtimes between major broadcasts, or indeed between series. Many broadcasters (or MCNs on their behalf) are now employing this tactic to good effect.

CASE STUDY:
SKINS

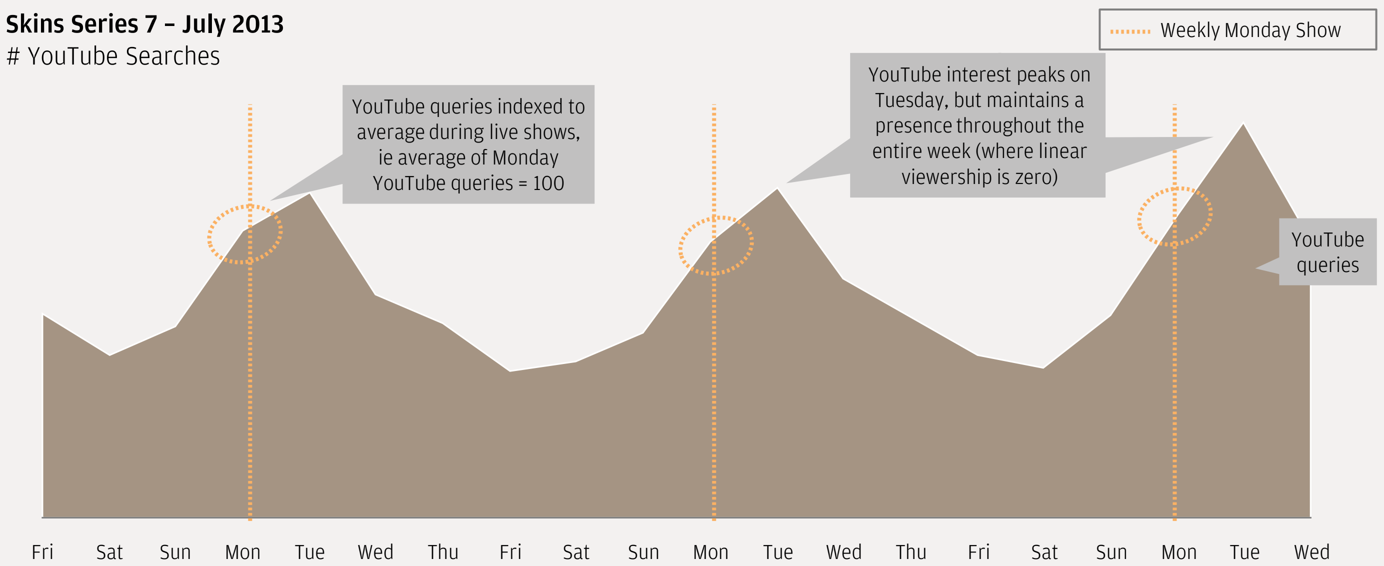
During the 2013 series 7 of Skins, weekly episodes were complimented with a wide range of daily content to sustain audience interest **within series**. The series was the final under the franchise, and therefore looked to maximise its monetisation from across its back catalogue.

Skins Sessions
- Music artists perform live versions of their tracks used in the series
- Artists are interviewed providing promotional opportunities

Episode Clips
- Short 2-5 minute clips of key moments from previous episodes

Skins Behind the Scenes
- Selection of interviews with cast & crew, as well as back stage and behind the scenes footage

Skins Series 7 – July 2013
YouTube Searches



Skins from the Vault
- Related YouTube content is also linked to the Skins channel
- Eg remixes of tracks, related spoofs

Skins FX / Skins Weekend Listening
- Selection of different spin off series present a selection of new and upcoming music artists

Skins Top 5 Moments
- Interviews with cast and crew who relate their top five scenes from the skins series

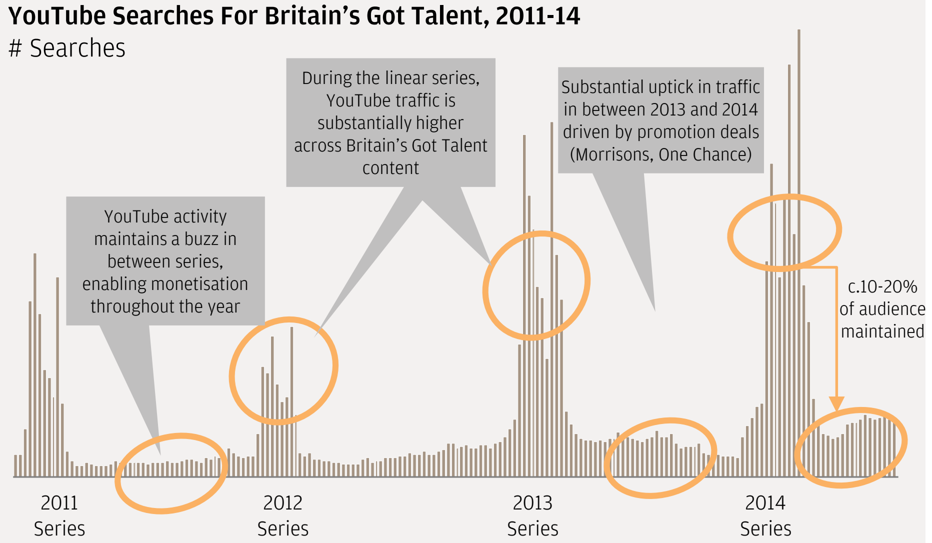
Source: YouTube search data, BARB, Press search, YouTube.com, OC&C analysis

CASE STUDY:
BRITAIN'S GOT TALENT

3rd party open platforms can also be used to maintain presence and buzz **between series**. Britain's Got Talent has managed to drive performance both on its linear broadcasts and on its YouTube channel. Following the 2014 series the programme has been able to retain c.10-20% of its YouTube audience levels even without any weekly linear shows.

BGT Marketing Activity
- Morrisons' sponsorship in January 2013 alongside 2-3 minute clips of backstage interviews
- 'One Chance' film featuring BGT winner advertised on channel
- Mobile app that centralises content first launched in 2012 and re-launched in 2014
- 'Pudsey the Dog' film released in July 2014 featuring winner of 2012 BGT competition

YouTube Searches For Britain's Got Talent, 2011-14
Searches

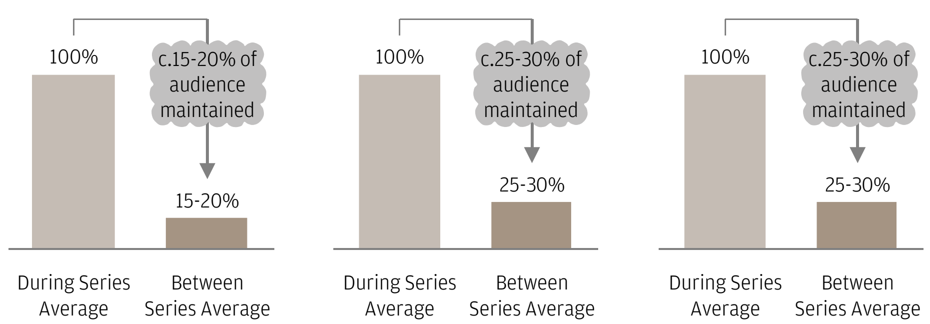


Source: YouTube search data, Social Blade, Press search, OC&C analysis

SHOWS WHICH ENGAGE IN 3RD PARTY OPEN PLATFORM ACTIVITY HAVE SEEN A GROWING SHARE OF AUDIENCE MAINTAINED BETWEEN SERIES

Similar successful usage of their YouTube channels to maintain an online audience between series can be observed for a cohort of selected shows which engage in regular YouTube activity alongside the linear programming. In 2011, these **shows maintained on average 15-20% of their interest between series, a figure which increased to 25-30% in 2012 and 2013**.

Drop-Off Between Shows / Series for Cohort of Selected "YouTube-Fuelled" Shows
YouTube Searches, Averages for 2011-13 Series (Indexed, During Series Average=100)



Source: YouTube search data, OC&C analysis

STRATEGY #3: MARKET UPCOMING PROGRAMMING

3rd party online video platforms can also be used to generate excitement for upcoming content releases. Usually part of a wider promotional push, many major releases have released exclusive online video content (such as teasers, early snapshots, additional trailers) to stimulate online audience activity and drive eventual audience numbers once the content is distributed.

CASE STUDY: SKY FIRST

Example YouTube Channels

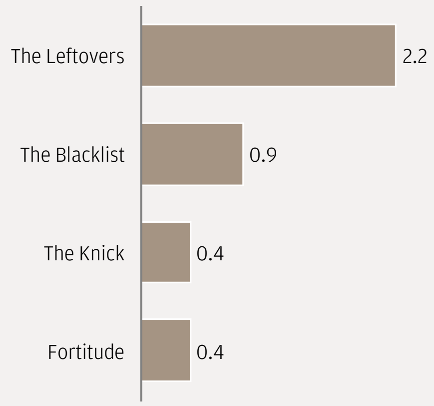
Sky have a family of 12 channels on YouTube

Content Available on YouTube

Teaser Clips for 1st Episode	■ Clips from first or earlier episodes that drip feed storylines ■ Typically 1-3 minutes
Exclusive Short Form Content	■ Additional short videos of exclusive YouTube content ■ Typically 'behind-the-scenes' or 'making-of' type trailers
Complete 1st Episode	■ 1st episodes are also made available on YouTube ... ■ ... With many available for free

Sky First Episodes was launched in January 2014, and has amassed nearly 8m views. The channel shows pre-released teaser content for upcoming programmes and from other channels

Resulting Audience Numbers of Main Trailers
Million Views, November 2014



This has resulted in substantial audience generation for several of Sky's recent programme releases

Source: Press search, YouTube.com, OC&C analysis

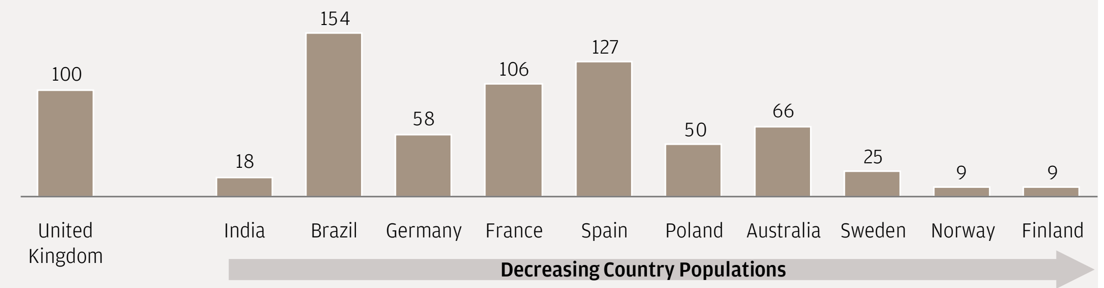
STRATEGY #4: CAPTURE INTERNATIONAL DEMAND

The international reach of 3rd party open video platforms offers both producers and distributors opportunities to increase monetisation of their content. Effective use of viewership data can enable content owners to identify pockets of international demand for their content and enter regions with more confidence, and with greater negotiating power.

CASE STUDY: ANONYMISED ENTRY STRATEGY FOR MUSIC TALENT

Identify Potential Areas of Opportunity (Example)

International Appetite for Music Act (Anonymised)
YouTube Views (Indexed to UK = 100)



Select Appropriate Entry Strategy (Not Exhaustive)

3rd Party Ad Revenue Only	Proprietary Channel Availability	Local Distribution Deal	Establish Local Presence
Make content available on 3rd party online video platform and participate in ad revenue sharing model Potential to monitor viewership data and upgrade investment as necessary	Adjust rights on proprietary (self-owned) video platforms such that content is viewable abroad Likely to require ad-based model, with subscription-based model more expensive	Establish distribution deal with local partner Requires sales investment Useful to have proof of demand data on international viewership of programmes	Establish local linear channel presence in attractive market Substantial investment required

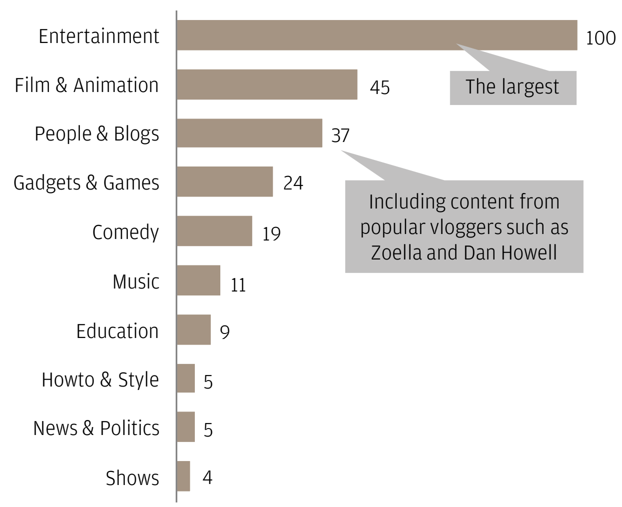
Increased Investment Required

Source: YouTube data, OC&C analysis

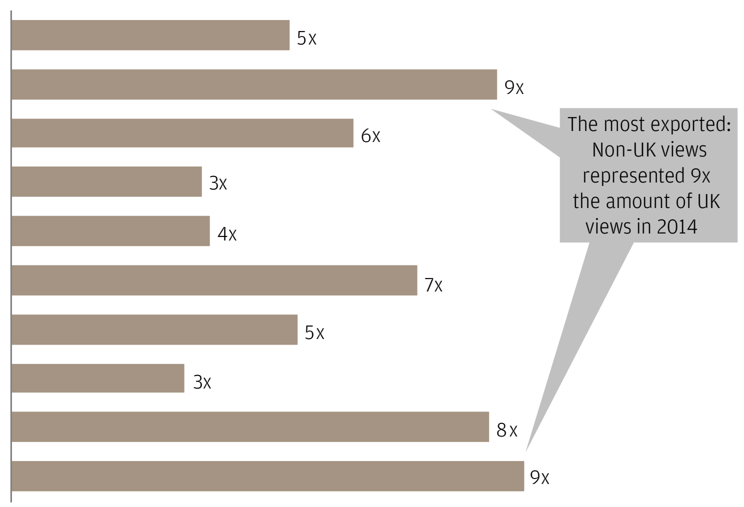
THESE INTERNATIONAL MARKETS OFFER A LARGE POOL OF DEMAND ACROSS CONTENT GENRES[11]

Entertainment, Film & Animation and People & Blogs were the UK's most exported genres in 2014. UK Film & Animation, News & Politics and Shows reach the highest relative international audiences in 2014 and hence appear to export very well, with international views c.8-9x times larger than those of UK views.

Consumption of UK Content Abroad by Genre, 2014YTD
YouTube Views (Indexed to Entertainment = 100)



International Reach of UK Content, 2014YTD
Proportion of International vs Domestic Consumption, Top 10 Genres



DID YOU KNOW? SOME FACTS ABOUT INTERNATIONAL VIEWERSHIP

- Australia and New Zealand have the highest number of international views of UK content per capita
- UK Film & Animation is more popular in Asia, particularly in Thailand, Japan and Vietnam, than in any other European country
- Thailand is the second-largest international consumer (after the US) of UK Entertainment, UK Film & Animation and UK People & Blogs

Source: YouTube data, Press search, OC&C analysis

OTHER STRATEGIES FROM ACROSS THE VALUE CHAIN

Leading TV executives have also highlighted several other strategies that have been deployed against the content value chain. We have highlighted below some examples where online video platforms have been used effectively.

Additional Online Video Strategies Identified

Creating Ideas & Commissioning	Content Production	Marketing & Assembling an Audience	Distribution
Use Trending Content Themes Rapidly identify popular content themes and build them into commissioning strategies	**Test Ideas** Use a broad user base to test show concepts, alternative endings, plot developments	**Drive Dual Linear & Online Engagement** Develop short form content designed to support linear programming (and vice versa)	**Reinvigorate Back Catalogues** Utilise the low cost of distribution to monetise content not warranting larger linear distribution deals
Crowdsource Ideas Use an engaged content base to generate programme ideas and self-select the most popular ideas	**Create Low Cost Spin-offs** Create additional content for a highly receptive audience at low marginal production cost	**Understand Your Customer Journey** Use analytics to see who is liking, sharing, subscribing to which content types in order to understand and control the customer journey	**Filling Distribution Gaps** Utilise 3rd party open platforms to fill geographic distribution network gaps where linear carriage is not available
	Create Extra Bespoke Short Form Content Create additional content targeted for third party open platforms	**Create a Buzz** Curate exclusive online content to maintain a buzz around your content brands	**Target Local / Niche Audiences** Market excess content to smaller pockets of demand (eg for news content, only a small percentage of stories make it to main screen)
		Ideas and Testing on Own Platforms Develop / crowdsource and test pilots for new content on own proprietary platform, using extensive analytics	

11. Refers to 19 sub-genres within the TV & Film genre – this represents the most relevant area for TV content. 2014YTD data represents the 10 months to October 2014

WHAT IS THE OUTLOOK FOR ONLINE 3RD PARTY OPEN VIDEO PLATFORMS; HOW SHOULD MEDIA COMPANIES RESPOND?

THE AUDIENCE ON 3RD PARTY OPEN VIDEO PLATFORMS WILL CONTINUE TO EXPAND RAPIDLY

The growing momentum of a shift in viewership from linear to VOD, both 3rd party open and proprietary-based, is clear. Focusing on 3rd party open platforms specifically, and assuming current levels of technology, we believe that in the not too distant future, the share of total UK video viewership will grow from its current level of 3-4 percent to closer to 10 percent. While the exact timing is unclear, it is estimated that this threshold will be crossed in the next 5 years[11]. Differentiating by demographics, this uplift could arguably happen in a more significant and rapid manner for younger more technology-oriented audiences. The implications for this shift are significant to all the key players (ie, broadcasters, content production, platforms, agencies, and advertisers) in the media ecosystem.

Not only do we expect online 3rd party open videos to continue to grow their share of UK viewership, we expect to see the following additional changes to viewership patterns:

1. A broader demographic audience embracing 3rd party platforms
2. Growth in international audiences, especially from Emerging Markets
3. A further broadening of the “core” genres available
4. More professionally produced content and experimentation with leveraging online platforms

Ultimately, advertisers and agencies will play a big role in pushing traditional media players to take more aggressive steps to experiment in the space. The strategies applied here, together with the rapid innovation seen on other platforms such as Twitter, Vine and Facebook, must continue to drive engagement and eventually revenues in online video.

11. Based on OC&C and Screen Digest estimates

THERE ARE SEVERAL ELEMENTS WHICH APPEAR IMPORTANT WITHIN A SUCCESSFUL ONLINE VIDEO STRATEGY

There is currently no ‘winning formula’ of online video strategy. The opportunity to achieve incremental returns on core content is recognised and companies are investing in a range of strategies. Our research highlighted the following important components of a good online strategy.

Engage the online audience more actively	• Online users are more active and will respond to content in several ways (comments, user-generated content, social sharing) • Find ways to leverage and involve your viewers more frequently and more deeply
Experiment with linear to online transitions	• Your online video viewers will often also be your linear viewers • Encourage viewers to interact with your content through multiple platforms and embrace transitions from online to offline
Exploit incremental audiences at home and abroad	• Online platforms offer exposure to new audiences nationally and internationally • Develop an online strategy that enables you to effectively monetise this latent demand for your content
Invest in talent brands	• The importance of talent and show, rather than channel, branding is increasing • Use online platforms to maintain the buzz around talent and sustain your audience numbers at (relatively) low cost
Learn to take a data-driven approach	• Ensure you have access to user data and use this data from online viewership to drive your business • Online audiences offer a widespread insight into the popularity of your content and your customer demographic, ensure this insight is being translated into strategy

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