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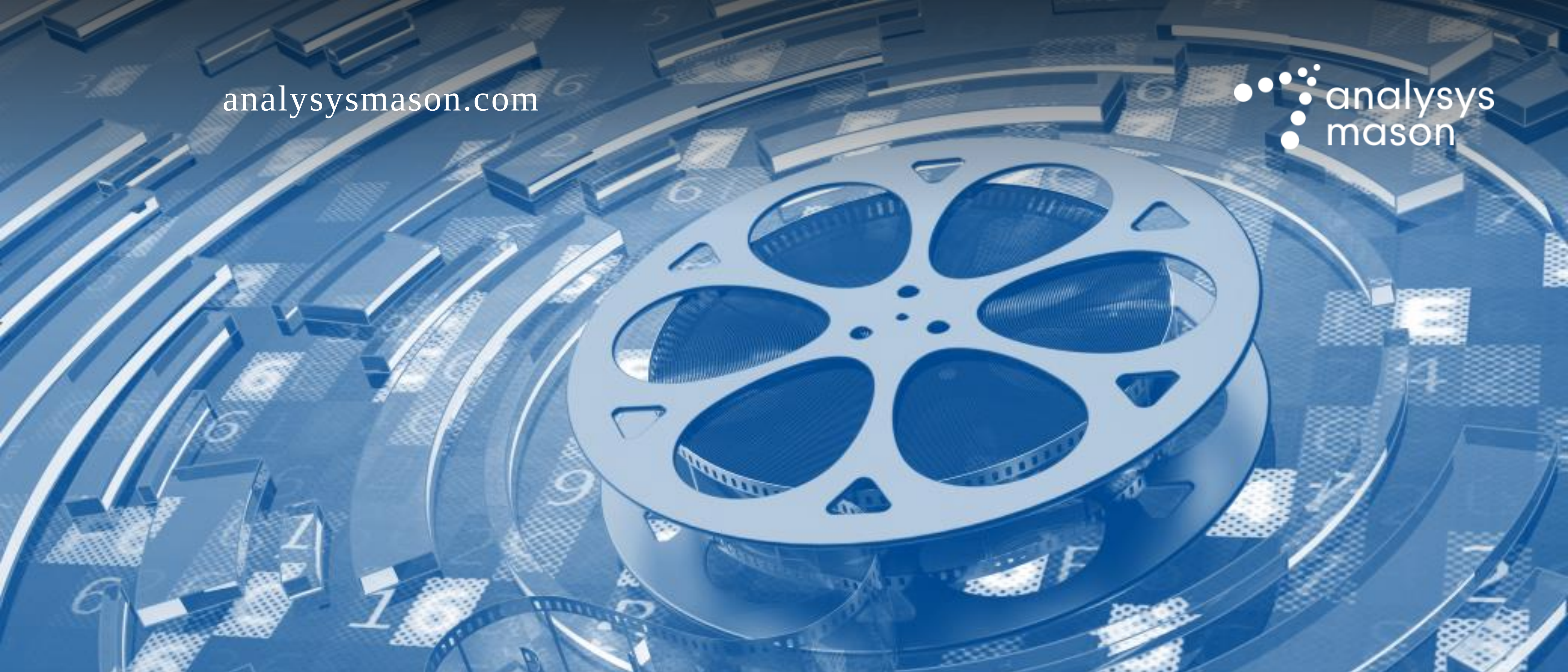

RESEARCH STRATEGY REPORT

OPERATOR STRATEGIES FOR TV AND VIDEO CONTENT: PRODUCTION, CONTENT TYPES AND DISTRIBUTION

MARTIN SCOTT and HEENU NIHALANI

About this report

Video consumption, demand and delivery are changing. Crucially, consumers' expectations and the way that they engage with video providers is also changing. To adapt to these changes, operators may consider funding original content production, or invest in a greater volume of exclusive content. However, this could require a level of capital investment or scale that is not practical, or a return on investment that is not secure. The optimal content strategy is complex to identify and implement.

This report presents different approaches to investing in – and gaining access to – original and exclusive content through production, aggregation and partnerships. It examines the options available to operators regarding linear and on-demand content distribution and content types, and how they relate to modes of delivery. Further, it investigates the risk and return trade-offs for different levels and forms of involvement in content production, based on the size of the operator and the market situation.

KEY QUESTIONS ANSWERED IN THIS REPORT

- How can operators ensure that they are delivering the content their customers want, in the manner in which they wish to consume it?
- What types of content should operators invest in, what is the relative cost and impact of each, and how do they relate to the distribution mix?
- How can operators understand to what extent they should invest in content, and how?
- What are the risk and return trade-offs of each form of investment, and how do these differ depending on the size of the operator and its market?
- How can operators evolve their on-demand services to justify making them more prominent in their TV propositions?

WHO SHOULD READ THIS REPORT

- Telecoms operators or pay-TV providers that aim to enhance their content offering and are considering investing in content.
- Telecoms operators or pay-TV providers that want to adjust their mix of video-on-demand (VoD) and linear services and/or launch their own VoD services.
- Pay-TV distributors, studios and over-the-top (OTT) players looking to establish partnerships with telecoms operators or that wish to better understand the strategies of operators.
- Investors and other professional institutions that wish to understand the risks and returns to telecoms operators from investing in content.

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Executive summary

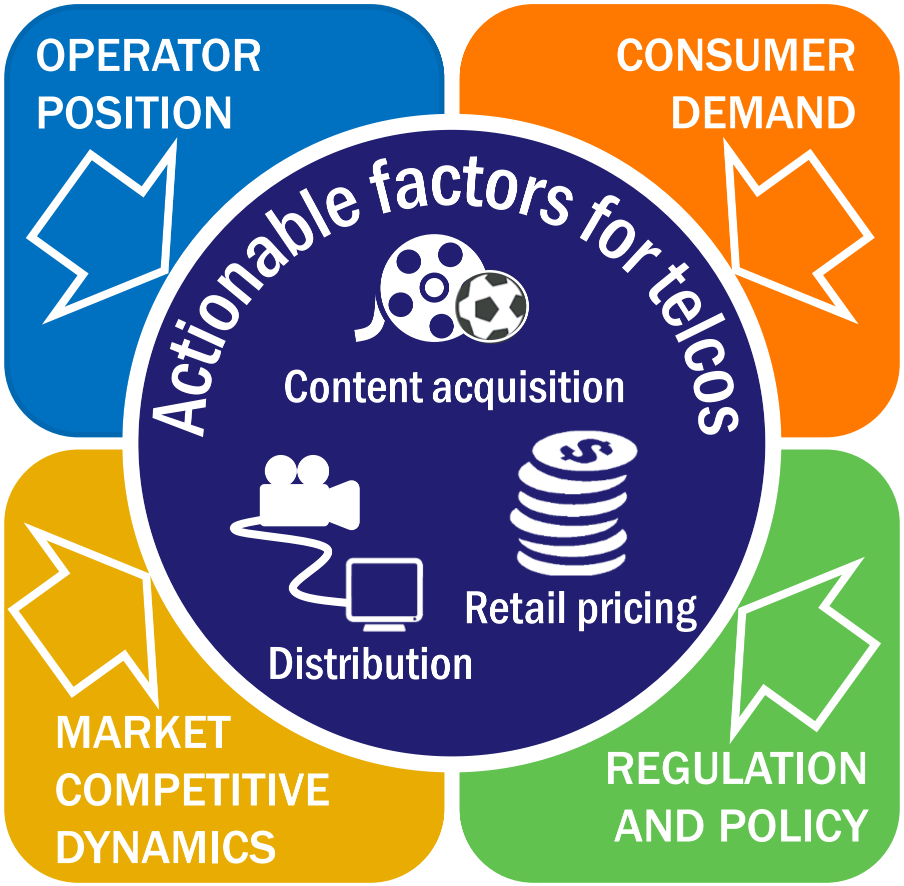
Operators' investment in TV and VoD content must be in proportion to their appetite for risk and to what is affordable; investment opportunities exist, regardless of operator size.

Consumer appetite for non-linear content is growing, the genres that they watch are changing, and the number of TV and video providers that they engage with is increasing. Regardless of their size, operators must ensure that they provide sufficient content and delivery flexibility and minimise the risk of losing relevance.

Some options to provide linear TV and VoD in an operator's pay-TV service will better fit a particular operator's size and market characteristics. The three key dimensions that operators can control directly are: distribution, content investment and the way that services are priced. The primary focus of this report is the choice of content, and its distribution, specifically:

- The importance of VoD and streaming TV is growing. Operators must ensure that VoD and streaming have a prominent presence in their distribution mix.
- There can be a case for investment in exclusive content, based on scale and regulation. For some operators, exclusive content is not affordable; others can and should invest.
- The risk/return on original or exclusive content investment is complex. Co-production is an under-rated investment option.

Figure 1: Factors over which operators have the greatest control in the video market



Source: Analysys Mason

Operators must find a balance between an improved, innovative and differentiated pay-TV and VOD proposition and the costs of content

Escalating spend on original series ('originals') and sports content increases pressure on operators; identifying if, how and where to invest is key.

Operators typically have four key objectives when considering their TV and video strategy: increasing profitability, core revenue growth, defending core services and widening their reach.

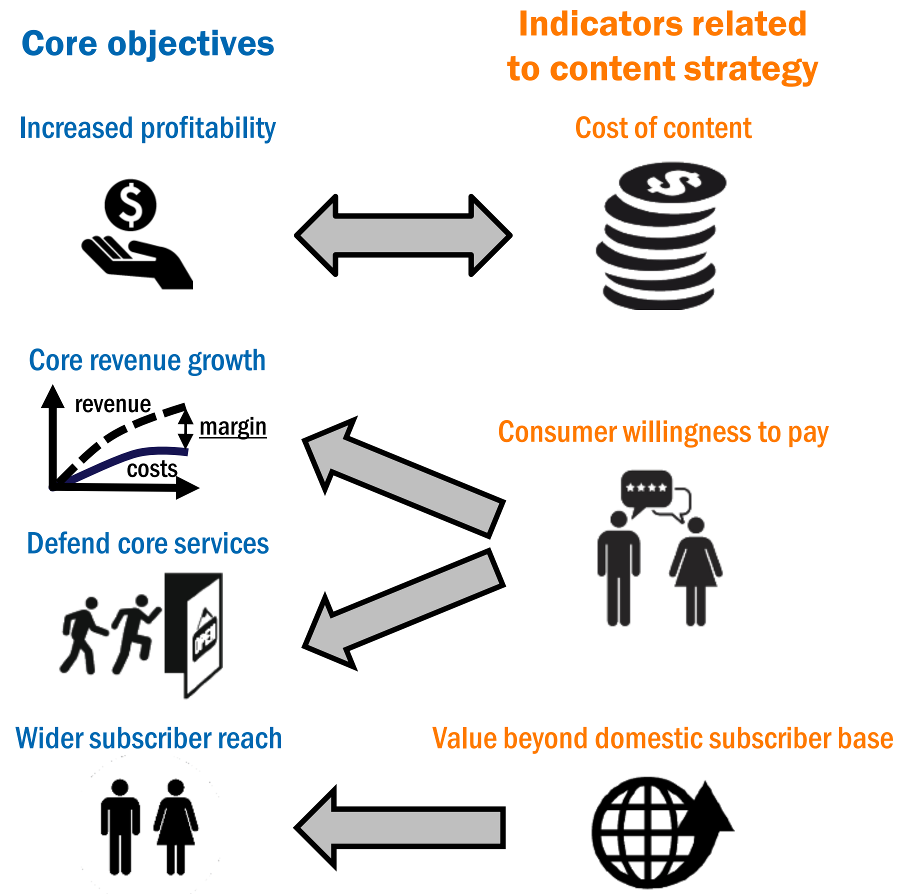
Evolving technical distribution is changing the types of content that consumers watch, what they pay for, and who they pay; this evolution affects operators' ability to achieve these objectives.

In this context, some operators are leveraging their telecoms business so that they can spend ever-increasing amounts on content, especially sports and original series to strengthen their pay-TV proposition. In 2013, BT paid GBP897 million (USD1.4 billion) for UEFA Champions League and Europa League live broadcasting rights. Netflix also announced content spending of USD6 billion in 2016.[1]

Operators must adapt to these changes. They need to identify if, how and where to invest. Indicators that are most relevant are:

- the cost of content (direct/wholesale and commercial/regulated), which is affected by type of content, rights windows and investment
- whether consumers are willing to pay for the content
- whether content can generate value beyond the current customer base (internationally or to new domestic customers).

Figure 2: Relationship between operators' core objectives and indicators that relate to content strategy



Source: Analysys Mason

[1] http://www.fool.com/investing/2016/06/28/is-netflix-inc-spending-6-billion-on-original-cont.aspx

Operators of all sizes must ensure that they invest in their distribution platform, and content investment options exist for most players

Operators considering investing in content and its distribution have several options, depending on their starting point and scale.

- **Distribution mix.** VoD is taking a growing share of wallet as it replaces physical video and starts to affect linear viewing. To capture this, operators must invest in their platform.
  - VoD must differentiate on content and user experience.
  - Operators should emphasise their VoD proposition as strongly as their linear service, particularly subscription video on demand (SVoD), which promises more-regular revenue than transactional video on demand (TVoD).
- **Content genres.** Exclusive content will differentiate. Operators can find options to fit their budgets and market conditions.
  - Premium sports bring scale. Scripted entertainment (series and films) can generate value; while not as costly as sports, successes and 'flops' can be hard to predict, and carry risks.
  - Non-scripted, factual and short-form content can be more affordable for smaller players, but the return is more moderate as they are likely to appeal to specific consumer segments.
- **Original/acquired trade-off.** Large operators may invest in-house or co-produce. Medium-sized operators may consider output/carriage deals, and possibly also co-production. Smaller operators can partner and use wholesale deals where possible.

Figure 3: Factors for operators to consider when investing in content

	Cost	Consumer willingness to pay	Value beyond domestic subscriber base
What distribution mix?			
Linear	●●●●●	●●●○○	●●●○○
SVoD	●●○○○	●●●●○	●●●○○
TVoD	●●○○○	●○○○○	●●●○○
What content?			
Sports	●●●●●	●●●●●	●●●●○
Scripted entertainment	●●●○○	●●●●○	●●●○○
Non-scripted ent.	●○○○○	●●○○○	●○○○○
Factual	●●○○○	●●○○○	●○○○○
Short-form	●○○○○	●○○○○	○○○○○
What original/acquired trade-off for production?			
In-house	●●●●●	●●●●○	●●●●●
Co-production	●●●●○	●●●●○	●○○○○
Output deal	●●●○○	●●●○○	○○○○○
Carriage deal	●●●○○	●●●○○	○○○○○
Co-branded partnership	●○○○○	●○○○○	○○○○○
OTT partnership	●○○○○	●○○○○	○○○○○
Wholesale	●○○○○	●●●○○	○○○○○

Source: Analysys Mason

Recommendations

1

Operators must ensure that VoD and streaming have a prominent presence in their distribution mix.

Consumer spending is shifting rapidly towards VoD, partly at the expense of linear TV. Operators need to offer a differentiated VoD platform to compete credibly and capture some of the growing share of wallet. One way to differentiate is with content. Compelling pricing can also attract new viewers, including those outside the core customer base (for example, younger audiences). Changing rights windows mean content is available for VoD consumption earlier than before, but at a higher cost, which operators must be prepared to bear.

2

In general, content is a scale business and therefore larger operators can and should consider investing in sports and scripted drama, whereas smaller operators can consider non-scripted entertainment or short-form.

Operators need to consider their scale, what they are willing to spend, and what they are aiming to achieve with their TV service – then invest in content accordingly. However, unique market conditions may influence the decision – for example, sports rights in some markets may be less expensive than in others, and therefore more affordable for smaller operators.

3

Few operators should consider producing original content in-house; alternatively, co-productions enable operators to share the risk. Content deals and partnerships are better options for smaller players.

Generally, more options are available to operators with large budgets and wide footprints, especially when it comes to investing in original content. Operators that do this may be able to sell this content outside their core subscriber base or to international audiences, or offer their own OTT services. Those with more-limited budgets may consider partnerships with pay-TV or OTT providers, carriage deals and output deals if they rule out original content investment.

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About the authors

Martin Scott (Principal Analyst) co-ordinates Analysys Mason's research initiatives related to media, TV, fixed broadband and convergence. He manages the *Fixed Broadband and Multi-Play* research programme and is a significant contributor to the *Future Comms and Media* programme. Martin has held numerous positions within Analysys Mason during the last 10 years, including heading the company's Consumer Services, Data and Regional Markets practices. He also launched Analysys Mason's Connected Consumer and Consumer smartphone usage series of research. His primary areas of specialisation include service convergence, OTT video and media, consumer smartphone usage, the bundling and pricing of multi-play services.

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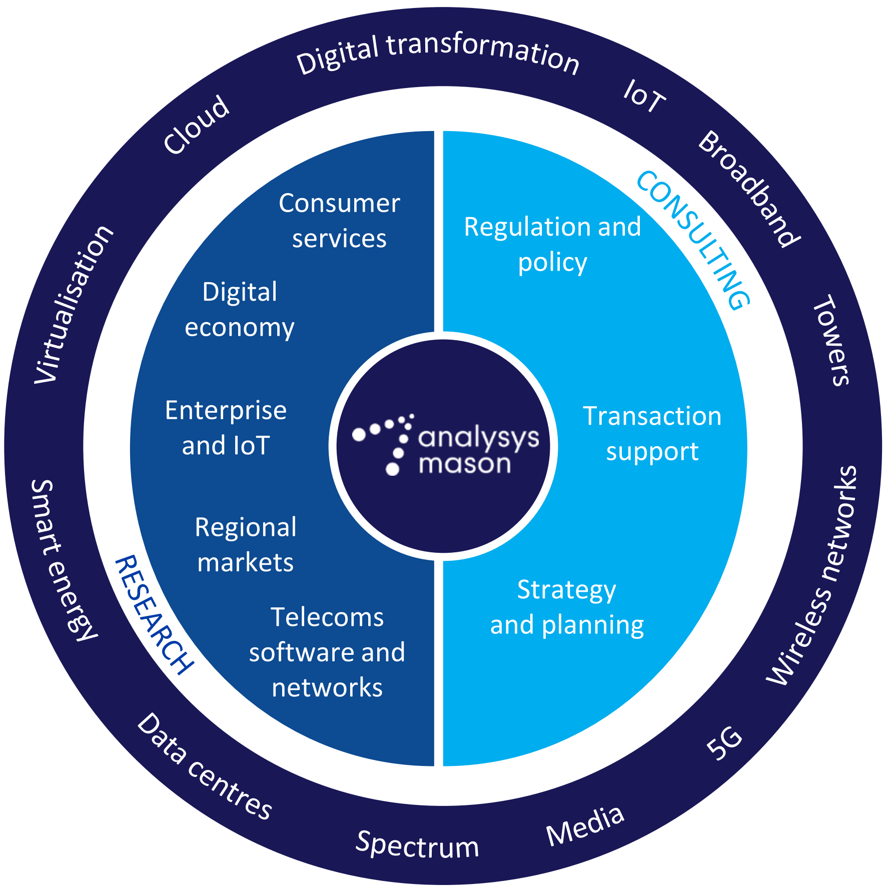

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PUBLISHED BY **ANALYSYS MASON LIMITED** IN **MARCH 2017**

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