OGILVY CONSULTING

Cordless

The radical redefinition of television

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FORWARD

EVERYTHING WE KNOW ABOUT TELEVISION IS **CHANGING.**

For the fleet-footed, this is a time of great opportunity. For the slow to adapt? It's an extinction-level event. How did the venerable institution of TV suddenly become a battleground between prosperity or fossilization? Equal parts ignorance and arrogance.

The rapid development of digital technology destabilized what was once a very tightly defined industry. Lulled by decades of slow-burn advances and well-established revenue streams, the TV ecosystem grew fat on a seemingly impenetrable business model dictating how content was made, distributed and monetized. Besotted by profits sustaining symbiotic entanglements of economic nepotism, the industry rolled through the first decade of the Internet era like a gas-guzzling sedan scoffing at the Tesla plugged in along the highway.

Had most of the TV industry not been asleep at the wheel, it might have learned from the trials and tribulations of the music industry's self-inflicted wounds incurred while warding off the discomfort of inevitable change lead by digital distribution. They also might have noticed consumers were increasingly frustrated by rising cable bills supporting a business model of expensive channel bundles delivering hundreds of networks that a given consumer might never watch.

Alas, by the time the TV industry woke up, it was too late to avoid careening at full speed into the same ditch that swallowed their musical counterparts. When the smoke cleared, all of the devices, delivery methods, programming strategies and business models that television once held dear were up for grabs, disrupted by outside forces. The media chased the ambulance, vying to be the first on the scene when television was declared D.O.A.

Of course, the story of TV's death was never written.

And it won't be.

The *business* of television is being radically redefined, but viewers still want the *content*. The digital revolution fragmented the concept of TV into thousands of pieces, infiltrating every conceivable Internet-enabled, video-capable device to the point that a TV-like experience can be enjoyed everywhere. And that's the rub.

The Internet isn't killing television; it's making it even more ubiquitous.

Today, 17 years into the broadband era, the total number of hours 18-34 year olds spend viewing video from all sources is still growing, as is the business of filling those hours with content. There is more professional "TV quality" video content in production than ever before. In the six years leading up to 2015 (Vulture.com) the amount of scripted programs created in the US doubled. The surge in consumption comes from viewers accessing content via connected TVs, mobile devices and computers; time spent watching linear TV programming delivered in the traditional manner is declining.

As video consumption increases, old business models continue to fall. In late October 2017, Comcast reported another quarter of dramatic cable subscription losses, but the company's financial performance stayed strong, buoyed in part by the Internet services required to view all the new digital content. Comcast, among other giants, are bullish on video. Therein lies a glimpse into what is really going on:

**TV is not dying,
it is being reborn.**

OVER *the* TOP

Television's Third Act

IF SHAKESPEARE OBSERVED TODAY'S CULTURE,

he might opine that all the world's a screen. The ubiquity of video-enabled devices has moved the consumption of content once the exclusive province of home-bound television sets to a panoply of portable screens available for viewing anytime, anywhere. The coetaneous advent of Wi-Fi and hand-held digital devices untethered viewers from immobile console electronics while furthering the original promise of television: to bring sound and motion content into our personal spaces. Video watched on phones, watches, laptops and tablets is a natural progression of the television viewing experience; but it has come at the expense of how an entire industry goes about its business. How did this happen? How did one of the most consistent, successful businesses in the world allow itself to be turned upside down by outside forces? Hint, it didn't have a choice.

Digital technology, the benevolent disrupter of our personal lives, is an uninvited agitator to the industries it upends. For every convenience offered to the user, disruptive tech pulls a brick out of traditional business foundations. This is especially true of anything associated with the entertainment industry, where the entire business from production through distribution of music, film, and video has been democratized, commoditized and - in many cases - economically traumatized.

The re-sorting of television has opened new doors for those willing to shake off the hangover of how things used to be. Consumers and advertisers have greater leverage in the digital marketplace, as do content creators who are no longer bound by the limitations of TV's channel-oriented past. The opportunity is far greater than it may seem.

Alternative distribution – specifically Internet delivery of video known as Over The Top TV (OTT) – did not sneak up on the television industry. Internet Protocol TV and other options for video via the World Wide Web have been well known for decades, but adopting them would have upset established business models, especially the essential (and sometimes controversial) relationships between networks and cable providers. Changing course was too great a business risk. Of course, the technology wasn't going away. By not taking the risk, TV opened the door for disruption. New creators and distributors eagerly went where television traditionalists wouldn't: direct to the audience via the open Internet, without the need for conventional middlemen or distribution schemes. No cable, no dish and no antenna required. The early success of OTT was a paradigm-breaker for consumers, producers, distributors and advertisers; forcing a radical redefinition of the television business where consumer freedom of choice was the first priority. The fallout will define the winners and losers of what can be seen as Television's Third Act.

HOW DID ONE OF THE MOST CONSISTENT, SUCCESSFUL BUSINESSES IN THE WORLD **ALLOW ITSELF TO BE TURNED UPSIDE DOWN BY OUTSIDE FORCES?**

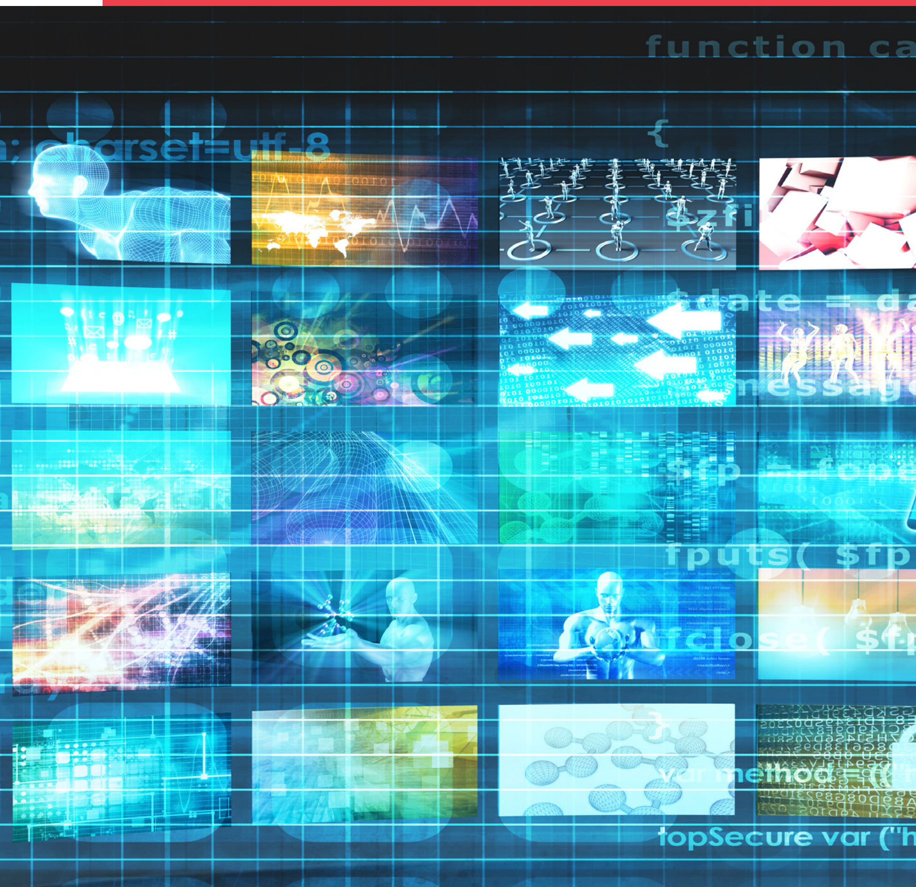
TV's First Act began in the 1930s and ran for 40 years as the medium replaced radio as the dominant in-home source of news and entertainment. Advertising-supported programming transmitted free to the consumer evolved from greyscale reinventions of radio stories to complex, full-color cinematic entertainment. In-show sponsorships, popular at the beginning of the TV era, transformed into the pods of 30-second commercials we know today. Even with these evolutionary developments, the core business model of television remained remarkably unchanged throughout the First Act. Networks, studios and production companies built an entire ecosystem dependent upon an active relationship with advertisers and free delivery to the public. The consumer was left with two jobs: passively watch programming the networks broadcast and support the brands that advertised on their favorite shows.

The transition from free broadcast networks to subscription cable content gave the consumer a direct role in the financing of television, triggering the Second Act of TV. The changes were significant, but not disruptive. Cable was an additive experience for both consumers and the TV industry itself. Increased content choices and direct-from-consumer revenue models spurred growth that meshed smoothly with the existing - massively profitable - institution of television. Cable providers were added to the fiscal picture, but none of the traditional participants were forced out. The number of networks available blossomed after consumers joined advertisers as a funding source and, despite increased competition, the stage was set for another three decades of relative stability. Everyone in the industry understood how they would get paid.

The digital age, TV's Third Act, has not been as kind to convention. New devices, delivery systems and content producers have obscured (if not rendered obsolete) many consumer notions of the TV experience, while doing the same to once reliable business models. The iron grip of TV was broken by a combination of digital production tools democratizing production and Internet technology enabling new distribution pathways, each handing consumers greater control over programming choice, access and cost.

THE PHRASE "OVER THE TOP"

stems from a comparison with OTT's biggest rival, Cable TV.



While cable requires bespoke wiring to physically connect network infrastructure to the home to reach TVs and other devices, OTT comes in "over the top" of the cable signal via the Internet. TV's Third Act has revealed another, unintentional meaning: OTT flew over the top (though under the radar) of many industry leaders, themselves. The music industry woke up one morning, groggy from years of excess, to find Steve Jobs had rewritten the rules of their business using technology to undermine the entire system. TV didn't have that moment. There's no single innovator, no single company driving OTT like Apple drove music downloads, which makes the story far more interesting than the short-cycle devastation of the music industry. Television is still mid-change with the reborn, the anxious and the zombified walking side by side.

FREEDOM *of* CHOICE

Consumers are drawn to OTT for many of the same reasons they changed their music consumption habits 15 years earlier during the MP3 revolution:

freedom, value, and choice.

The television industry, much like the music industry, seemed to be more focused on preserving the status quo of distribution rather than embracing new models enabled by technology and coveted by consumers. That intransigence cleared the deck for start-ups untethered from doing things “the way they had always been.” In the digital age there's little leverage for an institution trying to preserve decades-old business models when the customer base has already been shown the realm of the possible. TV found that out a bit late.

The signs of a consumer choice revolution were present long before the first infiltrations of OTT. Immediately prior to the Internet, personal video viewing was experienced in two ways: television or home video tape/disc. Much like cable before it, the home video business opened new revenue streams without doing too much damage to the status quo. As convenient as it was to record favorite shows or rent popular movies, neither behavior had a negative impact on traditional TV. Indeed, most concerns about tape rentals involved damage to the movie industry's bottom line whose domestic box office revenues fell from 80% in 1980 to less than 25% in 1992. In hindsight, the VHS tape era should have been a watershed moment for television executives who – for the first time ever – saw what happens when customers can “program” their own video entertainment. That was not the case.

By the early 1990s, networks were committing millions of dollars each to adapt to digital production and high definition transmission. Dramatic improvements in image quality and sound were on the menu, new distribution paths were not. The first generation of HDTVs weren't smart, they were just significantly upgraded versions of the status quo. This led to a very unique moment in time.

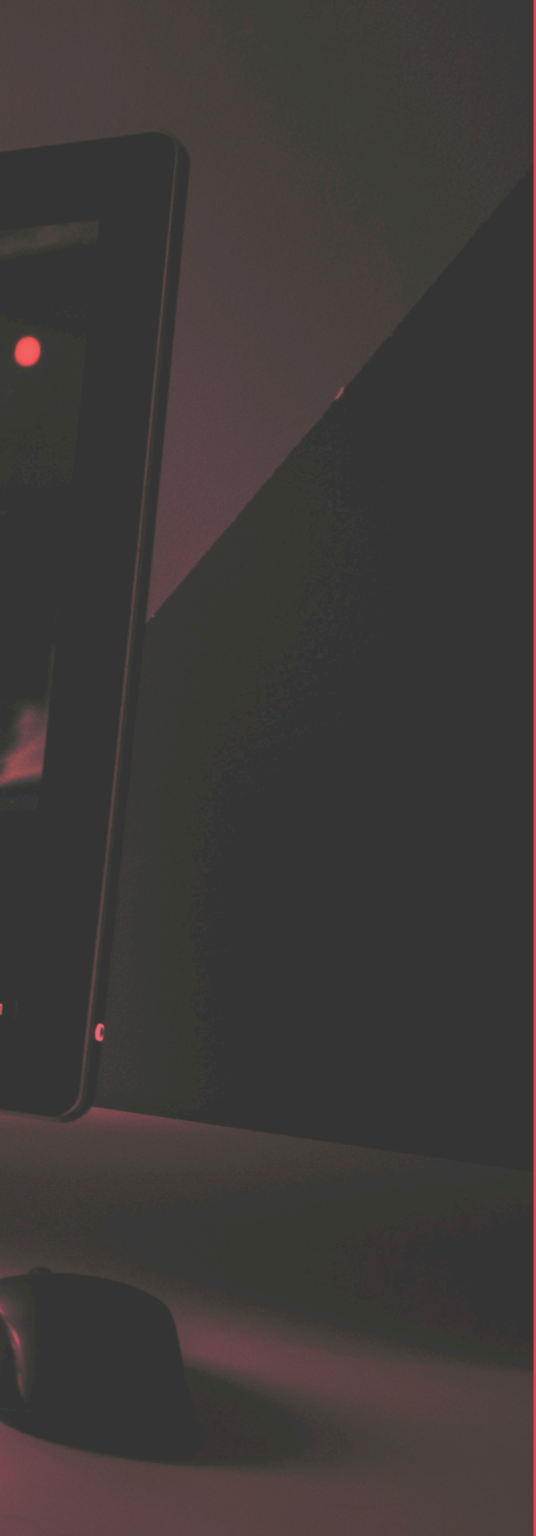
Consumer web browsers were coming into vogue just as the broadcast alliances set the first meaningful digital HDTV standards. It was obvious that HD was a true breakthrough in quality for home entertainment. It was equally obvious that the WWW was a disastrous platform for video at that time. Dial-up bandwidth, low computer horsepower and nascent software packages were not able to deliver good video experiences, yet Internet users clamored for it.

LONG BEFORE THE INTERNET INFRASTRUCTURE WAS READY FOR IT, PEOPLE WERE SHOVING VIDEOS DOWN VERY NARROW PIPES AND LAPPING UP CONTENT THAT **LOOKED AND SOUNDED TERRIBLE.**

Postage-stamp sized windows and reduced frame count resulted in flickering experiences not unlike the Kinetoscope and Mutoscope of a century before, but there was an element of preference, selection and (lack of) cost that drew audiences in.

This should have been an early sign of concern for television: consumers were trading quality for freedom of choice.

The RISE OF ALTERNATIVE VIDEO DISTRIBUTION



The promise of alternative video distribution as a market-shaper started in the late 1990s

when the idea of streaming video – having content delivered in real-time as you watch it rather than downloading a file – gained notice as Microsoft, Real Networks and Apple launched new services. The quality wasn't close to that of TV, and dial-up connectivity still limited the experience (introducing the word "buffering" to video viewers), but eliminating downloading was a major step forward. Streaming didn't take off until the turn of the millennium when broadband deployment enabled a better viewing experience.

When did streaming video evolve to the point where OTT became possible? It is hard to pinpoint. There was no grand launch, no ceremonial debut. Just an evolution of devices, apps and connectivity that, when sewn together, changed media history. The moment when “TV-quality” video became de rigueur on the World Wide Web – when, to a consumer’s eyes web video looked as good as TV – is when the dam broke. The choice was no longer weighing quality of image or convenience against the rigid constructs of TV. The playing field was leveling as digital technology evolved from incremental enhancer to radical disruptor. The crumbling symmetry between watching TV and watching video disintegrated. One could experience high-quality, professional content without any need for the trappings of the television industry - not the gate-kept video, not the physical TV set, and certainly not the cable.

NEW CONTENT CREATORS FLOCKED TO STREAMING VIDEO, **BUT THE TV NETWORKS DID NOT.**

Alternative distribution of programming was a direct threat to the revenue stream from cable companies. Every TV network carried on how cable manages intricate contracts with each cable company, defining what local systems carry the network, which channel number it is assigned (lower is usually considered better), how it is bundled and – most importantly from a business sense – how much the cable operator will pay the network for their content. Advertising revenue, licensing income and other financial streams buoyed the networks, but negotiating favorable affiliate contracts with cable operators remained job one. Networks loathe to upset the cable companies turned their backs on streaming in favor of the familiar, traditional arrangement. The cable operators, having no incentive to cannibalize their own businesses, also avoided direct overtures to alternative distribution **but it was their foray into broadband that opened the door for unparalleled marketplace disruption.**

BUT NEGOTIATING FAVORABLE AFFILIATE CONTRACTS WITH CABLE OPERATORS **REMAINED JOB ONE.**

The RISE OF THE CONNECTED DEVICES


Wish I Was Here
Drama
See All >
Purchased

While the cable industry supported the status quo on the television side of their business, residential broadband access was altering everything consumers knew about file sharing and content acquisition. The OTT movement can be traced back to the same sort of grassroots, tech-driven behaviors that launched the streaming music player revolution: bleeding edge file sharing (piracy, some would say) and hacker culture. Instead of Napster and the MP3 files that defined music sharing, consumers on the fringe as far back as the early 2000s would share high quality .WMV and .MP4 video files of their favorite movies and television shows on Internet native message boards (Usenet) and BitTorrent sharing sites (PirateBay). As bandwidth became more ubiquitous and less expensive, there was a natural progression of consumers sharing on these grey-area platforms. Still, almost all of this activity was confined to the clunky desktop computers of the day. The living room was still the domain of the cable companies' stalwart, the set top box (STB).

Tech savvy consumers started to get access to movies and TV shows outside of the realm of their STB, and they were not satisfied with just watching the content on their computers – the desire for a large screen TV experience had not faded. Hackers modified gaming consoles like the Xbox with "jailbroken" operating systems for playing media. As XBMC and other media center software emerged, consumers could turn their library of downloaded video files into a local "Netflix." The introduction of the Mac Mini and small cheap computers ushered in a new era of technology: the living room computer connected directly to the television. Consumer innovation started the ball rolling and major tech companies seized the opportunity. Microsoft, Apple and others fed the hardware and software boom of video file sharing[2] just as they had with music a few years before.

This new, unsanctioned, copyright-violating video streaming ecosystem moved a few steps closer to mainstream with the advent of streaming devices from manufacturers like Roku and Apple. Now Amazon, Google, and all major TV manufacturers provide some sort of ability to stream IP-based video from cloud-based and local systems directly into the living room without permission from, nor payment to, a cable company (except, perhaps, for broadband).

The introduction of OTT-capable devices created an entirely new consumer electronics market segment: the consumer-purchased set top box. Since the beginning of cable TV, households have had tuning devices provided by their cable provider. The original tuners - push-button interfaces tethered to the TV – evolved into the modern cable set top box. These once ubiquitous tools leased for use in cable subscribers' homes were never "feel good" devices for the consumer, but they provided an in-home foot-hold for the cable company. STB development moved at a glacial pace, with innovations announced in navel-gazing style at the National Association of Broadcasters convention in Las Vegas - a show with zero consumer value. As OTT boxes came to market, consumers began buying their own devices to augment – and eventually, supplant – the cable STB. Today, consumer video devices and connected TVs are the talk of the town during the retail-market-facing Consumer Electronics Show.

Of course, OTT users may view content on phones, tablets and computers, but the large screen TV remains a desired device, which is why the customer-purchased set top unit or connected TV is essential to the OTT marketplace. Delivering OTT to a television set allows viewers to circumvent the cable infrastructure without diminishing the viewing experience.

TODAY, CONSUMER VIDEO DEVICES AND CONNECTED TVS ARE **THE TALK OF THE TOWN**


NOTHING
IS
FREE

The most talked-about aspect of OTT is the lack of a monthly cable bill because all content arrives over the Internet. OTT is commonly associated with the behavior of "cord cutting" (abandoning cable TV in favor of streaming broadband content services). The media often paints cord cutters (and the new generation of "cord nevers" who have avoided cable entirely) as technophiles eager to catch the next digital wave. That may have been true five years ago, but today's cord cutter is more likely to be an average consumer looking to save money by only paying for the content they want.

That's not to say OTT is primarily a gateway to free content. While some content is available at no cost to the consumer, most OTT providers (Netflix, MLB, etc.) operate as paid subscription services. The benefit to the consumer is that the individual can choose to pay only for the networks they want, rather than buying a bundle of channels from a cable provider. This flexibility runs counter to the business models of cable operators, which have actively resisted allowing customers to pay "á la carte" for specific channels. While this may seem like corporate intransigence, the reality goes far deeper. The entire cable industry is built upon the principles of bundling and affiliate carriage; cable operators, networks and advertisers (both national and local) rely on bundling. Changing the system would mean upending the economic foundation of cable TV.

Consumer preference, however, diverges from the cable model and that has opened the door for the growth of OTT. The momentum behind OTT as a viable consumer option is a relatively new phenomenon, driven by the recent availability of quality content served by up-start companies intent on disrupting the status quo (Netflix, Amazon) and more recently by traditional networks looking for more consumer-centric income streams (Showtime OTT, CBS All Access, HBO Now, etc.).

EVEN THOUGH OTT ISN'T FREE, IT CAN BE A BETTER VALUE FOR THE CONSUMER THAN CABLE

When a user cancels cable service (and the $50-150 monthly bills associated with it) in favor of OTT, they move into the á la carte content market where one only pays for the content they want. Initially the marketplace was limited to upstart networks including Hulu and Netflix, but it has since expanded to over 200 OTT video services, in the US alone, from individual networks, sports leagues, digital platforms (YouTube) and content producers.

Most of these services carry their own monthly charge. Some use flat rates, while others have tiered pricing which often includes a very limited “free” level. Even if a user restricts themselves to just free OTT content, they still will be required to pay for a suitable broadband connection.

Providing an alternative to cable operators is part of the OTT story, but only the opening salvo of the changes to come. While cord cutting generates headlines, the true disruptive promise of OTT resonates much more deeply across society and business.

OTT'S BUSINESS IMPACT

While the content providers shuffle strategies and jog for consumer attention, the overall OTT space has already reached the level of mass market acceptance, with ample room for continued growth. Expanding reach requires the evolution of business models supporting OTT. The industry is redefining – in real time - how we make, consume, distribute, monetize and advertise against video content in an increasingly crowded (yet, simultaneously fragmented) marketplace. No one is out at this point. Cable operators, broadcast and cable networks, independent content networks (Netflix, Amazon, YouTube), channel builders (YouTube stars and independents), and consumer electronics manufacturers are all vying for relevancy in the new living room.

OTT is not a one-size fits all business. There are several different revenue models driving today's OTT networks. These are the most common:

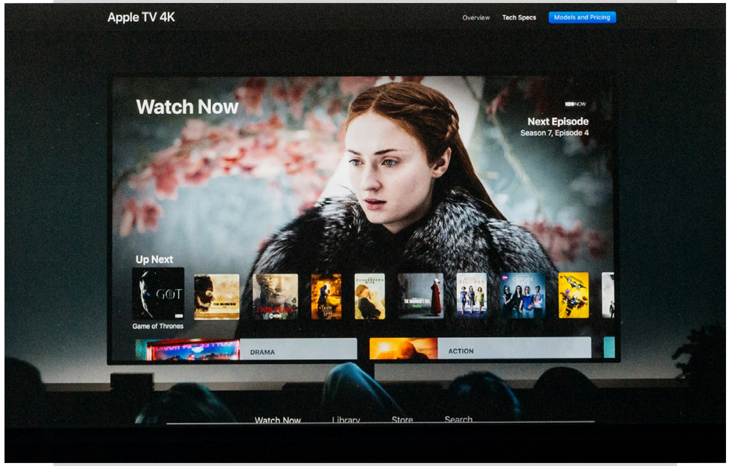
Free Video On Demand (FVOD): The consumer pays no subscription fees in the FVOD model. Usually this content is presented as an additional stream from an already profitable business and is used to drive customer acquisition for a master brand.

Advertising-Supported Video On Demand (AVOD): The AVOD model takes a page from the traditional TV playbook. Consumers receive content without charge in exchange for advertising units embedded in the programming.

Transactional Video On Demand (TVOD): Of the consumer-funded options, TVOD provides the most freedom of choice. Viewers pay to rent or own a specific title. This is the model adopted by most cable VOD services.

Subscription Video On Demand (SVOD): Also a consumer-funded model, SVOD requires payment for access to all the content of an OTT network or bundle. This has been the Netflix model from the start.

The Tier 1 major television networks initially focused on a hybrid FVOD approach in partnership with cable providers. Consumers who already subscribe to a channel via cable can access the content across a number of devices with no surcharge. HBO is a prime example. The HBO GO app is an FVOD streaming service for viewers who've already purchased the network as part of their cable or satellite TV subscriptions. HBO revenue is limited to the initial cable subscription with no further fees charged for HBO GO.



This is a very convenient arrangement for cable customers, but it does not help cord cutters. To compliment HBO GO, the network offers HBO Now as an SVOD direct-to-consumer app. This standalone OTT service allows viewers to subscribe directly via the Internet on a monthly-basis, no cable subscription required.

Sports leagues and networks are also taking a direct-to-consumer approach with SVOD OTT. NBC Sports offers Premier League Pass, a live streaming subscription for Premier League soccer games that don't air on its linear TV channels, including access to live matches as well as on-demand access to match replays. On the other hand, the NHL has SVOD packages available directly from the league on a seasonal, monthly or team basis.

The most well-known AVOD provider is YouTube. The Google powerhouse isn't always thought of as an OTT network, but it's ubiquity across all platforms and devices positions YouTube as a major player in the connected TV and consumer set top box space. The service also offers an SVOD option, YouTube Red, where customers pay a monthly fee in exchange for not seeing advertising. YouTube TV, an entirely separate SVOD service, is a true OTT play delivering 40 cable TV channels to cord-cutting users who pay a monthly fee directly to YouTube.

Amazon also provides an SVOD model with the Prime program that allows users to watch a large amount of content with their monthly Prime subscription, but even then some content requires extra fees. Among the offerings from Apple and Amazon are pure TVOD options where the consumer rents or purchases content on a title by title or episode by episode basis. No subscription is required for TVOD.

New and hybrid models are still evolving. The combination of SVOD and AVOD is on the rise. In this model, the user pays for the subscription service, but the network also sells advertising in the content, thus opening a second revenue stream.

Networks aren't the only enterprises adapting to a world of cut cords. Cable companies across the board have taken major hits with the rise of OTT: there are more people using streaming video services today than have cable subscriptions. Most major cable companies - including Comcast, DirecTV, and Spectrum - have shifted their distribution strategies and launched their own streaming services with pared down content packages in an effort to stay relevant and competitive in today's market.

ADVERTISERS & OTT

The unconstrained expanse of OTT and the freedom of choice it brings the viewer tends to make the entire concept of streaming advertising a bit nebulous, especially when viewed through the lens of traditional cable and broadcast. OTT is not a thing you can wrap up and hand to a brand. It is an entirely new paradigm of entertainment and news access, ripe for disruption not only from tech and content players, but from the advertisers themselves.

By its nature, OTT offers advertisers opportunities that look more like the Internet than TV. Will OTT break the tyranny of the 30-second commercial? Perhaps. It certainly won't do it any favors. To be fair, the concept of a linear ad break filled with 30-second commercials worked exceptionally well for over 50 years. It was successful, however, because commercial viewing was a forced behavior. The progression of innovation through videotaping and DVRs to on-demand and time-shifted viewing opened the door for consumers to employ any number of commercial-skipping behaviors. The result? Rather than addressing the clear viewer desire for another model, cable and broadcasters doubled down with restrictive technologies to prevent ad skipping - once again forcing the viewer to sit through something that many had no interest in. One has to look no further than cable VOD options that prohibit fast forwarding during commercials (and sometimes entirely) to see this same kind of forced restriction of behavior.

THINK ABOUT THAT FOR A MOMENT

Instead of embracing new viewing habits, traditional TV-minds sought technological solutions to hold back the medium in the name of preserving a business model that consumers were rejecting. Is it any wonder the door was open for OTT?

Concurrently, the Internet was awash in revenue-driving video concepts ranging from inflexible TV-like mandatory ad pods to hopelessly naïve "voluntary" payment schemes. "Pre-roll," "mid-roll" and "post-roll" entered our lexicon as platforms tried anything to keep viewers' eyes on the ads. The first Internet video unit to truly win favor with the consumer was the skippable ad, popularized by YouTube's TrueView format. The concept was blazingly simple: by giving the viewer the ability to skip an ad, the onus was put on the advertiser to make a spot compelling enough to warrant viewing. It was a watershed moment in more ways than one, and OTT pioneers were paying attention.

OTT IS NOT JUST A PLATFORM
FOR REIMAGINED TV PROGRAMMING,
**IT'S ALSO AN OUTLET
FOR BRANDS TO DELIVER THEIR
CONTENT DIRECTLY TO THE VIEWER.**

OTT stood to gain from these trends in *two* distinct ways.

First, the OTT technology supported the same tools of choice consumers were using online. Skippable TV ads? They're not happening on cable, but on OTT a skippable, clickable spot is no big deal. Lexus launched their first skippable OTT campaign in June 2014[6], earning viewership comparable to their online skippables.

The second benefit came via branded content itself. OTT is not just a platform for reimagined TV programming, it is also an outlet for brands to deliver their content directly to the viewer. This creates an Internet-like choice for advertisers to make: do they simply run ads on OTT or do they create and distribute their own content?

Brands comfortable with the status quo of TV advertising will find opportunities in OTT, but those who have embraced the world of online video advertising and content will find it a marketplace of rich engagement and interaction unlike anything TV has been before.

Advertising possibilities on OTT range from traditional commercial pods to undreamed of interactive engagements. As a hybrid offering with interactive capabilities complementing viewing options, OTT can perform from the top of the sales funnel directly through to in-app e-Commerce. Just as OTT is redefining what it means to watch TV, it is remaking what it means to advertise on TV.

One of the leading opportunities presented by OTT is “telescoping,” where users can pause an entertainment experience to take a deep dive into a brand’s content.

At its core, OTT is a vehicle for increasing a brand’s share of household wallet. Always-on, the top presence strategy of the Internet, becomes a revenue generating strategy on OTT where deep interaction and even real-time purchase are part of the ecosystem. The opportunity exists to give viewers a deeper experience

Telescoping underlines one of the great opportunities to change TV from a lean-back to a lean-forward (or at least sit up straight) viewing experience. Using the full suite of tools available via the Internet, OTT offers engagement-driven experiences with full-funnel activity from the big broad “spot” to personalized e-Commerce.

APPIFICATION *of* TV

Interacting with an OTT interface is inherently liberating.

Gone are channels and endless scrolling; OTT is an app-based universe of recommendation and search, with flexibility far beyond the constraints of the standard cable channel lineups and electronic programming guides.

UNLIKE TRADITIONAL TELEVISION,

in which the device and service are symbiotic, the app-based core of OTT allows a multitude of technologies to support content viewing. An Xbox can be as effective as a Roku or iPhone because the video stream is not coming from a satellite or cable, but the Internet. Thus, any device able to run an app can be an OTT hub. Want to watch CBS? Get the app. Something on Netflix has you curious? Get the app. Stuck in Miami but obsessed with watching the Red Wings vs. Blackhawks game? There's an NHL app for that.

OTT's focus on apps rather than channel structures opens the door to customization and ease of use. Apps achieve a number of user-centric bonuses like payment options, and device options.

We used to ask what is on, when? Now we ask, which app?

Apps also enable flexible viewing.

Consumers are moving towards an on-demand world where time is irrelevant for almost anything other than live sports and the numbered channel is a thing of the past. In this environment, the viewer needs to know the service on which the desired content airs. For example, someone wanting to watch “The Grand Tour” need only know that it is on Amazon. No channel number, no schedule. And Amazon controls their experience through their app.

Apps are also a tool for advertisers.

Online distribution of branded content can be difficult. Brands find themselves choosing between YouTube, social platforms and their own dotcoms for presenting video experiences. Maintain a good experience on YouTube and you are building an audience tied to that platform; launch a bad experience on your dotcom and you are damaging the brand as a whole. OTT, being bereft of channel lineups and traditional programming guides, requires programmers to rely upon apps to interface with the customer. A brand that creates their own OTT app featuring original or licensed content has the same presence as a Netflix or CBS.


yes, yes...
CONTENT
is still
KING

We spend, on average, 10 hours a day bathed in the glow from screen-dependent apparatuses, and more than 10% of that time is filled by programming from OTT providers. While it may be chic among the non-converted to glibly pass off this torrent of new content as nothing but amateur YouTubers, vintage TV reruns, and cheaply produced reality shows; an honest examination reveals a different reality. We are truly experiencing a golden age for storytellers, and it is one made possible by technology.

Today's TV is one of on-demand, time-shifted, binge viewing across multiple devices; a reflection of new technical capabilities and consumers' Internet-influenced expectations of flexibility and customization. The battle for viewers, once waged network-to-network across common technologies in the home is now fought device-to-device, platform-to-platform and app-to-app in the virtual living room.

THE DEMOCRATIZATION OF TELEVISION HAS BROUGHT GREATER OPPORTUNITY FOR VIEWER CHOICE, **WHILE SIMULTANEOUSLY CHALLENGING AN INDUSTRY THAT HADN'T MUCH REASON TO CHANGE SINCE ITS INCEPTION.**

How many people are watching and what are they watching? Thus far, a lack of consistent reporting structures and ratings formulae make it impossible to compare OTT and cable TV on an apples-to-apples basis. Revenue, along with softer metrics (e.g. the amount of OTT content that won Emmy Awards and Golden Globes in the past 12 months) suggests OTT is growing at the expense of cable TV.

FX TV CEO John Landgraf has discussed the notion of reaching "peak TV," when the amount of new, quality content would reach full market saturation – the point where there isn't a large enough audience to pay for all the programming. OTT has been a driving factor of hunger for new original content. Landgraf noted in early January 2018 that while overall scripted programming in the US was up 7% year-over-year, production of content being created for OTT networks rose 30%.

One threat of behind "peak TV" is reaching the point where the economics of television don't work anymore. Could the industry stall, as demand for new content outpaces the viability of making it? Until (or if) that happens, how will the revenue flow? Who will get paid, and how?

Disruption brought about by uninvited outside forces rarely receives a warm reception from the status quo, especially when it calls into question an established system of revenue. The institution of TV has long depended upon a unbalanced consumer relationship favoring distribution needs over viewer wants. New technology didn't bring balance: it flipped the hierarchy. Through tech, the audience was given the upper hand, with unimagined levels of control.

The democratization of television has brought greater opportunity for viewer choice, while simultaneously challenging an industry that hadn't much reason to change since its inception. The massive ecosystem of linear television was predicated upon one simple premise: inform, entertain and advertise to viewers en mass, simultaneously. Whether one grew up turning a dial to tune-in a handful of free broadcast channels, toggling up and down through a panoply of cable channels via remote control, or popping a rented tape into the VCR; it was all for the purpose of finding something a quorum (or at least a parent) in the room wanted to watch. All eyes were on one screen, experiencing the same thing at that same time. Even well into the DVD age, TV and video consumption habits were two sides of the same coin.


The
FUTURE OF
ENTERTAINMENT is
OTT

The early success of OTT TV points toward even greater disruption ahead. The principles of OTT consumption are on the cusp of remaking the entire entertainment landscape, not just television.

One cannot separate the trajectory of OTT from that of the entertainment industry as a whole, which is still seeking the promise of true convergence of content on any device, any way the consumer chooses. Conventional wisdom once pointed to “convergence” meaning all things blended into one; now it seems more likely that convergence will manifest as all things working ubiquitously on top of open (or at least accessible) standards, loosely orchestrated in the cloud between services that stand in as systems of records (vs. closed, proprietary, tightly coupled from cable era). Changing net neutrality laws may constrain the open playing field by adding tiers of fees for the bandwidth speeds on demand content requires, but it seems unlikely that would up-end the entire movement. Just as early OTT adopters cut their cords, the stage is set for the current and next generation users who will never have to pay for a corded cable service, purchase an MP3, acquire a game on disc, or buy a film on DVD – ever. The expectation of these users, those who knew no media before OTT, will define how the rest of us engage across all media. OTT is just the beginning.

FUTURE LOOK:
THE TELEVISION INDUSTRY

The near term future for OTT hinges upon increased subscriptions and greater access to advertising dollars. That later is somewhat problematic. TV commercials are bought against a well-established set of metrics. Thus far, the lack of consistent reporting structures and ratings formulae for OTT make it impossible to compare new services with cable or broadcast TV, at least not on a true apples-to-apples basis.

The equation is further complicated by the variety of OTT advertising offerings, many of which feature extended experiences or clickable links. The same measurement issues that vex online advertising are compounded on OTT where cookie tracking is not supported by connected TVs. Nothing is more important to the short-term success of OTT than solving the metrics riddle.

The long-term viability of OTT providers rests upon the shoulders of their content. Unlike the bundled-channel world of legacy cable television where "channel surfing" can lead to discovery while networks not of interest to the subscriber are still funded, OTT users need to be convinced of a service's content appeal before signing up. Free access promotions during limited periods of time, much like paid cable channels have used for decades, may help OTT providers expose their content to viewers, but more will need to be done. Without the paradigm of cable bundles and individual networks, OTT services are left to the mercy of their own ability to break through the clutter and convince new viewers to give a new service a chance.

THE VERY DEFINITION OF TELEVISION WILL BE CHANGING.

HOW WILL OTT FARE?

Here are three indicators of continued OTT TV success:

1. Can an established standards board (IAB, Nielsen, etc) layer a usable system of metrics upon the existing OTT infrastructure? The industry is counting on it.

2. Will OTT TV services continue to create award-winning exclusive content? Without the draw of good programming, any OTT service provider risks failure.[1]

3. Will the consumer continue to be comfortable with a series of micro-bills replacing the convenient once-a-month-payment of cable? As the number of OTT services grow, consumers will find themselves bombarded with small bills each month. Keeping track of the charges and payments could take some of the ease out of OTT. Will bill aggregation services take off, or will we see an aggregated distribution model arise essentially building an OTT version of the old cable bundle model? Early attempts are already in market, including VRV which also packages content from Rooster Teeth.[2]

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OTT'S INFLUENCE ON THE MUSIC INDUSTRY

The MP3 revolution, however cataclysmic it may have been, was really nothing more than a change in consumer product from the tangible (CD) to the intangible (computer file): the transaction still resulted in purchase and ownership. The ground-breaking iTunes app was, at its heart, a digital version of the neighborhood record store. Is music ready for an OTT-like future?

New subscription on-demand services have already taken ownership out of the equation. Amazon subscribers can ask Alexa for songs from specific artists. Spotify and Pandora feature similar offerings. Even Apple, the company that redefined music consumption with its tireless push to downloadable content, is going the streaming route with Apple Music. The future profitability of these services is in question as the marketplace explodes and artists question the viability of streaming income[2], but the consumer desire is not up for debate.

Just like OTT, on-demand streaming technology has allowed the music consumer to redefine their financial relationship with the art they select. Access is proving to be a hotter commodity than ownership, but will we see a true Netflix of music emerge[3]? The hurdles seem small. The biggest difference in the business models of the streaming music services and Netflix is original content. Will Amazon or Apple Music take the step of building artists rosters whose new content is solely owned by the distributor and available exclusively through their services?

OTT PLAYS WITH THE GAMING INDUSTRY

On demand video has been a boon to the film industry since it first began, though its recent revenue impact has been slowing. VOD rentals rose 5% in 2016, reversing a brief trend downward. Physical rentals and sales of DVDs continue to drop[4]. These developments have the film industry looking to learn from OTT, where control of distribution is the lever of financial success. OTT brings versatility to both consumption and distribution of content. Limited-time availability, windowing (paid viewing upon release, free viewing later) and day-and-date releases (a film is released in theaters the same day as VOD) are all part of the OTT strategic toolbox.

Day-and-date releases may be the most revolutionary advance if it gains wide acceptance. The entertainment industry, long tied to the cycle of theater-to-on demand-to-DVD or broadcast-to-DVD releases, views OTT as a gateway to debut premium simultaneously on as many platforms as possible. Just as record companies struggled with digital business models, there's much debate in Hollywood about how to approach innovations like "day-and-date" on a mass scale.

The most likely path to day-and-date for major studio releases is Premium VOD (P-VOD), where new films will be available for home viewing when they hit the cinema. The consumer would pay a large rental fee (perhaps as much as $50, that's the premium part) in exchange for not having to go to a theater. Should Hollywood move in this direction, the next industry headed for digital disruption will be movie theaters[5].

Consumers know day-and-date is possible and are clamoring for the option if the price is right[7], but so far it has been mostly relegated to independent films and a handful of TV series[8]. Will P-VOD result in the rise of studio OTT networks, with a mix of subscription and added-fee content? As is often the case, the transformative technology is ahead of the business models[9].

OTT FREES THE CREATORS

OTT is not only fundamentally changing how audiences consume video,

It is empowering content creators across media in an industry where the big distributors have historically had the upperhand.

Other than viewers, no community has benefitted more from the rise of OTT than content producers. Sprung from a world where broadcast and cable networks controlled what got produced and when, creators are now able to pursue new funding sources (Netflix, Amazon) while negotiating more favorable distribution deals. OTT offers more freedom to shop for distribution or - in the absence of a desirable deal - a platform to release content independently. By empowering production companies with more leverage over distribution, OTT puts revenue in the content owner's pocket and restores long-missing control over their content. Of course, in many cases an OTT provider funds the production and retains exclusive distribution rights. While this may not offer the same competitive advantage to the creators, it does create an environment for productions that would not otherwise be funded through traditional paths.

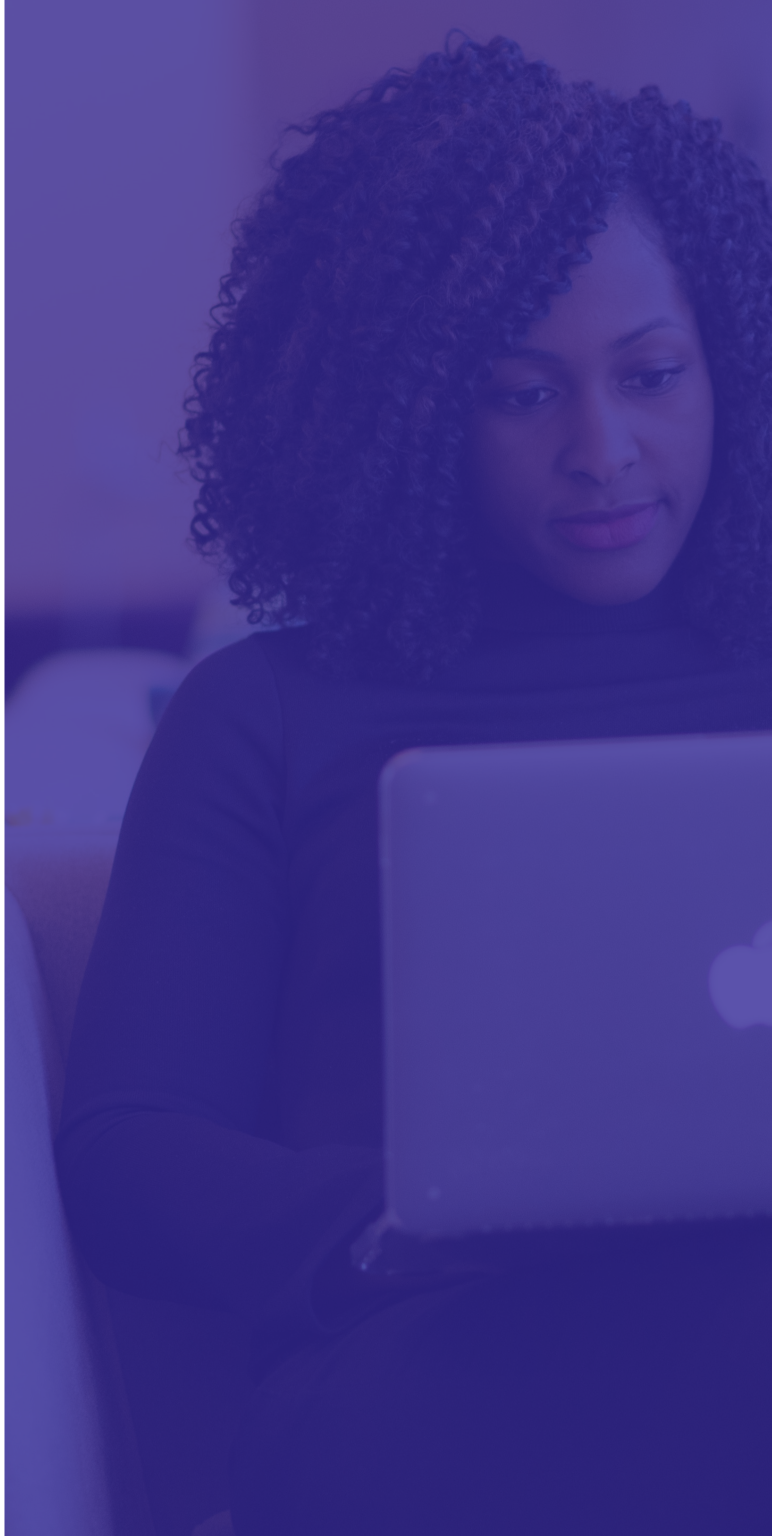
Is there danger lurking in this boom of OTT-driven content? Is “Peak TV” real? Can we reach a point where the economics don't work for the volume of content the market demands? Would the industry stall, as demand for new content outpaced the viability of making it?

With Netflix poised to spend $8 billion on over 700 original series in 2018, we may soon learn if “peak TV” is more than a point of conversation.

OTT TV OPENS THE DOORS FOR ADVERTISERS BUT WHO'S KNOCKING?

The common thread tying all flavors and formats of OTT together is the question of who pays for the content? Will subscription revenue be enough to support the entire industry? That seems unlikely, especially with the recent shutdowns of NBC's Seeso and the Rogers/Shaw offering Shomi[7]. While subs will likely keep some OTT services afloat, the safe bet for future revenue is a straight line to the past: advertising.

To capitalize on ad dollars, OTT networks need to break out of the purgatory which finds them not-quite-TV and not-quite-web. Beachfront CEO Frank Stilton recently told Forbes that while he "expects to see more TV dollars shifting to OTT, right now brands and agencies view OTT advertising as a better form of mobile[8]." Can the OTT industry sustain itself by pillaging mobile ad budgets? Probably not, which means OTT will get in the same line with all the other digital platforms trying to shave off money from traditional TV spends.



The road ahead is not smooth. In addition to the measurement problems that are holding OTT services back, there is another complicating factor: traditional TV advertising still works (at least for now). In fact, amid growing concerns about the true value of digital advertising, some web and mobile dollars may return to TV in 2018[9]. That's not a good prognosis for the financial health of OTT services.

Should advertisers be experimenting with OTT? Absolutely. Much like mobile and the web, OTT-style content consumption is only going to rise. A tipping point will come when OTT can no longer be considered an optional advertising medium, but what to do until then? Although it is a little like trying to catch a tiger by its tale, OTT is home to some of the biggest cultural moments of recent times. How do brands align to phenomena like Stranger Things and The Handmaid's Tail? The stars of Netflix's Stranger Things have been popular choices for Verizon and Tide, but those commercials run on traditional TV as Netflix is (so far) a no-advertising zone. Hulu, home to The Handmaid's Tale, is accessible to advertisers but – like most OTT services – refuses to release viewing data, leaving potential advertisers in the dark[10].

OTT will go through the same learning process as the other digital media. New isn't always better when it comes to how an advertiser spends their dollars. Until OTT services learn to play in a way that makes sense to how advertising operates, it will continue to miss out on revenue from brands. The depth of OTT's disruption has yet to rock the advertising world.

WHAT'S ON NEXT?

The democratization of television has brought greater opportunity for viewer choice, while simultaneously challenging an industry that hadn't much reason to change since its inception. Questions surrounding the future of OTT are about business models. The customers have already spoken with their actions. Now, all eyes are on the OTT services to stake a future with the audience at hand.

It is hard to imagine a world where consumers and content creators would revert to a corded existence. As cable providers re-tool for an IP-led world and government regulations move towards favorable business conditions, there is little reason to believe the hard-wired legacy systems will continue to exist as they do now.

THE RADICAL REDEFINITION OF TELEVISION IS UPON US, **AND IT IS CORDLESS.**

FOOTNOTES

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ABOUT OGILVY CONSULTING & ZYPE

OGILVY CONSULTING

Ogilvy Consulting is the global strategy and innovation arm of The Ogilvy Group, the world's greatest creative network. Formed in 2012, the group provides consulting and advisory services to help clients facing disruptive change across brand, growth, innovation, and digital. Ogilvy Consulting offers Growth & Innovation, Business Design, and Digital Transformation strategy consulting to both startups and established brands. As clients move rapidly into customer-centric business models enabled by technology and data, Ogilvy Consulting innovates with clients to accelerate change through Cx Strategy, AI, Blockchain and Immersive Technology. Ogilvy Consulting acts as a portal into The Ogilvy Group and WPP , activating and unlocking the Group's full suite of expertise and offers to provide Clients end-to-end delivery.

ZYPE

Zype is the video distribution platform for OTT that makes it easy for content owners to deliver and monetize premium video across web, mobile, and connected-tv devices. With Zype, content owners and creators can own and accelerate all aspects of their video distribution pipeline. Zype's full suite of tools provides push-button app publishing, monetization, on-demand and live streaming, audience management and analytics solutions to deliver a high-quality, professional viewing experience. Zype powers hundreds of video destinations, engaged by audiences across the globe.

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