KATZ MEDIA GROUP

CONTENT MATTERS

IDEAS THAT IMPACT THE CONTENT BUSINESS

2018 Q2 Issue #3

The annual network upfront presentations are behind us. Throughout the week, we tracked trade, business, and technology publications and selected five articles to provide a snapshot of key talking points and questions raised in presentations, parties, and conference rooms. The range of issues here is testament to the moment of profound industry change we are all trying to navigate as we manage our businesses.

5 THINGS TO KNOW

1. A TV Season Full of Lessons

While some season finales have not yet aired, the general consensus is that we saw some real hits and a few misses over the past season. This week's upfront presentations suggested network executives were paying attention and are applying what they learned to strategies for next season.

2. Why Traditional TV is in Trouble

It's become an annual refrain — *TV is on the brink.* But, despite the doom and gloom, all evidence suggests the industry's resilience and a determination by professionals to forge a path from a strong legacy to an exciting and economically viable future.

3. ESPN Chief Wants to Cultivate Younger Viewers

It's fairly simple — we all work in digital media now. Whether we define ourselves as TV broadcasters and producers, we cannot escape that digital is a critical pillar of our new reality and that we need to think about it even as we develop content and advertising for broadcast. ESPN is making digital a central part of its reinvention to engage younger audiences, which could provide valuable examples for the entire industry to apply in the future.

4. 'Designated Survivor' May Survive at Netflix

Changing business models are creating new opportunities to re-think how we develop content and engage audiences in our ever changing "Game of Screens." If something doesn't work on one network or platform, no problem — we have options.

5. Digital Platforms Among Top 3 TV Advertisers

Facebook, Amazon, Apple, Netflix, and Google now collectively spend almost as much on TV advertising as Proctor & Gamble and General Motors. Enjoy the irony of this fun fact after a week of the TV industry making its best case for the future.

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1. A TV Season Full of Lessons

From *New York Times, 13 May 2018*

"Ratings are down. Commercials are too long. Ad money is drying up. Who's ready to party? With the annual upfront presentations beginning Monday, the broadcast networks will once again make their pitch to advertisers why they still matter in the era of Netflix and Hulu.

"There are pressing questions. What will a Fox broadcast network look like without a TV studio after it's sold off to Disney or Comcast? (Hint: Reality and sports). Can the networks still offer event television? Will the success of "Roseanne" mean more programming strategies focused on the heartland?

"The 2017-18 TV season gave hints about the answers to some of those questions. Here's a look at what it showed:

"Rookies Stand Tall — [*Young Sheldon* (CBS), *The Good Doctor* (ABC), *9-1-1* (Fox) *Will and Grace* (NBC), *Roseanne* (ABC)]

"Colbert Dominates but Fallon Steadies — A year ago, he was narrowly losing to Jimmy Fallon's "Tonight Show." Mr. Colbert's CBS show is now drawing nearly four million viewers, more than a million more than Mr. Fallon. But in somewhat of a surprise, Mr. Fallon has kept his narrow lead among 18-to-49-year-olds. It is a mere 80,000 viewers, but that number has held steady for roughly seven months, suggesting that his audience is staying put.

"Returning Series, the Good and the Bad — [Big differences among *This is Us* (NBC), *Empire* (Fox), *The Bachelor* (ABC), *For the People* (ABC), *Grey's Anatomy* (ABC), *Law and Order: SVU* (NBC), *Chicago PD* (NBC), *Chicago Med* (NBC), *Chicago Fire* (NBC)]

"**Riverdale Booms** — One season after the CW's slick-and-sexy young adult drama "Riverdale" appeared on Netflix, viewers flocked to its second season on the network. Though the series still has a relatively small audience — 2.5 million viewers, and a relatively low 1.0 rating among 18-to-49-year-olds — it's one of the youngest in TV, with a median viewer age of 37. The Netflix boost was enough for the show to achieve an eye-opening 42 percent growth in viewers.

"Event Television Remains Powerful" — The trend line for broadcast networks is not great in an on-demand world. But there is one thing they can still hold over everyone's head: big events, available to viewers without a cable or streaming subscription.

Content in Context

Industry players and observers did their best to make sense of a tumultuous and unpredictable season as they set the context for the networks' annual pitches to advertisers. The truth — we're all learning as we go along. With the growing power of Facebook, Amazon, Apple, Netflix, and Google in traditional media markets, the rules of the TV game are being re-written as we scramble to keep up in real time. Let's keep in mind the age-old adage, "change is good," and that television, both nationally and locally, is an important part of our culture and communities. We need to embrace periodic failures and hiccups (many of which are old news and not necessarily limited to this past season) and apply what we learn to ensure longterm success. TV is changing but it's not going anywhere soon.

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2. Why Traditional TV is in Trouble

From *New York Times*, 13 May 2018

"…Ratings are on the decline, especially among young people, some of whom don't even own televisions. It's hard to keep up with the many devices and apps people now use to watch shows. And there is a host of material from Silicon Valley that is competing for viewers' attention, including Google's YouTube, Facebook and Netflix. It all adds up to a precarious situation for broadcast TV.

"…National TV ad sales peaked in 2016, when they exceeded $43 billion, according to data from Magna, the ad-buying and media intelligence arm of IPG Mediabrands. Sales fell 2.2 percent last year, and the firm estimates that they will fall at least 2 percent each year through 2022.

"Some of the decline could be mitigated through new business with platforms like Hulu, but 'it's not yet enough to upset the decrease of traditional sales,' said Vincent Letang, Magna's executive vice president of global market intelligence. At the same time, he said, while networks have raised the cost of advertising on their airwaves in recent years, ratings have declined sharply, including some in unexpected areas like the National Football League.

"… TV is still a good value for plenty of advertisers. Mr. Letang said pharmaceuticals and personal care products were increasing their presences on TV. But the combination of rising prices and falling viewership is giving some big brands pause.

"…The hottest shows on TV networks — which command the highest ad prices — are attracting older viewers, which is a challenge for brands that want to reach millennials and teens. For instance, this season's top-rated show, the revival of "Roseanne," has a median viewer age of 52.9 years. The network show with the lowest median age is "Riverdale" on the CW, at 37.2.

"…As TV ad spending has begun to drop, marketers have been diverting more money to tech giants like Google and Facebook, which have increasingly focused on expanding their video — and video ad — business."

Content in Context

No doubt the media landscape is in deep transition and everyone is building for a multi-platform world, but the devil's in the details. While this and other reports highlight important issues, they often omit several important points. First, Magna's forecast excluded local TV, Olympics and political spend, three areas that are driving an enormous amount of engagement from consumers. Local news is still considered the least-biased/most-trusted source of information, big events like Olympics are what bring an increasingly disconnected and lonely population together around increasingly desirable cultural currency/shared experiences, and politicians still put the lion's share of their dollars in local TV. If every brand had a do-or-die moment like an election, one wonders how much money they would spend in targeted versus broad reach media. Second, while marketers race to enage younger consumers, let's not forget or de-value an established medium to effectively engage 50-64 year olds. These folks are buying goods and services for the entire life spectrum — *from diapers to Depends* — and making purchasing decisions related to young children of their own at home, young adults still living at home, grandkids, or elders at home. Finally, in coming years, ATSC 3.0 will enable broadcasters to deliver both broad *and* targeted audiences — the best of all worlds!

3. ESPN Chief Wants to Cultivate Younger Sports Viewers

From *Variety*, 15 May 2018

"ESPN is the nation's biggest sports-media outlet. Now, as many viewers find new ways to watch their favorite games and highlights reels, the Disney-owned company wants to maintain that status by ensuring younger viewers wander under its tent.

"Speaking to reporters Tuesday after a presentation to advertisers, ESPN President Jimmy Pitaro said the sports-media giant intended to focus on expanding its audience and building a direct-to-consumer business, keeping in mind the emerging behaviors of a new generation of viewers.

"'I think we are doing a fantastic job serving the sports fanatic,' said Pitaro. 'What about the casual sports customer? Are we doing all we can to serve him or her?' ESPN continues to give sports fans all kinds of content across many distribution channels, he added, but he has asked executives to think 'about how we can expand our audience, be more relevant to more people, which could be younger generations' as well as 'the casual customer.'"

"Pitaro's remarks after taking part in his first 'upfront' presentation after being named president of ESPN earlier this year, underscores the company's changing mission as consumers latch on to video entertainment with different behaviors. As ESPN faces ongoing viewer erosion from cable and satellite customers leaving those systems, it has begun to focus with on the recently launched ESPN+, a broadband-based subscription service that makes available various kinds of sports programming, including a basketball-analysis show from Kobe Bryant; big-league sports matches; and even games of cricket to paying subscribers. Pitaro declined to discuss how many people had signed up for the service since its launch, but said ESPN was "pleased with the number of users" so far as well as the conversion rate of people moving from trials to subscriptions…

"…[Pitaro] declined to comment on the future of 'Monday Night Football,' one of the network's flagship programs, The NFL and ESPN have a rights deal in place that would keep Monday-night games on [ESPN] though 2021.

"ESPN's interest in finding viewers in new places was supported by some of its announcements, including the production of a ten-part documentary series centered on Michael Jordan and the Chicago Bulls that will debut on ESPN and Netflix in 2019; an 'epic' project that looks at NBA basketball, told in the form of a mosaic of short stories that can be viewed on linear TV or in digital fashion; and a new four-part interview series led by baseball great Alex Rodriguez."

Content in Context

ESPN's strategic commitment to exploring new ways to engage younger sports audiences could serve as a valuable laboratory for the larger TV industry. Because sporting events and related content are generally viewed live or within a day or two, ESPN's digital efforts may provide new models and insights for how other networks can package and market "event TV." Similarly, ESPN's partnerships with OTT platforms and efforts to re-package content for digital distributon may provide new models to reach and engage younger audiences in both ways that legacy network and cable TV have not been traditionally able to *and* that emerging technology platforms can't because they don't have access to vaults of previously broadcast content or access to unused content assets. With the declines we observed in NFL ratings across all networks this past season, we all need to pay attention here.

4. 'Designated Survivor:' Netflix Eyes Thriller Drama Series After ABC Cancellation

From *Deadline*, 15 May 2018

"We reported earlier today about *Designated Survivor* producer eOne shopping the Kiefer Sutherland-starring drama to other networks following its cancellation by ABC. I hear that eOne is in talks with streaming giant Netflix about picking up the political thriller.

"Sources stress that the talks are still preliminary and complex as Netflix rival Hulu has U.S. SVOD rights to the first two seasons of *Designated Survivor,* which aired on ABC. Netflix has the series internationally (outside of the U.S. and Canada), which makes it a suitable home pending untangling U.S. streaming rights and crunching the numbers.

"[*Deadline* writer Nellie Andreeva hears] that the series' creative team is excited about exploring what a premium version of *Designated Survivor* would be. As we pointed out earlier today, eOne, which is listed on the London Stock Exchange, has put out a regulatory statement, confirming it is 'in active discussions with other parties for further series of the show.'

"Also earlier today, ABC Entertainment president Channing Dungey explained the network's decision to cancel *Designated Survivor* after two seasons.

"'That was a hard one for us,' she said. 'It did well in delayed viewing but its Live+Same Day delivery in the 10 PM hour had become challenging.'

"On a streaming platform like Netflix, that would no longer be an issue, and the show's strong delayed and streaming numbers should be an advantage.

"Dungey also noted that 'creatively, the show had a lot of behind-the-scenes churn with the number of showrunners.' *Designated Survivor* went through four showrunners for its two seasons on the air, and had a deal a place with a fifth to run the show in Season 3. [Andreeva reports] the new executive producer will likely continue if the series gets a third season elsewhere.

"The political conspiracy drama began its run as one of ABC's most promising. The network screened the entire opening act at its 2016 upfront presentation where Sutherland received a huge ovation. In its first months on the air, *Designated Survivor* drew large audiences, setting DVR lift records and snagging the Critics' Choice award for most exciting new series in its first season.

"The series saw ratings declines in Season 2 but continued to be helped by strong delayed increases."

Content in Context

While re-boots of *Will and Grace*, *Roseanne*, and *Murphy Brown* suggest that "everything that's old is new again," the reprieves for cancelled shows like *Brooklyn 99*, *Last Man Standing*, and, possibly, *Designated Survivor* provide evidence that "one's trash is another's treasure." In our current "Game of Screens," new distribution and business models are emerging to support different content development and production opportunities for producers and studios. The traditional advertising-driven "full-season order" cost burdens and revenue forecasts for broadcast are no longer a barrier to entry and are being remodeled by subscription platforms, digital advertising, and hybrid models that make smaller orders or limited runs not only economically viable but profitable in our new mediascape. In this light, CBS's strategy to develop original content specifically for CBS All Access (*i.e., Star Trek: Discovery, The Good Fight*) is an important example of how the networks are beginning to develop expertise and knowledge to compete with emerging digital and OTT platforms and opens up new channels to provide a second life for quality content that have engages strong fan bases. Options!

5. How Digital Advertisers Are Adapting Habits to Reach Audiences that Prefer TV

From *Adweek*, 19 May 2018

"Last month, Facebook launched a massive campaign to restore public confidence in the wake of its privacy crisis. Called 'Here Together,' the campaign stretches across TV networks and cinemas throughout the 50 largest markets in the U.S. In an age of shorter attention spans and commercials, Facebook is betting its reputation on 60-second spots. Ads on its own platform play a small supporting role.

"As striking as it is for one medium to depend on the competition to sell its story, this is not an isolated incident. For all the energy Facebook, Amazon, Apple, Netflix and Google (FAANG) put into telling the ad community they will replace TV, they place big bets on TV when their growth is on the line.

"Minutes after Facebook CEO Mark Zuckerberg finished testifying before Congress about the platform's data security, Facebook went big and bold on TV. Likewise, when YouTube needs to attract subscribers for its new TV service, it turns to TV. Same when Netflix needs viewers for a new show, Amazon rolls out Alexa or Echo and Apple introduces a new phone. It's always TV—and lots of it.

"In fact, FAANG has been surging onto the TV ad platform at the extraordinary rate of $138 million a month since the beginning of 2017; collectively $1.9 billion from January 2017 through February 2018. Conservative projections place FAANG's 2018 TV ad spend at $1.8 billion. Since those levels are equivalent to P&G and General Motors, FAANG is effectively a top-three advertiser on TV.

"Why? FAANG realizes TV can do several things for them that they can't do for themselves.

"For starters, TV gives them the ability to reach huge numbers of real people at once with a single message. No bots, no ad fraud, no brand safety issues and no question about whether an ad is big enough or on long enough to be deemed viewable. Plus, every bit of it is third-party verified.

"What's more, they can't match TV's attention. FAANG knows their customers are watching TV much more than doing anything on their platforms. In any given minute, 76 percent of adults are engaged with TV versus 13 percent for YouTube and 7 percent for Facebook. That's right. Ten times more adults are watching multi-screen TV than doing anything on Facebook. That Facebook runs 60-second commercials speaks volumes for how the platform values audience attention on TV."

"As one YouTube executive told *The Wall Street Journal* recently, 'Now, we're in the midst of the next big revolution. Users are spending more and more time with the TV screen.'

"The TV shows viewers tune to regularly have cachet and cultural relevance. It's the same reason why the most watched content on Netflix and YouTube is TV shows. That's the direct result of more than $52 billion that TV networks invest every year in original programming, a commitment FAANG is moving to mimic as fast as it can. Current FAANG original programs remain largely niche shows for relatively small audiences on streaming platforms that aren't ad friendly for building a mass brand.

"FAANG sees TV's immediate impact every day. They monitor where visitors and shoppers come from religiously, and they know TV ads bring exponentially more people to websites in less time than anything else.

"When it's your money, FAANG has all the answers. When it's their money, they buy TV. They're onto something. Advertisers will do well to follow what they do, not what they say."

Content in Context

The article just about says it all, so we'll let you simply enjoy the irony here.