CONTENT MATTERS

IDEAS THAT IMPACT THE CONTENT BUSINESS

2018 Q4 Issue #1

Culled from the headlines of the media and technology trade press by Katz's Strategy, Analytics, and Research Team, Content Matters provides a periodic snapshot of news and issues that affect the business of creating, producing, and distributing content across TV, radio, and digital media.

5 THINGS TO KNOW

1. How Long Until Netflix Insists Upon Being Called Mr. TV?

Despite operating at a substantial loss, streaming behemoth Netflix continues to work to redefine what television is and the how content is distributed and consumed.

2. When Do TV Shows Peak?

In sports, "aging curves" can illuminate the typical trajectory that an athlete's performance follows: improvement to a point, then a plateau, and eventually erosion as time takes its toll. TV shows aren't necessarily subject to the same forces that govern human maturation and mortality, but there is a pattern to their progression and a point at which they typically peak.

3. How Brands Can Benefit by Riding the OTT Wave

OTT may be the messiah of modern media. More than half of 22-54 year olds didn't watch paid TV in 2017. The shift from traditional broadcast, or cable viewing, to more fluid, video-based behaviors is swiftly making its mark. This year, 90 percent of Millennials claimed they regularly binge-watch. The thirst for entertainment on-demand is strong and growing. But what's behind it? Simplicity and customization.

4. A Refresher on the FCC's Lowest Unit Charge Rules

With the lowest unit charge window for the November elections going into effect tomorrow (September 7), we thought that it was a good idea to review the basics FCC rules and policies affecting those charges.

5. Yes, Virginia, You Are The Podcast Capital of the U.S.

One of the beauties of podcasting is that it can reach anyone, anywhere, as long as they have an Internet connection and perhaps some headphones. However, if you stop at just who you're reaching with podcasts, you're missing out on a big part of the targeting picture. Even in digital, geography matters.

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1. *Mr. TV*

From Mediapost, The Center for Media Research's Daily Research Brief, 20 July 2018

"According to a report from Redef.com, by Matthew Ball, Netflix's ever-escalating, industry-leading content spend remains a point of fear and fascination in the media industry. Each year, Netflix's subscriber base and revenues grow (an average of 29% and 35% over the past five years), but its content spend grows faster (39%). However, CEO, Reed Hastings, has promised negative free cash flow will persist for "many years."

Netflix's goal is to have more subscribers than any other video service in the world, and to be the primary source of video content for each of these subscribers. The company doesn't want to be a leader in video, or even *the* leader in video, it wants to monopolize the consumption of video; to *become TV.* This ambition has several important consequences, especially relating to the company's spend.

#1: Content Ceilings

Netflix's content ceiling (in terms of volume and spend) is its monetization ceiling. The more subscribers the company amasses and the higher it can push its pricing, the more content it can produce, which in turn drives more subscribers, more engagement and more pricing power. This flywheel is endemic to SVOD, but unique in the history of television. Linear television networks have always been bound by a finite number of primetime slots and the size of the total primetime audience, says the report.

#2: Monopolization Dynamics

Also unique to the SVOD era is the fact that, whether deliberate or not, a dominant market player will crowd competitors out of the market. While watching ABC at 9pm has historically meant missing whatever was airing on a competing network, no network could monopolize time or competition. In addition, the pay-TV bundle meant that most networks benefited from both guaranteed distribution and a substantial revenue floor (i.e. affiliate fees); failing out of the industry was essentially impossible.

Conversely, online distribution encourages audiences to concentrate their watching time and enables networks to monopolize their viewers' attention. Much of this comes from the fact that unlike pay TV, most online video subscriptions are sold a la carte and on a month-to-month basis. This has four major implications.

- It's harder for viewers to discover or sample competing networks , as they're no longer a channel change away
- It's harder for any network to acquire new paying customers, as this requires each would-be subscriber to first decide they're willing to spend more money each month, then go through the process of signing-up
- Even when a paid customer is acquired, retention is a challenge. A few great shows each year isn't enough to sustain 12 straight months of paid subscriptions and avoid "binge-and-churn" subscriber behavior
- The viewer experience of managing multiple streaming networks is rough. Unlike pay TV, which bundles all channels onto a single output with a consistent UI and centralized guides, OTT video requires audiences to contend with multiple apps, with different watchlists and interfaces (e.g. some have individual user profiles others don't; some boast great UIs, others are horrid), not to mention variable definitions of reliability and streaming quality

On top of this, internet-enabled personalization and on-demand distribution allows a digital network to be all things to all people at all times. No longer are dozens of channels needed to satisfy the various interests of a single zip code. And finally, digital networks are free to air any content at any time, and as such, any consumption lubricates additional consumption and prevents consumption of a competitor."

For the **complete industry report**, please visit here.

Content in Context

Netflix' short-term scorched-Earth approach to gathering content and subscribers is going to force competitors into more creative—and likely advertiser-friendly—methods of capturing viewers. Within Netflix' corral, audiences become much less portable, shrinking the available scale of television audiences. But audiences still have wanderlust. Streaming is a great video jukebox. But its soft underbelly is exposed by what it lacks: the immediacy of live events and the intimacy of local content. The strength of Broadcast television is it delivers a community that is greater than simply a collection of parts, created by the connective experience of simultaneous viewing.

KATZ MEDIA GROUP

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2018 Q3 Issue #1

2. *When Do TV Shows Peak?*

From The Ringer, 31 July 2018

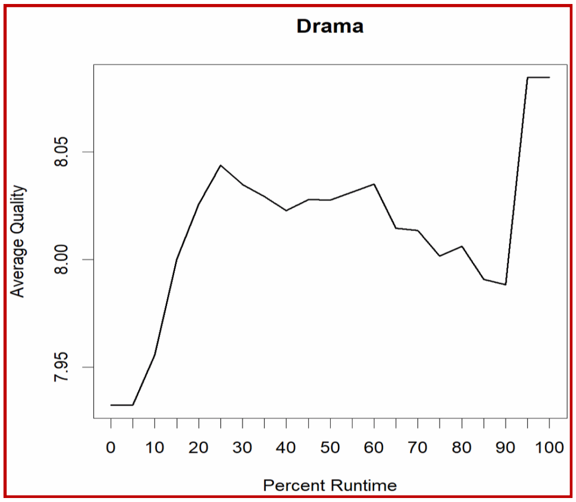
Note: The following is an abridged version of the article. The full version can be found here.

"On Monday, *The Ringer* released its ranking of the 100 best TV episodes since 2000. Every entry on the list represents a creative high point, which made us wonder when and why the high points of most series come and what happens both before and after they arrive. To trace the life cycle of the average TV series, we gathered episode-by-episode IMDb user ratings (which are expressed on a 1-10 scale) for the nearly 1,500 shows with at least 5,000 votes. Granted, the quality of a creative endeavor like a TV episode can't be quantified as easily as an athlete's exploits: As writer/producer Alec Berg (*Seinfeld*, *Curb Your Enthusiasm*, *Silicon Valley*, *Barry*) says via direct message, "The very best episodes of an unbelievably innovative show may meet with a thunderous lack of response from an audience. They don't get it, at all." In some cases, Berg adds, the audience rating may be less a direct reflection of a show's merit and more a measurement of when viewers "start to 'get' the show and when … they tire of it."

Given a sufficient sample and enough time for audiences to reappraise what they've seen, though, it seems reasonable to suggest that there would be some relationship between the quality of an episode and viewers' collective evaluations of its quality. If a large enough group didn't "get" it, it may not have been effective at conveying the message that its creator intended to impart. In the absence of a purely objective assessment of an episode's worth, the wisdom-of-crowds approach can be a telling tool—and, at times, the factor that determines whether a series stays on the air.

The average drama in our sample ran 4.3 seasons and 68 episodes, while the average comedy ran 5.6 seasons and 108 episodes. The average dramedy—which IMDb classified as belonging to both the comedy and drama classifications—ran 4.4 seasons and 77 episodes.

Because these charts are blending the trajectories of hundreds of shows, each of which takes its own path to completion, the magnitude of the longitudinal changes seems small. But there's a clear shape to all of the graphs: an initial incline—the phase of which Apatow said, "You can feel us finding it"—leading up to a peak, a plateau, a decline, and then a rebound right at the end, corresponding to the series finale. There are some slight genre-dependent differences: Comedies and dramedies tend to peak 45 percent of the way through their runs, while dramas peak 25 percent of the way through their runs. The average comedy remains within .02 points of its peak for 30 percent of its run, while dramas and dramedies stay in that sweet spot for 20 percent and 10 percent of their runs, respectively. In general, dramas are the most resistant to steep declines, maybe because the sheer need to know what happens next keeps audiences placated even if the plotting and writing aren't quite as adept as they once were.



Naturally, individual shows deviate dramatically from the overall trends. Using the interactive tool here, you can view the quality trajectory of any series with at least 5,000 user ratings on IMDb. Just click on that link and select any show title from the alphabetical drop-down menu to display its complete plot. You can also browse statistical data on comedies, dramedies, and dramas and sort them by any of three criteria: their similarity to the typical trajectory for their genre (the lower the number, the more similar the show); the point in their runs at which they hit their pre-finale peaks; and the slope of the most direct line through the first 85 percent of their runs (to avoid finales). A high and positive slope indicates a show that the audience decided gradually got better, like *Breaking Bad*."

Content in Context

Media content dollars have never been stretched as much as they are now, and the strain on budgets is likely only to escalate as outlets proliferate almost as fast as the content that feeds them. Having some insight into the possible peaks of series may help to inform not only new series deals but syndication as well. Armed with this sort of analysis, syndicators can key on the slices of the series where creativity and audience enthusiasm were simultaneously at their pinnacle.

3. *How Brands Can Benefit by Riding the OTT Wave*

From Media Village, 27 August 2018

Note: The following is an abridged version of the article. The full version can be found here.

"OTT is quickly becoming mainstream. The number of people cancelling their traditional pay-TV plan to rely solely on streaming will climb to 33 million this year. According to a recent survey, Netflix is now the most popular platform for watching entertainment on TV, ahead of traditional cable and broadcast television networks.

What it Means for Brands

Netflix, Hulu, Amazon Prime and the like have vast user data banks from which to strategize and create content. They know what people want and when they want it. It's a self-fulfilling pop-culture engine of desire and delivery.

The internet is the new Hollywood.

In the future, look for a push toward live OTT that mimics the once-hallowed ground of pay TV. At this year's NewFronts, Hulu announced its dedication to live TV, chipping away at the last bastion of traditional ownership.

What's Driving OTT?

Price. The antiquated pricing models of traditional pay TV built around channels hundreds deep no longer speak to a consumer base with customization expectations. Customized subscriptions that simplify the experience follow expectations built by Amazon, Spotify and Uber.

Creativity. The explosion of creative voices shepherded in by the internet unlocked a world of niche interests and imagination, democratizing the craft. OTT brings custom creativity built against this new world order and all its beautiful data. The power play now is in raising the creative bar and making this content exclusive to subscribers.

Culture. Lives are now mobile and fluid. Entertainment is everywhere and ever-increasing. Whether gaming, film, music, episodic video or podcasting, our entertainment environments are custom built and self-defined by unique cultures and interests that are ever-expanding and seemingly limitless. The technological bonus of OTT is the ability to save content to mobile through download features, where the consumer no longer has to worry about a connection or WiFi to be entertained.

The OTT 5: What to Do Now

1. **Don't wait.** Embrace the new TV landscape immediately; waiting will age the brand in the eyes of consumers, widening a relevance gap.
2. **Think content, not spots.** Look for unique ways to integrate. There is a vast creative ecosystem; find relevant partners and create stories together. Some platforms are ad-free, such as Netflix and YouTube Premium, requiring content integrations or content built around these stories as a way to have a voice. As an added bonus, data shows content has higher conversion rates.
3. **Build to passions, not just demos.** Arguably one of the most entertaining custom experiences, use the data deeply to build contextual, meaningful advertising environments.
4. **Consider age.** According to comScore, the heaviest streamers are 18-34 years old, followed by 35-44 years old. If your brand targets these two demographic darlings, you must be here with significance.
5. **Analyze in real-time.** Immediate data means immediate optimization. Partner with the platform to predict where viewing is going, what shows will trend, what time people will watch and where and how they settle in to binge."

Content in Context

Brands are looking beyond stations, demographics, and the 30-second spot to find their customers. OTT is the shiny new toy that's being carried in by the 900-pound streaming gorilla. Broadcasters need to continue to create pathways to their content that remain wide-open, innovative, and responsive. Otherwise, the advantages broadcast can offer to advertisers will be overshadowed by convenience and choice, perhaps permanently.

4. Political Window Began September 7 for November Elections—A Refresher on the FCC's Lowest Unit Charge Rules

From Broadcast Law Blog, 6 September 2018

Note: The following is an abridged version of the article. The full version can be found here.

"With the lowest unit charge window for the November elections going into effect tomorrow (September 7), we thought that it was a good idea to review the basics FCC rules and policies affecting those charges. With this election, where control of Congress may well be hotly contested and may result in competitive elections across the country, your station needs to be ready to comply with all of the FCC's political advertising rules. Lowest unit charges (or "Lowest Unit Rates") guarantee that, in the 45 days before a primary and the 60 days before a general election, legally qualified candidates get the lowest rate for a spot that is then running on the station within any class of advertising time and particular daypart. Candidates get the benefit of all volume discounts without having to buy in volume – i.e., the candidate gets the same rate for buying one spot as your most favored advertiser gets for buying hundreds of spots of the same class. But there are many other aspects to the lowest unit rates, and stations need to be sure that they get these rules right.

It is a common misperception that a station has one lowest unit rate, when in fact almost every station will have several – if not dozens of lowest unit rates – one lowest unit rate for each class of time in each daypart. Even at the smallest radio station, there are probably several different classes of advertising spots. For instance, there will be different rates for spots running in morning drive than for those spots that run in the middle of the night. Each time period for which the station charges a differing rate is a class of time that has its own lowest unit rate. On television stations, there are often classes based not only on daypart, but on the individual program. Similarly, if a station sells different rotations, each rotation on the station is its own class, with its own lowest unit rates (e.g. a 6 AM to Noon rotation is a different class than a 6 AM to 6 PM rotation, and both are a different class from a 24 hour rotator – and each can have its own lowest unit rate). Even in the same time period, there can be preemptible and non-preemptible time, each with its own set of charges resulting in different classes of time, each with its own lowest unit rate. Any class of spots that run in a unique time period, with a unique rotation or unique rights attached to it (e.g., different levels of preemptibility, different make-good rights, etc.), will have a different lowest unit rate. Stations need to review each class of time sold on their station, find the lowest rate charged to a commercial advertiser for a spot of the same class that is running at the same time that the candidate wants to buy a spot, and that lowest rate will be what the candidate is charged.

One question that still comes up with surprising regularity is whether these rates apply to state and local candidates, as well as Federal candidates. Indeed they do – so if your station is running advertising for candidates for mayor or city council; or for governor or the state senate; or even for the board of education, municipal court judge, or state attorney general – they and any other candidate in any public election for which your station chooses to accept advertising gets lowest unit rates. See our past articles on this topic here and here.

In modern political elections, where PACs, Super PACs and other non-candidate interest groups are buying much political advertising time, broadcasters need to remember that these spots ***don't*** require lowest unit rates. Even if the picture or recognizable voice of the candidate that the PAC is supporting appears in the ad, spots that are sponsored by an independent organization not authorized by the candidate do not get lowest unit rates (note, however, that spots purchased by independent groups featuring the voice or picture of the candidate may trigger public file and equal opportunities obligations for the station if the station decides to run those spots). Stations can charge these advertisers anything that the station wants for non-candidate ads – no need to stick to lowest unit rates."

Content in Context

November elections are coming up quickly, with midterms likely to be a doozy for political spending. A quick review of some of the rules is good for everybody.

5. Yes, Virginia, You Are The Podcast Capital of the U.S.

From Inside Radio, 6 September, 2018

"For radio groups with presence in the Old Dominion, you might do well to expand your podcast presence. A new survey from Panoply finds that of the top 25 download-per-capita counties, 11 happen to be in Virginia. Among them are DC suburbs like Alexandria and Arlington, but not all; Richmond and Lexington are also inside the ranking.

"Virginia, with its fascinating and evolving demographics, is devouring what we podcasters are producing," offers Andy Bowers, Panoply chief content officer in a new blog post from the podcast creator. "If you're looking for a place to hold a focus group, may I suggest you skip Brooklyn and consider the Old Dominion?"

The point of the Panoply study is that for those starting a new podcast, it is essential to know one's audience. "Producers often have a very clear idea of what they want to say and how they want to say it, but rarely have they considered who specifically might be eager to listen," Bowers notes. "I'm bullish on efforts to find and cultivate new podcasting audiences — after all, we as an industry have yet to interest about three quarters of Americans in our medium — but it helps to know more about where the existing listeners are, and where, so far, they aren't."

Its research reveals that in the U.S., with shows representing a wide assortment of genres, formats and political points of view, the most podcast listening takes place in Falls Church, VA. Downloads amounted to about 100,000 from Feb. 10 - May 11, 2018. That works out to 7.4 podcasts per capita, according to Panoply's data.

The nation's capital clocks in at 2.35 downloads per capita, and several of its surrounding suburbs also crack the "more downloads than people" threshold. "DC is a big news consumption area, and as you might expect the top podcast genres consumed there are news and business," while the demographics of the region also mirror the podcast audience: It's more affluent and educated than the overall population and it's located in areas that lean Democratic.

Other leading download-per-capita areas include Charlottesville, VA (3.5), Manhattan (2.4), Denver (2.2), San Francisco (2.4), Portland, OR (1.5), St. Louis (1.3), St. Paul (1.2), Boston (1.2), Baltimore (0.7), Chicago (0.6), and the nation's most populous county, Los Angeles (0.5). On the other end of the spectrum, 106 of the 3,142 U.S. counties recorded precisely zero downloads during the 90-day period tested, Panoply reports. They're mostly in the south and plains states."

The Top 25 U.S. Podcast Counties by Downloads Per Capita are:

1. Falls Church City, VA — 7.41
2. Dixie County, FL — 6.30
3. Fairfax City, VA — 5.01
4. Charlottesville City, VA — 3.51
5. Williamsburg City, VA — 3.40
6. Alexandria City, VA — 3.09
7. Loudon County, TN — 2.53
8. Orange County, TX — 2.53
9. San Francisco County, CA — 2.44
10. Blanco County, TX — 2.44
11. New York County, NY — 2.42
12. Washington, DC — 2.35
13. Denver County, CO — 2.23
14. Rockdale County, GA — 1.88
15. Fredericksburg City, VA — 1.77
16. Montgomery County, MD — 1.53
17. Arlington County, VA — 1.49
18. Multnomah County, OR — 1.48
19. Bronx County, NY — 1.47
20. Russell County, AL — 1.45
21. Manassas City, VA — 1.35
22. Loudoun County, VA — 1.34
23. Richmond City, VA — 1.34
24. Lexington City, VA — 1.33
25. St. Louis City, MO — 1.31

Content in Context

Even digital media has local strengths. Podcasting can be a very useful targeting tool for brands to consider in their media plans. Part of the emerging utility of podcasts is in creating targeted reach to receptive and engaged, audiences who opt-in. Understanding the nuances of local media can be like a turbo boost to your effective reach.