KATZ TELEVISION GROUP | CONTENT MATTERS

IDEAS IMPACTING THE CONTENT COMMUNITY

2016 Q4 ISSUE #3

Culled from the headlines of the TV Industry's Trade Press, CONTENT MATTERS is a Bi-Monthly Newsletter curated and contextualized by **KATZ Content Strategy's Bill Carroll.**

5 INSIGHTS TO KNOW

1. Millennials discover the joy of over-the-air TV

New data shows that increasing numbers of consumers are returning to over-the-air TV to watch their shows for free. Is this the good news broadcasters have been hoping to hear?

2. Is it time to panic over declining sports viewership?

In this 'very strange year,' TV executives continue to say no. But it's hard to overlook sports' drop off, as research by Sports Business Journal/Daily shows notable viewership losses for many major events and regular-season games across most sports.

3. Hulu Drops Free Streaming Service as OTT Viewership Grows

As spending on streaming services is going up, Hulu is eliminating its ad-supported service, citing that is no longer aligned with the company's content strategy.

4. SVOD Popularity Poses Broadcast Possibilities

With nearly two-thirds of American viewers now using a subscription video on demand (SVOD) service, the market is primed for a different way to watch TV. The impact and opportunities are immense, especially as broadcasters create auxiliary applications for ATSC 3.0 services.

5. Game shows have been a staple of electronic entertainment since the early days of radio and the genre has experienced many ups and downs over the decades.

These days, it's clearly up. Fremantle's Jennifer Mullin gives her thoughts on this trend across broadcast and now on their digital network BUZZR in an extended TV Newscheck executive session.

N Screen Media provides another take on the latest reports on over-the-air and cable viewing in this breakout excerpted and condensed from that website. It talked about how traditional TV broadcasters are shying away from providing their best and most recent content online for free. New data shows that increasing numbers of consumers are returning to over-the-air TV to watch their shows for free.

GfK released data from a recent survey of US consumers showing that 25% of US consumers do not pay for pay TV. 10% have never had service and 12% had service, but have gotten rid of it. 3% weren't sure if they had pay TV before, but were sure they no longer do. Overall, money remains the determining factor in cancelling cable. 72% of those that cancelled say it was to save money, and half say pay TV doesn't offer enough value. With SVOD penetration exceeding 50%, the allure of SVOD is clearly becoming a bigger factor.

There is another siren drawing pay TV subscribers away from the service: free-to-air TV. However, the number of consumers actually using it appears to be in debate. GfK claims that 17% of US TV households rely on broadcast TV only. This is a big increase from 2015, when 15% said this. Nielsen says there were 116.4 TV households in 2015. Combining this with GfK's numbers implies there are nearly 20M households that rely on free-to-air TV. Nielsen and GfK do not agree at all on the number of free-to-air homes. Nielsen says the number of broadcast only homes increased 700,000 during 2015, to reach 13.3M in Q1 2016. That's an increase of 6.5% over the same quarter in 2015. 6M of those broadcast TV homes do not have broadband access. 7.3M are combining broadcast TV with broadband.

Millennials are much more likely than the rest of the population to opt for alternatives to pay TV. GfK says 38% of TV homes with someone between 18 and 34 years-old do not subscribe to cable, satellite or telco TV. 22% of these homes are using broadcast-only reception, versus 17% for all homes. This is remarkable when you consider that many millennials grew up in homes that never relied on an aerial for their television reception. Less surprising is the increased reliance on SVOD services. 13% only use Internet sources for their video versus 6% for all TV homes. Though pay TV is doing a good job dissuading people from cutting the cord, those that do break free are finding cheap, quality sources of TV entertainment that are readily available. As pay TV costs continue to mount we can expect many more to join them.

CONTENT IN CONTEXT

It was found that cord-cutting is still driven primarily by people looking for cheaper sources of entertainment. Also that SVOD sources are increasingly viewed as cheap alternatives to the big-cable-bundle. In this positive note for broadcasters, over-the-air is being rediscovered as a valuable source of entertainment, even by the millennials who have had little past experience with the over-the-air options.

Where have all the viewers gone? That's a question that executives across the sports and media business privately have been asking all year as they pore over data that shows a surprisingly consistent and worrisome decrease in sports television viewership according to this item excerpted and summarized from the SPORTS BUSINESS JOURNAL.

It's been an alarming trend through the first nine months of 2016, as traditional sports programming competes for viewers with an overheated presidential race that has led to huge viewership gains for the cable news networks. Look no further than the NFL, which has seen massive viewership growth over the past decade. So far this year, though, each of the league's primetime series have posted double-digit percentage drops in viewers — a shocking situation that's virtually unheard of for America's top sports property.

It's not just the NFL. The Summer Olympics on NBC were down double digits in network viewership from the London Games. Six NASCAR races from Aug. 21 to Sept. 25 logged double-digit viewership drops in race-to-race comparisons. Four primetime UFC telecasts on Fox registered a combined 10 percent viewership drop this year. Plus, several big events posted record low viewership, including the U.S. Open's men's and women's tennis finals and the NCAA men's basketball championship game.

So, what's going on? Even with the viewership decreases, sports have become an even more dominant television property than entertainment or reality programming. Fox Sports provided data that showed that total sports viewing this year is up 17 percent. Plus, live sports consistently draw the biggest audiences. Last year, 93 of TV's top 100-rated shows were live sports programs. Ten years earlier, in 2005, live sports accounted for only 14 of the top 100.

Some believe additional news viewers are coming from sports. Other analysts, though, suggest that the downward viewer figures for so many top sports has been caused by the migration of viewers to digital platforms — and the ever-increasing amount of streaming services available. During the Rio Olympics, for example, NBC Sports put out a Total Audience Delivery number that added up all the television and online viewers to provide a full record of viewership.

But TV executives say the digital migration is not happening as quickly as some believe and that the television audience should stabilize. The "Thursday Night Football" games on Twitter, for example, have made up less than 2 percent of the overall audience. "Once we get through the election, are we going to see things smooth out? I think that's possible," Fox Sport's Mike Mulvihilll said. "I'm expecting some normalization once all of this is over." Most network executives surely hope so.

CONTENT IN CONTEXT

Despite all of the seemingly bad news among the headlines there was a very key fact. As it is clearly stated, sports has become an even more dominant television property than entertainment or reality programming. We should be seeking ways to monetize and aggregate sports viewership across all our expanding platforms. In advance of those developments, we should remember that over 90% of the top 100 rated shows will likely continue to be live sports on TV.

It comes as no surprise that Hulu is focusing fully on a subscription service. In fact, streaming video spending is expected to rise by double digits this year. However, users will still be able to watch some ad-supported episodes of shows through a distribution deal Hulu signed with Yahoo according to this excerpted item from eMarketer.

Research and consulting firm Strategy Analytics projects consumer spending on streaming services will surpass spending on DVD purchases this year. Hulu first launched its ad-supported service in 2007, and in 2010 the company introduced its subscription service. The company will be shifting its focus to an all-subscription model. Users will be able to watch the five most recent episodes of shows from networks such as NBC, ABC and Fox. Hulu partnered with Yahoo to bring much of this free content, as well as other network shows and clips, to a new platform, Yahoo View.

Spending on streaming services will go up by 22% this year compared to 2015, and consumers will spend $6.62 billion on services like Hulu, Netflix and Amazon Prime. According to eMarketer's first-ever forecast of over-the-top (OTT) video viewership, OTT video services are nearing saturation. This year, 186.9 million people in the US will watch video via an app or website that provides streaming content over the internet and bypasses traditional distribution. The forecast estimates that at this point, the population is already growing slowly. Indeed, nearly nine in 10 digital view viewers in the US already watch video content this way.

Overall, more US TV viewers are watching television shows and movies via subscription-based streaming services. A survey from Hub Research found that the respondents who chose streaming services were nearly double those who picked TV network sites or apps, and they were more than double those who picked Crackle or free content from Hulu. Hulu clearly sees the opportunity in reaching users who are turning to online streaming services to catch up on their favorite shows. Certainly, the company has been ramping up its subscription businesses for some time now by offering original show content, like "The Path". Perhaps an OTT live TV service, which Hulu plans to launch next year, will help the company stay ahead of its competitors. Other services also offer exclusive content in hopes of driving new subscriptions. Even networks like HBO, Showtime and Starz, once only accessible through cable subscriptions, have come out with their own OTT subscription services.

CONTENT IN CONTEXT

At this time when CBS ALL ACCESS is leading the way for paid services from over-the-air networks, NBC is said to be close to implementing their approach, as ABC has revamped their authenticated and free service to include digital and library content. The online-streaming service is competitive for both broadcasters and those already established in the space. Broadcasters need to be aggressively involved with this emerging audience with regards to where, when and how they wish to engage with our brand and content.

The IBM ClearLeap report "Everybody Wants to Rule the Streaming World" emphasized, SVOD has "reshaped the way we enjoy television" " as excerpted and condensed from TECHNOLOGY'S MULTISCREEN VIEWS. It notes that rather than spurring cord-cutting, SVOD options such as Netflix and Amazon Prime have added "to the smorgasbord of video content we already enjoy."

"SVOD services have been adopted by U.S. consumers faster than any other pay media service," ClearLeap said. Even more important than the 63 percent of consumers who "spend a significant amount of viewing time with them... nearly half of those with SVOD and pay television watch their streaming services as much as, or more than, cable."

Like other studies, the ClearLeap evaluation put extensive emphasis on the importance of mobile video in the SVOD/OTT agenda. But it also reported that 55 percent of respondents say they primarily use a smart TV, Roku, Apple TV, game console or other connected TV device to watch their favorite streaming service. There are also predictable findings about the age distinction: 16 percent of millennials and 18 percent of 30–44 year olds favor smartphone viewing. Seniors, not very much.

Limelight Networks, in its "State of Online Video" report, observed that about 80 percent of millennials subscribe to at least one OTT service, and 39 percent of them watch at least seven hours of online video per week—significantly more than people in other demographics. Separately, Ooyala's "State of the Media Industry 2016," concluded that the lessons learned by "the TV industry, in its move to digital" are the basis for continuing appreciation that "differentiated content is key to building a strong brand in the cluttered digital ecosystem." Ooyala's latest report is a follow-up to its "State of the Broadcast Industry 2016" in which Ooyala called 2016 the year in which OTT becomes the "gateway to broadcast's future." Digital TV Research, in its "Global OTT TV & Video Forecasts" envisions that by 2021, the United States will remain "the dominant territory for online TV and video revenues—rising by $8.2 billion to $22.8 billion between 2015 and 2021."

"We are entering a new phase in the evolution of OTT video," said Colin Dixon of nScreen Media, a California research firm. Dixon cited "Content Disaggregation," arguing that "app proliferation" is a "mess" for consumers, since they have to accumulate "more and more apps on their devices" in order to watch shows from different sources. Dixon continued, "It creates a nightmare for consumers as they try and figure out when and where the content they want can be found. And we all know what happens when things get complicated for consumers. They sit on their hands."

CONTENT IN CONTEXT

It would be reasonable to believe that the two-thirds total of those using SVOD will only increase, especially if the revenues have increased by nearly $15 billion in just over five years. With the auxiliary applications for ATSC 3.0 services, broadcasters need to be exploring the delivery of SVOD options in their local market OTT applications. We need to be preparing for what is our near future.

In an executive session with TV Newscheck's Harry Jessel, that has been excerpted and summarized, Jennifer Mullin, co-CEO of Freematle Media North America talks about the game show resurgence. She stated that it comes down to great formats, which we have a lot of, and phenomenal talents, which we have been fortunate enough to find and which not everybody would think of as traditional game show talent.

Mullin states that [Fremantle] have cast different types of people, but the common thread is that most of them have a bit of a comedy spine. On some of these older titles, there is a sense of nostalgia. In others, there is an incredible amount of playalong. Look, the best game shows are are easy to understand. I always call it lowimpact viewing. They are entertaining, they are light, they are family viewing. There's a lot of different reasons, but, at the end of the day, I just think they make you feel good. There is nothing controversial about a game show.

When asked about the BUZZR digital network Mullin indicated that for Fremantle, it was a way to take what we consider a very valuable asset, our library, and ask what else can we do to monetize it. You would never be able to do this on traditional cable and be able to sustain it, but I think the revenue, the financial threshold, is a little bit lower by doing it in this [digital] space. It's a great business to be in, we don't have to acquire anything. We are just taking what's sitting on shelves and bringing it back.

When you are building a brand, which is what we are doing with BUZZR, there is something to be said for consistency and for the viewing audience knowing what they are getting and when they are going to get it. We have shows that have [stood] the test of time and so we are really building the brand around those tent pole shows. Certainly, in success, you can branch out and then play around with some of the more obscure titles that don't have as many episodes. But from a 'building the brand' perspective, I think it's important to be consistent and give the viewers what they know and what they are familiar with and what we think they like.

CONTENT IN CONTEXT

As we begin the future analysis of potential game show projects in syndication, this discussion would seem to provide a primer on what to consider. The show should have a comedy spine, one that is simple and easy to understand and play-along. It should be designed for "low-impact" family viewing, something that makes you feel good, not controversial. And maybe some nostalgia added for good measure. That is a difficult checklist, but one that we should try to follow in our decision making.