



*This report explores one of the fastest growing segments in broadcasting: **digital networks**. Known more specifically as “diginets” or “subchannels,” these new channels create valuable new opportunities for programmers and advertisers to engage audiences through time-tested, familiar, and beloved shows. Diginets provide a viable and compelling alternative to cable for advertisers to reach consumers in today’s competitive broadcast landscape.*

OVERVIEW

Digital subchannels were created from new space on the digital spectrum that became available when the Federal Communications Commission required broadcasters to convert from analog to digital transmission in 2009. They are managed by local affiliates of the “Big Four” networks and independent stations in individual markets and enable local TV stations to broadcast multiple channels, creating new revenue opportunities with expanded programming.

MeTV, Grit, Bounce, AntennaTV, Heroes & Icons, ThisTV, and Cozi rank among the largest digital network brands and typically lease time on a station’s subchannel, similar to how networks paid affiliates compensation years ago, or share revenue with local broadcasters. While early success has been achieved by broadcasting large content libraries of TV classics and nostalgia series, some diginets, including Bounce and Decades are starting to produce original and scripted programming. In fact, programming strategies are reminiscent of how cable networks initially used off-network product to generate revenue and build audiences until they were ready to produce or commission their own content. In addition, the thematic and audience appeal of some of these networks provide a more targeted environment for advertisers (just as cable niche networks did 20+ years ago).

DIGINET SNAPSHOT

Opportunity

Broadcasters have opened new channels to feature programs that may not have been seen in years, drawing from studio and network content libraries from the past six decades while providing alternatives for advertisers to engage consumers with Classic TV, lifestyle, game show, and variety content. Audience ratings, ad revenue, and distribution clearances for diginets are all on the rise, making them a popular destination for audiences and an important broadcast category for advertisers to consider.

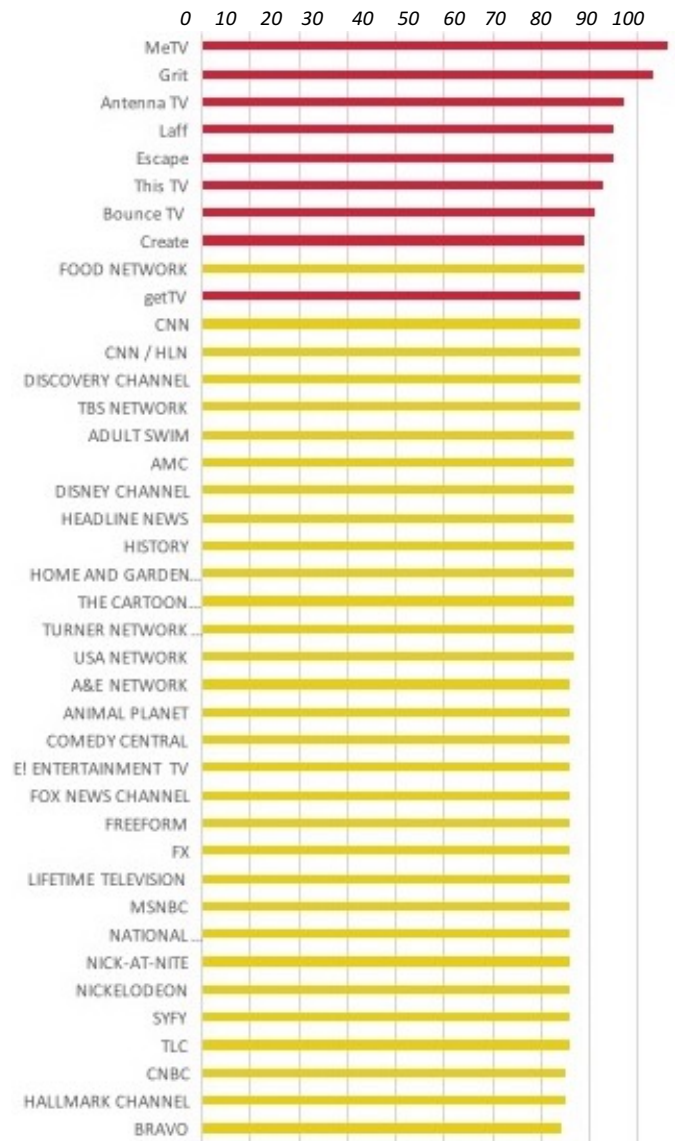
Target Audience

While Baby-Boomers are an important focus, programmers hope a new generation of younger viewers discover diginet programming. Unlike traditional broadcasters, diginets see value in more "seasoned" viewers. After all, Baby-Boomers are often either "empty-nesters," who may have extra money to spend, or find themselves buying products across an entire lifespan as they care for aging parents, young adults who haven't quite left the nest, as well as grandchildren.

TOP-TIER COVERAGE

In less than a decade, diginets have achieved significant coverage across the U.S., coming close to matching that of the national broadcast networks and significantly outpacing many cable networks. This is an important achievement because as the number of cord-cutters and cord-shavers (i.e., cable subscribers cancelling/paring down their subscriptions) continues to increase, viewers can still find and consume content on digital subchannels.

Top 40 U.S Dignet & Cable Coverage (%)



(Source: Nielsen and TVNewsCheck, May 2017)

NATIONAL PERFORMERS

Over the past few years, diginets have gained significant audience attention and have consistently outperformed highly branded cable networks, especially in morning dayparts. On a national stage, diginets are proving themselves to be highly competitive.

Dignet	Total Day Ranking <i>(Live+7 US HH Rating among Diginets and Cable Networks)</i>	Outperforms	Strongest Daypart	Strongest Daypart Ranking <i>(Live+7 US HH Rating among Diginets and Cable Networks)</i>	Outperforms
MeTV	20	A&E, FX, Lifetime, TLC, Bravo, and MTV	Monday-Friday, 9:00 a.m.-12:00 p.m.	6	Cartoon Network, Home & Garden TV, Turner Network Television, ESPN
Grit	40	Travel, VH1, Comedy Central, E!, National Geographic	Monday-Friday, 6:00-9:00 a.m.	23	Discovery, TLC, History, Animal Planet
Heroes & Icons	49	Oxygen, Science, TruTV	Monday-Friday, 9:00 a.m.-12:00 p.m.	11	TBS, History, A&E, Food Network, AMC
Antenna	53	BBC America, Fox Sports, Weather Channel, Disney XD, CMT	Monday-Friday, 6:00-9:00 a.m.	28	Oprah Winfrey Network, VH1, SyFy, Science
Bounce	54	BBC America, Fox Sports, Weather Channel, Disney XD, CMT	Monday-Friday, 6:00-9:00 a.m.	34	Disney XD, Lifetime, CNBC, FX, Freeform
ThisTV	64	CNBC, Sundance, Velocity, National Geographic Wild	Monday-Friday, 6:00-9:00 a.m.	55	CNBC, Bravo, E!, Lifetime, Logo, Golf Channel

(Source: Nielsen and WRAP, February 2017)

LOCAL DOMINANCE

While significant, these rankings are the tip of the iceberg in some instances. In fact, diginets are logging significantly competitive ratings in many local U.S. markets. MeTV, the diginet with the greatest coverage, achieves "top five" ratings in five U.S. markets, jumping to 46 markets when we look at top 10 ratings and 81 when we expand to the top 25.

Number of Markets in Which Diginets Rank in the...

	Top 5	Top 10	Top 25
Diginets	5	46	89

(Source: Nielsen and WRAP, February 2017)

GROWTH DRIVER

Looking at the overall household audiences across dignets, cable, and broadcast, dignets, while the smallest category and many with only four years of Nielsen tracking data, represent the only group to garner year-to-year increases between May 2017 and May 2016. It suggests that audiences are beginning to find and sample dignets as an alternative to cable programming. And, with Scripp’s recent investment of \$302 million to acquire Bounce, Grit, Escape, and Laff, it appears media companies are also starting to recognize the growth potential dignets represent.

**Household % Growth
Broadcast, Cable, and Diginets
May 2017 v. May 2016**

	Live+7 (AA%)	Live+7 (000s)	Live+7 Share
Diginets	+36%	+38%	+42%
Cable	-3%	-1%	+2%
Broadcast	-7%	-6%	-4%

(Source: Nielsen, May 2017)

It’s important to note that not all dignets are tracked nationally by Nielsen. But, looking at local market data, Cozi, Grit, Heroes & Icons, Justice, and Movies have all seen some growth in household audience.

UNCLUTTERED

Finally, based on industry research from Pivotal Research and TVB, it’s worth noting that dignets provide a less cluttered commercial environment than what most cable networks offer today. Internal research and sales tracking at Katz indicates that dignets air roughly 11-12 minutes of national and local commercial advertising per hour, while national broadcasters air roughly 12-14 minutes per hour and cable networks range between 13-17 minutes per hour.

IN CONTEXT: Today's Broadcast and Cable Landscape

It's important to consider the seismic changes occurring across the broadcast and cable landscape when trying to understand the context in which audiences have found and keep returning to diginets.

1. More original scripted programming than ever before

An estimated 430 to 450 original scripted programs aired across broadcast, cable, and OTT services at some point during last year, with more expected in 2017. Much of this content, of course, is a reflection of viewers consuming content across multiple platforms: TV, mobile phones, desktop and laptop computers, and tablets.

Be forewarned, however, because while demand for content has never been so high, the cost of producing and marketing new shows that audiences will find and love is also becoming more expensive and risky.

"We assume that the broadcast networks continue to produce about 150 original scripted series per year. The premium cable networks, based on their announced intentions, increase their count to around 50 series, and the basic cable networks will continue to produce around 180 scripted shows. Then we layer on the idea that the streaming services will ramp up to 130 series plus, and that indicates that we'll approach or slightly exceed 500 scripted series for all of 2017. For programmers, this bubble has created a huge challenge in finding compelling original stories and the level of talent needed to sustain those stories. It's also had an enormous impact on everyone's ability to cut through the clutter and create real buzz."

— John Landgraf, CEO, FX Networks

2. The heated debate about how people consume content

In one corner are the individuals touting the merits of watching television the "old-fashioned way" — on television. In the other are the rising number of people certain that television as we once knew it will be replaced by laptops, tablets, smartphones and other mobile devices. Perhaps the wisest are the optimists who think the best prediction is a combination of the two. Pick your side.

"I think there's an interesting shift going almost back to big tent broad-appeal TV. You have to wonder if these digital platforms are delivering what they said they would deliver. And, all of a sudden, you look back at network TV and you realize nearly 20-million people are still watching a show like NCIS. The more the viewing choices start to fractionalize, the greater standing broadcast TV has. And then you have to wonder how profitable some of these digital shows that have small audiences are." — Kelly Kahl, Senior Executive Vice President, CBS Primetime

3. Cord-cutters find new ways to watch TV

Viewers will continue to demand high-quality, professionally produced content and are becoming smart about how to access it from multiple technologies and platforms. As these “cord cutters” increasingly source their TV programming via OTT platforms and Internet-based services, the broadcast and cable businesses as we know them will experience profound shifts. According to a March 2017 *Los Angeles Times* report, more than 800,000 subscribers cancelled their cable accounts last year. That represents a huge number of people tired of paying expensive monthly fees for content on all the bundled networks they don’t watch.

Measurement services are not yet sophisticated enough to use meters that follow viewing on all platforms and provide a wide range of guidance around the location and degree of non-linear viewing (see table).

A recent survey of 2,000 consumers commissioned by TiVo suggested that more than three-quarters wanted an *a la carte* subscription package with only 18 channels. *Just 18*. This is in line with what we’ve seen historically in Nielsen data over the years as viewing options have multiplied—viewers only watch a small sub-set of channels regularly. If programmers expect to remain not just competitive but viable, they will have to find new ways to demonstrate value.

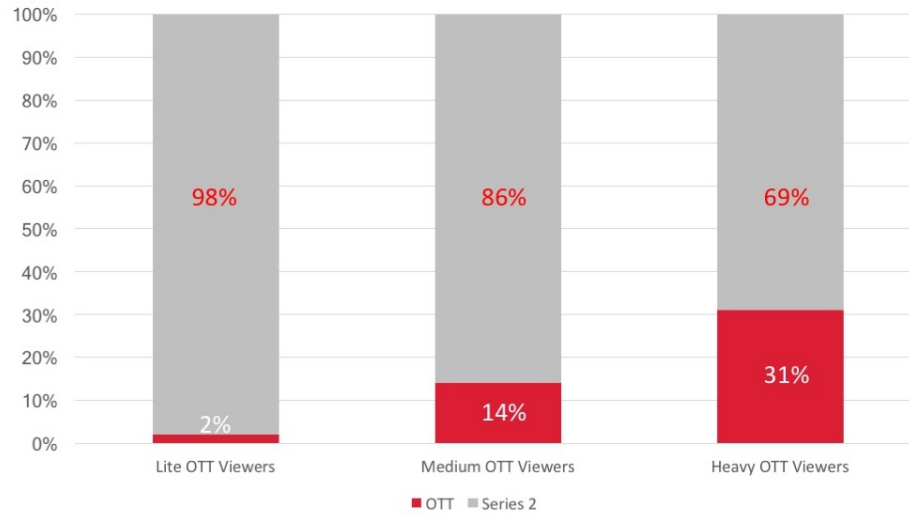
Adults 18+	Weekly Hours and Minutes of Usage
TV	34:32
TV-Connected Devices	4:18
PC Total	6:54
PC Video	2:08
PC Audio Streaming	0:12
PC Social Network	1:01
Smartphone (App+Web)	17:49
Smartphone Video	0:44
Smartphone Streaming Audio	0:36
Smartphone Social Network	3:56
Tablet (App+Web)	3:33
Tablet Video	0:18
Tablet Streaming Audio	0:12
Tablet Social Network	0:54

(Source: Nielsen, Q4 2016 Cross Platform Report)

Consider, too, that while the traditional cable business is being challenged by cord-cutters, aging “digital natives” or “cord-nevers,” those who grew up accustomed to watching shows online, are less likely to subscribe to pay television services or become new customers.

Still, comScore recently reported that even in households with combined viewing of broadcast/cable TV and OTT services, LiveTV is still consumed more than twice as much, even among heaviest OTT users (see table on next page).

**Over-the-Top (OTT) and Live TV Time Spent
 Among HH with Both Services (%)**



(Source: comScore Single-Source [TV+OTT] Custom Reporting, U.S. December 2016)

In the competition for attention, diginets have an advantage over cable in that they often appear close to local network affiliates at the top of most on-screen cable guides from Comcast and Spectrum, among others.

For viewers browsing or scrolling, this preferred listing location makes it significantly easier for viewers to find and, potentially, recognize program options than most cable networks.

4. Social media is a growing factor in determining the success – or lack of – any series

More and more, Facebook, Twitter, YouTube, Instagram, and Pinterest, among others, are valuable platforms for friends to share and comment on mainstream content, helping viewers find new shows and enabling broadcasters to build audiences outside of traditional marketing campaigns.

The participatory features of Twitter and Facebook, especially, enable running commentary and conversation around favorite (or reviled) characters and competitors. The “buzz” factor around live viewing as well as “fan theories” after the fact can help to build or kill shows.

Social media also plays a vital role in live viewing for “must see TV” where viewers want to be part of a larger conversation around their favorite dramas, comedies, competitions, or reality series.

Audiences now have a very powerful set of microphones to voice their opinions, which means executives and producers must be tuned into the word on the street, so to speak.

IN SUMMARY: Change Opens Opportunities for Diginets

In the current state of broadcasting, diginets are leveraging important trends to offer:

- Both proven and familiar programs that can break through the clutter and offer a “safe place” for advertisers and viewers among some of the most beloved characters and settings.
- A targeted viewing environment among time-tested content.
- A more diversified viewing experience, particularly on MeTV across the slate of Norman Lear sitcoms and Bounce, which is more inclusive and relevant for viewers. Viewer comfort and relevance provide superior engagement opportunities for advertisers.
- Interactive websites - complete with factoids and trivia about programming options – provide greater opportunities to engage with TV fans.
- Proof that the concept of consuming content on television is not about to become extinct. Changing: yes. But, being fully replaced via alternative viewing options is not about to happen anytime soon.

Based on the emerging evidence and experience, advertisers should pay attention to diginets and evaluate potentially valuable opportunities to reach consumers through broadcast instead of cable TV.

DIGINETS ARE TELEVISION'S GROWTH STORY OFFERING...

- *Top-tier national coverage*
- *Nationally competitive ratings*
- *Locally dominant performance*
- *Uncluttered ad environments*

**Marc Berman contributed to this report.*

DIGINETS: THE PLAYERS

Dignet	Year Founded	Owner	Coverage	Programming
	2005	Luken Communications	58%	Classic TV from the 1950s to the 1980s, with recent additions from 1990s-2000s
	2008	MGM/Tribune Media	83%	Classic Movies
	2010	Weigel Broadcasting	96%	Classic TV
	2011	Tribune Media	87%	Classic TV
	2011	Katz Broadcasting	81%	Classic Movies and limited original scripted drams for African-American audiences
	2013	NBC Universal	62%	Classic TV
	2013	Fox TV Stations/ Weigel	61%	Classic Movies
	2014	Sony Pictures TV	78%	Classic TV and Movies
	2014	Katz Broadcasting	93%	Classic TV for Males (Action/Adventure and Westerns)
	2014	Katz Broadcasting	85%	Classic TV and Movies for Females
	2014	Weigel Broadcasting	60%	Classic TV for Males
	2015	CBS Television Stations	55%	Information and entertainment themed around "Through the Decades"
	2015	Katz Broadcasting	85%	Classic TV Comedies and Movies
	2015	Founded by Lonnie Cooper and John Walsh	35%	Crime and Investigation
	2015	MGM/Sinclair	72%	Science Fiction

(Source: Dignet Marketing Materials, TVNewsCheck, and Nielsen, May 2017)