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2020 Telecommunications, media, and entertainment outlook

As streaming wars intensify,
reaggregation and ad-supported
video will likely become commonplace

Deloitte Center *for*
**Technology, Media &
Telecommunications**

Interview with Kevin Westcott

As major networks and studios continue to launch their own direct-to-consumer streaming services in 2020, competitors will likely scramble to offer content libraries broad enough to both attract and retain customers. According to [Kevin Westcott](#), vice chairman and US telecommunications, media, & entertainment leader, [Deloitte Consulting LLP](#), this creates opportunities for M&E firms to “reaggregate” their content libraries with a wide array of offerings—from video, music, and gaming services to ad-supported (non-subscription) content. Telecommunications providers, on the other hand, face the opportunities and challenges of building the infrastructure for 5G—and helping shape (and manage) customers’ expectations regarding its possibilities.



Where do you see opportunities for growth in 2020?

As we enter 2020, it's clear that the growth of **video streaming** will continue to explode. In fact, in Deloitte's most recent Digital Media Trends Survey, more respondents indicated that they have at least one streaming video subscription (69 percent) than possess a traditional pay-TV subscription (65 percent).¹

At the same time, an all-out streaming war is underway, with virtually every media company looking to establish direct relationships with consumers. It now appears that all major US TV networks and studios will have a stand-alone direct-to-consumer streaming service by mid-2020. As they launch their services, the big studios are withdrawing content rights from third-party streaming platforms. Hence, it has become almost impossible for platforms to bring all major studios or networks under one umbrella.²

As a result, many US consumers are growing frustrated with having to manage and pay for multiple subscriptions to watch what they want. Research suggests that consumers are willing to pay only for a certain number of streaming services. Deloitte's Digital Media Trends Survey found that consumers have an average of three streaming video services, a number that has remained steady for two years.³

In the end, streaming services that offer the best and broadest content libraries will likely own the inside track to success. One method of getting there is "**reaggregation**" (or rebundling) of streaming offerings—an approach pioneered by players like Amazon and Roku. Providers have an opportunity to offer highly customized packages of content that, in addition to video, could include streaming of music and games, as well as the option for customers to accept ad-supported video: advertising in exchange for "free" (non-subscription) content.

Ad-supported video has already become the dominant model of delivering streaming video to consumers in China, India, and throughout the Asia-Pacific region. Sometimes it is combined with subscription services; in other cases, revenue comes from ads alone. Ads also provide much-needed revenue for streaming providers that seek to expand into different services, such as gaming and music.

In the United States, by contrast, most direct-to-consumer video offerings are pursuing the ad-free subscription model that Netflix has used to dominate the American market. US consumers like to avoid ads: 44 percent say an ad-free experience is a top reason they signed up for a streaming service.⁴ Yet, as more TV networks, film studios, and tech companies launch their own subscription services, it's likely that only a handful can thrive in a subscription-only model, and many may offer ad-supported options.

Ultimately, consumers will likely select a handful of "must have" subscriptions. Media companies with large libraries that don't make the cut could launch their own ad-supported services, with or without a subscription tier. For other services, providers may have to decide between making them subscription-only or joining an ad-supported aggregator.

One of the additional advantages of ad-supported video is the advanced advertising capabilities that come with it. These include consumer segmentation and targeting, which help promote effective measurement and campaign management.⁵

Of course, **targeted advertising** relies on providers' ability to extend highly relevant offers to consumers. This requires a deep understanding of customers' interests and buying behavior. To gain these insights, providers should deliver value in exchange for the personal data consumers need to share for targeted advertising to work. Unfortunately, too many providers still haven't figured out how to address this challenge.

There is a sizable audience awaiting providers who do. For example, among millennials who stream video, 29 percent of their streaming time is spent watching video content on free, ad-supported sites like YouTube and Sony Crackle. By comparison, these millennials spend 46 percent of their streaming time viewing content from paid services.⁶

Mergers and acquisitions will likely continue to provide another avenue for media companies to strengthen their content libraries. However, while we expect consolidation to continue, we don't anticipate the number of megamergers that have occurred over the past couple of years.

Meanwhile, telecommunications firms and enterprises are still trying to determine what the "**killer apps**" for **5G** will be. With the advent of 5G, we're likely to see new kinds of apps we've never considered before.

In reality, 5G is very much in the "build" phase right now. However, as people come to truly understand its capabilities and limitations, we can expect to see the next generation of solutions based on 5G.

The transition to 5G is expected to generate a windfall for network, infrastructure, and equipment vendors. Gartner predicts that worldwide 5G network infrastructure revenues will touch \$4.2 billion in 2020, recording year-over-year growth of 89 percent.⁷

US telcos are increasingly using unlimited-data plans to attract and retain customers. With 5G coming into the picture, providers will be able to increase both download speeds and monthly data capacity on unlimited plans.



Which markets do you see emerging in the sector?

Augmented and virtual reality apps may not have lived up to the initial hype, but media & entertainment companies are now finding ways to integrate them into their applications and services. In fact, the past two years have seen a series of investments into the AR/VR space.⁸ Research shows that AR technology is currently enabled on 1 million mobile devices and is expected to grow to more than 3.4 billion devices in 2020.⁹

In the coming year, we expect to see the emergence of AR/VR in a wide range of enterprise apps—particularly in situations where users don't have access to the processing power of a PC. In the world of media & entertainment, AR/VR solutions will likely be used to:

- Provide a highly interactive alternative to traditional gaming controllers and keyboards
- Help companies produce educational programs that provide information in a more interesting manner
- Supplement other tools for training new employees on day-to-day tasks
- Offer an immersive theater experience by allowing the audience to get involved in the action
- Improve visitors' experiences at museums, art galleries, and amusement/theme parks
- Make concert performances even more memorable

Another category expected to continue its rapid growth is **esports**. Deloitte's most recent Digital Media Trends Survey revealed that professional gaming events are gaining serious traction, with 40 percent of gamers watching esports events at least once a week.¹⁰ By 2020, the global esports market is expected to generate \$1.5 billion in annual revenues, primarily from sponsorships and

advertising to an estimated global audience of 600 million fans. Marketers bestowed more than 600 brand sponsorships on esports titles and events in 2017 alone.¹¹

Legalized sports betting represents an entirely new growth opportunity for telecoms and companies in the media & entertainment ecosystem. The United States Supreme Court lifted the federal ban on sports betting in May 2018, and since the ruling, several states have legalized sports betting, including New Jersey, Pennsylvania, and West Virginia.¹²

In many ways, 5G technology and sports betting are made for each other. 5G is designed to support low-latency, high-volume communications—precisely the kind of connections that real-time sports bettors are likely to desire. And, 5G is already being deployed in sports stadiums, sports bars, and other venues where such betting might take place. In fact, the National Football League and Verizon announced that 13 stadiums would have the 5G Ultra Wideband network installed for the start of the 2019 season, with more to come throughout the fall.¹³

Media & entertainment companies are getting in on the action, too. For example, Fox announced the introduction of "Fox Bet," an online betting app. And, mobile sports app theScore is planning to launch its own mobile sports book, beginning in New Jersey. For now, many TV networks are taking more conservative approaches, such as developing TV programming for sports-betting fans or placing betting content on streaming services.¹⁴

In the area of telecommunications, lack of competition in the broadband market and low rural broadband penetration are two of the most widely discussed topics among regulatory agencies and consumer forums.¹⁵ But new connectivity technologies like **5G fixed wireless** and **satellite internet** may change the game.

As the speed and reliability of fixed wireless increase, more consumers may opt for it, increasing competition in the market. And, in what some have characterized as a “new space race,” SpaceX, OneWeb, and other organizations are developing small, low Earth orbit satellites that may be able to deliver high-performance broadband anywhere on earth. In addition to providing access to rural or isolated communities, low Earth orbit satellites could become essential networking infrastructure tools for industries such as energy, mining, transportation, and even finance.¹⁶

Telcos are also starting to target enterprises for **5G applications in industries** like manufacturing, healthcare (e.g., for telemedicine

solutions), retail, transportation, and education (e.g., for distance learning).¹⁷ Carriers can also use 5G as an enabler for private networks.

Increasingly, many of these enterprise applications will rely on 5G’s ability to enable **edge computing**. IDC predicts that in three years, 45 percent of IoT-generated data will be stored, processed, analyzed, and acted upon close to or at the edge of networks. By enabling data aggregation and processing at the edge, companies can achieve bandwidth savings while also reducing latency and improving reliability.¹⁸

What should businesses be mindful of as they plan for growth?

In the coming year, it’s never been more important for media & entertainment and telecommunications companies to make **data privacy and security** a top priority.

Deloitte’s most recent Digital Media Trends Survey shows that consumers still fear identity theft, financial loss, and unauthorized use of sensitive data—largely because many have experienced these threats directly. In fact, 23 percent of US households were victimized by cybercrime in 2018. As a result, consumers are increasingly demanding the same level of control over their personal data that they enjoy in crafting their home entertainment experience.¹⁹

Consequently, media & entertainment and telecommunications firms should work hard to create digital environments where people feel safe—and where brands are comfortable advertising. This is especially true in the area of social media, where several platforms are now using AI solutions in conjunction with experts to weed out spam and other offensive content.²⁰

Another concern for 2020 is the growing **antitrust backlash** against large tech companies. For example, the US Department of Justice and the Federal Trade Commission (FTC) have launched multiple antitrust investigations into the workings of the biggest technology players. In the coming months, tech giants will likely have to brace for a wave of heightened scrutiny as regulators review the power they wield.²¹

All media & entertainment and telecommunications firms also should address **increased regulatory scrutiny** across the

globe. GDPR was the first significant regulation that challenged US technology companies to re-examine how they conduct business and store consumers’ data. However, since then, there have been a flurry of actions by global regulators against US tech companies. Global regulators cite the EU’s example for their own laws and investigations against big tech.²² The scrutiny is only expected to increase in 2020.

In the coming year, telecommunications companies should manage customers’ **expectations about what 5G can really deliver**. 5G has been hyped so much, for so long, that it’s important that customers understand 5G’s real value proposition now—and down the road.

For example, in terms of 5G’s role in enabling autonomous cars, customers should understand that many elements are required, ranging from the physical infrastructure (microcells, antennas, backhaul, fiber) to contractual agreements.

Interestingly, despite strong support from carriers and ecosystem players, few public authorities and organizations have raised concerns around 5G. The issues they have mentioned tend to be technical in nature, while others are concerned with public safety and health. On the technical front, the biggest challenge is 5G’s high-bands or millimeter waves, which tend to have limited range and lower penetration. This has hampered some pilot tests. Another issue is overheating of some 5G devices while in use.²³



Regulatory authorities should play a key role to drive **5G adoption** in the United States. For example, the FCC should provide guidance for infrastructure rules and regulations. States and cities need supportive policies to back 5G infrastructure deployments.²⁴ To support further development of 5G, the FCC has worked on a phase-wise auction. It concluded 28-GHz and 24-GHz spectrum auctions in June 2019. The 28-GHz spectrum auction offered licenses for selected areas and generated around \$700 million in bids. The 24-GHz auction offered countrywide licenses and generated \$2 billion in bids.

The FCC has also approved auction of underused 2.5-GHz spectrum kept for Educational Broadband Service for 5G networks.²⁵ 2.5 GHz is a key band in mid-band 5G deployments. The FCC also planned to conduct the next round of high-band spectrum auctions in December 2019, which is said to be the largest ever. Overall, telecom companies have spent close to \$25 billion in buying spectrum in preparation for 5G.²⁶

With the large-scale rollout of 5G, coupled with the launch of many over-the-top (OTT) streaming services, 2020 promises to be a seminal year for the media & entertainment and telecommunications industries. Opportunities abound for those who can capitalize on the trends we've highlighted, while keeping a close eye on the ever-changing regulatory landscape.

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