



TMT Predictions 2015

Media breakout session

27 January 2015, Amsterdam



TMT predictions: objective is to identify critical inflection points we believe should inform industry strategic thinking, and to explain how we think these will manifest over the next 12-18 months.”

Our predictions from last year were quite accurate

Review of 2014 media predictions and accuracy	
●●●●○	Doubling up on Pay TV
●●●●○	Television measurement: for better and worse
●●●●○	Broadcast sports rights: premium plus
●●●●○	Performance rights lift recorded music revenue
●●●●○	Cordless VOD demand leaps in Sub-Saharan Africa

Media predictions for 2015

1

Short form video: a future, but not the future, of television

2

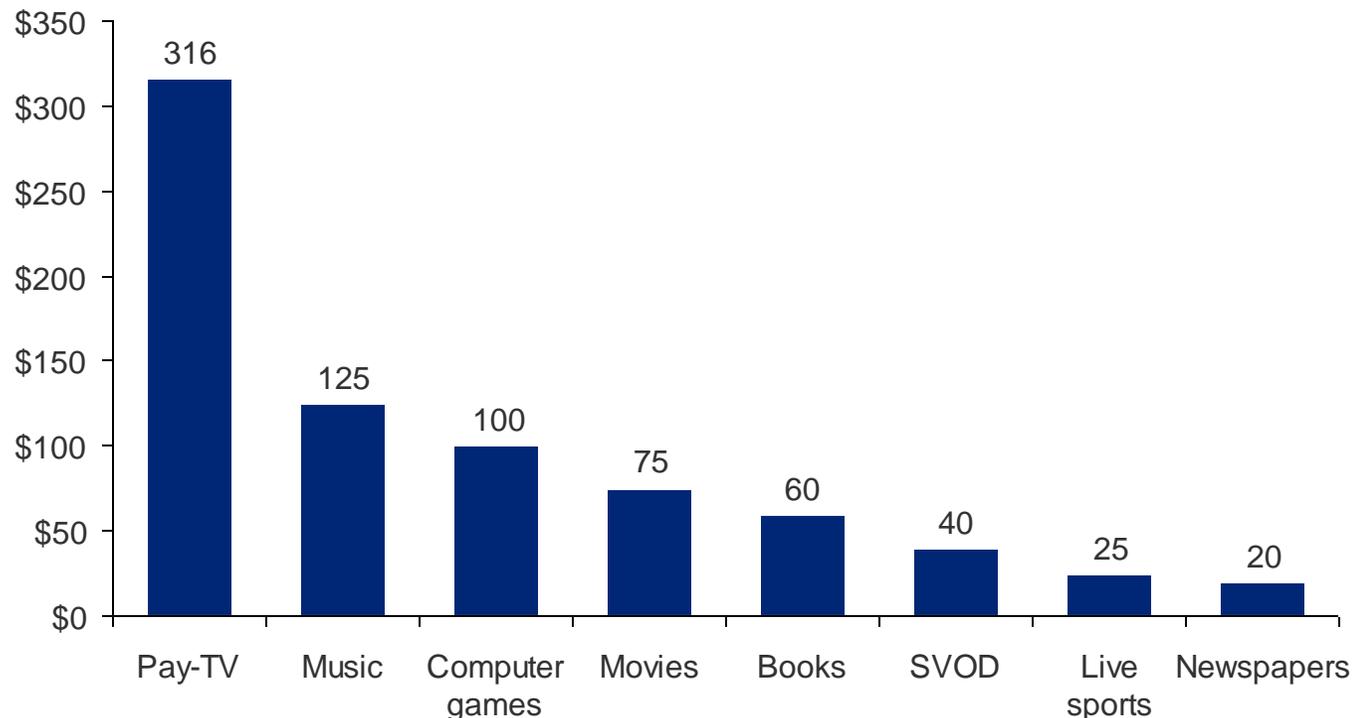
The 'generation that won't spend' is spending a lot on media content

3

Print is alive and well – at least for books

The 'generation that won't spend' is spending a lot on media content

The general perception is that 18-34 year-old millennials default to unpaid sources of content. However, the reality is that millennials are spending less on traditional media than they did in the past, and less than older generations, but are still spending



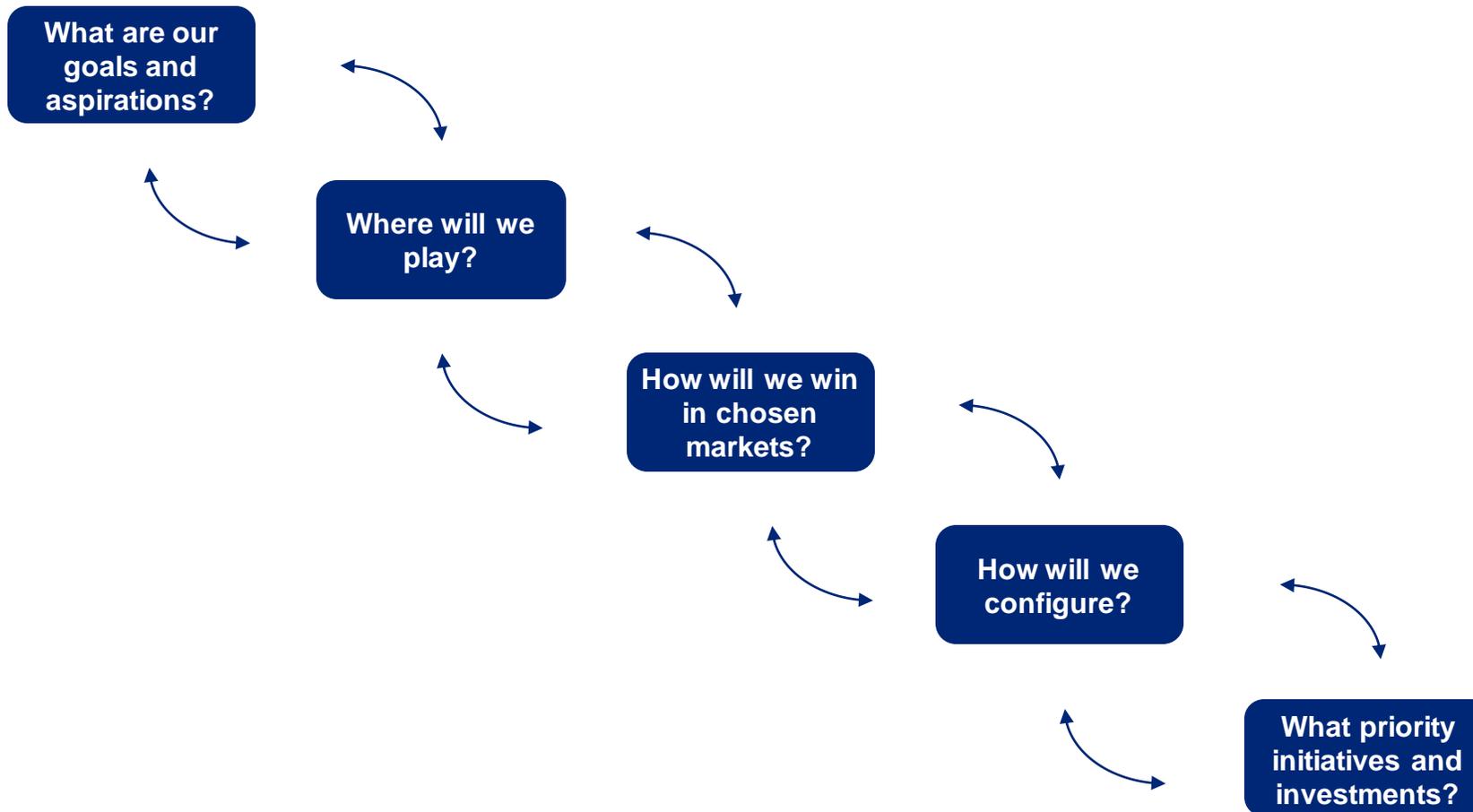
Source: Deloitte, 2014, based on multiple sources

Millennials in US and Canada are expected to spend \$750 each on media content in 2015

- Millennials are allocating less of their spending power to content than people of similar ages did in the past
- However, consuming content is expensive and requires expensive hardware and high speed Internet access
- Spend on hardware and Internet access often comes at the expense of spend on media content
- That makes millennials choosy and more price sensitive than young audiences in the past
- Experience from computer gaming, OTT providers, cinema and music industries shows that millennials will spend on certain types of media
- Monetizing millennials requires content provider to offer new services that may not be linked to the original media proposition

How can you compete and win in such a rapidly transforming market?

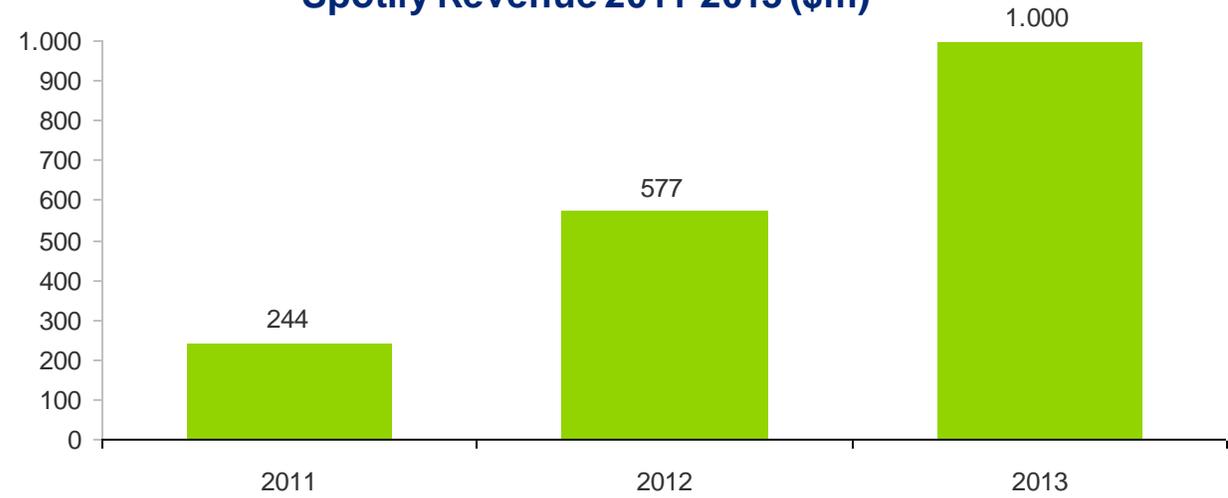
Why are some media companies thriving? What are they doing differently? Winning requires making strategic choices; Strategy Cascade™ is a model that structures the strategic choices to be made



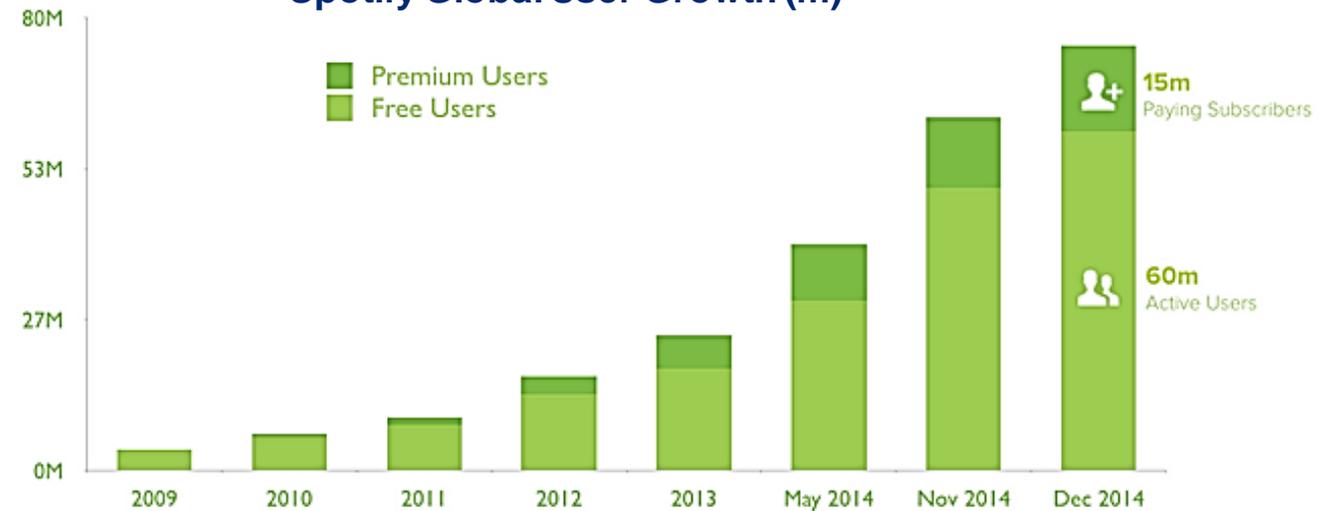
Case study: How Spotify transformed the music industry



Spotify Revenue 2011-2013 (\$m)



Spotify Global User Growth (m)

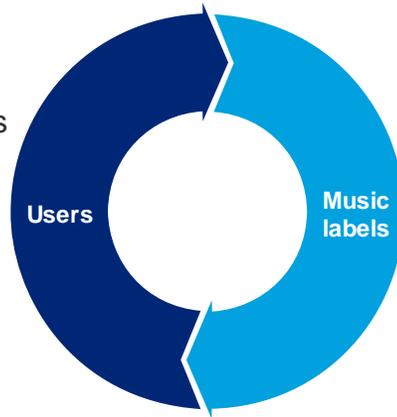


Case study: How Spotify transformed the music industry

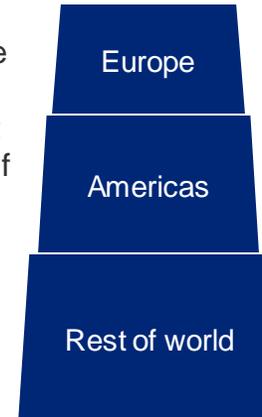
“The question was how could we create something that both supported the artist and favoured those who listen to music. We wanted to introduce a paradigm shift and we worked hard at convincing the market that the business model for this would work.” Daniel Ek, Founder of Spotify



Spotify chose to play in digital distribution and sales. iTunes was globally dominant in digital sales. No company was dominant in streaming music, especially in Europe. **Spotify chose to compete in this niche.**



Users would use a streaming site only if sufficient selection is available. Music labels would not publish songs on streaming site if user numbers were low. Thus, **Spotify subsidized music labels and they in turn provided content on Spotify.** Increase in content resulted in increase in users

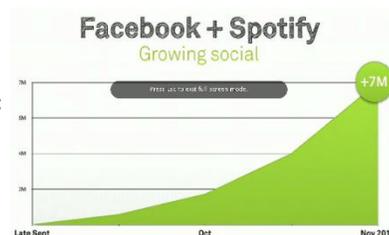


Spotify chose to focus on Europe in the beginning and later expanded globally. In every geography, it chose to target young, tech savvy demography



Spotify offered:

- Vast selection of songs
- Smart algorithms to find music as per your preference
- Acceptable price via freemium model
- Legal content



Spotify partnered with Facebook in 2011, giving users ability to share tracks and playlists and newsfeed updates on music you are currently listening to. This led to a 56% surge in number of monthly active Spotify users



Spotify wins millennials by:

- Scale of content
- Network effect of users with Facebook ecosystem
- Music recommendations
- Affordable pricing

Case study: How HBO evolved from pure pay TV to OTT SVOD



HBO



19

Emmy awards won in 2014, the most by any network

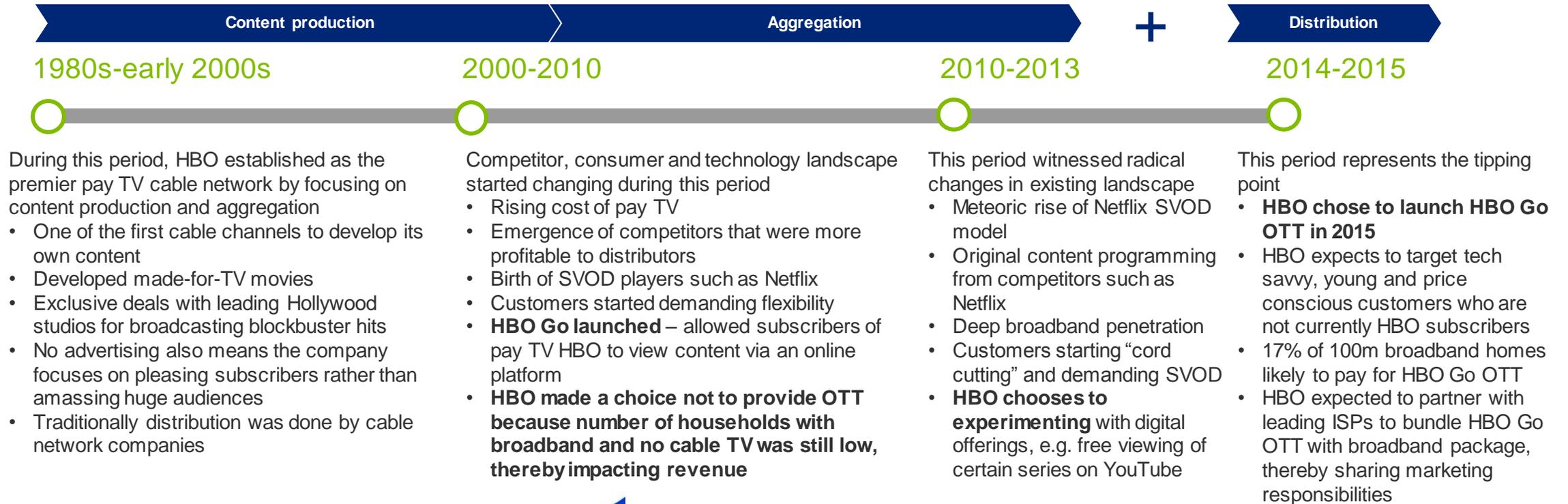


25.8m

Estimated HBO US subscribers in 2013

Case study: How HBO evolved from pure pay TV to OTT SVOD

“What we all share is a dedication to light up the world with the best storytelling across technological frontiers and geographic boundaries.” Jeff Bewkes, Chairman and CEO, TimeWarner



HBO wins millennials by:

- Vast library of quality content
- Access via SVOD without need for pay TV subscription
- Premium brand

Case study: Dominance of Sky in pay TV



£1.3 bn UK operating profit in 2014



£7.6 bn Sky UK revenue in 2014

11.5m # UK subscribers in 2014

Case study: Dominance of Sky in pay TV

“ We make life better by entertaining and connecting people ”



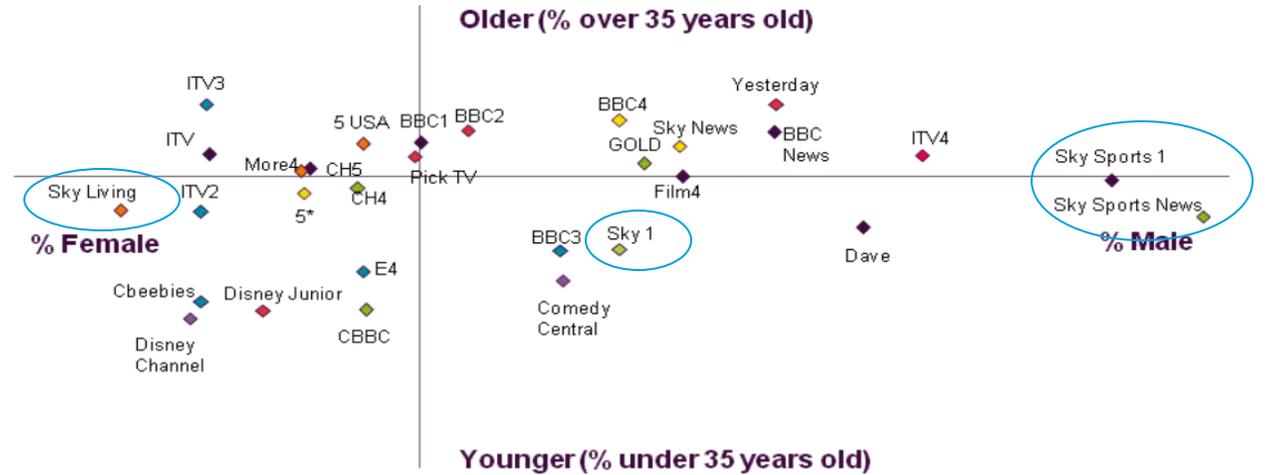
- Sports, specifically, **football** has been the lifeline of Sky (formerly BSkyB)
- BSkyB won the TV rights to the newly formed Premier League in 1991-92. Since then, it has led the live sports coverage in the UK
- Sky has also focused on **drama and original content** in recent years



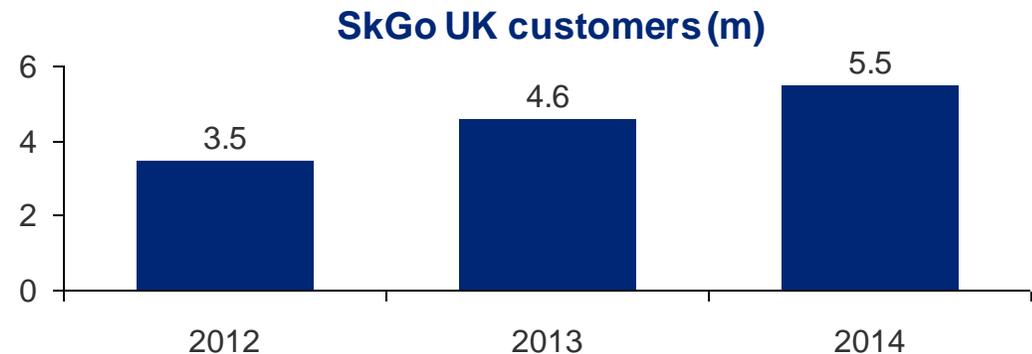
- Sky launched **Sky Go** in July 2011. This allowed Sky subscribers to access their content anytime, anywhere on any device
- To tap into the tech savvy but non-pay TV subscribers market, Sky launched OTT proposition **Now TV** in 2012



- Sky wins millennials by:
- Exclusive sports programming
 - Premium programming for drama and original content
 - Digital propositions such as Sky Go and Now TV



Source: BARB 2012, Age and gender profile of the 30 most viewed channels in multichannel homes



Case study: Blockbuster's journey to bankruptcy



- Blockbuster was an American movie and video game rental company that was founded in 1985 and went bankrupt in 2010
- From 1985 to 2004, Blockbuster operated physical stores. Subsequently, it added rental via post and VOD to its offerings
- Throughout its life, Blockbuster considered physical stores a key part of their strategy to grow

BLOCKBUSTER GLOBAL GROSS PROFIT (\$M)



- | | | | | |
|---|--|---|---|--|
| 1998 Netflix founded; starts offering DVD rentals via post | 2001 Enron goes bankrupt and VOD ambition is shelved | 2005 Removes late fees, an important source of revenue | 2007 Netflix starts offering streaming services | 2009 Rolls out kiosk services in addition to VOD and stores |
| 2000 Signs 20 year deal with Enron to deliver VOD | 2004 Blockbuster assumes debt of \$1b after Viacom spinoff, starts offering DVD rental via post | 2006 Tries to revive by modelling shops as convenience stores, no digital distribution | 2008 Rolls out basic VOD service, not supporting streaming, iOS or Android. Continues emphasis on stores | 2010 The inevitable happens – files for bankruptcy |

Case study: Blockbuster's journey to bankruptcy

“We're strategically better positioned than almost anybody out there. Never in my wildest dreams would I have aimed this high” Kevin Lewis, Blockbuster's head of digital strategy in 2009

Where to play?

- Netflix was the leader in streaming digital entertainment with subscription business model
- Apple was the leader in digital download of entertainment with a pay per view business model
- Blockbuster tried to compete with Netflix by offering a subscription option and with Apple by offering a pay per view option
- **Blockbuster could never decide with certainty which area it wanted to play in**

How to win?

- Blockbuster had high operating costs with its physical stores, which were modelled after convenience stores. The emphasis was on cross selling products such as sodas rather than create a differentiating in store social experience of movie aficionados and provide expert movie recommendations to customers. Netflix and Amazon did not have these overheads
- Blockbuster was very late with developing its digital offerings. When released, the offering was compatible with only specific devices. It was incompatible with Apple, popular consoles such as Nintendo or 3G technology
- **Blockbuster did not execute to win in both, the physical and digital channels**

Case study: Huffington Post – news in the 21st century



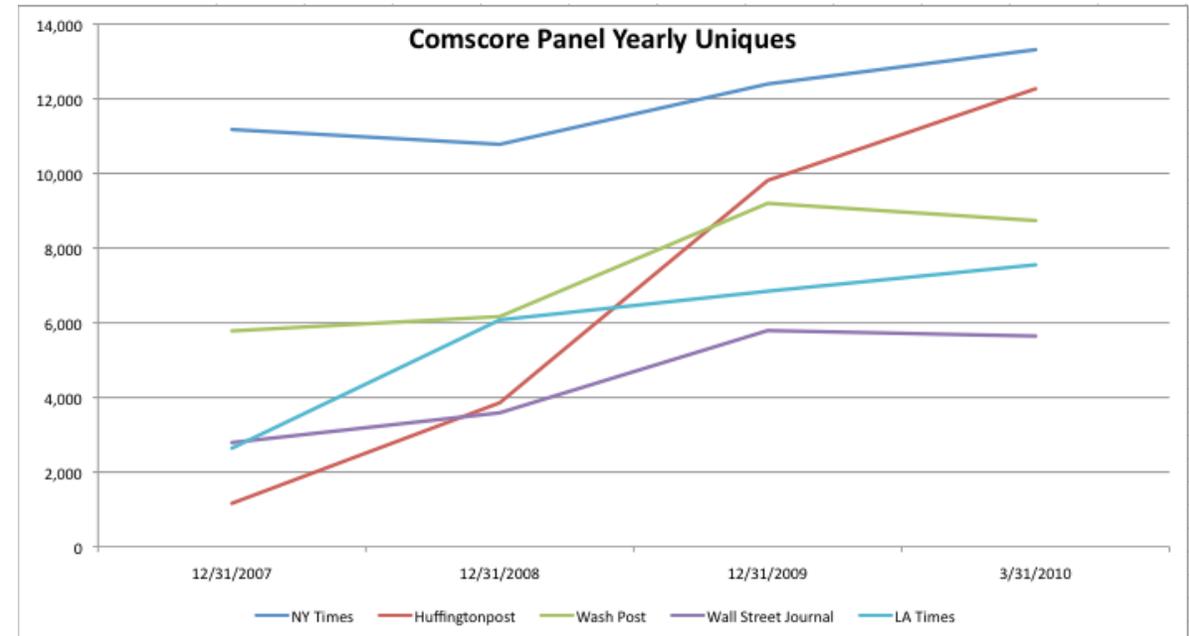
THE
HUFFINGTON
POST

THE
HUFFINGTON
POST



Acquired by AOL in 2011 for \$315m

- 40.6m** Monthly unique visitors from PCs, 2014
- 723m** Monthly unique page views from PCs, 2014
- 51.3m** Monthly unique visitors from mobile, 2014
- 204m** Monthly unique page views from mobile, 2014
- 67.4m** Facebook interactions for content published in Oct 2014



Case study: Huffington Post – news in the 21st century

“The first step toward changing the world is to change our vision of the world and of our place in it”
 Arianna Huffington, Co-founder of Huffington Post



Huff Post recognized the trend of low willingness to pay for generic news. Thus, **choose to not focus on original content**



Huff Post wanted high volume content and hence aggressively **aggregated content and sourced it from unpaid contributions**



Huff Post **chose to distribute content online only**, with local and global editions of its websites



Huffington Post engages millennials by:

- Wide ranging content across more than 60 categories
- High velocity of content refresh
- Deep integration with all leading social media platforms
- Huff Post Live video content

Cost			
Content generation ✓ <ul style="list-style-type: none"> • Very little original content • Content aggregation • Unpaid contribution like blogs • User generated comments • Citizen reporter 	Staff ✓ <ul style="list-style-type: none"> • Mainly responsible for curating content • Very few focused on original content 	Print and distribution ✗ <ul style="list-style-type: none"> • Huffington Post is online only, so no print and distribution costs 	
Revenue			
Online Advertising ✓ <ul style="list-style-type: none"> • Drive page views high by • Volume of content – text and video • Social media integration • Local and global editions 	Paywall ✗ <ul style="list-style-type: none"> • Huffington Post is online only, so no revenue from pay wall, print advertising and print subscription 	Print Advertising ✗	Print subscription ✗

Case study: VICE – music, sports, news media



Jan 26, 2015

STUFF



Allie Conti

Will You Be Able to Order Drugs in New York City During the Blizzard?

We asked one weed deliverywoman with six years of experience how the city's pot industry is preparing to deal with Winter Storm Juno.

Jan 26, 2015

NEWS



Antonis Diniakos

We Asked Greece's Social Outcasts if the New Government Gives Them Hope

We asked four people living on the outskirts of society if they believe that Greece's new left-wing government can show them better days.

Jan 26, 2015

VICE ON HBO



Watch Our HBO Report on India's Rampant Rape Problem

In the seventh episode of our second season, VICE heads to Delhi to meet Sampat Pal, an Indian woman who's formed the Gulabi Gang, or Pink Gang, to help women band together to combat the many cases of sexual assault tainting their country.

Jan 26, 2015

STUFF



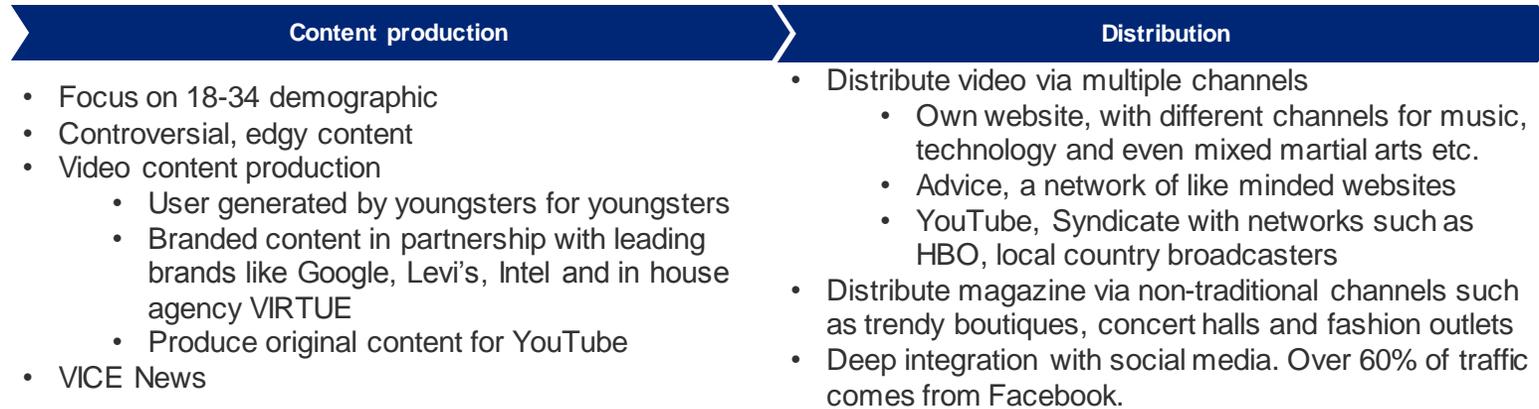
Mike Pearl

Some Assholes in Honduras Blew Up a Dog and Put the Video Online

The video is high on the list of Worst Things in the World, and far, far crueller than your usual internet shock vid.

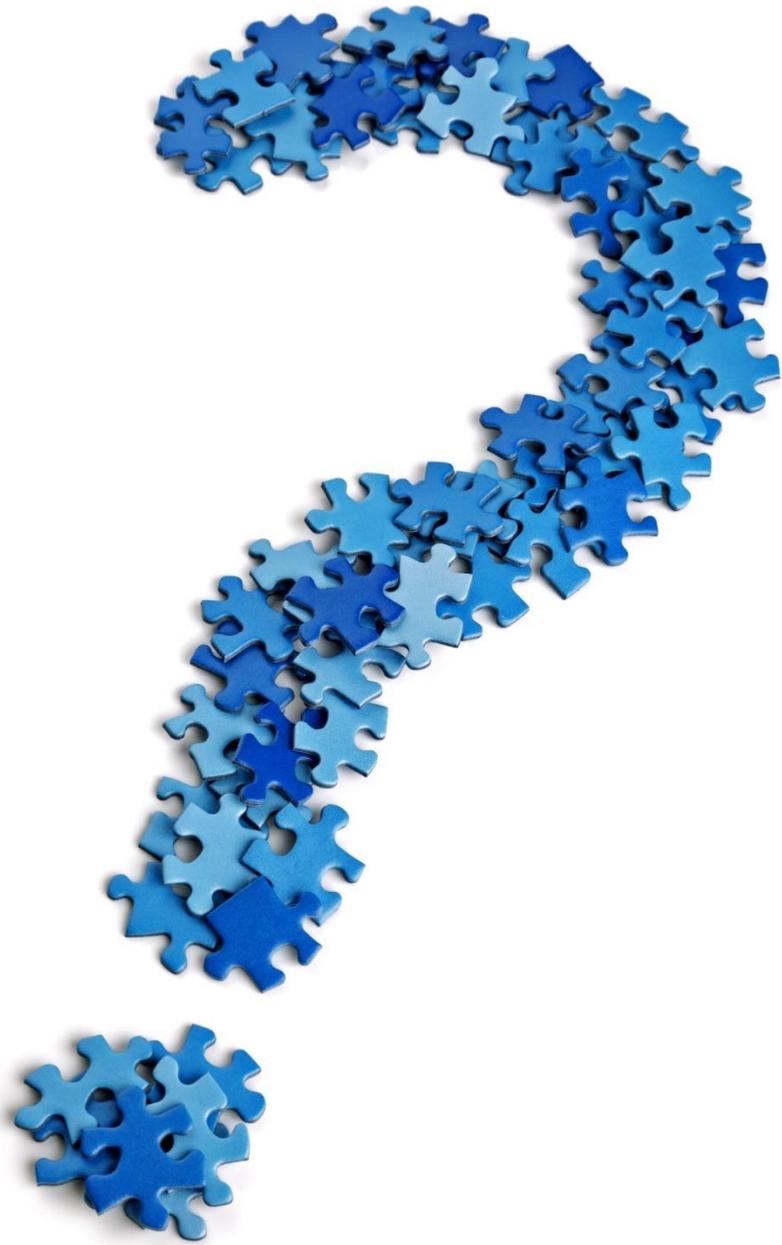
Case study: VICE – music, sports, news media

“I want us to be the next MTV, ESPN and CNN rolled into one” Shane Smith, co-founder and CEO of VICE Media



VICE wins millennials by:

- Producing and distributing content that is relevant for 18-34
- Creating branded content specifically for millennials
- Deep integration with social media



Thank you