



USER FRIENDLY

Telecom, Media & Entertainment industry trends

Host: Hanish Patel, User Friendly host and Digital Transformation leader, Deloitte Consulting LLP

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Hanish Patel: As we close out 2019, it's time to look forward to the upcoming year and what opportunities for growth, emerging markets, and potential challenges telecommunications, media, and entertainment companies should be mindful of. From the continued growth of streaming to implications and applications of technologies, including 5G and augmented and virtual reality, there's no shortage of trends to watch in 2020.

Here today to give his outlook on the TM&E industry for 2020 is Deloitte's Kevin Westcott, vice chairman who leads the TM&E industry for the US firm. Kevin is a frequent guest on the pod, and we're excited to have him back today. Kevin, thanks for joining me today.

Kevin Westcott: Thanks for having me.

Hanish: All right, so let's get straight into it, Kevin, given we've got a fair bit to cover and an exciting year ahead. So it seems like every

passing day brings a new streaming service. Do you foresee the growth of streaming slowing down anytime soon, and how will the market adjust amidst all of this all-out streaming war that we're seeing in 2020 for sure?

Kevin: As we go into 2020, I expect to continue to see the explosion and growth of video streaming. Consumers have definitely shown that this is a format that they enjoy and they want. But there is a little bit of problem on the horizon for us here. With

over 300 current streaming platforms available in the US, consumers are saying they're a little frustrated. They have to manage and pay for multiple subscriptions. At the exact same time, we've seen the announcements and now the pending launches of large players entering the space. And I'm expecting to see a shift in the market as those large players enter in, and I've been calling it re-aggregation.

Consumers don't want to have to have 10 or 12 subscriptions to get all the content they want. Actually, in the US, the average consumer only has three. So they're looking for a way to get all the content they want off of single platforms. So I expect to see these brand new large platforms enter the market with great original content, as well as a great library that keeps people attached to the service.

You know, if I look at myself, I happen to have 16 subscriptions in my household. So I get the chance to try a little bit of everything. But like most consumers, I gravitate towards just a couple of them and use them very frequently. And that's where I think consumer behavior, when they say they're frustrated, is that they don't want to have to change platforms to go watch that one show.

So I do expect to see this re-aggregation really take foot after the launches of these very large platforms.

Hanish: And certainly that re-aggregation is going to be even more beneficial for you if you're on 16 different subscription services compared to three. But that's fascinating that even at three, people are finding frustration in terms of just having those subscription services or the number of those services.

I was looking at the industry outlook that you put together, and there was one story I found really interesting and somewhat related to the number of platforms. It was all about advertising. And one might assume that consumers are generally just looking to avoid advertising. We've heard about that for a number of years, and they're looking to

avoid it at all costs. But the truth is, it's pretty dynamic. When you think about the content producers, advertisers, and consumers, it's certainly more complicated than just not wanting a hell of a lot of ads coming our way. So can you share a bit more about what's in the outlook around advertising?

Kevin: Yeah, advertising, I would say advertising maybe got a little bit of a bad name in the last few years as consumers kept going to subscription VOD, or SVOD. Consumers really liked the ability to not have those ads, but they also have to pay for it.

Hanish: Right.

Kevin: And that's in the subscription itself. Ad-supported video has already become the dominant model for streaming in China, in India, and other parts of Asia-Pacific. There's so many more options there. And I actually expect to see more ad-supported streaming becoming available in the US. Going back to that frustration point, if I subscribe to three platforms and I pay for those, but maybe I can get another couple that are ad-supported, I can get a broader swath of content available in my household.

The other thing I expect to start to see is actually somewhat of a hybrid model, where you can subscribe and have no ads, or I can subscribe at a lower price and have some ads. And we'll see how much of a sliding scale we get in there. Consumers tell us that they're actually willing to exchange some of their time, in terms of watching advertising, for the value of getting content either reduced or free. The big difference is that they're telling us today that the ads are not targeted nor relevant.

So they want targeted and relevant ads, and they tell us the right balance is about six minutes to eight minutes per hour. What we currently see is well over 12, 15, up to 16 minutes per hour is the average on pay television, which is where the consumers are basically switching it off. So if I think about where this will evolve, I think we'll see more ads on these types of platforms, but I think we'll see them being reduced. Maybe it's more around the sponsorship of shows,



where companies will advertise that way and get associated with shows they want to be associated with.

So I think again there, the pendulum probably swung all the way to subscription over the last few years. It's swinging back. The economics have always worked to have ad-supported content. And we see that today. We see that in streaming music as well. You can make a choice. You can have ad-supported, or you can have ad-free, but you have to pay for it. So I expect to see more and more of those hybrid models becoming available. And consumers really just want to have choice. If you want ad-free, you can pay for it. If you're willing to accept ads, they just want those ads to be really targeted and relevant to what their interests are.

Hanish: So I think it sounds quite similar to what you described around just the choices of content. Now it's about the way that I can get choices of my content. So if I'm a consumer, yes, I could have a full-blown subscription service, no advertisement, or I can go for a heavy advertisement model, or maybe somewhere in between, where I'm getting a light amount of ads, but if I want to watch a feature movie or a certain sporting event, I'll just pay for that part of it, and not have any advertisements come through.

Kevin: Think of the opportunity to be riding public transportation, and to snack on small pieces of content that maybe have a minute of advertising on each. So maybe I get a minute per every 10 minutes. So I get that, but I get it all for free, and that those ads are targeted and relevant. Now on Friday night, when I decide to pull up my big screen in my house in my living room, and I want to sit down with my family, I'm probably willing to pay whatever that cost is to have that be ad-free, because I want to sit through 90 minutes to two hours of a great feature film, not have to deal with advertising. So I think it also depends on the device you're using, the location, the type of content.

To me, shorter content—as long as the ads are targeted—shorter content, I'm okay to

have a little bit of advertising. But I actually want to watch a half an hour worth of drama maybe ad-free, or two hours' worth of a great sci-fi movie and not have those ads interrupting. And that's, I think, also how that will work in here. It's not just the content, it's the location, it's the device. All those will play in.

Hanish: So let's zoom out a bit and let's look at the telecom side of the house. And certainly there are a number of technologies that have been bubbling away in kind of "we're ready, we're ready, it's coming," and certainly more really at the forefront are poised to change the way that we're going to communicate going forward, and certainly in 2020. How do you see the evolution of communications taking place next year?

Kevin: Well, there are two major trends, and probably the most pressed right now is around 5G, and 5G being this new communication capability, incredibly fast, zero latency. The other one is edge computing, which actually goes hand in hand. So if you think about it, I can now move the compute to the edge of the network, and if I'm connecting with 5G, now I can unleash all kinds of new opportunities. There's lots of examples out there of what people are talking about. We hear about autonomous vehicles, we hear about remote surgeries. We hear a lot. AR/VR. All these things that will be enabled.

I actually believe that we're not really aware of what the opportunity is going to be, because very few people have 5G with massive edge computing available to them today to even envision the next wave of killer applications. If I asked you in 2006, "What applications do you want on your smartphone? What apps?" You'd probably look at me strangely because—

Hanish: I probably asked you, "What's a smartphone?"

Kevin: We were all walking around with texting and talking machines.

Hanish: Right.

Kevin: Now we have an entire app economy that's created. I think we're at the next level of the next Renaissance. When we actually get these technologies in the hands of these very creative and innovative people, they're going to invent things that we haven't considered today.

In the immediate term, 5G is going to change a lot more in the industrial space than it is in the consumer space right out of the gate. We're seeing factories using 5G technologies to communicate in real time, so that if there is a minor glitch in one part of the factory, the rest of the entire factory can adjust to that. It can even reach out and then maybe slow down part of the supply chain for tomorrow's deliveries if they're going to be behind. So we're talking about extremely real-time that are controlling these robots that we haven't been able to do before. So I expect to see the industrial space really take off.

We've been looking also to how 5G would change health care. Think about the amount of data you could be collecting from patients while they're in the waiting room, to understand "Is there something that's hidden underneath the symptoms we're seeing?" Also identifying exactly where they are in some very large facilities. We've heard stories about people kind of getting lost in the system, people not knowing where they are.

So a lot of this technology is going to unleash all kinds of innovation, and I'm really looking forward to it. It definitely will help move AR and VR more into the mainstream.

Hanish: Right.

Kevin: I expect to see a lot of AR type of applications in field service, in just helping people navigate foreign cities. Think about all the things you can do. I experimented a month ago while I was doing a little bit of traveling, just using some of the really rudimentary AR technologies on a mobile phone, but it was very helpful. So I am expecting to see lots of advances there.

And if you think about VR, I really think about VR around training or education, where that will really take off. So you know, these technologies will make it that much easier, that much more real-time.

Hanish: No, certainly. And especially as you mentioned AR and VR, I saw this fascinating thing a few months ago actually coming out of the UK. So I'm not biased, I just saw it coming out of there. A physician was actually using AR/VR technology for their patients. So it was actually for young children, to calm them down as they're going through an operation. Just using that technology in a very different way in the health care practice to do that. Which I thought, to your point, around just the enterprise-level applications you can do just to make a difference for consumers as well.

And the other thing you talked about was quite interesting. When you talked about 5G, most people, those we talk about 5G, they just look at it from the consumer side. I'm going to be able to download things faster on my phone. It's close to zero latency. But I think to your point, the enterprise-level applications are where we're going to see the big changes take place in 2020. Albeit, I'm sure we'll all be able to download whatever we're downloading on our phone a hell of a lot faster. But we're certainly going to see that big, big change.

Kevin: I absolutely agree, because it's going to take some time for the 5G infrastructure to get rolled out. We know the major carriers are now doing pilots or tests or rolling out in specific areas, but it takes a while. And also recognize that 5G is not the overall total solution. I mean 4G is still going to be the umbrella, and 5G on their microsites are going to be where you get that incredible bandwidth. But if you're too far away from a 5G antenna, you'll be reverting to 4G LTE, those types of technologies. So it'd be seamless to the consumer, but it'll take a long time.

If you think about all the antennas and all the backhaul that needs to be rolled out across the country, and there'll be parts of

the country they probably will never get to, it's obviously going to start with highly populated, dense urban environments where you can get a lot of folks. I actually think the very first rollouts we're going to see after these trials are going to be done are going to be in very large public spaces where we know there'll be lots of folks. You can think stadiums, you can think of any type of events where people are coming together. Because we kind of know how many people can be there, so we know how to actually put the infrastructure in place. And we also know there's probably apps that would make a lot of sense around a sporting event. Whether it's playing football or what you call soccer.

Hanish: Football.

Kevin: But you think about if I have a stadium that can seat 75,000 people, I know exactly what my max capacity needs to be, and I can think about the types of apps that would be perfect for a sporting fan while in a stadium. So that's where I expect to see some of the early applications on the consumer side coming out.

Hanish: Right. Well, let's actually stay on that thread of sports. And I will be having Pete Giorgio sit down with me and we'll be talking about sports overall, and he's a kind of US sports practice leader. But in terms of the outlook, I'd love to, from a TM&E standpoint, get an idea of what it all means for sports and live entertainment, and certainly as you mentioned, some of that 5G, I can see some AR applications coming into play. What major shifts do you see from a sporting perspective that should telecom, media, and entertainment companies be aware of?

Kevin: We talked a little bit about 5G, and I think 5G will allow a couple of things. One thing, it will obviously allow in-stadium experiences. But it'll also allow out-of-stadium experiences where I can, you know. . . Right now live streaming is working, but I can get even better live streaming. So I'm seeing it the same time that the broadcast television folks are seeing it, and the same time the folks in the stadium are seeing it.

So that also starts to enable some interesting things. You know, in the United States, the Supreme Court has overruled the national ban on sports betting. So now it's a state-by-state decision, and many states are now legalizing sports gambling. Well, sports gambling is going to take on all kinds of interesting permutations here. It's not going to be just the outcome. You think about all the other side bets you can do during a game.

Hanish: Right.

Kevin: And that could be enabled by 5G as well. So new opportunities happen in that area.

I think that we've seen some early partnerships between the sports betting organizations and M&E companies and looking at, okay, how is this going to interplay? And you know, certain companies and certain leagues are shying away, while others are jumping in with both feet. So I think we're going to start to see those things coming.

The one thing you didn't mention in your intro is e-sports.

Hanish: Yes.

Kevin: And e-sports has really exploded on the marketplace in the last few years. A few years ago it was primarily thought of just young males playing video games and putting it up on the Internet. The market's really exploding. What I find more fascinating than even the revenue number are the number of hours and viewers. This is one of the most watched sporting events in the world with the largest global interest. Now the market itself, our estimates are, in 2020, about a billion and a half dollars' worth of revenue. Most of that's advertising and sponsorships. But as these athletes, as they call them, are even becoming more and more well known around the world, and more and more money's going into e-sports, I expect to see this continue to grow.

I think that the estimated global audience right now is 600 million. Think of any other sport that has that many people watching it. So this is one to watch.

Hanish: And to that point, that's certainly huge, with the amount of prize money we're seeing being thrown at some of those winners compared to maybe more traditional sports winners. And again, just the other day I was seeing a documentary on just how they're setting up houses for teams and people playing for that sponsorship and just really putting some serious money, team psychologists, just like you would imagine any other professional sports team would be having. It's certainly moving in that direction for sure.

Kevin: Just wait until we start seeing the draft.

Hanish: Yes.

Kevin: Spring training. Think about everything else that our major sports leagues go through. You can start to see that happening. Because there is so much money being poured into this, there's so much interest, there's such a large audience. And to be at the top tier of these athletes, we're going to go through the selection processes and training and everything else that goes with that.

Hanish: And no doubt the sports betting will be coupled with that as well.

Kevin: Exactly. You start to think about how sports betting and e-sports intersect.

Hanish: Yeah. When I think about that, with so much opportunity afoot, should telecom, media, and entertainment companies. . . What should they really be mindful of as they're moving into evolving their business in 2020 and beyond, given everything you've just mentioned about how it really is changing and how fast it's changing?

Kevin: Well, I think there's absolutely massive opportunity in front of us. With all of this change, brings opportunities. And you see a lot of the larger TM&E companies

entering into new markets, announcing new launches of platforms. We've seen multiple OTT announcements, we've seen multiple e-sport game announcements, we see tie-ups between video and streaming services. So lots and lots of opportunity.

Then we're going to have this new introduction of technology called 5G, and every time we introduce a new technology like this, consumers expect more, and they demand more, and they've been getting it. You think of even the previous generations.

To be mindful of: Consumers are much more aware of data privacy and security. Much more so than ever before. I think our numbers tell us about a quarter of the US households say that they've actually had some type of cybercrime committed against them, whether that be a stolen credit card or identity theft or something like that. But a lot of folks. And you hear about the massive breaches that happen at some of these companies, and the numbers are staggering. It's 50 million, it's 100 million, it's 200 million people whose data is now exposed. Now, not all of them become victims, but the data is out there. So it's around cyber protection. So our clients who do collect a lot of this data need to be thinking about "How do I make sure that that data is being protected and that the consumers have trust in me?"

We have also seen legislation outside the United States with GDPR, and now in California as well, where these companies also have to allow consumers to have more control over the data. When we query our consumers, they tell us that they're willing to share data for a return in value. Again, give me a better experience, do something. But they also want the ability to see what's being collected and to delete what's being collected or delete themselves. You know, dying on the Internet, so to speak. So we're going to have to offer more capabilities to our consumers to actually manage and maintain that data, and allow them to choose if they want out. To truly opt out of the situation.

So that's one. The other one is there is a lot of focus on the mega tech companies. And

there's lots of announcements. There's a bit of antitrust feeling out there right now.

Hanish: Right.

Kevin: And I look at our clients in saying it's time to make sure that they're self-regulating, to maybe take a step back and make sure they're doing everything they can. And we see CEOs now going to Congress kind of frequently and talk about all they're doing. I think they got the message in the last 12 months. So now it's about the actions they take in 2020. Do they take the actions that they're talking about now to avoid pressures from lawmakers? And we see it in the EU, we see it in the US. So I think that's another thing they really need to be focused on, is to make sure that they are abiding by the expectations of consumers and lawmakers, so that they hopefully stay off the front page for those reasons.

But again, I think 2020 is going to be a year of amazing opportunity. It will definitely be a year of disruption, with the major announcements of the new OTT platforms, new services, 5G, edge computing. We didn't get into artificial intelligence today. With all these new technologies finally becoming mainstream. We've been talking about some of these for five or 10 years, but they are really becoming mainstream for the first time.

So I expect lots of disruption, lots of new opportunities. And I think then, over the next few years, we'll probably see a little bit of settling of who the winners and losers are going to be, and what consumers really want. Because again, if I asked you today, what do you want in your next-generation smartphone with AI in it, what do you want it to do for you? I don't think you can tell me. But maybe, at the end of the next year, you're going to tell me about this killer new app that you use that does all this fabulous stuff and it's in your hand.

So that's where I think the future's going. I think 2020 will be a very exciting year.

Hanish: Wow. I mean, there's certainly a lot to look forward to. And I think being fellow

Formula One fans, I think we should set up our own e-sports team and see if we can take Lewis on, see where we can get to.

But no, in all seriousness, I really want to thank you for coming on the pod again. Always great to have you on. Great insight. And based on the outlook, there's many, many things that we can look forward to over the course of 2020.

And for our listeners, be sure to check out our tech industry outlook episode, as well

as our third installment in the series, where we'll be talking about sports and live entertainment. Until next time, happy listening.

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