2015 State of the Broadcast Industry

IT’S A CONSUMER’S WORLD, WE’RE JUST LIVING IN IT

The broadcast industry continues to change rapidly, and where 2014 may turn out to be the true tipping point for digital video, 2015 again promises to be a watershed year. Changes in every aspect of the business are in store as key forces are converging.

Consumer audiences are driving these changes, demanding control of how, when and where they consume content, vocalizing their choices in how they receive and pay for content, and sharing their preferences for what types of content they want. Never before have audiences had so much power over their content experiences, and broadcasters and operators have made a harsh realization: It is now a consumer’s world and they are just living in it.

This special report will discuss the state of the industry going into 2015—the power of the changing consumer and their impact in driving key activities across the industry, including its technology, programming and advertising sectors.
TABLE OF CONTENTS

1 CONSUMERS

1.1 Anywhere and Anytime
1.2 The Cord-Cutters, Cord-Shavers and Cord-Nevers
1.3 Global and Multicultural Shifts

2 INDUSTRY

2.1 Consolidation and Expansion
2.2 Positive, Negative and Neutral(ity)
2.3 Over-the-Top and Everywhere

3 TECHNOLOGY

3.1 Rise of the Device
3.2 4K for the Future
3.3 Broadband and Beyond

4 PROGRAMMING

4.1 Content Evolves
4.2 A La Carte vs. Bundles
4.3 Live Sports and Movies and Kids - Oh My!

5 ADVERTISING

5.1 Traditional TV Goes Down, Digital Goes Up
5.2 Programmatic Expands
5.3 Cross-platform Ratings Arrive

6 CONCLUSION
CONSUMERS

“Viewers around the world are moving closer to a simpler, more personalized experience—one with more freedom, more choice, and more satisfaction.” —Ooyala Q3 2014 Video Index

Nearly 15 years into the millennium, consumer audiences are rising in dominance. They are controlling—and in some cases—creating the content they now consume and driving many of the changes in the industry. Broadcasters and operators now know that in order to survive and thrive going forward, they not only need to understand who and where their customers are, but how those customers want to consume content.

Anywhere and Anytime

Consumer audiences, who once watched from somewhere (the TV room), are now anywhere and everywhere, as every room is now the TV room. They are always ‘on’—there is no ‘off’ button anymore—and primetime is anytime. They are also inundated with video choices. As Multichannel News stated, 2014 research uncovered that audiences want benefits like flexibility, convenience, and lower costs in viewing original content, which is increasingly driving them to cut, shave or completely disregard the "cord" and move online and to mobile devices.

No longer can a broadcaster program for a mass audience, with members viewing at a single place, on a single device, at a single moment in time. Now, they must program for fragmented and niche audiences, watching in many places, on multiple devices, at various points in time, and these audiences are increasingly only interested in watching programming tailored just for them. As discussed in the Ooyala Q3 2014 Video Index, for example, smartphone and tablet views have more than doubled in the last year, and APAC viewers are more likely than any other region in the world to use these devices after 5 P.M., in what was formerly prime TV room viewing time.

As JWTIntelligence has observed, we are rapidly moving from a multichannel world to an omnichannel one, as consumers become “digital omnivores”, moving seamlessly between devices to consume content. While pay TV will remain the main consumer content choice for the near future, the transition to OTT is definitely upon us.

“Mobile’s share of online video time spent viewing has increased to 30%—a 200% increase over a year ago...We now believe more than half of all video views could occur on smartphone and tablet devices as soon as the third quarter of 2015.” —Ooyala Q3 2014 Video Index

The Cord-Cutters, Cord-Shavers and Cord-Nevers

As expected, 18-to-34 year-old Millennials have been driving the migration to digital. This group includes both the main cord-cutting generation, and the first wave of consumers native to the digital experience (the cord-nevers). Millennials are leaving TV and not coming back—if they were ever there at all—to enjoy a world with flexibility in viewing and lower costs. Rethink Research highlighted a study revealing that Millennial preferences include time-shifted and cross-platform viewing and online video series, and they also beat all other age groups in streaming video service subscriptions. The findings also indicate that Millennials also spend a third of their TV time watching video via connected devices including laptops and mobile devices.

However, according to another report, the fastest growth in digital video consumption in Q2 2014 was among viewers over age 35—including the Gen Xers who are most likely to shave the cord they were weaned on, even though they may end up paying more by assembling their own content packages across all distributors.

And let’s not forget about the late Millennials and Gen Z, which include the core cord-nevers, striking fear in the hearts of many industry executives. As Business Insider pointed out, these are “digitally over-connected” and price-
sensitive consumers with little provider loyalty. Further, because Gen Z looks for individualized, snackable and interactive experiences, look for them to demand increased content personalization, self-curation and real-time sharing.

“Gen Z-ers multitask across at least five screens daily and spend 41% of their time outside of school with computers or mobile devices, compared to 22% 10 years ago.” —Business Insider

Global and Multicultural Shifts

With many of the technical and legislative barriers to content delivery dissolving around the world, broadband penetration rates are rapidly rising. In fact, mobile broadband over smartphones and tablets are expected to drive broadband availability to over 50% of the world’s population by 2017. Consumers now have options other than international pay-TV tiers to receive video content that was previously off-limits—driving global viewing of culturally-relevant programming. No longer are viewers limited to content produced or generally available in their country of residence; now they can truly shop the global market for the content that appeals to them, and consume it anywhere—whether that be watching cricket in Boston or telenovelas in Bangkok. The whole world is seemingly now within reach.

Broadcasters and operators are recognizing the changing global demographics and rising influence of multicultural content, and responding with greater content diversity than ever before. U.S. Hispanics, for example, are said to be outpacing other groups in digital video consumption, and networks like Univision are creating personalized TV experiences to engage them. Like the new launch of DirecTV’s Spanish-language OTT service, Yaveo, look for networks and operators to continue focusing on capturing specific audiences with tailored offerings.

“More than 706 million households—nearly half the world’s TV HH—will be watching online video globally by 2020, a new report says, up from 374 million forecast for 2014. In 2010, just 197 million households watched online video.”
—Ooyala Videomind

TAKEAWAY: Consumer audiences around the globe are changing. Expect companies to continue refining the ways they use data to find them, understand them, adapt to them and engage with them across platforms, including the expansion of personalized, niche content offerings.

INDUSTRY

“The key challenge for us is to build these [sic] choices in ways that fairly compensate us for our content and brands, and do not undermine more established business models.” —21st Century Fox COO Chase Carey, as quoted in Bloomberg

To the surprise of practically no one, the consumer trends outlined above are demanding seismic shifts in business strategies across the broadcast and pay-TV industry. Companies are responding—fortifying themselves for the digital battles ahead through strategic deals, new offerings, and creative content packaging. Many are launching their own OTT services in the hopes that they can claim some beachfront property in the space, and in the minds and wallets of consumers.
Consolidation and Expansion

2015 will see further consolidation and impact of operator merger and acquisition deals like AT&T/DirecTV, Comcast/Time Warner, and Liberty Global/Ziggo in Europe, which promise to have a broad impact on the future of the industry and competition. This won’t be the end, with smaller operators seeking to bolster their companies for the future.

The broadcaster side will have similar future moves, as rising programming costs and industry shifts will continue to eliminate weaker and independent networks from operator lineups and drive network consolidation. Fewer and larger conglomerates on both sides portend even more contentious content rights battles ahead, potentially pushing further OTT growth.

While the Aereo experiment seems to be over, this isn’t the end of threats to the industry from new technologies and competitors. New players continue to populate the landscape, including the multichannel networks (MCNs)—birthed from the YouTube ecosystem—who are becoming the darlings of the media acquisition world. Global companies like Disney and Germany’s RTL are scooping them up—realizing that it is easier to buy digital content businesses with star talent favored by Gen Z, large brand sponsors and legions of fans, than build them from scratch. Look for this activity to continue in 2015, as the MCNs become networks of the future.

“The number of U.S. pay-tv subscriptions saw its first full year loss in 2013, and 2014 appears to be following a similar trajectory.” —Ooyala Videomind

Over-the-Top and Everywhere

2014 saw the first major U.S. flag-planting in the network over-the-top (OTT) race, as companies like HBO and CBS announced their respective takes on these offerings. Who’s next is anyone’s guess, but the floodgates will open in 2015. In the short-term, these moves are really network experiments meant to stake territory, leverage carriage negotiations, introduce complementary digital offerings to existing channels (not substitutive or cannibalistic), secure incremental revenue from new platforms, and capture non-subscribers as the digital future comes into view.

“Positive, Negative and Neutral(ity)

This year in the industry has seen a wave of gains in new offerings, rapid subscriber losses, and possible changes in net neutrality. Some operators like Verizon have begun to target cord-cutters and cord-nevers by experimenting with new service offerings and customized content packages, which include OTT providers, TV channels and broadband access—and in the case of U.K. telco BT, live sports rights. Look for this to continue in 2015.

As subscriber losses continue in the industry, with audience shifts away from traditional TV to digital and specifically, mobile platforms, the industry is in a race to mitigate churn and subsequent lost advertising dollars, and create a solid plan for the future. To recapture lost revenue and margins, operators are looking to become true virtual service providers—offering pay and OTT content, along with connected-home services, and broadband access all bundled together. The future will likely see consumers favor this mix, with operators perhaps ultimately acting as consumer “concierge desks” to manage authentication and billing, and organize content and service bundles.

Looming over everything is the pending determination over net neutrality. As of this writing, the FCC is still deciding whether broadband providers (like Comcast) can make pay-for-speed deals with content providers (like Netflix) or the internet can remain neutrally free to all. One potential scenario is a reclassification of broadband internet as a common carrier (similar to public utilities), which could deter operators from future development. Look for news in 2015 about which way the FCC winds are blowing.
In the long-term, it allows them to build their digital business in parallel to their existing one, and prepares them to pivot quickly as the market continues to evolve with fissures in the multichannel bundle expanding, TV ratings dropping, advertising dollars shifting and pay-TV audiences evaporating.

On the operator side, 2015 will see the launch and impact of OTT services (varying from smaller bundles to full service offerings) from Dish, Verizon, DirecTV, and Canada’s Bell Media, along with Sony’s cloud-based Playstation Vue. On the 2015 horizon, also look for OTT offerings involving mobile service providers, as well as SVOD players like Netflix and Nigeria’s iROKOtv to continue their international expansion.

Meanwhile, TV Everywhere (TVE)—the industry’s offensive move to capture consumers’ walkabout viewing habits across screens—is experiencing multiple challenges, including authentication issues, low consumer awareness and value proposition education, and fragmented content rights. An increasing number of viewers are taking advantage of it, though: eMarketer research determined that the share of U.S. pay TV households that established authenticated TV Everywhere accounts rose to 21% in Q1 2014. A ReelSEO article indicated that authenticated advertising views are rising as well. Live programming remains a differentiator; NBC just announced its plans for authenticated live streaming and a TVE consumer marketing campaign. Networks are also looking outside of the U.S. for TVE deployment—like Turner Networks’ foray into Latin America, which will see 95% of its households digital by 2020, according to a recent report. Results from a Viacom consumer study explain that TVE is considered “additive to the TV viewing experience”, and consumers prefer that TVE includes device flexibility, robust content libraries and smart search options. Look for 2015 to see improvements in the offering.

TAKEAWAY: The tidal wave of change and competition has hit the industry and traditional TV is losing its title as video’s first screen for consumers. Expect to see mobile take its place going forward, and traditional operators and broadcasters to be in a continued battle to hang onto their current business models while experimenting with new models for the future.

“Streaming will be the best way to get the 4K picture into people’s homes.” —Neil Hunt, Chief Product Officer at Netflix, as quoted in TMCnet Cable Spotlight

Technology changes are supporting consumer demand for content viewing. 2014 saw a dramatic uptick in the adoption of connected TV streaming devices, 2015 will see the rise of 4K TVs in the home, and consumers now seem more interested in cable broadband than cable TV.

Rise of the Device

OTT content viewing is rapidly bringing connected streaming devices into the home, and paradoxically leading a move away from traditional TV content viewing. As recently revealed, about 10% of U.S. broadband households bought a streaming device from Q1 through Q3 2014, pacing much better than 2013. Additionally, it has been reported that nearly 20% of Americans who view TV now own at least one of the major streaming media devices available (Roku, Chromecast or Apple TV), a 60% rise in the past year. Roku is still shown to be the
As the average selling price of 4K TVs has rapidly declined, look for “4K screens to be in half of all U.S. homes within 10 years, a much faster pace of adoption than HD.” “More than 46 million households worldwide will subscribe to a 4K UHD pay-TV service by 2018.” —Ooyala Videomind

4K for the Future

Consumer demand for the Ultra HD (or 4K) format will rise in 2015 as the technology becomes more widely available within new TV models. Over 15 million Ultra HD TV sets are expected to hit shelves by YE 2014.

So far, consumers appear to view 4K as an enhanced viewing experience like HD, unlike 3D, which never seemed to catch on in the home. Operators are responding, with offerings like a DirecTV 4k VOD sampler package on Samsung Ultra HD TVs, and a Comcast 4K VOD streaming app. Some 4K live streaming is expected next year, too.

While operators see 4K content as a way to attract younger cord-cutters, content providers will need to determine when to start ramping up native 4K content production, as standards come into focus and costs eventually come in line. Leading the charge is Netflix, which charges more for 4K offerings and along with limited library content in the format, is now shooting some original programs in native 4K.

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Broadband and Beyond

As studies have indicated, over 22 million U.S. households don’t subscribe to pay TV, and the industry is determining how best to reach them without cannibalizing their current business models. They are also exploring ancillary revenue opportunities like broadband, which is the courier of OTT content into the home and offers much larger profits than cable programming. According to other findings, top U.S. cable companies now have more broadband customers (over 51.2 million) than pay-TV subscribers (about 49.5 million). Reports have also shown that 10 million U.S. broadband households don’t have pay-TV subscriptions, so look for operators to both target them for new content offerings and charge them more for broadband access to make up for overall subscription churn.

Going forward, operators will also likely offer more connected home services like security, bundled with content and broadband. Despite a current flurry of Netflix set-top box deals with pay-TV operators like Dish Networks, future movement toward cloud-based TV delivery from OTA will also ultimately render the set-top box obsolete—as VideoInk has noted.

“Electronic program guides are also becoming more advanced, putting the focus on the viewer, driving personalized content consumption experiences, and integrating search and discovery features across linear and digital television. Look for this technology to evolve further in the near future as consumers seek to manage the plethora of OTT and linear content options that are bombarding them daily.” —Multichannel News

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Ooyala harnesses the power of big data to help broadcasters, operators and media companies build more engaged audiences and monetize video with personalized, interactive experiences for every screen. We go beyond traditional online video platforms, providing software and services combining best-of-breed technologies with industry-leading video analytics to help our customers optimize and automate video programming, streaming and syndication.

Some of the most successful and innovative media companies in the world—ESPN, Telstra, NBC Universal, Univision, Comedy Central, Vice, The Washington Post, Arsenal, Dell and more—rely on Ooyala. Ooyala is an independent subsidiary of Telstra.
**TAKEAWAY:** Technology is responding to consumer shifts. Expect connected devices and enhanced formats to continue expediting the rise of viewing options in the home, while operators look to maintain margins by pushing ancillary services and charging higher prices for broadband access.

**PROGRAMMING**

“The overriding impact we see as programmers is that there is an almost unstoppable trend for technology to facilitate consumer discretion and choice,” said Josh Sapan, president-CEO of AMC Networks. “Because of that, you have to be certain to have something that has deep appeal for the people you’re trying to reach.” —as quoted in *Variety*

Changes in content, from the way it is created and the way it is packaged and broadcast—all driven by changing consumer tastes—continues to evolve. Time-shifted and DVR viewing is rising, live sports continues to be the TV driver in the home, and OTT players are looking at the kids market to grow.

**Content Evolves**

Given rising production costs and declining ratings, networks are changing their programming development and production strategies going forward. Look for more limited series—which are generally cheaper to produce, easier to consume, and creatively more fluid—to flood network lineups. The networks will also look to take a page from the subscription video-on-demand (SVOD) playbook with increasing use of data mining and predictive analytics for honing program development and acquisition. SVOD players will continue to focus on showcasing binge-worthy series that attract fans and have global appeal, building their brands and combatting churn through more original programming, and ensuring that personalization and recommendation engines grow even smarter. Given that audiences are embracing longer content on mobile devices these days, content options are wide open.

The lines between networks and distributors are certainly blurring, but monetizing programming in as many ways as possible will continue to be a key focus for everyone. *Multichannel News* reported that Time Warner foresees a “universal VOD” future, which includes the proliferation of “stacking rights” so audiences can watch complete show seasons across screens. However, as the same publication also recently observed, consumers won’t get all network live and VOD programming through OTT now. Networks won’t give them that (for aforementioned reasons), and as this same article noted, likely can’t, with current SVOD licensing and syndication deals, which are on the rise as alternative outlets beyond traditional off-network station and cable TV syndication deals. Look for more exclusive windowing of content in the future, though, as rights become more fragmented.

To determine future programming carriage and offerings, operators are also now looking at content consumption factors beyond one-dimensional demographics. They are looking at multi-dimensional factors like age and geographic differences impacting how family members watch content differently on screens within the home: how live sports viewing habits for male teens may diverge from their fathers, and in New York versus Phoenix, for example. Recommendation engines are becoming more advanced and will continue to hone personal preferences, social referrals and the like to drill ever deeper into individual consumer habits. This will continue as operators embrace big data to drive key content business decisions.

“Both [USA and TNT] nets are redoubling efforts to develop edgier dramas that command a mix of critical buzz, rabid fandom and must-watch serialized plots. That’s seen as the type of content with greatest value in a world where more and more viewers are cherry-picking shows from time-shifted and on-demand platforms.” —*Variety*
A La Carte vs. Bundles

Newsflash: A la carte within the pay-TV system is not happening anytime in the near future. As Multichannel News suggested, in the current environment—which sees the network OTT business in its infancy—too much content fragmentation would make the existing business model unsustainable for programmers and they would need to raise network licensing fees to compensate for lost audience eyeballs and ad revenue. Further, networks won’t willingly forfeit revenue, and the bundle structure protects distribution for their full channel slates. In an a la carte world, operators would just pass thru increased licensing costs to customers, negating any real consumer cost savings. The industry is simply not ready yet. Instead, all networks will soon start building their OTT paradigms in parallel with their pay-TV ones to prep for the future.

However, the traditional bundles do seem to be in danger. Skinnier, customized and genre-specific cable bundles are being tested, driven by insights from customer data. Programming costs continue to rise, while networks continue to fragment content rights to multiple platforms and players as they test and prepare for the full digital transition.

‘Univision is working on offering solutions that bypass the pay-TV bundle in part because 76% of its flagship network’s viewers between the ages of 18 and 49 watch that channel alone—no others.’
—Tonia O’Connor, President of Content Distribution at Univision, as quoted in the Wall Street Journal

Live Sports and Movies and Kids—Oh My!

Live sports are still driving cable subscriptions in the home; according to MediaPost, a survey found that 43% of U.S. adults cite live sports as the reason they won’t cancel cable. Business Week noted this year that mini-sports bundles could be an option to gain or retain pay-TV subscribers, but given exorbitant sports network license fees, just as with a la carte, the economics don’t currently work out for anyone. Additionally, Gigaom Research reported that half of the cost of the average cable bill can be attributed to the collective cost of sports rights alone. The future could also see a major OTT player decide to bid for major live sports rights—and win. Meanwhile, specialty OTT sports offerings, like those from ESPN (select NBA basketball game package, and possibly other sports to come) and the U.K.’s Chelsea TV (soccer) continue to grow. Consumers are also now more willing to watch live sports on smaller, mobile devices, so look for more testing of OTT packages as this space intensifies.

With its successful foray into original television, Netflix is now targeting original movies with moves like developing four exclusive Adam Sandler films—an example of programming choice driven by the data mining of customer behaviors and high content licensing costs. Look for these deals to continue as big data helps OTT companies hone their slates.

Kids programming, which is not as dependent on live delivery and offers a lot of growth potential as young consumers discover digital devices, will prove to be a future battlefield area. OTT players like Netflix are going after this market via new content deals, and in the case of Google, via a kid’s version of YouTube. Others, like Hopster in the U.K., are re-imagining the kids TV UI for a new generation of viewers who don’t remember life before the touch screen, and carving out a competitive niche by appealing to parental desire for some control over their children’s viewing environment.

‘According to a report issued this week by Yahoo’s Flurry analytics unit, time spent in sports apps grew a whopping 210% YoY in 2014, more than three times faster than for all other types of apps. Time spent in football apps (college and NFL) grew an astonishing 250% YoY.’ —Gigaom Research
TAKEAWAY: Media content has historically moved from mass to niche, and now thanks to OTT, to the individual consumer. Expect to see a rise of even more personalized and niche content bundles going forward, as well as predictive analytics in creating content, and platform battlegrounds opening over genre content rights.

ADVERTISING

“We believe ad-supported TV is in the early stages of a structural decline.” —Analyst Todd Juenger, as quoted in The Hollywood Reporter

Digital video advertising is the future, driving more views and higher CPMs than less engaging forms of digital advertising—and pulling dollars away from traditional TV. Cross-platform ratings and programmatic buying will ultimately provide unity, along with greater efficiency and ad effectiveness—leading to a level playing field between the digital and broadcast industries.

Traditional TV Goes Down, Digital Goes Up

According to some accounts, many of the top entertainment-focused cable networks have experienced large declines in 2014 ratings, especially in the key adult 18-to-49, C3 numbers that they have been evangelizing to advertisers for the last several years. Broadcast networks have experienced declines as well, and as Deadline also noted, advertising growth is down across television, too. Further, it’s not just the typical ups and downs that the industry generally sees; a transformation in viewing patterns is affecting the networks, driven by younger audiences moving to OTT platforms. Meanwhile, online video advertising revenues, which are forecast to total $8.3 billion globally in 2014, will increase to $18.1 billion by 2020, according to a study highlighted by FierceOnlineVideo. Other findings have revealed that mobile video advertising spend, while not yet keeping pace with mobile audiences, is expected to catch up with online video advertising spend by 2018. In addition, VOD advertising spends are also increasing, as agencies look for more points of viewer convergence. These trends will continue as advertisers fully embrace digital platforms and the deeper analytics they offer.

Digital advertising spending will overtake TV in 2016; by 2019, 36% of all U.S. advertising spending will be digital vs. 30% for TV. —Advertising Age

Programmatic Expands

The rise of programmatic advertising, with its automated decisioning, real-time bidding exchanges, and laser-focused audience targeting engines, foretells the convergence between digital and linear TV advertising markets for increased media efficiency. Its popularity within digital advertising circles portends a similar future shakeup across the TV advertising landscape. An Adweek article also suggested that programmatic will accelerate on the TV side with programming bundle fracturing and digital shifts, which will add downward pressure to network program-focused TV advertising. Look for programmatic TV to grow alongside traditional TV buying for some time, with some cross-channel coordination and integration of digital and TV programmatic advertising expected in the next year or so, along with more private exchanges. As a by-product of convergence, also look for future consolidation in the media sector.

“[U.S] ad spend for the first ten months of the year rose 49% for so-called “programmatic” advertising that is purchased via online systems based on narrowly defined target characteristics; 22% for mobile; 19% for video; 17% for online display advertising and 16% for Internet search advertising.” —Variety
Cross-platform Ratings Arrive

Consumers seem to be watching more content overall, but the networks can’t seem to find them because mobile and digital views aren’t being accurately measured by the traditional network ratings system. This will improve with the arrival of cross-platform ratings championed by companies like Nielsen/Adobe in the U.S. and Médiamétrie in France—amid a collective cheer for unduplicated measurement across TV and digital platforms. Nielsen is even starting to measure SVOD services, whether they like it or not. The space will continue to be defined further with the use of more deep-dive analytics like performance and engagement levels, and pinpoint geographics helping advertisers to track wandering audiences. Look for refined ratings and analytics as major drivers of advertising conversations, dollars and convergence in 2015.

“Fixing this is the most important issue facing the industry right now,” adds Alan Wurtzel, president of research and media development for NBCUniversal. “Ratings are what we transact and evaluate the business on. If you can’t measure it, you can’t sell it.” —as quoted in Broadcasting & Cable

CONCLUSION

“It’s a mad, mad, mad, mad consumer audience world. 2015 will sure to be remembered for even more rapid change as the industry leaps ever closer to its digital future. The strongest companies will be those that embrace the consumer in all areas of their business, stay nimble and strategic in their offerings to keep up with them, and look to new technologies and analytics to make this happen.

“The growing penetration of new devices and the popularity of subscription-based streaming services, time-shifted and OTT viewing—as well as cord-cutting and cord shaving—are fundamentally changing the TV industry.” —Dounia Turrill, Nielsen’s Senior Vice President of Insights, as quoted in International Business Times

TAKEAWAY: Broadcast’s advertising-driven machine is splintering with consumer OTT shifts. Look for the rise of multiplatform ratings and programmatic buying to be game-changers that will drive the broadcast and digital advertising businesses toward integration and consolidation.