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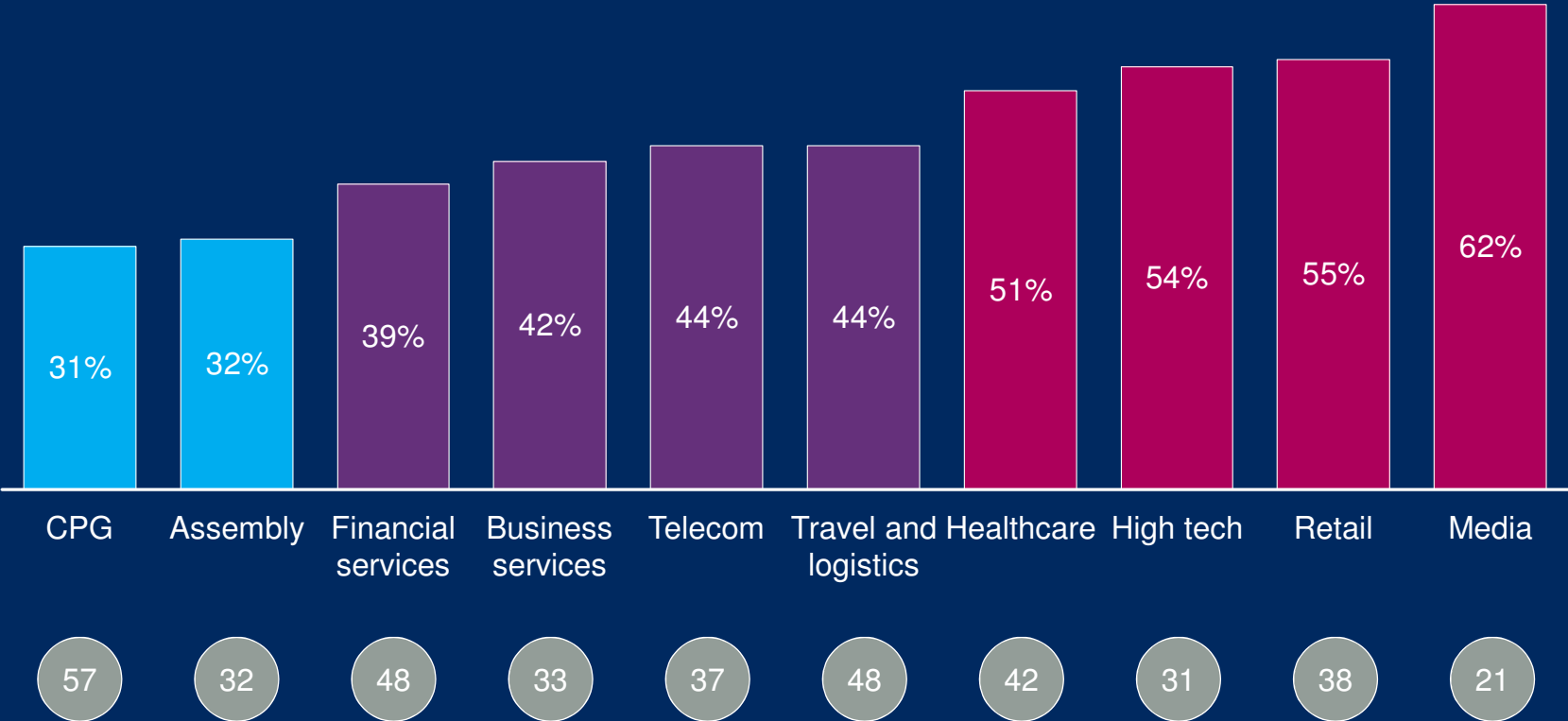
Disruption in video: Five (possible) paths out of the maelstrom

Media Business 2017-21

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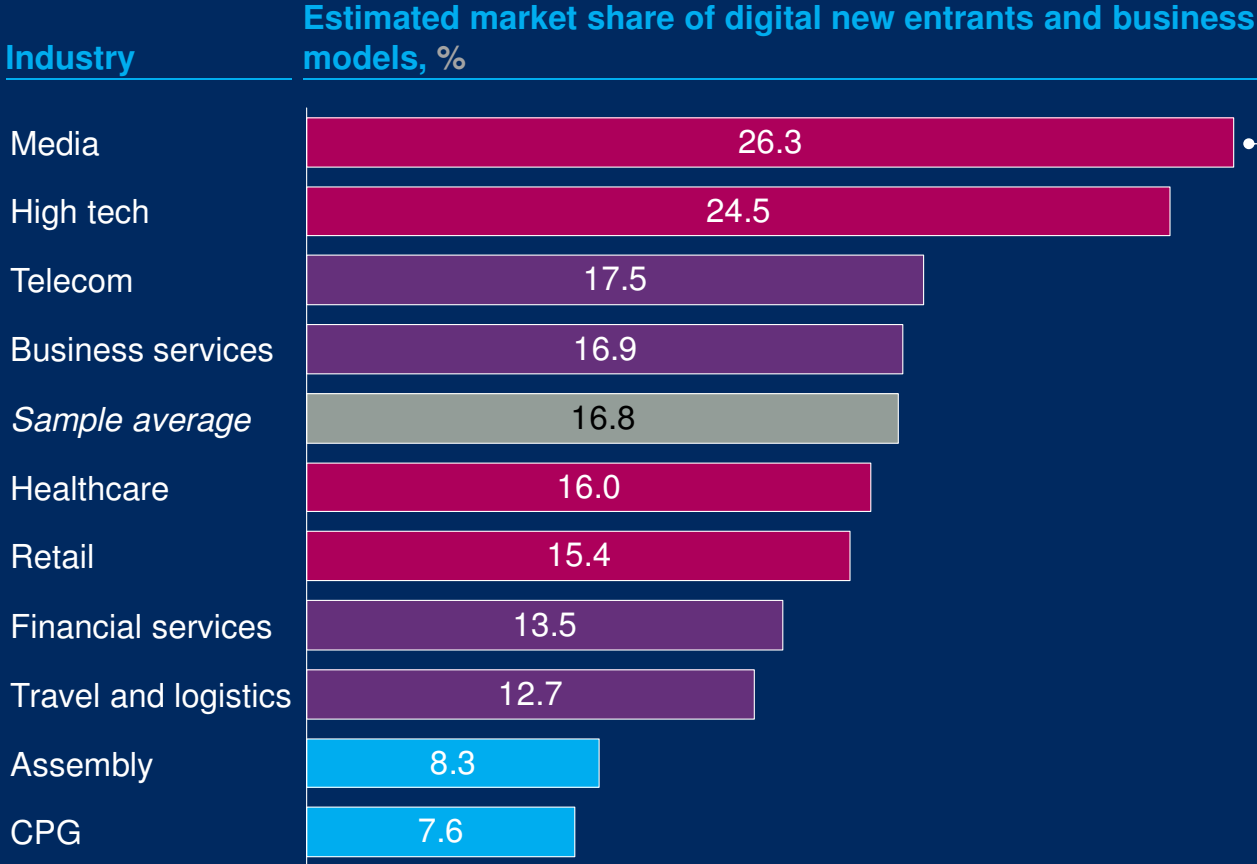
Digital penetration is greatest in Media

Perception of digital penetration by industry, % of respondents



SOURCE: McKinsey Digital Global Survey 2016

Disruption is driven by new entrants and business models



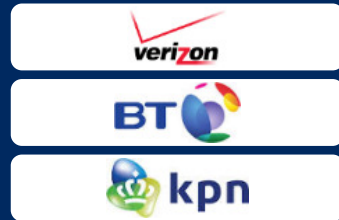
*High digital penetration in Media in general is driven by new entrants and business models and **no more so than in video***

Platforms and formats for viewing video have exploded

Traditional cable/DTH



IPTV



First wave digital

VOD aggregators



Publishers



Portals



Broadcasters



Second wave digital

New bundles



D2C plays



MCNs



Livestream



Social



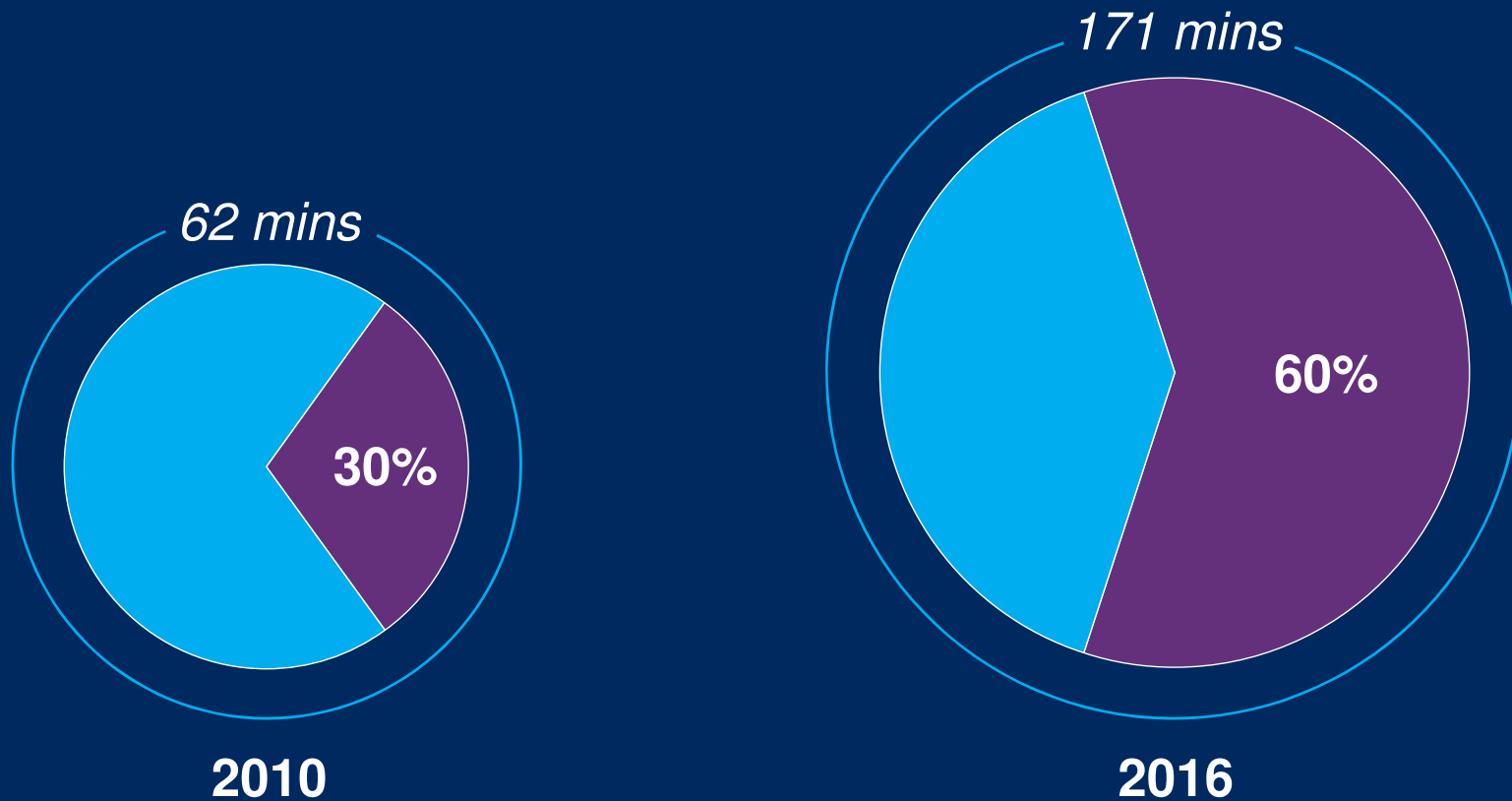
Remix



Online video viewing is growing fast



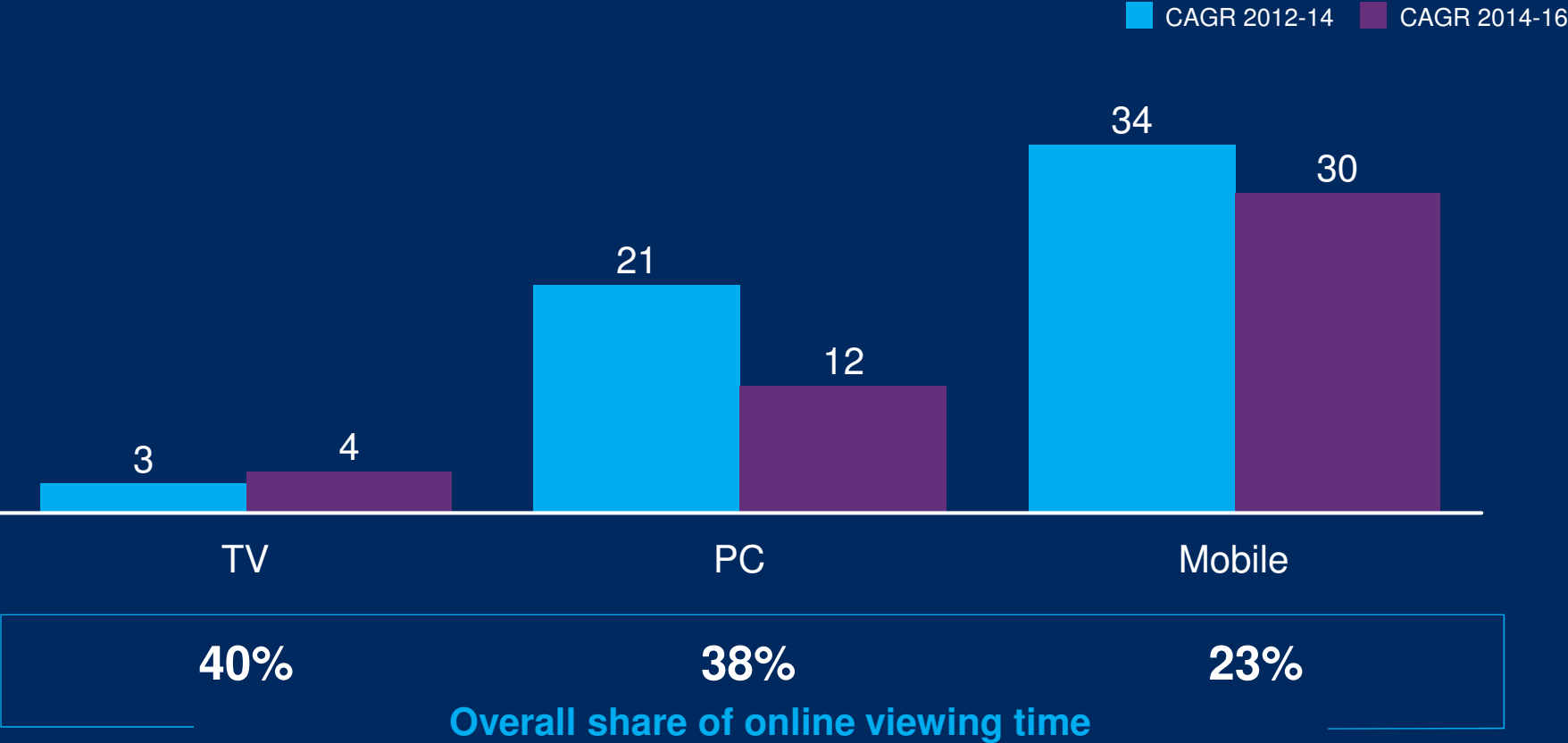
Online video as % of all online viewing



Most of this growth is happening on mobile devices

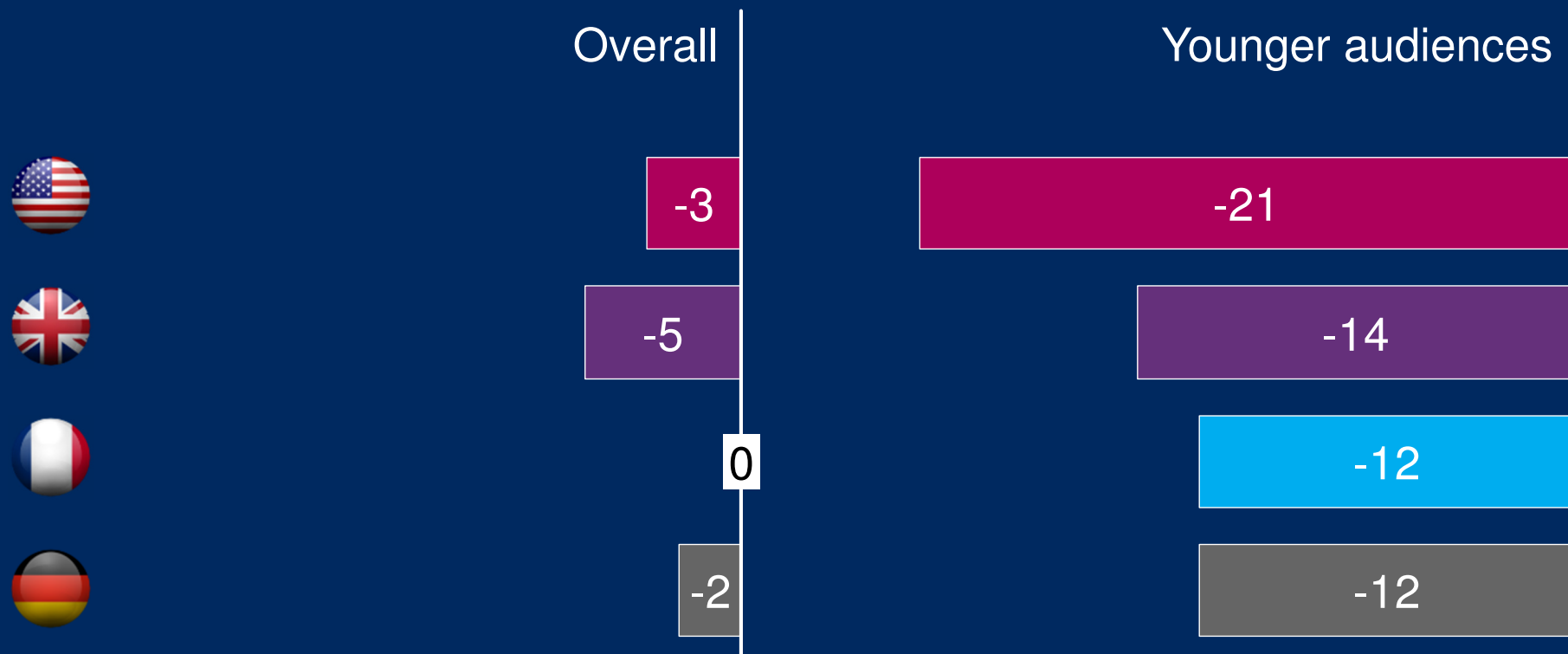


Growth in time spent on devices for watching video, US, %

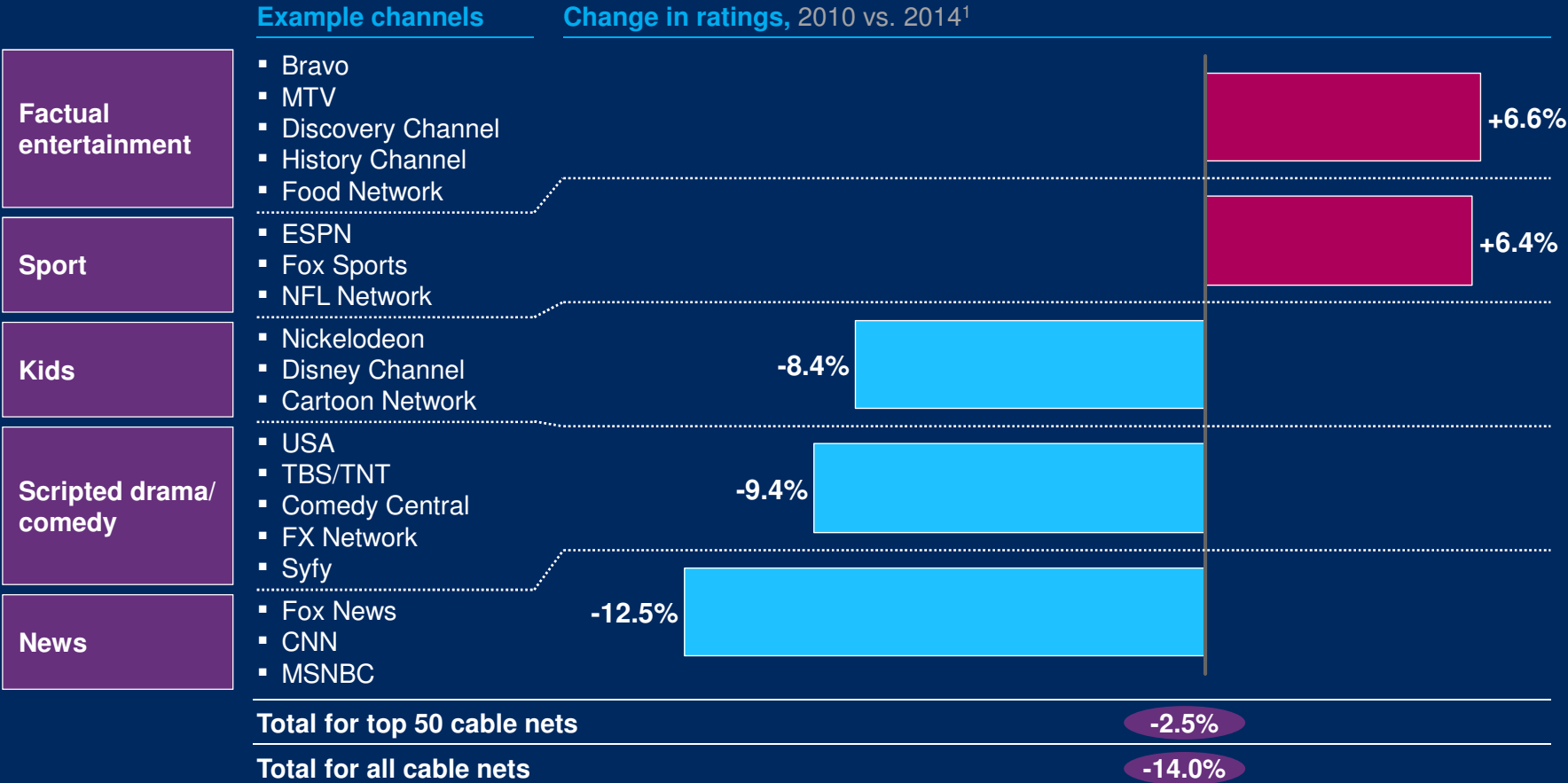


Traditional TV viewing is falling, especially amongst the young

Change in time spent, 2011-14 abs %



This is reflected in ratings for almost all genres



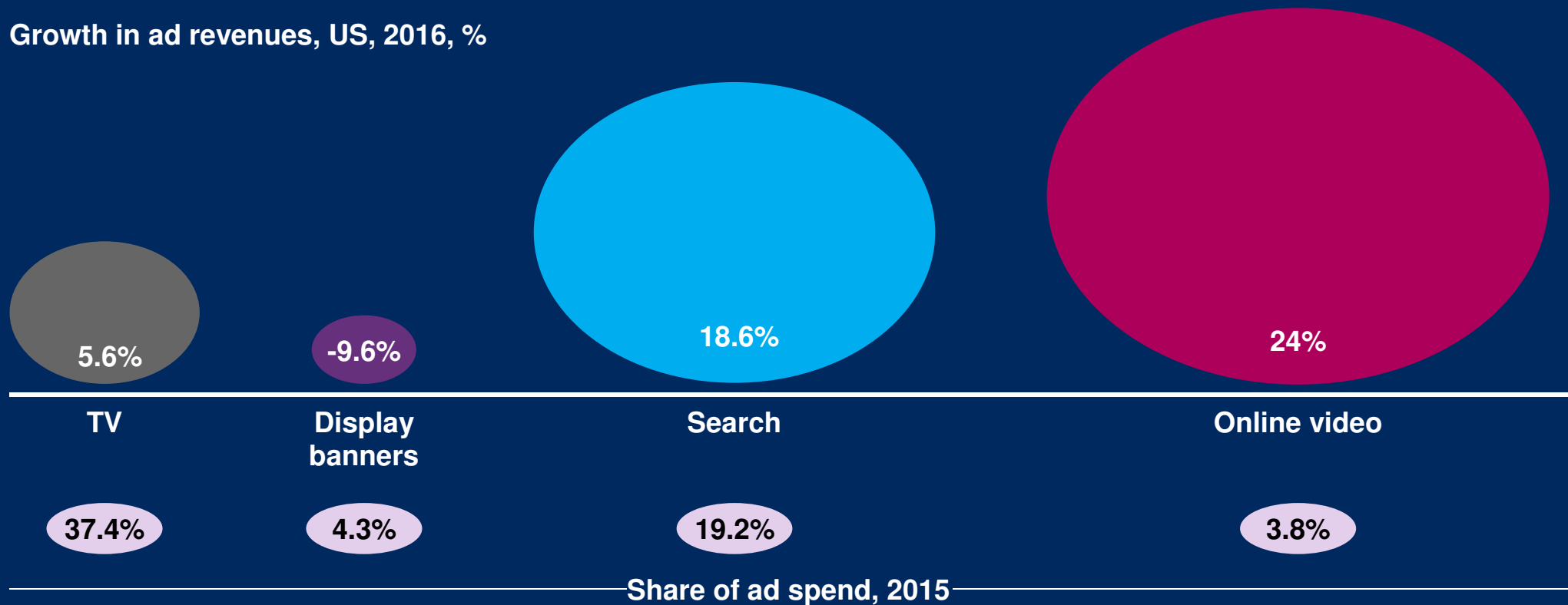
¹ Average primetime rating for top 50 US cable nets. Other channels include AMC, Syfy, truTV, Spike TV, E!, HGTV, ABC Family, TLC, Hallmark, Lifetime, BET, TV Land, Animal Planet, H2, LMN, Nat Geo, OVN, WeTV, GSN, Oxygen et al.

Ad spend is shifting away from TV to search and display



Fastest growing advertising sector

Growth in ad revenues, US, 2016, %

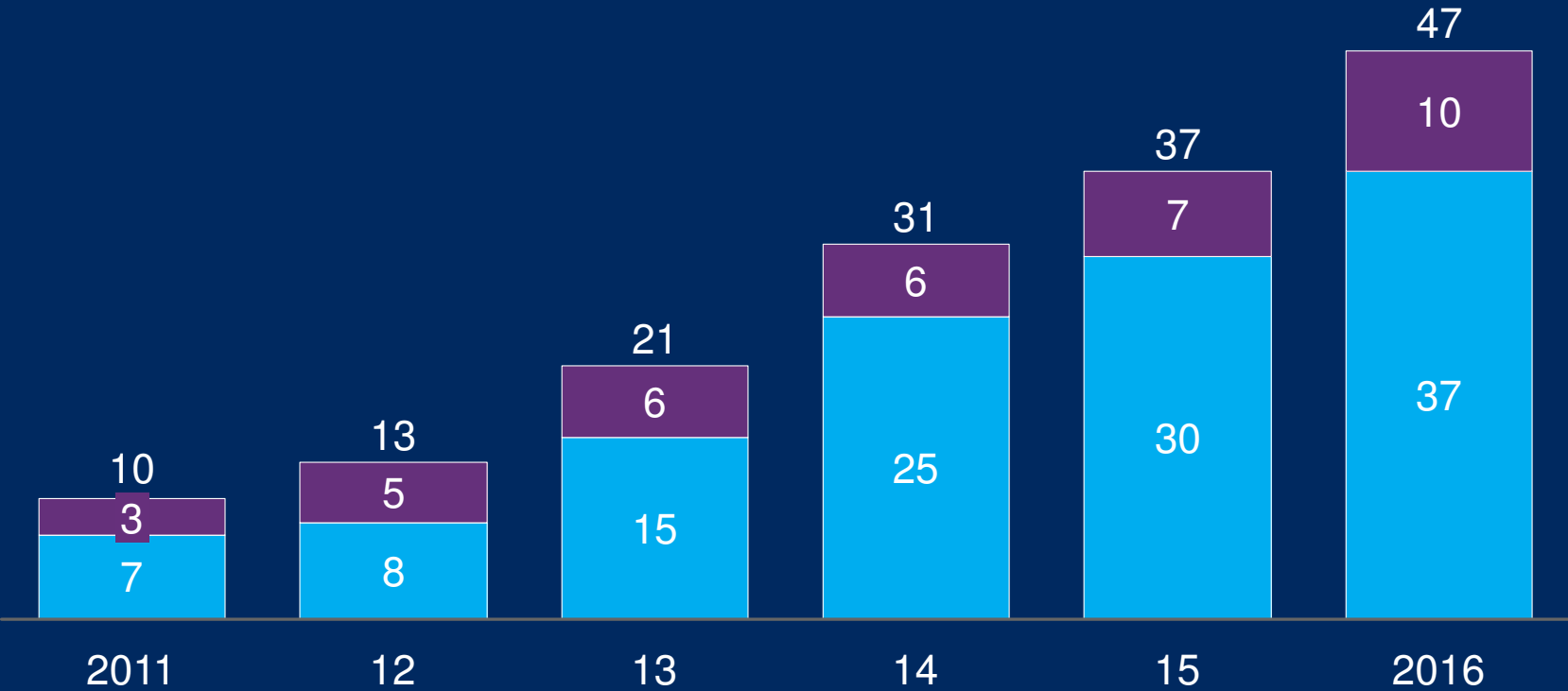


Social platforms are increasingly dominant in online referrals



Other social Facebook

Share of online referrals, %

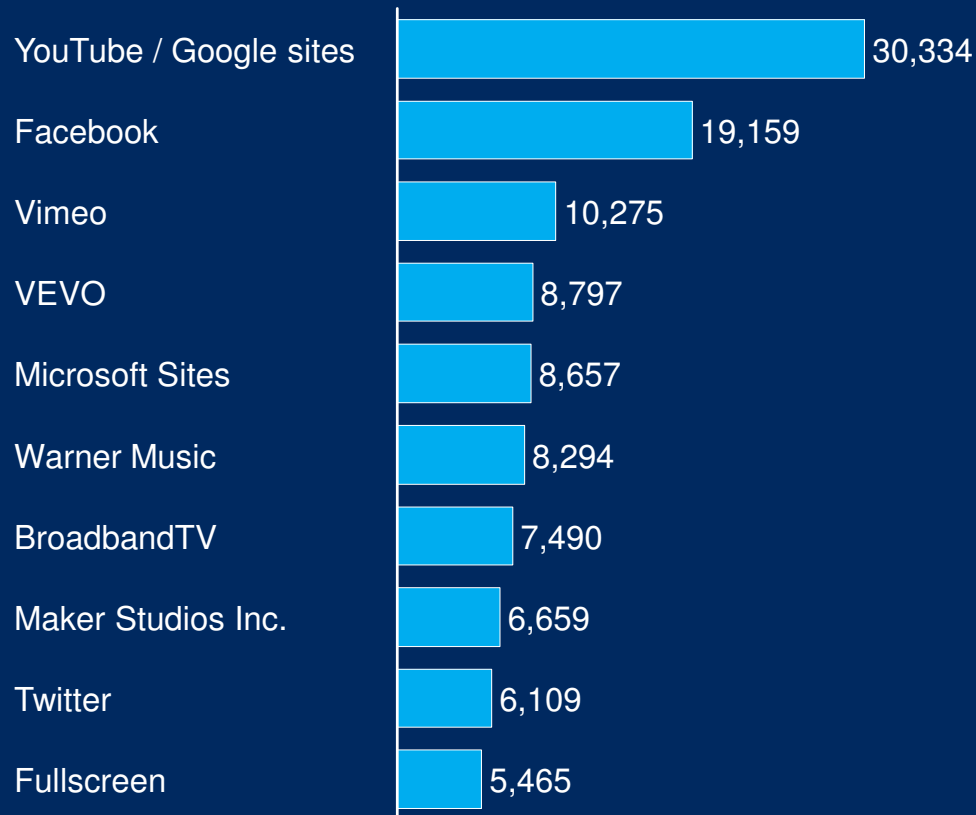


They are also leading in desktop video consumption

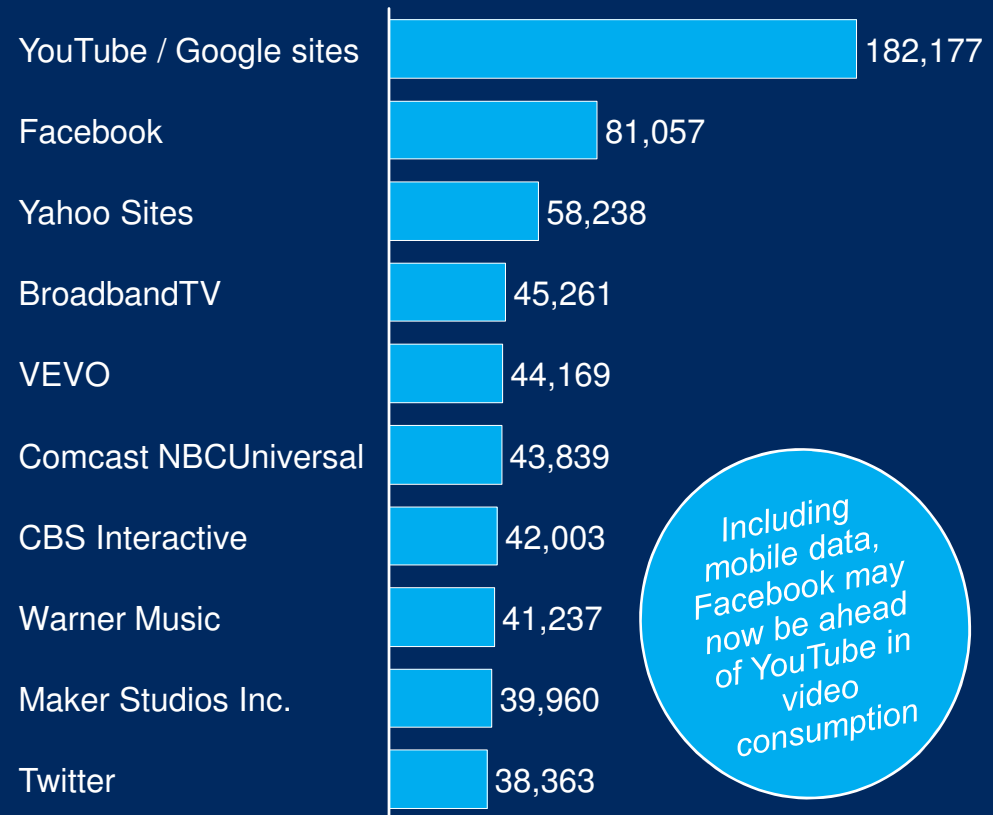


■ Total monthly viewers, 000s

UK, June 2016



US, June 2016



Including mobile data, Facebook may now be ahead of YouTube in video consumption

There are at least five (possible) paths out of this maelstrom

1	Invest in content	Achieve global scale to fund investment in original content, both global and local	 
2	Aggregate AVOD	Drive increase in online video CPMs, with larger players attempting to create a “winner-takes-all” effect	 
3	Consolidate for scale	Merge to expand premium content portfolio and achieve greater economies of scale to fund future investment	 
4	Launch a D2C offer	Access new customers and capture incremental margin by disintermediating traditional distributors	 
5	Monetize traffic	Monetize video-generated traffic, expand into adjacency and protect customer relationship to avoid becoming “dumb pipe”	 

(Distinctive) content is still king

Polarisation of opinion



Social discovery



Commanding breadth and depth of voice in a genre



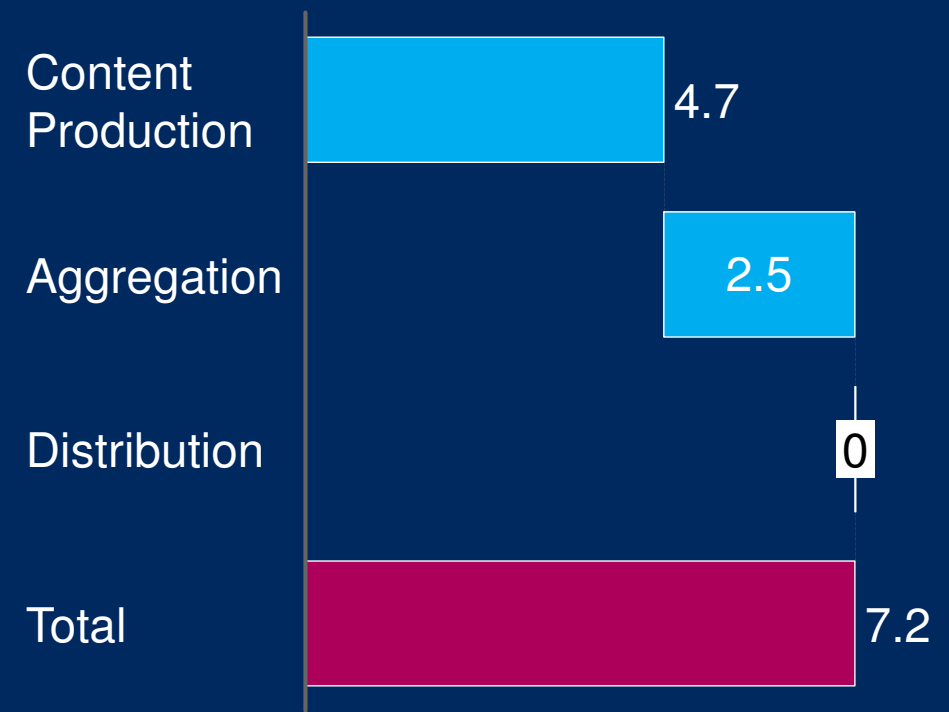
Authority in opinion-forming



Must-watch content

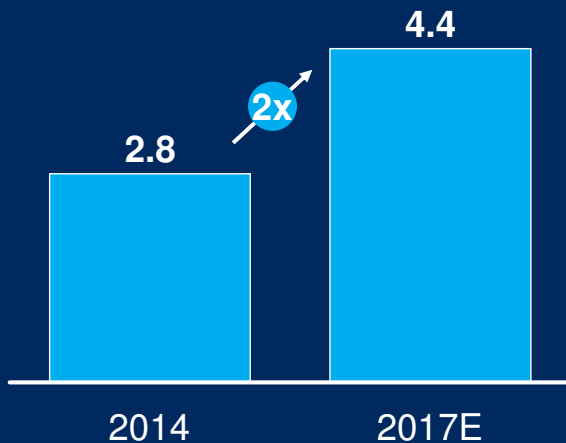


Share of value capture in IP Video

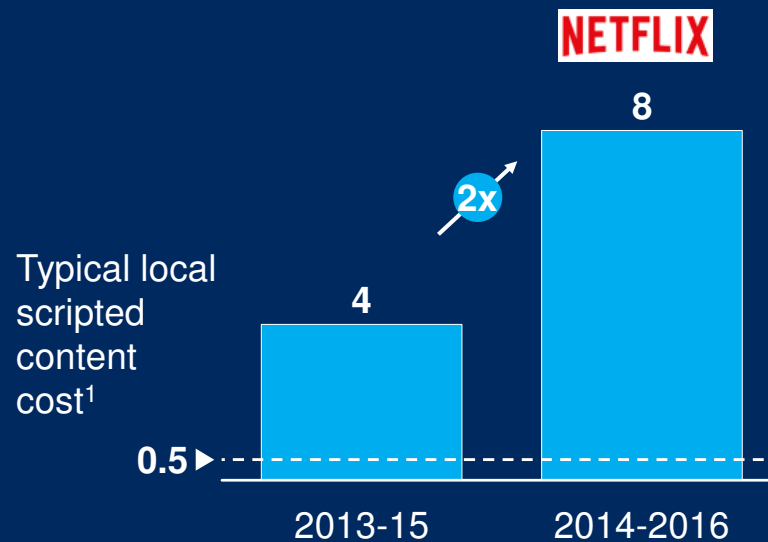


However, premium content costs are increasing massively

Netflix content spend
EUR bn, per year



Content costs
EUR mn, per episode

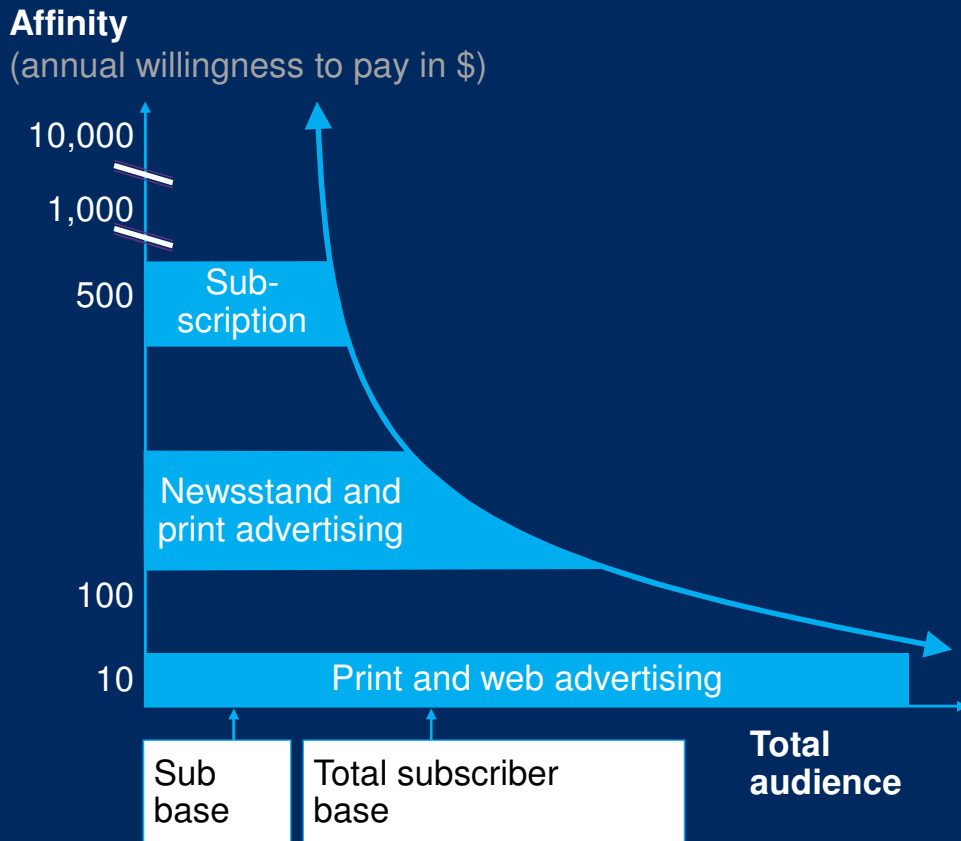


- Customers willing to pay primarily for **premium sports, US scripted drama, and first run movies**
- Even though barriers of entry for content are lower, **but the bar for distinctive-ness is higher**
- Production cost per episode of series close to production cost of a “good” European movie

¹ Average of Tatort (EUR 1 mn per episode) and "Gute Zeiten, Schlechte Zeiten" (EUR 0.1 mn per episode)

Winning the DTC battle will be key

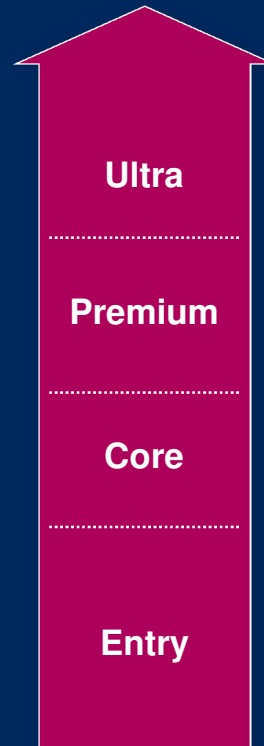
D2C: Opportunity to fill in the demand curve ...



... with an expanded product portfolio

Definitions

- Exclusive products, privileges and experiences serve as a showcase to re-anchor prices of other offerings
- Benefits/products that collectively embody the brand, for upsell to the advocates among the core
- The brand's core product – a large majority of brand-engaged consumers buy
- Gateway product to motivate customers to move beyond free into a low-commitment, paid relationship with the brand - up-sell over time



There's still a lot to play for...

Advertising

- 1 How quickly will older audiences **move away from traditional TV platforms**?
- 2 Will digital or traditional TV platforms **provide the most value to advertisers**?

Distribution

- 3 Will any individual content producer be able to **survive without being aggregated**?
- 4 How dramatic will **cord-shaving/cutting** be given emergence of D2C video?

Production

- 5 **Is growth in content production sustainable** or is it a bubble?
- 6 As local production grows, will there still be **global demand for English-language content**?