A closer look

February 2013

The cord-cutting debate and the role of second screen in TV, advertising, and content distribution

Highlights:

- *Debate exploring the impact of cord cutting*
- *Growth opportunities for traditional and digital TV content distribution, including second screen, online advertising, and social TV*
- *Success factors for developing a second screen strategy*

Introduction

There's no question that television viewership trends are drastically changing, but is this necessarily a bad thing for TV networks, advertisers, and distributors? Or can they tap into new opportunities? The TV ecosystem has rapidly developed new tools, platforms, and metrics to understand and translate these shifts into improved customer experience, to promote engagement with the content and advertising, and to measure the impact.

With innovative partnerships and new capabilities and technologies, a well-planned strategy incorporating second screen can be an important engine for growth.

The cord-cutting debate

At *Advertising Week 2012*, PwC explored the emerging multiscreen landscape by hosting a debate between the Marketing Association of the Columbia Business School (Columbia) and the Virginia Commonwealth University (VCU) Brandcenter on the question "Should advertisers, agencies and the media worry about cord-cutting?"

This brief summarizes the debaters' points of view on emerging platforms for viewing TV content. Then we take a closer look at the challenges and opportunities second screen technologies present to the traditional TV model.

Defining OTT, cord cutting, second screen, and multiscreen

New industry terms have emerged that often cause confusion among not only consumers, but also industry insiders. For the purposes of this discussion, following are some definitions:

- Over-the-top (OTT): the ability to deliver an online or mobile television experience through means other than the traditional cable or satellite provider
- Cord cutting: potential phenomenon of consumers canceling traditional cable or satellite subscriptions in favor of viewing content through other means such as OTT or other lower-cost models
- Second screen: a supplementary, social, and synchronized experience that delivers enhanced content to a tablet or smartphone, engaging a consumer through a second screen (definition from Second Screen Society)
- Multiscreen: the ability to watch programming at any time and place on any screen as opposed to second screen's ability for the consumer to engage and interact with the content programming

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Affirmative position: Advertisers, agencies, and the media should worry about cord cutting

The arguments below were presented by VCU's debaters:

Changes in viewership trends: Traditional TV viewership is on the decline. Market analysts anticipate a 0.9% viewership decline annually through 2017 because of increased online consumption of TV programming combined with the existing market saturation.[1] Internet-protocol TV (IPTV) ownership doubled in one year from 4.7% penetration in 2010 to 10.4% in 2011 [2] and is projected to continue to grow over the next several years.

Almost half of American households own gaming consoles,[3] most of which are Internet capable and can be used to stream TV content through multiple OTT options.

Mobile TV viewing is on the rise; 36 million Americans report watching video content on their mobile phones on the go, [4] and new offerings are being rolled out currently. According to PwC's Global Entertainment and Media Outlook 2012–2016, smartphone sales are forecast to increase from $79 billion in 2011 to $141 billion in 2016, a 12.3% increase compounded annually.

Similarly, tablet sales are projected to grow from $28 billion to $100 billion in 2016, a 29% percent compound annual growth rate.

The evolution of broadcast: Modes of broadcasting mass messages have evolved with new forms of digital distribution in multiple territories. Additionally, the current proliferation of social media influences viewership decisions including whether to watch, when to watch, and how consumers get recommendations.

Search is supercharged: Technology and hardware advances have revolutionized consumer research, with smartphones, tablets, and other Internet-enabled devices empowering consumers to find the information they need to make purchasing decisions — online and on their own terms. In a recent study, 79% of consumers indicated they use a smartphone to help them shop.[5]

The VCU debaters said it's no longer a question whether media companies, ad agencies, and advertisers should be worried. Stakeholders are already adapting to emerging entertainment content distribution models to survive and grow.

Negative position: Advertisers, agencies, and the media need not worry about cord cutting

The arguments below were presented by Columbia's debaters:

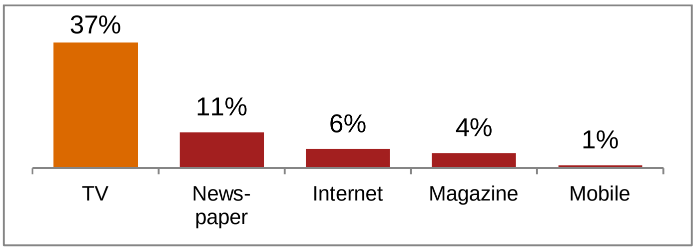
TV ads still dominate: Television continues to be the most effective way for advertisers to reach large audiences. TV is projected to remain the dominant platform for advertising at 39% market share versus 22% for the Internet, according to eMarketer. Furthermore, TV ad spending continues to grow domestically and internationally.

Across all major age groups, TV reaches more people than other mediums and people spend more time with TV than other mediums.[6]

Lastly, many advertisers continue to prefer TV ads because they believe TV advertisements influence decisions more than online, print, or internet ads.

Types of ads that most influence decisions

Purchase decision influence: % aged 18 and up



Source: TVB Media Comparisons Study 2012. Knowledge Networks Inc. Custom Survey

[1] "Number of cable TV subscriptions," IBISWorld Business Environment Report, August 2012.

[2] "I Want my IPTV! The Growth of the Connected Television," Nielsen Wire, August 1, 2012 http://blog.nielsen.com/nielsenwire/media_entertainment/i-want-my-iptv/, accessed November 15, 2012.

[3] "The Cross-Platform Report: Quarter 1, 2012 - US," The Nielsen Company.

[4] Ibid

[5] "How US Smartphone and Tablet Owners Use Their Devices for Shopping," Nielsen Wire, May 3, 2012. http://blog.nielsen.com/nielsenwire/online_mobile/how-us-smartphone-and-tablet-owners-use-theirdevices-for-shopping/, accessed November 15, 2012.

[6] "TVB Media Comparisons Study 2012 - Custom Survey," Knowledge Networks Inc.

TV is irreplaceable: While TV viewer behaviors have changed with respect to certain comedy and drama content, live sports, reality TV, award ceremonies, and other exclusive content remain largely real-time programming not conducive to time shifting. Additionally, watching TV is often a communal activity that cannot easily be replaced.

The Columbia debaters said traditional TV is not going away and cord cutting is not an issue. But advertisers, ad agencies, and media companies should continue to employ more integrated marketing that includes digital and second screens to maximize viewers' experiences with brands, Columbia said.

For example, in creating branded content, advertisers and networks are teaming up to keep viewers engaged with TV content and ads.

PwC's perspective on cord cutting and the second screen

While consumers are spending more of their media time on mobile and Internet-enabled devices, TV viewership remains strong. There are multiple concerns about cord cutting, cord trimming (reducing subscription packages), and cord-nevers (younger generations never becoming subscribers), but advertising industry spending remains heavily weighted toward TV.

Digital is changing the way media companies are doing business. Retailers are collaborating with networks to develop branded content that integrates their message into the entertainment and creates a stronger association between the brand and programming. Furthermore, with addressable advertising, advertisers are airing their ads to consumers based on customer data. And with IPTV, the possibilities of using two-way communications and harnessing social buzz to attract viewers and optimize revenue pull-through from online advertising are significant.

Digital distribution models are the undisputed growth engine for every media company despite still being a much smaller part of the pie. Content owners and distributors must determine how to successfully adapt based on changing distribution models and customer demands.

Even though some consumers are cutting the cord, reducing their subscriptions, or not subscribing when starting a new home, the impact to the pay TV industry over at least the next five years will be minimal. Traditional TV viewing is still popular, ubiquitous TV content-on-the-go packages are becoming commonplace, TV advertising dollars continue to grow, and there are limitations such as content discovery issues with OTT services that need improvement. Second screen experiences are gaining traction, and second screen offerings will help generate incremental revenue and attract and retain customer attention.

There are a number of key indicators that support the emerging consumer trend toward engaging with content through second screens given digital products are the growth engine of media: 1) the increase in tablet and smartphone penetration estimated at over 12% compounded annually; 2) the near doubling of connected TVs in the past year and expected continued growth; 3) the growth in subscriptions (or transactions); 4) the stickiness of second screen customers as compared to traditional consumers; and 5) time spent developing alternative digital offerings in leading media, cable and advertising companies.

The reality of second screen

1. Broadcasters are jumping on board

Broadcasters are making investments in second screen for defensive and opportunistic reasons. Second screen presents broadcasters with new ways of maintaining and engaging audiences, promoting channel loyalty, and growing advertising revenue. Networks are developing dynamic companion apps both at the network and show-specific levels to extend viewers' experience.

2. Social TV rates as an important new metric

Social TV activity has nearly tripled to 95 million interactions on Facebook, Twitter, and Google in the second quarter of 2012 compared with 35 million in the prior year period.[7] And 76% of those who post about TV shows are doing so while watching programs live.[8] This trend has resulted in an array of new audience engagement metrics, such as earned impressions, that increasingly interest marketers.

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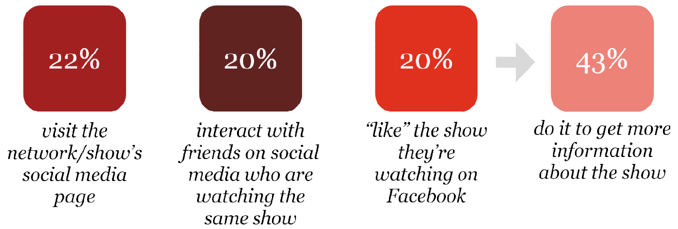
[7] "Social TV: Marketers tune in to deeper integrations," eMarketer, August 2012.
[8] "THR's Social Media Poll: How Facebook and Twitter Impact the Entertainment Industry," The Hollywood Reporter, March 21, 2012.

Social media activities of TV watchers
% of respondents

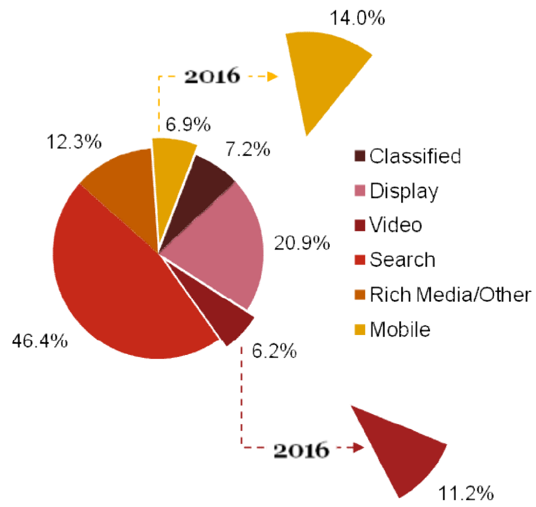


Source: "Social Media Activities of US Internet Users While Simultaneously Watching TV by Age," eMarketer, August 2012, and "Social Media on TV Survey," eMarketer.

3. Online advertising keeps growing

Online advertising growth rates are projected to far outpace those for traditional media, with more engaging methods of advertising such as mobile and video projected to grow the fastest. Overall online advertising growth is estimated at 17.5% in 2012 (see breakdown below).

Online advertising revenue contribution in 2012



Source: PwC Global Entertainment & Media Outlook 2012–2016

Second screens allow distributors to sell incremental advertising inventory on top of the traditional TV experience.

4. Advertising's value grows

As second screens deliver entertaining content with useful product information and discounts to viewers, ads become more valuable to consumers, advertisers, and networks. Digital ads placed online and on mobile devices empower consumers to more easily make purchasing decisions.

5. Many other industry players are launching TV companion apps

Many of the major smart TV manufacturers have launched app stores. Some cable and satellite providers have apps for smartphones and tablets. New social TV apps for smartphones are also staking their claim in second screen through gauging viewer engagement and providing additional content, from actor bios to trivia to clips and photos.

TV loyalty programs where viewers receive virtual currency for viewing advertisements and checking in TV shows are being developed. Online TV subscription sites are offering second screen content for an upcharge.

Second screen experiences are gaining traction across the TV and advertising ecosystem. But the challenges for industry players are plentiful: what features the second screen should provide; which second screen app developers, social sites, or technology partners to work with; what content development will cost and who will pay for it; and ultimately how to monetize the second screen.

Five key success factors to consider when developing a second screen strategy

Nurture the conversation, not just the product: Second screen technologies are not simply a digital platform for incremental advertising. If a second screen strategy is to be successful, networks, advertisers, and agencies will be best served by approaching second screen as not just an opportunity for an omni-directional conversation between brands and customers, but also as a community with the content provider and the multichannel cable distributor.

As the VCU Brandcenter debaters pointed out, word of mouth and social interaction around content or a product increasingly influence purchasing decisions for entertainment and products.

Agile advertising requires collaboration: Companies across the ecosystem are making investments in new partnerships or acquiring well-positioned companies to compete in the race for mobile advertising dollars. Many of the agencies leading the mobile advertising space are owned by the big four traditional ad agency holding companies, and many of the social TV websites/mobile apps are owned by or backed by major media companies.

Columbia Business School's debaters argued that content creators and advertisers have benefitted from co-developing content.

For example, Pod-busters — entertainment created by a network that lasts about 10 seconds — are entertainment content slipped in between ads during a commercial break to keep eyeballs on the screen. Networks are going beyond the traditional Pod-buster by working with advertising executives to create blocks of entertainment that fill entire commercial breaks. Advertisers sponsor both the content and the show it runs on in exchange for a mention during the super-sized Pod-buster.

As more advanced social and mobile technologies develop, more embedding of social tools into programming and ads that utilize the second screen will occur. In the not-so-distant future, a successful campaign would enable users to interact with every aspect of what is on screen — metadata about the program, the products shown, social forums, comparison pricing and purchasing information, and more. To gain this type of advantage, companies will need to collaborate across the value chain.

Harness the potential of your super-fan subscriber: When consumers engage with a company's programming or product — either through customer interaction or over social platforms — identifying enthusiastic customers and supporting a rich dialog with them can unlock value in the relationship and engender stronger customer loyalty. Companies can help harness this interaction—especially with influencers—to create the super-fan. Companies should unlock value in these relationships through special offers, invitations, unique communications, and other modes of preferential treatment. And where historically companies had little intelligence on their fans' preferences, in today's data-rich environment, benefits can be targeted more effectively and profitably using advanced analytics.

Respect consumer privacy: With new metrics and measurement data available to marketers, it becomes increasingly important to be able to model the impact of a campaign for better targeting and future decision making. But advertisers, agencies, and broadband and wireless service providers should be careful not to alienate customers by using information they deem private to target them for advertising.

Recent PwC research on consumer privacy found that customers expect benefits in exchange for sharing personal data, such as free or discounted goods or services or nonmonetary incentives such as exclusive updates. Consumers also want companies to be transparent about what information they collect and how it will be used.

As it relates to targeting, we found companies should consider marketing communications for younger versus older segments. The distinct and consistent differences between these segments relate to attitudes and behaviors. Younger consumers have grown up in the digital age and are used to sharing information, while older consumers are generally more cautious and need to ensure the perceived benefit outweighs any potential risks.

Customers' willingness to share personal information represents a rich opportunity for companies. But knowing consumers' concerns and expectations and making them feel in control will prove beneficial in highly targeted online and mobile marketing campaigns.

Use new metrics to measure success: With the proliferation of diverse platforms and technologies, measures are more accountable, transparent, and real-time. More digital metrics now exist, and they provide unprecedented visibility. However, these new metrics still may lack insights and credibility to change the media-buying behavior of retailers.

New characteristics including taking multiple and cross-platform measurements, monitoring actual usage, providing direct linkage, and reporting in real time arm companies with critical data. Additionally, qualified awareness metrics for traditional media are appearing, such as time-shifted viewing and percentage of initial audience retained.

With the advent of these metrics and efforts under way to standardize and monetize them, the industry awaits great opportunity to generate incremental revenue through new efforts such as the second screen.

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