Multichannel networks: complementary to the established broadcasters—or a future competitor?

Multichannel networks: the 15-second download

5 Multichannel networks (MCNs) are a new generation of online video aggregators, mostly ad-funded and delivering low-cost user-generated content (UGC) to niche groups of consumers worldwide. Gaming and music videos are particular areas of focus.

10 Their emergence represents the logical next step in the evolution of consumers' use of the Internet for content creation and distribution, democratised by the plunging cost of near professional-quality video production and devices.

15 While currently relatively small in revenue terms, MCNs could evolve in the long term into a serious competitor to traditional media companies—and/or a potential participant in partnerships or consolidation with mainstream players.

Digital content is accounting for an increasing share of the growth in global entertainment and media revenues. This race to digital isn't just transforming companies' business models and consumers' behaviour: it's also reshaping the entire value chain.

As pointed out in a recent PwC study—*Game changer: A new kind of value chain for entertainment and media companies*—digital disruption is short-circuiting and fragmenting traditional industry roles and relationships. Content creators ranging from major studios to home hobbyists are building direct relationships with consumers; content distributors are creating their own content; and advertisers are using digital to go beyond the traditional agency model.

A new form of digital disruptor emerges ...

Amid this end-to-end disruption in the supply chain, a fresh breed of participant has evolved: the multichannel network (MCN). While their precise role varies, MCNs can be broadly defined as online video aggregators and distributors, primarily focusing on organising user-generated content (UGC) in a consumer-oriented way and distributing it over YouTube.

Generating the bulk of their revenues through facilitating and brokering advertising for the properties in their networks, most MCNs focus on niche markets such as gaming, music or comedy, while a few are generalists aiming to garner as many eyeballs as possible. The largest MCNs typically follow both strategies, while the smaller and emerging MCNs will generally pursue one strategy until they achieve scale. Some MCNs also assist content creators in areas ranging from funding to production to digital rights management, and guide SMEs and corporates through the complexities of getting their content and messages out on Youtube—a focus that can bring them into competition with advertising agencies, producers and buyers.

Developing video advertising is an area where MCNs' opportunities may be expanding. Currently, advertisers are complaining of a shortage of high-quality, relevant and monetisable video inventory through which to advertise, and are challenging publishers to produce more video content. The development of video advertising has been relatively straightforward to date, with brand advertisers tending to repurpose conventional spots originally made for TV. Since MCNs already curate high-quality video inventory which is in demand, the need for more inventory could be a significant opportunity.

... driven by popular democratised demand

So, what triggered the emergence of MCNs? Like many other developments in the online ecosystem, it resulted from the convergence of several drivers. On the content side, the plummeting cost of producing good-quality video thanks to digital equipment and processes has democratised the production industry, with virtually any talented individual now able to develop a compelling, five-minute

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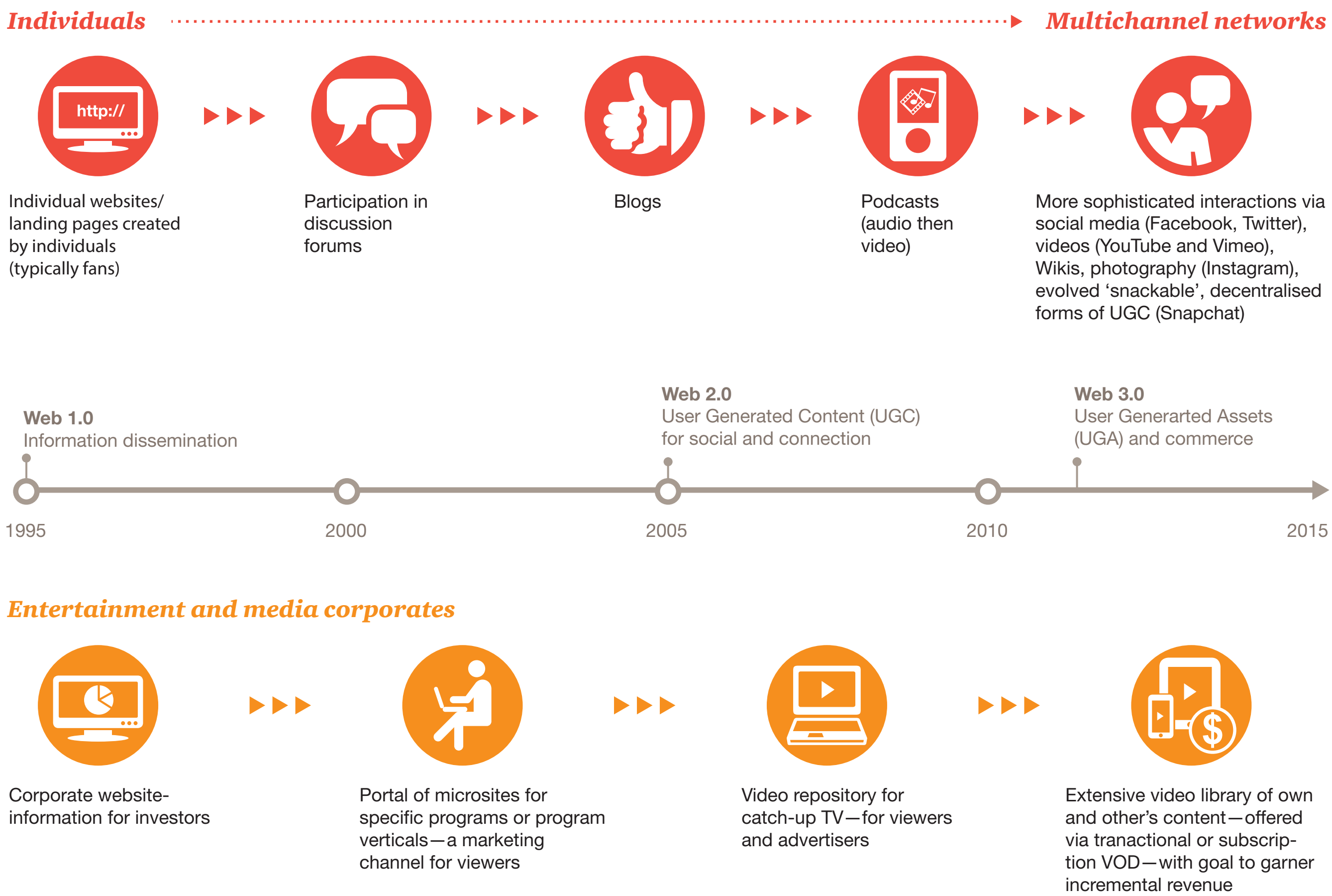
Fig. 1: Evolution in the use of the Internet over time by corporations and individuals/MCNs



near professional-standard video at low cost. The resulting flood of content created new demand for ways to monetise UGC via more effective distribution and the Internet advertising revenues that would result from it. MCNs emerged to fulfil this need.

Meanwhile, there's also been an explosion in consumer demand for 'snackable', bite-sized UGC of five to ten minutes in length, especially on mobile devices. MCNs are proving adept at aggregating and distributing content that meets this demand—thereby reaching engaged niche audiences that attract advertisers.

In this way, MCNs are enabling small, dynamic content producers to get closer than ever before to their distribution, while also benefiting from the network effect of the associated properties in the MCN's network. The result is that anyone who makes a video can reach millions of consumers via a trusted channel, bypassing the traditional arbiters of celebrity. The overall effect is to spread democratisation all along the value chain, moving from the traditional concentrated, controlled content market to a highly fragmented and unconstrained environment for origination, supply and access.

Parallel evolution paths: media corporate and MCNs

As the accompanying schematic shows, the evolutionary path of consumer-originated content that has led to the emergence of MCNs, mirrors closely the progression in the ways entertainment and media corporates have used the Internet since its inception (see Fig. 1).

Looking beyond video, the rise of UGC also has parallels with other entertainment and media segments such as music—where democratisation is probably most advanced—and books, where self-publishing has spawned major global hits such as the *Fifty Shades* series.

More generally, as the chart also underlines, two parallel characteristics of Web 2.0 have been the rise of UGC and corporates' move into Internet videos. However, for UGC producers, a drawback of Web 2.0 was that it remained difficult to monetise their content. So, just as corporates have progressed into the Web 3.0 stage by implementing monetisation models for their own and others' video content, so UGC has evolved into user generated assets (UGA) that can also be monetised via MCNs. And in both evolutionary streams, the Internet has advanced from an interconnected set of communities into a commercial marketplace for exchanging value.

Complementary, co-opetitor—or outright competitor?

That's the context of MCNs' emergence. But how should traditional media and entertainment companies regard them? As complementary niche players operating below the radar, but whose talent they may be able to cherry-pick? As a direct competitor for eyeballs, advertising and subscription revenues? Or even as a potential acquisition opportunity, to add the option of a potentially lucrative UGC strand to their portfolios?

Efforts to answer this question are complicated by the diversity of MCNs' business models. Many are effectively stripped-down online broadcasting networks for UGC, while others base their business model on syndicating brands' video content to online publishers. Examples include Rightster, which syndicated live streaming from the 2014 Mercedes-Benz fashion week in New York.

Given such differences, it's hard to pin down MCNs' long-term competitive impact. However, we believe the likeliest medium-term outcome is that they will consolidate their position and establish a sustainable role in the marketplace, co-existing with the major players.

For the time being, the challenges that some mainstream MCNs face in areas like content curation, dealing with unintended copyright infringements by their UGC suppliers, and achieving revenue growth mean incumbent media companies perceive them as little threat. However, as MCNs' reach and ad revenues expand, there are some areas where they may come increasingly into competition with traditional broadcasters—possibly pushing the larger players to consider acquiring or collaborating with them.

The drivers behind such moves could include the desirable demographics of YouTube consumers, and the ongoing shift in mainstream broadcasters' distribution preferences, as they reorientate towards mobile and come to view YouTube as a viable media channel. In terms of the content areas that might be the focus of this type of consolidation, the most likely is MCNs' strong niche of online gaming videos, followed by other niche markets such as music, humour and fitness.

Over time, as incumbent media companies venture further into online distribution, they could find further reasons for forging tie-ups with MCNs. For example, Hollywood studios rolling out cloud-based access—the multi-studio Ultraviolet is a recent example—might decide that to acquire or partner with an MCN with wide distribution. Or an online provider of professional-quality content might decide that a UGC channel or stream could be a valuable addition.

A new segment to be taken seriously—and watched!

Whatever way MCNs evolve in the long term, it's clear that they're here to stay—and that traditional entertainment and media companies should keep a close eye on them. Indeed, the major players are already taking them seriously. In March 2014, Warner Bros made a US$18 million investment in Machinima, one of the biggest MCNs with a strong focus on gaming. And in the same month, Disney acquired rival MCN Maker Studios for a price of US$500 million.

As we've highlighted, the emergence of monetised UCG distribution via MCNs represent a natural next step in individuals' use of the Internet—mirroring a parallel progression by corporations selling professional content. In years to come, alliances between broadcasting majors and MCNs could yet see these two parallel evolutionary paths converge into one.

Ten questions to ask:

Five for MCNs:

1. *What is your core value proposition for content producers—and how can you enhance it further?*
2. *What is your target consumer niche, and how are you looking to deepen and expand your appeal to it?*
3. *Should you be developing content for mobile first? Or even for mobile only?*
4. *How can you increase your attractiveness to potential new investors—including both traditional and online-based media companies?*
5. *What is your biggest source of—or opportunity for—revenue growth?*

Five for traditional entertainment and media companies:

1. *Have you identified any competitive impact from MCNs to date, whether on ad revenues or traffic?*
2. *Do you anticipate much of a competitive impact from MCNs in the future? If so, where?*
3. *Are you building MCN-like capabilities within your organisations, such as UGC talent spotting and aggregation?*
4. *Have you identified any gaps in your portfolio of content creation or distribution where an MCN might be a good fit?*
5. *Have you considered partnering with an MCN to access niche or 'snackable' content for your own platforms?*