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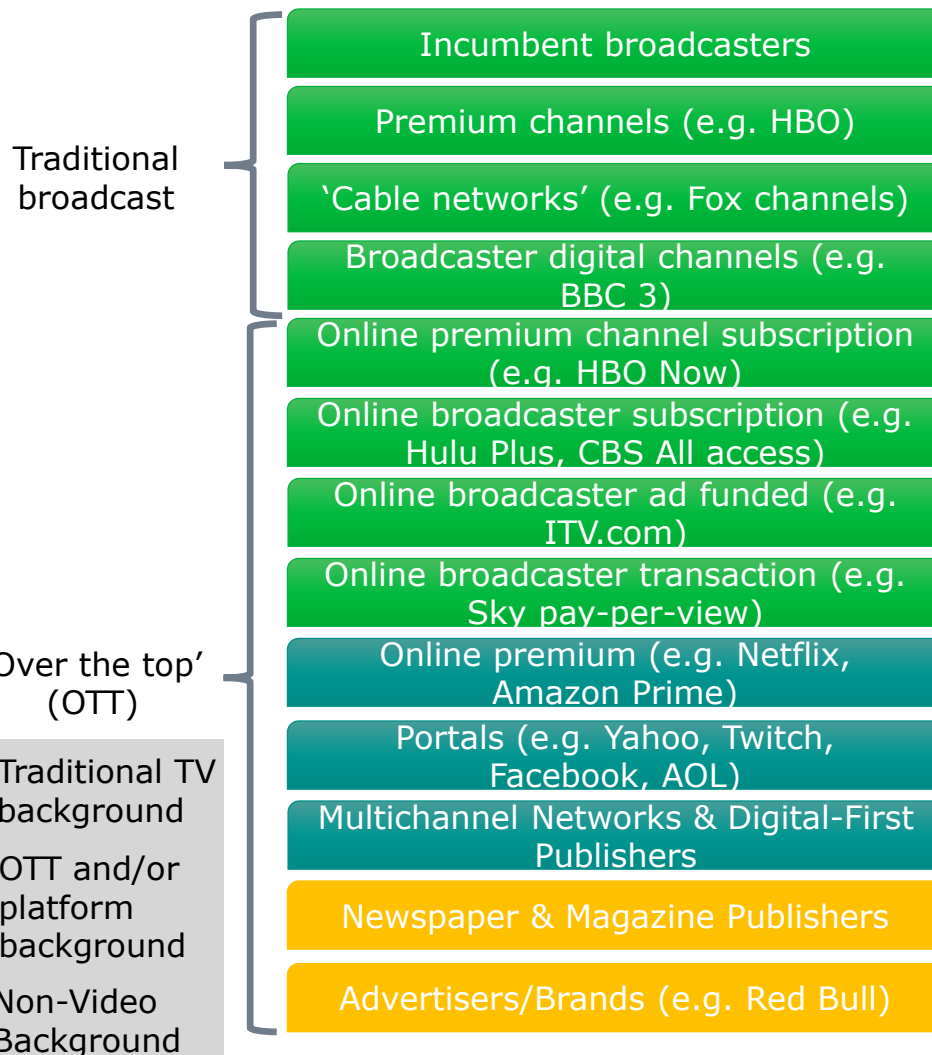
# Digital Disruption: Commercial Broadcasting in Europe in a Changing Environment

European Parliament, 6 December 2016

*Prepared for ACT*

Daniel Knapp

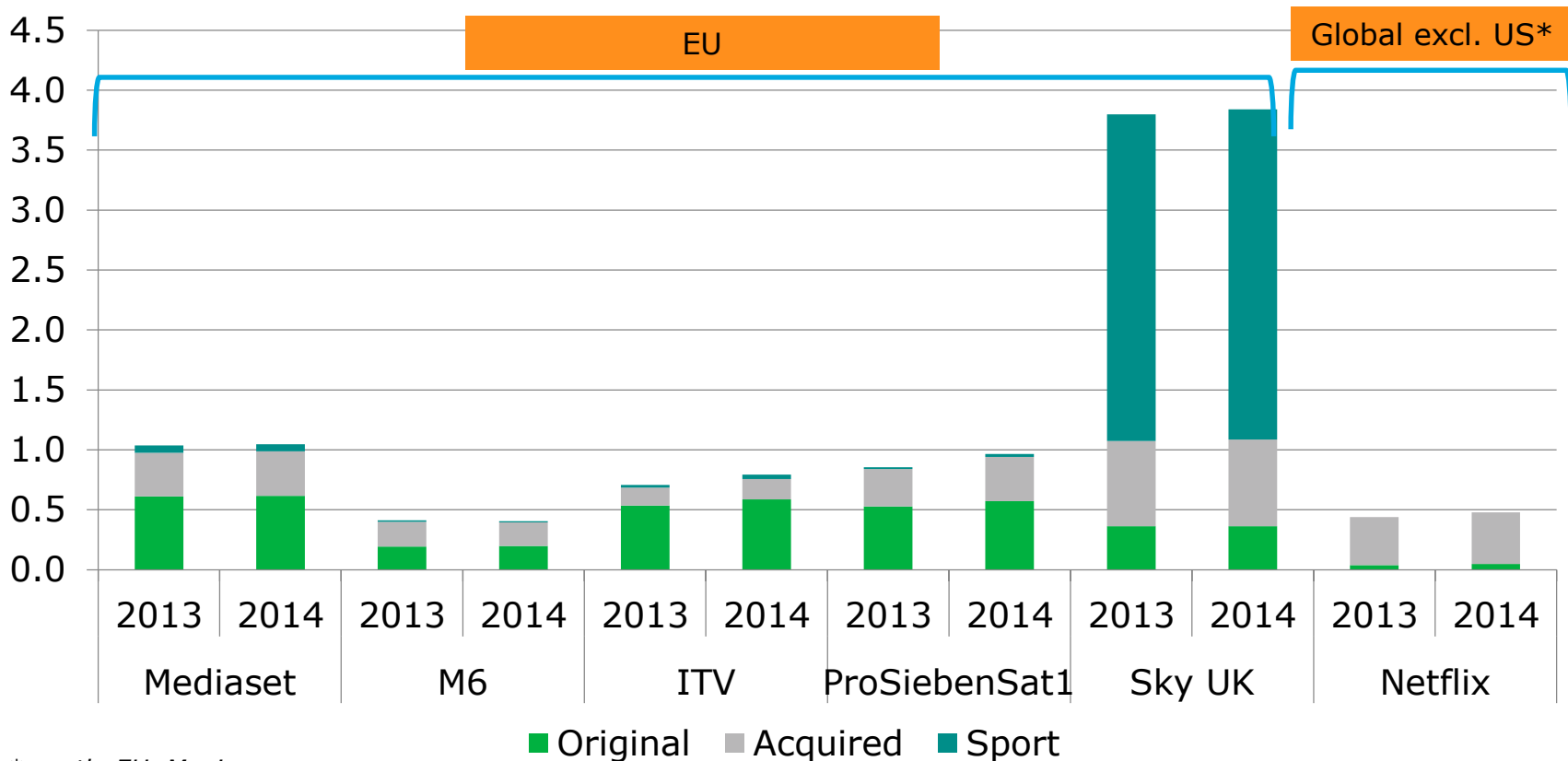
# TV is being redefined, and broadcasters are just but one of many market participants in a 'Total Video' world



- The TV channels business already exists on a continuum
- The lines that presently distinguish parts of the TV business will continue to blur as outlets compete for:
  - > Rights
  - > Audience attention
  - > Data
  - > Technology
  - > Consumer revenue & ad spend
- These changing dynamics affect TV distribution and content, but also the role of free-to-air broadcasters themselves

# Despite this redefinition, broadcasters continue to be vital investors in the EU's creative industries

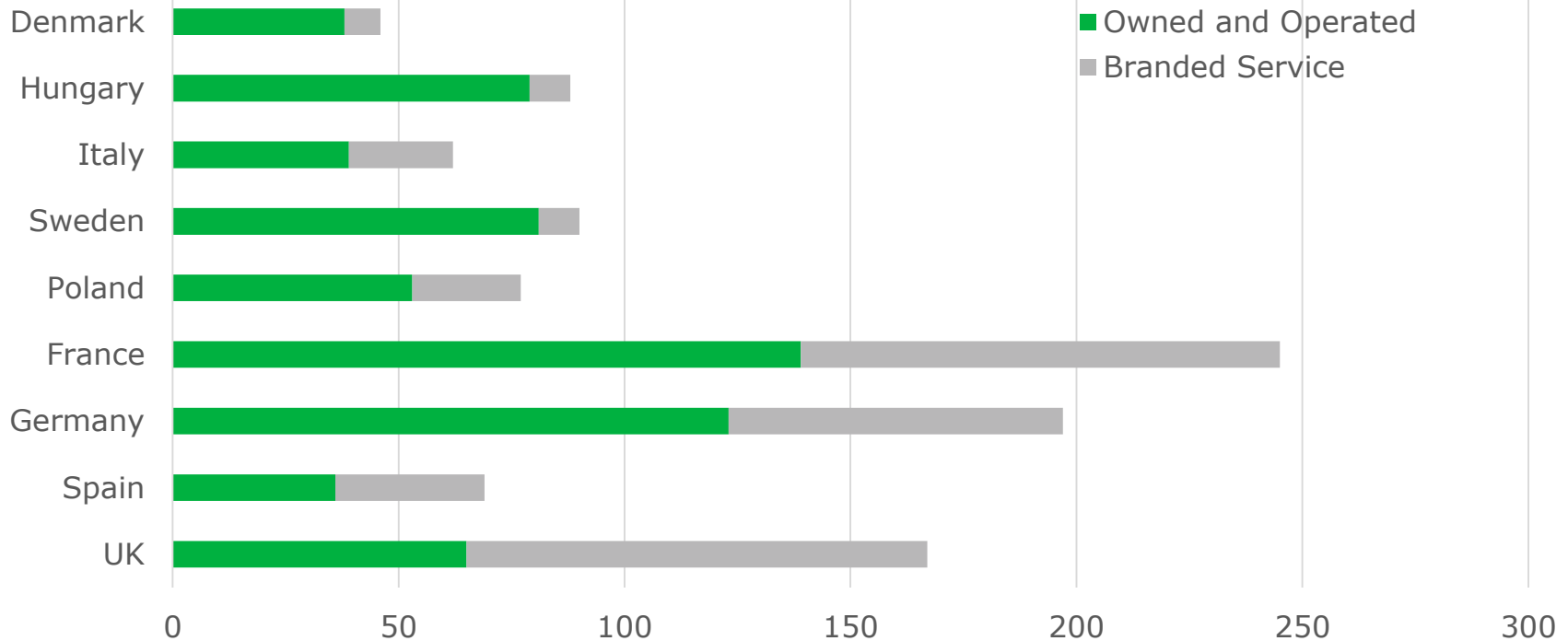
## Content spend by provider (€bn)



\*mostly EU, Mexico

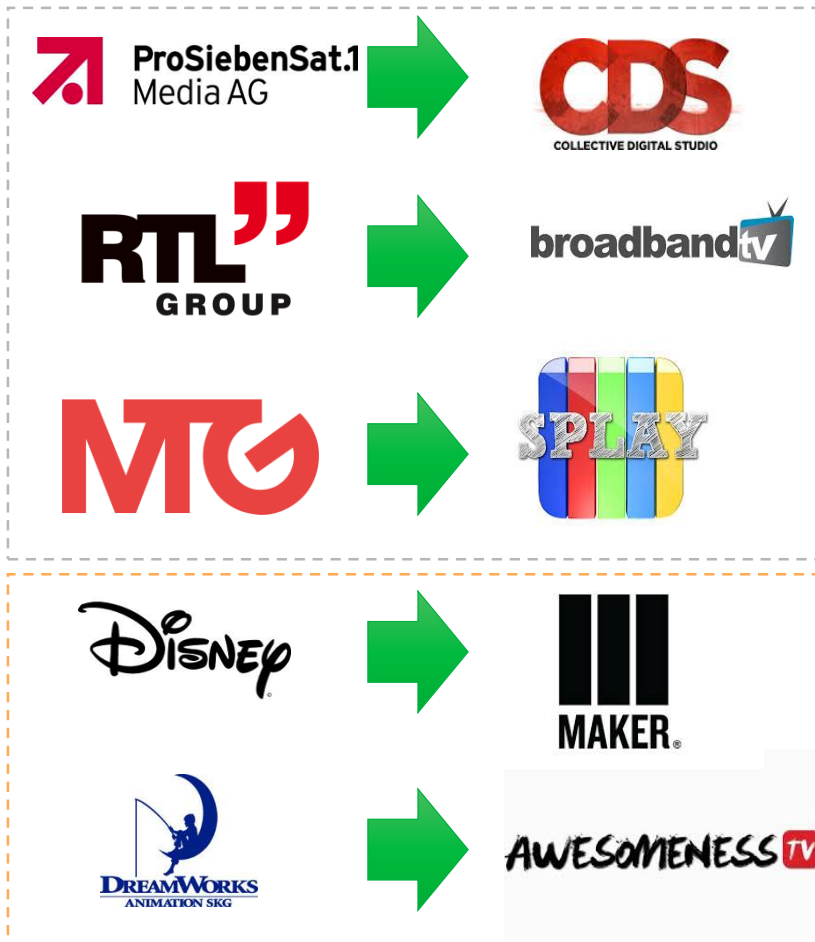
# European broadcasters are investing and adding services to compete within this new definition of TV

## On Demand Audio Visual Services Operated by Broadcasters



Note: Owned and Operated include catchup and OTT services; Branded includes services hosted on iTunes, Xbox and YouTube  
 Source: MAVISE Database

## Broadcasters are looking to tap into YouTube's scale via 'Multi-Channel-Networks (MCNs)



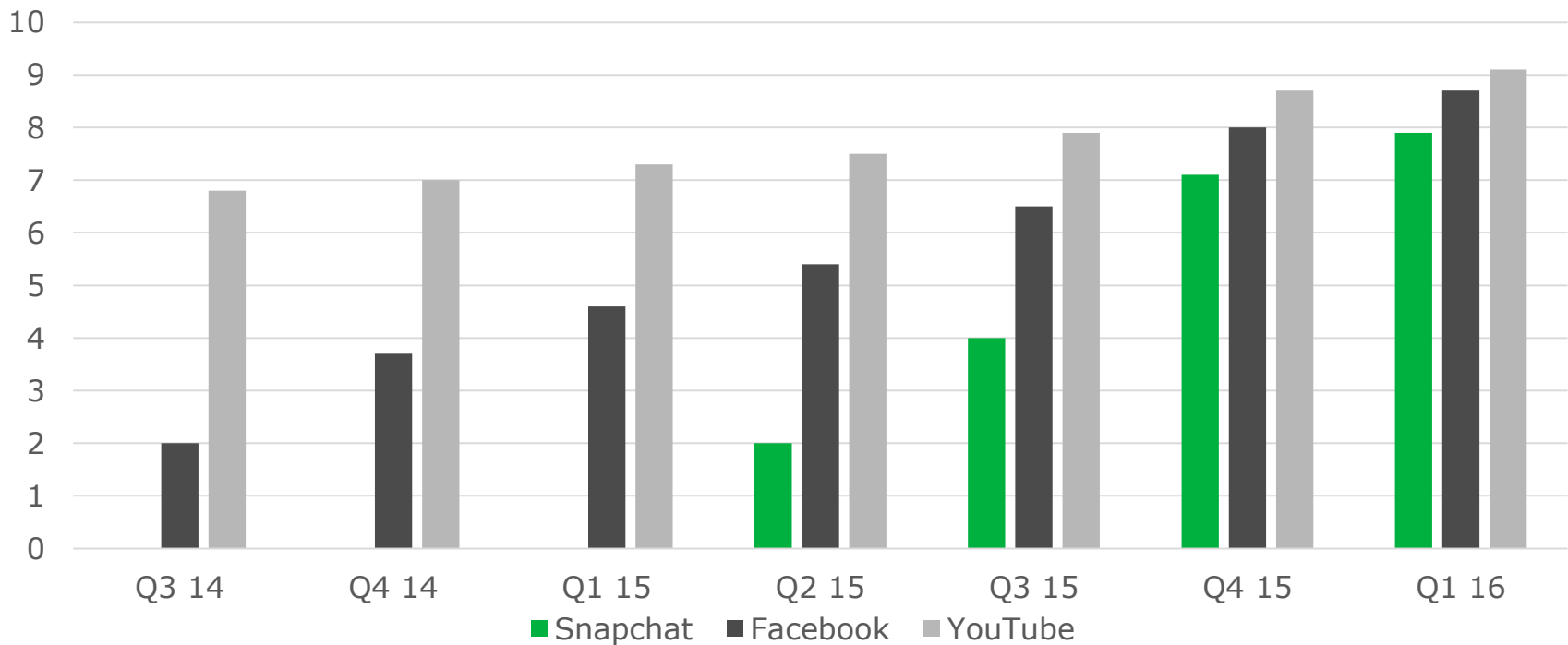
- Broadcasters are increasingly buying into YouTube Multichannel Networks (MCNs), which aggregate and monetise YouTube channels.
- Broadcasters are competing in the MCN ecosystem through short-form non-TV like offers, in order to add to their traditional premium long-form content.
- This is partly a diversification strategy, and ensures that bets are hedged against the success of YouTube at the expense of broadcast
- It also represents a defensive move – as major content suppliers buy into MCNs as well (Disney into Maker, Dreamworks into Awesomeness TV, Warner into Machinima), looking to create new, more direct paths to consumers.

*List is exemplary, not exhaustive*

## Video platforms provide new creative outlets, lower barriers of entry and spark 'platform-native' publishers

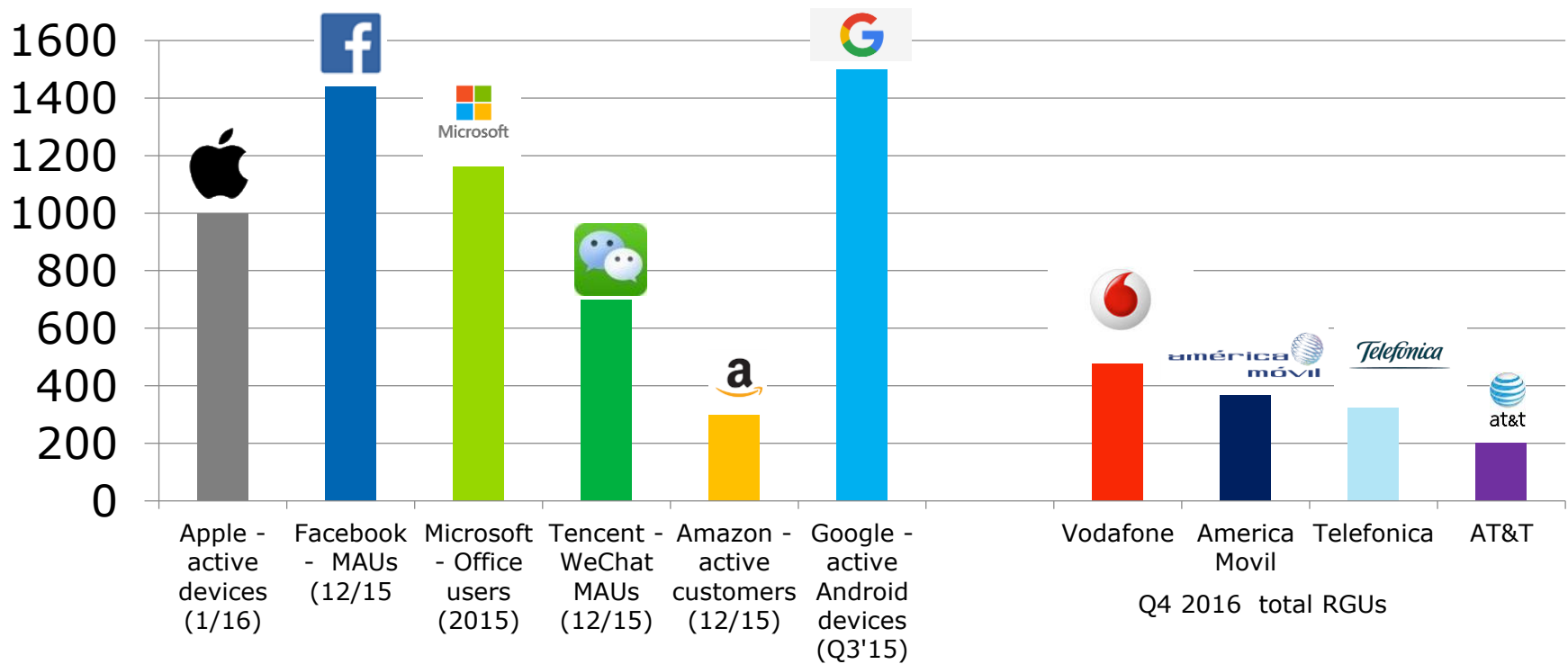
"Facebook has changed the discovery and distribution of video [...] If we were doing this three years ago, we'd have to be publishing an insane amount of video just to be discovered." (CEO of MIC).

### Daily Video Views (bn), global



# Ability to develop unique depth and scale of 1<sup>st</sup> party data is a competitive differentiator

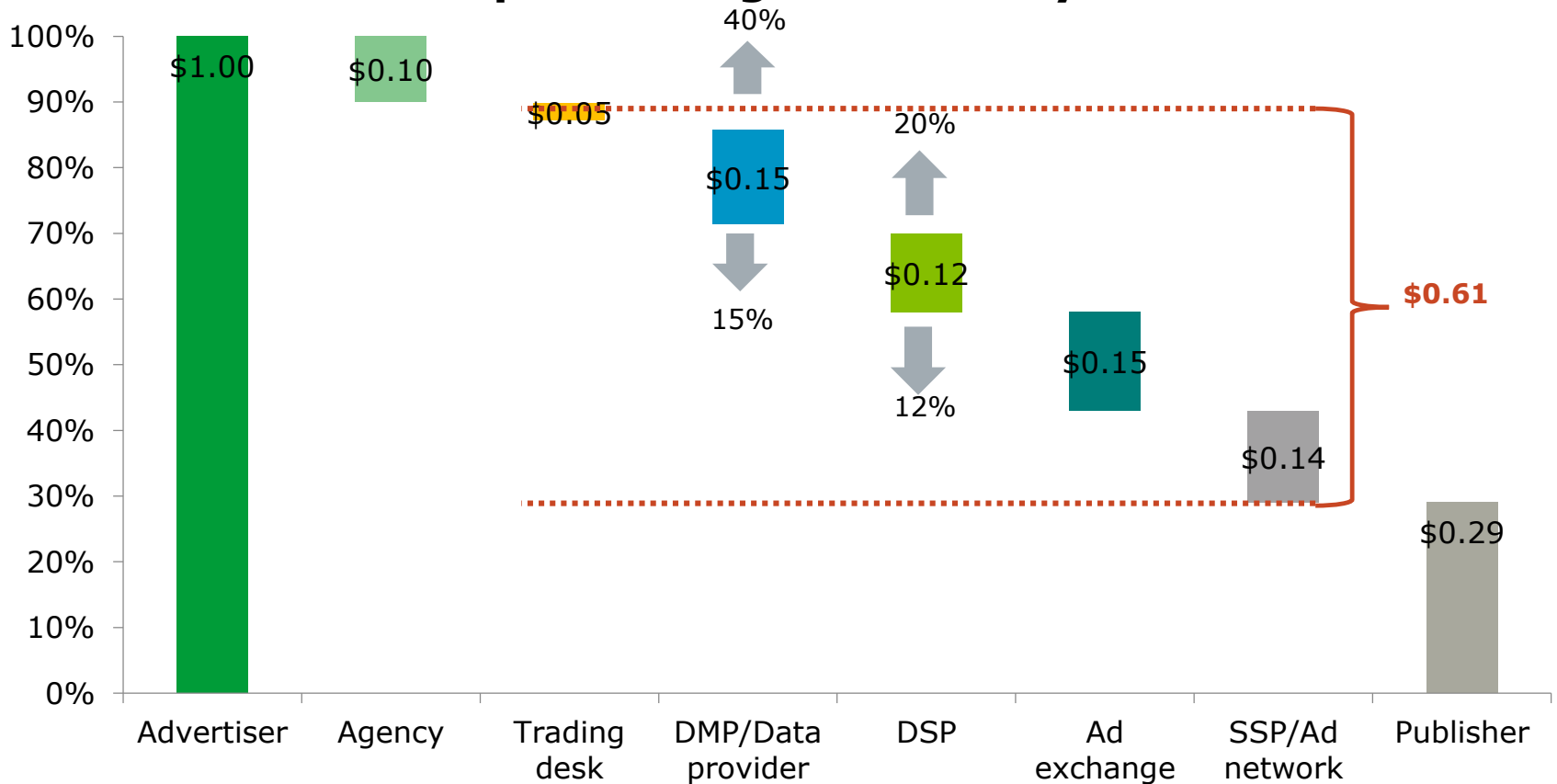
**2015: customers/ ecosystem reach (m)**



Source: IHS Technology, Mobile Media Intelligence (09/16)

# The value of data and interpretation now exceeds the value of advertising inventory

## Flow of spend in digital ad ecosystem\*

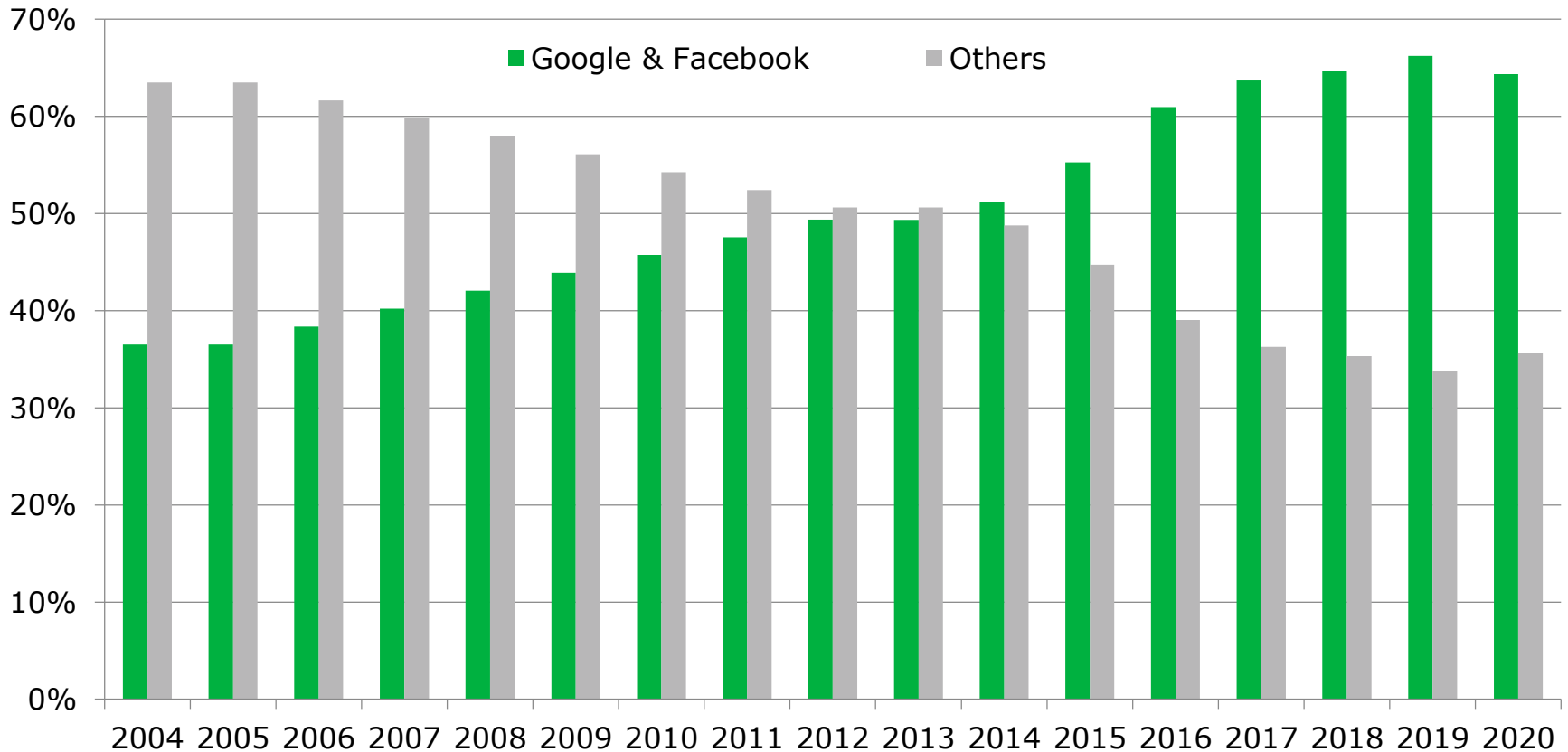


\*Illustrative. Based on typical value chain for banner display and online video inventory. Actual value capture varies depending on publisher control of ad tech intermediaries, advertising buying strategy and fee structure.



# Underpinning reach with audience understanding and centralised gateway for demand drives revenue

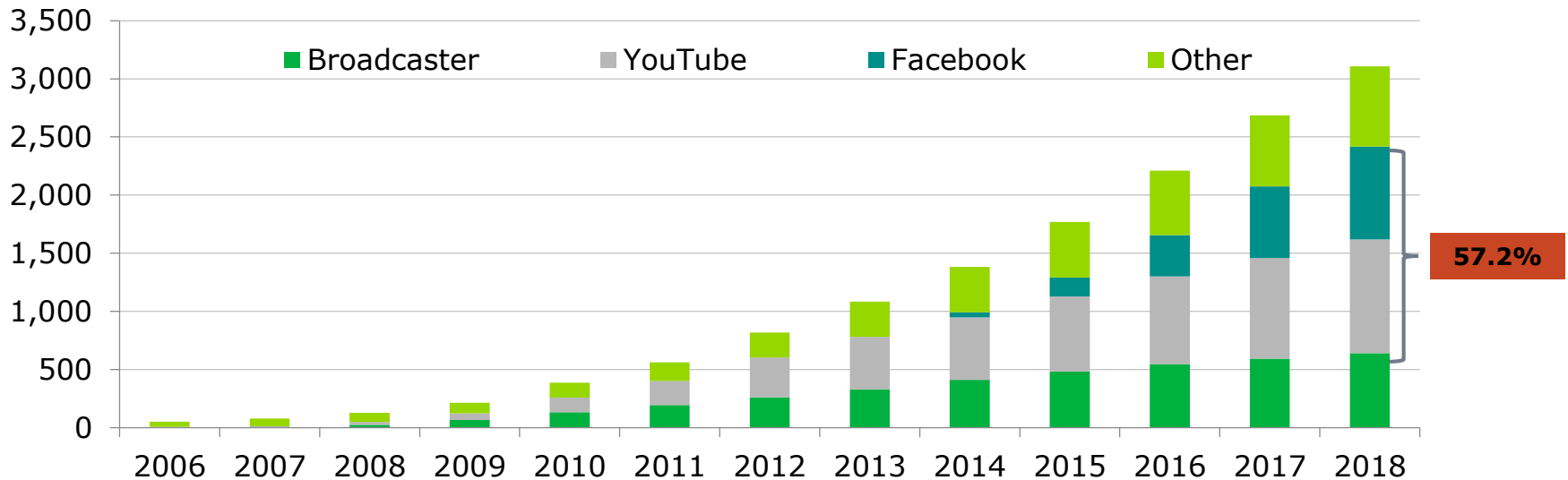
## Global Digital Net Advertising Revenue by Company



# Over 50% of online spot ad revenue alone to be generated by YouTube and Facebook in 2018

- Video moves TV budgets online
- High prices (5-20x the value of banner ads) make video particularly lucrative
- Platforms invest heavily in video and define its evolution (e.g. live, 360, VR)
- Twitch, Snapchat and other platforms also have their eye on video ad budgets
- Branded Content and Native Advertising proliferates on platforms

## Online video ad revenue in the EU Big 5(€m)\*



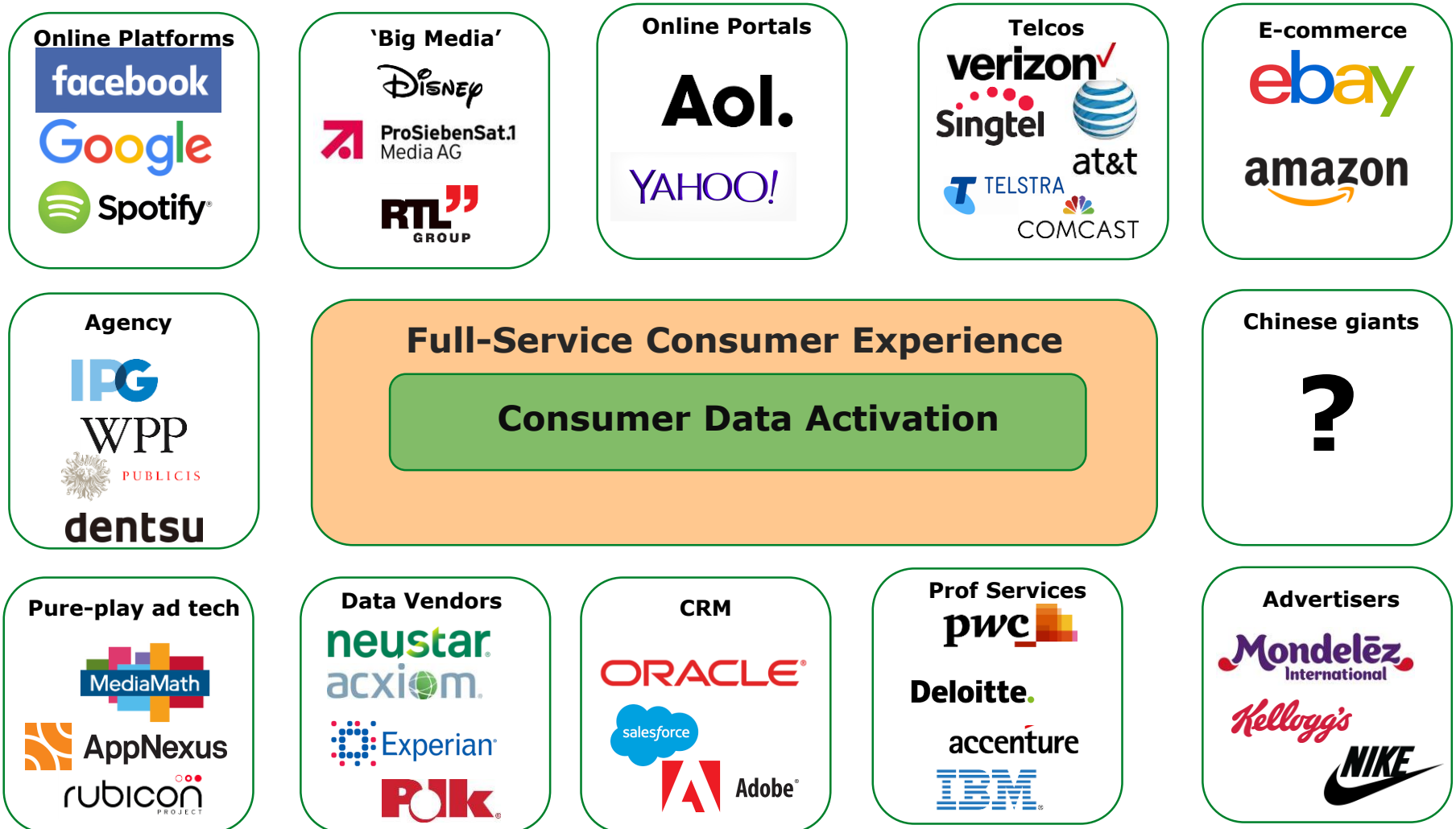
\*Includes in-stream video advertising, in-stream banner overlays, in-banner video advertising, in-text video advertising based on company reports, IHS models, analytics (e.g. Facebook Ad Planner scraping) and industry interviews

## Market power coincides with intransparency

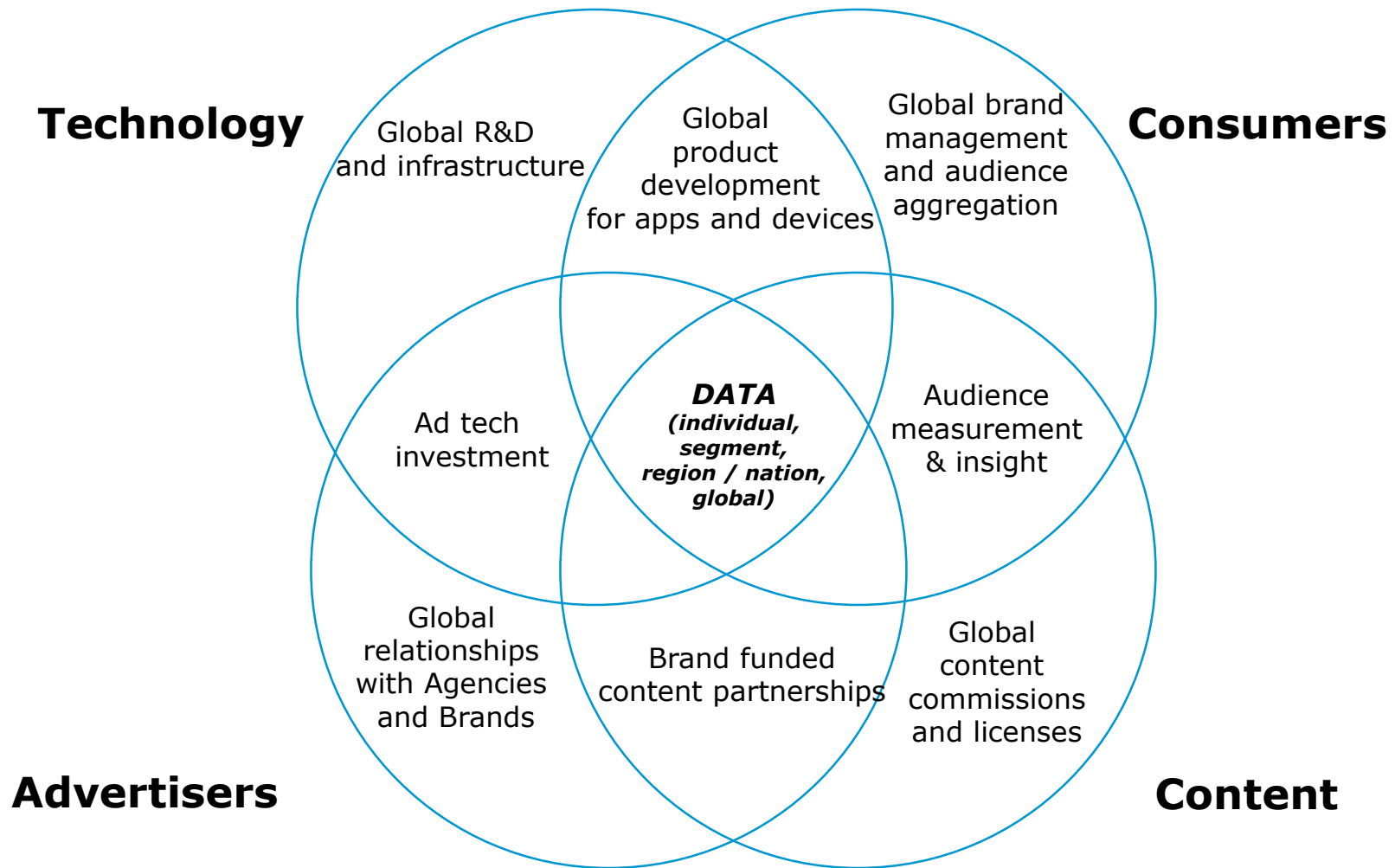
**“There is no doubt a current information asymmetry as these platforms know more than any advertiser or agency could know. The best we can do is learn within our own systems and build proxies for the information they have. We don’t know how big the gap is between what we deduce and the reality.”**

*Rob Norman, Chief Digital Officer, GroupM*

# From all entry points into the value chain, new attempts to build advertising ecosystems emerge

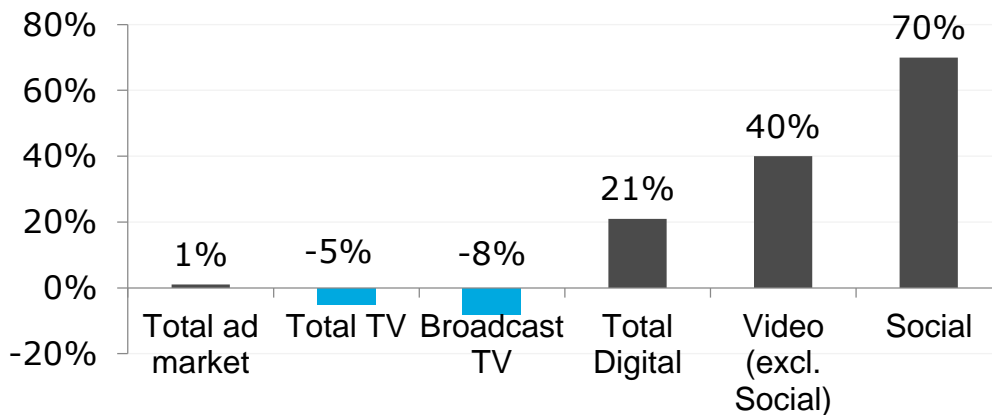


# New players enjoy advantages that European broadcasters cannot compete with

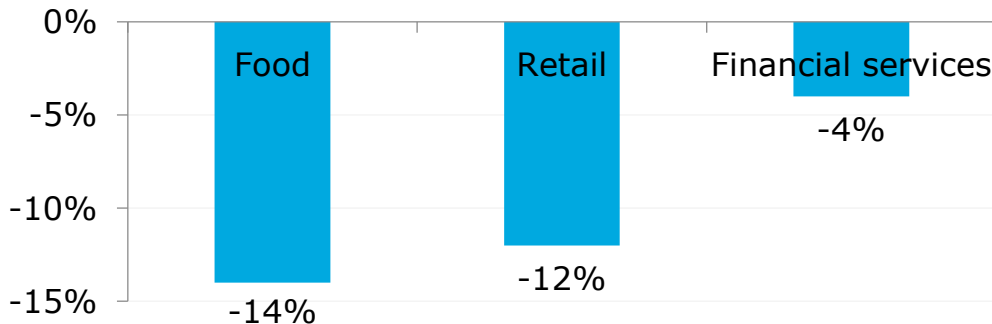


# US ad market moved \$7bn\* from trad. to digital media in 2014, this shift now also affects TV

**US: ad market growth (Apr 2015)**



**US: TV ad budget reductions that move to digital by sector (Apr 2015)**



- ZenithOptimedia (Dec 2014): "[Television globally accounts for 39.6% of ad spending, and that] **has now peaked** [...] The number **will slip** to 37.4% in 2017."
- WPP (Dec 2014): "**For the first time the forecasts are hinting that traditional TV's share might finally be falling too** [globally], [...] dropping a point to 41.8 per cent in 2015. [...] It is **too soon to call a more general structural change**, particularly as legacy TV incumbents are accomplished at retrieving revenues online. **But it is a trend we will be watching in the USA and UK in particular.**"
- SMI (Apr 2015) sees the US shift already happening earlier than expected: "We see **large traditional TV advertisers**, like retail and financial services, **move significant dollars into digital at the expense of their television spend.**"

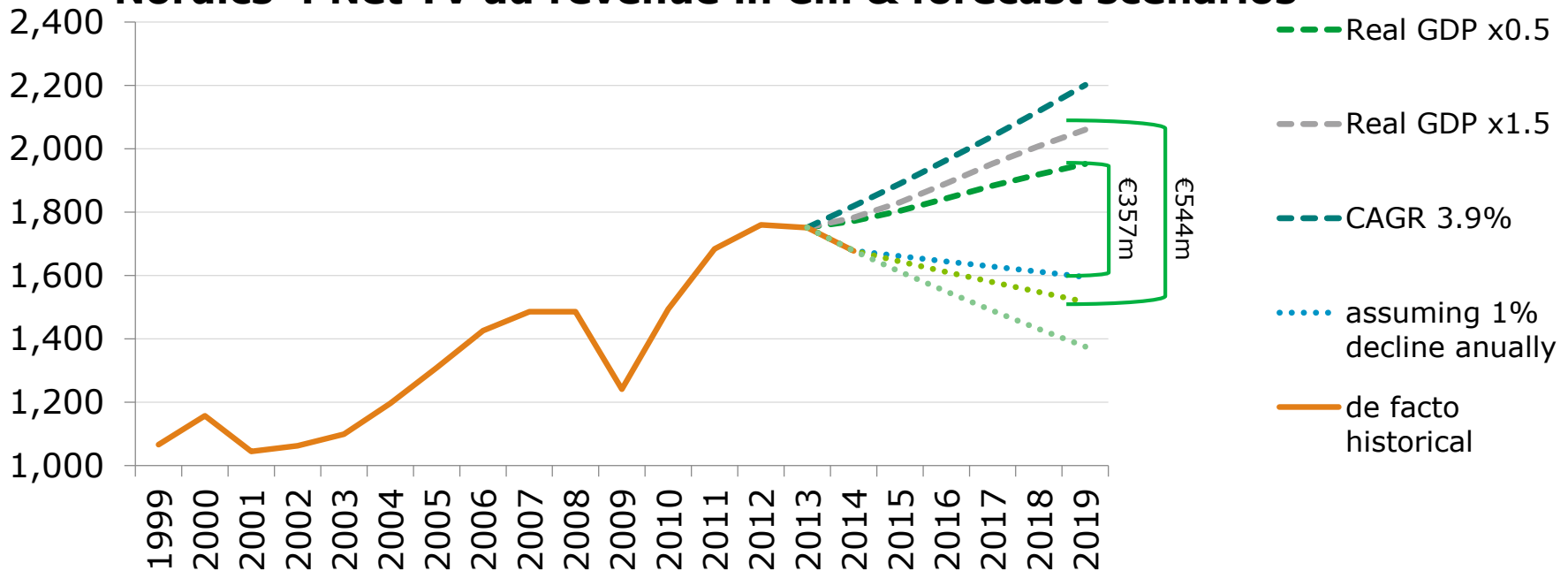
Source (2 charts above): Standard Media Index (SMI). Data captures 80% of US ad agency budgets. Growth rates are year-on-year.

\*Magna Global, Dec. 2014  
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# 'Peak TV advertising' reached in the Nordics: market shrank by €94m in 2014, trend to continue

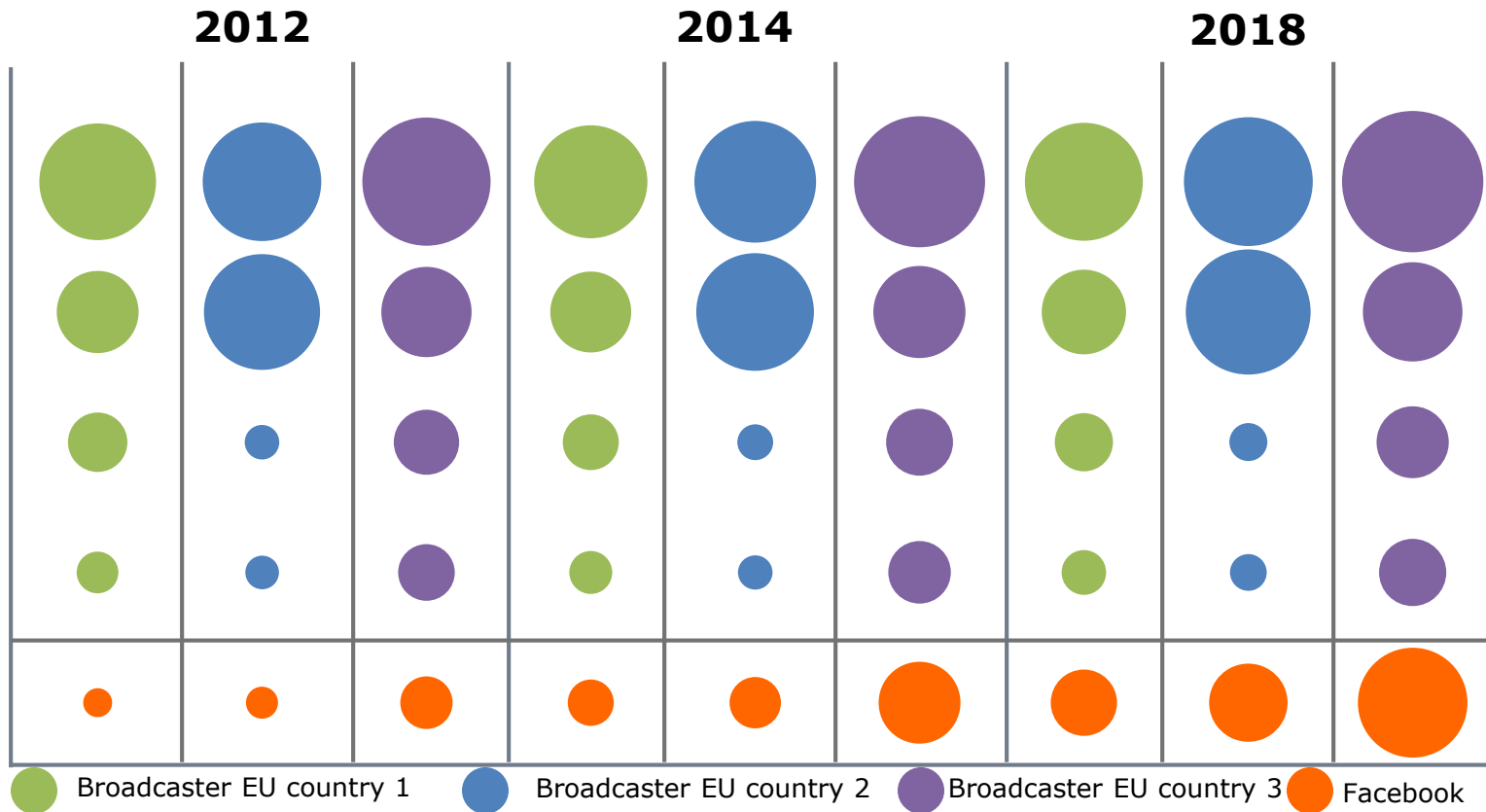
- The Nordic TV ad market declined by 4.2% in 2014. This means losses of €94m against conservative expectations (0.5x real GDP) and €141m against optimistic expectations (replicating historical growth rate).
- By 2019, the aggregate revenue gap between 2014 and 2019 could be between €357m and €544m in conservative scenarios, assuming 1% or 2% annual decline against flat or historically typical market growth.

**Nordics\*: Net TV ad revenue in €m & forecast scenarios**



\*Data for Denmark, Finland, Norway and Sweden

# Facebook exceeds ad revenue of major national broadcasters - even if assuming optimistic annual growth for broadcasters 2015-2018 at 1.5x real GDP



*Note: Bubble area size = net ad revenues in EURm. Companies ranked on Y-axis per market by largest to smallest revenue, base = 2012. Not exhaustive list of broadcasters. Only subset of those with publicly disclosed revenues, most others are smaller. Considered: ITV, Channel 4, Five, BSkyB, TF1, M6, Canal+, France Televisions, ARD, ZDF, ProSiebenSat.1 (SevenOne), RTL Deutschland (IP Deutschland, excl. RTL II). Broadcaster data for 2012 & 2014 actuals, 2018 IHS forecast on optimistic scenario of real GDP x1.5. Facebook data IHS model, interviews, media agencies. All forecasts real growth, net of inflation.*



## These new players enjoy a far lighter regulatory regime than commercial broadcasters

### Regulation of Commercial Communications on TV, TV-Like and VOD

Regulation	Provisions	Broadcast (linear)	TV Like Service (catch-up)	Global digital platforms, agencies, brands
AVMSD (Commercial)	Minutage Scheduling of breaks Sponsorship Product placement Cross promotion Single ad spots Sectors (e.g. alcohol)	Yes	Only partially	No
AVMSD (Cultural)	European works Independent quotas	Yes	Minimal	No
AVSMD (Minors)	Protection of minors	Yes	Yes	No
Member State Specific	E.g. alcohol or HFSS	Yes	Often not	No
Other EU initiative	E.g. gambling, CO2 emissions	Yes	Yes	No
Member State Advertising Codes	E.g. self regulation via the ASA	Yes	Yes	Yes

“Broadcasting needs regulation because it’s based on scarcity. But the future is about abundance, and choice, and the audience will increasingly be the regulator. So won’t TV become more like any other medium?”

## Summary

- The definition of TV has expanded and broadcasters are now one of many players in a 'Total Video' environment
- Yet new entrants enjoy a far lighter regulatory regime
- Global scale, data and financial ability to innovate put platform players in advantageous position
- Non-video publishers begin to compete with broadcasters within a platform-driven ecosystem
- New players such as Facebook already have higher ad revenues per market than many national broadcasters
- Given the disconnect between pace of industry change and regulatory response time, it is imperative to enable a level playing field now

# Thank you

[DANIEL.KNAPP@IHSMARKIT.COM](mailto:DANIEL.KNAPP@IHSMARKIT.COM)