GENERATION "I" AND THE FUTURE OF TV

SOME PREDICTIONS FOR 2017

By Dr. Shay David, Co-founder, President and GM Media and Telecom, Kaltura

TETHERED TO THE BOX

The other day, as they were visiting their grandma for the weekend, my daughters wanted to watch a movie and settled on a recent installment of Harry Potter. The local cable provider offers a VOD option with a fairly straightforward interface, so with a little help from a techy cousin they rented the movie for 24 hours. Soon thereafter more family guests arrived and the living room became too noisy, so grandma suggested the girls continue watching the movie using the bedroom's TV. No can do. No amount of spells or black magic could get the Set-Top-Box in the other room, apparently an older model, to play the just-rented movie. The picture showed fine, but even Dumbledore couldn't get the sound on. Tears ensued. "Why can't we just watch it on our iPad?" my six years old cried, but the moment didn't seem opportune for a lengthy explanation about technological path dependency and paradigm shifts, nor was it possible to get the guests out of the living room, so instead I opted for cheapest way out: buy another copy, on the older STB, and pay again. It seems as if, yet for another year, the cable companies are destined to remain on the lowest ranks of customer satisfaction. With Grandma's inheritance depleted by sixteen bucks, I kept wondering why couldn't we watch the movie on the iPad, and why couldn't we access the content we just paid for, untethered? In what follows I try to answer this question in the context of the rapidly changing landscape of TV by resorting to the elementary principles taught at Hogwarts: use common sense and follow the money. I'll even try some future-telling at the end.

A (VERY) SHORT HISTORY OF TV

TV was and remains one of the most rapidly and widely adopted technologies ever. Within three decades from first field tests, by 1970, Color TV was present in more than 80% of homes across the United States. After a few years of standards and patent wars, the technology landscape stabilized: a terrestrial network of broadcasting towers, each sending signals over the air to local metro or rural areas, with the programming being a mix of national content controlled by a handful of networks and local content controlled by affiliates. Within this technological framework, the business model was also soon stabilized around the simple idea of advertisers buying access to audience both locally and nationally. TV was a mass-medium where the content produced was expected to be seen by millions (or tens of millions) of consumers, and was paid for by advertising revenue. There was a neat separation and division of labor between content owners, broadcasters (who mostly owned and produced content as well), and advertisers.

For a few decades TV was 'free', meaning consumers didn't have to pay directly for the content, rather, they paid with their time watching ads. Then in the 1980s and 1990s the rise of cable television (and later satellite) introduced a new option. Cable networks offered consumers the choice to pay monthly subscription fees in exchange of taking the ads away. Cable also offered superior viewing quality as the signal didn't depend on weather conditions or an aerial swinging in the wind, and thus most household who opted for cable chose to watch the Free-to-Air networks via cable as well, allowing both of these business models—advertisers buying consumers or consumers subscribing to content for a monthly fee—to live nicely side by side. And both business models turned out to be lucrative and profitable with every year showing increase in ratings and subscribers. For more than half a century, TV was a healthy and growing business. Then something fundamental changed. Somewhere between 2005 and 2010 (the experts argue) TV's major trends reversed. In mature markets like the US, the ratings for top shows started declining and at the same time, the number of paying subscribers started dwindling.

THE RISE OF GENERATION "I" AND THE EVOLVING LANDSCAPE OF TV TODAY

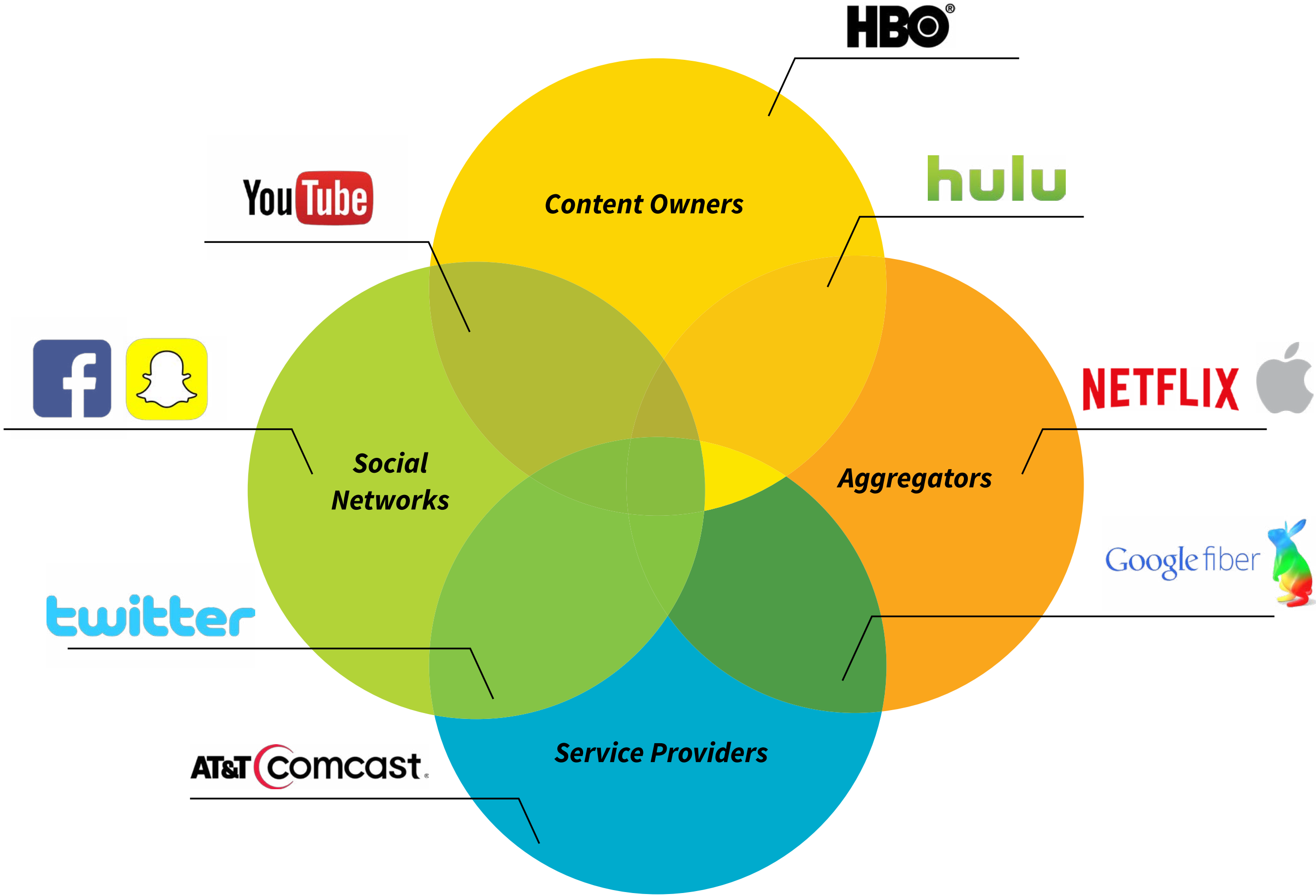
So what changed? By most accounts the culprit was the Internet. If before Video killed the radio star, now the Internet had its hands at TV's throat. Supposedly ratings where declining because consumers could now access a plethora of content by other means; the audience, while still growing, is highly fragmented. At the same time, the Internet bought with it a culture of 'free' content and given access to free content, consumers are reluctant to pay high subscription fees for TV. So on the surface, the end result was that both of TV's business models came under pressure at the same time. Perhaps there is an easy fix, some thought, for example, moving to programmatic advertising models (that can aggregate consumers across sites and shows) or reducing subscription fees. But a deeper look suggests more fundamental changes are taking place. Behind these scary numbers hides a story of a new generation of consumers, often referred to as millennials, or Gen Y. These are the kids who grew up with the Internet as a second nature, just like most adults living today grew up with electricity. Only they are not kids anymore. They are now a massive economic force, which we can call Generation "I", both for the small 'i' of iPhones and iPads, and for the capital "I" of Individuals. For these consumers, technology in general and media particularly needs to fade into the background. What remains, or should remain, is a user experience that is centered on the individual and follows that individual across space and time. Generation "I" demands a new model for television, that varies from the old model in several key dimensions.

	Old Model	***New Model***
Location	One room (mostly living room)	Anywhere – users move around
Device Support	Big Screen only	Any device big or small (mobile, tablet, PC, TV, gaming console, VR)
Social interaction	Watching in a group of family or friends	Watching individually, social interaction happens on social networks or out-of-band
Programming	Live/Linear (everybody watches the same)	On demand (build your own play list)
Interactivity	Non-existent. The experience is one-way.	Content is still mostly streamed one way, but interaction via integrated commenting and user-generated-content.
Business Model	Subscription fees for content bundles or must-see advertising based on audience segmentation	Pay-as-you-go, or Skinny Bundles, programmatic advertising based on behavioral targeting

The common thread among these variations is that in the new model the experience is centered not on technical limitations of devices or networks but around the individual. In this new world TV becomes a personal, on-the-go, individually tailored experience where each user controls the programming, the location, the device, and to a large extent the economic relations. Gone are the days where TV was a network dependent, location specific, mass experience at a pre-determined cost.

These consumer sensibilities, of course, did not develop overnight; they had been ushered in by the capabilities of the web, new mobile computing platforms, and rapid adoption of broadband. It had been evident for some time that users want more control, choice and mobility, and the incumbents have long understood these macro trends (one case in point is the development of VOD services over traditional cable networks, an attempt the by the cable-companies to delay the inevitable.) But for the most part, TV executives at both service providers and content companies were in denial about the consequences. Cord cutters, cord-shavers (people who keep basic cable service, but shave all the premium packages) and cord-nevers (young people who establish their own household but never sign up for cable) were like Yeti – monsters that were 'out there' but just not in Big-TV's back yard. Until they were. This month marks 10 years to the launch of the iPhone. If the 'end of TV is at least a decade away', here we are.

But something else was happening the background as well– the industry was being disrupted not only by changing consumer behavior but also by challengers from within and without the industry. While most incumbents were playing defense, protecting their cash cows for as long as they could, a set of companies, epitomized by Netflix, Google, Apple, Facebook and Amazon understood the huge potential of re-inventing TV by breaking some of the rules. The outcome is the rise of two new key segments: massive aggregators and social networks. If before the division of labor called for content owners to produce content and service providers to amass users, these new groups blur the lines. Is Apple just an aggregator with its iTunes service? For all intents and purposes it's also a service provider – it amasses an audience, it handles billing and customer care, it promotes content. Is Netflix just a distributor? Not at all as it also invests heavily in original programming, and even won a few Emmy's. And what about Facebook, and Snap? Supposedly those are 'social networks' that allow users to talk about TV, an augmentation to the old model, but in reality, with instant Live broadcast capabilities, and content curation for both live and on-demand content, millions of users now tune in to the social networks BEFORE they open their TV. Moreover, the lines between these groups of companies are getting blurred (see diagram below). Google Fiber is an outright assault on service providers. Twitter recently bought Football broadcasting rights. YouTube broadcast the recent presidential debates live, just like the networks. And amazon, in addition to spending billions on original content production also spent $970M dollars buying Twitch, a company specializing in broadcasting live playback of video games, as if they were spectator sports taking away from traditional sports ratings. If content is king and distribution is queen, all of the players must agree on one thing: the consumers are the princes and princesses for whom this kingdom ultimately falls.



PREDICTIONS FOR 2017

The answer to the question we started with--why couldn't my girls watch a movie we just rented on another set-top-box--becomes easier to decipher. It is simply the result of a service provider not adapting fast enough in a world that is moving at break neck speed. Decades of investment in infrastructure are not easy to unwind. The industry is moving in a clear direction. It is adapting as a whole, pushed to new capabilities by challengers that are blurring the lines. But there will be winners and there will be losers, and those who won't adapt just won't survive. With all this in mind, here are some predictions for the next 12 months.

WHAT WON'T HAPPEN

Linear TV won't die in the next 12 months. At least in the US, most households still consume TV on a big screen and pay a monthly bill for cable. The trends are undeniable anymore, but it will take at least 3-5 years (some say 7-10) for Live/Linear TV to really die. There is simply too much investment in infrastructure and too many long-term content deals in place for this to happen over-night.

VR/AR/MR/360 won't replace regular 2D experiences. While these technologies are the ultimate media for Generation I, a media experience fully centered on the individual, they are still not mainstream, and it will take several more years. It will take 3-4 years (that is 2 or 3 cycles of Moore's law) for the devices to reach an affordable price point (today, a high end VR headset with the computer needed to run it can cost about $1000), and it will take a few more years after that for quality content to emerge. There are very interesting early use cases for the technology, but they won't go mainstream in 2017.

Consumers won't (yet) have full control or become independent of existing incumbents. Regulation, long term content contracts, industry inertia all get in the way of innovation. Why does Netflix or Apple not launch a live TV service as has been rumored for so many years? The short answer – it's not that easy. Whether consumers like it or not, there is actually not an affordable, easy to use replacement for Monday Night football on the big screen. At least not yet. It's coming but it's not yet here at scale as it requires a level of technological sophistication and availability of broadband that is not yet ready for main street.

WHAT WILL HAPPEN IN 2017

Content owners move from defense to offense. It is the year of experimentation in over the top (OTT). There is not a single large content provider that had not either already launched or is in the process of launching a direct to consumer OTT service. We can expect a plethora of these services to launch in 2017. From Studio's back catalog film-buff offerings, to expat-focused oversees services, to live dedicated sports channels for surfing or motor-sports or to faith-based live and on demand channels. 2017 is the year of OTT.

Continued consolidation across the industry. In the face of challenges by the big tech behemoths, the existing service providers are in a frenzy of consolidation. We're seeing a global trend of mobile operators buying fixed line operators, fixed line operators buying satellite companies, and operators buying content. The incumbents believe in strength in numbers, and for good reason. Owning lots of content or lots of users gives an edge in the ability to negotiate further content and distribution deals as well as economic rationale for the massive investment in new infrastructure necessary to launch next-gen services.

Software will continue to replaces hardware as TV moves to the cloud. This is a macro trend that continues to accelerate. In CES this year there were just TVs, not smart TV for the simple reason that now every TV is smart. Nobody is buying non-smart TVs anymore. What this means is that over time we'll see the STB disappear into the TV. For this to fully happen recording functions of the STB need to move to the cloud, and we can expect to see first large scale commercial services with Cloud-DVR launch in 2017. And then, not in 2017 but perhaps beginning in 2019, with the launch of 5G mobile networks, the networking functions themselves will come from outside the home, replacing the one last remaining box, the home router. The future of TV is in the cloud.

Internationalization. In many areas of the world TV has a higher household penetration than electricity and/or sanitation services. It's a global world. After Netflix's huge international push in 2016, we can expect to see many US brands go global in 2017 with OTT services, and many International offerings be available in the US.

Continued innovation. Regardless of any other predictions one thing is sure. 2017 will continue to be a year of massive innovation in the TV industry. After broadcast and cable, we're now witnessing the third age of TV, and with more content, more viewers, more social interactions in, within, and around TV, arguably this is truly the golden age of Television.

ABOUT THE AUTHOR

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ABOUT KALTURA

Kaltura's mission is to power any video experience. A recognized leader in the OTT TV (Over-the-top TV), OVP (Online Video Platform), EdVP (Education Video Platform), and EVP (Enterprise Video Platform) markets, Kaltura has emerged as the fastest growing video platform, and as the one with the widest use-case and appeal.

Kaltura is deployed globally in thousands of media companies, service providers, enterprises, and educational institutions and engages hundreds of millions of viewers at home, at work, and at school.

For more information, visit ***www.kaltura.com***.

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