NEXT STOP: SUPER-AGGREGATION

A SURVIVAL GUIDE FOR FUTURE AUDIOVISUAL MEDIA MARKETS

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In 2019 video on demand has successfully diffused into the mass market. Nevertheless, linear TV still leads in audience reach and usage. Key Netflix effect: production cost and premium rights' cost increased substantially. European video audience behavior is more conservative than implied by many reports.

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The SVOD pioneers' success has stirred a harsh competitive reaction. The major studios have terminated profitable licensing deals in favor of proper SVOD services. The growing number of SVOD services and consumers' skimming strategies drive cost of subscription sales and churn prevention for Netflix & Amazon Prime.

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Abundance of "originals", shorter life span compared to traditional TV contents limit original contents' value as a differentiator. SVOD audience preferences are still driven by popular TV series. The risk of a "pig cycle" in content production increases. Revenues generated from premium rights stall in several markets or even decrease.

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Expanding content supplies run into limited consumer media budgets. The rising number of stand-alone SVOD services and their unfederated content seem to be indicators for a near term market consolidation. Super-aggregator services will most likely be able to take advantage of such developments.

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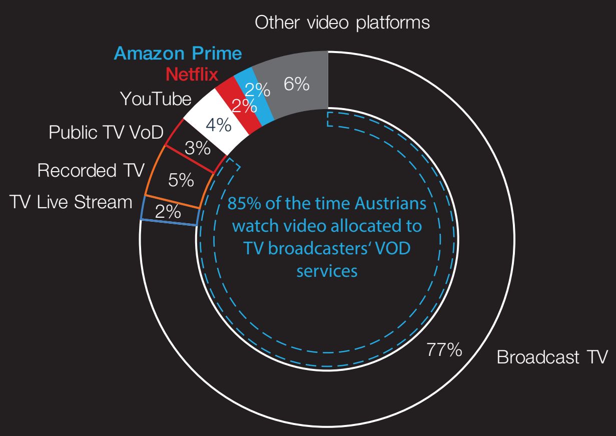
Super-aggregators will potentially disrupt the current SVOD ecosystems and create new attractive business potentials. Still, complex obstacles in the current industry environment will have to be overcome, e.g. in technology, regulation, content rights. If they succeed, they might have found the winning formula for securing the future of TV as mass medium.

BY THE WAY...

In 2019, despite the hype surrounding Netflix, YouTube, Amazon Prime and other SVOD services, traditional linear TV remains the most important driver of audiences' TV and video contents consumption.

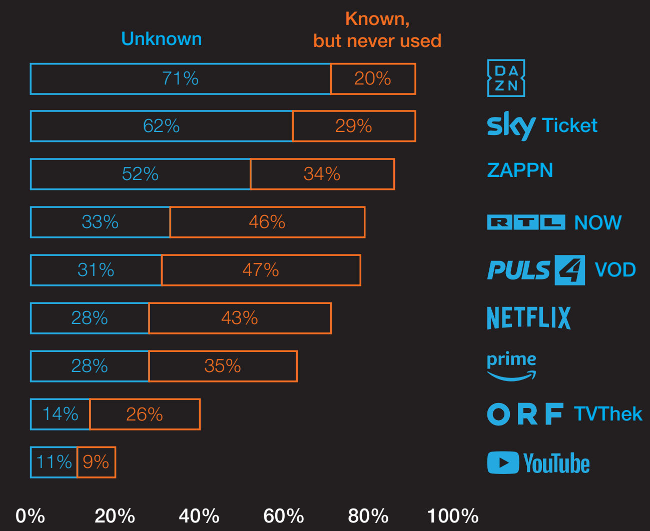
LONG WAY TO GO FOR NETFLIX & CO: BARRIERS TO ENTRY INTO AUSTRIA'S xVOD-MARKET ARE HIGH

ALLOCATION OF DAILY VIDEO TIME BUDGETS AUSTRIA (14+ YEARS)



n = 225 minutes per day

UNKNOWN OR NEVER USED: VIDEO SERVICES HAVE NOT ARRIVED AT THE MASS MARKET YET



Source: Convergent Media Research 2019 drawing on RTR AGTT 2018.

TV ON THE WAY INTO THE FUTURE – THE STORY SO FAR

2019 does not seem to be an exception to the permanent process of change affecting global audiovisual media markets for many years now. Which players, business models, technologies and contents will prevail, cannot be predicted seriously. We have nevertheless found attractive business potentials available to traditional TV companies and new video platforms, provided they observe the big players' strategies unfold and take advantage of their shortcomings.

The ability to stream video using high bitrate IP networks, without rigid program schemes, tiered release windows and the need to sit in front of your TV set at home, has changed both the TV business as well as adjacent audiovisual entertainment markets forever.

For many years now, TV broadcasters offer video on demand services complementing their linear programs. Content categories offered, scope of content libraries and business models are mostly determined by their key revenue source (TV tax, advertising, subscription) and the regulatory framework in their countries of operation. The strategies deployed span from video on demand services funded by advertisement (= AVOD) and subscription (SVOD) revenues, like hulu, TV.NOW, Sky Q, via the TV tax and subscription based BBC iPlayer to the strictly regulated public broadcaster VOD services in the DACH countries.

Cloud based convenience services like 24 hours, 7 day catch up or instant restart of linear programs have become a staple element of consumer electronics manufacturers' and network operators' service portfolios, despite broadcasters' claims in several countries that these third party services do not comply with the license agreements they signed with the original rights holders.

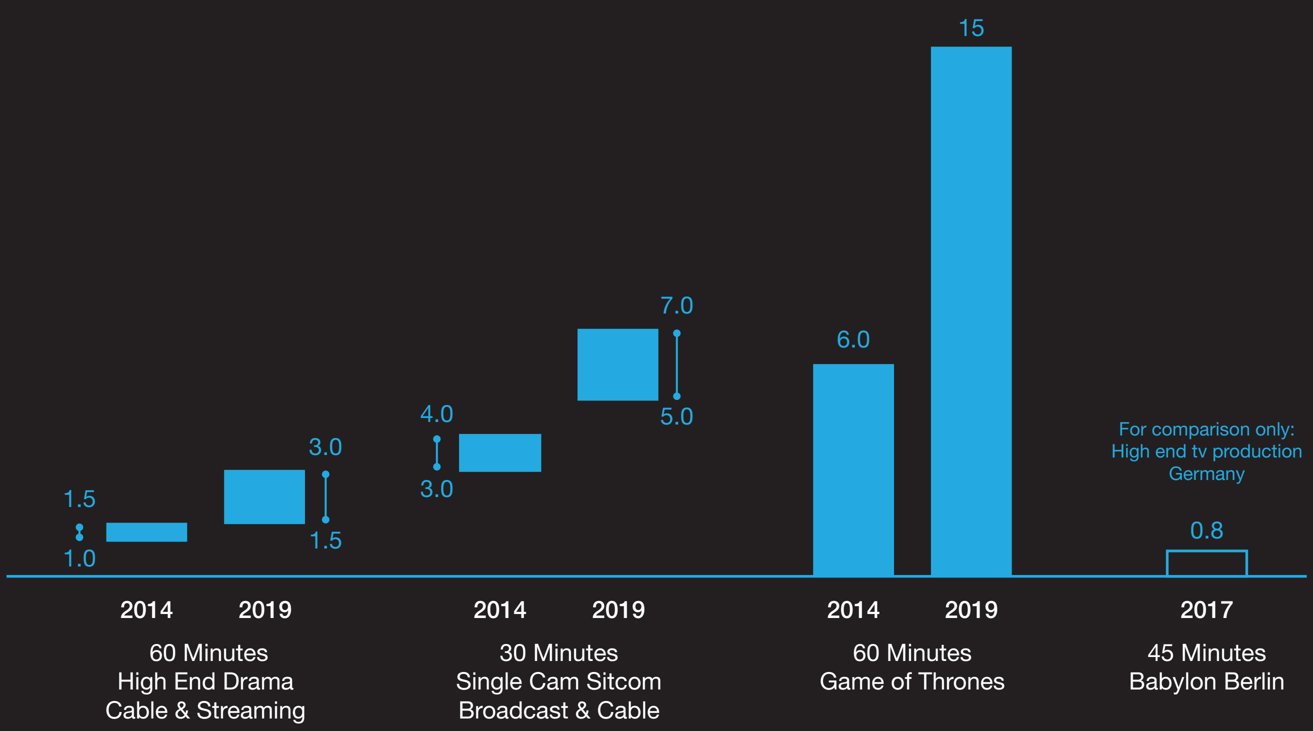
In one decade, the OTT platforms Netflix and Amazon Prime Video have built a prominent position in video and TV entertainment markets worldwide. From the TV broadcasters' perspective, Netflix and Amazon are competing for the same revenue generating reach and the audiences' time budgets. The bottom line of traditional TV companies is even more severely affected by another strategy now commonplace in the SVOD market: All SVOD services try to differentiate from the competition by commissioning bespoke content productions, so called originals.

The content budgets spent by Netflix and Amazon Prime have been a multiple of those available to traditional broadcasters and have resulted in an intense race for big name talent, producers, directors, showrunners and actors, driving up cost for premium contents substantially.

BY THE WAY...

During the years 2012-2017 the average cost per episode for a high-end cable drama increased by 75 percent, in some cases even more. In Europe, production cost for prime-time TV contents are far lower than in the USA.

CONTENT PRODUCTION COST DEVELOPMENT IN THE USA 2019 VS. 2014
ALL FIGURES US$



Source: Convergent Media Research 2019.

Social (advertisement funded) audiovisual media services, e.g. YouTube, Facebook or Instagram, have created diverse alternative video use cases in order to generate digital advertisement revenues. To target marketers' messages precisely to finely segmented user groups, their business models rely on automated and exhaustive recording, analysis and commercial exploitation of individual user behavior and the preferences manifested within. From the TV broadcasters' perspective, this is an extremely uneven playing field, since their strategic framework is far more restricted in regard to technology and regulation. Hence, broadcasters have not been able to implement data-based business models and targeting ("addressable TV") to the extent deemed necessary for successfully competing with digital pure plays. Still, the ongoing concerns of marketers about brand safety and ad fraud in digital environments as well as the consistently high TV usage in older age brackets gives broadcasters time to take up the competitive challenge.

It comes as no surprise that these developments changed the way consumers perceived and used TV. Soon, audiences started to enjoy the hitherto unknown independence from rigid program schedules and channel line ups dictated by the transport network operators. Complete seasons became available for immediate and unlimited viewing. Storytelling in fictional series production soon incorporated the resulting audience behavior of watching several episodes of a series in one session ("binge watching") and created kind of multi chapter feature films.

Aggressive pricing and the vast SVOD platform content libraries with mass market appeal, have shifted media time budgets in younger age brackets from linear and time shifted TV to AVOD and SVOD services. Current market research implies, that TV usage in SVOD homes is up to 30% below the national average in some countries. Still, there is no consistent pattern internationally. In the UK, TV consumption is down only by 16%. Churn from expensive cable and pay-TV subscriptions ("cord cutting") is a phenomena in countries, where network operators and pay-TV service providers' value propositions have not been able to keep up with the SVOD services' more attractive value for money ratio. In an attempt to counter this development, some cable network operators have introduced so called skinny bundles, IP streaming bouquets of their linear TV programs. Pay-TV providers on the other hand have caved in to competitive pressure and adapted price plans and contract durations to the successful SVOD providers' level.

All these developments have not led to an end of illegal video services though. It is hard to say if network equipment suppliers' and industry bodies' claims of billion Euro commercial damage from video piracy in EU countries reflects the situation correctly. More recent analysis of several European markets concludes that a reduction of pirated content consumption took place in those markets, where legal content offerings match pirate libraries and prices are set reasonably. In Spain, for example, illegal video consumption 2019 is down by 5 points from the 12% of homes that admit to using pirated content in 2017. Based on the same research, Germany has a low level of pirated content consumption of only 2% of homes, down by 1 point in the same period.

BY THE WAY...

Both producers and TV broadcasters have understood, that they only stand a chance to establish proper data driven platform business models and tap into sustainable revenue sources, when they stop being mere suppliers and start to compete.

CUTTING THE CORD: DISNEY+ WILL HAVE TO MAKE UP FOR THE LOSS OF US$ 500 MILLIONS FROM TERMINATED LICENSING DEALS WITH NETFLIX

Disney+ Pricing

12 Month Plan
US$ 5,83/Month
US$ 69,96

Monthly Plan
US$ 6,99/Month
US$ 83,88

How many subscribers will Disney have to gain just to make up for the Netflix loss?

Excluding all cost (just for illustration)	Including (very conservative) cost assumptions
7 Million subscribers	**50** Million subscribers
6 Million subscribers	

Source: Convergent Media Research 2019.

THE EMPIRES STRIKE BACK: NETFLIX UNDER ATTACK

Small national VOD providers like Germany's Maxdome or Flimmit in Austria were no match for the marketing and content budgets spent by Netflix and Amazon Prime. The latter have nevertheless been unable to establish barriers to entry against equal or even superior competitors. In 2019, the major studies and traditional media companies have risen to the challenge and started to attack the category leaders on their home turf.

Among all the players who will enter the SVOD market in 2019 and beyond, Disney and their strategy to stop content licensing in favor of proprietary SVOD services, have attracted the biggest industry attention. In the run up to their bold move, Disney acquired both FOX's shares in Hulu and the remaining Comcast shares to become (almost) sole shareholder in the successful TV centric SVOD service.

Disney communications give reason to expect an impressive service line up, combining Hulu, ESPN+ and the upcoming Disney+ into a competitive bundle, fit to face the current market leaders head on. According to recent reports, Disney will waive revenues from licensing contents to Netflix amounting to US$ 500 million per year. A good indication of the revenue level accounted for in their Disney+ business case. In 2020 the SVOD service is expected to launch in Western Europe. In 2021 Eastern European markets will follow. A timeline for the international expansion of Hulu, also considered by Disney, has not been communicated so far. The magnitude of the challenges of taking on Netflix are obvious. Only 17 percent of US consumers claim, they have not heard of Netflix, while more than 50% say they do not know Disney+.

Competition in the SVOD market is not driven by large global players only. Meanwhile, all US television networks have started or are about to start proprietary SVOD services, hence additional distribution windows for their library contents and commissioned productions. They are all placing a strategic bet too. Just like Disney, the networks will terminate their lucrative licensing deals with Netflix, Amazon and Facebook in favor of generating subscription revenues. Such a move does not come easy. According to industry sources, Netflix is paying WarnerMedia US$ 100 million per year in order to be able to offer their subscribers the 25 years old complete seasons of "Friends". This agreement will be terminated by WarnerMedia in the run up to their own SVOD offering. Both Netflix' willingness to pay for such old content as well as WarnerMedia's move make perfect sense in the light of current market data. "Friends" ranks third in the summer of 2018 list of most streamed sitcoms in the USA, only topped by current series "Brooklyn nine-nine" and "Big Bang Theory".

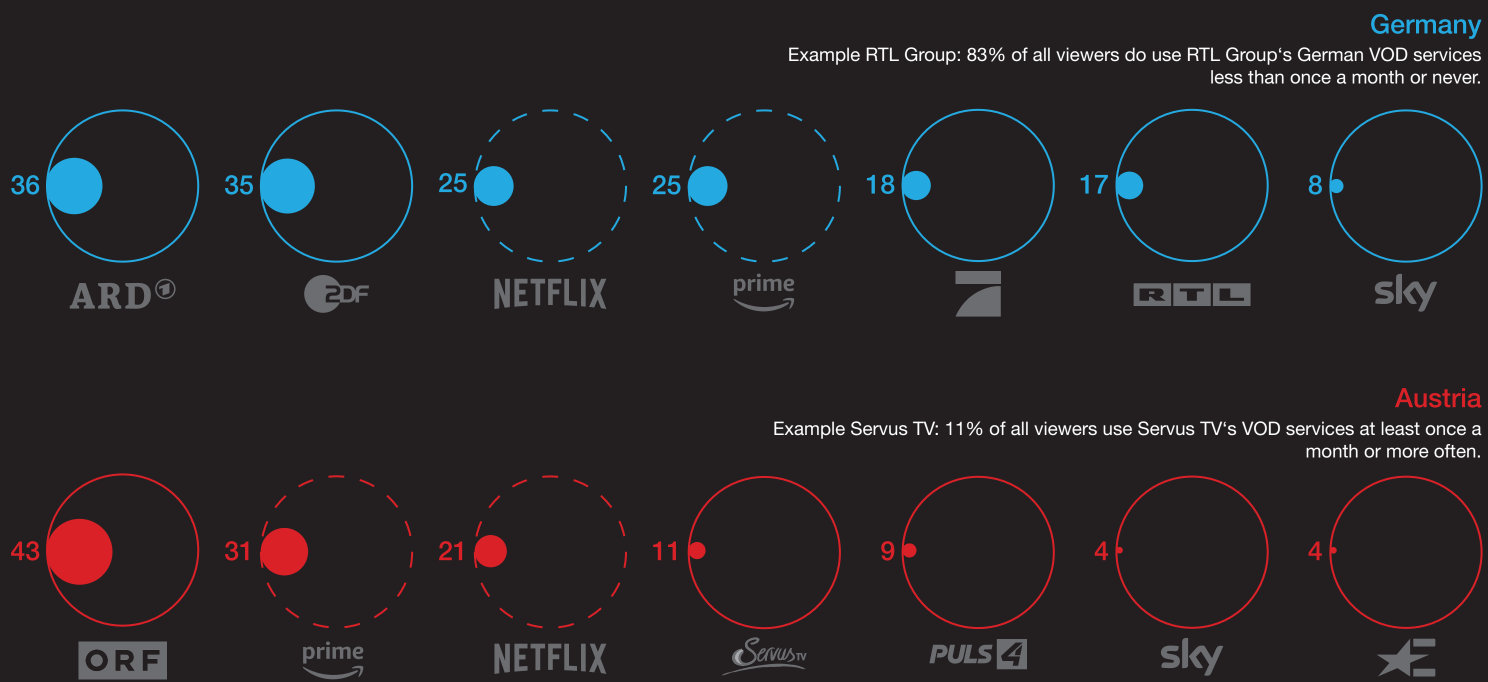
BY THE WAY...

Austria and Germany show remarkable market dynamics: non federated commercial broadcasters' VOD services have not been able to gain relevant usage and reach so far. Public broadcasters' VOD services are market leaders in both countries, with Netflix and Amazon Prime as the only serious competition.

THE BLACK HOLE – COMMERCIAL BROADCASTERS' VOD SERVICES LACK OF AUDIENCE ATTENTION

AGE GROUPS 14+ YEARS, ALL FIGURES PERCENT

= 100% of TV homes = % of actual VOD users = SVOD platforms



Source: Convergent Media Research 2019 based on RTR AGTT 2018, ARD/ZDF Onlinestudie 2018.

Similar developments are taking place all over Europe too, where broadcasters have been experimenting with different flavors of VOD strategies for a while now. None of the strategies currently deployed has proven its competitive edge when it came down to taking on Netflix and Amazon Prime. Hence, most of the larger European broadcasting groups have reconsidered and improved their VOD strategies recently. For example, Mediengruppe RTL has repositioned their TV.NOW platform and was able to win approximately 1.2 million subscribers in the Netherlands and Germany. Under the commercial leadership of ProSiebenSat.1 and Discovery Networks, several German broadcasters – including the public broadcasters – have launched a joint AVOD/SVOD platform branded "Joyn" in 2019.

For the public broadcasters, the move to national aggregator platforms may herald the end of a mutually beneficial relationship with the US SVOD giants. Netflix and Amazon Prime need European fictional contents to cater national markets and specific audience categories, e.g. children. And indeed, licensing contents originally commissioned by Arte, the BBC, ARD, ZDF seems to have supported subscriber acquisition and retention in these markets so far. Still, these revenues may be a double-edged sword in the public broadcasters' hands. In several European countries, mandatory TV taxes are subject to political debate and it seems to be difficult to argue, why SVOD subscribers should pay a second time for contents whose production cost were funded by their TV tax payments already. Public broadcasters also seem to be increasingly concerned about the disconnect of their original contents and the lack of visibility of their channel brands in commercial SVOD environments.

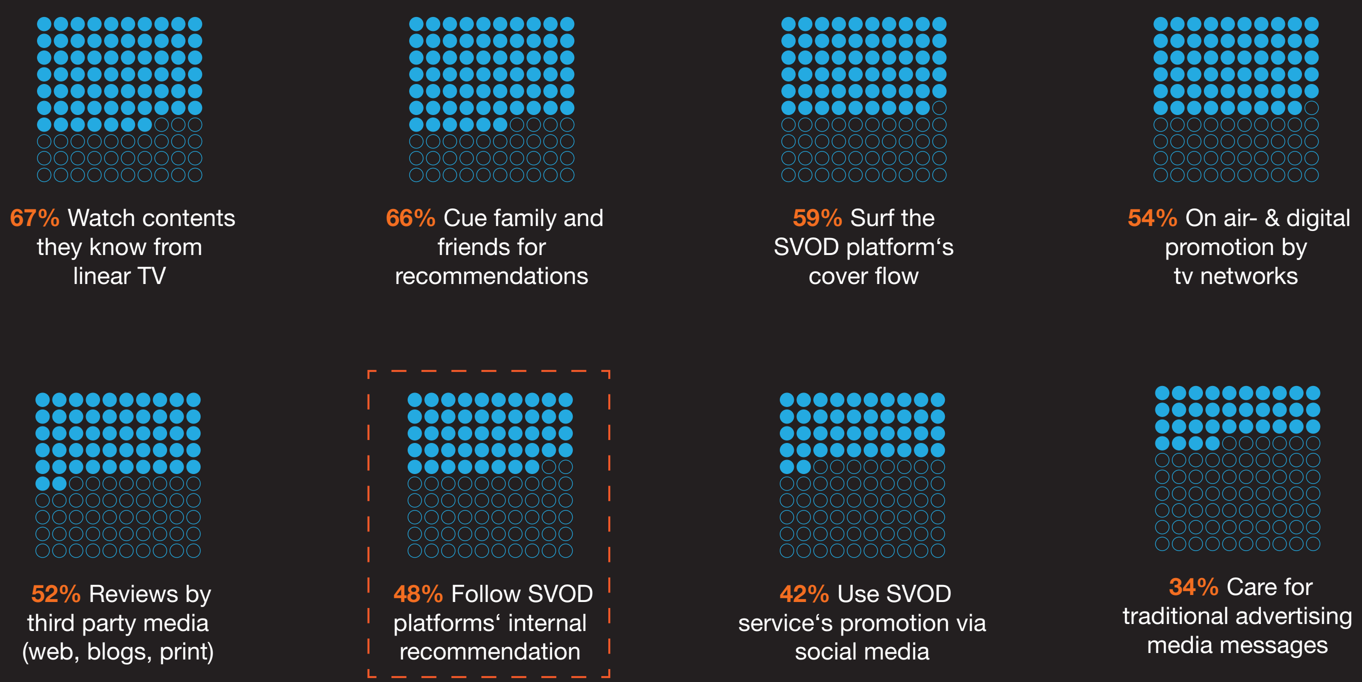
In a future defined by aggregation, having a strong channel brand, being part of the mass market's relevant set and fostering established audience relations will be key, when it comes to transforming these assets into reach and relevance in next generation integrated linear streaming and xVOD ecosystems. Current market research from Austria implies that despite broadcasters' well entrenched market positions in the TV mass market, this is no easy feat. Apart from YouTube, Netflix, Amazon Prime and public broadcaster ORF's VOD service, which are well recognized by consumers, the Austrian commercial broadcasters' VOD services were either unknown or have never been used by more than 70 percent of the people polled. A similar situation was found by research into the German TV channels' VOD services usage.

The latter examples show how hard it is to build a user base even for free VOD services. Hence, it comes as no surprise that winning subscribers and maintaining their loyalty seems to be more demanding for premium VOD platforms than traditional pay-TV services. According to US market data, subscription duration and subscriber loyalty is lower compared to pay-TV subscriptions. One third of all SVOD subscribers (50 percent of generation z subscribers) seem to pursue a skimming strategy. They watch all contents matching their personal preferences and churn or do so, once their favorite show terminates. In the future, the cost of effective churn remedies will add to the substantial direct and indirect cost of sales inflicted on established and upcoming SVOD providers' bottom lines, as each new contestant will add to the already low level of xVOD market transparency as experienced by consumers today. For the latter, it will become more and more difficult to assess content quality and content libraries' scope. The necessity for consumers, to simultaneously subscribe to several paid VOD services to be able to watch all relevant content, poses an inherent risk for premium video service providers to be part of the losing end of an inevitable market shake up.

RANDNOTIZ

Data driven recommendation does not seem to perform as expected so far: Besides watching well-known TV series again, friends, family and surfing the cover flow have the highest influence on SVOD audiences' choice of contents.

DATA BASED RECOMMENDATION LESS RELEVANT FOR US CONSUMERS CHOICE OF SVOD PROGRAMS



Source: Convergent Media Research 2019 based on Nielsen Total Audience Report Q3/2018.

CONTENT: KINGDOM OR FIEFDOM?

Attractive content is key to building, maintaining and expanding audience relations in audiovisual markets. The unbroken and intense competition to win top talent, producers, authors, showrunners and premium rights supports this point of view. But what does it imply for the long term value of content investments, when more and more platforms want the exclusive rights to the next House of Cards or Game of Thrones, when even telecom network operators commission contents, in order to sell broadband internet access?

Based on our ongoing observation of international market developments, we have identified a couple of developments that point at a rise in substantial strategic risk in audiovisual content markets.

LOWER SALES IMPACT OF FOLLOWERS' ORIGINAL CONTENT

The effectiveness of original contents as a means of differentiation for followers will decrease in proportion to the number of VOD services in the marketplace pursuing the same strategy. Nevertheless, we expect that original SVOD market creators will be protected by barriers to switching and entry. They will – among others - be able to leverage their strong brands, their reputation of delivering top notch content, their established share of consumers' media time allocation and not to forget the current staging ratios of 1.3-2 SVOD subscriptions per home.

ASSESSMENT: Only few of the late entrants, e.g. Disney and their portfolio of iconic franchises (Star Wars, Marvel etc.) will succeed in building a subscriber base comparable to Netflix and Amazon. Other late followers will have a hard time explaining the value add of their offerings in comparison to the category leaders.

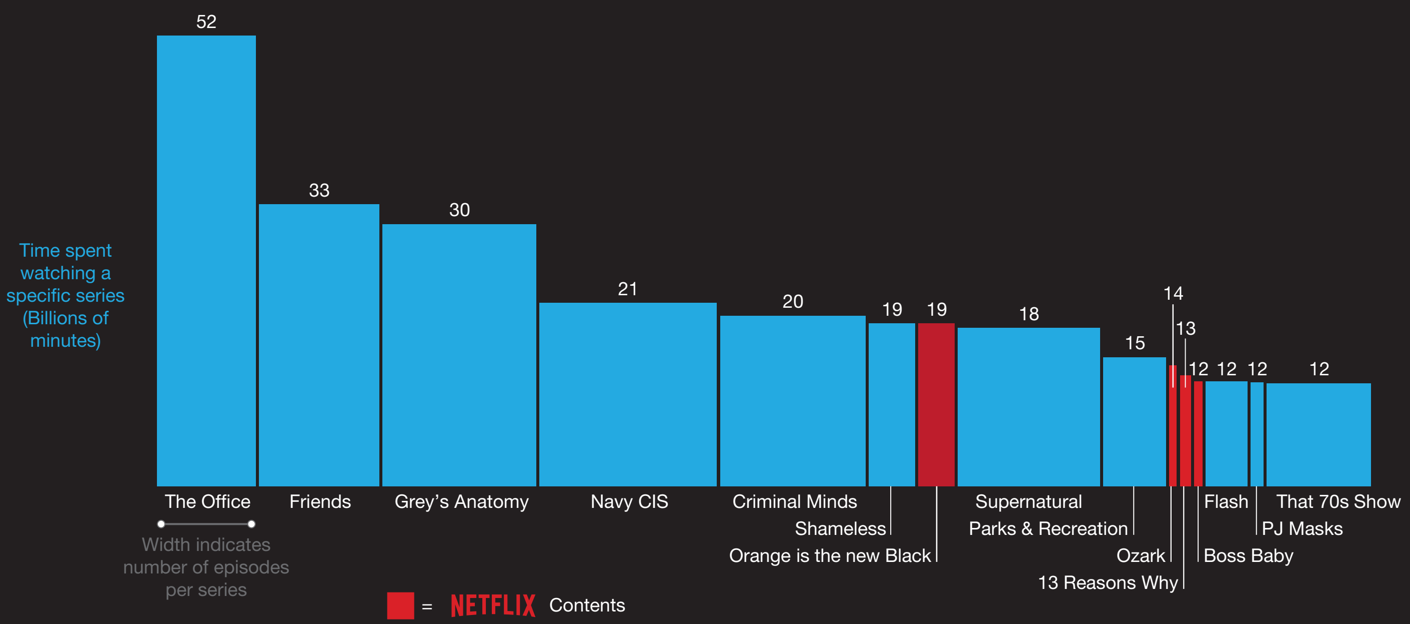
DROWNING IN A SEA OF CONTENT

In early 2019, premium SVOD services' content portfolios provided for more than 430,000 hours of movies and series. And the party is far from over. Netflix alone added 700 hours of original content just in Q3 2018. Traditional TV broadcasters', telcos' and consumer electronics manufacturers' have entered the race for scarce talent and production resources and add hours of commissioned and licensed contents to their content portfolios too.

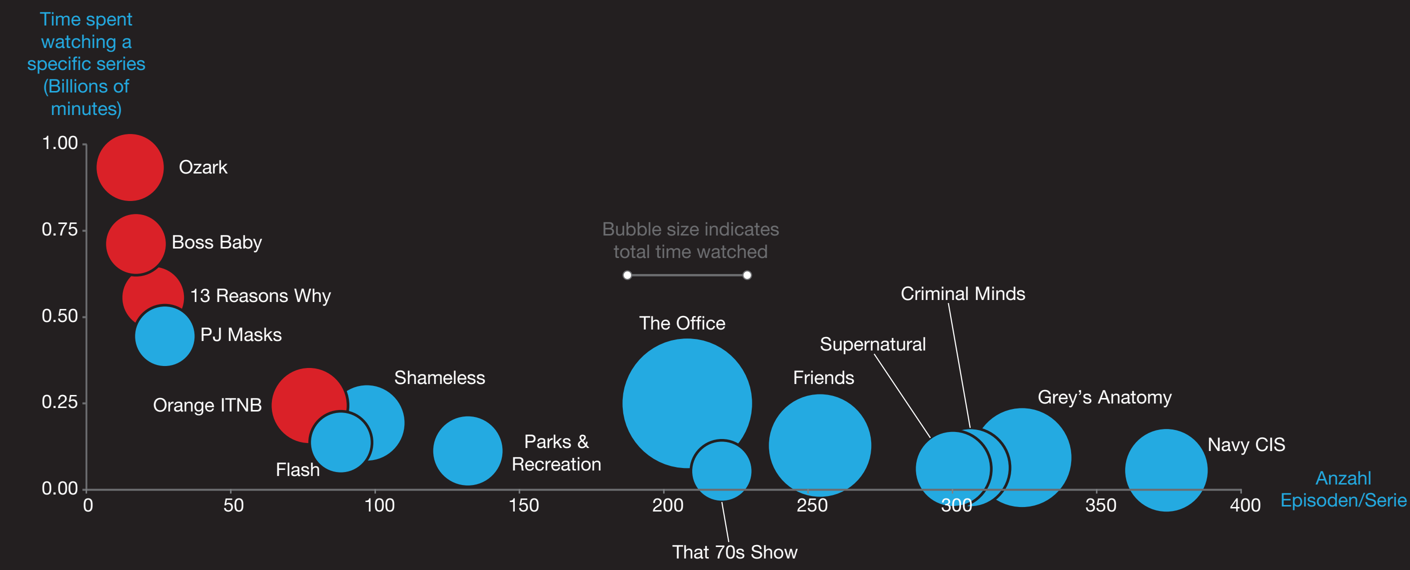
ASSESSMENT: Seemingly bottomless funding, unparalleled demand for contents and stretched resources across the value chain are likely to result in substantial content quality erosion. A renaissance of the "stupid (at the time German) money" era during the first decade of this century may evolve. A pig cycle in content production is under development and drastic price increase and market consolidation seem to be inevitable.

TV FORMATS AHEAD OF NETFLIX ORIGINALS WHEN RANKED BY MINUTES ACTUALLY STREAMED...

TOP 15 MOST STREAMED SERIES ON NETFLIX, USA 2018, BILLIONS OF MINUTES



...BUT NETFLIX ORIGNALS' HAVE HIGHER RATINGS PER EPISODE, HENCE SEEM TO WORK WITH THEIR NARROW TARGET AUDIENCES.



Source: Convergent Media Research based on Nielsen 2019.

LOWER SUSTAINABILITY IN ORIGINAL CONTENT DEVELOPMENT

Despite the massive investments in original content development for SVOD platforms, the life cycle of the new formats is a lot shorter than of series made for linear free or pay TV. US market data aggregated during winter 2018/2019 shows an average lifetime of 2.1 seasons for the average SVOD series, while the average free TV series runs for 6.5 seasons.

ASSESSMENT: The shorter SVOD originals' life cycles seem to correlate to the narrow target audience segments they have been developed for in the first place. It was not for nothing that even iconic SVOD hits like "Homeland" or "House of Cards" have failed with mass market audiences in free TV program environments. To maintain growth and motivate non SVOD homes, video platform providers are well advised to broaden their content investment focus. For these laggard subscribers, mass market focused contents, more convenient UX and sales communication via traditional media will be key.

AUDIENCE BEHAVIOR PREDOMINANTLY TV DRIVEN

In 2019, linear TV and its popular series dominate consumers' content preferences in premium streaming environments. This is true for 67 percent of US homes polled. Less than 50 percent claim to choose content based on SVOD service recommendations. The latters' social media promotions worked for 42 percent only. These observations seem to explain, why in 2018 Hulu was the fastest growing SVOD platform in the US: Though Hulu develops original contents, their core value proposition is TV series.

ASSESSMENT: The exclusive originals strategies deployed by SVOD service pure plays like Amazon, Netflix, the upcoming Disney+ and Apple TV+ seem to miss the mass market's pain points for two reasons. First, current subscribers with strong TV content preferences will be more likely to churn, once Netflix et al. will not be able to secure current and upcoming series and movies created by traditional TV broadcasters anymore. Second, the late majority of SVOD adopters – hence the remaining growth potential available – will most likely come from homes with intensive linear TV usage track record.

For the SVOD services to succeed in selling to these segments, their customer journeys will have to connect their current TV experience to the value add of a premium SVOD service. So far, several Netflix' original series were able to draw substantial public attention, but in terms of actual hours watched, the audience segments reached have been narrow. This gives reason to expect that Netflix' will not be able to maintain current growth rates and subscriber loyalty in an increasingly crowded SVOD market. At the same time, the non-federated exclusive content libraries announced by the major studios' and US TV networks' SVOD services seem to be prone to fail too, for reasons discussed throughout this white paper.

OVER EXPLOITATION OF PREMIUM SPORTS RIGHTS

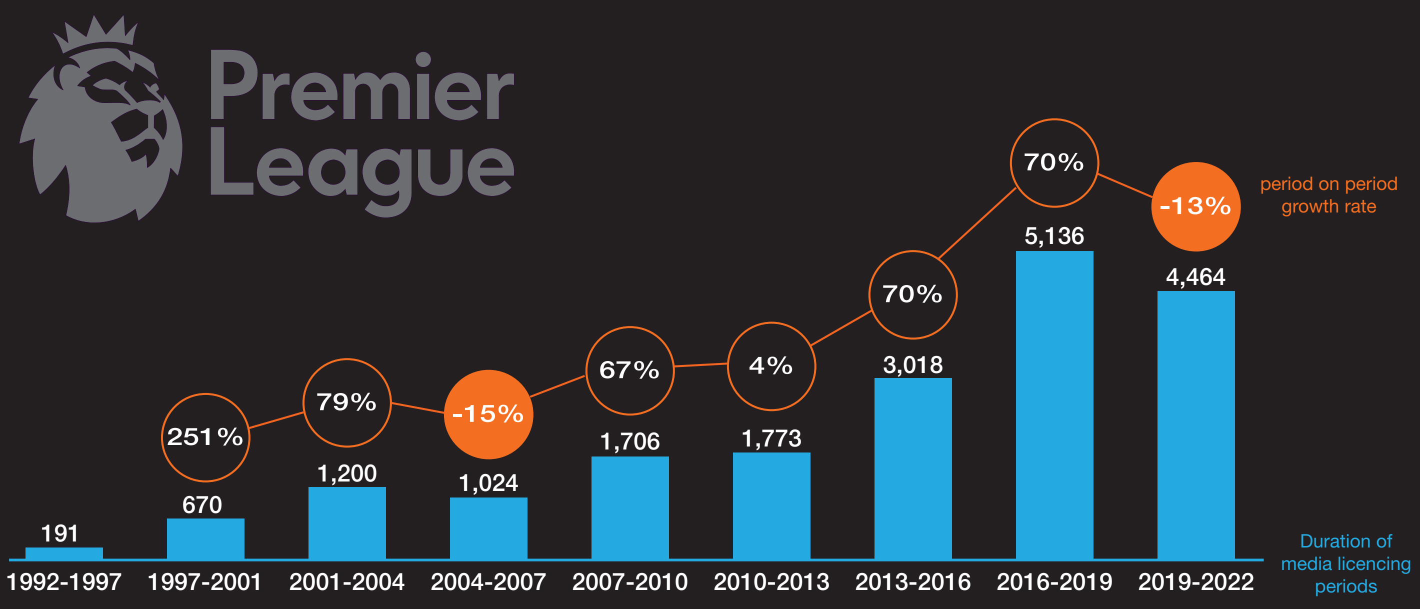
All industry eyes seem to be focusing both the fictional and factual entertainment content SVOD market as well as the developing showdown between Disney and the younger contenders. Quite wrongly, however, the risks developing in a market segment, that reigns supreme among the critical success factors in pay-TV, seem to be ignored by many: premium sports.

In several European markets, it seems to show that more expansions and differentiations of single sports events, match day schedules, international competitions and tournaments will not result in higher revenues for leagues or subscriber growth in pay-TV. In 2018, for example, the

BY THE WAY…

The rights period 2019-2022 makes a distinction in the English Premier League's growth story: National rights revenues retracted for the first time in 15 years. In Italy, Serie A only achieved modest growth from their latest media rights tender. Saturated pay TV markets, subscription price pressure by OTT services & disappointed telecoms' expectations have led to more conservative valuations even for premium sports rights.

REVENUES INCURRED FROM NATIONAL MEDIA LICENSING TENDERS 1992-2022
REVENUES PER ANNUM MILLIONS OF GB£



Source: Convergent Media Research 2019.

category leader in professional football, the English Premier League, had to face a -13 percent decrease in their revenues from national audiovisual media rights – the first setback in 15 years of growth. Such developments are not limited to professional football but do take place in other heavily televised sports too. Nevertheless, due to the high level of public, media and political interest, some of the risks other sports will be facing, seem to occur earlier and more evidently here:

» Media politics challenging total buy outs of all live matches by pay-TV operators (free TV live coverage discussion in Austria),

» Supporters protesting additional match days per weekend (Bundesliga Monday night matches),

» No single buyer rules for all live media rights forcing consumers to subscribe to several pay TV or streaming services to watch all games of their favorite team,

» Teams facing commercial conflicts of interest (lower pay TV reach translates into lower media value generated translates into lower sponsoring revenues),

» Increase in team owned media offerings dilute value of exclusive pay TV rights

» The existing high level of media rights cost in several European markets,

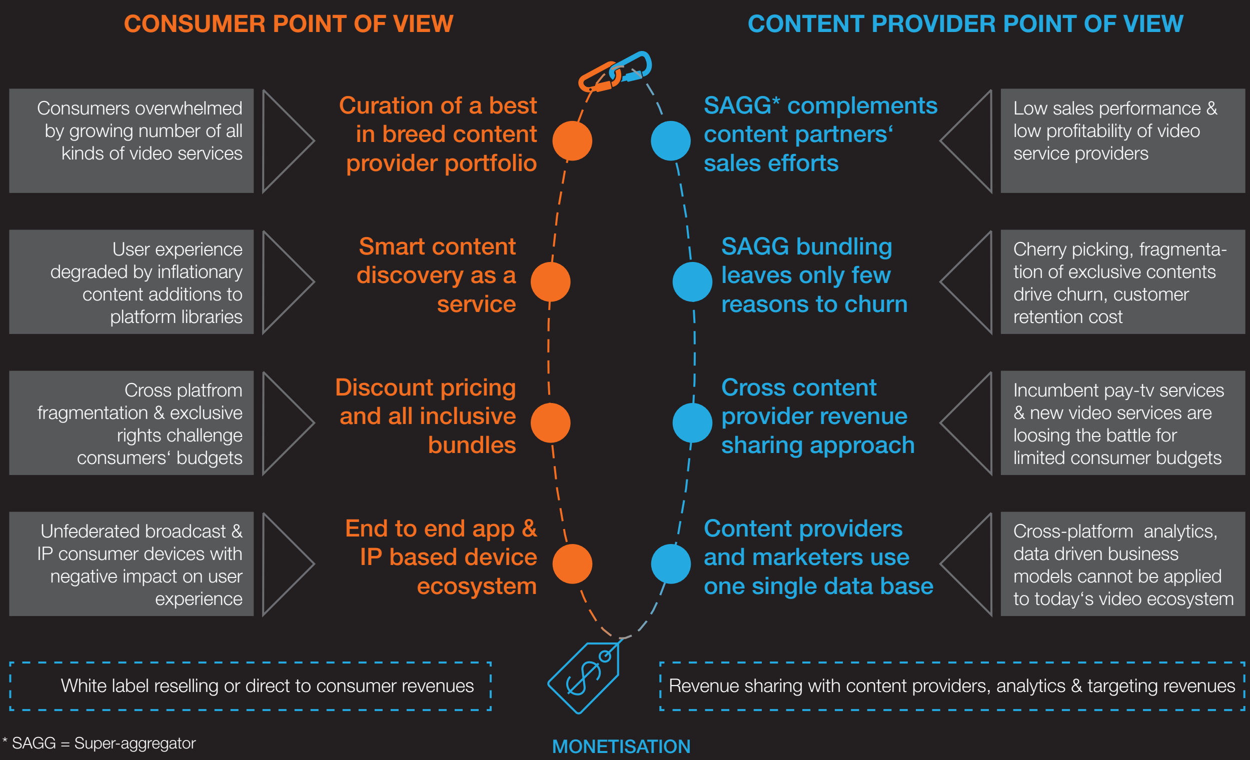
are examples for the growing number of business case risks in key nodes of the premium sport ecosystem.

ASSESSMENT: In the future, it will be harder to spin a growth story based on premium sports rights that will work for all partners involved. While premium live sports was the only reason for consumers - in German speaking countries at least – to pick up a pay TV subscription, pay TV service providers are facing a tougher competition today, when it comes to securing a share of consumers' overall premium content budgets. Premium sports businesses will have to develop product/market strategies which reflect consumer preferences more comprehensively, in order to secure current levels of value created and to achieve additional growth. Formula One may serve as a warning, how quickly value levels depreciate across all elements of the value chain, once inappropriate product strategies have been deployed.

BY THE WAY...

A “winner takes it all” scenario is unlikely to prevail in the OTT video platform market – none of the service providers will be able to serve all audience segments at once. It seems advisable to look at the music industry. A&R (artists & repertoire) may be the new core competency TV broadcasters and video services should seek.

CAN SUPER-AGGREGATION FIX A VIDEO MARKET RUNNING HOT?



* SAGG = Super-aggregator

Source: Convergent Media Research 2019.

THE FUTURE IS SO BRIGHT, I HAVE GOT TO WEAR SHADES…

The developments in the TV markets laid out so far give reason to doubt the long term success of strategies by both SVOD services and traditional TV, to win and lock in audiences by means of growing volumes of content and comparatively low prices.

While content supply grows, audiences' media time allocation does not increase accordingly. Unless autonomous driving will open a new window for audiovisual media consumption, this situation is unlikely to change in the foreseeable future. At the same time, consumers are faced with several down sides associated with the business model and structure of the SVOD market. Stacking subscriptions in order to gain access to all the contents they want. Successfully evaluating the content libraries of several SVOD platforms to identify their level of coherence with personal taste and preferences. Not to forget, coping with heterogenous search & recommendation functionalities and their inconveniently low level of ease of use. The industry will have to come up with solutions to cope with these challenges, if the exploitation of remaining pockets of growth, especially older consumer segments with strong linear TV bias, shall not fail at the initial stages of the customer journey.

Current strategies, business models and data-based audience interfaces deployed by a typical SVOD platform do not offer effective remedies for the shortcomings mentioned. On the contrary, they rather trust their established brands' promise of premium, easy to access, mass customized entertainment. Growing content libraries and the increasing number of service providers lead to less service offering- and market-transparency than before. Thus, the SVOD pioneers' original value proposition, all relevant series and movies in one place, easy to find with a few simple clicks, independent of time and location at a low price, is prone to be turned upside down.

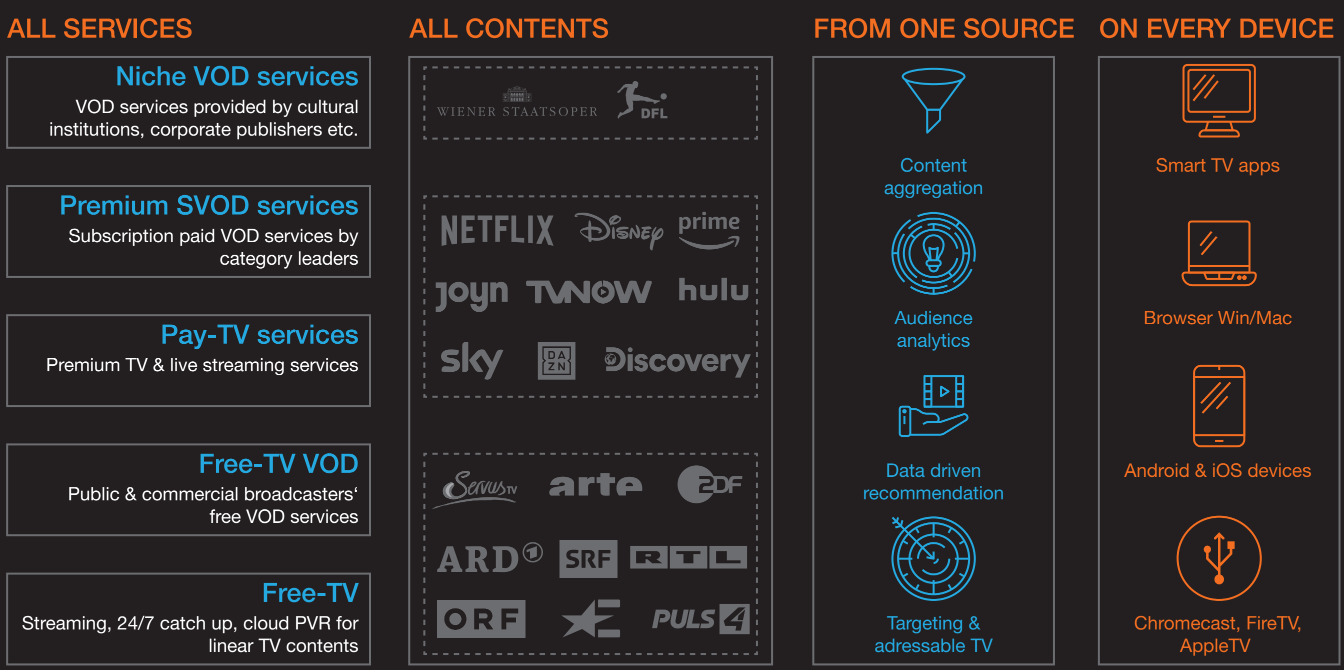
Since the beginning of time, economists' magic wand fit for repairing dysfunctional markets of all kinds has been intermediation. One or more businesses facilitate sellers' & buyers' transactions, because none of the latter can succeed on its own. Since intermediation sounds way too old school and digitization was supposed to achieve the exact opposite, eliminating intermediaries from supplier and customer relations, there is a new term describing the potential future of television: super-aggregation. Businesses which have understood the strategic revenue potential available from super-aggregation come from quite diverse backgrounds. Depending on their current situation, they are acting in order to tackle a serious competitive threat, to become a dominant market leader or to simply survive. Let's take a look at how Apple, Netflix, Sky and several European public broadcasters have risen to the challenge.

Apple, faithful to their proven approach to innovation, has first watched the competition, learned

RANDNOTIZ

Making super-aggregation work will require changes in strategy, processes, business models and license terms in all nodes of the audiovisual ecosystem. Competition offic-es and media authorities will also have to broaden their view on the TV industry. Get-ting these jobs done well will be vital to cre-ate the functioning “television” markets of the future.

SUPER-AGGREGATION: EASIER SAID THAN DONE
FOR ILLUSTRATION PURPOSES ONLY



Source: Convergent Media Research 2019.

from their mistakes and only then came to the (potentially correct) conclusion for their proper product market strategy: Curating and integrating as many proper and mass market ready partner video assets into one single service point of access, discounted consumer pricing, revenue sharing and last but not least comprehensive protection of Apple's sole ownership of consumer identity and strict control over their proprietary device ecosystem.

Netflix knows best, how Apple's strategy will affect profit margins, availability of user data, controlling customer relations and overall value creation. Hence, Netflix is open to partnering with smaller service providers, like Sky or telecoms video service providers but for the foreseeable future, they will not be part of the Apple super-aggregator service.

Sky is also playing the super-aggregation game and goes for the attractive revenue potentials it may generate. Given their original market position, it comes as no surprise that Sky's strategy is different. By the end of 2018, the pay-TV provider started offering a bundled Sky and Netflix subscription. Partnering with the toughest competitor is supposed to enable Sky's transformation from a primarily linear pay-TV provider to a one stop shop for entertainment and sports content, without losing those subscribers to Netflix, whose content preferences fall into the fictional and factual entertainment category. The latter is likely to benefit from Sky's excellent live sports rights portfolio, creating a kind of windfall profit from consumers who would have subscribed Sky for the sports content only otherwise, but who would have not considered buying a separate Netflix subscription. Should Sky succeed by expanding this business model into real super-aggregation, i.e. by motivating additional content partners, improving the user experience across all devices, a value proposition may result, that might be able to compete with the global SVOD ecosystems.

The BBC and other public broadcasters, like Germany's ZDF, are working to establish partnerships aimed at building national or even European super-aggregators. The idea of bundling currently non federated public VOD services, "to support users searching for content in the best possible way" as ZDF CEO Thomas Bellut put it, describes the core value proposition and business potential of super-aggregation. Though, the public broadcasters face complex commercial, legal and technical obstacles, before a cross-broadcaster, potentially even pan-European public super-aggregation platform may become reality. In case they succeed in that endeavor, the resulting service might successfully contribute to closing the generation gap many European public broadcasters face today. Integrating public linear TV channels and VOD services by means of bespoke data based content recommendation, plus liberalizing regulation currently inhibiting the exploiting of the full breadth and depth of existing content libraries, seem to be crucial elements of a public broadcaster super-aggregation strategy. The current debate over the future role of public broadcasting in many European countries should consider the super-aggregation idea, because of the corresponding advantages, i.e. strengthening the position of public media in society and offering a modern value for TV tax payers money.

Before they start lobbying for such comprehensive change, public broadcasters are teaming with their commercial counterparts in national super-aggregation projects though. In Germany, for example, ARD and ZDF are facing the global competitors by being part of the Joyn super-aggregation service, initiated by ProSiebenSat1. Regarding complete market coverage, Joyn is currently lacking RTL Groups' and Sky's channels and VOD contents. It remains to be seen, if a Joyn expansion into Switzerland and Austria will be in line with ORF and SRG strategies.

BUILDING THE PERFECT BEAST

The super-aggregation business model bears a high potential for disruption. Entrepreneurs with corresponding ambition will have to take on challenges like successfully mastering demanding transformation processes and creating other complex preconditions of success:

INTRA PLATFORM COMPETITION

Content curation for a super-aggregator requires a strategy, that supports cross content provider integration and consolidation, without throttling individual partners' abilities to differentiate themselves from intra platform competitors and to generate higher profits than other service providers within the same super-aggregation ecosystem potentially. Securing a certain level of intra platform competition will also be required in order to be compliant with national and European media and competition law.

OVERALL PLATFORM STRATEGY

The well-known standalone SVOD business model is defined by a single owner of all customer relations, data, rights etc. and leaves little room for partnering. Hence, turning this approach into a platform business model, requires an approach that unites all parties involved in the pursuit of a common strategic goal, without fully overriding their ability to also take autonomous strategic decisions and differentiate themselves from their partners/competitors.

RELEVANT MARKET DEFINITION

In the past, cartel offices in some markets did not clear cross competitor platform business cases. From today's perspective, the assumptions employed by the authorities to define relevant markets and to build competitive impact scenarios have not taken the bigger competitive situation into consideration or have been too retrospective. If not for these reasons, several European "hulus" would be competing with Netflix, Prime and other global players today.

We currently do not see evidence that a "winner takes it all" scenario is likely to unfold in the global TV and video markets. Still, if regulators do not take a more realistic approach to platform business models in audiovisual media markets, European companies will be deprived of the level playing field needed to compete with the global media platforms. In the past, Europe has failed to establish an appropriate policy framework for other sectors of the digital economy. In audiovisual media, Europe still has an opportunity to learn from the past and get things right this time.

ADAPTING MEDIA RIGHTS

Current media licensing deals and rights definitions have been conducted under sole consideration of existing TV broadcaster and proprietary VOD platform value chains and exploitation strategies. A super-aggregation scenario will affect key elements of producers', license traders' and marketers' value creation processes. To adapt to these changes, new terms of trade will have to be developed by the all parties involved.

HIGH END TECHNOLOGY

Technically – in very simple terms – super-aggregation requires a data driven platform infrastructure, exhaustive analysis of individual user behaviors, machine learning, automated, AI based content identification, recommendation, cross device targeting and last but not least a simple but powerful, convenient user interface which appeals to all audience segments alike. Everybody, except for the Silicon Valley ecosystems, does not have these crucial capabilities today and will have to find the means to catch up fast.

COHERENT CROSS DEVICE USER EXPERIENCE

Directly related to the platform technology in place, super-aggregators will have to excel in managing devices, operating systems, apps and even more important user interfaces fit for the "TV" mass market. So far, only Apple, Amazon and Google have demonstrated their skills in successfully building and operating technical ecosystems. To assess the magnitude of the task ahead, it is worth referring to the ongoing struggle of cable network operators, IPTV providers or the DVB industry group to enable modern interactivity and multi device environments within the TV industry standard frameworks. Hence, taking advantage of the global device ecosystems already in place may be the smarter (and faster) way to go.

TV & VOD SERVICE INTEGRATION

From traditional linear TV broadcasters' perspective, adjusting to super-aggregation environments will only make strategic sense, when linear programs and VOD will transform into a more elaborate service offering that is fundamentally different from the non-federated service silos available to audiences today. Maintaining TV like ease of use, by means of technology enabled elaborate convenience functionalities across all elements of the user interface will be crucial.

IN THE END

Super-aggregation is so much more than bundling several subscriptions, a single price tag and setting up a first level UX that leads consumers to otherwise non federated services and their proprietary user interfaces. Approaches like that have been deployed in numerous consumer electronics manufacturers' app stores or the current Apple TV operating system already. Real super-aggregation provides audiovisual media providers and broadcasters with a unique opportunity to simultaneously develop their traditional business models both evolutionary and disruptively. If they succeed in keeping their current audiences on board and winning new viewers and subscribers, substantial revenue potentials will become available. This is not an easy feat to achieve, the stakes are high for traditional TV companies and so is the risk of failing. Nevertheless, there is no excuse not to try. This is most likely the last chance to successfully migrate audience relations and channel brands and be part of the future of television.

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