

**MIT Communications Futures Program**

# The Ambiguity of Disruption: Discovering the Future of Video Content

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## Abstract

The incumbent multichannel video programming distributors (MVPDs) have been facing the threat of disruption by online video distributors (OVDs) for the past decade. While all OVDs are considered “entrants” we distinguish between two categories: 1) those that compete on *quality* by offering comparable content choices (e.g., Netflix, Amazon, Hulu) and 2) those that compete on *innovation* by offering entirely new forms and formats of visual media (e.g., YouTube, Snapchat, Periscope). While the growth of OVDs offering high-quality content has challenged the incumbents’ assumption that exclusive access to such content is sustainable, the rise of innovative content services challenges even deeper assumptions regarding the primacy and strategic value of traditional content, whether inside or outside the MVPD pay wall. The latter category thus stands to redefine television as an industry, as a product and experience, and as a social institution.

## Executive Summary

Multichannel video programming distributors (MVPDs), aka “pay TV” providers, have been facing the threat of disruption by online video distributors (OVDs) for the past decade. The battle is being fought on many fronts including the content or programming itself, mobile access, quality of service (i.e., transmission), and pricing. In this paper, we focus on content as a key strategic variable, both independently and in relation to the other variables insofar as they affect content choices.

The MVPDs have claimed exclusive access to high-quality cable and network TV programming as their trump card in the battle against the OVDs. Until the last few years, the bulk of such content has remained locked in the incumbent ecosystem; unavailable to the entrants as a result of several barriers related to industry structure, market dynamics, regulations, and technical factors.

However, as of 2012, several important trends have altered competitive dynamics between incumbents and entrants, as well as among the entrants. On the one hand, the amount of traditional premium content available online, i.e., outside the MVPD pay wall, has increased significantly. The “Big 3” OVDs—Netflix, Amazon, and Hulu—are investing heavily in “copycat cable” original programming; the cable and broadcast networks are establishing stand-alone services to become OVDs themselves; the traditional studios are licensing more content to the OVDs, bypassing the TV networks as the exclusive first-run distribution window; and the FCC has proposed regulations that give the OVDs more rights to distribute cable and network TV programming while prohibiting the ISPs from discriminating against their content in terms of quality of transmission and tolls.

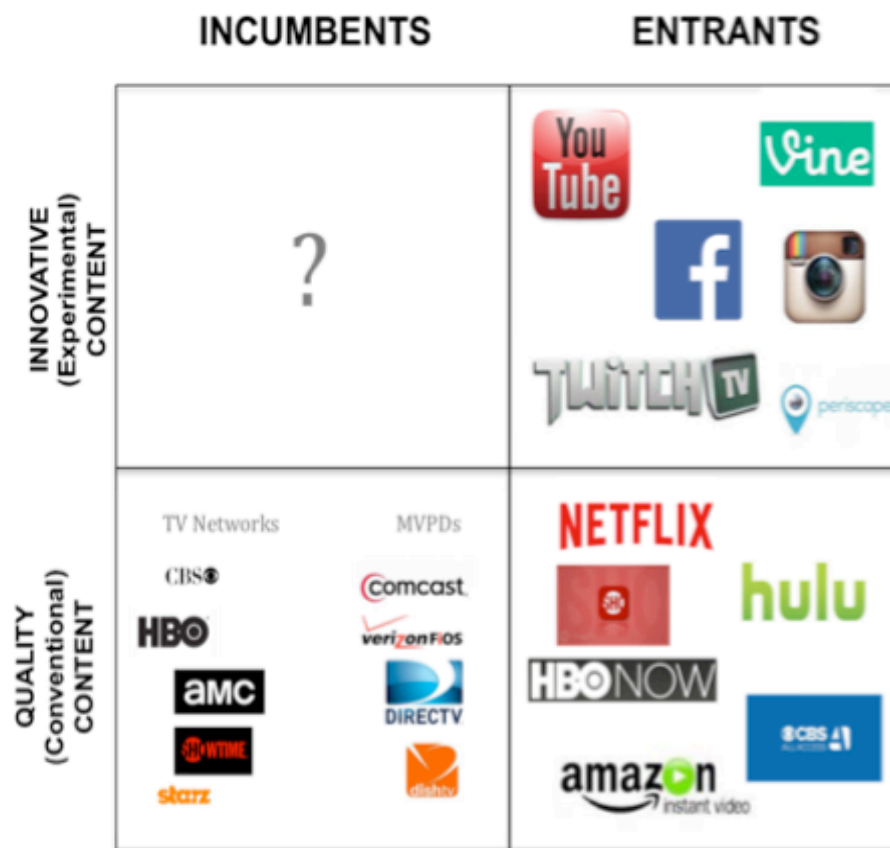
Concurrently, we are seeing the rise of a distinct and highly diverse set of video distribution services like YouTube, Vessel, Facebook, Twitch TV, Vine, Snapchat, Periscope, etc. that support a wide range of new forms and formats including user-generated content. Increasingly, however, professional and semi-professional digital-first productions that bear little to no resemblance to traditional television content.

Thus, while all online distributors are considered entrants that threaten to disrupt the “pay TV” incumbents, the first category of OVDs competes on content *quality* while the second category competes on content *innovation*. This view of the competitive landscape is illustrated in Figure 1. (Note that even though most of the TV networks are not vertically integrated with MVPDs, the relationship between the two is tight enough to view them together; most consumers can’t or don’t have access to the networks (even broadcast) without an MVPD subscription.)

In one sense, the emergence of stand-alone services by traditional networks like HBO, Showtime, and CBS in 2014-15, along with Comcast’s announcement in Q1 2015 that it now had more broadband than cable TV subscribers, are all signs that the MVPD model has been disrupted, setting the stage for a new round of battles as Netflix and Amazon go head-to-head with traditional networks. In the shorter term, we expect a content shakeout involving a reaggregation and consolidation of content as well as unified search (with the possibility of bundling other communication services, especially as the Internet of Things evolves) around new points in the value

chain including ISPs, STBs, connected TVs, mobile devices, and/or social networks—and continued regulatory battles regarding traffic management.

However, the OVDs in the second category have the potential to disrupt television in a more comprehensive manner. Rather than deliver old wine in new bottles, these services distribute a diversity of content forms and formats with attributes that derive from the unique properties—technical, economic, regulatory, behavioral—of their Internet-based distribution platforms. These services thus reflect new cultural practices involving new technical and industrial processes as well as new ecosystems/business models. But most importantly, they signal a shift in user expectations regarding *what* they consume in the way of video content—not just when, where, and how—particularly among Millennials and younger demographics.



The market space for the distribution of innovative content is complex, diverse and somewhat ambiguous. Most of the services are highly experimental and still lack clear or stable definitions and boundaries. More specifically, as social media platforms, they exist at the intersection of storytelling and interpersonal communications in terms of their functionality and business models and must therefore be considered in context of the larger landscape of communication services or apps.

As they evolve and gain validation from producers, distributors, and advertisers, these services challenge incumbent assumptions regarding the primacy and strategic value of traditional premium

content, whether inside or outside the MVPD pay wall, and stand to redefine television as a social institution.

While they represent competition for subscription and advertising dollars, we nonetheless emphasize the complementary dynamics between “old” (including incumbents and “conventional entrants”) and “new” media, which include a range/variety of interdependencies that influence the extent to which incumbent and entrant services function as complements versus substitutes in the market.

We focus primarily on the U.S. landscape, where the incumbents include the cable, satellite, and telco (IPTV/FTTH) multichannel video programming distributors (MVPDs). Although we will touch on all content categories (including sports, news, music videos, entertainment), we pay most attention to what we will refer to as narrative or scripted entertainment including movies and dramatic series (within the commercial sector, i.e., excluding public broadcasting) on the incumbent side, as well as the newer forms and formats that are largely unscripted or don’t easily fit into any particular traditional category at this time. Also, we consider “primary” sources of content in terms of both release structures (i.e., first run) and “textual primacy” (i.e., content that is not ancillary to another piece of content).

This paper does not seek to predict specific outcomes; rather, our goal is to provide a framework for understanding the complexity of the competitive landscape. While much of the analysis regarding disruption in the television industry has tended to treat the online entrants as a homogenous group of services, or has focused on the Big 3 (Netflix, Amazon, and Hulu) our framework is based on two categories of entrants: those that are competing on quality and those that compete on innovation. For ease of exposition, we stylize the first category as conventional entrants, and the second as new media entrants, while recognizing that many participants do not fit cleanly into one or the other. This framing points to two disruption trajectories while highlighting the distinct impact of the latter. Furthermore, given the newness and uncertainty of the latter category, the paper suggests some early defining attributes and presents preliminary data regarding customer demands for new content forms and formats. We end with questions for further work regarding the implications for the future of money flows and industry structure.

The intended audience for this paper includes but is not limited to:

- Business decision makers in the television/video and Internet ecosystems, including ISPs, MVPDs, and OVDs, content/application providers, equipment and software vendors,
- Policymakers including regulatory authorities
- Research and analysts from both academia and industry concerned with technical, economic, creative, and legal/policy issues
- Content creators

To make this accessible to readers with diverse backgrounds, we have included some tutorial discussion.

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# 1. Introduction

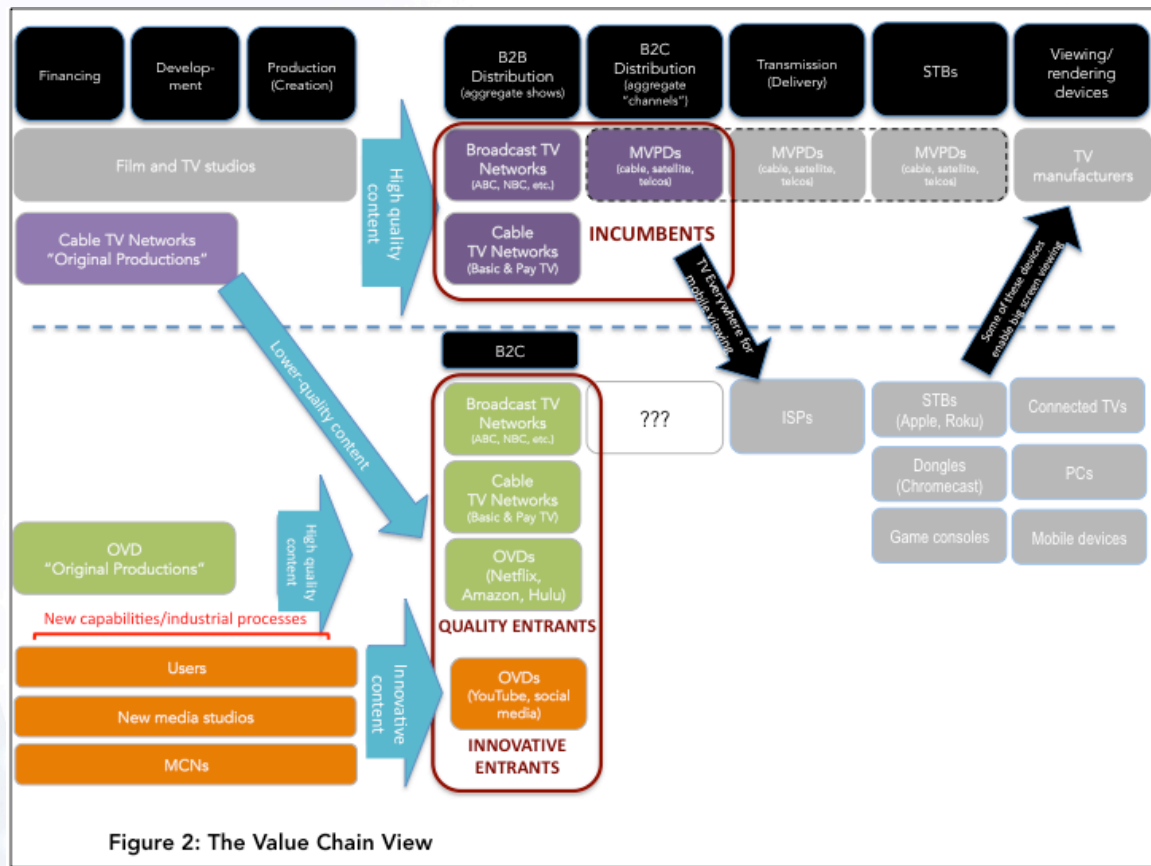
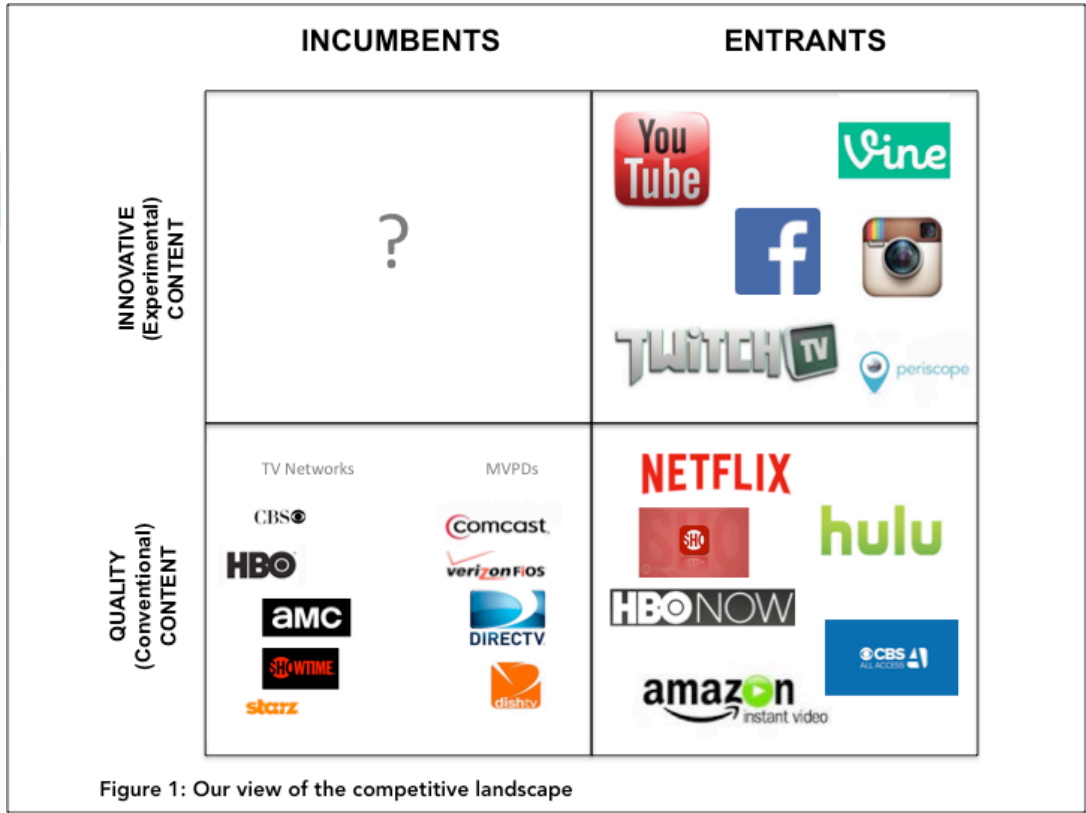
Multichannel video programming distributors (MVPDs), aka “pay TV” providers, have been facing the threat of disruption by online video distributors (OVDs) for the past decade. The battle is being fought on many fronts including the content or programming itself, mobile access, quality of service (i.e., transmission), and pricing. In this paper, we focus on content as a key strategic variable, both independently and in relation to the other variables insofar as they affect content choices.

The MVPDs have claimed exclusive access to high-quality cable and network TV programming as their trump card in the battle against the emerging online distributors. Until the last few years, the bulk of such content has remained locked in the incumbent ecosystem; unavailable to the entrants as a result of several barriers related to industry structure, market dynamics, regulations, and technical factors. Online video services as a whole have thus not comprised adequate substitutes for those cord-cutters or cord-nevers seeking traditional programming, particularly from authorized sources. Likewise, advertisers—as customers buying access to audiences—have held back on spending.

However, as of 2012, several important content-related trends have altered competitive dynamics between incumbents and entrants, as well as among the entrants. On the one hand, the amount of traditional premium content available online, i.e., outside the MVPD pay wall, has increased significantly as a result of the following: the big three OVDs—Netflix, Amazon, and Hulu—are investing heavily in “copycat cable” originals; the traditional studios are licensing more of their content to the OVDs, bypassing the TV networks as the exclusive first-run distribution window; the cable and broadcast networks are establishing stand-alone services to become OVDs themselves; and the FCC has proposed regulations that give the OVDs more rights to distribute cable and broadcast TV programming while prohibiting the ISPs from discriminating against their content in terms of quality of transmission and tolls.

Concurrently, we are seeing the rise of a distinct and highly diverse set of video distribution services like YouTube, Vessel, Facebook, Twitch TV, Vine, Snapchat, Periscope, etc., that support a wide range of new content forms and formats including various types of user-generated content but, increasingly, professional and semi-professional digital-first productions that bear little to no resemblance to traditional television content.

Thus, while all online distributors are considered entrants that threaten to disrupt the “pay TV” incumbents, the first category of OVDs competes on content *quality*, distributing high-quality live or first-release television shows and theatrical films that are conventional in form and format, while the second category competes on content *innovation*. This view of the competitive landscape is illustrated in Figure 1. (Note that even though most of the TV networks are not vertically integrated with MVPDs, the relationship between the two is tight enough to view them together; most consumers can’t or don’t have access to the networks (even broadcast) without an MVPD subscription.) A preliminary sketch of the value chain view is shown in Figure 2.





In one sense, the emergence of stand-alone services by traditional networks like HBO, Showtime, and CBS in 2014-15, along with Comcast's announcement in Q1 2015 that it now had more broadband subscribers than cable TV subscribers, are all signs that the MVPD model has been disrupted, setting the stage for a new round of battles as Netflix and Amazon go head-to-head with traditional networks. In the shorter term, we expect a content shakeout involving a reaggregation and consolidation of content, as well as unified search (with the possibility of bundling other communication services, especially as the Internet of Things evolves) around new points in the value chain including ISPs, STBs, connected TVs, mobile devices, and/or social networks—and continued regulatory battles regarding traffic management.

However, the OVDs in the second category have the potential to disrupt television in a more comprehensive manner. Rather than deliver old wine in new bottles, these services distribute a diversity of content forms and formats with new attributes that derive from the unique properties—technical, economic, regulatory, behavioral—of their Internet-based distribution platforms.

As such, these services reflect emerging cultural practices involving new technical and industrial processes as well as new ecosystems and business models. Most importantly, they signal a shift in user expectations regarding *what* they consume in the way of visual media—not just when, where, and how—particularly among Millennials (those born between 1980 and mid-2000s) and younger demographics.

These shifts are driven by the growth of the mobile web, social media and gaming, the Internet of Things, and the Internet's decentralized and participatory culture more generally—all of which stand in contrast to traditional television's centralized production/distribution and domestic consumption model.

While incumbents and the more conventional entrants like Netflix, Amazon, and Hulu have experimented with distributing innovative forms of content in a more limited manner, i.e., superficially and at a small scale, it is the deep and comprehensive—organic—exploitation of the Internet's unique properties as a distribution platform that distinguish YouTube et al.

As a whole the market space for the distribution of innovative content is complex, diverse and somewhat ambiguous. Most of the services are highly experimental and still lack clear or stable definitions and boundaries. More specifically, as social media platforms, they exist at the intersection of storytelling and interpersonal communications in terms of their functionality and business models and must therefore be considered in context of the larger landscape of communication services or apps as they transcend traditional product and industry boundaries.

While they represent competition for subscription and advertising dollars, we nonetheless conclude with an emphasis on the complementary dynamics between “old” media (including both the MVPD incumbents and “conventional entrants”) and “new” media, which include a variety of interdependencies that influence the extent to which incumbent and entrant services function as complements versus substitutes in the market.

This paper does not seek to predict specific outcomes; rather, our primary goal is to provide a framework for understanding the complexity of the competitive landscape. While much of the

analysis regarding the potential disruption of the incumbent television industry has tended to treat the online entrants as a homogenous group of services, or they are focused on the Big 3 (Netflix, Amazon, and Hulu), our framework is based on two categories of entrants: those that are competing on quality and those that compete on innovation. This framing points to two disruption trajectories while highlighting the distinct character and impact of the latter. Furthermore, given the newness and uncertainty of the latter category, the paper suggests some early defining attributes and presents preliminary data regarding customer demands for new content forms and formats. We end with questions for further work regarding the implications for the future of money flows.

We focus primarily on the U.S. landscape, where the incumbents include the cable, satellite, and telco (IPTV/FTTH) multichannel distributors. Although we will touch on all content categories (including sports, news, music videos, entertainment), we pay most attention to narrative or scripted entertainment including movies and dramatic series on the incumbent side, as well as new the newer forms and formats that are largely unscripted or don't easily fit into any particular traditional category at this time. Also, we consider primary sources of content in terms of both release structures (i.e., first run) and "textual primacy" (i.e., content is not ancillary to another piece of content).

We begin with a brief history of online video, from the mid 1990s to 2012 during which time online video distribution was viewed by the incumbent industry—including both the networks and MVPDs—as an extension of the traditional system and/or a lesser version of it, thus leading to a content divide based on quality. We then explore the rise of quality and innovative content online, both of which have challenged the incumbents' belief that maintaining exclusive access to their existing content supply would protect them from disruption. We conclude with a discussion on the complexity and ambiguity of the emerging video ecosystem as a whole, focusing on the complementary dynamics between old and new media services. This view provides the basis for further work regarding money flows and industry structure.

## 2. The Great Content Divide

One of the first online videos was the live stream of a music performance in 1994 by Severe Tire Damage, a rock band led by the late Mark Weiser (1952-1999), then chief scientist at Xerox PARC.<sup>1</sup> The legend goes that Weiser's band hijacked the virtual stage from The Rolling Stones—who had expected to be the first band in cyberspace—moments before their performance was scheduled to begin. Taking advantage of the open M-bone network, Severe Tire Damage stole the Stone's thunder and effectively became their impromptu opening act. (Apparently, Mick Jagger was not amused.) Following this and presumably many other "firsts," the Internet as a whole functioned as a highly disorganized, multifaceted distribution platform for every possible video experiment ranging from original Web video like [Homestar Runner](#) and *Ask a Ninja* to illegal file sharing of blockbusters, to the "new" or "alternative" media productions of the Hollywood conglomerates, along with promotional and ancillary content on the TV networks' web sites.

Online video distribution was not officially recognized and defined by the incumbent distributors as a disruptive threat until about a decade after Weiser's hi-jinks when, in 2005, YouTube's streaming site was launched and iTunes began offering TV shows and movies on a pay per download basis.

Following these two landmark events, the Internet presented as an alternative distribution platform offering consumers *new ways to access and engage* with television programming as well as *new types of content*, including pioneering original Web videos and, particularly in the case of YouTube, an assortment of “home videos,” along with an edited, annotated, and remixed version of traditional television programming. (Of course, the Internet provided a platform for distribution services specializing in unauthorized content, but we are focusing on authorized services in this paper.)

By 2006-07, Internet technology had matured to the point where streaming of traditional long-form content on demand was possible over fixed networks, albeit with buffer delays, streaming interruptions, and bouts of pixelisation. (Live streaming by large audiences was next to impossible and still presents challenges today for major sports events like the Superbowl and the World Cup.) The major broadcast networks as well as a few cable TV channels began to offer free “catch up” services on their Web sites, i.e., digital downloads and streams of full-length episodes shortly after they were first aired. Hulu was the most organized online distribution effort to emerge from the traditional ecosystem; as a partnership between the major broadcast networks—excluding CBS—it functioned largely as an online syndication network.

Meanwhile, following in the footsteps of YouTube and iTunes, a whole new breed of video distributor was growing out of Silicon Valley; tech companies including Netflix (which had begun offering its streaming product in 2006) and Amazon (whose Instant Video, a pay per view service similar to iTunes, was launched in 2006), as well as various device manufacturers who sought to build services around new or existing Set Top Boxes (STBs) that delivered video to traditional TV sets. Aggregating multiple shows from multiple channels, these services functioned in part like traditional television networks and in part like the MVPDs (minus the actual delivery or transmission of content, which was now provided as a separate service, i.e., broadband).

Many of these early initiatives failed due to a lack of appealing content. Making deals with content owners proved difficult due to the early practical and legal complications regarding digital rights (many of which had yet to be created) and a general lack of expertise in content acquisitions for most of the tech entrants. But even as the industry evolved, the content bottleneck persisted.

By around 2011, the consumption of online video had grown significantly. Netflix and YouTube had emerged as the authorized online video distribution leaders in terms of traffic volume and revenue. And Amazon’s Prime Video service launched in 2011—a monthly subscription service similar to Netflix offering a subset of its Instant Video catalog for free to customers of its Prime shipping service.

But there was still an obvious difference in the content available from the OVD ecosystem in terms of the quantity and quality of available titles, particularly when judged by the standards of traditional television. Over and above technical considerations regarding transmission (mostly related to bandwidth constraints), several forces related to industry structure, market dynamics, and the regulatory environment served to maintain the content divide.

First of all, contracts between the cable TV networks and the MVPDs are complex bilateral negotiations that may include restrictions related to online distribution, and/or specify rate reductions for programmers who choose to distribute through OVDs.<sup>2</sup> Beyond contractual restrictions, content

has remained prohibitively expensive for most OVDs. (Content costs have been rising in general, putting pressure on the incumbent MVPDs to raise their subscription rates). And in some cases, deals have included terms that conflicted with the OVDs' own business models, e.g., tiered pricing.<sup>3</sup>

Generally speaking, while the online distribution horizon looked tempting to the programmers—all those young eyeballs glued to mobile devices—the secure dual-revenue stream that included billions in dependable monthly subscriber fees from their current distributors was too hard to give up. The promise of authorized streaming to mobile devices, dubbed TV Everywhere (TVE), announced in 2009 provided the programmers and studios with further incentives to stay locked in their cozy, mutually beneficial, and tightly integrated relationships with their cable and satellite TV distributors, at least for a little while longer, with the added bonus of having direct access to their viewers through mobile apps.

Adding Comcast's merger with NBCU to the mix, words like "input foreclosure," "content withholding" and "collusion" had begun to pepper some of the industry discourse as the content bottleneck continued. One particularly condemning analysis came from The Free Press in their response to the TV Everywhere initiative, which outlined the ways in which the MVPDs and studios have pressured the programmers (TV networks) "to keep their best content off the Internet" and inside the incumbent pay wall, in a "textbook example of collusion."<sup>4</sup>

There is currently no regulatory framework that addresses alleged anticompetitive behavior regarding access to cable TV programming. Although the 1992 Cable Act's "program access" rules—designed to protect the then-emerging satellite distributors by preventing content withholding by cableco-owned programming networks—did not expire until 2012, they did not apply to the OVDs due to technicalities regarding the definition of the parties involved.

Online distributors have likewise not been included in rules allowing the MVPDs to offer the broadcast channels like ABC, CBS and Fox.<sup>5</sup> There have been at least two attempts thus far to redistribute such programming (live) over the Internet. Both received major backlash from the broadcast networks since the model threatened the broadcasters' two key sources of revenue; advertising (by reducing ratings) and retransmission fees (which were not paid to the networks by the OVD). Ivi.tv began streaming in September 2010 and was shut down by the courts in 2012. Aereo was launched in 2012 but, despite a few technical differences in its business model intended to circumvent the law, it too was shut down in 2014. However, as discussed below, the case is not closed, and at the time of writing, a new case concerning the online streaming service FilmOnX, which is similar to Aereo, has surfaced that will once again challenge the status quo.

In summary, until about 2012, online video distribution was, for the most part, still functioning primarily as an extension of traditional TV services; that is, a new secondary release window for traditional TV and movies, as well as a B-side channel (i.e., a dumping ground) for low-budget, low-quality content with minimal or no preceding television or theatrical distribution.<sup>6</sup> Amidst a scattering of video web sites, YouTube was the only major distributor of new, native/original Web programming, which was primarily user-generated content at the time, including both "home videos" and clips (often re-worked in one way or another) of traditional TV content. The smug anecdotes of early cord-cutters were followed by equally humble stories of frustrated users going back to cable to get HBO and sports. However, as of 2012, forces from both within and outside the ecosystem

began to shake the status quo including both the increase in the quality of content available without a pay-tv subscription and the rise of new types of programming. The next two sections explore these trends in greater detail.

### 3. The rise of quality content available online

The increase in the quality of content available online stemmed from three main sources: the OVDs themselves, which began producing their own content; the traditional networks and studios, which began distributing directly online or through OVDs; and changes in the regulatory framework.

#### 3.1. Online originals

While most of the leading OVDs like Netflix and Amazon made their mark as a new secondary release window for movies and TV shows, they have begun investing billions of dollars in exclusive, “online originals.”

The term “original” programming is used in several, often confusing, ways. It generally means the acquisition of first-run rights for a program. The most common and narrowest use is in reference to an original “production,” for example, the critically-acclaimed *House of Cards* (Netflix) and *Transparent* (Amazon). Here, “production” typically means script development and partial financing, and the company that actually makes the show is the one that owns the rights. For example, an independent studio called Media Rights Capital made Netflix’s *House of Cards*. The \$100 million that Netflix spent on the series (which covered only part of total production costs) paid for the exclusive first-run streaming rights to each season, whereas Sony bought the rights for the separate “home video” market, which, as a secondary release window, includes the incumbent video-on-demand (VOD) services (e.g., Comcast’s Xfinity TV Store) as well the pay-per-view online services like iTunes and Amazon Instant Video (not to be confused with Amazon Prime the subscription service), as well as DVDs. Netflix announced in April 2015 that it will soon own the rights to its “originals,” which will increase the opportunities for licensing revenues, but also the risks of losses in the case of shows that don’t succeed, especially given the lack of cross-subsidization enjoyed by networks like HBO.

In some cases, subsequent seasons of cancelled series that were distributed by traditional networks are “produced” by the OVD and referred to as “original programming,” e.g., Netflix’s *Arrested Development* (originally aired on Fox) and *Breaking Bad* (originally aired on AMC). In at least one case so far—*Unbreakable Kimmy Schmidt*—the series was originally produced by NBC but never aired on the broadcast network; rather, the first-run rights were sold to Netflix, and it is branded as a Netflix original. Such shows are deemed more appropriate for online distribution after, or even before, having aired on traditional networks because audiences are too small (even for cable TV audiences), or the content is too risqué, or the show doesn’t fit into the more structured programming schedules of the linear TV networks.<sup>7</sup>

Netflix in particular has also acquired first-run rights to foreign content that, according to data, corresponds to American tastes (e.g., *Lilyhammer*, *Borgias*, *Top of the Lake*, *Sherlock*, *The Girl with the Dragon Tattoo*). While not original programming per se, the first-run rights are exclusive to the U.S., and thus considered an original.

Original programming is both a defensive response to the content bottleneck and a proactive differentiation strategy. As a defensive move, original programming is a way of ensuring content supply, particularly in the absence of program access rules. As one analyst notes, U.S. TV networks are expected to increasingly buy out the SVOD (streaming) window when they acquire a show and studios may stop selling shows to Netflix.<sup>8</sup> (As noted below, original programming represents less than 10% of Netflix's total content offering; it would therefore take a lot of original content to buffer withholding of streaming rights.)

Original content also offsets the increasingly high—and unpredictable—cost of licensing from TV and film studios, as discussed above. For the time being, major sports programming remains out of reach for OVDs due to cost. (Bandwidth is also a key issue for live streaming, particularly for mobile video.) A 2015 study by Juniper states that, regardless of technical constraints, OVDs would need “a paying audience of perhaps 10 million in some cases.” (In any case, most of the major sports leagues in the US now have their own SVOD services, distributing directly to viewers. And the NFL in particular has started creating original content.)

Furthermore, original content leaves the OVDs less vulnerable to supplier demands regarding their operations; an important consideration as the various online services experiment with various aspects of their business models, including pricing and release models.

As a differentiation strategy, original programming has been eloquently described as “a classic television network move. It's what dragged MTV from music videos to 'Jersey Shore' and HBO from having exclusive windows on movies to making 'Game of Thrones.' It is a tried and tested technique that is driven by a need to establish identity.”<sup>9</sup>

Original programming represents only a small percentage of the OVDs' overall content strategy, and Netflix et al are still spending far greater amounts on pre-existing content by way of improving the quality of their catalogs overall (including content that was previously “withheld” by the programmers, like old HBO shows, a selection of which are now available on Amazon Prime.) Netflix's total spending on content (globally) in 2014 was \$3.2B,<sup>10</sup> with original productions like *House of Cards* accounting for under 10%.<sup>11, 12</sup> Not too surprisingly, Netflix's catalog is still being criticized for its lack of quality. It was described in 2014 by one critic as comparable to “the candy dish at your grandmother's house. Most of the movies are crap, but you know, buried somewhere in there, is something worth your time,”<sup>13</sup> and in 2015, there are still many complaints regarding Netflix's catalog.

Nonetheless, the success of one or two originals can serve to increase the brand value of the OVD—assuming it is perceived as akin to a “channel” versus an MVPD. And successes across one or two OVDs arguably increase the value of online video overall, while driving competition among the OVDs themselves, including the stand-alone apps being launched by traditional programmers, as discussed below. (A July 2015 study by research firm MTM predicts that Netflix share of the U.S. market will fall from 85% to 50% by 2018 as more and more [niche] services are launched.<sup>14</sup>)

Netflix led the original content trend by quietly testing the waters with *Lilyhammer* in early 2012. A year later, and with much bigger fanfare, it led the flood of online originals with *House of Cards* (February 2013), followed closely by *Orange is the New Black* (July 2013), two of its most “critically

acclaimed" productions thus far. By 2014, based on these successes, Netflix doubled its investment in original content. It released *Marco Polo* in December that year (its answer to HBO's *Game of Thrones*), and announced new productions for the next two years, including a five-season deal with Marvel Television to produce five superhero series for a total of \$200 million. Approximately thirty original series are slated to be released by Netflix in 2015 and 2016.<sup>15</sup> Netflix projected that its spending on content would approach \$5 billion in 2016, and expenses for marketing will be nearly \$1 billion next year, according to the *Wall Street Journal*.<sup>16</sup>

Amazon entered the originals race in the spring of 2012, at a smaller scale than Netflix, spending about \$30 million to launch over a dozen pilots. The company reported spending \$1.3B in 2014, with six full series in production that year along with 10 pilots.<sup>17</sup>

Both Netflix and Amazon have started producing theatrical movies as well as TV shows. Netflix announced its first original movie production in December 2014 (*Crouching Tiger, Hidden Dragon: The Green Legend*, to be released simultaneously in IMAX theaters, followed closely by an announcement for four Adam Sandler films, also slotted for simultaneous theatrical release). Amazon made its first official announcement in January 2015. Although no specific titles were mentioned, its strategy appears similar to Netflix's in that titles will be released in both theaters and the Amazon Prime release window.

It's interesting to note here that Netflix experimented with producing content back in 2006-08 with the launch of Red Envelope Entertainment, which functioned as the production (financing) and distribution division of the company when it was still exclusively a mail order DVD service. Red Envelope focused on independent movies, and after producing/and or distributing over 100 films, it shut down, reportedly because the company did not want to be in competition with its studio partners.<sup>18</sup> (Other reports suggest that Netflix was just not very good at producing content.)

Netflix and Amazon have both won several traditional TV industry awards for their original productions. Netflix was the first non-TV network to win an Emmy in 2013 with *House of Cards*, and in 2015, Amazon acquired similar status at the Golden Globes with *Transparent* winning best TV series. As the *New York Times* put it, "Once dominated by the broadcast networks and a handful of cable channels, television is now a wide-open field. Any company with the resources to produce quality programming and a distribution platform can compete for viewers. And awards."<sup>19</sup>

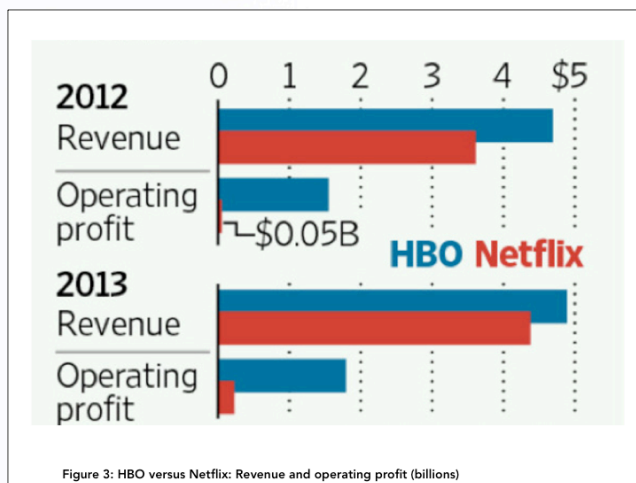
Nonetheless, tying critical acclaim and awards to subscriber and revenue growth is not straightforward, particularly because data re viewership for individual shows is currently not available.<sup>20</sup> However, one study correlated a four-fold increase in Netflix's net income with the release of the first season of *House of Cards* and *Orange is the New Black*.<sup>21</sup> More recent data shows that Netflix's 2015 Q1 results—the largest growth it has seen since its streaming product was launched—coincided with the return of *House of Cards*.<sup>22</sup> According to CBC news, "Netflix gained 4.9 million subscribers in the first three months of the year, more than any other quarter since the video streaming service's debut eight years ago. About 2.3 million of the new customers were in the U.S., where Netflix's subscriber count surpassed 40 million for the first time."<sup>23</sup>

Profitability remains an issue, largely due to cost/revenue structures. For example, in 2013 Netflix's subscription revenue totaled \$4.4B, not far behind HBO, which had \$4.9B in revenue. By early

2014, Netflix surpassed HBO for the first time with revenues of \$1.146B for Q2. However, Netflix lags far behind in operating income, showing \$228 million versus \$1.7 billion for HBO in 2013. (Figure 3.) While content spend is comparable (along with the challenges of international expansion), Netflix spent \$379 million on technology and development in 2013 and \$503 million in marketing costs, whereas HBO doesn't pay infrastructure costs and is heavily promoted by pay-TV providers.<sup>24</sup>

Netflix raised the monthly fee for its streaming service in 2014 by \$1 for new members (existing members were given a 2-year grace period). Based on growth projections, this increase would have generated approximately \$148 million in extra revenue in the U.S., with additional gains in other countries.<sup>25</sup> (Interestingly, the *New York Times* reported in July 2015 that Netflix still “has 5.3 million DVD subscribers, a significant falloff from its peak of about 20 million in 2010; still, the division continues to churn out hundreds of millions of dollars in profit each year.”<sup>26</sup>)

Amazon Prime is a trickier case when considering cost/revenue structures because, although it is treated as a subscription video on demand (SVOD) service like Netflix, it is first and foremost a shipping service for Amazon's physical products—with an increasing array of benefits, video



streaming being one of them. Thus, in terms of cost/revenues, what are often counted as Amazon Prime's SVOD revenues are only partly so. Amazon does not disclose the number of Prime memberships, but various estimates average about 40 million US subscribers by the end of 2014—about the same amount of Netflix subscribers in the U.S. Based on a 2014 survey from RBC Capital Markets, about 70% of Prime members use the video services. But only 5% use it on a daily basis.<sup>27</sup>

Before concluding this section it is worth noting that other players in the value chain, besides OVDs (and cable TV networks) have entered, or are planning to enter, the original content game; most notably device manufacturers (e.g., Sony and Apple) and ISPs looking to differentiate themselves by offering exclusive content alongside OVDs' catalogs, or in some cases involving ISPs, exclusive access to OVDs. The details of this discussion are being explored in an adjacent CFP study, “The Double Helix Redux.”

### 3.2. The content bottleneck is opening...

Although traditional content owners were initially hesitant to go online, the potential gains of online distribution have begun to outweigh the potential losses, at least for certain content owners who can afford to take the risks. As the *Wall Street Journal* warned in 2012, “a new content garden is growing up outside of cable TV's walls,” and the risks of “getting left behind” could outweigh the benefits of preserving the close to \$40 billion in subscriber fees.<sup>28</sup>



For premium cable channels like HBO and Showtime, as well as broadcast networks like CBS, stand-alone TV apps give them access to the growing ranks of cord cutters, cord shavers, and cord nevers, particularly those interested in content that is both high quality and unbundled. This is especially important as Netflix and Amazon produce original content that is comparable to, and competes directly with, the networks' content.

In addition to stand-alone apps, premium content owners have also started selling reruns of some of their top programming to the OVDs. HBO for example sold the rights for several series to Amazon for distribution over Prime Video prior to launching HBONow. According to *Forbes*, "it's clear Time Warner is aggressively looking to increase revenue potential from one of the most profitable brands in its portfolio."<sup>29</sup> Some analysts believe that as the OVDs (as well as the basic cable networks) make more of their own high quality original content, the value of "HBO's leftovers" has declined; now that they have a choice, viewers would rather watch a Netflix or Amazon original than reruns of *The Sopranos*.<sup>30</sup> Nonetheless, as discussed above, even such "perished premium" content raises the overall quality of the entrant OVD catalogs, and thus of online video in general.

In similar fashion, the studios are also bypassing the networks (programmers) and selling exclusive first-run rights to OVDs. The Disney-Netflix announcement in 2012 was one of the first major deals of this sort, giving Netflix "exclusive U.S. subscription television" rights for its new releases starting in 2016.<sup>31</sup> A similar deal was made with The Weinstein Company in 2013, giving Netflix the rights to show all movies released by Weinstein Co. and its subsidiary, Dimension Films, before they appear on pay-TV channels.

It's important to note that these deals have been for movies as opposed to television programming. According to some analysts, this is because movies have become less valuable to the pay TV providers as the dramatic *series* format pioneered by HBO in the late 1990s-early 2000s has become more important to viewers. A 2014 study by TiVo found that "regardless of how they are consuming video, traditional TV series are Millennials' preferred content of choice rather than full length movies, live events or music videos."<sup>32</sup> TV series have become increasingly sophisticated, but the big appeal is their structure; they are comprised of shorter and thus a greater number of story arcs that can be drawn out over multiple episodes. The nature of the narrative structures, combined with both "binge watching" and "segmented viewing" experiences has made them extremely addictive. "The shows have a faster pace, and have to constantly reinforce the viewer's interest in what's happening next and to reduce the chances audiences will skip through slower parts of the show." Furthermore, television leads to "sustained viewership," whether by bingeing or more traditional staggered viewing behaviors.<sup>33</sup>

### 3.3. Reviving the program access rules

In addition to shifting market dynamics described in the above section, regulations regarding program access have also played a role in diminishing the content divide. Following the expiration of the 1992 program access rules in 2012, there have been a few attempts to revive and adapt regulations to match current market conditions.

On the one hand, the rules expired because by that time only 14% of the 800 or so cable TV channels were still owned by a "facilities owner" (an MVPD) down from 35% in 2007,<sup>34</sup> i.e., only 14%

of content suppliers would have incentives to withhold content from competing MVPDs. (Most of the vertical integration is now upstream, between the studios and TV networks.) But the devil is in the details, as a single cable company (Comcast) is responsible for most of the remaining 14% of content ownership (and more, following the merger with NBCU in 2013), the bulk of which comprises the highly-prized regional sports programming networks (RSNs). According to the Congressional Research Service, “the programming for which consumer demand is both broadest and most intense is major sports programming.”<sup>35</sup>

In November 2013, then-senator Jay Rockefeller proposed the Consumer Choice in Online Video Act. The proposed bill would address the entrant OVDs’ right to negotiate access to popular content from all networks while preventing ISPs from degrading OVD content—a catch-all piece of legislation that reflected the new market conditions including the decoupling of network and services. Most reports claimed the legislation would not pass given the current FCC regime, and Rockefeller himself was considered a lame duck who was set to retire within the year.<sup>36</sup> As one report put it, the bill was a sort of low-risk departing wish list.

One year later, the FCC proposed a similar set of provisions, but with a greater emphasis on changing rules that pertain to the broadcast networks’ content in particular, i.e., retransmitting ABC, NBC, etc. Despite the fact that viewership of broadcast television programming has declined over the years, it is still considered essential to any content package (at least the major networks).

The new rules would give all OVDs the right to negotiate access to content. The legislation is intended to facilitate the online video industry—similar to how the 1992 program access rules were intended to promote competition in response to new distributors—while at the same time allowing for à la carte distribution of “channels.” But also, given that the majority of entrant OVDs are tech companies, some of whom are involved in manufacturing devices (e.g., Apple), improving the terms of competition would necessarily lead to overall improvement in the user interface. According to proponents from the tech world, “we’ll see better integration with our other devices, new interface ideas that actually work, and we’ll finally, finally be able to ditch our gigantic crappy cable boxes.”<sup>37</sup> Like Rockefeller’s proposed bill, however, there is skepticism regarding whether the FCC will approve or even vote on it.

### **3.1. Traffic management**

The other area of regulation that affects the content divide concerns the rules regarding traffic management. Given the OVDs’ reliance on broadband services to deliver their content to consumers, the incumbent MVPDs have another trump card in hand; ownership of the network, which plays a major role in both the quality of transmission (typically discussed in terms of “quality of experience” or QoE these days) and the cost of online services to consumers. In other words, if you’re an OVD, it doesn’t matter how good or reasonably priced your content is if it can’t be delivered effectively or affordably.

The last couple of years have thus seen many tussles between the larger online content distributors (like Netflix) and ISPs around bandwidth caps (zero-rating), interconnection agreements, and net neutrality regulations—arguably a response to the increase in the quality (not just quantity) of video

content traversing the Internet. The details of this discussion are addressed in the CFP Broadband and Mobile Broadband Working Groups.

## 4. The rise of innovative content

So far, these trends speak to the increase in conventional “quality” content in the online distribution ecosystem, which provides incentives for users to cut or bypass the MVPD offering. But producing original “copycat premium” content or unlocking traditional programming from the exclusive grip of incumbent distributors are not necessarily the key drivers of disruption. They are certainly not the *only* drivers when it comes to content, especially if we consider Clay Christensen’s assertion in *The Innovator’s Dilemma* that a disruptive technology changes the basis of competition, i.e., “*the criteria by which customers choose one product over another.*”

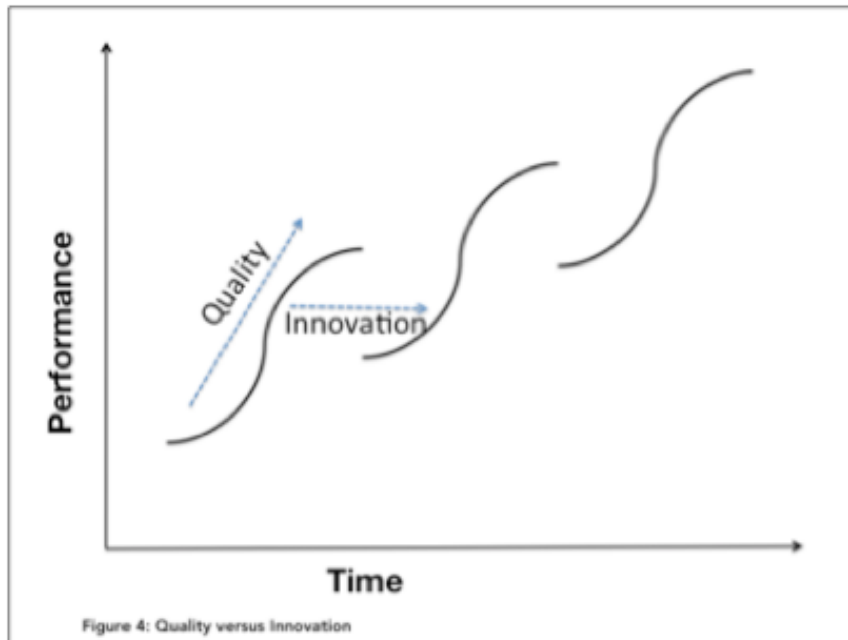
As noted in the Introduction, much of the analysis regarding the potential disruption of the incumbent television distributors have tended to treat the online entrants as a homogenous group, or they are focused on the big 3 OVDs. Consequently, the distinct impact of YouTube and other services like Vine and Snapchat that distribute new types of video content have been underestimated, or they have been erroneously ignored for the very reason that they are providing something new and different; a new type of visual media that has not yet been fully validated or valued by users and the traditional industry including producers, distributors, advertisers, and the press, and/or simply not counted, literally, despite the growth in demand—although this has now started to change.

After Twitch TV made the *Wall Street Journal* in early 2014, surprised analysts warned that it provided “a cautionary tale of what happens outside the pay wall,” referring specifically to platforms supporting new forms of content. Later that year, the *New Yorker* drew attention to the whacky world of YouTube and Vine, exposing Hollywood’s interest in this new breed of content creation. And in March 2015, a *Forbes* article suggested that the bigger disruption in television may in fact be “the way YouTube, Vine, and similar services are radically changing the rules for how content is produced, distributed, and viewed. For younger audiences among the Millennials, such services are a big part of what they consume and how they consume.”<sup>38</sup>

Despite doubts regarding the disruptive impact of these “innovative” platforms—they will always only complement traditional visual storytelling or there is too little demand to be significant, or they have no economic future, etc.—they are worth a closer look.

### 4.1. Defining content innovation

Let’s start by defining what we mean by innovative content and how it compares to quality content discussed above. We use the terms “innovation” and “quality” specifically in reference to Clay Christensen’s model of industry disruption. In the classic disruption story an entrants’ early products are typically lower in quality but have new attributes *based on the properties of the new technology* that are valuable to a new set of customers. In other words, companies that compete on quality make products with the same set of “performance attributes” and are thus considered “better” or “worse,” while companies that compete on innovation make products that are “different.” (Figure 4.)



In that sense, industry disruption does not only involve a re-jigging of the value chain; the product or service also undergoes a transformation, one that is often more obscure than changes in industry structure or technology. As Christensen explains in *The Innovator's Dilemma*:

“When a measurable trajectory of improvement has been established, determining whether a new technology is likely to improve a product’s performance relative to earlier products is an unambiguous question. But in other cases, the impact of technological change is quite different. For instance, is a notebook computer better than a mainframe? *This is an ambiguous question because the notebook computer established a completely new performance trajectory, with a definition of performance that differs substantially from the way mainframe performance is measured. Notebooks, as a consequence, are generally sold for very different uses [emphasis added].*”

Christensen further emphasizes, “Not only are the market applications for disruptive technologies unknown at the time of their development, they are *unknowable*.” He thus advises, “The strategies and plans that managers formulate for confronting disruptive technological change, therefore, should be plans for *learning and discovery* rather than plans for execution.”

Understanding visual media content in terms of performance trajectories and product attributes is not straightforward. As a creative product, content has many characteristics that are both abstract and subjective or otherwise difficult to pin down let alone measure in terms of “performance.” Furthermore, the various cultural industries and academic disciplines, not to mention viewers themselves, have their own uses and definitions for the terms “quality” and “innovation.” At times these definitions align with those of our framework, other times they do not.

To better understand product attributes as they relate to content we integrate several works from media studies with the business literature on disruption. We focus on the aspects that address the

transition from old to new media particularly as it concerns the era of digital technology and the creation of new cultural forms and their embodiment in digital products.

Much of the media theory upon which we base our analysis is rooted in the ideas of pioneering theorist Marshall McLuhan, who wrote about television in the 1960s. McLuhan became famous for the intentionally provocative phrase, “the medium is the message,” implying that “media environments are not just containers, but processes that change the content.”<sup>39</sup> Or, in the more recent words of an executive from ESPN, “there’s a complex interplay between the characteristics of the conduit and the content.” McLuhan pointed out that all new media start by imitating the old until *new uses* are discovered based on the inherent properties of the new medium and the processes it enables.

In her 2007 book, *The Television Will be Revolutionized*, Amanda Lotz explores more comprehensively the processes related to technology, program creation, distribution, advertising, and audience measurement—what she refers to as the “constellation of industrial norms”—associated with the properties of the distribution platform, and how they collectively influence the type of programming the industry creates. For our purposes, we can therefore say that, as televisual media has evolved from the over-the-air broadcast model, through multichannel video programming distribution, to today’s online video distribution services, the nature of programming has shifted to one degree or another. Internet distribution thus represents the basis of a third wave of programming, with further shifts as mobile video takes over from fixed Internet experiences, particularly among the younger demographics.<sup>40</sup>

Lotz explores in great detail the transition to multi-channel video programming distribution (i.e., cable TV) following the era of over-the-air network television, as well as the early beginnings of online distribution, which, at the time of her research, still functioned largely as an extension of the MVPD ecosystem. She includes several case studies of the new “storytelling possibilities” of cable TV using examples of what was then considered innovative; dramatic series distinguished primarily by their sophistication and “edgier” or unconventional themes and narrative styles, example, *The Shield* and *Sex and the City*.

Lotz attributes the characteristics of cable TV content to the combined effects of the shifts in transmission and reception technologies (enabling both multiplatform distribution and higher-quality images); financing models (that enabled more productions from smaller, independent studios); distribution models (multichannel packages, the erosion of windows and exclusivity, video on demand, etc.); and changes in both advertising strategies and measurement. Although she does not address differences in the FCC’s obscenity restrictions, they clearly play a role in the edgier or riskier nature of cable TV as compared to network television. Of particular importance during the multichannel transition was the fragmentation of audiences into specialized niches and the emergence of the subscription (pay tv) model.

According to Lotz, none of the cable TV series she explores could have existed on network-era television: “each [show] not only illustrates changes in the production process, but also how these changes have created opportunities for *stories much different from those of the network era*” [emphasis added], the latter being characterized primarily by its lowest-common-denominator

programming geared towards mass audiences, or what Lotz refers to as “a weak program aesthetic.”

The important point here is that the more “innovative” cable TV programming eventually drew viewers from the broadcast networks.<sup>41</sup> As both advertising and subscription dollars flowed into the cable ecosystem, the quality of programming increased while its edgier and more distinctive style attracted (and continues to attract) younger, more lucrative, audiences. (Consequently, the broadcast networks have increasingly been trying to look more like cable television in the hopes of attracting those audiences.<sup>42</sup>)

We apply a similar analysis to the era of online distribution as it has evolved since the publication of Lotz’s book, more specifically, as it has become a distinct ecosystem creating original or “digital native” content. On the one hand, the general pattern is the same: a new distribution platform starts off as an extension of the previous platform and eventually becomes the basis of a new competing content industry with the potential to support new content forms and formats based on its unique properties. However, there are a few important differences with today’s transition to online video distribution.

First is the fact that the Internet is not a new video distribution platform per se; as noted above, it is home to a native video culture (involving producers, distributors, and audiences) that predates today’s OVDs like Netflix and even YouTube by over a decade. (See [Hank Green’s pre-YouTube history of Web video](#).<sup>43</sup>) More generally, the Internet has a well-established ecosystem and its own set of industrial and behavioral norms, with industry dynamics that are much faster-paced and complex than those of the television industry with which it is now intersecting, as well as its own regulatory regime.

Secondly, as a converged network, the Internet supports multiple functions associated with myriad services and industries—and thus behaviors—beyond the narrowly defined realm of traditional television. Generally speaking, the platforms distributing “innovative” content, i.e., YouTube et al, are social media platforms that increasingly integrate the previously disparate functions of interpersonal communications with content production and distribution (i.e., entertainment). And as the Internet increasingly becomes a giant sensor (or surveillance/voyeuristic/exhibitionist) network, the functions associated with IoT applications are influencing the nature of content production and distribution, and the very definition of “television” and “entertainment” as well. In short, the nature and purpose of all our telecommunication functions and the ways they are organized into services is changing.

And finally, the “new distribution platform” is, in effect, the set of highly diverse platforms that sit on top of the Internet, rather than the Internet itself, or as a whole. And so, while the various incumbent pay TV services provide comparable content packages and experiences, the differences between the platform characteristics and thus the nature of content distributed by Netflix and YouTube or TwitchTV or Vine are huge—a fact that adds to their complementary nature. (The fact that the Internet is a global platform is also an important factor, but we do not deal with it in this paper.)

Performing a more detailed and formal analysis of conventional and innovative platform and content attributes is beyond the scope of this paper. However, for the sake of our discussion, we have summarized in the table below what are currently the most salient attributes of conventional and innovative content based on descriptions by industry professionals and analysts. Some of these

attributes are relative and/or subject to larger social forces and will thus change as society and media literacy evolves. (This is not a definitive list, and as new platforms and uses evolve, it will change.)

Conventional Content Attributes	Innovative Content Attributes
<ul style="list-style-type: none"> <li>▪ Structured, limited number of standard programming formats, typically long form (30 or 60-minutes)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fluid, unstructured, varied and wide range of programming formats from short-form (5 seconds, 6-10 minutes) to long-form, to extended (several hours), to continuous, real-time streaming</li> <li>▪ Granular, continuous, ephemeral</li> </ul>
<ul style="list-style-type: none"> <li>▪ Mass appeal and niche programming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hyper niche programming (long tail)</li> </ul>
<ul style="list-style-type: none"> <li>▪ Conservative subjects/themes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Riskier, edgier, unconventional subjects/themes</li> <li>▪ “Freewheeling”</li> </ul>
<ul style="list-style-type: none"> <li>▪ Conventional narrative structures/aesthetics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Experimental narrative structures/aesthetics</li> <li>▪ Interactive, immersive, responsive</li> <li>▪ Engaging, intimate, shareable</li> </ul>
<ul style="list-style-type: none"> <li>▪ High production values, canned</li> <li>▪ Professional</li> </ul>	<ul style="list-style-type: none"> <li>▪ Amateur, semi-professional, professional</li> <li>▪ Authentic, transparent, raw</li> </ul>
<ul style="list-style-type: none"> <li>▪ Single platform</li> <li>▪ Single story</li> </ul>	<ul style="list-style-type: none"> <li>▪ Multi/cross-platform</li> <li>▪ Transmediated</li> </ul>
<ul style="list-style-type: none"> <li>▪ Relatively large budgets, high production values</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relatively low budgets, lower production values</li> </ul>

Equally important in helping us to understand content innovation is the work on how emerging forms and formats are validated or legitimized as cultural objects, i.e., products. As one journalist put it, disruptors work in a “legitimacy vacuum.” Thus, while any invention struggles to find its place in the market, cultural products in particular must acquire what cultural theorist Alan Durant refers to an “aesthetic purpose” or meaning. In his study of the music industry, he points to “frameworks of interpretation” which provide “general reference points of intelligibility;” in other words, a set of conventions that make marketable sense out of what musicians create.<sup>44</sup> This basic idea can be applied to all other cultural products.

A specific and direct example of this process as it applies to televisual media is provided by Max Dawson in “Television’s Aesthetic of Efficiency: Convergence Television and the Digital Short.” The paper explores how short-form content, born of the early Internet’s technological limitations, initially comprised ancillary content or clips that served as promotional rather than entertainment content, and was thus “free” to audiences. Writers were thus not compensated despite the fact that the content generated ad revenue. Through a long, complicated, and heated political struggle between the studios and the writers, the “digital short” evolved to become the basis of a new cultural form—for both creators and consumers, and has continued to evolve aesthetically even after it became technically possible to stream long-form content. (Interestingly, the same paper referred to YouTube as “a graveyard of failed mobisodes, incomprehensible clips, and incomprehensible recaps,” and yet today it is the number one or number two online video service, depending on what metric is used. This observation speaks to the process of “legitimization” of new cultural forms.)

Short-form content has resurfaced, largely because of the new technical constraints and form factor of the mobile experience (bandwidth restrictions and smaller screens). A 2015 study on Millennial viewing habits shows a marked correlation between screen size and the length of a viewing session. According to the study, the median length of a video watched on smartphones was 2 minutes, 13 seconds; 6 minutes, 30 seconds for tablets; 9 minutes and 23 seconds for PCs, and 41 minutes, 32 seconds for connected TVs.<sup>45</sup> As mobile viewing increases overall—in addition to a combination of ever-shrinking attention spans and the availability of extended periods of uninterrupted time—so does the amount of short-form viewing.

The most evolved innovative content service at this point is arguably YouTube, which is characterized primarily by content that is both short (including user-generated and increasingly semi-professional content) and social (i.e., interactive and shareable). Jason Kilar, CEO of Vessel—a new service aimed at competing directly with YouTube—is betting on the consumption of short clips on smartphones as the dominant behavior for visual media consumption, viewing it as a “gamechanger” akin to the shift to cable TV formats in the 1980s. “It’s a very different use case,” claims Kilar, one that is not unrelated to the micro-segmentation of long-form content discussed above.

But the rise of short video is also closely related to the social nature of television and storytelling more broadly. In their book, *Spreadable Media*, Jenkins et al point out that the practice of sharing stories is inherently human, and our new technologies are simply able to provide the tools. Not only has traditional media been cut up into shareable bits, original content is now being created specifically for the purpose of sharing, with short and engaging as key criteria.<sup>46</sup>

As the tools for interpersonal communication and content distribution converge in social media services, content distribution is thus increasingly based on the logic of conversation, where bits and pieces of media content are shared (or “spread”) as part of other, more personal, social exchanges. Peter Hirshberg aptly described the vision of spreadable media several years ago as “content moving from shows to particles batted back and forth in social communications.”<sup>47</sup> Likewise, our more personal exchanges, i.e., our conversations, are captured and function as (user-generated) content or entertainment.

As social media platforms evolve, we are seeing the emergence of seconds-long, ephemeral videos on apps like Snapchat or, at the other extreme, open-ended real-time streaming on Periscope, Meerkat, and YouNow, with newer, more perplexing questions concerning both new content forms and the logic or pattern of its distribution (not to mention how to regulate the content and the interactions that occur around it). For example, Snapchat’s CEO Evan Spiegel posted a YouTube video in Spring 2015 explaining what exactly the app was, focusing on its ephemeral nature but also emphasizing that photo sharing is actually replacing texting: “kids exchange pictures [or videos] the way old folks used to ‘talk.’”<sup>48</sup> In July 2015, Vine’s executive leaders noted a shift in the purpose of the app from one that initially enabled users to “capture life in motion and share it with the world” (aka “the Instagram of video”) to one that, two years later, supports “content creators who intend to entertain rather than share, and viewers who participate by interacting with content rather than necessarily posting it themselves.”<sup>49</sup> Facebook has experienced a similar evolution towards becoming a video distribution platform first and foremost.



Although the details regarding monetization and revenue flows will be discussed in a subsequent paper, it's important to note the relationship between the cultural status of new forms of expression and their economic status. The example of the digital short discussed above described the emergence of a new cultural form, but equally important was the fact that it gained commercial status, i.e., it acquired market value. The same basic process regarding the establishment of the digital short as both a cultural and economic object continues as newer forms and processes for storytelling emerge. Ana Serrano, chief digital officer of The Canadian Film Centre remarked in April 2015:

Video content, as a cultural and economic object, has traditionally taken the form of a fixed, bounded object, e.g., a film, a TV show, an episode, etc., with a focus on monetizing the finished, produced piece, by way of paying for the whole process. But the boundaries of content are becoming fluid and flexible. Platforms like Snapchat and Periscope have capabilities that enable the creation of stories incrementally over time. Content creation can now start at the point of ideation all the way through to production, post-production and distribution with opportunities for audience engagement existing all along the way; each point of audience engagement provides an opportunity for monetization. This is all new to the cultural industry sector and we are seeing lots of experimentation, but nothing concrete has emerged.

Furthermore, deeper questions about value creation and capture that include non-monetary forms have become extremely important, particularly as content distribution occurs increasingly through social media platforms by users themselves. This new model of distribution/circulation is based on the co-existence of both monetary exchange and social exchange, where audiences are productive actors in the value chain, creating both economic and symbolic, or non-monetary value that derives from their social activities including things like sharing content, tagging, commenting, etc.<sup>50</sup> A significant point here is that they create network effects—the increase in the value of a product or service the more people are using it—an important factor in terms of competitive dynamics.

#### **4.2. Shifting customer preferences**

Relating the notion of “innovative content” back to Christensen’s assertion above that “the criteria by which customers choose one product over another changes,” we can then say that the competition between incumbents and entrants in the case of televisual media is thus in part about customer preferences for traditional (conventional) and innovative (experimental) forms of content.

Regardless of how exactly we define innovative content, there is increasing evidence that online audiences—the younger demographics in particular—have been demanding something outside the traditional molds of television programming (regardless of distribution platform), typified by YouTube’s original content, Twitch TV and Vine, and most recently, the personal streams of Meerkat and Periscope.<sup>51</sup>

Throughout 2012, the CFP interviewed twenty executives from a variety of media companies regarding how they viewed changing customer demands regarding content. Without a doubt, there was a strong sense that video was exploding as an expressive form, and in the process, perceptions regarding content were exploding as well. Although our conversations occurred at the cusp of the

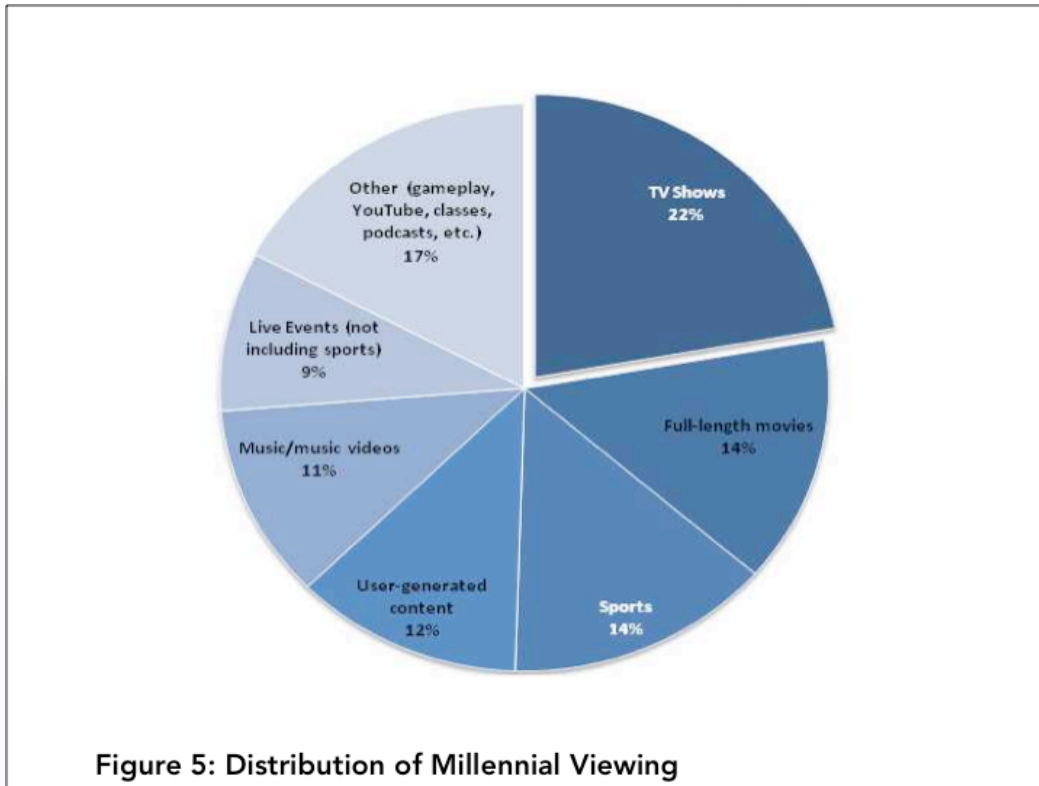
surge in online original content by OVDs, we heard references to the difference between content based on “innovation” and “imitation.” Larry Tanz, then CEO of Vuguru (currently Netflix’s VP of content acquisition for Europe), remarked that “disruptions in the industry are not causing the traditional companies to innovate. For them, the Internet is just another VOD channel.”<sup>52</sup> For the online “imitators,” there was thus an opportunity to compete with smaller cable channels, but, as Avner Ronin of Boxee put it, “there exists a huge space between HBO-style content at one extreme and UGC content at the other. And within professional content there is a market for content with “no production value at all.”

Of particular interest was the shift in how the younger cohort regarded content. Not only had they acquired a taste for visual media with unconventional forms and formats, they did not equate production value with how compelling the content was. In other words, content with “no production value at all,” was as desirable as the high-cost premium cable hits at the time of these interviews, including *The Sopranos* and *Six Feet Under*.

Perhaps the single most used adjective describing what younger audiences were drawn to during our original interviews was “authenticity,” an attribute that, ironically, is almost synonymous with low-quality for the very reason that it is less “produced.” (Note however that this very quality is at risk as YouTube evolves. See [The Gentrification of YouTube](#).) At the time of writing, such sentiments continue, and as ratings for both broadcast and cable television drop, incumbent and entrant executives alike are recognizing the increase in demand for a different type of content, particularly among Millennials.<sup>53</sup>

By 2014, various industry groups had begun studying the digital content landscape in greater detail. In May 2014, a study by IAB (Interactive Advertising Board) found that those watching video online “prefer online originals to TV news, sports and daytime programming. In addition, online originals are enjoyed almost as much as primetime TV programming.” The top reason respondents gave for why they watch online originals was “anytime anywhere” viewing (41%), followed by “getting drawn in after clicking on a link” (27%) and “*like watching content not available on TV*” (25%)<sup>54</sup> These are somewhat tricky statistics because the preferences for self-scheduling or accessibility over mobile devices are not exclusive to original digital content. The significant point here, however, is that many viewers are online specifically because they are interested in something not found on traditional TV, i.e., “original” or “native” online video. A subsequent study by IAB published in 2015 noted that 18-34-year-olds prefer original digital video to “all types of regular TV,” including that found on the web sites and apps of traditional programmers like ABC and HBO, and over Primetime.<sup>55</sup>

TiVo released a similar study in early 2014 based on a survey of Millennial viewing habits. “The purpose of the study was to understand the relationship between the kinds of content Millennials view and the platforms and methods they use to experience that content as compared to previous generations.” The “other” category, which includes YouTube, ranked second highest at 17% after TV shows. (Figure 5.) Given that “user-generated content” is a separate category, we are assuming that the 17% refers to a combination of professional content distributed on YouTube and YouTube “originals.”



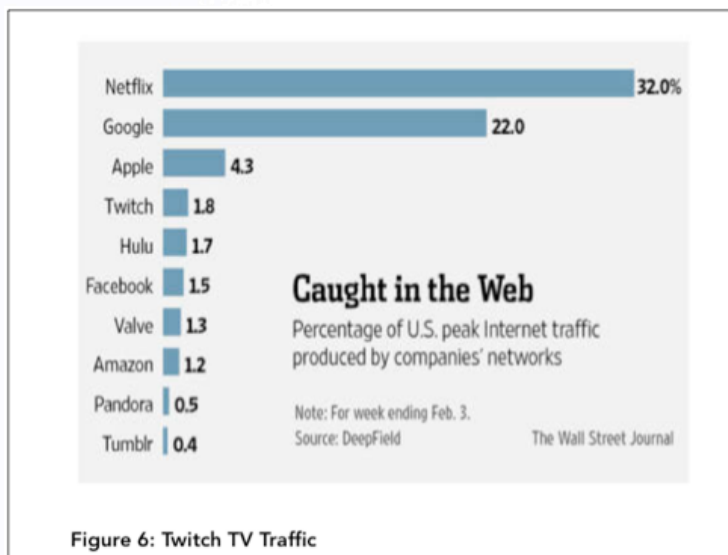
Known previously for its user-generated-content (and increasingly for its music channels going forward) YouTube launched a 100-million dollar “originals” initiative in 2012. The effort was driven primarily by Hollywood stars, although within two years a report published by *Variety*, one of the largest U.S. entertainment trade magazines, revealed that YouTube stars had become more popular with young Internet users than Hollywood stars.<sup>56</sup> YouTube had somewhat unintentionally spawned a new type of celebrity, described in industry reports and conferences as more engaging, extraordinary, relatable, authentic, intimate, candid, and raw. And the content itself was considered “real premium video content”—in contrast to UGC fare—but “in a different form and driven by different, and frequently innovative, development.”<sup>57</sup>

In terms of demand for YouTube originals compared to other professional content, there are various metrics that paint equally various pictures. For example, the most viewed *individual* videos on YouTube are primarily professional music videos for major artists.<sup>58</sup> Note that YouTube’s own top individual videos are determined by a “nebulous formula” that includes number of shares and comments in addition to number of views, so a video that sparks interest on social media may outrank a video with more actual views.<sup>59</sup> It’s top ten thus includes a collection of user-generated content, music videos, advertising (or branded content). When looking at the number of subscribers to individual YouTube *channels*, music videos also show up first, but only when YouTube-generated playlists are included as channels (with gaming and sports playlists in second and third place).<sup>60</sup> In terms of actual YouTube channels (as opposed to playlists) the most subscribed to channel as of March 2015 is Swedish PewDiePie’s channel, with approximately 35,108,513 subscribers, a position it has held since the end of 2013. YouTube Spotlight (a content discovery channel) is number two at 23,000,000 subscribers, followed closely by Chile’s HolaSoyGerman (21,000,000).

The American Smosh channel ranks 4<sup>th</sup> with 20,000,000 subscribers. Individual music channels, including VEVO's Rihanna, One Direction, Katy Perry, and Eminem channels rank 5, 6, 7, and 8 with about 15,000,000 subscribers each.<sup>61</sup>

Another survey published by the *Wall Street Journal* in 2014 compared the traffic of Twitch TV with other online applications. As a spin off of Justin.TV, Twitch is dedicated to live-streaming of video games with live commentary via video. It was described as a service that appeared “out of nowhere” and “so inexplicable that it left an entire room of middle-aged video streaming professionals shaking their heads.” It made YouTube “look like a dinosaur.”<sup>62</sup>

Compared with Netflix and YouTube, Twitch is still small. Nonetheless, in August 2014, it reported peak viewership that rivaled the average prime-time viewers of some cable networks, and in February of the same year,<sup>63</sup> it had the 4th in U.S. peak traffic in early 2014 (Figure 6), with more



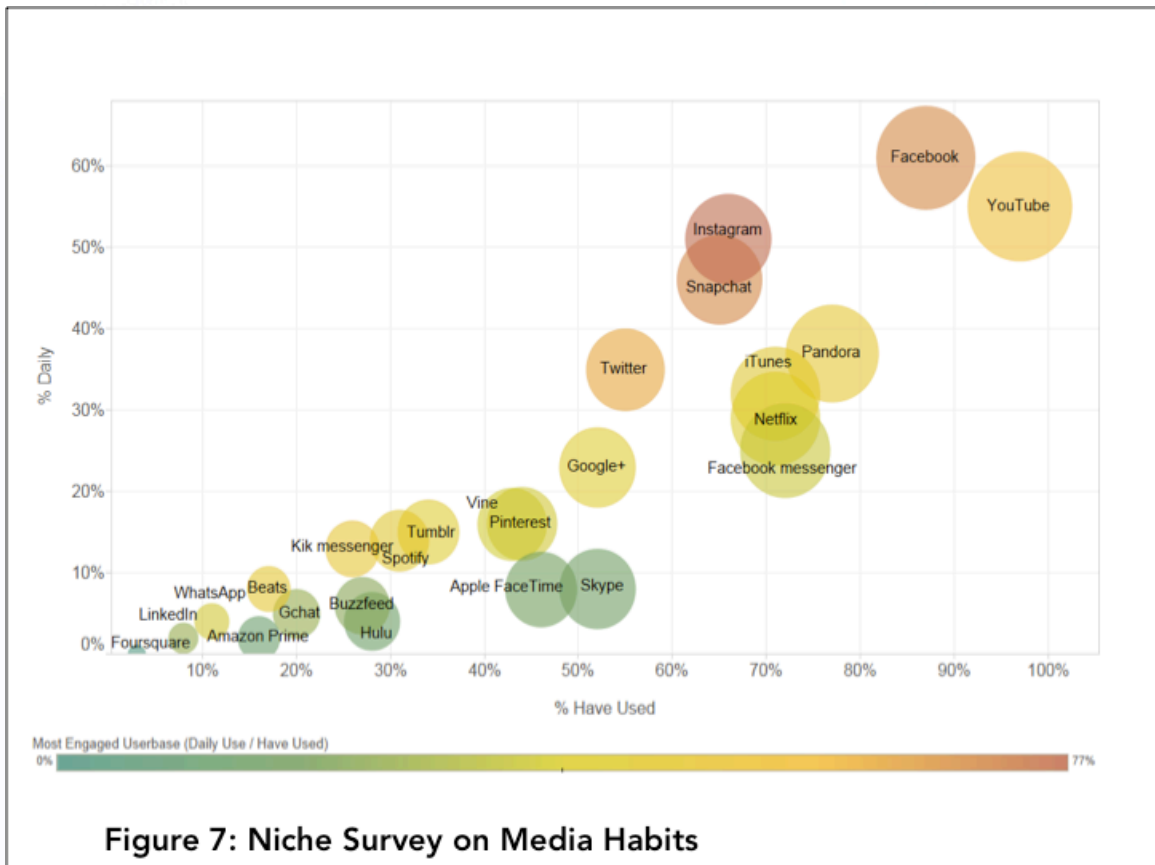
than 50 million monthly active users—from just 3.2 million in 2011.<sup>64</sup> In contrast to the short viewing sessions characteristic of YouTube, the top Twitch streamers “hold the attention of tens of thousands of people for hours.”<sup>65</sup>

Growth is driven largely by the streaming functions built into the PlayStation 4 and Xbox One, which allows users to stream live video of themselves playing their games.<sup>66</sup>

Amazon bought Twitch TV in August 2014 for \$970 Million, as part of an effort to expand into gaming. Google announced its gaming-focused streaming video platform, YouTube Gaming, about a year later, in June 2015, and intends to compete head-to-head with Twitch.<sup>67</sup> And according to *Wired* magazine, “Twitch has thrown the first punch, tying its ‘partners’ to exclusivity contracts with the existing platform,” although it remains unclear how the rules will be enforced and users, for the time being, remain confused as to what they are permitted to do with their live streams.<sup>68</sup>

It is interesting to note that in addition to Amazon's purchase of TwitchTV in 2014, both Netflix and Amazon have added a Video Shorts section in 2014. Amazon's selection of shorts includes music videos, movie and video game trailers, plus general info and how-to videos on tech, food, beauty and books. And Netflix is primarily clips. But neither of these feel particularly organic, especially when compared to YouTube's original short-form content. And according to one analyst (referring to Amazon), “in an astonishing omission for a short-video service, I could not find any way to share a video with others. I couldn't find a way to email a link, much less embed or share on Facebook or Twitter...” When Vessel's CEO was asked why he didn't just simply integrate the new YouTube competitor into Hulu, his response was that “All companies are defined by a mission, and Hulu's mission was focused on traditional format television and film...this was something very far afield.”<sup>69</sup>

A 2014 study by [Niche](#) looked at media habits more broadly, including social media like Facebook and Twitter as well as apps like Skype and Apple's FaceTime. The study was based on a survey of high school students and measured three dimensions of usage. YouTube had the most widespread usage (97%); Facebook had the most daily users (61%); and Instagram rated highest in terms of engagement (77%). Netflix by contrast was used by 72% with only 29% using it daily. Hulu and Amazon Prime were used by only 28% and 16% respectively, with daily usage at 4% and 2%.



**Figure 7: Niche Survey on Media Habits**

What's particularly interesting about the Niche study is the inclusion of all types of communication services, pointing to the fact that "These apps are all competing with each other for a share of attention—essentially, for the home screens of these kids' smartphones. *Video is not really a separate category.*"<sup>70</sup> Furthermore, as discussed above, many of these interpersonal communication platforms (including both social networks like Facebook as well as person-to-person services like Facetime and Skype) are evolving to become storytelling platforms, in terms of both their functionality/use and their business models. Facebook in particular has made video distribution a priority as of 2015 with the goal of attracting online advertising dollars.

### 4.3. Advertisers as customers

In ad-based media, advertisers are also customers, essentially buying the audiences associated with content. In this next section we explore their preferences for online video in terms of quality vs innovative content.

Online video advertising in general still represents a small fraction of the amount spent on traditional television despite the growth of online audiences. A 2015 study by SMI cites a total of \$1 billion—\$960 million from broadcasters and \$140 million from cable—moving from traditional TV to “digital media” between October 2014 and June 2015. This represents about 1.4% of the total \$70.6 billion in ad revenues in less than a year—a small amount compared to the 10-25% transfer of traditional TV budgets recommended by Omnicom, one of the world’s largest ad agencies, in October 2014.

Much of the ad-spend bottleneck has been attributed to opportunistic corporate inertia as old-school executives struggle to maintain the status quo or because they are simply overwhelmed and/or confused by the complexity and ambiguity of the online environment. For example, many ad execs simply rejected YouTube-like content—including professionally produced originals—because they were not recognized or considered as valid opportunities for “TV” dollars. As one advertising executive put it, “we think of [Netflix’s original production] *Orange is the New Black* as TV.” Whereas everything outside that format (referring to YouTube) is “an entirely different type of media.” And as reported by the *Wall Street Journal* in 2014, “Even when considering web outlets, many [TV buyers] prefer those showing traditional TV content.”<sup>71</sup>

But attitudes towards digital media in general, and innovative content in particular, are shifting. For one, the younger generation is aging, and thus working its way up the corporate advertising ladder. As described by *Tubefilter* back in 2011, “Individuals who were in their mid-20s in 2006 and watched episodes of *Tiki Bar TV* and *Ask a Ninja* when they could steal time away from making coffee and/or copies for their bosses are now in their late-20s and early-30s watching online videos and original web series when they’re not managing multi-million dollar accounts. They have a relationship with the medium, see its potential, and are beginning to incorporate it into advertising and branded entertainment campaigns.”<sup>72</sup> The same logic applies to the relatively more obscure services that have since emerged, like Twitch, Periscope, Snapchat, YouNow, etc.

At the same time, industry events like the “new fronts”—the digital counterpart to the television industry’s “up fronts”—have helped to change attitudes of those unfamiliar with or perplexed by what has been short-handed as “YouTube culture.” And as more data from established sources (i.e., Nielsen) becomes available, it has become easier for YouTube and others to pitch their product to advertisers at these events, citing Nielsen numbers that are “better than cable.” e.g., in November 2014, it reportedly reached 49% of all 18 to 34 year olds in the U.S., versus 45% for FX, 44% for TBS’ comedies, 41% for Comedy Central and 40% for AMC. As of spring 2015, more 18-49 year olds—the key demographic for advertisers—were watching YouTube on their mobile devices alone, than they are any single cable network on TV or online.<sup>73</sup>

But perhaps more importantly, the content found on YouTube and the other more innovative services has “performance attributes” (to use Christensen’s language) that have a special appeal to advertisers, in some cases more appealing than the massive “reach” typically associated with

traditional content. As the notion of “engagement” increasingly replaces “reach” as the most important ratings measure (although standard metrics for engagement have yet to be developed) the “shareability” of content through social networks—what Jenkins et al refer to as “spreadability”—along with the authentic quality of YouTube-style content, stemming primarily through the direct-address and unpolished aesthetic, is becoming extremely attractive to advertisers.<sup>74</sup>

At the fall 2014 Buffer festival, changes in the creator-audience relationship—defined primarily in terms of authenticity—was cited as the most significant factor in redefining media. Generally speaking, there is stronger identification with the content and characters. YouTube’s original content in particular has been described as “more relatable than TV” and thus “makes millennials feel better about who they are.”<sup>75</sup>

While creators are interested in this new dynamic for their own reasons, advertisers are exploring ways to tap its potential for promoting their brands. This means a marketing approach geared towards integrating messages more directly into the content itself as opposed to running commercials and banner ads alongside someone else’s content, which most users have come to loathe (and thus avoid). This approach is not new in an of itself (think soap operas, for example) but, given ad-skipping and blocking technologies and a plethora of ad-free video services, digital media has created an unprecedented need to pursue alternatives to traditional advertising, as well as unprecedented opportunities to reap the benefits of what one executive described as “more organic promotion.”

The short-form digital series in particular—typically a scripted Web series distributed on YouTube and surrounded by “satellite” narratives on social media platforms—has become the most prominent form of branded content online, but this is constantly evolving. Examples include *The Lizzie Bennet Diaries* and *Carmilla*. Kaaren Whitney-Vernon, CEO of youth marketing agency Shift2, which co-produced *Carmilla* explains, “as storytellers, rather than creating a traditional ad, we created content in the form of an ongoing scripted series based on the values of the brand we are promoting; the idea was to bake the brand value right into the story.”

Such digital content is far less expensive to produce than traditional television programs (and in many cases traditional television commercials) and, freed from traditional programming structures and conventions, it allows for infinite creative possibilities. Furthermore, as mentioned above, the more authentic nature of innovative content means a stronger identification with the content and characters and thus huge potential for brand attachment. eMarketer predicts advertisers will spend \$4.3 billion in branded entertainment across all media (print, television, Internet, and live events) in 2015, a 34% increase from 2014.

In effect, advertisers are increasingly playing the role of executive producers, which means a shift in how advertisers spend their money, and how content is financed. Rather than splitting their budgets between media (time and space) and production costs for ads, they are poised to become important financiers of the media itself, completely transforming the production model for both entertainment and advertising.

While this approach is being met with great ambivalence among the creative community (not to mention consumer protection advocates), it has been promoted as the only solution to the content

incentive problem, at least in the case of high-cost quality content. AdAge editor Scott Donovan promoted this vision in his 2005 book *Madison and Vine*. More recently, ad executive P.J. Pereira called for the integration of not just Madison Ave. and Hollywood, but Silicon Valley as well, drawing attention to the opportunities for advertisers offered by the new world of digital distribution. In Pereira's words, today's advertisers must "think like a marketer, behave like an entertainer, and move like a start up."<sup>76</sup> In fact, according to the *Wall Street Journal*, "many MCNs almost treated selling media space as secondary to selling marketers on producing video content that either prominently features their products or is produced entirely on behalf of a marketer."<sup>77</sup> (MCNs, or multichannel networks aggregate hundreds or thousands of YouTube channels, and increasingly those of other social media platforms.)

## 5. Summary and Conclusions

The increase in high-quality content available online (without a pay TV subscription) has challenged the incumbents' assumption that exclusive access to high-quality content is sustainable. However, as they evolve and gain validation from users, producers, distributors, and advertisers, the innovative content services described in this paper challenge even deeper assumptions regarding the primacy and strategic value of traditional premium content, whether inside or outside the MVPD pay wall. However, looking forward, the market for innovative content in particular (as well as online content as a whole) remains complex, ambiguous and in flux on many fronts.

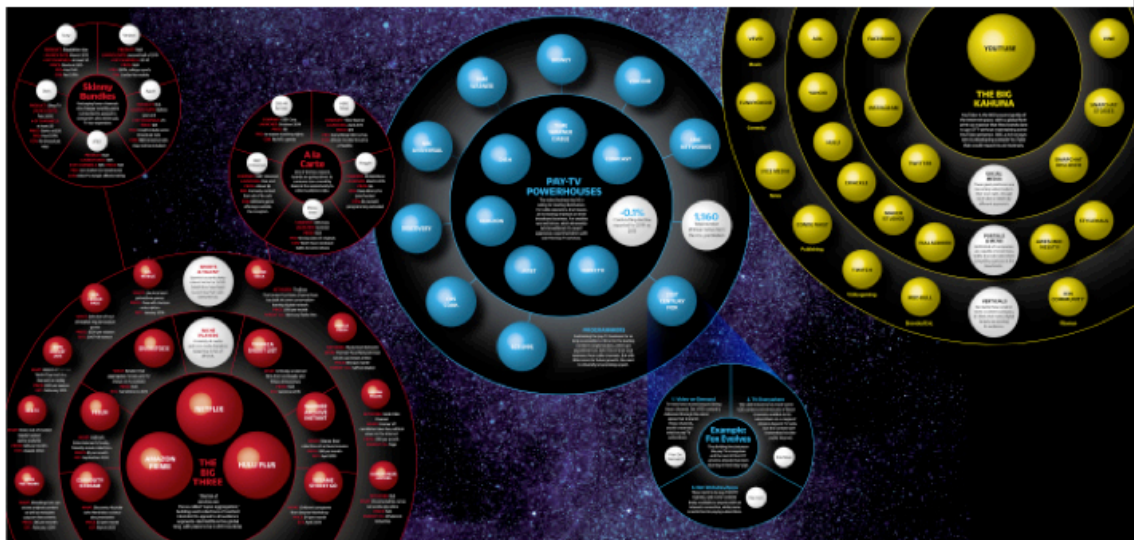
We have tried to give some shape and weight to this uncertain and fast-evolving space but, beyond concluding that a new breed of visual media is emerging—one that stands to redefine television as an industry, as a product and experience, and more deeply, as a social institution—it is still too early to tell how exactly this potential will unfold.

Generally speaking, today's opportunities for innovation as it pertains to content are far vaster than those associated with the transition from network television to multi-channel video distribution. In other words, what it means for content or stories to be "made for Internet" (i.e., made for YouTube, Vessel, SnapChat, Vine, Facebook, etc.) is much richer but also more complicated than "made for TV," including Netflix, Amazon, and Hulu, which are essentially TV delivered over the Internet.

And, more specifically, we have been able to point out that most of the innovative services are either content distribution platforms that are intrinsically social, e.g., YouTube, or they are social media platforms for interpersonal communications that have evolved into content creation, distribution, and consumption platforms. In these converged services, conversations effectively become content while content becomes the stuff of conversations.

The emerging video market is thus that much more challenging to define and understand for all the players in the ecosystem since it's not just about new forms of visual storytelling disrupting the traditional television industry; it's about the convergence of the technologies, business models and industries associated with all processes related to human interaction. When considering competitive dynamics, video services must therefore be viewed within a much larger landscape of apps that transcend traditional product and industry boundaries. A rather stunning [view of the new media ecosystem](#) was published in *Variety* magazine in April 2015, see Figure 8.<sup>78</sup>





**Figure 8: The Larger Landscape of Video Distribution Services**

Nonetheless, at this stage, a certain amount of confusion exists among all the stakeholders in the ecosystem—including the developers themselves—as to the definition or purpose of many of these services, and, most importantly, how they create and capture value.

Furthermore, while many stories of disruption are of a new product replacing a previous one (e.g., Tim Wu in *The Master Switch* uses the example of the word processor replacing the typewriter), media theory emphasizes the ways in which old and new media tend to co-exist and co-evolve; not as competing substitutes sharing the market side by side, but as complements.

In their 2000 book, *Remediation*, Bolter and Grusin emphasize that “the older medium cannot be entirely effaced,” and outline a range of interdependencies that influence the extent to which old and new media function as complements versus substitutes. Creating a taxonomy of today’s myriad services and understanding how these work together, or against each other as the case may be, is an area for further work. For now, we can say that complementary dynamics exist at both the product (i.e., content) and process level.

To elaborate, product complementarity here means that customers tend to watch both traditional TV shows *and* YouTube “originals,” for example with the distribution of viewership between the catalogs of traditional and innovative services varying from one demographic to another. As Neeraj Khemlani, co-president of Hearst pointed out in a recent interview, it’s not a zero-sum game.<sup>79</sup> (The analogy that people have cars and bikes has been used.) Nonetheless, in recognition that younger audiences are clearly demanding new forms of content, traditional media companies have been investing in

new capabilities by creating their own digital media divisions and/or investing in MCNs by way of strengthening their connections with young viewers and thus capturing more of the ad dollars that are starting to flow online in search of this coveted demographic.<sup>80</sup> One analyst used the phrase “promiscuous media” to describe the strategy to “put everything where it works best... If our audience is on Instagram, we’ll make 15-second videos for them on Instagram. If they’re on Upworthy or BuzzFeed or Vox or even Snapchat, we’ll try to find a way to reach them there, too.”

Another example of product complementarity concerns transmediated storytelling—the practice of telling a single story simultaneously across multiple platforms with each platform supporting a different dimension of the story. Note that transmedia strategies are not new in and of themselves, however, the platforms and opportunities for creating multi-platform content have exploded in the digital environment. As one MCN exec remarked, these platforms function “like solar systems.”<sup>81</sup> The details of their configuration, i.e., which platform sits at the center, and if there even is a center, vary. A typical model might be for a web series published on YouTube to function as the primary piece of content with ancillary storylines spinning off of various platforms like Instagram and Twitter, created by both the original creators and fans.

Complementary dynamics occur at the process as well. In other words, the various services provide complementary value chain functions. For example, it was recognized early on that social media like Twitter actually drove audiences to traditional television by providing the social interaction component that added value to programming.<sup>82</sup> Many transmedia projects are based on similar strategies, where one platform drives traffic to another.

Also, while innovative entrants like YouTube comprise services in their own right, they also provide (and thus bear the costs of) the content and audience development functions for incumbents by creating an operating environment that allows for greater risk and creative freedom, while leveraging the tendency for artists to work (at least initially) for little or nothing. Content is then “migrated” to and adapted for more traditional, and currently more lucrative distribution channels, along with the audiences that were cultivated online. Some of the writers we spoke to in early 2012 acknowledged the unprecedented opportunity for exposure through online channels, with the ultimate goal of getting picked up by a network.

It’s not always clear how or if all digital native content will translate to TV or film, but acknowledging that “television is a very different means of communication” than digital video is a first step. For example, Web series *Web Therapy* and *Broad City* were bought by Showtime and Comedy Central, while Netflix announced in August 2015 that it was licensing two feature films made by YouTube stars (*Smosh* and *Bad Night*). According to The Verge, the move is an attempt “to capture young people who’ve never thought of cable—or TV in general—as a primary source of entertainment.”<sup>83</sup>

The dynamic works in reverse too. For example, a major cable network, Comedy Central, financed the Web series *Kee and Peele*. In addition to financing, the network brand gave the show a certain amount of legitimacy and visibility, however, “it was really the internet that turned them into superstars,” and most of its viewership is online, viewing short clips of the show on YouTube. The confusion around chasing viewers in today’s world was perhaps best captured by the statement by one network executive in a 2015 *Business Week* article on the future of Viacom: “All the TV networks want to be digital, and all the digital guys out there, they want to be us.”<sup>84</sup>


Overall, we have shown that innovative content services thus represent a far greater and more diverse discontinuity than the previous transition from network to multichannel television. In fact, the universe of experiences provided by services like YouTube, Twitch TV, Vine, Instagram, Periscope, etc. is far closer in spirit to the highly varied pre-industrial experiments and visions of “television,” reigniting what William Uricchio describes as “the larger flexibility and responsiveness” that characterized the medium’s multifaceted origins before the forces of industry and government constrained it. In his 2008 essay “Television’s First Seventy-Five Years,” Uricchio describes television as a medium that, before its institutional consolidation around 1950, was “related to telephone, radio, and film technologies... drew upon journalistic, theatrical, and (documentary) filmmaking practices... was variously understood as domestic like radio, public like film, or person-to-person like the telephone; was live and recorded, high definition (more than two thousand lines) and low, large screen and small. Television, before its midcentury governmental and industrial takeover, took many forms and promised even more. Indeed, the medium’s undulations today...are not so much new as reminders of the medium’s long-term flexibility.”<sup>85</sup> The original visions of television and the shaping forces of industry and government are well documented in several additional texts including Raymond Williams’s classic 1974 publication, *Television* and Tim Wu’s 2010 book, *The Master Switch*, particularly the chapter “Now We Add Sight to Sound.”

Indeed, as Raymond Williams articulated in the 1970s, television is “a technologically synthetic response” to a set of specific societal needs.” Williams noted that the model of television that emerged at the time “emphasized elements of passivity, a cultural and psychological inadequacy, which had always been latent in people, but which television now organized and came to represent.” In the 21<sup>st</sup> century, societal needs have arguably shifted once again and are described by Henry Jenkins et al in terms of a “shift from distribution to circulation,” which “signals a movement toward a more participatory model of culture, one which sees the public not as simply consumers of preconstructed messages but as people who are shaping, sharing, reframing, and remixing media content in ways which might not have been previously imagined,” and, I would add, through services that are no longer clearly or simply understood as television in the traditional sense.

Ultimately, the future depends on the money flows. Viewership or usage is indeed shifting to include new types of content experiences, particularly among Millennials, but these services and their “quality” OVD counterparts must generate revenue if they are to survive. While this statement seems fairly obvious, the details regarding money flows parallel the complexity and ambiguity associated with the changes in value chain architecture; customer preferences (including both consumers and advertisers); and cost structures (including production, marketing, customer acquisition, as well as delivery or transmission) for the different types of video experiences discussed here. These issues will be addressed in a subsequent paper.

## 6. Acknowledgements

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input throughout the writing process; Bill Lehr for help in structuring the final paper; former graduate student Annie Hung for research support; and Marie Jose Montpetit for her input and past collaboration related to “social TV.”

## 7. Notes

<sup>1</sup> <http://blog.treepodia.com/2012/02/a-short-history-of-online-video-part-1-before-youtube/>

<sup>2</sup>

[http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCAQFjAA&url=http%3A%2F%2Fwww.fierceonlinevideo.com%2Fstory%2Fcables-threats-online-video-include-co-opting-audience%2F2013-06-](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCAQFjAA&url=http%3A%2F%2Fwww.fierceonlinevideo.com%2Fstory%2Fcables-threats-online-video-include-co-opting-audience%2F2013-06-12&ei=sotsVKOEBoOgyQSwz4DoCw&usq=AFQjCNHs7jRu_LzZs0sGgBY1sqzBSodOFw&sig2=dUQUc7CoUvmNKxViSNfUQQ&bvm=bv.80120444,d.aWw)

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<http://commlaw.cua.edu/res/docs/07-ammori-final.pdf>

<sup>3</sup> Susan Crawford has chronicled the details of the early content deals between channels like Starz and Netflix and the power struggles that ensued in her book, *Captive Audience*. Also a 2009 paper by Marvin Ammori, “Copyright’s Latest Communications Policy: Content-Lock-Out and Compulsory Licensing for Internet Television,” explores the content foreclosure strategy in greater depth.

<sup>4</sup> <http://www.freepress.net/sites/default/files/fp-legacy/TV-Nowhere.pdf>

<sup>5</sup> <https://gigaom.com/2014/07/19/aereos-in-a-catch-22-when-it-comes-to-cable-rules-are-rigged-against-internet-tv/>

<sup>6</sup> i.e., direct-to-digital, which has become the new version of direct-to-DVD and before that direct-to-VHS)

<sup>7</sup> <http://www.businessinsider.com/how-netflix-got-unbreakable-kimmy-schmidt-from-nbc-2015-3>

<sup>8</sup> <http://www.bloomberg.com/news/articles/2015-04-21/netflix-s-pursuit-of-tv-domination-has-a-new-step-ownership>

<sup>9</sup> <https://www.yahoo.com/tv/s/netflix-youtube-hulu-content-create-second-revolution-television-013129270.html?nf=1>

<sup>10</sup> <http://www.fool.com/investing/general/2015/02/16/why-amazoncom-inc-is-willing-to-spend-billions-on.aspx>

<sup>11</sup> <http://deadline.com/2014/01/netflix-execs-say-spending-could-rise-dramatically-for-original-shows-and-maybe-movies-669624/>

<sup>12</sup> <http://www.thestreet.com/story/12076664/1/netflix-doubles-down-on-original-content-accelerates-amortization.html>

<sup>13</sup> <http://techcrunch.com/2014/07/09/finally-a-way-to-find-movies-worth-watching-on-netflix/>

<sup>14</sup> <http://www.digitaltveurope.net/397911/netflix-us-market-share-to-drop-to-50-in-2018/>

<sup>15</sup> <http://www.forbes.com/sites/greatspeculations/2014/12/29/why-growing-content-costs-are-a-necessary-evil-for-netflix/>

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<sup>44</sup> “Improvisation in the political economy of music,” Alan Durant, 1989, in *Music and the politics of culture*. Norris, Christopher, ed. Lawrence & Wishart, pp. 252-282.

<sup>45</sup> <http://iq.videonuze.com/article/study-just-18-of-millennials-viewing-time-is-on-traditional-broadcast-and-cable-tv#sthash.Wc39iR2S.dpuf>

<sup>46</sup> *Spreadable Media* is concerned with the “social logics and cultural practices” that drive sharing, and explores “the technical resources that make it easier to circulate some kinds of content than others, the economic structures that support or restrict circulation, the attributes of a media text that might appeal to a community’s motivation for sharing material, and the social networks that link people through the exchange of meaningful bytes.”

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<sup>48</sup> <http://www.theverge.com/2015/6/16/8790787/what-is-snapchat-evan-spiegel-explains>

<sup>49</sup> [http://www.fastcompany.com/3049001/vines-quiet-stealthy-pivot?utm\\_source](http://www.fastcompany.com/3049001/vines-quiet-stealthy-pivot?utm_source)

<sup>50</sup> See “More Than Money Can Buy: Locating Value in Spreadable Media,” by Xiaochang Li, and “Tacky and Proud: Exploring Tecnobrega’s Value Network,” by Ana Domb Krauskopf

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<sup>52</sup> Larry Tanz interview by Daniel Pereira

<sup>53</sup> See interview with Neeraj Khemlani, Co-president of Hearst by analyst Will Richmond at the June 2015 Video Ad Summit in New York City. <http://www.videonuze.com/article/hearst-s-co-president-neeraj-khemlani-shares-insights-on-new-video-landscape-ad-summit-video->. Also see BizWeek article about Viacom, July 2015.

<sup>54</sup> <http://iq.videonuze.com/article/iab-viewers-interest-in-online-originals-now-exceeds-tv-news-sports-and-daytime-programming>

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<sup>64</sup> <http://www.ongamers.com/articles/wall-street-journal-chart-lists-twitch-tv-fourth-in-u-s-peak-traffic/1100-824/>

<sup>65</sup> <http://www.nytimes.com/interactive/2014/08/26/technology/charting-the-rise-of-twitch.html>

<sup>66</sup> <http://www.news.com.au/technology/online/live-gaming-site-twitchtv-dominates-streaming-traffic/story-fnjwmwrh-1226894129857>

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