

Cord Cutting Still Minor, MSOs Push Content Across Platforms to Combat OTT

Companies: AAPL, AMZN, CMCSA, CSTR, DIS, DISCA, DISH, DTV, GOOG, INTC, NFLX, NLSN, NWSA, RENT, SCOR, SNI, TWC, TWX, VIA, VZ

March 15, 2012

Research Question:

How are declining ratings in children’s TV viewership related to cord cutting and overall trends in OTT viewing?

Summary of Findings

- Cord-cutting levels remain insignificant. [MSOs](#) are offering content access on all platforms to encourage subscription renewals.
- Viewers are using alternative methods to consume content. Kids are leading the charge in accessing content away from the TV, a trend that is expected to continue as this audience matures. However, on-demand and mobile-device viewing is viewed as a supplement rather than a replacement to TV viewing.
- [Nickelodeon’s](#) (Viacom Inc./VIA) ratings drop was due to poor programming rather than viewers’ shift to [OTT](#). The children’s channel also suffers from poor management, an ineffective website, and a move away from educational programming.
- [Nielsen Holding NV’s](#) (NLSN) rating system measures only scheduled TV viewing and does not thoroughly capture data for viewing online, on-demand or DVR recordings. No single provider is yet capable of measuring all viewing options, but [Rentrak Corp.](#) (RENT) is an up-and-coming competitor.
- Streaming announcements from [Comcast Corp.](#) (CMCSA) and the Verizon Communications Inc.(VZ)/Redbox (Coinstar Inc./CSTR) [partnership](#) allow more access to content without disrupting TV viewing. The effects on [Netflix Inc.](#) (NFLX) are too early to gauge, but Netflix was criticized for its lack of quality streaming content.
- Since MSOs are repurposing content across all platforms, an opportunity exists for content creators, studios and cable operators to design content with separate viewing platforms in mind.

Silo Summaries

1) CABLE OPERATORS

These three sources said on-demand viewing is on the rise among children and adults alike, but added that on-demand content is being accessed through cable subscriptions rather than leading to cord cutting. Networks and cable companies also are responding to consumers’ OTT demands by making content available online and through mobile devices. One source is launching a subscription on-demand channel for kids this month in order to meet rising demand. Nickelodeon’s ratings drop was due to its poor-quality and age-inappropriate content.

2) STUDIO EXECUTIVES

These two sources said they are increasing their content availability in multiple platforms to retain viewers. Nickelodeon’s ratings drop was due to poor programming and management troubles rather than a viewer shift to OTT content.

3) CONTENT CREATORS

Viewers, especially children, are increasingly turning to multiple platforms to consume content. Two sources said they are seeing more requests for cross-platform content development, while two others said networks have been slow to embrace the change and lack an integrated approach. **There is an opportunity for networks to make money from viewers watching content on portable devices rather than simply giving away streaming content in an effort to drive viewers back to TV. But such monetization would take an unprecedented level of cooperation from telecom companies, cable operators and content creators.**

4) INDUSTRY SPECIALISTS

These five sources said cord-cutting levels are insignificant and that the move by viewers, especially children, to consume more media on mobile devices does not represent a decline in TV viewing. **Ratings data from Nielsen can be applied only to linear TV viewing and is unreliable for other platforms.** Nickelodeon’s ratings drop indicates a programming problem rather than a secular viewing shift toward OTT.

5) PARENTS

Five of these eight sources receive their content from streaming on Netflix and through on-demand, though sources differ on whether this resulted in cutting the cable cord. Netflix provides good content for children and offers parental controls, but lacks in movie content for the parents. Three sources said Nickelodeon’s content is inappropriate for children.

| | Cord Cutting | Viewership on Other/Mobile Platforms | MSOs Distributing Content on All Platforms |
|----------------------|--------------|--------------------------------------|--|
| Cable Operators | ↓ | ↑ | ↑ |
| Studio Executives | ↓ | ↑ | ↑ |
| Content Creators | → | ↑ | → |
| Industry Specialists | ↓ | ↑ | ↑ |
| Parents | → | ↑ | ↑ |

Background

Viacom's Nickelodeon is among a group of children's cable networks, including The Walt Disney Co.'s (DIS) [Disney XD](#) and Time Warner Inc.'s (TWX) [Cartoon Network](#), that currently are experiencing ratings concerns. Some networks have blamed a viewing shift among children, including teenagers, to over-the-top (OTT) content via Netflix and other content providers. Viacom had a [noticeable ratings selloff](#) starting in August after increasing the amount of Nickelodeon content on Netflix in May 2011.

Blueshift's Dec. 15, 2011, [OTT report](#) found that cable companies require an OTT solution in order to address viewers' demands and that customers will remain MSO subscribers. Our [July 2011](#) and [October 2011](#) reports found Comcast to be best positioned to benefit from OTT growth.

CURRENT RESEARCH

Blueshift assessed the developments associated with the declining ratings in children's TV viewership to learn what effect this was having on cable cord cutting and the overall trends in OTT. We employed our pattern mining approach to establish and interview sources in six independent silos:

- 1) Cable operators (3)
- 2) Studio executives (2)
- 3) Content creators (4)
- 4) Industry specialists (5)
- 5) Parents (8)
- 6) Secondary sources (11)

We interviewed 22 primary sources, including five repeat sources, and included 11 of the most relevant secondary sources focused on recent developments with Netflix, Rentrak, Apple Inc.'s (AAPL) [Apple TV](#), [UltraViolet](#), [Intel Corp.](#) (INTC) and Nickelodeon.

Silos

1) CABLE OPERATORS

These three sources said on-demand viewing is on the rise among children and adults alike, but added that on-demand content is being accessed through cable subscriptions rather than leading to cord cutting. Networks and cable companies also are responding to consumers' OTT demands by making content available online and through mobile devices. One source is launching a subscription on-demand channel for kids this month in order to meet rising demand for children's content. Another said the top one-third of pay-per-view movies are for family-oriented content. Nickelodeon's ratings drop was due to its poor-quality and age-inappropriate content.

➤ President of a regional cable TV provider in the Midwest; repeat source

Cable operators are responding to consumers' desire for OTT options—particularly for children's content—by offering more streaming and on-demand content. Longer term, cable operators are working to combine TV and Internet capabilities in a single piece of hardware. Cord cutting is not taking a large toll on subscriptions. As programmers continue to raise their rates, cable operators are becoming less concerned with losing TV subscribers since the margins on internet and phone service are better than those for TV.

- "Content providers and cable operators are both faced with the same challenge: finding a way to make subscription and [live programming] valuable. What makes it valuable? [Subscription video on demand](#) [SVOD]. [TV Everywhere](#) makes it a little more valuable."
- "We now have the Turner [[Time Warner](#)] networks available with TV Everywhere. You must be an authenticated [pay-TV] subscriber. [CNN](#), [Headline News](#), [News Corp.'s/NWSA] [Fox News](#), [Fox Business](#) have live streams. [TNT](#), [TBS](#) and [Cartoon Network](#) offer library content."
- "Where I hope we're headed, instead of the separate silos of Internet, TV and phone, is moving toward a combined home gateway. We're looking at hardware that is a true whole-home DVR—six tuners in a box in the

basement, and that same box is not only the 1-terabyte multituner DVR but also a wireless router, a cable modem and a gateway for your computer system.”

- “When you’re one of our customers, you have plenty of bandwidth with no extra costs, you can watch linear TV, mess around on your computer, watch over-the-top, just browse the Web or check your email on your television.”
- “What value can we bring to [OTT viewing]? Aggregate the content and make it an easier experience for viewers.”
- “It’s still pretty hard to cut the cord. The huge majority of television is still consumed live. Where do I find the Super Bowl? Where do I find my [CBS \[Corp./CBS\]](#) programs live? I’m not willing to work that hard to watch television.”
- “There are other issues [with OTT viewing]. One is whether you have the bandwidth [to stream smoothly]. Another is, are you going to be content with the big game on a small screen? What’s your data plan? Is March Madness going to bring about April bankruptcy? If you watch 15 full-length basketball games on your iPad, you might have a really big cell phone bill.”
- “The programmers are raising rates so fast that we can’t keep pace. They want 6% or 8% or 10% increases every year. We can’t keep up with the product of linear television and the huge packages that are forced upon us. [Disney Junior](#) is just the latest example. You have [Discovery \[Communications Inc./DISCA\]](#) or [Disney’s] [ABC](#) saying you have to take it all, all the channels have to be on basic and it’s all going up 8% or 10% a year.”
- “Our margins are shrinking so fast on television that a lot of cable operators are saying they don’t care if it becomes too expensive. A lot of people start getting their television over the air or over the Internet. We don’t care because we’re not making any money anyway. Internet and phone are far better in terms of margins, and they’re just not under the same pressure.”
- “If the programmers really want to get into the business of selling [their content directly to consumers], collecting for it, disconnecting for nonpayment, taking all the calls and complaints, go ahead.”
- “Once programmers try to go direct, then consumers are going to expect a la carte. None of the program suppliers want a la carte. If a content provider like Viacom ever sold their content individually, they could expect to lose more than 20% of their gross receipts.”
- “That’s where Apple is having problems with the program suppliers. Apple wants to sell [individual TV shows] like they sell music at 99¢ a title, and those guys are saying, ‘No, you have to take it all.’”
- “What does Apple want to do with Apple TV? They want to embarrass all the other hardware providers, they want to take all the content for nothing, and they want to put all the cable companies out of business.”
- “There may be an interesting test case coming up soon with the launch of Disney Junior. It’s aimed right at the kids’ [demographic], 2- to 7-year-olds. That’s already a very crowded space with [Qubo](#) [a joint venture between ION Media Networks Inc., Comcast’s NBC, Corus Entertainment Inc.’s Nelvana/TSE:CJR.B, Scholastic Corp./SCHL and Class Media LLC], [Public Broadcasting Service’s] [Sprout](#), [Viacom’s] [Nick Jr.](#), [The Hub](#) [owned by Discovery and Hasbro Inc./HAS]. There are five or six of these kids’ networks, and [Disney is trying to launch another](#). There’s some resistance among cable operators because they want it to be a basic channel. We’re all saying it’s a niche channel. There are 10 million homes with kids in that age range and they’re split among five or six networks, but Disney wants it to be basic? It just doesn’t make sense.”
- “Sprout has long been the most watched VOD stream. I don’t know how many kids are watching Sprout linear, but they gobble it up as VOD. I know within our VOD space, Sprout is watched a lot, more so than the [Food Network](#) [70% of which is owned by Scripps Network Interactive Inc./SNI and 30% by Tribune Co.] or the older-demographic stuff.”
- “Perhaps that’s what needs to happen with some of these other kids’ networks. They have to adapt by making their stuff available in a

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*President, Regional Cable TV Provider
Midwest*

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nonlinear fashion, so that if you want to watch *Ren & Stimpy* for 12 hours a day, you can. That's part of where they need to head if they want to maintain their value in light of declining ratings. They're going to have to find a way to keep those viewers."

➤ **VP of online content development and strategy for a pay TV service; repeat source**

This source's company is launching a kids-oriented SVOD service this month because of strong consumer demand for family programming. He does not believe online or OTT content will threaten pay TV providers because the providers and networks are able to compete by going online themselves to reach consumers. At present, no single provider is able to measure viewership in the linear and online space. Nielsen is best suited to provide linear ratings while [ComScore Inc.](#) (SCOR) works well in ranking online viewing. Cord cutting is not a significant trend, and the source's company has experienced growth in subscribership and in VOD quarter to quarter.

- "We're making kids' programming available across platforms in every way that we can."
- "We've announced a family and kids' SVOD offering, which is launching this month. We believe the possibility exists. There's a good offering available on the set-top box and cross-platform, or through our mobile app."
- "Even before the kids' and family offering, we had a robust, authenticated online offering, with many pieces of content and with mobile apps as an extension of that."
- "I can't imagine why multiple screens would be any threat to [networks]. If anything, they provide more places to license their content."
- "Consumers will cut the cord depending on what they want. Will the consumer get everything they get from cable, without the cable subscription? Definitely not. But some people may be able to get enough. That depends on what the person wants to watch and how much hassle he's willing to go through."
- "Some cable cutters are going to [Hulu \[LLC\]](#), [Amazon.com Inc./AMZN](#) or Netflix to get the content. But I don't know of any studies that correlate the two. Nor have I seen anything that indicates people are cutting the cord. We showed an increase in subscriptions."
- "Nielsen presumably is fine for what they do, which is report on the linear TV networks coupled with a few days of DVR recording. ComScore doesn't play in that space at all, but for on-demand content on the Web? ComScore is quite good, and Nielsen doesn't do anything there."
- "But those are two different silos. Where it gets to be problematic is when silos try to cross, and ad measurement does not. A network selling ads in the linear space uses Nielsen currency, but if they put that content online they have to go with ComScore. If you want the same measurement in both places from one provider, that is just not something that's working well right now."
- "I can only say that VOD is growing. We don't typically report that information."

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*VP of Online Content Development
Pay TV Service*

➤ **30-year veteran of a Midwestern cable provider, responsible for programming and contracts with providers**

Children's programming is in low demand; the programmers generally agree that viewership declines as soon as a child has access to computers or phones. However, this source is adding Sprout to her company's programming. Also, premium VOD programming tends toward family content, with family-oriented movies comprising the top third of requests. Nickelodeon is losing viewership in households with greater parental monitoring because its programming has become less age-appropriate. Children are going online to view additional content. Cable will be protected by large bundles and contracts.

- "I take the channel requests for the company and compile them for the year. I did that just last week and there was not one children's channel requested."
- "The most requests we get are for sports channels. On this last roundabout, the No. 1 request was for Major League Baseball. ... Obviously, no one is speaking for children's programming."
- "We've fielded requests for some family-oriented programming, like [Weigel Broadcasting Co.'s] [Me-TV](#) and [National Geographic Wild](#)."
- "I'm on the programming committee for a consortium of programmers and cable companies, and we talked about Sprout as something we'll all add soon."

- “Some of the mothers I know will allow Disney and PBS but not Nickelodeon, which has become nasty, so the parents might have something to do with what’s happened with Nickelodeon’s ratings drop.”
- “Viewership of kids’ TV is not what it used to be. On the programming committee of the [consortium] we generally believe that once kids are old enough for a cell phone, which is not very old now, they’ll be texting, or you’ll lose them to [Google Inc.’s/GOOG] [YouTube](#) on the computer. Or they watch movies repeatedly.”
- “I don’t foresee cable going the way of the music industry for some time, not the way cable is bundled. It’s a nightmare as far as contracts. And the bundles get larger; studios say if you want Channel X you have to take Channel Y. They are always trying to mandate that when a new contract comes up in three to six years, you’ll add a channel to your basic package.”
- “It’s hard to add the low-bid, low-dollar channels like PBS Sprout or religious programming because we’re stuck with the ones from the super icons of programming [studios].”
- “I see children going online, on Disney.com for example, playing games or watching *Sesame Street* videos. The shows are sending them to the online content that relates to the cable channels.”
- “It’s early for us in VOD, but the top third of PPV requests so far are family movies.”

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*Cable Provider
Midwest*

2) STUDIO EXECUTIVES

These two sources said they are increasing their content availability in multiple platforms to retain viewers. One has not seen a drop in TV viewership as a result, saying the other platforms are complementary. The second source believes TV viewership is on the decline overall because kids are more focused on viewing via a mobile device and sharing content through social media. Nickelodeon’s ratings drop was due to poor programming and management troubles rather than a viewer shift to OTT content.

➤ Children’s programming executive producer and director of research for a public broadcasting affiliate

This PBS affiliate has not suffered a drop in viewership or support and now is offering content through its website, through iPad and iPhone apps, and through Netflix and YouTube. The increased content availability complements rather than cannibalizes viewership. Although public programming is tracked less granularly and in real time, the source said analytics from Nielsen and ComScore generally are accurate. [Google Analytics](#) is sufficient to track broadband streaming. The company would not speculate on Nickelodeon’s sudden ratings drop but said most children’s content providers are holding steady in viewership and streaming. Nickelodeon, however, has backed away from becoming a premium destination for educational content.

- “In broadcast television, we’re not tracking any decline in TV viewing in the preschool, 2- to 11-[year-old] group. We’re pleased to see that’s the case.”
- “Our programming among kids up to 11 has become very popular, with a lot of broadband pickups.”
- “When we do have the broadband player online, we have had over 100 million videos streamed per month. We see a huge consumption of online video content.”
- “Right now, the consumption is streaming through computers. The application is available through TV but is mostly streamed through a computer. Our iPad app, which has been available for nine months, and an iPhone app available for three, represent maybe 10% to 20% of our streaming consumption compared to broadband.”

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*Children’s Programming Executive
Producer
Public Broadcasting Affiliate*

- “The goal is to get content in front of as many people as possible in as many ways as possible. We want to see that multiplatform availability.”
- “We do have some material on Netflix, some on [Amazon Prime](#), Amazon Video. And there is a YouTube channel, which is less about full shows and more about clips and promos. Some of the titles have their own YouTube vertical channels. One of the programs for 8- to 12-year-olds has a dedicated YouTube channel.”
- “There aren’t any networks that appear to be behind the times. When I look at the online numbers, they’re all pretty relative. Everyone seems to be getting an audience.”
- “We were concerned when Nickelodeon had [Noggin](#) as their preschool destination brand for educational content, wondering how big it could grow. Instead, they’ve just taken on the Nick Jr. brand and are still doing fine, but have surrendered the idea of becoming a premium educational destination they’d hoped to build.”
- “The broadband player is tied with Google Analytics and ComScore. It’s harder to gauge iPad consumption accurately.”
- “We don’t have enough data on the iPad consumption to know if it’s complementary or cannibalizing; it looked like it was cutting into the PC stream during the summer, but kids were on vacation. We’ll need a year before we know if the iPad’s share of the pie versus PC is growing.”
- “We’re satisfied with Nielsen and ComScore data. But our programs don’t get put in the same categories as preschool and kids’ television, which is frustrating for us; we know *Curious George* kicks butt in terms of ratings, but it is counted slightly differently. It doesn’t show up in the same data pool, and reports four weeks later.”

► Children’s cable/VOD network president

Offering content across all platforms has become increasingly important to retaining viewers, especially children, who frequently are multitasking. Wise networks like Disney offer interactive content and bring their legacy and new advertisers to the online and mobile platforms. Other networks tend to lose focus in their attempts to retain viewership. OTT viewing is both complementary and cannibalizing to cable viewing among young viewers. This audience tends to use screens concurrently, with TV still one of those screens among the youngest viewers (ages 2 to 11). Consumers ages 12 to 16 are more likely to forgo television completely, instead opting for games and social media. Nickelodeon’s ratings drop was related to management and programming choices.

- “All studios are weighing in on developing proprietary or co-developing with third parties within their branded inventory. It’s a cyclical business, but [Disney Interactive](#) is making good strides in mobile apps and migrating content to channels, or vice versa.”
- “New content should reign supreme. But new content to one medium or platform/application is not necessarily ‘new’ but rather repurposed. If anything, on a pure volume basis, it’s harder to bring newer propositions to market. But the structural aspects to incubate, nest, test, develop, market, launch online or on YouTube and then reveal is better than the old days of just making either hits or misses.”
- “The ad dollars at the big networks will cobble together solutions to monetize their offerings, be that through perceived value or value-added propositions embedded within the media buy. If TV shrinks, we’ve got mobile, Web, merchandising and licensing opportunities that will shore up any of our media platforms.”
- “Legacy advertisers are moving to other platforms but not nearly as soon as they should have. The biggest worry in all of this is that the media buyers are really young and remarkably biased in some cases, and don’t necessarily have the big picture in mind. It is less worrisome in the kids’/youth space than in other demographics as to how media buyers and planners make their charts up. In order to put some concepts over the top for advertisers, the right people are not being petitioned or accessed by either party—the advertiser or the network programmers.”
- “Apple TV is a game changer and a partial threat. Cable will be around, but their successes will be supported by their owned/operated networks and their content therein.”
- “About 40% of kids 2 to 4 years old and more than 50% of kids 5 to 8 years old are using smartphones, video iPods, iPads or other similar devices.”
- “Youths ages 12 to 16 have a more mature appetite for live-action drama and TV sitcoms and migration to social media platforms.”

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*Children’s Cable/ VOD Network
President*

- “Today’s world of 24/7 continuity demands constant movement in the pool, where advertising is more like making a meal out of plankton. It’s a world of hors d’oeuvres and not entrees now.”
- “Nickelodeon’s ratings drop might be a simple straight-on reality of too much infrastructural churn and turnover of personnel. The causes are inclusive of infrastructural idiosyncrasies, programming selections, commissions and promotional executions.”
- “Notice that major networks are changing the lineups, constantly creating a ‘fog factor,’ along with young network programming hires that might have ‘opinions’ rather than the ‘security of knowledge’ as it relates to their primary and secondary constituents and consumers. This has led to an erosion of ratings, of brand relevance, of the key brand’s halo and a clear picture of what the network represents.”
- “Look at [Cartoon Network](#), which tacitly implies animation, going heavily into live action of late. Sticking to the core competencies is essential in the fickle universe of programming.”

3) CONTENT CREATORS

Viewers, especially children, are increasingly turning to multiple platforms to consume content, leading sources to be mixed on whether cable subscriptions are declining. Networks are aware of the need to adapt, though our four sources were split on how quickly that development is taking place. Two sources said they are seeing more requests for cross-platform content development, while two others said networks have been slow to embrace the change and lack an integrated approach. There is an opportunity for networks to make money from viewers watching content on portable devices rather than simply giving away streaming content in an effort to drive viewers back to TV. But such monetization would take an unprecedented level of cooperation from telecom companies, cable operators and content creators. One source said Comcast’s and Verizon’s streaming services are possible threats to Netflix, in part because of Netflix’s lack of quality content in its streaming service.

➤ Animation producer and consultant to TV show creators, including prior work for Nickelodeon

OTT content is more of a supplement to rather than a replacement for TV viewing among children because online content differs from traditional cable content. However, networks are aware of the need for an online presence and are asking content creators to develop more OTT material. This source expects OTT content to gradually draw young viewers away from TV networks, especially as wireless technology improves and new content is developed. Comcast’s and Verizon’s streaming services pose a threat to Netflix, in part because of Netflix’s shortfall of current film or TV content.

- “Incrementally, [OTT] will keep chipping away at TV watching, especially as wireless systems get better and you can be anywhere in the house for it.”
- “One thing [OTT] is doing to content creators is making us work longer and harder for no extra money. When we’re working with the networks, they want more content that they can stream on the Web to keep those eyeballs entertained in between weekly viewing.”
- “[Discovery’s] [MythBusters](#) is one of the best at this. At the end of the show, they’ll say, ‘We had to do a lot more testing than what we could put on the show. If you want to see the other things we tried, go to [Discovery.com](#).’ The networks don’t pay us more for that content, but it still takes time. We know we have to do things for OTT, but there’s no budget for it.”
- “Everyone sees the need [for OTT content] and everyone sees that it’s eventually going to make money, but right now it’s trading pennies for dollars. They’re making money on TV, but no one’s really figured out how to make money [with streaming content].”
- “Some networks look at it differently than others. Discovery is very proactive with it on their own website. Viacom pushes against the use of YouTube and has filed all these [lawsuits](#).”
- “[A shift to Netflix from TV] will happen if the available TV content is more recent. The big thing with Netflix is that there’s not much TV on there; it’s mostly film. And for streaming, there’s very little recent [content] available for streaming on Netflix.”

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Animation Producer & TV Show Consultant

- “Amazon Prime is going to steal a lot of thunder. It’s cheap, and everyone is comfortable working with Amazon. Their system is more difficult to work through than Netflix, but I think they’ll improve that.”
- “[Roku \[Inc.\]](#) seems to be gaining ground with the older set, not so much with kids.”
- “YouTube investing \$100 million into new channels and new content is huge, especially because of who they’re working with.”
- “Comcast’s and Verizon’s streaming plans are real competition for Netflix. But Comcast only has a specific footprint, whereas Netflix can be accessed by anyone. They’re only going to be able to do so much.”
- “When [Nickelodeon’s ratings dropped], that caught our attention. It was kind of shocking, the drop in the numbers. The only thing I can think of is that certain video games came out this fall that happened to hit their demographic, that kids instantly spent all their time trying to figure them out.”
- “Cartoon Network has some really great online games related to their shows. Nickelodeon used to have a bunch of content, but now it’s pretty hard to find show information on their website.”
- “[My sons] don’t spend much time on Netflix ... and they don’t use Amazon at all. They didn’t even know about Hulu, and we have all these options [at home]. YouTube is huge with them, where they’ll get together and watch. But that doesn’t take away from TV watching.”
- “The problem with YouTube is there are only certain [channels] they want to keep going back to. Most of that programming is junk. Whereas they turn on Discovery or Nickelodeon, they know they’re going to see a show they like. If they just want to chill, they’re still going back to the TV.”
- “The one thing that is taking away from TV watching is the big, story-based video games, like [ZeniMax Media Inc.’s] [Skyrim](#). That’s taking away TV time.”

➤ Consumer products VP for a leading animation studio and worldwide media distributor

Kids, especially young teens, are moving toward alternative methods of accessing TV, but original content from traditional networks still is king. Kids’ TV networks have yet to offer a truly integrated approach that drives viewers back to their programming. Content owners ultimately will win in the transition to OTT viewing. Cable operators need to improve on leveraging their content catalogs into VOD viewing.

- “Content is being consumed across multiple devices through various services. This trend is very apparent in the 12 to 16 age range but is also gaining traction with the 2 to 11 age set through their parents’ devices. But I would argue that this group [ages 2 to 11] is still primarily consuming series-based entertainment via linear TV.”
- “Although the time dedicated to TV by children seems to be diminishing, based on recent ratings data, I do not believe that OTT viewing will cut too deep into cable viewing. Original programming is still the key driver of viewership.”
- “It will be interesting to watch as the OTT providers get more active in content creation and if this trend will impact the kids’ space. If you look at companies that are both platform and device driven, there seems to be an opportunity to develop IP [intellectual property] that would take advantage of both the platform—gaming and entertainment—and the device.”
- “The trend [toward nontraditional TV viewing] will continue, and the market will continue to get more fragmented. We are making adjustments in how we produce shows to accommodate this trend through the creation of short-form content.”
- “It is hard to evaluate the impact [on TV ratings]. In some instances, audiences are definitely being drawn away [from traditional TV networks], but on the other hand, short-form content on handheld devices can also drive viewership back to a TV show. Broadcasters are battling not only against delivery platforms for content but also against other forms of content—casual games, virtual worlds, console gaming.”
- “Although I have seen a trend by the networks to get more involved in using social media outlets to build their audience, I have not yet seen a concentrated effort to integrate across multiplatforms for a series—for example, true integration across multiple touch points where the experience drives its audience in a circular motion back to the televised series.”
- “Content producers and owners are the big winners here. Opportunities to generate revenue continue to expand as new outlets are created. Simply put, more outlets equals more content needs. As a content owner and

The trend [toward nontraditional TV viewing] will continue, and the market will continue to get more fragmented. We are making adjustments in how we produce shows to accommodate this trend through the creation of short-form content.

*Consumer Products VP
Leading Animation Studio*

independent studio, we have more outlets to sell our content. As a producer, we have more projects to work on, for both traditional formats and short-form content for our clients.”

- “Platforms for short-form content are becoming a cost-effective way to test an idea without going in to a full-blown production, therefore, allowing IP holders an opportunity to test the water on a concept.”
- “We are developing both traditional, long-form animated episodes as well as producing short-form content which we use for online—YouTube, Facebook, etc.—as well as on our free VOD channel for kids.”
- “TV advertisers are migrating to other platforms—as seen in the ad revenue shifts and declines for broadcast TV—and viewers have adapted to viewing ads in front of video content on sites such as Hulu, YouTube, etc.”
- “The [cable and satellite TV providers] have an opportunity to take a bigger piece of the business if there was a greater focus on VOD. The current business is focused on new releases, but companies like Comcast have access to a massive catalog of content that is extremely valuable if made accessible via VOD and/or OTT outlets.”

➤ **Owner/president of a developer and distributor of children’s and family entertainment programming**

TV networks will need to adapt to demands, especially from younger viewers, for all content on any device. Among kids’ networks, Nickelodeon and the Cartoon Network may be more agile and able to evolve than a network like Disney. Success will come from finding a way to monetize viewing on portable devices, which will require an unprecedented level of cooperation among telecommunications and cable companies as well as content owners. Google may be well positioned to take advantage of the explosion of streaming media if it can figure out an interface that makes finding and watching online content hassle-free.

- “To us adults, [streaming media] is a change. To kids in that age group, it’s not a change. They have never had anything different. Particularly those who are 12 to 16 years old, they have always had portable and digital devices.”
- “Right now [the OTT industry] is in something like the difficult teenage years, where it works but is a wee bit clunky. The way that we access it is going to end up being smoother, more fluid, more intuitive. The interface between content and consumer is going to become easier and quicker.”
- “TV networks are not going to go away. They’re going to evolve. Part of the evolution is going to be to adapt to the idea that TV is not just a living room experience.”
- “For kids, there is still a need for television. All of the licensing campaigns need that exposure. The kids have to see it for them to want to buy the backpacks, slippers and everything else.”
- “I don’t see any particular network better able to adapt. Each one has their own particular challenges. But the ones that are wildly vertically integrated are going to be slower to adapt because they have to make so many changes in the way they do things.”
- “Cartoon Network and Nickelodeon are getting beat in the ratings at the moment, but they have the ability to change their business model pretty quickly. Disney doesn’t. They’re trying to integrate consumer products and trying to integrate several different networks. They have a bigger game plan that is harder to change on the fly.”
- “Each [viewing platform] is going to have to be its own revenue source.”
- “Whether it’s the telephone companies, the cable companies, the studios, somehow they are going to have to work out a revenue sharing system. They have to realize that if [the telecoms] are going to block [the content owners] from putting their stuff on a cell phone, or create a revenue model that makes it impossible for [content creators] to use their cell phone access, they’re defeating themselves.”

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*Consumer Products VP
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“[As content creators], we have to make sure that we have shows that work across all of these platforms. It needs to be a very clever way of cross-platform integration. It has to be seamless. ... It makes us all work a little harder upfront. But now that we know about these challenges, we’re thinking about them right from the start.

*Owner/President, Family
Entertainment Programming Distributor*

- “The winners are going to be those companies that are completely agnostic about the content. Google is probably well suited since they started out their existence being agnostic. They provided you with the ability to search. They just made it available. They want to make things easier for us to find.”
- “Google has a lot of technical horsepower that can make my experience easier. ... If I rely on just one provider, such as the cable company, they’re in a silo. They have their own desires and profit model and I have to get out of that to do something else [such as access online content]. That’s a hassle.”
- “[As content creators], we have to make sure that we have shows that work across all of these platforms. It needs to be a very clever way of cross-platform integration. It has to be seamless.”
- “It makes us all work a little harder upfront. But now that we know about these challenges, we’re thinking about them right from the start.”
- “Cord cutting will be difficult until we get to the technical world where the wireless environment gives us data transmission rates that we all want.”
- “Lots of parents are really getting into VOD, which has replaced the DVD business in allowing kids to watch things over and over again.”

➤ Independent TV producer whose credits include several popular kids’ shows

Cord cutting already is a viable option for many people, partly driven by Netflix and the comfort level developed through its original DVD-by-mail service. Tablets, touch screens and OTT viewing options are changing expectations for TV and media. Kids are accustomed to interacting with programming. Such trends are a real threat to traditional TV networks, which will have to adapt and create a real-time interactive model. This source is working on projects that include more Web delivery and interaction, and believes networks that embrace this model will be more competitive.

- “I already have many colleagues and friends who have cut the cord and moved to Internet-only media sources. On Facebook a few months ago, I asked my connections if anyone was using a Roku player or other similar device, mainly out of curiosity. I was shocked at the number of people who responded.”
- “I know many people who joined Netflix [DVD-by-mail] and then easily moved to Netflix streaming. ... Once you’re used to Internet streaming video, it’s easy to switch, shop around.”
- “Cutting the cord is viewed as a viable and mainstream option. We’re there—not just early adopters—and I think that kind of behavior propagates fairly quickly via friends and family.”
- “The technology our children are being raised with is fundamentally changing their expectations for our media. They are growing to expect that they can reach out and interact with it, to choose what they watch, when they want to watch it.”
- “How these trends impact TV ratings will be determined, I believe, by the extent to which networks shift from serving media to children to engaging them as not only brilliant, creative media consumers but fellow producers.”
- “I have projects in development that are based on a lower budget, small, lean-and-mean team with Web delivery. Our goal is to have our characters be able to challenge kids to do something today and have their comments, photos and shared videos be featured within the week.”
- “Technology, including the culture shifts driven by mobile devices and social media, will necessitate short production times and more interactive models with Web delivery. Television and Web are fusing, so it doesn’t mean the end of TV, just the end of TV as we know it.”
- “The winners, I believe, will be those able to harness the power of interactive communications and their networks’ resources to create experiences that beautifully and seamlessly integrate the highest quality media with nearly real-time *and* real-time interaction. Who gets

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Independent TV Producer

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Independent TV Producer

it? Which will be the first network or program to deploy a host that is able to comment on viewer comments live?”

- “Right now I’m not being asked [by networks] to do anything extra for most of the projects I’m on, but I see that as the networks adapting slowly.”
- “From my experience with Hulu and news websites, I attend more to a 15-second commercial placed between me and my content than most ads on cable. What’s going to drive a shift [to OTT advertising] is when advertisers [give viewers a choice] to watch this ad from Coca-Cola or ‘Like’ their Facebook page to start watching the program immediately.”

4) INDUSTRY SPECIALISTS

These five sources said cord-cutting levels are insignificant and that the move by viewers, especially children, to consume more media on mobile devices does not represent a decline in TV viewing. Ratings data from Nielsen can be applied only to linear TV viewing and is unreliable for other platforms. For this reason, sources believe Nickelodeon’s ratings drop indicates a programming problem rather than a secular viewing shift toward OTT. Content is still king, and MSOs are distributing their programming to all platforms to maintain subscribers. Viewers are loyal to the content, not the delivery method. Comcast’s and Verizon’s new on-demand/OTT services are designed to retain subscribers and build brand loyalty. They pose no immediate threat to Netflix, but one source criticized Netflix’s limited streaming content. Content creators are increasingly repackaging content for OTT, VOD, streaming and mobile. However, they will need to develop multiple versions of a program going forward so content may be optimally viewed, regardless of screen size or location.

➤ Executive with a content delivery network

Cord cutting is insignificant, and MSOs are creating OTT distribution to retain viewers. Content viewing patterns among those ages 12 to 16 are changing from linear TV to VOD and streaming. Mobile devices are favored. Nielsen’s TV ratings metrics demonstrate a shift away from scheduled TV viewing but not necessarily a ratings drop; kids may be viewing the same TV content but on a different device. Nickelodeon has an opportunity to capitalize on the shift by distributing branded content beyond linear TV. The industry is in the midst of a transition, with content owners reestablishing control over content and MSOs moving to extend and create offerings for viewing on multiple devices. Delineation between owners, operators and distributors will continue to blur for the next 18 to 24 months. Advertising dollars to the Internet have increased.

- “We have seen a definite increase in numbers among the 12- to 16-year-olds who are starting to view more on-demand content versus TV. ... You see a shift in the viewing of TV at the couch versus watching content when you want and where you want. This also coincides with the MSOs developing extensions to their linear broadcast.”
- “We have seen this increase in our own traffic. There are increasing numbers of customers developing extensions to linear. We are one of the largest content deliverers moving into cloud services and over a private network. We deliver traffic across all devices and work with many gaming companies, Disney and cable and broadcast networks, so we have a broad overview.”
- “Mobile is definitely the most popular [access point] among kids. We have seen a huge increase in traffic for kids across the board. We also see a massive increase in the quality and scale of viewing, and there is HD-quality content going into mobile.”
- “We [in the industry] are beginning to look at the ratings more holistically because you can have a show air on TV at 8:00 and on demand at 9:00 and there is a change in the way the content providers are requesting the information.”
- “We need a new model for metrics instead of trying to merge the linear model. And until we have a more insightful metric, this scenario and discussion over rating declines will continue to happen. We cannot say one [type of viewing] is replacing the other because it’s like apples and oranges.”

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Executive, Content Delivery Network

- “In the long term, we will see more on-demand content, and it will be up to the owners and providers to play in the space. The content owners are in the driver’s seat. We are in a very strange market, and I think it will continue this way for another 18 to 24 months. It may take that long for things to settle because we are dealing with a very convoluted and complex ecosystem that cuts across a swath of factors including advertising rights, distribution rights and ownership rights.”
- “Nickelodeon has an opportunity here if they capitalize on it. By licensing to [Time Warner Cable \[Inc./TWC\]](#) and launching on[*on-demand*] video, they have added value to TWC because if you sign up for Nickelodeon, you can get their content online. The Cartoon Network has services tied only to cable operators. Nick has an opportunity to create a premium content brand. The question is, will Nickelodeon step up and do what they have to do to build out their OTT offerings so they can deepen that connection with users?”
- “All of the content owners recognize the trend, and all have added staff to address the transition. They have growing teams of digital folks to handle the shift from TV time to Internet time. They realize people are watching less [real-time] linear [TV] and watching more online because they don’t want to be a slave to schedules.”
- “It is an opportunity to expand and increase our services. It means additional traffic and additional content that we move over our network to OTT, mobile, delivery to [Microsoft Corp.’s/MSFT] Xbox and [Sony Corp.’s/TYO:6758/SNE] PlayStation.”
- “Is there more cord cutting? Yes, but again, even if two million cut the cord, it’s insignificant. And the MSOs are battling the concept of cord cutting by creating more OTT [streaming] content distribution, as we see with the Verizon/Redbox deal.”
- “The Verizon/Redbox partnership is fantastic for both. For Verizon, it is a natural evolution that enables them to be an operator and an OTT provider. They want to establish that deeper relationship with users so they do not cut the cord. And it moves Redbox out of video.”
- “Even the traditional content providers are changing. They used to solely license to the MSOs, and now they have pulled back because they want that relationship with the subscribing customers. They are extending their solutions to establish and ensure that relationship. [Comcast’s] Streamflix is kind of like that. The MSOs recognize the importance of on-demand and that users want on-demand, so they are looking for ways to keep them sticky. ... We are seeing a shakeup in the delivery system and I think the content owners are wrangling more control.”
- “We will see more content and more new content. Netflix announced last month [Feb. 14] that they are [again] intending to produce original content themselves, which means they are competing against the owners again to deepen that relationship with users. They have moved from a content distributor to a content aggregator and now to a content creator. ... There is a decoupling of content from the original delivery model.”
- “Right now, everybody seems to be a winner. In the long term, the most evolution will have to come from broadcast through better relationships with subscribers with more OTT services. Amazon is poised to be the leader in the new world, but I think the triumvirate of Apple, Google and Amazon will duke it out in the end and everyone else will be second place. This scenario is years away.”
- “The current leader in the digital space is [Disney’s] [ESPN](#). They are the premier example of a distributor of content to multiple devices. They recognized the shift of the scheduled consumer to the on-demand consumer early, and they added content that you cannot get on linear.”
- “We do see more advertising dollars going to the Internet. There is an increasing amount of ad-spend online, but the majority still goes to linear by orders of magnitude.”

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Executive, Content Delivery Network

➤ **Dan Rayburn, executive vice president of [StreamingMedia.com](#); repeat source**

A standardized metric is needed to accurately measure the nuances of OTT, VOD, streaming and the watching of content. The Nielsen ratings cannot be trusted to assess viewing beyond TV, making it difficult to interpret the Nickelodeon ratings drop. In terms of OTT, ratings are far less important than the quality of the viewing experience. Kids continue to watch TV and increasingly supplement TV viewing with other services and devices. The number of cord cutters is insignificant. The Verizon/Redbox deal and Comcast’s Streamflix are efforts to extend branded content to subscribers who want on-demand options, but may not be threats to Netflix.

- “The viewer trends are no different now than over the last two to three years. Viewers are watching content more often over more devices. The idea that children are not watching TV or replacing TV by viewing content on other devices is something we still don’t see in any significant way. We still don’t see significant cord cutting. We don’t see anything indicating that TV and cable are suffering a problem.”
- “In fact, they have continued to add subscribers and build revenue. When you have over 100 million cable subscribers in the U.S. alone, and only hundreds of thousands have reduced or cut services. That’s still only about one-half of 1% of the pie. That is simply not representative of a trend.”
- “Most have not replaced TV but supplemented TV with other services and devices. They say streaming is replacing DVD, but Redbox continues to grow. Plus, you cannot get a Blu-ray quality experience when you stream and, ultimately, it’s about the user experience. I just don’t see streaming replacing TV.”
- “The Super Bowl was streamed. The stream was not in high definition, the buffering kept interrupting the stream, the picture cut out, and viewers had to restart their systems. Everyone said the quality was bad. But NBC touted it as the most successful stream yet based on the number of people who watched, even for a limited time. Would you rather have one million people watching a stream that provides a great viewing experience, or would you rather have five million viewing a poor cloud program or video and not stay on for long periods?”
- “I also see the content outside of TV as an extension of the TV brand that is just being watched over different devices. The content is mostly the same and made by the same leading brands.”
- “There are many winners in the space, but you cannot compare Netflix to Redbox and Comcast. There are winners for streaming and winners for hardware and winners for licensing and winners for distribution. Apple is the winner in devices, but no one has it all for the combined space. Amazon has an opportunity down the line to own the ecosystem end to end because they have their own infrastructure, physical distribution and their own devices.”
- “It is too early to judge the Verizon and Redbox partnership. We can’t say whether it’s a threat to Netflix or anyone else. We have no idea of costs, what devices they will play on. We don’t know the content or the price for devices. The media says Apple TV will disrupt the market, but how can they say that when there is no product on the market yet?”
- “There is not enough information or evidence to say what the decline in [Nickelodeon’s] ratings means. If they are viewing the same content online but looking at it less than on the TV, does that indicate a decline in ratings? Plus, you have to look at the user experience. They may watch TV for three hours and online for one hour, but the picture was smaller and interrupted by buffers.”
- “Everyone is challenging the Nielsen approach right now, not just Nickelodeon. People feel they don’t report data applicable to all devices and the information is not accurately gathered. Unfortunately, Nielsen and a few others are all anyone pays attention to. But their methodology needs to be questioned. You can’t take a methodology created for TV and then use it as the standard by which to measure streaming or online.”
- “I don’t think the content creators react to the Nielsen ratings with regard to OTT. They use their own analysis to see how viewers are reacting, and they use different platforms to get their analytics. There are a bunch of vendors they use, like [Keynote \[Systems Inc.\]](#), which is a performance-based measure that looks at the delivery, the number of dropped packets, the number of times it buffered, and the user experience. The real story here should be about the methodology, not the results. ... But right now no one has developed a standard, and you cannot compare iPad devices to Netflix services.”

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➤ **Veteran consultant, digital media and Internet TV analyst; repeat source**

Children continue to shift away from TV to view content on-demand, via streaming and on alternative OTT/mobile devices. Brand loyalty to children's content creators remains strong, making it difficult to interpret the drop in ratings suffered by Nickelodeon. Nielsen numbers are not reliable for measuring viewing habits beyond traditional TV. New metrics and standards are needed to incorporate content viewed on digital media, but a resolution is a few years away. Advertisers are in a position to leverage the uncertainty by pushing for better pricing. This source expects to see new services and innovative digital content created by studios, cable channels and networks working to retain an audience. Examples of the trend include new offerings from Comcast and Verizon, neither of which is an immediate threat to Netflix. Apple should not be dismissed as a competitor in the market.

- “The expectation that viewers would shift from TV to OTT has been brewing for a long time, and in tracking audiences it was thought that we would see the shift first in the younger demographic. Some said we would see it first in the 18- to 24-year-olds. We will see over the next couple of years an ongoing fluctuation in the audience watching traditional media. There will not be a steep or rapid decline, but the decline will occur.”
- “A change in the Nielsen numbers does not necessarily mean the audience has disappeared from all media or traditional media. And as a key provider of statistics for the advertising community, Nielsen has an obligation to be accurate and clear. They are working hard to add to their capabilities other than tracking traditional [TV] media. The decline thing got everyone's attention, but there really is no indication that the overall audience has abandoned Nick.”
- “Viacom overall is stronger than Disney. I think we will see undulating fluctuations [in ratings] but an inevitable downward trend as fewer young kids turn to traditional media for viewing. This will be a long, evolving trend that will not play out in a year. It may be years or possibly a decade before the shift is complete.”
- “Kids' loyalty to a particular brand—be it Nickelodeon, Disney or the Cartoon Network—is very strong, and they follow that branded entertainment to many different platforms.”
- “Advertisers know what is going on. They are not motivated to pay the same [advertising] rates or total ad-spend on traditional media if they cannot demonstrate the audience is showing up. One outcome of this will be hard-fought negotiations where the advertisers might say they want better deals if the cable or networks can't prove kids are still watching. This will continue until the advertising companies figure out a way to assess the audience with more sophisticated metrics.”
- “The general trend is that Nielsen will have to combine the traditional [TV] rating information with other measures that combine metrics for other tracks to create an equivalent. We will see turmoil for another two years, and perhaps by 2014 some new thing will emerge as a possible new normal or Nielsen may come up with something new. But I think there will be a multitude of players.”
- “This is a great opportunity for the people who develop and provide the metrics technology. There are companies like [Visible Measures \[Corp.\]](#), [Bluefin Labs \[Inc.\]](#) and [Trender Research \[Inc.\]](#), and all have different perspectives and different ways to measure audience and the level of audience engagement.”
- “The traditional media channels, both cable and broadcast, will work hard to create better and more interesting content to retain subscribers/viewers and win new viewers. They will develop innovative ways to capture new and young audiences. We will see even more emphasis on quality and variety of content from traditional media.”
- “The smaller, more independent content companies that don't have the weight of the business slowing them down are more readily trying new things. The artists and directors are trying to get into OTT. The TV syndication companies are trying to find content to work in new media.”

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Digital Media & Internet TV Analyst

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Digital Media & Internet TV Analyst

- “The Verizon/Redbox partnership is definitely intended to compete with Netflix, but it is not a threat. Netflix does video on demand and streaming as well as, if not better than, anyone else. Redbox and Verizon won’t suddenly steal the market. I am a big fan of Netflix. They have a long-term vision for their delivery model and business model.”
- “We can’t dismiss Apple, which continues to execute better than anyone else. In general, the traditional movie studios have not lived up to their potential. They could be more innovative and experimental and stop trying to blame their problems on Apple or piracy.”
- “In order for Comcast to be a player in the OTT world, they have to come up with new and regular innovations. Streampix is analogous to services like [Time Warner’s] [HBO Go](#) and [Hulu Plus](#). If you are already a Comcast customer, you also get access to premium content through various devices. But Streampix is more like TV Everywhere because it is premium content that you can pay extra for. You can pay something like \$4.99 a month to access the Comcast Streampix content.”

➤ **Steve Effros, president of [Effros Communications](#), a telecommunications/cable consultancy; repeat source**

Whether children view content online or a mobile device, they still are watching the same content as on the traditional TV. Replacing one technology with another to view similar content has no effect on ratings. Nielsen and others are relying on inaccurate measurement systems that few trust, but technology is moving too fast to establish meaningful standards to measure digital media. Mr. Effros reported little evidence that viewers are cutting the cord in significant numbers. New services from Comcast and Verizon likely will win new or secure existing subscribers, but the services are more about promotion and marketing than a new product. Despite signs of innovation and experimentation in the development of content, Mr. Effros expects a constriction in content and the return of power to large content owners capable of multichannel distribution.

- “There is no support to suggest massive cord cutting. If you watch a program on video and/or on a TV set versus on an OTT device, it doesn’t matter. ... The content and programming are still paid for by either the advertisers or the subscribers. There is no new advertising model.”
- “Kids are still watching programs they like to watch. There may be a shift to different [programs], but I don’t think anyone has proof that the shifts have to do with the technology. There is no evidence that the 2- to 11-year-olds or the 12- to 16-year-olds demographic either is using or not using technology differently.”
- “Nielsen statistics indicate what people like to watch, not how they watch or where they watch. I don’t think there is any evidence to make the case that the Nickelodeon ratings drop has anything to do with the technology. It is just as likely that the viewers got bored with Nickelodeon programming and content, but Viacom doesn’t want to hear that.”
- “In the long run we are going to see a contraction of content because as you increase the availability in various forms, you decrease the accumulation of money available to any one form, which ultimately reduces the ability to create content because most of it is very expensive.”
- “Those who argue we are seeing innovative and experimental new content ... support the point that content will constrict. There is a concentration in power in the big-name artists and with those who already have the ability to cross-promote. These people already have name value and they are banking on viewers and an audience, not because of the technology but because of their notoriety. It’s all about marketing.”
- “Multiple distribution outlets make it harder to achieve a mass audience. If you have good programming, you will get good viewership. I don’t think this changes because there are more outlets for viewing. In the long run, these developments will return power to those who have the cross-channel capability.”
- “[Look at] the different ways we now have to view books. Are there better books? No. Are publishers selling more books? No. Are there more books available for viewing? Yes, but you still need promotion so people will view it. This has nothing to do with the distribution. It has to do with marketing and promoting.”

Sure, Comcast will get more subscribers with Streampix by packaging video on demand. But it is not a new service; it is just a different name for the same thing they have been offering. They are saying here is a library of 5,000 films and you pick the movie you want for \$3.99. That equals VOD. It’s no different if you have a library of 2,000 movies and you pay \$8 a month.

Steve Effros

- “In the short term, Apple is a winner because they make better devices. It doesn’t mean others will not make good devices. Netflix is a winner, but I would argue they were more of a winner when they stuck with DVDs.”
- “Sure, Comcast will get more subscribers with Streampix by packaging video on demand. But it is not a new service; it is just a different name for the same thing they have been offering. They are saying here is a library of 5,000 films and you pick the movie you want for \$3.99. That equals VOD. It’s no different if you have a library of 2,000 movies and you pay \$8 a month. We already know most subscribers watch about two movies a month so they are offering the same thing at almost the same price. It’s just a different way of marketing it so they can stay current, and the customer feels they are getting value.”
- “We will eventually find out that what some have called ‘cord cutting’ may be more about the down economy and kids ages 18 to 26 moving into their parents’ basement. They have returned home rather than creating their own homes, which translates into one less subscription. ... As the job market improves and kids start to move out, then the question will be, are you satisfied with Netflix and Hulu or do you want ESPN? And if you want ESPN, you won’t cut the cord. Man does not live on movies alone.”
- “One big problem has to do with our need to change the metrics. Nielsen and others recognize the need to refine and add to the measurements. I will give Nielsen credit for designing what they call [C3](#), which was designed to take note of the DVR viewers who view a program after it has actually aired. But then they limited the measure to those who watch within three days. I am just as likely to watch a recorded program a week later than three days later.”
- “I don’t think anyone trusts the current measurement technologies. They are very blunt instruments. But technology is moving so fast there is no way to develop standards that incorporate the technologies beyond TV. Any attention to developing such a standard would literally freeze innovation, and I don’t think anyone will want to do that.”
- “As for licensing, all of the major companies are trying, but no one has figured out how to get extra money for distribution or play on additional devices or channels. It’s still as much of a mess as it’s been all along.”

➤ Mitch Oscar, Executive VP of Televisual Applications, MPG

A closer look at statistics collected by three key media metric companies showed children’s TV viewing as stable and little shift in viewing toward OTT. Two metrics firms found that Nickelodeon had lost share while a third showed viewership as flat, but the source blamed Nickelodeon’s weak programming. Disney has gained viewers, but the evidence does not suggest viewers jumped from Nickelodeon. Cord cutting is overestimated and a nonissue. Although children are viewing content on multiple devices and platforms, they still are viewing TV content. In the future, content creators will need to shape content to fit the screen, simultaneously shooting programs for all three platforms, rather than repackaging content. Netflix streaming is lacking in content.

- “Our think tank decided to tackle some of these issues over video and TV viewing. The study we did looked at Rentrak, [TiVo \[Inc./TIVO\]](#) and Nielsen statistics. While kids may be migrating to other platforms and devices, we don’t think the kids are going away from TV.”
- “Nielsen found a total 3.6% decline in households with kids viewing kids’ programs in November 2010 versus November 2011 comparisons. Rentrak said the total network impressions were up 6.4%. We think you need at least two sources and if one says the viewing is down 3.6% and the other says it’s up 6.4%, it averages out. Are kids multitasking? Sure, but the comparative numbers suggest there is no effect on ratings.”
- “Nickelodeon has lost delivery and share of audience throughout the year in all three day parts, according to Nielsen and TiVo. Rentrak shows Nick flat in weekend mornings and off in the other two day parts. Where is the audience going? As we check across different networks and different times and programs, a lot of networks have gained viewers. The network that gained the most is Disney. But we cannot suggest that those who are no longer watching Nickelodeon are going to Disney. The Nickelodeon issue suggests a drop due to programming. It is up to the network to figure out what to do about programming.”

Our think tank decided to tackle some of these issues over video and TV viewing. The study we did looked at Rentrak, TiVo and Nielsen statistics. While kids may be migrating to other platforms and devices, we don’t think the kids are going away from TV.

Mitch Oscar, Executive VP of Televisual Applications, MPG

- “We really don’t know how people are consuming TV and video. We don’t have the capability to understand cross-media. We think something is going on and we know something is different, but all we can say is it’s not the same as it used to be and we won’t know what it is until there is quite a bit more study.”
- “I don’t think anyone cares about how the content is delivered. It doesn’t matter. It may be more difficult to understand what is going on, but I don’t think it’s a relevant question to ask whether people are watching OTT or cable or video. To me, it is all TV.”
- “The licensing of repurposed content has caused many not to think about content creatively. This has to change. ... When they create they will have to create with a platform in mind, and they will have to create across all three platforms rather than repurposing.”
- “I have not seen anything to suggest that one company is threatened or another company is in a better position. There are opportunities for all of them, and I don’t think the shifts are a threat.”
- “I don’t believe in OTT or cord cutting. Cord cutting that occurs is more about lifestyle and the economy. But I don’t see people going to Roku or the Xbox as affecting viewership. I see people watching more TV.”
- “All paid TV operators have to get into the arena. They have to keep their audience loyal.”
- “I love Netflix on DVD, and they have a lot of content. But on the streaming side they don’t have a lot of content. Netflix has a problem on the streaming side.”

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5) PARENTS

Five of these eight sources receive their content from streaming on Netflix and through on-demand, though sources differ on whether this resulted in cutting the cable cord. Netflix provides good content for children and offers parental controls, but lacks in movie content for the parents. Three sources said Nickelodeon’s content is inappropriate for children and that they have cut back on or stopped viewing its programming. PBS is a popular destination for children watching TV as well as browsing the Web.

➤ Mother of a 5-year-old boy and a 1-year-old girl in San Diego

Children’s cable channels are losing out to iPads and Netflix. This family streams Netflix on an Internet-enabled TV and one of two game consoles, and the son prefers this over watching content through cable. The Disney channel is age-appropriate but is too repetitive, and Nickelodeon’s content is too mature. Other than football, the parents rarely watch content through DISH; instead they prefer to view shows and movies through Netflix streaming. However, the source has not been happy with most of Netflix’s streaming content.

- “Kids are going to iPads and Netflix. Disney has no variety. I’ve seen episodes of *Mickey Mouse Clubhouse* multiple times. Disney will have three straight hours of the same show.”
- “My son’s TV time is 60% Netflix. He likes to choose what he wants to watch. National Geographic shows about dinosaurs, lions, animals.”
- “He might watch one to two hours per day—cartoons in the morning, a movie in the afternoon.”
- “There is a very big difference between Nickelodeon and Disney. Disney is younger. Nick has cartoons for little kids from 5 a.m. to 9 a.m.; then there’s maybe an hour for the next age group.”
- “We’ve had Netflix for about two and a half years. We used to have the DVDs by mail, but they’d sit there for a few weeks and we wouldn’t watch them. Now we’re just streaming.”
- “We used to stream on the Wii. We have an Xbox but haven’t streamed on it yet. We just bought a new TV—a Vizio with streaming.”
- “I’m not happy with the amount of content on Netflix. We got a *Kung Fu Panda* game and an *Indiana Jones* game on the Xbox for our son. He had no idea what *Indiana Jones* was so I looked for the movie on Netflix

I’m not happy with the amount of content on Netflix. ... They don’t have the classics. ... The whole point of it is to not purchase movies, but we still do.

Parent, San Diego, CA

streaming and couldn't find it. They don't have the classics. I could go online and have it sent to me, but then I'd be paying for both of Netflix's services. The whole point of it is to not purchase movies, but we still do."

➤ **Mother of a 12-year-old boy and an 8-year-old girl in San Diego**

Nickelodeon and Disney viewing is down because the content is inappropriate for the intended age group. This family limits viewing to a few select shows because of this, and eliminated TV time during the week a year and a half ago because the kids were not doing their homework. On the weekends, the kids split their five to six hours of screen time between TV, the computer, and the Wii. The parents watch very little TV and are not interested in on-demand or streaming and will not make any technology upgrades until they need a new TV.

- "Nick and Disney [are] not for little kids anymore. My kids watched a lot more TV before, but the shows are too grown up now. The themes are boyfriends and girlfriends, which is OK for older kids but not for 8-year-olds, even for [my 12-year-old]. Shows like [Disney's] *The Suite Life* were good, clean fun, but not so much now. You can't trust the [parental] ratings, I don't have time to preview the shows, and I don't want them watching all that."
- "They used to watch Nick, but that's totally stopped because of the appropriateness issue. Disney is limited to a few shows, and my son watches some Cartoon Network. Disney movies are unrestricted."
- "About a year and a half ago we stopped allowing them TV time during the week. They were addicted to it, and homework wasn't getting done."
- "They use the computer during the week only for school work. On the weekends, they go to Disney.com and [Ganz's] Webkinz.com, and they play DVDs."
- "I watch TV in the evenings, but I'll have the news on during the day in the background while I work. My husband watches about two hours a day—news, PBS, CNN."
- "I don't know why we have so many cable channels; we don't watch them."
- "We're not interested in streaming or Internet TV. We only watch the news and some kid shows. We won't take the next technology leap until it's time to buy a new TV."

They used to watch Nick, but that's totally stopped because of the appropriateness issue. Disney is limited to a few shows, and my son watches some Cartoon Network. Disney movies are unrestricted.

Parent, San Diego, CA

➤ **Father of 6-year-old twin girls in Boston**

These 6-year-old twin girls like the programming and the games on Nick Jr. and its website. They divide their time between the TV (80%) and computer (20%). The father is pleased with the Nick Jr. content, which seems to be engaging and challenging. The girls occasionally choose VOD content from Comcast and explore YouTube under parental supervision. The father's next technology purchase will be an Internet-enabled DVD player. He was unfamiliar with Apple TV, but guessed that less expensive means of streaming were available.

- "They always want to watch TV. We have to turn it off, because they watch so much."
- "They like Nick Jr., Disney Jr. and PBS. They like Nick Jr. best, with *Dora the Explorer*, *Wonder Pets* and *Backyardigans*. They also go online and play the games that Nick Jr. has."
- "They've wanted to play the games more in the last six months or so, and they're spending more time doing those."
- "They've definitely changed in the last year from what they used to watch. A year ago it would have been PBS Sprout, and *Curious George* and *Sesame Street*, but they can't be bothered with that now."
- "The Nick Jr. shows seem to keep their attention a little more. They're kind of interactive."
- "Sometimes they'll watch an on-demand movie when they get bored with reruns."
- "At least once a week, usually on Saturday or Sunday, we'll watch a Netflix DVD together."
- "I let them look on YouTube, but only if I'm sitting with them."
- "I'll probably get one of the DVD players that has the ability for Netflix and Pandora and Web surfing."
- "I don't know anything about the Apple TV. I keep hearing about it."

➤ **Mother of a 14-year-old girl and a 16-year-old boy in Houston**

The vast majority of this family's TV watching is through Netflix streaming to their iPhones. Her kids' TV watching has increased significantly because of Netflix, which has prompted her to cancel their streaming plan this month.

- “The scales have tipped drastically to the streaming side [from cable TV]. I would say two-thirds of all of the TV watched is streaming. It will change again in the next month because I canceled the streaming part of our Netflix plan last week.”
- “The kids have developed a serious TV habit ever since we got the Netflix streaming. It wasn’t bad in the beginning, but once they found a TV series they enjoyed, they would go hours in a row watching episodes. I monitored the best I could, but they were watching after bedtime some nights. I finally had to collect phones at the end of the evening, and now I am canceling the service.”
- “We have Netflix streaming to one Wii, one iPad, our living room TV, and four iPhones. Most of the watching is done on the kids’ iPhones or my husband’s. Two to three hours a week are done on the TV. None using the Wii.”
- “All of our OTT viewing is Netflix—100%.”
- “I think the streaming option is great if it is limited to one device in a common area. The kids having access to the content on their phones is a huge problem.”
- “I do like the fact that Netflix allows parents to choose the content ratings for what can be streamed, but I wish there was some way to limit the number of hours in a day that shows could be watched.”

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Parent, Houston, TX

➤ **Mother of a 5-year-old girl and 4-year-old boy in Jersey City, NJ**

This family watches less television than they did a year ago. They never watch Disney—largely because of the commercials—and the kids are too old for Nick Jr. content but too young for Nickelodeon. PBS shows and the occasional DVD make up the majority of the screen time. The parents watch a bit more—including Netflix DVDs—but are not interested in streaming despite having multiple streaming devices.

- “Ratings for Nick and Disney have gone down because their shows are bad. We never watched Disney to begin with, and I hate the commercials. I feel the kids are too old for *Dora* [on Nick Jr] and too young for *iCarly* [on Nick].”
- “The kids watch TV on the weekends, if at all. I curbed it dramatically because it was getting out of hand. We’d be out and my daughter wanted to go home to watch TV. They would watch much more if I let them.”
- “Up until a few months ago they would watch one 30-minute show a day. ... It’s never live, always DVRed.”
- “Occasionally they’ll play on the iPad, but that’s maybe an hour a week total. ... On my iPhone, they look at pictures or watch videos of themselves, and on the computer they’re on Starfall.com.”
- “My husband watches more TV than I do because he watches all the sports, probably 15 hours per week. I watch maybe seven hours per week—always DVRed shows or Netflix.”
- “We have Netflix [DVD rental] and On Demand, but those are for the parents only. ... We’re happy with Netflix offerings.”
- “TV is never on during the day. We don’t use it as background noise. My husband turns it on when the kids go to bed, and I could live without it.”
- “I’ve never heard of Apple TV.”

Ratings for Nick and Disney have gone down because their shows are bad. We never watched Disney to begin with, and I hate the commercials. I feel the kids are too old for *Dora* [on Nick Jr] and too young for *iCarly* [on Nick].

Parent, Jersey City, NJ

➤ **Mother of a 5-year-old girl in Eugene, OR**

Streaming Netflix to an Apple TV, iPad, iPhone and a computer has allowed this family to be cable-free for three years, and the recent increase in content has led them to watch more of it year to year. The mom controls her daughter’s viewing, but the daughter navigates [Just for Kids](#) on her own.

- “My daughter would never sit for a TV show. The Netflix streaming is so much more convenient. She can stream on any device in the house. On the TV she watches streamed content 90% of the time and DVDs the other 10%.”
- “On the computer and the iPad, she’s playing educational games and streaming PBS.”

- “She watches mostly PBS stuff, no Nickelodeon.”
- “There doesn’t seem to be any in-between content. There are cartoons and then all the grown-up stuff with boyfriends and dating.”
- “I really like Just For Kids. You can choose it by the icon and she’s starting to be able to read the names now.”
- “Streaming is very convenient and has no commercials. Not having any commercials cuts down on the begging for things at the store.”
- “They keep adding more to Netflix, more streaming now than a year ago, which is awesome. So we’re probably watching more.”
- “We’ve had Apple TV for about a year and a half. It’s pretty cool, very convenient and easy for her to use. The remote has no numbers, just an arrow and enter buttons.”
- “The iPad to TV connection means we can use the remote or bring it up on the iPad. Apple TV has no commercials; you are streaming Netflix or YouTube, you can rent movies or TV shows. We were using our Xbox but then they started charging for streaming.”
- “In the next three to six months, my husband will probably get the next iPad. That means our daughter will get the old one so she can watch things in her room and will wind up watching more.”

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Parent, Eugene, OR

➤ **Mother of an 8-year-old-boy, a 5-year-old girl and 3-year-old twins in Bend, OR**

Screen time has not changed since getting Netflix a year and a half ago, but it is down since this family cut cable three years ago. Netflix streaming on multiple devices allows each child to watch different shows at the same time and gives the mother more control. She is happy with Netflix’s kid content but not with its movie selection.

- “We don’t have cable. We have Netflix streaming, and we get what we want when we want it. We’re more selective about the programming this way.”
- “We love PBS. It’s just higher-quality programming.”
- “We actually pay more not to have cable because of the bundle we have, so it’s definitely by choice. We had it about three years ago but got rid of it because it was always on.”
- “On Netflix, we watch more TV programs than movies. It’s really for the kids. They watch half Disney or Nick, and the other half is PBS.”
- “Now that they are older I let them watch Nick’s *SpongeBob SquarePants*, but I can be more selective about the episodes ... which you can’t do on cable. They are watching about the same as they were a year ago.”
- “I’m not totally satisfied with Netflix. For kids, there is plenty and we have it mainly for the kids. But there are still movies we want to watch that we have to go out and rent.”
- “I don’t see the need for cable. We get the basic networks and if we miss one of those shows we’ll watch it on their website. It would have to be a really incredible [a la carte] package for me to change my mind.”
- “In the next three to six months, we may buy an iPad if the prices go down. That would be for the kids. Our iPhones are enough at the moment.”

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Parent, Bend, OR

➤ **37-year-old mother of 7- and 5-year-old sons and a 3-year-old daughter in Stockton, CA**

The source’s children watch about three hours of TV per day—mostly Nickelodeon, Sprout and Disney—but the 7-year-old boy finds Disney content too young and 20% of his daily screen time is on the computer. The parents—avid movie watchers—are content with [Blockbuster](#) (DISH Network Corp./DISH) in-store DVD rental and DirecTV’s (DTV) [On Demand](#). Other than possibly dropping HBO, they do not foresee making any changes during the next three months, but would consider an Internet-enabled TV in the future.

- “TV watching now is the same as it was six to 12 months ago.”

- “I didn’t know we had on-demand until [the 7-year-old] found it. He discovered the menu on the remote and started clicking through it. He also goes on the computer and watches YouTube. He’s still into Nick but moving away from Disney. ... He’s not really on his Nintendo [Co. Ltd./TYO:7974] DS anymore.”
- “The 7-year-old used to play games on the computer but recently has started to do the browsing. When he was playing games, he was on PBS Kids, Disney and Nickelodeon.”
- “[The 5-year-old] likes YouTube, and we help him find videos about alligators, sharks, funny babies. He’ll also use his brother’s DS and my iPhone.”
- “We go to PBS Kids and Disney.com [for the younger two].”
- “The iPad is leading the way of kids/adults sharing more screen time on things other than the TV.”
- “I watch TV at night once the kids go to bed, probably two hours or more at night. I’m not on the computer all that much.”
- “[My husband] watches about two hours of TV a day, mostly movies. He said he hasn’t looked into streaming yet. Our next move would probably be to buy a TV with Internet capability and we’d probably go with Netflix, but he says he doesn’t want to do it right now.”
- “We don’t have Netflix; we have Blockbuster. We used to get DVDs sent through the mail, but we stopped that [about a year ago] and started going back to the store. It’s convenient. I would get Netflix and try [the streaming]. We used to buy a lot of DVDs, but we don’t do that anymore.”
- “I don’t think we’ll change anything [in the next three to six months].”

The iPad is leading the way of kids/adults sharing more screen time on things other than the TV.

Parent, Stockton, CA

Secondary Sources

Eleven additional sources discussed trends relating to OTT, including debunking the imminent possibility of Netflix bundling services with cable companies, the cable industry’s missed opportunity to capitalize on VOD offerings, Rentrak’s growth in providing analytics for in-home TV viewing, and big-name studios designing original content for distribution online. Apple TV was criticized for not being an industry game changer while Apple was discussed in terms of competing with UltraViolet for movies in the cloud. Secondary sources also covered concerns about UltraViolet’s services, Intel’s foray into OTT delivery, and Nickelodeon’s response to low ratings with new programming efforts.

➤ March 9 StreamingMedia.com blog [entry](#)

This industry blogger shot down the Reuters article speculating Netflix was approaching deals with cable companies to bundle Netflix services, quoting several cable company sources who said the bundling discussions are not new and have been ongoing. Also, Netflix will have to charge more for its service and deliver significantly more content in order for the cable companies to be interested.

- “Earlier in the week, Reuters [was reporting](#) that Netflix’s CEO was in talks with cable operators about bundling Netflix’s streaming service in with cable TV packages. ... A quick check with execs at many of the MSOs tells a very different story. Over the past week, I spoke to four different cable TV execs, three in the U.S. and one in Latin America, who all say no such deal is in the works. Add in the recent [public comment](#) from Comcast and that’s five major MSOs who say the Reuter’s story is ‘all noise’.”
- “Meetings between Netflix and the MSOs take place all the time and one cable TV exec told me that, ‘bundling was definitely on the table but discussions never went very far.’ Another said that, ‘in our many meetings with Netflix, the bundling of services is something that always comes up, but it is not something we are actively looking at.’ Cable TV executives has told me that the idea of bundling Netflix’s

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StreamingMedia.com Blog Entry

service with their own is not new and that it has come up in their various discussions with Netflix, ‘over the past two years.’ ... Each of the MSOs I spoke with reiterated that they have a clear strategy for video OTT and IPTV and are not currently working on any such bundling deals with Netflix.”

- “Some suggested it would make more sense for Netflix to bundle their services with MSOs outside the U.S. in countries where credit cards aren’t popular. That would give Netflix a way to charge for their services, through the MSO, who already has the relationship with the consumer. But a quick check with some of the major MSOs in these regions reveals no such deal is in the works. In a [NYT story](#), which did a good job of questioning the news, they quoted Netflix as saying that Netflix’s CEO comments about bundling were ‘futuristic.’”
- “Aside from the obvious content licensing questions around a bundled Netflix service through an MSO, cable execs also told me that they don’t think that Netflix currently charges enough for their service to be able to share with the MSO the kind of revenue split they would want. One cable TV exec said, ‘at \$7.99 a month, Netflix does not have a lot of revenue to share with any cable operator. Netflix would need to charge more per month to be able to give MSO’s a few bucks per user.’ Those I spoke with all suggested that Netflix would also have to acquire a lot more original and exclusive content in order for such a service to even make sense.”

➤ **March 5 [Variety article](#)**

The cable industry missed a significant opportunity to capitalize on VOD offerings, allowing Netflix and other Internet-fueled OTT solutions to fill the void. MSOs were too busy trying to compete directly with Netflix by offering TV Everywhere options instead of focusing on their core TV product. As a result, Comcast’s VOD usage is the same as it was five years ago despite having twice the amount of available content.

- “New research hammers the cable industry for fumbling VOD badly enough to miss out on billions in ad revenue and paving the way for the emergence of over-the-top alternatives like Netflix.”
- “The Diffusion Group estimates that VOD makes up just 1% of U.S. TV viewing, or 3.6 billion of 350 billion total hours watched in 2010. In contrast, analyst Bill Niemeyer noted that the 2 billion hours Netflix claimed to have streamed in the fourth quarter of 2011 alone was 80% more than cable and telco distributors racked up for their VOD offerings.”
- “While VOD is available in approximately 9 million more homes than the 42.9 million homes reported to have digital video recorders in 2010, DVR viewing was eight times greater, according to the research. Keep in mind commercials are often better protected in the VOD environment, where the fast-forwarding that allows for rampant ad-skipping via DVRs is disabled.”
- “In terms of revenue, the \$263 million in ad dollars Hulu reported in 2010 was nearly twice what MSOs from Comcast to Verizon managed to bring in via VOD that year. Niemeyer projected multichannel VOD would be a \$6 billion business had the operators realized the technology’s potential over the past decade, squandering a multi-year headstart ahead of OTT challengers.”
- “‘Online services are now generating impressive consumer viewing, subscription revenue, advertiser spend, and network mindshare that well could belong to operator VOD if only they had prepared for the inevitable: competition from the Internet,’ wrote Niemeyer.”
- “Niemeyer blames the cable biz for failing to develop VOD because return of investment wasn’t easily justified without broad-scale testing, though solutions to VOD’s myriad shortcomings were readily available via vendors.”
- “Niemeyer also criticizes the MSOs for focusing too much on TV Everywhere efforts aimed at countering Netflix and its ilk on digital platforms when bolstering VOD would better protect the value of the core TV product, and open up opportunities for interactive advertising as well.”
- “TDG estimates that Comcast, the single largest purveyor of VOD, hasn’t seen any growth among VOD usage for the past five years even as the company has doubled the amount of content available on the platform.”

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Variety Article

➤ **March 9 [PaidContent.org blog entry](#)**

Rentrak has struck a deal with Crown Media Holdings Inc.’s (CRWN) [Hallmark Channel](#) to provide ratings measurement, and is pressuring Nielsen. The TV industry is demanding viewership be measured by media form.

- “After enjoying a ratings monopoly during television’s first six decades, Nielsen increasingly finds itself challenged by upstart competitors as the TV research game evolves to more accurately measure audiences spread across digital viewing devices. The latest incursion came Friday, when research firm Rentrak agreed under a newly signed long-term deal to supply an expanded range of metrics to Crown Media Holdings.”
- “Crown said it will now receive a full subscription to Rentrak’s television measurement services, which employ feedback from digital set-top boxes in 19 million American homes. According to Ed Georger, Crown Media Holdings’ executive VP of advertising sales, the move puts his company closer to day in which it sells its commercial time based on metrics other than Nielsen’s.”
- “The move to arbitrate the price of advertising with an additional ratings data source comes after high-profile voices in the TV industry—most notably, Viacom CEO Philippe Dauman—have leveled concerns regarding Nielsen’s methodology, which uses a much smaller sample of 25,000 homes. Nielsen drew contention from Dauman when it reported year-over-year viewership drops of more than 20 percent for Viacom’s Nickelodeon kids channel in the fourth quarter.”
- “However, a report comparing Nielsen and Rentrak measurement of Nick’s November performance revealed significant discrepancies. For example, Nielsen reported a whopping 22.6 percent viewership drop for the channel’s Monday-Friday lineup, while Rentrak said it was only around 12.7 percent.”
- “Blogged [BTIG Research analyst Richard Greenfield](#): ‘Beyond illustrating that Viacom, and more importantly, Philippe Dauman are not crazy, the more important takeaway from the data discussed above is that content creators, ad buyers and brands should all be utilizing multiple data sources versus simply buying ad time solely on Nielsen metrics alone.’”
- “Nielsen is facing pressure from other research companies besides Rentrak. Last month, NBCUniversal [commissioned Google and comScore](#) to develop a multi-platform audience measurement tool for the Olympics that would follow viewers across the full range of usage devices.”

➤ **March 8 Advertising Age article**

NBC Universal is joining a group of Internet companies to present and preview its content at the first digital content upfront presentations for advertisers. NBC is the first and only broadcast network to join this group, showing its desire to make a name for itself with its digital content as well as its broadcast content and to attract advertisers beyond traditional TV.

- “The confederation of Internet companies planning two weeks of ‘upfront’ presentations for advertisers this spring are getting an unexpected new member: NBC Universal.”
- “The group ... is planning two weeks of TV-style ‘upfront’ events called [‘The Digital Content Newfront,’](#) in hopes of presenting themselves as viable alternatives to broadcast and cable TV, which start their own upfront season later in May.”
- “But if the digital ‘NewFront’ is about positioning web video as an alternative to TV, at least one big owner of TV networks is hoping not to beat them, but join them. NBC Universal officially signed on to the consortium on Wednesday, and CBS is in talks to join, according to multiple people involved in the talks.”
- “The founding partners see the series of events, which start April 19, as a coming-out party of sorts, perhaps the first year when enough original content and audience to legitimately make a play for TV ad dollars. NBC Universal has a different agenda: to be seen as a digital-media company, in addition to an owner of broadcast and cable TV networks.”
- “As traditional TV splinters, there’s a growing consensus among marketers that you have to combine TV with digital to maximize reach and impact. NBC Universal wants marketers to know they can do it all in one place.”
- “NBC Universal thinks its digital businesses are big enough to stand on their own, and able to compete with the likes of Yahoo and Google, particularly in original content, the kind most in-demand by advertisers.”

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Advertising Age Article

Comcast NBC Universal digital properties had 77 million unique U.S. visitors in February, according to Comscore, compared with 78 million at CBS Interactive and 126 million for YouTube.”

- “Some, such as YouTube and Vevo, will stress competitive advantages to TV. ‘We have the audience, the original shows and commercials, and users can’t skip through them,’ said David Kohl, EVP of sales at Vevo. As a distributor of network and cable TV online, that won’t be Hulu’s pitch; rather, they’ll talk up a slate of original shows, such as ‘A Day In the Life,’ a series launched last year with filmmaker Morgan Spurlock.”

➤ **March 11 Los Angeles Times blog entry**

[FremantleMedia](#) will distribute Hulu’s original content globally, lending further credence to the value of Web series and movies. It also will support the continued creation of original content, another step toward competing with broadcast TV.

- “In deal that validates the quality of some original programming for the Web, Internet video service Hulu reached an international distribution agreement with FremantleMedia Enterprises.”
- “Fremantle ... signed a first-look deal for rights to distribute Hulu’s original shows to global markets.”
- “The first program Fremantle will attempt to sell is documentary filmmaker Morgan Spurlock’s acclaimed series, ‘A Day in the Life.’ The second season premieres Monday on Hulu and its subscription service, Hulu Plus.”
- “Hulu stands to benefit from Fremantle’s broad reach and access to traditional distributors for television programming. For the moment, the online service—which is jointly owned by media giants News Corp. Walt Disney Co. and Comcast Corp.’s NBCUniversal—is only available in the United States and Japan.”
- “Broader distribution also would provide additional revenue to help underwrite the cost of creating new shows. Hulu and competing subscription services like Netflix Inc. have been launching original programs as a way to differentiate their services.”
- “Hulu also has secured the rights to exclusively distribute more than 30 documentary films.”

➤ **March 7 StreamingMedia.com blog entry**

Apple’s updated Apple TV will not be a game-changing device since it lacks a content subscription service and does not have the ability to offer apps, something its competitors have been doing for years.

- “While it’s nice to see Apple offer 1080p support on their device, to date, they have sold less than 5M second generation Apple TV units in the past 18 months. Without some kind of content subscription service, this updated Apple TV isn’t going to disrupt the market at all. It’s a great box for doing AirPlay mirroring but it still lacks the ability to run apps and simply updating it to support 1080p is pretty weak.”
- “Nearly all of Apple’s competitors in the \$99 streaming box space have been supporting 1080p video for years and have support for side-loaded content via USB. Not to mention, the Apple TV does not support Hulu Plus, Amazon, have a web browser or an open SDK for developers. It’s really only a device targeting iPad/iPhone users for AirPlay functionality.”
- “If Apple brought more third-party content to the box that would help, but they didn’t mention any new content partners during their presentation, so don’t get your hopes up. To me, [Vizio’s new \\$99 streaming box will kick Apple TV’s butt](#), in terms of functionality and value.”
- “Apple is so short-sided on their living room strategy because if they [Licensed iTunes For Non-Apple Devices, They Could Own The Living Room](#). But we know that’s not going to happen.”
- **“Updated 1:55pm:** I have confirmed that users of the older 720p Apple TV will not able to get 1080p support via a software update. You want 1080p, you’ll have to spend another \$99 and buy the new Apple TV. Typical Apple. Add a new feature that has been out for years, and charge people more for it in a "updated" version. There is no excuse for Apple not having 1080p support built in to the second generation model to begin with. Users of the 720p Apple TV model will be able to get the new user interface.”
- **“Updated 3:00pm:** Netflix has [just announced](#) that consumers can now sign up directly on their \$99 Apple TV and pay for a Netflix subscription via their iTunes account.”

➤ **March 7 Los Angeles Times blog entry**

The Apple TV update will allow users to purchase movies and store them in the cloud. This could translate into more revenue for Apple and threaten competitor UltraViolet.

- “Apple Inc. is putting movies in the cloud, providing a boost to Hollywood film studios’ small but growing digital business.”

- “Movies purchased through Apple’s iTunes Store from five studios—Paramount Pictures, Sony Pictures, Walt Disney Studios, Warner Bros. and Lionsgate—will be accessible via the technology giant’s iCloud service from any of its devices, including the Apple TV, iPad and iPhone.”
- “20th Century Fox and Universal Pictures are not part of the iCloud movies launch. That’s because of restrictions in their distribution deals with pay cable channel HBO, said people close to the situation not authorized to speak publicly because of the privacy of negotiations. But both studios are negotiating with HBO and expect to add their films to iCloud soon, those sources added.”
- “Apple accounts for approximately 75% of all movies bought online, according to one person involved in the digital distribution business but not authorized to share the data. However, the percentage of iTunes movie transactions that are purchased has fallen in the last year, that person said, from nearly 50% to about 33%—the rest being movie rentals.”
- “Studios are eager to reverse that trend because movie purchases, which typically cost between \$15 and \$20, are significantly more profitable than rentals for \$4 to \$5.”
- “Another potential boost to digital movie sales comes from the new version of Apple TV. While the previous Apple TV only allowed movie rentals because it did not have a large hard drive for storage, consumers will be able to buy films on the new version that are stored in the cloud.”
- “Movies in iCloud will likely prove a formidable competitor to UltraViolet, the digital movie technology backed by every Hollywood studio, save Disney, and most major electronics manufacturers, except Apple. Backers have been aggressively trying to grow UltraViolet since it launched last October and expect a big boost next week when [Wal-Mart will announce](#) it is supporting the technology in stores and online.”

➤ March 12 StreamingMedia.com blog [entry](#)

UltraViolet’s cloud movie service was heavily criticized for its low quality, inflexible connectivity options, privacy practices and lack of solution for consumers who want to amass a digital database of their favorite movies to watch in HD quality when and where they want.

- “Tomorrow at 1pm ET, Walmart along with UltraViolet partners Universal, Paramount, Warner Brothers, Sony Pictures and Fox will announce Walmart’s UltraViolet offering. Studio execs I have spoken with say that consumers will be able to bring their DVDs into Walmart, which will then charge the consumer between \$2-\$4 per DVD to give the consumer access to that movie in the UltraViolet cloud locker system. DVDs will then be stamped at the store, so they can’t be used by multiple people and I’m told pricing for converting the DVD to digital will vary based on either SD or HD quality.”
- “I’m sure the studios and Walmart are going to talk about how great this is for consumers and they will probably use a term like ‘nominal’ to describe the fee consumers will have to pay. In reality though, the studios are doing exactly what consumers don’t want, which is forcing them to pay multiple times for the same piece of content. The fact that consumers already spent money to buy the DVD apparently is not good enough to allow them access to a free digital copy, which they could easily get if they ripped the DVD on their own. It costs the studios almost nothing to store the movie in the cloud, about two cents per movie, and it only costs about four cents, at most, for them to pay a CDN to stream the movie to the user. So at \$2 per DVD, a user would have to watch the movie 50 times from the cloud before the studio was losing money from digital.”
- “UltraViolet is not easy to use, it requires multiple accounts with multiple websites, there is very little device support and Disney and Apple refuse to join the consortium.”
- “Physical Blu-ray copies with digital are more expensive and studios are charging so much for their download and own offerings, between \$15-\$25 a movie, that it makes more sense for a consumer to rent the movie for \$3.99 instead of buying. Many studios have gotten so greedy that they are pricing themselves out of the digital download to own market. In addition, with the way the content windowing works for content going from theatre, PPV, rental, purchase etc. the studios are now going to have to augment that window in some way to allow for the new UltraViolet offering.”
- “UltraViolet is a cloud based system that requires you to have to be connected to the Internet.”
- “Unless UltraViolet comes up with an option for local playback, your entire library of movies and content will be in the cloud not accessible locally. ... It also requires consumers to once again choose between one quality over

The studios are doing exactly what consumers don’t want, which is forcing them to pay multiple times for the same piece of content.

StreamingMedia.com Blog Entry

another. Studios should want to deliver consumers the best quality video available, yet they are going to force many users away from HD, simply due to price.”

- “Another topic one has to wonder about is privacy. UltraViolet is going to know every movie you stream from the cloud. And with so many studios, broadcasters, CE manufacturers etc. in the program, what you watch and when you watch it is going to be known. ... I can't find any language on the UltraViolet website that talks to the privacy of one's account in the cloud. Are they going to be data mining our usage habits and sharing that with third party companies? If they do, and I expect they will, that data is worth a lot of money to advertisers who will then know the demographics of who is watching their movies.”
- “And what if UltraViolet starts using that information to track what you do outside of UltraViolet? Can they now deny you access to a movie in the cloud if they notice your IP address shows up in a torrent site? Can they now disable your UltraViolet account? In the end, do you *really* own the content that is in the cloud?”
- “In [January], [Paramount rolled out a service](#) to sell ten year old movies via the UltraViolet cloud for \$22.99 for HD. Many of these same movies are available via Blu-ray for \$8-\$10 cheaper and I still can't find any definition from UltraViolet on what they classify as an 'HD' movie. ... I highly doubt it as it would probably require 8-10Mbps to stream, which means the studios are selling HD digital copies, which are less quality than the Blu-ray, yet are charging consumers more for it. And the studios think this is something consumers won't notice?”
- “Every year the studios seem to come up with new ideas and ways to try and charge consumers for movies.”
- “As a whole, the studios still don't get it. They aren't listening to consumers, they haven't truly changed their way of thinking and their pricing and business models don't make sense. In reality, a back-end system like UltraViolet that would allow such seamless viewing across all devices still hasn't been created and it won't be the studios that make it happen.”

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➤ **March 13 Wall Street Journal** [article](#)

Intel is looking to join the TV and cable business with plans to sell TV channels over the Internet by the end of 2012.

- “Intel Corp. is developing an Internet-based television service that it hopes to sell to U.S. consumers, a strategic shift by the chip maker as it sets its sights on the crowded pay-TV business.”
- “Intel has for several months been pitching media companies on a plan to create a ‘virtual cable operator’ that would offer U.S. TV channels nationwide over the Internet in a bundle similar to subscriptions sold by cable- and satellite-TV operators, according to people familiar with the effort. Intel wouldn't provide Internet access, which subscribers would obtain separately.”
- “The TV offering would use Intel technology, and in at least some scenarios under consideration, would use Intel's name. In its presentations to media companies, Intel says it is making its own set-top box to carry the TV service, and it has demonstrated an interface for users to browse programs.”
- “Intel has told media companies it hopes to launch a service by the end of 2012, though it faces hurdles such as scarce bandwidth and the high price of TV programming.”
- “In at least some cases, Intel has asked media companies for ‘rate cards’ that lay out what particular channels or types of on-demand programs would cost as part of its subscriptions, but it doesn't appear to have struck programming deals yet, one of the people said.”

➤ **March 13 Advertising Age** [article](#)

Nickelodeon is updating and improving its content in an effort to remain the No. 1 overall kids' network. It also is targeting programming toward moms to entice more advertisers.

- “The kids' networks' upfronts will hit high gear this week as the two biggest channels present their upcoming schedules to advertisers—with Nickelodeon's recent ratings decline remaining a backdrop to negotiations.”
- “Nickelodeon ... will introduce a slew of new programs aimed at a variety of ages on Wednesday as it tries to counter criticism that it has relied too long on aging series such as ‘SpongeBob SquarePants.’”

- “Nick is still No. 1 overall, but Disney Channel unseated it among 6- to 11-year-olds last year and significantly closed the gap among children ages 2 to 11. Last month, Disney tied Nickelodeon for the first time in the 2-11 demo.”
- “Cartoon Network is also quietly coming up, taking the No. 2 spot for the week among 6- to 11-year-olds several times in the first quarter of 2012.”
- “But Nickelodeon is adamant that it won’t go down without a fight.”
- “The network remains the leader for advertisers despite its ratings hiccups. ‘Nick’s absolute ratings are so much higher than anyone else,’ said Gerri Donini, senior VP for broadcast at media-buying shop RJ Palmer. ‘You have to be on Nick if you are a kids’ buyer. You need it for ratings points.’”
- “Nickelodeon’s ratings declines may also actually drive up the cost advertisers have to pay kids’ networks to reach a thousand viewers, a measure known as CPMs, because it means ad inventory has become more scarce.”
- “Advertisers would like to see a big show emerge, however, after several years of subdued excitement in the space.”
- “Moms will be a focal point for kids’ networks, which are looking to the adult market as a way to grow revenue.”
- “NickMom, a nightly block of programming, will launch at the end of the year on Nick Jr., which Mr. Perry says gives the brand an opportunity to talk to the adult market.”
- “The Hub, a partnership between Discovery Communications and Hasbro, has also latched on to the idea of appealing to parents’ nostalgia. With the success of classics such as ‘Transformers,’ The Hub has been attracting new advertisers from insurance, financial, beverages, travel and leisure, apparel, video dating and technology categories, according to Margaret Loesch, president and CEO of the network.”
- “Disney is on a similar track. ‘Moms love Disney. It is a great place to target moms, and she is a big part of the equation,’ said Rita Ferro, executive vice president, Disney media sales and marketing.”
- “Disney Channel doesn’t accept traditional advertising, but does have sponsorships. Disney Junior, a network that will launch on March 23, also only has sponsorship opportunities. The Disney XD network sells both regular commercials and sponsorships.”
- “John O’Hara, Cartoon Network’s exec VP of advertising sales and marketing, noted that pre-Easter inventory has sold well, with strength in toys and movies and a slow return of video games. The food business remains weak for kids because of regulation that makes it more difficult to advertise fatty and sugary snacks to them, but Mr. O’Hara said Cartoon Network is offsetting that with some new business from retail and apparel partners.”

➤ **March 9 KidScreen [article](#)**

Nickelodeon is creating new short-format content to be viewed on its website.

- “Looking to increase its comedic talent pool and expand its development slate, Nickelodeon has announced the creation of a new animated shorts program that will produce 10 one-minute shorts that could be turned into longer animated comedy series to air on the US kidsnet or Nick.com.”
- “Nickelodeon is accepting submissions in all styles (2D, digital 2D, stop motion, CG or mixed media) from animation talent including artists, designers, writers and directors from inside and outside its network.”
- “Comedians selected to produce a short will be given artistic and production support by Nickelodeon and the shorts will be produced at Nickelodeon Animation Studios in Burbank, California.”

Next Steps

Blueshift’s next report on OTT will focus on Comcast’s Streampix and the Verizon/Redbox partnership and their effects on Netflix. We will continue to monitor cable cord cutting and assess any new catalysts that could increase the number of canceled cable subscriptions. We will uncover more data on Apple TV’s adoption with consumers. We will pursue more details on ratings companies and their efforts to measure viewing on all platforms. We also will monitor ratings of children’s content, both linear and online, particularly given Nickelodeon’s announcement of new content inventory for the spring. Finally, we will check on Intel’s intentions to offer an OTT solution.

OTT/VOD Trends

Additional research by Seth Agulnick, Lindsay Gadsby, Dann Mauro and Carolyn Marshall

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