Tech Giants

Race for the Platform

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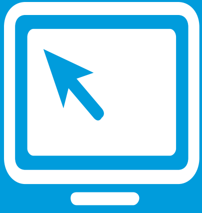

Race for the platform – Tech Giants scenario

In this paper, we look at the possibility that tech giants will win the race for the platform and become the dominant platform for consumers to obtain premium content.

In our introductory paper, Race for the Platform: what's around the next curve? (June 2017), we examined the evolution of the premium content business and specifically the possible evolution of over-the-top (OTT) business models. We considered various outcomes and believe that, ultimately, platforms will emerge to become the new aggregator of content.

The resulting platform model would be significantly different than what is currently in place, and would cater to the needs of the customer in ways that traditional cable and numerous standalone OTT offerings don't. Rather than forcing TV viewers to juggle several devices, remotes, and subscriptions, a platform model would essentially create a one-stop-shop for content delivered through one access point (including one subscription and one bill).

The fight for the customer's time is also paramount, since they have more entertainment choices than ever, but a finite number of hours per day. There is even the potential for traditional triple-play offerings to grow and change, with entertainment offerings bundled with social offerings, online shopping, services and experiences in the physical world, or other services that the customer truly desires.

In this paper, we look at the possibility that tech giants will win the race for the platform and become the dominant platform for consumers to obtain premium content.

These tech giants are companies whose dominant business is social media, e-commerce, gaming, or mobile device ecosystems, with an established base of users, many of whom are already spending time away from their TVs and on the products and services offered by these companies. For these tech giants, media and content are just one offering in a much larger ecosystem to capture consumers' time and wallet. They are also poised to capture markets like gaming, smart home systems, machine-learning personal assistants and in-car navigation.

Over the last few years, many of the tech giants have joined the fray with OTT, offering a variety of OTT skinny bundles and subscription video on demand (SVOD) and transactional video on demand (TVOD) offerings; some have taken the approach of funding original programming and licensing or acquiring existing entertainment franchises, while others have concentrated on live video and bringing live events to their users, such as sports and concerts. A strong desire to keep users within their ecosystems will drive these companies to provide premium content and a great experience to keep users from looking elsewhere.

This paper explores the tangible scenario that will allow these tech giants to take the lead in the new world of OTT content delivery, as well as examine the challenges and obstacles they face. We will also examine implications for other players in the ecosystem if tech giants take the lead.

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Why get into premium content?

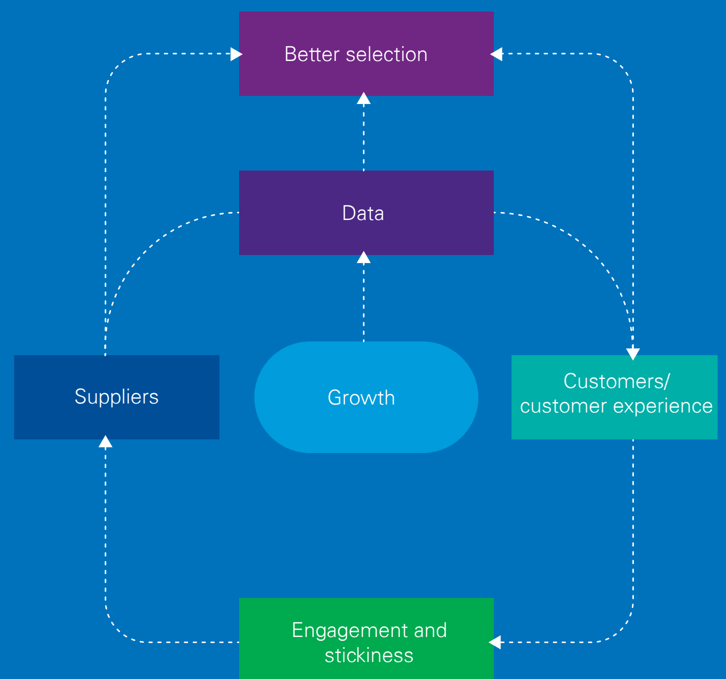
Simply put, it's about getting a larger user base, making people spend more time within the ecosystem, and capturing bigger share of wallet. Many tech giants that are getting into OTT and premium content are already platform companies in their respective categories. The value of their platform increases as more and more users spend time (and money) there, creating a network effect. The tech giants see OTT and premium content as another way to strengthen their "flywheel", offering additional content to improve their customer experience and add customer value—further enhancing the network effects of their platforms.

For instance, while many of them are dabbling in different forms of subscription-based models (e.g., SVOD), the big social media platforms and Google/YouTube are essentially advertising businesses. These companies are all vying for users' attention when they consume media, so the more places they're available to the consumer, the stickier the users will be (i.e., the more they'll stay within the site or ecosystem). These platforms charge their advertising customers a premium based on the eyeballs and searches they can bring, as well as how long their users stay in their ecosystem. So, it's imperative for platforms to give their users incentive to spend time with their services. In addition, these companies, along with the e-commerce giants, collect data on users and their behaviors so they can provide a more targeted user experience and cross-sell other services within their ecosystems.

Likewise, for consumer device ecosystem players, it's about strengthening and extending their ecosystem. For e-commerce giants, this is another value proposition to grow their membership ecosystem as well as the ability to gather and use customer profile data.

Flywheel

The concept of "flywheel" was first popularized by Jim Collins in his book *Good to Great*. A flywheel is a system in which each of its elements serves to accelerate the "rotation" or "speed" or "trajectory" of the system. Improving or "accelerating" any one of the elements and, as the flywheel rotates or spins, will benefit the rest of the elements, further accelerating the spin. The flywheel concept is what drives the accelerated growth of many platform businesses.



For example, for a car hailing platform, building a superb and seamless experience (e.g., seamless payment for service, easy to use cross-platform app, etc.) can potentially attract more customers to try the platform, which in turn attracts more drivers and cars wanting to reach this larger number of potential customers. Attracting more drivers and cars increases the selection and lowers the wait time, which improves the customer experience and attracts even more customers. This positive-reinforcing cycle brings more traffic to the platform and enables better data to further differentiate the offering and improve customer stickiness and engagement. The whole system becomes a "flywheel" that accelerates the spinning and grows.

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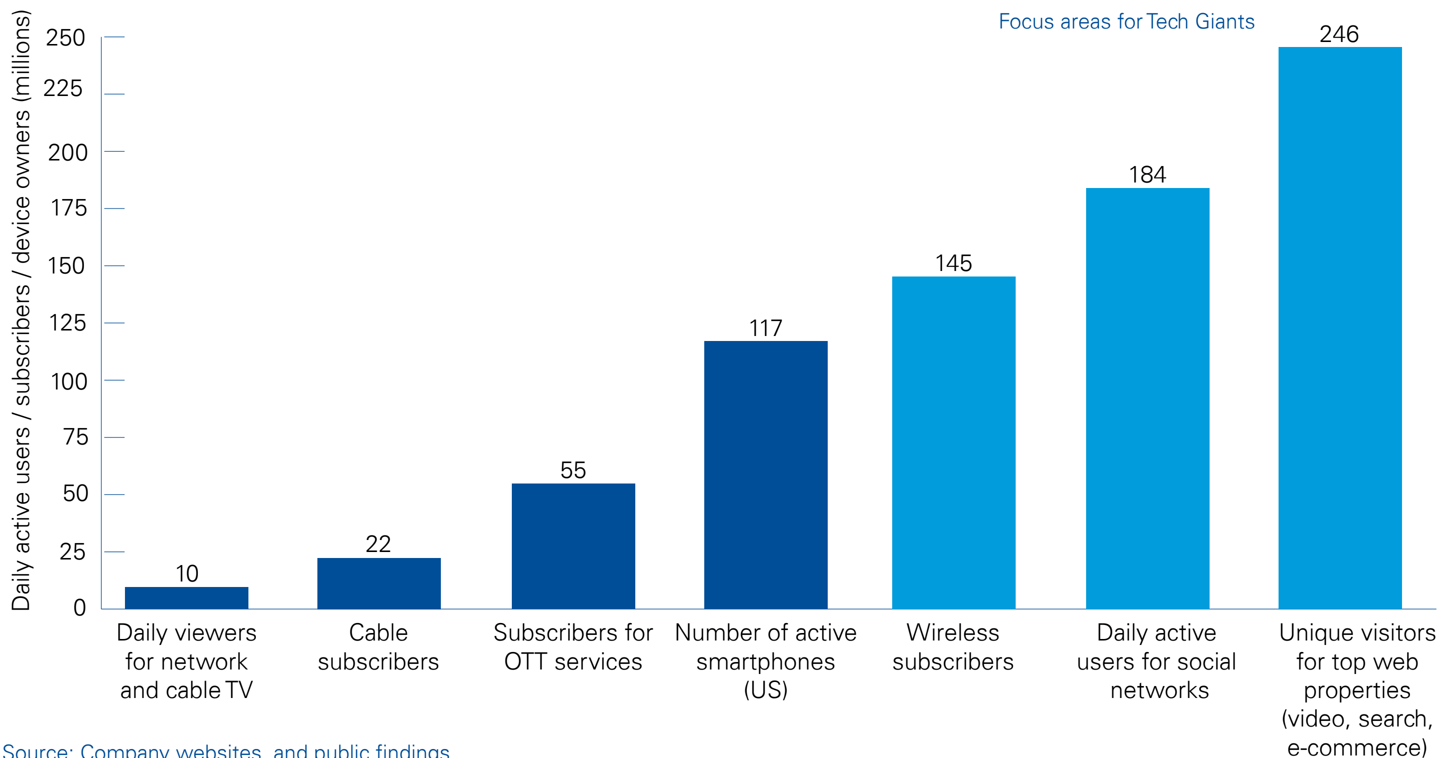
Tech Giants have massive scale

Why can these companies take the lead? It starts with their massive user base. Many of these tech giants are already ubiquitous as dominant players in their respective categories, with a large, engaged user base, intuitive technology and user experiences. Virtually all of them have evolved their ecosystem to incorporate a multitude of products and services, becoming platform companies in their own right. Additionally, understanding what makes content appealing to different demographics through data analytics allows tech companies to tailor every part of the content creation value chain to be a hit with targeted demographics.

Active users and subscribers for different services, by leader of each category

Daily active user and subscriber numbers vary greatly for different types of services, with a distinct advantage for the tech giants compared to more traditional outlets. Most notably, the number of daily unique visitors for the top web property for video, search and e-commerce is in the hundreds of millions, compared to only tens of millions of viewers for the top TV channels.

Chart includes a single company in each category (shows category leader only).



Source: Company websites, and public findings

Tech giants allow users to shop and play games from their devices, engage and interact with others through social networks, make purchases from anywhere, and instantly receive multimedia news and information from their communities and around the world. Since tech giants are already incorporated into many aspects of our lives and are a go to destination for many non-media activities, the idea that these companies could integrate these disparate activities with different forms of OTT media content into a single experience isn't so far-fetched.

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Having users interact with premium content from within their sites and ecosystems helps these companies in two ways:

TIME – It gives users a reason to stay on the site or within the ecosystem, potentially for an extended period of time, and potentially providing more opportunities for ads and taking a larger share of wallet with incremental spending, and

DATA – It provides yet another dimension of user behavior that tech giants can track to capture data, enabling them to refine their products and services to further enhance their user experience and stickiness, provide targeted ads that command higher rates from advertisers, and explore other ways to monetize that data.

The data advantage

Most importantly, these tech giants have access to a vast amount of subscriber usage and behavioral data, and possess the capability to actually analyze them to come up with user habits and curated content. This is a distinct advantage over traditional multichannel video programming distributors (MVPDs), who have limited user information via subscription data and digital video recorder (DVR) and video on demand (VOD) selections, that isn't nearly as comprehensive as the tech giants' data.

Billions of data points give the tech giants a lot of power. These can help the companies refine the user experience, figure out which content will have wider appeal, and also provide information that can be monetized through higher ad rates, cross-sell and up-sell within their ecosystems, and new services. In certain cases, choices of books, music, electronics, and even clothes can help tech giants determine what products and shows to highlight when you click on their OTT apps.

The richness of customer data gathered by tech giants could quickly create a moat that traditional media ecosystem players cannot easily surmount. Tech giants are able to engage a customer throughout the day with their myriad of services, compared with media companies that engage with customers only during the hours when they are consuming media. This may enable them to construct a richer picture of their customers' lives and give them another opportunity to create differentiated services and content.

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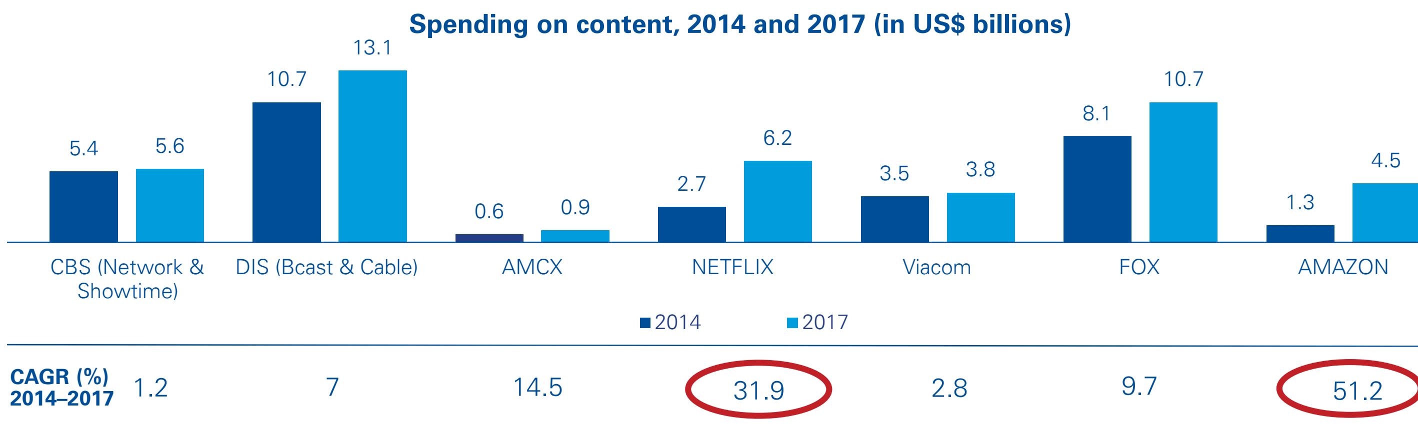
Deep pockets and economic flexibility

Tech giants also have the advantage of deep pockets and the awareness that content isn't their main revenue driver. They derive the majority of their current revenue from businesses largely independent or "orthogonal" to the media business—whether it is digital advertising driven by search or social media interactions, e-commerce, device sales, gaming, or other subscription services. Many of these services are profitable and have enabled tech giants to build a sizable war chest. They are able to subsidize an OTT media offering with the revenue and profits from these businesses. Some even use the OTT business as a loss leader to attract users/subscribers to their platform, or use different bundling strategies that include media content. This allows them to take bigger financial risks on creating new content, investing in experienced and new talent, bidding for live content like sports, award shows, music, and gaming tournaments, or bidding for exclusive rights to stream existing entertainment franchises.

The OTT titans are not only spending more, but they are also carrying their traditional competitors up the spending curve with them. OTT players are increasing demand for original content productions, requiring traditional players to invest more deeply in original content to differentiate and secure audiences in a competitive environment.



In terms of content spending, the annual growth rate of Netflix and Amazon from 2014 to 2017, was much higher, as compared to traditional cable networks.

Sources: Company data; Jefferies estimates January 2018

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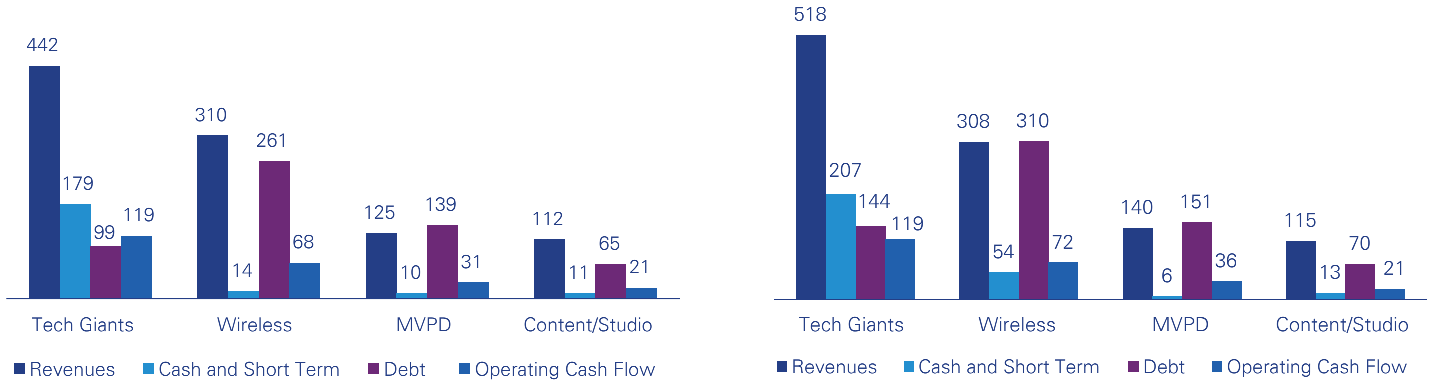
Financial Information – aggregate of top 3 companies by Industry player type



Source: S&P Global Capital IQ 2018

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Innovation clockspeed

Technology and innovation are at the core of why the tech giants have been successful, giving them the ability to roll out new capabilities and improved user experiences at increasing clockspeed; something that MVPDs, wireless providers, and content owners may not be used to doing. Without the burden of legacy infrastructure and customer installed base, these tech giants can leapfrog MVPDs and wireless providers with the latest technologies at an accelerated pace.

On the production side, release cycles for new content are often faster for tech giants, and they can be more experimental, and be able to take more risk enabling them to create programs most TV networks aren't able to greenlight, furthering potential differentiation. The leading platform players have invested heavily in producing original premium content, and based on the popularity of these projects, they have earned more subscriptions. This has fueled a content/capital cycle, in which these tech players can then invest the revenue from the increase in business into new content that engages existing subscribers and continues to attract a broader audience.

Tech giants are not beholden to slower budgeting cycles around TV seasons and can leverage viewer data to greenlight new content ad hoc and rapidly. They also have seemingly unlimited inventory for new shows, so their volume can be larger than traditional TV outlets that only have small prime-time windows, thus accelerating overall speed of content to market by volume.

"Tech giants can introduce a show with less risk than traditional players," said Phil Wong, Principal, KPMG Strategy. "If the content is engaging, users will share by word-of-mouth and social media. If it's unappealing, they will click into content they like better, with a low risk of canceling their subscription based on one show they didn't like. The same is not true for the traditional TV series model where people leave your ecosystem once they flip to another channel."

The innovative culture powering these tech giants also enables them to experiment with emerging content forms, like virtual reality (VR)/augmented reality (AR) crowdsourcing and user-generated live content, faster than traditional media could. Many of these tech giants are also very customer-centric. Many tech giants are also investing heavily on AI and AI-driven voice controls, which give them a unique customer experience and differentiation. Coupling that with their high innovation clockspeed has enabled them to be trendsetters in user experience, establishing implicit standards in usability, convenience, and integration that others may find hard to follow.

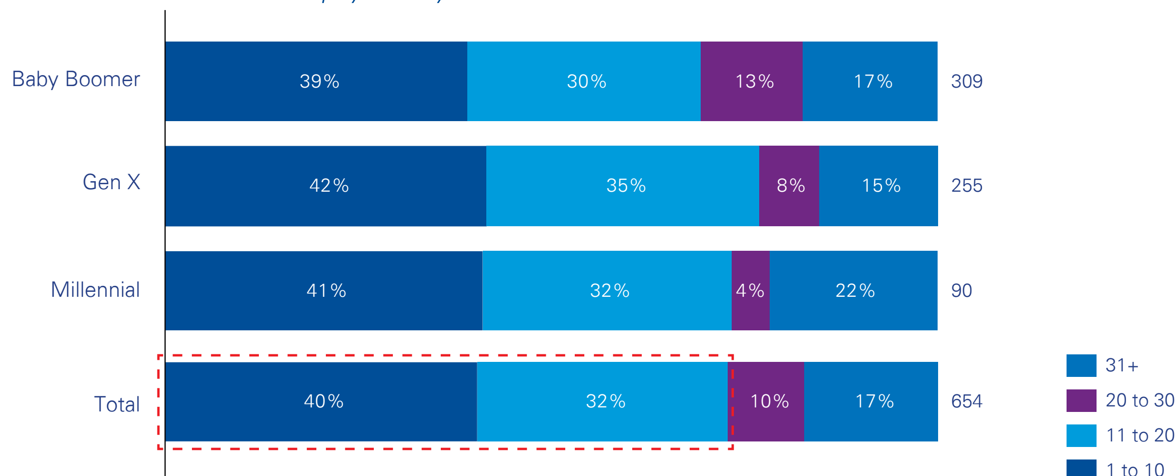
A different type of bundle

Another area where some tech giants have started to make inroads into the OTT space is by providing skinny bundles of different networks. Think about the cable bundle many people subscribe to now, with local stations and channels that provide live events like sports and music along with premium channels and other basic cable favorites. The entrance of these tech giants skinny bundles could pose a significant threat to existing media players and disrupt the media value chain.

Skinny bundles are an attractive option because most consumers already watch a limited number of channels. KPMG's consumer survey[1] results show that 72 percent of consumers watch 20 channels or less, approximately the size of an evolving bundle. It's also notable that 40% percent watch less than 10% of available channels.

How many channels offered by your pay-tv service do you typically watch per week? (where 'watch' is greater than one hour per week) (n=654)

Respondents that subscribe to pay-tv only



Source: KPMG Consumer Survey (Q2 2017)

[1] Pay-TV versus OTT: A KPMG online consumer survey of 2000+ pay-TV and OTT subscribers in the U.S. (Q2 2017). This includes pay-TV only subscribers, OTT only subscribers, and pay-TV and OTT subscribers.

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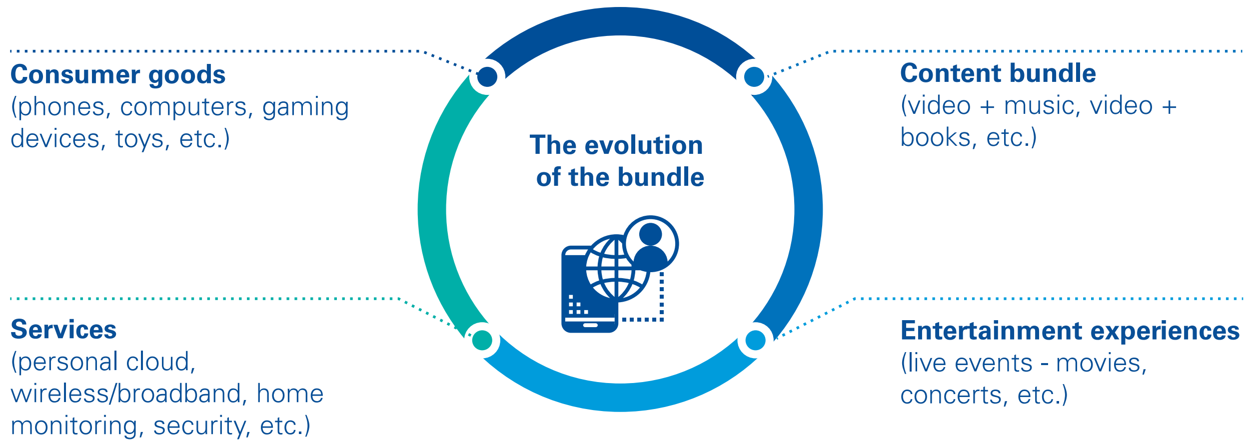
The tech giants are also changing the way users think about bundles. It's not just about getting your favorite sports channel along with the ones that provide premium programming. These companies started getting people to reimagine what a bundle can be by combining user-generated content—videos, live streams—with curated content. Then they bundled all of it with social interaction, giving users input on what programming the company should pursue. Now these bundles have evolved to include channels that a customer really wants, without having to take ones they don't.

Increasingly, the concept of bundling has expanded even further than content. We call these "super bundles." Tech giants are now also bundling premium media content with their other lines of businesses, whether it is e-commerce, device purchases, or non-video content (like books, music, etc.), creating bundles that give their users incentive to spend more and more time with their services or purchase on their devices. Their user bases are already paying to be within their different ecosystems (retail purchases, extra cloud storage, membership, app purchases). The idea of bundling premium content as an additional purchase for their existing user base isn't as big of a leap as it might be for other providers.

Tech giants offer a mix of bundles and services that keep customers in their ecosystem, and they continue to diversify offerings to package a compelling mix of content. Some examples include:



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The tipping point

The race for the platform is all about the fight to seize the majority of the limited hours a day a person consumes media. The trend of cord cutting, eliminating cable or satellite TV and relying on OTT for our entertainment needs, is small but increasingly eroding the user base of MPVDs.

Over the last five years, the amount of time that consumers have spent on these services or devices has been on the rise. That percentage is only going to increase in the coming years, especially as the technology to consume media on any device improves with gigabit broadband and, in the mid-2020s, widespread adoption of the high-speed 5G cellular networks.

Tech giants will know they've reached the tipping point when the amount of time people spend in their ecosystems meets or exceeds the time they spend consuming media via traditional means. "The beginning of the tipping point may already be here, because a lot of people are in these ecosystems already, and younger generations are going to these ecosystems by default" said Phil Wong, Principal, KPMG Strategy. "There are still a lot of moving parts to see how this plays out. But if you're participating in the media industry, you should prepare for this scenario." The increasing investments by tech giants in "traditional content" like featured movies, TV series, live sports, etc. and emerging media like gaming, user-generated content, or "stories" would only accelerate the inevitable arrival of this tipping point.

Challenges and obstacles

One of the biggest obstacles to the tech giants becoming the dominant players in media is, to put it bluntly, customer inertia. As we said, while cord cutting is on the rise, almost three out of four people, according to KPMG's consumer survey[2], still want to consume their media via traditional means, which means via cable and satellite on the TVs in their houses. The act of flipping on their TVs and passively watching after a long day of work is still a strong draw for many, and there isn't much of a desire to switch. Viewers may use these tech giants' platforms for specific video content, but it may not replace cable in the near future.

Additional results from KPMG's survey show 83% of pay-TV only subscribers have not explored replacing pay-TV with an OTT service due to concerns around pricing (25%), lack of live TV content (20%) and lack of sports content (10%).

It's no surprise that the younger the generation, the more willing they are to consume content via the less traditional methods. Boomers still watch linear TV, and while some watch on other devices, they are by and large the biggest consumers of traditional content. People in Generation X are more comfortable watching media across devices and services, they are more apt to be cord-cutters if they think they're paying too much money for too little of what they want. The tech giants know that Gen X buys devices and services and are willing to buy into their ecosystems. Millennials may have the lowest spending power now, but their habits can be shaped. They are spending a lot more time away from the TV, and their social media preferences seem to shift from year to year.

Another challenge is that many users still rely on wireless and cable providers for connectivity. These providers bundle their video services with connectivity services, creating a compelling enough value proposition for users to stay with them and not switch.

A third obstacle is that, while the tech giants are starting to become proficient at creating original content and opening up their deep coffers to producers and studios to make that content, two more hallmarks of premium content will be live events, such as sports, and catalogs of existing franchises. The live event landscape will be competitive, with rights fees bound to sharply rise as live-streaming platforms prove that users want the additional coverage they can provide. In addition, studios who own existing movie and television franchises will likely start increasing rights fees to their content as more OTT providers get into the fray to acquire that content. In the case of some of the studios, they may use their valuable franchises and start their own OTT service, making the remaining content available even more expensive.

[2] Pay-TV versus OTT: A KPMG online consumer survey of 2000+ pay-TV and OTT subscribers in the U.S. (Q2 2017). This includes pay-TV only subscribers, OTT only subscribers, and pay-TV and OTT subscribers.

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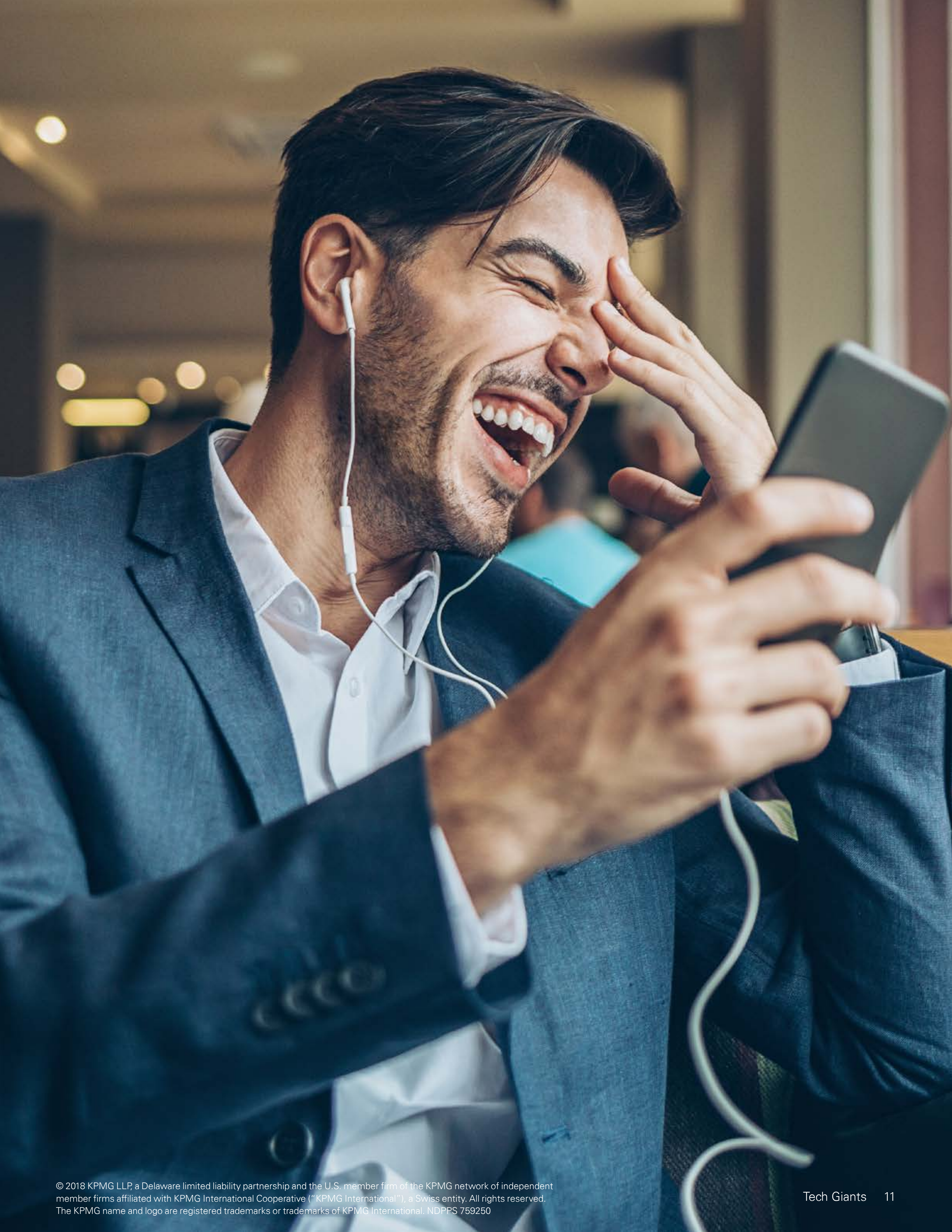

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At some point, people will get tired of paying a half-dozen different providers to piece together all of the content they want. The large tech giants are in a great position to dominate as a one-stop shop for all premium film and TV content, especially because a number of them have user bases that are already paying into their ecosystem. A consolidation of content delivery is bound to happen, which could result in a system where the leading tech giants become the primary way people consume media. Other players—smaller tech giants—would inevitably take a secondary role in content delivery, but could form viable partnerships with traditional players, and while not center stage, should remain flexible and ready to explore these options when the time comes.

But, as formidable as these tech giants are, their emergence as the dominating way people consume media may provide opportunities and risks for others in the value chain.

Framework and implications

Player: Studios and Content Creators

Key risks

Higher cost of content production/acquisition due to:

— Increased competition for talent and rights may raise costs as tech giants invest in their own premium content.

Becoming disintermediated in their roles as financiers and facilitators for content creators:

— Tech giants are increasingly dabbling in content creation and ownership causing studios to lose their unique value-add in the traditional media value chain.

— Talent and content creators can go directly to tech giants as the platform to get connected to viewers, and for monetization sources without the help of a studio.

Lower revenue and margin pressure due to:

— Not capturing the economics from being "the platform."

— New content licensing deals/economic structure with tech giants who may have a lot of bargaining power.

— Increased content availability may drive down licensing fees as tech giants get more and more invested in their own premium content.

Unable to tap into the value of customer data:

— Innovation in the media industry points to the increased use of customer data analytics to enhance content offerings.

— Without a credible direct-to-customer offering or access to customer data, content owners may lose out on the innovation benefits.

Potential responses/actions

— Achieve scale and strengthen content catalog through acquisitions and partnerships.

— Focus on brand and content franchise building—build a potential platform around content franchises beyond media.

— Consider a direct-to-consumer play—depending on scale, independently or partnering with other content owners.

— Position assets and operations for sale to maximize investor value.

Observations

— It's a double-edged sword for content owners. On one hand, the tech giants have deep pockets, and if they choose to bid on premium content like existing franchises—or even pay the studios to create original content—their presence in the bidding will be of great value to studios and content owners. Tech giants can be a ready source for capital and for reach that could help content owners expand the base to monetize their brand and premium content.

— The reach of the tech giants is also a value-add for the content owners, in two ways:

1) Content owners receive the opportunity to be associated with an ecosystem that already has a large base of users who will watch the content on multiple devices, and

2) The companies can provide studios demographic data that may help them develop future programming.

— However, as the tech giants move aggressively in acquiring and producing their own premium content, weaker studios lacking scale may get marginalized as more and more premium content floods the market.

— Also, in a scenario where tech giants emerge to be the dominant platform in the market, they could yield considerable pricing power on smaller, less powerful studios, squeezing fees and royalties.

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Player: Broadcast and TV Networks

Key risks

Left out of the skinny bundle:

- Loss of affiliate fee and advertising revenue.
- Less leverage to negotiate with both "the platform" (tech giants) and existing advertising partners.

Loss of brand power and recognition

- Shows and celebrities are a greater draw for audiences than network brands, and as tech giants pour in investments in talent and new content, traditional networks may lose their attractiveness.
- Increased power to command premium advertising dollars may also decrease as viewership gets spread into to other channels.

Higher cost of content production/acquisition due to:

- Increased competition for talent and rights may raise cost as tech giants invest in their own premium content.

Potential responses/actions

- Build a direct-to-customer (DTC) play and revisit content strategy to strengthen the value proposition to customers and create stronger loyalty to brand and content franchises.
- With DTC offerings, use viewing data to enhance overall content franchise value through adjacent offerings (e.g., merchandise, live shows, digital assets, alternative formats).
- Double down on premium and live content (e.g., sports, breaking news) and local/hyper-local content.
- Consider an acquisition or sale to build scale (horizontal integration) and/or expand along the ecosystem (vertical integration).
- Create value by leveraging their brand and legacy/new content to take advantage of the distribution opportunities provided by the tech giants.

Observations

Similar to the threat from OTT on traditional linear programming, the network's traditional role as content curators, investors, and developer could be threatened.

- Bigger networks (e.g., big 4) will likely have the scale and content strength to create their own DTC offering, and maintain negotiating power with the tech giants although they may see their power and viewer loyalty diminish over time.
- Smaller (cable) networks will have a harder time coping with the emergence of platforms. They will likely have to consolidate or have a truly unique content strategy to survive.

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Player: MVPDs

Key risks	Potential responses/actions
The "triple whammy" erosion of revenue and margin due to: — Erosion in subscriber base and dollars. — Leading to lower power in negotiating programming fees and ad dollars. **Higher cost of content production / acquisition due to:** — Increased competition for talent and rights may raise costs as tech giants invest in their own premium content.	— Increase their own OTT offerings at the right price points. — Revisit current bundling strategy and expand on other home-oriented/media-oriented experiences to take advantage of customer inertia, their current presence in many households (through the cable box and modem), and the physical field force. — Improve customer experience through innovation and partnership. — Acquire or partner to gain scale, increase breadth of offering (horizontal expansion), and expand along the value chain (vertical integration).

Observations

— Since most traditional MPVDs provide the pipe that goes the last mile to people's homes, they might be in a strong position, especially given the consumer inertia we've seen from our consumer research.

— Potential change in net neutrality rules may also enable them to control access and bandwidth, and gain a share of the tech giants' revenue in media/OTT.

— There is a potential new competitor providing broadband to the home as wireless carriers rollout 5G offerings that provide high speeds and large bandwidths.

— Some tech giants are toying with the idea of offering their own connectivity services (either free, ad-driven, or as part of a bundle of other offerings). That may also erode the MVPD position (but likely not by much) as the connectivity provider.

— But if the tech giants succeed in providing premium content that's readily available where people are already using their ecosystems on mobile devices, the MPVD's position could erode.

Player: Wireless carriers

For additional insight, see KPMG's Wireless World paper

Key risks	Potential responses/actions
Increased competition in areas where wireless carriers are investing to expand their business, impacting the value proposition and ROI of those investments and their goal to becoming a consumer platform: – Digital, premium, and live content. – Mobile/digital ads. – Connected consumer devices/IoT.	— Accelerate acquisitions or partnerships to gain scale and expand along the value chain (vertical integration).

Observations

— There is already some impact here, with wireless providers starting to acquire content providers, as well as commission original content that is exclusively available to their subscribers.

— With 5G wireless technology still a few years from widespread use, it may be worthwhile for these providers to partner with the tech giants to give priority to their content, whether net neutrality rules stay on the books or not.

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About the authors

Paul Wissmann
National Sector Leader, Media and Telecommunications, KPMG LLP

Paul is the national sector leader of KPMG's Media and Telecommunications practice, which provides services to companies in the entertainment, cable, satellite, telecommunications, advertising, publishing, and digital media industries. Over the course of his 30 years with KPMG, Paul has provided audit services to media, telecommunications, information, and entertainment clients. In addition, he has provided mergers and acquisition services, including working on a number of large transactions involving well-known media companies, and has consulted with companies regarding the implications of changes to their business models and potential acquisitions. He has given presentations on a wide range of business issues disrupting the media and telecommunications business, including the transformative changes currently impacting these industries.

Phil Wong
Principal, Technology, Media, and Telecommunications, KPMG Strategy

Phil has more than two decades of experience working with marquee technology, media, and telecom clients. Clients acknowledged Phil for his strategic insights and his remarkable ability to connect strategy to execution. They value the versatility and experience Phil brings across a multitude of business issues, such as innovation, business and operating model transformation, profitability improvement, customer experience innovation, and go-to-market effectiveness. More recently, Phil has developed a strong interest in understanding and guiding how companies transform into new business and operating models in the face of disruptive technologies or competitors (e.g., direct to consumer, over the top (OTT), XaaS, etc.).

Scott Purdy
Managing Director, Technology, Media, and Telecommunications, KPMG Strategy

Scott is the Media sector lead for KPMG Strategy in the United States and has worked across all segments of media, including film, television, digital media, publishing, advertising, as well as business-to-business media and information services sectors. He specializes in growth strategy, business and operating model strategy, performance improvement, and merger and acquisition (M&A) advisory. Prior to KPMG, Scott held leadership roles in corporate development and strategy at both Dow Jones and McGraw-Hill. His experience also includes several years at a strategy consulting firm.

David Pessah
Director, KPMG Innovation Labs

David is the technology, media, and telecommunications lead for KPMG Innovation Labs, specializing in OTT transformation and platform business models. KPMG Innovation Labs mine signals of change and help our clients take action. He began his career advising top executives at Fortune 500 brands on their digital strategy while building and mentoring early-stage start-ups. At Thrillist Media Group, David formed the social media practice, driving program and product development across their media and e-commerce properties. At KPMG Innovation Labs, David specializes in services including platform business model assessment and development, start-up scanning, and design thinking for business model innovation.

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Contact us

Paul Wissmann
National Sector Leader,
Media and Telecommunications, KPMG LLP
T: 213-955-8518
E: pwissmann@kpmg.com

Scott Purdy
Managing Director, Technology, Media, and
Telecommunications, KPMG Strategy
T: 212-954-4207
E: slpurdy@kpmg.com

Phil Wong
Principal, Technology, Media, and
Telecommunications, KPMG Strategy
T: 617-988-6332
E: philipswong@kpmg.com

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