Wireless World

Race for the Platform

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Race for the platform – Wireless World scenario

Wireless carriers already have the combined strength of connectivity, bundling and low marginal costs, affording them a distinct advantage in becoming the platform of choice for pairing mobility and premium video access.

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 maturation of over-the-top (OTT) business models. We considered various outcomes for this evolution, and believe that ultimately a platform will arise that will become the new aggregator of content, as the traditional video distribution ecosystem over cable, satellite, and fiber optic becomes challenged.

The resulting platform model would be significantly different than what is currently in place. It would cater to the needs of the customer in ways that traditional cable and numerous 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 OTT, network, and premium content, delivered through one access point (that is, one subscription and one bill).

In the rapidly shifting content delivery ecosystem, which players are likely to win the race for the platform? In this paper, we look at the possibility that the wireless providers will become the dominant platform for consumers to obtain their premium content.

Market advantage: connectivity

The smartphone has become the control center of our lives. In the U.S. alone, the number of smartphone users is expected to reach 224 million by the end of 2017, and projected at 271 million by 2022.[1]

One outgrowth of our reliance on smartphones is a major shift in content consumption preferences. Mobility has changed the game in terms of where and when people consume content. In this mobile first landscape, when virtually everyone has a smartphone and they all need connectivity delivered to those smartphones, the wireless carriers have a significant market advantage. With the trifecta of smartphone adoption, constant connectivity, and the promise of 5G, they are well-positioned for the future.

The wireless carriers have three distinct advantages that lay the foundation for them to become the platform of choice for pairing mobility and premium video access.

- **Connectivity –** With our growing dependence on smartphones and need for constant connectivity, combined with the promise of a 5G future, the wireless carriers provide the clearest path to a single network provider that meets all the connectivity needs of the consumer.
- **Bundling –** The consumer will likely move to an option where they can get cost savings from a bundled offering of connectivity and premium content (whether in an a la carte or pick-a-package environment). This is not simply about pricing, it's about crafting a reimagined bundle that doesn't exist today. Regardless of provider, the optimal combination of content and delivery will gain market advantage. The wireless carriers own the pipe for connectivity, and have the existing relationship with the customer, but they currently lack a compelling content offering.
- **Low marginal costs –** Wireless carriers have a massive economic incentive to monetize the content going over their networks, especially as they continue to invest large amounts in network upgrades. Ultimately, monetization of the bundle will rest with the content provider, whether inside or outside of the wireless provider ecosystem.

[1] Number of smartphone users in the U.S. 2010-2022 (in millions). Individuals of any age who own at least one smartphone and use the smartphone(s) at least once per month.

Source: Statista DMO
https://www.statista.com/statistics/201182/forecast-of-smartphone-users-in-the-us/

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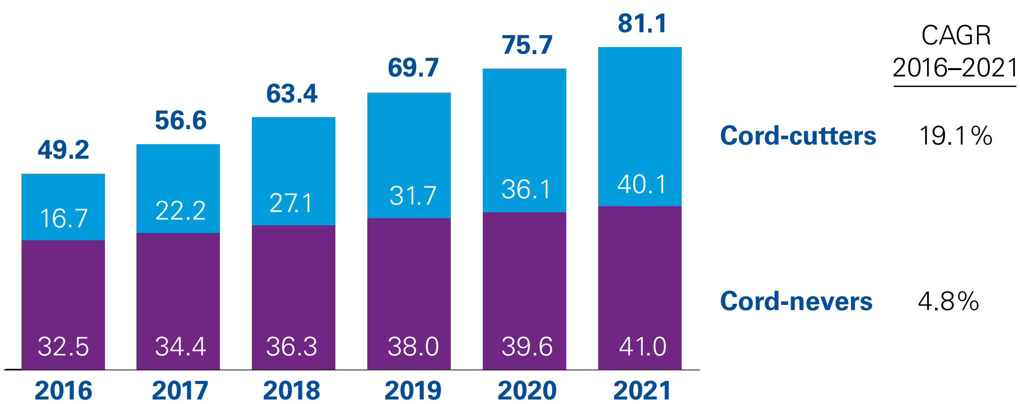
No longer business as usual

The traditional bundling of premium content with the underlying delivery network has been the primary business model for decades. The seeds of change began with the offering of the network separately, via the sale of broadband service without bundled content. This movement intensified with the shift to mobility where the out-of-home experience was just as important as, or maybe more important than, the in-home experience. This explains the move by many content players to try and shift to a more all-encompassing experience, while still maintaining the existing business ecosystem that pays the bills.

There are important elements putting pressure on the existing ecosystem. It's clear that with the increasing importance of mobility the wireless players are in an interesting position to take advantage of these changes. The fragmentation of viewing, the increasingly high price of pay television subscriptions the increasing number of alternatives to standard bundles, and millennial purchase and viewing patterns are just a few of the changes simultaneously in play. These pressures are slowly starting to impact how share of wallet is allocated to viewing choices, and there is evidence that people are increasingly foregoing pay television.

Cord-cutters and cord-nevers are on the rise

Number of U.S. cord-cutters and cord-nevers, 2016–2021 forecast, in millions



Source: eMarketer, July 2017

There are other factors to take into account when considering the wireless providers as the primary platform in a new premium video ecosystem. Mobility is a necessity that has put certain traditional in-home providers—such as cable and satellite—in a difficult position. The consumer clearly expects a fully mobile experience for their entertainment options, and access to a superior wireless network is fundamental to success in the new video ecosystem.

"The providers that opt to conduct business as usual to protect themselves from the economic hit of transformation will be left by the wayside. Creating a competitive bundle with a compelling video offering is not only essential to compete against other industry players but also against other wireless providers," said Paul Wissmann, KPMG's national sector leader for media and telecommunications.

Wireless providers have the advantage of owning the wireless connection to the consumer, and some have branched out to offer their own OTT offerings, as well as other forms of digital media and premium content. Moreover, 5G technology, with its promise of vastly greater data speeds and capacity, could be a strong enabler for wireless providers to position themselves in the new landscape. They could offer a more relevant triple play (mobile, 5G delivered home broadband and TV).

The promise of 5G wireless technology holds the possibility of a sweeping transformation of the TV and film industry into a platform business model. While a 5G standard has not been finalized, the capabilities of what is expected from 5G are strong contributors to solving the current limitations of speed and capacity. Although several years away from practical widespread deployment, 5G offers a bigger pipe, a faster stream, and lower latency.

In addition, the future of 5G also includes the likely emergence of a viable high-speed broadband service to the home, without the same last-mile issues of other competitors. 5G would eliminate the need for that "neighborhood infrastructure" and could become the sole source for Internet connectivity for home and mobile, in addition to phone service.

Customer is king

It's safe to say that consumers have historically shown that they favor simplicity and easy access, as long as it is delivered with competitive pricing. Which makes a single supplier—or extremely limited number of suppliers—a necessity for seamless delivery and access to content.

Wireless providers have an advantage in their strong customer base and consumers' desire to have an out-of-home high-speed wireless connection. It is therefore likely that the wireless providers will be able to be a one stop shop for broadband needs, both in and out of the home.

This advantage may be challenged, as others try to exert themselves as the platform of choice. But without the wireless network access, it will be hard for anyone else to compete with as compelling a proposition. To further round out their offerings, wireless providers could possibly acquire a large content creator to make sure they have a seat at the content distribution table.

While overall media consumption is slightly growing, the devices such as mobile phones and tablets are growing the fastest, while most other traditional outlets are shrinking.

Growth of average time spent per day with major media by U.S. adults, 2014–2019

Percentage of change

	2014	2015	2016	2017	2018	2019
Digital	7.3%	6.0%	5.1%	4.1%	3.5%	2.8%
—Mobile (nonvoice)	15.7%	11.0%	8.9%	6.5%	5.2%	4.0%
—Desktop/laptop**	-1.9%	-2.0%	-3.3%	-2.0%	-0.6%	-0.4%
—Other connected devices	15.0%	21.2%	24.5%	15.0%	9.1%	7.0%
Radio***	-2.0%	-1.0%	-1.0%	-0.7%	-0.6%	-0.5%
TV***	-3.7%	-3.7%	-1.9%	-3.1%	-2.5%	-2.2%
Print***	-9.1%	-10.4%	-10.1%	-6.4%	-5.3%	-4.4%
Other***	-16.5%	-7.3%	-6.8%	-6.6%	-5.7%	-4.9%
Total	0.1%	0.4%	0.9%	0.4%	0.5%	0.4%

Note: ages 18+; time spent with each medium includes all time spent with that medium, regardless of multitasking; for example, 1 hour of multitasking on desktop/laptop while watching TV is counted as 1 hour for TV and 1 hour for desktop/laptop; *time spent with desktop/laptop includes all Internet activities on desktop and laptop computers; **excludes digital

Source: eMarketer, September 2017

Another consideration is the impact of 5G in the race for the customer. “In addition to impacting consumers’ current mobile needs, 5G technology is going to be significant as it relates to emerging technologies, such as IoT or autonomous vehicles,” said Wissmann. “It really comes back to bundling concept, and how the wireless carriers are able to bundle and monetize their offerings to stay one step ahead of customer needs.”

In order to create a new, truly coordinated bundled offering, carriers must successfully cobble together the rest of the ecosystem and integrate more broadly. They will need to work not just with content providers but also with others, such as auto companies, cities (smart cities), and IoT providers to produce a truly all-encompassing product that makes the purchase easy and use just as easy.

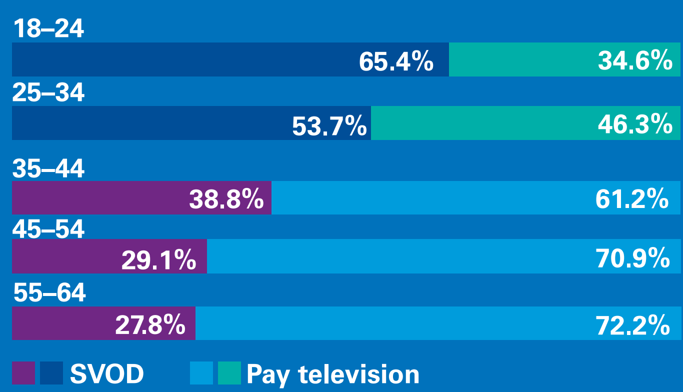
This level of integration is not a one way proposition. Other players in the ecosystem must see the need to work with the wireless companies to enhance their own success, or these potential partners may quickly become the primary obstacles. One proactive move that we are already seeing from the wireless players is to vertically integrate through acquisition. This would make them important players in all levels of the business model, and therefore create a hurdle for other players to go around them. Without the wireless network access, it will be hard for anyone else to compete with as compelling a proposition.

The predictability of the millennial continues to dog the existing framework. The question of whether we can expect them to act like their parents may miss the point. This may not be a matter of changing preferences and economic situations as they get older but more the fact that, whatever their ultimate tastes and economic situations, the impact of the changing technology will never make their parents’ actions a relevant indicator. Therefore, we believe that, while the millennial may change what they watch over the coming years and how much they spend, the way they watch it and the expectations of the way they consume it have forever changed the dynamic of the video ecosystem. There is no turning back. The millennial is wedded to a mobile future where they can get what they want on demand.

When comparing pay television and SVOD preferences, the millennial segments look very different than Gen X and Boomers.

U.S. Internet users who would choose pay-TV versus subscription video-on-demand (SVOD) services if forced to choose, by age, July 2017

Percentage of respondents



Note: n=1,297 broadband users who subscribe to both pay TV and SVOD. The Diffusion Group (TDG), “Benchmarking of the Connected Consumer,” as cited in press release, July 12, 2017.

Source: eMarketer July 2017

The question is when, not if.

What's the biggest hurdle today in finding the sweet spot of access and price? It's very difficult for consumers to replace what they are getting from the pay television providers with an OTT offering. Piecing together the services that are available is cumbersome, let alone the large amount of current season premium content is not available on an OTT subscription basis at an affordable price.

According to KPMG's consumer survey, 83% of Pay-TV only subscribers have not explored replacing Pay-TV with an SVOD, and 64% of pay-TV/SVOD subscribers have not explored replacing their pay-TV with an SVOD.

Pay television is incredibly sticky (for now)

83%
of pay television only subscribers have not explored replacing it with OTT service due to concerns around:

~25%	**20%**	**10%**
Pricing	Lack of live TV content	Lack of sports content

64%
of pay television/SVOD subscribers have not explored replacing their pay television with just an SVOD.

Source: Pay-TV versus OTT: A KPMG online consumer survey of 2000+ pay-TV and OTT subscribers in the United States (Q2 2017). This includes pay-TV only subscribers, OTT only subscribers, and pay-TV and OTT subscribers.

The tipping point will be when the economics of the current pay television system do not provide enough revenue to sustain the content owners. This will show itself in lower subscriber numbers for traditional large cable/satellite packages. At the same time, you will see a sharp increase in skinny bundles on either an OTT basis or over the traditional delivery system. When the cable networks see overall subscriber decreases at even a 10-15 percent level there will be strong pressure for many on their underlying economics. A strong indicator will be that some of the less popular networks will start to fail. When that happens the velocity of change will increase and a non-pay television consumer proposition will fully come to fruition. As the number of subscribers fall, as the advertising revenue becomes more challenged due to viewership shifts, and as the new platforms emerge providing content owners with economic incentives, the new OTT video ecosystem will begin to take hold.

Expectations are high for the 5G future, and news headlines are full of predictions about when 5G will be a reality, but the time line to move from the current testing phase to widespread implementation, commercial use, and monetization is still unclear. According to a Juniper Research forecast,[2] 5G connections will reach 1.4 billion worldwide by 2025. Further, a recent Ericsson report predicts the 5G market will grow to $1.23 trillion by 2026.[3]

Once reality, the 5G rollout will open new opportunities and challenges for wireless carriers and their potential partners as they navigate the best path forward for commercial activation and customer adoption of 5G.

[2] Juniper Research. press release. August 14, 2017
[3] Ericsson press release February 27, 2017

Challenges and risks for wireless providers

Wireless providers are in a very unique position. They are currently the only player with an obvious path to full connectivity for the consumer. That makes them a necessary part of any future consumer proposition, regardless of who owns the platform. The path forward is leveraging this strength while navigating the potholes of regulation, changing technology, and changing consumer dynamics. It is clear that some wireless players are already trying to ensure their position via vertical integration.

"It certainly makes sense that if you own, for instance, a significant piece of the content, it would follow that you will not be left out of the decisions of where content moves in the future," said Scott Purdy, managing director, Technology, Media and Telecommunications, KPMG Strategy. "Playing from a strong position by owning the network, especially a 5G network, and protecting yourself from content owners marginalizing you by owning significant content may lead to a winning hand."

However, the path for the wireless providers is fraught with some obvious challenges and risks. The large investments in building out a 5G network have not yet been fully determined. In addition, how fast they are able to build out the network while other industry segments make their own platform plays could make carriers too late to the party. Also, once they build the 5G network, how quickly carriers can get the consumer to choose that option is going to be a matter of pricing, clear differentiation, device, and hardware acceptance, among other factors. The international picture is even murkier than in the United States, and there is a sizable risk that international considerations may also come into play.

The limitations of spectrum holdings by the wireless providers may also become a barrier. While there have been—and continue to be—large investments in spectrum, it remains to be seen whether the providers will have adequate coverage to obtain the benefits of a 5G network throughout the United States. And, as with any new technology, will 5G live up to the expectations once it does come to reality and large-scale deployment? If not, it may be less clear that the value proposition—and with it the pull of the convenience factor—is weighed in their favor.

The providers are also challenged by the current regulatory environment, which is a moving target. Whether it is issues such as net neutrality, a regulatory environment that is more consistent with a utility due to the importance of the network to our daily lives, or ownership restrictions, these and other issues will continue to impact the ability of the providers to succeed as platform players. It is hard to imagine that something as fundamental to our daily lives will not be subject to a great degree of regulatory pressure.

Other players will undoubtedly create formidable competition in the race for the platform, as others in the ecosystem either try to create strong propositions of their own or consider their own platform to create a broader consumer offering, possibly even using premium content as a loss leader for other aspects of their business.

Framework and implications

If the wireless carriers are positioned to become the dominant content delivery platform, what are the risks for the other players in the ecosystem? How do content creators, broadcast and television networks, multichannel video programming distributors (MVPDs), and tech giants need to adapt their business in order to remain relevant in the race for the platform?

Player: Studios and Content Creators

Key risks

Lower revenue, margin pressure, and less data due to:

— Not capturing the economics inherent in being "the platform."

— Not fully capturing the direct-to-consumer (DTC) opportunity, especially data.

— New content licensing deals/economic structure with wireless providers.

Target for IP acquirers

— Content producers are potential acquisition targets by wireless players.

Increased competition and content costs

— Additional sources of content from the wireless providers themselves.

— Content owners keep the providers out of the bundling business. As the ecosystem changes, lack of access to a wide breadth of premium content from multiple owners will restrict any platform plays.

Potential responses/actions

Scale up through partnership

— Partner with other content creators to launch your own DTC platform.

— Partner with other content providers for greater negotiating power with the wireless providers.

— Partner directly with a wireless player to provide content on their platform.

Scale up through acquisition

— Scale up to support negotiations, and to avoid becoming an acquisition target.

Make yourself a more attractive target for acquisition

— Maximize enterprise value as the seller.

— Streamline the business.

Free up cash for IP and content development

— Reduce your cost base and allocate more resources to IP.

Revisit content strategy

— Revisit content strategy and deploy resources against higher ROI content.

— Develop a portfolio of content geared more for mobile consumption (short and medium form).

Observations

Key risks and potential responses

— Most content producers would not have the required resources to make it on their own as a platform, but the financiers, like studios, might be better resourced.

— There are opportunities to partner, but content producers don't have as much negotiation power and there are limits to partnership.

— The relationship with the consumer and the data that follows are a key element to advertising revenue.

— A shift in power to the wireless platforms means content producers may lose programming fees and/or lose investments. This is similar to the current situation with the cable players versus broadcast networks. Access to the consumer demands negotiating with wireless platforms.

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Player: Broadcast and TV Networks

Key risks

Left out of the wireless/skinny bundle

— Loss of affiliate fee and advertising revenue.

— Less leverage to negotiate with both wireless platform providers and existing advertising partners.

Loss of brand power and recognition

— Network and audience brands are a much less significant draw for consumers than their favorite shows and celebrities.

Potential responses/actions

Merge or acquire to scale up reach, relevance and efficiency

— Combine with other networks to creates *must have* content bundles (this is already underway).

Rationalize and/or rebrand networks

— Divest or shut down non-core networks.

— Move select networks to niche-friendly platforms and run them as separate OTT/DTC businesses.

— Rebrand to more consumer focused and audience centric brands.

Observations

— Broadcast and TV networks are potentially most at risk.

— M&A activity and consolidation is likely.

— Channel optimization and prioritization of content investment will continue to accelerate.

— Rebranding is an inevitability.

— The OTT and DTC business model will likely remain a monetization/profitability challenge for most.

Player: MVPDs

Key risks

5G could drive the loss of broadband

— The potential impact to MVPDs is dramatic, since broadband has been a key growth area.

— As 5G becomes a very strong competitor to the MVPD's existing broadband base, it will also erode their video value chain.

Loss or weakening of competitive advantages

— As MVPDs continue to lose their relationship with the Pay-TV customer, they run the risk of going from owning the space to owning only the hangers-on.

— MVPDs that do not act quickly enough to create a new and compelling service bundle run the risk of the wireless carriers finding other avenues to launch service that is more desirable to the customer.

— A wireless platform could cut out MVPDs in the television/video value chain.

Reduced negotiating power

— As MVPDs lose scale, they would likely lose bargaining power in their negotiations with content players, and potentially upend the economics or accelerate the consumers going to another option.

Potential responses/actions

Acquire wireless capabilities

— Via partnership or M&A, to compete head to head with the wireless platform.

Increase broadband speeds to compete with 5G offerings

— Favorable pricing for the consumer may also be a driver.

Identify the next service to bundle

— Leverage the 80M household penetration into offering another service, perhaps related to IoT or connected home.

Acquire exclusive content

— Consumers are still going to want high-quality content anywhere and everywhere. Find a way to bundle so customers are still paying bills through you.

Leverage data

— MVPDs are missing an opportunity with data-rich set top boxes. If they can accelerate the process of finding ways to create real value from data, set top boxes could provide an important revenue source.

Observations

— There is the potential for complete disintermediation of the MVPDs.

— MVPDs have faced challenges to their bundled offerings before, and they've always been able to find the next big thing to evolve the bundle.

— This time, it could be around different services for the home and IoT.

— An easy fix in the short term is around broadband pricing and Internet speeds.

— The move into wireless by MVPDs can be seen as a first step in addressing the potential threat from wireless carriers and 5G.

Player: Tech Giants

Key risks

Reduced consumer engagement

— Losing access to consumers during a significant portion of their day is a major risk. Anytime you allow someone else to draw the customer away, it's a missed opportunity in terms of the time and the associated ad dollars, as well as the data that comes with having customers in your ecosystem.

Erosion of data advantage

— OTT/Direct-to-Consumer plays enable wireless carriers to collect consumer viewing and behavioral data in ways their core mobile connectivity business cannot. This may threaten the current advantage enjoyed by tech giants, many of which have built revenue models that rely on consumer data (e.g., digital ads, paid searches, etc.).

Reduced opportunity to grow ecosystem/platform

— For tech giants, video content isn't the only area vying for customer time and attention. For example as wireless players make inroads in emerging areas like home security or connected home, that's more time out of the ecosystem.

Power shifting back to whoever controls the pipe

— With uncertainty in net neutrality rules, there may be a scenario where wireless carriers could leverage their control of mobile connectivity to either extract additional revenue from tech giants as they deliver their services over the pipes or create service bundles that favor the wireless carriers' own OTT services.

Potential responses/actions

Strengthen content in the battle for consumers' attention and time

— Many tech giants have started to invest in their own premium content to create a compelling reason for consumers to spend time on their services.

— In addition to owning the premium video market, tech giants could also consider acquiring IP for live programing, and focus their investment in live sports and other events. This could potentially result in greater value and less risk for them.

Recreate the bundle to attract and retain consumers and their time/wallet

— Premium video and live events are just additional ways for tech giants to attract and retain consumers on their services. For many consumers, these are not the main reasons why they engage with the tech giants.

— Focus on a unique consumer value proposition and experience through bundling of different services to win consumers' time and wallet.

Take control of the pipe

— Consider the strategic importance of owning wireless or wired connectivity. Potentially create defensive strategies through MVNOs, partnerships, and leveraging tech giants' own extensive network to negate potential threats from pipe owners.

Observations

— The proliferation of voice-controlled smart speakers and devices may play an important role in the evolving ecosystem.

— Last-mile advantage of the wireless providers may seem like a compelling strength, but may change as technology continues to develop. Advancements in possible Wi-Fi networks could pose a challenge.

— There has been movement towards a fleet of low orbit satellites delivering high speed broadband. Significant investment in these and other areas are being made.

— We could see changes in technology resulting in more options for the consumer that would be similar to those of the wireless providers post-5G implementation.

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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
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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
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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 in both Dow Jones and McGraw-Hill. His experience also includes several years at a strategy consulting firm.

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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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