The future of television in the UK

Will you act or react?
The Future of Television in the UK: will you act or react?
The UK TV industry remains at the forefront of innovation

Our global paper *The Future of Television* maps out the global trends that are shaping the medium that has historically been known as television – and which today, in a world of Netflix, YouTube and tablets, is rapidly being absorbed into the wider category of ‘visual media’.

Media & Entertainment (M&E) companies worldwide need to do more than react to today’s challenges. Change is happening more quickly and across more dimensions. Companies need to start driving operational changes that will prepare their businesses for the future of television.

That’s the strategic imperative for the industry globally. But what does this mean specifically for the UK? How and why is the UK television market different and distinctive from the rest of the world? How will the UK television landscape be reshaped by today’s trends? And how can today’s industry players capitalise on the resulting changes?

We’ve produced this UK-focused supplement to *The Future of Television* to answer these questions and more – and to provide M&E companies operating in the UK with further insights and thinking to help guide their own strategies going forward. We examine how audiences are increasingly assuming the role of editor over their own media choices – and the implications that this shift brings for the way content is sourced, produced, distributed and consumed.

Put simply, there’s never been a more exciting time to be in the television in the UK, or a more uncertain one. The opportunities are legion. It’s time to seize them – or risk having to play catch-up.
“The UK’s TV market has always been a great case study. It’s a successful mix of embracing the latest trends and generating world-renowned, quality outputs.”

Jean-Benoit Berty, UK&I Partner – Technology, Media and Telecommunications Industry Leader, EY
The UK

A global hit

As the reshaping of the global TV industry gathers pace, companies worldwide need to do more than simply react to today's changing and challenging TV landscape. In the UK, change is happening more quickly and across more dimensions than at any point in the 90-year history of television services. Against this backdrop, companies need to take action by starting to drive the operational changes that will prepare their businesses for the future of television and visual media.

Never before has the UK TV industry been as disrupted as it is today. Such an unprecedented state of flux inevitably creates a mix of risk and opportunity – giving rise to uncertainty and excitement in equal measure.

The analysis we present in this paper is relevant not only to traditional content creators, aggregators and distributors, but also to new entrants, to potential competitors seeking to enter this space, and to investors seeking to understand wider trends. For all these players, our aim is to provide a fresh, all-round perspective on the UK industry to help guide future strategies. The UK media sector is in a strong place to exploit the opportunities this disruption brings. To avoid being sidelined, we urge organisations to consciously decide if they will act or react as the pace of change continues to accelerate.

“We urge organisations to consciously decide if they will act or react as the pace of change continues to accelerate.”

Sharon Stotts, Director, EY

Press play

If you look at TV globally today, it's clear that the UK is a trendsetter, a creative powerhouse, and a centre of innovation. With a creative industry valued over £7 billion and close to 1.71 million jobs, the UK has a prominent place on the global stage. It is home to world-leading formats ranging from Strictly Come Dancing and Come Dine with Me to smash hit dramas that cross cultural and geographical boundaries such as Downton Abbey and Sherlock.

Exports of UK TV programming to China increased 90% from 2011 to 2012, to £12 million. This unprecedented rate of growth dictates that organisations need to be operationally fit to benefit from the wave the UK is currently riding.

What's more, the UK has scale. With annual spending of almost £4 billion,1 it's the world's fifth largest market for TV advertising – and according to Ofcom research, the BBC licence fee and multichannel subscriptions mean the total market is worth over £12 billion.2 A further £3 billion is spent on original content productions.3

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Consumers are demanding a more personalised and customisable service — and are willing to pay if it adds value to their lives. Changing demographics are driving new consumption patterns: an over-50 A-C1 consumer views television differently — and seeks different content and consumption experiences — from a 25-year-old C2.

The outlets for visual media are proliferating rapidly, including the expansion of internet-based services.}

Accelerated technology change is driving more choice on how and when we consume television content.

The growth of independent production capabilities — “the indie sector” — is increasing the volume of available content and boosting the opportunity to drive creative talent into this fast-growing, world-leading UK industry.
Consumers are demanding a more personalised and customisable service — and are willing to pay if it adds value to their lives.

Changing demographics are driving new consumption patterns: an over-50 A-C1 consumer views television differently — and seeks different content and consumption experiences — from a 25-year-old C2.

**Force 02**

**Personalisation**

Consumers are demanding a more personalised and customisable service — and are willing to pay if it adds value to their lives.

**Force 03**

**Demographics**

Changing demographics are driving new consumption patterns: an over-50 A-C1 consumer views television differently — and seeks different content and consumption experiences — from a 25-year-old C2.
Current market context

An unprecedented age of disruption and innovation

Today, the UK TV market is experiencing transformational change at an unprecedented pace. The driving force and enabler of change is digital technology in all its guises: social, mobile, cloud, data, smart devices such as smart TVs and more.

While the migration to digital is clearly a global trend, it has particular power and resonance in the UK – as reflected by the many developments in which the UK has been a global leader, from spectrum changes to free catch-up services to rapid take-up of tablets.

Radical change in consumption habits ...

By the end of 2014, 26.4 million people – or 41.1% of the UK population – will be using a tablet at least once a month and 34.6 million will be using a smartphone.4

When it comes to the readiness with which UK consumers are embracing digital behaviours, these are just two examples among many. And in aggregate, these shifts are fundamentally changing the ways in which content is delivered and consumed. We are increasingly seeing “binge viewing”, where people watch multiple episodes of the same series either in one sitting or in continuous back-to-back viewings at the expense of all other content. We’re also seeing bite-sized ‘snacking’ of short-form content. It’s a “consume all or in pieces” model.

... enabled by new forms of distribution

This is able to happen because distribution is changing. Technology providers are seizing new opportunities to drive revenue growth from content origination and transmission, thus creating a whole new market. The talk is of “anytime, anywhere” consumption – and all the major broadcasters are turning it into reality by pushing content onto connected devices. By end 2014, 18.7 million people in the UK will be watching video on their mobile phones at least once a month, a 17.8% rise on 20135 (see Figure 1).

“Few countries have adopted digital technologies as rapidly or as completely as the UK. From content producers through to audiences, there’s a track record of not only embracing but shaping innovations.”

Martin Holyoake, UK&I Partner, EY


NB: Mobile phone users of any age who watch video content on mobile phones through a mobile browser, subscription, download or application at least once a month.
Yet, at the same time, the rising availability of internet catch-up services on TV sets is helping to sustain the dominance of the traditional device in the corner of the living-room, as it transforms into a web-connected hub. The number of requests to the BBC iPlayer for TV content is currently running at almost seven million per day. For commercial operators, the shift to digital and on-demand distribution models and platforms means rethinking not just content formats and brands, but also the revenue split between advertising, subscriptions and content sales.

New OTT entrants join the party

Simultaneously, the same technology that is enabling the likes of Sky Go and BBC iPlayer to flourish is creating opportunities for new competitors to encroach into broadcasters’ traditional strongholds, and to leverage technology to scale up rapidly. The rise of OTT (over-the-top) services is one illustration, with services including Netflix and Amazon Prime, formerly Lovefilm. Since launching in the UK in early 2012, Netflix is estimated to have built up a base of around two-and-a-half million paying customers across the country.

The result of these developments – as highlighted in EY’s global Future of Television report – is a battle among multiple and diverse players to capture and monetise audiences. Throughout the ecosystem, the main weapon in this battle is innovation, which has become an imperative as a new content model emerges. As a result, content is becoming:

- **Integrated** – providing a seamless experience across multiple devices
- **Contextual** – relevant in terms of content and format for the individual viewer
- **Ubiquitous** – available wherever and whenever the viewer wants to consume

An industry-wide transformation of this scale and depth inevitably creates market opportunities. We’ll now look at the qualities needed to seize them.

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Realising the opportunities of a changing TV landscape requires a new focus

Each organisation’s approach to content will vary depending on where it sits or places emphasis in the value chain. Likewise, the roles of individuals across that value chain need to flex and change if the organization is to be successful. But, whatever its positioning, an organisation looking to succeed in a world of evolving content models will need to equip itself for change, develop new skills and capabilities at the same time delivering operational excellence and growing the bottom line.
Place the audience at the centre

42% use social media while watching TV

Personalisation is expected. So much so, audiences now expect to have settings in place and choices made for them.

Content is ...
Integrated – across multiple devices
Contextual – relevant to viewers
Ubiquitous – where and when viewers want

UK is an inspirational TV market Worth £15bn

The Future of Television in the UK: will you act or react? 11
Audiences are fragmenting: reaching them requires a more personal experience and service.

The TV audience can no longer be segmented in simple terms. In addition to traditional patterns of age, gender, demographics etc, new characteristics are emerging. What device is viewing taking place on? Is viewing occurring in parallel with social media? What niche viewing habits are creating a community? These generational and behavioural shifts — enabled by new technologies — are creating new consumption patterns as audiences are freed from traditional viewing constraints. An over-50 A-C1 consumer views television differently — and seeks different content and consumption experiences — from a 25-year-old C2.

Engaging this increasingly fragmented audience is not about closing the gaps by creating a single piece of content for everyone, but instead offering a more personalised experience. At some level, audiences want to be able to take

“For many, there’s a lack of experience in utilising data. There’s a certain amount of ‘growing up’.”

Rahul Gautam, UK&I Partner, EY
control, customising the TV experience for themselves by selecting their own channels, playlists, interface and user experience.

For example, the iPlayer’s 30-day catch-up window is a way for audiences to act as editors, scheduling their own content. To varying degrees, people are willing to surrender personal data in return for a more individualised, more controllable and less uniform experience. They are also willing to pay – directly or indirectly – if it adds value to their media experience.

**Three steps to a seamless experience**

From the consumer’s point of view, a provider’s ability to deliver a seamless, personalised user experience is a fundamental differentiator. And for providers themselves, it is a way to add value to the audience. A personalised experience demands a firm grasp of data – so media businesses now need to grow up as data businesses.

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8. “Where have all the young viewers gone?” Enders Analysis June 2014.
In a multi-device, multi-platform world, we believe that companies need to do three things:

1. **Aggregate data across the enterprise** to create a single, unified view of each member of the audience. This is increasingly challenging when each individual owns multiple devices. Many achieve this through a single log-in that is uniform across their devices.

2. **Democratise the availability of data**, allowing access to all parts of the enterprise that need the audience data. Too often, audience data is housed within the marketing department as a smarter way to sell advertising. EY research shows that only 39% of media and entertainment CFOs believe information is shared effectively around their organisation — and the same percentage say real-time data can be accessed when it’s needed.9

Utilising visualisation techniques is also an important element of the democratisation process, acknowledging that not everyone in the organisation has or even needs to have the analytical skillsets to manipulate the data.

3. **Make the data forward-looking and relevant.** This means changing the culture and mindset from one of reporting backwards to predicting forwards. Companies need to identify which data is meaningful and which is just ‘noise’, and use the meaningful data to identify future trends for defined audience groups and individuals.

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**EY takeaway: Personalisation is no longer nice-to-have – but expected as a given**

When companies are devising their data-driven personalisation strategies, they need to take into account the fact that personalisation has moved from being a “nice-to-have” for consumers, to something they expect as a matter of course. Audiences want the ability to make choices themselves – but to an increasing extent, they may want many choices to be made for them. Getting access to data is only part of the battle and can be a double-edged sword: it’s what you do with the data and how you protect it that really matters. So data needs to be embedded throughout the organisation – and the right tools, skills and processes need to be developed to enable it to be used and protected in ways that add value for the consumer, and thereby ultimately for the provider. The effort required managing the potential risks to brand and reputation cannot be underestimated.
Placing the audience at the centre

The audience will look for content on their own terms – so they should be at the centre of the distribution model.

Today’s TV consumers sit at the centre of a web of technology, with multiple choices about where to find content. It’s a world of ubiquity: whether they’re commuting, sitting at home, lying in bed or away on holiday, they want to access content on their own terms. As a result, placing constraints on choice has become harder for companies to justify and harder for consumers to tolerate.

In response, content businesses are increasingly looking to capitalise on the multitude of devices and platforms available to them. A particular case in point is the way OTT services and incumbent broadcasters are increasingly stretching across multiple platforms. Sky, for example, has long since ceased to be a satellite service. Instead, it’s a content platform accessible on computers, mobiles, smart TVs, games consoles and via cable, satellite and broadband. ITV is also spreading across platforms. Their Chief Executive, Adam Crozier, said in 2013 that they have also invested heavily in online platforms and, as result, their digital and pay-TV revenues more than doubled. The same is increasingly true for all major media businesses in the UK.

What’s more, this trend towards a wider range of devices appears to be accelerating. By 2020, 15% of all UK TV viewing is forecast to be on devices other than the traditional TV set – but that figure rises to 33% among 16–24 year olds.¹⁰

EY takeaway: optimisation of the digital supply chain

To reach the audience, wherever it wants to be found and via whatever device, requires an optimised and tightly managed digital supply chain. This is vital for providing insight into what content or content rights are held, and how can this content be distributed to the audience at the point, time and place of need.

But organisations also need to connect with the audience and by engaging with the audience during idea generation and the greenlighting process, the development life cycle can be reduced.

¹⁰ “Where have all the young viewers gone?,” Enders Analysis June 2014.
Intensifying competition for content demands a more efficient approach than ever before to production and sourcing.

In a recent EY survey of media and entertainment CFOs, 24% of respondents ranked “creatively differentiating content creation and production” as their organisation’s top priority – only the evolution to digital ranked higher (26%). But achieving differentiation through production is being made more challenging by the shortening of production cycles.

There are several forces at play. With rising competition for content driving up costs, we are seeing impact from an intensification of M&A activity in the production sector to inflation in the price of content rights. These trends are being driven – at least in part – by new entrants into the TV space, and the scaling-up of investments by major players who are looking to differentiate their offerings. There are many examples – including the launch of BT Sport, the acquisition of Channel 5 by Viacom and investments in original content by Netflix, such as the reported £100 million it is investing in drama series ‘The Crown’.

In the same EY survey of media and entertainment CFOs, we found there was a shift away from the pure cost-cutting that characterised a lot of strategies during the recession and towards efforts to drive efficiencies into the business. Production is no longer off limits. We believe the key areas of opportunity for efficiency improvement in UK TV production include:

1. Equip personnel with relevant training and skills.
2. Implement more efficient reuse and reprovisioning of content across media and for future use.
3. Improve working practices, including standardisation, automation and elimination of duplicate processes.
4. Have clear leadership and strategy that values operational excellence.

EY takeaway: taking a holistic view of content

Whether a company’s role in the value chain is as a production business, a content distributor or both, the competitive landscape is demanding a more holistic view of the type of content that is produced and sourced. Content production is strategic as well as a creative process. In our experience, savings of 15–20% can be made in production through challenging entrenched processes and bringing techniques such as LEAN to content production. This can be reinvested in better or more on-screen content. Going forward, the level of competition is only likely to intensify further – and it will be to have a strategy in place which informs the myriad investment decisions that drive costs. These should take account of Government incentives and tax breaks (see information panel).

UK production incentives: encouraging creativity and attracting overseas businesses

In recent years, the UK Government has created incentives for the UK production sector. Partly as a result, the UK now has a relatively favourable tax status for media and entertainment companies – with an increasing amount of content being produced in the UK, involving all stages of the process including post-production.

Tax reliefs are already available on qualifying productions in animation and high-end television – and children’s television may also be added to this list. Three to five years ago, the UK’s tax structure incentivised relief for individuals, making personal tax advantages available from investing in productions, but more recently a shift has taken place to the benefit of production houses.

A growing number of US and other overseas production businesses are now locating in the UK to take advantage of the favourable tax environment and realise cost efficiencies from doing so. At the same time, they can also take advantage of the deep industry talent pools in the UK in general and in London in particular.
Content innovation

Traditional content models and formats are evolving rapidly, making innovation imperative.

An EY survey of executives from media and entertainment companies found that the top priority for their organisations was to “create a culture of innovation,” underlining the need to push back the boundaries of content formats and services. Today’s audiences view content in a vast array of different contexts, locations and situations – and are looking for different experiences. The success of YouTube has demonstrated that traditional 30 or 60-minute formats are no longer the be-all and end-all. And while linear TV has remained resilient, other technologies such as second screen and social networking are rapidly moving from disruptive to mainstream.12

Alongside different experiences, viewers are increasingly looking for different levels of engagement. According to a YouGov survey,13 42% of UK internet users are simultaneously using social media while watching TV. Many of these second-screen experiences are about making the viewing experience more immersive. When audiences become part of the action by commenting and helping to define the content, they cease to be passive voyeurs and become active participants.

Figure 4: Percentage of UK internet users who simultaneously use social media while watching TV, broken down by age, February 201414

The advent of cross-media content creation

This kind of cross-platform experience is increasingly important in shaping the story arch for content – with companion experiences, synchronous activity and dual screening rising rapidly. Content-related apps are hugely popular, with the XFactor app having been downloaded more than 500,000 times, Beamly, formerly Zeebox – which was created in the UK – over 200,000 times, and Shazam, with its heritage in music but increasing crossing over to TV, more than 7 million times.15

Much of the innovation in content formats is very adjacent, taking place around the fringes of traditional content creation. A more radical approach is ‘disruptive delight’, involving reimagining what audiences want and challenging current conventions to deliver whatever they are looking for. These consumers are agnostic in their content choices, multitasking, social, tech-savvy and highly engaged. They like local content and access to global brands, they want to be in control, they are impatient, they are mobile and they want a personal experience. Given these characteristics, content is only at the beginning of its evolutionary curve.

**EY takeaway: anticipating the impact of technology waves**

Traditional commissioning processes frequently see the opportunities of other technologies as additive to the core, traditional format, when in fact they may be central to future value creation. Audience expectations have changed radically, and will continue to do so. The iPad and similar tablet technologies are less than five years old, and yet they have already transformed how and where content is consumed. The next wave of technology innovation – such as wearable devices – will present further challenges and opportunities for content innovation. Exploring ways to engage audiences at different times in the life cycle can result in greater impact with the audience. In our experience, cross-platform engagement can result in an uplift of at least 25% audience impact.
The UK TV market is increasingly fluid — and, in a fluid ecosystem, it is vital to find partners who add value.

The traditional structures of the UK TV industry are in unprecedented flux. Recent months have seen a spate of transactions. New channels, new OTT players and new producers are looking to gain a foothold. All the major US studios are here — and they’re now being joined by a new raft of entrants including Netflix, YouTube, Apple, Amazon, Microsoft and others.

The UK also has indigenous competitors moving into this space, ranging from more established players such as BT and Talktalk to the aggressive efforts from supermarkets, such as Tesco’s Blinkbox. And at the other end of the size range, the UK’s vibrant start-up culture is also helping to keep the incumbents on their toes. All this change signals an urgency for organisations to adapt if they want to thrive.

Today, the UK’s indie industry bears comparison with that in any market worldwide and is a growing source of export revenues.

It is clear that there is a premium currently being place on ownership of content in the UK. For some, the value is seen as owning and producing content, and for others it is distribution.

Forging relationships in a changing landscape

Within this shifting ecosystem, companies need to take a close and careful look at partnering opportunities as they present themselves — and think deeply about what value they’re looking for, and who is best placed to offer it.

Today, there seems to be increasing uncertainty – or even fear – about these types of intermediaries between producer and audience. But by working together, companies can add value in terms of scale, rapid access to skills and expertise — such as data analytics — that were not previously critical to the businesses, but are now becoming pivotal to success. Rather than viewing the new relationships with scepticism, it could lead to a mutually beneficial union that plays to each other’s strengths.

EY takeaway: understand your potential foes – and friends

Can you identify the four to five companies that are the biggest threats to your business? Similarly, can you name those that are potential partners or stakeholders? It is quite possible that the two lists will be very similar. And searching successfully for the right collaborative tie-ups may mean looking beyond the usual familiar suspects to focus on new entrants and start-ups. Understanding the nature of the relationship with each of these players is critical, and will drive decisions about partnerships and ultimately acquisitions.
Conclusion

Turning today’s vision into tomorrow’s reality

For almost a century, the UK television industry has been transforming and renewing itself continually to meet ongoing shifts in technology, demand and society. But today, the forces at play are so disruptive as to throw into doubt the very notion of “television” as a distinct medium. And the reverberations are being felt at every stage of the visual media value chain.

However, whatever the pipe, platform or consumption behaviour, it’s all moving pictures with sound. Creating and delivering these pictures is an art and the UK has built up a track record of success that’s renowned and envied worldwide. To maintain this track record into the future, the UK TV industry now needs to take the actions we’ve described to harness the collective power of the five forces. This is a major challenge — and an unprecedented opportunity.

Finally, here are five key areas of questioning to consider:

1. How well does your business understand today’s audiences, how they are likely to evolve, and commercial implications of that evolution?
2. Does your organisation have a view of its audience that is commonly shared and understood from leadership downwards and all the way through commissioning and production?
3. Does your business have the systems, processes and organisational structures needed to deliver on its future vision? If not, in what ways must it transform – can it adapt and embrace change with the new structure and skills it will need to master?
4. Looking across your business, what is its appetite for innovation in the creative process and creative models and is it operationally sustainable?
5. In the TV landscape, which partners offer value in areas that will drive your business forward, and what is the best approach for capturing this shared value – build, buy or partner?
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EY no. EA0086
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