

Chapter 30

Television in Flux: Emerging Strategies for the Online Distribution of Television Programs

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ABSTRACT

The television landscape is in a state of flux. In this new environment, profit-driven media companies have to balance tradeoffs between traditional and new channels of video distribution to optimize returns on their investments in content generation. This chapter describes the challenges traditional television service providers face in adapting their strategies to an environment in which the internet is playing an increasingly prominent role as a new distribution channel. In the short to intermediate run there is the challenge of finding ways to monetize an internet audience without cannibalizing profits earned through traditional distribution channels. The longer-term challenge is adapting to a distribution technology that embeds a fundamentally different economic logic for video market organization. In this chapter, we describe and analyze current trends in the internet television market and traditional television industry players' efforts to respond to the opportunities and threats posed by internet distribution.

INTRODUCTION

When YouTube turned five in May 2010, the company celebrated its anniversary with a proclamation of its newest milestone on its official blog (YouTube, 2010). According to the YouTube

Team, the website exceeds two billion views a day. YouTube is currently the top video destination on the World Wide Web (Nielsen.com, 2010). The salience of digital media in everyday life is also underscored by other telling statistics such as the 41% year-on-year growth of video streams viewed in the U.S. to almost 11.5 billion monthly streams by August 2009 (Nielsen.com, 2009). The

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popularity of YouTube and other sources of online video is a telling indicator that the market for consumer video services is morphing rapidly. For decades, video was almost synonymous with TV services (networks and TV stations) that delivered programs in “pre-arranged schedules via one-way channels of communication.” (Wildman, 2008). While home recording technologies beginning with the video cassette recorder (VCR) and now digital video recorders (DVRs) have given viewers more freedom to decide when they will watch their favorite programs, the internet and other modes of distribution that allow viewers to select from programs stored on video servers offer viewers much more interactive and (self) customizable ways to access video content while at the same time altering the technological and economic logics that shaped the traditional television industry.

The nature of video audiences has also undergone a metamorphosis in recent years. While even fairly recently it was fashionable to think of the difference in consumption patterns between audiences for online content and traditional media in terms of generational differences, new market research is revealing that shifts in consumption patterns transcend generational differences. Market researchers are finding that viewers, young and old, are increasingly turning to online sources for some portion of their video consumption. Three years ago, the Pew Research Center estimated that 57 percent of online adults had used the internet to watch or download video and 19 percent were doing so on a daily basis (Madden, 2007). Now, more than 81 percent of total online users in the U.S. have used the internet to watch or download video. In April 2010, 178 million U.S. internet users watched online videos according to the comScore Video Metrix service, a total that had increased by 15 percent per annum over the previous two years (from 136 million in June 2008 and 157 million in June 2009) (comScore Inc, 2010, 2009, 2008). A then all-time high of more than 25 billion videos viewed online was reported in September 2009, but only six months

later that number had increased 20 percent to 30 billion videos according to an April 2010 report from comScore (comScore Inc, 2010).

For the still dominant suppliers of traditional television service, the growth of the internet and other forms of video delivery that allow viewers to pull content from network-based video services has created a strategic dilemma. While it appears that the future of television will be shaped by the new technologies, programs delivered through traditional “linear” channels still account for most of their viewers and totally dominate their profits. The internet appears to offer opportunities for incrementally adding to the audiences and revenues for programs today’s networks and TV stations already distribute, but it has become increasingly apparent that internet revenues may be gained at the expense of earnings through traditional channels, and, if not managed properly, the losses may substantially overshadow the gains. Based on decades of experience, networks and stations understand at an intuitive level the logic of service provision and the nature of competition in traditional channels, but video on the internet is a still-evolving competitive space where new, though yet to be determined, rules will almost certainly apply. The challenge is to manage what likely will be a years-long transition in a manner that leaves them strongly positioned in the emerging new video marketplace while preserving the profits from positions hard won in that portion of the television market that still relies on traditional delivery technologies.

Of course the television industry is made up of a heterogeneous mix of firms occupying niches of dramatically varying sizes. In this chapter we focus on the most visible and powerful suppliers of programming services in current television industry in the United States—the four major broadcast networks whose prime time programs still dominate in audience ratings. In doing so we emphasize that the basic analytical perspective and conclusions drawn are not specific to the United States. The U.S. networks have counterparts in

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