

# The New Media Landscape Created by OTT

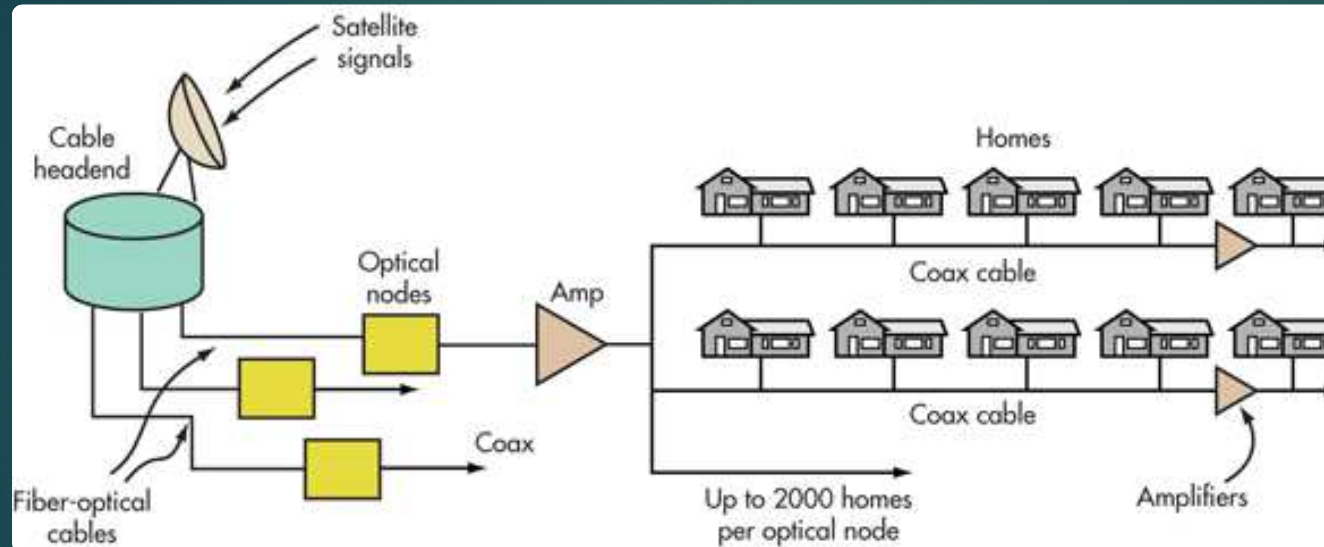
NETFLIX, VERIZON, AND OTHER DEVELOPMENTS

By:  
Juan Ramon Zarco  
United States  
Budapest - 2015

OTT = Over the Top Media or Non-Linear Media Broadcasting



## Traditional Cable TV system



Substantial \$\$\$  
Capital Expenditure

Valuation based on  
Franchise Value **JRZ1**

Franchise – community based award based on townships, cities

Subscriber Linear Programming – limited options, continuous monthly fees, basic through premium channels, set times

Licensing arrangements with content providers - TV networks, Entertainment industry, advertising

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**JRZ1**

US Cable acquisition - 33 properties, Chicago, East Coast

Juan Ramon Zarco; 2015.04.19.

# The Internet Changed the Media Distribution Model

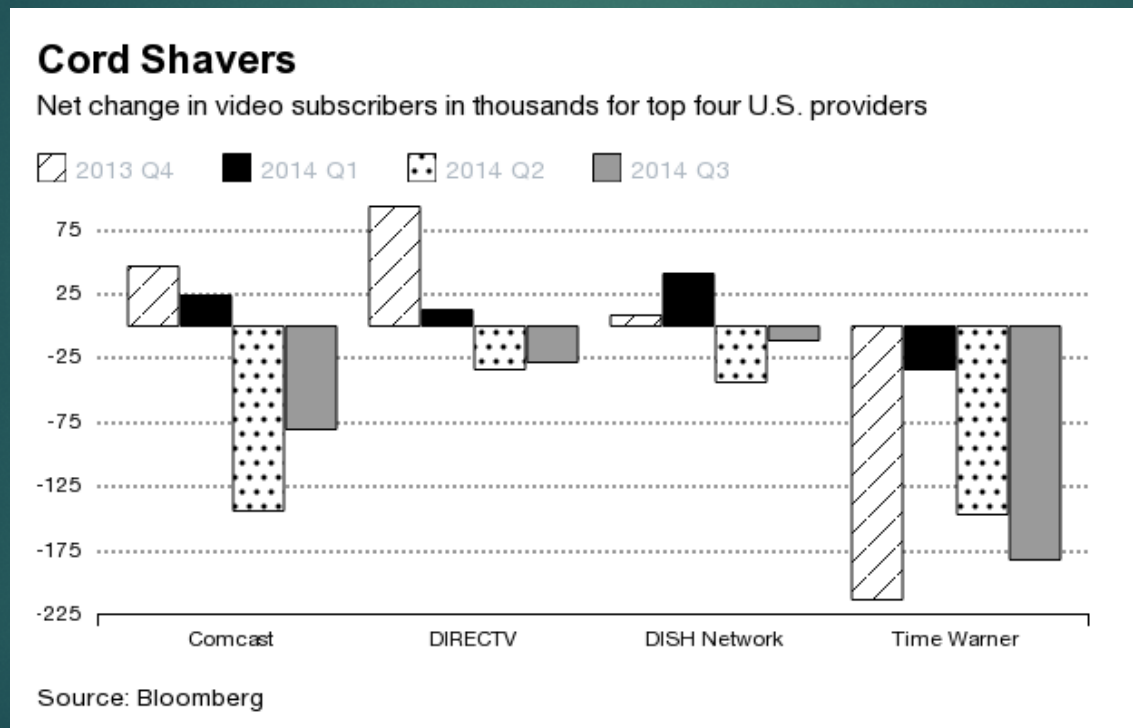
Legacy Revenue Model (Liberty Media: Setbox, Limited Options, Linear Programming, Monthly fees, Co-ax infrastructure:

- Pay TV
- Broadband (TCP/IP)
- Standard Cable Broadcast – Basic/Premium, Bundled 189 channels, \$106 monthly subscriptions



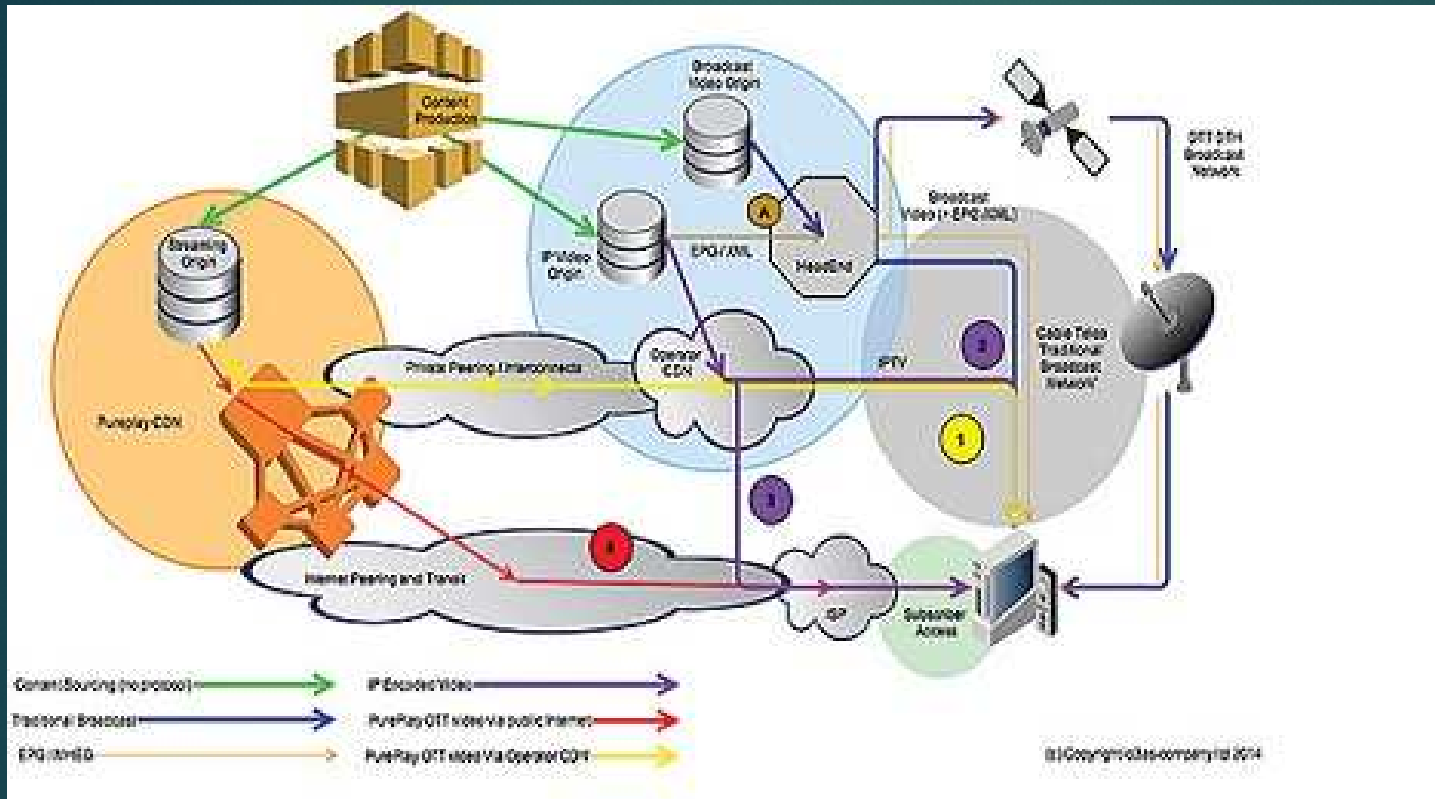
# Media Revenue Landscape has changed because of OTT

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# New Paradigm – CDN, Cable Convergence

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Different Revenue Platforms - Licensing fees (TV Networks), product sales (Metan Development), subscribers (Netflix)

Not married to legacy networks (CDN, Cable TV networks, Wireless)

Non-traditional Cable TV play - Unbundled content (Verizon), non-linear or on demand programming



# The OTT Impact on Media

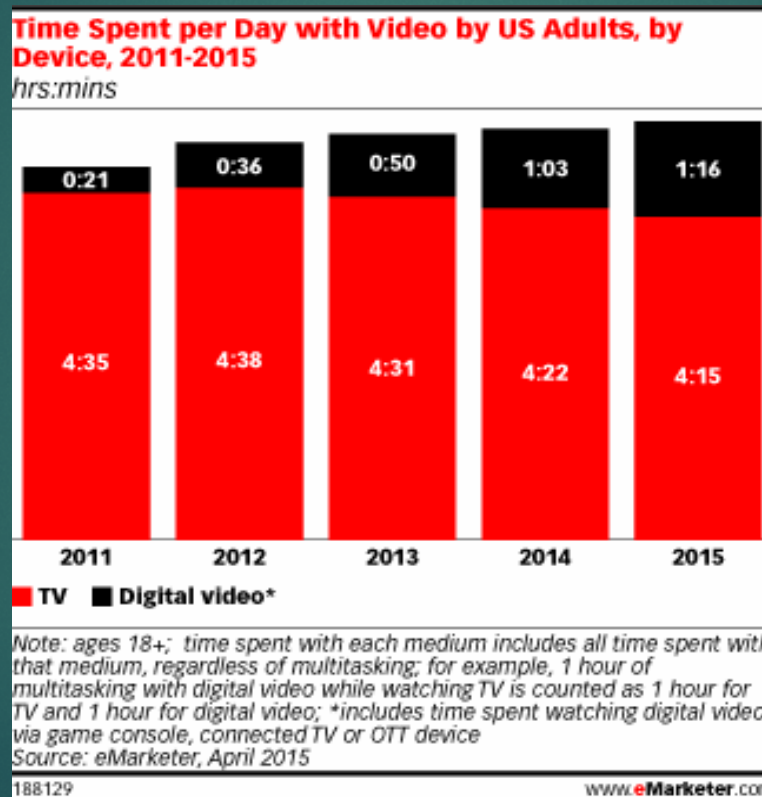
## Distribution models: Flexible, Fragmented, Multiple Platforms

- ▶ Subscription Video on Demand (Netflix), non-Linear
- ▶ Traditional Monthly but unbundled Subscription (Verizon) – neo-bundle 17 channels: Dish Network
- ▶ Distribution – setbox vs. wireless anywhere on demand (HBO Go)
- ▶ IPTV (VOD, near VOD, Time Shift)
- ▶ nPVR (Cloud, Hardware)



# Media Grows but through what channel?

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# Answer: Wireless

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Average Time Spent per Day with Major Media by US Adults, 2011-2015						
hrs:mins and CAGR						
	2011	2012	2013	2014	2015	CAGR (2011-2015)
<b>Digital</b>	<b>3:40</b>	<b>4:20</b>	<b>4:51</b>	<b>5:15</b>	<b>5:38</b>	<b>11.4%</b>
—Desktop/laptop*	2:33	2:27	2:19	2:22	2:22	-1.8%
—Mobile (nonvoice)	0:48	1:35	2:16	2:34	2:51	37.2%
—Other connected devices	0:18	0:18	0:17	0:19	0:25	7.8%
<b>TV**</b>	<b>4:34</b>	<b>4:38</b>	<b>4:31</b>	<b>4:22</b>	<b>4:15</b>	<b>-1.8%</b>
<b>Radio**</b>	<b>1:34</b>	<b>1:32</b>	<b>1:30</b>	<b>1:28</b>	<b>1:27</b>	<b>-2.0%</b>
<b>Print**</b>	<b>0:44</b>	<b>0:38</b>	<b>0:32</b>	<b>0:26</b>	<b>0:21</b>	<b>-17.0%</b>
—Magazines	0:18	0:16	0:14	0:12	0:10	-13.5%
—Newspapers	0:26	0:22	0:18	0:14	0:11	-19.8%
<b>Other**</b>	<b>0:39</b>	<b>0:38</b>	<b>0:31</b>	<b>0:26</b>	<b>0:24</b>	<b>-11.7%</b>
<b>Total</b>	<b>11:11</b>	<b>11:46</b>	<b>11:55</b>	<b>11:57</b>	<b>12:04</b>	<b>1.9%</b>
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; *includes all internet activities on desktop and laptop computers; **excludes digital						
Source: eMarketer, April 2015						
188127	www.eMarketer.com					



# Revenue Models

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- ▶ Subscription (Netflix)
- ▶ Product Placement (Metan Development – where IP protection lacking) (China)
- ▶ Advertising – Google, Vox Media



# OTT Content Sourcing

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- ▶ In-House Production (Netflix, Metan Development)
- ▶ Licensing (TV Shows, etc.)
- ▶ Self Generated (Google, Facebook)



“The primary reason Netflix likely decided to move aside from *Seinfeld* auction was the insanely large price tag Sony is asking. While they paid more than \$500,000 per episode for *Friends* last year (for a total north of \$118 million with 236 episodes), Sony wants an even higher price for *Seinfeld*. With 180 episodes of that show over nine seasons, the total cost could easily top \$100 million, depending on how much time the deal covers.

Recent acquisitions for the top companies in contention include HBO shows like *The Sopranos* and *The Wire* for Amazon, a brand new season of *Community* for Yahoo and CBS's *CSI: Crime Scene Investigation* for Hulu. But none of the sites have a television library that can compete with that of Netflix, which has full seasons of popular shows like *The Walking Dead* along side original series like *House of Cards*.”

NETFLIX

# OTT Impact: Content Quality and Analytics Focus

Vox Media/Netflix  
- Content Quality, Channels and Branding

Analytics Focus – even TV broadcasters are providing analytics for shows – beer, fast food



THE VERGE

22. NATION

Polygon

EATER

CURBED

racked

Vox

Vox- 53 million unique visitors, 35% jump in traffic



# Legal OTT Issues

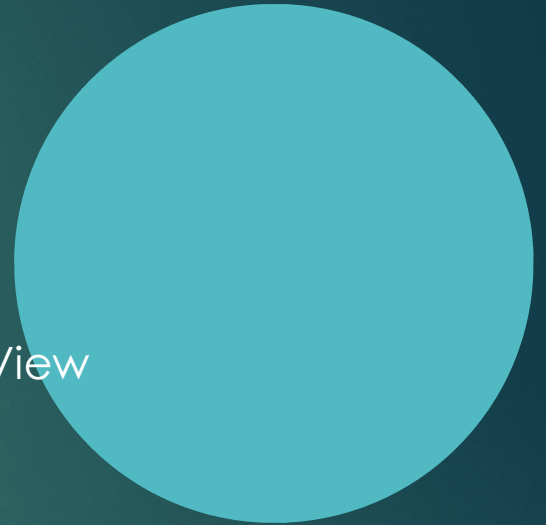
1. Consistent time shifting (Linear) – Aereo, copyright laws, Compulsory licenses under Copyright Act “multichannel video programming distributor” (“MVPD”), as defined in the Communications Act of 1934, as amended (“Communications Act” or the “Act”).
2. Net neutrality
3. How to restrict and price TV content under Internet: MVPD, set times, market-to-market/geographic limitations
4. Content Licensing, Copyrights (Intellectual Property assets)
5. International Content Restrictions (China)
6. Tax collections from OTT, Corporate Tax jurisdiction
7. What is a TV “Channel” for MVPD and OTT



# International Considerations

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- ▶ Offshore Tax
- ▶ Copyright Protections from Local to Foreign Jurisdictions
- ▶ Revenue Collections (Russia – PayPal)
- ▶ Content Licensing
- ▶ Local Country Content Restrictions – Content (China), U.S. (View Restriction Ratings)
- ▶ Corporate and Banking Presence



# Winners and Losers and the Battles to be Fought: too much competition for discretionary income

## ▶ Winners

- ▶ On Demand Video - OTT
- ▶ Facebooks of the World
- ▶ WhatsApp – Internet tunnels
- ▶ Content Producers
- ▶ Unicorns

Netflix Q1 Record 4.9 million subs.

WhatsApp/Facebook avoid SMS charges

## ▶ Losers

- ▶ Traditional TV Co-ax cable companies
- ▶ Telecommunication Carriers
- ▶ Huge Infrastructure Investments
- ▶ Legacy systems

Legal and Regulatory Wars: Copyright, Transmission via Cable, Wireless and Phone Lines

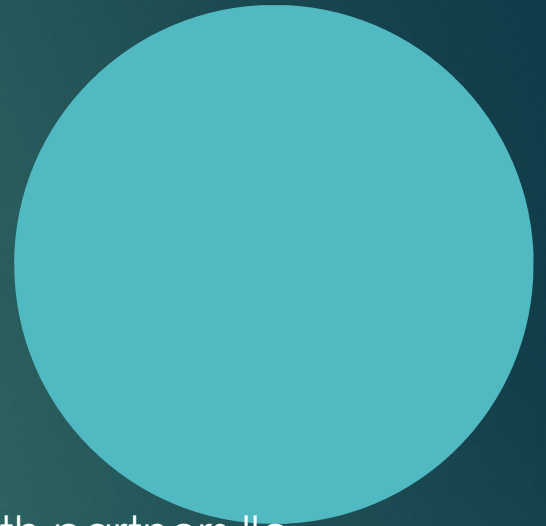


NETFLIX

You Tube



thank you!  
köszönöm!



► Kérdése  
van?

- Juan Ramon Zarco
- Silicon valley venture growth partners llc
- 703-376-4893
- jrzarco2001@yahoo.com