

Generation #hashtag: Harnessing The Power of Fans

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As more consumers turn to native digital video and become more willing to pay for it, media companies must adopt a native-first mind-set rather than digitizing existing content and business models.

Consumers of all ages now favour content designed and distributed exclusively through digital channels. Mobile-centric, these consumers are always on, consume content on the go, and trust social networks and recommendation engines more than they do professional advice or family members for content choices. Together, they are transforming video entertainment. **We call them Generation #hashtag.**

For video producers and distributors, long-term success depends on understanding these consumers and mastering the new monetization ecosystem along **five imperatives**:

- Rethink the content strategy.
- Secure distribution routes.
- Embrace the new rules of advertising.
- Earn consumer data.
- Revisit the M&A toolkit.



 **The next generation of video consumers**

The rise of native digital video

Generation #hashtag ascending

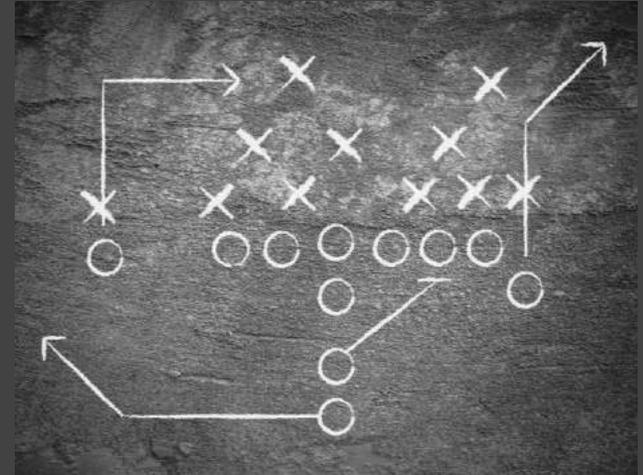
The power of fans

 **A new monetization map for the industry**

 **Harnessing the power of fans: a digital video playbook**

Five imperatives

The next generation is around the corner





**The next generation of
video consumers**

Digital is fast becoming the dominant model of media delivery. TV shows can be watched both live and on-demand on a variety of screens. In the early days of the digital transition, however, content remained a lot like its analogue counterpart: familiar formats, franchises, and business models remained prevalent even on the new screens.

Today, native digital video reconfigures the media playbook for a fully digital world. Unbound by analogue legacy, new formats are changing the rules of content creation, distribution and monetization. The long-form downloads and purchasing models, which were based on constraints of physical distribution, no longer apply.

Three traits characterize native digital formats and set them apart from earlier digital video:

- **Mobility** forced the redesign of the user interface, experience and content itself – from long- to short-form, sometimes even 16:9 to vertical
- **Ubiquitous connectivity** means that consumers are “always on,” able to consume and react to content in the cloud, and that they are in social contact at all times.
- **Individual consumption** and the rich data it generates allow new curation and monetization approaches, both consumer- and advertiser-pay.



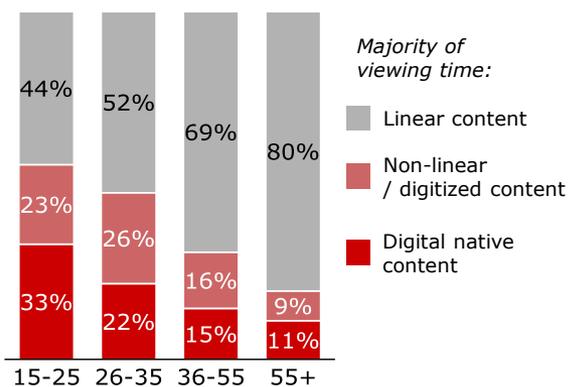
Native digital video is mobile-centric – younger generations in particular have made smartphones their new personal TV, with almost two thirds of 15 to 25 year olds watching multiple sessions daily.

While younger audiences are spearheading the movement, **their elders are catching up**: reaching beyond millennials already, digital native video is becoming pervasive.

We call **Generation #hashtag** these consumers of all ages who now favour content designed and distributed exclusively through digital (and increasingly mobile) channels.

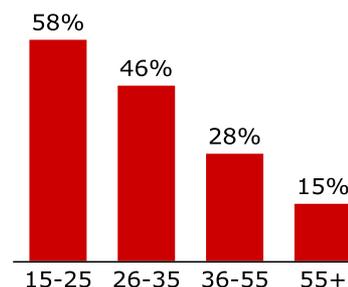
Video usage by age
(% respondents, 2015)

Developed markets



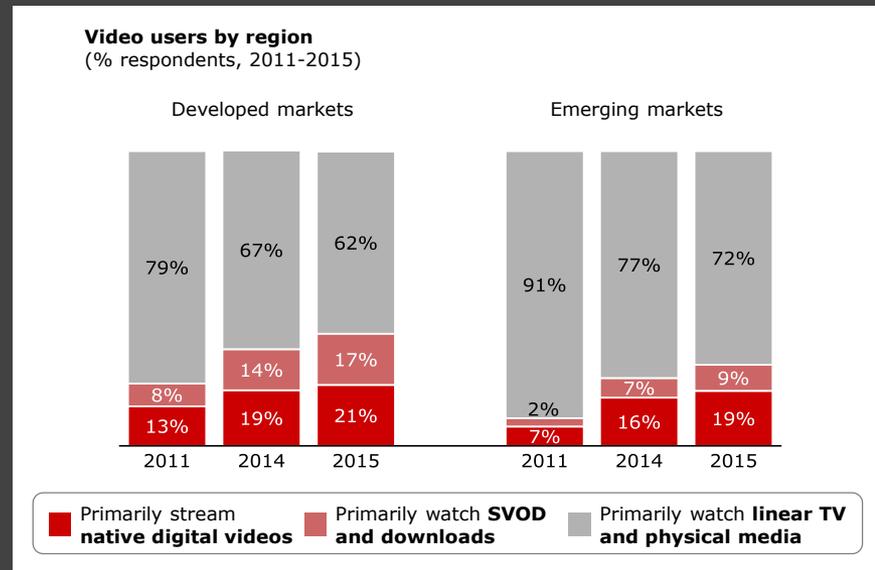
Mobile video users by age
(% respondents watching daily, 2015)

Developed markets



Media consumers who prefer native digital video make up **20% of the audience across both developed and emerging markets**. Despite their historical lag in adopting digitized media – largely for lack of infrastructure – emerging markets have already caught up with the West. As next generation networks and mobile in particular close the “broadband gap”, consumers across massive potential markets such as Brazil, Russia, India, China, and Africa are leapfrogging from physical media directly to native digital content and mobile consumption.

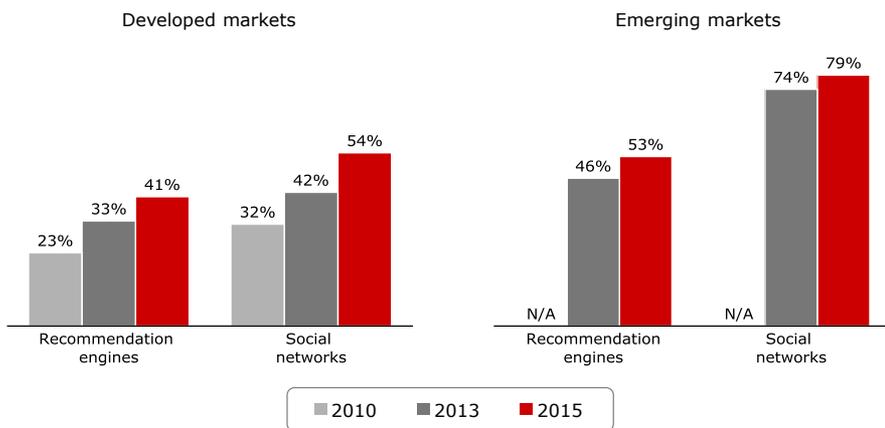
In some markets where (legal) distribution of physical media and downloads never took hold, **native digital media may even represent the first legitimate platform** for consumers to access fresh video content. In China, a generation of viewers who have yet to experience Netflix embraced web series like Go Princess Go, which generated 1.5 billion views on Letv over 36 episodes of 25 minutes each, costing a fraction of regular TV series.



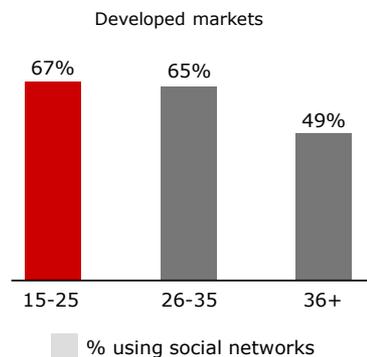
Generation #hashtag listens to social networks and recommendation engines as much if not more than they do professional advice or family members for content choices. Younger consumers in particular rely more on their social networks to select digital content: More than two-thirds of respondents aged 15 to 25 in developed countries said they choose entertainment content based on social recommendations, compared with fewer than half of those older than 35.

Younger consumers also have a different take on data privacy: In developed countries, 57% of those 25 or younger would forego personalized recommendations to ensure their data remains private, compared with three-quarters of adults older than 35.

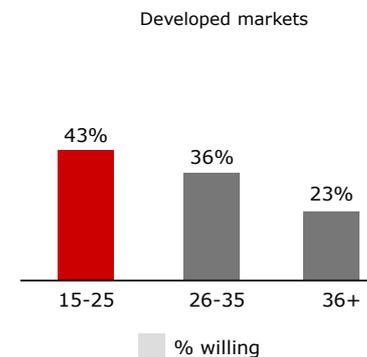
Regular sources for advice on video content choices
(% respondents, 2010-2015)



Use of social networks to choose digital content
(% respondents, 2014)



Willingness to trade personal data for personalized recommendations
(% respondents, 2014)



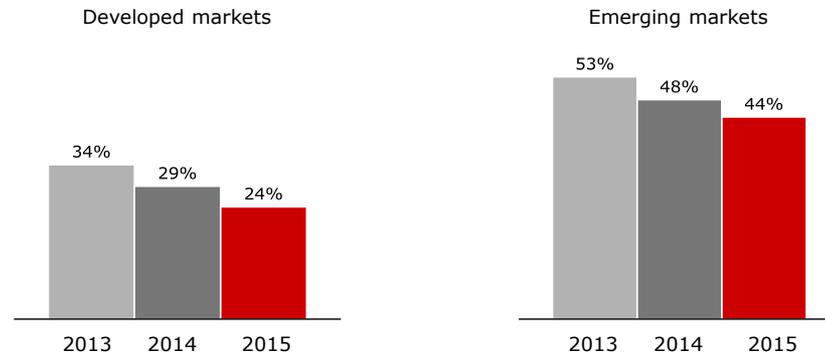
Note: Developed countries include France, Germany, UK and US in 2013, France, Germany, UK, US and Sweden in 2014 and 2015; Emerging countries include Russia, Brazil, China and India in 2013, Russia, Brazil, China, India and South Africa in 2014 and 2015 ;

Source: Bain consumer survey

Yet media companies should exercise caution in how they store and use data. Our survey found that fewer people are willing to share personal information than they were a few years ago. More consumers are concerned about the ways companies gather and store information about them.

While such concerns have yet to translate into action, this could eventually lead to consumer pushback, or increased regulation, which would throttle both content creation and monetization. Even with generation #hashtag, the **key to sustainable data capture** lies with both the value consumers get in return from sharing their precious information and the trust they have in the platforms storing it.

Consumers willing to trade personal data for recommendations
(% respondents, 2013-2015)

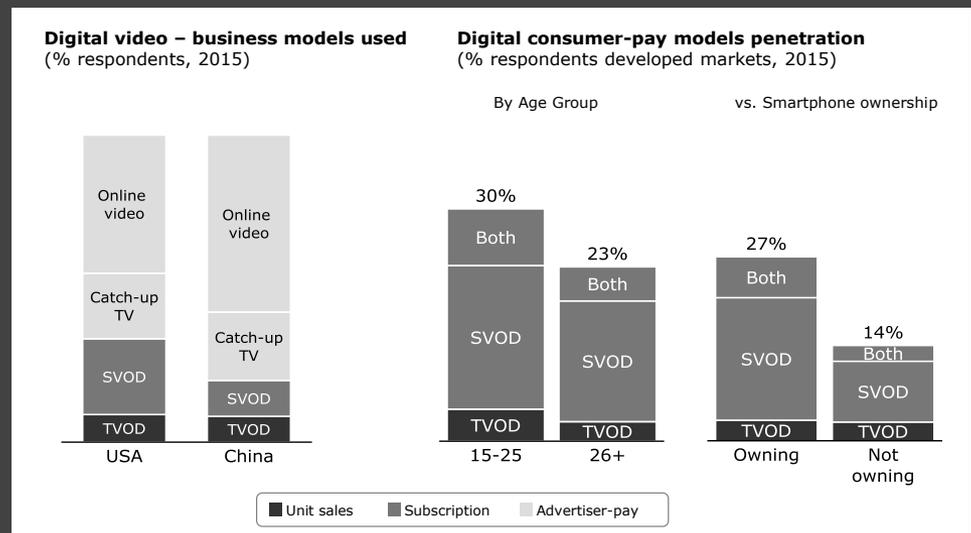




**A new monetization map
for the industry**

With new platforms come **renewed hopes for consumers who will pay**, and here there is hope. While advertiser-supported models remain prevalent, consumers adopt the full spectrum of digital monetization models—including single purchases, subscriptions and micropayments. Our survey also found that, contrary to conventional wisdom, younger customers are more willing to part with cash across a range of payment models despite their slimmer wallets and access to illegal alternatives.

Mobile platforms are key to success here, given their built-in user bases with registered payment details from Apple, Amazon or PayPal. As these large, partially closed ecosystems take over from the more open approaches that prevailed in the desktop web era, some of the friction and fear around payments is disappearing. Our survey clearly indicates that **mobile-equipped consumers are more likely to pay for digital content**, which may partly explain why younger cohorts, who are more prone to use their smartphones to experience media content, appear more comfortable with consumer-pay models

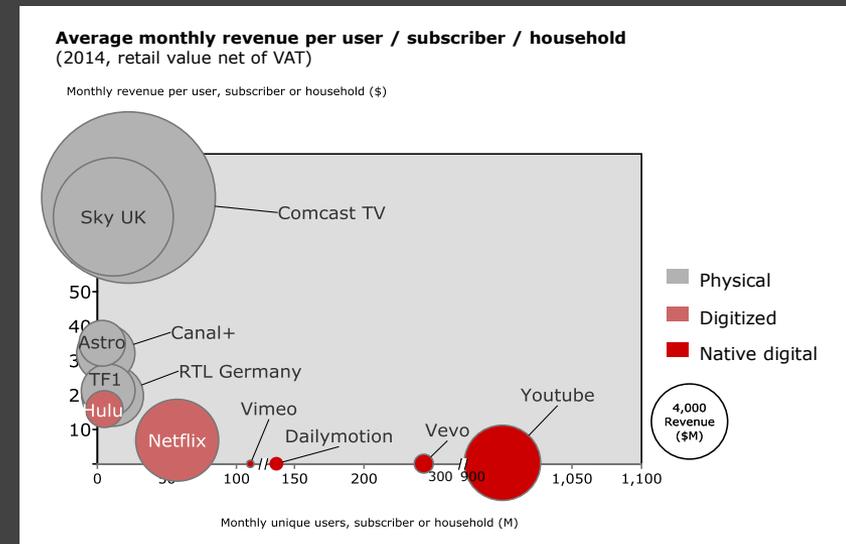


For all their positive momentum, native monetization approaches have a **long way to go before catching up with revenue levels of older media**. Media companies will need to strike a delicate balance between getting users to adopt native models and getting them to pay for them.

The bar is lower in developing markets: even the prospect of achieving modest annual revenues per user (ARPU) —be it though micro transactions, subscriptions or advertising—across vast, untapped markets such as India, China and (eventually) Africa represents an important opportunity for the industry and should be a core component of future growth strategies.

Traditional models reached high ARPUs with user bases in the hundreds of thousands to tens of millions. Native video platforms such as YouTube and Dailymotion have much lower ARPUs but **hundreds of millions of users**

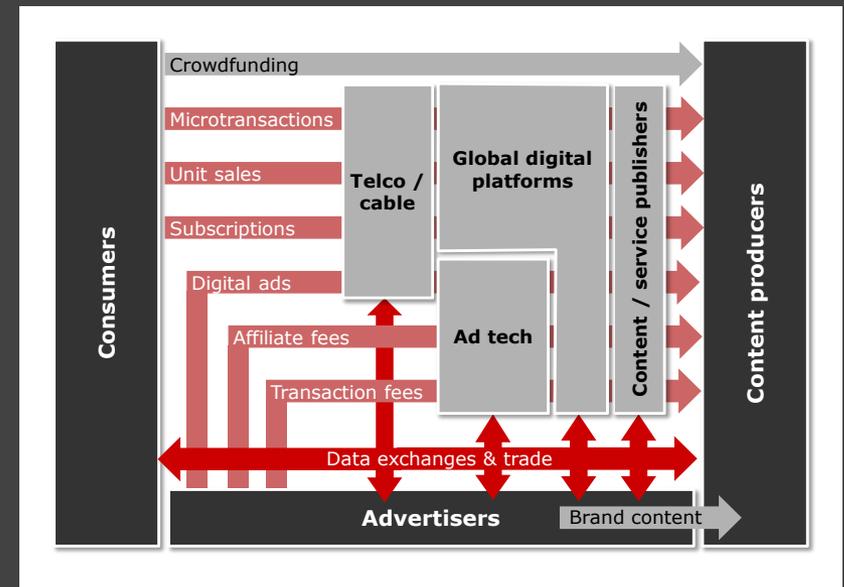
Yet pure high-scale, low-value models may not prevail forever. Early signs show that to reach full potential, even the champions of scale are looking to introduce premium services through proven recipes. YouTube, champion of algorithmic curation, uses a human editorial touch for its YouTube Kids app, targeting a highly attractive but very sensitive demographic. Reed Hastings announced in July 2015 that Netflix's subscription price would increase over time to fund the production of original content—an announcement received with a double-digit share price increase. Just as traditional players need to embrace native models, **native players may also have to learn some of the old dogs' tricks.**



Success will require **more arrows in the monetization quiver**. While traditional models relied mostly on either consumer or advertiser pay, digital native platforms have broadened and blurred the model, creating a richer but more complex monetization map.

For example **Video bloggers** monetize their followers through product placement and endorsement, pushing the UK's Advertising Standards Authority to introduce new rules on disclosure and transparency. **Crowdfunding** has reshaped independent production, even for well-known figures such as filmmaker Spike Lee and TV host Chris Hansen.

Data permeates this new landscape, with content owners, service providers, publishers, platforms, agencies and advertisers seeking to concurrently buy, sell and leverage it.





Harnessing The Power of Fans: a digital video playbook

Mastering the new monetization map for native digital video will require a **deep capabilities upgrade**, with an emphasis on five imperatives:

- **Rethink the content strategy:** build content for the world in which we live rather than translating old recipes to new screens – embrace new formats, both short- and long-form, tap into developing markets' tremendous digital potential
- **Secure distribution routes:** develop a balanced portfolio of channels to cut through the clutter, optimizing for reach and value – deal with global leaders, favour the growth of independent platforms or build / acquire your own
- **Embrace the new rules of advertising:** individual targeting and addressability, social engagement, measurability and return on investment – embrace native advertising formats, build analytics capabilities, partner with technology and telecom players to secure access to the deeper video and advertising technology "stacks"
- **Earn consumer data:** build insight into consumer behaviour to dovetail fast-evolving trends and address advertiser demands for precise targeting and measurement – create a direct relationship with consumers, bring enough value and earn the consumer trust required to capture, store and use consumer information
- **Revisit the M&A toolkit:** accelerate the capability upgrade and cultural shift – manage the delicate balance between autonomy and integration when acquiring digital businesses, in order to both acquire their skills and culture and augment their growth

Generation #hashtag and the breadth of native digital models it favours spawned from a wave of always-on devices born in the last decade with the smartphone boom. This is only the beginning.

New devices are already emerging that will bring their own disruptive user experiences and formats. Whether virtual reality revolutionizes how people watch the latest blockbuster or visit their next home remains to be seen. But as devices and use cases diverge further away from legacy video formats, media companies must now more than ever adopt a native-digital-first mind-set rather than digitizing existing content and business models.



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Laurent Colombani is a partner with Bain & Company in Paris, where he leads the firm's European Media practice.

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