NSCREENMEDIA | VideoNuze

ADDRESSING STREAMING'S TOP CHALLENGE

How a Modern Approach to **Discoverability** Can Drive New Value for Streamers and Content Publishers

Connecting viewers to content they love promotes a

"VIRTUOUS CYCLE"

leading to stronger engagement and retention.

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EXECUTIVE SUMMARY

The streaming industry is on the rise. Well-established media providers and digital-first content studios agree streaming premium video is the future. This realization has triggered a frenzy of investment in original content, with over **$26 billion** in spending projected for 2023 alone on every conceivable genre of television and film.[1]

Yet, having great content doesn't always equate to success in today's crowded streaming market. While more choices are seemingly better for viewers, **this outsized level of shows and programs has led to a "paradox of choice."** Viewers are overwhelmed by the amount of content fragmented across multiple streaming services and channels, making it nearly impossible for them to discover and find things they want to watch.

On the other hand, for streamers and publishers, **more content options on the market mean heftier amounts of marketing and promotional spending** required to get noticed. These services must drive exposure of their premium video content to a specific, highly-targeted group of potential users who are likely to convert to loyal viewers – cost-effectively and at massive scale.

ContentDiscovery – Wurl's advertising platform for streamers and content publishers to attract, engage, and retain viewers at scale – aims to address the most urgent challenges of today's streaming market. Leveraging machine learning, **ContentDiscovery fosters a virtuous cycle** in which high-value viewers are introduced to content they'll want to watch, and streamers and publishers in turn achieve stronger engagement and retention than ever before.

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ADDRESSING STREAMING'S TOP CHALLENGE

1. KEY MARKET TRENDS SHAPING THE STREAMING INDUSTRY

1B
connected TVs globally

$27B
expected in 2023 U.S. CTV advertising spend

The overall streaming video market has exploded in popularity in the past 15 years. Since 2007, when Netflix essentially invented the subscription video on demand (SVOD) category, it has grown into a global brand reaching **231 million paying subscribers**.[2] There are now over **one billion** connected TVs globally, with U.S. advertisers expected to spend nearly **$27 billion** on CTV alone in 2023.[3,4]

Meanwhile, worldwide traditional pay TV growth has slowed to a crawl, and it has declined in markets where streaming TV is the farthest advanced. In the U.S., for example, subscribers to top traditional multichannel video providers declined by **6.25 million** in 2022, implying overall penetration will fall below **50% of households** in 2023 for the first time in decades.[5,6] Time spent with traditional TV has similarly declined, from 63% of TV time in 2021 to **54% at the beginning of 2023**.[7]

The rise of streaming and the decline of traditional TV are disrupting all aspects of the industry. Marquee properties that were traditionally broadcast and cable TV industry staples are moving to streaming. For example, in the 2023/2024 football season, NFL Sunday Ticket will **shift from its decade-old home on DIRECTV** to Google's YouTube TV and YouTube.[8] Other sports properties are also migrating to streaming, including Major League Soccer and certain Major League Baseball Friday night games to Apple, along with NFL Thursday Night Football to Amazon.

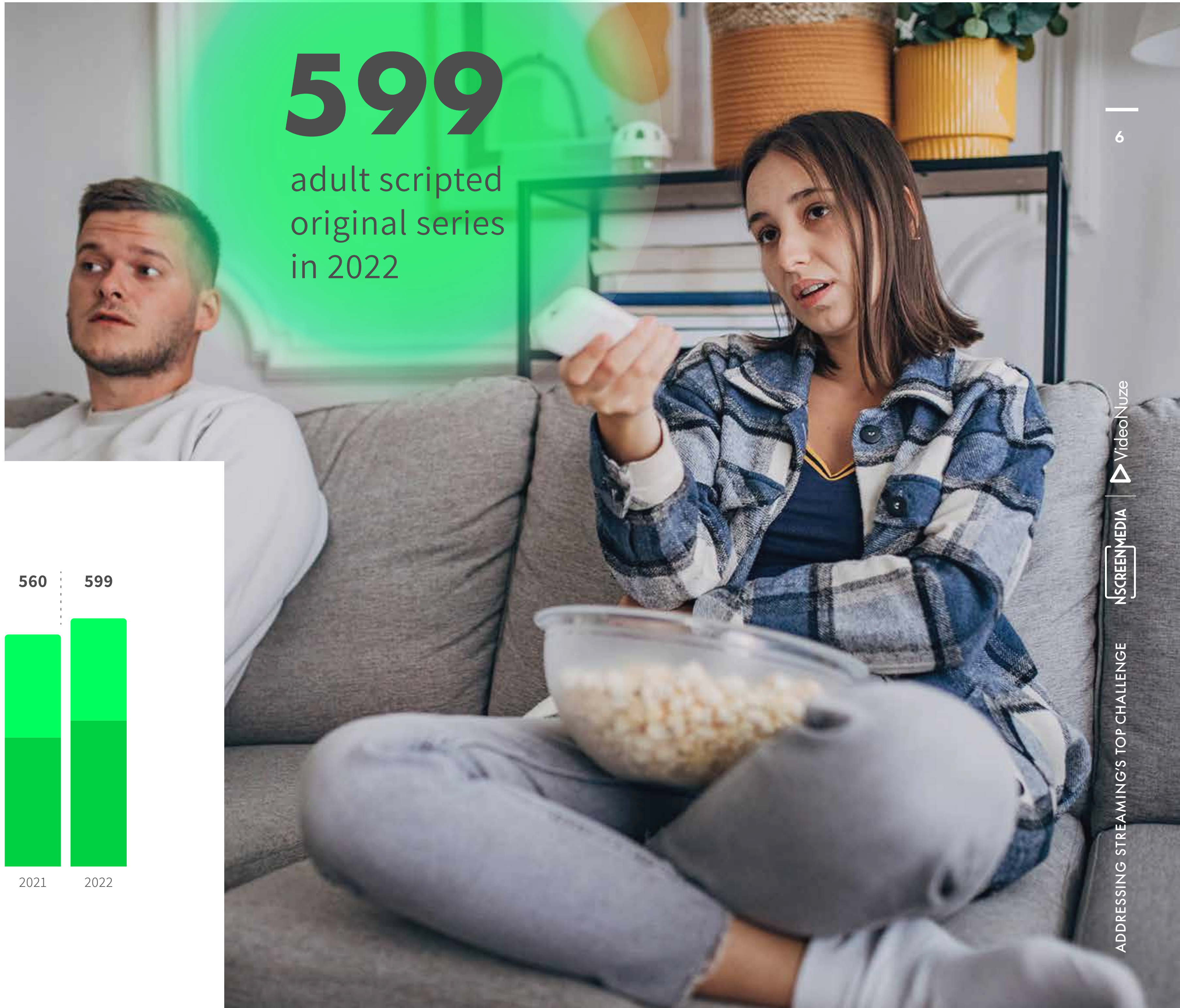
Helping drive the streaming TV industry's expansion was a pandemic-fueled stay-at-home period when movie theaters, sports, and other out-of-home activities were canceled, essentially consolidating a substantial amount of the industry's future growth. As pandemic fears have eased, the streaming video industry has transitioned to a more mature phase. Gone are the "rah-rah" days of streaming's unbridled growth, replaced now by a more cautious and strategic approach. Rather than growth at all costs, the new mantra is "profitability," with expectations pounded home each quarter by the industry's executive suites and financial analysts.

The results of these cross-currents are telling. Early entrants who scaled their global subscriber bases and aggressively grew their original content offerings are profitable; on the other hand, later entrants are still finding their footing and updating their business models to become profitable.

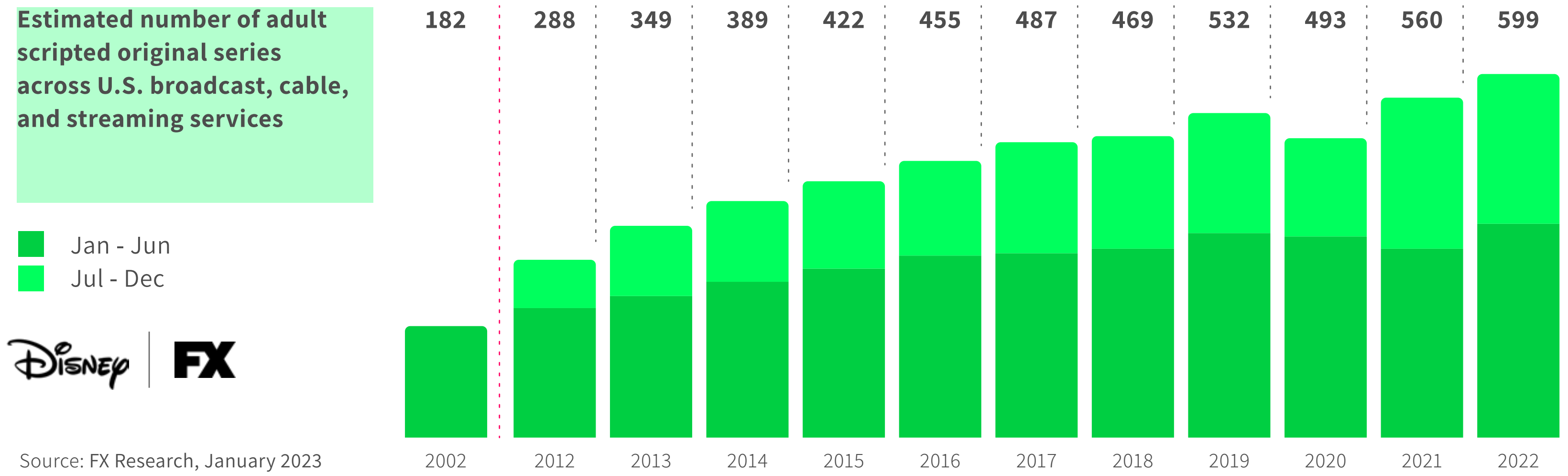
Irrespective of where specific content providers fall on this success continuum, **numerous market dynamics are constant for all participants.**

Viewers are overwhelmed

The massive increase in original TV programming investments has been tracked using an informal metric called "Peak TV," coined by John Landgraf, Chairman, FX Content and FX Productions. According to FX's research, "Peak TV" reached **599 adult scripted original series** across broadcast, cable, and streaming in 2022, up from 182 new original series released in the U.S. in 2002 and 560 in 2021.[9]



Estimated number of adult scripted original series across U.S. broadcast, cable, and streaming services



Source: FX Research, January 2023

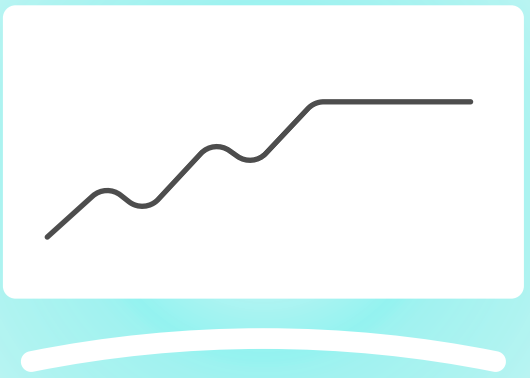
Add to these original TV series other genres like sports, news, children's programming, and digital content on YouTube, TikTok, Instagram, and other outlets. The conclusion is clear: **the world is awash in content.**

Viewers have mixed reactions to this bounty of riches. On the one hand, they're delighted to have more choices than ever. But on the other hand, they are being forced to "mix and match" streaming services, causing endless frustration as they pursue their simple goals of finding and watching the TV programs and films they want. These pain points inevitably lead to higher churn rates for paid streaming services and "tune-out" of free streaming services.

Meanwhile, the content industry is wringing its hands. It can't seem to **escape from the vice grip where significant investments in originals have become table stakes.** These incompatibilities are raising genuine concerns in the industry about diminishing returns of content over-investment and long-term industry-wide profitability.

SVOD growth is flattening

After a long period of expansion, the market for paid SVOD services appears to be leveling off. In an **April 2023 report**, analysts at MoffettNathanson found that streaming penetration in U.S. households in Q1 ‘23 was 82%, identical to Q4 ‘22 and essentially flat compared to 81% in Q2 ‘22 and Q3 ‘22.[10] **More established streaming services experienced small market share declines in Q1 ‘23, while newer entrants like Peacock, Paramount+, and Disney+ all experienced market share gains.**



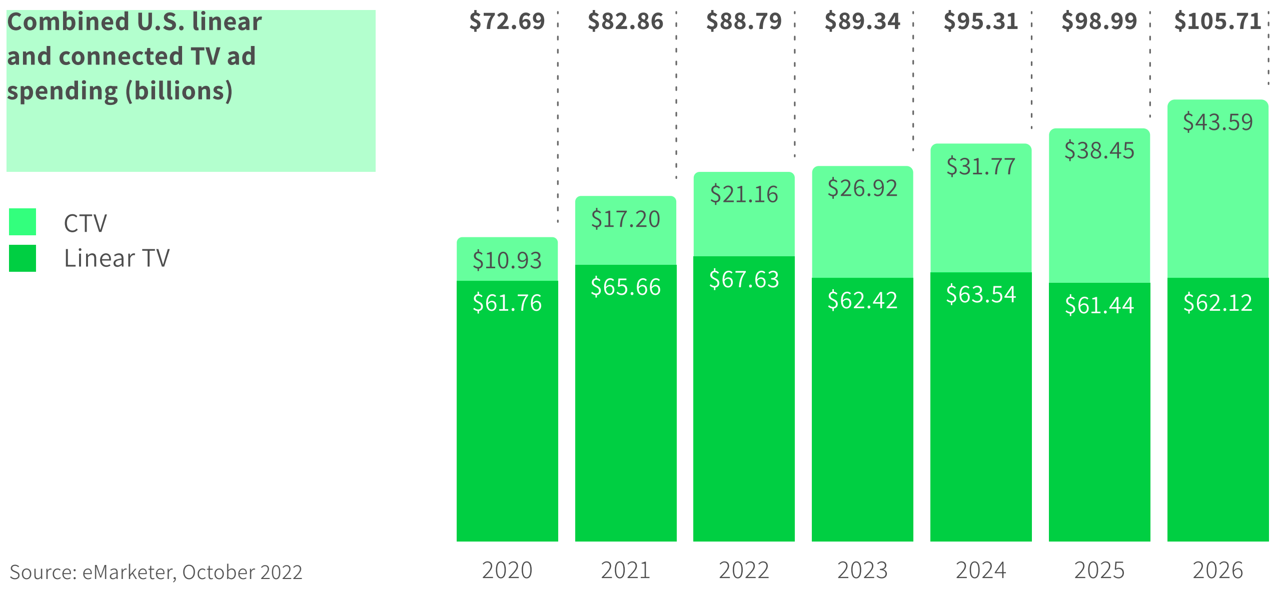
All of this suggests that the pure-play SVOD market is transitioning to a more mature phase in the U.S.,

where market leaders are more likely to “trade” subscribers than grow the market substantially. **That will mean higher subscriber acquisition costs (SAC) and retention expenditures.** Especially in times of economic belt-tightening, consumers will intensify their efforts to trim expenses where they can. Least-used SVOD services, which lack the most favored programming, will likely be eliminated first.

However, the good news for established SVOD providers is that many of them **now understand that they need a hybrid business model** approach that incorporates less expensive, ad-supported service tiers.

Free ad-supported streaming TV (FAST) channels are on the rise

Yet another piece of the streaming industry's puzzle is the growth of FAST channels. **FAST channels**, which are mainly "linear-style" playlists of curated content, **have proliferated due to the realization by programming executives that "on-demand" viewing is not a monolithic viewer desire**. Rather, there are times when viewers want to consume as they traditionally have – by choosing a "channel" and then letting it spool out content without further deciding whether to watch another episode, pause, or rewind.



Source: eMarketer, October 2022

Beyond the viewers' inclinations, there are clear economic incentives for content providers to deliver ample, high-quality FAST channels. The CTV advertising market's value in the U.S. has exploded from being virtually non-existent 10 years ago, to driving nearly **$27 billion** in ad spending in 2023.[11]

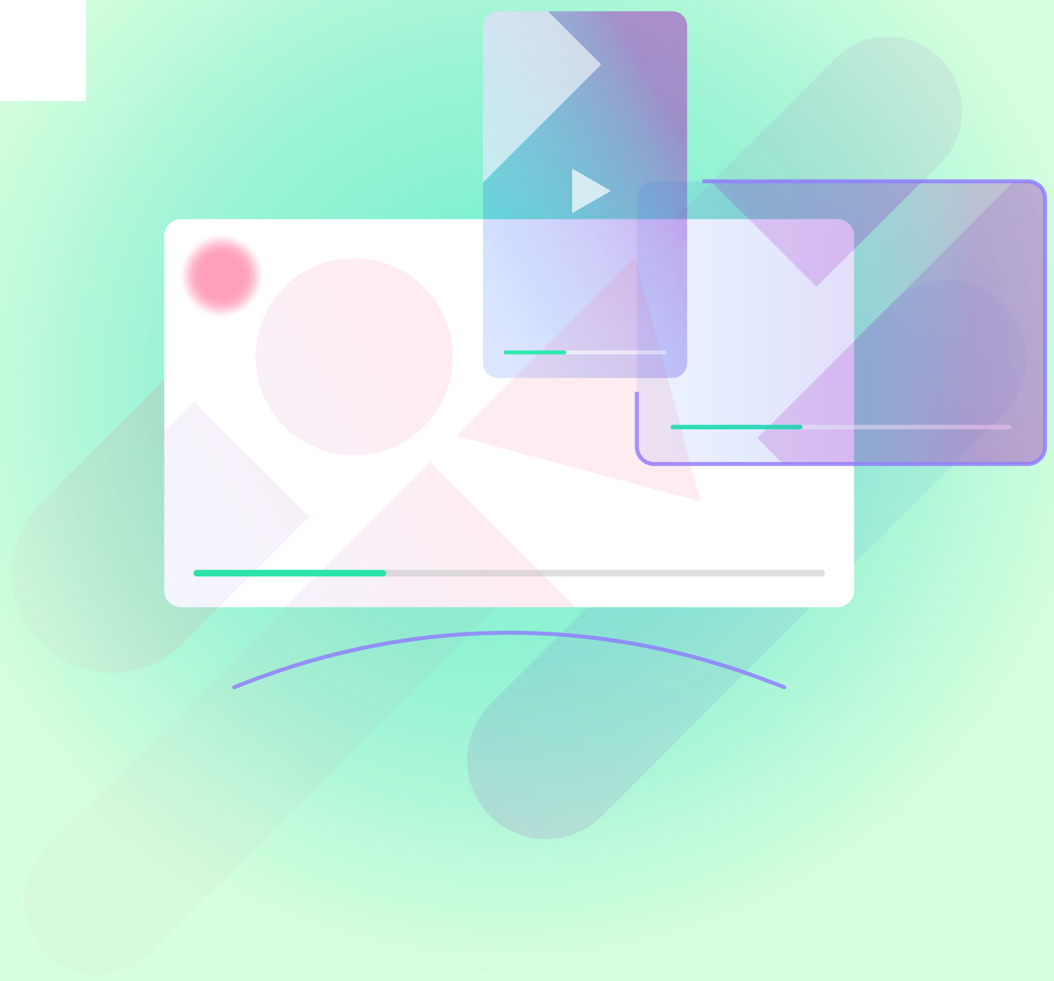
There is every reason to believe that, as CTV's full-funnel / lower-funnel future unfolds, there will be an ongoing surge of FAST channels and higher-quality content enabled for free viewing. As viewers inevitably shift more of their time to FAST channels, paid subscription video services will be under increasing pressure. Churn and SAC will continue rising, requiring ever-greater and more efficient marketing expenditures.

$27B

expected in 2023 U.S. CTV advertising spend

2.

CHALLENGES WITH CURRENT CONTENT DISCOVERY AND INVESTMENT DECISION-MAKING



Streaming service providers and viewers face many challenges as the television industry continues evolving away from linear TV, pay-TV bundles, and set-top boxes. Given the multibillion-dollar stakes, content providers must be highly disciplined about investing in their shrinking production budgets. Simultaneously, decision-makers need to create high-impact distribution strategies and, critically, high return on investment (ROI) content promotion plans.

Meanwhile, as fragmentation reigns, viewers need to manage multiple streaming services and track where to find their favorite programs. And, of course – to ensure they are current with the times – viewers always keep their eyes and ears open to the latest hot TV program dominating social media and virtual water coolers. However, finding new content that truly resonates has become an increasingly urgent need for millions of viewers.

Organic content discovery remains under-optimized for viewers

With the average consumer juggling nearly 12 TV services, there is a critical need for modern technologies to provide essential, organic navigation assistance.[12] Platform providers have responded by investing in their “search and browse” capabilities and adding features like cross-service search and voice control.

In particular, platforms have **invested significantly in content recommendation capabilities to connect viewers** with original TV programs they might like. **Still, many viewers remain frustrated with the discovery experience.** **Three-in-five respondents** to a recent survey said they find the process of navigating between different streaming services to be frustrating. Worse – and despite all the tens of billions of dollars spent on original content – 60% of respondents also think the content they are paying for is “not relevant to them.”[13]

Many viewers remain frustrated with the discovery experience.

60%

of respondents think content they pay for is “not relevant to them”

The growth of FAST channels is contributing to viewer confusion. With new FAST channels launching almost daily, viewers' content discovery challenges have been magnified. **Simply put, it's one thing to launch a FAST channel; it's an entirely different thing to build a sustained audience for it.**

Paid vs Non-Paid Services
% of total respondents

Source: TiVo Q4 2022 Video Trends Report

Most FAST services still rely on the traditional grid guide – invented in 1995[14] – as the primary navigation and discovery tool. FAST services' guide and basic search tools make new channel discovery exceedingly difficult. Efforts like Google's in April 2023 to introduce a guide to over 800 different FAST channels in Google TV's "Live" tab are necessary to bring some navigational order to FAST channels. Still, they are far from being sufficient. Once again, streaming service marketers face daunting and expensive promotional challenges to put their FAST channels on the map.

Paid promotional approaches are complex and imperfect

In addition to organic search and recommendations, streaming service providers need cost-effective subscriber and viewer acquisition, along with retention capabilities. Compelling original content is, of course, foundational; without it, a streaming service will always struggle to build a large and loyal viewer base. Also important is a well-defined and comprehensive distribution model which fully leverages owned-and-operated channels, aggregators, and third-party partnerships with TV original equipment manufacturers (OEMs).

48%

of viewers* say that ads during other TV shows help them discover new content

* US and Canadian

To date, paid promotional approaches for streaming services are imperfect at best and wasteful at worst. While traditional, upper-funnel brand building – like billboards, TV ads, and more – is essential, in an environment where every marketing dollar must work harder to achieve a target ROI, streaming service providers need a suite of full-funnel and lower-funnel capabilities.

Even assuming a streaming service provider chooses to emphasize lower-funnel tactics, there is a dizzying array of choices, including search, social, online video, and mobile. FAST channels provide target-rich environments, but key challenges remain like understanding the best place to advertise streaming services. With more than **22 FAST platforms** in the U.S. hosting more than 1,400 channels of every conceivable genre,[15] it's hard to determine where scarce advertising dollars should go.

The good news: **research shows** that one of the oldest methods of promoting TV programs is still the best.[16] 48% of U.S. and Canadian adults say that ads during other TV shows help them discover new content to watch. Only word of mouth comes close to the effectiveness of "tune-in" ads.

Content investment choices are unpredictable

If the marketing mix modeling is complex, the decision-making around how to invest billions of dollars in developing particular video content is other-worldly. While there will always be a place for artistry, instinct, and intuition, the competition is now so intense and profitability so top of mind that only a handful of producers and directors can simply ignore data that can mitigate the endless "hit and miss" cycle endemic to Hollywood.

Critics will decry the role financial considerations play in the creative process. Still, **when billions of dollars of public company market valuations are on the line, bottom-line, data-driven analysis will play an outsized role.** Technologies and solutions that help guide producers and their teams to more rigorous, hedged, and likely financially beneficial investment decisions will only grow in importance.

Analytical rigor, A/B testing, and artificial intelligence will be infused into virtually every critical decision in the production process in the future.

Ecosystem challenges make it difficult to prove ROAS

Traditionally, **marketing efforts on CTV have been challenged by the fragmentation of the ecosystem, lack of standardized measurement practices, and cross-channel attribution**. The only way publishers can get valuable consumer insights is by owning or syndicating the distribution channel. Viewers also like to watch their content on multiple platforms, depriving one single company of the chance to create an identity or a viewing footprint.

A data-driven approach is critical to effectively target likely viewers and measure the success of any marketing campaign. However, creating a unified data set is not straightforward. Data fragmentation complicates creating valid viewer graphs on which statistically-significant correlations must be drawn. And, once the data is gathered, it is difficult and expensive to process and obtain actionable information. That is why many services resort to simple “you-might-also-like” (YMAL) strategies for their content recommendations.

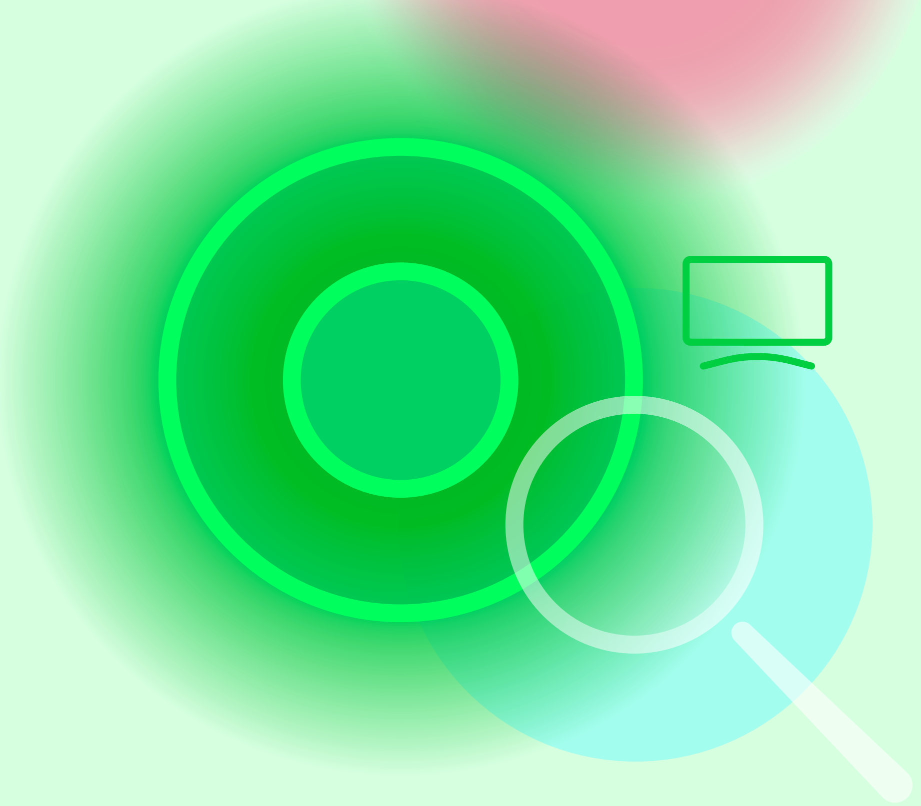
Fragmentation also makes precisely measuring viewer acquisition challenging. Andy Rhode, Head of Media at ad agency Fallon, sees it **undermining the very basic key performance indicators**:

“The measurement part is a challenge. Even trusting and knowing that your ads are going to show up where you want them to is a challenge, and that you’re not over-serving on one platform.”[17]

3.

SCALABLE ADVERTISING SOLUTIONS FOR STREAMERS AND CONTENT PUBLISHERS

100%
measurable



Wurl has been at the center of the streaming revolution since its launch. **Now, ContentDiscovery brings a cutting-edge machine learning-powered advertising platform** for streamers and content publishers to acquire, engage, and retain viewers at scale. With ContentDiscovery, Wurl leverages its data to discern trends between viewer interest and shows they will want to watch without bias or priority.

wurl
ContentDiscovery

All campaigns handled by ContentDiscovery are 100% measurable. Advertisers benefit by immediately seeing their ROAS and down-funnel metric performance, no matter how many FAST platforms, viewers, and client devices they deliver to. And, since ad performance can be linked to viewer acquisition, marketing spend can be directly connected to revenue growth, ensuring streamers and publishers can see a return on every dollar spent.

AppLovin, which acquired Wurl in 2022, developed an innovative approach to performance-based marketing for app publishers on mobile.[18] Wurl's machine-learning engine brings that same innovation to the CTV market with ContentDiscovery. As this technology learns a streamer's or publisher's content and the types of viewers that will love it, its efficiency improves, delivering more viewers for their shows and returns never before seen on CTV.

Advertisers benefit by immediately seeing their ROAS and down-funnel metric performance

Why ContentDiscovery works

Advertising solutions that first and foremost identify which viewers to target and how to reach them at scale are essential to the streaming industry's profitable growth. However, the ability to actually engage and retain them is equally critical.

Because promotion and content are so intertwined, a solution that optimizes marketing can also help to optimize production. The same underlying viewer graph, statistical correlations, and insights can be utilized by production executives to guide their strategies as well.

The result of all this is a win-win-win "virtuous circle" in which viewers are exposed to more great content they value. Viewers' loyalty and satisfaction increases, a demonstrable ROI formula drives marketing spending by streaming services providers, and producers make higher volumes of content that viewers truly enjoy.

With ContentDiscovery, streamers and content publishers can:

- **Target high-value users** that are likely to have an affinity for a particular show.
- **Scale profitably** with campaigns optimized for yield or down-funnel metric performance.
- **Test specific ad concepts** and automatically tune messages for optimal impact.
- Track ROAS with **100% measurable campaigns**.
- **Connect people to content at scale** with the ability to advertise across massive mobile supply and more than **3,000 CTV channels**.

4.

COMPLETING THE VIRTUOUS CYCLE

The industry is experiencing an undeniable shift in viewership from traditional TV, cable, and satellite to streaming – and, today, there are more and more options for viewers to access content from streaming apps. **Wurl's ContentDiscovery is solving the biggest industry challenge in streaming, which is connecting people to content they will enjoy and keep coming back for.**

ContentDiscovery addresses the "paradox of choice" quandary that now overwhelms tens of millions of viewers trying to decide among many options. The solution's machine learning helps viewers discover content they may never have considered watching, with relevant ads that continue to draw viewers back to the streaming service or channel again and again, driving higher retention.

Simply put, if a streaming service displays an ad for something a viewer will like, that person will be more grateful and happy, rather than feel annoyed by the ad. And grateful and happy viewers are good for the ecosystem, helping complete the virtuous circle where everyone wins.

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