

Conference Report:
The Challenge of Monetizing Content in a Changing Era
By: Laura Littman, Chelsea Carr, and Chris Meier

Keynote Address

David Bonderman, *Founding Partner, TPG*

Mr. Bonderman, coined by Dean Phil Weiser as the investment genius, kicked off the discussion of monetizing video content by speaking broadly, in a comparative light, about whether this sector is one worth investing in.

To begin, Mr. Bonderman stressed that the industry is a “hit driven world” that moves rapidly and is harder to analyze than other industries. However, he did not undermine the expansive opportunities given the constant innovation in the field. While he would not bet against many industry companies today (e.g. Netflix and Comcast), he believes we will all be astonished by what happens in the future. He noted, however, that it took much longer for Blockbuster to run its course than he thought and called out Sony as unable to progress with the demands for new hardware. Further, he noted that the demand for innovation in hardware (e.g. the Walkman) occurs much more quickly than for software (e.g. cartoons change little).

As for monetizing distribution, Mr. Bonderman reiterates the question, “How will it play out”? He looks to the newspaper and music industries. He says change takes time, and the difficult part is getting the timing right. Further, he argues that vertical integration will thrive only where there is a limited supply at one level of the chain. While he sees no need for cable, he identifies that the issue is getting past the existing framework. Finally, he thinks the role of Government oversight is a fact of life in the industry, and it is not changing quickly.

To finish, Mr. Bonderman answered questions from the audience. First, he discussed the dynamics of managing risk in investments. Second, he explained that what he is talking about is not a venture capital deal, which he describes as a bet on technology in small dollars (such as his recent investment in Uber); instead, he is talking about investments where one has a pretty good idea of results—here, he says, “the dependency on impacts of technology is much different.” Third, he discussed private equity and the use of leveraging, saying that prices reflect financial markets. Finally, he discussed a la carte and proliferation of content and technology, assuring disruption but identifying the political issue of economic rents, singling out live sports.

Panel 1: The Incumbent Distribution Platforms: Keeping Control of a Legacy Business Model

Panel: Stanton Dodge, Executive Vice President, General Counsel, and Secretary, DISH Network; Julian Farrior, Founder, Backflip Studios; Maureen O’Connell, Senior Vice President, Regulatory and Public Policy, 21st Century Fox; and Allan Singer, Senior Vice President, Charter Communications. Moderator: Paul Glist, Partner, Davis Wright Tremaine LLP

Industry leaders from legacy distribution platforms weigh in: how will new trends in the content distribution industry affect existing business models?

Future business models: Regarding transmission regulations in telecommunications, panelists said that no one should get the benefit of a compulsory license without the accompanying burdens. Additionally, the panel advocated that video delivery services like Aereo should not be able to pick and choose which federal regulations they are required to follow.

A la carte: Panelists pointed to the major drawbacks of an a la carte content distribution model; specifically, economics will change and consumers will end up paying more for a smaller

bundle. They identified that bundling encourages innovation by allowing content creators to aggregate risk across networks. Smaller tier basic cable options are already available to consumers, even though most consumers do not buy them. Further, diverse channels are lost.

IP delivered content: Mr. Farrior explained that an IP delivered world allows for easier entry of edge content. Additionally, he said that his experience with younger generations proves that fragmented content delivery, on multiple screens, will be the norm. On government involvement in video distribution models, the panelists saw three themes. First, over-the-top video providers are attempting to lay the groundwork on the hill. Second, it is easier to block legislation than pass legislation. And third, businesses support a regulatory environment if it benefits their business. Finally, Ms. O’Connell pointed out that bundled content is the norm because it is the most economical way to provide content.

Intersection of ISPs and over-the-top video: Discussing whether the intersection will alter consumption, Mr. Singer said such use of a private network would lead to a consumption-based model. However, Ms. O’Connell asked, “Would this push people back to the bundle?” In closing Mr. Singer said that more and more generations are getting used to viewing content in a different way, saying the basic model will be where and when viewers want. But while he thinks the model will be different, he does not think it will be as staggeringly different as some might think.

Panel 2: The Insurgents: How to Disrupt the Legacy Model and Provide Valued Content

Panel: Lindsay Gardner, Senior Advisor, Oaktree Capital Management; John Levisay, Founder and CEO of Sympoz, Ryan McIntyre, Managing Director, Foundry Group; Christopher Thorpe, President, Tivli; and Erika Trautman, CEO and Co-Founder, Rapt Media. *Moderator:* Brad Bernthal, Entrepreneurship Initiative Director, Silicon Flatirons Center.

New content developers across digital media discussed the future of digital content, weighing in on online content distribution and its effect on legacy distribution models.

The future of online content: Panelists referenced their respective products. Ms. Trautman said, “Brands are creating the real innovation for us—ones unencumbered by a legacy distribution model.” Mr. Levisay said, “Our model from the start was a fusion of education and media, there is a significant audience out there, which will pay for a la carte content and business.” Mr. Gardner pointed out that hit content works well in existing content distribution models, but “nowadays there is more to the puzzle; you must deliver to an audience—you cannot bring them to you.” Mr. Thorp explained, “In our case, we work with legacy content. We want to bring legacy networks to devices. The big difference: we are not Aereo; we want to work with the networks.”

The future of linear programming: Mr. McIntyre said, “We are much more interested in new formats and new content where creators have freedom.... New forms of media do not kill old forms—they all exist together.” Mr. Gardner added, “Linear television is the platform on which everything is built. The majority of that is linear television; there are things that it does which cannot be replicated.” In response, the panel discussed differences between the linear and non-linear model. Finally, Mr. Thorpe explained, “There is a lot we can learn from computer games. Novels become serial media, radio, television, and film. The 21st century will see video games playing the same role as movies did for the 21st century.”

Content format and the Internet: Ms. Trautman said, “The internet has created a spectrum of experiences.... When we distribute content online, there is this conception that the consumer does not value that as much. There needs to be a growing understanding that specificity and relevance has much more value.” Mr. Thorpe said that the key in fixing the legacy business

model is to show how advertising gets purchased. Mr. McIntyre said, “We need to make the experience more convenient with better UI and UA. There is so much more that can be done with good content inside the stream.”

Trends: Ms. Trautman said, “I sit at my tablet and watch two hours at a time, or I am in seeking interactive mode, seeking news and not wanting to sit through two minutes of clips.... The Metadata, the interactivity in video, it is interesting to see how that is going to transform what we know about video content moving forward. If you build your videos in such a way that they are searchable, that is going to feed back into what we know about consumption of video content. It will help extract more value.”

Panel 3: The Programmers’ Dilemma: Keeping the Incumbents Happy While Reaching Out to the Insurgents

Panel: Matt Bond, Executive Vice President, Content Distribution, NBCUniversal; Glenn Curtis, President, Starz, LLC; Michael Fricklas, Executive Vice President, General Counsel & Secretary, Viacom Inc.; and Jim Packer, President, Lionsgate. Moderator: Phil Weiser, Dean, University of Colorado Law School; Executive Director, Silicon Flatirons Center.

The third panel focused on the question, what to do new online services? Overall, most of the panelists viewed the new services as potential revenue streams.

Competition: The panelists pushed back against the idea that Starz and OnDemand compete directly with Netflix. They identify that while Netflix competes with all platforms for eyes, each platform provides a distinct service. Netflix and other online services do not necessarily make the content more or less valuable, but they complicate the windowing process as programmers attempt to maximize that value.

The future of linear programming: The panel discussed whether linear programming is dead. Today, the money remains in on air television, so scheduling is still a major concern. On the other hand, there is growth in views outside those times and platforms. For some shows, the majority of viewing actually happens outside the normal viewing window. This is not viewed as a threat; rather, the panelists expect that the linear style of viewing will persist for a long time, with the non-linear viewing stacking up on top of it.

The future of monetizing content: There are many options for monetizing content, and they are not necessarily in conflict. Rather, programmers need to plan ahead and adjust windows in order to take advantage of the new platforms and maximize value.

Panel 4: Lessons Learned

Panel: Susan Butler, Executive Editor and Publisher, Music Confidential; Mark Cooper, Research Director, Consumer Federation of America, and Senior Adjunct Fellow, Silicon Flatirons Center; Linda Kinney, Senior Vice President, Motion Picture Association of America (MPAA); Justin C. Konrad, Partner, Hutchinson Black and Cook, LLC; and Cary Sherman, Chairman and CEO, Recording Industry Association of America. Moderator: Jonathan Sallet, Partner, O’Melveny & Myers LLP; Senior Adjunct Fellow, Silicon Flatirons Center.

The fourth panel looked to the music industry as a model for what to do (or not to do) in a world of digital content.

The music industry’s transition to a digital medium: Mr. Sherman argued for measuring where the music industry was at the beginning and where it is today. He noted that in the beginning, the industry was forced to transition to new models very quickly—while it was dealing with piracy and complicated contracts. The industry needed more time to adjust than was

allotted. Fast forwarding to today, Mr. Sherman claims that the industry is only about 40 percent of its previous size, but it has stabilized and has created a legitimate digital business model, making him optimistic. Mr. Cooper's view was very different: This is "the most consumer friendly transformation of the marketplace in your life or mine," he said. He argued that before the transformation, the music industry amounted to a "massive abuse of copyright privilege," but that piracy had nothing to do with that transformation other than to show the demand for singles. Ms. Butler noted that one of the biggest complications in the music industry is the number of copyright holders for a single song. Often it is not decided from the beginning who owns how much or who can issue a license, which leads to further confusion down the road.

Lessons learned from the music industry: Overall, most of the panel was optimistic as to the future of the music industry. Further, most of the panelists expressed that the problem for the music industry was its lack of time to make decisions, which does not seem to be a problem for the video content industry today that is looking to learn from the music industry's mistakes.