Network Television Scenarios

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Introduction

Recently, major American network stations, such as Fox and CBS, have seen a continuous decline in viewers. Networks are facing increased competition for consumers from the internet because of the way it has transformed content consumption (Anderle, 2016). Streaming services like Netflix and Hulu, which have long offered lower cost, on-demand alternatives to cable TV, pose an additional threat to major American networks.

In turn, some networks have started making their content available across platforms. HBO, for example, is offered through cable TV packages, online streaming services through cable providers, and its own online streaming service for viewers without cable (Anderle, 2016).

These streaming services give consumers ad-free access to several episodes at a time at a much lower cost than cable. The Millennial generation is particularly enticed by streaming services and binge watching, or marathon viewing, culture (Master 2006). By 2028, Millennials are expected to surpass Baby Boomers as the main generation with economic influence and buying power in the general market, making their preferences increasingly important (Bump 2014).

Additionally, it will be key to watch for the impact of a potential AT&T-Time Warner merger, which may consolidate all streaming content from American Major TV networks on one service (The Economist, 2016b). Four potential futures for industry emerge: All networks have their own streaming service like HBO Now, all networks merge into one super streaming service like DirecTV Now, networks revamp their business model to compete with DirecTV Now, or that the industry remains stagnant.

Drivers of Change for Network Television

The future of network television has not always been one mired in uncertainty. During the 1970's, networks would command audiences as large as 25 million viewers on a nightly basis (The Economist, 2016b). This gave these networks an air of invisibility that persisted even through the addition more major networks (e.g. Fox, Univision, and CW) and the advent of cable television. However, due to a variety of factors that will be explained in this report, network television is tasked with drawing larger audiences, competing with digital platforms and addressing political/economic roadblocks that could severely threaten its viability over the next decade. This report will outline the impacts of changing demographics, technological advancement and police, economic drivers and new innovations that will be of note to network television executives.

Initially, changing demographics will have a profound impact on the business models employed by the major television networks. An analysis of advertising trends showed that networks are currently splitting their advertising expenditures between traditional television commercials and digital advertising (Garrahan, 2016). This split is primarily due to advertisers' needs to target two demographics of interest: baby boomers and millennials. However, over the next decade, millennials will make up those aged 22-46 while baby boomers will be near universal retirement, aged 65+ (Bump, 2014). This shift will result in millennials taking over key metrics such as purchase power and consumer demand. Should this demographic and Gen Z after it still spend much of their time on digital platforms, network television would be forced to revise how they distribute content to protect against substantial losses in advertising revenue.

Because of demographics shifting younger over the next decade, the way consumers use technology will change. The preference of younger generations to more advanced technology has already begun. With companies like Netflix and Hulu setting the standard, video streaming is already a fixture in the lives of many people in the way watching network television used to be (Anderle, 2016). While several cable networks (e.g. ESPN; WatchESPN) and pay-tv networks (HBO: HBO GO, HBO Now) have successfully created streaming apps to get their content (literally) in the hands of millions, networks have been unable to offer the same level of immediate satisfaction to those who seek their content (Investopedia, 2015). As streaming further normalizes into the concept of "watching TV" networks will be forced to offer similar access or risk losing relevance.

This report would be remiss to ignore the results of the 2016 Presidential election. With this month's election anointing Donald Trump as the forty-fifth President of the United States, networks must monitor changes in media industry policy which can directly and indirectly affect them. For example, a direct effect could stem from President-elect Trump's disdain for what he describes as "needless regulation on various sectors of the American economy" (Furchtgott-Roth, 2016, para. 1). This could lead to policies that force the Federal Communications Commission (FCC) to lift restrictions on network television (Pompeo, 2016). Although it is unclear if the President-elect will address network television regulation, networks will need to be prepared for radical shifts in their current business models.

Within the media industry, specifically as it relates to television, key events that are currently in motion have the potential to vastly change the way television is consumed in the United States. Most notably, the expected $85 billion sale of Time Warner to AT&T (The Economist, 2016a). Reports indicate that the sale will enable AT&T (which owns DirecTV) to launch DirecTV now, a service that will make cable television an over-the-top platform analogous to Netflix or Sling TV (McAlone, 2016)). Although this service will not offer original programming or include non-cable networks, it could indicate an industry wide shift in how television content in disseminated to viewers. This merger could force networks to diversify their content so it is completely distinct to services like DirecTV now. Alternatively, it could shift networks to adopt a similar model and get their content in more homes using over-the-top distribution systems.

Finally, Diffusion of Innovations theory (DOI) details how innovations spread. This framework can be applied to innovation that will impact the next decade of network television. Social Media companies like Facebook, Snapchat and Twitter have long since passed the "adoption phase" in the daily lives of most Americans. However, they have never been known as places to gather to watch television. However, just in 2016 Twitter has collaborated with NBC, CBS and the NFL network to stream Thursday Night Football games (Seetharaman, 2016)) while Snapchat is seeking original content creators (Taylors, 2016). While these are minor steps, it shows that social media platforms are gauging interest for TV like services are in the trial stage. (Trial is stage 3 of 5, with the 5th being adoption.) Social media platforms entering the world of television, traditional networks will have even more competition in an already crowded industry.

This report is not to suggest that network television is in a crisis. Networks have existed for nearly half a century and American's are watching more television now than they have at any point in history. However, just like with more networks, and cable and social media the audiences are irreparably fragmented from where they were in the early days of network television. To ensure continued longevity, networks must address the factors listed in this report and ensure they can still create a product that is desirable, profitable, and long-lasting.

Scenario Matrix

In order to develop a matrix to illustrate the scenarios, two factors were identified as the most uncertain and the most broad (Wade, 2012). The first of these factors was demographic change expected in the next decade. Because Millennials will take over Baby Boomers and Generation X as the generation with the most purchasing power (Bump, 2014) their preferences are likely to dictate how networks and digital services package and disseminate their content. The Millennial preference for cord-cutting has led to most millennials watching television digitally as opposed to live (Horowitz Research, 2016). However, this trend is not expected to make network television irrelevant to this group (Steel & Marsh, 2015). These factors led to the labels on the horizontal axis of the scenario matrix. Millennial preference would either continue to be split between live and digital, or younger generations would consume television exclusively through digital means.

The second factor that satisfied Wade's criteria was the anticipated impact of the merger between AT&T and Time Warner. Much has been made of the disruptive impact that services such as Netflix and Hulu have had on network television (Tietjen, 2015), however the prospect of these services uniting has been notably absent from discourse around the future of network television. Although the merger is expected to be completed in the early parts of 2017 (The Economist, 2016b) its impact is likely to last well past the next decade. The effects this merger could result in led to the vertical axis of the scenario matrix. DirecTV now would either succeed and create a viable digital network, or it would continue the fragmentation of over-the-top streaming services.

These two factors would finally be used to construct the four scenarios in the next section of this paper. Initially, millennials would still be split amongst digital and live televisions while DirecTV Now fails in creating a digital network. This would maintain the status quo for network television and continue to prioritize the "content is key" mantra. Second, millennial viewing preferences would shift to entirely digital without a digital network like DirecTV now. This would result in networks choosing to shift to a pully digital platform. Third, millennial viewing habits do not change while a DirecTV Now digital network has become a resounding success. This would push networks towards adopting alternative distribution channels for their content. Finally, the doomsday scenario for network television occurs when millennials prefer fully digital television and DirecTV now has succeeded in a creating a digital television network.

Scenarios

Status Quo

I woke up this morning, early before my wife and kids, and went downstairs to fix myself some coffee and oatmeal for breakfast before I left for my commute into Cincinnati. While I ate, I tuned the kitchen television to ESPN SportsCenter. This is an old ritual for me: I've been watching SportsCenter over breakfast since I was in high school back in the late aughts. I remember when I went away to Ohio State in 2011, my parents didn't want to spring for my own individual cable subscription. "Just watch Netflix and Hulu, we're paying enough for those," they said. So, I paid for my own cable package instead, using money from my part-time job at Macy's -- for all four years I was in college, and two years of business school after that. There's something special about getting SportsCenter live in the morning that checking scores on the web just can't replicate.

Of course, I don't watch it every morning. Life gets in the way of that, and I'm frankly glad it has. But these quiet mornings alone at 6 a.m. before my drive to the city… they're one of the main reasons my family still has cable. And, you know, we're hardly the only ones. The year is 2026, and at 35 years of age, I'm a financial analyst for Macy's working at their headquarters in Cincinnati. I've got a beautiful home in Deerfield Township where I live with my wife and two little girls, ages five and three.

So, when I say we've still got cable, that doesn't mean we don't also have Netflix -- the little ones love it because it's got all their favorite shows, and my wife and I love it because it keeps them from seeing the advertising on cable. Hulu is out of the picture; it was purchased and dissolved by Sling TV about eight years ago, which was then run out of business by DirecTV Now. I remember when DirecTV Now launched, way back when I was finishing my MBA in 2017. All my friends were telling me it was going to be the death knell for cable, and maybe even for streaming services too. Guys like to talk about stuff like that; we're often given to thinking that an emerging technology is going to obliterate everything in its path.

I used to think like that too, but after studying technology markets in business school, I began to opt for a more balanced view of emerging technologies like DirecTV Now. I started talking with my tech-savvy pals about diffusion of innovations theory, which explains how new innovations are adopted into the marketplace. A lot of my friends were telling me that DirecTV Now would reach 100% diffusion, but I guessed that DirecTV Now would probably end up as an example of failed diffusion, which happens when some adopts an innovation, but not by all, and the market stabilizes. I guessed right: that's exactly what happened. DirecTV Now didn't take the world by storm, although it did absorb some of its weaker competitors. It settled in between streaming services and cable as a competitor for both, but all that competition caused a spike in quality that stabilized the marketplace.

Media consumers like me and my family have really benefited from all that competition. It seems funny to think that critics were calling the mid-2010s the "new golden age" of television -- shows on cable and on streaming services are better than ever. And cable prices are lower than ever, too. Cable now costs about the same as a Netflix or DirecTV Now subscription: they're all around $20 monthly. About half of my co-workers at Macy's have families like mine, with both cable and a streaming service (usually Netflix, which is gargantuan now). The rest have either Netflix, or DirecTV now, and have eschewed cable completely. But now, since everything is priced the same, it's all about preference, and making sure you're getting the content you want.

For example, I was a laggard when it came to streaming services, which I never signed up for until my five-year-old was old enough to watch television -- because for her, we need Netflix's content. Cable was always enough for me: I love ESPN, my wife loves the Food Network, and we both love the History Channel. Plus, it's fun to flip through the stations when nothing's on and try to find something new. I remain a stalwart fan of cable television -- there are hundreds of thousands of Americans just like me, and despite the emergence of new technologies, I don't think that's going to change much.

Fully Digital Networks

The year is 2026, millennials are now ages 29-45 and are projected to soon overtake the Baby Boomer's population; making them the generation with the most economic influence currently. Millennials, especially in the United States, are an interesting generation. They grew up having easy access to the internet and computers. From a young age, they were readily consuming content produced for and launched solely through the internet. Millennials were also keen on binge watching, or marathon viewing, digital content through the internet. Now at ages 29-45, millennials still have a high affinity for accessing their content digitally.

When Netflix launched in 1997, it would have been difficult to foresee the vast effect it has had on the major American television networks. At first, Netflix didn't have a vast streaming collection like it does now. It also was not producing any original content – let alone Emmy-award winning content! While it posed a threat to brick-and-mortar stores like Blockbuster, it did not start hindering major American television networks until the later 2000’s when it launched its streaming service.

In 2007, Netflix solidified a deal with Starz Entertainment, effectively adding 2,500 movies that were very recent for the times such as Ratatouille and No Country for old Men. To make matters scarier for the TV networks, all of this was available on-demand through online streaming for just $8.99 – a price considerably lower than a cable package that included Starz Entertainment.

Later that same year, Netflix struck further deals with CBS and Disney-ABC Television Group. Netflix was now offering hit shows from the 2000’s like CSI, Hannah Montana, and Star Trek. Viewers could now watch an entire series, back to back with no commercial interruptions!

Looking at the growing influence of streaming services, NBC Universal launched its own streaming service, Hulu, in 2008. Hulu made content from NBC Universal available week to week online for a lower price than a cable package. By 2009, Hulu was jointly owned by The Walt Disney Company, NBC Universal, News Corp, and Providence Equity Partners.

When House of Cards premiered in 2013 as Netflix’s first original content launch, it was a true game changer. An entire season of what would soon become a critically acclaimed series was packaged and launched all at one, satisfying the binge-watching trend among millennials.

The company started moving in on Major American Network Television’s turf and taking some of their executives along with it. As a response, some of our networks began to move towards offering streaming services. At first, these existed in conjunction with broadcast based services and cable packages. HBO was one of the first.

With a cable subscription that included HBO, consumers could access HBO GO. This still did not account for the growing number of millennials that did not have cable and accessed content solely on services like Netflix. Then HBO launched HBO Now, with a small monthly fee consumers could access all of the network's content without ever having a cable subscription.

As millennials' buying power and economic influence has increased, so have services like HBO Now. Cable packages have been severely crippled. Now all major American Television networks have their own streaming service. This has reigned king among millennials, who disliked having to pay more for cable packages full of channels they had no interest in.

Revamped Business Model

In 2026, executives at major television networks have begun to experiment with new ways to get their programming in the hands of more millennial and generation Z viewers. These viewers currently have more options than ever before because of DirecTV Now, the result of a merger between AT&T and Time Warner in 2016. DirecTV Now is heralded as a super network, successfully combining on-demand technology with several streaming services such as Netflix, Hulu and HBOGO services. Although this new generation of viewers is just as inclined as their predecessors to consume television through traditional and digital means, networks have prioritized moving their content onto social media.

Through the previous decade, Facebook has continued to be the social media network of choice while other photo/video sharing networks (e.g. Snapchat, Instagram, Tumblr) have retained social relevance. Due to its waning popularity, Twitter was bought out by Snapchat to boost the networks ability to share original content. Starting in 2017, Snapchat began creating short programs that fit within the context of a user's story. This short programming further developed following the Snapchat-Twitter merger, allowing Snapchat to create more professional-quality content. The viral nature of social media has allowed popular Snapchat programming such as "Places I Shouldn't" to garner Emmy consideration for Outstanding Comedy Series each of the last three years.

For network executives, this scenario is driven by the success of social media television for consumers and the willingness of those consumers to watch television through non-digital means. Every major network from CBS to NBC to Univision has seen their viewership ratings decline in each of the last five years, whereas membership for DirecTV Now exceeded 25 million for the first time in 2025. This has prompted executives at each network to begin create content that could be shared in the social media space to reclaim at least a piece of its lost viewership.

In addition to the creation of new content, CBS and ABC have already reached a preliminary agreement with Facebook to stream its content live on the platform. Early experimentation with streaming content on social media concurrent with live broadcast proved successful as proven by the NFL's decision to stream games on twitter amidst major ratings declines in 2015.

Offering content on social media is another way for networks to offer the consumers a new experience in watching television. Although DirecTV Now has proven formidable in its formation of a digital network, Americans younger than forty have not completely given up on network television. The longevity of the medium affords it the ability to offer new services without alienating a passionate base. Network television’s decision to offer original and syndicated content on social media will facilitate competitions between traditional networks (e.g. CBS) and digital networks (e.g. DirecTV Now). The revitalization of network television as an element of social media should offer network television more stability as more viewers begin to turn to digital sources for much of their television consumption.

Doomsday

Conclusion

The prospect of DirecTV Now and the uncertainty surrounding changing demographics will dictate the behaviors of network television well beyond the next decade. The four scenarios detailed in this report are by no means all-inclusive due to the vast number of drivers expected to have an impact on television. What these scenarios do offer is a glimpse into a future of opportunity and a warning that this is not a time for networks to be stagnant. Although it is unlikely that networks will return to the prominence they enjoyed in the late-20th century, reacting to the forces detailed in this paper could ensure that network television remains a staple in the everyday lives of all Americans.

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