ENCOMPASS

GENERATING FREE CASH FLOW AND TECHNOLOGICAL FLEXIBILITY THROUGH SHARED SERVICES

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EXECUTIVE SUMMARY

- The shifting media landscape is putting more pressure on traditional broadcast and cable networks' financial performance.
- It is a technical imperative for broadcasters to deploy an asset-light, cost effective, and flexible model to deliver their content across platforms.
- A shared services model allows broadcasters to apply more resources toward driving differentiation and growth by focusing on content creation, audience development, and monetization.
- Shared technical services and infrastructure should be a top priority for broadcast and cable networks as it reduces costs and mitigates the risk that comes with technological change.

A MARKET IN FLUX

Broadcast and cable networks find themselves in an increasingly challenging market where consumers are regular viewers of both television and OTT video offerings. These networks are facing intense competition from newer digital solutions like Netflix, Hulu, Amazon, YouTube, and Sling TV. Online video providers have increased production of new scripted original series, and these series aren't lacking quality, as evidenced by the 46 combined nominations Netflix and Amazon received at the 2015 Primetime Emmy Awards.

Additionally, viewers now demand content anytime, anywhere, and on any screen. According to a recent eMarketer survey, 7 in 10 U.S. Internet users watch OTT video via an app or website that provides streaming content over the Internet and bypasses traditional distribution.[1] In this highly competitive, saturated market, it should be a technological imperative for broadcasters to deploy an asset-light, cost effective, and flexible model to more easily deliver content across platforms.

$5B

on new programming

Netflix announced plans to spend $5 billion on new programming in 2016

top priority

Switching to a shared services infrastructure should be a top priority

$250M

reduced staff overhead

21st Century Fox announced plans to reduce staff overhead by $250 million in the coming 2017 fiscal year

CREATING A COMPETITIVE ADVANTAGE

The best way for traditional broadcast and cable networks to remain dominant industry leaders is to reallocate as many resources as possible to driving differentiation and growth by focusing on programming, audience development, and effective monetization of content. Spending is needed to maintain or ideally increase the quantity of new programming that viewers are demanding and intense competition is making it harder for networks to land hits. Netflix announced plans to spend $5 billion on new programming in 2016 and other SVOD services are following suit. Discovery Communications, Inc., Viacom Inc., and Starz have all said recently that they need to spend more on programming to combat declining viewership.[2]

Recent efforts major networks have made to reduce overhead and free up money have been well documented. In mid-2014, Turner Broadcasting launched a significant round of cost cutting by laying-off hundreds of workers.[3]

Last year, it was reported that ESPN planned to cut costs by streamlining its production process and re-investing that money into more live coverage of events.[4] Most recently, 21st Century Fox announced plans to reduce staff overhead by $250 million in the coming 2017 fiscal year.[5] As companies search for innovative ways to save money and reallocate budgets, switching to a shared technical services infrastructure should be a top priority, as it delivers free cash flow accretion and allows broadcasters to focus their resources in areas that drive competitive differentiation as well as audience and revenue growth.

RELIEF FROM SHARED SERVICES

For television companies, technology infrastructure and operations are not a differentiator – companies are expected to keep up with increasingly complex and varied content distribution methods and platforms, and deliver the end product flawlessly. Global media technology services companies specialize in providing video solutions that power the new age of video viewing at a reduced cost to handling in-house. A sound shared technical services solution can handle a lot of back-end work for television networks by delivering broadcast-quality media to any endpoint and providing a robust infrastructure with unparalleled technical expertise. At the same time, an outsourced shared services model mitigates the risk that a broadcast or cable network is caught flat-footed by technological change. Encompass has found that 10 to 30+ percent savings can be realized while maintaining quality of service when television networks outsource their broadcast technology spending to companies that specialize in technical, non-differentiated areas of broadcast operations. Some of the specific benefits of a shared services model include:

OUTSOURCING BENEFITS

SHARED LABOR AND PROCESS OPTIMIZATION
Utilizing labor across multiple networks and optimized, automated workflows drive efficiency and quality, enabling the delivery of video as efficiently and effectively as possible.

PURCHASING LEVERAGE FOR SATELLITE, FIBER, HARDWARE, SOFTWARE, AND CDNs
Significant consolidated spending with top satellite, fiber, hardware, software, and CDN vendors around the world results in attractive pricing and service levels that can be passed along to customers.

SHARED PHYSICAL INFRASTRUCTURE
Operating more networks out of similar amounts of real estate with the required infrastructure (e.g., power, antennas) results in lower costs.

ACCELERATED BENEFITS FROM TECHNOLOGICAL ADVANCEMENTS
At scale, video technology services companies are best positioned to test, adopt, and offer the newest and most advanced technologies in the industry, eliminating the need to constantly purchase new equipment or implement new processes.

SLAS SUPPORTED BY FINANCIAL COMPENSATION
Unlike in-house teams, financial penalties are paid by video services providers if they don't deliver the expected performance levels.

LOCATING LABOR IN LOW COST LOCATIONS
Most major media companies locate much of their labor in high cost locations (e.g., New York, London) while global video services companies with a footprint around the world find more cost-effective locations to do business.

OTHER INDUSTRIES TURNING TO SHARED SERVICES

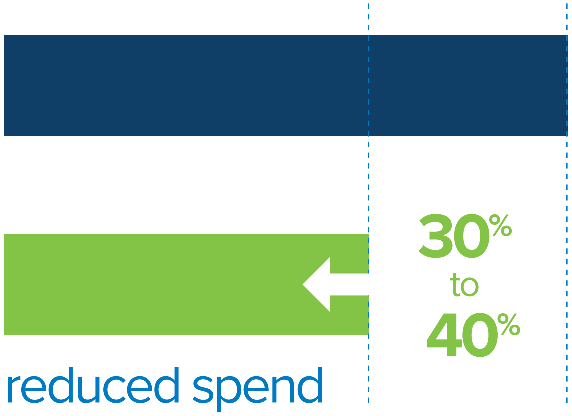
Media companies can focus on the areas that will drive audience growth, revenue, and shareholder value by leveraging outsourced shared services, but are behind other industries in capitalizing on this opportunity. Here are some notable examples in other industries:

Banking

We've seen the shared services model work well in a number of large, established industries. Banks and financial institutions, not surprisingly, were early to adopt shared services and outsourcing for certain business objectives. Deteriorating market conditions, increased regulatory scrutiny, and capital requirements have put more pressure on these institutions' operating costs resulting in a more aggressive push towards shared services models. A few strategic objectives solved through outsourcing in the finance industry:

- **Efficiency:** Release costs through economies of scale and labor arbitrage
- **Effectiveness:** Outsource to enhance core competencies; improve analytics and reporting
- **Risk Management:** Improve control through simplification and standardization
- **Agility:** Reduce time to market for new products and services
- **Capital Efficiency:** Release capital through efficient and effective sourcing

Accenture found that some financial companies were able to reduce spend by as much as 30 to 40 percent by shifting business objectives to third parties.[6]



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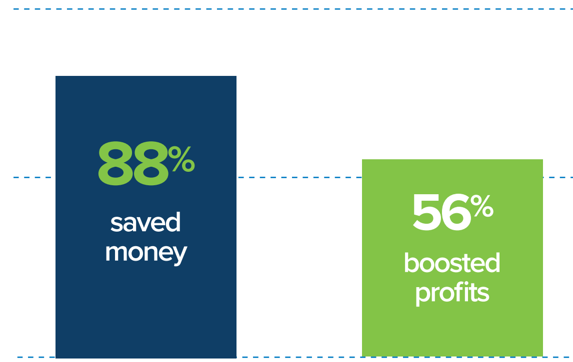
Information Technology

By now, most companies that previously employed a physical IT infrastructure have shifted to cloud environments. Gone are the days of companies requiring in-house servers, and a full IT department for support. Most businesses are willing to move computer systems and applications to the cloud because it allows management to be flexible and focus more time on core competencies of their business, not technology issues. The National Institute of Standards and Technology describes five essential characteristics of cloud computing that companies benefit from[7]:

- **On-demand Self-service:** A consumer can provision computing capabilities automatically as needed
- **Broad Network Access:** Capabilities are available over the network and accessed through various client devices
- **Resource Pooling:** The provider pools its computing resources in order to serve multiple consumers at a reduced cost, assigning and reassigning physical and virtual resources according to consumer demand
- **Rapid Elasticity:** Capabilities can be elastically provisioned and released to scale rapidly outward and inward according to demand
- **Measured Service:** The use of cloud resources can be monitored, controlled, and reported, providing transparency for the provider and the consumer



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A Rackspace survey of 1,300 companies in the U.K. and U.S. found that 88 percent of respondents using the cloud have saved money and 56 percent say the cloud helped them boost profits. Additionally, 60 percent said that cloud computing reduced the need for their IT team to maintain infrastructure,[8] giving them more time to focus on strategy and innovation.

ADDING FINANCIAL AND TECHNICAL VALUE

All broadcast and cable networks looking to maximize profits should place high emphasis on improving operational efficiencies wherever possible by turning to media technology services providers to manage their increasingly complex technical operations at a reduced cost. By outsourcing technical infrastructure and operations, broadcast and cable networks can focus more on their core competencies of creating and monetizing their content. Savings and time gained from outsourcing can be redirected to programming investments or immediately improve profitability.

Shared services partners should be considered for:

BROADCAST TV AND CABLE NETWORKS

Centralized Master Control
On-premise or cloud-based channel playout, network integration, branding, and live operations

Centralized Ingest and Preparation
Including syndicated recording, content aggregation, quality control, and archive

Full-Time Distribution
Satellite or terrestrial IP transport

Uplink, Satellite Capacity, and Fiber Services
A global teleport and fiber infrastructure that provides highly flexible connectivity options

Disaster Recovery
Solutions for content replication, backup media operations, fully synchronized playout protection, and distribution backup

Managed IP Transport
Implementation of networks that enable real-time or file-based content sharing and collaboration between stations, bureaus, and third parties

DIGITAL

24/7 and Event Streaming
Full-time streaming to downstream platforms

Video On Demand (CVOD/VOD)
Creation, packaging, and distribution

Content Delivery Networks (CDN)
Procurement at a high volume enabling competitive rates tostream content globally

Online Video Platforms (OVP)
Strategic relationships with industry leading providers for storage, paywals, monetization, and analytics

Dynamic Ad Insertion
Ads-as-a-service model partnering clients with ad service vendors to fulfill sales requirements and maximize revenue

Dynamic Program Replacement and Reorder
Automated solutions to decorate channels with triggers that enable unlimited downstream outputs for monetization

CONCLUSION

It is a technical imperative for broadcast and cable networks to deploy asset light, cost effective, and flexible models for the delivery of their content across platforms while focusing their investments on driving differentiation. Companies that recognize the importance of flexibility and the need to focus resources on content creation, audience development, and monetization will leverage shared technical service providers to support improved financial performance.

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