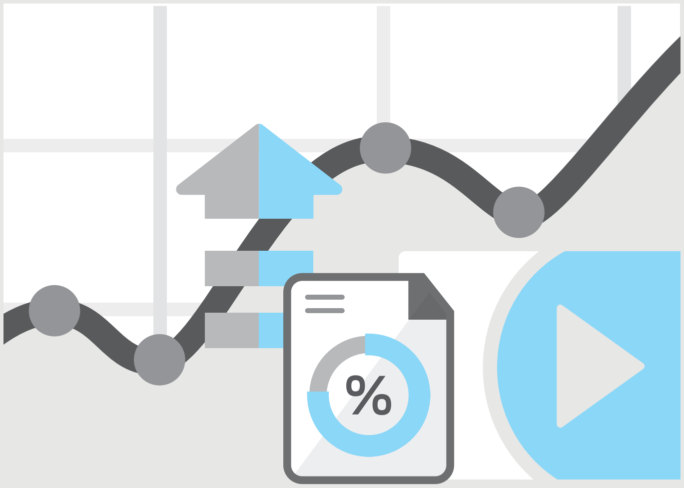

Supporting C3 / C7 Measurement Standards in the New Continuum of Viewing

Executive Summary

The rapid growth of online viewing is posing challenges for video providers who are still relying on outdated measurement standards to track the success of their content. Here, we address how the industry's newer C3 and C7 measurement standards address today's shift toward the "continuum of viewing", which accounts for the transition between live, near-live and on-demand, and what video providers need to ensure they're successfully monetizing their online content.

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Introduction

One of the foundations of the $80B TV advertising industry is changing.[i] The currency of the overnight rating, a standard by which the success of TV shows has been measured for decades, can no longer be trusted to give an accurate picture of TV show popularity. On-demand viewing through digital video recorders, pay-TV video-on-demand systems, and more recently subscription video-on-demand services, is reshaping the way the industry accounts for success.

Driving this change is the move from live TV to on-demand. Increasingly, people exist within a “continuum of viewing”, seamlessly transitioning between live, near-live and on-demand viewing. To attempt to track these changes and the migrating audience, the industry has responded with the new C3 and C7 measurement standards. Although adhering to these standards does successfully capture some non-live TV viewing, they force the video provider to deliver outdated ads. Most importantly, the area of online viewing is completely unaddressed.

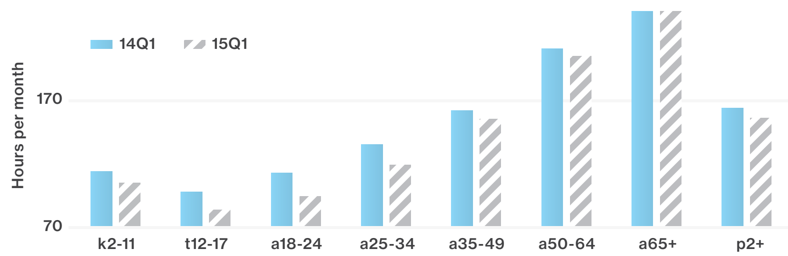
This paper examines how fast viewing behavior is transitioning to the continuum of viewing, and the technical and business problems caused by this change. It also looks at the technical solution that video providers will need to support existing measurement systems and new digital platforms not bound by C3/C7 constraints.

How On-Demand is Bringing Change to Ad-Supported Video

Live TV consumption is in decline. Between the first quarter of 2014 and 2015, live TV viewing in the United States declined overall by 4.8 percent, but that's not the entire picture. Despite declines in every age group, most of the decline accrued within the younger generation. Viewing in the 18-to-24 age range fell 16 percent, and among the 25-to-34 year olds, it declined 9 percent.[ii]

This decline is not limited to the United States. In the United Kingdon, live TV watching has fallen nearly half an hour since 2012. Viewing declined 6 percent in 2014 and a further 2 percent in the first six months of 2015.[iii]

Monthly Time Spent Watching Traditional TV



Source: Nielsen Reports, nScreenMedia calculation

The average TV viewer spent over **10%** of his/her viewing time watching timeshifted content.

DVR/VOD usage increased the most among the over 35 year olds, where it was up **6%** year-over-year.

Among the under-35s, however, DVR/VOD usage actually declined.

The following age groups transferred their viewing to online platforms:

The 18-to-24 year olds used timeshifted viewing **16%** less, and the 25-to-34 year olds used it **8%** less.

Some, though not all, of this viewing has transferred to the digital video recorder (DVR) and video-on-demand (VOD) systems. The average TV viewer spent over 10 percent of his/her viewing time watching timeshifted[1] content. DVR/VOD usage increased the most among the over 35 year olds, where it was up 6 percent year-over-year. Among the under-35s, however, DVR/VOD usage actually declined. The 18-to-24 year olds used timeshifted viewing 16 percent less, and the 25-to-34 year olds used it 8 percent less. These age groups transferred their viewing to online platforms.

This switch to delayed viewing has begun to impact revenue belonging to the TV providers and has understandably rattled the industry. For example, FOX chairmen and CEOs Dana Walden and Gary Newman wrote in a memo recently that the company was abandoning overnight ratings completely:

"The Live + Same-Day rating does not reflect the way people are watching our series. It leaves out the vast majority of fans who choose to watch on DVRs and VOD systems, and virtually ignores those who stream our shows or watch on-demand. And those viewers matter: Within a seven-day period, more than one-third of the broadcast 18-49 audience watches after the same-day window."[iv]

In response to the challenge posed by DVR/VOD viewing, the industry has moved to a new standard for audience counting. Dubbed C3, or live+3, Nielsen is now extending the live-plus-same-day[2] standard of counting viewers to encompass DVR and VOD views within three days of the original broadcast. Nielsen will also extend this period with the new C7 standard, counting show views within a week of the original broadcast.

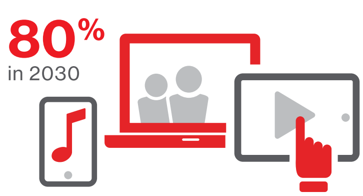
C3 / C7 Pluses and Minuses

There is evidence C3 and C7 can produce a substantial ratings lift. In October 2015, Fox aired the first episode of its hit show “Empire”. The show received a 6.7 live-same-day rating. C3 measurement gave an 18 percent lift in ratings to 7.9.[v] CBS’s new drama “Limitless” improved live-same-day ratings among the 18-to-49 age group from 1.9 to 2.3 when adding in C3. C7 pushed ratings to 2.5 for an overall gain of 32 percent.

However, there are problems using C3 and C7 measurement. The longer a viewer waits to watch a show, the more likely the ads are to be out-of-date. For example, there is little value in seeing an ad for a store sale that is already over. Ideally, the content provider and operator needs to replace the out-of-date ad with a new one. Unfortunately, C3 / C7 does not permit any changes to the original ad load if the views are used to count in the rating.

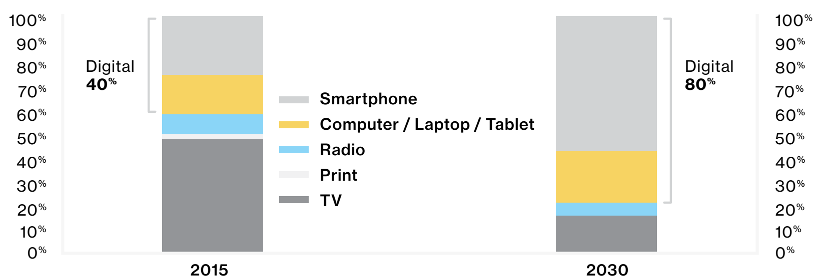
Another disadvantage to C3 / C7 measurement is that it misses any online playback of the show. CBS is acutely aware of this issue. The company’s CBS All Access OTT video service provides live TV and access to shows on-demand. Both live- and on-demand playback include ads, but when watching on-demand, the ads are inserted at the time of playback. That means none of the on-demand views are counted.

Today, the missing online ratings are small. For example, CBS All Access is used by just 2 percent of viewers.[vi] However, it will not stay that way. OfCom, the UK office charged with monitoring consumer media behavior, forecasts massive growth for digital consumption[3] at the expense of TV.



Digital media consumption will grow from 40% today, with 50% from traditional TV, to 80% in 2030, with traditional TV accounting for less than 20% [vii]

Media Consumption in the UK by Media Type: 2015, 2030



Source: OfCom, 2015

Nielsen is expanding its ability to measure online show viewing with its just announced Comparable Metrics. However, in the online domain, ad replacement is already the normal practice, and Comparable Metrics will certainly take that into account. Given the trajectory of the industry toward on-demand viewing on both online and DVR/VOD platforms, Nielsen may change C3 / C7 to allow for ad replacement sometime in the future.

The New Environment for Ad-Supported Video

CBS All Access illustrates the new continuum of viewing that consumers are moving toward, because it integrates both live linear and on-demand viewing. In this world, viewers move smoothly between live and on-demand, current and library titles. For example, a viewer may start watching the live linear channel with a show in progress and elect to restart it from the beginning. Perhaps the viewer starts watching a library title and then jumps to a new episode that began airing on the linear channel. In the continuum of viewing there are no rules that say a live broadcast of a show is worth more than an on-demand one. All are equally valid to deliver an ad to a viewer.

Supporting the continuum of viewing is a problem for linear TV providers. While a show is on air, it must be available simultaneously through DVR/VOD and digital systems to allow for start-over services. This recording must include the original ad load intact to support C3/C7 counting. As well, with online platforms, some or all of the original broadcast ads may need to be replaced with new ads. Beyond seven days, it's likely all the ads will be replaced or removed on both VOD and online platforms.

To support this complex video workflow, many video platform providers require the TV shows to be encoded[4] multiple times.

In many cases, a minimum of three encodings of the same show must occur:

1. The first encoding is of the live linear stream
2. The second encoding is of the individual shows with the original ad load in place
3. The third encoding is of the shows without the ads

This cumbersome, inflexible process also makes the provisioning of new services, such as catchup TV and network DVR, unnecessarily difficult.

Verizon Digital Media Services provides a much more streamlined process for encoding the shows. The original broadcast stream is processed by a versatile feature called the Slicer and encoded in Verizon's cloud. The Slicer integrates with the broadcast infrastructure so that, as it captures the broadcast signal, it also captures the precise position of all the advertisements. The Slicer then delivers the video, with the ad positioning data, to Verizon's cloud for encoding and storage.

When the viewer requests to watch a show within the C3/C7 window, the original broadcast with original ad load intact is retrieved and played back for the viewer. After the C3/C7 window expires, the system can replay the show in its original format, or it can change any or all of the ads. For example, the video provider could remove all the out-of-date ads (for store sales and special events that have passed), or replace them with new ads. It could just as easily decide to reduce the number of ads per break to 1 or 2 rather than the TV norm of 6 to 8. It can even deliver the show with no ads at all.

This is precisely the flexibility required to support the continuum of viewing. Any show in the original recording can be adapted to create the viewing experience required. Verizon's broadcast encoding solution also supports C3/C7 as it stands today, and any modifications with regard to the rules around ad replacement that may occur in the future. And it does all this in a single encoding pass, rather than three or more required by other solutions.

Conclusion

Though the environment for advertising supported video is changing fast, the reality is that traditional and non-traditional TV consumption will live side-by-side for many years to come. Video providers must deliver content in traditional linear channels and on-demand through VOD and online apps. They must also support the accepted methods of ascribing ad values in both domains.

As consumers move ever closer to the continuum of viewing, the rules and mechanisms that make up the $80B of video advertising revenue is certain to shift with them. Picking a video platform that can track the shifting sands of the advertising market, while minimizing its complexity, will be critical in ensuring that a video service gets its share of the advertising pie.

References

[1] Nielsen defines timeshifted viewing as watching a recent show from a DVR or VOD system.

[2] Live-plus-same-day counts all viewers of the live show, plus those watching a DVR recording as the original broadcast.

[3] OfCom uses the word ‘digital’ to refer to media consumed through a computer, laptop, tablet or smartphone. This paper refers to this as ‘online’.

[4] Encoding is the process of preparing a video for digital delivery.

[i] Ingrid Lunden, **2015 Ad Spend Rises To $187B, Digital Inches Closer To One Third Of It**, TechCrunch, Jan 20 2015, http://techcrunch.com/2015/01/20/2015-ad-spend-rises-to-187b-digital-inches-closer-to-one-third-of-it/ (accessed on 12/14/15)

[ii] Colin Dixon, **TV watching falls while streaming media player usage grows 200%**, nScreenMedia, 23 June 2015, http://www.nscreenmedia.com/tv-watching-falls-while-streaming-media-player-usage-grows-200/ (accessed on 12/15/15)

[iii] Henry Mance, **Decline in UK TV viewership ‘plateauing’, Financial Times**, Sept 11 2015, http://www.ft.com/intl/cms/s/0/46d41fe2-5899-11e5-9846-de406ccb37f2.html#axzz3uPixKHkV (accessed on 12/15/15)

[iv] Rick Porter, **FOX is quitting same-day ratings; TV by the Numbers is not, TVbythenumbers**, Nov 20 2015, http://tvbythenumbers.zap2it.com/2015/11/20/fox-is-quitting-same-day-ratings-tv-by-the-numbers-is-not/ (accessed on 12/15/15)

[v] Anthony Crupi, **Fox and ABC Are Winning the C3 Ratings War, AdvertisingAge**, Oct 13 2015, http://adage.com/article/media/fox-abc-winning-c3/300877/ (accessed on 12/17/15)

[vi] Digitalsmiths, **Video Trends Report,** Digitalsmiths, Q3 2015, p18

[vii] BusinessIntelligence, **7 Predictions About the Future of Media**, Business Intelligence, 2015, p16-17

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