the intersection and the 2nd Screen Society present:

**Second Quarter, 2013: Poised for the pivot**

**The 2nd Screen: Transforming video consumption**

by enabling companion experience applications and content everywhere

June 27, 2013

The first 6 months of 2013 has continued to be explosive for 2nd Screen. Apps have improved, new apps have continued to launch, clear evidence of growth in monetization associated with the market can be seen, and the convergence of 2nd Screen companion experiences and 2nd Screen viewing experiences has continued to gain momentum. The rise of the 2nd Screen Ecosystem continues to both reward and perplex major video industry players from all parts of the landscape.

In this brief summary, I am going to make references to our published research (“2nd Screen: Transforming Video Consumption”, a 252-page report published during our 2nd Screen Summit @ CES on January 7th, and the Q1 Update of the same published on April 7th), as well as to blogs and conferences we have hosted and attended during the last 3 months. However, the information should be relatively coherent if you have been paying attention to the space. Paid attendees to today’s 2nd Screen Summit @ NYC receive a free copy of the 30-page executive summary and all attendees will have the opportunity to buy discounted copies of the Executive Summary, Market Starter Pack, or the Full Report as desired. I have also included the introductory Executive Summary below for your reading clarity.

a) **Market Trends.** Four major trends continue to develop and gain momentum in the market place, deserving close attention by all industry participants:

1) **An ecosystem, not an app.** The market has been tracking zeebox and Viggle closely because they have reached 5M and 3M downloads respectively. However, Xbox Smartglass, a 2nd screen ecosystem vs. an app (allowing passive experience on every piece of content flowing through the Xbox plus Control, Social, and Discovery) has reached 17M already and is rumored to be close to 20M.
2) **Convergence of companion and viewing experiences.** Apps like March Madness, HBO Go and Dish Anywhere (with Slingbox) are a challenge for developers (a UX for the living room and a different UX including streamed video for use on-the-go), but are incredibly popular with consumers and advertisers, offering in-stream monetization opportunities.

3) **Ad supported video on mobile and connected living devices.** As smartphones, tablets and connected devices like the Xbox and Roku continue to proliferate into consumer homes in massive numbers and technology comes together to monetize videos with in-stream advertising, content creators and distributors will turn to the opportunity that is larger in volume than subscription and transactional video combined.

4) **Monetization.** With well-developed apps finding better engagement with the consumer and apps reaching larger audiences, app publishers will continue to further their monetization approaches through display and interactive advertising, m-commerce, and in-stream video advertising (for converged experiences).

5) Perhaps the best way to gauge where the market is headed to look back at the major trend predictions we made in the report (page 77) and to see if we are on track:
   
i. **The "digital land grab" continues, marked by consolidation, failure, and improved user experiences.** The 2nd quarter was marked by continued feature development by many of the apps in the marketplace. Major operators like Dish have continued to make step function improvements in their app, as have most of the branded network apps (USA Network, Bravo, CBS Connect, Fox Now, etc). zeebox continues to roll-out new functionality for their 3rd party app, including “TV rooms” and a new discovery capability powered by Digitalsmiths (announced this week). Viggle continues to develop its feature set as well and has crossed the 3-million-user mark. On the other hand, Matcha has ceased operations, while Microsoft Xbox and the NFL announced a $500M deal for Xbox to exploit the tablet for the consumer’s NFL experience (likely on SmartGlass and Surface).

   ii. **Social feeds will be a feature, not the experience.** Social TV continues to garner strong press attention in the market place, with many publications trying to correlate social engagement with TV ratings, etc. Companies like Tomorrowish have given app developers the capability to end spoilers and to create interesting feature enhancements for their consumers. Most companion experience apps (zeebox, those built by TVplus, etc) now have the ability for consumers to “sync” their 2nd Screen experience to the content on their TV, allowing them to pause or DVR content without spoilers.

   iii. **"Discovery" will become a household word.** Two new 3rd party discovery apps have launched into the market place (Vidora, Squrl), and Samsung continues to make progress with its WatchON discovery capability while Dish Networks continues to develop the Dish Explorer. Digitalsmiths announced several notable operator wins (TWC) as well as deployment on zeebox and Kit Digital
announced their social discovery tool kit for broadcasters. Maybe not quite “household” yet, but significant progress forward.

iv. **Tablet and smartphone usage reports will become about activities related to the TV.** Nearly all of the data in the market place now focuses on activities while the consumer is using their 2nd Screen. The debate of “if” seems to be over at a data level and now the conversation is about which value added activities matter (shopping, discovery, controlling the TV, etc).

v. **Studios and networks save money, apps grow in 2 directions.** NBC and Fox are continuing to expand their metadata syndication footprint to support 3rd party apps in the quality of the 2nd Screen experiences. All of the networks continue to push a “channel bouquet” of shows around a 2nd Screen platform. 3rd party apps like zeebox and Viggle continue to drive feature development for their users, focusing on creating consumer utility.

vi. **Gamification will begin to lose favor with the press and consumers, only to begin to add value again towards the end of 2013.** In the last 6 months, Viggle has continued to make real progress in signing up new consumers, growing from 2 million to 3 million subscribers. Beyond Viggle’s success, gamification (trivia) has made its way to the metadata syndication platform pushed by NBCU and Fox, but little hype is in the press about the concept itself.

vii. **Amazon and eBay will engage in a battle for the Second Screener's M-Commerce.** Amazon continues to discuss its X-ray feature and is rumoured to be preparing its own set top box launch to grow its Amazon Instant and Prime digital video properties, with the market place expecting them to leverage the eyeballs towards a shopping experience at some level. Surprisingly, little has come from Ebay and their “Watch with Ebay” app.

viii. **Cloud-based digital lockers will finally be taken seriously by consumers and the rest of the ecosystem.** Ultraviolet continues to march forward with over 12m accounts now active.

ix. **Device makers will jump into second screen with both feet.** Samsung continues to make progress in the 2nd Screen space, attacking the market from the tablet and the SmartTV, partnering with app providers like M-GO, Peel and launching their own services like WatchON. LG, Panasonic and Sony have been surprisingly quiet in the 2nd Quarter while Roku and TiVo have focused on improving their Discovery capability in their 2nd Screen apps.

x. **ACR and the battle of the digital video ecosystems.** DIAL (supported by Netflix and Google) continues to quietly penetrate the market in background. You can see examples of its capability by opening Netflix on your iPhone while running Netflix on your PS3 (same wi-fi). Expect YouTube and Netflix to announce something in time for your fall viewing pleasure. Elsewhere in the industry, ACR powered by Civolution, AudibleMagic, and Gracenote continues to improve 2nd
Screen app experiences across the board. Surprisingly, Xbox has continued its system-wide ACR capabilities unabated in the industry.

b) **Market sizing.** We took a bold stance in our research report (page 55) on revenue in the 2nd Screen space, claiming that 2012 had already seen $490m of attributable revenue from this market segment and we expected the market to reach $5.9B by 2017. When I stood on stage at CES to discuss this, there was a lot of disbelief in the crowd. We walked the room through the breakdown of mobile and online video advertising ($6B growing to $17B) and m-commerce ($76B growing to $158B) and out logic for the incredibly small sliver of those markets that will be captured by 2nd Screen experiences in the living room. Right out of the gate, Super Bowl 47 had press for CBS Interactive claiming to have sold $10-12m in advertising for the 2nd Screen alone. While m-commerce has not yet taken off, the “Show me the money” panels we have moderated over the past few months continue to demonstrate a few strong trends in the space around interactive advertising (CPT or Cost per Touch via @JesseRedniss), Tune-in revenue (classic affiliate model), display advertising, and the lucrative in-stream video advertising powered by new technologies that combined the video stream and ads for converged sporting apps and mobile experiences on the fly with CPMs that are already challenging classic broadcast TV in value.

c) **Consumer app experience.** To round out the Q2 view, we should look at what applications have significantly improved their feature set. This is important because no matter what the revenue or business model is for a particular app experience or ecosystem, if the consumer isn’t engaged and using the app on a regular basis, there is no opportunity to attract revenue.

1) **Events.** March Madness closed their April finals with record streams in the industry across the nearly 4-week long event, engaging consumer in mobile web and in their app. The Master golf tournament likewise broke its own viewing records. Then MLB announced 6m “app opens” on the league’s opening day and the NBA announced record social impressions during the NBA finals. Clear upward momentum continues.

2) **3rd Party Apps.** zeebox is blazing forward on its self-proclaimed desire to be the Swiss Army Knife of 2nd Screen, creating real consumer utility. Viggle continues to drive its UI forward, leveraging the metadata syndication from Fox and NBCU.

3) **Network apps.** Channel 4 has launched a dedicated app in the UK. Fox Now, CBS Connect, Discovery, SyFy, USA Anywhere and Bravo Now continue to improve their app experiences. HBO Go continued to develop its converged experience with Game of Thrones Season 3.

4) **Sports apps.** While the NBA app continued to improve, the improved MLB launched on opening day with 6 million app opens (in one day).
5) Converged experiences continue to gain momentum. HBO’s new season of Game of Thrones expanded on its converged experience features on HBO Go, The Masters golf tournament delivered authenticated and VOD streams, and Discovery and Bravo continue to develop their exclusive content streams for their apps.

So another short but very action-packed summary for another 90 days of market activity.

We are looking forward to continuing the conversation today at 2nd Screen Sunday @ NYC, and at IBC in September, and, of course, through our blog and Twitter activity (@ChuckParkerTech, @S32Day).

Look out for the next major update on this comprehensive report on September 15th in Amsterdam.
2. Executive summary (from the full report published Jan 7th)

Social TV, Second Screen and TV Everywhere are discussed every day in the media but there is still little agreement on what those concepts really mean and on how to best approach them in terms of actual consumption, best practices, business models and market sizes. In this report, we set out to study and analyse the market place from both the consumer’s and the company’s perspective and deliver a comprehensive view on both.

We believe the market is mature enough to be worth a full research report notwithstanding the fact that it is still experiencing incredible week-to-week changes. In a very short period of time, we’ve seen:

- The rapid success of zeebox both in the UK and in the US (investment from BskyB, Comcast, Viacom, HBO and ShowTime) that is likely to continue in both territories and Australia
- The quickly announced consolidation of the two largest subscriber-base apps in the industry with Viggle and GetGlue, (nearly 4.5m potential combined subscribers if successful)
- The rapid deployment over a matter of weeks of new video discovery app NextGuide quickly taking a lead position in the marketplace, (less than 10 weeks)
- A large number of apps’ descent into both the “app graveyard” and the “life support ward” as either poor consumer experiences or weak businesses models stop them short of their ambitions

A few facts help realise how significant this market is:

- The Social TV market would be an $8 to $12 billion market in 2020 according to several analysts
- 3 months after launch, zeebox (a market leading second screen app in the UK and US) was valued at £100m ($150m) in January 2012
- The North American market has the highest penetration of TV Everywhere services with 86% of North American Pay TV subscribers now having access to some type of TV Everywhere offering

First we focus on the definitions. We believe there are 2 aspects of second screen

- Second screen as a companion screen: the term companion screen or companion app describes applications (on a smartphone, tablet, PC) that provide functionalities designed to improve the TV

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1 http://www.mediapost.com/publications/article/154542/#axzz2EaXSrWdE
2 http://www.mediaweek.co.uk/news/1110944/zeebox-strikes-major-investment-deal-Sky/
3 TV Everywhere Growth, Solutions, and Strategies North America (2nd Ed.) - Parks Associates - April 2012

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viewing experience. In that context, second screen applications are intended to be a complement to a first screen (usually a TV set). Examples include: zeebox, Getglue, BuddyTV, Miso, etc.

- **Second screen as a viewing device (Multi-screen):** In that case, second screen means a CE device (tablet, a smartphone, a PC) on which video content is consumed. Here the second screen is a device that replaces the first screen (the TV set). Examples include Tablet, smartphones, netbook, on which services such as Netflix, Hulu, BBC iPlayer, etc., are used

**A- 2nd screen as a companion application:**

The key drivers for the rise of companion applications include the explosion of connected devices, the recognised importance of multitasking (with 77% of TV viewers saying they use a companion screen while watching TV[^4]) and the ability for TV to drive conversations in the office, at home, with friends etc.

Our research shows that the companion app industry started in January 2007 (before the iPhone or the iPad) with the launch of BeeTV. 2010 and 2011 were the turning points for the industry as the number of app dramatically increased, the iPad was launched and the number of deals (M&A and financing round) exploded. From 2011 onwards, the multiplication phase is turning into a consolidation phase for start-ups. At the same time established media players are joining as companion applications have become a must have.

Technology components for second screen app are at various advancement stages as described in our hype cycle.

Besides the hype cycle, we also believe some technology developments will be very significant such as the ACR (automatic content recognition) systems war and the “system level” second screen platform from Xbox SmartGlass.

We then broke the companion app market into 5 segments based on the apps main functionalities:

1. To control (the TV or living room devices)- e.g. Dijit, Fios, Xfinity, TWC TV, DirecTV, ATT
2. To discover (something to watch in either guide, search, recommendation or discovery mode). E.g. Fanhattan, Matcha
3. To enhance (additional information, games, shopping, etc.). E.g. SOA gear, Viggle, ConnecTV, ESPN score centre, March Madness, the Dark Knight
4. To share (during the show, after the show, to check a trusted friend’s viewing history). E.g. USA Anywhere, Getglue, IntoNow, Bravo.
5. To multi-task (apps that provide a strong combination of the above 4 functionalities). E.g. zeebox, Buddy TV

For each segment we ranked the best app. We reviewed more than 200 applications and scored each of them according to 5 criteria: **simple, seamless, discovery, stimulating, social**. The best ones for each segment are the examples mentioned above.

In terms of application providers: **Pay TV operators, CE and Game Consoles manufacturers**, are the primary providers of apps in the “To Control” segment. **Content creators (movie studios, broadcasters, sports leagues) and E-commerce firms** are the main players in the “To Enhance” segment. Independent...
third party developers (often start-ups) are the main providers of applications for the “To Discover”, “To Share” and “To Multitask” segments.

The growth of the industry has given birth to a new ecosystem: the most important players include brand and advertising agencies, metadata and recommendation engines, synchronisation technology, third party app creators, ecommerce.

We then looked at the market in terms of numbers. The largest applications have users bases of several millions (Getglue, Zeebox). The largest app by users is the recently announced merger by Getglue and Viggle with 4.5m users (assuming the acquisition is successful). We also looked at the growth of 5 large apps (Miso, Britain’s got talent, zeebox, IntoNow and Getglue/Viggle). Between Q1 and Q3 2012, their total number of users grew 128% from 4.2m to 9.6m. With zeebox now in 3 countries (expect a strong growth in the US) subscribers’ numbers will keep growing for them as well as for other leading apps. Leading applications report dynamic user bases: Getglue/Viggle 1.5m active users, zeebox 300K to 400K active users (rumoured to be approaching 1m in the US already).

On users’ engagement, this quote from Time Warner Research Council summarise our findings: “The data collected [using biometric monitoring and eye tracking to measure viewer engagement] revealed that viewer engagement while connecting with a friend over social media was 1.3 times higher than that of viewers watching alone and not using social media. Also, viewer engagement among those using a second-screen app is 1.2 times higher than among those viewing without a social app.”

We identified 3 business models for companion applications:

1- Re-using content or service in a different environment (to improve customer experience or for additional monetisation): e.g. The King’s speech, Virgin media
2- Mobile commerce: e.g. zeebox, SOA Gear, Watch with EBay
3- Targeted advertising and sponsorship: e.g. Getglue, Shazam, zeebox, Viggle

We evaluated the market for second screen companion experiences to be $490m in 2012. This includes $350m in advertising and $140m for mobile commerce. Capitalising on the very high user engagement and the rise of connected devices and mobile-commerce, we expect the second screen companion app market to grow very fast (12x) to reach $5.9bn by 2017 with mobile-commerce becoming nearly equivalent to advertising.

Looking at 200 applications, we identified 3 key success factors: a compelling user experience, a large community target, and utility. On the other hand, instability, a narrow user base and visual saturation negatively impact an app.

There are two “mono vs. multi’ debates going on in the second screen app industry. The first is special purpose vs. multi-purpose. Should an app be excellent in one functionality or should it be more like a Swiss army knife? Most applications are moving towards offering multi-function services to differentiate themselves from their competition. The other debate is about content dedication. Should an application be dedicated to one show or even one channel or should it cover every show on every network? This debate is still going on as application providers have different strategies. Broadly speaking, content creators (studios, sports leagues) and broadcasters provide one application per show, film or event (Britain’s Got Talent, Wimbledon, March Madness), while sports leagues are mostly aggregating at league level. Some networks already provide an application per branded channel (M6, HBO, USA,
Discover, Bravo). Finally, most of the providers with no ties to content creation/distribution provide applications that cover all shows and networks (Get Glue, zeebox, BuddyTV).

Finally we looked at the future trends of second screen as a companion screen. First, we see companion screens entering new territories specially the video game market where the 3 major console manufacturers (Wii/Nintendo, X-box/Microsoft and PlayStation/Sony) announced and launched a form of companion screen in 2012. Microsoft SmartGlass being the more advanced and the WiiU coming out with dedicated hardware. We then looked at mid-term trends; we believe the second screen will be changed by improved technology (integration with more devices and services, more content recognition, and more mobile commerce facilitators). We believe large social networks (Facebook, Twitter) will not immediately enter this sector directly but will want to participate through their platforms. We believe the current multiplication phase will slow dramatically for start-ups but will continue for established media groups. As a consequence, a consolidation phase for start-ups will take place. Finally we believe there will be an explosion in revenues for second screen companion apps. In a specific section looking at immediate trends over the next 18 months, we have identified 10 elements impacting the 2nd screen ecosystem, the more prominent being: discovery becoming a household word, Amazon and EBay will engage in a battle for 2nd screen mobile-commerce, CE device manufacturers will jump into 2nd screen with both feet, and ACR will become a the next digital video ecosystem battlefield.

B- 2nd screen as a viewing device (or multi-screen).

We first looked at the history of 2nd screen as a viewing device. It shows how the 1997-2007 decade prepared the growth of the sector with the launch of major brands and services (Netflix, iTunes, YouTube) and the beginning of broadband. 2007 was the turning point: the launch of Apple App store and Video for iTunes followed by other content and application stores together with increased broadband penetration and speed and the explosion of video capable connected devices made the market grow rapidly as numerous services launched and the subscribers bases of the largest players grew in the tens of millions.

The (online video) services to be consumed on second screens are very diverse. 4 major types stand out: 1) catch-up TV generally provided by broadcasters (BBC iPlayer), 2) VOD services provided by start-ups or pay-tv operators (Netflix, Comcast), 3) online movie stores provided by technology or retail companies (iTunes, X-box/ Zune, Vudu, Amazon), and 4) sharing sites originally provided by start-ups (YouTube, Vimeo).

Pushed by intense competition, content is the major industry differentiator. Content library sizes are a major part of the unique selling proposition of any service. Content deals with content owners (film and TV studios, sports leagues) are the single biggest expense of online video service providers. The rush to original content is becoming a must have to avoid the cost of Hollywood or major sport league contracts. Studios consider online video services both as a threat (piracy, loss of established revenue stream with premium channels) and as an opportunity (more demand for their content). As a consequence they have adapted their content window schedule to incorporate VOD and streaming.

Pay TV operators and premium channels are worried by the rise of new players, who may compete with them for the viewer’s dollars and attention. Our analysis shows that online video service providers are a complement rather than a competition to Pay TV operators, broadcasters and premium channels. This is especially true when considering the growth in revenues and number of subscribers that happened in both sectors (Pay TV and online video services) in the US since the launch of Netflix-streaming services in

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2007. However, there is intense competition for the same content (films, TV and sports content)—remember that in the last Disney content deal, Starz lost to Netflix.

Online video services were born on PCs, then they grew rapidly on tablets and smartphones, and now their ultimate goal is to dominate the TV because of the viewing habits around this device. Since there are relatively few connected TVs, digital video retailers have adopted a 2-step tactic: 1) to be available on devices that can be connected to the TV (game consoles, set top boxes, Blu-ray players) and 2) to be available on as many second screen devices as possible (tablets, smartphones, netbooks, laptops, etc.).

Ultraviolet, a technology available to the consumer since 2012, is supporting this movement of making sure purchased content can be viewed on multiple brands of devices.

Measured regularly by many well-regarded companies, the 2<sup>nd</sup> screen as a viewing device (multi-screen) market is valued at $12.8bn in 2012 and will grow to $24.1bn in 2017. Its main components are paid-for online service (e.g. subscription to Netflix) and advertising (on mobile TV or on catch-up-TV services).

As a result of the high volume of content being available from many providers (Pay TV, online video services) on many devices (Ultraviolet) and platforms, the viewer is often overwhelmed by making a decision about what to watch. To solve this problem, a number of companies offer content discovery services that help the viewer find something enjoyable to watch. Clever algorithms, data from social networks, recent ratings and reviews together with a huge quantity of scene-level metadata coming from the videos themselves power the new services. They have become a must have to complete and every online video provider now has some form of it.

Looking at future for this market we believe these 4 major trends will occur:

1- Leading online video service providers will grow but will be challenged (by more competitors and by traditional media groups),
2- Media groups will make their strengths felt (by bidding aggressively for content, by launching their own online video service, by buying online video service providers),
3- Multi-platform, content portability and discovery will become standard (to improve customer experience and revenues)
4- Both premium and original content will be highly coveted as content will remain the main differentiator and will become even more expensive