May 2017

An eBook from the editors of FierceOnlineVideo

Building the Perfect OTT Pricing Model

Thank you to our sponsors:

OOYALA

COMCAST TECHNOLOGY SOLUTIONS

vindicia
Build Subscription Revenue
An Amdocs Company

share:

OTT Market Overview: The 'Big Four'

By Kendra Chamberlain

The rapid expansion of OTT video services coming to market during the past two years has catapulted online video into the mainstream. By the end of 2016, 64% of broadband households in the United States were subscribing to at least one on-demand OTT service, and 54% of U.S. adults were streaming video from one of those services on a monthly basis, according to Leichtman Research Group's "On-Demand TV XV" report.

"The past couple of years have been kind of crazy in this space. It's not just the growth in subscribers, it's just the number of services," said Ali Choukeir, research analyst at S&P Global Market Intelligence's media research group, Kagan. "We've seen an explosion, starting from 2014 through last year. People like to view on-demand content."

The U.S. OTT video market is largely dominated by the "Big Four" in online, on-demand video: Netflix, Amazon, Hulu and YouTube—though YouTube is often considered in a league of its own, as it stands out in terms of content, format and audience from the other services.

There's no question that Netflix, with about 50 million U.S. subscribers at the end of 2016, is the king of OTT. According to TiVo's fourth-quarter 2016 Video Trends report, 53% of respondents to its survey reported using

Netflix, ranking it as the most-used OTT service in the United States. Amazon came in at No. 2, with 26% reporting they use the video service; Hulu was a distant third with 11% of respondents reporting using it.

TiVo's statistics generally line up with new figures from comScore. According to the research company's December data, 49 million homes—or 53% of U.S. households with Wi-Fi—accessed at least one OTT service. The firm said Netflix reached fully 75% of those OTT homes, while YouTube claimed around 53% of those homes. Amazon Video clocked in third at 33%, while Hulu was fourth at 17%. "In fact, there are now 11 OTT services that reach one million or more homes in a given month," comScore noted.

Netflix Pioneers the Original Content Model

"Netflix and Amazon are very different from the rest of the space. They're in their own orbit," said Choukeir, explaining that both companies outpace the rest of the industry in terms of both paying customers and the amount of money they spend on content. Indeed, Netflix and Amazon have locked horns in their competition for eyeballs because both subscription video on demand (SVOD) services have similar strategies, from licensing content, producing content, to even pricing. "We're seeing them spend a lot of money on original content," Choukeir added.

In the world of OTT content, though, Netflix has largely outmaneuvered everyone, including pay TV networks.

"The big driver behind original content is differentiation."

–MICHAEL INOUYE, TV AND VIDEO ANALYST, ABI RESEARCH

"The big driver behind original content is differentiation. You want *Daredevil, Jessica Jones,* or any of the other Marvel characters, the only way to get that is with Netflix," said Michael Inouye, TV and video analyst and ABI Research. Indeed, the Wall Street Journal recently reported that Netflix's spending on programming this year, pegged at around $6 billion, will be more than double what Time Warner's HBO spends and five times as much as 21st Century Fox's FX or CBS' Showtime.

And Netflix's strategy has largely paid off. As of the end of 2016, 10 years since Netflix first introduced streaming to its service, the company counted 49.93 million subscribers in the United States and over 90 million worldwide. At the end of the first quarter, Netflix reported that customer figure ballooned to 100 million.

In terms of Netflix's pricing, after some experimentation and a few price hikes, Netflix now offers three tiers of service:

- A basic streaming plan offering SD content and one stream for $7.99.
- The standard plan offering HD content and two simultaneous streams for $9.99.
- And the premium tier, which gives viewers access to ultra HD content and up to four simultaneous streams for $11.99.

Amazon's Content and A La Carte Channels

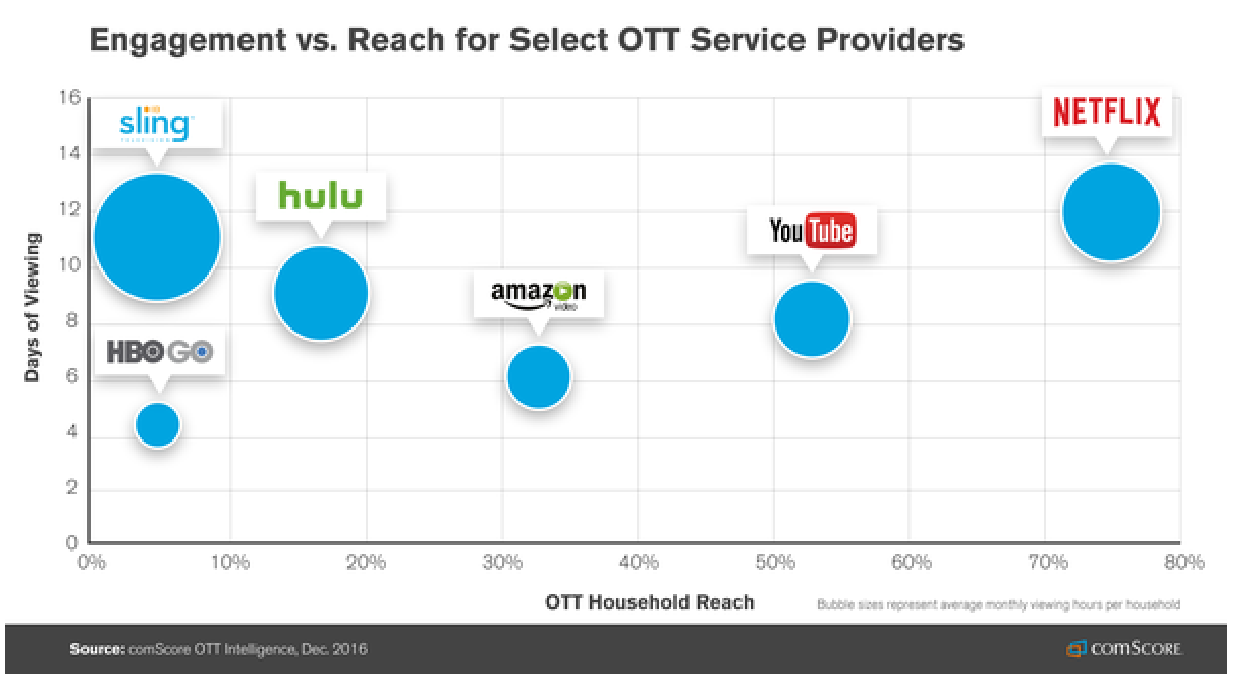
Where Netflix has pioneered, Amazon has followed. Like Netflix, Amazon's Prime Video offers lots of licensed TV shows and movies to stream, plus a growing slate of originals produced by Amazon Studios. And at the end of 2016, Amazon matched Netflix's international expansion by launching its SVOD service across most international markets.

But comparing the two beyond the basics is difficult.

Amazon's core business is as an online retailer, and all moves the company has made in OTT video, music, or hardware should be considered through the lens of its retail business. That introduces a lot of ambiguity into its SVOD service's performance. "Amazon Prime video is somewhat opaque, because it's bundled with Amazon Prime," Choukeir said. "We don't necessarily know how many regular users of the service it has." In fact, little is known about Amazon Prime. The company doesn't even release its Prime subscriber numbers.

Amazon's SVOD service has tried some interesting offerings, with the help of the online retail giant's deep pockets. Amazon's free shipping service is billed at a yearly rate of $99, which works out to about $8.25 per month. But about a year ago, Amazon began offering Prime Video as a standalone service for $8.99, making it one dollar per month less than Netflix's comparable tier, but without any of the Amazon Prime perks of free shipping on online purchases, or access to its music streaming service. And not surprisingly, Amazon hasn't yet said how many customers have signed up for its standalone subscription. In October 2016, eMarketer called Amazon the fastest growing OTT service in the market, and predicted Amazon would have 76.2 million video streamers by the end of 2016.

Amazon has done some of its own pioneering, too. In 2016, it introduced its Streaming Partners Program (now called Amazon Channels), which enables Prime subscribers to add other OTT services to their Prime billing account as a sort of self-serve OTT bundle. One of the benefits of this arrangement is that Amazon gets to take a little slice of the subscription pie for everyone it signs up—up to 30%, according to one source. While the product seems like a reasonable response to cord cutting, it's unclear whether anyone is actually bundling services together through Amazon Channels.



Alan Wolk, TV industry analyst and founder of Toad Stool Consultants, doesn't think Amazon Channels has gained much traction among consumers. "It's an ease-of-use thing for people who might be a little bit tech phobic, and don't know how to get all these extra things. But it seems pretty niche," he said.

Hulu's Hybrid Model

Hulu, by contrast, has been a pioneer in its own right, championing a hybrid ad-supported and subscription-based OTT video service. Hulu, which is owned by national broadcasters including NBCUniversal, 21st Century Fox and Disney's ABC, began as a catch-up TV service, offering viewers the chance to watch the latest episodes of the networks' shows after they'd been broadcast on television. It later expanded its library to include full past seasons of shows, and movie collections. And now it's also commissioning its own original content.

Hulu has had to walk a fine line between serving its owners' linear TV-based needs while also remaining competitive in an increasingly anti-linear TV market. Likely as a result, Hulu's owners have pursued a somewhat disjointed strategy for the service. Today, Hulu offers two tiers of service:

- A $7.99 monthly fee for access to content with "limited advertisements."
- And an $11.99 tier for streaming without commercials.

The service though may well have suffered from its split personality, especially in light of the fact that Hulu is the only OTT service to offer current episodes of popular TV shows on its platform—a content differentiator that could hold a lot of value for consumers. Roughly 10 years after launching, the service has reached nearly 12 million subscribers. That's a paltry showing compared to Netflix's subscriber gains during the same period.

But Hulu is spending more and more on content acquisitions to help it remain relevant and competitive with its two big brothers, Netflix and Amazon. J.P. Morgan's Alexia Quadrani estimates Hulu generated $2 billion in revenue in 2016, with over half of that coming from subscriptions.

YouTube's User-Generated Content Strategy

YouTube is an outlier on the OTT space. As an online video platform, it's the world's largest, amassing over 1 billion video views globally each day. It's also the second largest search engine, behind its parent company Google, and accounts for a whopping 17% of fixed access peak downstream traffic and 20% of peak mobile downstream traffic in North America, according to Sandvine's June 2016 "Global Internet Phenomenon" report.

But YouTube's content strategy is totally unique. As the biggest ad-supported, user-generated online video platform in the world, it relies on a huge pool of increasingly talented content creators who have been willing to work for a share of advertising revenue in order to populate YouTube's platform with content. YouTube's revenue sharing model gives its content creators 45% of ad revenue generated against their videos, while YouTube keeps the remaining 55%. That appears to be a lucrative arrangement for YouTube and Google; parent company Alphabet doesn't break YouTube revenue out from Google's, but CFO Ruth Porat said Alphabet's $26 billion in revenue generated in the fourth quarter of 2016 was driven largely by YouTube and mobile search.

But YouTube isn't standing still amid the changes in the streaming video market. The platform launched a subscription service, called YouTube Red, in 2016. The $9.99-per-month service removes ads from the online video platform, and also grants users access to Google's streaming music service. YouTube hasn't released any subscriber numbers yet, and most believe it's a very niche proposition for younger viewers. According to TiVo's fourth quarter 2016 report, a slight 3.7% of respondents reported using YouTube Red—ranking it sixth behind Time Warner's direct-to-consumer subscription OTT offering, HBO Now.

"The first mover advantage has been huge for those companies, they've really sewn up the market."

–ALAN WOLK, TV INDUSTRY ANALYST, FOUNDER, TOAD STOOL CONSULTANTS

More recently, YouTube launched its new live TV skinny bundle, YouTube TV, in five major U.S. markets: Chicago, Los Angeles, New York City, Philadelphia and San Francisco. For a no-contract $35 per month—free for the first month—a YouTube TV subscription includes more than 40 television networks, including ABC, CBS, FOX, NBC, ESPN, USA, FX, Disney Channel, E! and Bravo. On par with cable subscriptions, subscribers of YouTube TV can pay an extra fee to watch Showtime.

The Rest Of The OTT Market

The "Big Four" in OTT have sucked a lot of oxygen out of the market for the legions of other OTT video services. The remainder of the market is heavily fragmented, and the niche services and direct-to-consumer launches from the pay TV networks have struggled to amass significant audiences. "The first mover advantage has been huge for those companies, they've really sewn up the market," said TV industry analyst Wolk of the "Big Four."

But a few pay TV networks such as HBO, Starz, Showtime and AMC are fighting for a slice of the streaming video pie with direct-to-consumer online subscription services, generally with offerings that cost between $5 and $10 a month. None of those OTT services has amassed more than 2 million subscribers yet. "The problem with a lot of those, and HBO in particular, is that there's an incredible churn rate," Wolk said. "*Westworld* is on, I want to watch that, now it's over and I'm going to get out of it. I think a lot of those standalone apps run into that issue."

How to Use Blended Video Business Models to Keep Audiences Happy

By Paula Minardi, Head of Content Strategy, Ooyala

The impact of audiences shifting away from pay TV, towards OTT, is creating a great cataclysm felt across the video industry. Content output is increasing, devices are multiplying and distribution outlets are expanding. Everyone is trying to figure how to react to this upheaval and build solid OTT strategies.

Amidst all of this, video business paradigms and viewer preferences for accessing content continue to evolve. While most OTT services rely on monthly subscribers, hybrid revenue models that may combine advertising or transactions with subscriptions—or all of these methods—are becoming more prominent. Content providers should be open to experimenting with the various OTT models to find what mix works best for their particular situation and audience—which may be different than their traditional video business structure. Multiple revenue streams provide more opportunities for business growth and satisfying audience desires to choose how they prefer to access and ultimately, subsidize, content.

This preference often varies by device. A recent Ooyala Global Video Index report indicated that watching subscription-based content (SVOD) may be a more personal experience preferred on more personal devices, as mobile screens were used slightly more than PCs to watch SVOD content, while the opposite was true for ad-supported, or AVOD, content. The share of time watching content differed among these models as well. Long-form content (20 minutes and longer) made up the lion's share of SVOD viewing regardless of the device used. Meanwhile, short-form content (under five minutes in length) dominated AVOD viewing on phones and PCs. Blending AVOD and SVOD business models helps providers reach as many viewers in as many ways as possible, and encourages subscriber retention in a sea of competitive OTT offerings.

Many companies are acting on this strategy and Ooyala is leading the way with our comprehensive solutions to support customers' hybrid business models. For example, Ooyala powers Malaysia's Media Prima video service tonton, including its SVOD service and its AVOD service. Media Prima offers their now six and a half million viewers access to their favorite local and international content anywhere, anytime and at the price point they prefer. The company then tracks key audience engagement indicators across both its ad-supported business and subscription service to inform future content decisions.

Ooyala is also the exclusive video advertising technology provider for Vudu's free-ad-supported service Vudu Movies on Us and is also representing the advertising inventory, helping them expand the business beyond their long-standing transactional-based (TVOD) service. Vudu is putting more control into the hands of its customers, allowing them to choose how they prefer to access a premium library of content.

Thanks to greater capacity and consumer interest, connected video apps are also proliferating -- providing more opportunities for bifurcated revenue, expanded audience reach and content access across devices. Content providers are turning more towards out-of-the-box tech solutions supporting multiple revenue models to quickly launch and monetize video app services that satisfy viewers.

Blended video business models will become the standard way through which video content will be delivered and monetized going forward.

OOYALA®


EARN MORE WITH YOUR VIDEO BUSINESS
Ooyala's integrated video platform solutions enable broadcasters, publishers and media companies to achieve greater revenue across all video operations. Produce content faster, personalize OTT experiences and earn more with Ooyala.
Build Tomorrow's TV, Today.
OOYALA®

A Look At Hulu's Decade In OTT

By Dade Hayes

As Hulu gets ready to roll out Hulu Live, its virtual MVPD offering, the company is entering its 10th year of delivering video via the internet. By the standards of the change-on-a-dime media and tech world, that's longevity that would make Cal Ripken blush.

The joint venture of four media giants (21st Century Fox, NBCUniversal and Disney each own 30%, with Time Warner buying the remaining 10% in 2016), Hulu offers an illuminating case study of how OTT services have had to see around corners and constantly revise their strategies. Current Hulu executives, citing their focus on the company's forthcoming skinny bundle, declined official comment for this story, but the views of analysts and former executives show how the service navigated the bumpy path from early web-video experimenter to one of the leaders in OTT.

Announced in 2006 as "NewCo," with original distribution partners including AOL and MySpace, Hulu predated the iPad or Twitter, and at launch in March 2008 beamed 250 TV shows and 100 feature films, with commercial interruption, to laptops and desktops. The executive team then was heavy with traditional TV veterans like NBCU's Jeff Zucker and Fox's Peter Chernin, as well as CEO Jason Kilar, a former Amazon exec, plus execs from the original owner companies, NBC and Fox, including J.B. Perrette, Bruce Campbell, Beth Comstock and Michael Lang.

For original owners NBC and Fox, the platform offered a way to blunt the chaos-inducing momentum of YouTube, which was then hosting pirated copies of *Saturday Night Live* sketches and *Simpsons* episodes. "They were a catch-up service," recalls TV industry analyst and founder of Toad Stool Consultants Alan Wolk. "A lot of people watching it were at work, where high-speed internet was more common, and the novelty of seeing legal *X-Files* episodes was hard to resist."

Widely mocked as "ClownCo" by media and industry rivals during its early manifestation, Hulu seemed like a desperate attempt to stay relevant, the ultimate defensive maneuver. Similar joint ventures, like Hollywood download website Movielink, had foundered. Why would something called Hulu, named after a Mandarin word for "gourd," have any staying power?

Hulu's Selling Points

One simple answer for Hulu's longevity was the urgent need to change TV's status quo. Television programmers and distributors at the turn of the 21st century had become complacent, as disrupt-able as the music labels in the age of Napster. At least Hulu would enable them to disrupt themselves. Writing for *Wired* in 2008, Frank Rose reflected many early users' thoughts when he wrote, "Hulu provides a tantalizing glimpse of the future of television. Unlike the networks, which have always been carefully programmed by their executives, Hulu is programmed by user choices and recommendation software. Schedules don't matter; popularity alone will bubble a show to the top. The results can be startling. One of Hulu's top five shows is *It's Always Sunny in Philadelphia*, an FX series starring Danny DeVito that has never gotten much attention on TV. Another is *Arrested Development*."

Interesting choices, those two shows. Today, having thrived on OTT, *It's Always Sunny* is finishing its 12th season on the FXX Network with a renewal through 2018, and *Arrested Development*'s revival by Netflix in 2013 showed the power of recognizable brands in the streaming age.

While it managed to triumph over early naysayers, Hulu soon determined it needed another revenue stream. Advertising had grown marginally, but was generating in the neighborhood of $200 million a year, a rounding error in a TV advertising marketplace then worth more than $60 billion. As cable programmers first wagered decades before, the leadership at Hulu felt charging for subscriptions, as Netflix was doing, would be the path to transformative growth. Thus was born Hulu Plus, the subscription tier that would provide a bridge from the laptop experience to the service closer to today's version, experienced across mobile devices and streaming tools like Roku.

In a blog post in November 2010, Kilar said previews of Hulu Plus, which were priced at $9.99 a month, were "already accounting for a material percentage of Hulu's overall business." He called the subscription tier "just one more step in the journey to reinvent TV."

Kilar's own journey was nearing an end, however, likely hastened by an infamous scorched-earth memo he posted online in 2011 that some compared with the one Tom Cruise's character sends at the start of the movie *Jerry Maguire*. It took aim at traditional TV, which he said has "too many ads," among other flaws. "Consumers will have more choice and convenience going forward," Kilar wrote. "This competition will drive prices and margins down in pay TV distribution. A greater percentage of the economic pie will flow back to content owners and creators. As mentioned before, advertisers will be able to target their messages to people, not to TV shows as proxies for people. Going forward, rapid innovation, low margins, and customer obsession will define the winners in pay TV distribution."

In January 2013, just weeks before Netflix ushered in binge releasing with *House of Cards*, Kilar announced he would be leaving Hulu. The company spent a period of time exploring an auction of itself, but then opted to reinvest in its subscription business. Disney, NBCU and Fox pledged to invest $750 million in content, and veteran Fox distribution exec Mike Hopkins was selected as the new CEO.

Mike Hopkins, CEO, Hulu

Hopkins, a clean-cut Californian who occasionally slept in his office while negotiating bitter carriage disputes with cable operators, wasn't inclined to manifestos. But he had a business plan, one key part of which was phasing out Plus, which the company did in 2015.

Matching Today's Competition

Today, Hulu trails Netflix and Amazon significantly in terms of total subscriptions, but it has grown steadily with its two-tiered approach of $7.99 a month for the ad-supported version and $11.99 for ad-free. It reported 12 million total subscribers in 2016. Most analysts expect that tally to surpass 15 million in 2017. Since abandoning its plan to auction itself off to the highest bidder in 2013, Hulu has invested hundreds of millions of dollars to acquire top-shelf TV titles from beyond its owners' libraries, shows like *Seinfeld* and *South Park*. It also has funded original series like *The Handmaid's Tale* and *Difficult People* and branched into virtual reality and exclusive feature film deals.

The ad-free tier, rolled out in 2015 when the "Plus" was phased out, remains a fairly thin layer, with most subscribers opting for the cheaper level of service. But J.P. Morgan media analyst Alexia Quadrani valued Hulu at nearly $8 billion in a recent report, partly because of what she sees as a shift in the mix of advertising versus subscription revenue. The current level of 52% from subscriptions will reach about 61% by 2018, she predicts.

"With a recent strategic shift towards greater investment from its owners, more exclusive shows like *Fear The Walking Dead*, and a clearer focus on subscriber growth," she says, "popularity of the service has picked up and Hulu is becoming a more viable alternative to Netflix and Amazon Prime."

The next pivot along Hulu's winding path may need to be toward younger viewers. Piper Jaffray's annual survey of teenagers, which the firm released recently, found that Hulu accounts for just 4% of their daily viewing, well behind Netflix at 38% and cable TV at 23%.

Flexible OTT Monetization Models: What's Your Possible?

COMCAST TECHNOLOGY SOLUTIONS

Online video destinations maintain a delicate balance of experimenting with monetization strategies while staying top-of-mind with audiences. To this end, companies are working to find solutions that keep their workflow in the sweet spot of high performance, agility, and cost-effectiveness.

The Possibilities of "xVOD"

When it comes to monetization, the constant push to compress time-to-market and maximize ROI means that strategies need to demonstrate a keen awareness of where their service sits on each viewer's priority list – and respond accordingly. The three primary monetization models, each offer a different approach to these opportunities:

Subscription-based (SVOD)

SVOD has been the entry point for many online video services because the model is understood and easily accessible. However, a standalone SVOD destination – especially a niche-focused one – might have an entirely different mission than one that exists to augment a larger brand. Before launching an SVOD service, you may consider the following: Are you starting an SVOD destination as a way to expand viewership, or to establish a new delivery platform? Does your operating capital provide the flexibility for heavy experimentation with introductory pricing?

Advertising-based (AVOD)

Ad-based services are not just here to stay – they're getting better on every front, and consumers are accepting this approach. Technology and process advancements are improving capabilities to determine content value across platforms, channels, and time-shifted consumption. Still, AVOD services need to be attractive to advertisers who have a lot of options for their media spend.

Transaction-based (TVOD)

A TVOD service puts content out there for consumers to purchase or rent. On one hand, it's a less complicated way to set up shop, but there are a lot of places to buy content. Aside from the costs of using an established platform and managing the day-to-day transactions, the big challenge is pretty traditional: you've got to sell enough to stay in business.

A Blended Model

A mature OTT monetization strategy will likely emphasize one of the above models, but a creative hybrid approach can really pay off. Strong content is a powerful revenue generator that can hold up to some interesting new combinations. Maybe your audience will respond to a hybrid approach where a sub-set of your content library is supported by an advertising-based model, and more can be accessed through an SVOD approach.

Focus on What You're Delivering, Not How

Ultimately, a successful video service improves the lifetime value of each viewer, while increasing mindshare (and market share) with a consistent high-quality experience. Comcast Technology Solutions enables this by combining the best techniques and technology into a turnkey workflow. Our complete online video solution enables a variety of revenue models with video processing and management, multi-CDN distribution, superior playout capabilities, and powerful monetization options that include subscription management, promotion, storefront enablement, and billing. With the depth and breadth of features needed to build and monetize a comprehensive, scalable video solution, we help you connect with audiences wherever – and whenever – they may be.

Visit https://www.comcasttechnologysolutions.com/OTT-monetization


ART AND DELIVERY
COME TOGETHER WITH THE RIGHT PARTNER
What's your possible?
www.comcasttechnologysolutions.com
COMCAST TECHNOLOGY SOLUTIONS

ISPs Add Video To Arsenals, Complicating Pricing Strategies

By Dade Hayes

Not long ago, the companies offering broadband internet service were not looking to win Emmy Awards or get people to reshape their bundles. But so it goes in the TV landscape lately, as new OTT purveyors such as AT&T's DirecTV Now service, Verizon's Go90 or Comcast's Xfinity Stream are positioned in their companies' portfolios alongside internet service itself.

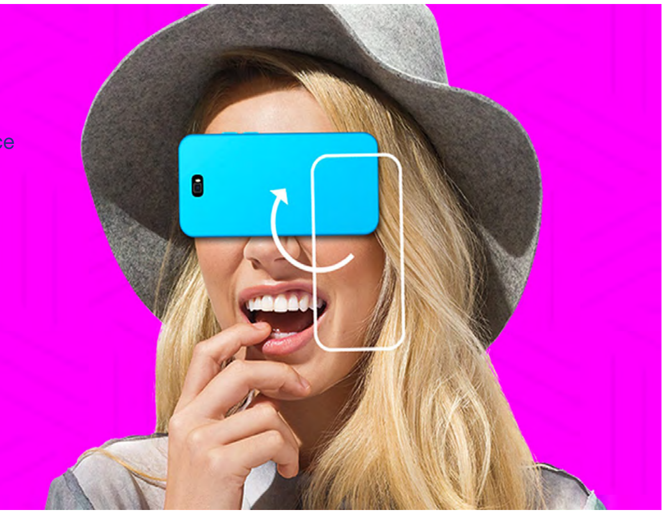
This development has implications for end-user pricing, given that the cost of OTT video also includes the price of internet service. Plus, the market is moving outside the boundaries of the home, as users consume more video on the go. It is also occurring as the FCC is undoing much of the regulation that defined the President Obama years. Earlier this month, in fact, President Trump's FCC lifted a ban on ISPs accessing user data, a capability that could greatly benefit several of the large ISPs, especially AT&T as it gets set to acquire mega-programmer Time Warner.

Tom Eagan, an analyst with Telsey Advisors, says with a more laissez-faire FCC, "we could get more vertical consolidation in an attempt to take advantage of viewing outside the home or outside one's footprint." The launch of DirecTV Now by AT&T, he adds, "only made financial sense because they [AT&T] hope to increase mobile phone subscriptions. The DirecTV Now margins could be flat to negative but it could boost mobile usage."

Inside Go90

Verizon's Go90 is an interesting example of a major ISP trying to have its cake and eat it too, creating programming and also providing the bandwidth that enables its consumption. Launched in 2015 amid great fanfare and no upfront costs to users, Verizon's Go90 has continued to court top-tier programming from A-listers. Matt Damon and Ben Affleck recently teamed with reality TV producer Craig Piligian on a reboot of their 2000s ABC series *The Runner* that tried to take advantage of the mobile capabilities of Go90, for example. Verizon has also bought 50% of Complex Media and all of AOL, giving it other video assets. In partnership with Complex, it recently rolled out the series *Embeds*, executive-produced by Megan Kelly.

Plus, there is a clear profit motive for Verizon. The operator currently offers an unlimited data plan, but also sells tiered



An ad for Verizon's Go90, so named because users view content on the service by rotating their phones 90 degrees.

data options that range from $35 per month for up to 2 GB to $70 a month for 8 GB of data. The carrier has said that 4G video streaming eats up 350 MB per hour.

Dan Rayburn, principal analyst in the Digital Media Group at Frost & Sullivan and EVP of StreamingMedia.com, sees video services provided by ISPs as Trojan horses that are unlikely to turn profits on their own but give their large backers chances to acquire bigger-ticket customers. “Why else would AT&T roll out something like DirecTV Now except to have the ability to upsell you to DirecTV?” he asks. “It’s just a precursor to a bigger bundle.”

Already, AT&T is providing a $25-per-month discount on its DirecTV Now service to customers who also subscribe to its Unlimited Plus wireless data service.

Beyond Selling Data

Glenn Hower, an analyst with Parks & Associates, says the cost of building an OTT content player can be offset by the other ways that ISP giants can derive revenue from a customer.

“It certainly gives you a larger number of incremental revenue sources,” he says. “With someone like AT&T or Comcast, they can scale [in the OTT space] a lot more quickly than, say, Crunchyroll could.”

Churn rates among OTT customers, he said, tend to be pretty high—40% or greater. “When you talk to a TV operator and bring up churn rates like that, their heads explode,” he says.

OTT services also have fewer upfront costs. “For AT&T, with DirecTV Now they don’t have to worry about purchasing and selling consumers a set-top box or DVR,” Hower says. “They just have to make sure the customer has an internet connection.”

Further, companies like AT&T and Verizon can leverage their OTT services to also sell more targeted advertisements; indeed, Verizon has purchased a number of ad-tech companies during the past several years.

“With someone like AT&T or Comcast, they can scale [in the OTT space] a lot more quickly than, say, Crunchyroll could.”

–GLENN HOWER, ANALYST, PARKS & ASSOCIATES

In the OTT world, it takes anywhere from three to six months for providers to be able to pay for the cost of acquiring a customer, compared with two years for traditional MVPDs, Hower said. And in general OTTs will lose money for the first 18 months to two years.

For Rayburn, it’s clear what the objective is. “Let’s get right to the problem—none of these guys can ever make money,” he says of OTT services from ISPs. “DirecTV Now wouldn’t be in this business if they weren’t owned by a large ISP,” he said. “You can’t make money otherwise. No one wants to talk about economics. They talk acquisitions, bitrates, packages, subs, and yet no one wants to talk economics.”

What Will Subscribers Pay for OTT Content?

OTT is no longer the promise of the future. It's here today in full force. Embraced by countless communications service providers (CSPs) – including telcos, cable companies, multi-system operators, and other entertainment entities – OTT has captured the imagination of cord-cutting consumers tired of paying for mega-bundles of channels they seldom watch. Savvy consumers today want to watch their favorite videos and streaming content anywhere, anytime, on any device.

A recent survey from TiVo found that 21% of U.S. viewers – and 11% of subscribers across the globe – are extremely likely to downgrade their pay-TV service over the next six months. Meanwhile, 13% of Americans and 8% worldwide said they would get rid of cable altogether. On the positive side, the survey revealed that 58% currently pay for multiple streaming services.

To capitalize on this trend, CSPs are utilizing a number of different monetization models to deliver video over the top, including ad-supported, pay-per-view, subscriptions, and various hybrid models. Of these, subscription video on demand (SVOD) has emerged as a favorite model, since it offers predictable, recurring revenue streams. But at what price point?

Pricing OTT Content

Providers must ensure that their prices are agreeable enough to attract and retain customers, while not leaving money on the table. For example, research from MoffetNathanson notes that providers of live streaming OTT services should strive to keep fees below $30 per month. According to their survey of OTT consumers, 61% found this to be an agreeable price point for a streaming video package without regional sports networks. 23% felt subscriptions should cost even less – between $10 and $20.

Determining optimum pricing can be tricky. To be successful, CSPs offering live streaming or other OTT video services should utilize a strategic subscription billing platform that makes it easy to experiment with various pricing points and promotions, while providing the agility to respond to changing consumer demands.

The Right Balance

Finding success using an SVOD model requires the right balance of value and price. CSPs must provide consumers not only with value, but also with a tangible competitive benefit, whether that's an exclusive TV show, a faster service, or other special offerings. As TiVo's survey showed, value alone isn't enough.

TiVo discovered that even when consumers found a show they liked, cost and accessibility were bigger factors. The right subscription price depends on customer expectations, competitions, and the cost of providing the service. CSPs must determine if what they provide is enough to convince consumers to pay higher fees, or if they'll need to scale back specific content to accommodate lower rates.

About Vindicia

Vindicia, an Amdocs company, provides enterprise-class subscription billing solutions that keep consumers connected to the subscriptions they love, and businesses connected to the revenue they need. Vindicia has processed over $21 billion, generating over $90 million in annual revenue for clients such as BBC, Lionsgate, Comic-Con, TransUnion Interactive, Allrecipes, and Texture. For more information, refer to Vindicia's OTT Solutions Brief.

vindicia®
Build Subscription Revenue
An Amdocs Company

The Truth about Cord Cutting

By Kendra Chamberlain

Cord cutting doesn't dominate the headlines now as it did back in the early days of OTT video. But make no mistake, pay-TV providers in the United States are still seeing subscriber losses.

And some analysts say that pay-TV subscriber losses are, in fact, accelerating.

Fears about consumers cutting the pay-TV cord began to take root within the industry around 2010, just as Netflix's streaming video service was beginning to gain traction among subscribers.

In 2010, Netflix added 7.7 million subscribers, up from just 2.2 million added in 2009; and at the same time, pay-TV providers were beginning to see their subscriber growth slow considerably. "There were legitimate fears about cord cutting, yet it hadn't materialized," said Erik Brannon, a principal analyst for research firm IHS Technology specializing in television media.

It wasn't until 2013 that pay-TV providers began shedding subscribers in larger volumes. By Brannon's estimation, the U.S. pay-TV industry lost about 120,000 subscribers in 2013. "It wasn't that dramatic, it

didn't seem like it was that terrible," he said.

But today it's clear the trend is accelerating: In 2015, the pay-TV industry lost about a million subscribers total, and Brannon estimates 2016 losses are around 1.4 million. Since 2013, the collective U.S. pay-TV market has declined somewhere in the neighborhood of 2.6 million subscribers.

Cord Cutting Is About The Product, Too

There are plenty of theories about cord cutters and their motives. Pay-TV providers initially believed the trend arose from the U.S. recession. However, this outlook tends to overlook the dramatic and fundamental shifts in viewing behavior—meaning, the allure of binge-watching and a growing aversion to linear TV—that have arisen in tandem with cord cutting.

"It isn't necessarily about financial hardship but rather perceived value gained," said Jan Dawson, chief analyst at Jackdaw Research. "To a large extent it's a value question."

Indeed, through a purely monetary analysis, it's easy to come up with scenarios in which consumers end up spending more per month on entertainment and broadband than they would spend with their regular pay-TV package.

Here's an example of how cord cutting matches up to pay TV, in financial terms. In Lafayette, Louisiana, Cox Cable offers a Bronze package that includes 220 pay-TV channels (but no HBO or Showtime), a landline phone, and 50 Mbps broadband service for about $90 per month for the first year (then the price jumps to $190 per month).

For a cord cutter, Cox offers 50 Mbps broadband by itself for around $80 per month. Add in a Netflix UHD subscription ($11.99 per month), HBO Now ($14.99 per month), Showtime ($11.99 per month), Hulu ($11.99 per month) and Amazon Prime ($8.25 per month), and the cord cutter will spend about $140 per month on broadband plus these OTT services. Add in some linear TV content via Sling TV's highest Blue + Orange tier, and the cord cutter will pay $180 per month, which is on par with Cox's $190 per month. And while the cord cutter likely isn't going to get the 220 live pay TV channels, he or she will be able to receive HBO and Showtime, some live basic cable channels and three full libraries of TV shows and films to stream anytime and anywhere.

It's also worth noting that service providers have launched a number of "skinny" and flexible pay TV bundles that offer less channels for less money. Cox, for example, offers a no contract bundle that's similar to the Bronze service but without the landline phone. That'll save the customer about $40 per month. But add in HBO and Showtime (at $15.99 each) and the pay-TV price reaches $182 per month. That makes Cox's offering fairly competitive with our imaginary cord cutter—though the above example doesn't include the one-time fee of $150 that Cox charges new customers.

The problem with these types of cost comparisons is that they make quite a few assumptions about the cord cutter. What if the cord cutter doesn't want or need six OTT subscriptions? In fact, there's research indicating that streamers are typically choosing two or three OTT services—not six. According to a report that Parks Associates published in December 2016, less than half of U.S. households that subscribe to OTT services subscribe to more than one OTT service. That research indicates less than 10% of OTT subscribers have four or more OTT subscriptions.

"The younger people … bring different behaviors with them to the table."

–JAN DAWSON, CHIEF ANALYST, JACKDAW RESEARCH

The most popular OTT "stack," according to Parks Associates, is a Netflix and Amazon Prime OTT combination—but only about 12% of OTT streaming households subscribe to both services.

The Cord Nevering Problem

Providers have also had to grapple with what Dawson calls the cohort effect. While internet-delivered video has fractured audiences across demographics, the fissures are deepest within the younger generations (Millennials and Generation Z viewers) who had the internet while growing up, and those older generations at the other end of the age spectrum who have firmly ingrained linear TV viewing habits. The problem for service providers is that some younger TV viewers who are just now settling down with a family are opting to skip the pay-TV package altogether—making them "cord nevers."

"The younger people … bring different behaviors with them to the table," Dawson said. "There's no way to know how those people are going to behave as they age, settle down, get married, have kids."

"We must assume that all newly formed households will take a subscription to high-speed data," IHS' Brannon said. "But they're not going to subscribe to macro bundles."

As for the future of pay TV, Brannon predicts the industry will see a million subs lost each year through 2020. "That being said, pay TV isn't in immediate threat of collapse," he said. "We've got years and years and years of what I think are slow declines ahead of us."

And pay TV providers still have one important ace up their sleeve: live sports content. "For a lot of people, sports is what keeps them on pay TV," said Dan Rayburn, principal analyst in the Digital Media Group at Frost & Sullivan and EVP of StreamingMedia.com. "That's never going to change. If you look at the business model, TV is not broken." ●