Mastering the OTT Monetization Maze

There’s More to Navigating the OTT Landscape than Simply Providing Valuable Video Content
The online entertainment industry has seen tremendous growth over the past few years, particularly in the over-the-top (OTT) streaming video segment. The remarkable success of online video subscription services such as Netflix, Hulu, and Amazon Prime have helped push the OTT market to new heights. Businesses are increasingly positioning themselves to capitalize on the growing population of “cord cutters,” “cord shavers,” and “cord nevers” who want their favorite movies, videos, and TV shows anywhere, anytime, and on any device.

Whether you’re a broadcaster, content owner, media publisher, or content aggregator, you’re undoubtedly looking at OTT market strategies to leverage your investments in content, reach new customers, and grow recurring revenue. While your organization may be new to OTT monetization models that rely on direct end-user relationships (see “Popular OTT Monetization Models,” below), you are probably discovering that successful video content monetization is much more than just offering premium content while making the traditional choice between ad-funded vs. subscription-based delivery.

Trying to navigate the complex maze of OTT monetization strategies and business models can be a real challenge. However, making the right monetization decisions will be critical in determining whether your company’s OTT efforts will be successful or will fail.

Let’s begin with a little industry perspective.

**SWITCHING FROM TRADITIONAL CABLE: CUTTING THE CORD**

Let’s face it, consumers today are increasingly questioning their traditional cable or satellite subscriptions. The average cable service costs $99 per month, and that price is increasing. What’s more, research shows that typical consumers watch only 17 of the 200 channels provided. They are frustrated because they are paying for a lot of content that they never watch.

According to the NPD Group’s latest “Connected Home Entertainment Report,” more than half of U.S. homes with internet access today have devices that stream video directly to their televisions. In fact, most households don’t stop at just one—the average family has about three video streaming devices instead of paying high prices for cable, consumers are flocking to OTT content services. They’re choosier about the programming they watch and would rather spend less money for specific titles. Viewers can now create their own mini-bundles by picking and choosing the shows, events, and services they prefer, rather than be subject to the bundles, schedules, and programs of their cable or satellite provider.

**WATCHING MORE TV ON MULTIPLE DEVICES**

NPD’s research breaks down the connected devices into four categories: Blu-ray players, smart TVs, video game consoles, and streaming devices such as Apple TV and Roku. While game consoles are still the most widely used, streaming players are growing at a faster rate. Amazon, Google, and Roku have all released new boxes and adapters for streaming content.

Another study by Strategy Analytics found that the most popular devices are the Apple TV and Google Chromecast. Chromecast ended last year stronger than Apple TV, despite having lower sales overall. The Google product made up 35% of the 42 million streaming units shipped in 2015. Apple TV came in second place, followed by Roku and Amazon Fire. Ultimately, Apple leads the pack with 37 million devices shipped since 2007. Chromecast sold 27 million during the same time period, and it is quickly catching up.

“Everyone keeps talking about how TV viewership numbers are going down, but these new connections and relationships and technologies are allowing people to watch more,” said Amy Young of CBS Networks in a recent Boston University interview. “Average viewership jumps 88 percent when you look at the full 35-day multiplatform window versus live and same-day viewership.”

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**POPULAR OTT MONETIZATION MODELS**

- **Subscription Video on Demand (SVOD).** Subscription-based offerings, typically providing unlimited access to a library of streamed film and TV content.
- **Transactional.** One-off payments for content, either in the form of digital ownership (DTO/EST) or rental with an expiration date (DTR).
- **TV Everywhere.** Services providing access to pay-TV content across multiple screens and devices, made available exclusively for pay-TV subscribers.
- **Ad-Funded Video on Demand (AVOD).** Free access to content, funded by advertising that usually appears prior to the video content.
- **Hybrid.** OTT business models that combine various features from the models above.
AD-FUNDED OTT VS. SUBSCRIPTIONS

As OTT popularity continues to grow, it’s no surprise that most viewers prefer ad-free experiences such as Netflix, Hulu, and Amazon Prime. History points the way. The ability to skip commercials was a large part of TiVo’s original success. While the service allowed users to watch their favorite shows at their convenience, many enjoyed the service for the ability to fast-forward through ads. When TiVo made some alterations and showed fast-forwarding viewers a pop-up ad, the backlash was so great the company was forced to rethink its strategy.

With this in mind, your organization may be well advised to consider a subscription-based model for OTT delivery. The benefits include:

• **Predictable revenue streams.** Consumers who subscribe to your services pay for them automatically on a regular basis.

• **Less upfront commitment for consumers.** Many OTT subscription services start with a free trial and let subscribers cancel at any time.

• **Price and promotion flexibility.** You can continuously refine the way you price and promote your offering to maximize customer acquisition and retention.

• **Long-term relationships.** Once consumers have subscribed, they are less likely to switch to competing offerings, provided that you maintain a high-quality user experience and continue to deliver appealing content.

• **Control over the customer experience.** You can build stronger relationships by improving the way subscribers access your content across their various devices.

Nonetheless, advertising isn’t likely to totally disappear from the OTT landscape anytime soon. According to Business Insider, revenue from video ads is expected to reach almost $5 billion this year. With a click-through rate of 1.8 percent, video ads have the highest CTR of any other form of online advertising.

HYBRID MODEL: COMBINING ADS WITH SUBSCRIPTIONS

Your organization may want to consider a hybrid model that provides certain ad-funded content for free, combined with subscription-based premium content. In so doing, it may be advisable to follow in the footsteps of broadcast networks like Fox and Turner that are reducing total ad time (see sidebar). Sacrificing ads for viewers isn’t always easy, however. The trick is to focus on acquiring and retaining enough customers, thereby generating sufficient revenue to make up for the lack of ad revenue.

If your business wants to provide a better customer experience by minimizing ads, you should focus on increasing your subscription base and retaining your customers over time. You can do this in two key ways. First, you should offer valuable content at an agreeable price that still allows you to be profitable.

Second, you should consider using a subscription billing service that reduces customer churn resulting from declined payments. The right partner can be extremely helpful in resolving failed transactions and offering back-up payment options. A good service can also reduce the friction that consumers experience when attempting to update their payment information.

Ads will undoubtedly continue to be a source of friction between viewers and OTT providers. However, a pure subscription model or a hybrid arrangement coupled with an aggressive retention strategy to combat subscriber churn will help your business minimize or eliminate ads and thereby reduce consumer friction.

### TV Networks Are Reducing Ad Time. Should OTT Follow Suit?

This year, Turner Networks delivered an upfront presentation revealing their plan to cut ads on certain programs. Two new series, “Animal Kingdom” and “Good Behavior,” will have 50% fewer ads, with that time instead offering an additional 10 minutes of the show in question. A few months after the announcement, Entertainment Chief Kevin Reilly said the experiment resulted in more viewers.

“We’re finding good results with that,” Reilly said at the Television Critics Association press tour in Los Angeles. “Not only is commercial viewing higher, we’re seeing a nice ratings lift.”

Other networks have followed suit, including Fox who announced plans to reduce advertising during shows on FX and the National Geographic Channel. Randy Freer, Fox president and COO, stated that his network needed to better engage viewers rather than increase revenue through ad spending.

Should your OTT strategy follow this ad reduction trend as well?
CASE IN POINT: YOUTUBE RED

Last year Google’s YouTube entered the OTT subscription fray by introducing its own subscription VOD service called Red. While YouTube Red certainly won’t replace the ad-supported free version of YouTube that consumers know and love, it does provide an opportunity for users to stream content without ads.

In the past, YouTube made most of its revenue from advertising. However, even with its much-boasted 1 billion viewers, YouTube doesn’t turn a profit, though it does manage to break even, according to the Wall Street Journal. Offering a subscription-based streaming service now enables the business to earn additional revenue and reach new audiences.

What’s more, YouTube Red has joining Netflix and Amazon in creating its own scripted content. In addition to its original murder mystery series “Escape the Night,” Variety reports that YouTube is developing a new action series with Dwayne “The Rock” Johnson and a new sci-fi thriller series from Hollywood director and producer Doug Liman.

“Consumers are embracing paid subscriptions for ad-free content at an incredible pace,” said Robert Kyncl, YouTube’s chief business officer. “[This] marks an evolution in our desire to give fans more choice and features that they love.”

What’s next for YouTube? Multichannel News reports that Google is getting ready to launch a skinny bundle pay TV service for the YouTube platform and already has at least three major broadcast networks on board. Stay tuned.

A FRICTION-FREE EXPERIENCE

As OTT offerings continue to evolve and improve, consumer expectations are on the rise. Along with a seamless viewing experience, consumers also want uninterrupted content and easy payment facilities. If your OTT platform fails to provide this, you risk disrupting the viewing experience that customers are trying hard to achieve.

If your company is planning to navigate the OTT maze, you should consider utilizing a high-quality recurring billing service to help monetize your content while growing and retaining your subscribers. Payment issues can seriously disrupt the customer experience and lead to involuntary churn, so it’s critical to work with a subscription billing vendor that offers agile payment facilities and sophisticated subscriber retention technology. This will allow your customers to continue their services as long as possible, thereby maximizing customer lifetime value.

Consumers can quickly become frustrated when their service is disrupted for reasons that could be easily avoided, for instance, exceeding their credit limit. Utilizing a subscription billing solution with robust transaction resolution logic can greatly reduce this friction and substantially increases the success rate of your OTT transactions.

In the future, more consumers will be able to benefit from OTT viewing on connected TVs, computers, and mobile devices with easy access to all the content they desire, when they desire it. To be successful in navigating the OTT landscape, your business will need to make sure that you keep up with the growing competition by offering user-friendly, accessible, and reliable services.

ABOUT VINDICIA

Vindicia brings enterprise-class innovation to consumer-facing subscription billing to help OTT providers and other online companies acquire and retain more customers by making payments seamless, secure and easy. Vindicia keeps consumers connected to the subscription services they love, and businesses connected to the subscription revenues they need. Vindicia has processed more than $21 billion globally and generates over $90 million in annual incremental revenue for clients. Vindicia clients include the BBC, Lionsgate, Comic-Con International, TransUnion Interactive, Allrecipes, IAC, Vimeo, and Next Issue Media’s Texture service. For more information visit www.vindicia.com.
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