Video's Critical Path:

Success at Web Speeds

By Brett Sappington, Senior Director of Research, Parks Associates

OTT video has reshaped a successful industry. What must operators do to recapture their position as primary providers of video services?

Brett Sappington,
Senior Director of Research,
Parks Associates

As a senior director of research at Parks Associates, Brett Sappington leads Parks Associates services' research team, including access and entertainment services, digital media, OTT, cloud media, video gaming, and technical support services. Brett is an expert in worldwide television and broadband services. His personal research focuses on the activities and trends among operators and the market forces affecting their businesses.

Brett has spent over 18 years in the industry as an analyst, executive manager and entrepreneur. Brett holds an MBA from the University of Texas at Austin with a concentration in high-tech marketing and a BA in Physics from Baylor University.

This content was sponsored by MediaKind and published by Parks Associates in October 2018.

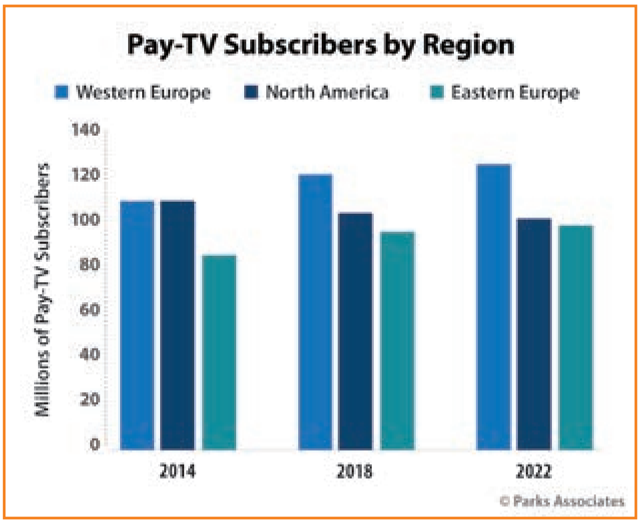
Change can be sneaky, particularly when it comes to consumer products and services.

Some technologies enter the market with great fanfare only to quietly fade away a few years later. Others go from interesting novelties to behaviour-changing innovations almost before consumers realize what has happened. The smartphone is a great example. Prior to 2006, few could have foreseen that a calculator-sized device would so significantly impact the way we communicate, socialise, follow news, find information and experience entertainment. So much so that today, some consumers panic if their smartphone is out of their sight or pocket for more than a few minutes.

Areas of change

Pay-TV

The Pay-TV industry is on the forefront of this era of change. The global market for Pay-TV continues to grow in most regions, including Western Europe and developed Asia where competition is intense. North America is the notable exception—the U.S. Pay-TV market has faced a decline in subscribing households since 2014.



Competition has pushed a new wave of consolidation in Pay-TV, including both distributors and content producers. New combinations such as AT&T plus Time Warner (now Warner Media) and Disney plus Fox are already in place.

Comcast, Sky and other companies continue to seek new advantages through mergers.

These new giants combine major content production with delivery expertise, causing market participants to reconsider their position and roles within Pay-TV.

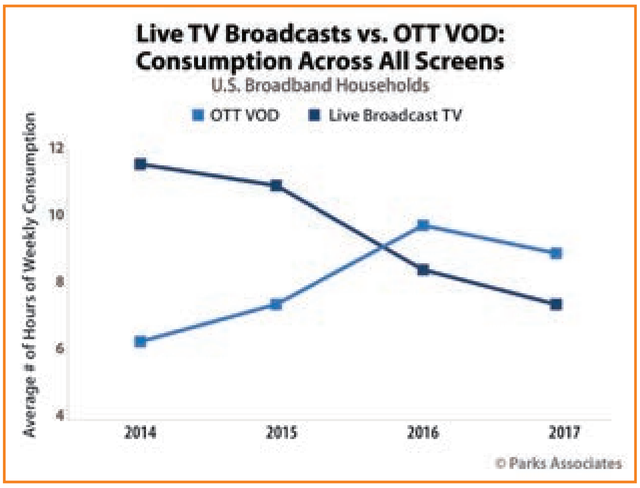
In the U.S. market, competition in Pay-TV moved online; several offerings are available from traditional Pay-TV market leaders (AT&T and DISH Network) as well as technology giants (Sony and Google). Both powerhouse types now offer smaller Pay-TV packages and lower price points to draw customers back to Pay-TV.

Live TV

The availability of online viewing options is changing live TV consumption across global markets. VOD-oriented OTT video services drove much of the shift to on-demand options; these convenient content options surpassed broadcast TV consumption across all screens in late 2015.

While live over-the-air and Pay-TV broadcasts have experienced waning viewership, live video is experiencing a resurgence online.

Online Pay-TV services that offer online access to linear channels and live sports have quickly accumulated subscribers, particularly in the U.K. and U.S. markets. Live sports are also emerging in other OTT offerings, such as direct-to-consumer



services in ESPN+ and DAZN, as well as Facebook-based streaming of matches from Eleven Sports and others.

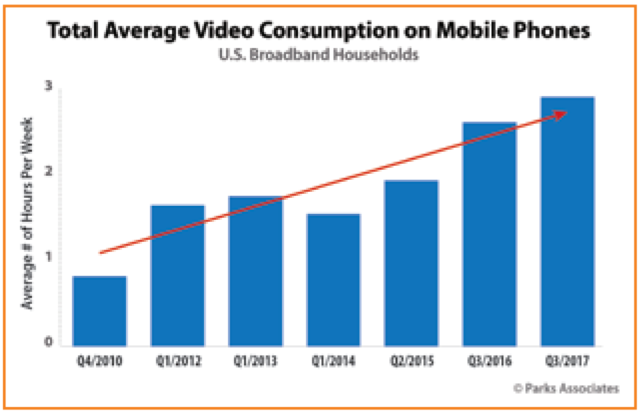
This shift to online access affects all aspects of the business of live TV, with innovations such as interactive features and targeted advertising driving new user experiences and revenue opportunities.

Mobile

Impact from online viewing options has been even more profound in the mobile marketplace. Consumption of video on mobile phones has skyrocketed.

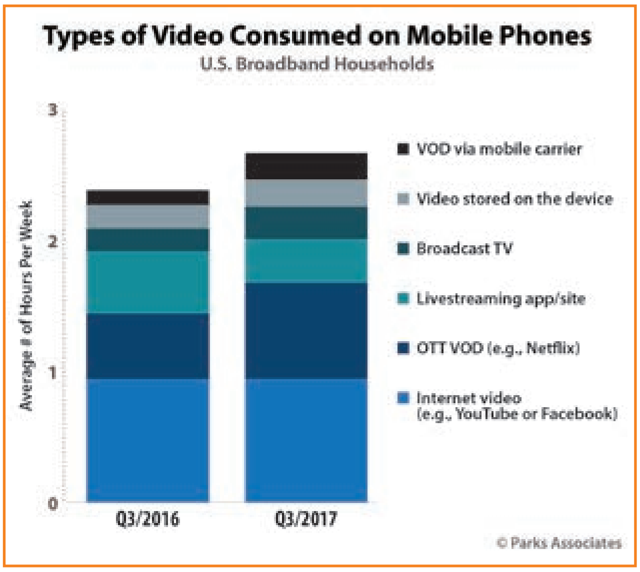
According to the *Ericsson Mobility Report*, worldwide mobile data traffic grew by 54% between Q1 2017 and Q1 2018, driven primarily by video traffic.[1] The report also forecasts that mobile video will represent 73% of all mobile data traffic by 2023, up from 56% in 2018.

Video streaming is an important strategic consideration for mobile carriers. Leading mobile service providers, including Vodafone, Deutsche Telekom, Verizon, AT&T and Virgin Mobile, offer zero-rating programs, exempting mobile traffic



[1] Jejdling, Fredrik, Ericsson Mobility Report, June 2018.

> In the video services market, change has come quickly, affecting all aspects of the ecosystem.



for video, social media and music streaming sites. AT&T offers free live TV channels for subscribers of its top-tier unlimited mobile data plans.

Improving users' video consumption experience leads smartphone design considerations. In addition to larger phones to maximise viewing area, phones with 4K displays are increasingly common.

The business impact

The seismic shift in consumption resonates across global markets. Beyond the sheer volume of video data now being transmitted across copper, fibre and wireless networks, OTT video drives several other changes in the ways operators must address their video businesses.

New customer expectations

The standard for comparison has changed. Consumers now assess the user experience and value proposition for all video services, including Pay-TV, based on their experiences with web- or app-based video services. Consumers expect a highly personalised service that knows them, is easy to use and is available on any device.

OTT video services have invested heavily in personalisation technologies for an enhanced user experience that minimises the time between service access and first video watched, a key KPI.

New ways that consumers select and purchase services

While multiplay bundling remains an important strategy, consumers cannot easily find bundles that fully address their needs. Today's consumers self-aggregate video services, starting with the content and service they most want and then supplementing that service with others in the marketplace.

Trials are an important part of the evaluation process for video services. Trials allow consumers to try a service before opting-in, an advantage for web-based offerings and a challenge for managed network services.

Over 200 OTT services are available in the U.S. market alone.

Each European market often has 80-100 OTT video competitors, in addition to offerings from traditional Pay-TV providers or mobile carriers.

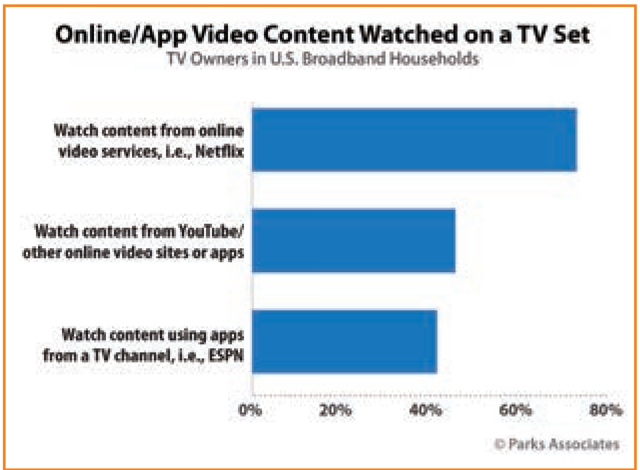
OTT video services are quickly emerging throughout Asia.

Fast-moving, dynamic marketplaces

While Pay-TV players often have the same direct competitors for decades, OTT video competition is constantly changing. Each month, new services become available, competing for viewers' attention.

Each OTT service offers new points of differentiation and constantly iterates its service to remain relevant. Because these players rely on cloud-based platforms and technologies, they are highly adaptable, able to quickly propagate feature and interface improvements across all markets overnight.

> Adaptability in service features must now be coupled with flexibility in business models.



Change in device focus

The platform focus for video services has shifted from operator-favoured CPE to consumer-favoured connected devices. Today, consumers are more likely to use an online video service app than a network TV app to watch content on a connected TV.

Consumers value the ability to take their subscriptions anywhere they take their devices. Thus, the app-based experiences for smart TVs, streaming media players and mobile devices must be as important as the experience on a set-top box.

Changes in monetisation

The high competition in OTT video causes many players to iterate their service over time based on opportunities, business needs and consumer interest. While subscriptions remain popular with consumers, ad-based or blended ad/subscription models are increasingly common, particularly in markets where a handful of subscription services dominate the landscape. Unlike subscriptions, advertising revenues scale with viewership. Ad-based models are also popular with advertisers eager to target young or difficult-to-reach demographics.

Global competition

While Pay-TV providers often focus on their own network footprint, competition is a worldwide affair. Netflix, Amazon, iFlix and other global players have raised the stakes for OTT video by expanding from local to global competition.

OTT players design their apps, infrastructure and interfaces to operate across worldwide markets, on the devices popular in each region. Providers offset content and technology investments by spreading costs across multiple global markets.

New approaches to sales, marketing and consumer awareness

Operators can no longer capture subscribers simply by answering inbound calls to the company's call centre. Proactive, outbound engagement of consumers is necessary in an environment where consumers expect interaction with brands. Because OTT video services are easy to join—and easy to cancel—operators focus on discovery capabilities and service trials that quickly prove their benefit to users.

Community building efforts and social media programmes foster customer relationships and brand enhancement that aid retention. Many work through alternative sales channels and partnerships, including CE manufacturers and each other, to maximise their presence and availability.

New focus on retention

With higher overall churn, OTT video services leverage new approaches and tools to address retention. Netflix is a key player that has combated churn by focusing on personalised services designed to deliver continuous and ever-evolving value to its customers.

While original content is an important part of its retention (and differentiation) strategy, Netflix maintains significantly lower subscriber churn than other services through its personalisation and user experience. It focuses on quickly surfacing content to consumers to keep viewing times high, even optimising the images displayed in the user interface to increase viewership. By doing so, Netflix is able to regularly validate its value to consumers.

Netflix also leverages big data analysis, enabling it to quickly identify at-risk customers. Other OTT video services facilitate user communities, allowing fans of particular content to interact with similar fans, and promoting events or interaction that will be popular with those communities. OTT video services also use bundling, cross-selling or partnerships to positively impact churn.

Importantly, the consumer is the ultimate winner, enjoying new services, enhanced features, greater personalisation and a superior user experience...all at web speeds.

Addressing the changes

Traditional Pay-TV providers are addressing this new environment. Yet change does not come easily, particularly for companies that have delivered high-quality video services in much the same way for many years. The scale of disruption in the video industry requires traditional Pay-TV providers to address their sacred cows in a new way.

A new mindset about video services

Operators that rely exclusively on video services through their managed network will be left behind.

AT&T, Sky, Orange and other operators launched their own online offerings to stay ahead of the market. The service bundle elements must also evolve.

Data services remain a critical component. Operators will frequently bundle OTT services with broadband, providing an advantage over pure-play OTT services. The mobile bundle must expand beyond data, with mobile video serving as a differentiator and incremental revenue generator. In addition, OTT consumers seek a branded OTT VOD experience beyond live TV, making new bundles of separate live and on-demand OTT services compelling opportunities.

A new approach to development

Operators must embrace ongoing innovation to be perceived as cutting-edge.

They need to adopt the rapid development and deployment characteristics of the web-focused players, either in their own development teams or in their vendor relationships. Development cycles need to be short and directed by data on consumer habits and feedback.

A new priority in service delivery

Operators need the flexibility and adaptability of OTT video services to remain relevant.

Those unable to be flexible in their business approaches, service design and marketing will continue to be outflanked by services that are better able to meet consumer needs. Operators must also offer new features to remain at parity or better than OTT services and their direct competitors.

A new focus on live

Operators must offer a live viewing experience at scale that is comparable or better than VOD-based services.

Online delivery for live video remains one of the most difficult and complex elements of online video services; several major services have experienced high profile troubles with live events where viewership exceeded their expectations. As an increased share of live sports and event viewing moves to online platforms, operators must be prepared to provide a high-quality experience at scale or lose out to online alternatives that are able to do so.

A new perspective on competition

Operators are competing in a global marketplace of video services.

This new market landscape presents a challenge in terms of local competition but also an opportunity for market expansion. Providers with services that are able to regularly prove and reinforce their value to consumers will be able to retain their customers over time. Personalisation is also critical, particularly when it makes consumers feel known and valued.

New personalised user experiences can adapt with changing consumer habits and interests, fed by A/B testing and machine learning-driven analytics.

New time shifting features such as multiday replay or cloud DVR allow operators to innovate in the channel guide.

Voice control and interaction provide a new type of user engagement.

New opportunity in market change

While change drives the need for new approaches, those providers that can adapt enjoy new opportunities to enhance their businesses.

- **Opportunity to expand market reach.** Operators that successfully compete online are able to uncouple their service offerings from their physical network footprint, allowing them to expand their market potential without the cost of laying fibre. Flexible online platforms also allow operators to create channel packages or video offerings appropriate to today's non-subscribers or specific market niches. Importantly, operators can quickly target new markets and roll out new service offerings overnight.
- **Opportunities for innovation and differentiation.** New services can be augmented by new emerging features now available in online video services and connected CE devices.
- **Opportunity for incremental revenues.** Attracting new subscribers to unique offerings is the first step. Partnerships with third-party OTT video services allow operators to create new bundles or à la carte offerings. New business models, such as one-day or one-week subscriptions, produce incremental revenues by addressing specific use cases or customer needs. Operators can monetise new features, such as options to expand DVR storage or number of concurrent streams. Operators can also add revenues through advanced advertising that allows purchasing and delivery of goods through the remote control or voice commands.

The good news: new opportunities produced by market change ultimately benefit all parts of the ecosystem.

Broadcasters, such as Pay-TV providers, can enjoy enhanced reach and a larger audience. Additional services drive demand for premium content, which benefits content producers. New distribution options provide new pathways to consumers for networks. Incremental revenues benefit Pay-TV providers.