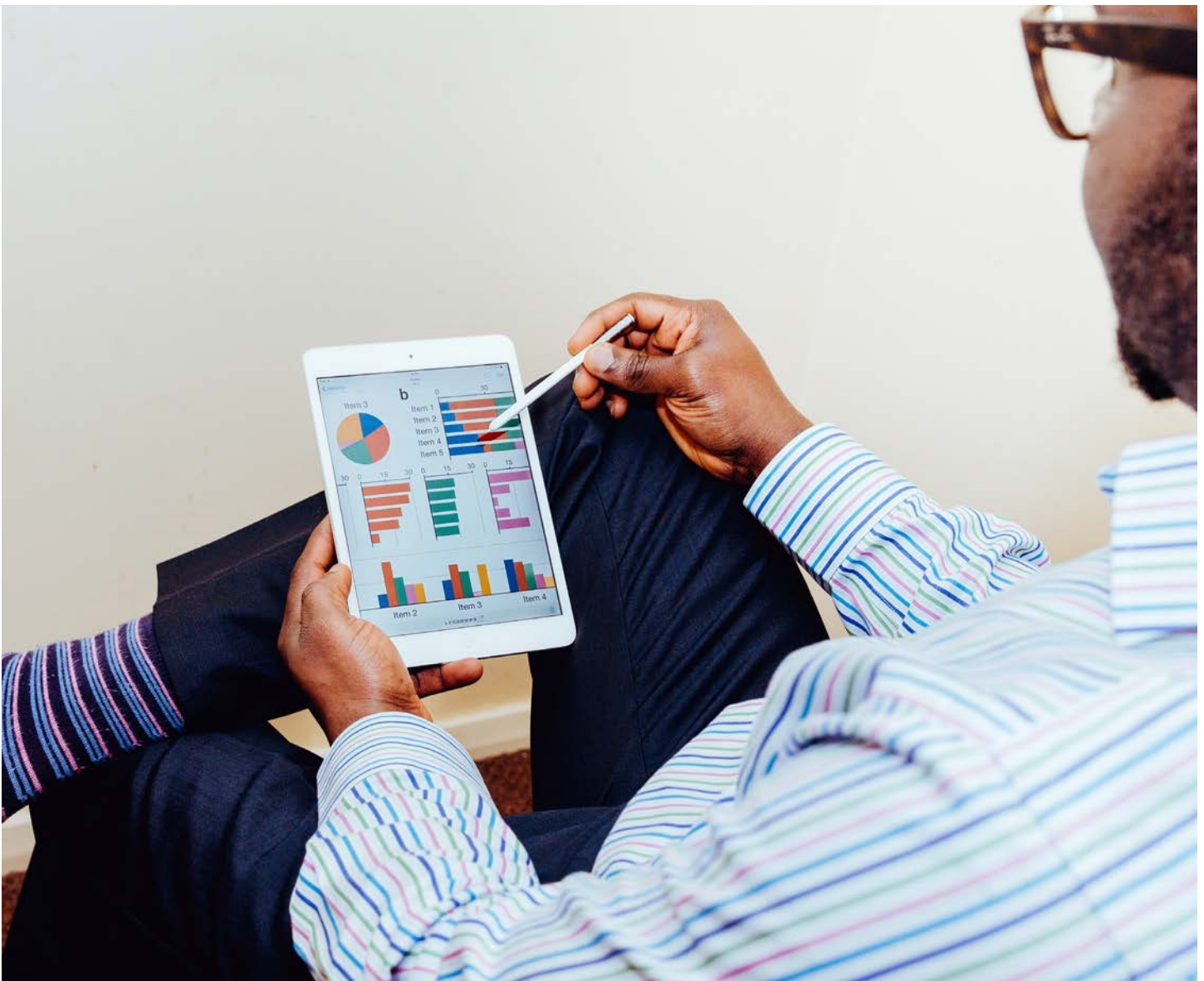




IMPROVING OTT CUSTOMER ENGAGEMENT WITH SMART DATA



Improving OTT Customer Engagement with Smart Data

The unprecedented uptake and consumption of OTT video services and other digital media and entertainment are leading providers to utilize smart data enhancements such as artificial intelligence (AI) and machine learning to fully understand their customer base.

This whitepaper examines the key phases of the OTT consumer journey and how data is used to best acquire, engage, and retain customers. This whitepaper also examines how leading digital media and entertainment organizations are achieving success utilizing smart data through their customer engagement programs. The OTT video examples detailed in this whitepaper can be applied to adjacent media and entertainment markets in gaming, audio, consumer publishing, business information subscriptions, and new digital media.

OTT Video Customer Journey

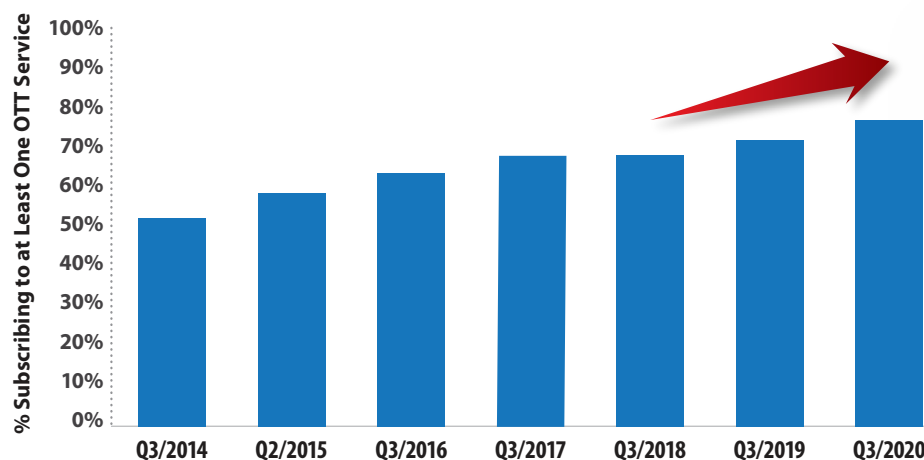
In today's highly-evolving and hypercompetitive OTT video service market, smart data or data enabled by AI and machine learning, plays a key role in informing strategies for all of the key phases of the customer journey including acquisition, engagement, and retention and churn.

As the OTT video service marketplace continues to grow and competition for consumers intensifies, key trends have emerged throughout each key phase of the customer journey. The trends outlined in this section highlight the need for OTT video services and other types of digital media and entertainment companies to integrate smart data into their operations to grow their user and revenue bases.

Acquisition

OTT service subscription uptake has steadily risen over the past several years as consumers migrate their video viewing habits online. However, the rate of services acquiring paying customers took a sharp turn upwards recently with the onset of the COVID-19 pandemic. Homebound households, looking for entertainment options to occupy their time, subscribed to OTT services in unpredicted numbers. Nearly four in five broadband households, as of Q3 2020, subscribe to at least one OTT service. This represents a 7-point increase in uptake, which roughly equates to more than 7 million additional households subscribing to a service this year than last.

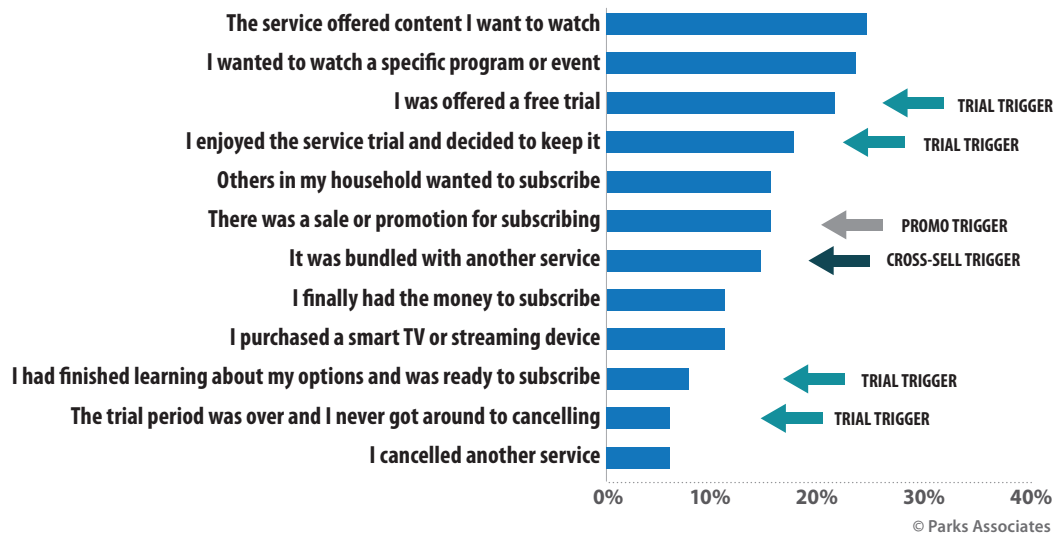
Overall OTT Service Subscriptions
Among US Broadband Households Surveyed



There are many considerations that potential customers weigh when deciding to subscribe to an OTT service or not. The content that the service offers leads the way in guiding a prospective customer to a paying one. However, the use of free trials, and the different subsequent actions the trial process produces, is also a leading driver of subscriptions. Promotional and cross-sell/bundling efforts also play a role in the subscription acquisition process.

Drivers for Subscribing to OTT Services

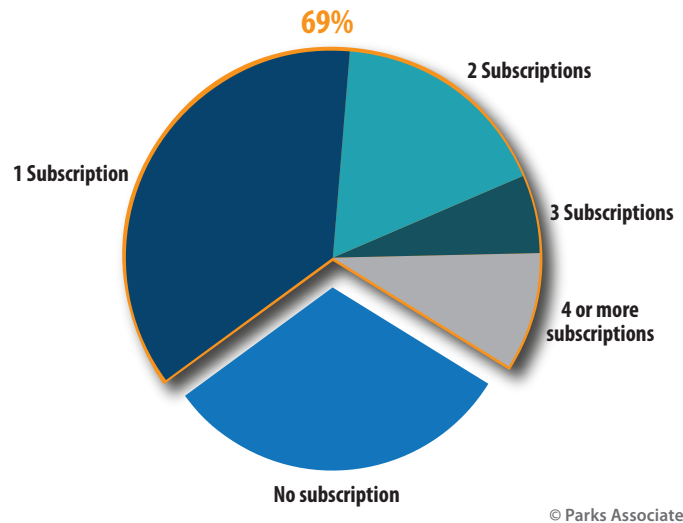
US Broadband Households Subscribing to at Least One OTT Services in the Last 12 months



The use of free trials, promotional offers, and bundled packages of cross-sell services has accelerated through the first part of 2020, during the initial stage of the COVID crisis. The conversion of those trials to paid subscriptions, the key metric in the customer acquisition stage, has also increased.

OTT Service Trial Conversions

US Broadband Households Trialing at Least One OTT Service



~40% of US broadband households trialed at least one OTT service, up seven points from the previous year. Nearly 70% of OTT trialers ended up subscribing to at least one of those services.

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OTT video service providers have the opportunity like never before to better engage and then acquire potential subscribers during the acquisition phase to convert them to paid subscribers and retain them as long-term customers.

Smart data can be the engine that drives much of those customer engagement efforts.

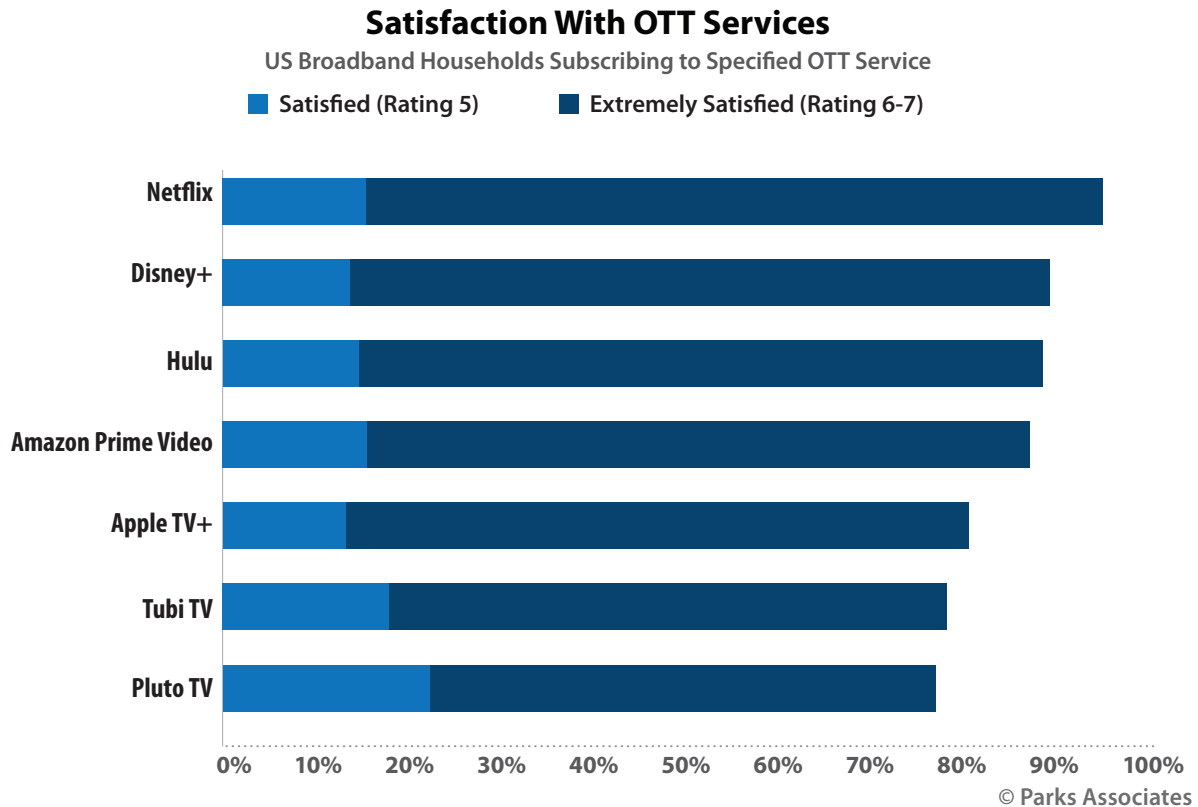


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Engagement

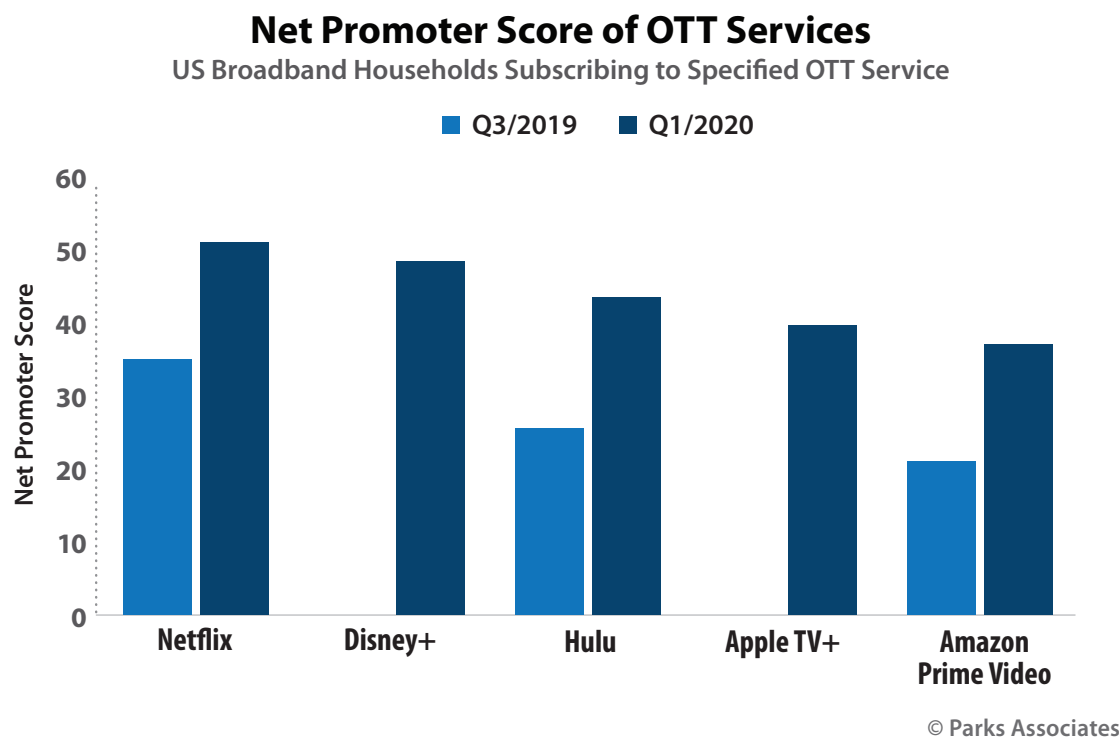
Once OTT providers acquire and onboard customers to their service, the next challenge that lies ahead is to continually engage them to preserve the provider-customer relationship. Parks Associates monitors a variety of key metrics that measure the ongoing customer engagement with OTT video services including service satisfaction, Net Promoter Scores (NPS), and key aspects of the user experience.

Research from Q1 2020 shows that the vast majority of video consumers are satisfied with the services they subscribe to and use regardless if they are subscription-based, ad-supported, transactional-based, or a hybrid.



Subscription-based services such as Netflix and Disney+ see higher satisfaction levels than some of their non-subscription counterparts. Consumers have a deeper and longer-lasting relationship with subscription services, driven primarily by the monthly or annual financial investment they have with these service providers. If customers find enough value in the service offering across a variety of aspects to justify their investment, they are more likely to be satisfied with it. If they were not satisfied, they would simply cancel the service.

NPS scores, which track a customer's likelihood to recommend the service to others, are another key engagement metric for OTT service providers. Recently, NPS scores across many of the major subscription-based OTT services jumped year-over-year, with annual increases for Netflix, Amazon Prime Video, and Hulu hovering around 20 points.



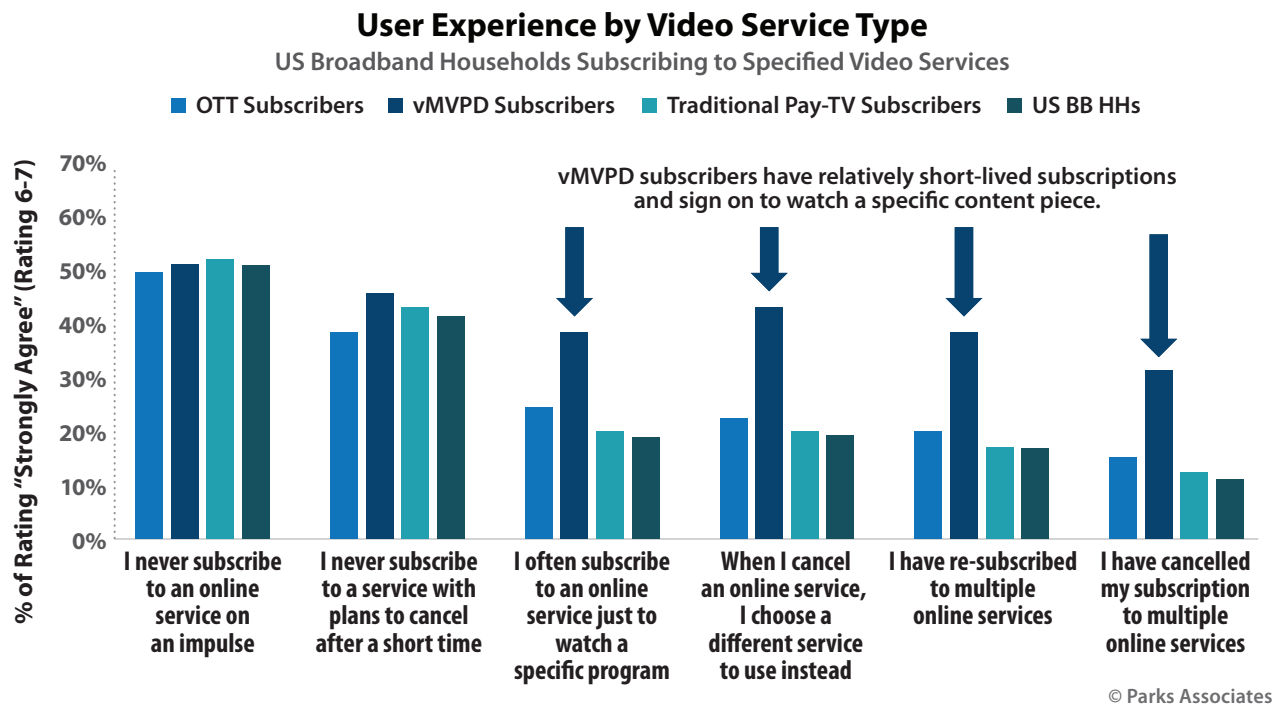
As COVID-19 kept US broadband households more homebound than usual, video consumers had more time to engage with and try out different services that they can in turn recommend to others to use. The rise in NPS scores is an encouraging sign for service providers as they attempt to attract and acquire new customers while also attempting to regularly engage and retain existing customers. A compelling content offering coupled with a comprehensive user experience will drive brand loyalty and deeper engagement.

A final key piece of understanding the effectiveness of engagement efforts is through customer insights into their user experience.

Parks Associates monitors the UX of different types of OTT customers.

Among ad-supported OTT service users, a willingness to watch advertising and the lack of cost drive the user experience. For transactional OTT users that rent or purchase single TV and movie titles, co-viewing the video content with others and shopping various services to find the best value are key aspects of that user experience.

When comparing across video customer groups, differences in user experience are most pronounced among those who subscribe to virtual multichannel video programming distributors (vMVPDs) or online pay-TV services that offer bundles of live channels.



Content is crucial to driving the user experience, and vMVPD subscribers will switch to another similar service or cancel that type of service altogether if the content offering does not meet their expectations.



Retention and Churn

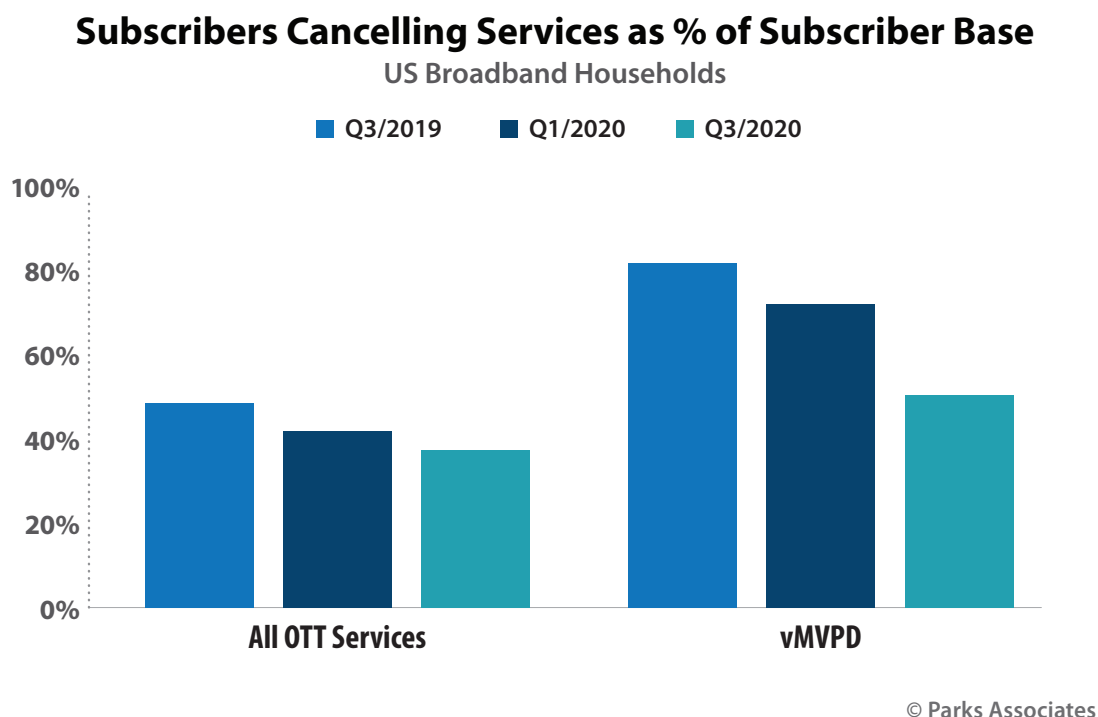
The final and potentially most challenging part of the OTT video consumer journey is retention.

Many internal and external forces are at play that make it difficult for OTT video service providers and other companies in the digital media and entertainment space to retain their customers. If the value of all aspects of the service offering, from price to content to user experience, meet or exceed a customer's expectations, then there is a higher likelihood that a service can retain its customer. Otherwise, a service risks customer churn.

For OTT services, customer churn is a major concern especially as compared to churn rates of traditional pay-TV providers via cable and satellite TV operators.

The overall OTT churn rate continues to hover around 40%.

Traditional players have long-term contracts and cross-sell bundles to keep customers subscribing to the service, sometimes unwillingly. OTT services, on the other hand, with their lack of contracts and termination fees and the sheer number of competing services, are much more susceptible to churn. vMVPDs, a subset of OTT services, are at even higher risk for churn because of their higher costs compared to standalone OTT services and their relative uniformity across providers. While the vMVPD churn rate decreased to 49% in Q3 2020, it is still higher than overall OTT services.



The churn rate has slowed some for both overall OTT services and vMVPD services. Consumers have more time at home to properly assess the value of a service to determine if they want to keep or not. Churn may continue to decrease, as households are not experimenting as much with newer services to try out as they were at the beginning of COVID-19. **However, churn still represents a direct threat to the viability and growth trajectory of many services.**

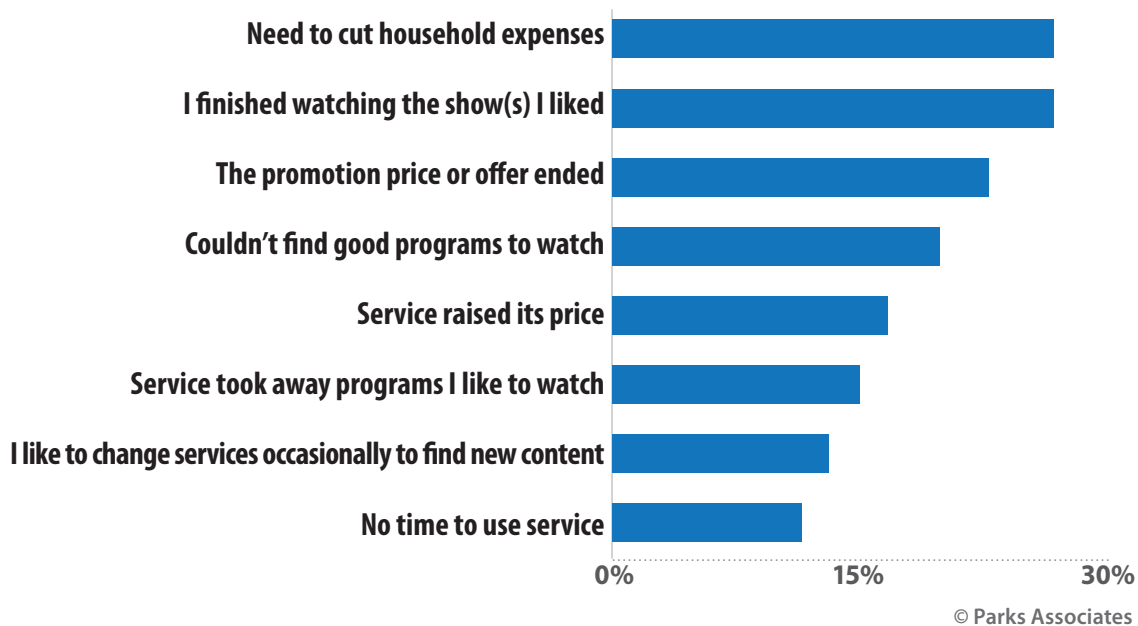
There are many drivers of customer churn as video consumers weigh if they are going to continue subscribing to a service or not.

- The COVID-19 crisis has had devastating economic impacts on households across the US, so many consumers feel a need to cut household expenses
- The end of a promotional offer, resulting in a higher price for a service, will drive some consumer to cancel a service.
- Content-related drivers also have a major impact on the decision to cancel a service.

If the economic impacts linger for the foreseeable future, households across the US will continue to weigh their investment in entertainment services and evaluate which ones to keep and which ones to cancel.

Reason for Cancelling OTT Services

US Broadband Households Cancelling OTT Services



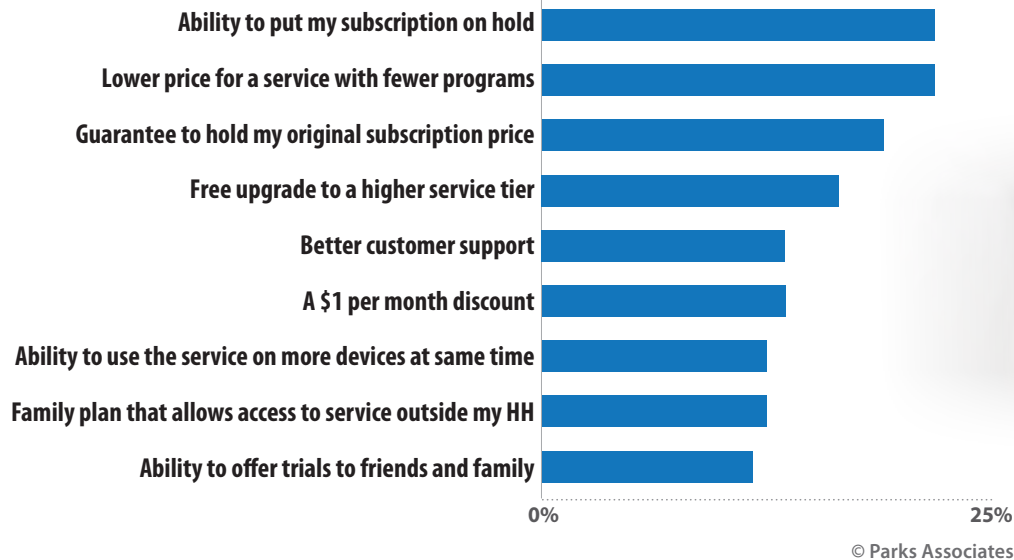
Consumers report an average monthly spending on OTT video service subscriptions of **\$16** in Q1 2020. Total entertainment spending, including OTT subscriptions, movie tickets, video-on-demand/pay-per-view, video downloads, and physical media, is **\$53** per month.

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While OTT services and other digital media and entertainment companies have a very difficult time during this exceptional time in retaining their customers, they do have some potential tools at their disposal. Subscription holds, pricing flexibility, upgrades, and an optimal customer support experience are just some of alternatives services can use in their retention efforts.

Drivers to Retain OTT Service Subscribers

US Broadband Households Cancelling Online Video Services



OTT services and other digital media and entertainment companies have to innovate in order to effectively and efficiently retain their customers. New ways of thinking both operationally and strategically, with the help from AI and machine learning-assisted smart data solutions, will increase the likelihood that providers can better acquire, engage, and retain customers as they face unprecedented market forces.

Use of Smart Data during Customer Journey

Smart data driven by enhancements such as AI and machine learning inform key lifecycle points throughout the customer journey, starting with acquisition, then establishing the service-user relationship through engagement, and enhancing the experience through service upgrades and cross-sell opportunities that drive retention and temper churn. Within each critical point, smart data enriches each key activity outlined below.

Acquisition

- Service offering concept
- Service offering campaign
- Sales leads
- Service subscription purchase channels
- Service subscription options (standalone vs. bundle, monthly vs. annual)
- Cost of acquiring customers

Engagement

- Personalized content recommendations
- Customized marketing and promotion messages
- 360° customer support (automated self-help vs. omni-channel with call center)
- Streamlined e-commerce system for seamless service transactions

Upgrading and Cross-sell

- Customized upgrade service opportunities
- Customized cross-sell opportunities across business lines

Retention

- Management of service renewal process
- Management of other retention initiatives
- Guided flow of customer journey
- Ongoing customer support (self-help vs. omni-channel with call center)
- Integration within CRM and analytics toolbox
- Predicting potential service problems with proactive messaging and issue resolution

The overarching goal is to utilize data to empower OTT service providers and other digital media and entertainment companies to operate an omni-channel platform that allows them to accomplish the following:

- Scale more quickly
- Increase user, subscriber, and revenue bases
- Strengthen retention efforts to maintain a long-term customer relationship and increase customer lifetime value
- Increase overall agility, enabling organizations to deploy new service offerings and enhancements more seamlessly and rapidly
- Lower the overall cost of doing business

Benefits of Smart Data

There are many tangible value-added benefits of smart data enhancements such as AI and machine learning to OTT service providers and others in the digital media and entertainment ecosystem.

Hyper-Personalized User Experience

Data fueled by AI and machine learning generates a truly personalized user experience for OTT video consumers and for those who consume other types of digital media and entertainment. AI and machine learning deliver:

- Relevant content recommendations at the individual user level
- Personalized messages, communications, and promotions
- The most relevant service actions to continue engagement and build the relationship between subscriber and service

In composite, these benefits produce digital transparency and intelligence-based engagement to push users through each key phase of the journey: acquisition/evaluation, engagement and retention, and long-lasting brand and service loyalty.

Artificial Intelligence (AI): the simulation of human intelligence in machines that are programmed to think like humans and mimic their actions; can be applied to any machine that exhibits traits associated with a human mind such as learning and problem-solving.

Machine learning: an application of artificial intelligence (AI) that provides systems the ability to automatically learn and improve from experience without being explicitly programmed; focuses on the development of software programs that can access data and use it learn for themselves

Seamless Multichannel Engagement

Data generated from AI and machine learning also provides users seamless access to a variety of content types and when, where, and how, across different devices and platforms, they want to consume that content.

This deep level of engagement helps reduce lost revenue opportunities by standardizing the sale of service bundles and the implementation of internal service processes. The hyper-personalization enriched through the use of AI and machine learning guides users to subscribe to offerings that provide the best overall value to match their needs while simultaneously augmenting sales margins and optimizing sales processes through multichannel engagement.

Deepened Brand Loyalty

Another value-added benefit of an AI and machine learning-driven user experience is deep and long-lasting brand loyalty. The personalization of the user experience that fits the needs of the user delivers more customizable bundles that spur effective cross-sell opportunities across product and service lines. Relatedly, smart data fuels the model for other aspects of the offering including billing, service renewals, and automated omni-channel digital customer support that strengthens the service-user relationship.



Business Innovation and Agility

A final benefit is the ability of smart data to drive innovation and agility for business operations.

Smart data forms the base of a 100% cloud-based platform that runs the engine of the business across the various aspects of the sales and service lifecycle. The cloud-based model pushes businesses to the next level of innovation by reducing the complexity of running a business using legacy systems.

All aspects including configuration, activation, fulfillment, billing, and ongoing servicing are streamlined with a digital platform built with insights from smart data.

The transformation to a cloud-based platform helps OTT services and other digital media and entertainment organizations to further insulate them from ongoing market and industry disruptions and helps them adapt quickly to dynamic market conditions.

Best Practices for Using Data in Customer Engagement and Retention

There are several best practices that digital media and entertainment companies can follow to most effectively utilize data in their customer engagement and retention efforts during key phases in their digital transformation.

Discovery Services

Discovery services provide business intelligence (BI), analysis, and visualizations for decision makers in the organization. Provision of these services is the first step in becoming a data-driven organization. In enabling discovery services, a data reservoir is formed, and data collection from customers is initiated.

Best practices in the discovery services phase:

- **Sensitive personal data** collected from customers must be removed from data storage systems and AI models
- A **single reservoir of customer data** has to be formed to provide consistency across business units and a seamless customer experience
- Inbound data has to be **cleaned** and should be **stored** in this form
- **Joins** or **merges** with data from other sources should be done in reading the data
- Collect and store only data that can be **converted into smart data** for use in **intelligence-based actions**

Prediction Services

Prediction services require the development and development of machine learning models.

Best practices in the prediction services phase:

- **Bias** in the data must be effectively detected and removed
- The inclusion of **explainability**, the ability of the model to justify the prediction it is generating, is strongly encouraged
- Models should be accompanied by a **confidence score** or **prediction interval** that indicates the level of trust in the model and the ability to make decisions based on it
- Recurring **statistical evaluation** of the quality of the model is strongly recommended as model quality can decay over time as business conditions change

Recommendation Services

Recommendation services incorporate prediction services into strategic and actionable organizational recommendations.

Best practices in the recommendation services phase:

- Maintain a set of **business rules** in the recommendation engine to provide an agile way to reshape recommendations as the business environment evolves
- **Continual monitoring** of the recommendations yielded from each running of the model is strongly suggested to best inform future iterations
- Set the **proper vision** that smart data recommendation engines are meant to assist and empower data and analytic employees and not replace them; **trust and buy-in** are critical to the success of smart data-driven recommendations

Automation Services

Automation services build upon recommendation services, automating business processes by selecting and executing the top recommendations.

Best practices in the automation services phase:

- Companies need to establish **high-quality recommendations** that place the customer at the **heart of the organization** so automation can be achieved. Customer engagement levels can rise significantly while operational costs can be reduced
- Tools and processes can only be automated when employees and end users alike feel **empowered** during the customer experience; automation removes repetitive and mundane work for the employee, driving them to more **value-laden production** within the organization
- For the customer, automation driven by empowerment results in **faster customer service** and **deeper engagement**



A leading European-based digital media company achieved significant improvements in their customer engagement and retention efforts that strategically integrated smart data. Key success metrics were significantly improved in areas such as subscriptions, customer service, and service cost management.

New Sales

+300

New POs added in 1 year

-55%

Average order entry time

-50%

Reduced # of promos

Digital Field Service

-80%

Activation Calls

+10K

Per Year

Upselling

-80%

Fewer errors due to improved order accuracy

Customer Service

-20%

Call Handling Time

+41%

Agent NPS

-70%

Agent training time

Achieving Success through Smart Data

Digital media and entertainment companies have a variety of ways that they measure success of their customer engagement and retention programs that utilize actionable smart data.

These success factors can be grouped and categorized into the following framework.

- **Increased Revenue:** increases in sales opportunities, referral rates, digital orders, and the speed of new product launches in the market
- **Improved CX:** increases in percentage of first contact issue resolution, call transfer rate, customer satisfaction/NPS, and order speed and accuracy
- **Minimized Cost of Service:** improvements in digital channel customer interactions, productivity/process efficiency, average issue handle time, and reducing training time
- **Minimized Technology Cost:** Decreases in time to deliver, deployment costs, integration costs, and ongoing maintenance costs

The message is clear: smart data produces strategic recommendations and action items and can yield tangible significant improvements to a digital media and entertainment company's customer engagement programs.

Conclusion

In the hypercompetitive digital media and entertainment space today, consumer data is critical for OTT services and other companies in the ecosystem to understand the preferences, behaviors, and tendencies of their customer base. Emerging data enhancements such as AI and machine learning have significantly enhanced the quality and robustness of the data that is collected.

Smart data allows OTT services and other digital media and entertainment organizations to be better able to formulate actionable strategies to serve their customers at an optimal level. Artificial intelligence and machine learning will continue to be an essential component of a digital media and entertainment organization's toolkit in their efforts to acquire, engage, and retain customers.

Those companies that do not effectively integrate smart data will be left far behind more forward-thinking, data-centric organizations in the ongoing battle for the ever-elusive digital media and entertainment consumer.



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Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes the Broadband of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Broadband and television services, digital health, mobile applications and services, support services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

For more information, visit parksassociates.com or contact us at 972.490.1113, info@parksassociates.com.

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INDUSTRY EXPERTISE: Entertainment content and services, consumer behavior on emerging technology markets

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