# The OTT Playbook:
# Success Factors for Video Services

A Parks Associates Whitepaper Developed for

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## The Latest Chapter in a Competitive Marketplace

Over-the-top (OTT) delivery of content has opened a new frontier of distribution as well as the floodgates of new competition.

While pay TV has long been a highly competitive marketplace in most developed nations, the push into the OTT space has heightened the competitive tension. Companies from throughout the video ecosystem as well as many non-traditional players are launching their own OTT services, each hoping to establish their position in the future of the video industry.

### Netflix and other successful OTT services are growing to rival many of the more traditional players in the TV market.

After substantial growth in the U.S., Netflix is now expanding into new global markets, creating its own content and licensing local-language content to strengthen its position. The success of Netflix and the availability of professional services to help companies easily launch an OTT offering have encouraged several new players to offer their own OTT video services.

### Pay-TV providers are quickly addressing the OTT space.

Initially, operators offered multiscreen services only to their pay-TV subscribers. Today, large operators are offering online services to all consumers, attempting to claim their share of OTT revenues ahead of direct competitors. U.K. pay-TV leader Sky was one of the first in Europe to do so with its Sky TV Now offering. Other European pay-TV players, including Orange, Viasat, and BeTV, have also introduced new OTT services. Australia's Foxtel recently unveiled its new Presto and Foxtel Go services in its home market. Canadian operators Rogers Cable and Shaw Communications jointly launched their shomi OTT service. Many in the U.S. market expect satellite service provider DISH Network to introduce an OTT service within the next few months.

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Content producers and cable networks are now entering into the fray. Building upon its HBO Nordic OTT service in Northern Europe, HBO announced that it would expand its OTT direct-to-market offering into additional markets in 2015. U.S. broadcaster CBS added a new subscription OTT service, CBS Direct Access, and stated its intent to also launch a direct-to-consumer OTT service in 2015 for its Showtime premium channel. Movie studio Lionsgate announced plans to offer a subscription OTT service, partnering to do so with the operator of the Tribeca Film Festival.

> ## Several other players have either entered the space or are considering their options to offer an OTT service.
>
> - Google already offers professional content through YouTube and is channelizing YouTube content.
>
> - Amazon's Instant Video service is gaining momentum by leveraging the company's online commerce site and its CE products.
>
> - Microsoft and Sony both offer transactional video services through their game consoles and have the ability to offer much more.
>
> - Apple, Roku, Samsung, LG Electronics, and many more offer services and partner with others to distribute content through their devices.

Traditional print media firms are joining the market as well, moving beyond online portals for their publication brands and adding a substantial amount of online video content. These companies blur the line between subscriptions to printed magazines and online video services. Not only are giants like TIME Magazine and The Wall Street Journal adding video, emerging publishers like VICE.com are using video as a critical part of their value proposition.
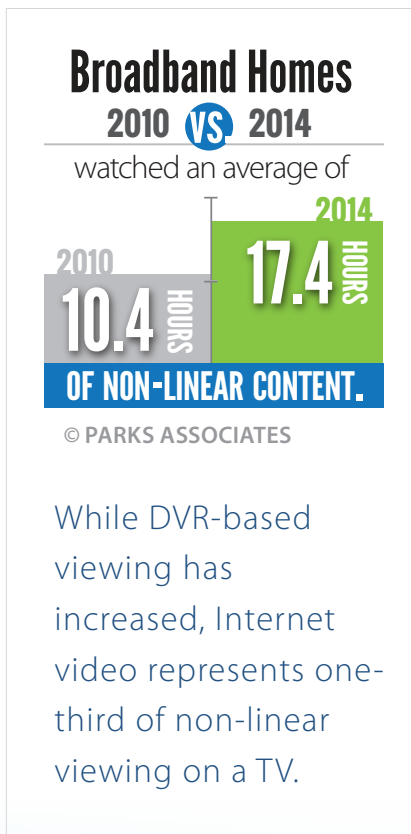
The net result of all of these OTT activities is a great deal of uncertainty and experimentation as companies seek the right mix to create a successful OTT video service.

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# The Reality of Viewer Habits

CHANGING CONSUMER HABITS ARE DRIVING THE INTRODUCTION OF NEW OTT SERVICES.

**Consumption of online video is increasing across all platforms, including TVs, computers, smartphones, and tablets.** This increase is particularly strong among young consumers, a fact not lost on the traditional TV industry and new market entrants. Consumers are increasingly moving away from linear video services, instead using on-demand platforms.

Importantly, the online content being viewed includes longer-form content, including both TV programming and movies.

## Broadband Homes

**2010** VS **2014**

watched an average of

**2010** — 10.4 HOURS

**2014** — 17.4 HOURS

OF NON-LINEAR CONTENT.

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While DVR-based viewing has increased, Internet video represents one-third of non-linear viewing on a TV.

## Hours of Linear vs. Non-Linear Video Consumption on All Platforms

**U.S. Broadband Households**
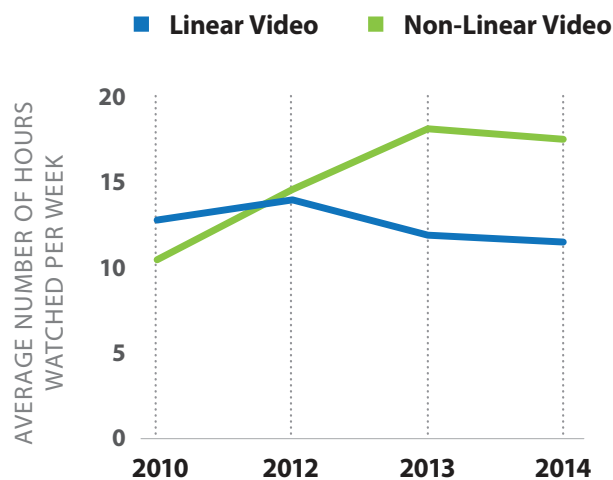
■ **Linear Video**   ■ **Non-Linear Video**



AVERAGE NUMBER OF HOURS WATCHED PER WEEK

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The majority of time spent viewing online content is on videos of 10 minutes or more. Videos of 30 minutes or more represented over 25% of content viewed on computers, over 40% of content viewed on tablets, and over 60% of content viewed on Internet-connected TVs.

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## SHARE OF TIME WATCHED BY DEVICE AND VIDEO LENGTH
### Q2 2014                    :: OOYALA®



- 10-30 MINUTES
- 30-60 MINUTES
- 60 MINUTES OR MORE

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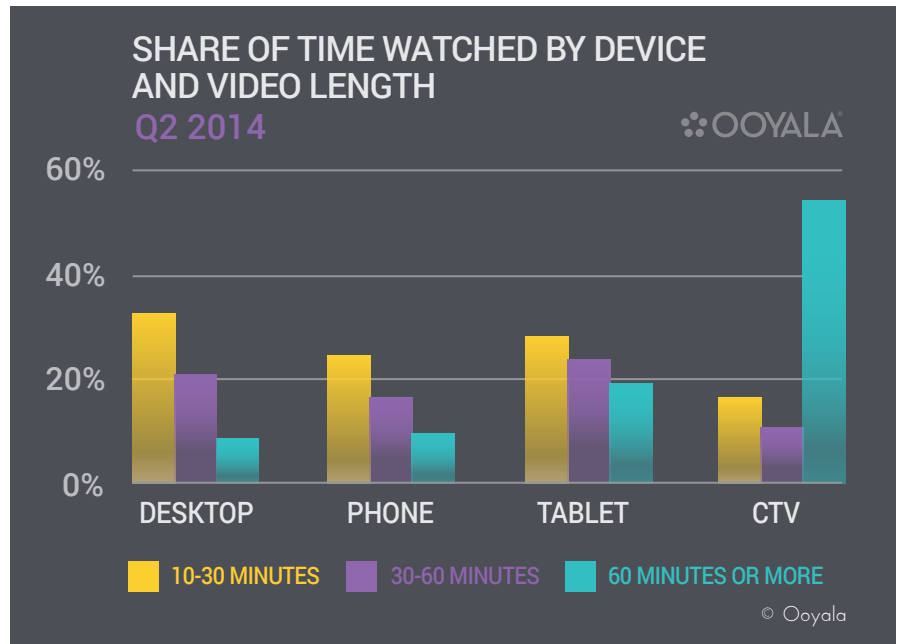
Perceptions are changing as well. The greater availability of services, improved quality of delivery for OTT, and the greater awareness among consumers have improved the perception of OTT video services.

While 86% of U.S. broadband households subscribe to a pay-TV service, over one-quarter of consumers under age 34 believe that online video is just as good as pay TV.

## Perception of Internet Video by Age

### U.S. Broadband Households

**In thinking about your video viewing preferences, do you agree or disagree with the following statements: "Online video is just as good as pay-TV"?**



AGE OF HEAD OF HOUSEHOLD
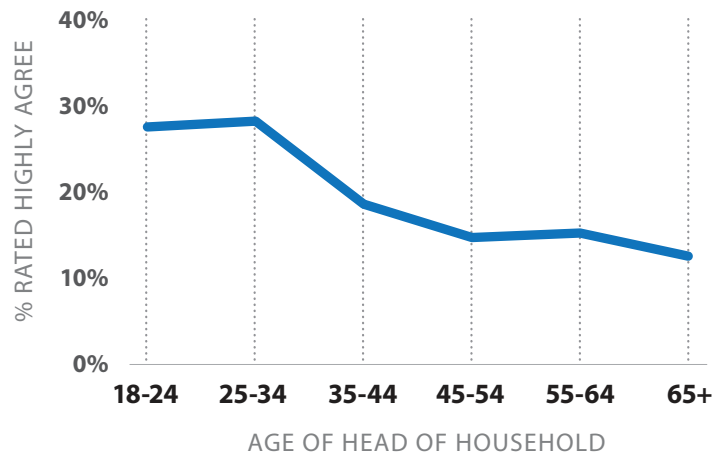
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The change in both usage and perception is startling to traditional players and inspiring to new entrants and has encouraged the rush to explore the OTT arena.

# Success Factors for OTT Services

## WHILE MANY COMPANIES ARE ENTERING THE OTT VIDEO SPACE, NOT ALL WILL BE SUCCESSFUL.

Already, several strong, well-funded efforts have been unable to adequately capture consumers' attention. In October 2014, U.S. telco Verizon discontinued its OTT streaming partnership with DVD-rental kiosk company Redbox due to lower-than-expected uptake. Earlier in the same month, U.K. newspapers reported that retailer Tesco is planning to sell its Blinkbox online video service that it acquired in 2011.

### What sets a successful OTT video service apart from those that struggle?

Successful services build characteristics that put them in a position to succeed:

**FACTORS**

**Reaching Critical Mass**

**Compelling Content**

**Appealing and Sustainable Business Models**

**Engaging & Effective User Experience**

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## *Reaching Critical Mass*

Many OTT services enter the market believing that consumers will quickly flock to their online or mobile offering. In reality, successful services build their customer bases over time.

Netflix's streaming service began as a free "extra" feature for subscribers of its DVD service. Usage of the streaming service increased as users realized the value and convenience of streaming, and Netflix was able to transition this base of customers to a new, paid streaming service. Hulu began as an ad-supported catch-up service. Its fee-based premium offering built a base of viewers much more slowly. Again, as a critical mass of customers learned to appreciate the value of the service, they became paying customers.

OTT services must be able to demonstrate value to consumers over a period of time and build a critical mass of customers.

Companies considering an OTT video service need to be prepared for the long game rather than expecting a quick payoff. Some services will entice consumers and see rapid uptake. However, in an increasingly crowded market space, building a critical mass of customers will take longer than many companies will anticipate.

## *Compelling Content*

Offering viewers something interesting to watch is the most important success factor for an OTT service. The content available on a service is the primary decision factor for consumers to use or subscribe to an OTT service. Special features, innovative marketing, clever business models, or low pricing cannot overcome a lack of attractive content.

High content licensing costs and windowing considerations force providers of OTT services to be selective as to which content is available to users.

Successful services balance costs with the following content considerations:

**FRESH & CHANGING**—Services must be able to keep the selection of content fresh, introducing new content weekly or daily. Doing so will provide users with a reason to return to the service. If users regularly fail to find interesting content upon visiting a service, they are likely to abandon that service and try another. For service providers, a growing disillusionment with the content selection will show up as shorter viewing sessions, an increased volume of videos abandoned prior to show credits, and service logins without any viewing of content.

**ADEQUATE VOLUME**—Services must provide an adequate volume. Over half of Netflix and Hulu viewers watch three or more programs in a single viewing session. One-quarter watch five or more programs in a single sitting. In this era of binge viewing, viewers will quickly work their way through their most-preferred content. Since each user will be interested in only a portion of a video library, the volume of new content and of the library overall must be adequate in order to keep users interested.

**EXCLUSIVE ACCESS**—Offering exclusive access to popular content, even for a limited period of time, is a powerful way to attract consumers to a video service. Consumers have proven willing to pay for early access to content, and fans of particular programming often go to great lengths, even piracy, to access content that they seek.

**Content exclusivity is expensive**, since the video service must pay the content rights holder a hefty premium in order to prevent competitors from licensing the same content. For this reason, only the largest market players can afford to acquire exclusive access to popular, current content.

**Instead, several services are now creating their own content**, which gives them the appeal of exclusivity and greater control over the content. HBO has been using this approach for its premium movie channels for many years, with shows such as *The Sopranos*, *Boardwalk Empire*, and *Game of Thrones* actually driving subscribership.

Today 43% of HBO customers claim that the company's original series programming is the primary reason that they subscribed to HBO.

**Some large OTT players**, including Netflix, are investing in original content, hoping to achieve similar results.

**Another approach is to acquire exclusive rights to international content** that may be popular in other markets but is not available in the OTT service's target geography. Exclusive rights to international content are less expensive than those same rights in the content producer's home country, but the content will likely be appealing to some consumer segments.

**Content can be a key differentiator among services and can help define an OTT service's branding, marketing, and positioning against competitors**. These three factors are content cornerstones for any competitive service, including for publishers such as TIME or VICE.

## *Appealing and Sustainable Business Models*

**The business model for an OTT service must be appealing** to consumers and sustainable for the service provider, a difficult balance to achieve. In addition to the high per-user cost of content licensing, emerging OTT services must often guarantee a minimum number of subscribers as part of content licensing agreements. In addition, new OTT services are at a cost disadvantage to pay-TV providers and larger competitors that are able to get better pricing on content due to their large base of users. As a result, new OTT services face a high hurdle to achieve market viability.

**Content producers and cable networks that are establishing** a direct-to-consumer service face a unique challenge in business models. These players must offer pricing and business models that appeal to consumers and still allow the company to maintain relationships with existing distributors, including pay-TV providers.

**Subscription services offer users quick access** to a volume of selections but often lack current content. Netflix and other early market entrants have established a $7.99 baseline for pricing (£5.99 in the U.K. and €7.99 in other parts of Europe). Services that are more expensive will have to prove their value to consumers. However, a less expensive service invites price-based competition or presents the perception of being a "lesser" service.

Services that are transactional (rental & EST) often have the most current content, but users face a purchase decision each time they want to see something new. While customers of transactional services pay more for digital content on a monthly basis than customers of subscription services, most transactional services have struggled with uptake.

### Average Monthly Expenditure on Digital Video

**U.S. Broadband Households**

- On subscription, Internet video services
- Buying video downloads
- Renting video downloads
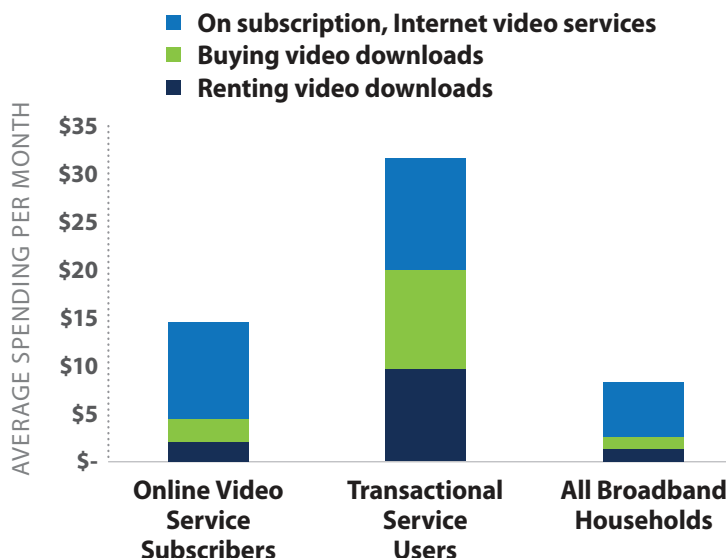


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Ad-based models have the lowest barrier to usage for viewers, have a high upside potential for popular content, and can monetize both long and short form content.

However, ad-based models alone may not retain users as effectively as subscription or transactional models. Advertising-based models or combined subscription/advertising models like Hulu Plus allow services to be profitable despite a low or no monthly charge to consumers.

Because they face low consumer-paid revenues, successful OTT services leverage their understanding of user behaviors to enhance monetization of their services, regardless of business model.

- Those with transactional services use this information to "merchandise" content, tailoring placement of recommended content within the user interface in spots most likely to trigger a purchase.

- Subscription services examine viewing behavior beyond selected titles in order to offer a stream of content that keeps viewers engaged.

- Services that include ad-based support use their familiarity with users to optimize both the ads shown and the volume of ads presented to consumers, preventing abandonment of the service due to over-exposure of advertising.

## *Engaging and Effective User Experience*

In a crowded market, differentiation becomes a key element for success. "Me too" services that are virtually identical to (or are perhaps lesser versions of) other services in the market will not survive. In order to gain attention and users, a successful service must be able to cultivate distinguishing characteristics that set the service apart from others in the marketplace.

While content and business model certainly impact uptake, user experience will greatly impact a service's ability to retain users. Successful services understand that the user experience includes every element of the service, from login to logout, and work to optimize all aspects of the service. Because of the growing number of new entrants, services have to prove their value to consumers quickly or risk being set aside for alternatives. The authentication process must be easy and direct. Discovery must minimize the time and effort between first glance and content selection. The quality of delivery is best when not noticed, including skips, restarts, or other anomalies.

Discovery and personalization have become key elements for OTT services. Many services now include personalized recommendation and search, which impacts consumers' ability to find and choose interesting content. However, personalization is becoming much more than recommendations. Delivering personalized ads makes the ad experience more palatable to viewers. Personalization decreases complexity in the user experience, limiting options to those that are meaningful to the user and producing a simple, easy-to- use interface.

## Data analytics is an important element in creating and maintaining a quality user experience.

Insight into usage habits and preferences of individuals, households, friends, and consumer segments allows the provider to anticipate and deliver a compelling personalized experience. Overall, successful services give consumers a feeling of investment and ownership, making it more likely that they will return.

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# Future Considerations

## THE FUTURE FOR THE OTT VIDEO SPACE LOOKS TO BE HIGHLY COMPETITIVE AND HIGHLY FRAGMENTED.

Entrants into the OTT space will need to do the following in order to preserve the long term survival of their service.

### Be adaptable

Importantly, Netflix and Hulu have both adapted their business models, features, service offerings, and content mix since their initial launch. Though Hulu came to market without a fee-based option in 2008, Hulu Plus was added in 2010. In response to upset customers and investors, Netflix famously reversed its decision on announced plans to split the company into a DVD-by-mail business and a separate video streaming business. Netflix has also continued to innovate in its user interface. For example, the service adapted its recommendation feature to allow multiple profiles, separately tracking viewing preferences for different members of the same household.

The willingness of Netflix and Hulu to respond to consumer and business needs and adapt their market approach allowed them to continue their growth.

**Other OTT services will need that same level of adaptability**. With an abundance of new OTT entrants, companies must be prepared to shift their approach as the market changes. Service providers will need a strong understanding of the consumer, including their habits and preferences. Companies can potentially track every aspect of the user experience, including extensive details on login, discovery, selection, and viewing. OTT services will need to be able to assimilate this data, find relevant trends, and improve the delivered service. Companies entering the OTT space will need their chosen OTT delivery system to be flexible as well, allowing service providers to adapt the service based on market needs and opportunities. OTT systems must also be able to handle changing content licensing requirements for security and content management.

iROKOtv, an OTT video service for Nigerian movies, is an example of the importance of adaptability. The company began as an ad-supported service. iROKOtv later added a user-paid option for newer film releases, adapting its business model based in part on viewer data.

The company also used data analytics to find and better market the service to expatriates around the world—a unique micro-segment of online video consumers.

## *Target market segments (or micro-segments)*

**As the number of players in the market increases, competition for customers will intensify**, and differentiation will become more critical. New OTT services will need to carve out successful niches that they can continue to hold despite competition.

**Targeting particular segments is a fundamentally different strategy than attempting to sell services to all consumers**. Content licensing will focus on the target segment, providing greater focus and efficiency in content spend. The design of the interface and features should cater to the target viewers. Marketing, promotion, positioning against competitors, and the character of the service will all be optimized to reach the desired target. Importantly, a highly targeted segment will drive advertising-based models, making the service especially appealing to advertisers seeking to reach those consumers.

**Successfully maintaining the niche in the long term will require an in-depth knowledge** of the target segment and an ability to cater to their unique preferences. Companies will need to leverage their data analytics to not only understand target micro-segments but also to evolve the service over time. As the needs of the segment change, services will need to change themselves in order to remain relevant to these key customers.

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This playbook outlines many of the key success factors for OTT services. The success of any OTT service is also predicated on key technology decisions any company faces in standing up a video business or migrating an existing business to new devices.

For example, not every company is going to knock it out of their park with their own original content. Many, if not most, will license content from other creators and studios. Much of the time, content licensing will require strict adherence to rights management and other rules set by the content owner to ensure that content is used only by authorized viewers or to provide geographic limitations on where the content can be viewed. Selecting a technology partner and platform that can help manage these rules across a broad ecosystem of devices is important.

OTT video service providers must remain flexible and experiment with different monetization approaches to understand the model that best suits their particular audience. It's critical that the video platform supports all methods the provider will want to explore—multiple forms of advertising, subscriptions and transactions.

Most importantly, let data be your guide. Today, more information is available than ever before. This information can inform companies at a granular level as to:

- where, when and how their audience is engaging,
- what viewers' tolerance is for advertising & other types of monetization across all forms of content,
- which assets are performing best,
- what kind of content they should consider licensing more or less of, and
- how viewer experience can be improved.

Rich analytics for driving these business insights, and for enabling personalized content discovery to keep audiences engaged longer and returning more frequently, are the underpinnings of OTT success.

Ooyala, a subsidiary of Telstra Corporation, delivers personalized video experiences across all screens and is a leader in online video management, publishing, analytics and monetization. Ooyala's integrated suite of technologies and services gives content owners the power to expand audiences through deep insights that drive increased viewer engagement and revenue from video.

Companies using Ooyala technology include Univision, Foxtel, Comedy Central, NBC Universal, Telstra, ESPN, Telegraph Media Group, Telefonica, The North Face, Rolling Stone, Dell and Sephora. Headquartered in Silicon Valley, Ooyala has offices in New York City, London, Sydney, Tokyo and Guadalajara, Mexico. The company works with premier reseller and technology partners throughout the Americas, Europe, Africa, Japan and the Asia-Pacific region.

For more information, visit **www.ooyala.com**.

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As a 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 eighteen 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.

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