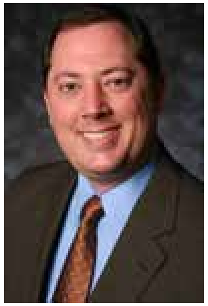
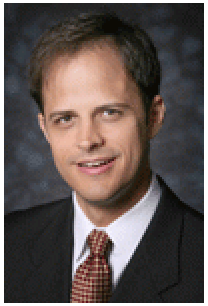
OTT Services:
Moving from Sideline to Primetime



Brett Sappington
Director of Research



John Barrett
Director of
Consumer Analytics

PARKS ASSOCIATES

Audio Recording

To replay the webcast, click here:
https://attendee.gotowebinar.com/recording/5137233142659295234

Parks Associates provides industry and consumer research focused on all product and service segments that are digital or provide connectivity within the home.

Overview

- Over 25 years of experience in providing consulting services to top companies
- Analysis and consulting by industry experts in Digital Living and the Connected Home
- Full service market research provider
- Turnkey management of your project

Sample of Our Clients

- AT&T
- Bell Canada
- Cablevision
- Cisco Systems
- Comcast
- DirecTV
- Deutsche Telekom
- Ericsson
- HBO
- KT
- Intel
- Microsoft
- Samsung
- Walt Disney
- Verizon

Agenda

- Consumer OTT habits and spending
- Contributors to / inhibitors of OTT service growth
- OTT vs. broadcast & pay TV
- OTT market trends
- Online video subscribers
- OTT services by pay-TV providers
- Implications / recommendations

Parks Associates Research

OTT in a Pay-TV World

» Trends in OTT and the role of pay-TV in the OTT space.

TV Everywhere 2.0: The Next Steps in Multiscreen

» As availability is increasing, the market for TV Everywhere is entering a new phase. How will pay-TV providers and vendors differentiate their offerings?

Trends in Content Licensing

» Multiscreen services and new realities in pay TV have changed the content ecosystem and the business of content licensing.

User Interfaces: Battleground for TV Services

» The interface to the consumer is the new battleground for video services. What is driving the market and what does the future hold?

TV Apps: Strategies and Trends

» Everyone is launching their own TV apps, but which players and offerings will succeed?

4K Today: Bringing Ultra HD to Market

» The current state of the ecosystem around 4K, including content, services, and devices.

About Parks Associates Consumer Analytics

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CONSUMER ANALYTICS

The Consumer Analytics team provides quantitative market intelligence that guides strategic business decisions.

We explain market trends, predict how consumers will react to innovations, and recommend strategies for thriving in a changing business environment.

Market Focus: Published & Proposed Topics

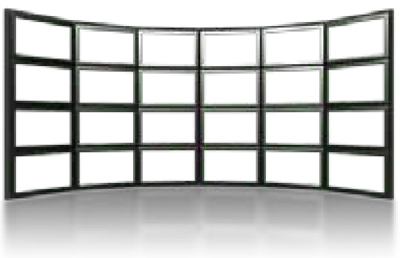
1 | Indicates this is an expanded study

	Access & Entertainment Services	Connected Home Systems & Services	Home Energy Management	Digital Health	Mobile & Portable	Digital Media	Digital Home Support Services	Connected CE & Platforms
Q1 2013	Published: Carriage Disputes: The Subscriber Perspective	Multiclient Study: Home Systems & Security: New Offerings and Features 1	Multiclient Study: Energy Management Devices: Engaging Consumers 1	Published: Digitally Fit: Healthy Living and Connected Devices	Published: The Connected Car is Here	Published: Consumers and App Business Models	Published: Technical Support for Emerging Devices	Published: 2012 Year in Review: CE Purchases
Q2 2013	Published: TV Viewing Habits and the Challenge of Young Nonsubscribers	Published: The Market for Connected Appliances	Published: Receptiveness to Variable Rate Plans	Published: Supporting Caregivers: Digital Tools & Services	Published: Voice Recognition & Control on Mobile Devices	Published: TV Channel & Network App Users	Published: Technical Support for Telecom-muters	Published: The Role of Retail Stores
Q3 2013	Published: TV Everywhere Use & Authentication	Multiclient Study: Expanding the Base: From Security to Smart Home 1	Published: Consumer Segmentation: Who Will Pay for Home Energy Management?	Published: Online Communication Tools for Healthcare	Published: Mobile Commerce: Keys to Mass Adoption	Published: Content Search, Discovery & Recommen-dations	Published: Support Services for Mobile Devices	Published: Consumer Segmenta-tion: The Big CE Spenders
Q4 2013	Published: Consumer Segmentation: Selling Premium TV Services	Published: Smart Home Packages	Comprehensive: 360 View: Energy & American Broadband Households	Published: Prescribing Apps: Engaging Health Consumers	Published: Lifetime Value of Mobile Subscribers	Published: OTT Video Buyers: Subscriptions & Transactions	Published: The Market for Subscription Technical Support Services	Published: 2013 Holiday CE Purchase Intentions

Key Findings

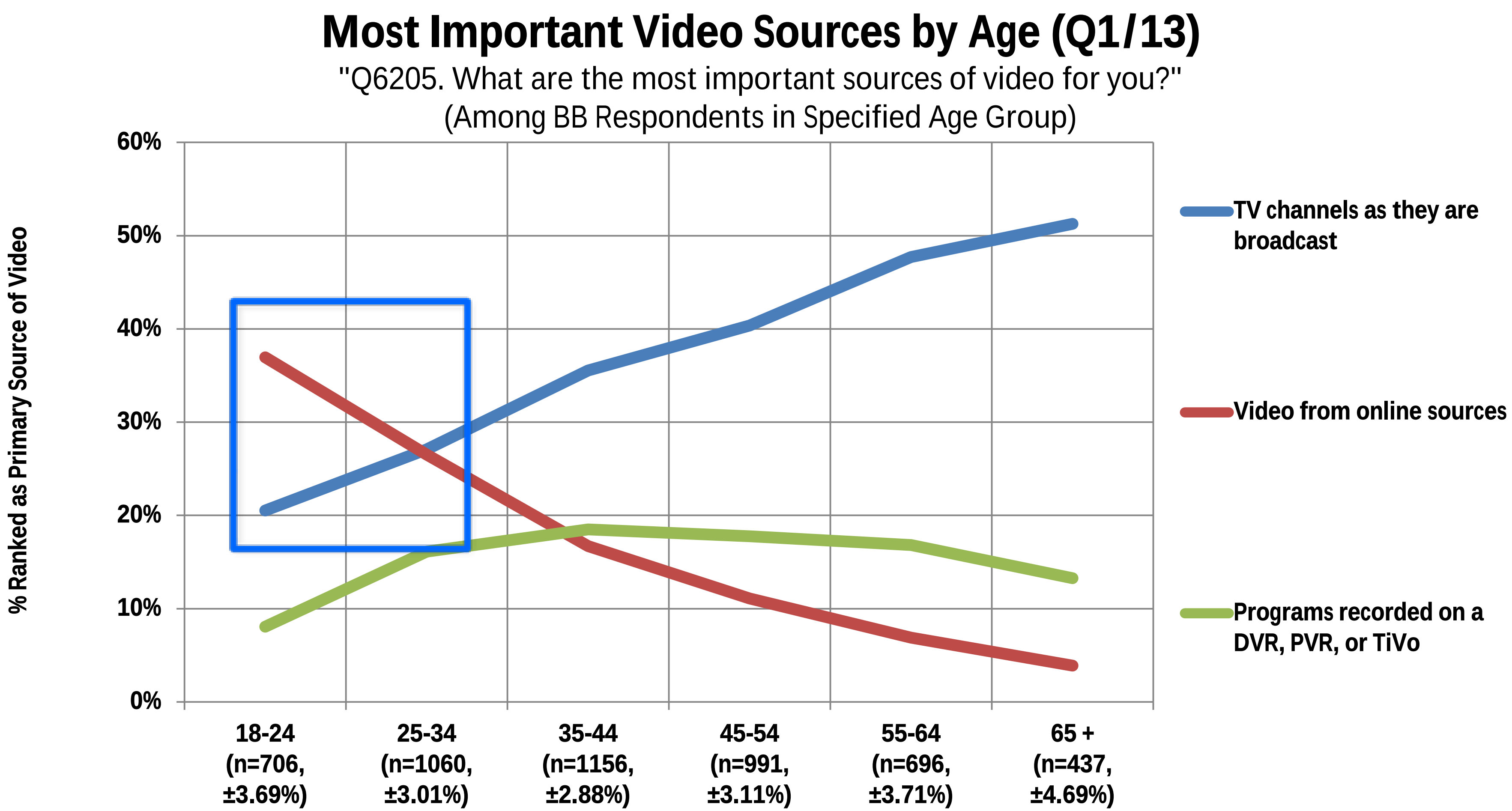
- **Over-the-top video is the most important source of video for consumers ages 18-24.**
  - Similarly, it is tied with broadcast TV among those 25-34. For older consumers, broadcast TV is a far more important source.

- **Over-the-top video users are heavy consumers of video.**
  - OTT users spend more on video services than the average household. Moreover, the overwhelming majority also have pay-TV service.



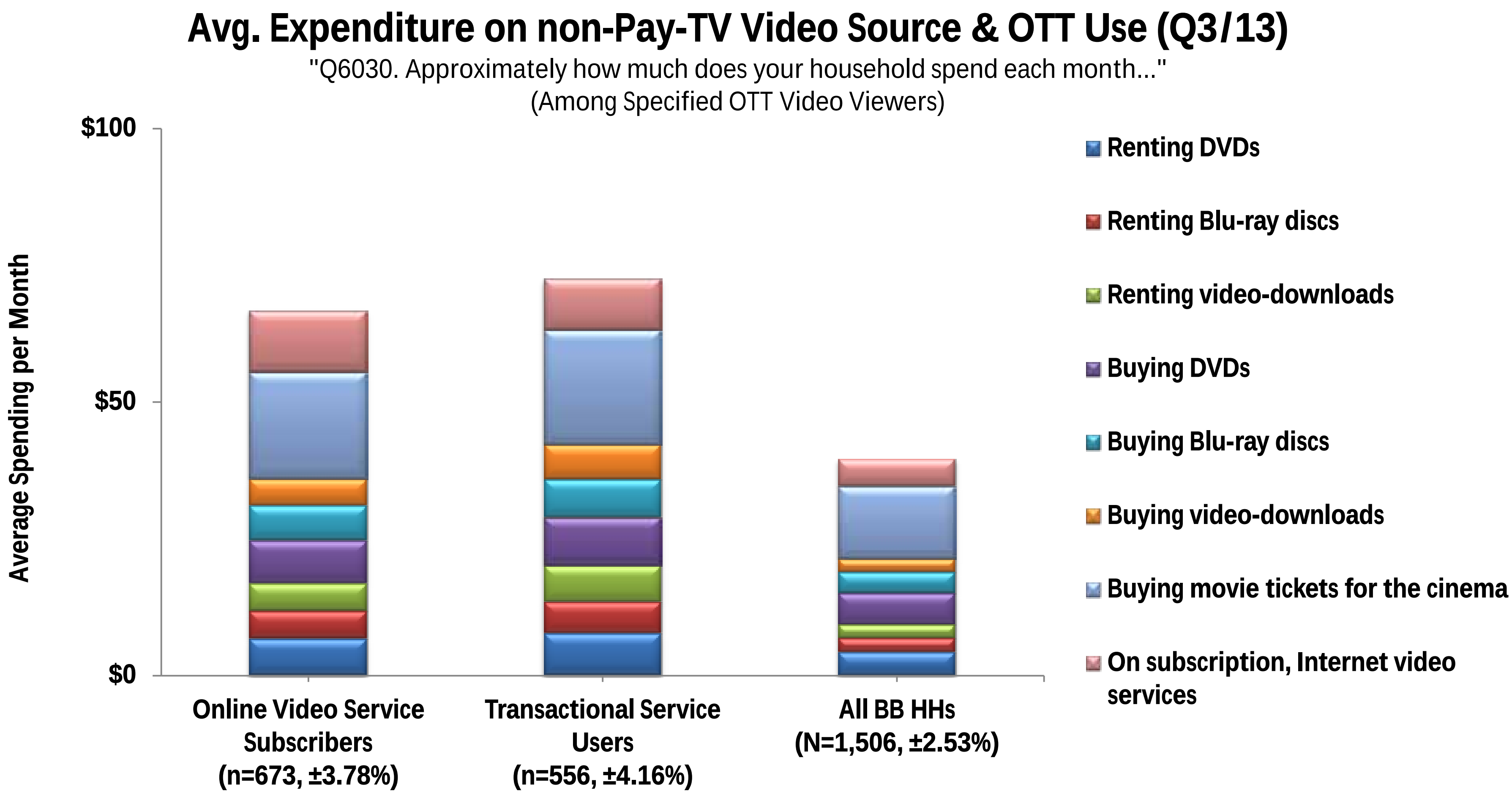
- **Over-the-top video users still heavily rely on discs.**
  - Discs are generally used as frequently as subscription OTT services and far more so than transactional video. Moreover, OTT video users use a mixture of DVDs & Blu-rays discs as well as a mixture of rented and purchased discs.

Online video is <u>the most</u> important source of video for consumers 18-24.



Source: The American Broadband Household Q1 2013
N= 10,000 Broadband heads-of-households

OTT users spend more on non-pay-TV video than the average broadband household.



Source: Consumers & Technology Q3 2013
N=3,000 Broadband heads-of-households

Contributors to OTT Service Growth

- First movers
- Specific focus on online services
- Adoption of advanced discovery tools
- Leveraging trends in multiscreen viewing
- Low cost offerings
- Not tied to a specific geographic region or footprint
- Not tied to a specific delivery network
- Not tied to specific consumer electronics / CPE hardware
- Leveraging feature advantages of cloud-based services

North America

amazon instant video

hulu

NETFLIX

CRACKLE CRACKLE.COM

M GO

Latin America

sundaytv

Inhibitors of OTT Service Growth

- **Low broadband and device adoption**
- **Content licensing**
- **Piracy**
- **Consumer reluctance to pay for premium services**
- **Broadband caps**
- **Lack of advertising standards for online viewing**
- **Presence of dominant players (U.S.)**

Western Europe

Asia/Pacific

OTT vs. Broadcast & Pay TV

- **Several factors keep traditional media in the lead:**
  - » Access on the TV
  - » Established habits
  - » Most popular content
  - » More recent content
  - » Familiar discovery
  - » Passive viewing
- **Consumer priorities:**
  - » Early access to TV programming
  - » Convenient access to TV programming
  - » Incremental cost to access TV programming

Trends in OTT Services

- **Growth of Original and Exclusive Content**
- **Steaming Media Players**
- **Delivery of 4K Content**
- **Partnerships and Peering Agreements**
- **Online Rebroadcasting**

Image: ASUS

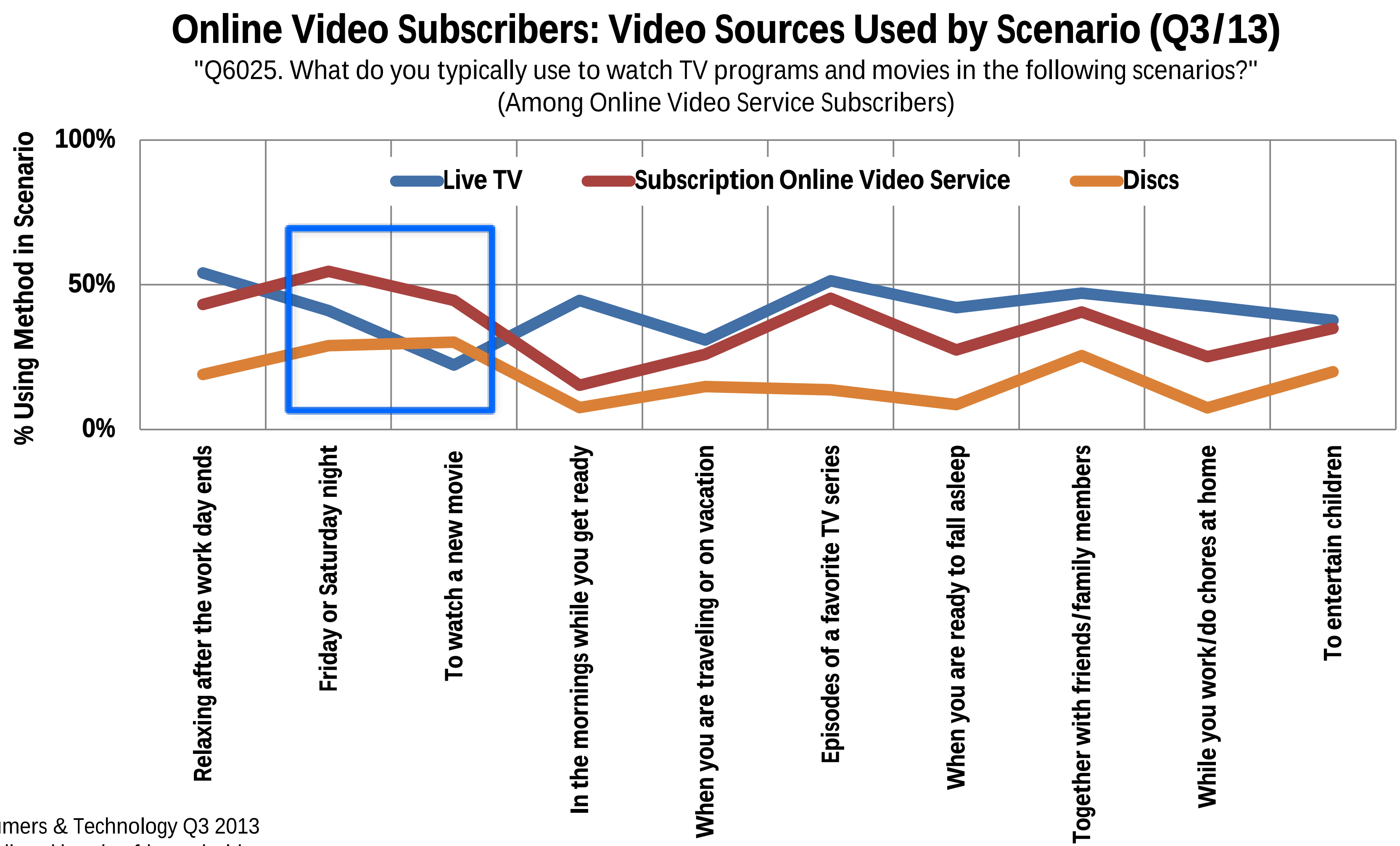
Key Findings

- **Subscription online video services dominate a few viewing scenarios.**
  - » When they want to watch a "new" movie or something on a Friday or Saturday night, online video subscribers are most likely to use their subscription service. They still use live TV more often in all other scenarios.

- **Transactional users watch rented and purchased downloads infrequently.**
  - » On average, those renting or buying video downloads only watch downloads 1-2 times a month. Transactional video, unlike subscription OTT services, does not dominate any viewing scenarios.

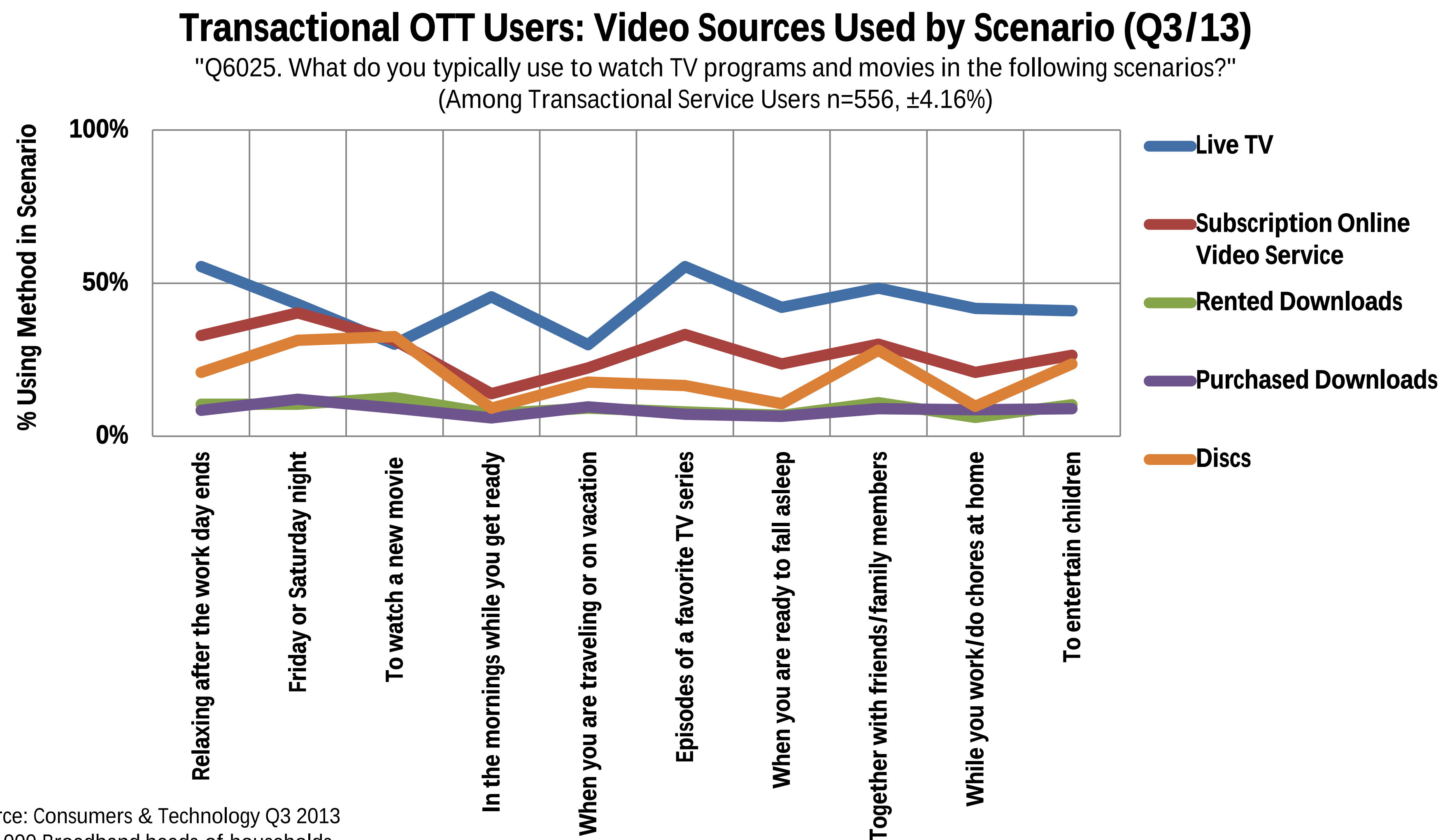
- **Most Amazon Instant Video subscribers also purchase and rent downloads through the Amazon service.**
  - » Roughly two-thirds of those subscribing to the Amazon Instant Video service also rent or purchase titles through the service.
  - » Amazon Instant Video subscribers, moreover, also report (on average) their expenditure on purchases and downloads is increasing. Netflix subscribers, in contrast, report their expenditure on downloads is decreasing.

For online video subscribers, online services are the most common source of video under two scenarios.



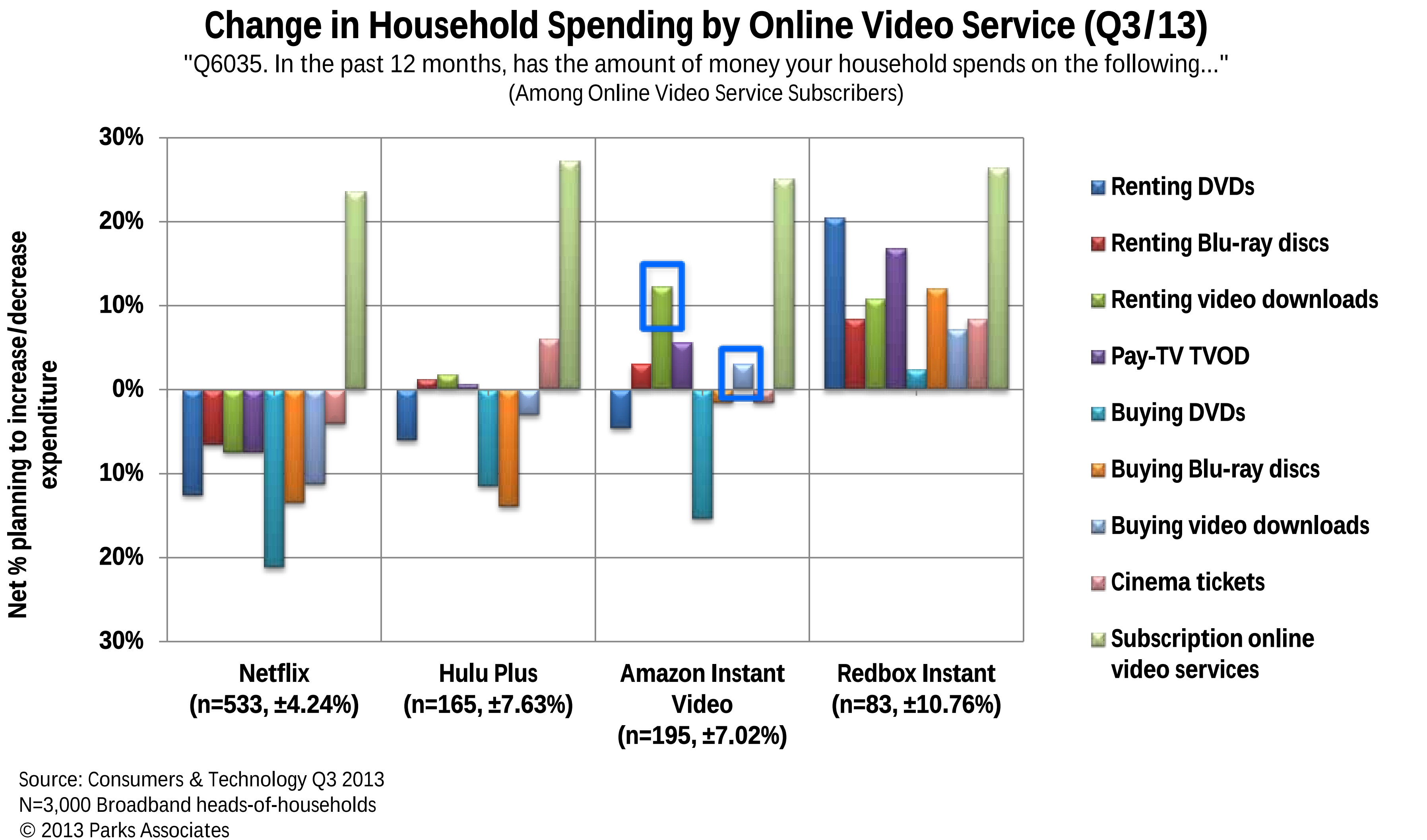
Source: Consumers & Technology Q3 2013
N=3,000 Broadband heads-of-households

Even among transactional users, transactional is a relatively unused source of video.



Source: Consumers & Technology Q3 2013
N=3,000 Broadband heads-of-households

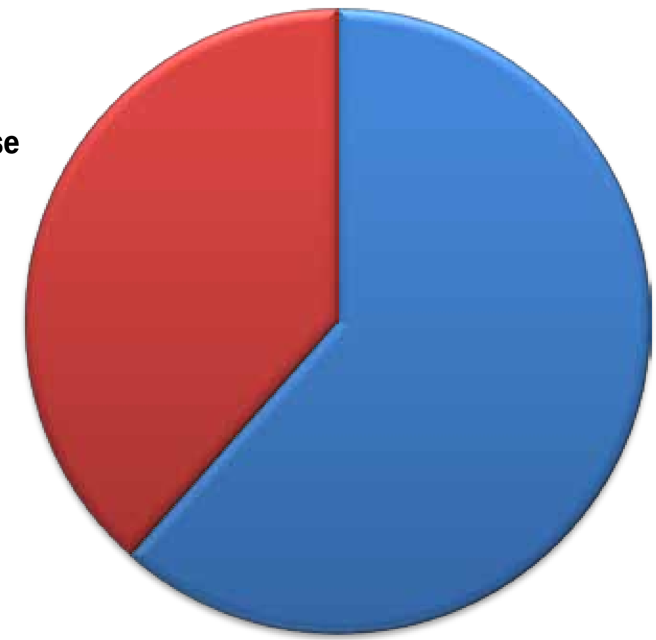
Amazon Prime subscribers report their expenditure on rented and purchased downloads is increasing.



Two-thirds of Amazon Prime Instant Video subscribers are using the Amazon transactional service.

Amazon Prime Instant Video Subscribers: Use of Amazon Transactional Service (Q3/13)

"Q6010. Which of the following services do you use to rent or purchase video downloads of movies/TV programs?"
(Among Amazon Instant Video Subscribers,n=195, ±7.02%)



Source: Consumers & Technology Q3 2013
N=3,000 Broadband heads-of-households

OTT Services and Pay-TV Providers

- **Benefits in offering OTT services:**
  - » Establish a position in the growing OTT service market
  - » Expand effective revenue base
  - » Pre-emptive move to competition
  - » Leverage broadband caps

- **Challenges in offering OTT service:**
  - » Adequate revenues
  - » Content rights
  - » Broadband capacity
  - » Promotion
  - » Internal culture

OTT Initiatives

North America

Western Europe

Rest of World

Eastern Europe

Options for OTT Services

	Partnership	Acquisition	Launch Service
Advantages	• Lowest cost / risk option • Ability to abandon	• Existing customers and revenue stream • Immediate vs. later	• Extending beyond footprint • Bundling
Disadvantages	• Lack of control • Competitors can also partner	• Capital requirements • OTT costs / business model must be stabilized	• Revenues built from scratch • Must find successful service offering / differentiator

Implications

- OTT is a unique experience from pay TV
- Shaving at the edges
- Partnering
- Heightened competition
- Advertising will be the key to future monetization

Recommendations

- **Use transactional services to supplement subscription OTT services.**
  - » Purchased and rented downloads alone will not satisfy the consumer's appetite for video. They do, however, nicely supplement other sources including subscription OTT service. For this reason, subscription OTT providers should follow Amazon's lead and integrate transactional services into their subscription service. Doing so will provide additional revenues and offer subscribers a broader range of content options.

- **Use OTT services to supplement pay-TV services.**
  - » For the overwhelming majority of consumers, OTT services supplement traditional pay-TV service. Subscription OTT services in particular are appealing as a value-play—they offer a large quantity of content for a modest price. In this respect, they are not too different from premium movie channels. Pay-TV providers would be wise to selectively partner with OTT services so they can obtain a piece of the revenue stream and also encourage their subscribers to "stay home" on their use interface.

Parks Associates will host the 18th-annual **CONNECTIONS™: The Premier Connected Home Conference** on May 13-15, 2014, at the San Francisco Airport Marriott Waterfront.

CONNECTIONS™ focuses on innovative technology and business solutions for the connected consumer. The event features consumer research and market strategies to monetize digital content, mobile applications and services, value-added services, connected consumer electronics, and home systems.

Key Industries:

- New media and content distribution
- Digital entertainment and gaming
- Home networks
- Internet and television services
- Software and middleware
- Digital health
- Mobile applications and services
- Consumer electronics
- Smart home, home control, security systems, and the Internet of Things
- Energy management
- Connected home tech support

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Thank You.

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