The OTT Playbook, Part II: Keys to Building Momentum

A Parks Associates Whitepaper Developed for OOYALA® vindicia® Build Subscription Revenue

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It seems that everyone is getting into the over-the-top (OTT) video services game lately. The increased number of video service options for consumers means greater competition for user attention and market revenues.

How can companies introducing new services survive in a crowded marketplace and build the momentum necessary to succeed in the online world?

An Explosion of New Entrants

2015 has proven to be the year of OTT video.

Several companies have introduced new OTT video services. At the same time, existing players such as Netflix have aggressively continued their global march, expanding into new territories. The U.S. market is particularly active, with over 65 video services either offering services today or announcing plans to do so later this year.

However, the leap in the number of OTT services is evident across global markets.

New Developments in Interactive OTT Services

- **In November 2014**, Rogers Communications and Shaw Communications jointly launched shomi, a Canadian subscription video on-demand (SVOD) OTT video service offering a mix of U.S.- and Canadian-produced content. One month later, Bell Canada launched its own OTT SVOD service, CraveTV.
- **In December**, U.S. satellite pay-TV provider DIRECTV launched Yaveo, a Spanish-language OTT video service.
- **January 2015** was a particularly active month for OTT in Australia. Pay-TV provider FOXTEL and content producer Seven West Media introduced Presto TV, a subscription OTT video service for television programming. Only day later, Australian joint venture StreamCo unveiled its Stan SVOD streaming service. Both were eager to enter the Australian market prior to Netflix, which officially launched in Australia in March 2015.
- **Also in January**, Star India released a beta version of Hotstar, an ad-supported video streaming service that provides access to TV programming, sports, and movies on connected devices, including 2G, 3G, and 4G mobile phones.
- **Global retailer Carrefour** launched a new OTT video service in France in January, Nolim Films. This transactional video on-demand (TVOD) service allows consumers to rent or purchase digital copies of films and includes integration with the UltraViolet digital locker platform.
- **In February 2015**, a second U.S. satellite pay-TV provider, DISH Network, introduced Sling TV. The service provides subscribers with access to over 20 linear cable network channels, online DVR functionality, and options for upgrades to additional channel packages.
- **March 2015** saw the introduction of PlayStation Vue by Sony. Subscribers to the service can access dozens of linear cable TV channels via the PlayStation 3 or PlayStation 4 game consoles.
- **Also in March 2015**, cable network Nickelodeon premiered Noggin, a mobile-oriented subscription video service designed for children. CONtv, an OTT video service catering to comic book convention fans, also joined the U.S. market.
- **In April**, HBO opened its long-anticipated OTT service HBO Now with subscription access to a library of HBO-produced content.

In addition to these active services, players across markets have stated their plans to introduce OTT video services.

SingTel, Sony, and Warner Bros. announced plans to create a new service, HOOQ, for the Asian market, including the Philippines, India, and Thailand.

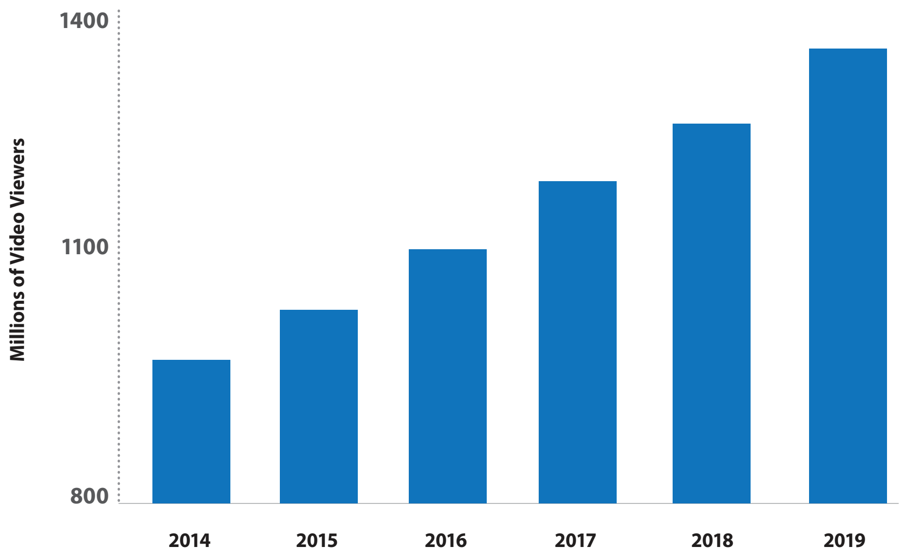
Online retailer Overstock.com claimed that it would launch a video service in the U.S. market in 2015. InfiniTV is set to launch later this year in Brazil, with both subscription and transactional options.

Samsung launched an OTT service in Brazil, Moony, that provides free and subscription-based access to linear TV channels.

The increasing penetration of broadband and mobile data services in global markets has paved the way for viewers to access online video.

The proliferation of connected devices and associated app stores has provided a new channel for video service providers to reach consumers.

Global Forecast: Viewers of Online TV Programming/Movies



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Today, approximately 1.6 billion people worldwide actively watch online video on a variety of connected devices, representing over 20% of the planet's population.

An estimated 900 million access TV programming and movies online today. That number will swell to over 1.3 billion video viewers by 2019.

What Matters to OTT Video Consumers

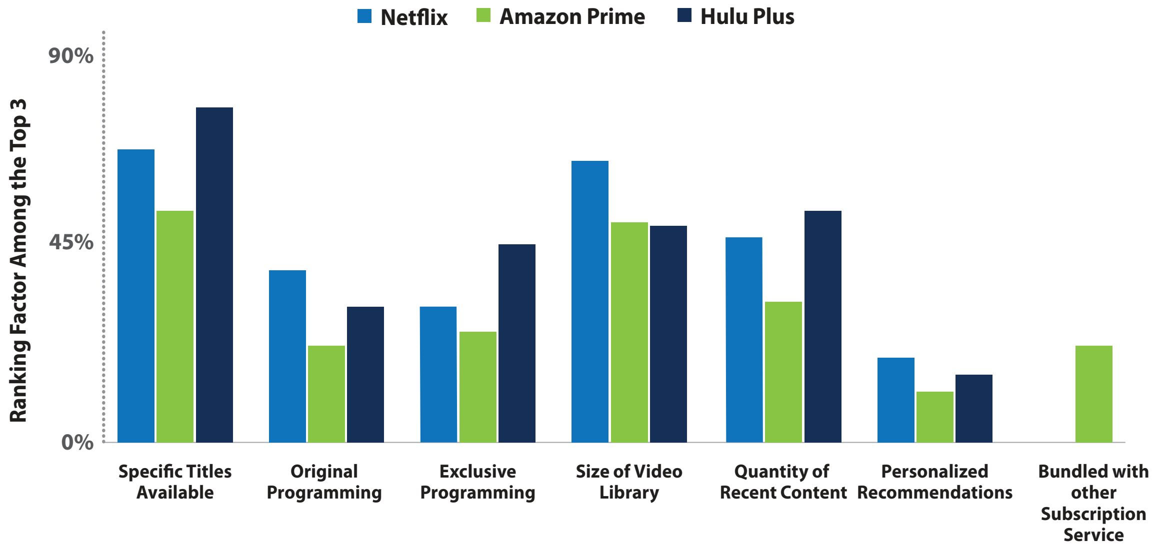
Consumers favor OTT services with certain characteristics that make these services better positioned against competitors and a better fit with current usage habits.

THE FIRST PRIORITY IS CONTENT.

Content-related factors are the top drivers of Netflix and Hulu Plus subscriptions. Over 70% of service subscribers state that they have these services due to specific titles available through the service, and over one-third of consumers do so in order to access original content. The size of the video library and the amount of recent content are also important factors.

Top Three Reasons for Subscribing to Video Service

Service Subscribers in U.S. Broadband Households



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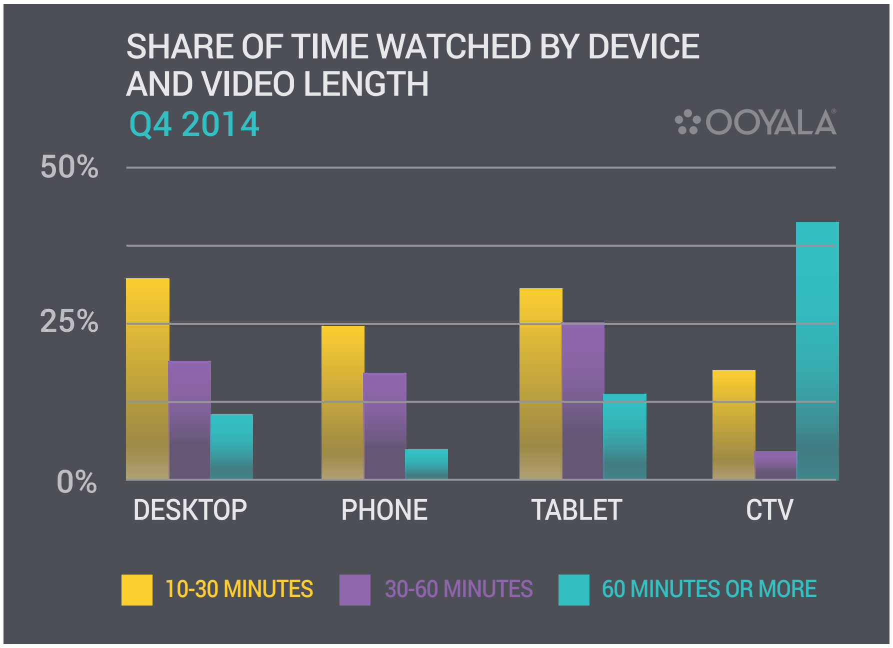
SERVICE AVAILABILITY IS ALSO AN IMPORTANT CONSIDERATION.

While in-home viewing of content with a mobile device is common, most consumers want to watch on the largest screen available. Generally, television-based viewing is preferred to viewing on a computer, which is itself more popular than tablet-based viewing. Despite the large screen sizes of the latest smartphones, the percentage of TV program and movie viewing on a tablet is greater than the percentage viewing on a smartphone.

ACCORDING TO OOYALA'S Q4 2014 VIDEOINDEX —

Among the four platforms, the smartphone has the smallest amount of content consumed of 10 minutes in length or more.



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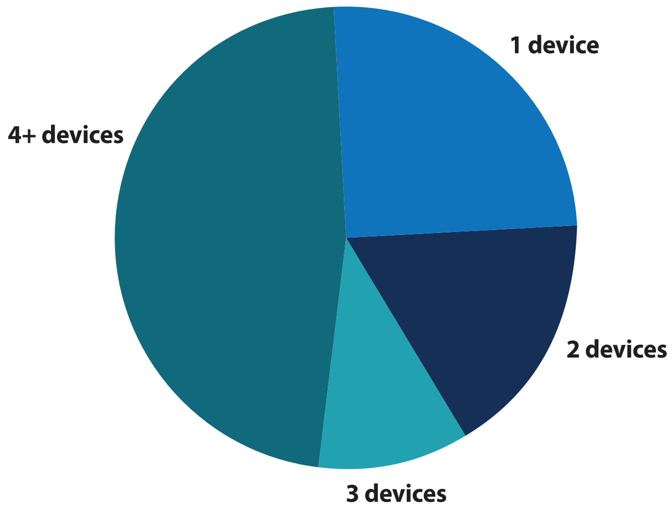
CONSUMERS EXPECT AN OTT SERVICE TO BE AVAILABLE ON MULTIPLE PLATFORMS.

Almost one-half of consumers who watch video on connected devices want to be able to use four or more different connected platforms to access OTT video content.

Number of Appealing Devices to Watch On-Demand Content

U.S. Broadband Households



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Upon market entry, new OTT services face a race for content and a race to reach consumers on all of their connected devices.

However, with so many players joining the market, interesting content and widespread availability alone may not be enough to guarantee survival.

Surviving OTT Competition

The previous edition of **The OTT Playbook** outlined several success factors for OTT video services – reaching critical mass, compelling content, appealing and sustainable business models, and an engaging and effective user experience.

While all of these factors remain important for launching a service, the ability to become and remain relevant in a crowded marketplace requires more. Players must be able to look beyond their own services and establish strategies to achieve success in the context of heightened competition. In this sense, OTT services will need to excel in several areas:

Standing Out in the Crowd

Accurate Targeting

Service Discovery and Availability

STANDING OUT IN THE CROWD

As competition increases, differentiation becomes ever more important. Even quality OTT video services will struggle if consumers are unable to quickly assess unique features, benefits, and value proposition.

Several services are using content to set themselves apart from competitors. Broadcasters, cable networks, and film studios are often content brands that are easily recognized by consumers. These companies can leverage high awareness of their brands to draw consumers to new OTT offerings, at least initially. Sports-related OTT services naturally fall into this category, since their offerings appeal to fans of a particular sport, league, team, or player.

Established players such as Netflix and Amazon are investing in original content as a way to establish a unique value for their services. Other companies without the capital or expertise to invest in original content are aggregating content that is appealing to specific target segments. Some services are designed to attract consumers with interest in particular genres, languages, cultures, or interest areas.

Distinctive promotional programs can be effective tools for differentiation. Asian-language service DramaFever allows users to earn points for watching ad-based programs and spend the points to watch some programs without advertising. These types of affinity programs encourage users to invest in the service and provide reasons to return or expand usage.

Some OTT players are using unique features to stand out. Horror OTT service Screambox promotes community-building features that allow its users to connect with each other and with filmmakers. By encouraging social interaction, the service hopes to encourage both service retention among existing subscribers and word-of-mouth to attract new viewers.

Sports-related OTT service MLB.TV from U.S.-based Major League Baseball offers its subscribers a mosaic view of multiple games, a widget to track pitches, and statistics tracking for fantasy leagues.

ACCURATE TARGETING

Heightened competition forces players to find defensible niches that they can identify, target, and hold against competitors. Unless they have the financial backing to face off against Netflix or pay-TV provider-backed services, many OTT video services must tailor each part of their service to appeal to an identified target market. U.S. operator Verizon is using this approach, partnering with multichannel network AwesomenessTV to provide 200 hours of original content targeted at young consumers via two Verizon OTT video channels.

OTT services should be deployed on the connected platforms most frequently used by the target audience, a consideration that affects delivery mechanisms, app development, and content licensing. The user experience, interactive features, promotions, business models, and payment mechanisms should also be designed around the preferences and use cases that are unique to the target segment. Nickelodeon's Noggin, an OTT video services for children, is a mobile-only service, giving parents content options while traveling with their young children.

Differentiation that targets a particular market segment is only effective if companies are able to accurately identify the characteristics, preferences, and interests of a specific consumer group.

Fortunately, IP-based video services allow services to track all aspects of a user's interaction from login to the end. However, OTT service providers must be able to use effective analytics to optimize the service offering and experience to ensure that the target audience is both engaged and continually delighted.

Consumer preferences ebb and flow over time.

Companies in many sectors originally built their offerings for a particular market segment only to find that consumer sentiment shifted, leaving their businesses at risk. Thus, OTT video services will need to continually monitor the consumption habits of consumers. They must be prepared to quickly adjust or create service offerings to meet current trends.

SERVICE DISCOVERY AND AVAILABILITY

Promotion and discovery of content are important in driving user engagement and stickiness, but viewers must first be able and motivated to find and use the service itself. Capturing user attention is increasingly difficult.

Large players are using television advertising to publicize their service offerings and promotions. Smaller players often rely on social networking and online ads to increase exposure among target audiences. Thus, detailed, actionable analytics are important in helping OTT services spend their marketing budgets efficiently.

Many companies are leveraging the latest social media tools to spread awareness and connect with consumers. Yet, the app store is a key consideration in service discovery as well.

Parks Associates notes almost one-third of video app users found their app simply by browsing the app store.

Among smartphone owners who regularly use an app to watch TV programming and movies, 38% indicated that user reviews or ratings were very important in their decision to download the app. Thirty-six percent downloaded the app due to the app description.

App stores from Google and Apple use ratings, reviews, and volume of downloads as key factors in ranking. Companies can optimize their placement in app stores by incenting high user ratings and reviews, promoting downloads by existing users, and carefully crafting the app title, keywords, and description to be user and app store friendly.

Availability is also an important consideration. Consumers expect OTT services to be available on multiple connected platforms. Expanding the scope of available platforms makes the service more accessible for consumers and improves competitive positioning.

Making the Money Work

IN THE END, SURVIVAL IS DEPENDENT UPON ACHIEVING PROFITABILITY.

The upfront costs of content, building an audience, delivery technology, and other startup costs are substantial. New OTT services crave high awareness and use, and many are willing to forego short-term profitability in order to attract a critical mass of users. In doing so, these services are betting their future on the possibility that long-term profits will offset initial losses. Ultimately, services must capture revenue-producing usage as well as effectively move consumers to more profitable tiers of service.

Several business model and promotional options beyond free trial periods are emerging for OTT services that can encourage greater and/or recurring revenues. The following represents just a few of the approaches currently available.

- **Ad-free subscriptions** – This business model allows any consumer to watch free, ad-supported video content but eliminates advertising for subscribers. The primary advantages are that this approach moves users to a predictable revenue stream and appeals to consumers who do not want to view advertising. However, all use is monetized.
- **Restricted content subscriptions** – Some services provide free access to a limited set of content in order to build a user base but restrict access to some content (often the most popular content) to paid or premium service tiers. This business model provides users with an upgrade path. However, multiple tiers of service may frustrate or confuse consumers rather than incent higher recurring revenues.
- **Bundling** – U.S.-based Sling TV offers access to bundles of linear channels online with options for genre-specific add-on bundles. U.K.-based Sky Now TV uses a similar approach, with premium add-on packages for sports and movie content. These bundles allow users to self-configure their preferred offering and enable the service provider to match content costs per package to revenues.
- **Limited subscriptions with premium transactional use** – This blended SVOD/TVOD business model was popularized by Amazon Prime Instant Video. Customers have access to a limited set of content as part of their subscription. However, a substantial volume of popular content is only available for rental or purchase. This approach allows the service to offer recently released content that is more current than content available from subscription or advertising-only services.
- **Loyalty programs** – While OTT services can use affinity programs to build user loyalty and encourage more transactions, these programs can also be used to incent certain types of behavior. For example, services may offer loyalty points or viewing credits to encourage service registration, app downloads, social media interaction, or posting of user reviews.

A less frequently considered but important revenue issue is the user experience related to monetization.

Consumers do not evaluate an OTT video service only on the viewing or discovery experience. Users assess the entire experience, including payments and advertising. Problems in processing payments can end a user's interest in a service before they can watch a single video, and errors in billing may have a more negative impact on retention than problems with video quality.

Delivery and monetization experiences can be interrelated as well, such as instances where consumers may seek refunds if delivery quality is inadequate. In the end, the business model and user experience must work hand-in-hand in order to attract interest, produce revenues, incent behavior, and retain customers.

Building Momentum

IP-DELIVERED SERVICES ARE NOW A PERMANENT PART OF THE VIDEO SERVICES LANDSCAPE.

Although giants like Netflix will continue to be present, the OTT marketplace remains ripe with opportunity for innovative entrants.

As new services move past the initial stages of establishing a service with quality content, delivery, discovery, and user experiences, they face the reality of intense competition for consumer mindshare and spending. This stage of success hinges upon effectively addressing competition and building momentum for growth.

- **Standing apart is critical** – "Me-too" services will not survive a crowded market. Consumers must be able to assess and find value quickly in the unique elements of a service.
- **Effective marketing and agility are critical** – Marketing and promotions must be tailored to appeal to a tightly defined audience. As a result, services must understand and closely follow the evolving needs, priorities, interests, and usage habits of their target segment.
- **Revenue-conscious user experience is critical** – Services cannot simply attempt to attract viewers and hope that revenue will come. Rather, the business models and experiences must complement each other and drive users towards revenue-producing use.

As dozens of new services are launched over the next year, many are likely to fail. Others will struggle to gain traction and adequate revenues. However, differentiated OTT video services that are designed to appeal to and effectively derive revenues from well-defined consumer segments will be able to build the momentum necessary to thrive and outgrow the rest of the pack.

About Ooyala

Ooyala helps deliver content that connects. A US-based subsidiary of global telecommunications and IT services company Telstra, Ooyala's comprehensive suite of offerings includes one of the world's largest premium video platforms and a leading ad serving solution. Built with superior analytics capabilities for advanced business intelligence and a strong commitment to customers' success, Ooyala's industry-leading end-to-end solutions help large-scale broadcasters, operators, media companies, enterprises and brands build more engaged and more profitable audiences, and monetize video and TV with personalized, interactive experiences across any screen.

ESPN, Univision, Sky Sports (U.K.), Foxtel (Australia), NBCUniversal, RTL Group (Germany), M6 (France), TV4 (Sweden), Mediaset (Spain), STV (U.K.) and Singapore's Mediacorp: these are just a few of the hundreds of broadcasters and media companies who choose Ooyala.

Headquartered in Silicon Valley, Ooyala has offices in New York, London, Stockholm, Sydney, Tokyo, Singapore and Guadalajara, and sales operations in dozens of other countries across the globe. For more information, visit www.ooyala.com.

Build Subscription Revenue

About Vindicia

In order to thrive in the lucrative OTT market, pay TV operators, cable/satellite providers, and MVPDs must combine compelling content and value with enticing promotions, proactive retention processes, scalability, and continuous improvement. More and more successful operators are monetizing their OTT services using proven subscription billing solutions from Vindicia that allow them to:

- Create agile, subscription-based and VOD business models that respond to customer demand.
- Maximize recurring revenue through pricing, packaging, bundling, campaigns and promotions.
- Retain customers longer by implementing frictionless payment strategies that reduce subscriber churn.
- Leverage subscriber analytics to gain knowledge about their customers and understand key trends, thereby enabling faster and improved decision-making.

Vindicia offers two SaaS-based solutions: Vindicia® CashBox®, a complete subscriber acquisition, billing and retention platform; and Vindicia Select™, a customer retention solution that works with any existing billing system to resolve failed payment transactions. Both of these cloud-based solutions were created from the premise that strategic monetization is critical not just as an operational necessity for successful OTT service models, but also as a marketing resource that strengthens customer acquisition and retention.

Vindicia brings enterprise-class innovation to consumer-facing subscription billing to help digital companies acquire and retain more customers by making payments seamless, secure and easy. Vindicia keeps customers connected to the subscription services they love, and companies 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. Clients include TransUnion Interactive, Intuit, IAC, Bloomberg, Vimeo, Next Issue Media and more. Vindicia was recently ranked the number one billing software solution on the market by Business-Software.com, and recognized as a "Top 100 Promising Tech Companies" by CIOReview magazine. For more information visit www.vindicia.com.

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Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services.

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 Internet of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Internet 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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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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