azuki SYSTEMS

Monetizing Over-the-Top (OTT) Video

Four Critical Success Factors

WHITEpaper

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INTRODUCTION

Consumer demand for over-the-top (OTT) video is at a fever pitch. How can content owners and service providers capitalize on the seemingly insatiable desire for video content — anytime, anywhere, on any device? And which model should they follow to drive the best return on their investment?

Content owners and service providers have a prime opportunity: Translate over-the-top (OTT) video consumption into revenue. While the potential is huge, so are the challenges. To achieve success, companies must understand their audiences, partnerships and technology options like never before.

This paper outlines four critical success factors to tackle — starting now — that will help companies move from OTT adoption to OTT monetization.

THE OTT VIDEO LANDSCAPE: TRENDS AND ENVIRONMENTAL FACTORS

OTT video is rapidly becoming a mainstream method for viewing video content. In fact, according to research conducted by Altman Vilandrie & Company, 23 percent of households say they watch TV shows and movies online at least once per week, and 17 percent of 18- to 34-year-olds watch TV shows and movies on a daily basis (Altman Vilandrie & Company, Sept. 7, 2011).

What's driving the explosive rate of OTT video adoption? Why are we moving away from gathering in front of a television set, in the living room, at a predetermined time and toward watching content whenever, wherever, on whichever device we prefer?

> Today, we have a critical mass of consumers with Internet-connected devices and affordable high-speed broadband connections.

Let's look at the confluence of forces that are taking OTT video mainstream:

Technology Evolution

Technology changes are fueling changes in video consumption. When OTT delivery first came on the scene, it drove a paradigm shift from watching TV at an appointed time to viewing video anytime. Today, we have a critical mass of consumers with Internet-connected devices and affordable high-speed broadband connections (wired and wireless). As a result, consumers are watching video content on an ever-growing collection of devices, including Internet-connected TVs, gaming consoles (e.g. Xbox), Internet streaming boxes (e.g. Roku®), mobile handsets, tablets and smartphones.

Mobile use in particular is a tremendous driver for the rising adoption of OTT video consumption. In fact, mobile video consumption will more than double every year between 2010 and 2015, and, by 2015, two-thirds of the world's mobile data traffic will be video (Cisco Visual Networking Index, 2011).

Content Availability

Consumers want more access to video content because there is a massive amount of content to be had — from current-season primetime TV shows, sports, news, live events and recently released movies to a large back catalog of older movies and past-season programming.

Consumer Behavior

Consumers are intoxicated by freedom of choice, and OTT gives them plenty from which to choose. With OTT, consumers can break away from the constraints of scheduled viewing and enjoy the benefits of accessing video content regardless of time, place, device or network.

Powerful Devices and Networks

Devices are more powerful than ever, screens are larger and deliver a better viewing experience, and 3G and 4G network investment and growth have boosted video quality and reach.

It all adds up to a perfect storm: Consumers have the means and the desire to consume video content anywhere, anytime, on any device. And that creates an enormous opportunity for content owners and service providers.

MONETIZING IN AN OTT VIDEO WORLD: FOUR CRITICAL SUCCESS FACTORS

Against this backdrop, content owners and service providers are plotting their OTT monetization strategies. Content owners recognize that OTT represents new distribution opportunities; service providers recognize that OTT enables them to expand TV-quality content to devices beyond the home TV; both camps see the revenue potential. But to turn opportunity into dollars, content owners and service providers must address four critical success factors:

1.Embrace OTT

Clearly, service providers and content owners face trade-offs as they consider their OTT strategies. Yet, it is equally clear that OTT video delivery is here to stay. Given that time-to-market is critical in this space, service providers and content owners need to wrap their arms around the OTT opportunity — and they need to move quickly.

Service providers have made multiple-screen initiatives a top priority. Content owners have also been eager to embrace OTT, although they have been treading more cautiously. That's because although content providers come to the market in a position of power (they have the content everyone wants and the option to share that content directly with consumers), they do not want to disrupt their existing, important relationships with service providers.

Some content providers, however, are finding a way to scale the hurdles. Case in point: HBO GO®, a highly successful mobile solution that allows anyone with an HBO® cable subscription to view its programming anytime, anywhere.

2.Conquer All Screens and Platforms

As OTT video consumption ratchets up, content owners and service providers need to keep pace with an ever-expanding technology universe. When OTT video emerged and became a threat to service providers, cable operators reacted with plans for TV Everywhere (the ability to watch cable content on multiple devices within the home). However, first-generation TV Everywhere has been largely unsuccessful due to lags in time-to-market and limited distribution across device types and geography. While these first-generation solutions have helped cable operators market against OTT threats and lost revenue, they have fallen short on meeting consumer expectations for quality, ease of use and flexibility.

To truly fulfill the promise of TV Everywhere, content owners and service providers must conquer an array of operating systems and devices: smartphones and tablets (from Apple® iOS, Google Android™, Blackberry® RIM® and Microsoft® Windows® Phone 7), desktops and laptops, connected TVs, gaming consoles and OTT set-top boxes. They must also find a way to ensure content protection, deliver a common user experience across all devices and replicate the quality and reliability of "living room" TV.

It's a tall order, but what's the alternative? To stay relevant, content owners and service providers must give subscribers what they want. Customers want content without time and location restrictions. More access to content means higher customer satisfaction. And satisfaction drives customer loyalty and additional revenue.

OTT video market was worth $1.9 billion last year; it will increase to $16.4 billion in 2016.

(IMS Research, July 6, 2011)

3. Address Technology Challenges

Although delivering video content to all screens and platforms is essential, it is not without technical challenges. Utilizing OTT to deliver content ushers in increased risk in the form of content protection, quality and reliability, and increased complexity in the form of, "How do I make money with multi-screen OTT delivery?"

Content owners and service providers seeking to deliver video content to all devices should evaluate their technology solutions against the following criteria:

» Content protection on all screens
- Are we providing iron-clad security?
- Do we have controls based on device, user, content type and location?

» Quality under any network condition
- Are we delivering the highest-quality end-user experience on all devices and platforms under changing network conditions?
- Do we have quality assurance mechanisms so we can measure effectiveness, including statistics for video views, ad views, content playback and events (such as fast-forward, rewind, skip, network conditions and bitrate connectivity change)?

» Automated workflow
- Have we integrated, simplified, normalized and automated workflow?
- Have we accounted for a unified workflow for transcoding, segmentation and content protection across all devices to reduce our infrastructure operating expenses and capital expenses?
- Are we meeting consumer expectations for quality and user experience (e.g. does the OTT viewing experience match that of the traditional set-top box TV in the living room)?

» Monetization of premium content
- Are we able to dynamically insert ads, leveraging video markers to fully customize ad insertion on a per-client or per-device basis for live and video on demand (VOD)?
- Can we collect, examine and profit from client side analytics such as user, device and viewing habits?
- Can we leverage various online and offline monetization options such as subscription, authentication, rental and pay-per-view?

The answers to these questions must be "yes." Half-measures that compromise security, quality or functionality are bound to alienate consumers; those that are expensive, hard to implement or have an unclear monetization model will not pass muster with company stakeholders.

First-generation TV Everywhere has been largely unsuccessful due to lags in time-to-market and limited distribution across device types and geography.

4. Figure Out the Mix

Once service providers and content owners have embraced OTT, expanded to all devices and worked out the technology challenges, they must figure out which monetization model — or combination of models — to pursue. Multiple options are emerging, including:

» Subscription

The subscription model is good for consumers because they get fixed costs and unlimited access to content, and good for service providers because they get a predictable revenue stream. This is the model Netflix uses, to great success. In fact, "Netflix has surpassed the number of Comcast® subscribers, making it the most-used video subscription service in the country" (IPTV Milestone, April 2011).

The subscription model works especially well for monetizing a large library of older movies and TV shows, where consumers are paying for a wide selection, rather than its freshness. The challenge with the subscription model is in the start-up. To make this model successful, companies must make a big investment to get to a critical mass of content and subscribers — and they often flame out before they hit the mark.

» Rental

The rental model is primarily being used by cable companies (through their VOD systems) and other services such as iTunes. VOD plays well to the anytime, anywhere aspect of OTT — which means consumers love it. It is an especially attractive way to monetize newer movie and TV releases and other titles for which consumers are willing to pay on an incremental basis. The downside? It is a less predictable source of revenue for service providers and content owners.

» Purchase

Popularized by physical media (e.g. DVDs and Blu-ray Discs™), this is the model content owners employ for the most recent hit movies and TV shows, charging consumers a premium while demand is still hot.

This concept of "windowing," which content owners have been using for decades to maximize monetization, applies to online as well as traditional media. Over time, as titles age, monetization through rental or in a subscription library becomes more appropriate than purchase. In the online world, content owners are seeking to extend the ownership model through initiatives such as Disney's Keychest and UltraViolet, which is backed by a consortium of players including Sony®. With UltraViolet, movie lovers create accounts in the Internet "cloud" where versions of movies they buy in DVD or digital formats are stored in online "lockers." This enables consumers to buy lifetime rights to watch movies on whichever devices suit them.

» Freemium-to-Premium Conversion

With this model, service providers and content owners bait the hook by giving a portion of their shows for free, and then give consumers the option to upgrade. The option works well as a feed to increased subscription revenue.

» Advertising

Although the subscription model is currently the strongest model for service providers and content owners, advertising will become increasingly critical to OTT monetization strategies. Mobile advertising is especially intriguing to advertisers, as it enables extraordinary context and targeting (because mobile devices are tied to personal users vs. households that own TVs). Accordingly, research indicates that advertisers would like to increase their budget for mobile phones (69.5 percent) and iPads/tablets (65.7 percent) (DIGIDAY and YuMe, "State of the Industry on Digital Video," April 12, 2011).

However, before advertisers will make big ad investments, service providers and content owners will have to provide consistent analytics and reporting on who is viewing and what they are watching. Leaders in the OTT delivery market have cracked the code. In fact, technology is now available that is capable of reporting device and usage details, periodically or per-event.

With these statistics, reports can be generated that include content and usage metrics, and can be used to create Nielsen-like statistics for ad-revenue recovery purposes. As these technologies gain traction, monetizing OTT video will follow the arc of traditional TV and movie monetization — and advertising will take center stage.

When considering the right monetization mix in an OTT environment, understanding the age of the target audience (and how they consume video content) has become more critical than ever. Broadcast TV viewing is, not surprisingly, age-related, with older segments watching more TV shows during their normal broadcast times. In fact, Altman Vilandrie & Company found that only 33 percent of 18- to 34-year-olds say they watch TV shows during their normal broadcast time on a daily basis, versus 58 percent of those 35 and older. Across all age groups, 7 percent fewer consumers are watching TV shows during their normal broadcast time on a daily basis (compared to 2010).

What's more, viewing on mobile devices is also emerging as a significant trend. Ten percent of all smartphone owners in an Altman Vilandrie & Company survey report watching TV shows and movies on a mobile handset at least once per week. Once again, however, behavior varies dramatically by age: 27 percent of 18-34 year-old smartphone owners say they watch TV shows and movies on their mobile handset weekly, and a surprising 53 percent of tablet owners in that younger segment watch TV shows and movies at least once per week on a tablet.

Determining the right monetization model is also about striking the right balance of user-paid and advertiser-paid for the audience. Once that is determined, companies need to balance recurring subscriptions with enough options for those users who want to pay for more, or higher-quality, content on a usage basis. Taking all these factors into account means that monetization models will vary significantly by company and audience. The model for the South Park Network, for example, will look vastly different than that of the Food Network.

CONCLUSION

With OTT video consumption showing no signs of slowing down, content owners and service providers have a huge opportunity in front of them. To take advantage of this opportunity and monetize on multi-screen OTT delivery, companies must begin to determine their optimal strategy, work through the technical challenges and fine-tune their business models. As technology use, consumer behavior, and measurement and personalization techniques continue to evolve, these companies will be well-positioned to reap the rewards: greater customer satisfaction, protection of their subscriber base and increased average revenue per user.

> Eleven percent of smart-phone owners aged 18 to 34 watch TV shows and movies on a mobile phone daily.
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> (Altman Vilandrie & Company, Sept. 7, 2011)

ABOUT THE AUTHOR

JOHN CLANCY

PRESIDENT AND CEO

John Clancy brings 20 years of experience in building high-growth, market-leading technology businesses to his role as President and CEO of Azuki Systems, where he leads the strategy, execution and overall success of the business. Previously, Clancy was CEO in Residence at Schooner Capital, where he advised portfolio companies on growth strategies, while identifying new technology investment opportunities. Prior to Schooner, Clancy was the President of Iron Mountain Digital, a worldwide leader in Cloud based SaaS services for data protection, archiving and eDiscovery. During the five years that Clancy started and led the Digital business revenues rose from $40 million to $230 million.

Prior to Iron Mountain, he was Chief Operating Officer of Connected Corporation, the worldwide leader in PC data protection, where he designed and led the operational and go-to-market strategy that delivered over 1,000 corporate customers, revenue growth of over 600 percent and led to a successful acquisition by Iron Mountain. Previously, Clancy was the Vice President of Channel Sales at SilverStream Software, where he built a channel and distribution network of hundreds of partners that helped fuel SilverStream's growth to $100 million in three years, as well as a successful IPO. Clancy's first senior management position was with the Merisel Open Computing Alliance where he built a team that grew revenues from zero to $150 million in under three years. He holds a B.A. in political science from Assumption College.

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