

Video's Critical Path: Success at Web Speeds

A Parks Associates Whitepaper Developed for MediaKind



MediaKind

everyone. everywhere.

Evolve. Adapt. Shift.

Media is evolving, transforming the way we view the world and how humankind interacts.

To meet the ever-changing expectations of consumers; broadcasters and operators need to quickly adapt their offerings and deliver next-generation immersive media experiences for everyone, everywhere.

We are MediaKind. We are media technology industry leaders; shifting forward the convergence of live and OTT content, driving compelling mobile service delivery, and realizing the potential of personalized multiscreen experiences.

Our pioneering technologies and solutions enable you to adapt to the next shift in the future of media.

www.mediakind.com

Video's Critical Path: Success at Web Speed

OTT video has reshaped a successful industry. What must operators do to recapture their position as primary providers of video services?

Change can be sneaky, particularly when it comes to consumer products and services.

Some technologies enter the market with great fanfare only to quietly fade away a few years later. Others go from interesting novelties to behavior-changing innovations almost before consumers realize what has happened. The smartphone is a great example. Prior to 2006, few could have foreseen that a calculator-sized device would so significantly impact the way we communicate, socialize, follow news, find information, and experience entertainment. So much so that today, some consumers panic if their smartphone is out of their sight or pocket for more than a few minutes.

In the video services market, change has come quickly, affecting all aspects of the ecosystem.

Areas of Change

Pay TV

The pay-TV industry is on the forefront of this era of change. The global market for pay TV continues to grow in most regions, including Western Europe and developed Asia where competition is intense. North America is the notable exception—the U.S. pay-TV market has faced a decline in subscribing households since 2014.

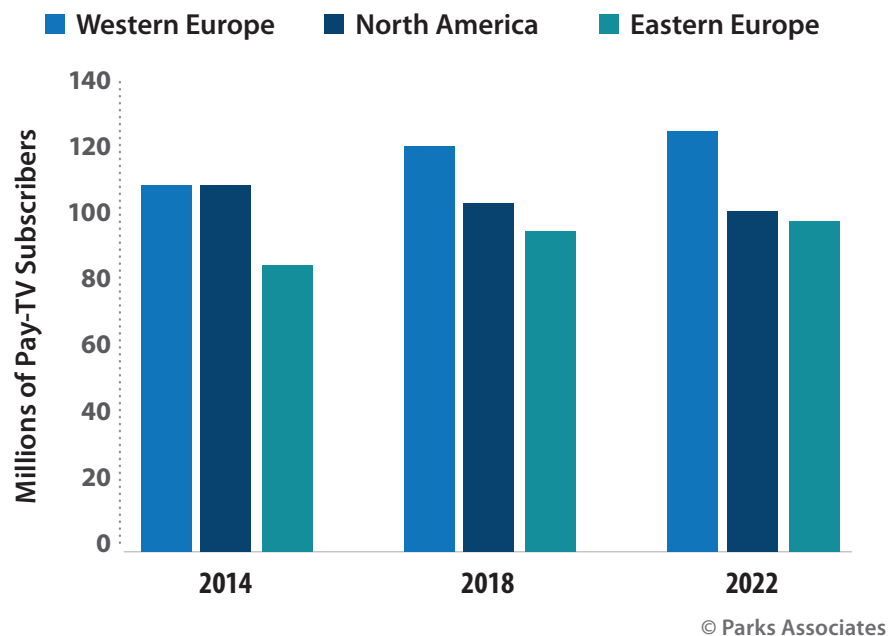
Competition has pushed a new wave of consolidation in pay TV, including both distributors and content producers. New combinations such as AT&T plus Time Warner (now Warner Media) and Disney plus Fox are already in place.

Comcast, Sky, and other companies continue to seek new advantages through mergers.

These new giants combine major content production with delivery expertise, causing market participants to reconsider their position and roles within pay TV.

In the U.S. market, competition in pay TV moved online; several offerings are available from traditional pay-TV market leaders (AT&T and DISH Network) as well as technology giants (Sony and Google). Both powerhouse types now offer smaller pay-TV packages and lower price points to draw customers back to pay TV.

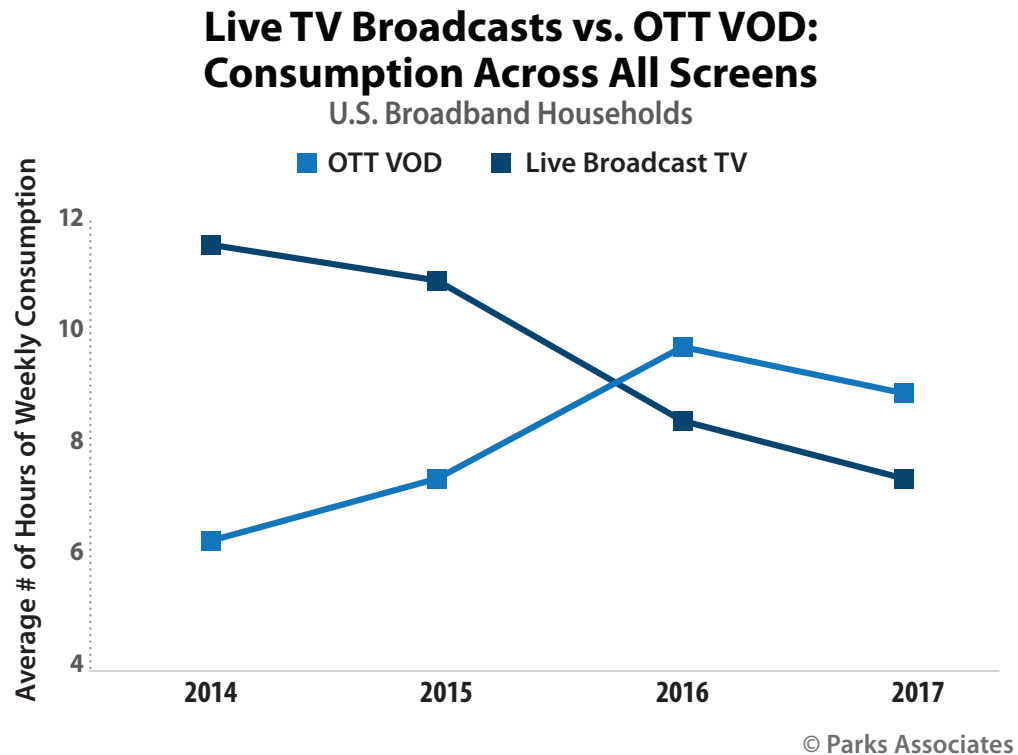
Pay-TV Subscribers by Region



Live TV

The availability of online viewing options is changing live TV consumption across global markets.

VOD-oriented OTT video services drove much of the shift to on-demand options; these convenient content options surpassed broadcast TV consumption across all screens in late 2015.



While live over-the-air and pay-TV broadcasts have experienced waning viewership, live video is experiencing a resurgence online.

Online pay-TV services that offer online access to linear channels and live sports have quickly accumulated subscribers, particularly in the U.K. and U.S. markets. Live sports are also emerging in other OTT offerings, such as direct-to-consumer services in ESPN+ and DAZN, as well as Facebook-based streaming of matches from Eleven Sports and others.

This shift to online access affects all aspects of the business of live TV, with innovations such as interactive features and targeted advertising driving new user experiences and revenue opportunities.

Among broadband households in the U.S., live broadcast TV represented over 60% of video consumption on televisions in early 2012 but only 44% at the end of 2017.

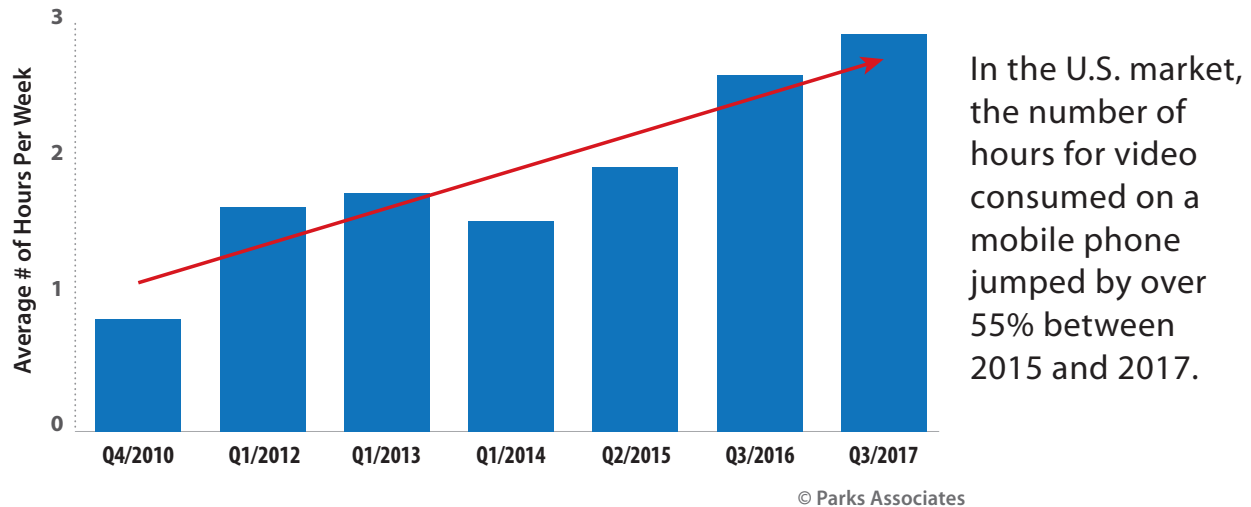
Mobile

Impact from online viewing options has been even more profound in the mobile marketplace. Consumption of video on mobile phones has skyrocketed.

According to the *Ericsson Mobility Report*, worldwide mobile data traffic grew by 54% between Q1 2017 and Q1 2018, driven primarily by video traffic.¹ The report also forecasts that mobile video will represent 73% of all mobile data traffic by 2023, up from 56% in 2018.

Total Average Video Consumption on Mobile Phones

U.S. Broadband Households



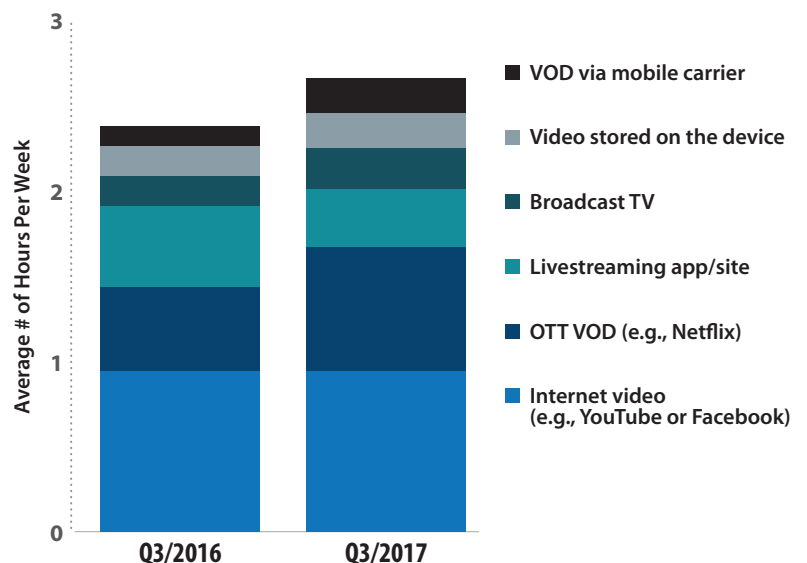
Much of the growth in video traffic is from online video, including OTT video services, video sharing sites such as YouTube, and social media.

Video streaming is an important strategic consideration for mobile carriers. Leading mobile service providers, including Vodafone, Deutsche Telekom, Verizon, AT&T, and Virgin Mobile, offer zero-rating programs, exempting mobile traffic for video, social media, and music streaming sites. AT&T offers free live TV channels for subscribers of its top tier unlimited mobile data plans.

Improving users' video consumption experience leads smartphone design considerations. In addition to larger phones to maximize viewing area, phones with 4K displays are increasingly common.

Types of Video Consumed on Mobile Phones

U.S. Broadband Households



¹ Jejdling, Fredrik, Ericsson Mobility Report, June 2018.

The Business Impact

The seismic shift in consumption resonates across global markets. Beyond the sheer volume of video data now being transmitted across copper, fiber, and wireless networks, OTT video drives several other changes in the ways operators must address their video businesses.

New Customer Expectations

The standard for comparison has changed. Consumers now assess the user experience and value proposition for all video services, including pay TV, based on their experiences with web or app-based video services. Consumers expect a highly personalized service that knows them, is easy to use, and is available on any device.

OTT video services have invested heavily in personalization technologies for an enhanced user experience that minimizes the time between service access and first video watched, a key KPI.

OTT video services are designed to provide a common experience across devices and markets, offering unique but familiar interactions regardless of where consumers want to access content.

New Ways that Consumers Select and Purchase Services

While multiplay bundling remains an important strategy, consumers cannot easily find bundles that fully address their needs. Today's consumers self-aggregate video services, starting with the content and service they most want and then supplementing that service with others in the marketplace.

Trials are an important part of the evaluation process for video services.

Trials allow consumers to try a service before opting in, an advantage for web-based offerings and a challenge for managed network services.

Over **200 OTT services** are available in the U.S. market alone.

Each European market often has **80-100 OTT video competitors**, in addition to offerings from traditional pay-TV providers or mobile carriers.

OTT video services are quickly emerging throughout Asia.

Fast-moving, Dynamic Marketplaces

While pay-TV players often have the same direct competitors for decades, OTT video competition is constantly changing. Each month, new services become available, competing for viewers' attention.

Each OTT service offers new points of differentiation and constantly iterates its service in order to remain relevant. Because these players rely on cloud-based platforms and technologies, they are highly adaptable, able to quickly propagate feature and interface improvements across all markets overnight.

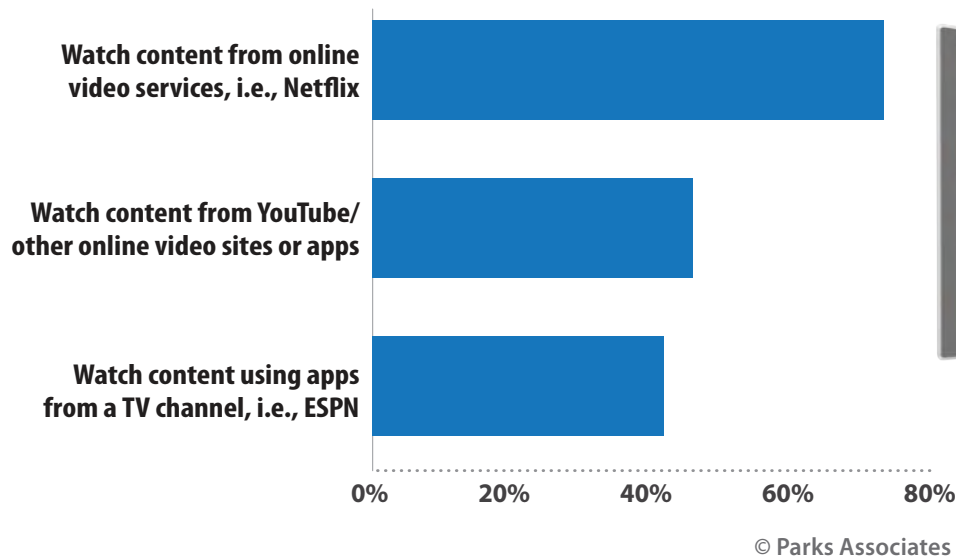
Change in Device Focus

The platform focus for video services has shifted from operator-favored CPE to consumer-favored connected devices.

Today, consumers are more likely to use an online video service app than a network TV app to watch content on a connected TV.

Online/App Video Content Watched on a TV Set

TV Owners in U.S. Broadband Households



Consumers value the ability to take their subscriptions anywhere they take their devices. Thus, the app-based experiences for smart TVs, streaming media players, and mobile devices must be as important as the experience on a set-top box.

Changes in Monetization

The high competition in OTT video causes many players to iterate their service over time based on opportunities, business needs, and consumer interest. While subscriptions remain popular with consumers, ad-based or blended ad/subscription models are increasingly common, particularly in markets where a handful of subscription services dominate the landscape. Unlike subscriptions, advertising revenues scale with viewership. Ad-based models are also popular with advertisers eager to target young or difficult-to-reach demographics.

Adaptability in service features must now be coupled with flexibility in business models.

Global Competition

While pay-TV providers often focus on their own network footprint, competition is a worldwide affair. Netflix, Amazon, iFlix, and other global players have raised the stakes for OTT video by expanding from local to global competition.

OTT players design their apps, infrastructure, and interfaces to operate across worldwide markets, on the devices popular in each region. Providers offset content and technology investments by spreading costs across multiple global markets.

Today, OTT video services are designed with global expansion in mind, and often quickly deploy on a worldwide basis with the help of a CDN partner.

New Approaches to Sales, Marketing, and Consumer Awareness

Operators can no longer capture subscribers simply by answering inbound calls to the company's call center. Proactive, outbound engagement of consumers is necessary in an environment where consumers expect interaction with brands. Because OTT video services are easy to join—and easy to cancel—operators focus on discovery capabilities and service trials that quickly prove their benefit to users.

Community building efforts and social media programs foster customer relationships and brand enhancement that aid retention. Many work through alternative sales channels and partnerships, including CE manufacturers and each other, to maximize their presence and availability.

New Focus on Retention

With higher overall churn, OTT video services leverage new approaches and tools to address retention. **Netflix is a key player that has combated churn by focusing on personalized services designed to deliver continuous and ever-evolving value to its customers.**

The Netflix logo, consisting of the word "NETFLIX" in white, bold, sans-serif capital letters on a red rectangular background.

While original content is an important part of its retention (and differentiation) strategy, Netflix maintains significantly lower subscriber churn than other services through its personalization and user experience. It focuses on quickly surfacing content to consumers in order to keep viewing times high, even optimizing the images displayed in the user interface to increase viewership. By doing so, Netflix is able to regularly validate their value to consumers.

Netflix also leverages big data analysis, enabling them to quickly identify at-risk customers. Other OTT video services facilitate user communities, allowing fans of particular content to interact with similar fans, and promoting events or interaction that will be popular with those communities. OTT video services also use bundling, cross-selling, or partnerships to positively impact churn.

Addressing the Changes

Traditional pay-TV providers are addressing this new environment. Yet change does not come easily, particularly for companies that have delivered high-quality video services in much the same way for many years. The scale of disruption in the video industry requires traditional pay-TV providers to address their sacred cows in a new way.

A New Mindset about Video Services

Operators that rely exclusively on video services through their managed network will be left behind.

AT&T, Sky, Orange, and other operators launched their own online offerings in order to stay ahead of the market. The service bundle elements must also evolve.

Data services remain a critical component. Operators will frequently bundle OTT services with broadband, providing an advantage over pure-play OTT services. The mobile bundle must expand beyond data, with mobile video serving as a differentiator and incremental revenue generator. In addition, OTT consumers seek a branded OTT VOD experience beyond live TV, making new bundles of separate live and on-demand OTT services compelling opportunities.

A New Approach to Development

Operators must embrace ongoing innovation in order to be perceived as cutting-edge.

They need to adopt the rapid development and deployment characteristics of the web-focused players, either in their own development teams or in their vendor relationships. Development cycles need to be short and directed by data on consumer habits and feedback.

A New Priority in Service Delivery

Operators need the flexibility and adaptability of OTT video services in order to remain relevant.

Those unable to be flexible in their business approaches, service design, and marketing will continue to be outflanked by services that are better able to meet consumer needs. Operators must also offer new features to remain at parity or better than OTT services and their direct competitors.

A New Focus on Live

Operators must offer a live viewing experience at scale that is comparable or better than VOD-based services.

Online delivery for live video remains one of the most difficult and complex elements of online video services; several major services have experienced high profile troubles with live events where viewership exceeded their expectations. As an increased share of live sports and event viewing moves to online platforms, operators must be prepared to provide a high-quality experience at scale or lose out to online alternatives that are able to do so.

A New Perspective on Competition

Operators are competing in a global marketplace of video services.

This new market landscape presents a challenge in terms of local competition but also an opportunity for market expansion. Providers with services that are able to regularly prove and reinforce their value to consumers will be able to retain their customers over time. **Personalization is also critical, particularly when it makes consumers feel known and valued.**



New Opportunity in Market Change

While change drives the need for new approaches, those providers that can adapt enjoy new opportunities to enhance their businesses.

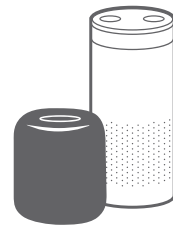
- **Opportunity to expand market reach.** Operators that successfully compete online are able to uncouple their service offerings from their physical network footprint, allowing them to expand their market potential without the cost of laying fiber. Flexible online platforms also allow operators to create channel packages or video offerings appropriate to today's non-subscribers or specific market niches. Importantly, operators can quickly target new markets and roll out new service offerings overnight.
- **Opportunities for innovation and differentiation.** New services can be augmented by new emerging features now available in online video services and connected CE devices.
- **Opportunity for incremental revenues.** Attracting new subscribers to unique offerings is the first step. Partnerships with third-party OTT video services allow operators to create new bundles or a la carte offerings. New business models, such as one-day or one-week subscriptions, produce incremental revenues by addressing specific use cases or customer needs. Operators can monetize new features, such as options to expand DVR storage or number of concurrent streams. Operators can also add revenues through advanced advertising that allows purchasing and delivery of goods through the remote control or voice commands.

New personalized user experiences

can adapt with changing consumer habits and interests, fed by A/B testing and machine learning-driven analytics.

New time shifting features such as multiday replay or cloud DVR allow operators to innovate in the channel guide.

Voice control and interaction provide a new type of user engagement.



The good news: new opportunities produced by market change ultimately benefit all parts of the ecosystem.

Broadcasters, like pay-TV providers, can enjoy enhanced reach and a larger audience. Additional services drive demand for premium content, which benefits content producers. New distribution options provide new pathways to consumers for networks. Incremental revenues benefit pay-TV providers.

Importantly, the consumer is the ultimate winner, enjoying new services, enhanced features, greater personalization, and a superior user experience...all at web speeds.



We understand the power of media and how it is evolving.
It runs in our DNA. It's our passion

With our pioneering heritage and strong foundations – all fueled by deep innovation, we have a single goal in mind: to enable our customers to create and deliver immersive media experiences.

We are uniquely positioned to help shape and lead the future of global media technology. Our award-winning technologies, established industry heritage and forward-thinking experts equip organizations with the end-to-end technology solutions needed to embrace media of all kinds.

We are opening the eyes of humankind, enabling people to be involved in inspiring stories, iconic moments and world-changing events - on any screen. We are media technology innovators - imagining the unimaginable and driving the human entertainment experience forward for everyone, everywhere.

We are MediaKind. www.mediakind.com



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

About The Author



Brett Sappington, *Senior Director of Research, Parks Associates*

As a senior 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 18 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.

Twitter ID: @BrettsView

ATtribution—**Authored by Brett Sappington.** Published by Parks Associates. © Parks Associates, Addison, Texas 75001. All rights reserved. No part of this book may be reproduced, in any form or by any means, without permission in writing from the publisher. Printed in the United States of America.

DISCLAIMER—*Parks Associates has made every reasonable effort to ensure that all information in this report is correct. We assume no responsibility for any inadvertent errors.*



FUTURE OF VIDEO

OTT, Pay TV, and Digital Media

December 10-12, 2018

HOSTED BY
PARKS
ASSOCIATES

Marina del Rey Marriott
Marina del Rey, CA

Parks Associates' inaugural **Future of Video: OTT, Pay TV, and Digital Media** brings together industry leaders to share insights on new trends in the video and connected entertainment industries, with insights on consumer behaviors and preferences and the challenges for the video industry in meeting these expectations.

Why Attend?

This executive conference features in-depth consumer and industry research on **OTT services, the value of content, and best strategies** for building successful video services for today's connected consumers.

- Hear from the industry analyst team about **consumer video viewing trends, device ownership, and key players**
- Gain insights on **usage, churn, and forecasts** for pay TV and OTT services
- Discuss the **effects OTT and pay-TV service subscriptions** have on one another

Advisory Board

Joe Ambeault, SVP - Product and Technology, Discovery

Donna Berzolla, VP Consumer Insights, WWE - World Wrestling Entertainment

Arun Bhikshesvaran, Chief Marketing Officer, Ericsson Media Solutions

Michael Corcoran, VP, Head of Corporate Strategy & Development, Hulu

Ryan Curry, Head of Tech and Innovation, Combs Enterprises/Revolt Entertainment

Kristen Finney, Executive Vice President, EMEA, 20th Century Fox Television Distribution

Rob Gelick, Executive Vice President and General Manager, CBS Entertainment Digital, CBS Interactive

Jennifer Koester, Director of Telco and Video Distribution Partnerships, Google

Bill Martens, Managing Director, BAMTech

Colleen Moraghan, SVP of Data Solutions, 605

Nandhu Nandhakumar, PhD, SVP, Office of the CTO, LG Electronics/LG Technology Center of America

Jen Prenner, Director & Global Head of Marketing, Growth, & Engagement - Amazon Fire TV, Amazon

Dan Reich, SVP, Multiplatform Product Strategy & Development, Viacom International

Scott Rosenberg, SVP/GM Platform, Roku

Gary Schanman, SVP, Video Products, Charter

Paul Stathacopoulos, VP, Corporate Strategy, TiVo

Mitch Weinraub, Director - Advanced Video Products, DISH

Sponsors

RESEARCH

MediaKind
everyone. everywhere.

REGISTRATION

TIVO

LUNCH

massive