



OTT Monetization Guide

Turn content into sustainable
over-the-top (OTT) revenue

By **vindicia**[®]



Contents

Subscription Solves the OTT Monetization Puzzle	3
Be an OTT Contender	3
Turn to Subscription	3
The OTT Promise: Only the Content You Want	4
Cutting the Cord	4
OTT Monetization Options	5
OTT as Feature	5
Wait for the Content You Requested	5
Come Again Soon	5
Subscription for OTT Monetization	6
Why Subscription	6
An Engine to Drive OTT Subscription Revenue	7
Start Monetizing OTT Content	8



Subscription Solves the OTT Monetization Puzzle

The age of over-the-top (OTT) content is here. In the US, most consumers access OTT content each week, and just two of the leading OTT companies ended 2013 with nearly 50 million subscribers^{1,2} combined. As the availability of broadband Internet expands, the world's appetite for OTT content will likely grow at an ever-increasing pace.

Be an OTT Contender

What is OTT content? OTT content is a broad category that includes any media delivered over the Internet without requiring the involvement of a multiple system operator (MSO), such as a cable or satellite provider. As a content owner, distributor, or curator, you recognize that OTT presents an unprecedented opportunity to offer content directly to consumers. Even many MSOs are exploring OTT models.

Increasingly, content providers realize that they need a viable way to monetize OTT content. You don't want to be caught—like some print publications were—without a way to turn great content into a robust revenue stream. What's the answer? Ads? Per-unit transactions? At Vindicia, we believe that subscription is the most viable OTT monetization model.

Turn to Subscription

Consumers expect anywhere, anytime, any device access to whatever content they desire. Subscription and other automatically recurring revenue-based monetization models give consumers exactly what they want. Models that inconvenience consumers or obligate them to purchase content they don't want will have a hard time succeeding in an era where consumer choice and user experience look likely to win.

This guide explores OTT content monetization models, with a special focus on subscription. We'll look at why subscription has emerged as the leading OTT monetization option and how companies can maximize the monetization advantages of subscription. The guide concludes by reviewing the billing capabilities OTT content providers need to drive better, longer relationships with more subscribers.



Vindicia Knows Subscription and Recurring Revenue

Vindicia helps businesses thrive in the subscription economy. Our consumer subscription billing platform powers more agile subscriber acquisition and retention, leading to measurably higher revenue. We've processed more than \$6 billion in subscription and recurring payments, and have handled more than 147 million customer accounts.

More than just a software-as-a-service (SaaS) solution, Vindicia partners with OTT providers to help them realize more value from their content. The network effect of our rich database of subscription transaction information gives us insights into transactional trends. Analysis that leverages big data lets us baseline important metrics for clients and identify ways clients can improve revenue.

¹ <http://money.cnn.com/2014/01/22/technology/netflix-earnings/>

² <http://www.engadget.com/2013/12/22/hulu-plus-passes-5-million-subscribers/>



The OTT Promise: Only the Content You Want

For consumers, OTT is a dream come true. Consumers are finally able to access the content they want, when they want it, from any device. No more waiting until Sunday at 9 p.m. for a favorite show. No more paying for hundreds of channels just to get six standbys. News junkies can say goodbye to several pounds of unwanted classified ads on the doorstep every Sunday. And we've all stopped buying entire CDs just to hear two good songs.

In 2013, more than half of the US population watched TV programs or movies delivered OTT at least once a week, according to a report from GfK.³ The same report noted that just three years ago only 37% of the population watched similar OTT content. More than 35% of peak-time Internet traffic consists of video content delivered to subscribers of OTT services.⁴

Cutting the Cord

As people get used to the advantages of OTT content delivery, many find that they prefer it to traditional models. This has led to the phenomenon of “cord cutting,” wherein people cancel traditionally delivered services from MSOs in favor of OTT content. Cost may be only part of the reason. Look at the newspaper industry, which was rocked by a similar trend years ago.

People—many of whom could easily afford a newspaper subscription—turned away because they preferred to get their news over the Internet.

Traditional models don't offer a way for a usually busy professional to watch an entire season of *Mad Men* over a rainy weekend. Or a way for an avid fan to easily follow a sport that lacks a large mainstream audience. For many cord cutters, being able to access preferred content OTT is more about being empowered with choices and a preferred user experience than about cost.

As a company that sells or distributes content through traditional avenues, you need to reach consumers who look to OTT first. In fact, consumers may already be looking for your content through their favorite devices. You need to satisfy their desire for your content—in a way that positively impacts your bottom line.

A Closer Look at the Cordless

“Cord nevers” have attracted less attention than cord cutters. These are people who have never purchased MSO services. Instead, they tap into OTT content almost exclusively, and much of that content comes via subscription services, such as Netflix or Hulu.

The cordless are young, own mobile viewing devices—and are increasing quickly in numbers. Experian Marketing reports that while just 6.5% of US households have cut the cord, 18% of households with a Netflix or Hulu account don't have a cable or satellite television service.⁵ Just looking at young adult households (18-34), Experian found that 24.3% were cordless and that the percent of cordless people in that age range had grown by more than 50% in just three years.

³ <http://www.gfk.com/us/news-and-events/press-room/press-releases/Pages/Streaming-Video-Weekly-Study.aspx>

⁴ <http://www.pcmag.com/article2/0,2817,2458032,00.asp>

⁵ <http://www.experian.com/assets/marketing-services/brochures/cross-device-video-analysis-2014.pdf>



OTT Monetization Options

As people listen to, watch, and play more streaming content, content owners and distributors like you see the tide of consumer demand turning to OTT. But how do you monetize it? A number of options have emerged. These options range from tying OTT content to traditional products and advertising-based offerings to one-time purchases and subscriptions.

OTT as Feature

Pay TV operators have turned to TV everywhere, which makes the content people have subscribed to available OTT. While this strategy turns OTT content into a feature of the MSO distribution model—it fails to monetize OTT delivery. The idea is to stem the flow of paying customers away from traditional pay TV, but a feature is not a product. Cord cutters want to make more granular choices about what content to pay for. The overwhelming majority of cord cutters are happy; they want standalone OTT services.

Wait for the Content You Requested

Some content providers make their content available OTT without any type of sign-in or credentials—consumers just need to listen to or watch ads that accompany the desired content. Ad-based monetization makes OTT similar to traditional broadcast television or radio. The consumer receives content in exchange for hearing or watching an ad.

But there's a problem with the ad-based formula. Consumers have little patience for ads in an OTT context. Unlike on television and radio, ads don't just run—OTT ads are notoriously slow to load and play. They offer a poor user experience, and consumers have grown all too accustomed to skipping ads online. An ad-based model might work for occasional users, but ads are likely to drive away consumers who want more of your content or who are willing to pay a premium for a better user experience.

Come Again Soon

Your content has value; you could charge customers for each unit consumed—just as you might charge for a ticket to a show. If your content is based around special events, such as concerts, this method of monetization may work. However, this pay-per-unit model makes high customer acquisition costs inevitable. After acquiring customers, you'll have to acquire them again in advance of every purchase. And unless your content is unique, you'll need to compete with providers who offer all-you-can-consume subscriptions to similar content.



Not Available Locally? Think Again.

The recent World Cup tournament was widely available OTT. Residents of Great Britain tapped into a stream from the BBC. Cord cutters in France could access matches OTT via a €12 per month subscription. And in the US? ESPN made every minute available OTT—but only to people with credentials from their cable or satellite provider.

Did cordless fans in the US rush to sign up for traditional pay TV? Not if they spent five minutes searching online for ways to stream the matches. Cordless fans would have found numerous articles—from mainstream publications such as The Atlantic, Slate, and The Washington Post—telling them how to use a virtual private network (VPN) to access a stream from another country. Many of those fans would likely have preferred to pay ESPN for access instead of setting up a VPN.



Subscription for OTT Monetization

There is a better way to monetize content: subscription. A subscription enables consumers who want your content to establish a relationship with you. They cease to be just viewers or listeners; they choose to be your customers on an ongoing basis. Just as crucially, subscription provides a foundation on which to build the multi-device user experience consumers expect. Following an initial signup, your content follows the customer across whatever devices they use.

Many of the most successful OTT companies, such as Netflix, have already chosen a subscription model, and consumers have proven to be willing to try subscription and other recurring revenue-based models. For instance, Amazon Prime, which includes OTT content as a key benefit (and is marketed as a membership, not a subscription), has seen explosive growth.

Why Subscription

Subscription (like other forms of automatic recurring billing) overcomes all the drawbacks of other monetization avenues. It also offers several advantages other models can't match.

The benefits of subscription for monetizing OTT content include:

- **Predictable revenue streams:** Consumers who subscribe to your services pay for them automatically on a regular basis.
- **Less upfront commitment for consumers:** Many OTT subscription services start with a free trial and let subscribers cancel at any time. This makes the initial signup low-risk for the consumer.
- **Price and promotion flexibility:** Continuously refine the way you price and promote your offering to maximize customer acquisition and retention.
- **Long-term relationships with consumers:** Once consumers have subscribed, they are less likely to switch to competing offerings, provided that you maintain a high-quality user experience and continue to deliver appealing content.
- **Control over the customer experience:** Build stronger relationships by improving the way subscribers access your content across their devices. The option of ad-free content offers a superior experience for which consumers are willing to pay a premium.

The Cornerstones of Subscription Success

Acquire

Run campaigns
Refine plans and pricing



Retain

Offer a great user experience
Dynamically manage entitlement



Expand

Upsell to higher-value premium offerings
Win others in subscribers' circle



An Engine to Drive OTT Subscription Revenue

A business that offers OTT content by subscription can come to life simply by offering compelling content and reasonable value. But OTT businesses thrive when they combine compelling content and value with enticing promotions, a broad reach, proactive retention processes, scalability, and continuous improvement.

Many OTT providers find that traditional billing platforms can't support those things in a subscription setting. For instance, adding a simple refer-a-friend promo to a traditional system can take weeks. And OTT providers with international rights should be able to sell globally easily—but their billing systems may hold them back.

OTT subscription billing must deliver:

- **Time-to-market speed:** Create, test, and refine promotions rapidly without requiring IT intervention. This accelerates and improves customer acquisition processes.
- **Dynamic retention:** Provide a superior user experience by managing entitlements to keep customers connected to content even in the event of temporary issues. Rigid entitlement practices dramatically reduce retention.
- **Support for multiple currencies, languages, and payment options:** Allow customers to transact in their language

using their currency—with the payment method they prefer.

- **Scale and reliability:** A slow or difficult initial transaction drives customers away. Be able to process transactions quickly even on days when demand for your content spikes.
- **Robust finance, tax, and anti-fraud support:** Define the way you want to recognize revenue and comply with tax requirements across the globe. Some fraudsters target subscription services to test credit cards; your billing solution should proactively screen for fraud.
- **Intelligence for continuous improvement:** Manage with a view into the billing factors that influence revenue along with data that benchmarks your performance against other OTT providers. Just as importantly, your billing provider or billing team should stay on top of billing best practices.

Pricing Flexibility in Action

A subscription model lets you offer a variety of plans. An annual plan with a discount might attract one consumer, but another may prefer a month-to-month option. Find the range of options that consumers want—and then refine them to increase revenue and retention. Vindicia has helped a variety of clients do exactly that.

An OTT provider asked for help refining its pricing for annual plans. The Vindicia team used analysis and benchmarking derived from our wealth of subscription transaction data to help. We found that the provider was underpricing its annual plan, and we worked with the company to revise its pricing. The result? The company saw revenue increases that were virtually identical to what the Vindicia team predicted.

Start Monetizing OTT Content

The OTT era is well underway. Traditional monetization avenues are changing, and content distributors, owners, and curators must find a way to monetize OTT delivery. Consumers are ready, but they're not waiting patiently. You need to think about how you're going to generate revenue OTT. For many content-based businesses, subscription is the answer.

Subscription and other automatic recurring revenue models, such as memberships, present many advantages over other monetization possibilities. Consumers have already shown that they value—and are willing to pay for—subscriptions to OTT content. Trying an OTT subscription is a low-risk proposition for consumers, and providers have significant price and promotion flexibility to entice consumers. Subscription offers the predictable revenue stream that accompanies long-term relationships with consumers.

Great content can put you on the path to OTT success. Bolstering your offering with a billing platform designed to support OTT subscriptions will get you further—faster. Combining support for time-to-market speed, proactive retention, global reach, and more, Vindicia solutions can help you continually improve subscription and recurring revenue. Vindicia offers two solutions. Vindicia CashBox, a subscription billing platform, supports the complete acquire-retain-expand customer lifecycle. For companies with a billing platform, Vindicia Select delivers patent-pending technology that measurably increases retention as a noninvasive add-on to existing systems.

[Contact Vindicia](#) today to learn more about how we work with OTT businesses.

About Vindicia

Vindicia keeps consumers connected to the subscription services they love, and companies connected to the subscription revenues they need. The company helps others thrive in an increasingly subscription-based economy by keeping recurring billed services and digital goods flowing, profitable, and available. Vindicia combines cutting-edge customer acquisition methods with advanced customer retention technologies, while maintaining unmatched scalability and 99.99% up-time. Vindicia clients include TransUnion Interactive, Intuit, Activision Blizzard, IAC, Bloomberg, Vimeo, and Next Issue Media.



Copyright © 2014 Vindicia, Inc. All rights reserved. Vindicia, the Vindicia logo, Vindicia CashBox, Vindicia Select, and the designated trademarks herein are trademarks of Vindicia, Inc. in the U.S. and/or other countries. All other brands or product names are the trademarks or registered trademarks of their respective holders.

vindicia[®]