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White-Hot OTT Market Set to Take Off in 2016

By Gigi Sukin

In 1982, John Hendricks built the Discovery Channel into a documentary empire thanks to the advent of the cable revolution. His niche, nonfiction, fit well into the milieu of genre-based networks like HBO, which featured programming for movie buffs, and ESPN, which sated sports fanatics.

But today the confines of the household are virtually meaningless for viewing consumers. Instead, whatever, whenever and wherever are the expectations set for video entertainment consumption.

"What's old is new again," says Howard Horowitz, president of Horowitz Research, a multichannel research firm. "Thirty years ago we asked the question, 'What does programmed cable television look like, migrating from broadcast to cable?' Now, we're working with clients who are asking, 'What does TV look like migrating over to IP TV and away from the wire?' The next question is, 'who pays for TV when TV is free?'"

Hendricks appraised the shifting tide and a little more than a year ago brought the nonfiction genre online with CuriosityStream, a subscription video-on-demand (SVOD) service that offers unlimited ad-free documentary-style programming for $2.99 to $9.99 a month, depending on image resolution.

"People are willing to pay fairly for content as long as they are not interrupted by ads," says Peter North, COO of CuriosityStream. "Being ad-free presents a competitive advantage. You're unfettered from typical television scheduling. For a film that's 50 to 60 minutes long, 100 percent of that is content, carefully produced. You don't have to create ad breaks every seven minutes, and you're no longer constricted to a 30 to 60 minute timeline."

CuriosityStream is just one of seemingly countless options for consumers who want to "cut the cord."

The OTT Power Shift

Starting with YouTube in 2005, according to Horowitz, over-the-top (OTT) services fused the worlds of television and digital video, delivering content over the internet without requiring a subscription to traditional cable or satellite pay-TV services like Comcast or Time Warner Cable. By 2007, Netflix made an aggressive play to invest in digital distribution of film and television, rather than resting on its mail-rental service as a singular business strategy. Years later, "they're still leading the pack and doubling down on original content to sustain and differentiate themselves," Horowitz says of Netflix.

"We are starting to see the changes in viewing behavior (be it device or types of content) that allows for power-shifts to occur within the market, and everyone is competing to stake their claim," says Michael Inouye, a principal analyst with ABI Research, a technology market intelligence company.

Long gone are the days of limited channels or viewers conditioned to plan around program schedules. OTT video service providers have disrupted the "on-demand" model with personalized video experiences that consumers can watch whenever and wherever they like. Some of the services charge customers a monthly fee while others are taking an ad-based approach (AVOD).

"There are lots of factors at play," says Horowitz. "One important thing is the structure of existing relationships—relationships to operators, contracts and licensing agreements for content." Issues of copyright management, legacy relationships and delivery tactics play into the shakeout in the new world of television.

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MICHAEL INOUYE, PRINCIPAL ANALYST, ABI RESEARCH

"These relationships give program providers and operators a lot of control over the consumer," Horowitz says. "

The market has quickly become crowded, with giants like Hulu and Dish Network's Sling TV, which offers a $20-a-month package that includes channels like ESPN and counts more than 600,000 subscribers.

"I think Sling TV has been a leader in betting on linear television," says Horowitz, adding that Comcast's X1 platform serves as a stellar example of an "outstanding ... large, legacy company stepping up to the plate," to compete.

As of March, AT&T announced it will start offering an OTT, dish-free version of its DirecTV satellite service over the internet by the fourth quarter of 2016. The specifics of the service remain unclear.

Targeting comedy enthusiasts, NBCUniversal Digital Enterprises unveiled Seeso this January, a first-of-its-kind streaming comedy channel, free from ads, for $3.99 a month. The SVOD service features classics like Saturday Night Live and Monty Python alongside weekly programming, including more than 20 exclusive original series. It also delivers a search function so viewers can simultaneously watch and hunt for what to tune into next.

"Big streaming services have created a paradox of choice--they're great if you know exactly what you want to watch, but if you're in the middle of a binge, the search can be nearly endless," Evan Shapiro, executive VP of NBCUniversal, said in a press release upon the launch of Seeso.

"All these services will be more integrated with one search engine,"

HOWARD HOROWITZ, PRESIDENT, HOROWITZ RESEARCH

"OTT enables the creation of niche categories," says Jason Blackwell, director of Strategy Analytics' Service Provider Strategies service. "You can appeal to a certain segment of the population without having to worry so much about necessarily the scale-of-operations or subscribers needed to support things like infrastructure."

ABI's Inouye says there's increasing interest in going direct-to-consumers. For example, CBS announced last year that the new Star Trek TV series (coming 2017) will air its premiere on the CBS Television Network but subsequent first-run episodes will be available exclusively on CBS All Access, the streaming service. "All of this also pushes more content over general IP channels instead of the traditional distribution platforms," he says.

Indeed, with streaming services, programs are no longer reliant on ratings for survival. "A lot of the content you see on typical pay-TV is broadened for greater appeal," CuriosityStream's North says. "But now, content doesn't have to be one-size-fits-all."

Pay-TV Operators Join Forces With SVOD

Integration is a concept many television experts are discussing, referring to the incorporation of OTT into the pay-TV experience. For instance, Netflix and Hulu have been integrated into some Tier 2 cable operators' set-top boxes. Top-tier operators AT&T and Cablevision also announced that Hulu would become another "channel in the lineup," according to Blackwell.

He says the question for traditional industry players is whether to integrate existing SVOD services into their lineup, or create a new service. That is made easier thanks to cloud technology, which "evens the playing field for some of the smaller operators to integrate and deploy new services without having to commit a lot of capital expenditure," he says.

Blackwell says that in the U.S. market, many smaller cable operators—Atlantic Broadband and Suddenlink, for instance—have integrated Netflix into their services to "quickly expand their video-on-demand library without incurring additional cost. You haven't seen that from some of the larger operators—Comcast, Time Warner—because they already have extensive content."

"All these services will be more integrated with one search engine," says Horowitz. "X1 or Cablevision have Netflix integrated on their interface and viewers can watch content they pay for—it doesn't matter if it's on Netflix, NBC, Hulu—the search engine comes up with it."

OTT's Fragmented Future

So what does the future hold for the OTT market?

"I think we're going to continue to see fragmentation," says Blackwell, also anticipating that differentiation strategies will emerge more visibly. Netflix in particular, he says, is looking for "exclusivity," so may not renew the rights on content that is not exclusive to them. Blackwell says he sees the potential for more consolidations on the horizon as well.

According to Inouye, mobile video will grow dramatically, pointing to T-Mobile's Binge On, Verizon's Go90, AT&T/DirecTV's upcoming OTT service and more.

"All of these will continue to develop and evolve over the course of 2016, but more importantly they address and reinforce the growth in mobile video viewing," Blackwell says.

Is Live TV Outdated?

For many traditional distributors looking to add an over-the-top video component to their service packages, live or "linear" TV remains a missing piece. "Pay TV operators have a real advantage there," Blackwell says. "[The industry's] strength is in aggregation—something that's manageable and navigable. I think there's a role for someone to bring this all together."

He predicts plenty more innovation in live streaming online in 2016, noting the summer Olympics coming up and calling this year a "game-changer."

Today, top live players include CBS All Access, Sling TV and PlayStation Vue, while ancillary participants in the field include aggregators like FilmOn X.

According to North, CuriosityStream is prepared technologically to explore live coverage. "If there's a fleeting event worth covering, we're happy to do it." However, "our value proposition is you can watch our programs on any device, on any topic you like, anywhere in the world. If you tune in at a particular time, it goes back to appointment television."

Whether or not "must-see TV" can make a comeback in the current environment remains to be seen. For the pay-TV industry as a whole, "It doesn't make any sense to cry doom and gloom," says Horowitz. "Nor does it make sense to be complacent." ■

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mpx was a key component in the recent launch of Seeso, a first-of-its-kind offering from NBCUniversal, providing comedy fans a premium, ad-free subscription service across online streaming platforms, connected devices and other distribution partners. Seeso utilized the cloud-based mpx video publishing system to deliver on-demand and live streaming video services and commerce, including centralized video uploads, easy workflow management, metadata management, subscriber management, transactions, viewing rights enforcement, and automated publishing across devices and video players.

With theVideoPlatform, broadcasters, operators, multi-channel networks, and publishers can swiftly and easily launch, manage and seamlessly provide rich, compelling video experiences – such as Seeso - across any screen, at any time. theVideoPlatform manages the complexity of the video workflow from linear to digital, enabling businesses to focus on growing their audiences and providing the consumer with viewing experiences across multiple screens from one partner.

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Let the Post-Netflix Era Begin: Programmers Dive Head-First into Direct-to-Consumer Streaming

By Daniel Frankel

Speaking to *FierceCable* over the phone in July of 2015, a representative for premium cable network Starz wanted to make one thing clear: The channel was having absolutely no discussions about going over-the-top.

Sure, Starz's biggest rivals, HBO and Showtime, had launched direct-to-consumer streaming platforms that required no pay-TV subscription to access. But having earned hard-won carriage battles with all the major operators, and fighting its way past Showtime to become the second largest premium cable channel, Starz was playing it safe, unwilling to expose its core platforms to what it feared could lead to cannibalization.

"Why would you give up the goose that's laid the golden egg in this market?" said James Messer, CEO of goTransverse, an Austin, Texas-based vendor that provides backend services to the OTT operations of programmers including Starz.

Soon, however, the risks of not going direct-to-consumer—and missing out on a growing market of millions of young TV watchers who don't pay for cable, satellite or telco video services—became too great to ignore. Starz announced in April that it's launching a new $8.99-a-month direct-to-consumer streaming service.

"Our programing will now be more widely available to the 20 million broadband-only homes of cord nevers, cord cutters and cord shavers, including millennials and other underserved consumers who need other viable subscription service options," said Starz Chief Executive Chris Albrecht in a release announcing the move.

Call it the post-Netflix era.

For years, media companies enthusiastically marketed their shows and movies to the major SVOD services, only to watch Netflix grow a market cap ($44.88 billion at the end of March) bigger than most of them.

Meanwhile, programmers became frustrated as TV Everywhere failed to follow a youthful consumer base that was not only mobile, but also moving out of the pay-TV ecosystem altogether.

The result has been the emergence of a go-it-alone strategy by programmers, who have, within the last 18 months, launched CBS All Access, HBO Now, NBCUniversal's Seeso, and the direct-to-consumer versions of Starz and Showtime, just to name a few platforms.

"[Programmers] are all starting at zero and need to build an audience from scratch. That's a lot of marketing dollars—and skills—few of them have."

ALAN WOLK, ANALYST, THE DIFFUSION GROUP

Strategies vary. CBS All Access offers the veritable kitchen sink, delivering every current CBS original series, plus thousands of episodes of older shows. The only CBS programming you can't stream on-demand—or live—on All Access is NFL football, and CBS is working on that.

Seeso, meanwhile, is a mix of comedy snippets from NBC late-night comedy shows, along with copious original series.

Evan Shapiro, who heads NBCU comedy-themed Seeso platform as executive vice president of digital enterprises, said the SVOD ecosystem today is very similar to the TV landscape around 1978, where a small pool of broadcast players "was trying to serve every viewing demographic and genre at once," he said to Academy of Television Arts & Sciences publication *Emmy* earlier this year. "Then cable came along, offering niche programming for the passionate viewer."

Cable television today accounts for 60 to 70 percent of linear TV viewing, Shapiro added. That puts cable in a similar position to broadcasters nearly 40 years ago, as a mature player in the market with OTT coming in as the newest disruptor, he said.

Analyst Alan Wolk of The Diffusion Group says we're likely to see many more programmers strike out on their own with SVOD platforms in the coming months.

These programming brands face steep hurdles, not the least of which is consumer awareness.

"But it's not an easy win," he said. "They are all starting at zero and need to build an audience from scratch. That's a lot of marketing dollars—and skills—few of them have."

Daniel Ledger, who consults programming clients on OTT strategy for Deloitte Digital, agrees. "The biggest challenge is marketing," he said.

Indeed, premium channels like HBO, Starz and Showtime built their subscriber bases on the backs of operator promotions, which still dangle the carrot of free premium channels for three to six months in order to entice video service sign-ups.

Notably, Cablevision has formed marketing partnerships with HBO Now and CBS All Access, bundling these OTT products with its broadband service. But Cablevision is decidedly alone in this strategy, with most of the major MVPDs casting a leery eye toward programmer-backed OTT services, even as operators themselves experiment with IP-based services like Sling TV and Comcast's Xfinity Stream.

Monetization is also an issue for programming companies that have traditionally let pay-TV operators handle all the messy consumer-facing stuff, Messer said.

"Content providers and cable providers have been in bed so long, it's hard for them to think a different way," he explained.

So far, it's difficult to say whether the direct-to-consumer SVOD plays launched by major programmers have been successful, since their backers have released so little in the way of user metrics.

Time Warner Inc. recently told investors that HBO Now surpassed 1 million subscribers about a year after its April 2015 launch.

But as any tech startup can tell you, making money on the internet is more than about just securing a sizable user base.

Cox Communications' recent shuttering of its "Flare"-branded over-the-top video effort is telling. Its online video platforms including Flare Kids collectively drew an audience of 300,000 users, according to Cox spokesman Todd Smith. But ultimately, the cable company wasn't able to turn that into a profitable venture.

"As market conditions within these services continued to harden, we were unable to monetize the user interest and web traffic to the level we needed to sustain the business," Smith said. ■

How Comic-Con HQ is Taking Content Direct-to-Consumer with Video-on-Demand Channel

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Leading providers of streaming video understand that in order to win and retain customers, their billing platform needs to be secure, fast and reliable.

Lionsgate and Comic-Con International created Comic-Con HQ to provide a year-round destination for fans to experience their world-famous events and enjoy highly curated content. The content will include exclusive original series, daily entertainment news, and an ever-evolving library of film and genre titles, sneak previews, and special features from the latest and greatest franchises across comics and the popular arts.

Comic-Con HQ is utilizing Vindicia® CashBox® to power their subscription payments and billing for its new video-on-demand (VOD) platform. The new VOD service will provide fans with seamless access to the Comic-Con experience 365 days a year.

Vindicia CashBox is a software-as-a-service (SaaS) solution ideal for companies wanting to develop their direct-to-consumer business. Through subscription billing and microtransactions, companies can take advantage of digital payment practices, making it easier for consumers to pay for services with cash from their e-wallets or from other means such as PayPal, Amazon Payments, or store-bought gift cards.

In the case of Comic-Con HQ, the net result is an effective subscription billing process that enables more paying customers and minimal churn.

Comic-Con HQ launched a public beta on May 7, 2016 to coincide with Free Comic Book Day.

Vindicia Solutions

Vindicia supports direct-to-consumer VOD with 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 over-the-top (OTT) service models, but also as a marketing resource that strengthens customer acquisition and retention.

Vindicia CashBox

Vindicia CashBox is a comprehensive subscription and recurring billing platform specifically designed for the dynamic subscription business models favored by OTT providers. It features integrated marketing and best practices that boost customer acquisition while optimizing subscriber retention. CashBox lets OTT providers quickly change pricing, introduce new bundles, support subscription video-on-demand (SVOD) and one-time VOD sales, launch flexible trial entry programs, reach new audiences through coupons or promotion codes, and take full control of new business models with the help of detailed analytics.

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For OTT providers who already have an agile billing system in place, Vindicia Select increases OTT subscriber retention to drive higher revenue and customer lifetime value. Incorporating Vindicia's innovative ART Advanced Retention Technology™ system, Vindicia Select mitigates failed payment transactions, thereby dramatically reducing involuntary churn.

About Vindicia

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 BBC, TransUnion Interactive, Allrecipes, IAC, Vimeo, and Next Issue Media's Texture service. For more information visit: www.vindicia.com.

Pay TV Faces the OTT Technology Learning Curve

By Tara Seals

It's no secret that consumer appetite for over-the-top streaming video services is in full swing, with Netflix, Amazon, Hulu and others all commanding an increasing portion of "watch time." While traditional TV subscriptions aren't going away anytime soon, pay-TV providers have been struggling to grow and differentiate given this shifting competitive landscape—leading many of them to embrace streaming disruption themselves.

Some pay-TV operators are using their unique positions as trusted aggregators of content to re-invent themselves as multiscreen video distribution players. But when it comes to next-gen digital video delivery, from encryption to encoding to UIs to preventing buffering, delivering a user experience that people will pay for represents a learning curve for this network-owning set.

OTT: Not If, But When

There's no question that embracing OTT will be a necessity moving forward for pay-TV providers that want to stay relevant. Convergence Consulting Group in its latest report calculates that in 2015, cable, satellite and telco TV revenue grew just 3 percent to $105 billion—and that growth will only inch along to $107 billion for 2016.

By stark contrast, the analyst firm estimates that OTT revenue — from the likes of Netflix, Amazon Prime, Hulu, CBS, HBO, Sony PlayStation Vue, Starz, Tribeca and others — grew 29 percent to $5.1 billion in 2015. This figure is set to rise to $6.7 billion for 2016. And sure, while the segment lags pay-TV in terms of actual dollars, it's an undeniable opportunity to grow revenue and customer base.

In fact, the study also found that 2015 saw a decline of 1.131 million U.S. TV subscribers—compared with a fall of just 283,000 in the previous 12 months. For this year, the analyst projects an additional decline of 1.112 million TV subscribers.

Further, Ovum in a recent study warned that an already "unforgiving" competitive TV environment will intensify and that there will be downward pricing pressure on cableco bundles. But far from being a death knell, this state of affairs will more than likely drive innovation on the part of traditional providers themselves.

"TV Everywhere has been a complete failure. You can have all the great content you want, but if you have a disastrous, annoying cable login system that no one understands, you lock up content and people aren't getting to it."

JEROEN WIJERING, CO-FOUNDER, JW PLAYER

"We are on the cusp of the next major evolutionary growth phase in visual entertainment," said Ed Barton, Ovum's head of TV research and analysis. "As the industry hunts for opportunities to address slowing traditional TV subscription revenues, the major trends in technology, audience consumption, and service evolution offer glimpses of a brighter future."

Don't Fear the Reaper—Er, Cannibal

Most pay-TV providers have dipped a toe into the streaming waters with TV Everywhere (TVE). These streaming services allow consumers to log in using their pay-TV credentials in order to view content across screens and on the go. While this allows for more personalization, it's not true OTT because users still have to be subscribers in order to access it. It also hasn't taken off, in large part due to clunky user experiences and confusing log-in requirements. According to Parks Associates, the percentage of people watching authenticated video at least once a month is only about a quarter of subscribers who have access to it (23 percent)—despite these services having been around in earnest since 2013.

"TV Everywhere has been a complete failure," said Jeroen Wijering, co-founder at JW Player, which provides an OTT streaming platform to enterprises and content creators. "You can have all the great content you want, but if you have a disastrous, annoying cable login system that no one understands, you lock up content and people aren't getting to it. The ease of use of your service on these platforms, as well as speed and bandwidth, and the uptime of the service—those are very important."

It could be argued that TVE, even though it's been a bit of a flop, has presented an opportunity for cable MSOs and others to cut their teeth in the digital delivery world, pick up some lessons learned, and move on to embracing real OTT service options. Yet, fears of cannibalizing their existing bases linger, and has hamstrung the market's innovation a bit.

According to Ben Weinberger, senior vice president and chief product officer for Dish Network's OTT service, Sling TV, all of the cablecos and telcos are thinking about OTT, but few are ready to pull the trigger.

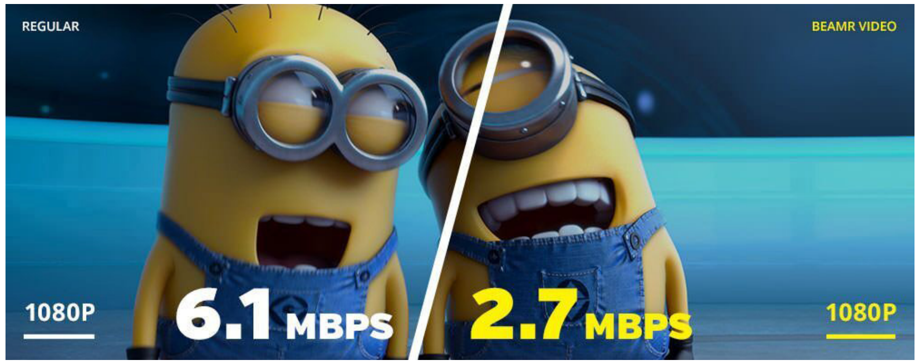
"They should really just put the consumer first and try to not be afraid of cannibalizing the customer base," he said. "We're not afraid of it—we're actually gaining new subscribers that we wouldn't have ever had otherwise. Everyone wants to create that next-generation experience, but it's very hard to abandon your limitations and go for it, and create the thing that consumers want."

And let's face it: There's no doubt that OTT video options have been gaining ground on traditional cable packages. According to Nielsen, the share of US households with TV and/or broadband access that also subscribed to at least one OTT service rose from 36 percent in 2013 to 40 percent in 2015.

Architecting for Monetization

However, there are significant challenges facing TV operators that enter this area."

Most notably, maintaining Quality of Experience (QoE) for video (table stakes for convincing a subscriber to pay for new apps and services) when you no longer control the network on which it's delivered represents an overwhelming institutional shift. In the traditional infrastructure model, the provider has the pipe and controls the entire experience, from content acquisition to the link into the home to the set-top box—even down



Minions image courtesy of Beamr

to the middleware that frames the user experience.

"You've been able to create and architect the traditional TV system in what is essentially a closed loop environment," Weinberger said. "In contrast, we control very little of that value chain. We have all different types of connections, everything from DSL to fiber gigabit speeds. Users are located in places where you might not have expected to have customers. The challenge is not one of can you deliver it, it's can you deliver it across all of these variables that you don't control? That's very tough."

But it's a nut that must be cracked. User studies from Beamr show that if a streaming service has excessive re-buffering events, it translates to decreased engagement and "dwell" times, which leads to lower than desired ARPUs. And stream start times are important to users because if a stream takes too long to begin they will click or navigate away to a competitive service, and abandonment rates will increase.

One main consideration is that the technologies used to deliver digital content are more flexible than what is typically found in pay-TV systems—which means that pay-TV operators must adapt their workflows to utilize modern video technical solutions. "This incurs cost and requires new technical skill sets that may not be resident inside all pay TV operators," said Mark Donnigan, VP of sales and marketing for Beamr.

But once that technical base is there, it becomes straightforward to, say, implement adaptive bitrate approaches. "Bottlenecks exist at multiple points in the distribution chain, however, a universal method to improve streaming performance is to reduce the size of the video file being delivered," Donnigan said. "This cannot be done at the expense of reducing video quality, so the best practice is to use a content adaptive optimizer immediately following the encoding step. Using such a solution ensures the original quality is kept intact while the size of the file is reduced to the smallest size possible."

Another key to success is constant feedback. "We measure everything. We are an incredibly data-driven organization," said Weinberger. "We are constantly collecting data on image quality, bitrate and buffering, and working on better apps and new user interfaces. Our service is a culmination of a tremendous amount of data and research and technology investment in what we think is going to be the next generation of television."

Buy It, Don't Build It

If launching their own OTT service seems too much of a risk, there's another way for pay-TV operators to build OTT into the mix: Using their unique positions as connectivity gateway providers to re-invent the business of video distribution.

"Playing catch-up with OTT providers (i.e., directly competing with them) has been the most common strategy for dealing with the ongoing change in media consumption habits," said cable TV security and content aggregation firm Evolution Digital, in a recent brief. "However, a smarter plan of attack may be to embrace OTT content and become, in effect, an aggregator of viewing options for your end users."

"The move to IP and modern technologies requires a significant investment, one that will pay dividends in the flexibility it can deliver and access to customers outside the home."

MARK DONNIGAN, BEAMR

Becoming the main portal for all video sources has a number of back-end advantages. For one, offering OTT plus traditional TV provides a huge set of options to customers—and therefore value. As an example, Dish Network recently added 4K content from Netflix to its Hopper 3 DVR content offerings. Customers can stream the Netflix catalogue of Ultra HD TV shows and movies, including originals like *Marvel's Daredevil* and *House of Cards*. They join Dish's existing inventory of Ultra HD content that includes a slate of 4K programming from Sony, The Orchard and Mance Media.

Hybrid STBs/media hubs can provide both regular TV service and OTT options, offering an opportunity for

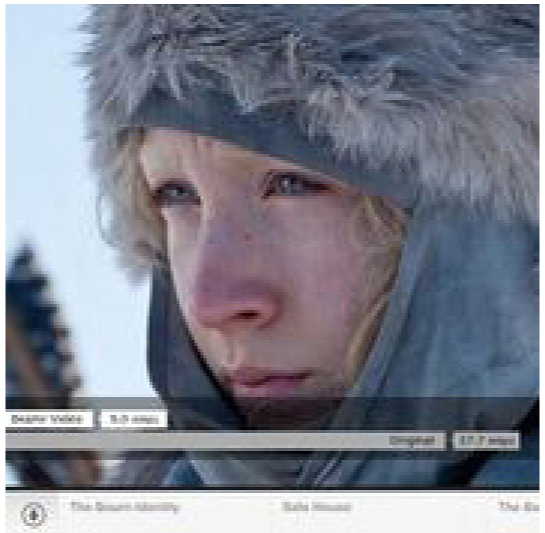


Image courtesy of Beamr

differentiation—but also, by adding in OTT alongside standard TV, cable providers can begin the gradual migration away from legacy STBs. Hybrid IP STBs feature a QAM tuner alongside an IP port, allowing cable and OTT services to exist side by side, and these devices pave the way for shifting from legacy delivery models built on QAM and other technologies to more modern ones that use the versatile Internet protocol suite.

"These [legacy] devices make up a large chunk of operators' capex on customer premises equipment," Evolution Digital said. "Plus, they are usually only equipped to transmit via QAM, and have rigid, clunky user interfaces, which do make them very future-proof in a world in which end users have come to expect OTT-like experiences."

Although hybrid strategies can translate to reduced churn and costs, there are technical considerations. Beamr's Donnigan noted that encoding, packaging, DRM and access control must all be modernized for a hybrid solution to be built. "For example, MPEG2 is not supported on many connected devices, nor do we want it to be since it is not as efficient a codec as H.264 or HEVC," he said. "However, all legacy STBs only support MPEG2. The move to IP and modern technologies requires a significant investment, one that will pay dividends in the flexibility it can deliver and access to customers outside the home."

Bottom line? There's no question that pay-TV operators' hands will be forced when it comes to OTT. There are big challenges, but if done correctly, the benefits can be myriad.

"We see a shift in how TV is increasingly addressing individuals rather than households, and how the merging of online and broadcast advertising technologies and the on-going hunger for true 'martini TV' – any time, any place, anywhere – from the audience offers significant incremental revenue opportunities," Ovum's Barton said. "The proliferation of linear SVOD from traditional TV is just one part of this shift which underpins our firmly held view: TV's best days lie ahead." ■

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Pathways to Monetization

By Jason Bovberg

The age of the typical cable operator's program bundle is over. Whereas selling packets of channels to subscribers used to make sense—in another century—those viewers are increasingly turning to Internet services and ditching their traditional media habits.

Last year Bryta Schulz, senior vice president of marketing for Vindicia, a billing services provider that serves subscription-based OTT providers, said that "More than 40 percent of TV households in the United States subscribed to at least one premium OTT service at the end of 2014, and our research validates that we'll continue to see strong growth in the years to come." According to a new 2016 Digitalsmiths study, that number has increased to 55.4 percent.

"The OTT model will continue to disrupt the typical cable bundle and will continue to drive demand among consumers," said Michael Tribolet, cofounder and CEO of YipTV, who sees an entirely new paradigm shaping the media future. "At YipTV, we've built an OTT service via broadband, so we use the Internet, whether it's via cable or mobile, as our last mile. Our cost structures are more efficient and ubiquitous, which allows us to offer a lower price point to our niche market."

YipTV is just one example of a subscription video on demand (SVOD) platform that's enabling a revolution in the pay-TV landscape. However, this disruptive new OTT approach faces major challenges. Retention is a major concern because subscribers can opt out in an instant. OTT providers need to find the perfect balance between attracting viewers with the right breadth of content and maintaining a reasonable monetization method to keep subscribers' eyes on the providers' offerings.

Subscribers and Ads

When Sling TV introduced its #TakeBackTV campaign last year, it targeted a strategic audience: the millennial generation that is leading the charge away from traditional pay-TV structures. "Millennials have polarizing feelings about TV," said Glenn Eisen, chief marketing officer of Sling TV. "They love the content, but they hate the pay-TV model," which includes long-term contracts, expensive programming bundles, high prices, hidden fees, and poor customer service.

It's also an audience that is fine with the a la carte subscription model. Encouraged by the huge subscription success of big players such as Netflix and Amazon, smaller market players are similarly finding that subscription services are precisely what today's media consumers desire: access to large content catalogs without annoying ad interruptions.

"The OTT model will continue to disrupt the typical cable bundle and will continue to drive demand among consumers."

MICHAEL TRIBOLET, COFOUNDER AND CEO OF YIPTV

Which works—because advertising alone generally can't support expensive, exclusive content. The high cost of creating or obtaining top-tier content prevents the sustainability of that model. An approach that makes perhaps more long-term sense is a service such as Hulu, which offers a hybrid subscription/advertisement model. The presence of even brief commercials helps reduce the price of the base service. Perhaps even smarter is Netflix's model: offering a free trial month of service so that potential subscribers can get a feel for the breadth of content—if a service has that kind of content at hand.

"With SVOD, when customers can see the value in the business, they will transact with you to buy a subscription," said Tribolet. "As we build our business, ad-supported video on demand (AVOD) requires millions of eyeballs to become a sustainable model. Once you have the millions of eyeballs watching the advertisements, it can become a standalone business. However, you have to be willing to build the curve that allows it to be sustainable as a business with relevant content." Tribolet sees a balance between what will help a provider in the short term versus a more efficient marketing spend.

But At What Price?

According to multiscreen and online video platform provider Piksel, the packaging and pricing of a service's content is a science. "You can't randomly choose a price for your content that you think resonates with your market. It must be based on the scientific research you've gathered," wrote Alyssa Ideboen, global content manager for Piksel, in "OTT Service Fundamentals: 10 Components of a Successful Strategy." These factors include competitor pricing, quality and quantity of content, and what that content costs to acquire, as well as the size of the market.

According to Tribolet, who has determined a $14.99 per month subscriber price for YipTV, equally important is listening directly to customers and potential customers. “We continue to focus on bringing relevant and robust content to our customers based on their needs. The price point for live linear content is well below the established price point for the same content on traditional multiple system operators (MSOs).”

New Tech

When it comes to monetizable online video viewing, however, is the subscription-only model sustainable for the long term? Although potential ad models for OTT are still very much in flux, there’s no denying the importance of advertising to the future of the market. And new, targeted types of advertising will make the most of the ad dollar.

“Millennials have polarizing feelings about TV. They love the content, but they hate the pay-TV model.”

GLENN EISEN, CHIEF MARKETING OFFICER, SLING TV

“Advertising today is based on consumption and dynamic insertion across the Internet,” said Tribolet. “The industry has the ability to make viewership recommendations based on viewed programs, but also based on the ads aligned with that content and the content’s audience.”

Advertisers are increasingly interested in targeting select users based on their behavior, demographics and geography. “Greater understanding of user habits leads to further opportunities for targeted advertising or targeted purchases,” said Miles Weaver, innovation program strategist for Piksel. “Knowing the right times to push monetization opportunities is key, because users get annoyed with a service that pushes ads or purchases indiscriminately.”

Advertisers can target specifically those consumers who reside in the gender, age, and income brackets they’re hoping to reach.

“OTT providers have access to great amounts of viewer data,” said Ben Weinberger, chief product officer at Sling TV and formerly a cofounder of Digitalsmiths. “Based on a viewer’s specific history of clicks, views, and so on, OTT providers can boost or promote premium content or packages to that particular viewer.”

Opportunities Await

The OTT market is still in its infancy, and as it becomes more mature, both subscription models and advertising opportunities will continue to develop. Subscribers await a media landscape filled with the right content and the right balance of ads to support the cost of that content, and advertisers await the right avenues to reach the right consumers in the right way. ■