OTT MONETISATION: BUSINESS MODEL OPPORTUNITIES AND THREATS

By Tim Siglin,
Contributing Editor, *Streaming Media* magazine,
and Co-founder & Principal Analyst, Transitions, Inc.

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INTRODUCTION

The tug-of-war of over-the-top (OTT) monetisation is often framed as a question of advertising versus subscriptions. Not only must exclusive and premium content production costs be covered, but enough profit must be made to offset traditional media's continuing decline. As such, consumers are often confronted with the decision about whether to watch their content of choice punctuated by ads or instead pay a subscription fee to view the content without commercial interruptions.

But does the OTT industry have a set of best practices in place that fully balances all these issues? And, is the world of OTT really only split into the two primary choices of advertising or subscription?

A new survey by *Streaming Media* magazine, Unisphere Research, and survey sponsor Telstra offers an alternative view based on responses by 503 participants from across the globe.

The survey, titled "OTT Monetisation: Business Model Opportunities and Threats," explores a number of assumptions around advertising-based video on demand (AVOD) and its more recent subscription counterpart (SVOD). It also explores the role of transactional VOD, previously known primarily as pay-per-view (PPV) but now more often referred to as TVOD.

SURVEY GOALS

One assumption we hoped to challenge was the homogeneity of the advertising-versus-subscription debate. After all, while North American streaming has been established for quite some time, and could be considered a more mature streaming market than most, it's not necessarily true that the North American approach is the best one for geographically diverse markets.

Another assumption we wanted to explore is whether the OTT marketplace is still primarily driven by North American-based startup companies. It's true that Netflix and YouTube were started in the United States, but the "Netflix-ication" of the web and OTT are as much a global phenomenon as they are a challenge to traditional broadcast methods.

To that end, the survey needed to have more than the typical North American representation, so we worked with Telstra to get the word out in the Asia-Pacific (APAC) region and to increase our European survey respondents. We were able to do both. North American participation represented 72% of overall responses, European survey responses were 13% of the total, and APAC representation increased to almost double our typical survey response rate from APAC.

To properly generate sample sizes on which to create statistically valid analysis, the results of the survey are reported in three distinct groups: North America, Europe, and the rest of the world (ROW). The latter includes APAC, South America, and the Middle East, yielding 15% of total responses from ROW to compare global trends against North American trends.

Finally, we wanted to answer some key questions around strategy regarding both content and monetisation. We also wanted to delve into the reasons that service providers offer particular OTT services, bundles, and payment options as a way to understand how the industry as a whole balances a growing interest in OTT content with the need to maintain an acceptable profit margin.

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REASONS FOR OFFERING OTT SERVICES

Before delving into the question of AVOD versus SVOD, let's first consider the survey respondents' answers to one of the survey's initial questions: What type of OTT service types do you currently offer?

On a global level, the responses looked similar to previous Unisphere Research surveys. The following table illustrates the options each survey respondent could choose from. Keep in mind that respondents were allowed to choose more than one reason for initially starting their OTT service.

Table 1: What primary drivers compelled you to offer OTT services?

	Global Response (%)
Attract new subscribers/ customers	22.9%
Combat OTT upstarts (challengers)	6.0%
Distribution of new content	18.3%
Enhance competitive profile/ increase profitability	17.9%
Monetise existing content	17.3%
Retain existing subscribers/ customers	17.6%

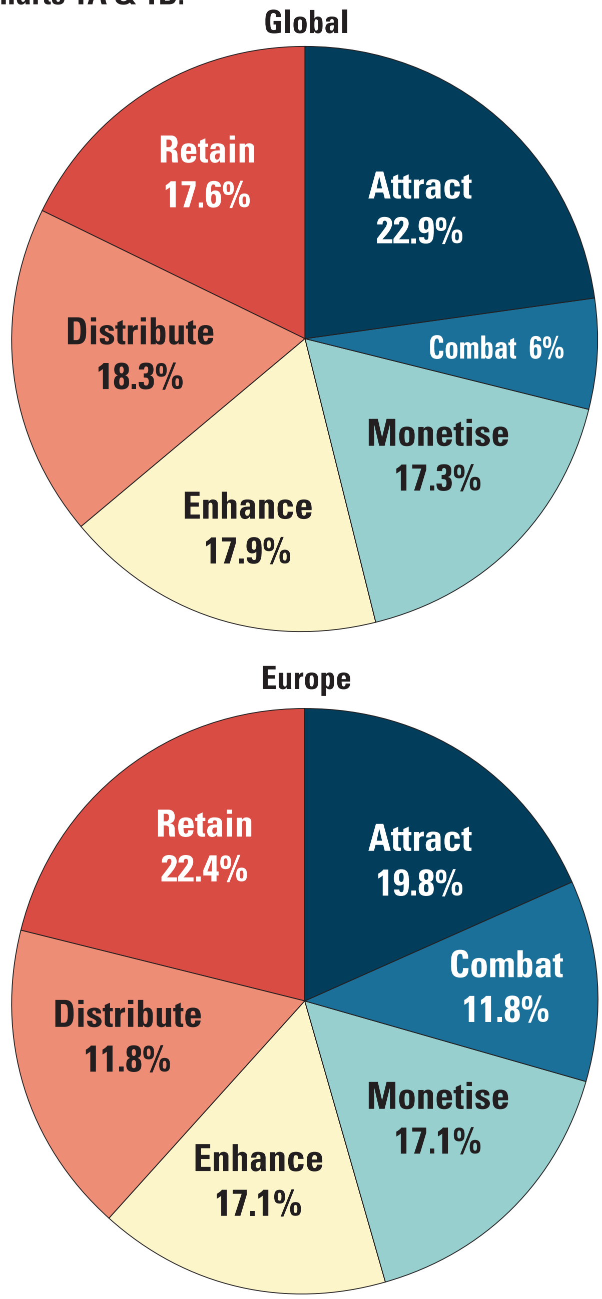
Attracting new subscribers or customers accounts for 23% of all global responses, in line with what we'd typically refer to as the "opportunity" portion of a SWOT analysis. On a global level, the key opportunity of gaining new customers outshines all other reasons. With that in mind, it's not surprising that the idea of warding off a threat (the T in SWOT) in the form of combating OTT upstarts has the lowest global response (6%) overall.

The remaining areas were tied in a photo finish of ~18% for every one of the four areas: distributing new content, monetising existing content, retaining existing subscribers or customers, and enhancing the competitive profile of an OTT provider, with the end goal of increasing profitability.

Regional distinctions: Any good analysis, though, requires a peeling back of the overall responses, to see whether any one region has a different set of reasons for its OTT service offerings.

Based on our survey results, Europe as a whole appears to be deploying a much more defensive OTT strategy than either North America or the rest of the world. The following two pie charts illustrate the difference.

Charts 1A & 1B:



Retaining subscribers and combating OTT upstarts accounts for a combined 34% for European OTT operators, while only accounting for 22% in North America, and 21% in the rest of the world.

In fact, retention of customers was cited as the paramount reason that OTT services are offered in Europe. Retaining customers accounted for almost a quarter of all responses (22%, versus a global 18%) while combating OTT upstarts is twice as likely to be the reason (12%, versus a global 6%) for European service providers to offer OTT services.

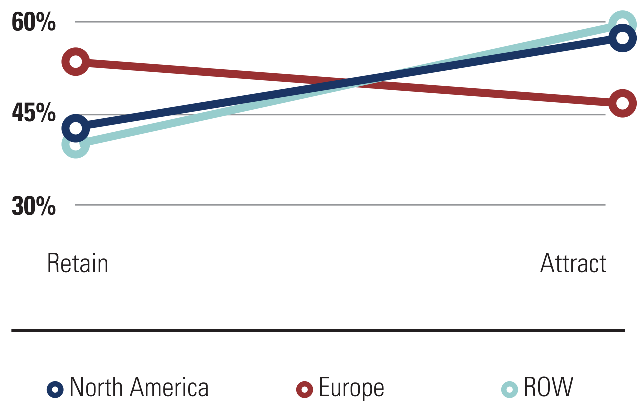
European respondents showed significantly less interest in using OTT services to distribute new content (12% interest in Europe, versus a global 18% interest). In addition, the number of European respondents that chose "attract new subscribers/customers" was over 3% lower than the global average (19.7%, versus 22.9% overall).

Together, this paints a picture of European incumbents playing catch-up to the OTT upstarts, a sentiment neither shared in North America nor in the rest of the world.

In fact, the ROW results are quite similar to the North American and global results. The following two charts illustrate the close alignment (based on our survey responses) between the rest of the OTT world when it comes to primary drivers for OTT service offerings, and European reasons for offering the same services.

Chart 2 compares responses to two of the choices noted in Table 1: attracting new versus retaining existing subscribers or OTT customers.

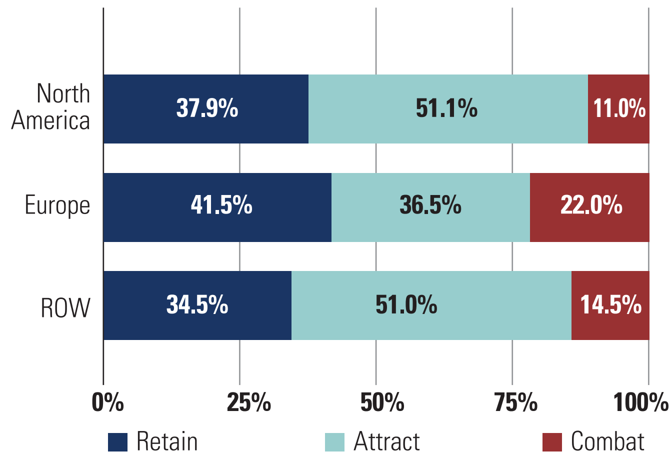
Chart 2: Attract or Retain OTT Subscribers (% by Region)



Both the North American and the ROW results show that between 57-60% of business decisions for starting OTT service offerings centre on attracting new customers, with 40-43% focused on retaining new customers. By contrast, European efforts to retain customers are more focused toward retaining customers.

When a third variable is added into the mix—combating OTT upstarts—as a reason for current OTT services, the correlation between North American and ROW remains, with European responses varying from the norm.

Chart 3: Combat OTT Upstarts or Attract/Retain OTT Subs (% by Region)



As this chart illustrates, both North America and ROW results (51% each) view opportunity— the O in SWOT—as a primary motivator to offer OTT services in the form of attracting new customers. Europe, by contrast, has 41% of its OTT efforts aimed at retaining existing customers and 22% of its efforts aimed at combating new OTT entrants in Europe. In other words, based on these three choices for starting up OTT services, it appears that a full two-thirds of European OTT services are geared toward maintaining the status quo.

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TO AVOD OR NOT TO AVOD

Bearing in mind the primary drivers noted above, let's delve into the bigger question of AVOD versus SVOD.

Respondents were able to choose from five different options for question 3, which asked survey takers to identify the types of current on-demand OTT services offered: AVOD, SVOD, TVOD, Sponsored (non-advertising), or Other. The latter category covered educational, government, and non-governmental organisations (NGOs).

For survey respondents that currently offer OTT services, the last two categories—Sponsored and Other—came in tied for last place. As such, the analysis will focus on AVOD, SVOD, and TVOD response rates noted in Table 2.

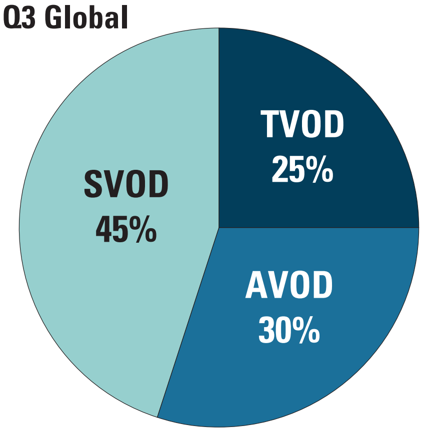
Table 2: What OTT services do you currently offer?

	Global Response (%)
AVOD	20.7%
SVOD	31.3%
TVOD	17.8%
Sponsored	15.1%
Other (education, government, NGO)	15.1%

Overall answers seem to indicate subscription-based video on demand (SVOD) as the dominant form of OTT service offered on a global basis, with approximately 50% more SVOD offerings than AVOD offerings (31.3% vs 20.7% respectively).

Narrowing the results to a top three set of choices appears to further solidify SVOD's role as the dominant form of OTT on-demand service offering.

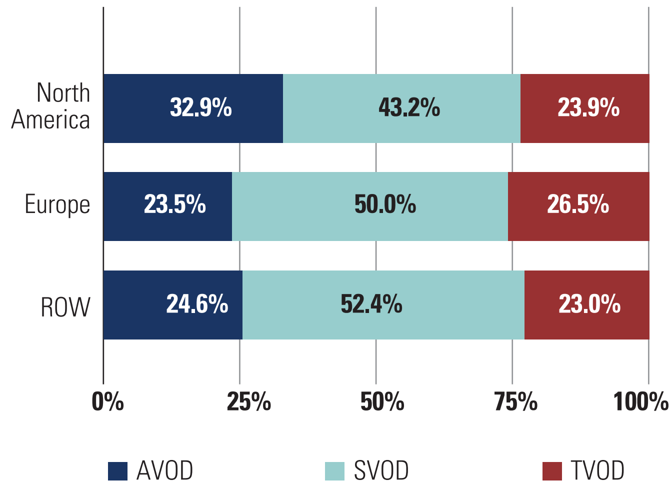
Chart 4: Q3 Global



In a three-way race, almost half of respondents (45%) selected SVOD versus AVOD (30%), and TVOD was in last place with only a quarter of global OTT on-demand offerings using transaction-based payment approaches.

But, what if we break the global numbers down by region? In this case, it's clear that the North American market, oversized as it is, exerts an undue influence on the popularity of AVOD offerings. AVOD is more popular in North America, accounting for one-third of all OTT service offerings identified in our three-way AVOD-SVOD-TVOD race. However, since the bulk of survey responses came from North America, how do European and ROW results compare?

Chart 5: AVOD, SVOD & TVOD OTT Offerings (% by Region)



Europe maintains a 24% AVOD rate, but has a 50% SVOD rate, higher than North America. For the ROW, the SVOD rates are even higher (53%) and the AVOD rates are in line with European AVOD rates.

All in all, then, it appears that every part of the world outside North America maintains lower AVOD offering rates (about 25-30% lower than those in North America) while also growing their TVOD opportunities.

Global SVOD rates, based on our survey responses, appear to be 15-18% higher than in the North American market. Together, though, an AVOD and TVOD combination accounts for less than half of all OTT service offerings outside North America.

In other words, AVOD has a long way to go in penetrating the non-U.S. marketplace.

What are some of the reasons this might be the case?

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Some critics might argue that the North American OTT market is more mature, with consumers hooked on VOD content as a part of daily media consumption. Add that to the fact that the U.S. market is particularly trained to consume media advertising in return for viewing free-to-air television content as well as the bulk of VOD content, and it's a safe bet that North America may be unique in its high rate of AVOD use.

That argument only covers half of the overall picture, though. Looking back at the primary drivers for offering OTT services, it's possible that SVOD is more popular throughout the world in no small part thanks to Netflix.

The fact that Netflix, by early 2016, had launched across all of Europe—requiring incumbent broadcasters to offer SVOD or TVOD services for premium on-demand content—may account for the continued appeal of SVOD. After all, if it has worked well for Netflix in North America, and appears to be working equally well for Netflix in European and global markets, the logical conclusion that incumbents may come to is an increase in SVOD offerings.

What incumbents across the world need to remember, though, is that transactional VOD offerings can be more easily monetised in localities where aggregated billing of services already occurs as part of the incumbent telco or ISP's billing service. In other words, in countries such as the U.S., it's not really feasible to buy a soda from a vending machine with your phone, let alone rent a series of premium content video assets, in no small part due to the fragmentation and deregulation of the cable, telephone, and wireless service industries.

RETAINING CUSTOMERS

In the mobile phone industry, the loss of customers by one service provider equates to the gain of a customer by another service provider. That process is known as churn.

While there's not enough currently-available public data around OTT to confirm churn exists across the streaming industry, it certainly exists in various parts of the world. In fact, thanks to the prevalence of SVOD services, customers are now more likely to be measured in Average Lifetime Value and often that lifetime is measured in single-digit years.

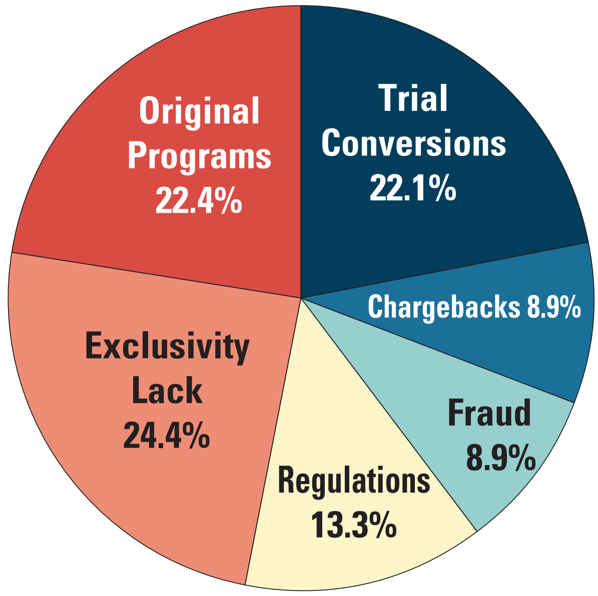
Our research reveals there are at least several common challenges to retaining SVOD customers.

Based on our survey, in which respondents could choose as many options as they wanted, the primary challenge—far and away, across all regions—in retaining customers is a lack of compelling programming.

Question 11 asks about challenges in retention, specifically in five areas: chargebacks, conversions from free trials, fraud, regulations and regulatory compliance, and a lack of either original programming or exclusive content.

Two-thirds of overall responses centre on three key areas: limited trial conversions (22%), a lack of exclusive content (24%), and a lack of original programming (22%).

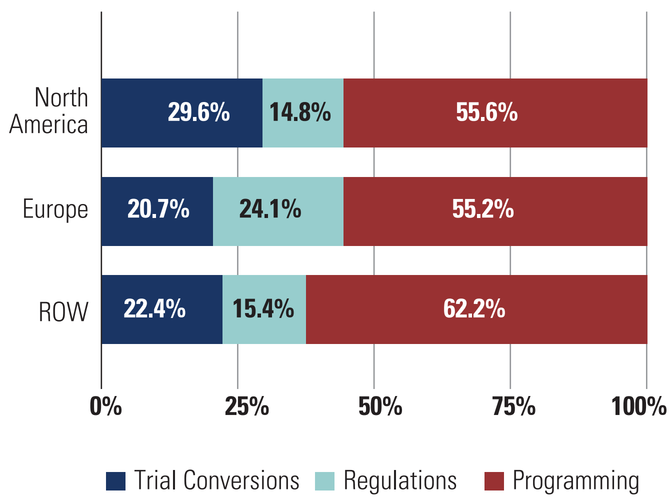
Chart 6: Customer Retention Challenges



Regulatory compliance is considered a significant retention issue in the European market, at 19% versus 13% globally, with the North American market having the fewest regulatory compliance issues (12%) of all markets.

Fraud and chargebacks both registered in the single digits, in terms of challenges to retaining customers, so the following chart addresses the geographic breakdown for the remaining four challenges. Programming in Chart 7 is a combination of both a lack of original programming and exclusive content.

Chart 7: Retention Challenges by Region



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Programming, or the lack thereof, accounts for 55-62% of challenges to customer retention, with the lack of exclusive content or original programming most acute in geographies beyond Europe and North America.

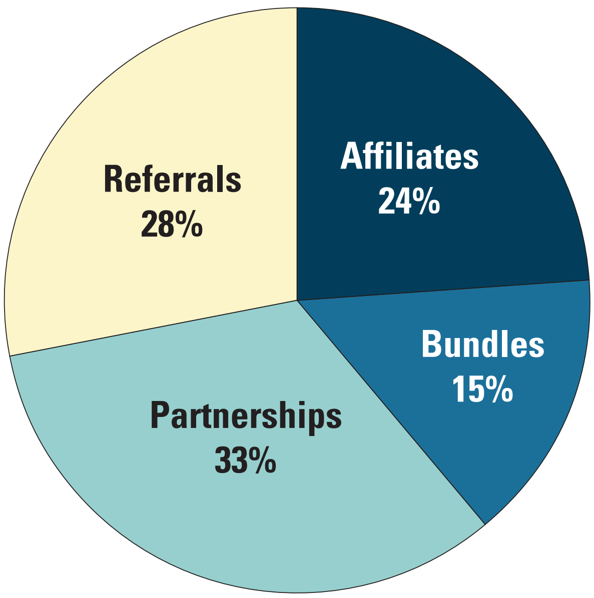
Trial conversions are a major challenge in North America, accounting for almost one-third of challenges. If all six challenges noted in Chart 6 are considered, trial conversions and lack of programming account for 68% of all challenges; if fraud and chargebacks are removed, 90% of all challenges are programming- or trial conversion-related.

GROWING SVOD REVENUE AND SUBSCRIBER BASE

Now that we've seen the challenges faced in retaining customers, what about strategies for growing customer subscriber numbers or SVOD overall revenue?

Responses in Question 21 address several SVOD subscriber growth strategies, from affiliate programs and product (family) bundles to referrals and partnerships. For partnerships, respondents were informed this term meant partnering with cable or mobile operators.

Chart 8: SVOD Growth Strategies

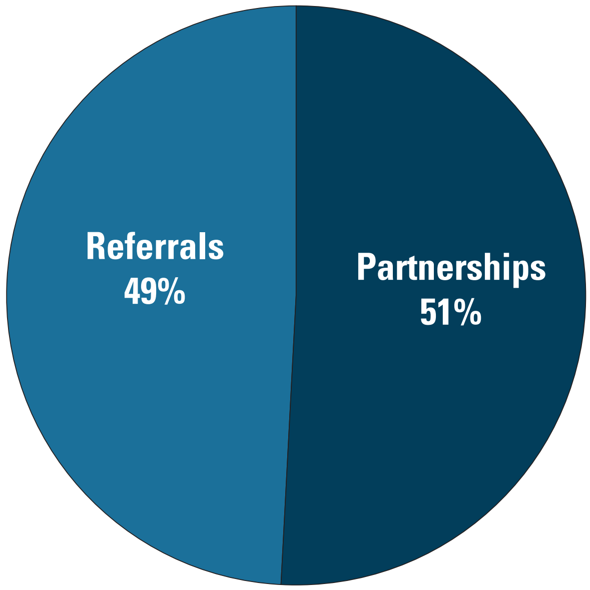


Overall, 15-16% of respondents chose family packages or bundles as a way to raise SVOD subscriber numbers. Another 27-28% chose affiliates as an approach that respondents had considered as a way to raise subscriber numbers. These numbers were consistent both across the board and within the individual regions of Europe, North America, and the rest of the world.

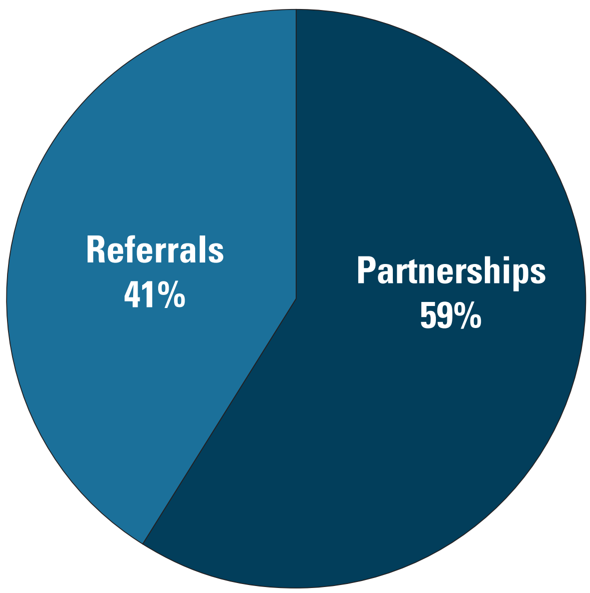
The other two strategies, partnerships and referrals, accounted for six out of 10 of all choices. Yet the makeup of these two strategies differs between North America and the rest of the world.

Charts 9A & 9B: Key SVOD Growth Strategies by Region

North America



Europe & Rest of World



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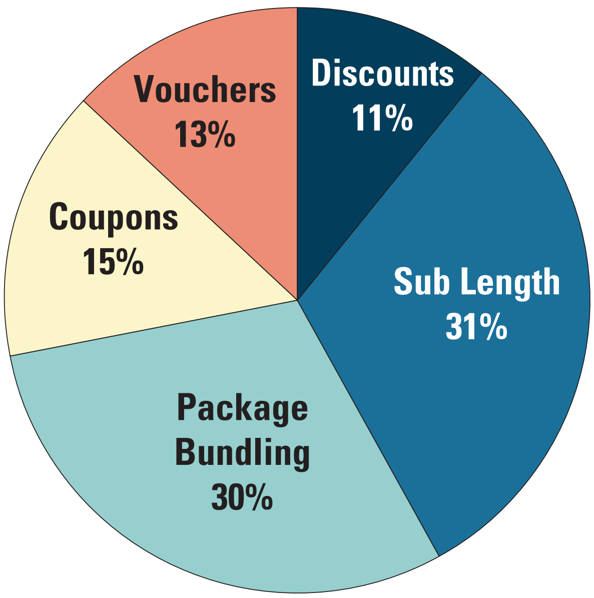
Partnerships and referrals are evenly split for our North American respondents, but in regions outside North America, referrals lag at 41% compared to partnerships. Only 30% of other geographic regions rely on referrals, with almost 45% relying on partnerships as a way to raise SVOD subscriber numbers.

As a final note on SVOD subscriber growth strategies, it's worth pointing out that, at only 15% of overall responses, the limited lack of bundles to raise SVOD subscriber numbers is at odds with responses to the next question: strategies to raise SVOD revenue targets.

Chart 10: SVOD Revenue Strategies



In Question 22, package bundling was the second-highest chosen strategy overall (30%), trailing closely behind the top strategy of longer subscriptions with free months (31%). At the bottom of the heap is the concept of BOGO (buy one, get one free) that is popular in some software sales but much lower in popularity for subscriptions (11%).

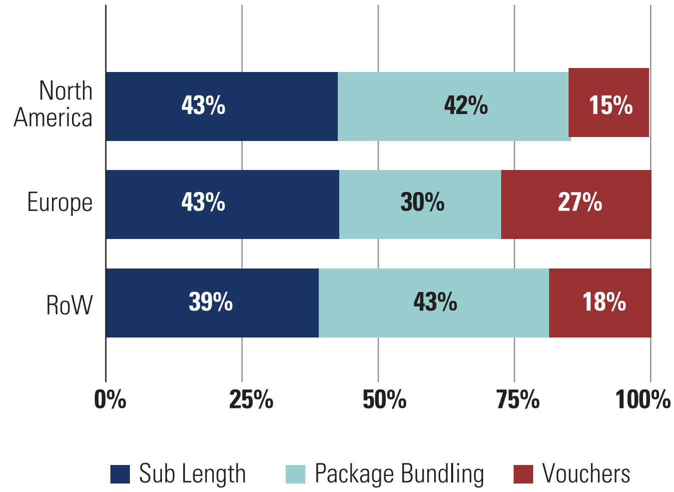
The only geography in which package bundling trails the global average is Europe, with 23% of SVOD revenue strategy options, while longer subscriptions account for 33% of all European revenue strategies. In addition, pre-paid vouchers are much more popular in Europe than in North America or the rest of the world.

The following chart represents the geographic breakdown of the major three strategies for raising SVOD revenues.

As noted above, package bundling accounts for 42-43% of North American and the rest of the world, and longer subscriptions are popular in both Europe and North America.

European results show the most deviation when it comes to packaged bundles (30%) and pre-paid vouchers (27%) with vouchers being almost twice as popular in the European market as they are in the North American market.

Chart 11: Key SVOD Revenue Strategies by Region

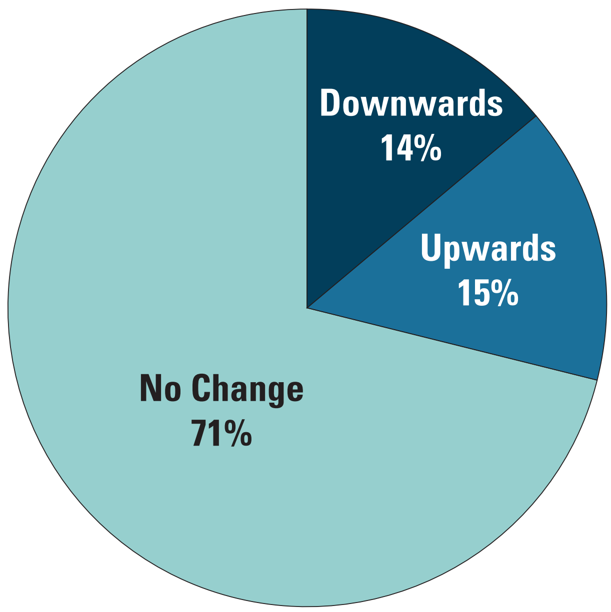


PRICING

Questions 18-19 attempt to gauge the trends in pricing, broken down in two timeframes: the past 12 months (Question 18), and the next 12 months (Question 19).

Overall, the past year has seen a maintaining of pricing, with 71% of respondents saying their companies had not revised pricing in the preceding 12 months.

Chart 12: Price Adjustments (last 12 months)



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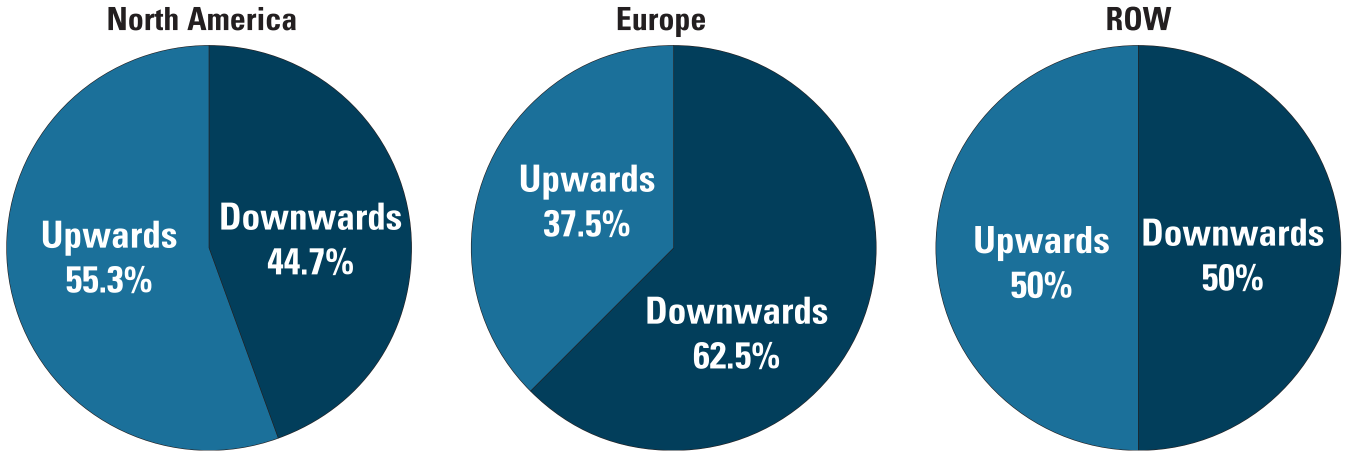
Charts 13A, 13B, 13C: Price Adjustments by Region



Even among those respondents that stated their companies had changed pricing, the percentage of downward versus upward movement in pricing was almost equal, with 52% of those noting pricing changes upward, and 48% stating their companies had lowered pricing.

Breaking it down by region, though, shows a slightly different story, as illustrated by the following three charts.

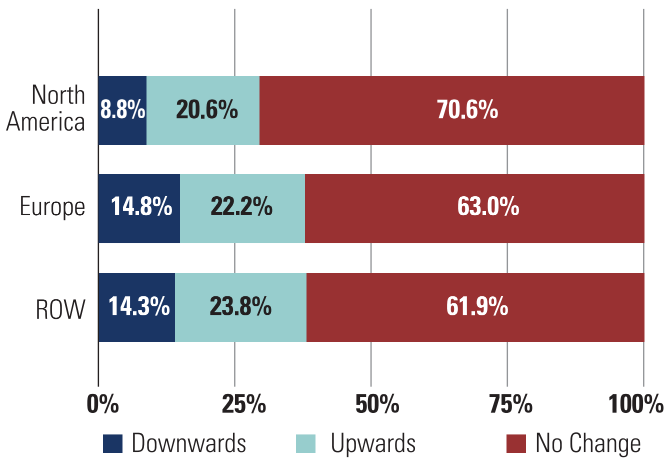
North America shows a rise in upward pricing trends, with 55% of North American respondents saying that their companies have raised prices. By marked contrast, Europe saw a large downward trend in pricing, with 63% of European respondents stating their companies have reduced prices in the past year. As for the rest of the world, there is no clear direction.

Future trends point toward prices for OTT services rising within the next year. Approximately one-third of service providers stated that their companies plan to change pricing in the next 12 months. Of those, 67% of respondents are planning to raise prices, while 33% plan to lower prices.

Markets outside of North America will see the biggest increase in pricing changes, both downward and upward. While the past 12 months showed a consistent trend across all regions, with 71% of respondents stating pricing would remain unchanged, the future trend shows that almost 4 out of 10 companies outside North America will make pricing adjustments.

In the North American market, only 9% of respondents stated that their companies will reduce pricing in the next year, with 21% of companies increasing pricing.

Chart 14: Pricing Trends (Future) by Geography



By contrast, markets outside of North America seem to be moving toward lower overall pricing models. While markets outside Europe and North America will see the highest overall percentage of price increases, only a quarter of total respondents stated their companies plan to raise pricing within the next year. In short, global providers overwhelmingly appear to be stabilising or even reducing their prices, which is good news for consumers over the next year.

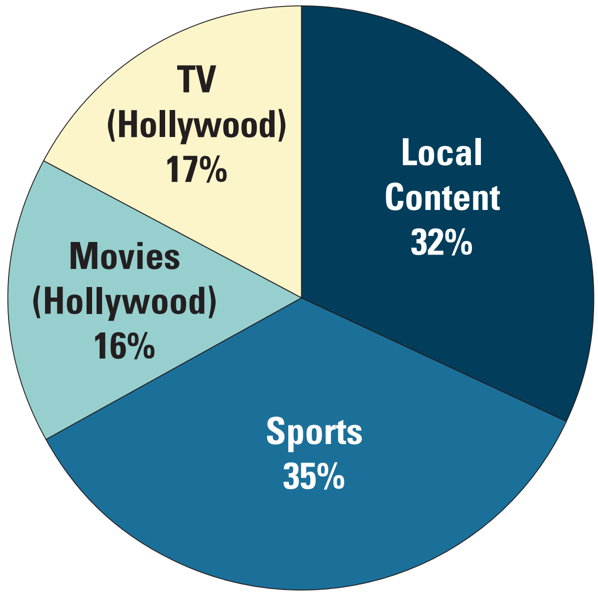
CONTENT STRATEGIES

The final set of questions in this report centres on programming offerings, from VOD libraries to live-linear OTT services, as well as emerging monetisation strategies.

On the content strategy front, we looked at three key areas: monetisation, exclusivity, and original programming.

We asked respondents to identify which types of content are most easily monetizable in an OTT service provider's domestic market. Choices included local content, sports, and two types of Hollywood content: movies and television shows (episodics).

Chart 15: Monetising Content Types



Sports was identified as the single easiest content type to monetise, at 35% globally and in North America. In the European market, the percentage was even higher, with 52% of responses highlighting the ease of monetising sports content.

On a global level, local content accounted for 32% of all responses, followed by premium televisions and episodics at 17% and movies at 16% (Hollywood content). Taken together, the premium content (movies and television shows) equates to one-third of responses for easily monetisable content.

For markets outside of Europe and North America, though, Hollywood content equates to a quarter of all responses, with local content at almost half of all responses.

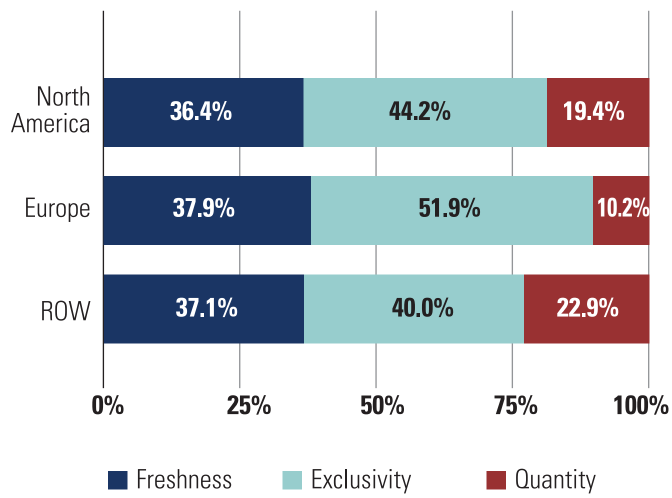
Most major operators in Asia-Pacific have internal production resources, allowing them to often produce local content much less expensively—and at a thinner profit margin, compared to pure-play production companies—than would be possible for global OTT providers, such as Netflix.

As such, local content is an important differentiator for local operators in their home markets, as they have more intimate knowledge of native market needs, when compared to global players that show the same content in each country and only differentiate it by dubbing or subtitles.

What about exclusive content and original programming? We asked this question several different ways.

The first was a historic question, asking what has been more important to the maintenance of an OTT service provider's VOD library. Choices include: exclusivity (unique content), freshness (newer titles), or quantity (more titles).

Chart 16: VOD Library Priorities



Across all geographic regions, freshness of content accounts for 36-38% of responses. Quantity of content averages 19% but is as low as 10% (Europe) and as high as 23% (rest of world).

In Europe, where freshness of content is three times more important than the race to add more titles to a VOD library, the need to offer unique or exclusive content is by far the most important ingredient (52%).

In the North American market, intent to invest in exclusive content accounts for just under half of responses, with four out of 10 responses for the rest of the world also highlighting the need for exclusive content to round out a competitive VOD library.

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The global identification of exclusive content as an important component in maintaining a competitive VOD library led to another set of questions about spending on exclusive content or original programming.

In Question 32, respondents were asked to confirm whether, over the next 12 months, their company plans to invest in exclusive SVOD content deals.

Responses show a tie for all companies that currently offer OTT services, with half confirming they would invest in exclusive SVOD content deals and the other half stating they had no plans to do so. Fifty-three percent of North American respondents stated that their companies will not invest in exclusive SVOD content over the next twelve months.

What about original (made-for-SVOD) programming? When asked in Question 33 about their company's plans in 2016-2017 to commission original content, the overall result also trended slightly negative.

Fifty-three percent said yes, and 47% said no, meaning companies were less likely to commission original programming than they were to do exclusive content deals. North American responses were in line with global overall averages.

For markets in the rest of the world, outside North America and Europe, the likelihood of investing in exclusive content or original programming rises.

In these geographies, approximately two-thirds of all respondents stated their companies will invest in unique or exclusive content. Sixty-eight percent stated their companies will invest in exclusive SVOD content deals, while 57% plan to commission original (made-for-SVOD) programming.

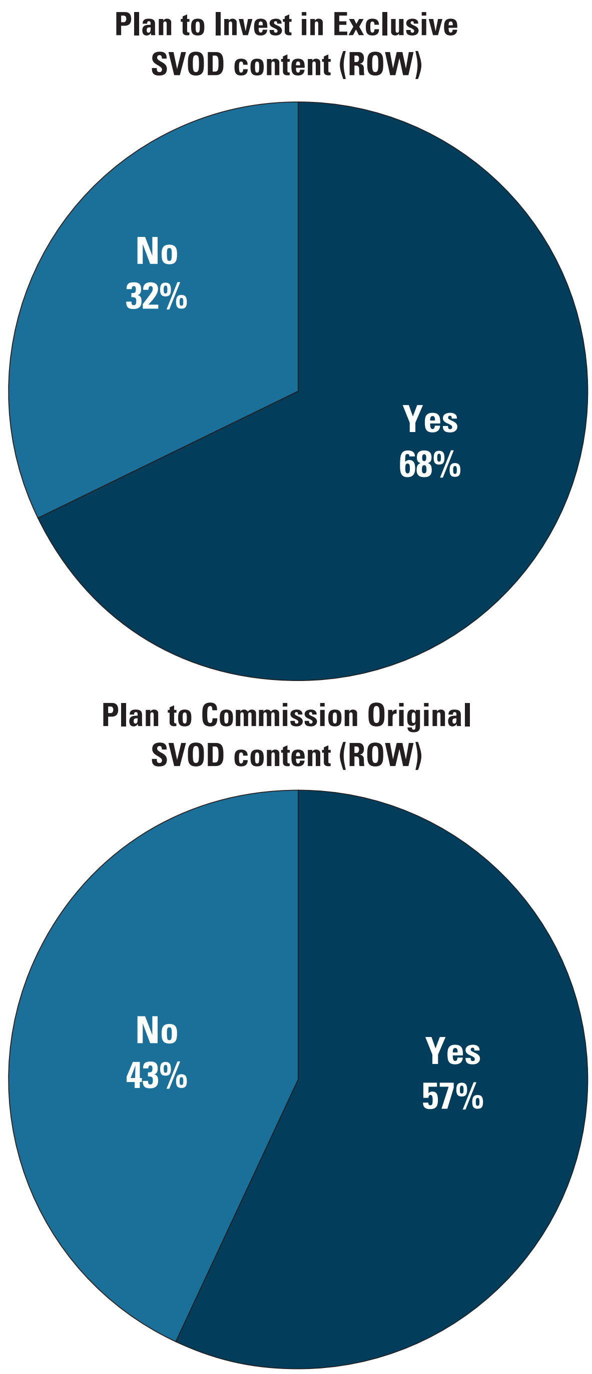
This trend makes sense on two levels. First, those who choose live-linear channel content as their primary OTT service offering may find the cost of live content is more palatable—from both an exclusivity and origination standpoint—which, in turn, offers better overall profit schemes.

Second, the use of live-linear naturally offers more opportunities to commission original content, such as concerts or niche sporting events. We see the potential for new OTT entrants that own a venue or the rights to live performances to enter the OTT market with a live-linear, event-based offering rather than starting with SVOD as most traditional OTT entrants have done in the past.

Based on customer interactions, OTT service providers in the APAC region tend to commission content that they own in its entirety. This outright purchase of all rights allows the service provider to reduce content ownership costs overall, as they will not need to pay out residuals or commissions. This also allows them to franchise the original content for added revenues.

Given the stated need for exclusivity discussed around the findings of Chart 16, we attempted to correlate other factors that might indicate a company is more likely to engage in exclusive content deals or commissioning of original content.

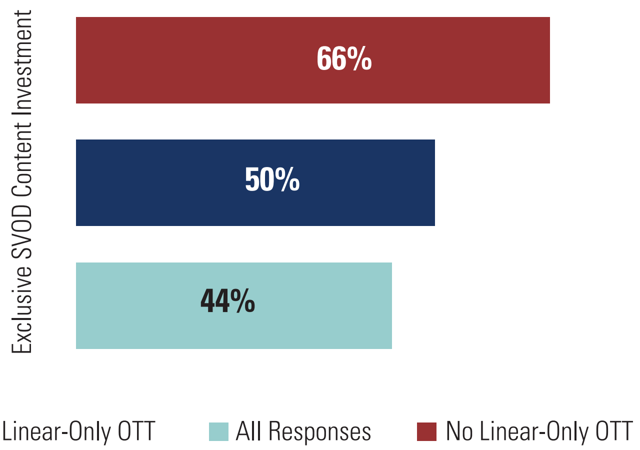
Charts 17A & 17B: Content Exclusivity Intent



The one correlation that most appears to move the needle toward exclusive or original content deals is whether a company planned to offer an OTT service consisting solely of linear channels. Question 27 poses this specific question: "Do you currently offer, or plan to offer in 2017, an OTT subscription consisting only of linear channels?"

The chart below illustrates the tendency to invest in exclusive content deals.

Chart 18: Who Invests in Exclusive Content?



The average of all responses, from those currently offering OTT services, shows about half of those respondents plan to invest in exclusive SVOD content deals. If a company is not planning to offer a linear-channel OTT service, however, there is a drop (44%) in the company's tendency to invest in exclusive OTT content.

Conversely, for those companies planning to offer a linear-only OTT service, the tendency to invest in exclusive OTT content rises (66%) overall.

This trend is even more pronounced in ROW markets, which display a 68% tendency to invest in exclusive SVOD content deals. For those not offering a linear-only OTT service, the tendency to invest in exclusive SVOD content drops (63%) but rises significantly (77%) for those companies that offer or plan to offer a linear-only OTT service.

Is there a correlation between offering a linear-only OTT service and commissioning made-for-SVOD original content? Our survey results conclude that there is.

For those companies that currently offer OTT services, there is a 47% tendency on average to commission original SVOD content. That tendency rises to 58% for those offering or planning to offer a linear-only OTT service, while it falls to 43% for those with no plans to offer a linear-only service.

While the obvious possible link between exclusive or commissioned content and linear-only offerings might be a repurposing of live content in to future SVOD products—think of live sporting events repackaged as exclusive SVOD highlights—another possible link also exists.

This possible link between a linear-only OTT service and the tendency to either invest in exclusive SVOD content deals or commission original content is the cost of content acquisition. This may seem counterintuitive, especially since exclusivity and original programming tend to carry a hefty price tag, but the overall cost of linear-channel repurposing for OTT delivery is often less than a VOD-only OTT offering.

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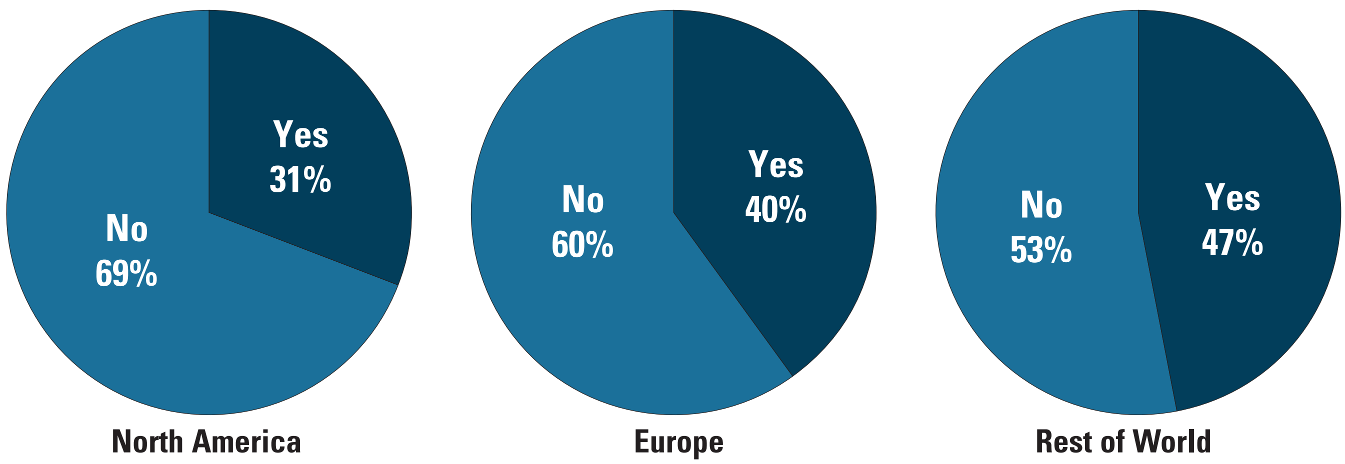
MONETISATION THROUGH METERING

A final area worth exploring centres on the concept of metered usage, and how it informs both consumer and service provider decisions.

When asked about familiarity with metered usage, in survey Question 12, response rates were about the same across the board: 61% of all respondents were familiar with the concept. When we filter down to just those who currently offer OTT services, familiarity rises just slightly, to 63% overall, with Europe demonstrating the highest awareness at 67% of those offering OTT services.

Filtering further, by those who are familiar with the concept of metered usage, we find that the responses regarding positive validity of metered usage (Q13) have some variation to them.

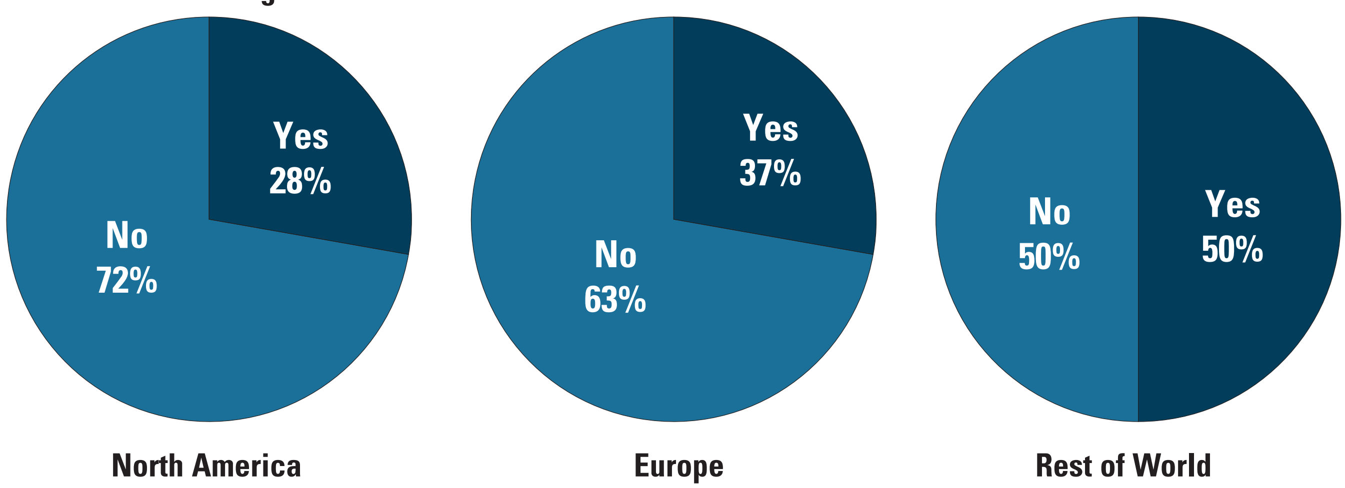
Chart 19: Metered Usage Awareness



For the overall respondents (including both those that currently offer OTT and those that do not), the favourability of metered usage is lowest in North America (31%) and highest outside of Europe and North America (ROW=47% favourability).

If we filter for only those currently offering OTT services, the validity of metered usage falls in both North America (from 31% to 28%) and Europe (40% to 37%) but rises in the rest of the world, from 47% to 50%.

Chart 20: Metered Usage Intent



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In Question 14, we asked respondents what types of metered offerings were of interest to them. The results varied greatly by region.

For instance, a low minimum price plus TVOD is the overall favored option. It ranges from 44% in ROW to 36% in Europe.

Europe was also the only market to choose the option of a higher minimum price plus TVOD above the standard 12% range seen in other markets. In fact, European responses were evenly divided between those two options (TVOD combined with either a low price or a higher price) which accounted for almost three-quarters of European responses. But again, I caution on the sample size.

Multi-SVOD tiers (by title or minutes) were fairly consistent in the ROW results, accounting for a total of 44% of ROW responses. In the North American market, this combination yielded a total of 53% of responses.

What conclusions can we draw from this data, understanding that the sample size for some regions was not as robust as others? First, the key takeaway is that SVOD offerings often struggle in finding a balance of an enticing price point for both consumers and operators. Operators are looking for more than just a break-even scenario. Monthly rates that are too high are not going to yield subscriber growth and rates that are too low impact their investment payback period.

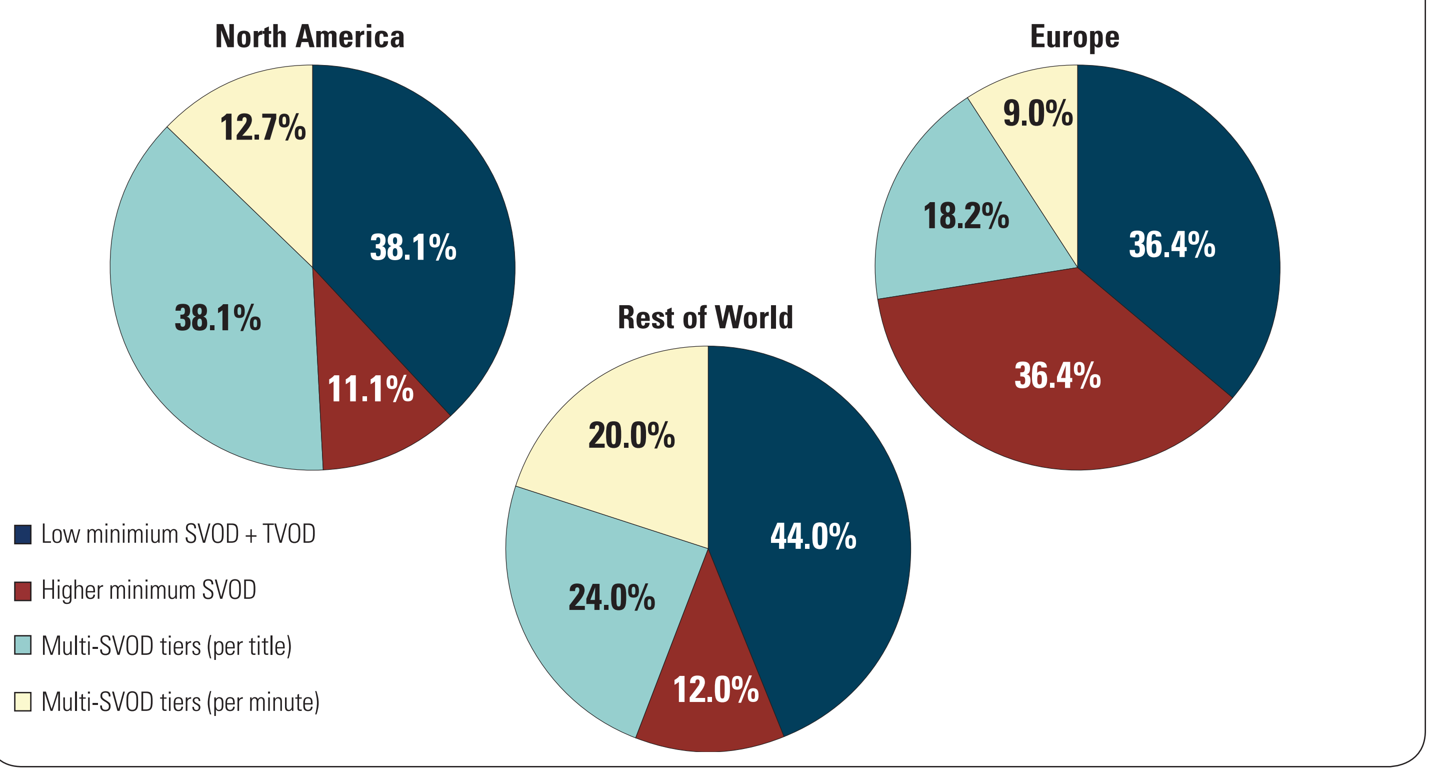
One option, which is borne out in our survey responses, is to consider a low initial upfront cost, which we see clearly favoured in the ROW responses in Chart 21. This approach offers a way to draw in enough eyeballs. In addition, it sets the stage for both easier conversion from trials as well as incremental monetisation through TVOD for select premium titles.

Another option is to consider the news-centric paywall models that have been used with varying success in North America. For instance, the digital edition of the Straits Times (Singapore Press Holdings' flagship paper) offers limited free content, including a set number of articles per month, but then asks the viewer to subscribe to receive the full content.

Variations on this, deployed by the likes of Fox and Hulu, offer previews ranging from 90 seconds up to 60 minutes—the latter in aggregate over several shows—and then ask the viewer to subscribe to finish the clip.

Another variation is a metered SVOD model where subscribers are allowed to view a certain number of fixed titles, but pay a higher amount to watch even more. While this approach is similar to a mobile data plan that allows 5GB of data for one price, and 10GB of data for a higher price, the SVOD approach can either be deployed on a per-GB or per-title basis. Very few OTT operators have taken this approach, but the fact that it's already in use suggests that the time could be ripe for a metered approach in various regions across the globe.

Chart 21: Metered Usage Approaches



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CONCLUSION

We've uncovered several key trends in the marketplace, based on insights from our survey respondents.

One of the key takeaways is that linear channels are a natural progression of OTT, once the overall technical issues are solved, and therefore a natural step forward in terms of reducing cost. Meshing cost reductions together with linear channels is a hybrid approach that offers the best of linear TV alongside key localised VOD content.

A second takeaway is the uncertainty around metered usage, which combines SVOD and TVOD together in a subscription-transaction joint approach. The industry needs a set of best practices around one of the findings, namely how low SVOD subscription rates, coupled with select TVOD title offerings, can work. The approach makes both logical and financial sense, especially when one considers that a low willingness to pay in some markets is often exacerbated by accompanying rampant piracy in those same markets.

While this is especially prevalent in emerging markets, the higher volume of available or addressable subscribers in some markets like the United States mitigates this effect. The theory here, as shown in the Chart 21 trends for North America, is that consumers can afford to pay so there is no real need to adopt this pricing strategy.

A third takeaway is a rethinking of the cost of original content on a global scale. As mentioned above, when considering the absolute cost of original content, in terms of royalties, rights, and other residual expenses, the idea of commissioning original content should not equate to a loss-leader approach. In the past, the high cost of production went into a very short window of profitability, especially for live content. In the world of SVOD and TVOD, though, the ability to repurpose live original programming as VOD packages means that production costs can be more easily offset by long-tail delivery and lower overall cost of ownership.

Finally, we see a trend toward localisation of content, coupled with linear-channel distribution that accommodate current rights restriction scenarios.

Consider the fact that most OTT service providers need to black out specific content due to rights restrictions, which can present a challenge when OTT delivery technologies differ from traditional over-the-air or cable delivery blackout technology. Operators are exploring live-linear managed solutions, that reduce the complexity of managing live-linear channels, including the steps needed to protect rights and blackout certain content.

In other words, with OTT still at a nascent stage, and best practices only now being established, the time is right for OTT service providers to work closely with a trusted partner on new ways to monetise content, attract new viewers, keep viewers engaged, and generate new revenue streams from their OTT investments.

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