Interactive TV Monetisation: The Big Picture

Produced by

DIGITAL TV EUROPE

In association with

zenterio

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Introduction

Making money from interactive TV

With traditional pay TV growth leveling off and consumers becoming less willing than previously to spend additional subscription revenue year-on-year for their existing service offerings, pay TV operators are seeking new ways of making money, primarily from digital activities. However, many offerings launched in recent years that fall under the broad category of 'interactive services' have been provided for free and there is a large question mark how operators should pursue digital strategies and what the best way is to increase ARPU.

How to make money from interactive services – and which services have the potential to deliver a decent return on investment – are key questions facing service providers as they seek to cater to their subscribers' demands for more flexible ways of consuming video. With the traditional mainstay of pay TV operators – the linear channel – facing a number of longer-term challenges, it is crucial to make the right choices now.

DTVE recently surveyed over 100 interactive video industry players from 42 countries, of whom 7.7% identified themselves as cable operators, 11.5% as triple or quad-play operators, 6.7% as IPTV service providers, 2.9% as DTH operators, 17.3% as OTT service providers, 2.9% as pay TV channel operators and 14.4% as free-to-air broadcasters. (Other respondents included OTT video providers, system integrators, consultancies and technology providers.)

The survey revealed that:

- TV operators in general believe that interactive services can make money, but their opinion is divided on how much. While many believe such services offer the best way to deliver higher ARPU as growth in traditional pay TV levels off, a significant minority believe interactive services can deliver little or no monetary benefit. Respondents to our survey had a notable preference for video-related interactive services – believing that subscription video-on-demand, targeted advertising and transactional video-on-demand are the services most likely to deliver revenues.

- SVoD is the clear winner amongst interactive services for our survey sample, with a majority believing it could deliver a significant portion of overall revenue for TV operators. TVoD is also tipped to deliver a significant portion of revenues, as is targeted advertising. More modest revenues are expected from targeted and interactive advertising, OTT services, games and app stores. Expectations about the revenue earning potential of services including search and recommendation, multiscreen and multiroom distribution of content, companion screen services, voting and video telephony are much lower.

- On-demand services are likely, in the view of survey respondents, to deliver significant revenues if they include popular current TV services and shows, followed by popular recent-release movies. Making content available in an earlier release window is the action most likely to contribute to an uplift in revenues from such services, according to the survey. Online piracy and the widespread availability of free services are not seen as significant hurdles.

- Targeted advertising is most likely to deliver a strong revenue performance if operators are in a position to implement a high degree of targeting and personalisation of advertising, according to survey respondents – the more personalised the advert, the better. Respondents took a less favourable view of the revenue-earning potential of 'telescopic' or 'drill-down'-type interactive advertising, where viewers have the option of using their remote control or second screen to view longer form videos and gain access to greater information.

- Other types of interactive services such as gaming, music, cloud storage and app stores offer some potential to enhance revenue for TV operators. Freemium casual gaming and high-end subscription-based Massively Multiplayer Online Games are seen as having some potential, as are offering streaming music services, app stores and cloud storage, especially if such services are bundled with other offerings.

Identifying the money-makers

The question of whether interactive service revenues can deliver meaningful revenue growth for service provider has been endlessly discussed. Opinions are divided between those who believe that such services can provide a clear and defined way for a service provider to increase average revenues per user and those who think that such services can, at best, only deliver marginal financial benefits to their providers.

Amongst our survey sample of industry executives, optimists outnumber pessimists, but not by an overwhelming margin. Of our sample, 37.5% of respondents believe that interactive services offer the best way for service providers to deliver higher ARPU as growth in traditional pay TV levels off, while three in 10 respondents believe interactive services can deliver significant incremental revenues while not being the most important area for service providers to focus on. About a third either believe that interactive services can only deliver relatively limited benefits, or no benefits at all (fig. 1).

Asked to rate a number of potential interactive services in terms of their perceived potential to deliver additional revenue for service providers, our survey sample did, however, show a clear preference for video-related services.

The two most highly thought-of interactive services – in terms of their incremental revenue value – are subscription video-on-demand and targeted advertising. Over four in 10 of our respondents rated SVoD as having 'very strong potential' to deliver additional revenue, the highest rating on a scale of 1-5. Just under four in 10 gave targeted advertising the same rating.

Our respondents also gave high ratings to transactional video-on-demand, with a third rating this as having 'very strong potential'. However, TVoD rated below multiscreen distribution of content and interactive advertising overall, with higher proportions rating the latter two services either as having very strong potential, moderately strong potential or average potential.

Services that rated moderately well for revenue potential include search and recommendation, multiroom distribution, PVR services, use of the second screen as a remote or companion screen, and e-commerce.

Services that are rated somewhat lower on the scale for their revenue potential include app stores, gambling, voting, video telephony, and social networking. Music streaming services also trail somewhat behind video-related services (fig. 2, overleaf).

Asked to narrow their choice and to identify which service had the potential to deliver the greatest uplift in ARPU, respondents ranked SVoD first – selected by about a quarter of all respondents – followed by internet TV/OTT, targeted advertising and transactional VoD (fig. 3, below).

Fig 1: Which statement reflects your view on the revenue potential of interactive services?

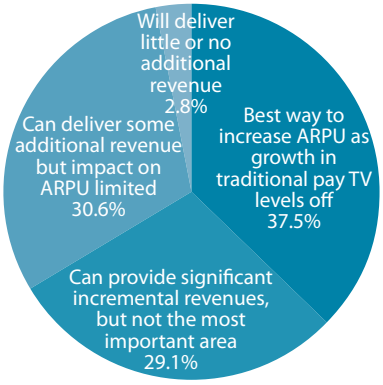


Fig 3: Which interactive service has the potential to deliver greatest uplift in ARPU to pay TV service providers?

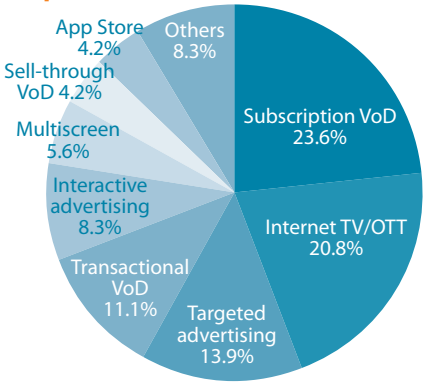
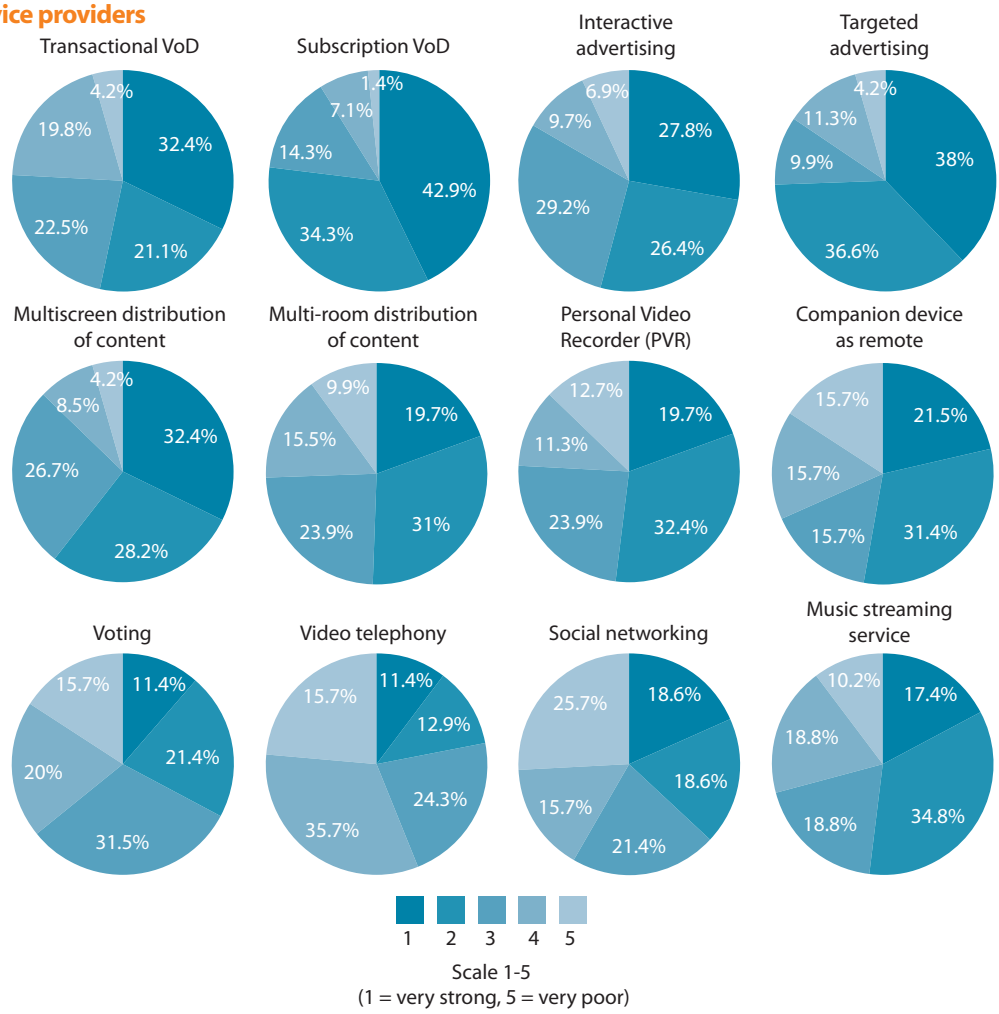


Fig 2: Rank the following in terms of their potential to deliver the greatest additional revenue stream to service providers



Overall contribution to revenue

Identifying subscription video-on-demand as the service most likely to produce an uplift in ARPU clearly fits well with recent industry trends that have seen a spate of SVoD launches, led by the company that takes centre stage in most industry debates – Netflix. However, for pay TV providers that already deliver a bundle of services for a fixed monthly fee, quantifying the potential uplift of SVoD and other interactive services is challenging, and no real consensus has emerged around how much money these services might actually make for pay TV providers.

Asked to make an estimate – or take a bet – on what proportion of overall revenue different interactive services might contribute, just under one in five of our respondents estimated it could deliver over 30% of revenue, while over three in four believed it could deliver over 10% of revenues.

Also scoring highly in terms of estimated revenue were transactional video-on-demand and targeted advertising, although a relatively greater number of respondents estimated the potential proportion of revenue it could deliver at between 10%-20% and a relatively smaller number at over 30%. In the case of TVoD, just under half of respondents thought it could deliver between 10-30% of revenue, while about 15% thought it could deliver over 30%. In the case of internet TV and OTT, a much smaller number – only about 8% – thought it could deliver over 30% of revenues, but a full 57% thought it could deliver between 10%-30%.

Over 10% of respondents in each case thought targeted advertising, multiscreen distribution, games, app stores and e-commerce could deliver over 10% of revenues. In the case of targeted advertising, over half of respondents thought it could deliver between 10%-30%.

The least favoured interactive services in terms of their revenue potential were voting and video telephony, where over 50% thought these services were likely to deliver under 3% of revenue (fig. 4).

The impact of advanced interactive services on the top line as a proportion could of course depend to a significant extent on how big the pay TV operator's ARPU is in the first place. Asked to translate those proportions into absolute numbers, our survey sample struck a more cautious note – particularly with regard to subscription VoD. About half the sample thought this service could deliver a relatively modest €5-€10 a month – possibly in line with the benchmark set by Netflix – with only one in eight estimating that it could deliver over €10. About a quarter estimated SVoD could deliver €1-€5. While a slightly higher proportion in fact thought internet TV/OTT, targeted advertising, and games could deliver over €10 a month, a larger proportion believed that SVoD could deliver over €5 than any other service.

According to the survey, services including interactive advertising, games, app stores, gambling, e-commerce and music were capable of delivering modest revenues – for the most part under €5 a month. On the other hand, respondents did not, in general, believe that services including search and recommendation, multiscreen and multiroom distribution of content, companion screen services and voting could deliver significant revenues. The least favoured services in terms of their absolute revenue potential were video telephony – unsurprising given the ubiquity of Skype – and social networking (fig. 5).

Fig 4: What proportion of ARPU are these services capable of generating over the next five years?

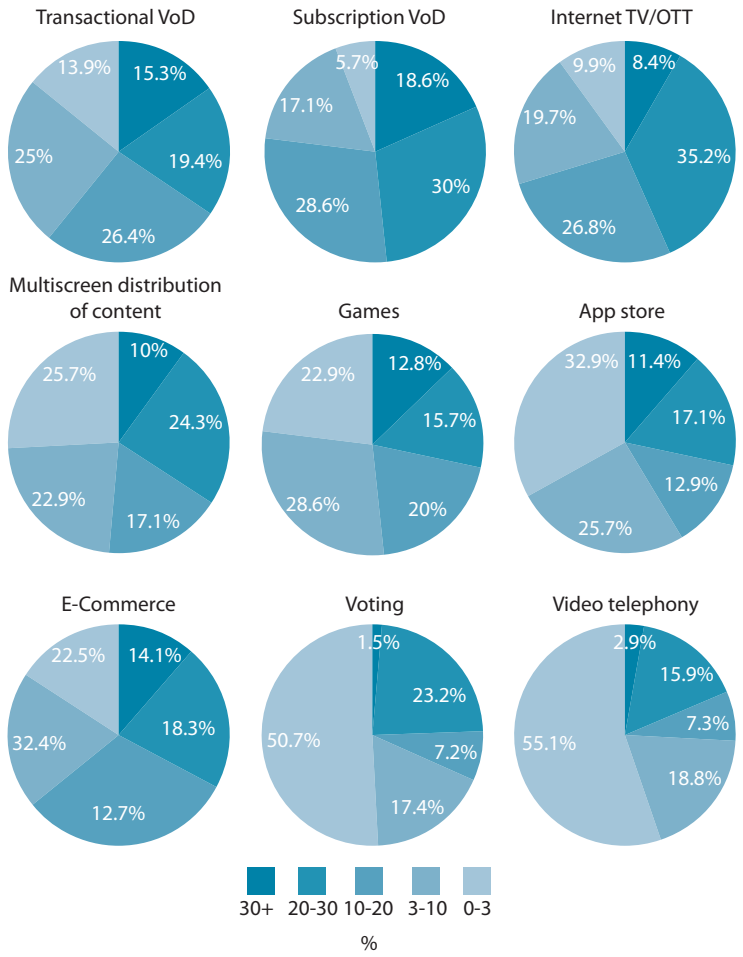
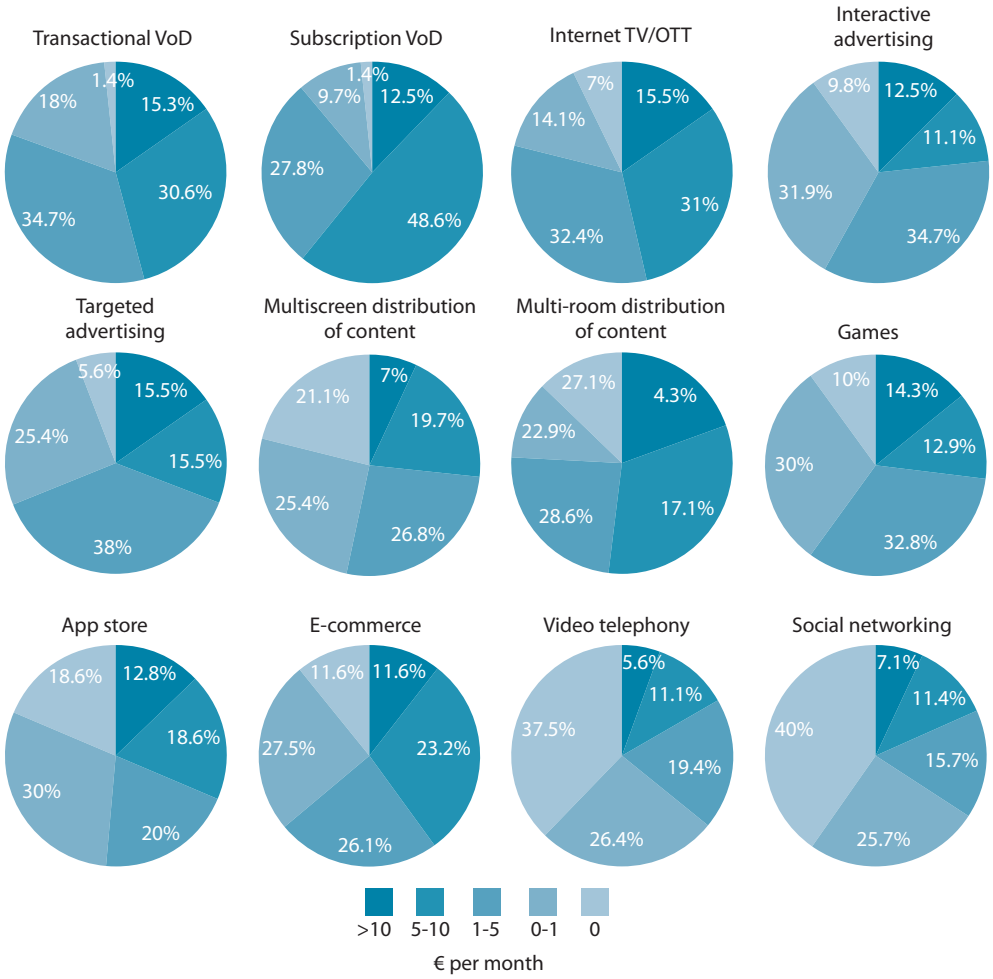


Fig 5: How much ARPU per month do you think these are capable of generating over the next five years?



What makes VoD work?

Given the importance of on-demand services as a potential money earner for operators, it seems worthwhile to probe views on which features are most likely to contribute to the success of such services and which are likely to be of less importance. We asked our survey sample to rate seven qualities associated with VoD services for their likely contribution to ARPU.

According to the respondents, the most important quality of on-demand services – at least in terms of their revenue potential to operators – is the availability of popular current TV series and shows, identified as 'very important' by seven in 10 respondents. Series and shows are followed in importance by the availability of popular recent-release movies, cited as 'very important' by three in six respondents. The availability of 'premium VoD' – movies available at the time of their cinema release – is also seen as relatively important.

Respondents gave a mixed response to the possible impact of making third-party services such as Netflix available as part of their VoD offering, with two in five seeing third party services as 'very important' and a further third of respondents seeing it as 'moderately important'.

Of less significance in giving an uplift to ARPU, according to our survey sample, is the availability of back catalogue content – whether TV series and shows or movies – and the availability of a very wide catalogue of long-tail content (fig. 6).

The importance of premium or first-run content was also highlighted when the survey sample was asked which of a set of improvements would contribute most to increasing revenue from VoD services overall – whether subscription, transactional or electronic sell-through. Fully half of respondents said that making premium content available sooner was the most important improvement that could be made and that current content windows are a problem, ahead of better search and recommendation features being made available within VoD services and the introduction of more flexible pricing models, for example through the ability to bundle VoD with linear services or to introduce discounts for multiple purchases.

Of much less importance to our respondents – perhaps surprisingly – was eliminating online piracy and the illegal consumption of content, while reducing or eliminating the amount of free VoD available to subscribers was cited by only one respondent (fig. 7).

Fig 6: From transactional, subscription and electronic sell-through VoD combined, rank the likely contribution to ARPU of the following

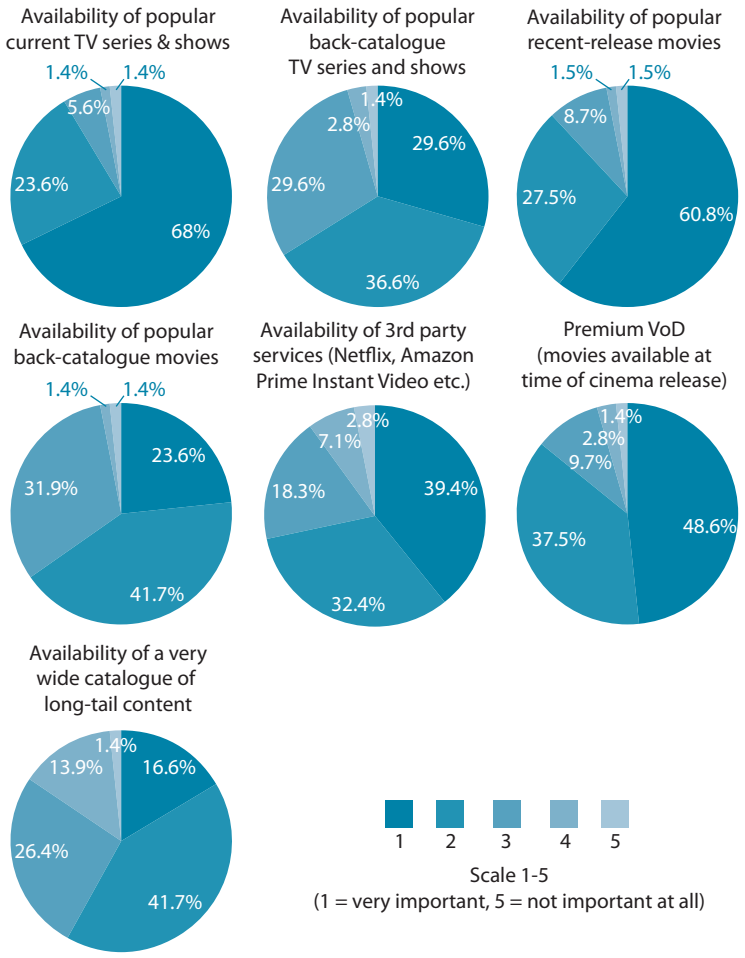
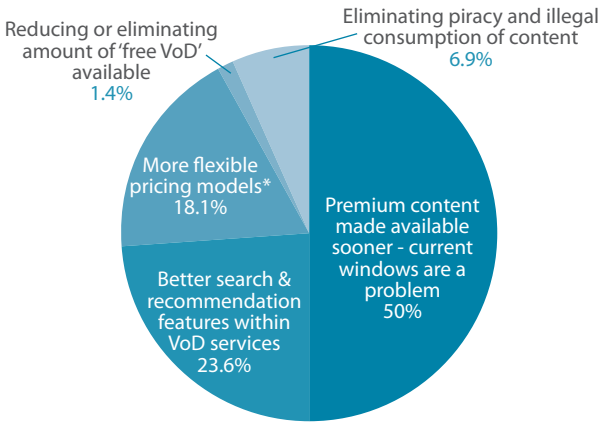


Fig 7: Which would contribute most to increasing revenue from transactional, subscription and electronic sell-through VoD services?



*eg. the ability to bundle linear services, discounts for multiple purchases etc.

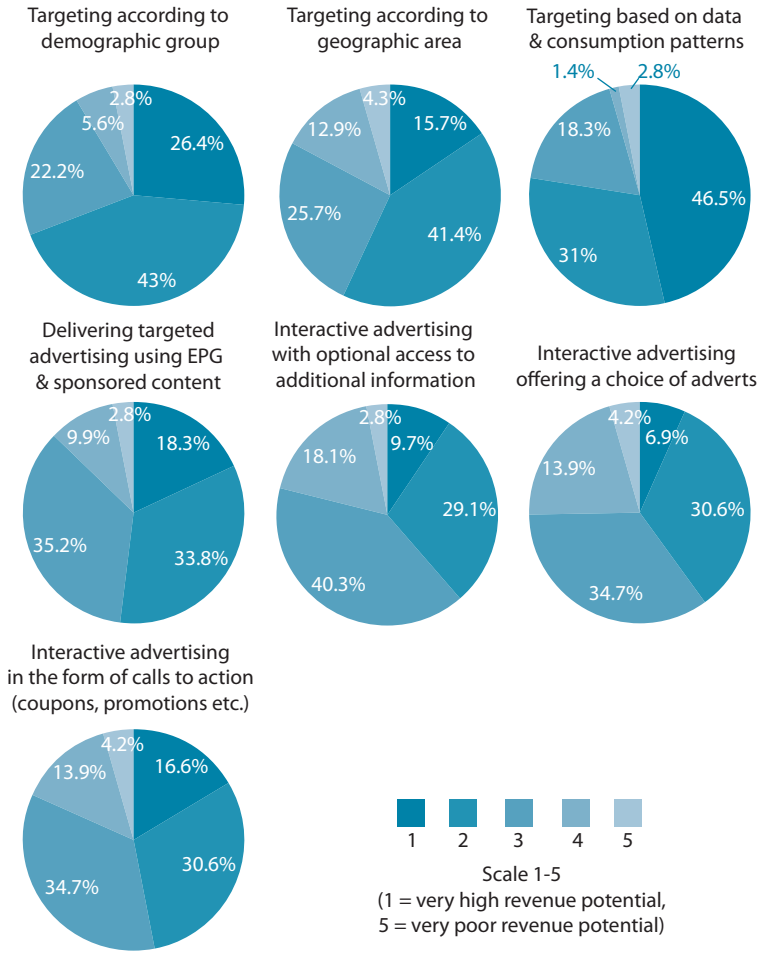
Advertising models

Advertising – particularly targeted advertising – is seen as the most monetisable advanced service after VoD, but questions remain over how effective a high degree of targeting is in delivering added value versus reaching a wide audience that may not know what it wants to purchase.

We asked our survey to rate seven types of targeting or interactive features of advertising according to their likely revenue earning potential.

Respondents were favourable to a high degree of targeting – according to individual preferences based on available data and previous consumption patterns – with almost half rating this as having very high revenue potential. Short of truly personalised advertising, targeting according to demographic group, age and income bracket is seen as having strong revenue potential, with a quarter rating it as having very high potential and over two in five respondents rating it as having moderately high revenue potential. The survey sample also believed that targeting more broadly, according to geographic area, has average to high potential.

Fig 8: From interactive and targeted advertising, rate the revenue earning potential of the following



Respondents also had moderate but positive expectations of advertising delivered via the EPG and sponsored content, with over half judging this to have either moderately high or very high revenue potential. Interactive advertising in the form of calls to action within the ad – for example by offering coupons and special promotions – was also generally well-regarded, with just under half of respondents viewing this as having either moderately high or very high revenue potential.

Respondents had a less favourable view of 'drill-down'-type advertising, where viewers are offered the option of gaining access to longer-form versions of ads or supplementary content by clicking through. Nor did they take a particularly favourable view of interactive advertising in the form of enabling consumers to actively choose which ad to view from a selection of ads for different products (fig. 8).

Respondents were further asked to choose which of five actions would contribute most to increasing pay TV providers' revenue from targeted advertising specifically. In the view of our survey sample, delivering truly personalised advertising, with adverts tailored to the tastes and consumption patterns of individual viewers, would make the greatest contribution, followed by educating advertisers and agencies about the merits of targeted advertising.

Of relatively less importance, in the view of respondents, is making greater use of the inventory available to the service providers themselves (including the EPG and content recommendation system), and focusing on relatively simple forms of demographic or geographic targeting. About 7% of respondents were skeptical about the merits of targeted advertising in general, agreeing with the statement that the benefits of targeting are too limited relaive to the benefits of reaching a mass audience (fig. 9).

Asked which of four statements they agreed with on how successful interactive advertising was likely to be, the most favoured response was that interactive advertising can deliver benefits to advertisers and service providers that significantly outweigh its costs and disadvantages. A stronger statement, that interactivity has the potential to revolutionise advertising and deliver massive value both to advertisers and service providers, was the second most favoured. Scepticism was the preserve of a minority, with fewer than 7% choosing the most downbeat option – that intractive advertising will deliver very little value (fig. 10).

Fig 9: Which would make the greatest contribution to increasing pay TV providers' revenue from targeted advertising?

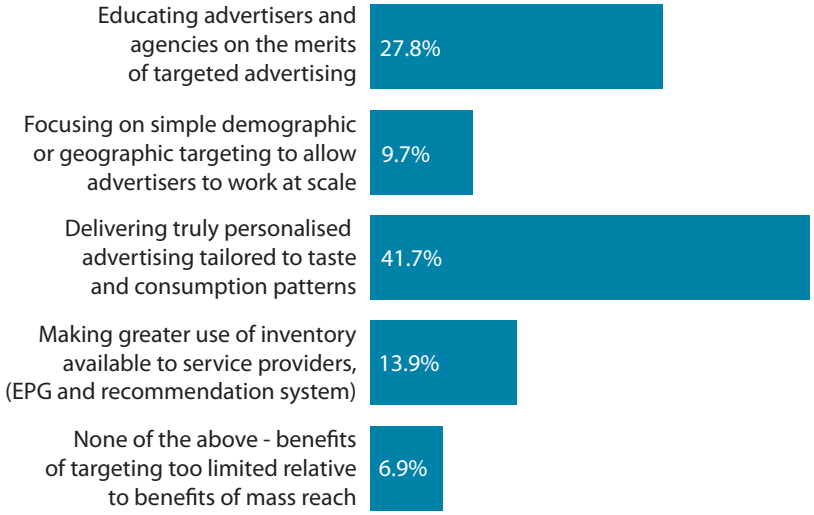
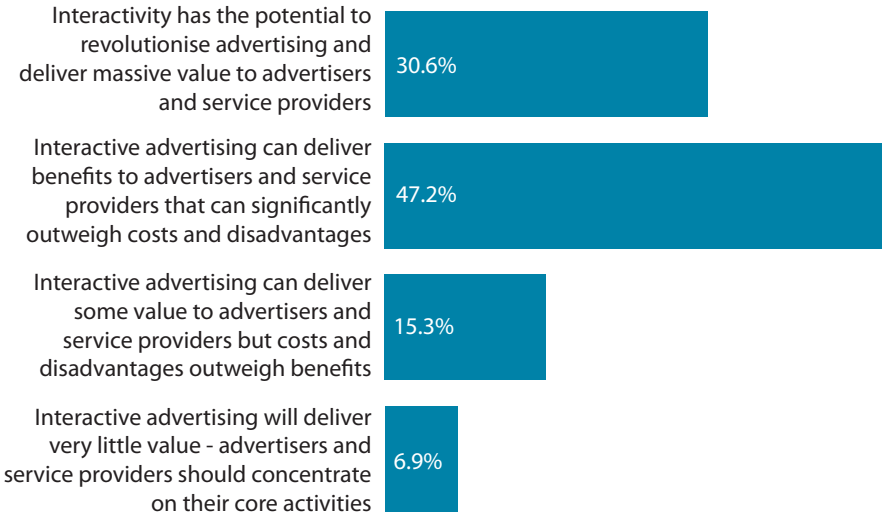


Fig 10: Looking at interactive advertising, which statement best expresses your opinion



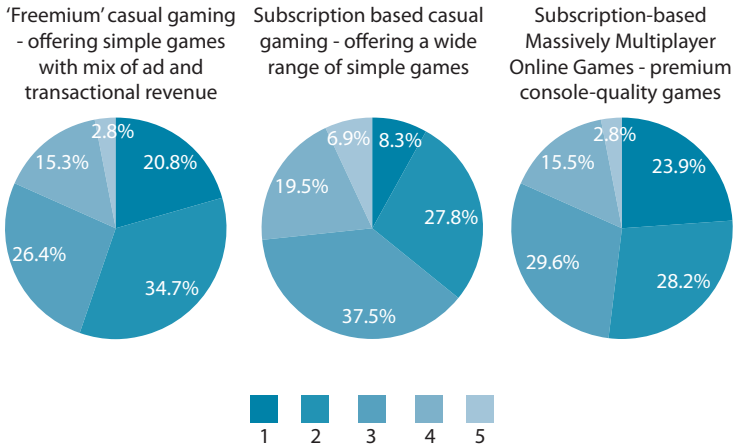
Gaming, music, cloud storage and app stores

While on-demand video and targeted or interactive advertising were identified as the most promising money spinners amongst interactive services, our survey respondents were also asked about which business models that could support monetisation of other services.

Asked to rate three possible business models for interactive TV games, respondents rated both freemium casual gaming – offering simple games with a mix of advertising and transactional revenue – and high-end subscription-based Massively Multiplayer Online Games as having moderately or very high revenue potential. Subscription-based casual gaming – offering a wide range of simple games for a subscription – was seen as relatively less promising (fig. 11).

Respondents were asked which of four statements best expressed their opinion about the revenue potential of games, with almost half choosing the second strongest statement – that gaming services are strong potential sources of revenue and pay TV service providers can realise some value from them, but only in partnership with dedicated gaming providers. A slightly higher proportion than for the advertising question chose the most downbeat option, however, with over one in five agreeing with the proposition that pay TV providers are unlikely to make much impact on the gaming world, which will remain dominated by dedicated console providers (fig. 12).

Fig 11: Rate the following business models for interactive gaming based on their revenue potential



Possible business models for interactive music streaming and downloads divided our respondents. About half of respondents rated a model where operators resell an established third-party service like Spotify with a revenue share model as having moderate or very high revenue potential, while a similar number favoured offering a service provider-branded freemium streaming service with a monthly subscription option. Offering a provider-branded download-to-own service was rated as having moderate to high revenue potential by some and poor to very poor revenue potential by others, as was enabling a unique music and concert experience for subscribers only (fig. 13).

As with games, respondents were asked to choose which of four statements - ranging from wholehearted endorsement of music streaming to absolute skepticism - best represented their viewpoint. Two in five favoured the second strongest option – that music streaming services are strong potential sources of revenue and pay TV service provider can realise value from them, but only in cooperation with established brands. Just under two in five voted for the strongest option – that music services are strong potential sources of revenue and that pay TV providers are ideally placed to benefit. Meanwhile about 15% chose the most skeptical option – that music streaming services will ultimately not deliver much value for service providers or standalone brands (fig. 14).

Finally respondents were asked to rate business models for cloud-based storage and app stores – selling cloud-based storage as a standalone service, selling it as part of a pay TV bundle, providing free advertising-supported TV apps from their party providers on a revenue share basis and providing TV apps for subscription services. Opinion, broadly, was evenly divided between whether these were good or average-to-poor ideas, with slightly higher numbers favouring subscription-based apps and bundled cloud storage than free apps and standalone cloud storage (fig.15).

Asked which of four statements best represented their views on TV app stores, opinion was also divided, with about a third of respondents choosing the view that app stores offer a strong potential source of revenue but that third party content providers are more likely to benefit than pay TV operators – the most popular option (fig. 16).

Fig 12: Which of the following best expresses your opinion about gaming services from pay TV service providers?

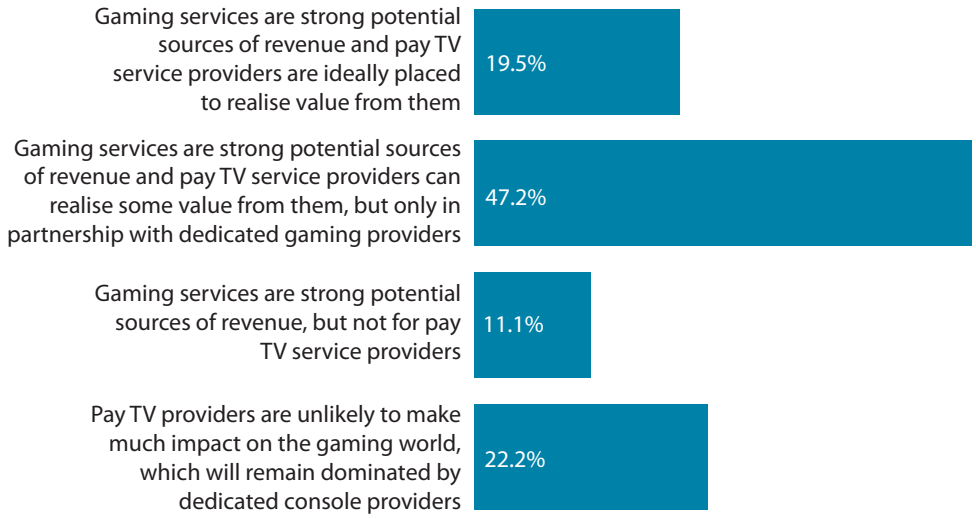


Fig 13: Rate the following interactive gaming business models for their revenue potential

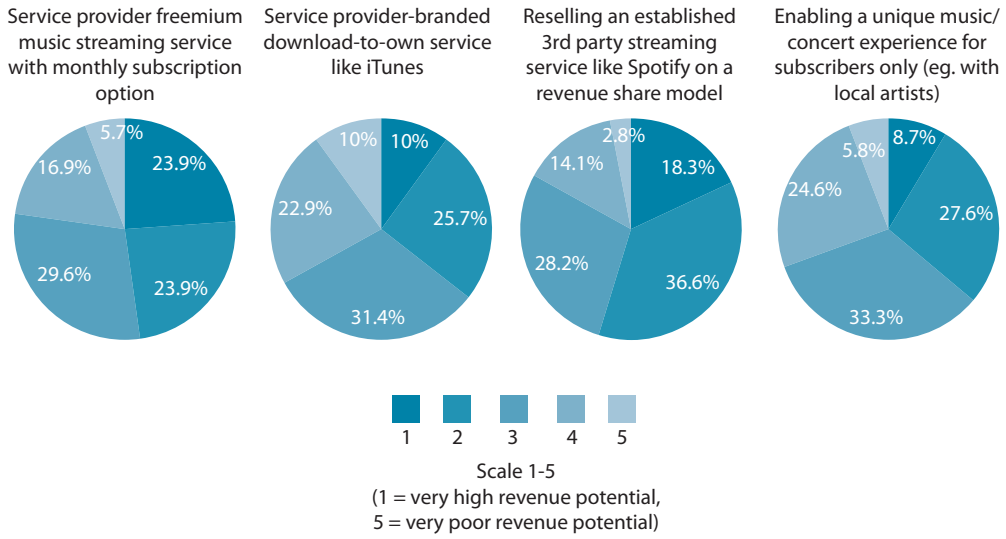


Fig 14: Which statement best expresses your opinion about music services from pay TV service providers?

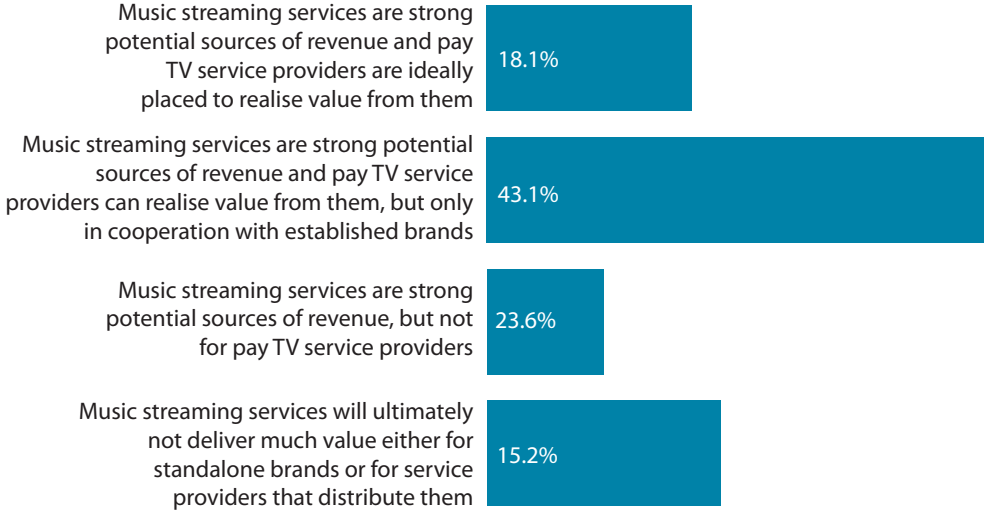


Fig 15: Rate the following interactive business models for their revenue potential

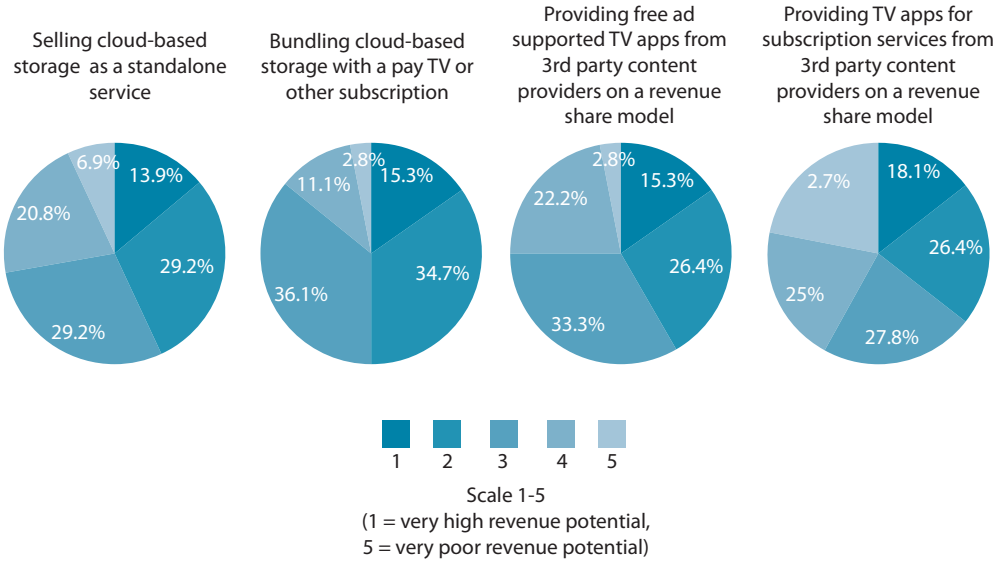
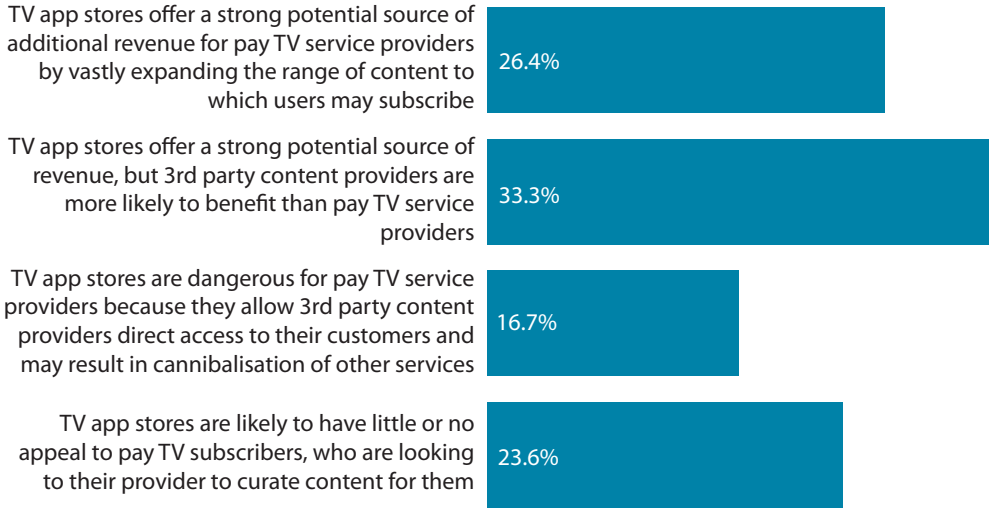


Fig 16: Which of the following statements best reflects your opinion about TV app stores?



Conclusion

TV operators believe that it is possible to make money from some interactive services – particularly video-related services such as subscription and transactional video-on-demand and targeted and interactive advertising. They believe that SVoD and highly targeted, personalised advertising offer the strongest prospects for delivering enhanced revenue. Operators are, in general, optimistic about the amount of revenue that such services can deliver as a proportion of the total.

SVoD is the most promising interactive service as far as monetisation goes, according to our survey respondents. Services are most likely to deliver enhanced revenues where they give users access to early-release content – particularly popular TV series and shows. A significant number of respondents believe SVoD could deliver as much as 30% or more of total revenues, while three quarters believe it could deliver over 10% – albeit from a relatively modest base. About half the sample thought SVoD could deliver between €5-€10 a month, while a relatively small number thought it could deliver over €10.

Of other interactive services, targeted advertising, internet TV/OTT and games are regarded as offering a way to increase revenues effectively. With regards to advertising, respondents believe that a high degree of targeting, down to the level of the individual consumer, offers the best prospects. A significant proportion believe that such services could deliver over €10 a month in additional revenue.

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Zenterio develops an independent software platform for interactive TV that is positioned to become a global standard. Zenterio OS can be used on new and existing hardware. Zenterio OS enables operators to quickly and cost-effectively launch new interactive services and applications to customers.

Zenterio partners with TV-operators, global system integrators and set-top box suppliers.

The company has more than 100 employees with 24 different nationalities. The company headquarters are in Stockholm and its R&D center is in Linköping, Sweden. The company has sales offices in Prague and Milan.

Zenterio is a private company that is mainly owned by private and institutional Nordic investors. The largest owner is Swedish private equity firm Scope.

For further information please visit: **www.zenterio.com**

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