Pay TV and OTT: Partners or competitors

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Contents

Introduction

The lines between pay TV and OTT are becoming increasingly blurred. While pay TV operators and OTT content and app providers in many cases still see each other as competitors, the intensity of that competition depends on a number of factors. In particular, some categories of pay TV operators – most notably cable and IPTV providers – are increasingly looking to open up their platforms to OTT providers via partnerships in order to help sell broadband access. Examples include the numerous cable and telecom service providers in Europe that have done deals with Netflix.

Others – notably satellite pay TV broadcasters – still see OTT as a threat rather than an opportunity. However, to make the picture more complex, these broadcasters are increasingly branching out by launching their own complementary OTT services, targeting a different audience in order to head off the threat presented by pure OTT players and expand their subscriber bases. Examples include Now TV by Sky and Echostar's Sling TV.

Finally, content owners and channel providers are themselves getting involved in the distribution business by launching OTT packages, either as an alternative to pay TV distribution in markets where opportunities for the latter are lacking, or to complement pay TV services. Examples include HBO Now.

DTVE recently surveyed over 140 senior industry participants from 48 countries, including OTT service providers, triple and quad-play operators, pay TV channel providers, IPTV service providers, free-to-air broadcasters, cable operators and DTH operators, to find out how they view emerging models for pay TV, OTT and content providers, including whether it is in the interest of pay TV operators and OTT providers to compete or collaborate, where the different players in the video pay TV and OTT video chain should focus their efforts and what role content providers should play.

The survey revealed that:

- There is a strong interest in partnership-based models that wed the distribution capabilities of pay TV operators with the user experience and content expertise of OTT providers, and a belief that such partnerships could benefit both parties by delivering higher revenues and user engagement. However, such partnerships are still at an early stage of development and there are still differences over a range of issues including whether pay TV operators or OTT providers should take the leading role. Most respondents believe that pay TV platforms will open out to embrace OTT content, though the extent of that 'opening out' and who will control the user experience is still open to debate.

- Respondents have a fairly clear view of which participants are best-placed to manage key areas including content creation, content marketing and aggregation, technical delivery and subscriber management and billing. Channel providers are best-placed to handle content creation, while pay TV operators are believed to be superior at aggregating and marketing content and managing technical aspects of delivery and subscriber management. Respondents also believe that the various industry players will find a mutually beneficial accommodation in relation to control of and access to user data.

- Survey respondents believe that content providers will continue to seek to team up with pay TV operators rather than to develop direct-to-consumer distribution models as their primary route to end users. Most will either develop direct-to-consumer OTT offerings in parallel with pay TV distribution agreements or will leave both TV and OTT multiscreen distribution to their pay TV partners entirely. Partnerships with pay TV operators are seen to be particularly important in the case of premium content offerings and broad-based library content. However a direct-to-consumer OTT approach can work better for content rights holders with niche content aimed at particular interest groups.

Partners or competitors

Our survey on the emerging relationship between pay TV and OTT providers reflects the growing complexity of the market. In the first place, that complexity had a clear impact on how the companies that responded to the survey defined themselves.

Respondents were asked to identify which of seven statements best described their involvement in OTT video. They were asked to identify themselves either as pay TV providers, OTT TV providers or broadcasters/ TV channel providers, and to specify the nature of their distribution partnerships in relation to OTT. The majority of those that self-identified as pay TV operators say that they distribute OTT TV services to their subscribers with an agreement in place with their OTT partner. Only a relatively small number of pay TV operators say they have no distribution partnership in place with OTT providers.

Of those that self-identified primarily as OTT TV providers, a higher number say they address consumers both directly and through partnerships with pay TV operators than those who addressed consumers direct only, without any distribution deal in place with pay TV operators.

Finally, of those that identified themselves as broadcasters or TV channel providers, a clear majority say they provide an OTT TV or catch-up service that is distributed by pay TV operators, with a very small number saying they have an OTT or catch-up service that is not distributed in this way. (A minority in this category say they have no OTT TV or catch-up service at all.) (fig. 1)

The growing convergence between pay TV and OTT is reflected in responses to our survey that show interest in or favour a partnership-based approach to the market, where pay TV and OTT operators find areas of mutual interest where they can cooperate. Asked to identify which of five strategies would be most likely to deliver future revenue growth and profitability to pay TV channel providers, the majority opted for a 'middle ground' approach involving some sort of partnership between broadcasters and operators, although there was a split between those who think pay TV operators should take the role of senior partner in these arrangements and those who think that broadcasters should occupy the leading role. Three in 10 agreed that pay TV channel providers should deliver their own branded catch-up/ video-on-demand offerings in partnership with pay TV operators, with the latter retaining control of the overall user experience, while a slightly smaller number – around one in four – endorsed the view that pay TV channel providers should take control of the user experience of their own VoD offerings and syndicate these to pay TV operators.

Only a relatively small number – 13% – think that pay TV channel providers should leave how VoD and catch-up services are packaged and delivered entirely to pay TV operators, while one in five think that pay TV channel providers should take control of the user experience of their own VoD offerings and bypass pay TV operators to go direct to consumers.

Finally, a small minority of around 7% of respondents think that pay TV channel providers should focus on delivering only linear channels in partnership with pay TV operators. (fig. 2)

Fig. 1. What type of organization are you?

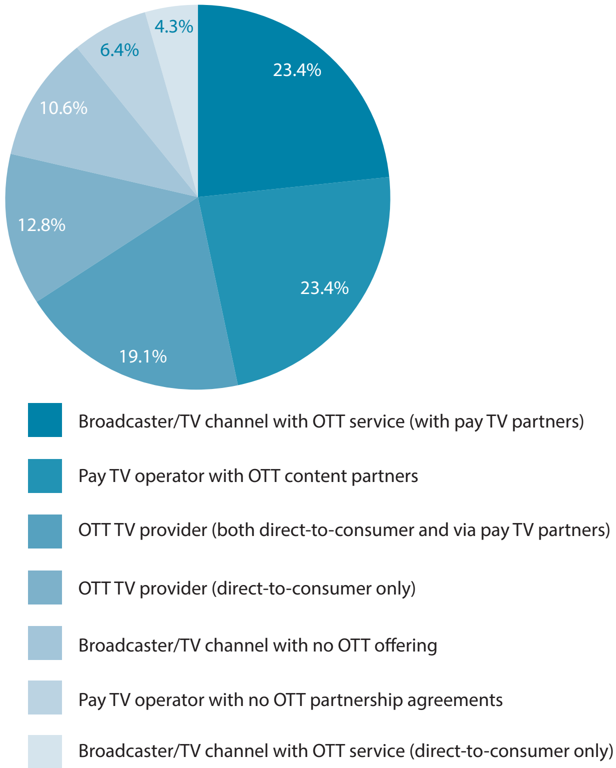
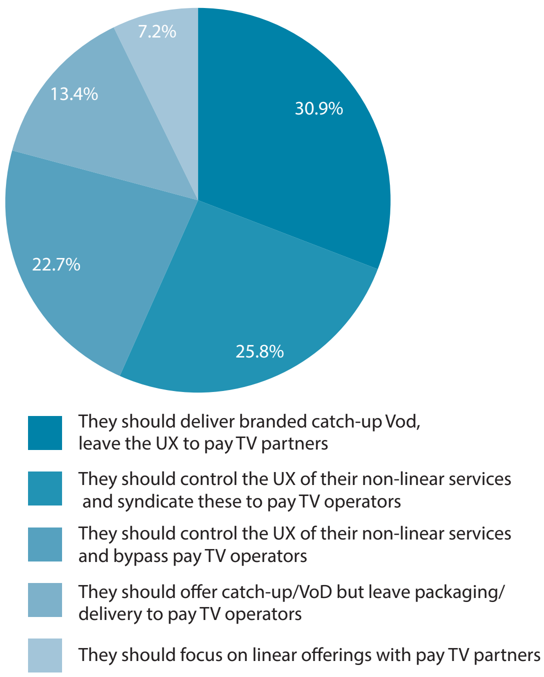


Fig. 2. Which strategy will deliver revenue growth to pay TV channels?



The shape of emerging partnerships is likely to involve an opening out of platforms to embrace not only a wider range of content but a wider variety of user experiences – encompassing features such as the user interface, search and recommendation tools

Asked about how they view the future evolution of internet connected pay TV platforms, respondents again gravitated towards the middle ground of a partnership-based model, although again opinions are divided over who should be the senior partner.

A third of respondents say that internet-connected TV platforms will work best if they aggregate the most popular third-party services, and allow those services to provide their own user experience as part of the agreement – the most popular option of those on offer.

A slightly smaller number – just under three in 10 – say that internet-connected TV platforms will work best if they provide open access to unlimited third-party content partners but with the user experience still closely controlled by the pay TV operator. A similar proportion of respondents go further, endorsing the view that such platforms will work best if they become storefronts open to unlimited content providers and allow those providers to determine their own user experiences.

Overall, the weight of opinion among respondents to our survey leaned towards the view that platforms should be open, and over half of the sample hold that the user experience should mostly or entirely be left to the content provider rather than the pay TV operator. Only one in 10 respondents endorse the more restrictive option that internet-connected TV platforms will work best if they are closely controlled by the pay TV operator, with a limited number of third-party content partners and a user experience that is controlled and managed by the operator itself. (fig. 3)

Respondents also favour cooperation between pay TV operators and content providers in the case of delivery of content apps via internet-connected pay TV platforms.

Asked to choose which of four statements best expressed their view on how best to manage and deliver TV apps, the most popular response among our survey sample, favoured by two in five respondents, is that "apps that provide access to content via connected pay TV services can be owned and managed by either the operator or the content provider depending on their relative strength in branding and technical expertise".

The next most popular option, favoured by one in four respondents, is that "apps that provide access to content via connected pay TV services will work best if the content provider is given some flexibility, within the framework of a template set by the pay TV operator.

Just under one in five endorse the view that "apps that provide access to content via connected pay TV services should be wholly owned and managed by the content provider rather than the pay TV operator because the former is better-placed to judge how to present his or her own content".

While respondents have faith in pay TV operators to handle the framework of the connected TV user experience, respondents believe that the content providers need to play a significant role, however. The least favoured

Fig. 3. What is the future of internet-connected advanced TV platforms?

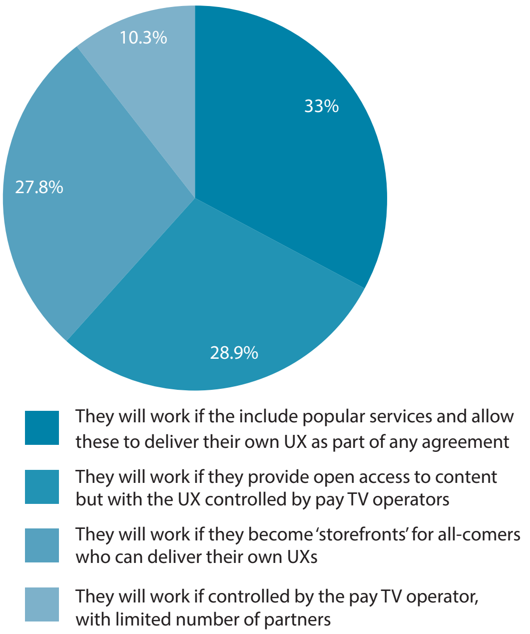
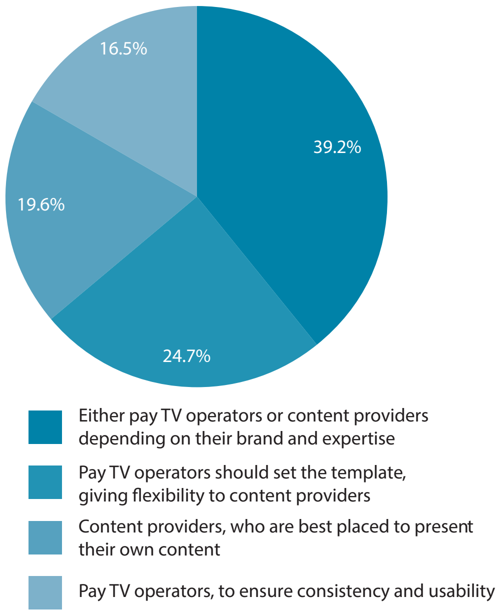


Fig. 4. Who should control the apps on advanced TV platforms?

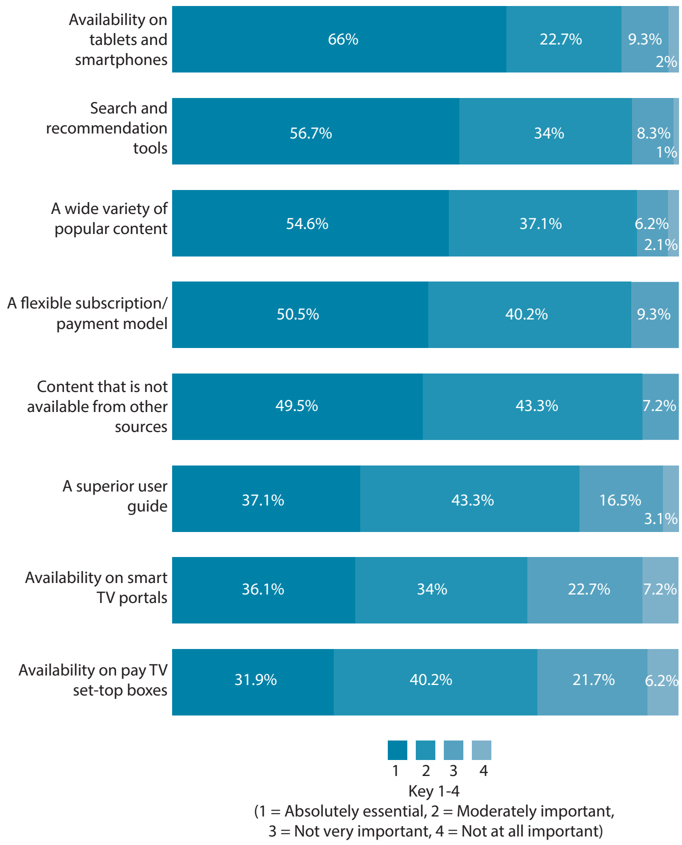


response of the four on offer, chosen by only 16% of respondents, is that "apps that provide access to content via connected pay TV services should be wholly-owned and managed by the pay TV operator to ensure consistency and usability". (fig. 4)

We also asked respondents to identify which features are most important to the success of OTT services. Respondents gave a high rating to availability of the service on tablets and smartphones, a wide variety of popular content, effective search and recommendation tools, and a more flexible subscription or payment model than those of established pay TV services. An offer that includes content not available from other sources is also seen as important.

Features that are seen as moderately important include a user guide that is superior to established services, availability on smart TV portals and availability on pay TV set-top boxes. (fig. 5)

Fig. 5. How important are these elements to the success of OTT TV?



Areas of expertise

With a majority of participants believing that partnerships that bring pay TV and OTT services together are possible and can be mutually beneficial, it is important to work out which roles the different players in the chain will play in aggregating and delivering services.

While respondents believe that pay TV platforms should be open, and that the user experience should be determined by both operators and content providers in partnership, or even primarily by the content providers, they nevertheless have faith in pay TV operators to deliver the goods across a wide range of functions.

Asked to assess which type of company – a pay TV operator, a TV channel, a consumer electronics manufacturer or an OTT video provider – is best-placed to manage a number of different elements of operating catch-up and video-on-demand services delivered to end users by pay TV operators, our survey sample make clear distinctions between aspects related to content creation on one hand, and marketing and technical delivery on the other.

Respondents clearly think that TV channels are best-placed to handle content creation, defined as commissioning or producing content directly, with eight in 10 saying they were best placed to do so, followed by pay TV operators (favoured by 15%). Despite the success of *House of Cards* and *Orange is the New Black*, only 4% believed that internet companies such as Amazon, Netflix and YouTube are best placed to take control of content creation, while only 1% believe that CE companies such as Samsung, Roku or Apple TV will be best at this.

For content marketing, on the other hand (including setting prices, bundling, discounting and organising special promotional offers as well as communicating with consumers), three in five respondents believe that pay TV operators are best-placed to take charge, with only one in five selecting channel and content providers and the same proportion choosing internet companies. CE manufacturers again trailed last with a 1% rating.

The same broadly applies to content aggregation (defined as bundling wholly-owned and third-party content together in a package that can be marketed to consumers). For this, three in five again believe that pay TV operators are the best choice, while internet companies come second, with one in five endorsing the view that they will be best at aggregating content. Only one in eight believe that channel providers and content providers are best at aggregating their wares, while only 7% are willing to entrust the aggregator role to CE manufacturers.

For technical aspects of service delivery, the strength of pay TV operators is even more marked. Asked who would be best placed to manage the technical distribution infrastructure of service delivery, including acquiring bandwidth, building a content delivery network or hiring CDN providers, and distributing set-top boxes and other reception equipment, seven in 10 say that pay TV operators are best-placed to deliver this, way ahead of the 14% vote secured by second-placed CE manufacturers, with internet companies (11%) and channel providers/content companies (6%) trailing behind.

For subscriber management and billing – including maintaining the relationship with the consumer, secure handling of subscriber information and customer care and billing – pay TV operators are even more favoured, with almost eight in 10 giving them the vote, compared with only one in 10 each for CE manufacturers and internet companies and only 2% for channel/content companies. (fig. 6 Q8)

While respondents to our survey have quite clear views of the roles pay TV operators, OTT players and content providers should play in delivering content to end users, there are obviously areas of potential disagreement and conflict of interest. The potential for collaboration depends in the first instance in how each player views content. Infrastructure-based operators such as cable and IPTV providers that sell a mix of TV, broadband and communication services are clearly more likely to be inclined to team up with OTT providers than those for whom exclusive content rights are central to their business. However, one of the thorniest aspects of the collaboration/competition debate surrounding pay TV platforms and OTT service providers, which could lead to conflict even with operators that do not necessarily see content aggregation as a core competency, is the question of ownership and use of consumer data.

The ideal in this area too is that a collaborative mode of working will prevail and, in the view of survey respondents, this is the most likely outcome, with pay TV operators and content providers agreeing that it is in their mutual best interest to find an agreement. Asked to choose one of four statements that best expresses their view of which players in the

Fig. 6. Which provider is best suited to manage these elements of non-linear delivery?

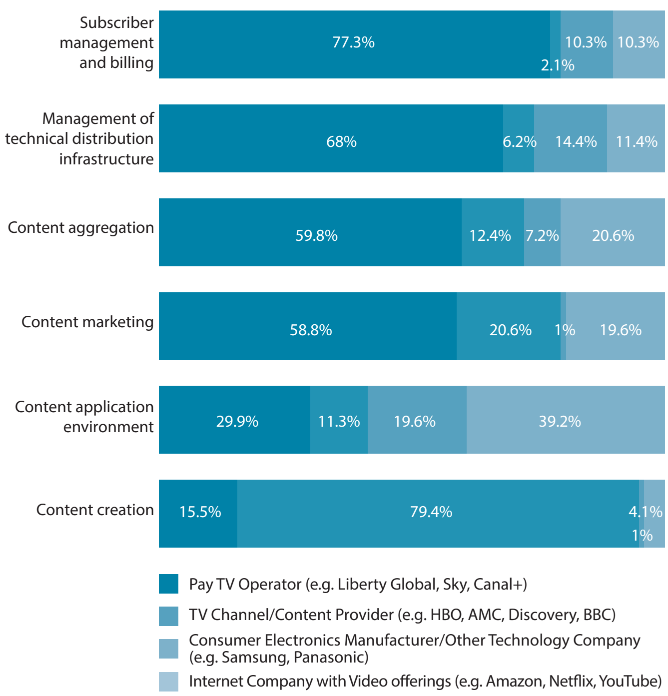
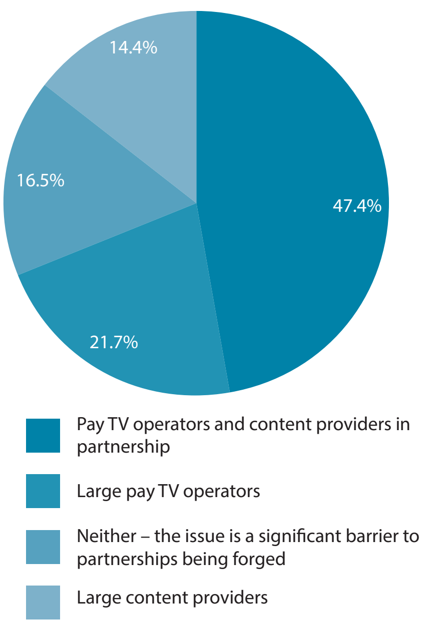


Fig. 7. Who is best placed to own and exploit user data?



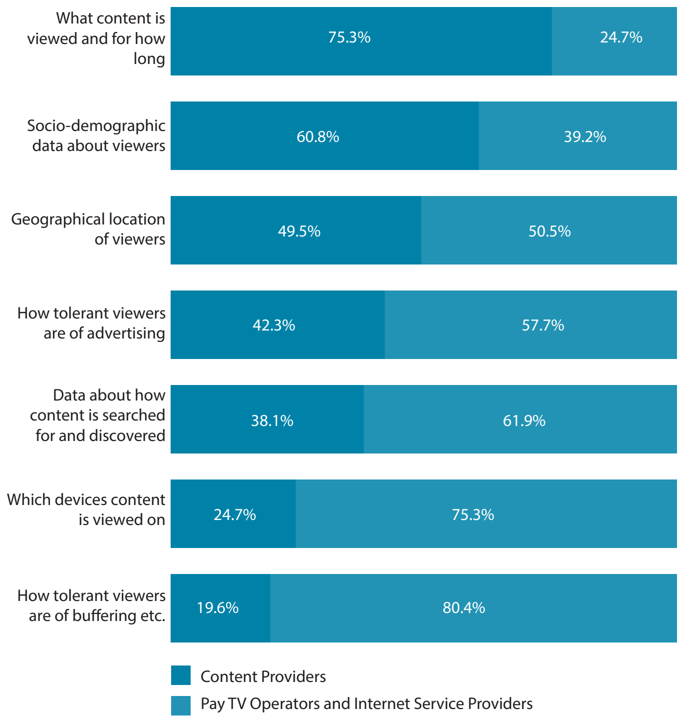
OTT video chain are best-placed to take ownership of and exploit user behavioural data, almost half of respondents endorse the view that "pay TV operators and content providers are likely to strike individual deals regarding access to and use of data that will be mutually beneficial".

Respondents are optimistic that a rational approach, based on mutual self-interest, will prevail. Only 16% of respondents believe that "access and use of data is a significant barrier to partnerships between content providers and pay TV operators and may restrict the scope and extent of such partnerships now and in the future".

A significant proportion of respondents also believe that pay TV operators are more likely than content providers to hold the best cards when it comes to ownership of user data, agreeing with the view that "large pay TV operators will be able to ensure that data gathered via their platforms belongs to them rather than content/app provider partners, and will be able to exploit it as they see fit". Only 14% of respondents believe, on the other hand, that "large-scale content providers that deliver a comprehensive user experience/app will be able to ensure that data gathered via pay TV platforms belongs to them rather the pay TV operator and will be able to exploit it as they see fit". (fig. 7)

Respondents also believe that most types of data will be of more use to pay TV operators than to content providers. The majority of respondents believe that pay TV operators or internet service providers are better placed to make use of data relating to which devices content is viewed on (75% against 25% for content providers), a pattern that is repeated for data on how tolerant or otherwise viewers are of slow start times and buffering (80%). Smaller majorities also believe pay TV operators and ISPs are better placed to make use of data about how tolerant or otherwise viewers are of pre-roll, mid-roll and post-roll advertising (58%), data about how content is searched for and discovered (62%), and geographical location of viewers (51%).

Fig. 8. Who will be best placed to use these categories of data?



The two clear exceptions to the rule relate to data about which type of content or which content titles are viewed and for how long, where 75% think that content providers are best-placed to make use of this, and socio-demographic data about viewers – for example, their gender or income – where 61% believe that content providers will find this data more useful. (fig. 8)

Content rights, pay TV and OTT

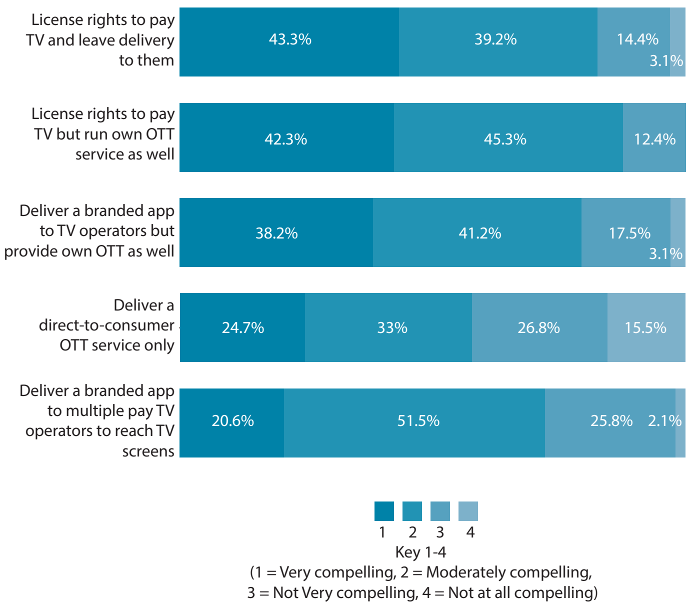
While pay TV operators have branched out into OTT to protect their existing business or, in the case of cable and IPTV operators, have teamed up with pure OTT providers to their mutual benefit, content and channel providers are also questioning whether their existing business models – typically involving pay TV distribution supplemented by advertising revenue – are fit for purpose. A number have chosen to become their own distributors, either in markets where they do not have distribution currently, or directly in competition with pay TV.

Survey respondents were asked to share their views on which business models would make most sense for content rights owners in the future. Specifically, they were asked to rate five distinct approaches on a scale to determine how compelling they are.

The two most compelling models in the view of our sample are (a) to license content to pay TV operators where appropriate while delivering a direct-to-consumer app or user experience, with content rights attached, in parallel to this and (b) to team up with pay TV operators to license content only, leaving the technical aspects of delivery to end consumers to those operators. Both approaches are broadly equally popular with respondents, reflecting a division of opinion about the role of operators and content providers that runs through other responses. Each approach is seen as viable, with relatively few respondents saying that either model is not compelling.

Variations on these two basic approaches attract less interest. The option of delivering content along with a branded app to multiple pay TV operators to reach TV screens only, while targeting other devices via a direct-to-consumer branded app, is seen as moderately compelling. However, licensing content to multiple pay TV operators to reach TVs only while ignoring a direct-to-consumer approach to reach other devices, and delivering a direct-to-consumer proposition only, ignoring pay TV operators entirely, attracted less support. (fig. 9)

Fig. 9. Which business model works best for content rights owners?



Drilling down into this question further, survey respondents were asked to assess which of three distribution models is best suited to four specific categories of content. For a mix of premium first-run movies or series and a catalogue of older popular library content, respondents strongly favour licensing some content to pay TV operators and free-to-air broadcasters while offering some content direct via an OTT app or portal, with seven in 10 voting for this approach. This is also the most popular option for services offering popular older content with a broad audience only, but less overwhelmingly, with three in 10 in favour of offering all content via an OTT app or portal only, with no pay TV partnership, and one in four in favour of a distribution model that involved only a partnership with pay TV operators.

For genre-specific library content aimed at a niche audience that is geographically dispersed, respondents favour offering all content via an OTT app or portal only, with a mixed model of licensing some content to pay TV operators coming second. The same applied to a large, diverse, long-tail catalogue of content aimed at a number of different interest groups. (fig. 10)

While respondents to our survey clearly see benefits to collaboration between pay TV and OTT providers overall, they know that forging such partnerships will not be plain sailing. Asked to rank some of the many challenges and obstacles that could stand in the way, our sample highlighted the challenge of strking a commercial agreement with an OTT provider that is satisfactory to both parties in terms of the revenue split as potentially the number one problem area, with over half of respondents viewing this as 'very important'. About half of respondents give a 'very important' rating to the challenge of striking a deal that is satisfactory to both parties in terms of who has access to user data, although a significant

Fig. 10. Which distribution model is best for these types of content?

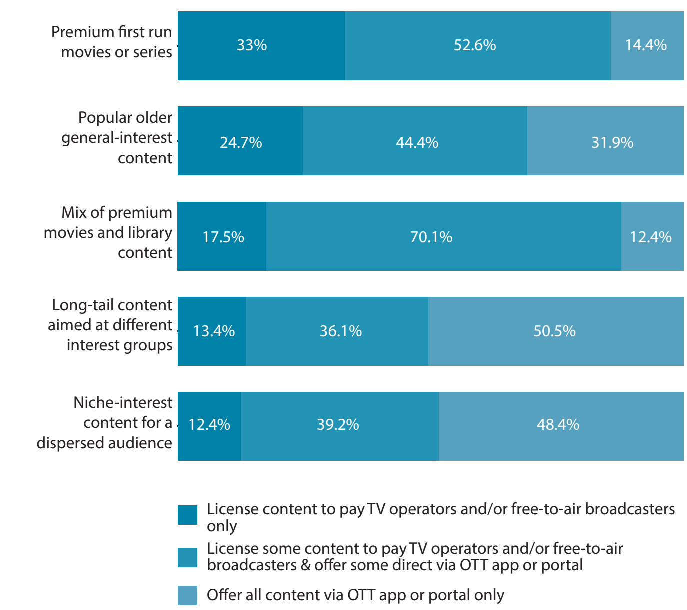
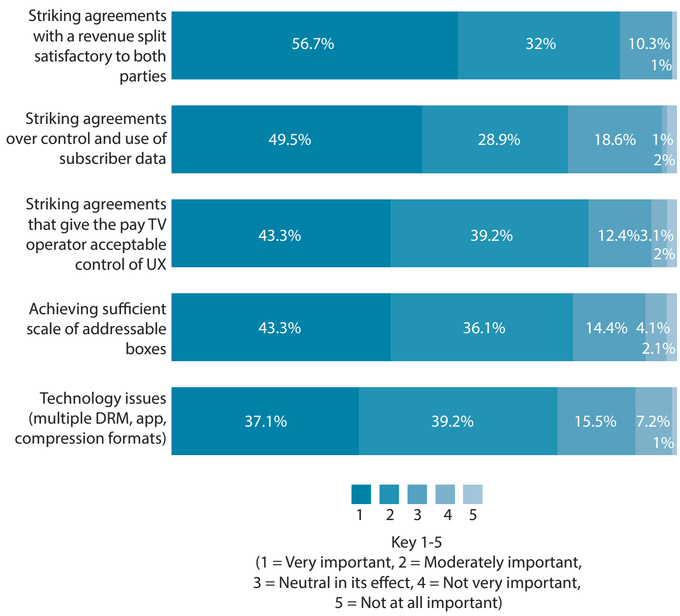


Fig. 11. What is the main challenge to pay TV operators adding OTT services to their platforms?



minority of respondents view the data issue as neutral in its impact.

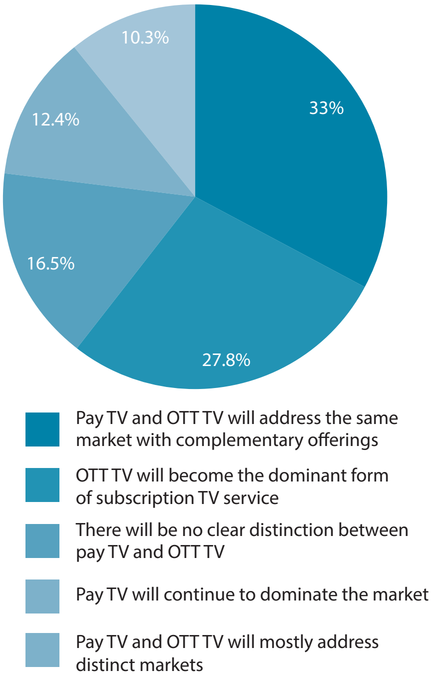
The challenge of striking a deal that give the pay TV operator an acceptable level of control over the user experience and the challenge of delivering scale – furthering the reach of OTT services to a significant number of subscribers equipped with the advanced set-top boxes necessary to receive them – are also viewed as 'very important' by over two in five respondents and as 'moderately important' by a similarly significant proportion, with the user experience issue seen as the bigger obstacle of the two.

Marginally fewer respondents are inclined to see technology challenges such as managing multiple DRM, app and compression formats as 'very important' but two in five nevertheless view these as 'moderately important'. (fig. 11)

To round off our survey, respondents were asked to choose which of five statements best expressed their opinion about the future of pay TV and OTT and their possible convergence. The most popular option, favoured by a third of respondents, is that "pay TV and OTT TV services will mostly address the same market, but with complementary content offerings, ensuring that a significant number of subscribers sign up to both.

A significant minority of respondents – 28% - believe that "OTT TV will ultimately become the dominant form of subscription TV service, with pay TV forced on the defensive by more flexible OTT offerings", while 16% of the sample believe that "there will be no clear distinction between pay TV and OTT TV". Only 12% of respondents believe that "pay TV will continue to dominate the market for subscription services, with OTT TV winning only a small share of the overall market".

Fig. 12. What does the future hold for pay TV and OTT TV?



However, the least popular option – endorsed by only 10% of the sample – is that "pay TV and OTT TV will mostly address distinct markets with some consumers choosing pay TV and some choosing OTT". (fig. 12)

Conclusion

The results of our survey support the view that pay TV and OTT are coming together, although the route to that convergence between pay TV and OTT contains many pitfalls and obstacles.

Respondents believe that pay TV operators and OTT providers can benefit from forging partnerships, with pay TV operators delivering OTT content to their end users. However, there are areas where interests may conflict, and this could depend on the nature of the agreement and on the business model of the operator. Where pay TV operators and OTT providers do strike deals, the question of who determines the user experience is likely to be one of the main points of contention.

Despite these potential areas of conflict, respondents believe that content providers, pay TV operators and OTT providers have clear areas of expertise and that their coming together can therefore be mutually beneficial. Nor is disagreement over the control and use of data seen as an insurmountable obstacle to agreements being struck. While most respondents believe that large pay TV operators have a strong hand to play in determining how consumer data is used, our survey sample believe that operators and OTT providers will find ways of working together.

Pay TV operators are also seen as playing a continuing role in the distribution of content, with relatively little incentive for content providers to strike out on their own. However, the most appropriate route to market will to some extent depend on the type of content being offered, with providers of niche content targeted at particular interest groups more likely to find a pure OTT model that will work.

The overall consensus, at least among respondents to this survey, is that pay TV and OTT are – at least for the time being – complementary, with subscribers likely to sign up to both types of offering rather than seeing them as direct substitutes. However, there is also a feeling among many respondents that OTT will become more important relative to traditional pay TV. While definitive convergence of OTT and pay TV may still be some way off, the growing popularity of OTT services is likely to promote a coming together in the form of partnerships.

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