

IP Video:

The big picture

Produced by

DIGITAL TV EUROPE


CISCO

The irresistible rise of IP

Introduction

The onward march of residential IP video services has been one of the big industry stories of the last few years. Originally implemented as a way for telecom operators to launch pay TV services targeted at set-top boxes (primarily seen as a defensive move to counter the entry of cable into the fixed broadband and telecom business), interest in IP video in recent years has been boosted hugely by the proliferation of devices capable of playing back video content and by improvements in fixed and mobile bandwidth.

These developments have led existing non-IP-based video service providers, including both cable and satellite TV providers, as well as public and commercial broadcasters and other content providers, to develop and implement IP video services, either to complement existing pay and free TV services by delivering 'anytime' on-demand and 'anywhere' multi-screen, multi-device offerings, or to extend their base by appealing to new user segments. They have been joined by a new set of over-the-top TV aggregators that seek to deliver paid for or advertising-supported offerings without the need to make heavy infrastructure investments of their own. However, while a variety of use cases and business models have been discussed, the business goals and monetization strategy of the majority of players remains to some extent unclear.

In December, DTVE Intelligence surveyed over 190 IP video industry players, of whom 58% identified their primary business line as OTT consumer IP video service provider, 11% as telecom service provider, 8% as broadcaster and 6% as cable operator, to capture their views on this fast developing industry. (Other players who took part included systems integrators, consultancies, satellite operators and technology providers.)

The survey revealed that:

- The vast majority of service providers had already launched or planned to launch IP video services in the near future, with the largest single group having launched a service over two years ago. Almost half were providing a companion IP video service linked to a pay TV subscription, with about half that number again providing a pure OTT service.
- While the set-top box and laptop or desktop remain key target devices for IP video service provider, a large proportion – almost half our sample – are already delivering services to smartphones and tablets, with smaller proportions targeting Smart TVs and games consoles.
- A significant proportion of respondents to our survey are already monetizing IP video via subscription and transactional video-on-demand, and this remains at the core of future monetization strategies. Advertising is the next most likely source of future revenue from IP VOD, followed by other types of transactional sale and churn reduction.
- While technical complexity remains a challenge for some players, obtaining appropriate content rights remains the greatest hurdle to launching IP video services and making a return on that investment.
- The level of success of operators in meeting business objectives so far has broadly been in line with expectations. However, one possible reason for the modest level of success in operations so far is that the majority of services still lack significant scale.

The IP video market in 2013

IP video offerings of one kind or another are now a part of the mainstream of the video distribution business. However, the proliferation of IP video services does not necessarily imply that the existing pay TV ecosystem is under sustained assault from disruptive new entrants, or that established pay TV providers are failing to respond to the threat posed by those new entrants.

In fact, our survey highlights the fact that a great many of the IP video services currently available are provided as complements to existing services – whether those are pay TV services or free-to-air commercial or public broadcaster services.

Varieties of service: companion versus pure OTT

The vast majority of respondents to our survey – 81.9% – have launched or plan to launch an IP video service within the next year, with over two thirds – 68.7% – having already launched a service. The largest single segment of respondents – 37.9% – have had an IP video service in an implementation phase for over two years.

A further 13.2% plan to launch a service in the next 12 months. Of those that have no definite plan to launch, a majority – accounting for 12.6% of the total respondents – said they were ‘likely’ to launch a service at some point [fig. 1].

In relation to the types of video offering our respondents provide, there is a clear bias towards a service that is designed to complement an existing pay TV subscription. Some 44.5% of respondents said they provided a companion IP video service linked to a pay TV subscription.

Of the remainder of respondents, 22% offer a pure OTT subscription service, while only 16.2% offered a free OTT service unrelated to another offering.

A further 11.5% of services are provided as advertising-funded complementary catch-up type services from commercial broadcasters, while 15.7% of respondents provide public broadcaster-funded services. The remaining 29.8% of respondents either did not provide a service themselves, offered a business-to-business service or had implemented a mixed business model [fig. 2].

Fig. 1: Deployment of IP video services

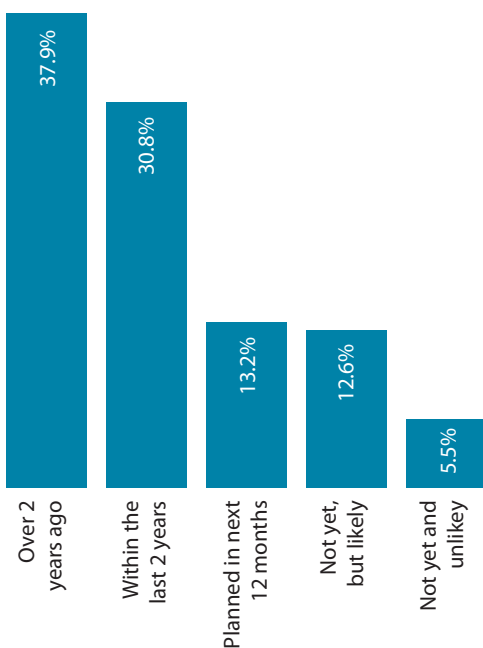
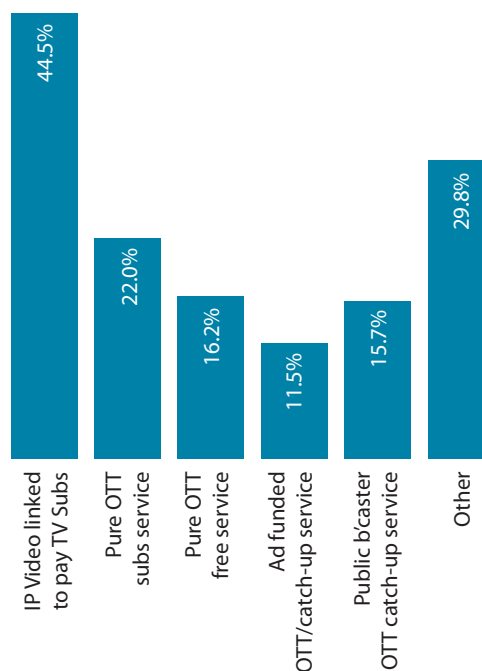


Fig. 2: Video services provided



Reaching the consumer

The range of network types over which IP video services are offered can offer an insight into the goals of providers. Our survey suggests that established pay and free TV players account for a high proportion of existing IP video services. The goals of those providers could include offering access to services via a range of devices other than the TV to their existing customers as well as extending their reach to new subscribers outside their existing network footprint.

Over half of respondents to our survey – 52.4% – offered IP video services only via their own network, while 27.7% of respondents also provided a service via third-party fixed networks. 19.9% provided a service off their own network via Wifi or another technology and 18.8% provided a service via a third-party mobile network. About a third – 32.5% – of respondents were pure OTT players without a network of their own [fig. 3].

The range of devices: from set-top to Smart TV

While an earlier phase of IP video implementation was driven primarily by telecom operators attempting to launch pay TV services targeted at set-top boxes and by

various service providers targeting consumption on PCs, IP video is much broader. Growth in IP video is increasingly being driven by the proliferation of devices – smartphones, tablets, games consoles and Smart TVs – that are capable of playing it back to viewers.

If fact, the set-top box and computer – the traditional recipients of IP video – remain extremely popular. While IPTV from telecom operators accounts for a significant share of the IP video market, the preponderance of respondents who self-identified as primarily OTT video service providers suggest that the set-top box remains a key device for a wider range of service provider types. Of our respondents, 58.1% deliver IP video to set-top boxes, while a slightly smaller proportion – 50.8% – deliver services to desktop and laptop computers.

However, the continued popularity of the ‘traditional’ set-top notwithstanding, our survey highlights the impact of newer IP devices including smartphones, tablets and Smart TVs. Of our sample, almost half – 48.7% and 45.5% respectively – delivered IP video services to tablets and smartphones, while almost a third – 28.3% – delivered IP services to Smart TVs. Games consoles were less popular – 14.1% of respondents delivered an IP video service to these devices [fig. 4].

Fig. 3: Availability of IPTV services

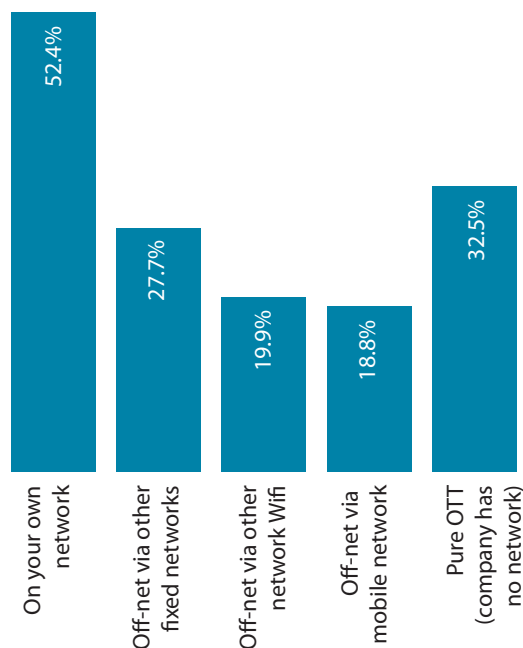
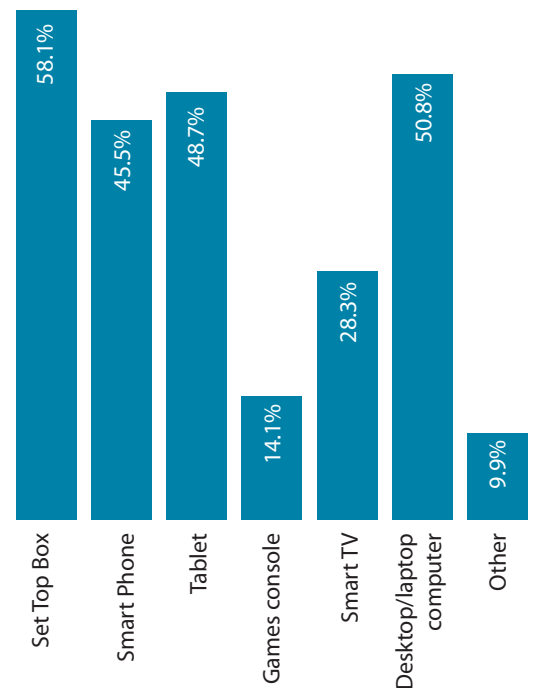


Fig. 4: Device to which service delivered



The IP video business model

Traditional IPTV services offered by telecom network service providers were seen primarily as a defensive measure to combat the entry of cable operators into broadband and telephony and as a means of binding customers to their existing service providers via a bundle of services at a competitive price. While one might expect traditional fixed line telcos to continue to look at IP video at least in part as a defensive measure (while at the same time looking for new ways to monetize it more effectively) the business model for new IP video entrants such as pure-play OTT providers is more likely to be a straightforward revenue-raising exercise. Such companies – without an infrastructure business of their own – will live or die either by selling content to subscribers or by monetizing their services via some form of advertising.

Our respondents were asked to score four reasons for launching IP video services – to increase revenue, to increase customer satisfaction, to reduce churn and to offer new services – on a scale of one to five. Churn reduction scored the highest rating average with a score of 2.63, closely followed by increasing revenue and increasing customer satisfaction with scores of 2.35 each [fig 5].

Monetization: SVOD, transactions, advertising and churn

While churn reduction clearly is very important to many of our respondents, a significant proportion of them have also attempted to monetize their IP video services either through subscription or transactional on-demand. A majority – 53.4% – offer IP-based subscription VOD services today, with 44% offering transactional VOD services. Of our sample, 47.6% offer linear pay TV channels via IP, while 42.4% offer free-to-view channels [fig. 6].

When it comes to forward-looking plans to further monetize IP video, the responses of our sample follow a pattern that broadly fits the type of video services the sample says it offers today. Just over half the sample – 51.3% – said they intend to make money from transactional VOD sales, while just under half – 49.7% – said they intend to monetize IP video via increased subscription fees. Additional advertising revenue was cited by 40.8% of respondents, while 31.9% said they planned to make money from other transactional sales such as merchandise, music and apps. Churn reduction was cited as a monetization strategy by 31.4% of respondents [fig. 7].

Fig. 5: Reasons for providing IP video services

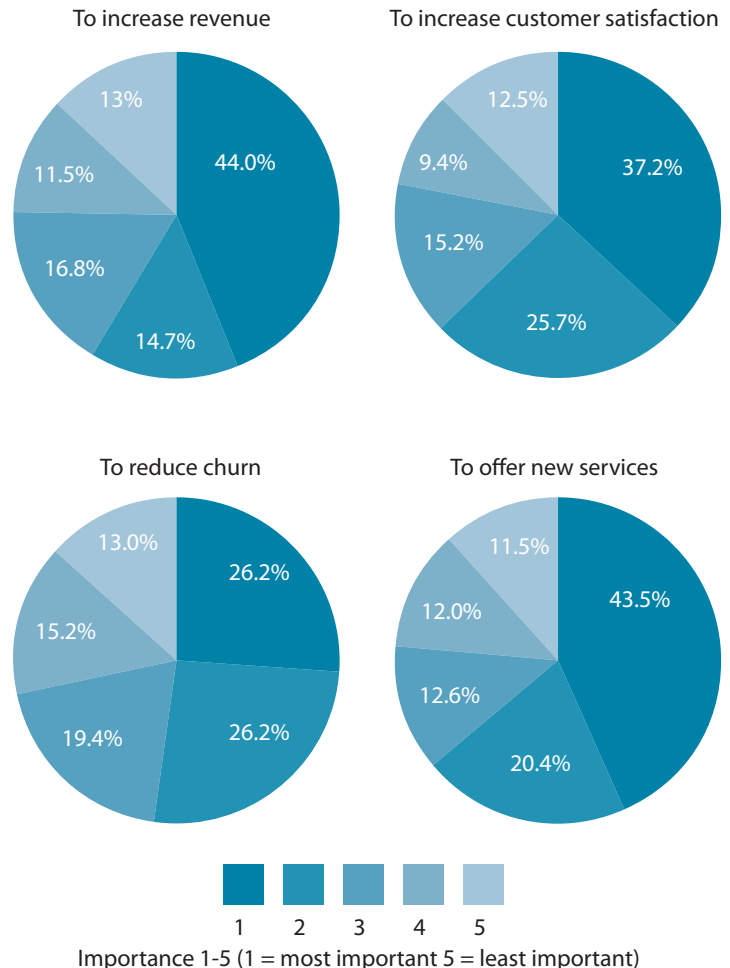


Fig. 6: Services offered

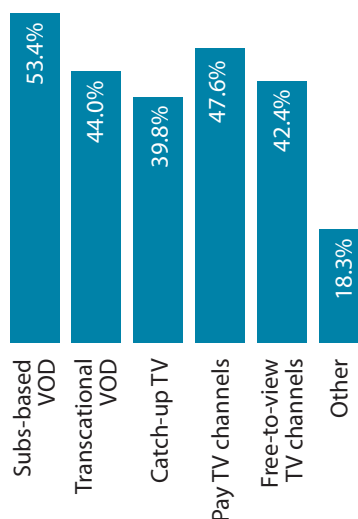
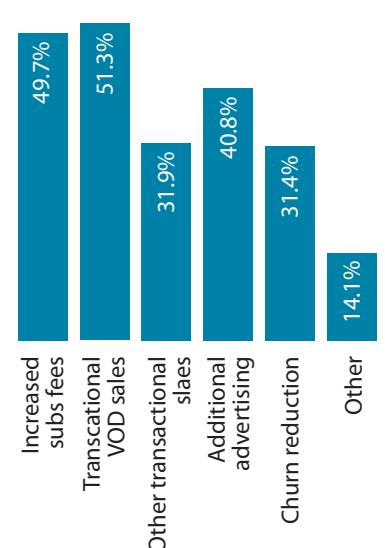


Fig. 7: Monetization

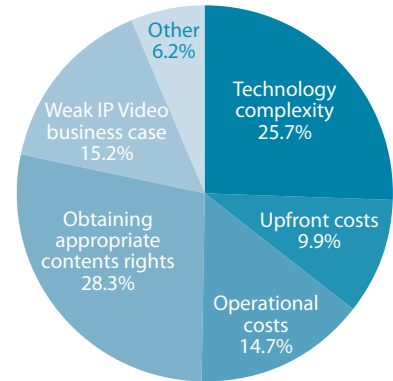


IP video: the experience to date

IP video service providers confront a number of challenges in deploying services. In particular, the ability of service providers to make a decent return on their investment by charging for content or winning advertisers depends on striking viable deals with content providers. Despite the lessening of concerns about the security of IP video, there is still evidence that service providers are finding this difficult. Content rights-holders still appear to be reluctant to license content to service providers on terms that make sense to the latter, for a variety of reasons.

When asked to rank the difficulty level of finding content for particular use case scenarios, respondents indicated they were experiencing difficulty in acquiring rights to distribute content to IP devices internationally, with an average score of 4.08 out of five for difficulty (and 18% of respondents giving this a score of 5 on a range from 1-5 with 5 representing the greatest degree of difficulty). Cloud DVR was the second most difficult use case for obtaining content rights, with an average score of 4.01, followed by Startover (restart live TV) and Pause Live TV with scores of 3.89 and 3.85 respectively. Respondents had a slightly easier time acquiring content for distribution to IP devices in the home (3.25) and, to a lesser extent, distribution to IP devices outside the home in the domestic market (3.54). Nevertheless the fact that the average degree of difficulty

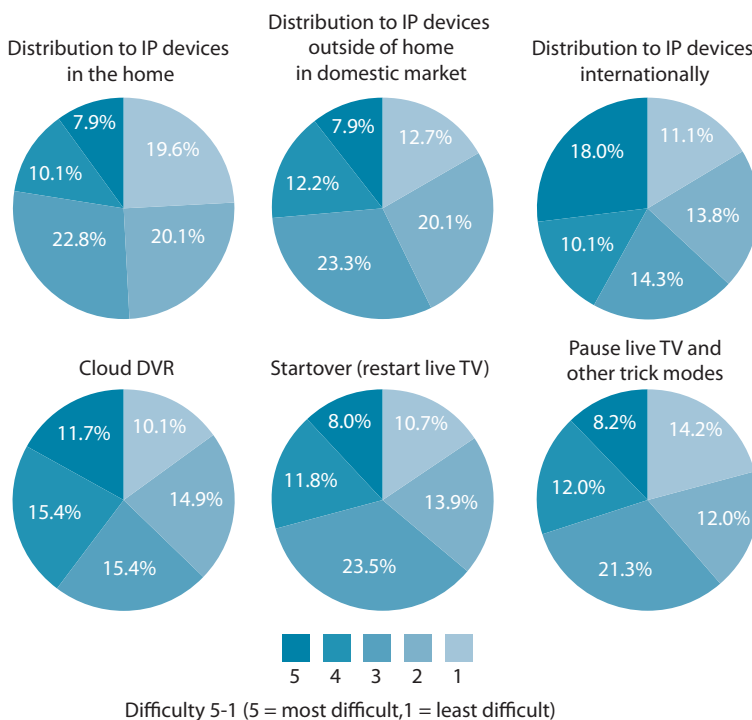
Fig. 9: Greatest challenge with IP Video



for these fundamental use case scenarios was significantly above 3 out of 5 indicates the extent of the challenge service providers perceive they face [fig. 8].

Asked to choose which factor that was the greatest hurdle with IP video, the highest number of respondents – 28.3% – cited “obtaining appropriate content rights” as the single biggest challenge, ahead of the technical complexity of deploying services (25.7%) and weakness of the business case for IP video (15.2%). Costs – especially fixed costs – were not seen as a significant hurdle, with only 9.9% citing “upfront costs” as the greatest challenge facing them. A slightly higher proportion – 14.7% – cited operational costs as the greatest challenge [fig. 9].

Fig. 8: Difficulty in obtaining content rights



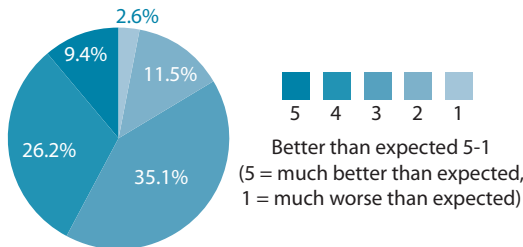
Meeting business objectives: measures of success

Given the challenges, our sample’s response to the question of how successful IP video services had been in terms of meeting their business objectives showed a mixed picture of success and failure.

While the average success rating was 3.74 (on a scale of 1-5, with 1 being “much worse than expected” and 5 being “much better than expected”), the largest single number of respondents (35.1%) gave a score of 3, indicating that experience had broadly been in line with expectation. While over a third (35.6%) gave a score of 4-5, indicating that their experience had outshone expectations, a further 14.1% gave a score of 1-2, indicating a disappointing performance [fig.10].

This mixed picture, together with the survey’s findings on the difficulty experienced by service providers in

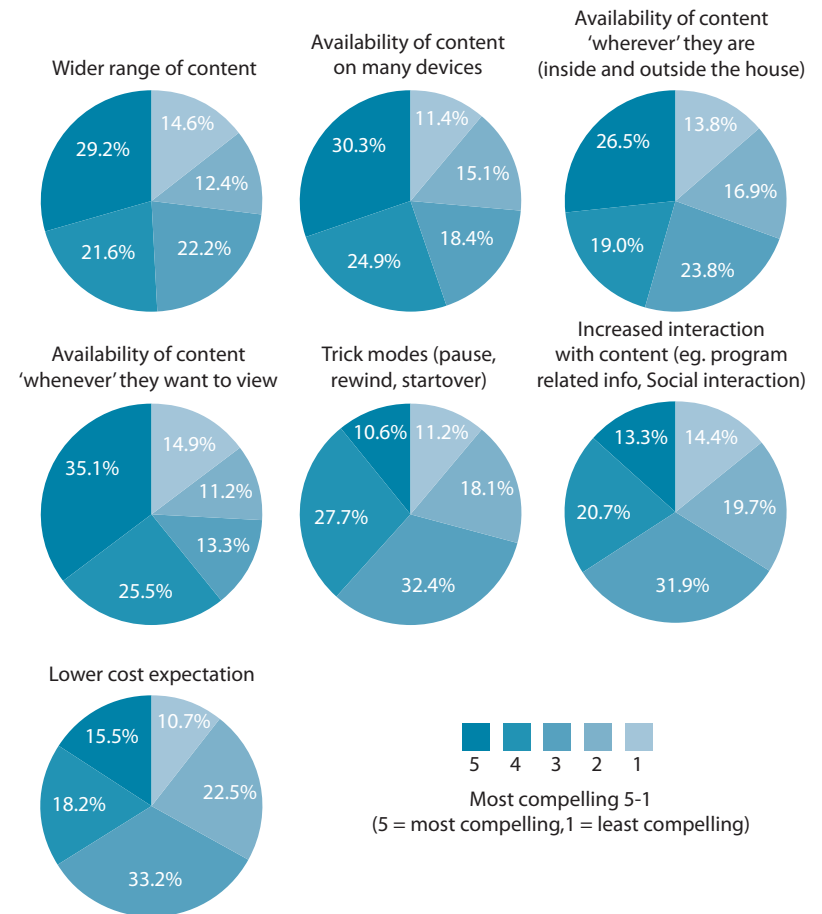
Fig. 10: Success at achieving objectives



negotiating content rights perhaps highlights the fact that the majority of IP video deployments are still at a relatively early stage and lack the scale that would give them leverage with rightsholders. This is borne out by the number of unique views per month recorded by our respondents for their IP video services. An absolute majority – 56.5% – reported fewer than 100,000 unique views per month, with a further 19.9% reporting between 100,000-500,000 views. 9.4% reported between 500,000 and one million views, with 4.2% reporting one to two million and 9.9% reporting two million or above.

But while content rights are the key challenge for providers, the appeal of IP video services to consumers, in the view of service providers at least, is based on convenience as much as choice of content. Asked to rate the factors they believed made IP video compelling to viewers on a scale of 1-5, “the ability to view content whenever they wanted” scored highest with an average rating of 3.55, followed closely by “the availability of content on multiple devices” (3.48). (The closely related “availability of content wherever they were” scored 3.28). A wider range of content came next with a score of 3.38. Less important in the view of service providers was “the availability of trick modes” (such as pause, rewind

Fig. 11: What makes IP Video compelling to your viewers?



and startover), “lower cost expectation” and “increased interaction with the content” (such as additional program information and social interaction) [fig. 11].

Conclusion

The majority of service providers in our sample have already launched or intend to launch IP video services in the near future. Although pure OTT services get most of the headlines in fact the majority of IP Video services are complementary to existing pay TV services. While ‘traditional’ devices including the set-top and laptop/desktop computers remain key target devices for operators, the proliferation of IP devices – especially smartphones and tablets – has already had a huge impact.

Although IP video is now ubiquitous, many of the services that have launched still lack scale, and significant hurdles

stand in the way of service providers achieving their business goals. Content rights in particular remain a critical issue. Despite the challenges, the level of success experienced by the majority of service providers is broadly in line with, or has exceeded, expectations. Vital characteristics of a compelling IP Video service are range of content, availability on many device types at any location and time-shift capabilities.

For IP video providers there is a wide range of business models today and many options for the future. There are some well-established business models working today, but this is still a fast evolving situation.

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